CANADA MORTGAGE AND HOUSING CORPORATION

THIRD QUARTER
30 September 2022
(Unaudited)

Quarterly Financial Report

Canada

CMHC SCHL

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Management’s Discussion and Analysis

OVERVIEW

The following Management’s Discussion and Analysis (MD&A) of the financial position and results of operations as approved by the Audit Committee on 15 November 2022 is prepared for the third quarter ended 30 September 2022 and is intended to provide readers with an overview of our performance including comparatives against the same three and nine 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, high inflationary pressures and the related market responses 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 third 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

Following a solid performance in the second half of 2021, Canadian economic growth slowed in the first half of this year but was still robust. This slowdown in economic activity is in line with the fading-out of the pent-up demand created by the pandemic. However, demand for goods and services is now outpacing the Canadian economy's capacity to produce them. This, in addition to inflationary effects from global supply chain disruptions and high commodity prices, contributed to hike annual inflation in the all-items Consumer Price Index to a 4-decade high of 8.1 per cent in June for Canada. It declined to 6.9% in September, mostly from declining gasoline prices but it remains elevated.

The Bank of Canada is addressing this by raising its policy interest rate. From early March to October of 2022, it raised this rate from 0.25 to 3.75 per cent. Interest rates on households, businesses and governments' borrowing have also increased since the end of 2021 given the high inflation landscape and central banks' actions to reduce inflation in several economies worldwide, including Canada.

Recent information from monthly indicators point to further economic slowing in second half of 2022. Higher consumer price inflation is reducing consumers' purchasing power such that, despite still growing labour earnings, real incomes are declining, thereby limiting household expenditures. Rising interest rates are also gradually negatively impacting economic activity, and this impact will grow in coming quarters as these hikes continue to feed through to the economy. Further interest rate increases, as signalled by the Bank of Canada and other central banks, will add to these negative economic impacts.

From their record high in first quarter of this year, home prices significantly weakened in the second and third quarter of 2022. Despite this, Canada's MLS® price still averaged a record high of $715,922 during the first nine months of 2022. This represents a 6 per cent increase from the same period in 2021 and a staggering 45 per cent increase from the same period in 2019. By September 2022, MLS® sales decreased 21 per cent to 526,064 seasonally adjusted annualized (SAAR) units relative to the same period in 2021. MLS® sales dipped swiftly throughout 2022, reacting quickly to increasing borrowing costs. Similarly, housing starts decreased 6 per cent to 265,867 SAAR units, during the first nine months of 2022 relative to the same period in 2021. Despite this decline, housing starts are much higher than their historical average, but still below what is needed to achieve affordability.

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. Despite economic headwinds as described above, our arrears remain low. These impacts are discussed further in the "Financial Results" section below. These economic conditions will likely affect our ability to achieve some of our 2022 corporate 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 for which CMHC must seek authorities. This has been a top priority for CMHC and we have been working diligently to obtain the appropriate authorities to ensure a timely launch of initiatives.

As of the end of October, we secured financial authorities for the following Budget 2022 initiatives:

- $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; and
- $200 million for the new rent-to-own stream under the Affordable Housing Innovation Fund to help develop and scale up rent-to-own projects across Canada.

The following initiatives announced in Budget 2022 may have some impact on CMHC's financial statements in 2022, but the impact will be more significant in 2023:

- The One-Time Top-Up to the Canada Housing Benefit to provide a one-time federal payment of $500 for up to 1.8 million low-income renters who are struggling with the cost of housing;
- $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 for more, faster development approvals and upfront funding for investments in municipal housing planning and delivery processes that will speed up housing development;
- $5 million over two years, starting in 2022-23, to engage with provinces and territories to develop and implement a Home Buyers' Bill of Rights; and
- $25.7 million to support homeowners in Quebec whose homes require remediation from damages to foundations caused by the mineral pyrrhotite.

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

- Budget 2021 announced $4.4 billion over 5 years for the Canada Greener Homes Loan 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 the program launched in June 2022.
- The renewal and expansion of the Affordable Housing Innovation Fund, which launched in August 2022. This program encourages new funding models and innovative building techniques in the affordable housing sector. In June 2022, we obtained financial authorities of $550.8 million over 6 years for this extension, including $200 million for a new Rent-to-Own stream.
- $315.4 million over five 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.

We continue to deliver Canada's National Housing Strategy (NHS), which is giving more people in Canada 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 people in Canada. The successful delivery of the NHS supports CMHC's aspiration and is a significant contributor towards achieving our strategic results and outcomes.

Higher construction costs and interest rates combined with an overall changing housing landscape from when these programs were launched may impact our ability to achieve the originally anticipated outcomes.

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. 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 November 2022, OSFI released a new guideline on capital, leverage and liquidity returns assurance. This guideline sets out OSFI's assurance expectations for capital, leverage and liquidity returns. The guideline seeks to inform external auditors and institutions on the work to be performed on their regulatory returns in an effort to enhance and align OSFI's assurance expectations across all federally regulated financial institutions (FRFIs). Regulatory returns are key contributors to the assessment of safety and soundness of a federally regulated financial institution (FRFI). OSFI expects review and senior management attestation on the accuracy and completeness of the MICAT Cover schedule on a quarterly basis, beginning fiscal 2024. 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 based on Federally Regulated Insurers (FRI's) frequency of review. Lastly, beginning fiscal 2025 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.

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 final guideline is expected to be released in the first quarter of 2023.

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

In May 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

In May 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 final guideline is expected to be released in the first quarter of 2023.

New Guideline B-13 for technology and cyber risk management

In July 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

In 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 expect the implementation of IFRS 17 and this Guideline to decrease our MICAT ratio on transition, as described below in the "Updates on future changes to accounting standards" section.

Advisory on Mortgage Insurer Capital Adequacy Test Revisions for Variable Rate Mortgages

In 2022, OSFI issued an advisory that applies to all Canadian mortgage insurance companies. It implements administrative interpretations to the MICAT with respect to the determination of requirements for Variable Rate Mortgages (VRMs) and Adjustable Rate Mortgages (ARMs). In an environment of increasing interest rate, the amortization period of some VRMs and ARMs mortgage loans are being temporarily extended where mortgage payments are fixed. The advisory caps amortization periods to 40 years in determining required capital. This Advisory will remain in effect until such time as the guidance contained herein is incorporated into the MICAT guidelines or otherwise suspended by revised guidance.

Updates on future changes to accounting standards

IFRS 17 Insurance Contracts – effective date of 1 January 2023

In May 2017, the International Accounting Standards Board (IASB) issued IFRS 17 *Insurance Contracts*, which will replace IFRS 4 *Insurance Contracts* effective 1 January 2023. IFRS 17 is a principles based standard with requirements aimed to improve comparability within the insurance industry, across industries and to provide enhanced transparency into the health of the insurer.

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 for the redesignation of financial asset classifications under IFRS 9 *Financial Instruments* at the date of initial application of IFRS 17. We do not anticipate making any changes to the classification of our financial assets upon initial application of IFRS 17 on 1 January 2023.

Under IFRS 17, insurance contracts are grouped together to the extent that they have similar risks and are managed together, with the goal that contracts grouped together reflect similar expected levels of profitability. Groups serve as the unit of account for measurement purposes. We will group our contracts by reporting quarter, by insurance product, and by profitability. With more granular groups of contracts than under IFRS 4, there is less likelihood of profitable contracts offsetting unprofitable contracts and potentially leading to some volatility in results not observed under IFRS 4.

IFRS 17 introduces a new concept referred to contract boundary and provides guidance when the contract starts and ends for recognition and measurement purposes. The contract generally starts at the effective coverage date and ends at the earliest of the maturation of the contract, the mortgage being paid in full, or the satisfaction of all our obligations under the contract. The insurance contract boundary under IFRS 17 for CMHC will be duration of the coverage, i.e. up to 25 years for homeowner transactional and portfolio insurance and up to 50 years for multi-unit insurance.

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 (CSM) and deferred acquisition costs, which will be released over the coverage period. CSM (i.e. profit to be earned in the future) will represent the difference between the premium received, less deferred acquisition costs, at inception and the present value of the risk-adjusted cash flows. If this difference is negative at inception, the insurance contract is considered onerous and the difference immediately recorded in income.

The estimate of future fulfilment cash flows is an unbiased probability-weighted estimate adjusted to reflect the time value of money and a risk adjustment for non-financial risk. The fulfilment cash flows of our insurance contracts include the premiums and fees, the insurance acquisition cash flows, the claims and other insurance service expenses and the estimated borrower judgement recoveries. We will use the Canadian Institute of Actuaries published IFRS 17 Discount Rate Curve for the purpose of discounting the cash flows of our insurance contracts. This discount rate reflects a risk-free rate adjusted for the illiquidity of our insurance contracts.

We have used both the cost of capital and the percentile approach to determine the appropriate adjustment for risk. For all products we anticipate this adjustment to range between 80% to 105% of our projected future claims cash flows and between 20% to 60% of our projected incurred claims cash flows.

Based on preliminary data, we expect our earnings patterns to be slower than those under IFRS 4 as recognition of CSM is now linked to severity of claims rather than historical claims patterns. This differing methodology to establish profit recognition patterns is expected to be more dynamic as it is linked to economic factors such as property values and the projected outstanding balance of the underlying mortgage. Also included in the insurance contract liabilities are the present value of future insurance cash flows, adjusted for risk, as well as deferred acquisition costs, which will be released over the coverage period. Under IFRS 17, more claims-related operating expenses will be included in the deferred acquisition costs resulting in lower operating expense and operating expense ratio.

IFRS 17 is to be applied retrospectively, unless it is impracticable to do so. Based on availability of data and to avoid use of hindsight, we have determined 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 as prescribed under IFRS 13 *Fair Value Measurement* for prior periods. Under the fair value approach, we will determine the fair value of our insurance contracts underwritten prior to 1 January 2021 per product as at the transition date, 1 January 2022. On transition we are anticipating our insurance contract liabilities to increase with a corresponding decrease in equity as expected returns used to fair value our Multi-Unit insurance contracts are higher than actual returns used in our pricing.

On 4 November 2022, the Department of Finance (DoF) introduced Bill C-32, which includes the tax measures resulting from the implementation of IFRS 17. Pursuant to the tax measures, the CSM would not be a fully deductible reserve for income tax purposes, allowing only 10% of the CSM to be deductible. This will result in substantial income tax liabilities in the foreseeable years and a substantial balance of deferred tax assets, starting with 2023 until our book of business passes through a full life-cycle under the new requirements. The draft legislation proposes a five-year transition period to reflect into taxable income transitional adjustments resulting from initial application of IFRS 17, including the CSM balance as of January 1, 2023. The projected significant deferred tax assets will impact the MICAT ratios, the full extent of which is still being analyzed.

We expect a potential significant decrease in our MICAT ratio on transition due to transitional fair value adjustments and deferred taxes, as discussed above. The adjustments will reduce our capital available and increase our capital required. We are also projecting lower MICAT ratios in future years as our deferred tax asset balance is expected to grow as the transitional adjustments are recognized in taxable income over a five-year period and a part of it (to the extent not recoverable from income taxes paid in the three immediate proceeding years) will be required to be deducted from available capital.

The financial statement line items description on the consolidated balance sheet will change when compared to IFRS 4. We will no longer present a provision for claims financial statement line item and will now present an insurance contract liabilities financial statement line item. The financial statement line item descriptions on the consolidated statement of income and other comprehensive income will change compared to IFRS 4. We will no longer present an insurance claims financial statement line item and will now present a self-insurance service expense financial statement line item. IFRS 17 also requires that we present the following financial statement line items:

- Insurance revenue
- Insurance service expenses
- Insurance service result
- Insurance finance expense for insurance contracts issued

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 Q2 2022 reporting periods by the end of the year.

Other updates

Draft Tax Legislation on Excessive Interest and Financing Expenses Limitation

On 3 November 2022, the Department of Finance released updates in respect of the draft Excessive Interest and Financing Income Limitation (EIFEL) legislation introduced on February 4, 2022 based on submissions to the original draft. The EIFEL rules are 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. The proposed 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. Based on the latest updates, the EIFEL rules are now proposed to apply in respect of taxation years beginning on or after 1 October 2023, rather than 1 January 2023, as initially proposed. The impact of the latest draft legislation on CMHC will be assessed in the near future.

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 standards and begin to report on climate-related financial risks for their financial years starting in calendar year 2022 at the latest.

We commenced providing disclosures as part of our 2019 Annual Report and will continue to enhance our disclosures as part of future Annual Reports. This quarter, analysis of our maturity across the four pillars was undertaken to identify quick wins and 2023 potential activities to advance CMHC maturity.

We continue to expand our capabilities and processes for identifying, assessing and managing climate related financial risk to facilitate alignment with all TCFD recommendations and reporting framework. We are continuing to progress on implementing structures and processes for oversight and management of climate-related financial risks and will be looking to enhance disclosure over our governance approach in greater depth in future periods.

Specific achievements since our most recent Annual Report include:

- We have commenced work on a climate risk policy to identify and clarify specific processes through which we manage climate risk. Through the operationalization of the climate risk policy, climate risk will be embedded across our three lines of defense. This policy is expected to evolve as our climate risk management capabilities mature.
- Materials have been developed to support climate risk and TCFD literacy, and are available to employees for their understanding and reference.
- Climate-related financial risk was formally integrated in the Asset/Liability Management Committee (ALCO) terms of reference to provide a formal governance body over climate-related financial risks.
- We have continued to enhance our climate data analytics capacity including advancing climate resiliency scores for physical risks and compatibility/transition risks.

- We continued to progress on enhancing our existing loss models to account for physical risk. This work will eventually enable us to estimate the expected losses due to potential flooding in our transactional homeowner mortgage loan insurance program.
- We confirmed our ability to disclose on Scope 1 and Scope 2 emissions using historical and current data.

Additional disclosure will be included in the 2022 Annual Report.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 30 September 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	16,844	13,749	17,329	18,409	271,540	269,111	(1,139)	(912)	304,574	300,357
Total liabilities	16,045	13,180	7,554	7,257	270,207	267,596	(1,149)	(886)	292,657	287,147
Total equity of Canada	799	569	9,775	11,152	1,333	1,515	10	(26)	11,917	13,210

Our total equity of Canada has decreased by $1,293 million (10%) primarily due to $1,785 million of dividends declared in 2022 partially offset by comprehensive income of $492 million.

Our total assets increased by $4,217 million (1%) primarily due to:

- An increase in loans at amortized cost by $3,225 million (1%) as new issuances of Canada Mortgage Bonds (CMB) program loans exceeded maturities resulting in $1,994 million (1%) of increased loans for Canada Housing Trust, as well as increased NHS program activity particularly in RCFi and NHCF throughout 2022 resulting in $1,241 million (16%) of increased loans for CMHC which also contributed to increases in cash and cash equivalents, securities purchased under resale agreements, and investments at amortized cost by $782 million (51%), $630 million (100%), and $657 million (23%), respectively. In addition, a defined benefit plans asset of $310 million was recognized in 2022, resulting from the increase in the discount rate used to measure the pension obligation. Accrued interest receivable also increased by $593 million (82%) as interest rates have increased and coupon payments in the Mortgage Funding Activity are only received in the second and fourth quarters of the year.
- The increase was partially offset by a decrease to investment securities measured at fair value through other comprehensive income by $2,034 million (10%) as a result of higher interest rates in 2022.

Total liabilities increased by $5,510 million (2%) mainly driven by higher borrowings at amortized cost. This resulted from the issuance of CMB and increased NHS activity as explained above. Accrued interest payable also increased as coupon payments are only made in the second and fourth quarters, as explained above.

Condensed consolidated statements of income and comprehensive income

Three months ended 30 September	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Government funding	454	452	-	-	-	-	-	-	454	452
Premiums and fees earned	-	-	356	350	189	179	-	-	545	529
All other income[1]	34	6	80	67	15	22	5	-	134	95
Total revenues and government funding	**488**	**458**	**436**	**417**	**204**	**201**	**5**	**-**	**1,133**	**1,076**
Housing programs	377	380	-	-	-	-	-	-	377	380
Insurance claims	-	-	10	(12)	-	-	-	-	10	(12)
Operating expenses	79	67	73	73	15	16	-	-	167	156
Total expenses	**456**	**447**	**83**	**61**	**15**	**16**	**-**	**-**	**554**	**524**
Income taxes	9	1	89	91	47	46	1	-	146	138
Net income	**23**	**10**	**264**	**265**	**142**	**139**	**4**	**-**	**433**	**414**
Other comprehensive income (loss)	(5)	30	(156)	(11)	(8)	(16)	2	2	(167)	5
Comprehensive income	**18**	**40**	**108**	**254**	**134**	**123**	**6**	**2**	**266**	**419**

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

Q3 2022 vs Q3 2021

Our total revenues and government funding increased by $57 million (5%) from the same quarter last year mainly due to:

- An increase of $16 million (3%) in premiums and fees earned as a result of higher volumes from prior years being recognized in the Mortgage Insurance Activity as a result of reversing our underwriting criteria in July 2021 and higher housing prices. In addition, premiums and fees earned are higher in Mortgage Funding activity mainly due to the recent pricing changes.
- An increase of $39 million (41%) in all other income mainly due to an increase of $19 million (23%) in investment income as a result of higher interest rates during the quarter.

Total expenses increased by $30 million (6%) from the same quarter last year mainly due to:

- An increase of $22 million (183%) 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 last year when the provision for claims was reduced as a result of favourable economic conditions as the economy recovered from COVID-19.

Other comprehensive income (OCI), net of tax, decreased by $172 million (3,440%) from the same quarter last year mainly due to:

- An increase of $97 million (164%) in net unrealized losses from debt instruments held at fair value through other comprehensive income mainly due to a more significant increase in bond yields in the current quarter compared to a smaller increase on bond yields in the same quarter of last year.
- An increase of $75 million (117%) in remeasurement losses on defined benefit plans driven by $11 million remeasurement loss in the current quarter due to the lower than expected return on assets compared to a $64 million remeasurement gain in the same quarter of last year mainly due to an increase in the discount rate.

Nine months ended 30 September	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	2,598	2,391	-	-	-	-	-	-	2,598	2,391
Premiums and fees earned	-	-	1,067	1,046	563	527	-	-	1,630	1,573
All other income[1]	96	61	189	250	38	68	17	(3)	340	376
Total revenues and government funding	**2,694**	**2,452**	**1,256**	**1,296**	**601**	**595**	**17**	**(3)**	**4,568**	**4,340**
Housing programs	2,386	2,167	-	-	-	-	-	-	2,386	2,167
Insurance claims	-	-	11	(260)	-	-	-	-	11	(260)
Operating expenses	221	220	224	242	52	54	-	-	497	516
Total expenses	**2,607**	**2,387**	**235**	**(18)**	**52**	**54**	**-**	**-**	**2,894**	**2,423**
Income taxes	23	12	252	331	137	135	4	(1)	416	477
Net income	**64**	**53**	**769**	**983**	**412**	**406**	**13**	**(2)**	**1,258**	**1,440**
Other comprehensive income (loss)	166	162	(796)	(138)	(159)	(110)	23	7	(766)	(79)
Comprehensive income	**230**	**215**	**(27)**	**845**	**253**	**296**	**36**	**5**	**492**	**1,361**

[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 $228 million (5%) from the same nine-month period last year mainly due to:

- An increase of $207 million (9%) in government funding. This was driven mainly by $176 million for RHI, $34 million for the Federal Lands Initiative (FLI), $22 million for Canada Community Housing Initiative and $28 million for Canada Housing Benefit (CHB), partially offset by a decrease of $78 million in the Provincial/Territorial (PT) Priority Funding.
- An increase of $57 million (4%) in premiums and fees earned mainly as a result of the price increases that went into effect 1 January 2021 and higher volumes from prior year in the Mortgage Funding activity as well as higher volumes from prior years being recognized in the Mortgage Insurance Activity.
- The increase was partially offset by the decrease of $50 million (48%) in net gains on financial instruments as investments sold in 2022 to rebalance the investment portfolios and to fund the dividends resulted in a realized loss compared to a gain in 2021.

Total expenses increased by $471 million (19%) from the same nine-month period last year mainly due to the increase of $271 million (104%) in insurance claims from the reduction in provision for claims in prior year, 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 $687 million (870%) from the same nine-month period last year mainly due to:

- An increase of $737 million (194%) in net unrealized losses from debt instruments held at fair value through other comprehensive income, mainly driven by the significant increase in bond yields in this year.
- The losses was partially offset by a $50 million (17%) 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

(in millions, unless otherwise indicated)	Insurance-in-force ($B) As at 30 September 2022	31 December 2021
Transactional homeowner	183	193
Portfolio	85	94
Multi-unit residential	129	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. New loans insured were $49 billion, while estimated loan amortization and pay-downs were $53 billion.

(in millions, unless otherwise indicated)	Insured volumes (units)		Insured volumes ($)		Premiums and fees received[1]		Claims paid[2]	
	Three months ended 30 September							
	2022	2021	2022	2021	2022	2021	2022	2021
Transactional homeowner	17,383	19,570	5,990	5,965	212	206	17	38
Portfolio	14,691	4,610	3,999	1,470	10	6	2	4
Multi-unit residential	43,457	33,628	8,038	5,921	194	205	-	3
Total	**75,531**	**57,808**	**18,027**	**13,356**	**416**	**417**	**19**	**45**

[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]	
	Nine months ended 30 September							
	2022	2021	2022	2021	2022	2021	2022	2021
Transactional homeowner	51,564	54,333	17,626	15,890	632	564	39	88
Portfolio	25,238	7,775	7,062	2,320	26	9	5	7
Multi-unit residential	130,296	118,305	24,453	19,656	663	683	-	14
Total	**207,098**	**180,413**	**49,141**	**37,866**	**1,321**	**1,256**	**44**	**109**

[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.*

Q3 2022 vs Q3 2021 and YTD 2022 vs YTD 2021

The increase in total insured unit volumes (three months ended 30 September – 17,723 units and 31%; nine months ended 30 September – 26,685 units and 15%) is driven primarily by the year over year increases in portfolio unit and multi-unit volumes. Portfolio unit volumes continue to increase due to efforts to increase CMHC's presence in the insured space to better support the market stability. Multi-unit insured volumes continue to increase mainly driven by increased demand in the MLI Select product which focuses on affordability, accessibility, and climate compatibility and attracts a lower premium. Decreases in transactional homeowner volumes during the quarter are a result of rising mortgage rates coupled with higher house prices.

Total insured dollars increased (three months ended 30 September - $4.7B and 35%; nine months ended 30 September - $11.3B and 30%) due to the increase in portfolio and multi-unit volume insurance as explained above as well as a result of rising prices and higher construction costs in the multi-unit residential housing space.

The increase in premiums and fees received (nine months ended 30 September - $65M and 5%) is driven by the increase in transactional homeowner ($68M and 12%) and portfolio ($17M and 189%), this increase is offset by the reduction in multi-unit residential ($20M and 3%). The increase in transactional homeowner premiums and fees received is due to higher house prices. The increase in portfolio premiums and fees received is due to the volume increases partially offset by a large high quality pool carrying a low premium rate. 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 driven by improved economic conditions as outlined in "The Operating Environment and Outlook for 2022" section above.

	Three months ended 30 September		**Nine months ended 30 September**	
(in percentages)	**2022**	**2021**	**2022**	**2021**
Loss ratio[1,2]	2.8	(3.4)	1.0	(24.9)
Operating expense ratio	20.5	20.9	21.0	23.1
Combined ratio	23.3	17.5	22.0	(1.8)
Severity ratio	29.6	30.8	28.3	31.4
Return on equity	10.8	9.5	9.8	10.7
Return on required equity	12.1	12.0	11.7	14.7

[1] *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was 5.0% and 2.9% for the three and nine months ended 30 September 2022, respectively ((6.7)% and (33.0)% for the three and nine months ended 30 September 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.*

Q3 2022 vs Q3 2021 and YTD 2022 vs YTD 2021

The loss ratio and combined ratio increased mainly due to higher insurance claims expenses in 2022 due to the reversal of provision for claims in 2021 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 increase in return on equity ratios for the three months ended September 30 was due to lower equity as a result of dividend payments and the increase in return on required capital in the same period was a result of lower required capital.

The decrease on return on equity and return on required equity ratios for the nine months ended September 30 is due to the lower net income mainly driven by the increase in insurance claims expense as explained above.

	As at 30 September 2022		**As at 31 December 2021**	
	No. of delinquent loans	**Arrears rate**	**No. of delinquent loans**	**Arrears rate**
Transactional homeowner	2,932	0.33%	3,573	0.38%
Portfolio	680	0.11%	956	0.14%
Multi-unit residential	75	0.27%	70	0.26%
Total	3,687	0.24%	4,599	0.28%

The arrears rate includes all loans more than 90 days past due as a percentage of outstanding insured loans. Reported delinquencies remain low 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 September 2022	31 December 2021
NHA MBS	201	202
CMB	262	259
Total	**463**	**461**

Total guarantees-in-force represents the maximum principal obligation related to our timely payment guarantee. Guarantees-in-force were $463 billion as at 30 September 2022, an increase of $2 billion (0.4%) as new guarantees provided by CMHC exceeded maturities, principal payments and prepayments.

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Three months ended 30 September			
(in millions, unless otherwise indicated)	2022	2021	2022	2021
NHA MBS	41	41	186	207
CMB	9	10	41	43
Total	**50**	**51**	**227**	**250**

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

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Nine months ended 30 September			
(in millions, unless otherwise indicated)	2022	2021	2022	2021
NHA MBS	107	105	536	545
CMB	30	30	125	125
Total	**137**	**135**	**661**	**670**

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

Q3 2022 vs Q3 2021 and YTD 2022 vs YTD 2021

New securities guaranteed decreased from the same three-month period last year as we saw lower CMB issuances. This decrease during the quarter is due to timing and we're currently on pace to reach our annual limit of $40 billion of issuances. New securities guaranteed increased from the same nine-month period last year as the market adapts to the recent price increases as described above in the key financial highlights section, which caused a decrease in new securities guaranteed in the first quarter of 2021.

Guarantee and application fees received decreased by $23 million (9%) and decreased by $9 million (1%), from the same three and nine-month periods last year, respectively, as we issued lower term to maturity pools as well as more affordability pools which carry lower rates.

	Three months ended 30 September		Nine months ended 30 September	
(in percentages)	2022	2021	2022	2021
Operating expense ratio	7.3	7.6	7.5	8.3
Return on equity	42.4	36.4	38.6	24.4

Q3 2022 vs Q3 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 payments in 2021. In 2022, we declared total dividends of $435 million from our mortgage funding activities.

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.

	Nine months ended 30 September	
(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	(2,575)	(3,006)
Less: frozen allotment	(34)	(53)
Forecasted lapse for 2022/23 (Actual lapse in 2021/22)	n/a	(1,049)
2022/23 (2021/22) government funding funded in 2022 (2021)	**986**	**1,036**
Total government funding – nine months ended 30 September	**2,661**	**2,502**

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 2022, 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 $2.7 billion to $1.8 billion, effective 1 January 2023.

Ratios

The table below presents our capital management ratios.

	As at	
(in percentages)	**30 September 2022**	**31 December 2021**
Mortgage Insurance: Capital available to minimum capital required (MICAT)	183%	213%
Mortgage Funding: Economic capital available to economic capital required	147%	136%

Our MICAT ratio decreased by 30 percentage points due to a decrease in available capital as well as an increase in required capital. Available capital decreased as we declared $1,350 million of dividends in the period and as we saw a reduction in the value of our investment securities caused by rising interest rates. Required capital increased as our multi-unit insurance-in-force continues to increase and due to the effects of rising interest rates on variable rate mortgages.

In recent months, lenders have been reporting temporarily extended amortizations on variables rate mortgages that do not have payments that automatically adjust with interest rates. This has resulted in temporarily lower MICAT ratio until interest rates stabilize and/or variable rate mortgages payments are reset to the original amortization period. We expect to continue to see the effects of variable rate mortgages on our ratio in the coming months as we expect interest rates to continue to increase.

Our Mortgage Funding capital available to capital required ratio increased by 11 percentage points mainly due to the reduction of the economic capital required at the operating level from $3.0 billion to $2.7 billion, effective 1 January 2022.

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

RISK MANAGEMENT

Current economic conditions, such as inflationary pressures and high interest rates, continue to amplify CMHC's risk profile:

Financial Risks, including credit, liquidity and insurance risks continue to remain low but are being monitored. Market risk has moved from low to moderate due to the external environment but related risks are being managed within established risk limits and tolerances.

Operational risks continue to remain elevated due to various factors, including risks to our strategy execution, operational capability, people and information security and privacy. Mitigation actions are in place to manage these risks.

Strategic risks are moderate but elevated. Geo-political and economic risks continue to exacerbate housing affordability and cause delays on the delivery of affordable units. CMHC is continuing to develop frameworks as well as refining tools to help better manage the impacts of these risks and assess areas of focus for prioritization and execution.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Consolidated Results								
Total assets	304,574	298,127	299,671	300,357	300,457	295,629	307,624	300,970
Total liabilities	292,657	286,081	287,387	287,147	287,206	282,402	294,472	284,395
Total equity of Canada	11,917	12,046	12,284	13,210	13,251	13,227	13,152	16,575
Total revenues and government funding	1,133	1,161	2,274	1,956	1,076	1,199	2,065	2,029
Total expenses (including income taxes)	700	730	1,880	1,472	662	739	1,499	1,640
Net income	433	431	394	484	414	460	566	389
Assisted Housing								
Government funding	454	489	1,655	1,277	452	547	1,392	1,372
Net income (loss)	23	35	6	38	10	24	19	22
Total equity of Canada	799	781	695	569	547	507	492	332
Mortgage Insurance								
Insurance-in-force ($B)[2]	397	397	394	401	404	409	422	431
Total insured volumes[1]	18,027	18,390	12,724	18,659	13,356	15,392	9,118	19,494
Premiums and fees received	416	506	399	547	417	508	331	518
Premiums and fees earned	356	361	350	353	350	349	347	344
Claims paid	19	14	11	30	45	30	34	23
Insurance claims expense	10	3	(2)	(57)	(12)	(63)	(185)	(113)
Net income	264	264	241	302	265	315	403	342
Arrears rate	0.24%	0.25%	0.26%	0.28%	0.29%	0.31%	0.34%	0.34%
Loss ratio	2.8%	0.8%	(0.6)%	(16.1)%	(3.4)%	(18.1)%	(53.3)%	(32.9)%
Operating expense ratio	20.5%	20.8%	21.7%	23.0%	20.9%	23.4%	25.1%	29.4%
Combined ratio	23.3%	21.6%	21.1%	6.9%	17.5%	5.3%	(28.2)%	(3.5)%
Severity ratio	29.6%	24.8%	27.0%	28.4%	30.8%	27.8%	31.8%	27.0%
Return on equity	10.8%	10.5%	9.0%	10.1%	9.5%	11.3%	13.1%	10.4%
Return on required equity	12.1%	12.5%	11.3%	14.0%	12.0%	13.5%	16.7%	10.5%
Capital available to minimum capital required (% MICAT)	183%	192%	192%	213%	209%	201%	191%	234%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	19.4%	19.9%	20.1%	21.0%	23.1%	24.2%	24.8%	26.2%
Mortgage Funding								
Guarantees-in-force ($B)[2]	463	456	460	461	460	461	479	489
Securities guaranteed ($B)	50	44	43	48	51	46	38	52
Guarantee and application fees received	227	215	219	338	250	229	191	241
Guarantee and application fees earned	189	180	194	189	179	176	172	172
Net income	142	127	143	139	139	126	141	135
Operating expense ratio	7.3%	7.9%	7.4%	7.7%	7.6%	8.5%	8.9%	8.8%
Return on equity	42.4%	36.8%	38.9%	36.6%	36.4%	32.2%	25.2%	18.9%
Capital available to capital required	147%	146%	148%	136%	130%	129%	128%	176%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantee	22.8%	22.9%	23.3%	24.1%	26.3%	27.2%	28.6%	29.5%

[1] *Total insured volumes include portfolio substitutions.*

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

Unaudited Quarterly Consolidated Financial Statements

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 September 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

15 November 2022

CONSOLIDATED BALANCE SHEET

		As at	
(in millions of Canadian dollars)	**Notes**	**30 September 2022**	**31 December 2021**
Assets			
Cash and cash equivalents	20	2,307	1,525
Securities purchased under resale agreements		630	-
Accrued interest receivable		1,313	720
Investment securities:			
Fair value through profit or loss	10	140	289
Fair value through other comprehensive income	10, 11	17,948	19,982
Amortized cost	10, 11	3,474	2,817
Derivatives		4	31
Due from the Government of Canada	6	400	363
Loans:	12		
Fair value through profit or loss		478	500
Amortized cost		276,006	272,781
Accounts receivable and other assets		1,250	1,035
Investment property		314	314
Defined benefit plans asset		310	-
		304,574	300,357
Liabilities			
Accounts payable and other liabilities		592	650
Accrued interest payable		1,246	612
Derivatives		200	50
Provision for claims	7	274	310
Borrowings:	13		
Fair value through profit or loss		426	475
Amortized cost		280,480	275,869
Defined benefit plans liability		160	250
Unearned premiums and fees	7, 8	9,048	8,684
Deferred income tax liabilities		231	247
		292,657	287,147
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income		(986)	131
Retained earnings		12,878	13,054
		11,917	13,210
		304,574	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 September		Nine months ended 30 September	
(in millions of Canadian dollars)	**Notes**	**2022**	**2021**	**2022**	**2021**
Interest income		1,427	1,096	3,778	3,346
Interest expense		1,420	1,099	3,772	3,346
Net interest income (loss)		7	(3)	6	-
Government funding	6	454	452	2,598	2,391
Premiums and fees earned	7, 8	545	529	1,630	1,573
Investment income		100	81	276	261
Net gains (losses) on financial instruments	14	27	14	54	104
Other income		-	3	4	11
Total revenues and government funding		1,133	1,076	4,568	4,340
Non-interest expenses					
Housing programs	6	377	380	2,386	2,167
Insurance claims		10	(12)	11	(260)
Operating expenses		167	156	497	516
Total expenses		554	524	2,894	2,423
Income before income taxes		579	552	1,674	1,917
Income taxes	18	146	138	416	477
Net income		433	414	1,258	1,440
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	(151)	(40)	(1,111)	(277)
Reclassification of losses (gains) on debt instruments held at fair value through other comprehensive income on disposal in the period	18	(5)	(19)	(6)	(103)
Total items that will be subsequently reclassified to net income		(156)	(59)	(1,117)	(380)
Items that will not be subsequently reclassified to net income					
Remeasurement gains (losses) on defined benefit plans	17, 18	(11)	64	351	301
Total comprehensive income (loss), net of tax		(167)	5	(766)	(79)
Comprehensive income		266	419	492	1,361

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

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

		Three months ended 30 September		Nine months ended 30 September	
(in millions of Canadian dollars)	**Notes**	**2022**	**2021**	**2022**	**2021**
Contributed capital		25	25	25	25
Accumulated other comprehensive income					
Balance at beginning of period		(830)	286	131	607
Other comprehensive income (loss)		(156)	(59)	(1,117)	(380)
Balance at end of period		(986)	227	(986)	227
Retained earnings					
Balance at beginning of period		12,851	12,916	13,054	15,943
Net income		433	414	1,258	1,440
Other comprehensive income (loss)		(11)	64	351	301
Dividends	9	(395)	(395)	(1,785)	(4,685)
Balance at end of period		12,878	12,999	12,878	12,999
Equity of Canada		11,917	13,251	11,917	13,251

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of Canadian dollars)	Notes	Three months ended 30 September 2022	Three months ended 30 September 2021	Nine months ended 30 September 2022	Nine months ended 30 September 2021
Cash flows from operating activities					
Net income		433	414	1,258	1,440
Adjustments to determine net cash flows from operating activities					
Amortization of premiums and discounts on financial instruments		13	35	66	108
Net gains on financial instruments		(159)	74	(268)	(261)
Deferred income taxes	18	(19)	31	(5)	(2)
Depreciation, amortization and impairment of property and equipment and intangible assets		6	5	18	49
Changes in operating assets and liabilities					
Derivatives		116	(96)	177	133
Accrued interest receivable		(612)	(464)	(593)	(435)
Due from the Government of Canada		68	76	(58)	(126)
Accounts receivable and other assets		93	36	112	90
Accounts payable and other liabilities		(109)	(13)	(38)	87
Accrued interest payable		641	492	634	494
Provision for claims		-	(46)	(36)	(351)
Defined benefit plans liability		12	-	16	4
Unearned premiums and fees		95	124	364	358
Other		5	(1)	2	-
Loans repayments	12	5,288	6,581	28,857	29,682
Loans disbursements	12	(10,445)	(10,774)	(32,000)	(31,611)
Borrowings repayments	13	(6,366)	(8,297)	(35,054)	(35,786)
Borrowings issuances	13	12,318	12,722	39,954	39,006
		1,378	899	3,406	2,879
Cash flows from investing activities					
Investment securities					
Sales and maturities		1,581	2,110	7,902	12,025
Purchases		(1,599)	(2,410)	(7,870)	(11,279)
Foreign currency forward contract maturities					
Receipts		96	43	254	436
Disbursements		(252)	(251)	(444)	(314)
Investment property additions		-	-	-	(1)
Securities purchased under resale agreements		(630)	(70)	(630)	104
Property and equipment and intangible asset acquisitions		(4)	(11)	(51)	(81)
		(808)	(589)	(839)	890
Cash flows from financing activities					
Dividends paid		(395)	(395)	(1,785)	(4,685)
Change in cash and cash equivalents		175	(85)	782	(916)
Cash and cash equivalents					
Beginning of period		2,132	1,470	1,525	2,301
End of period		2,307	1,385	2,307	1,385
Represented by					
Cash		168	82	168	82
Cash equivalents		2,139	1,303	2,139	1,303
		2,307	1,385	2,307	1,385
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		1,079	880	3,948	3,679
Amount of interest paid during the period		970	774	3,625	3,311
Amount of dividends received during the period		-	-	3	12
Amount of income taxes paid during the period		80	93	293	379

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

These unaudited quarterly consolidated financial statements are as at and for the three and nine months ended 30 September 2022 and were approved and authorized for issue by our Audit Committee on 15 November 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 and Mortgage Funding businesses are 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. In our Mortgage Funding business, guarantee fees received on NHA MBS are generally higher in the last quarter of the year as more issuers guarantee pools above the Tier 1 threshold for which the fees are higher.

3. Future accounting changes

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 Q2 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.

Use of estimates and assumptions

Provision for claims

We have revised our estimate of the provision for claims at 30 September 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 September 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 September 2022 reflects the following key economic assumptions for the next 18 months: average unemployment rate of 7.3% and increase in house price index of 0.4% compared to 30 September 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

The conflict between Ukraine and 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 are contributing to slight increases in our expected credit losses (ECL) in the period. We will continue to monitor the potential impacts of economic headwinds on our ECL calculations.

Pension and other post-employment benefits

The sustained high inflation in the first nine months 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.

Mortgage Insurer Capital Adequacy Test (MICAT)

Insurance-in-force (IIF) is a key input in determining our MICAT ratio and is subject to estimation. Due to availability of data, IIF used in the MICAT is the higher of 1) a projection reflecting an estimate of new business, terminations and claims from our most previous quarter-end 2) our actual IIF as reported by lenders for the previous quarter-end. Changes in underwriting requirements, regulatory environment and market trends can add volatility to our estimate.

In recent months, lenders have been reporting temporarily extended amortizations on variables rate mortgages that do not have payments that automatically adjust with interest rates. Furthermore, adjustments to interest rates as announced by the Bank of Canada may not be immediately reflected in IIF reporting by lenders and are not factored into our projected IIF calculations as we are unable to accurately predict the future path of interest rates. As a result, we may experience a temporarily lower MICAT ratio due to the temporarily extended amortizations on variable rate mortgages until interest rates stabilize and/or subject variable rate mortgages payments are reset to the original amortization period. Our Q3 2022 MICAT ratio only considers the impacts of rising interest rates on variable rate mortgages up to July 31, 2022 and therefore, does not fully reflect the impacts of interest rate increases on amortizations past this point, which may further decrease our ratio in future periods once fully reflected. As at September 30, 2022, the increased capital required for variable rate mortgages with temporarily extended amortizations was a factor that contributed to a decrease in the MICAT ratio from December 31, 2021.

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 September	**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	101	68	-	-	1,328	1,030	(2)	(2)	1,427	1,096
Interest expense	101	77	-	-	1,327	1,029	(8)	(7)	1,420	1,099
Net interest income (loss)	**-**	**(9)**	**-**	**-**	**1**	**1**	**6**	**5**	**7**	**(3)**
Government funding	454	452	-	-	-	-	-	-	454	452
Premiums and fees earned	-	-	356	350	189	179	-	-	545	529
Investment income (losses)	-	-	91	73	13	10	(4)	(2)	100	81
Net gains (losses) on financial instruments	35	15	(11)	(6)	-	8	3	(3)	27	14
Other income (loss)	(1)	-	-	-	1	3	-	-	-	3
Total revenues and government funding	**488**	**458**	**436**	**417**	**204**	**201**	**5**	**-**	**1,133**	**1,076**
Non-interest expenses										
Housing programs	377	380	-	-	-	-	-	-	377	380
Insurance claims	-	-	10	(12)	-	-	-	-	10	(12)
Operating expenses	79	67	73	73	15	16	-	-	167	156
Total expenses	**456**	**447**	**83**	**61**	**15**	**16**	**-**	**-**	**554**	**524**
Income (loss) before income taxes	**32**	**11**	**353**	**356**	**189**	**185**	**5**	**-**	**579**	**552**
Income taxes	9	1	89	91	47	46	1	-	146	138
Net income	**23**	**10**	**264**	**265**	**142**	**139**	**4**	**-**	**433**	**414**
Total revenues and government funding	488	458	436	417	204	201	5	-	1,133	1,076
Less inter-segment income (loss)[1]	2	5	1	2	(8)	(7)	5	-	-	-
External revenues and government funding	486	453	435	415	212	208	-	-	1,133	1,076

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

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

Nine months ended 30 September	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	252	195	-	-	3,530	3,151	(4)	-	3,778	3,346
Interest expense	273	220	-	-	3,522	3,143	(23)	(17)	3,772	3,346
Net interest income (loss)	**(21)**	**(25)**	**-**	**-**	**8**	**8**	**19**	**17**	**6**	**-**
Government funding	2,598	2,391	-	-	-	-	-	-	2,598	2,391
Premiums and fees earned	-	-	1,067	1,046	563	527	-	-	1,630	1,573
Investment income (losses)	-	-	248	229	34	37	(6)	(5)	276	261
Net gains (losses) on financial instruments	117	88	(57)	21	(10)	10	4	(15)	54	104
Other income (loss)	-	(2)	(2)	-	6	13	-	-	4	11
Total revenues and government funding	**2,694**	**2,452**	**1,256**	**1,296**	**601**	**595**	**17**	**(3)**	**4,568**	**4,340**
Non-interest expenses										
Housing programs	2,386	2,167	-	-	-	-	-	-	2,386	2,167
Insurance claims	-	-	11	(260)	-	-	-	-	11	(260)
Operating expenses	221	220	224	242	52	54	-	-	497	516
Total expenses	**2,607**	**2,387**	**235**	**(18)**	**52**	**54**	**-**	**-**	**2,894**	**2,423**
Income (loss) before income taxes	**87**	**65**	**1,021**	**1,314**	**549**	**541**	**17**	**(3)**	**1,674**	**1,917**
Income taxes	23	12	252	331	137	135	4	(1)	416	477
Net income	**64**	**53**	**769**	**983**	**412**	**406**	**13**	**(2)**	**1,258**	**1,440**
Total revenues and government funding	2,694	2,452	1,256	1,296	601	595	17	(3)	4,568	4,340
Less inter-segment income (loss)[1]	1	14	5	6	(23)	(17)	17	(3)	-	-
External revenues and government funding	2,693	2,438	1,251	1,290	624	612	-	-	4,568	4,340

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

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

As at 30 September 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	1,717	1,071	587	450	3	4	-	-	2,307	1,525
Securities purchased under resale agreement	630	-	-	-	-	-	-	-	630	-
Accrued interest receivable	77	82	97	84	1,145	556	(6)	(2)	1,313	720
Investment securities:										
Fair value through profit or loss	33	159	107	130	-	-	-	-	140	289
Fair value through other comprehensive income	-	-	15,045	16,835	3,390	3,615	(487)	(468)	17,948	19,982
Amortized cost	4,120	3,259	-	-	-	-	(646)	(442)	3,474	2,817
Derivatives	-	8	4	23	-	-	-	-	4	31
Due from the Government of Canada	400	363	-	-	-	-	-	-	400	363
Loans:										
Fair value through profit or loss	464	480	14	20	-	-	-	-	478	500
Amortized cost	9,138	7,897	53	63	266,815	264,821	-	-	276,006	272,781
Accounts receivable and other assets	(175)	116	1,248	804	177	115	-	-	1,250	1,035
Investment property	314	314	-	-	-	-	-	-	314	314
Defined benefit plans asset	126	-	174	-	10	-	-	-	310	-
	16,844	13,749	17,329	18,409	271,540	269,111	(1,139)	(912)	304,574	300,357
Liabilities										
Accounts payable and other liabilities	447	482	121	137	24	31	-	-	592	650
Accrued interest payable	118	62	-	-	1,134	552	(6)	(2)	1,246	612
Derivatives	37	32	163	18	-	-	-	-	200	50
Provision for claims	-	-	274	310	-	-	-	-	274	310
Borrowings:										
Fair value through profit or loss	426	475	-	-	-	-	-	-	426	475
Amortized cost	14,809	11,921	-	-	266,815	264,821	(1,144)	(873)	280,480	275,869
Defined benefit plans liability	65	102	90	140	5	8	-	-	160	250
Unearned premiums and fees	-	-	6,766	6,500	2,282	2,184	-	-	9,048	8,684
Deferred income tax liabilities	143	106	140	152	(53)	-	1	(11)	231	247
	16,045	13,180	7,554	7,257	270,207	267,596	(1,149)	(886)	292,657	287,147
Equity of Canada	799	569	9,775	11,152	1,333	1,515	10	(26)	11,917	13,210
	16,844	13,749	17,329	18,409	271,540	269,111	(1,139)	(912)	304,574	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 September		Nine months ended 30 September	
(in millions)	**2022**	**2021**	**2022**	**2021**
Assistance for housing needs	339	362	2,198	2,092
Financing for housing	109	76	358	307
Housing expertise and capacity development	30	28	105	103
Total	**478**	**466**	**2,661**	**2,502**
Government funding deferred in the period	(24)	(14)	(63)	(111)
Total Government funding recognized[1,2]	**454**	**452**	**2,598**	**2,391**

[1] *Includes operating expenses of $74 million and $204 million and expected credit loss recovery of $3 million and $8 million for the three and nine months ended 30 September 2022, respectively (three and nine months ended 30 September 2021 – $66 million and $218 million and $6 million and $6 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 $48 million and $148 million for the three and nine months, respectively, ended 30 September 2022 (three and nine months ended 30 September 2021 – $22 million and $100 million).*

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

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2022**	**2021**	**2022**	**2021**
Balance at beginning of period	443	460	363	339
Total government funding	478	466	2,661	2,502
Government funding received during the period	(523)	(513)	(2,623)	(2,437)
Other	-	(13)	(1)	(5)
Balance at end of period before prior/ future period adjustments	**398**	**400**	**400**	**399**
Net change in prior period adjustments	2	5	-	6
Balance at end of period	**400**	**405**	**400**	**405**

7. Mortgage Insurance

Unearned premiums and fees

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

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2022**	**2021**	**2022**	**2021**
Balance at beginning of period	6,709	6,291	6,500	6,129
Premiums deferred on contracts written in the period	401	393	1,299	1,233
Premiums earned in the period	(350)	(343)	(1,050)	(1,031)
Application fees deferred on contracts written in the period	10	7	28	24
Application fees earned in the period[1]	(4)	(4)	(11)	(11)
Balance at end of period	**6,766**	**6,344**	**6,766**	**6,344**

[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 September 2022**	**31 December 2021**
Undiscounted estimated losses	262	287
Discounting	(14)	(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 September	
(in millions)	**2022**	**2021**
Provision for claims, beginning of period	274	430
Net claims paid during the period	(19)	(45)
Provision for claims provided for and losses incurred during the period[1]	45	44
Unfavourable (favourable) development on prior period claims	(26)	(45)
Provision for claims, end of period	**274**	**384**

[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.*

	Nine months ended 30 September	
(in millions)	**2022**	**2021**
Provision for claims, beginning of period	310	735
Net claims paid during the period	(44)	(109)
Provision for claims provided for and losses incurred during the period[1]	130	180
Unfavourable (favourable) development on prior period claims	(122)	(422)
Provision for claims, end of period	**274**	**384**

[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 September 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 September					
	2022			2021		
(in millions)	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of period	1,664	580	2,244	1,406	558	1,964
TPG and application fees received in the period	186	41	227	207	43	250
TPG and application fees earned in the period	(146)	(43)	(189)	(141)	(38)	(179)
Balance at end of period	**1,704**	**578**	**2,282**	**1,472**	**563**	**2,035**

	Nine months ended 30 September					
	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	536	125	661	545	125	670
TPG and application fees earned in the period	(449)	(114)	(563)	(414)	(113)	(527)
Balance at end of period	**1,704**	**578**	**2,282**	**1,472**	**563**	**2,035**

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. We declared and paid dividends of $395 million and $1,785 million for the three and nine months ended 30 September 2022, respectively (three and nine months ended 30 September 2021 – $395 and $4,685 million).

The components of consolidated capital available are presented below.

(in millions)	As at 30 September 2022	As at 31 December 2021
Contributed capital	25	25
Accumulated other comprehensive income	(986)	131
Appropriated retained earnings	10,093	9,299
Unappropriated retained earnings[1]	2,785	3,755
Total equity of Canada[2]	**11,917**	**13,210**
Less: assets with a capital requirement of 100%	(224)	(88)
Total capital available	**11,693**	**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.

(in millions, unless otherwise indicated)	As at 30 September 2022	As at 31 December 2021
Appropriated capital[1]	8,625	8,574
Unappropriated capital	1,150	2,578
Total Mortgage Insurance capital	**9,775**	**11,152**
Less: assets with a capital requirement of 100%	(224)	(88)
Total Mortgage Insurance capital available	**9,551**	**11,064**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)	183%	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 September 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.

(in millions, unless otherwise indicated)	As at 30 September 2022	As at 31 December 2021
Appropriated capital[1]	419	816
Unappropriated capital	914	699
Total Mortgage Funding capital available	**1,333**	**1,515**
Economic capital available to economic capital required	147%	136%

[1] *We appropriate retained earnings and AOCI at the operating level of economic 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 September 2022	31 December 2021
Reserve fund	21	41
Retained earnings	753	503
Total Lending programs capital available	**774**	**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 September 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]	3,474	3,354	(120)	2,817	2,800	(17)
Loans at amortized cost[3]	276,006	261,788	(14,218)	272,781	274,574	1,793
Financial liabilities						
Borrowings at amortized cost[4]	280,480	265,949	(14,531)	275,869	277,848	1,979

[1] *Does not include cash and cash equivalents of $1,591 million (31 December 2021 - $1,000 million) and securities purchased under resale agreements of $630 million (31 December 2021 - nil) carried at amortized cost as the fair value of these financial instruments is equal to their carrying value.*

[2] *$901 million (31 December 2021 – $933 million) fair value categorized as Level 1 and $2,453 million (31 December 2021 - $1,867 million) fair value categorized as Level 2.*

[3] *$257,896 million (31 December 2021 – $271,089 million) fair value categorized as Level 2, $3,892 million (31 December 2021 – $3,485 million) fair value categorized as Level 3.*

[4] *$165,365 million (31 December 2021 – $208,639 million) fair value categorized as Level 1, $100,584 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 September 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	-	266	-	266	-	130	-	130
Federal government issued	449	-	-	449	-	378	-	378
Corporate/other entities	-	1	-	1	-	17	-	17
Total cash equivalents	449	267	-	716	-	525	-	525
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	26	-	26	-	151	-	151
Provinces/municipalities	-	25	-	25	26	25	-	51
Sovereign and related entities	-	8	-	8	-	8	-	8
Equities								
Limited partnership units	-	-	81	81	-	-	79	79
Total at FVTPL	-	59	81	140	26	184	79	289
FVOCI								
Debt instruments								
Corporate/other entities	2,431	4,814	-	7,245	2,829	5,133	-	7,962
Federal government issued	6,896	697	-	7,593	8,388	442	-	8,830
Provinces/municipalities	2,406	548	-	2,954	2,943	180	-	3,123
Sovereign and related entities	109	47	-	156	16	51	-	67
Total at FVOCI	11,842	6,106	-	17,948	14,176	5,806	-	19,982
Loans designated at FVTPL	-	139	-	139	-	182	-	182
Loans mandatorily at FVTPL	-	13	326	339	-	20	298	318
Derivatives	-	4	-	4	-	31	-	31
Investment property	-	-	314	314	-	-	314	314
Total assets carried at fair value	**12,291**	**6,588**	**721**	**19,600**	**14,202**	**6,748**	**691**	**21,641**
Liabilities								
Borrowings designated at FVTPL	-	(426)	-	(426)	-	(475)	-	(475)
Derivatives	-	(170)	(30)	(200)	-	(19)	(31)	(50)
Total liabilities carried at fair value	**-**	**(596)**	**(30)**	**(626)**	**-**	**(494)**	**(31)**	**(525)**
Net assets at FVTPL	**12,291**	**5,992**	**691**	**18,974**	**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 nine months ended 30 September 2022, there were $512 million and $2,233 million of transfers from Level 2 to Level 1, respectively (three and nine months ended 30 September 2021 - $706 million and $3,230 million, respectively), $950 million and $3,997 million of transfers from Level 1 to Level 2, respectively (three and nine months ended 30 September 2021 – $323 million and $1,675 million, respectively), and there were no transfers from Level 2 to Level 3 (three and nine months ended 30 September 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 September 2022						
Fair value as at 1 July 2022	82	-	309	314	(26)	679
Purchases/issuances	-	-	22	-	-	22
Net gains in net income[1,2,3]	-	-	4	-	(4)	-
Cash receipts on settlements/disposals	(1)	-	(9)	-	-	(10)
Fair value as at 30 September 2022	**81**	**-**	**326**	**314**	**(30)**	**691**
Nine months ended 30 September 2022						
Fair value as at 1 January 2022	79	-	298	314	(31)	660
Purchases/issuances	2	-	65	-	-	67
Net gains in net income[1,2,3]	3	-	(1)	-	1	3
Cash receipts on settlements/disposals	(3)	-	(36)	-	-	(39)
Fair value as at 30 September 2022	**81**	**-**	**326**	**314**	**(30)**	**691**
Three months ended 30 September 2021						
Fair value as at 1 July 2021	86	-	248	282	(15)	601
Purchases/issuances	-	-	33	-	-	33
Net gains in net income[1,2]	(10)	-	8	-	(8)	(10)
Cash receipts on settlements/disposals	(1)	-	(11)	-	-	(12)
Fair value as at 30 September 2021	**75**	**-**	**278**	**282**	**(23)**	**612**
Nine months ended 30 September 2021						
Fair value as at 1 January 2021	81	-	189	281	(4)	547
Purchases/issuances	3	-	97	1	-	101
Net gains in net income[1,2]	(8)	-	27	-	(19)	-
Cash receipts on settlements/disposals	(1)	-	(35)	-	-	(36)
Fair value as at 30 September 2021	**75**	**-**	**278**	**282**	**(23)**	**612**

[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] *In the second quarter of 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. Losses of nil and $19 million were recognized in the three and nine month periods ended September 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 September 2022, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 30 September 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 September 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	8,130	3,612	3,944	2,195	67	17,948	9,592	3,640	4,102	2,553	95	19,982
Amortized cost	1,162	1,740	572	-	-	3,474	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 $19 million at 30 September 2022 (31 December 2021 – $12 million) with a corresponding loss of $8 million and a loss of $7 million recognized in net gains (losses) on financial instruments during the three and nine months ended 30 September 2022 (three and nine months ended 30 September 2021 – $3 million loss and $2 million loss).

12. Loans

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

		Three months ended 30 September							
		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	463	(12)	13	3	-	-	-	(3)	464
MI Activity loans	12	(4)	6	-	-	-	-	-	14
Total at FVTPL	**475**	**(16)**	**19**	**3**	**-**	**-**	**-**	**(3)**	**478**
Amortized cost									
CMB program loans	258,281	(4,899)	9,825	-	12	-	-	-	263,219
Lending programs	8,661	(138)	600	-	-	(1)	13	3	9,138
IMPP loans	3,825	(229)	-	-	-	-	-	-	3,596
MI Activity loans	55	(6)	1	-	1	2	-	-	53
Total amortized cost	**270,822**	**(5,272)**	**10,426**	**-**	**13**	**1**	**13**	**3**	**276,006**
Total	**271,297**	**(5,288)**	**10,445**	**3**	**13**	**1**	**13**	**-**	**276,484**
2021									
FVTPL									
Lending programs	498	(14)	24	6	-	-	-	(26)	488
MI Activity loans	20	(8)	8	-	-	-	-	-	20
Total at FVTPL	**518**	**(22)**	**32**	**6**	**-**	**-**	**-**	**(26)**	**508**
Amortized cost									
CMB program loans	256,656	(6,152)	10,228	-	10	-	-	-	260,742
Lending programs	7,019	(147)	514	-	-	(2)	7	26	7,417
IMPP loans	4,711	(255)	-	-	-	-	-	-	4,456
MI Activity loans	77	(5)	-	-	-	-	-	-	72
Total amortized cost	**268,463**	**(6,559)**	**10,742**	**-**	**10**	**(2)**	**7**	**26**	**272,687**
Total	**268,981**	**(6,581)**	**10,774**	**6**	**10**	**(2)**	**7**	**-**	**273,195**

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

		Nine months ended 30 September							
		Cash flows		Non-cash changes					
(in millions)	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	480	(47)	48	(10)	-	-	-	(7)	464
MI Activity loans	20	(22)	16	-	-	-	-	-	14
Total at FVTPL	**500**	**(69)**	**64**	**(10)**	**-**	**-**	**-**	**(7)**	**478**
Amortized cost									
CMB program loans	260,587	(27,698)	30,297	-	33	-	-	-	263,219
Lending programs	7,897	(430)	1,637	-	-	(4)	31	7	9,138
IMPP loans	4,234	(638)	-	-	-	-	-	-	3,596
MI Activity loans	63	(22)	2	-	5	5	-	-	53
Total amortized cost	**272,781**	**(28,788)**	**31,936**	**-**	**38**	**1**	**31**	**7**	**276,006**
Total	**273,281**	**(28,857)**	**32,000**	**(10)**	**38**	**1**	**31**	**-**	**276,484**
2021									
FVTPL									
Lending programs	719	(55)	74	13	-	-	-	(263)	488
MI Activity loans	24	(29)	20	5	-	-	-	-	20
Total at FVTPL	**743**	**(84)**	**94**	**18**	**-**	**-**	**-**	**(263)**	**508**
Amortized cost									
CMB program loans	258,962	(28,218)	29,968	-	30	-	-	-	260,742
Lending programs	6,160	(561)	1,547	-	-	(8)	16	263	7,417
IMPP loans	5,248	(792)	-	-	-	-	-	-	4,456
MI Activity loans	80	(27)	2	-	9	8	-	-	72
Total amortized cost	**270,450**	**(29,598)**	**31,517**	**-**	**39**	**-**	**16**	**263**	**272,687**
Total	**271,193**	**(29,682)**	**31,611**	**18**	**39**	**-**	**16**	**-**	**273,195**

[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 September 2022 were $8,286 million (31 December 2021 –$7,250 million), of which $7,795 million are subject to 12-month ECL (31 December 2021 – $6,789 million) and $3 million (31 December 2021 – $6 million) are commitments outstanding on purchased or originated credit impaired loans.

At 30 September 2022, the ECL on undrawn loan commitments was $14 million (31 December 2021 – $15 million), and the ECL on loans was $79 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 September					
		Cash flows		Non-cash changes			
(in millions)	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accretion and other	Eliminations	Balance at end of period
2022							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	438	-	(9)	(3)	-	-	426
Amortized cost							
Canada mortgage bonds	257,238	9,813	(4,902)	-	12	(86)	262,075
Borrowings from the Government of Canada – Lending programs	13,565	2,505	(1,226)	(48)	13	-	14,809
Borrowings from the Government of Canada – IMPP	3,825	-	(229)	-	-	-	3,596
Total amortized cost	**274,628**	**12,318**	**(6,357)**	**(48)**	**25**	**(86)**	**280,480**
Total	**275,066**	**12,318**	**(6,366)**	**(51)**	**25**	**(86)**	**280,906**
2021							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	617	-	(64)	(2)	-	-	551
Amortized cost							
Canada mortgage bonds	255,812	10,228	(6,152)	-	11	(77)	259,822
Borrowings from the Government of Canada – Lending programs	10,629	2,494	(1,826)	(22)	7	-	11,282
Borrowings from the Government of Canada – IMPP	4,711	-	(255)	-	-	-	4,456
Total amortized cost	**271,152**	**12,722**	**(8,233)**	**(22)**	**18**	**(77)**	**275,560**
Total	**271,769**	**12,722**	**(8,297)**	**(24)**	**18**	**(77)**	**276,111**

	Nine months ended 30 September						
		Cash flows		Non-cash changes			
(in millions)	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accretion and other	Eliminations	Balance at end of period
2022							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	475	-	(28)	(21)	-	-	426
Amortized cost							
Canada mortgage bonds	259,714	30,269	(27,701)	-	33	(240)	262,075
Borrowings from the Government of Canada – Lending programs	11,921	9,685	(6,687)	(148)	38	-	14,809
Borrowings from the Government of Canada – IMPP	4,234	-	(638)	-	-	-	3,596
Total amortized cost	**275,869**	**39,954**	**(35,026)**	**(148)**	**71**	**(240)**	**280,480**
Total	**276,344**	**39,954**	**(35,054)**	**(169)**	**71**	**(240)**	**280,906**
2021							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	1,156	-	(592)	(13)	-	-	551
Amortized cost							
Canada mortgage bonds	258,592	29,968	(28,198)	-	30	(570)	259,822
Borrowings from the Government of Canada – Lending programs	8,529	9,038	(6,204)	(100)	19	-	11,282
Borrowings from the Government of Canada – IMPP	5,248	-	(792)	-	-	-	4,456
Total amortized cost	**272,369**	**39,006**	**(35,194)**	**(100)**	**49**	**(570)**	**275,560**
Total	**273,525**	**39,006**	**(35,786)**	**(113)**	**49**	**(570)**	**276,111**

When we hold CMB to maturity or acquire CMB in the primary market, we exclude the related cash flows from the consolidated statement of cash flows. During the three and nine months ended 30 September 2022, we have excluded nil, respectively (three and nine months ended 30 September 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 nine months ended 30 September 2022 $12 million and $28 million, respectively (three and nine months ended 30 September 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 September 2022 were $381 million (31 December 2021 – $367 million). Actual long-term borrowings issued in the three and nine months ended 30 September 2022 were $1.4 billion and $3.6 billion, respectively (three and nine months ended 30 September 2021 – $810 million and $3.3 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 consolidated statement of income and comprehensive income.

	Three months ended 30 September		Nine months ended 30 September	
(in millions)	**2022**	**2021**	**2022**	**2021**
Financial instruments designated at FVTPL				
Investment securities	-	(1)	-	(3)
Loans	-	(1)	(5)	(4)
Borrowings	3	2	21	13
Total financial instruments designated at FVTPL	**3**	**-**	**16**	**6**
Financial instruments mandatorily at FVTPL				
Equity securities	-	(10)	3	(8)
Derivatives	(271)	(114)	(368)	(13)
Loans	4	9	(5)	24
Total financial instruments mandatorily at FVTPL	**(267)**	**(115)**	**(370)**	**3**
Debt instruments held at FVOCI[1]	264	118	293	19
Loans – amortized cost	(10)	-	(19)	-
Borrowings – amortized cost[2]	50	19	150	83
Expected credit recoveries (losses) on financial assets[3]	(13)	(8)	(16)	(7)
Total	**27**	**14**	**54**	**104**

[1] *Includes foreign exchange gains during the three months and nine months ended 30 September 2022 of $293 million and $389 million (for the three and nine months ended 30 September 2021 – $102 million gain and $21 million loss) resulting from translation of U.S. dollar-denominated debt instruments.*

[2] *Includes gains from the retirement of borrowings during the three and nine months ended 30 September 2022 of $2 million and $2 million (three and nine months ended 30 September 2021 – $3 million and $16 million), including gains during the three and nine months ended 30 September 2022 from the issuance of borrowings of $48 million and $148 million (net of gains for the three and nine months ended 30 September 2021 – $22 million and $99 million).*

[3] *Excludes a release of ECL on MI Activity loans at amortized cost during the three and nine months ended 30 September 2022 of $3 million and $8 million, respectively (three and nine months ended 30 September 2021 – nil 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 nine months ended 30 September 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 $4,072 million in debt instruments denominated in U.S. dollars as at 30 September 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 September 2022**	**31 December 2021**
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	208	138
USD-denominated securities	82	53
Effect of diversification	(6)	(11)
Total VaR	**284**	**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 September 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 September 2022 is presented below.

	As at			
	30 September 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]	(802)	653	(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 significant change in the nature of the risks and how we manage them in the three and nine month periods ended 30 September 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 September			
	Pension plans		Other post-employment plans	
(in millions)	2022	2021	2022	2021
Current service cost	13	14	-	1
Net interest expense	1	3	1	1
Expense recognized in net income	**14**	**17**	**1**	**2**
Net actuarial gains (losses) arising from changes in financial assumptions	-	92	-	4
Return on plan assets, excluding amounts included in net interest expense	(14)	(20)	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(14)**	**72**	**-**	**4**
CMHC's contributions[2]	2	18	1	1
Employee contributions	5	3	-	-
Total contributions	**7**	**21**	**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 September 2022 (three months ended 30 September 2021 - $9 million).*

	Nine months ended 30 September			
	Pension plans		Other post-employment plans	
(in millions)	2022	2021	2022	2021
Current service cost	40	45	-	1
Net interest expense	2	8	3	3
Expense recognized in net income	**42**	**53**	**3**	**4**
Net actuarial gains (losses) arising from changes in financial assumptions	798	328	35	13
Return on plan assets, excluding amounts included in net interest expense	(417)	1	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**381**	**329**	**35**	**13**
CMHC's contributions[2]	26	50	3	3
Employee contributions	19	19	-	-
Total contributions	**45**	**69**	**3**	**3**

[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 $5 million for the nine months ended 30 September 2022 (2021 – $27 million).*

We determine the discount rate in accordance with guidance issued by the Canadian Institute of Actuaries by reference to Canadian AA-rated corporate bonds with terms to maturity approximating the duration of the obligation. The discount rate we used to remeasure the defined benefit obligations at 30 September 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 September		Nine months ended 30 September	
(in millions)	**2022**	**2021**	**2022**	**2021**
Current income tax expense	165	107	421	479
Deferred income tax relating to origination and reversal of temporary differences	(19)	31	(5)	(2)
Total income tax expense included in net income	**146**	**138**	**416**	**477**
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized losses (gains) from FVOCI financial instruments	(51)	(14)	(366)	(91)
Reclassification of prior years' net unrealized gains realized in the period in net income	(2)	(6)	(2)	(34)
Remeasurement losses (gains) on defined benefit plans	(3)	12	65	41
Total income tax expense (recovery) included in other comprehensive income (loss)	**(56)**	**(8)**	**(303)**	**(84)**
Total	**90**	**130**	**113**	**393**

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 $13 million and $38 million for the three and nine months ended 30 September 2022 (three and nine months ended 30 September 2021 – $12 million and $36 million) for the Mortgage Insurance Activity and $8 million and $23 million for the three and nine months ended 30 September 2022 (three and nine months ended 30 September 2021 – $8 million and $23 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 September 2022, we have $7,495 million in contractual financial obligations relating to housing programs which extend for periods up to 25 years and $188 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 September 2022**	**31 December 2021**
Affordable Rental Housing Innovation Fund	46	55
Rental Construction Financing initiative (RCFi)	620	242
National Housing Co-Investment Fund (NHCF)	538	308
Direct Lending – Economically Hedged	266	130
Total	**1,470**	**735**

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