CANADA MORTGAGE AND HOUSING CORPORATION

THIRD QUARTER
30 September 2021
(Unaudited)

Quarterly Financial Report

Canada

CMHC SCHL

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Management’s Discussion and Analysis

OVERVIEW

The following Management’s Discussion and Analysis (MD&A) of the financial position and results of operations as approved by the Audit Committee on 24 November 2021 is prepared for the third quarter ended 30 September 2021 and is intended to provide readers with an overview of our performance including comparatives against the same three and nine 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, although its impacts on our business have become clearer. We have included additional information in Note 4 of our unaudited quarterly consolidated financial statements. Except for these matters, there have been no material changes to our significant accounting policies, judgments or estimates to the end of the third 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 three quarters of 2021 have seen COVID-19 vaccination rollouts 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 $4,685 million of dividends to the Government of Canada so far this year. While this has reduced our Mortgage Insurer Capital Adequacy Test (MICAT) ratio, investment holdings, and investment income, we remain within our internal and operating targets.

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, as of the second quarter of 2021, we considered our arrears data to be complete, several months after mortgage deferral arrangements available to Canadians formally ceased on 30 September 2020.

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 third 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. For example, the risk of proliferation of COVID-19 variants of concern and greater restrictions on households and businesses 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.

Vaccination policy

On 6 October 2021, the Government of Canada introduced the *Policy on COVID-19 Vaccination for the Core Public Administration, Including the Royal Canadian Mounted Police* for federal public servants in the core public administration. These measures require all federal public service employees to be vaccinated irrespective of place of work, and also apply to contracted personnel requiring access to federal government worksites. Crown corporations are expected to put in place vaccination policies aligned with the Government vaccination requirements.

On 13 October 2021, to support the health and safety of our employees and the community, we announced mandatory vaccination measures that substantively mirror the Government vaccination requirements. Our vaccination measures apply to all CMHC employees, members of the Board of Directors, and contracted personnel who require access to a CMHC worksite or are interacting with the public on our behalf. We are in the process of implementing our mandatory vaccination policy and assessing impacts to our workforce.

Economic conditions and housing indicators

High vaccination rates and the easing of restrictions are improving the foundations of a sustainable economic recovery in Canada. This recovery continued in the first half of 2021 despite a decline in real GDP in the second quarter.

The Canadian economy bore the pandemic in 2020 with a real annual decline of 5.3 per cent. This was well below pre-pandemic performance when Canada posted real annual growth rates of 2.4 per cent and 1.9 per cent in 2018 and 2019, respectively. The economy is set to rebound in 2021 with a predicted 5.7 per cent growth[1]. 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 savings accumulated during the pandemic, increased consumer confidence and income from an improving labour market. Increased business confidence and existing supply challenges should boost business investment. Strong commodity prices and foreign demand, especially from the US, will support Canada's export recovery.

The Canadian labour market has seen steady gains. As of September 2021, both full-time and part-time employment have finally recovered to pre-pandemic levels. However, the number of long-term unemployed, those who have been searching for a job for more than 27 weeks, remain 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.

High levels of housing market activity seen in the second half of 2020 continued in the first nine months of 2021. Home resales somewhat moderated over the summer but remain elevated. Canada's MLS® price averaged a record high of $678,287 during the first nine months of 2021. This represents a 23 per cent increase from the same period in 2020. Similarly, MLS® sales increased 33 per cent to a historical high of 672,637 seasonally adjusted annualized rate (SAAR) units and housing starts increased 33 per cent to another historical high of 282,614 SAAR units. Low borrowing costs, lower negative impacts from the pandemic on higher income households, changes in buyers' preferences for more living space, and limited supply all supported the strength in the housing market.

High levels of uncertainty remain for Canada's housing market. Upside risks to the housing market include a faster economic recovery from a quicker-than-expected exit from the pandemic or a more rapid resolution of global supply chain constraints. Other upside risks include a sharper-than-expected rise in immigration, and a continued preference for larger units under enduring remote work schemes. Downside risks include consumer hesitancy, unexpectedly stronger and more persistent 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 173 per cent in the third quarter of 2021. This high debt position could magnify the negative impacts from the other downside risks. Going forward, CMHC will continue to monitor signs of increased housing market vulnerability.

[1] International Monetary Fund, World Economic Outlook, October 2021

Federal Budget 2021

In Budget 2021, the Government of Canada announced new investments in housing and the reprofiling of funding under existing housing programs. We are leading the following initiatives:

New loans for Canada Greener Homes. To build on the Canada Greener Homes Grant run by Natural Resources Canada, Budget 2021 will invest $4.4 billion over 5 years, starting 2021-22, to help up to 200,000 homeowners complete deep home retrofits through interest-free loans of up to $40,000. Loans will be available to homeowners and landlords who undertake retrofits identified through an authorized EnerGuide energy assessment.

New investments in the National Housing Strategy (NHS). The Budget proposed 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 adequate affordable housing in short order. The Government publicly announced this funding on 30 June 2021. At least 25 per cent of this funding will go toward women-focused housing projects, and units are to be constructed within 12 months of when funding is provided to applicants. Overall, this will add a minimum 4,500 new affordable units to Canada's housing supply, building on the 4,700 units funded through the original $1 billion investment in the RHI. The additional funding is divided into two streams: $500 million under the Cities Stream to 30 pre-determined municipalities based on the number of renters in severe housing need, local market costs and regional coverage, and $1 billion to unfunded eligible applications that were submitted during the RHI's initial application period in fall 2020.
- $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 the most vulnerable Canadians. This builds on the $500 million that we are currently delivering through the FCHI.

Advancement and reallocation of existing NHS funding. Budget 2021 also proposed to advance and reallocate $1.3 billion of previously announced funding:

- Between 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 repair 13,700 units. Starting in fall 2021, $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. We began reporting on gender and diversity metrics through our 2020 Annual Report. This includes reporting against established targets both for overall employees as well as leadership positions.

Strengthening public climate-related disclosures. Crown corporations will adopt the Task Force on Climate-related Financial Disclosures (TCFD) recommendations as an element of their corporate reporting. Large Crown corporations (entities with over $1 billion in assets), including us, 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 recommendations.

Progress on the National Housing Strategy and other investments

We continue to deliver Canada's NHS, which is now a $72+ billion, 10-year plan that will give more Canadians a place to call home, and are encouraged by the additional investments announced in Budget 2021. The NHS is a comprehensive strategy that covers the entire housing continuum, from shelters and transitional housing, to community and affordable housing, to market rental 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 from the first round of the RHI by 31 March 2021. Due to program's success, the federal government announced a second round of the RHI on 30 June 2021, as explained above under "Federal Budget 2021".

As of 13 August 2021, CHB addenda have been signed with all provinces and territories, and all 13 CHB programs have been publicly announced. We report progress on the achievement of NHS targets quarterly at www.placetocallhome.ca.

In addition to NHS initiatives, this summer, the federal government announced the recipients for the construction of 12 new shelters across Canada for First Nations, Métis and Inuit women, children, and 2SLGBTQQIA+ people escaping family violence. We and Indigenous Services Canada (ISC), with the help of Indigenous partners, selected the recipients. The initiative provides over $85 million to build and support the operation of 12 new emergency shelters across Canada over five years, and an additional $10.2 million annually thereafter. The Government also announced $724.1 million ($420 million from us and $304.1 million from ISC) to expand culturally relevant supports for Indigenous Peoples facing gender-based violence and support new emergency shelters and transitional (second-stage) housing, including in the North and in urban centres.

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 have reviewed the updates made to the draft MICAT 2023 guideline to date and assessed them as having minimal impact to our business; however, we continue to perform quantitative analysis and will provide additional information to OSFI leading up to implementation.

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 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.

On 12 October 2021, OSFI issued a brief summary of the responses to the consultation. For federally-regulated financial insitutions, OSFI will communicate next steps on their climate-related policy work early next year. For federally-regulated pension plans, OSFI will assess the need for further guidance at a later date.

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. We have included additional information in Note 3 of our unaudited quarterly consolidated financial statements.

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 therefore create a current tax liability for insurance providers. We have responded to the consultation request and the Department of Finance has not yet issued a subsequent communication on the status or direction of their consultation.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 30 September 2021 and 31 December 2020	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Total assets	13,250	10,914	18,313	20,864	269,866	269,616	(972)	(424)	300,457	300,970
Total liabilities	12,703	10,582	7,098	7,494	268,344	266,705	(939)	(386)	287,206	284,395
Total equity of Canada	547	332	11,215	13,370	1,522	2,911	(33)	(38)	13,251	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 declared and paid $4,685 million of dividends since the end of 2020. This, partially offset by comprehensive income of $1,361 million, led our total equity of Canada to decrease by $3,324 million.

Our total assets decreased by $513 million (0%), driven by the decrease in our investment portfolio as we sold investments to fund our dividend payments. This was partially offset by the issuance of Canada Mortgage Bonds (CMB), which resulted in an increase in loans at amortized cost, as well as increased NHS program activity particularly in RCFi and NHCF, which increased investments and loans at amortized cost.

Our total liabilities increased by $2,811 million (1%) mainly due to higher borrowings at amortized cost. This resulted from the issuance of CMB as well as increased NHS program activity.

Condensed consolidated statements of income and comprehensive income

Three months ended 30 September	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Government funding for housing programs	452	1,977	-	-	-	-	-	-	452	1,977
Premiums and fees earned	-	-	350	347	179	165	-	-	529	512
All other income[1]	6	22	67	149	22	23	-	(1)	95	193
Total revenues and government funding	**458**	**1,999**	**417**	**496**	**201**	**188**	**-**	**(1)**	**1,076**	**2,682**
Housing programs	380	1,850	-	-	-	-	-	-	380	1,850
Insurance claims	-	-	(12)	171	-	-	-	-	(12)	171
Operating expenses	67	131	73	67	16	15	-	-	156	213
Total expenses	**447**	**1,981**	**61**	**238**	**16**	**15**	**-**	**-**	**524**	**2,234**
Income taxes	1	3	91	66	46	43	-	-	138	112
Net income	**10**	**15**	**265**	**192**	**139**	**130**	**-**	**(1)**	**414**	**336**
Other comprehensive income (loss)	30	4	(11)	5	(16)	(9)	2	1	5	1
Comprehensive income	**40**	**19**	**254**	**197**	**123**	**121**	**2**	**-**	**419**	**337**

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

Q3 2021 vs Q3 2020

Our total revenues and government funding decreased by $1,606 million (60%) mainly due to:

- A decrease of $1,525 million (77%) in government funding for housing programs driven mainly by the Canada Emergency Commercial Rent Assistance (CECRA) program ending in December 2020 of $1,549 million.
- A decrease of $75 million (84%) in net gains on financial instruments mainly due to the rebalancing of our insurance investment portfolio last year, which resulted in significant realized gains, particularly in the second and third quarters.

Total expenses decreased by $1,710 million (77%) mainly due to:

- The decrease in government funding for housing programs as described above, which resulted in lower housing program expenses and operating expenses.
- A decrease of $183 million (107%) in insurance claims as a result of a release of the provision in line with a lower unemployment rate, a higher gross domestic product and arrears not materializing as expected with the mortgage deferral programs ending.

Nine months ended 30 September	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Government funding for housing programs	2,391	3,520	-	-	-	-	-	-	2,391	3,520
Premiums and fees earned	-	-	1,046	1,028	527	495	-	-	1,573	1,523
All other income[1]	61	66	250	730	68	83	(3)	-	376	879
Total revenues and government funding	**2,452**	**3,586**	**1,296**	**1,758**	**595**	**578**	**(3)**	**-**	**4,340**	**5,922**
Housing programs	2,167	3,249	-	-	-	-	-	-	2,167	3,249
Insurance claims	-	-	(260)	585	-	-	-	-	(260)	585
Operating expenses	220	282	242	210	54	51	-	-	516	543
Total expenses	**2,387**	**3,531**	**(18)**	**795**	**54**	**51**	**-**	**-**	**2,423**	**4,377**
Income taxes	12	9	331	243	135	132	(1)	-	477	384
Net income	**53**	**46**	**983**	**720**	**406**	**395**	**(2)**	**-**	**1,440**	**1,161**
Other comprehensive income (loss)	162	(61)	(138)	209	(110)	115	7	(6)	(79)	257
Comprehensive income	**215**	**(15)**	**845**	**929**	**296**	**510**	**5**	**(6)**	**1,361**	**1,418**

[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 decreased by $1,582 million (27%) mainly due to:

- A decrease of $1,129 million (32%) in government funding for housing programs. This was driven mainly by the decrease in CECRA as explained above, partially offset by an increase of $474 million for the Rapid Housing Initiative and $246 million for Provincial/Territorial NHS initiatives.
- A decrease of $416 million (80%) in net gains on financial instruments, mainly due to the rebalancing of our insurance investment portfolio last year as explained above.
- A decrease of $55 million (17%) 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 $1,954 million (45%) mainly due to decreases of $1,082 million (33%) and $845 million (144%) in housing program expenses and insurance claims respectively, as described above.

Other comprehensive income, net of tax, decreased by $336 million (131%) mainly due to:

- A $679 million (169%) increase in net unrealized losses from debt instruments held at fair value through other comprehensive income. A significant increase in bond yields in the first quarter of 2021 led to a higher overall yield curve as compared to the same period last year. This ultimately resulted in $277 million of net unrealized losses, compared to $402 million of unrealized gains over the same period last year as bond yields decreased.
- A $397 million (414%) 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

(in millions, unless otherwise indicated)	Insurance-in-force ($B) As at 30 September 2021	31 December 2020
Transactional homeowner	197	216
Portfolio	94	114
Multi-unit residential	113	101
Total	**404**	**431**

Insurance-in-force decreased by $27 billion (6%) due to lower transactional homeowner and portfolio volumes insured in the current year compared to recent years. New loans insured were $38 billion, while estimated loan amortization and pay-downs were $65 billion.

(in millions, unless otherwise indicated)	Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid	
	Three months ended 30 September							
	2021	2020	2021	2020	2021	2020	2021	2020
Transactional homeowner	19,570	28,876	5,965	8,313	206	298	38	17
Portfolio	4,610	24,801	1,470	5,253	6	22	4	1
Multi-unit residential[3]	33,628	42,756	5,921	6,051	205	250	3	2
Total	**57,808**	**96,433**	**13,356**	**19,617**	**417**	**570**	**45**	**20**

[1] *No portfolio substitutions for the three months ended 30 September 2021 (8,291 units and $1,316 million for the three months ended 30 September 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 $17 million for the three months ended 30 September 2021 ($11 million for the three months ended 30 September 2020) received from the Government for RCFi.*

(in millions, unless otherwise indicated)	Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid	
	Nine months ended 30 September							
	2021	2020	2021	2020	2021	2020	2021	2020
Transactional homeowner	54,333	72,881	15,890	20,516	564	730	88	104
Portfolio	7,775	89,089	2,320	20,954	9	105	7	8
Multi-unit residential[3]	118,305	123,622	19,656	17,208	683	656	14	5
Total	**180,413**	**285,592**	**37,866**	**58,678**	**1,256**	**1,491**	**109**	**117**

[1] *No portfolio substitutions for the nine months ended 30 September 2021 (27,270 units and $5,375 million for the nine months ended 30 September 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 $53 million for the nine months ended 30 September 2021 ($33 million for the nine months ended 30 September 2020) received from the Government for RCFi.*

Q3 2021 vs Q3 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"; accordingly, although these volumes did not immediately revert to normal levels this quarter, they may increase in the remainder of the year. 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. Multi-unit residential volumes also decreased, driven by a decline in refinancing units as eligibility was discontinued effective 1 July 2020, except when funds are used for repairs or re-investment in housing. This decrease is slightly offset by increases in new construction, particularly related to RCFi, and purchases of existing properties.

Total insured dollars decreased, driven primarily by the decreases in portfolio and transactional homeowner volumes and slightly offset by the multi-unit increases in new construction and purchases of existing properties.

Homeowner and portfolio account for the majority of the $235 million (16%) decrease in total premiums and fees received, partially offset by higher multi-unit, as explained above. The average premium per unit is lower than last year due increase in the lower loan to value categories.

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.

	Three months ended 30 September		**Nine months ended 30 September**	
(in percentages)	**2021**	**2020**	**2021**	**2020**
Loss ratio[1]	(3.4)	49.3	(24.9)	56.9
Operating expense ratio	20.9	19.2	23.1	20.4
Combined ratio	17.5	68.5	(1.8)	77.3
Severity ratio	30.8	31.0	31.4	30.8
Return on equity	9.5	5.9	10.7	7.7
Return on required equity	12.0	7.7	14.7	9.5

[1] *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was (6.7)% and (33.0)% for the three and nine months ended 30 September 2021, respectively (57.5% and 66.8% for the three and nine months ended 30 September 2020)*

Q3 2021 vs Q3 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 a lower unemployment rate, a higher gross domestic product and arrears not materializing as expected with the mortgage deferral programs ending.

The operating expense ratio increase is mostly attributable to higher information technology implementation and run costs, partially offset by higher earned premiums and fees.

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 severity ratio for the nine months ended 30 September 2021 increased from the same period last year mainly driven by one large multi-unit claim in the first quarter of 2021.

Return on equity and return on required equity increased from the same three month and nine month period last year due to higher net income mainly driven by the decrease in insurance claims expense as explained above.

	As at 30 September 2021		**As at 31 December 2020**	
	No. of delinquent loans	**Arrears rate**	**No. of delinquent loans**	**Arrears rate**
Transactional homeowner	3,854	0.40%	4,967	0.47%
Portfolio	1,076	0.15%	1,471	0.18%
Multi-unit residential	69	0.26%	64	0.25%
Total	**4,999**	**0.29%**	**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 as the Canadian economy continues to recover in 2021. Payment deferrals related to COVID-19 are not included in arrears data.

Mortgage Funding

(in millions, unless otherwise indicated)	Total guarantees-in-force ($B) As at 30 September 2021	31 December 2020
NHA MBS	201	232
CMB	259	257
Total	**460**	**489**

Total guarantees-in-force represents the maximum principal obligation related to our timely payment guarantee. Guarantees-in-force were $460 billion as at 30 September 2021, a decrease of $29 billion (6%) as NHA MBS prepayments have been higher than normal. This trend is consistent with the current low interest rate environment, in which more homeowners may be refinancing their mortgages to lock in a lower interest rate, for example.

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Three months ended 30 September			
(in millions, unless otherwise indicated)	**2021**	**2020**	**2021**	**2020**
NHA MBS	41	31	207	138
CMB	10	12	43	48
Total	**51**	**43**	**250**	**186**

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

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Nine months ended 30 September			
(in millions, unless otherwise indicated)	**2021**	**2020**	**2021**	**2020**
NHA MBS[2]	105	132	545	515
CMB	30	41	125	148
Total	**135**	**173**	**670**	**663**

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

[2] *As the IMPP was not extended into 2021, no securities were sold into the IMPP in the nine months ended 30 September 2021 (2020 – $4.2 billion of new securities and $1.6 billion of securities guaranteed in previous quarters).*

Q3 2021 vs Q3 2020 and YTD 2021 vs YTD 2020

Guarantee and application fees received increased by $64 million (34%) and $7 million (1%) from the same three and nine month period last year, respectively. While volumes have decreased in the nine month period, the pricing increases effective 1 January 2021 have led to higher fees received.

	Three months ended 30 September		Nine months ended 30 September	
(in percentages)	**2021**	**2020**	**2021**	**2020**
Operating expense ratio	7.6	7.0	8.3	8.1
Return on equity	36.4	19.1	24.4	20.8
Return on required equity[1]	73.8	40.8	68.7	40.7

[1] *Represents the return on required equity from an accounting viewpoint that excludes unearned premiums and fees from required equity.*

Q3 2021 vs Q3 2020 and YTD 2021 vs YTD 2020

The operating expense ratio increase is mostly attributable to higher information technology implementation and run costs, partially offset by higher earned fees.

The increases in return on equity and return on required equity are largely due to decreases in average equity and required equity, respectively. Average equity decreased as we declared total dividends of $1,685 million in the first nine months of 2021, including $145 million in the third quarter. 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.

	Nine months ended 30 September	
(in millions)	**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	(4,023)	(2,747)
Less: Frozen Allotment	-	(252)
Less: Government funding lapsed for 2020/21	n/a	(238)
2021/20 (2020/21) government funding for housing programs funded in 2021 (2020) calendar year	**1,036**	**2,783**
Total government funding for housing programs funded – nine months ended 30 September	**2,502**	**3,718**

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, Affordable Housing 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 Initiative, Housing Internship For Indigenous 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 as 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 remeasurement losses on defined benefit plan liabilities are absorbed in retained earnings. Aside from the reserve fund, we do not hold capital for our Assisted Housing activities, as they do not present material financial risks for us that we do not already otherwise mitigate.

For our Mortgage Insurance activity, our capital management framework follows OSFI regulations with respect to the use of the MICAT, since our economic capital is lower than OSFI's regulatory capital requirements. 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.

In August 2021, our Board of Directors approved the recommendation to maintain the internal targets and operating levels of 155% and 165% respectively for Mortgage Insurance and 105% and 110% for Mortgage Funding. For Mortgage Funding, the Board approved a reduction of the economic capital required from $3 billion to $2.7 billion, effective 1 January 2022.

Ratios

The table below presents our capital management ratios.

	As at	
(in percentages)	**30 September 2021**	**31 December 2020**
Mortgage Insurance: Capital available to minimum capital required (% MICAT)	209%	234%
Mortgage Funding: Capital available to capital required[1, 2]	220%	349%

[1] *The capital available to capital required as at 30 September 2021 from an economic viewpoint is 130% (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 MICAT ratio decreased by 25 percentage points mainly due to dividend declarations and payments of $3 billion in 2021. We remain adequately capitalized as at 30 September 2021.

Our Mortgage Funding capital available to capital required ratio decreased by 129 percentage points due to dividend declarations of $1,685 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 in 2021 with the nationwide vaccine rollout, we have seen further improvement in our risk profile compared to 2020.

- Our financial and insurance risks are trending lower due to Canada's economic growth, strong borrower credit and stable arrears, while our reputational risk has improved but remains moderate.
- Our operational risk remains moderate and elevated due to cyber security, privacy, and data governance and management.
- Lastly, our strategic risk remains high due to increased affordability gaps and changing housing market dynamics which pose a challenge to achieving our aspiration.

Despite some of the positive trends we have seen in 2021, we remain cautious given uncertainties in the economy and the housing market.

Stress test scenario results show that CMHC has sufficient liquidity

As discussed above under "COVID-19", we continue to perform stress tests, and we have expanded our corporate-wide stress testing program in 2021 beyond capital solvency to include the assessment of our liquidity sufficiency and operational readiness. Our liquidity risk appetite is low.

In the third quarter of 2021, we presented a liquidity stress scenario to our Board of Directors. By evaluating our liquidity sources and demands at the enterprise level, we are able to assess what type of unexpected liquidity stress events our risk management and mitigation strategies can cover and what falls outside of our risk appetite.

Our analysis concluded that our liquidity sources cover a wide variety of stress events, such as a non-orderly failure of a single counterparty with the largest exposure, or simultaneous non-orderly failures of multiple small counterparties. Our liquidity management practices are not designed to cover systematic stress resulting from remote adverse events such as payment system failure or the failure of multiple large financial institutions on NHA MBS or CMB payment dates.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Consolidated Results								
Total assets	300,457	295,629	307,624	300,970	303,227	294,167	283,711	276,259
Total liabilities	287,206	282,402	294,472	284,395	287,196	278,473	268,281	261,646
Total equity of Canada	13,251	13,227	13,152	16,575	16,031	15,694	15,430	14,613
Total revenues and government funding	1,076	1,199	2,065	2,029	2,682	1,781	1,459	1,191
Total expenses (including income taxes)	662	739	1,499	1,640	2,346	1,215	1,200	767
Net income	414	460	566	389	336	566	259	424
Assisted Housing								
Government funding for housing programs	452	547	1,392	1,372	1,977	629	914	489
Net income	10	24	19	22	15	25	6	27
Total equity of Canada	547	507	492	332	287	268	379	302
Mortgage Insurance								
Insurance-in-force ($B)	404	409	422	431	438	433	425	429
Total insured volumes[1]	13,356	15,392	9,118	19,494	19,617	26,939	10,795	14,320
Premiums and fees received	417	508	330	518	570	573	348	432
Premiums and fees earned	350	349	347	344	347	346	335	358
Claims paid	45	30	34	23	20	34	63	63
Insurance claims	(12)	(63)	(185)	(113)	171	292	122	40
Net income	265	315	403	342	192	400	128	266
Arrears rate	0.29%	0.31%	0.34%	0.34%	0.34%	0.34%	0.32%	0.31%
Loss ratio	(3.4)%	(18.1)%	(53.3)%	(32.9)%	49.3%	84.3%	36.5%	11.3%
Operating expense ratio	21.1%	23.4%	25.1%	29.4%	19.2%	21.3%	20.6%	22.0%
Combined ratio	17.7%	5.3%	(28.2)%	(3.5)%	68.5%	105.6%	57.1%	33.3%
Severity ratio	30.8%	27.8%	31.8%	27.0%	31.0%	28.9%	28.8%	29.9%
Return on equity	9.5%	11.3%	13.1%	10.4%	5.9%	13.2%	4.2%	8.8%
Return on required equity	12.0%	13.5%	16.7%	10.5%	7.7%	14.9%	4.9%	10.6%
Capital available to minimum capital required (% MICAT)	209%	201%	191%	234%	233%	231%	207%	195%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	23.1%	24.2%	24.8%	26.2%	25.9%	25.8%	26.0%	26.4%
Mortgage Funding								
Guarantees-in-force ($B)	460	461	479	489	500	516	494	493
Securities guaranteed	50,714	46,226	38,184	51,855	42,667	84,342	45,930	50,140
Guarantee and application fees received	250	229	191	241	186	323	154	129
Guarantee and application fees earned	179	176	172	172	165	170	160	156
Net income	139	126	141	135	130	143	122	126
Operating expense ratio	7.6%	8.5%	8.9%	8.8%	7.0%	9.0%	8.4%	9.3%
Return on equity	36.4%	32.2%	25.2%	18.9%	19.1%	21.9%	20.4%	21.7%
Return on required equity	73.8%	63.2%	65.6%	49.6%	40.8%	42.9%	38.7%	38.9%
Capital available to capital required[2]	220%	202%	192%	349%	233%	223%	211%	190%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees	26.3%	27.2%	28.6%	29.5%	29.3%	30.6%	30.3%	30.6%

[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

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 September 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 November 2021

CONSOLIDATED BALANCE SHEET

		As at	
(in millions of Canadian dollars)	**Notes**	**30 September 2021**	**31 December 2020**
Assets			
Cash and cash equivalents	20	1,385	2,301
Securities purchased under resale agreements		70	174
Accrued interest receivable		1,149	714
Investment securities:			
Fair value through profit or loss	10	328	399
Fair value through other comprehensive income	10, 11	19,846	23,094
Amortized cost	10, 11	2,822	1,427
Derivatives		19	117
Due from the Government of Canada	6	405	339
Loans:	12		
Fair value through profit or loss		508	743
Amortized cost		272,687	270,450
Accounts receivable and other assets		942	931
Investment property		282	281
Defined benefit plan asset		14	-
		300,457	300,970
Liabilities			
Accounts payable and other liabilities		767	752
Accrued interest payable		1,067	573
Derivatives		43	8
Provision for claims	7	384	735
Borrowings:	13		
Fair value through profit or loss		551	1,156
Amortized cost		275,560	272,369
Defined benefit plans liability		225	549
Unearned premiums and fees	7, 8	8,379	8,021
Deferred income tax liabilities		230	232
		287,206	284,395
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income		227	607
Retained earnings		12,999	15,943
		13,251	16,575
		300,457	300,970

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

		Three months ended 30 September		Nine months ended 30 September	
(in millions of Canadian dollars)	**Notes**	**2021**	**2020**	**2021**	**2020**
Interest income		1,096	1,181	3,346	3,778
Interest expense		1,099	1,179	3,346	3,764
Net interest income (loss)		(3)	2	-	14
Government funding for housing programs	6	452	1,977	2,391	3,520
Premiums and fees earned	7, 8	529	512	1,573	1,523
Investment income		81	93	261	316
Net gains on financial instruments	14	14	89	104	520
Other income		3	9	11	29
Total revenues and government funding		1,076	2,682	4,340	5,922
Non-interest expenses					
Housing programs	6	380	1,850	2,167	3,249
Insurance claims		(12)	171	(260)	585
Operating expenses		156	213	516	543
Total expenses		524	2,234	2,423	4,377
Income before income taxes		552	448	1,917	1,545
Income taxes	18	138	112	477	384
Net income		414	336	1,440	1,161
Other comprehensive income (loss), net of tax					
Items that will be subsequently reclassified to net income					
Net unrealized gains (losses) from debt instruments held fair value through other comprehensive income		(40)	6	(277)	402
Reclassification of gains on debt instruments held at fair value through other comprehensive income on disposal in the period		(19)	(24)	(103)	(49)
Total items that will be subsequently reclassified to net income		(59)	(18)	(380)	353
Items that will not be subsequently reclassified to net income					
Remeasurement gains (losses) on defined benefit plans	17, 18	64	19	301	(96)
Total other comprehensive income (loss), net of tax		5	1	(79)	257
Comprehensive income		419	337	1,361	1,418

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

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

		Three months ended 30 September		Nine months ended 30 September	
(in millions of Canadian dollars)	**Notes**	**2021**	**2020**	**2021**	**2020**
Contributed capital		25	25	25	25
Accumulated other comprehensive income					
Balance at beginning of period		286	618	607	247
Other comprehensive income (loss)		(59)	(18)	(380)	353
Balance at end of period		227	600	227	600
Retained earnings					
Balance at beginning of period		12,916	15,051	15,943	14,341
Net income		414	336	1,440	1,161
Other comprehensive income (loss)		64	19	301	(96)
Dividends	9	(395)	-	(4,685)	-
Balance at end of period		12,999	15,406	12,999	15,406
Equity of Canada		13,251	16,031	13,251	16,031

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Three months ended 30 September		Nine months ended 30 September	
(in millions of Canadian dollars)	Notes	2021	2020	2021	2020
Cash flows from operating activities					
Net income		414	336	1,440	1,161
Adjustments to determine cash flows from operating activities					
Amortization of premiums and discounts on financial instruments		35	37	108	91
Net (gains) losses on financial instruments		74	(172)	(261)	(645)
Deferred income taxes	18	31	(15)	(2)	(17)
Depreciation and impairment		5	8	49	24
Changes in operating assets and liabilities					
Derivatives		(96)	71	133	108
Accrued interest receivable		(464)	(634)	(435)	(558)
Due from the Government of Canada		76	39	(126)	(2)
Accounts receivable and other assets		36	68	90	(22)
Accounts payable and other liabilities		(13)	(722)	87	(25)
Accrued interest payable		492	620	494	563
Provision for claims		(46)	137	(351)	450
Defined benefit plans liability		-	9	4	22
Unearned premiums and fees		124	233	358	640
Other		(1)	(9)	-	(13)
Loans repayments	12	6,581	5,754	29,682	26,865
Loans disbursements	12	(10,774)	(13,984)	(31,611)	(49,637)
Borrowings repayments	13	(8,297)	(6,222)	(35,786)	(32,849)
Borrowings issuances	13	12,722	14,705	39,006	56,404
		899	259	2,879	2,560
Cash flows from investing activities					
Investment securities					
Sales and maturities		2,110	2,323	12,025	13,339
Purchases		(2,410)	(3,565)	(11,279)	(14,549)
Foreign currency forward contract maturities					
Receipts		43	257	436	337
Disbursements		(251)	(101)	(314)	(272)
Investment property additions	10	-	-	(1)	-
Securities purchased under resale agreements		(70)	677	104	(221)
Fixed and intangible asset acquisitions		(11)	(27)	(81)	(61)
		(589)	(436)	890	(1,427)
Cash flows from financing activities					
Dividends paid	9	(395)	-	(4,685)	-
Change in cash and cash equivalents		(85)	(177)	(916)	1,133
Cash and cash equivalents					
Beginning of period		1,470	2,232	2,301	922
End of period		1,385	2,055	1,385	2,055
Represented by					
Cash		82	107	82	107
Cash equivalents		1,303	1,948	1,303	1,948
		1,385	2,055	1,385	2,055
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		880	819	3,679	3,910
Amount of interest paid during the period		774	711	3,311	3,498
Amount of dividends received during the period		-	-	12	2
Amount of income taxes paid during the period		93	149	379	560

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 three and nine months ended 30 September 2021 and were approved and authorized for issue by our Audit Committee on 24 November 2021.

2. Basis of Preparation and Significant Accounting Policies

These 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 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.

Update on IFRS 17 Insurance Contracts – effective date of 1 January 2023

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

In June 2020, the IASB amended IFRS 17 to address concerns and implementation challenges raised by stakeholders. The most notable amendment to us is that the IASB deferred the effective date by two years, to 1 January 2023. The other amendments will not have an impact on our implementation.

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

IFRS 17 is to be applied retrospectively, unless it is impracticable to do so. Based on availability of data and to not make use hindsight, we have determined that we are only able to retrospectively apply the standard starting on 1 January 2021. We have made the decision to apply the fair value approach for prior periods. Under the fair value approach, we will determine the fair value of our insurance contracts underwritten prior to 1 January 2021 as at the transition date, 1 January 2022.

The implementation of IFRS 17 is a significant project for us and is supported by a formal governance structure which includes a project steering committee, a technical steering committee and a multidisciplinary team dedicated to analyzing and implementing the new accounting standard. Our project steering committee provides oversight on project status, budget, and resources and a dedicated technical steering committee was created to review, challenge, and approve key areas related to the technology implementation.

Our project plan includes the following phases: (a) Initiation and planning; (b) Future state assessment; (c) Design and implementation of technology; (d) Testing; (e) Deployment of technology; and (f) Parallel reporting. We are on track with the overall project timelines. Phases (a) to (c) have been completed, while testing and deployment are in progress. We plan to begin parallel reporting in 2022.

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.

Judgments in applying accounting policies

Provision for claims

We have revised our estimate of the provision for claims at 30 September 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 September 2021 and does not reflect any losses on claims that may occur in future periods.

Our provision for claims at 30 September 2021 continues to incorporate projections of economic variables, however less weight is applied compared to 2020 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 September 2021 reflects the following key economic assumptions for the next 18 months: average unemployment rate of 7.0%; increase in house price index of 6.2%; and increase in real gross domestic product of 3.7%. 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 September	**Assisted Housing Activity**		**Mortgage Insurance Activity**		**Mortgage Funding Activity**		**Eliminations**		**Total**	
(in millions)	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Interest income	68	67	-	-	1,030	1,114	(2)	-	1,096	1,181
Interest expense	77	73	-	-	1,029	1,112	(7)	(6)	1,099	1,179
Net interest income (loss)	**(9)**	**(6)**	**-**	**-**	**1**	**2**	**5**	**6**	**(3)**	**2**
Government funding for housing programs	452	1,977	-	-	-	-	-	-	452	1,977
Premiums and fees earned	-	-	350	347	179	165	-	-	529	512
Investment income (losses)	-	-	73	77	10	17	(2)	(1)	81	93
Net gains (losses) on financial instruments	15	21	(6)	73	8	1	(3)	(6)	14	89
Other income (loss)	-	7	-	(1)	3	3	-	-	3	9
Total revenues and government funding	**458**	**1,999**	**417**	**496**	**201**	**188**	**-**	**(1)**	**1,076**	**2,682**
Non-interest expenses										
Housing programs	380	1,850	-	-	-	-	-	-	380	1,850
Insurance claims	-	-	(12)	171	-	-	-	-	(12)	171
Operating expenses	67	131	73	67	16	15	-	-	156	213
Total expenses	**447**	**1,981**	**61**	**238**	**16**	**15**	**-**	**-**	**524**	**2,234**
Income (loss) before income taxes	**11**	**18**	**356**	**258**	**185**	**173**	**-**	**(1)**	**552**	**448**
Income taxes	1	3	91	66	46	43	-	-	138	112
Net income (loss)	**10**	**15**	**265**	**192**	**139**	**130**	**-**	**(1)**	**414**	**336**
Total revenues and government funding	458	1,999	417	496	201	188	-	(1)	1,076	2,682
Inter-segment income (loss)[1]	5	-	2	7	(7)	(6)	-	(1)	-	-
External revenues and government funding	453	1,999	415	489	208	194	-	-	1,076	2,682

[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.*

Nine months ended 30 September	**Assisted Housing Activity**		**Mortgage Insurance Activity**		**Mortgage Funding Activity**		**Eliminations**		**Total**	
(in millions)	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Interest income	195	213	-	-	3,151	3,567	-	(2)	3,346	3,778
Interest expense	220	227	-	-	3,143	3,559	(17)	(22)	3,346	3,764
Net interest income (loss)	**(25)**	**(14)**	**-**	**-**	**8**	**8**	**17**	**20**	**-**	**14**
Government funding for housing programs	2,391	3,520	-	-	-	-	-	-	2,391	3,520
Premiums and fees earned	-	-	1,046	1,028	527	495	-	-	1,573	1,523
Investment income (losses)	-	-	229	271	37	52	(5)	(7)	261	316
Net gains (losses) on financial instruments	88	60	21	460	10	13	(15)	(13)	104	520
Other income (loss)	(2)	20	-	(1)	13	10	-	-	11	29
Total revenues and government funding	**2,452**	**3,586**	**1,296**	**1,758**	**595**	**578**	**(3)**	**-**	**4,340**	**5,922**
Non-interest expenses										
Housing programs	2,167	3,249	-	-	-	-	-	-	2,167	3,249
Insurance claims	-	-	(260)	585	-	-	-	-	(260)	585
Operating expenses	220	282	242	210	54	51	-	-	516	543
Total expenses	**2,387**	**3,531**	**(18)**	**795**	**54**	**51**	**-**	**-**	**2,423**	**4,377**
Income (loss) before income taxes	**65**	**55**	**1,314**	**963**	**541**	**527**	**(3)**	**-**	**1,917**	**1,545**
Income taxes	12	9	331	243	135	132	(1)	-	477	384
Net income (loss)	**53**	**46**	**983**	**720**	**406**	**395**	**(2)**	**-**	**1,440**	**1,161**
Total revenues and government funding	2,452	3,586	1,296	1,758	595	578	(3)	-	4,340	5,922
Inter-segment income (loss)[1]	14	2	6	20	(17)	(22)	(3)	-	-	-
External revenues and government funding	2,438	3,584	1,290	1,738	612	600	-	-	4,340	5,922

[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 September 2021 and 31 December 2020	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
(in millions)	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Assets										
Cash and cash equivalents	852	1,171	514	1,121	19	9	-	-	1,385	2,301
Securities purchased under resale agreements	70	174	-	-	-	-	-	-	70	174
Accrued interest receivable	79	91	93	95	982	529	(5)	(1)	1,149	714
Investment securities:										
Fair value through profit or loss	209	318	119	81	-	-	-	-	328	399
Fair value through other comprehensive income	-	-	16,806	18,676	3,492	4,821	(452)	(403)	19,846	23,094
Amortized cost	3,337	1,447	-	-	-	-	(515)	(20)	2,822	1,427
Derivatives	13	24	6	93	-	-	-	-	19	117
Due from the Government of Canada	405	339	-	-	-	-	-	-	405	339
Loans:										
Fair value through profit or loss	488	719	20	24	-	-	-	-	508	743
Amortized cost	7,417	6,160	72	80	265,198	264,210	-	-	272,687	270,450
Accounts receivable and other assets	92	190	675	694	175	47	-	-	942	931
Investment property	282	281	-	-	-	-	-	-	282	281
Defined benefit plan asset	6	-	8	-	-	-	-	-	14	-
	13,250	10,914	18,313	20,864	269,866	269,616	(972)	(424)	300,457	300,970
Liabilities										
Accounts payable and other liabilities	564	519	71	192	132	41	-	-	767	752
Accrued interest payable	100	57	-	-	972	517	(5)	(1)	1,067	573
Derivatives	24	8	19	-	-	-	-	-	43	8
Provision for claims	-	-	384	735	-	-	-	-	384	735
Borrowings:										
Fair value through profit or loss	551	1,156	-	-	-	-	-	-	551	1,156
Amortized cost	11,282	8,529	-	-	265,198	264,210	(920)	(370)	275,560	272,369
Defined benefit plans liability	92	242	126	299	7	8	-	-	225	549
Unearned premiums and fees	-	-	6,344	6,129	2,035	1,892	-	-	8,379	8,021
Deferred income tax liabilities	90	71	154	139	-	37	(14)	(15)	230	232
	12,703	10,582	7,098	7,494	268,344	266,705	(939)	(386)	287,206	284,395
Equity of Canada	547	332	11,215	13,370	1,522	2,911	(33)	(38)	13,251	16,575
	13,250	10,914	18,313	20,864	269,866	269,616	(972)	(424)	300,457	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.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2021**	**2020**	**2021**	**2020**
Assistance for housing needs	362	374	2,092	1,463
Financing for housing	76	932	307	2,161
Housing expertise and capacity development	28	29	103	94
Total[1]	**466**	**1,335**	**2,502**	**3,718**
Government funding deferred in the period	(14)	642	(111)	(198)
Total Government funding recognized[2]	**452**	**1,977**	**2,391**	**3,520**

[1] *Includes operating expenses of $66 million and $218 million for the three and nine months ended 30 September 2021, respectively (three and nine months ended 30 September 2020 – $126 million and $267 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 $22 million and $100 million for the three and nine months, respectively, ended 30 September 2021 (three and nine months ended 30 September 2020 – $17 million and $71 million).*

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

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2021**	**2020**	**2021**	**2020**
Balance at beginning of period	460	267	339	249
Total government funding	466	1,335	2,502	3,718
Government funding received during the period	(513)	(1,399)	(2,437)	(3,713)
Third party remittances to the Government of Canada	(13)	-	(5)	1
Balance at end of period before prior/future period adjustment	**400**	**203**	**399**	**255**
Net change in prior period adjustments	5	57	6	5
Balance at end of period	**405**	**260**	**405**	**260**

7. Mortgage Insurance

Unearned premiums and fees

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

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2021**	**2020**	**2021**	**2020**
Balance at beginning of period	6,291	5,756	6,129	5,496
Premiums deferred on contracts written in the period	393	547	1,233	1,469
Premiums earned in the period	(343)	(339)	(1,031)	(1,005)
Application fees deferred on contracts written in the period	7	6	24	17
Application fees earned in the period[1]	(4)	(3)	(11)	(10)
Balance at end of period	**6,344**	**5,967**	**6,344**	**5,967**

[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:

	As at					
	30 September 2021			31 December 2020		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Undiscounted estimated losses	333	22	355	651	25	676
Discounting	(4)	(2)	(6)	(4)	(2)	(6)
Discounted provision for adverse deviation	31	4	35	60	5	65
Total provision for claims	**360**	**24**	**384**	**707**	**28**	**735**

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

	Three months ended 30 September					
	2021			2020		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Provision for claims, beginning of period	405	25	430	677	43	720
Net claims paid during the period	(45)	-	(45)	(20)	-	(20)
Provision for claims provided for and losses incurred during the period[1]	44	-	44	177	-	177
Favourable development on prior period claims	(44)	(1)	(45)	(19)	(1)	(20)
Provision for claims, end of period	**360**	**24**	**384**	**815**	**42**	**857**

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

	Nine months ended 30 September					
	2021			2020		
(in millions)	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	(109)	-	(109)	(117)	-	(117)
Provision for claims provided for and losses incurred during the period[1]	178	2	180	491	-	491
Unfavourable (favourable) development on prior period claims	(416)	(6)	(422)	77	(1)	76
Provision for claims, end of period	**360**	**24**	**384**	**815**	**42**	**857**

[1] *Included in insurance claims on the consolidated statement 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 September 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 National Housing Act Mortgage-Backed Securities (NHA MBS) issued by approved issuers on the basis of housing loans under the NHA MBS program in the event that an issuer is unable to satisfy its obligations under these programs. In that circumstance, we will mitigate our loss by realizing on the collateral securing the obligations, 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.

	Three months ended 30 September					
	2021			2020		
(in millions)	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of period	1,406	558	1,964	1,277	525	1,802
TPG and application fees received in the period	207	43	250	138	48	186
TPG and application fees earned in the period	(141)	(38)	(179)	(132)	(32)	(164)
Balance at end of period	**1,472**	**563**	**2,035**	**1,283**	**541**	**1,824**

	Nine months ended 30 September					
	2021			2020		
(in millions)	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	545	125	670	515	148	663
TPG and application fees earned in the period	(414)	(113)	(527)	(384)	(110)	(494)
Balance at end of period	**1,472**	**563**	**2,035**	**1,283**	**541**	**1,824**

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.

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. We declared and paid dividends of $395 million and $4,685 million for the three and nine months ended 30 September 2021, respectively (three and nine months ended 30 September 2020 – no dividends paid or declared).

The components of consolidated capital available are presented below.

	As at	
(in millions)	**30 September 2021**	**31 December 2020**
Contributed capital	25	25
Accumulated other comprehensive income	227	607
Appropriated retained earnings	9,581	9,905
Unappropriated retained earnings[1]	3,418	6,038
Total equity of Canada[2]	**13,251**	**16,575**
Less: assets with a capital requirement of 100%	(64)	(67)
Total capital available	**13,187**	**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.

	As at	
(in millions, unless otherwise indicated)	**30 September 2021**	**31 December 2020**
Appropriated capital[1]	8,806	9,374
Unappropriated capital	2,409	3,996
Total Mortgage Insurance capital	**11,215**	**13,370**
Less: assets with a capital requirement of 100%	(64)	(67)
Total Mortgage Insurance capital available	**11,151**	**13,303**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)	209%	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 our most recent annual report. Under the revised methodology implemented effective 25 November 2020, the total asset requirement is $3 billion (economic capital required) and we will re-assess this annually as part of the ORSA process. At 30 September 2021, we had $1,522 million of equity and $2,035 million of unearned premiums and fees, for a total of $3,557 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.

	As at	
(in millions, unless otherwise indicated)	**30 September 2021**	**31 December 2020**
Appropriated capital[1]	964	1,107
Unappropriated capital	558	1,804
Total Mortgage Funding capital available	**1,522**	**2,911**
Capital available to capital required (%)	220%	349%
Economic capital available to economic capital required	130%	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. We retain a portion of Assisted Housing earnings 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 of the economic capital required. 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.

	As at	
(in millions)	**30 September 2021**	**31 December 2020**
Reserve fund	48	59
Retained earnings	474	248
Total Lending programs capital available	**522**	**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.

	As at					
	30 September 2021			31 December 2020		
(in millions)	**Carrying value**	**Fair value**	**Fair value over carrying value**	**Carrying value**	**Fair value**	**Fair value over carrying value**
Financial assets[1]						
Investments at amortized cost[2]	2,822	2,821	(1)	1,427	1,439	12
Loans at amortized cost[3]	272,687	276,497	3,810	270,450	280,561	10,111
Financial liabilities						
Borrowings at amortized cost[4]	275,560	279,493	3,933	272,369	282,708	10,339

[1] *Does not include cash and cash equivalents of $773 million (31 December 2020 – $1,023 million) and securities purchased under resale agreements of $70 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] *$2,821 million (31 December 2020 – $1,439 million) fair value categorized as level 2.*

[3] *$273,567 million (31 December 2020 – $278,750 million) fair value categorized as level 2, $2,930 million (31 December 2020 – $1,811 million) fair value categorized as level 3.*

[4] *$194,425 million (31 December 2020 – $219,834 million) fair value categorized as level 1, $85,068 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.

	As at							
	30 September 2021				31 December 2020			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	120	-	120	-	290	-	290
Federal government issued	481	-	-	481	710	266	-	976
Provinces/municipalities	-	-	-	-	-	12	-	12
Corporate/other entities	-	11	-	11	-	-	-	-
Total cash equivalents	481	131	-	612	710	568	-	1,278
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	144	-	144	38	20	-	58
Provinces/municipalities	25	76	-	101	103	76	-	179
Sovereign and related entities	-	8	-	8	-	81	-	81
Equities								
Limited partnership units	-	-	75	75	-	-	81	81
Total at FVTPL	25	228	75	328	141	177	81	399
FVOCI								
Debt instruments								
Corporate/other entities	3,407	4,552	-	7,959	1,891	5,856	-	7,747
Federal government issued	8,562	40	-	8,602	11,280	532	-	11,812
Provinces/municipalities	2,963	224	-	3,187	2,797	562	-	3,359
Sovereign and related entities	16	82	-	98	16	160	-	176
Total at FVOCI	14,948	4,898	-	19,846	15,984	7,110	-	23,094
Loans designated at FVTPL	-	215	-	215	-	537	-	537
Loans mandatorily at FVTPL	-	15	278	293	-	17	189	206
Derivatives	-	19	-	19	-	117	-	117
Investment property	-	-	282	282	-	-	281	281
Total assets carried at fair value	**15,454**	**5,506**	**635**	**21,595**	**16,835**	**8,526**	**551**	**25,912**
Liabilities								
Borrowings designated at FVTPL	-	(551)	-	(551)	-	(1,156)	-	(1,156)
Derivatives	-	(20)	(23)	(43)	-	(8)	-	(8)
Total liabilities carried at fair value	**-**	**(571)**	**(23)**	**(594)**	**-**	**(1,164)**	**-**	**(1,164)**
Net assets at fair value	**15,454**	**4,935**	**612**	**21,001**	**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 nine months ended 30 September 2021, there were $706 million and $3,230 million of transfers from level 2 to level 1, respectively (three and nine months ended 30 September 2020 – $4,429 million and $7,060 million, respectively). During the three and nine months ended 30 September 2021, there were $323 million and $1,675 million of transfers from level 1 to level 2, respectively (three and nine months ended 30 September 2020 – $551 million and $4,968 million, respectively). Transfers for the three months ended 30 September 2021 are based on adjusted total level 1 and level 2 total assets carried at fair value as at 30 June 2021 of $14,706 million and $6,328 million, respectively. We made these adjustments in order for the figures presented in the second quarter to be on the same basis as in the third quarter.

Change in fair value measurement for items classified as Level 3

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

(in millions)	**Investment securities - FVTPL**	**Investment securities - FVOCI**	**Loans - FVTPL**	**Investment property**	**Derivatives - FVTPL**	**Total**
Three months ended 30 September 2021						
Fair value as at 1 July 2021	86	-	248	282	(15)	601
Purchases/issuances	-	-	33	-	-	33
Net gains in net income[1,2]	(10)	-	8	-	(8)	(10)
Cash receipts on settlements/disposals	(1)	-	(11)	-	-	(12)
Fair value as at 30 September 2021	**75**	**-**	**278**	**282**	**(23)**	**612**
Nine months ended 30 September 2021						
Fair value as at 1 January 2021	81	-	189	281	(4)	547
Purchases/issuances	3	-	97	1	-	101
Net gains in net income[1,2]	(8)	-	27	-	(19)	-
Cash receipts on settlements/disposals	(1)	-	(35)	-	-	(36)
Fair value as at 30 September 2021	**75**	**-**	**278**	**282**	**(23)**	**612**
Three months ended 30 September 2020						
Fair value as at 1 July 2020	122	-	140	278	-	540
Purchases/issuances	-	-	46	-	-	46
Net gains in net income[1,2]	(5)	-	8	-	-	3
Loan transfer to contributions[3]	-	-	(20)	-	-	(20)
Cash receipts on settlements/disposals	(36)	-	(14)	-	-	(50)
Fair value as at 30 September 2020	**81**	**-**	**160**	**278**	**-**	**519**
Nine months ended 30 September 2020						
Fair value as at 1 January 2020	118	-	70	276	-	464
Purchases/issuances	2	-	129	-	-	131
Net gains in net income[1,2]	(3)	-	5	2	-	4
Loan transfer to contributions[3]	-	-	(20)	-	-	(20)
Cash receipts on settlements/disposals	(36)	-	(24)	-	-	(60)
Fair value as at 30 September 2020	**81**	**-**	**160**	**278**	**-**	**519**

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

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

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

Unobservable inputs for items classified as Level 3

The valuations of items classified as Level 3 use unobservable inputs, changes in which may significantly affect the measurement of fair value. Valuations were based on assessments of the prevailing conditions at 30 September 2021, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 30 September 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 expected credit loss (ECL) allowance based on 12-month ECL. Credit ratings are based on our internal credit rating system and amounts in the table represent the gross carrying amounts of the financial assets.

	As at											
	30 September 2021						31 December 2020					
(in millions)	**AAA**	**AA- to AA+**	**A- to A+**	**BBB- to BBB+**	**Lower than BBB-**	**Total**	**AAA**	**AA- to AA+**	**A- to A+**	**BBB- to BBB+**	**Lower than BBB-**	**Total**
Investment securities[1]												
FVOCI	9,590	3,520	4,101	2,544	91	19,846	12,913	3,779	3,920	2,397	85	23,094
Amortized Cost	1,350	505	967	-	-	2,822	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 $6 million at 30 September 2021 (31 December 2020 – $5 million) with corresponding losses of $2 million and $1 million recognized in net gains (losses) on financial instruments during the three and nine months ended 30 September 2021 (three and nine months ended 30 September 2020 – $21 million gain and $3 million loss).

The ECL allowance for debt instruments held at amortized cost was $1 million at 30 September 2021 (31 December 2020 – nil) with a corresponding loss of $1 million recognized in net gains (losses) on financial instruments during the three and nine months ended 30 September 2021 (three and nine months ended 30 September 2020 – $2 million gain and $1 million loss).

12. Loans

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

		Three months ended 30 September							
	Balance at beginning of period	Cash flows		Non-cash changes					Balance at end of period
(in millions)		Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers[1]	
2021									
FVTPL									
Lending programs	498	(14)	24	6	-	-	-	(26)	488
MI activity loans	20	(8)	8	-	-	-	-	-	20
Total at FVTPL	**518**	**(22)**	**32**	**6**	**-**	**-**	**-**	**(26)**	**508**
Amortized cost									
CMB program loans	256,656	(6,152)	10,228	-	10	-	-	-	260,742
Lending programs	7,019	(147)	514	-	-	(2)	7	26	7,417
IMPP loans	4,711	(255)	-	-	-	-	-	-	4,456
MI activity loans	77	(5)	-	-	-	-	-	-	72
Total amortized cost	**268,463**	**(6,559)**	**10,742**	**-**	**10**	**(2)**	**7**	**26**	**272,687**
Total	**268,981**	**(6,581)**	**10,774**	**6**	**10**	**(2)**	**7**	**-**	**273,195**
2020									
FVTPL									
Lending programs	939	(34)	41	1	-	-	-	(98)	849
MI activity loans	24	(8)	6	-	-	-	-	-	22
Total at FVTPL	**963**	**(42)**	**47**	**1**	**-**	**-**	**-**	**(98)**	**871**
Amortized cost									
CMB program loans	253,143	(5,362)	13,614	-	11	-	-	-	261,406
Lending programs	5,497	(163)	323	-	-	3	3	78	5,741
IMPP Loans	5,679	(174)	-	-	-	-	-	-	5,505
MI activity loans	92	(13)	-	-	3	3	-	-	85
Total amortized cost	**264,411**	**(5,712)**	**13,937**	**-**	**14**	**6**	**3**	**78**	**272,737**
Total	**265,374**	**(5,754)**	**13,984**	**1**	**14**	**6**	**3**	**(20)**	**273,608**

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

	Nine months ended 30 September								
	Balance at beginning	Cash flows		Non-cash changes					Balance at end of
(in millions)	of period	Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers[1]	period
2021									
FVTPL									
Lending programs	719	(55)	74	13	-	-	-	(263)	488
MI activity loans	24	(29)	20	5	-	-	-	-	20
Total at FVTPL	**743**	**(84)**	**94**	**18**	**-**	**-**	**-**	**(263)**	**508**
Amortized cost									
CMB program loans	258,962	(28,218)	29,968	-	30	-	-	-	260,742
Lending programs	6,160	(561)	1,547	-	-	(8)	16	263	7,417
IMPP loans	5,248	(792)	-	-	-	-	-	-	4,456
MI activity loans	80	(27)	2	-	9	8	-	-	72
Total amortized cost	**270,450**	**(29,598)**	**31,517**	**-**	**39**	**-**	**16**	**263**	**272,687**
Total	**271,193**	**(29,682)**	**31,611**	**18**	**39**	**-**	**16**	**-**	**273,195**
2020									
FVTPL									
Lending programs	1,307	(129)	111	18	-	-	-	(458)	849
MI activity loans	24	(25)	19	4	-	-	-	-	22
Total at FVTPL	**1,331**	**(154)**	**130**	**22**	**-**	**-**	**-**	**(458)**	**871**
Amortized cost									
CMB program loans	244,445	(25,856)	42,781	-	36	-	-	-	261,406
Lending programs	4,893	(507)	908	-	-	(2)	11	438	5,741
IMPP loans	-	(312)	5,817	-	-	-	-	-	5,505
MI activity loans	101	(36)	1	-	6	13	-	-	85
Total amortized cost	**249,439**	**(26,711)**	**49,507**	**-**	**42**	**11**	**11**	**438**	**272,737**
Total	**250,770**	**(26,865)**	**49,637**	**22**	**42**	**11**	**11**	**(20)**	**273,608**

[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, CMHC 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 September 2021 were $6,015 million (31 December 2020 –$5,022 million), of which $6,009 million (31 December 2020 – $5,015 million) are subject to 12-month ECL and $6 million (31 December 2020 – $7 million) are commitments outstanding on purchased or originated credit impaired loans.

At 30 September 2021, the ECL on undrawn loan commitments was $9 million (31 December 2020 – $7 million), and the ECL on loans was $91 million (31 December 2020 – $92 million). We recognize changes in ECL 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.

		Three months ended 30 September					
	Balance	Cash flows		Non-cash changes			Balance
(in millions)	at beginning of period	Issuances	Repayments	Fair value changes	Accretion and other	Eliminations	at end of period
2021							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	617	-	(64)	(2)	-	-	551
Amortized cost							
Canada mortgage bonds	255,812	10,228	(6,152)	-	11	(77)	259,822
Borrowings from the Government of Canada – Lending programs	10,629	2,494	(1,826)	(22)	7	-	11,282
Borrowings from the Government of Canada – IMPP	4,711	-	(255)	-	-	-	4,456
Total amortized cost	**271,152**	**12,722**	**(8,233)**	**(22)**	**18**	**(77)**	**275,560**
Total	**271,769**	**12,722**	**(8,297)**	**(24)**	**18**	**(77)**	**276,111**
2020							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	1,659	-	(148)	(4)	-	-	1,507
Amortized cost							
Canada mortgage bonds	252,563	13,614	(5,212)	-	11	(60)	260,916
Borrowings from the Government of Canada – Lending programs	7,437	1,091	(688)	(17)	7	-	7,830
Borrowings from the Government of Canada – IMPP	5,679	-	(174)	-	-	-	5,505
Total amortized cost	**265,679**	**14,705**	**(6,074)**	**(17)**	**18**	**(60)**	**274,251**
Total	**267,338**	**14,705**	**(6,222)**	**(21)**	**18**	**(60)**	**275,758**

		Nine months ended 30 September					
	Balance	Cash flows		Non-cash changes			Balance
(in millions)	at beginning of period	Issuances	Repayments	Fair value changes	Accretion and other	Eliminations	at end of period
2021							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	1,156	-	(592)	(13)	-	-	551
Amortized cost							
Canada mortgage bonds	258,592	29,968	(28,198)	-	30	(570)	259,822
Borrowings from the Government of Canada – Lending programs	8,529	9,038	(6,204)	(100)	19	-	11,282
Borrowings from the Government of Canada – IMPP	5,248	-	(792)	-	-	-	4,456
Total amortized cost	**272,369**	**39,006**	**(35,194)**	**(100)**	**49**	**(570)**	**275,560**
Total	**273,525**	**39,006**	**(35,786)**	**(113)**	**49**	**(570)**	**276,111**
2020							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	2,374	-	(900)	33	-	-	1,507
Amortized cost							
Canada mortgage bonds	243,454	42,781	(25,414)	-	36	59	260,916
Borrowings from the Government of Canada – Lending programs	6,287	7,806	(6,223)	(71)	31	-	7,830
Borrowings from the Government of Canada – IMPP	-	5,817	(312)	-	-	-	5,505
Total amortized cost	**249,741**	**56,404**	**(31,949)**	**(71)**	**67**	**59**	**274,251**
Total	**252,115**	**56,404**	**(32,849)**	**(38)**	**67**	**59**	**275,758**

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 nine months ended 30 September 2021, we have excluded nil and $20 million, respectively (three and nine months ended 30 September 2020, $150 million and $442 million) of CMB maturities 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 our 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 September 2021 were $359 million (31 December 2020 – $410 million). Actual long-term borrowings issued in the three and nine months ended 30 September 2021 were $810 million and $3.3 billion, respectively (three and nine months ended 30 September 2020 – $525 billion and $7.6 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.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2021**	**2020**	**2021**	**2020**
Financial Instruments designated at FVTPL				
Investment securities	(1)	-	(3)	6
Loans	(1)	1	(4)	18
Borrowings	2	4	13	(33)
Total financial instruments designated at FVTPL	**-**	**5**	**6**	**(9)**
Financial instruments mandatorily at FVTPL				
Equity securities	(10)	(5)	(8)	(3)
Derivatives	(114)	78	(13)	(44)
Loans	9	-	24	4
Total financial instruments mandatorily at FVTPL	**(115)**	**73**	**3**	**(43)**
Debt instruments held at FVOCI[1]	118	(31)	19	514
Loans – amortized cost	-	3	-	6
Borrowings – amortized cost[2]	19	15	83	59
Expected credit (loss) recovery on financial assets[3]	(8)	24	(7)	(7)
Total	**14**	**89**	**104**	**520**

[1] *Includes foreign exchange gains of $102 million and losses of $21 million during the three months and nine months ended 30 September 2021 (three and nine months ended 30 September 2020 – $23 million loss and $39 million gain) resulting from translation of U.S. dollar-denominated debt instruments.*

[2] *Includes losses from the retirement of borrowings during the three and nine months ended 30 September 2021 of $3 million and $16 million (three and nine months ended 30 September 2020 – nil and $10 million), net of gains during the three and nine months ended 30 September 2021 from the issuance of borrowings of $22 million and $99 million (three and nine months ended 30 September 2020 – $17 million and $71 million).*

[3] *Excludes a release of ECL on MI Activity loans at amortized cost during the three and nine months ended 30 September 2021 of nil and $9 million, respectively (release of ECL during the three and nine months ended 30 September 2020 – $3 million and $13 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 nine months ended 30 September 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 $4,486 million in debt instruments denominated in U.S. dollars as at 30 September 2021 (31 December 2020 – $4,347 million), which we present as investment securities at FVOCI or at FVTPL.

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.

(in millions)	As at 30 September 2021	As at 31 December 2020
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	115	156
USD-denominated securities	53	75
Effect of diversification	(14)	(28)
Total VaR	**154**	**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 September 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 September 2021 is presented below.

	As at			
	30 September 2021		31 December 2020	
	Interest rate shift		Interest rate shift	
(in millions)	-200 bps	+200 bps	-200 bps	+200 bps
Increase (decrease) in fair value of net liabilities[1]	580	(488)	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 nine month periods ended 30 September 2021.

17. Pension and Other Post-Employment Benefits

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

	Three months ended 30 September			
	Pension plans		**Other post-employment plans**	
(in millions)	**2021**	**2020**	**2021**	**2020**
Current service cost	14	11	1	-
Net interest expense	3	3	1	1
Expense recognized in net income	**17**	**14**	**2**	**1**
Net actuarial gains (losses) arising from changes in financial assumptions	92	(9)	4	(1)
Return on plan assets (excluding amounts included in net interest expense)	(20)	34	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**72**	**25**	**4**	**(1)**
CMHC's contributions[2]	18	5	1	1
Employee contributions	3	5	-	-
Total contributions	**21**	**10**	**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 $9 million for the three months ended 30 September 2021 (2020 – nil).*

	Nine months ended 30 September			
	Pension plans		**Other post-employment plans**	
(in millions)	**2021**	**2020**	**2021**	**2020**
Current service cost	45	33	1	-
Net interest expense	8	9	3	3
Expense recognized in net income	**53**	**42**	**4**	**3**
Net actuarial gains (losses) arising from changes in financial assumptions	328	(155)	13	(9)
Return on plan assets (excluding amounts included in net interest expense)	1	53	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**329**	**(102)**	**13**	**(9)**
CMHC's contributions[2]	50	21	3	2
Employee contributions	19	16	-	-
Total contributions	**69**	**37**	**3**	**2**

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

2 *Includes a solvency payment of $27 million for the nine months ended 30 September 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 September 2021 was 3.3% (31 December 2020 – 2.6%).

18. Income Taxes

The following table presents the components of income tax.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2021**	**2020**	**2021**	**2020**
Current income tax expense	107	127	479	401
Deferred income tax relating to origination and reversal of temporary differences	31	(15)	(2)	(17)
Total income tax expense included in net income	**138**	**112**	**477**	**384**
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized gains (losses) from FVOCI financial instruments	(14)	8	(91)	142
Reclassification of prior years' net unrealized gains realized in the period in net income	(6)	(9)	(34)	(18)
Remeasurement gains (losses) on defined benefit plans	12	5	41	(15)
Total income tax expense (recovery) included in other comprehensive income (loss)	**(8)**	**4**	**(84)**	**109**
Total	**130**	**116**	**393**	**493**

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 $36 million for the three and nine months ended 30 September 2021 (three and nine months ended 30 September 2020 – $11 million and $33 million) for the Mortgage Insurance activity and $8 million and $23 million for the three and nine months ended 30 September 2021 (three and nine months ended 30 September 2020 – $6 million and $21 million) for the Mortgage Funding activity.

20. Commitments and Contingent Liabilities

As at 30 September 2021, we have $7,612 million in contractual financial obligations relating to housing programs which extend for periods up to 25 years (31 December 2020 – $8,926 million), and $233 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:

	As at	
(in millions)	**30 September 2021**	**31 December 2020**
Rental Construction Financing initiative (RCFi)	158	655
Direct Lending – Economically Hedged	120	290
National Housing Co-Investment Fund (NHCF)	212	122
Affordable Housing Innovation Fund	65	29
Canada Emergency Commercial Rent Assistance	-	7
Total	**555**	**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.

We have also revised the capital available to capital required ratio for Mortgage Funding for 31 December 2020 in Note 9 from 263% to 349%.

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