CANADA MORTGAGE AND HOUSING CORPORATION

SECOND QUARTER
30 June 2022
(Unaudited)

Quarterly Financial Report

Canada

CMHC SCHL

Table of Contents

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 25 August 2022 is prepared for the second quarter ended 30 June 2022 and is intended to provide readers with an overview of our performance including comparatives against the same three and six month periods in 2021. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2021 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 2021 Annual Report as well as in Note 4 of these unaudited quarterly consolidated financial statements. Prolonged supply chain disruptions, the conflict between Ukraine and the Russian Federation, and high inflationary pressures in 2022 has led to measurement uncertainty when making judgments and developing assumptions used in estimates. Except for these matters, there have been no material changes to our significant accounting policies, judgments or estimates to the end of the second quarter of 2022.

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 2022” 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 2021 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2022

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

Economic conditions and housing indicators

Canadian economic growth was robust through the first five months of 2022 but has slowed from its fast pace in the second half of 2021. Major drivers of this economic strength in the early months of this year were the removal of most pandemic restrictions, high commodity prices and still accommodative monetary and fiscal policies.

As a result, demand for goods and services continued to outpace the economy's capacity to produce them. This alongside more durable supply chain disruptions and increasing evidence of rising inflation expectations among businesses and consumers[1] lifted inflation pressures since the beginning of the year. Consequently, consumer price inflation in Canada reached a near 4-decade high. This prompted the Bank of Canada to raise its policy interest rate from 0.25 to 2.5 per cent between early March and July 2022. It also signalled additional increases are likely needed to bring consumer price inflation to its targeted rate. Financing costs for businesses and households have also risen.

Households' borrowing rates, including mortgage rates, increased significantly since fall of 2021. Consequently, the initial momentum of record high home prices in the early months of this year started reversing in the spring. From its historical peak in February 2022, Canada's average MLS® price started to decline mostly due to compositional effects from a larger share of lower-priced home sales. Despite this decline, Canada still averaged an elevated home price of $734,222 during the first six months of 2022. This represents an 11 per cent increase from the same period in 2021. Also for the first six months of 2022, MLS® sales decreased 18 per cent to 576,924 seasonally adjusted annualized (SAAR) units relative to the same period in 2021. MLS® sales dipped swiftly in the second quarter of 2022, reacting to increasing borrowing costs. Similarly, housing starts decreased 12 per cent to 258,295 SAAR units, during the first six months of 2022 relative to the same period in 2021.

These economic conditions continue to have a significant impact on our financial results. The impacts of inflation and movements in interest rates are seen through investment losses and actuarial gains on our defined benefit plans. Higher house prices have resulted in lower transactional homeowner unit volumes and are contributing to lower claims. These impacts are discussed further in the "Financial Results" section below. These economic conditions could also affect our ability to achieve our performance targets by year-end.

Federal Budgets (2021 and 2022)

In Budget 2022, the Government of Canada announced new investments in housing and adjustments to existing housing programs.

The Budget proposes new housing investments to be delivered by CMHC, including:

- $4 billion over five years, starting in 2022-23, to launch a new Housing Accelerator Fund. The fund is to be flexible to the needs and realities of cities and communities and could include support such as an annual per-door incentive for municipalities or up-front funding for investments in municipal housing planning and delivery processes that speed up housing development;
- $1.5 billion over two years, starting in 2022-23, to extend the Rapid Housing Initiative (RHI), which will address the urgent housing needs of Canadians placed in vulnerable situations.
- $300 million over five years, starting in 2022-23, to co-develop and launch a Urban, Rural and Northern Indigenous Housing Strategy;
- An additional $458.5 million over the program duration, starting in 2022-23, to provide low-interest loans and grants to low-income housing providers as part of the low-income stream of the Canada Greener Homes Loan Program announced in Budget 2021;

[1] Bank of Canada, Monetary Policy Report July 2022

- An additional $25.7 million to support homeowners in Quebec whose homes require remediation from damages to foundations caused by the mineral pyrrhotite;
- $5 million over two years, starting in 2022-23, to engage with provinces and territories over the next year to develop and implement a Home Buyers' Bill of Rights and bring forward a national plan to end blind bidding; and
- $475 million in 2022-23 to provide a one-time $500 payment to those facing housing affordability challenges.

Budget 2022 also proposes to adjust existing National Housing Strategy (NHS) programs as follows:

- To advance $2.9 billion in funding under the National Housing Co-Investment Fund (NHCF). This will accelerate the creation and repair of units for the Canadians who need them most.
- To reform the Rental Construction Financing initiative (RCFi) by strengthening its affordability and energy efficiency requirements. Developers who significantly exceed these requirements and build highly affordable and energy efficient units will be eligible to have a portion of their repayable loans converted to non-repayable loans.
- To provide $200 million in support under the Affordable Housing Innovation Fund, which encourages new funding models and innovative building techniques in the affordable housing sector, to help develop and scale up rent-to-own projects across Canada;
- To reallocate $500 million in funding from the NHCF to launch a new Co-operative Housing Development Program aimed at expanding co-op housing in Canada, and to reallocate $1 billion in loans from the RCFi to support co-op housing projects; and
- To extend the First-Time Home Buyers Incentive until 31 March 2025, including exploring options to make the program more flexible and responsive to the needs of first-time homebuyers, including single-led households. In addition, the program was modified to limit the Government of Canada's share in the appreciation or depreciation of a home at the time of repayment to a maximum gain or loss of 8% per annum (not compounded). The maximum gain applies retroactively to the program launch and the maximum loss is effective for new shared-equity mortgages entered into after June 1, 2022.

CMHC must seek authorities for initiatives and funding announced in Budget 2022. This is a top priority for CMHC and we will work diligently to obtain the appropriate authorities to ensure a timely launch of the initiatives. There may be some impacts to CMHC's financial statements in 2022, however we anticipate the impacts of these initiatives on CMHC's financial statements will be more significant in 2023.

In addition, the following items announced in Federal Budget 2021 are expected to have impacts to CMHC's financial statements in 2022:

- The launch of the Canada Greener Homes Loan (CGHL) in June 2022. Budget 2021 announced $4.4 billion over 5 years for this program 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. We obtained financial authorities for this initiative in 2021 and launched in June 2022.
- The renewal and expansion of the Affordable Housing Innovation Fund. This program encourages new funding models and innovative building techniques in the affordable housing sector. In June 2022, we obtained financial authorities of $550.8M over 6 years for this extension.
- $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. Obtaining our financial authorities is a priority.

We continue to deliver Canada's 10-year, $72+ billion National Housing Strategy (NHS), which is giving more Canadians a place to call home. The NHS is a comprehensive plan that covers the entire housing continuum, from shelters and transitional housing, to community and affordable housing, to market rental and homeownership. Dynamic and adaptable, it is designed to evolve as needed to better respond to the changing housing needs of Canadians.

We report progress on the achievement of NHS targets quarterly at **www.placetocallhome.ca**

Office of the Superintendent of Financial Institutions (OSFI) guidelines

Consultation on pension investment risk management

In March 2022, OSFI released a consultation paper on pension investment risk management, which introduces principles for the management of investment risk that OSFI believes are relevant for federally regulated pension plans. These expectations cover four areas: independent risk oversight, risk appetite and risk limits, portfolio and risk reporting, and valuation policies and processes. CMHC provided a response to OSFI by the deadline of May 13, 2022. OSFI will communicate its proposal for future investment risk management initiatives in the fourth quarter of 2022. We do not expect this proposal to have a direct impact on our financial statements, but, as the CMHC pension plan sponsor, we will closely monitor any developments.

Guideline on capital, leverage and liquidity returns assurance

In March 2022, OSFI released a draft guideline for public comment based on the discussion paper on capital, leverage and liquidity returns assurance. The guideline seeks to better inform auditors and institutions on the work to be performed on regulatory returns in an effort to enhance and align OSFI's assurance expectations across all federally regulated financial institutions (FRFIs). OSFI expects review and senior management attestation on the accuracy and completeness of the MICAT Cover schedule on a quarterly basis, beginning fiscal 2023. In addition, OSFI expects internal auditors to evaluate and opine on the effectiveness of the processes and internal controls in place for the MICAT, including related systems effective beginning fiscal 2023, at least once every three years. Lastly, beginning fiscal 2024 on an annual basis, OSFI expects external auditors to evaluate and opine on MICAT related calculations to ensure they have been prepared in accordance with the appropriate regulatory framework and are free of material misstatements. The final guideline is expected to be released in the third quarter of 2022.

Consultation on third-party risk management through a revised Guideline B-10

In April 2022, OSFI released a revised draft guideline B-10 setting their expectations around enhanced third-party risk management for public consultation. The draft guideline recognizes that the financial industry has been leveraging third-party agreements for a long time to seek efficiency, innovation, and other process improvement objectives. A more comprehensive set of third-party risks is captured within this recent draft with the objective of enhancing operational and financial resilience. The deadline for the consultation has been extended from July 27, 2022 to September 30, 2022. The final guideline is expected to be released in the fourth quarter 2022. However, the extended consultation deadline may delay its final release date.

OSFI letter on revisions to Guideline E-23 (Model Risk Management)

On May 20, 2022, OSFI announced it will expand the scope of Guideline E-23 to address emerging risks and to clarify OSFI's expectations that all FRFIs and Federally Regulated Pension Plans (FRPPs) appropriately assess and manage model risks at the enterprise level. OSFI plans to launch a consultation on Guideline E-23 in March 2023, with final guidance planned for publication by the end of 2023 and target implementation by June 2024.

Consultation on expectations to advance climate risk management through Guideline B-15

On May 26, 2022, OSFI launched an industry consultation with the publication of a draft guideline B-15: Climate Risk Management. The draft guideline proposes a prudential framework that is more climate sensitive and recognizes the impact of climate change on managing risk. The draft Guideline sets the stage for OSFI's expectations of federally regulated financial institutions. The deadline for the consultation has been extended from August 19, 2022 to September 30, 2022. The final guideline is expected to be released in the first quarter of 2023.

New Guideline B-13 for technology and cyber risk management

On July 13, 2022, OSFI released its final Guideline B-13 which sets out OSFI's expectations for how FRFIs should manage technology and cyber risks such as data breaches, technology outages and more. The final Guideline B-13 will be effective as of January 1, 2024. We are currently assessing the impact of the changes on our business activities.

Final Mortgage Insurer Capital Adequacy Test (MICAT) Guideline

On July 21, 2022, OSFI released its final MICAT guideline that reflects the transition to IFRS 17 Insurance Contracts for fiscal years beginning on or after January 1, 2023. As part of this updated guideline, OSFI has made changes to adapt the guideline to IFRS 17, to introduce capital requirements on loss components of the insurance contract, and to specify credit risk requirements in a manner consistent with IFRS 9 Financial Instruments terminology. This guideline will be effective as of January 1, 2023. We are currently assessing the impact of the new guideline on our future capital required.

Updates on future changes to accounting standards

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 indicating that it would not consider the contractual service margin (CSM) to be a deductible reserve for tax purposes; its conclusion creates a current tax liability for insurers.

Budget 2022 proposed legislative amendments to tax currently the CSM at 90% and allow a deferral of 10%, effective in 2023. Furthermore, the CSM recognized on transition to IFRS 17 would be brought into taxable income over a five year period. We are currently assessing the impact on our financial results and pricing.

Information relating to all other standards issued by the International Accounting Standards Board (IASB) that may or will affect us can be found in Note 3 of our audited consolidated financial statements for the year ended 31 December 2021.

Other updates

Draft Tax Legislation on Excessive Interest and Financing Expenses Limitation

On 4 February 2022, the Department of Finance released draft legislation for public comment to amend the Income Tax Act (ITA), including the Excessive Interest and Financing Expenses Limitation (EIFEL) rules aimed at limiting the amount of interest and other financing expenses that businesses may deduct for income tax purposes based on a proportion of earnings, interest, taxes, depreciation and amortization as determined by Canadian tax principles to take effect for taxation years beginning after December 31, 2022. The legislation is broadly in line with the recommendations in the Action 4 report set out by the Organization for Economic Cooperation and Development in respect of its Base Erosion and Profit Shifting Initiative. CMHC has submitted a response to the proposed legislation by the deadline of May 5, 2022.

Task Force on Climate-Related Financial Disclosures

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) in 2015. In 2017, the TCFD published a climate-related risk management and disclosure framework including four main themes: Governance, Strategy, Risk Management, and Metrics and Targets. The Government of Canada announced, through Budget 2021, that large Crown Corporations (entities with over $1 billion in assets) must adopt TCFD recommendations and begin to report on climate-relate financial risks for their financial years starting in calendar year 2022 at the latest.

Progress has been made to further align with the TCFD requirements. CMHC continues to develop its capacity to understand the related financial and climate change risks.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 30 June 2022 and 31 December 2021	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Total assets	15,628	13,749	17,339	18,409	266,203	269,111	(1,043)	(912)	298,127	300,357
Total liabilities	14,847	13,180	7,422	7,257	264,859	267,596	(1,047)	(886)	286,081	287,147
Total equity of Canada	781	569	9,917	11,152	1,344	1,515	4	(26)	12,046	13,210

Our total equity of Canada has decreased by $1,164 million (9%) primarily due to $1,390 million of dividends declared in 2022 partially offset by comprehensive income of $226 million.

Our total assets decreased by $2,230 million (1%) primarily due to:

- A decrease in loans at amortized cost by $1,959 million (1%) as the maturities of Canada Mortgage Bonds (CMB) exceeded new issuances. In addition, we are no longer issuing loans under the Insured Mortgage Purchase Program (IMPP) and existing loans are being repaid.
- A decrease to investment securities measured at fair value through other comprehensive income by $1,952 million (10%) as a result of higher interest rates in 2022.
- These decreases were partially offset by increased NHS program activity particularly in RCFi and NHCF in 2022, which increased investments and loans at amortized cost. In addition, a defined benefit plans asset of $337 million was recognized in 2022, resulting from the increase in the discount rate used to measure the pension obligation.

Our total liabilities decreased by $1,066 million (0.4%) mainly driven by lower borrowings at amortized cost of CMB and IMPP and the decrease in the defined benefit plans liability, as explained above. This was partially offset by higher borrowings at amortized cost due to increased NHS activity as explained above and higher unearned premiums and fees as a result of the increased transactional homeowner and portfolio volumes for the mortgage insurance activity and higher National Housing Act Mortgage Backed Securities (NHA MBS) securities guaranteed for the mortgage funding activity.

Condensed consolidated statements of income and comprehensive income

Three months ended 30 June	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Government funding	489	547	-	-	-	-	-	-	489	547
Premiums and fees earned	-	-	361	349	180	176	-	-	541	525
All other income[1]	53	32	64	92	7	10	7	(7)	131	127
Total revenues and government funding	**542**	**579**	**425**	**441**	**187**	**186**	**7**	**(7)**	**1,161**	**1,199**
Housing programs	424	472	-	-	-	-	-	-	424	472
Insurance claims	-	-	3	(63)	-	-	-	-	3	(63)
Operating expenses	71	75	75	82	18	18	-	-	164	175
Total expenses	**495**	**547**	**78**	**19**	**18**	**18**	**-**	**-**	**591**	**584**
Income taxes	12	8	83	107	42	42	2	(2)	139	155
Net income	**35**	**24**	**264**	**315**	**127**	**126**	**5**	**(5)**	**431**	**460**
Other comprehensive income (loss)	51	(9)	(270)	24	(62)	(5)	7	-	(274)	10
Comprehensive income	**86**	**15**	**(6)**	**339**	**65**	**121**	**12**	**(5)**	**157**	**470**

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

Q2 2022 vs Q2 2021

Our total revenues and government funding decreased by $38 million (3%) from the same quarter last year mainly due to:

- A decrease of $58 million (11%) in government funding driven mainly by a decrease of $123 million in RHI funding. This was partially offset by an increase of $27 million for the Federal Lands Initiative (FLI) and $43 million for NHCF compared to the same quarter of last year.
- An increase of $16 million (3%) in premiums and fees earned mainly as a result of higher volumes from prior years being recognized in the Mortgage Insurance Activity. In addition, premiums and fees earned are higher in Mortgage Funding activity mainly due to the recent pricing changes.

Total expenses increased by $7 million (1%) from the same quarter last year mainly due to:

- An increase of $66 million (105%) in insurance claims expense. While insurance claims expense in the quarter continues to be low combined with a lower provision for claims, there was a larger decrease in the same quarter of last year when the provision for claims was reduced as a result of favourable economic conditions as the economy recovered from COVID-19.
- Decrease in government funding as described above, which resulted in lower housing program expenses and operating expenses.

Other comprehensive income (OCI), net of tax, decreased by $284 million (2,840%) from the same quarter last year mainly due to:

- A decrease of $413 million (1,332%) in net unrealized gains from debt instruments held at fair value through other comprehensive income mainly due to an increase in bond yields in the current quarter compared to a decrease on bond yields in the same quarter of last year.
- This was offset by an increase of $129 million (614%) in remeasurement gains on defined benefit plans in the quarter. The remeasurement gains in the current quarter is due to the significant increase in the discount rate used to remeasure the defined benefit plans obligation and partially offset by the lower than expected return on assets. By comparison, there was a decrease in the discount rate and a higher than expected return on assets in the same quarter last year.

Six months ended 30 June	**Assisted Housing Activity**		**Mortgage Insurance Activity**		**Mortgage Funding Activity**		**Eliminations**		**Total**	
(in millions)	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Government funding	2,144	1,939	-	-	-	-	-	-	2,144	1,939
Premiums and fees earned	-	-	711	696	374	348	-	-	1,085	1,044
All other income[1]	62	55	109	183	23	46	12	(3)	206	281
Total revenues and government funding	**2,206**	**1,994**	**820**	**879**	**397**	**394**	**12**	**(3)**	**3,435**	**3,264**
Housing programs	2,009	1,787	-	-	-	-	-	-	2,009	1,787
Insurance claims	-	-	1	(248)	-	-	-	-	1	(248)
Operating expenses	142	153	151	169	37	38	-	-	330	360
Total expenses	**2,151**	**1,940**	**152**	**(79)**	**37**	**38**	**-**	**-**	**2,340**	**1,899**
Income taxes	14	11	163	240	90	89	3	(1)	270	339
Net income	**41**	**43**	**505**	**718**	**270**	**267**	**9**	**(2)**	**825**	**1,026**
Other comprehensive income (loss)	171	132	(640)	(127)	(151)	(94)	21	5	(599)	(84)
Comprehensive income	**212**	**175**	**(135)**	**591**	**119**	**173**	**30**	**3**	**226**	**942**

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

Year to Date (YTD) 2022 vs YTD 2021

Our total revenues and government funding increased by $171 million (5%) from the same six-month period last year mainly due to:

- An increase of $205 million (11%) in government funding. This was driven mainly by $174 million for RHI, $35 million for FLI, $34 million for Canada Community Housing Initiative and $28 million for Canada Housing Benefit (CHB), partially offset by a decrease of $69 million in the Provincial/Territorial (PT) Priority Funding.
- An increase of $41 million (4%) in premiums and fees earned mainly as a result of recent pricing changes and higher volumes from prior year in the Mortgage Funding activity as explained in the financial metrics and ratios section as well as higher volumes from prior years being recognized in the Mortgage Insurance Activity.
- The increase was partially offset by the decrease of $63 million (70%) in net gains on financial instruments as investments sold in 2022 resulted in a realized loss compared to a gain in 2021.

Total expenses increased by $441 million (23%) from the same six-month period last year mainly due to the increase of $249 million (100%) in insurance claims, and the increase in government funding which resulted in an increase in housing programs expenses, as described above.

Other comprehensive income, net of tax, decreased by $515 million (613%) from the same six-month period last year mainly due to:

- An increase of $640 million (199%) in net unrealized losses from debt instruments held at fair value through other comprehensive income was mainly driven by the significant increase in bond yields in this year.
- There was a $125 million (53%) increase in remeasurement gains on defined benefit plans mainly as a result of the larger increase in the discount rate throughout 2022, partially offset by the lower than expected returns on assets. This is compared to the same period last year which had a smaller increase in the discount rate and a higher than expected return on assets.

Financial metrics and ratios

Mortgage Insurance

	Insurance-in-force ($B)	
	As at	
(in millions, unless otherwise indicated)	**30 June 2022**	**31 December 2021**
Transactional homeowner	186	193
Portfolio	86	94
Multi-unit residential	125	114
Total	**397**	**401**

Insurance-in-force decreased by $4 billion (1%) due to run-off of existing policies-in-force being higher than new volumes insured.

(in millions, unless otherwise indicated)	Insured volumes (units)		Insured volumes ($)		Premiums and fees received[1]		Claims paid[2]	
	Three months ended							
	30 June 2022	30 June 2021	30 June 2022	30 June 2021	30 June 2022	30 June 2021	30 June 2022	30 June 2021
Transactional homeowner	21,743	23,029	7,425	6,571	271	241	11	29
Portfolio	8,497	2,435	2,482	640	14	2	3	-
Multi-unit residential	45,050	49,015	8,483	8,181	221	265	-	1
Total	**75,290**	**74,479**	**18,390**	**15,392**	**506**	**508**	**14**	**30**

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

[2] *Claims paid refers to the net cash amounts paid out on insurance claims. This amount does not include social housing mortgages and index-linked mortgage claims.*

(in millions, unless otherwise indicated)	Insured volumes (units)		Insured volumes ($)		Premiums and fees received[1]		Claims paid[2]	
	Six months ended							
	30 June 2022	30 June 2021	30 June 2022	30 June 2021	30 June 2022	30 June 2021	30 June 2022	30 June 2021
Transactional homeowner	34,181	34,763	11,636	9,925	420	358	22	50
Portfolio	10,547	3,165	3,063	850	16	3	3	3
Multi-unit residential	86,839	84,677	16,415	13,735	469	478	-	11
Total	**131,567**	**122,605**	**31,114**	**24,510**	**905**	**839**	**25**	**64**

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

[2] *Claims paid refers to the net cash amounts paid out on insurance claims. This amount does not include social housing mortgages and index-linked mortgage claims.*

Q2 2022 vs Q2 2021 and YTD 2022 vs YTD 2021

The increase in total insured unit volumes is driven primarily by the year over year increases in portfolio unit volumes (three months ended 30 June – 6,062 units and 249%; six months ended 30 June – 7,382 units and 233%). Portfolio unit volumes continue to increase as a result of reversing our underwriting criteria in July 2021. Decreases in transactional homeowner volumes during the quarter are a result of rising mortgage rates coupled with higher house prices.

Total insured dollars increased primarily by the increase in portfolio insurance as explained above (three months ended 30 June - $1.8B and 288%; six months ended 30 June - $2.2B and 260%). In addition, multi-unit residential increased as a result of rising prices and higher construction costs.

The $66M (8%) increase in year-to-date premiums and fees received is driven by the increase in transactional homeowner ($62M and 17%) and portfolio ($13M and 433%), partially offset by the decrease in multi-unit residential ($9M and 2%). The increase in transactional homeowner premiums and fees received is due to higher house prices. The decrease in multi-unit residential premiums and fees received is a result of the launch of the MLI Select product in Q1 2022, which attracts a lower premium.

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 higher house prices as a result of improved economic conditions as outlined in "The Operating Environment and Outlook for 2022" section above.

(in percentages)	Three months ended 30 June 2022	Three months ended 30 June 2021	Six months ended 30 June 2022	Six months ended 30 June 2021
Loss ratio[1,2]	0.8	(18.1)	0.1	(35.6)
Operating expense ratio	20.8	23.4	21.2	24.3
Combined ratio	21.6	5.3	21.3	(11.3)
Severity ratio	24.8	27.8	27.4	30.7
Return on equity	10.5	11.3	9.6	11.7
Return on required equity	12.5	13.5	12.0	15.5

1 *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was 1.4% and 1.9% for the three and six months ended 30 June 2022, respectively ((22.5)% and (46.1)% for the three and six months ended 30 June 2021).*

2 *The loss ratio is calculated based on the insurance claims expense incurred over the period, which is estimated based on actuarial modelling of projected economic variables.*

Q2 2022 vs Q2 2021 and YTD 2022 vs YTD 2021

The loss ratio and combined ratio increased mainly due to higher insurance claims expenses as explained in the "Condensed consolidated statements of income and comprehensive income" section above.

The operating expense ratio decrease is mostly attributable to lower information technology costs.

The severity ratio decreased from the same periods last year driven by stronger sales proceeds.

The return on equity and return on required equity ratios decreased due to the lower net income mainly driven by the increase in insurance claims expense as explained above.

	As at 30 June 2022 No. of delinquent loans	As at 30 June 2022 Arrears rate	As at 31 December 2021 No. of delinquent loans	As at 31 December 2021 Arrears rate
Transactional homeowner	2,954	0.33%	3,573	0.38%
Portfolio	893	0.14%	956	0.14%
Multi-unit residential	64	0.23%	70	0.26%
Total	3,911	0.25%	4,599	0.28%

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

Mortgage Funding

(in millions, unless otherwise indicated)	Total guarantees-in-force ($B) As at 30 June 2022	Total guarantees-in-force ($B) As at 31 December 2021
NHA MBS	199	202
CMB	257	259
Total	**456**	**461**

Total guarantees-in-force represents the maximum principal obligation related to our timely payment guarantee. Guarantees-in-force were $456 billion as at 30 June 2022, a decrease of $5 billion (1%) as maturities and principal run-off exceeded new guarantees provided.

(in millions, unless otherwise indicated)	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Three months ended			
	30 June 2022	**30 June 2021**	**30 June 2022**	**30 June 2021**
NHA MBS	33	36	173	189
CMB	11	10	42	40
Total	**44**	**46**	**215**	**229**

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

(in millions, unless otherwise indicated)	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Six months ended			
	30 June 2022	**30 June 2021**	**30 June 2022**	**30 June 2021**
NHA MBS	66	64	350	338
CMB	21	20	84	82
Total	**87**	**84**	**434**	**420**

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

Q2 2022 vs Q2 2021 and YTD 2022 vs YTD 2021

New securities guaranteed increased from the same six month period last year as the market adapts to the price increases that went into effect 1 January 2021, which caused a decrease in new securities guaranteed in the first quarter of 2021. The decrease in the second quarter is related to the larger issuers reaching their maximum allocation which is lower than the same quarter last year.

Guarantee and application fees received decreased by $14 million (6%) and increased from $14 million (3%), from the same three and six month period last year, respectively, in line with the change in new securities guarantees.

	Three months ended		Six months ended	
(in percentages)	**30 June 2022**	**30 June 2021**	**30 June 2022**	**30 June 2021**
Operating expense ratio	7.9	8.5	7.6	8.7
Return on equity	36.8	32.2	37.9	23.9

Q2 2022 vs Q2 2021 and YTD 2022 vs YTD 2021

The operating expense ratio decreased due to higher guarantee and application fees earned, as explained above.

Return on equity increased largely due to decreases in average equity due to the resumption of dividend payment in 2021.

Government Funding

The following table reconciles the amount of government funding 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.

	Six months ended 30 June	
(in millions)	**2022**	**2021**
Amounts authorized in 2021/22 (2020/21)		
Main estimates	3,259	2,920
Supplementary estimates A[1,2,5]	1,800	3,039
Supplementary estimates B[1,3,5]	44	873
Supplementary estimates C[1,4,5]	41	(812)
Less: portion recognized in calendar 2021 (2020)	(2,367)	(4,064)
Less: Government funding lapsed for 2021/22 (2020/21)	(1,049)	(238)
Less: frozen allotment	(53)	(252)
2021/22 (2020/21) government funding funded in 2022 (2021)	**1,675**	**1,466**
Amounts authorized in 2022/23 (2021/22)		
Main estimates	3,549	3,259
Supplementary estimates A[1,2,5]	46	1,800
Supplementary estimates B[1,3,5]	-	44
Supplementary estimates C[1,4,5]	-	41
Total fiscal year government funding	**3,595**	**5,144**
Less: portion to be recognized in subsequent quarters	(3,087)	(3,472)
Less: frozen allotment	-	(53)
Forecasted lapse for 2022/23 (Actual lapse in 2021/22)	-	(1,049)
2022/23 (2021/22) government funding funded in 2022 (2021)	**508**	**570**
Total government funding – six months ended 30 June	**2,183**	**2,036**

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

2 *Approved 2022/23 supplementary estimates A for RHI, and Granville Island Emergency Relief Fund, (2021/22 supplementary estimates A for RHI, NHCF, Canada Greener Homes Loan Program, Granville Island Emergency Relief Fund, Canada Emergency Commercial Rent Assistance (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).*

3 *Approved 2021/22 supplementary estimates B for RCFi (2020/21 RHI, Affordable Housing Innovation Fund, Federal, Provincial and Territorial initiatives and other NHS initiatives).*

4 *Approved 2021/22 Supplementary Estimates C increase of $41 million for the construction and operation of shelters and transition houses for Indigenous women, children, 2SLGBTQQ/Q+ people, CHB, Federal Community Housing Initiative (FCHI), Research and Data Initiative (2020/21 increase of $19 million for COVID-19 programs including CECRA, RHI, 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 because we do not control the activities of Granville Island.*

Capital Management

Frameworks

For our Assisted Housing Activity, we maintain a reserve fund pursuant to Section 29 of the *CMHC Act* to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. Lending programs' earnings are retained in this reserve fund except for the unrealized fair value fluctuations as well as remeasurement gains and losses on defined benefit plans. Unrealized fair value market fluctuations and remeasurement losses on defined benefit plan are absorbed in retained earnings until the time they are realized. Aside from the reserve fund, we do not hold capital for our Assisted Housing activities, as they do not present material financial risks to 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 as our economic capital is lower than OSFI's regulatory capital requirements.

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 maintaining the internal targets and operating levels of 155% and 165% respectively for Mortgage Insurance and 105% and 110% for Mortgage Funding for 2022. For Mortgage Funding, the Board approved a reduction of the economic capital required at the operating level 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 June 2022**	**31 December 2021**
Mortgage Insurance: Capital available to minimum capital required (MICAT)	192%	213%
Mortgage Funding: Economic capital available to economic capital required	146%	136%

Our MICAT ratio decreased by 21 percentage points mainly due to the decrease in available capital, driven both by the declaration of $1,100 million of dividends in the period, as well as by rising interest rates, which reduced the value of our investment securities.

Our Mortgage Funding capital available to capital required ratio increased by 10 percentage points mainly due to the reduction of the economic capital required at the operating level as explained above.

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

RISK MANAGEMENT

The current economic conditions have added to inflationary pressures, leading to the increase in interest rates, amplifying CMHC's risk profile, including our top risks:

Financial Risks, including credit, market, liquidity and insurance risks continue to remain low.

Operational risks have heightened including risks to our strategy execution, people risk (challenging labour market and people's stress level), and information security and privacy including the heightened risks of cyber attacks due to geopolitical tensions. Short and long term mitigation actions are underway to manage the operational risks.

Strategic risks are elevated due to various factors including high construction costs and increasing interest rates, challenging our business plan to achieve targets and progress towards our strategic results. Short-term mitigation actions have been implemented while work is underway to further understand some of the key drivers of strategic risks.

CMHC continues to monitor the changing risk landscape given the uncertainties in the economy and the housing market.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Consolidated Results								
Total assets	298,127	299,671	300,357	300,457	295,629	307,624	300,970	303,227
Total liabilities	286,081	287,387	287,147	287,206	282,402	294,472	284,395	287,196
Total equity of Canada	12,046	12,284	13,210	13,251	13,227	13,152	16,575	16,031
Total revenues and government funding	1,161	2,274	1,956	1,076	1,199	2,065	2,029	2,682
Total expenses (including income taxes)	730	1,880	1,472	662	739	1,499	1,640	2,346
Net income	431	394	484	414	460	566	389	336
Assisted Housing								
Government funding	489	1,655	1,277	452	547	1,392	1,372	1,977
Net income (loss)	35	6	38	10	24	19	22	15
Total equity of Canada	781	695	569	547	507	492	332	287
Mortgage Insurance								
Insurance-in-force ($B)[3]	397	394	401	404	409	422	431	438
Total insured volumes[1]	18,390	12,724	18,659	13,356	15,392	9,118	19,494	19,617
Premiums and fees received	506	399	547	417	508	331	518	570
Premiums and fees earned	361	350	353	350	349	347	344	347
Claims paid	14	11	30	45	30	34	23	20
Insurance claims expense	3	(2)	(57)	(12)	(63)	(185)	(113)	171
Net income	264	241	302	265	315	403	342	192
Arrears rate	0.25%	0.26%	0.28%	0.29%	0.31%	0.34%	0.34%	0.34%
Loss ratio	0.8%	(0.6)%	(16.1)%	(3.4)%	(18.1)%	(53.3)%	(32.9)%	49.3%
Operating expense ratio	20.8%	21.7%	23.0%	21.1%	23.4%	25.1%	29.4%	19.2%
Combined ratio	21.6%	21.1%	6.9%	17.7%	5.3%	(28.2)%	(3.5)%	68.5%
Severity ratio	24.8%	27.0%	28.4%	30.8%	27.8%	31.8%	27.0%	31.0%
Return on equity	10.5%	9.0%	10.1%	9.5%	11.3%	13.1%	10.4%	5.9%
Return on required equity	12.5%	11.3%	14.0%	12.0%	13.5%	16.7%	10.5%	7.7%
Capital available to minimum capital required (% MICAT)	192%	192%	213%	209%	201%	191%	234%	233%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage[4]	19.9%	20.1%	21.0%	23.1%	24.2%	24.8%	26.2%	25.9%
Mortgage Funding								
Guarantees-in-force ($B)[3]	456	460	461	460	461	479	489	500
Securities guaranteed ($B)	44	43	48	51	46	38	52	43
Guarantee and application fees received	215	219	338	250	229	191	241	186
Guarantee and application fees earned	180	194	189	179	176	172	172	165
Net income	127	143	139	139	126	141	135	130
Operating expense ratio	7.9%	7.4%	7.7%	7.6%	8.5%	8.9%	8.8%	7.0%
Return on equity	36.8%	38.9%	36.6%	36.4%	32.2%	25.2%	18.9%	19.1%
Capital available to capital required[2]	146%	148%	136%	130%	129%	128%	176%	233%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantee	22.9%	23.3%	24.1%	26.3%	27.2%	28.6%	29.5%	29.3%

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.*

3 *Our total exposure is less than the sum of these figures because we insure a portion of the instruments included in guarantees-in-force.*

4 Figures for Q4 2021 and Q1 2022 have been updated from the previously published quarterly report.

Unaudited Quarterly Consolidated Financial Statements

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 June 2022

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 and Senior Vice President,
Corporate Services

25 August 2022

CONSOLIDATED BALANCE SHEET

		As at	
(in millions of Canadian dollars)	**Notes**	**30 June 2022**	**31 December 2021**
Assets			
Cash and cash equivalents	20	2,132	1,525
Accrued interest receivable		701	720
Investment securities:			
Fair value through profit or loss	10	154	289
Fair value through other comprehensive income	10, 11	18,030	19,982
Amortized cost	10, 11	3,414	2,817
Derivatives		-	31
Due from the Government of Canada	6	443	363
Loans:	12		
Fair value through profit or loss		475	500
Amortized cost		270,822	272,781
Accounts receivable and other assets		1,305	1,035
Investment property		314	314
Defined benefit plans asset		337	-
		298,127	300,357
Liabilities			
Accounts payable and other liabilities		670	650
Accrued interest payable		605	612
Derivatives		80	50
Provision for claims	7	274	310
Borrowings:	13		
Fair value through profit or loss		438	475
Amortized cost		274,628	275,869
Defined benefit plans liability		161	250
Unearned premiums and fees	7, 8	8,953	8,684
Deferred income tax liabilities		272	247
		286,081	287,147
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income		(830)	131
Retained earnings		12,851	13,054
		12,046	13,210
		298,127	300,357

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

		Three months ended 30 June		Six months ended 30 June	
(in millions of Canadian dollars)	**Notes**	**2022**	**2021**	**2022**	**2021**
Interest income		1,220	1,130	2,351	2,250
Interest expense		1,219	1,130	2,352	2,247
Net interest income (loss)		1	-	(1)	3
Government funding	6	489	547	2,144	1,939
Premiums and fees earned	7, 8	541	525	1,085	1,044
Investment income		94	91	176	180
Net gains (losses) on financial instruments	14	34	35	27	90
Other income		2	1	4	8
Total revenues and government funding		1,161	1,199	3,435	3,264
Non-interest expenses					
Housing programs	6	424	472	2,009	1,787
Insurance claims		3	(63)	1	(248)
Operating expenses		164	175	330	360
Total expenses		591	584	2,340	1,899
Income before income taxes		570	615	1,095	1,365
Income taxes	18	139	155	270	339
Net income		431	460	825	1,026
Other comprehensive income (loss), net of tax					
Items that will be subsequently reclassified to net income					
Net unrealized gains (losses) from debt instruments held at fair value through other comprehensive income	18	(380)	106	(960)	(237)
Reclassification of losses (gains) on debt instruments held at fair value through other comprehensive income on disposal in the period	18	(2)	(75)	(1)	(84)
Total items that will be subsequently reclassified to net income		(382)	31	(961)	(321)
Items that will not be subsequently reclassified to net income					
Remeasurement gains (losses) on defined benefit plans	17, 18	108	(21)	362	237
Total other comprehensive income (loss), net of tax		(274)	10	(599)	(84)
Comprehensive income		157	470	226	942

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

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

(in millions of Canadian dollars)	Notes	Three months ended 30 June 2022	Three months ended 30 June 2021	Six months ended 30 June 2022	Six months ended 30 June 2021
Contributed capital		25	25	25	25
Accumulated other comprehensive income (loss)					
Balance at beginning of period		(448)	255	131	607
Other comprehensive income (loss)		(382)	31	(961)	(321)
Balance at end of period		(830)	286	(830)	286
Retained earnings					
Balance at beginning of period		12,707	12,872	13,054	15,943
Net income		431	460	825	1,026
Other comprehensive income (loss)		108	(21)	362	237
Dividends	9	(395)	(395)	(1,390)	(4,290)
Balance at end of period		12,851	12,916	12,851	12,916
Equity of Canada		12,046	13,227	12,046	13,227

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Three months ended 30 June		Six months ended 30 June	
(in millions of Canadian dollars)	Notes	2022	2021	2022	2021
Cash flows from operating activities					
Net income		431	460	825	1,026
Adjustments to determine net cash flows from operating activities					
Amortization of premiums and discounts on financial instruments		19	35	53	73
Net gains on financial instruments		(160)	(146)	(109)	(335)
Deferred income taxes	18	(11)	(11)	14	(33)
Depreciation, amortization and impairment of property and equipment and intangible assets		6	14	12	44
Changes in operating assets and liabilities					
Derivatives		113	105	61	229
Accrued interest receivable		524	541	19	29
Due from the Government of Canada		368	427	(126)	(202)
Accounts receivable and other assets		19	(21)	19	54
Accounts payable and other liabilities		(317)	(415)	71	100
Accrued interest payable		(516)	(528)	(7)	2
Provision for claims		(13)	(91)	(36)	(305)
Defined benefit plans liability		6	(2)	4	4
Unearned premiums and fees		189	225	269	234
Other		2	1	(3)	-
Loans repayments	12	11,025	18,177	23,569	23,101
Loans disbursements	12	(10,801)	(10,366)	(21,555)	(20,837)
Borrowings repayments	13	(12,774)	(21,630)	(28,688)	(27,488)
Borrowings issuances	13	13,236	14,617	27,636	26,284
		1,346	1,392	2,028	1,980
Cash flows from investing activities					
Investment securities					
Sales and maturities		2,534	4,378	6,321	9,915
Purchases		(2,408)	(4,268)	(6,271)	(8,869)
Foreign currency forward contract maturities					
Receipts		89	187	158	393
Disbursements		(120)	(32)	(192)	(63)
Investment property additions		-	(1)	-	(1)
Securities purchased under resale agreements		-	-	-	174
Property and equipment and intangible asset acquisitions		(26)	(35)	(47)	(70)
		69	229	(31)	1,479
Cash flows from financing activities					
Dividends paid		(1,390)	(4,290)	(1,390)	(4,290)
Change in cash and cash equivalents		25	(2,669)	607	(831)
Cash and cash equivalents					
Beginning of period		2,107	4,139	1,525	2,301
End of period		2,132	1,470	2,132	1,470
Represented by					
Cash		115	170	115	170
Cash equivalents		2,017	1,300	2,017	1,300
		2,132	1,470	2,132	1,470
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		1,976	1,924	2,869	2,799
Amount of interest paid during the period		1,867	1,801	2,655	2,537
Amount of dividends received during the period		2	12	3	12
Amount of income taxes paid during the period		120	140	213	286

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Canada Mortgage and Housing Corporation (CMHC, we, or us) was established in Canada as a Crown corporation in 1946 by the *Canada Mortgage and Housing Corporation Act* (CMHC Act) to carry out the provisions of the *National Housing Act* (NHA). We are also subject to Part X of the *Financial Administration Act* by virtue of being listed in Part 1 of Schedule III, wholly owned by the Government of Canada (Government), and an agent Crown corporation. Our National Office is located at 700 Montreal Road, Ottawa, Ontario, Canada, K1A 0P7.

These unaudited quarterly consolidated financial statements are as at and for the six months ended 30 June 2022 and were approved and authorized for issue by our Audit Committee on 25 August 2022.

2. Basis of Preparation and Significant Accounting Policies

Our unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* (IAS 34) and do not include all of the information required for full annual consolidated financial statements. We follow the same accounting policies and methods of application as disclosed in Note 2 of our audited consolidated financial statements for the year ended 31 December 2021 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 2021 and as follows.

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.

IFRS 17 allows the redesignation of financial asset classifications at the date of initial application of IFRS 17. We do not anticipate making any changes to the classification of our financial assets upon adoption.

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 of hindsight, we have determined that we are only able to retrospectively apply IFRS 17 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 (e) have been completed, while parallel reporting is in progress. We plan to complete our Parallel reporting runs for the 2021 and Q1 to Q3 2022 reporting periods by the end of the year.

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 within the next financial year, in Note 4 of our audited consolidated financial statements for the year ended 31 December 2021. Notable changes to the key judgments and estimates are reflected below.

Judgments in applying accounting policies

Provision for claims

We have revised our estimate of the provision for claims at 30 June 2022 to reflect updated arrears information and economic assumptions available at the balance sheet date. The provision for claims reflects only incurred losses up to 30 June 2022 and does not reflect any losses on claims that may occur in future periods.

We consider a number of scenarios when establishing a reasonable range for the provision for claims and our final estimate at 30 June 2022 reflects the following key economic assumptions for the next 18 months: average unemployment rate of 6.0% and increase in house price index of 3.6% compared to 30 June 2022. See Note 7 for more information on the provision for claims.

The recent increases in interest rates and mortgage rates, while important, have not been a significant driver of claims in the past. As such, mortgage rates are not used directly in our models, though any impacts may be reflected indirectly through arrears data, which is a model input. If increasing mortgage rates leads to an increased amount of loans in arrears, this may be reflected our models as data becomes available.

Financial instruments

While we do not hold Ukraine or Russian Federation securities in our portfolio, the escalating conflict and economic sanctions imposed against the Russian Federation, as well as continued supply chain disruptions, tightening monetary policy and rising inflation, all continue to impact market volatility in the short term. These factors may indirectly impact our estimates for economic variables that are used in our expected credit loss calculation.

Pension and other post-employment benefits

The sustained high inflation in the first half of 2022 has also increased uncertainty around our long-term inflation assumption for our defined benefit plans. Although we have not changed our assumption from 2021 as our long-term view of inflation has not changed, the current environment increases the uncertainty around our estimate.

In assessing the recoverability of the defined benefit plans asset we have applied assumptions around discount rates, inflation and expected operating expenditures to determine the maximum future economic benefit of the asset.

See Note 17 for more information on the valuation of our pension and other post-employment benefits obligations.

5. Segmented Information

The unaudited 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 2021. For all segments, revenues are attributed to, and assets are located in, Canada.

We generate revenues for the reportable segments as follows:

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

Three months ended 30 June	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Interest income	78	66	-	-	1,143	1,062	(1)	2	1,220	1,130
Interest expense	87	74	-	-	1,140	1,059	(8)	(3)	1,219	1,130
Net interest income (loss)	**(9)**	**(8)**	**-**	**-**	**3**	**3**	**7**	**5**	**1**	**-**
Government funding	489	547	-	-	-	-	-	-	489	547
Premiums and fees earned	-	-	361	349	180	176	-	-	541	525
Investment income (losses)	-	-	84	81	11	11	(1)	(1)	94	91
Net gains (losses) on financial instruments	61	44	(19)	10	(9)	(8)	1	(11)	34	35
Other income (loss)	1	(4)	(1)	1	2	4	-	-	2	1
Total revenues and government funding	**542**	**579**	**425**	**441**	**187**	**186**	**7**	**(7)**	**1,161**	**1,199**
Non-interest expenses										
Housing programs	424	472	-	-	-	-	-	-	424	472
Insurance claims	-	-	3	(63)	-	-	-	-	3	(63)
Operating expenses	71	75	75	82	18	18	-	-	164	175
Total expenses	**495**	**547**	**78**	**19**	**18**	**18**	**-**	**-**	**591**	**584**
Income (loss) before income taxes	**47**	**32**	**347**	**422**	**169**	**168**	**7**	**(7)**	**570**	**615**
Income taxes	12	8	83	107	42	42	2	(2)	139	155
Net income	**35**	**24**	**264**	**315**	**127**	**126**	**5**	**(5)**	**431**	**460**
Total revenues and government funding	542	579	425	441	187	186	7	(7)	1,161	1,199
Less inter-segment income (loss)[1]	(2)	9	3	1	(8)	(3)	7	(7)	-	-
External revenues and government funding	544	570	422	440	195	189	-	-	1,161	1,199

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

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

Six months ended 30 June	**Assisted Housing Activity**		**Mortgage Insurance Activity**		**Mortgage Funding Activity**		**Eliminations**		**Total**	
(in millions)	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Interest income	151	127	-	-	2,202	2,121	(2)	2	2,351	2,250
Interest expense	172	143	-	-	2,195	2,114	(15)	(10)	2,352	2,247
Net interest income (loss)	**(21)**	**(16)**	**-**	**-**	**7**	**7**	**13**	**12**	**(1)**	**3**
Government funding	2,144	1,939	-	-	-	-	-	-	2,144	1,939
Premiums and fees earned	-	-	711	696	374	348	-	-	1,085	1,044
Investment income (losses)	-	-	157	156	21	27	(2)	(3)	176	180
Net gains (losses) on financial instruments	82	73	(46)	27	(10)	2	1	(12)	27	90
Other income (loss)	1	(2)	(2)	-	5	10	-	-	4	8
Total revenues and government funding	**2,206**	**1,994**	**820**	**879**	**397**	**394**	**12**	**(3)**	**3,435**	**3,264**
Non-interest expenses										
Housing programs	2,009	1,787	-	-	-	-	-	-	2,009	1,787
Insurance claims	-	-	1	(248)	-	-	-	-	1	(248)
Operating expenses	142	153	151	169	37	38	-	-	330	360
Total expenses	**2,151**	**1,940**	**152**	**(79)**	**37**	**38**	**-**	**-**	**2,340**	**1,899**
Income (loss) before income taxes	**55**	**54**	**668**	**958**	**360**	**356**	**12**	**(3)**	**1,095**	**1,365**
Income taxes	14	11	163	240	90	89	3	(1)	270	339
Net income	**41**	**43**	**505**	**718**	**270**	**267**	**9**	**(2)**	**825**	**1,026**
Total revenues and government funding	2,206	1,994	820	879	397	394	12	(3)	3,435	3,264
Less inter-segment income (loss)[1]	(1)	9	4	4	(15)	(10)	12	(3)	-	-
External revenues and government funding	2,207	1,985	816	875	412	404	-	-	3,435	3,264

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

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

As at 30 June 2022 and 31 December 2021	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
(in millions)	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Assets										
Cash and cash equivalents	1,544	1,071	585	450	3	4	-	-	2,132	1,525
Accrued interest receivable	77	82	85	84	541	556	(2)	(2)	701	720
Investment securities:										
Fair value through profit or loss	33	159	121	130	-	-	-	-	154	289
Fair value through other comprehensive income	-	-	15,058	16,835	3,435	3,615	(463)	(468)	18,030	19,982
Amortized cost	3,992	3,259	-	-	-	-	(578)	(442)	3,414	2,817
Derivatives	-	8	-	23	-	-	-	-	-	31
Due from the Government of Canada	443	363	-	-	-	-	-	-	443	363
Loans:										
Fair value through profit or loss	463	480	12	20	-	-	-	-	475	500
Amortized cost	8,661	7,897	55	63	262,106	264,821	-	-	270,822	272,781
Accounts receivable and other assets	(37)	116	1,236	804	106	115	-	-	1,305	1,035
Investment property	314	314	-	-	-	-	-	-	314	314
Defined benefit plans asset	138	-	187	-	12	-	-	-	337	-
	15,628	13,749	17,339	18,409	266,203	269,111	(1,043)	(912)	298,127	300,357
Liabilities										
Accounts payable and other liabilities	543	482	109	137	18	31	-	-	670	650
Accrued interest payable	70	62	-	-	537	552	(2)	(2)	605	612
Derivatives	30	32	50	18	-	-	-	-	80	50
Provision for claims	-	-	274	310	-	-	-	-	274	310
Borrowings:										
Fair value through profit or loss	438	475	-	-	-	-	-	-	438	475
Amortized cost	13,565	11,921	-	-	262,106	264,821	(1,043)	(873)	274,628	275,869
Defined benefit plans liability	66	102	90	140	5	8	-	-	161	250
Unearned premiums and fees	-	-	6,709	6,500	2,244	2,184	-	-	8,953	8,684
Deferred income tax liabilities	135	106	190	152	(51)	-	(2)	(11)	272	247
	14,847	13,180	7,422	7,257	264,859	267,596	(1,047)	(886)	286,081	287,147
Equity of Canada	781	569	9,917	11,152	1,344	1,515	4	(26)	12,046	13,210
	15,628	13,749	17,339	18,409	266,203	269,111	(1,043)	(912)	298,127	300,357

[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 and operating expenses, as shown by core responsibility.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2022**	**2021**	**2022**	**2021**
Assistance for housing needs	353	460	1,859	1,730
Financing for housing	130	80	249	231
Housing expertise and capacity development	25	30	75	75
Total	**508**	**570**	**2,183**	**2,036**
Government funding deferred in the period	(19)	(23)	(39)	(97)
Total Government funding recognized[1,2]	**489**	**547**	**2,144**	**1,939**

[1] *Includes operating expenses of $65 million and $130 million and expected credit loss recovery of $nil million and $5 million for the three and six months ended 30 June 2022, respectively (three and six months ended 30 June 2021 – $75 million and $151 million and $nil million and $1 million, respectively).*

[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 $65 million and $100 million for the three and six months, respectively, ended 30 June 2022 (three and six months ended 30 June 2021 – $49 million and $78 million).*

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 30 June 2022 is mainly composed of housing programs expenses incurred but not yet reimbursed.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2022**	**2021**	**2022**	**2021**
Balance at beginning of period	785	863	363	339
Total government funding	508	570	2,183	2,036
Government funding received during the period	(850)	(972)	(2,100)	(1,924)
Other	-	(2)	(1)	8
Balance at end of period before prior/ future period adjustments	**443**	**459**	**445**	**459**
Net change in prior period adjustments	-	1	(2)	1
Balance at end of period	**443**	**460**	**443**	**460**

7. Mortgage Insurance

Unearned premiums and fees

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

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2022**	**2021**	**2022**	**2021**
Balance at beginning of period	6,555	6,119	6,500	6,129
Premiums deferred on contracts written in the period	503	510	898	840
Premiums earned in the period	(355)	(345)	(700)	(688)
Application fees deferred on contracts written in the period	9	10	18	17
Application fees earned in the period[1]	(3)	(3)	(7)	(7)
Balance at end of period	**6,709**	**6,291**	**6,709**	**6,291**

[1] *Only includes earned application fees on multi-unit residential loans during the period. Application fee revenue earned on low loan-to-value transactional homeowner applications are earned 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	
(in millions)	**30 June 2022**	**31 December 2021**
Undiscounted estimated losses	261	287
Discounting	(13)	(6)
Discounted provision for adverse deviation	26	29
Total provision for claims	**274**	**310**

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

	Three months ended 30 June	
(in millions)	**2022**	**2021**
Provision for claims, beginning of period	287	521
Net claims paid during the period	(14)	(30)
Provision for claims provided for and losses incurred during the period[1]	41	58
Unfavourable (favourable) development on prior period claims	(40)	(119)
Provision for claims, end of period	**274**	**430**

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

	Six months ended 30 June	
(in millions)	**2022**	**2021**
Provision for claims, beginning of period	310	735
Net claims paid during the period	(25)	(64)
Provision for claims provided for and losses incurred during the period[1]	85	136
Unfavourable (favourable) development on prior period claims	(96)	(377)
Provision for claims, end of period	**274**	**430**

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

Insurance policy liability adequacy

A liability adequacy test on the premium liabilities and claim liabilities is performed quarterly. Premium liabilities represent a provision for future claims and expenses which 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).

Our liability adequacy test for the period ended 30 June 2022 has identified that no premium deficiency reserve is required (31 December 2021 – nil).

8. Mortgage Funding

We guarantee the timely payment of principal and interest of CMB issued by CHT under the CMB program and NHA MBS issued by Approved Issuers on the basis of housing loans under the NHA MBS program and under the IMPP in the event that an issuer is unable to satisfy its obligations under these programs. In that circumstance, we will mitigate our loss by realizing on the collateral securing the obligations, consisting primarily of insured mortgage loans, under each of the programs. At the balance sheet date, we have not received a claim, nor do we expect to receive a claim, in excess of the unearned guarantee fee on our timely payment guarantees (TPG). As such, no provision in addition to the remaining unearned premium is required.

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

	Three months ended 30 June					
	2022			2021		
(in millions)	**NHA MBS**	**CMB**	**Total**	**NHA MBS**	**CMB**	**Total**
Balance at beginning of period	1,636	573	2,209	1,355	556	1,911
TPG and application fees received in the period	173	42	215	189	40	229
TPG and application fees earned in the period	(145)	(35)	(180)	(138)	(38)	(176)
Balance at end of period	**1,664**	**580**	**2,244**	**1,406**	**558**	**1,964**

	Six months ended 30 June					
	2022			2021		
(in millions)	**NHA MBS**	**CMB**	**Total**	**NHA MBS**	**CMB**	**Total**
Balance at beginning of period	1,617	567	2,184	1,341	551	1,892
TPG and application fees received in the period	350	84	434	338	82	420
TPG and application fees earned in the period	(303)	(71)	(374)	(273)	(75)	(348)
Balance at end of period	**1,664**	**580**	**2,244**	**1,406**	**558**	**1,964**

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. 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 required is determined by identifying our risks and evaluating whether or not an explicit amount of capital is necessary to absorb losses from each risk. With the above we 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. In the current quarter, we paid $995 million of dividends that were declared in the first quarter of 2022 and we declared and paid an additional $395 million of dividends in the second quarter (three and six months ended 30 June 2021 – $3,895 and $395 million).

The components of consolidated capital available are presented below.

	As at	
(in millions)	**30 June 2022**	**31 December 2021**
Contributed capital	25	25
Accumulated other comprehensive income	(830)	131
Appropriated retained earnings	9,680	9,299
Unappropriated retained earnings[1]	3,171	3,755
Total equity of Canada[2]	**12,046**	**13,210**
Less: assets with a capital requirement of 100%	(232)	(88)
Total capital available	**11,814**	**13,122**

[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 June 2022**	**31 December 2021**
Appropriated capital[1]	8,333	8,574
Unappropriated capital	1,584	2,578
Total Mortgage Insurance capital	**9,917**	**11,152**
Less: assets with a capital requirement of 100%	(232)	(88)
Total Mortgage Insurance capital available	**9,685**	**11,064**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)	192%	213%

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

Mortgage Funding capital

Mortgage Funding capital is appropriated for the guarantees provided by our NHA MBS and CMB programs. There is no regulatory capital and the appropriated amount of capital is based on the economic capital methodology as outlined in the most recent annual report. The Board approved a reduction of the economic capital required (total asset required at 110%) from $3 billion to $2.7 billion, effective 1 January 2022, which compares to $3.6 billion of assets available as at 30 June 2022 (31 December 2021 – $3 billion total assets required and $3.7 billion assets available). These amounts exclude assets and liabilities related to IMPP. Appropriated capital is determined by deducting unearned guarantee and application fees from the total asset required.

The following table presents the components of the capital available.

	As at	
(in millions, unless otherwise indicated)	**30 June 2022**	**31 December 2021**
Appropriated capital[1]	456	816
Unappropriated capital	888	699
Total Mortgage Funding capital available	**1,344**	**1,515**
Economic capital available to economic capital required	146%	136%

[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, to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. Lending programs' earnings are retained in this reserve fund except for the unrealized fair value fluctuations as well as remeasurement gains and losses on defined benefit plans. The reserve fund is subject to a statutory limit of $240 million (2021 – $240 million), which we have determined through our ORSA to be in a reasonable range. Should we exceed the statutory limit, we would be required to pay the excess to the Government. 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.

The following table presents the components of the capital available.

	As at	
(in millions)	**30 June 2022**	**31 December 2021**
Reserve fund	26	41
Retained earnings	730	503
Total Lending programs capital available	**756**	**544**

Housing programs

We do not hold additional capital for Housing programs as this activity does not present risks that would require us to set capital aside. The Housing programs' portion of remeasurements is recorded in retained earnings until it is reimbursed by the Government through government funding.

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.

We have processes and controls in place to ensure fair value is appropriately measured. The valuation of financial instruments is performed by the Systems and Analytics Division (SAD) of the Investments and Treasury group. SAD has developed models and methodologies to determine fair value of financial instruments not quoted in active markets which are reviewed and monitored on an ongoing basis. All valuations are subject to independent price verification (IPV) managed by the sector of the Chief Risk Officer. IPV is a process where valuations are independently verified against external market prices and other relevant market data on an ongoing basis.

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

For investment property, fair value is determined by independent external property appraisers who hold recognized and relevant professional qualifications and have recent relevant experience and our internal appraisers on a rotating basis.

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 June 2022			31 December 2021		
(in millions)	**Carrying value**	**Fair value**	**Fair value over (under) carrying value**	**Carrying value**	**Fair value**	**Fair value over (under) carrying value**
Financial assets[1]						
Investments at amortized cost[2]	3,414	3,308	(106)	2,817	2,800	(17)
Loans at amortized cost[3]	270,822	257,587	(13,235)	272,781	274,574	1,793
Financial liabilities						
Borrowings at amortized cost[4]	274,628	261,054	(13,574)	275,869	277,848	1,979

1 *Does not include cash and cash equivalents of $1,346 million (31 December 2021 - $1,000 million) carried at amortized cost as the fair value of these financial instruments is equal to their carrying value.*

2 *$1,094 million (31 December 2021 – $933 million) fair value categorized as Level 1 and $2,214 million (31 December 2021 - $1,867 million) fair value categorized as Level 2.*

3 *$254,078 million (31 December 2021 – $271,089 million) fair value categorized as Level 2, $3,509 million (31 December 2021 – $3,485 million) fair value categorized as Level 3.*

4 *$192,133 million (31 December 2021 – $208,639 million) fair value categorized as Level 1, $68,921 million (31 December 2021 – $69,209 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 June 2022				31 December 2021			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	261	-	261	-	130	-	130
Federal government issued	476	-	-	476	-	378	-	378
Corporate/other entities	-	49	-	49	-	17	-	17
Total cash equivalents	476	310	-	786	-	525	-	525
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	39	-	39	-	151	-	151
Provinces/municipalities	-	25	-	25	26	25	-	51
Sovereign and related entities	-	8	-	8	-	8	-	8
Equities								
Limited partnership units	-	-	82	82	-	-	79	79
Total at FVTPL	-	72	82	154	26	184	79	289
FVOCI								
Debt instruments								
Corporate/other entities	2,515	4,794	-	7,309	2,829	5,133	-	7,962
Federal government issued	6,869	806	-	7,675	8,388	442	-	8,830
Provinces/municipalities	2,491	400	-	2,891	2,943	180	-	3,123
Sovereign and related entities	107	48	-	155	16	51	-	67
Total at FVOCI	11,982	6,048	-	18,030	14,176	5,806	-	19,982
Loans designated at FVTPL	-	153	-	153	-	182	-	182
Loans mandatorily at FVTPL	-	13	309	322	-	20	298	318
Derivatives	-	-	-	-	-	31	-	31
Investment property	-	-	314	314	-	-	314	314
Total assets carried at fair value	**12,458**	**6,596**	**705**	**19,759**	**14,202**	**6,748**	**691**	**21,641**
Liabilities								
Borrowings designated at FVTPL	-	(438)	-	(438)	-	(475)	-	(475)
Derivatives	-	(54)	(26)	(80)	-	(19)	(31)	(50)
Total liabilities carried at fair value	**-**	**(492)**	**(26)**	**(518)**	**-**	**(494)**	**(31)**	**(525)**
Net assets at FVTPL	**12,458**	**6,104**	**679**	**19,241**	**14,202**	**6,254**	**660**	**21,116**

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 each balance sheet date. Transfers are dependent on internal classification criteria that are based on variables such as observability of prices and market trading volumes considered as at each balance sheet date. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. During the three and six months ended 30 June 2022, there were $1,154 million and $1,721 million of transfers from Level 2 to Level 1, respectively (three and six months ended 30 June 2021 - $523 million and $2,524 million, respectively), $549 million and $3,047 million of transfers from Level 1 to Level 2, respectively (three and six months ended 30 June 2021 – $920 million and $1,352 million, respectively), and there were no transfers from Level 2 to Level 3 (three and six months ended 30 June 2021 – nil and $10 million, respectively).

Change in fair value measurement for items classified as Level 3

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

(in millions)	Investment securities - FVTPL	Investment securities - FVOCI	Loans - FVTPL	Investment property	Derivatives	Total
Three months ended 30 June 2022						
Fair value as at 1 April 2022	83	-	292	314	(22)	667
Purchases/issuances	1	-	27	-	-	28
Net gains in net income[1,2,3]	-	-	4	-	(4)	-
Level transfers	-	-	-	-	-	-
Cash receipts on settlements/disposals	(2)	-	(14)	-	-	(16)
Fair value as at 30 June 2022	**82**	**-**	**309**	**314**	**(26)**	**679**
Six months ended 30 June 2022						
Fair value as at 1 January 2022	79	-	298	314	(31)	660
Purchases/issuances	2	-	43	-	-	45
Net gains in net income[1,2,3]	3	-	(5)	-	5	3
Level transfers	-	-	-	-	-	-
Cash receipts on settlements/disposals	(2)	-	(27)	-	-	(29)
Fair value as at 30 June 2022	**82**	**-**	**309**	**314**	**(26)**	**679**
Three months ended 30 June 2021						
Fair value as at 1 April 2021	83	17	209	281	(8)	582
Purchases/issuances	2	-	44	1	-	47
Net gains in net income[1,2]	1	-	11	-	(7)	5
Cash receipts on settlements/disposals	-	(17)	(16)	-	-	(33)
Fair value as at 30 June 2021	**86**	**-**	**248**	**282**	**(15)**	**601**
Six months ended 30 June 2021						
Fair value as at 1 January 2021	81	-	189	281	(4)	547
Purchases/issuances	3	7	64	1	-	75
Net gains in net income[1,2]	2	-	19	-	(11)	10
Level transfers	-	10	-	-	-	10
Cash receipts on settlements/disposals	-	(17)	(24)	-	-	(41)
Fair value as at 30 June 2021	**86**	**-**	**248**	**282**	**(15)**	**601**

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 *During the period ended 30 June 2022, the terms and conditions of the First-Time Home Buyer Incentive program were modified so as to impose a maximum gain or loss of 8% per annum (not compounded) on the returns from the shared-equity mortgages. This has reduced both the loans at FVTPL as well as the derivative liability. A loss of $19 million was recognized in the six month period ended June 30, 2022, as a result of this modification.*

Unobservable inputs for items classified as Level 3

The valuations of items classified as Level 3 use unobservable inputs, changes in which may significantly affect the measurement of fair value. Valuations were based on assessments of the prevailing conditions at 30 June 2022, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 30 June 2022 did not materially change from 31 December 2021. 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 2021.

11. Investment Securities

Credit quality

The following table presents the credit quality of debt instruments held at FVOCI and at amortized cost, all of which have an ECL allowance based on 12-month ECL. 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 June 2022						31 December 2021					
(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	8,414	3,315	3,915	2,320	66	18,030	9,592	3,640	4,102	2,553	95	19,982
Amortized cost	1,121	1,301	992	-	-	3,414	1,412	530	875	-	-	2,817

[1] *The internal credit ratings are based upon internal assessments of the counterparty creditworthiness. These ratings correspond to those provided by 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 and amortized cost was $11 million at 30 June 2022 (31 December 2021 – $12 million) with a corresponding gain of nil and a gain of $1 million recognized in net gains (losses) on financial instruments during the three and six months ended 30 June 2022 (three and six months ended 30 June 2021 – $2 million loss and $1 million gain).

12. Loans

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

	Three months ended 30 June								
		Cash flows		Non-cash changes					
(in millions)	Balance at beginning of period	Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers[1]	Balance at end of period
2022									
FVTPL									
Lending programs	456	(16)	22	1	-	-	-	-	463
MI Activity loans	14	(9)	7	-	-	-	-	-	12
Total at FVTPL	**470**	**(25)**	**29**	**1**	**-**	**-**	**-**	**-**	**475**
Amortized cost									
CMB program loans	258,683	(10,649)	10,237	-	10	-	-	-	258,281
Lending programs	8,241	(124)	534	-	-	-	10	-	8,661
IMPP loans	4,044	(219)	-	-	-	-	-	-	3,825
MI Activity loans	58	(8)	1	-	2	2	-	-	55
Total amortized cost	**271,026**	**(11,000)**	**10,772**	**-**	**12**	**2**	**10**	**-**	**270,822**
Total	**271,496**	**(11,025)**	**10,801**	**1**	**12**	**2**	**10**	**-**	**271,297**
2021									
FVTPL									
Lending programs	581	(19)	35	8	-	-	-	(107)	498
MI Activity loans	23	(14)	6	5	-	-	-	-	20
Total at FVTPL	**604**	**(33)**	**41**	**13**	**-**	**-**	**-**	**(107)**	**518**
Amortized cost									
CMB program loans	264,556	(17,657)	9,747	-	10	-	-	-	256,656
Lending programs	6,526	(186)	577	-	-	(10)	5	107	7,019
IMPP loans	4,998	(287)	-	-	-	-	-	-	4,711
MI Activity loans	78	(14)	1	-	8	4	-	-	77
Total amortized cost	**276,158**	**(18,144)**	**10,325**	**-**	**18**	**(6)**	**5**	**107**	**268,463**
Total	**276,762**	**(18,177)**	**10,366**	**13**	**18**	**(6)**	**5**	**-**	**268,981**

[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.*

		Six months ended 30 June							
	Balance at	Cash flows		Non-cash changes					Balance
(in millions)	beginning of period	Repayments	Disbursements	Fair value changes	Accretion	ECL	Capitalized Interest	Transfers[1]	at end of period
2022									
FVTPL									
Lending programs	480	(35)	35	(13)	-	-	-	(4)	463
MI Activity loans	20	(18)	10	-	-	-	-	-	12
Total at FVTPL	**500**	**(53)**	**45**	**(13)**	**-**	**-**	**-**	**(4)**	**475**
Amortized cost									
CMB program loans	260,587	(22,799)	20,472	-	21	-	-	-	258,281
Lending programs	7,897	(292)	1,037	-	-	(3)	18	4	8,661
IMPP loans	4,234	(409)	-	-	-	-	-	-	3,825
MI Activity loans	63	(16)	1	-	4	3	-	-	55
Total amortized cost	**272,781**	**(23,516)**	**21,510**	**-**	**25**	**-**	**18**	**4**	**270,822**
Total	**273,281**	**(23,569)**	**21,555**	**(13)**	**25**	**-**	**18**	**-**	**271,297**
2021									
FVTPL									
Lending programs	719	(41)	50	7	-	-	-	(237)	498
MI Activity loans	24	(21)	12	5	-	-	-	-	20
Total at FVTPL	**743**	**(62)**	**62**	**12**	**-**	**-**	**-**	**(237)**	**518**
Amortized cost									
CMB program loans	258,962	(22,066)	19,740	-	20	-	-	-	256,656
Lending programs	6,160	(414)	1,033	-	-	(6)	9	237	7,019
IMPP loans	5,248	(537)	-	-	-	-	-	-	4,711
MI Activity loans	80	(22)	2	-	9	8	-	-	77
Total amortized cost	**270,450**	**(23,039)**	**20,775**	**-**	**29**	**2**	**9**	**237**	**268,463**
Total	**271,193**	**(23,101)**	**20,837**	**12**	**29**	**2**	**9**	**-**	**268,981**

[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 2021 – 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 June 2022 were $7,435 million (31 December 2021 – $7,250 million), of which $6,942 million are subject to 12-month ECL (31 December 2021 – $6,789 million) and $2 million (31 December 2021 – $6 million) are commitments outstanding on purchased or originated credit impaired loans.

At 30 June 2022, the ECL on undrawn loan commitments was $12 million (31 December 2021 – $15 million), and the ECL on loans was $80 million (31 December 2021 – $80 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 June						
	Balance at beginning of period	Cash flows		Non-cash changes			Balance at end of period
(in millions)		Issuances	Repayments	Fair value changes	Accretion and other	Eliminations	
2022							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	444	-	-	(6)	-	-	438
Amortized cost							
Canada mortgage bonds	257,783	10,227	(10,649)	-	10	(133)	257,238
Borrowings from the Government of Canada – Lending programs	12,516	3,009	(1,906)	(65)	11	-	13,565
Borrowings from the Government of Canada – IMPP	4,044	-	(219)	-	-	-	3,825
Total amortized cost	**274,343**	**13,236**	**(12,774)**	**(65)**	**21**	**(133)**	**274,628**
Total	**274,787**	**13,236**	**(12,774)**	**(71)**	**21**	**(133)**	**275,066**
2021							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	857	-	(237)	(3)	-	-	617
Amortized cost							
Canada mortgage bonds	264,151	9,747	(17,657)	-	9	(438)	255,812
Borrowings from the Government of Canada – Lending programs	9,250	4,870	(3,449)	(49)	7	-	10,629
Borrowings from the Government of Canada – IMPP	4,998	-	(287)	-	-	-	4,711
Total amortized cost	**278,399**	**14,617**	**(21,393)**	**(49)**	**16**	**(438)**	**271,152**
Total	**279,256**	**14,617**	**(21,630)**	**(52)**	**16**	**(438)**	**271,769**

(in millions)	Balance at beginning of period	Six months ended 30 June — Cash flows — Issuances	Repayments	Non-cash changes — Fair value changes	Accretion and other	Eliminations	Balance at end of period
2022							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	475	-	(19)	(18)	-	-	438
Amortized cost							
Canada mortgage bonds	259,714	20,456	(22,799)	-	21	(154)	257,238
Borrowings from the Government of Canada – Lending programs	11,921	7,180	(5,461)	(100)	25	-	13,565
Borrowings from the Government of Canada – IMPP	4,234	-	(409)	-	-	-	3,825
Total amortized cost	**275,869**	**27,636**	**(28,669)**	**(100)**	**46**	**(154)**	**274,628**
Total	**276,344**	**27,636**	**(28,688)**	**(118)**	**46**	**(154)**	**275,066**
2021							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	1,156	-	(528)	(11)	-	-	617
Amortized cost							
Canada mortgage bonds	258,592	19,740	(22,045)	-	19	(494)	255,812
Borrowings from the Government of Canada – Lending programs	8,529	6,544	(4,378)	(78)	12	-	10,629
Borrowings from the Government of Canada – IMPP	5,248	-	(537)	-	-	-	4,711
Total amortized cost	**272,369**	**26,284**	**(26,960)**	**(78)**	**31**	**(494)**	**271,152**
Total	**273,525**	**26,284**	**(27,488)**	**(89)**	**31**	**(494)**	**271,769**

When we hold CMB to maturity or acquire CMB in the primary market, we exclude the related cash flows from the consolidated statement of cash flows. During the three and six months ended 30 June 2022, we have excluded nil (three and six months ended 30 June 2021, nil and $20 million, respectively) of CMB maturities from repayments in the table above and from investment securities – sales and maturities in the consolidated statement of cash flows. We have also excluded during the three and six months ended 30 June 2022 $10 and $16 million, respectively (three and six months ended 30 June 2021 – nil) of CMB purchases in the primary market from issuances in the table above and from investment securities – purchases 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, namely capital market borrowings and borrowings from the Government of Canada in the Assisted Housing and Mortgage Funding activities.

For 2022, the limits on our short-term borrowings outstanding and long-term borrowings issued are $6 billion and $6.5 billion, respectively (2021 – $6 billion and $6.5 billion). Actual short-term borrowings outstanding as at 30 June 2022 were $367 million (31 December 2021 – $367 million). Actual long-term borrowings issued in the three and six months ended 30 June 2022 were $1.3 billion and $2.2 billion, respectively (three and six months ended 30 June 2021 –$1.5 billion and $2.5 billion, respectively).

14. Financial instruments income and expenses

Gains and losses from financial instruments

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

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2022**	**2021**	**2022**	**2021**
Financial instruments designated at FVTPL				
Investment securities	-	(1)	-	(2)
Loans	(2)	-	(5)	(3)
Borrowings	6	3	18	11
Total financial instruments designated at FVTPL	**4**	**2**	**13**	**6**
Financial instruments mandatorily at FVTPL				
Equity securities	-	1	3	2
Derivatives	(146)	51	(97)	101
Loans	5	13	(9)	15
Total financial instruments mandatorily at FVTPL	**(141)**	**65**	**(103)**	**118**
Debt instruments held at FVOCI[1]	108	(63)	29	(99)
Loans – amortized cost	(3)	-	(9)	-
Borrowings – amortized cost[2]	65	35	100	64
Expected credit recoveries (losses) on financial assets[3]	1	(4)	(3)	1
Total	**34**	**35**	**27**	**90**

[1] *Includes foreign exchange gains during the three months and six months ended 30 June 2022 of $144 million and $96 million (for the three and six months ended 30 June 2021 – $62 million loss and $123 million loss) resulting from translation of U.S. dollar-denominated debt instruments.*

[2] *Includes gains from the retirement of borrowings during the three and six months ended 30 June 2022 of nil and nil (losses for the three and six months ended 30 June 2021 – $14 million and $14 million), including gains during the three and six months ended 30 June 2022 from the issuance of borrowings of $65 million and $100 million (net of gains for the three and six months ended 30 June 2021 – $49 million and $78 million).*

[3] *Excludes a release of ECL on MI Activity loans at amortized cost during the three and six months ended 30 June 2022 of $4 million and $5 million, respectively (three and six months ended 30 June 2021 – $4 million and $9 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. Despite changes in economic and market conditions, there were no material changes to our assessment and management of market risk in the three and six months ended 30 June 2022.

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 $4,127 million in debt instruments denominated in U.S. dollars as at 30 June 2022 (31 December 2021 – $4,393 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.

	As at	
(in millions)	**30 June 2022**	**31 December 2021**
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	183	138
USD-denominated securities	77	53
Effect of diversification	(6)	(11)
Total VaR	**254**	**180**

Interest rate sensitivity

We evaluate market risk for the Assisted Housing Activity portfolio of loans, investments, borrowings and swaps by measuring their sensitivity to changes in interest rates.

For the Assisted Housing Activity's financial instruments designated at FVTPL and derivatives, we assessed the net impact of a 200 bps shift in interest rates on fair value as immaterial as at 30 June 2022 after accounting for derivatives.

The Assisted Housing Activity's financial instruments measured at amortized cost are also exposed to interest rate risk. The net impact of a shift in interest rates on their fair value as at 30 June 2022 is presented below.

	As at			
	30 June 2022		**31 December 2021**	
	Interest rate shift		**Interest rate shift**	
(in millions)	**-200 bps**	**+200 bps**	**-200 bps**	**+200 bps**
Increase (decrease) in fair value of net assets[1]	(655)	538	(616)	517

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

16. Credit Risk

Credit risk is the potential for financial loss arising from failure of a borrower or an institutional counterparty to fulfill its contractual obligations. 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 2021. There has been no change in the nature of the risks and how we manage them in the three and six month periods ended 30 June 2022.

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 June			
	Pension plans		Other post-employment plans	
(in millions)	**2022**	**2021**	**2022**	**2021**
Current service cost	12	14	-	-
Net interest expense	1	3	1	1
Expense recognized in net income	**13**	**17**	**1**	**1**
Net actuarial gains (losses) arising from changes in financial assumptions	368	(137)	18	(8)
Return on plan assets, excluding amounts included in net interest expense	(257)	113	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**111**	**(24)**	**18**	**(8)**
CMHC's contributions[2]	7	19	1	1
Employee contributions	9	10	-	-
Total contributions	**16**	**29**	**1**	**1**

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

[2] *Includes solvency payments of nil for the three months ended 30 June 2022 (three months ended 30 June 2021 – $12 million).*

	Six months ended 30 June			
	Pension plans		Other post-employment plans	
(in millions)	**2022**	**2021**	**2022**	**2021**
Current service cost	27	31	-	-
Net interest expense	1	5	2	2
Expense recognized in net income	**28**	**36**	**2**	**2**
Net actuarial gains (losses) arising from changes in financial assumptions	798	236	35	9
Return on plan assets, excluding amounts included in net interest expense	(403)	21	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**395**	**257**	**35**	**9**
CMHC's contributions[2]	24	32	2	2
Employee contributions	14	16	-	-
Total contributions	**38**	**48**	**2**	**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 solvency payments of $9 million for the six months ended 30 June 2022 (2021 – $18 million).*

We determine the discount rate in accordance with guidance issued by the Canadian Institute of Actuaries by reference to Canadian AA-rated corporate bonds with terms to maturity approximating the duration of the obligation. The discount rate we used to remeasure the defined benefit obligations at 30 June 2022 was 5.0% (31 December 2021 – 3.0%).

18. Income Taxes

The following table presents the components of income tax.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2022**	**2021**	**2022**	**2021**
Current income tax expense	150	166	256	372
Deferred income tax relating to origination and reversal of temporary differences	(11)	(11)	14	(33)
Total income tax expense included in net income	**139**	**155**	**270**	**339**
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized losses (gains) from FVOCI financial instruments	(121)	37	(315)	(77)
Reclassification of prior years' net unrealized gains realized in the period in net income	-	(25)	-	(28)
Remeasurement losses (gains) on defined benefit plans	21	(11)	68	29
Total income tax expense (recovery) included in other comprehensive income (loss)	**(100)**	**1**	**(247)**	**(76)**
Total	**39**	**156**	**23**	**263**

19. Related Party Transactions

We defer and amortize the Government fees paid in recognition of its financial backing of the Mortgage Insurance and Mortgage Funding Activities. The fees, which are recorded in operating expenses, amount to $12 million and $25 million for the three and six months ended 30 June 2022 (three and six months ended 30 June 2021 – $12 million and $24 million) for the Mortgage Insurance Activity and $7 million and $15 million for the three and six months ended 30 June 2022 (three and six months ended 30 June 2021 – $9 million and $18 million) for the Mortgage Funding Activity.

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

20. Commitments and Contingent Liabilities

As at 30 June 2022, we have $7,539 million in contractual financial obligations relating to housing programs which extend for periods up to 25 years and $176 million in other contractual obligations up to the year 2027 (31 December 2021 - $8,292 million and $142 million, respectively).

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

	As at	
(in millions)	**30 June 2022**	**31 December 2021**
Affordable Rental Housing Innovation Fund	46	55
Rental Construction Financing initiative (RCFi)	448	242
National Housing Co-Investment Fund (NHCF)	451	308
Direct Lending – Economically Hedged	261	130
Total	**1,206**	**735**

21. Comparative Figures

We have reclassified certain comparative information in Note 10 related to transfers between fair value hierarchy levels to conform with current period presentation.

CANADA MORTGAGE AND HOUSING CORPORATION

700 Montreal Road
Ottawa, Ontario
K1A 0P7

Available on CMHC’s website at **www.cmhc.ca** or by calling 1-800-668-2642

20220615-001A