

CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

SECOND QUARTER
June 30, 2018
(Unaudited)

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Management's Discussion and Analysis

OVERVIEW

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on August 22, 2018 is prepared for the second quarter ended 30 June 2018 and is intended to provide readers with an overview of our performance including comparatives against the same three and six month period in 2017. The MD&A includes explanations of significant deviations in actual financial results from the targets outlined in the Corporate Plan Summary that may impact the current and future quarters of our fiscal year. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2017 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 2017 Annual Report. Except for the adoption of International Financial Reporting Standards (IFRS) 9 and IFRS 15, as disclosed in note 3 of our unaudited quarterly financial statements there have been no material changes to our significant accounting policies, judgments or estimates to the end of the second quarter of 2018.

Forward-looking statements

Our Quarterly Financial Report (QFR) contains forward-looking statements including, but not limited to, statements made in the "The Operating Environment and Outlook for 2018", and "Financial Results by Reportable Business Segment" sections of the report. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties which may cause actual results to differ materially from expectations expressed in these forward-looking statements.

Non-IFRS measures

We use a number of financial measures to assess our performance. Some of these measures are not calculated in accordance with IFRS, are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability with other institutions. These non-IFRS measures are presented to supplement the information disclosed in the unaudited quarterly consolidated financial statements which are prepared in accordance with IFRS and may be useful in analyzing performance and understanding the measures used by management in its financial and operational decision making. Definitions of the non-IFRS measures used throughout the quarterly financial report can be found in the Glossary for Non-IFRS Financial Measures section of the 2017 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2018

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

Economic conditions and housing indicators

According to the June 2018 Industry Consensus¹, the Canadian economy, as measured by gross domestic product (GDP), is expected to expand between 1.7 per cent and 2.5 per cent in 2018, down from 3 per cent in 2017.

Canada's closing output gap—the difference between potential and actual economic output—points to a period of intensifying capacity utilization, and this, coupled with stronger business confidence, will boost the investment outlook over the course of 2018. However, this resurgence in Canadian business investment may be held back to some extent by a backdrop of uncertainty over the North American Free Trade Agreement negotiations, recently-announced U.S. tariffs, and subsequent retaliatory measures.

Meanwhile, the current economic environment suggests that interest rates are expected to continue to rise. As a result, Canada's mortgage debt service ratio rose to 6.41 per cent in the first quarter of 2018, up from 6.29 per cent in its equivalent year-earlier period. Although debt levels remain elevated, this trend helps slow household credit growth, while also reducing dependence on debt to fuel economic growth in Canada.

On this front, higher interest payments should limit consumer spending growth, as an increasing share of household income is required to service outstanding debt. And even though tighter labour markets continue to spur a solid pickup in wages, these gains are not expected to offset the hit to disposable income from higher debt service and slower job growth. Overall, household expenditure growth is projected to ease from 3.5 per cent last year to a pace closer to the 2 per cent range in 2018.

After years of strong activity, the national housing market started to show signs of cooling during the first half of the year. Taken together—tighter mortgage rules, rising interest rates and a slowing economy—are expected to underpin reduced demand for housing, resulting in slower price growth in the near term.

All this put Canada's average MLS® price near \$464,220 during the first five months of 2018, a drop of 5.6 per cent from the same period a year earlier, marking the first decline in home prices since the 2009 recession. Meanwhile, MLS® sales activity also moderated, dropping 15.4 per cent to 196,112 units. Still, national housing starts saw an increase of 3.6 per cent over the period, from 107,156 to 111,021 units.

National Housing Strategy

In Q2, Canada Mortgage and Housing Corporation's (CMHC or Corporation), continued the implementation of NHS initiatives set to launch throughout 2018 and onward. We launched Phase I of the Federal Community Housing Initiative, the National Housing Co-Investment Fund, Demonstrations initiative, Solutions Labs initiative, NHS Research and Planning Fund, the CMHC Housing Research Scholarship and Awards programs and initiated NHS-related data and research. Planning continued for the first National Housing Conference to be held on November 21-22, 2018. Financial authorities for these NHS initiatives were obtained through Treasury Board at the end of Q1. In Q2, we concluded multilateral discussions, and continued bilateral negotiations with provinces and territories for agreements that will be effective April 1, 2019. The Ontario and British Columbia bilateral agreements were announced on April 30 and June 26, respectively.

We also concluded consultations on the human rights-based approach to housing and a *What We Heard* report will be released in Q3.

¹ Consensus Economics survey of private sector forecasters, as of June 2018.

Office of the Superintendent of Financial Institutions (OSFI) guidelines

Changes to capital requirements for Mortgage Insurers

On 9 August 2018, OSFI issued the Mortgage Insurer Capital Adequacy Test (MICAT) guideline that combines the 1 January 2017 advisory on Capital Requirements for Federally Regulated Mortgage Insurers and the relevant portions of the 2018 Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies. The MICAT has an effective date of 1 January 2019.

With this new guideline OSFI simplified the calculation of insurance risk, streamlined the requirements for single-family residential mortgages, included accommodations for IFRS 16 - Leases, and specified credit risk factors for securitized assets.

Changes in the MICAT framework predominately relate to streamlining the requirements for single-family residential mortgages as follows:

- Base total asset requirements will require the mortgage insurer to use the borrower's credit score at origination and remove the use of updated credit scores, and;
- Increases of the base total asset requirements uniformly by 5%, with a corresponding 1% increase in operational risk, to allow for deterioration in borrower credit scores after origination.

CMHC expects its capital required to decrease on transition and to increase over the planning horizon as new business is written.

Updates on future changes to accounting standards

Information relating to all standards issued by the International Accounting Standards Board (IASB) affecting the Corporation can be found in note 2 of our 2017 audited consolidated financial statements.

IFRS 16 Leases – effective date of 1 January 2019

IFRS 16 *Leases* replaces IAS 17 *Leases* and related interpretations and provides greater transparency about leverage, the assets an entity uses in its operations, and the risks to which it is exposed from entering into lease transactions.

Under IFRS 16, the core principle is that a lessee recognizes assets and liabilities for the rights and obligations created by all leases where the term of the lease is greater than 12 months, unless the underlying asset is of low value. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. Depreciation of the leased assets is recognized separately from interest on lease liabilities in the statement of income. The accounting requirements for lessors are substantially unchanged.

The primary impact to the Corporation of adopting the standard is that lease assets and liabilities will be recognized for its leases of office space, which are currently accounted for as operating leases under IAS 17. We are in the process of finalizing our detailed assessment of the impact of adopting IFRS 16 and do not expect the standard to have a material impact on our consolidated financial statements.

OSFI Advisory on IFRS 17 Insurance contracts

On 4 May 2018, OSFI issued an Advisory entitled IFRS 17 Transition and Progress Report Requirements for Federally Regulated Insurers (IFRS 17 Advisory). The IFRS 17 Advisory removes an insurer's option to early adopt IFRS 17, establishes a requirement for semi-annual progress reporting to OSFI and requires the use of IFRS 17 for financial guarantee contracts, where the insurer, if applicable, would have had the option to account for its insurance contracts under IFRS 17 or IFRS 9.

IFRS 17 Insurance Contracts – effective date of 1 January 2021

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), which will replace IFRS 4 Insurance Contracts. Our insurance contracts meet the definition of financial guarantee contracts under IFRS 9 Financial Instruments and as insurance contracts under IFRS 17, but as discussed above, we will be required to apply IFRS 17 and believe it is the appropriate accounting standard for our insurance contracts.

Under IFRS 17, insurance contract liabilities will include the present value of future insurance cash flows adjusted for risk as well as contractual service margin. Contractual service margin will represent the difference between the present value of the risk adjusted cash flows and the premium received at inception and will be released over the coverage period. Should the difference between the premium received and the present value of future cash outflows be negative at inception,

the insurance contract would be considered onerous and the difference would be recorded immediately in income. There will also be a new income statement presentation for insurance contracts and additional disclosure requirements.

We have a multi-disciplinary team dedicated to analyzing and implementing the new accounting standard, and a detailed project plan is in place. We are currently evaluating the standard and identifying where changes to our existing accounting and reporting processes will be required, and the potential impact on our consolidated financial statements.

Changes to the presentation of parliamentary appropriations and housing program expenses

In accordance with Treasury Board's *Policy on Results*, starting April 1, 2018, CMHC is required to report appropriated funds following the Departmental Results Framework (DRF). The DRF is the structure against which resources and performance information are reported to Parliament and Canadians. A DRF describes, at a high level, the domains in which an organisation acts, the changes it seeks to contribute to, and how it will assess progress. CMHC's activities are presented into the following three core responsibilities.

Assistance for housing needs: encompasses programs where CMHC provides federal funding to improve access to affordable housing for Canadians in housing need, including Indigenous peoples, Canadians with special or distinct needs, and certain vulnerable groups.

Financing for housing: encompasses programs whereby CMHC makes financing available for new and existing housing-related initiatives.

Housing expertise and capacity development: encompasses a variety of programs whereby CMHC supports capacity and skills development activities within the housing sector and conducts research and analysis as well as disseminates information on a range of issues that support the housing sector and informed decision making by government and other sectors.

CONDENSED CONSOLIDATED FINANCIAL RESULTS

Condensed consolidated balance sheets

<i>(in millions)</i>	As at	
	30 June 2018	31 December 2017
Total assets	268,185	267,115
Total liabilities	251,875	249,374
Total equity of Canada	16,310	17,741

Our total equity of Canada decreased by \$1,431 million (8.1%) primarily as a result of the declaration of \$2,000 million in dividends partially offset by comprehensive income of \$624 million during the period.

An increase in our total assets of \$1,070 million (0.4%) was driven by an increase of \$3,609 million (1.5%) in loans at amortized cost, mainly due to the issuance of Canada Mortgage Bonds (CMB), offset by a decrease in our investment balances as we paid \$3,000 million of dividends.

Total liabilities increased by \$2,501 million (1.0%) mainly due to a \$3,919 increase in borrowings at amortized cost in line with the increases in our loans at amortized costs, the declaration of \$2,000 million in dividends, offset by the payments of \$3,000 million of dividends referred to above.

Condensed consolidated statements of income and comprehensive income

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Total revenues	1,151	1,224	2,727	3,456
Total expenses	638	697	1,827	2,441
Income taxes	125	130	219	248
Net income	388	397	681	767
Other comprehensive income (loss)	27	(205)	(57)	(159)
Comprehensive income	415	192	624	608

Q2 2018 vs. Q2 2017

Total revenues decreased by \$73 million (6.0%) from the same quarter last year mainly due to decreases in parliamentary appropriations for housing programs, investment income and premiums and fees earned, partially offset by increases in net gains (losses) on financial instruments.

- Parliamentary appropriations for housing programs decreased by \$85 million (15.5%) primarily due to decline in Budget 2016 expenditures.
- Investment income decreased by \$14 million (9.7%) primarily due to a decrease in average portfolio size as a result of dividend payments to the Government of Canada.
- Premiums and fees earned decreased by \$11 million (2.3%) due to lower volumes and the slowing down of recognition of revenue based on recent claims occurrence experience in our Mortgage Loan Insurance Activity partially offset by higher National Housing Act Mortgage Backed Securities (NHA MBS) guarantee fees earned following the pricing policy changes which came into effect on 1 July 2016 in the Securitization Activity.
- Net gains (losses) on financial instruments increased by \$42 million (100%) mainly as a result of positive fair market value fluctuations on common equities. Fair value fluctuations on our common equities now flow through profit and loss following the implementation of IFRS 9 Financial Instruments: Recognition and Measurement. In the prior year, unrealized gains and losses on common equities flowed through other comprehensive income (OCI).

Total expenses decreased by \$59 million (8.5%) from the same quarter last year due to a decrease in Housing program expenses of \$85 million (15.5%) in accordance with the decline in parliamentary appropriations for housing programs, offset mainly by an increase of insurance claims of \$21 million (41.2%) primarily due to a more favourable change in the estimated provision for claims recorded in Q2 2017 resulting from larger decreases in arrears and unemployment rate at a national level than in Q2 2018.

YTD 2018 vs. YTD 2017

Total revenues decreased by \$729 million (21.1%) from the same quarter last year due to decreases in parliamentary appropriations for housing programs, investment income, premiums and fees earned and net gains (losses) on financial instruments.

- Parliamentary appropriations for housing programs decreased by \$625 million (29.6%) as previously noted.
- Investment income decreased by \$25 million (8.7%) as described above.
- Premiums and fees earned decreased by \$9 million (0.9%) due to the reasons previously noted.
- Net gains (losses) on financial instruments decreased by \$65 million (433.3%) mainly as a result of negative fair market value fluctuations in Q1 2018 on common equities.

Total expenses decreased by \$614 million (25.2%) from the same quarter last year due to a decrease in Housing program expenses of \$625 million (29.6%), offset mainly by an increase of insurance claims of \$9 million (7.0%) as noted above.

FINANCIAL RESULTS BY REPORTABLE BUSINESS SEGMENT

Financial analysis is provided for the following activities: Assisted Housing, Mortgage Loan Insurance and Securitization.

ASSISTED HOUSING

We provide federal funding in support of housing programs for Canadians in need, including on-reserve. Our activities also include Lending programs for social housing. The ultimate outcome of our activities is to help Canadians in need have access to affordable and suitable housing.

Financial analysis

<i>(in millions)</i>	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Net interest income	4	4	8	4
Parliamentary appropriations for housing programs	463	548	1,489	2,114
Other income ¹	6	-	5	13
Total revenues	473	552	1,502	2,131
Housing programs expenses	463	548	1,489	2,114
Operating expenses	7	7	13	14
Total expenses	470	555	1,502	2,128
Income (loss) before income taxes	3	(3)	-	3
Income taxes	(1)	(2)	(3)	(2)
Net income (loss)	4	(1)	3	5

¹ Other income includes net gains (losses) on financial instruments and other income.

Q2 2018 vs. Q2 2017

Total expenses decreased by \$85 million (15.3%) from the same quarter last year due to a decrease in housing program expenses. This expenditure decrease is primarily driven by a change in timing in the recovery of parliamentary appropriations for the delivery of the Innovation Fund and a decrease in transactions for Non-Profit housing, Prepayment Penalty Flexibility and the expiry of Budget 2016 initiatives. This decrease in expenses is partially offset by an increase in advances to provinces for Investments in Affordable Housing and in administrative expenses resulting from the launch of National Housing Strategy programing.

Total revenues decreased by \$79 million (14.3%) primarily due to a decrease in housing programs expenses as explained above.

YTD 2018 vs. YTD 2017

Total expenses decreased by \$626 million (29.4%) from the same six month period last year due to the expiry of the majority of Budget 2016 programs starting Q2 2018, and due to the concentration of Budget 2016 activities recognized in Q1 of 2017.

Total revenues decreased by \$629 million (29.5%) primarily driven by a decrease in housing programs expenses as explained above.

Financial condition

	As at	
	30 June 2018	31 December 2017
Total assets	9,314	9,949
Total liabilities	9,039	9,715
Total equity of Canada	275	234

Total assets and liabilities have decreased by \$635 million (6.4%) and \$676 million (7.0%), respectively, primarily due to the net repayments on our current Lending programs. Proceeds received from repayments and our investment activities were used primarily to repay matured Government Borrowings leading also to a decrease in liabilities.

Capital management

We maintain a reserve fund pursuant to Section 29 of the CMHC Act. A portion of the Lending program's earnings are retained in this reserve fund as part of our strategy to address interest rate and credit risk exposure on our loans. Unrealized fair value market fluctuations as well as remeasurement losses on defined benefit plans are absorbed in retained earnings.

We do not hold capital² for Housing programs, as this activity does not present risks to the Corporation that would require capital to be set aside.

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

Reporting on use of appropriations

The following table reconciles the amount of appropriations authorized by Parliament as available to us during the Government fiscal year (31 March) with the total amount recognized by us in our calendar year.

<i>(in millions)</i>	Six months ended 30 June	
	2018	2017
Amounts provided for housing programs:		
Amounts authorized in 2017/18 (2016/17)		
Main estimates	2,735	2,028
Supplementary estimates A ^{1,2}	41	1,070
Supplementary estimates B ^{1,2,3}	1	78
Supplementary estimates C ^{1,3}	1	-
Less: Portion recognized in calendar 2017 (2016)	(1,663)	(1,563)
Less: Appropriations lapsed for 2017/18 (2016/17) ⁴	(89)	(47)
2017/18 (2016/17) portions recognized in 2018 (2017)	1,026	1,566
Amounts authorized in 2018/19 (2017/18)		
Main estimates	2,427	2,735
Supplementary estimates A ^{1,2}	-	41
Supplementary estimates B ^{1,3}	-	1
Supplementary estimates C ^{1,3}	-	1
Total fiscal year appropriations	2,427	2,778
Less: Portion to be recognized in subsequent quarters	(1,964)	(2,230)
2018/19 (2017/18) portions recognized in 2018 (2017)	463	548
Total appropriations recognized – six months ended 30 June	1,489	2,114

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

² Budget 2016 provided funding over two years for investments in social infrastructure, as well as funding over five years for a new Affordable Rental Housing Innovation Fund. Years one and two of these investments are reflected within the 2016-17 and 2017-18 appropriations.

³ Transfers received in 2017/18 from other government departments as a result of in-year reallocation of resources related to the Youth Employment Strategy. This additional funding will be used to support the Housing Internship Initiative for First Nations and Inuit Youth program.

⁴ Included in our appropriations lapsed for fiscal year 2017/18 of \$89 million is frozen funding in the amount of \$15 million to reflect the reduction in CMHC's authorities due to the expiry of long-term operating agreements for existing social housing programs and the rep profiling of funding under the Investment in Affordable Housing program to fiscal year 2019/2020. When netted against this frozen funding, CMHC's lapse is \$74 million.

Total appropriations approved by Parliament for fiscal year 2018/19 are \$2,427 million. The total spending against the reference level as at 30 June, 2018, was \$463 million (19%).

² References to "capital" in this QFR are to the accounting term, and are not limited to "capital" as provided for in the CMHC Act, National Housing Act and Financial Administration Act.

MORTGAGE LOAN INSURANCE

We provide mortgage loan insurance for transactional homeowner, portfolio and multi-unit residential units in all parts of Canada. We operate these programs on a commercial basis. Revenues from premiums, fees and investments cover all expenses, including insurance claim losses, and we are expected to generate a reasonable return for the Government with due regard for loss.

Our mortgage loan insurance business is exposed to some seasonal variation. While premiums earned and net gains (losses) on financial instruments vary from quarter to quarter as underlying balances change, 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. Losses on 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.

Financial metrics

<i>(in billions)</i>	As at	
	30 June 2018	31 December 2017
Insurance-in-force	463	480
Transactional homeowner	242	249
Portfolio	149	162
Multi-unit residential	72	69

Under Section 11 of the National Housing Act (NHA), the total of outstanding insured amounts of all insured loans may not exceed \$600 billion (2017 – \$600 billion). At 30 June 2018, insurance-in-force was \$463 billion, a \$17 billion (3.5%) decrease from 31 December 2017. New loans insured were \$22 billion, while estimated loan amortization and pay-downs were \$39 billion.

<i>(in millions, unless otherwise indicated)</i>	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Total insured volumes (units)	72,716	95,230	120,846	143,976
Transactional homeowner	34,086	36,836	49,998	55,460
Portfolio ¹	14,479	25,314	21,963	29,976
Multi-unit residential	24,151	33,080	48,885	58,540
Total insured volumes (\$)	14,005	17,395	22,270	25,648
Transactional homeowner	8,655	9,285	12,909	14,143
Portfolio ¹	2,611	4,893	3,862	6,100
Multi-unit residential	2,739	3,217	5,499	5,405
Premiums and fees received²	415	443	656	671
Transactional homeowner	307	310	455	459
Portfolio	6	29	9	38
Multi-unit residential	102	104	192	174
Claims Paid³	53	94	122	171
Transactional homeowner	48	65	110	134
Portfolio	5	2	8	8
Multi-unit residential	-	27	4	29
Arrears rate (%)	0.27	0.29	0.27	0.29

¹ Portfolio volumes include Lender substitutions along with new business volumes. Portfolio substitutions were 9,086 units and \$1,269 million and 14,180 units and \$1,944 million for the three and six months ended 30 June 2018 (16,623 units and \$2,911 million and 18,495 units and \$3,346 million for the three and six months ended 30 June 2017)

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

³ Claims paid does not include social housing and index-linked mortgage claims.

Q2 2018 vs. Q2 2017

Our total insured volumes in the second quarter of 2018 were 22,514 units (23.6%) lower than the same quarter last year primarily due to decreases in portfolio and multi-unit residential volumes.

- Transactional homeowner volumes decreased by 2,750 units (7.5%) largely due to Government and OSFI regulations that have decreased the size of the insured market.
- Portfolio volumes (new and substitutions) decreased by 10,835 units (42.8%) mainly due to lower demand and a decrease in portfolio substitution driven by lower eligible volumes.
- Multi-unit residential volumes decrease by 8,929 units (27.0%) primarily due to a decrease in refinance volumes partially driven by higher interest rates offset by an increase in new purchase mostly in Nova Scotia and Ontario.

Premiums and fees received decreased by \$28 million (6.3%) from the same quarter last year primarily due to lower portfolio insurance volumes.

Claims paid decreased by \$41 million (43.6%) attributable to lower reported claims in Ontario, Atlantic and Quebec regions, a lower number of policies in force, sustained low arrears and unemployment rates at a national level, along with increasing housing prices especially in British Columbia.

YTD 2018 vs. YTD 2017

Our total insured volumes in the first six months of 2018 were 23,130 units (16.1%) lower than the same six month period last year due to decreases in all product volumes.

- Transactional homeowner volumes decreased by 5,462 units (9.8%), portfolio volumes (new and substitutions) decreased by 8,013 units (26.7%) and multi-unit residential volumes decreased by 9,655 units (16.5%) for the same reasons noted above.

Premiums and fees received decreased by \$15 million (2.2%) from the same six month period last year due to lower premiums and fees received for transactional homeowner and portfolio product caused by lower volumes and changing customers behaviours driven by recent price adjustment from capital requirement partially offset by an increase in multi-unit products driven by higher average premiums.

Claims paid decreased by \$49 million (28.7%) from the same six month period last year for the same reasons noted above.

	As at			
	30 June 2018		31 December 2017	
	No. of Delinquent Loans	Arrears Rate	No. of Delinquent Loans	Arrears Rate
Transactional homeowner	4,877	0.40%	5,376	0.43 %
Portfolio	1,301	0.13%	1,362	0.13 %
Multi-unit residential	96	0.41%	106	0.48 %
Total	6,274	0.27%	6,844	0.29 %

Our arrears rate is calculated on the basis of all loans that are more than 90 days past due over the number of outstanding insured loans.

Our overall arrears rate and total number of delinquent loans as at 30 June 2018 has decreased mainly due to a decrease in the number of transactional homeowner delinquent loans in the Atlantic region.

Financial analysis

<i>(in millions)</i>	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Premiums and fees earned	359	396	712	773
Investment income	137	153	275	304
Other income ¹	41	8	(38)	20
Total revenues	537	557	949	1,097
Insurance claims	72	51	137	128
Operating expenses	82	78	160	159
Total expenses	154	129	297	287
Income before income taxes	383	428	652	810
Income taxes	94	107	160	200
Net income	289	321	492	610

¹ Other income includes net gains (losses) on financial instruments and other income.

Q2 2018 vs. Q2 2017

Premiums and fees earned decreased by \$37 million (9.3%) due to lower portfolio insurance volumes and revised expectations of claim occurrence based on recent experience slowing down the rate at which revenue is recognized on certain products.

Investment income decreased by \$16 million (10.5%) primarily due to a decrease in average portfolio size as a result of dividend payments to the Government of Canada.

Other income increased by \$33 million (412.5%) primarily due to an increase in unrealized gain on financial instruments resulting from stronger market performance of our equities.

Insurance claims increased by \$21 million (41.2%) primarily due to a more favourable change in the estimated provision for claims recorded in Q2 2017 resulting from larger decreases in arrears and unemployment rate at a national level than in Q2 2018.

YTD 2018 vs. YTD 2017

Premiums and fees earned and investment income decreased by \$61 million (7.9%) and \$29 million (9.5%) respectively from the same six month period last year due for the same reasons noted above.

Other income decreased by \$58 million (290.0%) primarily due to an increase in unrealized losses on financial instruments mainly due to weaker market performance of equities in Q1 2018.

Insurance claims increased by \$9 million (7.0%) from the same six month period last year for the reasons noted above.

Ratios

To supplement financial results of the Mortgage Loan Insurance Activity, we also use financial measures and ratios to analyze our financial performance.

<i>(in percentages)</i>	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Severity ratio	29.1	27.5	30.1	28.6
Loss ratio ¹	20.1	12.9	19.2	16.6
Operating expense ratio	22.8	19.7	22.5	20.6
Combined ratio	42.9	32.6	41.7	37.2
Return on equity	8.3	7.5	6.8	7.2
Return on required equity ²	8.7	8.5	7.5	7.8

¹ Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was 19.2% and 21.7% for the three and six months ended 30 June 2018 (17.6% and 21.3% for the three and six months ended 30 June 2017)

² Return on required equity is calculated as the annualized net income, adjusted to remove investment income earned on equity in excess of required equity, divided by the average required equity for the period. Required equity is determined at our operating MCT level of 165%.

Q2 2018 vs. Q2 2017 and YTD 2018 vs. YTD 2017

The severity ratio increased by 1.6 percentage points and 1.5 percentage points from the same quarter and six month period last year, respectively, due to fluctuations in the Corporation's deficiency sales rates, housing prices and recovery levels.

The loss ratio increased by 7.2 percentage points and 2.6 percentage points from the same quarter and six month period last year, respectively, primarily due to the decrease in earned premiums and fees and higher insurance claims expense as previously discussed.

The operating expense ratio increased by 3.1 percentage points and 1.9 percentage points from the same quarter and six month period last year, respectively, due to the decrease in earned premiums and fees as previously discussed.

The return on equity ratio increased by 0.8 percentage points from the same quarter last year and decreased by 0.4 percentage points from the same six month period last year, due to the variation in the unrealized gains and losses as noted above.

The return on required equity ratio increased by 0.2 percentage points from the same quarter last year and decreased by 0.3 percentage points from the same six month period last year, due to the variation in the unrealized gains and losses as noted above.

Capital management

Our capital management framework follows OSFI regulations with respect to the use of the Minimum Capital Test (MCT) for insurance companies. The MCT is the ratio of capital available to minimum capital required. Refer to the unaudited quarterly consolidated financial statements Note 9 – Capital Management for complete disclosure on capital management.

<i>(in percentages)</i>	As at	
	30 June 2018	31 December 2017
Capital available to minimum capital required (% MCT) ¹	177	184

¹ We have not made use of transitional arrangements as provided by the OSFI Advisory. Our MCT ratio as at 30 June 2018 would be 192% with transitional arrangements (31 December 2017 – 211%).

Capital available to minimum capital required decreased by 7 percentage points mainly due to the declaration of \$2 billion of dividends since 1 January 2018.

Financial resources

The Mortgage Loan Insurance investment portfolio is funded by cash flow generated by premiums, fees and interest received, net of claims and operating expenses. The investment objective and asset allocation for the Mortgage Loan Insurance investment portfolio focuses on maximizing risk-adjusted return while minimizing the need to liquidate investments. As at 30 June 2018 total investments had a fair value of \$19.9 billion (31 December 2017 - \$22.8 billion).

SECURITIZATION

We facilitate access to funds for residential mortgage financing through securitization guarantee products and the administration of the legal framework for Canadian covered bonds.

Financial metrics

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed \$600 billion. Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee, and is broken down as follows.

<i>(in billions)</i>	As at	
	30 June 2018	31 December 2017
Total guarantees-in-force	479	477
NHA MBS	242	244
CMB	237	233

Guarantees-in-force were \$479 billion as at 30 June 2018, an increase of \$2 billion (0.4%) as new CMB guarantees provided by CMHC exceeded CMB maturities.

<i>(in millions)</i>	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Total new securities guaranteed	37,819	37,730	74,552	71,910
NHA MBS	27,819	27,730	55,052	51,160
CMB	10,000	10,000	19,500	20,750
Guarantee and application fees received	120	121	241	236
MBS guarantee and application fees received	84	85	170	160
CMB guarantee fees received	36	36	71	76

Q2 2018 vs. Q2 2017

New securities guaranteed increased by \$90 million (0.2%) from the same quarter last year primarily driven by issuers' liquidity needs.

Guarantee and application fees received were \$1 million (0.8%) lower than the same quarter last year due to higher volumes securitized with lower pool durations. Lower NHA MBS pool terms carry lower guarantee fee rates.

YTD 2018 vs. YTD 2017

New securities guaranteed increased by \$2,643 million (3.7%) from the same six month period last year mainly due to a revised NHS MBS issuer allocation which led to higher volumes in Q1 2018 compared to the same quarter last year.

Guarantee and application fees received were \$5 million (2.1%) higher than the same six month period last year. NHA MBS guarantee and application fees received increased by \$10 million (6.3%) mainly due to the higher guaranteed volumes, while CMB guarantee fees decreased by \$5 million (6.6%), mainly as a result of lower CMB volumes in Q1 2018 compared to the same quarter last year.

Financial analysis

<i>(in millions)</i>	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Net interest income	3	3	6	6
Premiums and fees earned ¹	117	91	230	178
Investment income	13	12	27	23
Other income ²	(1)	1	-	4
Total revenues	132	107	263	211
Total expenses	14	13	28	26
Income before income taxes	118	94	235	185
Income taxes	30	23	59	46
Net income	88	71	176	139

¹ Securitization Activity is comprised of guarantee and application fees earned.

² Other income includes net gains (losses) on financial instruments and other income.

Q2 2018 vs. Q2 2017 and YTD 2018 vs. YTD 2017

Net income increased by \$17 million (23.9%) from the same quarter and \$37 million (26.6%) from the same six month period last year primarily due to increases in premiums and fees earned of \$26 million (28.6%) and \$52 million (29.2%), respectively. The increase in fees earned is mainly driven by NHA MBS fees earned and is a result of the increasing guarantee limit following the policy change which came into effect on 1 July 2016, and which introduced an NHA MBS guarantee fee on NHA MBS sold to CHT.

Ratios

To supplement financial results of the Securitization programs (excluding Canada Housing Trust (CHT)), we also use financial measures and ratios to analyze our financial performance.

<i>(in percentages)</i>	Three months ended		Six months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Operating expense ratio	9.6	10.7	9.6	10.9
Return on equity	14.7	13.0	14.7	12.9
Return on required equity ¹	19.9	14.3	16.8	13.9

¹ Return on required equity is calculated as the annualized net income, adjusted to remove investment income earned on equity in excess of required equity, divided by the average required equity for the period.

Q2 2018 vs. Q2 2017 and YTD 2018 vs. YTD 2017

The operating expense ratio decreased by 1.1 percentage points and 1.3 percentage points from the same quarter and six month period last year, respectively, mainly due to higher guarantee and application fees earned.

Return on equity increased by 1.7 percentage points and 1.8 percentage points from the same quarter and six month period last year, respectively, due to higher net income.

The return on required equity increased by 5.6 percentage points and 2.9 percentage points from the same quarter and six month period last year, respectively. This is due to a combined effect of a 25% increase in adjusted net income, and a 11% decrease in required equity explained below.

Capital management

Our Capital Management Framework for the Securitization Activity follows industry best practices and incorporates regulatory principles from OSFI, including those set out in OSFI's E19 – Own Risk and Solvency Assessment (ORSA) guideline, and 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. Refer to the unaudited quarterly consolidated financial statements Note 9 – Capital Management for complete disclosure on capital management.

<i>(in percentages)</i>	As at	
	30 June 2018	31 December 2017
Capital available to capital required	143	135

Capital available to capital required was 8 percentage points higher due to the combined effect of an increase in equity available and a decrease in required equity. Required equity decreased from 31 December 2017 levels mainly due to lower market risk as a result of lower durations in our securitization investment portfolio.

Financial resources

The Securitization investment portfolio is funded by guarantee and application fees and interest received net of expenses. The portfolio is intended to cover risk exposures associated with our securitization guarantee programs. The objective of the Securitization investment portfolio is to maximize our capacity to meet liquidity needs of the timely payment guarantee and to preserve capitalization amounts through investments in Government of Canada securities. As at 30 June 2018, total investments under management had a fair value of \$3.8 billion (31 December 2017 - \$3.6 billion).

RISK MANAGEMENT

We are exposed to a variety of risks in our operating environment that could have an impact on the achievement of our objectives. These risks are discussed in detail in our 2017 Annual Report. There have been no material developments impacting our risk management approaches during this reporting period.

HISTORICAL QUARTERLY INFORMATION

<i>(in millions, unless otherwise indicated)</i>	Q2 2018	Q1 2018 ¹	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Consolidated Results								
Total assets	268,185	270,522	267,115	268,771	264,713	266,188	259,532	260,495
Total liabilities	251,875	253,627	249,374	251,209	247,260	244,782	238,542	239,742
Total equity of Canada	16,310	16,895	17,741	17,562	17,453	21,406	20,990	20,753
Total revenues	1,151	1,576	1,430	1,266	1,224	2,232	1,186	1,200
Total expenses (including income taxes)	763	1,283	861	799	827	1,862	790	869
Net income	388	293	569	467	397	370	396	331
Assisted Housing								
Parliamentary appropriations for housing programs expenses	463	1,026	594	521	548	1,566	570	531
Net income (loss)	4	(1)	71	4	(1)	6	(29)	3
Total equity of Canada	275	235	234	203	151	186	196	154
Mortgage Loan Insurance								
Insurance-in-force (\$B)	463	472	480	484	496	502	512	514
Total insured volumes	14,005	8,265	15,382	12,539	17,395	8,253	20,528	22,539
Premiums and fees received	415	241	353	414	443	228	374	458
Premiums and fees earned	359	353	390	394	396	377	344	400
Claims paid	53	69	84	74	94	77	82	103
Insurance claims	72	65	(22)	41	51	77	(13)	134
Net income	289	203	412	382	321	289	364	268
Arrears rate	0.27%	0.29 %	0.29 %	0.30 %	0.29 %	0.32 %	0.32 %	0.32 %
Loss ratio	20.1%	19.8 %	(5.6) %	10.4 %	12.9 %	20.4 %	(3.8) %	33.5 %
Operating expense ratio	22.8%	22.1 %	23.1 %	17.5 %	19.7 %	21.5 %	21.2 %	16.1 %
Combined ratio	42.9%	41.9 %	17.5 %	27.9 %	32.6 %	41.9 %	17.4 %	49.6 %
Severity ratio	29.1%	31.9 %	31.9 %	31.6 %	27.5 %	30.5 %	29.9 %	26.2 %
Return on equity	8.3%	5.5 %	10.3 %	10.1 %	7.5 %	6.1 %	7.7 %	5.8 %
Return on required equity	8.7%	6.0 %	11.4 %	10.2 %	8.5 %	6.9 %	15.8 %	11.7 %
Capital available to minimum capital required (% MCT)	177%	177 %	184 %	179 %	173 %	215 %	384 %	374 %
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage (\$)	30.6%	31.0 %	31.9 %	32.7 %	34.3 %	34.9 %	36.0 %	36.9 %
Securitization								
Guarantees-in-force (\$B)	479	481	477	459	456	457	452	435
Securities guaranteed	37,819	36,733	54,149	41,172	37,730	34,180	52,117	43,109
Guarantee and application fees received	120	121	257	134	121	115	240	142
Guarantee and application fees earned	117	113	108	98	91	87	66	76
Net income	88	88	80	76	71	68	53	59
Operating expense ratio	9.6%	9.5 %	11.2 %	10.4 %	10.7 %	10.7 %	14.2 %	11.9 %
Return on equity	14.7%	14.9 %	14.1 %	13.5 %	13.0 %	12.9 %	9.9 %	11.3 %
Return on required equity	19.9%	19.7 %	16.8 %	15.4 %	14.3 %	13.2 %	12.4 %	17.6 %
Capital available to capital required	143%	137 %	136 %	112 %	120 %	106 %	100 %	165 %
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees (\$)	31.7%	32.0 %	32.2 %	31.2 %	31.9 %	32.6 %	32.6 %	31.5 %

¹ We implemented IFRS 9 and IFRS 15 in Q1 2018. Prior quarters were based off International Accounting Standard (IAS) 39 and IAS 18.

Unaudited Quarterly Consolidated Financial Statements

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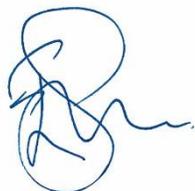
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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 June 2018

Management is responsible for the preparation and fair presentation of these unaudited quarterly consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, and for such internal controls as Management determines are necessary to enable the preparation of unaudited quarterly consolidated financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the unaudited quarterly consolidated financial statements.

Based on our knowledge, these unaudited quarterly consolidated financial statements present fairly, in all material respects, our financial position, results of operations and cash flows, as at the date of and for the periods presented in the unaudited quarterly consolidated financial statements.



Evan Siddall, BA, LL.B
President and Chief Executive Officer



Lisa Williams, CPA, CA
Chief Financial Officer

22 August 2018

CONSOLIDATED BALANCE SHEET

<i>(in millions of Canadian dollars)</i>	Notes	As at	
		30 June 2018	31 December 2017
Assets			
Cash and cash equivalents	11	908	887
Securities purchased under resale agreements		38	-
Accrued interest receivable		696	705
Investment securities:	12		
Fair value through profit or loss		2,010	1,234
Fair value through other comprehensive income		19,213	-
Available for sale		-	22,112
Derivatives		42	61
Due from the Government of Canada	6	216	126
Loans:	13		
Fair value through profit or loss		2,390	2,906
Amortized cost		241,553	237,944
Accounts receivable and other assets		814	835
Investment property		305	305
		268,185	267,115
Liabilities			
Securities sold under repurchase agreements		622	297
Accounts payable and other liabilities		461	561
Accrued interest payable		573	545
Dividend payable	9	1,000	2,000
Derivatives		119	39
Provision for claims	7	538	555
Borrowings:	14		
Fair value through profit or loss		3,913	4,564
Amortized cost		237,511	233,592
Defined benefit plans liability		318	450
Unearned premiums and fees	7, 8	6,738	6,687
Deferred income tax liabilities		82	84
		251,875	249,374
Commitments and contingent liabilities	21		
Equity of Canada			
Contributed capital		25	25
Accumulated other comprehensive income (loss)		(30)	490
Retained earnings		16,315	17,226
		16,310	17,741
		268,185	267,115

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

<i>(in millions of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2018	2017	2018	2017
Interest income	15	1,305	1,153	2,556	2,279
Interest expense	15	1,272	1,116	2,488	2,209
Net interest income		33	37	68	70
Parliamentary appropriations for housing programs	6	463	548	1,489	2,114
Premiums and fees earned		476	487	942	951
Investment income	15	131	145	262	287
Net gains (losses) on financial instruments	15	42	-	(50)	15
Other income		6	7	16	19
Total revenues and parliamentary appropriations		1,151	1,224	2,727	3,456
Non-interest expenses					
Housing programs	6	463	548	1,489	2,114
Insurance claims		72	51	137	128
Operating expenses		103	98	201	199
		638	697	1,827	2,441
Income before income taxes		513	527	900	1,015
Income taxes	19	125	130	219	248
Net income		388	397	681	767
Other comprehensive income (loss), net of tax					
Items that will be subsequently reclassified to net income					
Net unrealized losses from available for sale financial instruments		-	(113)	-	(26)
Net unrealized losses from debt instruments held at fair value through other comprehensive income		(59)	-	(150)	-
Reclassification of gains on available for sale instruments to net income on disposal in the period		-	(6)	-	(8)
Reclassification of gains on debt instruments held at fair value through other comprehensive income in the period		-	-	(2)	-
Total items that will be subsequently reclassified to net income		(59)	(119)	(152)	(34)
Items that will not be subsequently reclassified to net income					
Net unrealized losses from equity securities designated at fair value through other comprehensive income		-	-	(1)	-
Remeasurement gains (losses) on defined benefit plans		86	(86)	96	(125)
Total items that will not be subsequently reclassified to net income		86	(86)	95	(125)
		27	(205)	(57)	(159)
Comprehensive income		415	192	624	608

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

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

<i>(in millions of Canadian dollars)</i>	Notes	Three months ended 30 June		Six months ended 30 June	
		2018	2017	2018	2017
Contributed capital		25	25	25	25
Accumulated other comprehensive income					
Balance reported at the end of previous period		29	846	490	761
Impact of adopting IFRS 9	3	-	-	(368)	-
Restated opening balance		29	846	122	761
Other comprehensive loss		(59)	(119)	(152)	(34)
Balance at end of period		(30)	727	(30)	727
Retained earnings					
Balance reported at the end of previous period		16,841	20,535	17,226	20,204
Impact of adopting IFRS 9	3	-	-	366	-
Impact of adopting IFRS 15	3	-	-	(53)	-
Restated opening balance		16,841	20,535	17,539	20,204
Net income		388	397	681	767
Other comprehensive income (loss)		86	(86)	95	(125)
Dividend	9	(1,000)	(4,145)	(2,000)	(4,145)
Balance at end of period		16,315	16,701	16,315	16,701
Equity of Canada		16,310	17,453	16,310	17,453

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

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(in millions of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2018	2017	2018	2017
Cash flows from operating activities					
Net income		388	397	681	767
Adjustments to determine cash flows from operating activities					
Amortization of premiums and discounts on financial instruments		28	34	60	88
Net (gains) losses on financial instruments		(68)	15	(38)	(3)
Deferred income taxes		(1)	24	(6)	24
Changes in operating assets and liabilities					
Derivatives		44	(10)	99	(6)
Accrued interest receivable		579	561	9	55
Due from the Government of Canada		490	723	(90)	(245)
Accounts receivable and other assets		(54)	(50)	(65)	(62)
Accounts payable and other liabilities		(521)	(609)	(100)	2
Accrued interest payable		(531)	(534)	28	(91)
Provision for claims		(11)	(47)	(17)	(46)
Defined benefit plans liability		(9)	(19)	(17)	(33)
Unearned premiums and fees		75	93	(21)	(21)
Other		-	(1)	3	(3)
Loans	13				
Repayments		10,316	10,308	16,654	15,393
Disbursements		(10,018)	(10,141)	(19,603)	(20,909)
Borrowings	14				
Repayments		(10,538)	(11,199)	(17,080)	(16,821)
Issuances		10,209	11,015	19,907	22,207
		378	560	404	296
Cash flows from investing activities					
Investment securities					
Sales and maturities		3,239	981	5,725	2,933
Purchases		(2,161)	(1,379)	(3,395)	(3,713)
Securities purchased under resale agreements		(38)	-	(38)	17
Securities sold under repurchase agreements		(26)	(300)	325	(236)
		1,014	(698)	2,617	(999)
Cash flows from financing activities					
Dividends paid	9	(1,500)	(145)	(3,000)	(145)
Change in cash and cash equivalents		(108)	(283)	21	(848)
Cash and cash equivalents					
Beginning of period		1,016	1,430	887	1,995
End of period		908	1,147	908	1,147
Represented by					
Cash		8	13	8	13
Cash equivalents		900	1,134	900	1,134
		908	1,147	908	1,147
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		2,134	1,905	3,016	2,760
Amount of interest paid during the period		1,856	1,693	2,562	2,383
Amount of dividends received during the period		9	11	19	24
Amount of income taxes paid during the period		148	108	256	255

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

These consolidated financial statements are as at and for the three and six months ended 30 June 2018 and were approved and authorized for issue by our Audit Committee on 22 August 2018.

2. Basis of Preparation and Significant Accounting Policies

Our unaudited quarterly consolidated financial statements have been prepared in accordance with *International Accounting Standard (IAS) 34 Interim Financial Reporting (IAS 34)* and do not include all of the information required for full annual consolidated financial statements. Except as indicated in Note 3, 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 2017 and 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 loan insurance (MLI) business is exposed to some seasonal variation. Premiums received for some insurance products vary each quarter because of seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage policies written, which, for purchase transactions, typically peak in the spring and summer months. Insurance claims vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance-in-force portfolio, such as size and age.

3. Current and future accounting changes

Current accounting changes

International Financial Reporting Standard 15 Revenue from Contracts with Customers (IFRS 15)

We adopted IFRS 15, with an initial application date of 1 January 2018, using the cumulative catch-up method. Therefore the comparative information for 2017 is reported under IAS 18 *Revenue* and is not comparable to the information presented in 2018. The net effect of transitioning to IFRS 15 was recognized in Equity of Canada on 1 January 2018. The application of IFRS 15 impacted how we account for application fees on timely payment guarantees (TPG) in our Securitization activity. There were no other material changes as a result of the adoption of IFRS 15.

Whereas the application fees were previously recognized as revenue on payment date, under IFRS 15, the application fee and the TPG fee are considered one performance obligation and the corresponding revenue should be recognized as the performance obligation is satisfied. The application fees are recognized on the same basis as the TPG.

As a consequence, the unearned premiums and fees balance on 1 January 2018 was \$72 million higher than the balance under the previous policy. The corresponding net of tax adjustment to retained earnings was \$53 million.

International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9)

We adopted IFRS 9, which replaced IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39), on 1 January 2018. IFRS 9 addresses the recognition and derecognition, classification and measurement and impairment of financial instruments and hedge accounting. We have not restated comparative figures for financial instruments for dates and periods before 1 January 2018 as permitted by IFRS 9. Therefore the comparative information for 2017 is reported in accordance with IAS 39 and is not comparable to the information presented in 2018. The net effect of transitioning to IFRS 9 was recognized in Equity of Canada on 1 January 2018. CMHC does not apply hedge accounting.

Amendments were also made to *IFRS 7 Financial Instruments: Disclosures* to reflect the differences between IAS 39 and IFRS 9. These changes include transitional disclosures which we have disclosed below along with expanded quantitative and qualitative credit risk disclosures which we will adopt for the annual period ending 31 December 2018.

Classification and measurement of financial instruments

With the adoption of IFRS 9, we now classify our financial assets in the following categories: financial assets at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortized cost. Classification is determined at initial recognition based on our business model for managing the asset and the contractual cash flow characteristics of the asset.

Financial liabilities are classified as either financial liabilities at FVTPL or amortized cost which is essentially unchanged from IAS 39, with the exception that changes in fair value of liabilities designated at FVTPL due to our own credit risk are presented in other comprehensive income (OCI), rather than profit or loss.

The following table presents a description of all our financial instruments along with their classification under IFRS 9 and the criteria for classifying them as such:

Classification	Financial Instruments (Activity) ¹	Description	Criteria and accounting treatment
Financial assets at amortized cost	Cash and cash equivalents (AH, MLI, SEC)	highly liquid investments with a term to maturity of 98 days or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value	Financial assets are classified at amortized cost if the assets: <ul style="list-style-type: none"> a) are held within a business model whose objective is to collect contractual cash flows; b) generate cash flows on specified dates that are solely payment of principal and interest (SPPI); and c) have not been designated as FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from classifying them as at amortized cost. Financial assets at amortized cost are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate method (EIRM), net of an allowance for expected credit losses (ECL).
	Securities purchased under resale agreements (Reverse Repurchase Agreements) (AH, MLI)	purchase of securities, typically Government treasury bills or bonds, with the commitment to resell the securities to the original seller at a specified price and future date in the near term	Interest income is recognized using the EIRM in interest income in AH and investment income under MLI and SEC.
	Loans – Canada Mortgage Bonds Program (CMB) (SEC)	amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in National Housing Act Mortgage Backed Securities (NHA MBS) to Canada Housing Trust (CHT)	ECL are recognized in profit or loss on financial assets at amortized cost.
	Loans - Lending Programs (AH)	loans not economically hedged within our AH Activity	
	Loans (MLI)	mortgages or loans (workouts) that benefit from the MLI supported default management activities that enable borrowers to work through their financial difficulties	
Debt instruments at FVOCI	Cash equivalents (MLI, SEC)	highly liquid investments with a term to maturity of 98 days or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value	Debt instruments are classified as at FVOCI if the assets: <ul style="list-style-type: none"> a) are held within a business model whose objective is achieved by collecting contractual cash flows and selling assets; b) generate cash flows on specified dates that are SPPI; and c) have not been designated as FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from classifying them as at FVOCI. Financial assets at FVOCI are initially recognized at fair value plus transaction costs. They are subsequently measured at fair value. Unrealized gains and losses arising from changes in fair value are recorded in other comprehensive income (OCI) until the financial asset is derecognized at which point, cumulative gains or losses previously recognized in OCI are reclassified from accumulated other comprehensive income (AOCI) to net gains (losses) on financial instruments. Unrealized foreign exchange gains (losses) are recognized in net gains (losses) on financial instruments.
	Investment Securities – debt instruments (MLI, SEC)	consists of Corporate, Federal, Provincial and Sovereign debt instruments	Interest income is recognized using the EIRM. ECL are recognized on financial assets held at FVOCI. The cumulative ECL allowance is recorded in OCI and does not reduce the carrying amount of the financial asset on the balance sheet. The change in the ECL allowance is recognized in profit and loss.

¹ Denotes in which Activity we hold the instruments: Assisted Housing (AH), Mortgage Loan Insurance (MLI) or Securitization (SEC)

Classification	Financial Instruments (Activity)	Description	Criteria and accounting treatment
Financial assets at FVTPL	Cash equivalents, loans, investment securities designated at FVTPL (AH)	for certain portfolios of loans and associated borrowings originated prior to August 2016, the AH Activity uses derivatives to manage refinancing and reinvestment risks, as well as mismatches between the timing of receipts from assets and payments of liabilities. These assets form part of the lending economic hedging structure and are designated at FVTPL	Financial assets that do not meet the criteria for classification as financial assets at amortized cost or financial assets at FVOCI are classified as at FVTPL, unless an irrevocable election has been made at initial recognition for certain equity investments to have their changes in fair value be presented in OCI. Financial assets at FVTPL include any financial assets whose contractual cash flows are not SPPI, or any financial assets that are not held within a business model whose objective is achieved by collecting contractual cash flows or collecting cash flows and selling assets. Financial assets at FVTPL also include derivatives or instruments that have been irrevocably designated upon initial recognition as at FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from classifying them in those categories.
	Derivatives – Interest rate swaps (AH) and FX contracts (MLI)	interest rate swaps and foreign exchange contracts used to economically hedge foreign exchange risks on US Dollar denominated debt instruments	Financial assets at FVTPL are initially recognized and subsequently measured at fair value. Unrealized gains and losses arising from changes in fair value and gains and losses realized on disposition are recorded in net gains (losses) on financial instruments. Transaction costs are expensed as incurred. Interest income using the EIRM and dividend income is recognized in profit and loss.
	Investment Securities – Common equity securities and limited partnership units (MLI)	mandatorily classified at FVTPL	ECL are not recognized on financial instruments measured at FVTPL.
	Investment Securities – debt instruments (MLI)	subordinated debt securities whose contractual cash flows do not give rise to cash flows that are SPPI	
	Loans – (AH, MLI)	workout loans which contain interest adjustment clauses and therefore fail the SPPI test as well as assignment of mortgages for which we only expect to recover the value of the underlying collateral	
Equity instruments designated at FVOCI	Investment Securities - Preferred equity securities (MLI)	Preferred shares	<p>An irrevocable election is available upon initial recognition to present changes in the fair value of equity instruments in OCI if the instruments are not held for trading and is not a contingent consideration in a business combination. An instrument that is held for trading is:</p> <ul style="list-style-type: none"> a) acquired principally for the purpose of selling in the near term; b) on initial recognition part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual short-term profit-taking; or c) a derivative (other than financial guarantee derivatives or designated effective hedging instruments). <p>The election is made upon initial recognition on an instrument-by-instrument basis. Amounts recognized in OCI shall not be transferred to profit or loss; however, they may be transferred to a different category within equity (e.g. retained earnings) upon derecognition.</p> <p>We have elected to present cumulative OCI directly in retained earnings.</p> <p>ECL are not recognized on equity instruments.</p> <p>Dividend income is recognized in profit and loss.</p>

Classification	Financial Instruments (Activity)	Description	Criteria and accounting treatment
Financial liabilities at FVTPL	Borrowings (AH – Lending programs)	borrowings that are economically hedged as part of our lending hedging structure	<p>A financial liability is classified at FVTPL if it is held for trading or designated as at FVTPL.</p> <p>A financial liability may be irrevocably designated upon initial recognition as at FVTPL if:</p> <ul style="list-style-type: none"> a) doing so eliminates or reduces significantly an accounting match; or b) its performance is evaluated on a fair value basis in accordance with risk management policies. <p>Unrealized gains and losses arising from changes in fair value are recognized in profit or loss except for changes in fair value attributable to an entity's own credit risk which are recognized in OCI unless doing so would create an accounting mismatch, in which case, the entire fair value change is presented in profit or loss.</p> <p>Interest expense is recognized using the EIRM.</p>
Financial liabilities at amortized cost	<p>Borrowings – Canada Mortgage Bonds (SEC)</p> <p>Borrowings from the Government of Canada (AH)</p> <p>Securities sold under repurchase agreements (MLI)</p>	<p>interest-bearing bullet bonds issued by CHT and guaranteed by CMHC</p> <p>borrowings incurred to fund loans in the Assisted Housing Activity that are not part of the lending hedging structure</p> <p>sale of securities with the commitment to repurchase the securities from the original buyer at a specified price and future date in the near term. Proceeds received from these agreements are generally invested in Reverse Repurchase Agreements or cash equivalents for the purpose of generating additional income. These transactions are entered into simultaneously with matching terms to maturity</p>	<p>Financial liabilities are classified at amortized cost unless they have been classified at FVTPL.</p> <p>Financial liabilities are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the EIRM.</p> <p>Interest expense is recognized using the EIRM.</p>
Financial guarantee contracts	<i>National Housing Act</i> Mortgage-Backed Securities (NHA MBS) and Canada Mortgage Bonds (CMB) (SEC)	guarantee to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due	NHA MBS TPG and application fees and CMB TPG fees are initially recognized in unearned premiums and fees at fair value (the premium received). Subsequently, they are measured at the higher of i) amount initially recognized less the amortization of guarantee and application fee revenue; and ii) the amount of the allowance for ECL.

Classification and measurement of debt instruments

The classification and measurement of debt instruments is based on the business model for managing the assets and whether contractual cash flows are SPPI.

Business model assessment

The business model reflects how we manage assets in order to generate cash flows. That is, whether the objective is solely to collect contractual cash flows, or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither is applicable, then the financial asset is measured at FVTPL. We assess our business models at a level that reflects how our financial instruments are managed to achieve our business objectives. This assessment begins at the operating segment level, and where applicable, by sub-portfolios of instruments that are managed together within a particular activity to achieve common business objectives.

Upon initial and subsequent application of IFRS 9, we perform our business model assessment based on the following main criteria:

- management's strategic objectives of the business model and how these objectives are carried out in practice;
- how performance of the business model is evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and how we manage those risks. Key risks include credit, market and liquidity risks as described in detail in our consolidated financial statements for the year ended 31 December 2017;
- how managers of the business model are compensated;
- the frequency, value and timing of historical sales activity and expectations for future sales activities;

Assessment of whether contractual cash flows are SPPI

We assess whether the cash flows of our debt instruments meet the SPPI criteria based on the asset's contractual terms. For this assessment, we define principal as the fair value of the asset upon initial recognition and interest as consideration for the time value of money, the credit risk of the transaction and for other lending risks and costs as well as a profit margin.

Contractual terms that introduce exposure to risk or volatility to the contractual cash flows that are inconsistent with a basic lending agreements do not satisfy the SPPI requirement. Equity instruments and derivatives fail the SPPI test.

Impairment of financial instruments

We recognize an allowance for ECL on all debt instruments not carried at FVTPL. We also recognize an allowance for ECL for our financial guarantees to the extent they exceed the balance of unearned fees associated with the guarantees. Changes in our estimate of ECL, for all instruments except our workout loans, are recognized in expected credit losses on financial assets in net gains (losses) on financial instruments. Changes in our estimate of ECL, on our workout loans are recognized in insurance claims expense.

Credit losses are defined as the difference between all contractual cash flows due to the Corporation over the maximum contractual period, including extension options, and the cash flows that we expect to receive (cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired assets). ECL are the weighted average of credit losses determined by evaluating a range of possible outcomes using reasonable, supportable information about past events and current and forecasted future economic conditions.

Measurement of expected credit losses

The Corporation has developed an impairment model to determine the allowance for ECL on our debt securities classified as amortized cost or FVOCI, loans classified as amortized cost and our financial guarantee contracts. We determine an allowance for ECL at initial recognition of the financial instrument (or the date we become party to a financial guarantee) that is updated at each reporting period throughout the life of the instrument.

The ECL allowance is based on the ECL over the life of the financial instrument (lifetime ECL), unless there has been no significant increase in credit risk (SICR) since initial recognition, in which case the ECL allowance is measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months (12-month ECL). ECL are determined based on three main drivers: probability of default, loss given default and exposure at default:

- Probability of default (PD): a point in time estimate of the likelihood of default either over the next 12 months (12-month ECL) or over the remaining life of the instrument (lifetime ECL). Our PD's are determined by mapping internal credit ratings to point-in-time PD tables based on statistical models derived from a large data set of publicly traded entities.
- Loss given default (LGD): is the percentage of the gross carrying amount of the instrument that will be lost on default at a given point in time. It is based on the difference between contractual cash flows due and those expected to be received, including the realization of collateral;
- Exposure at default (EAD): the gross carrying amount of the instrument at a given point in time and is calculated as the present value of the outstanding contractual cash flows using the EIRM.
- The ECL is calculated using a scenario based approach where, for each scenario, the PD, LGD and EAD are projected for each individual exposure at each cash flow date over the next 12 months (12-month ECL) or remaining life of the instrument (lifetime ECLs). The components are multiplied together at each future date and discounted back using the original effective interest rate to the reporting date and summed. A probability-weighted average ECL is then determined across the multiple scenarios. We have modelled all ECLs at the individual instrument level.

Significant increase in credit risk

We have established a policy to perform an assessment at the end of each reporting period, of whether the instrument's credit risk has increased significantly since initial recognition (or the date we become party to a financial guarantee). Based on this assessment, we group the instruments into the following categories:

- Stage 1: instruments which have not experienced a SICR since initial recognition. ECL are recognized based on 12-month ECL;
- Stage 2: instruments which have experienced a SICR since initial recognition. In subsequent periods, if the credit risk of an instrument has improved such that there is no longer a SICR since initial recognition, the ECL allowance will revert to stage 1. ECLs are recognized based on lifetime ECLs;
- Stage 3: instruments are considered credit-impaired as one or more events that have a detrimental impact on estimated future cash flows have occurred. ECL are recognized based on lifetime ECL;
- Purchased or originated credit-impaired (POCI) – instruments that are credit impaired on initial recognition. ECL are recognized based on lifetime ECL.

Interest revenue on stage 3 or POCI financial instruments is calculated based on the carrying amount of the asset, net of the loss allowance, rather than the gross carrying amount.

For instruments that we assess as having low credit risk at the reporting date, we applied the low credit risk exemption and have presumed that credit risk has not increased significantly since initial recognition. We use our internal credit ratings at the reporting date to assess whether the instrument has low credit risk. Our internal ratings are based on internal assessments of counterparty creditworthiness and generally correspond to those provided by credit rating agencies. We consider an instrument to have low credit risk when our internal rating is BBB- or higher.

We consider an instrument in default, which is fully aligned with the definition of credit-impaired, when it meets the following criteria:

- Observable data exists that has a detrimental impact on the estimated future cash flows such as:
 - significant financial difficulty of the issuer;
 - the granting of a new loan to assist the borrower work through financial difficulties;
 - it becomes probable that the issuer will enter bankruptcy or other financial reorganization, and
 - the disappearance of an active market due to financial difficulties.
- Borrower becomes 90 days past due on its contractual payments.

An instrument is no longer considered impaired when all past due amounts, including interest, have been recovered and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms of the instrument. We write off instruments, either partially or in full, against the related ECL allowance when we judge that there is no realistic prospect of future recovery.

We apply the following policies in determining whether there has been a SICR on our financial instruments subject to ECL:

Debt instruments at amortized cost / FVOCI

The Corporations' credit risk policies restricts the investment in debt instruments to an internal rating of BBB- or higher and therefore all debt instruments held are presumed to have low credit risk and we have applied the low credit risk exemption (stage 1). A backstop is applied where the financial instrument is considered to have experienced a SICR if the counterparty is more than 30 days past due on its contractual payments.

Loans under the CMB program

Loans under the CMB program represent amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS securities to us. The loans are collateralized by the NHA MBS and associated reinvestment securities acquired in the transactions. The NHA MBS, reinvestment assets and swaps represent the sole source of repayment on the loans, and thus directly affect the probability of a default occurring. Therefore, our assessment of SICR is based on the credit risk of these supporting assets.

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

Assisted Housing Activity loans / Mortgage Loan Insurance Activity loans

Loans with an internal rating of BBB- or higher are presumed to have low credit risk and the low credit risk exemption has been applied (stage 1). These loans consist of those issued to municipalities under the Municipal Infrastructure Lending Program and loans indemnified by provinces and territories through provisions under Social Housing Agreements (SHA) where the credit rating of the province or territory is considered in the SICR assessment. This credit enhancement is relevant to assessing changes in credit risk since it directly impacts the probability of default. The province or territory is responsible for collecting loan payments from the borrower and, in turn, makes all payments to CMHC directly in accordance with the contractual terms of the loan on behalf of the borrower. These payment are made to CMHC, irrespective of the borrower's payment status.

A backstop is applied to these loans where the financial instrument is considered to have experienced a SICR if the borrower is more than 30 days past due on its contractual payments.

All remaining loans issued under our Assisted Housing or Mortgage Loan Insurance activities have not been internally rated and therefore the low credit risk presumption will not be used. Our SICR assessment of these loans is based on the following criteria which is primarily based on days past due:

- Stage 1: All current loans to 30 days past due.
- Stage 2: Loans between 30 and 90 days past due;
- Stage 3: Loans more than 90 days past due. Note, a loan that is not past due, but has been issued a workout loan to assist with financial difficulties will be considered credit impaired irrespective of days past due.

Based on analysis of internal data, we have determined there is a correlation between loans that are more than 30 days past due and loans that are 90 days past due (default threshold).

Under the terms of certain construction loans issued by our Assisted Housing Activity or workout loans issued by our Mortgage Loan Insurance Activity, there may be a period of time where the loan has been advanced but not under repayment and therefore days past due cannot be used in the SICR assessment. For these loans that are not under repayment, we will assess SICR by applying the following criteria:

- days past due on loans issued by the same borrower;
- collective assessment by reviewing past due status of borrowers with shared credit risk characteristics;
- qualitative assessment of specific indicators of the construction project such as: project delays, performance against budget and remaining costs to complete.

Financial guarantees

CMHC issues financial guarantees for NHA MBS and CMB whereby CMHC guarantees the timely payment of principal and interest to NHA MBS and CMB investors. Upon issuance of a guarantee, CMHC collects a fee which is considered the fair value of the guarantee and is deferred and recognized as revenue over the expected life of the guarantee.

Under the NHA MBS program, a financial institution (the “NHA MBS issuer”) creates a pool of eligible mortgages and sells the pool to investors. The underlying pool of mortgages is designed to provide sufficient cash flows to fund the NHA MBS with the issuer having the obligation to fund any shortfalls that may arise, thus exposing the Corporation to credit risk of the issuer with the underlying pool of mortgages serving as a credit enhancement. This credit enhancement directly affects the likelihood of the issuer defaulting since shortfalls only occur if the underlying pool has provided insufficient cash flows to fund NHA MBS payments to investors. Our assessment of SICR is therefore based on both the credit risk of the issuer and the credit risk of the pool of mortgages underlying the NHA MBS. The pool of mortgages are considered low credit risk since only mortgages insured by CMHC or by approved private mortgage insurers are eligible to be pooled in NHA MBS, all of which carry investment grade credit ratings.

Under the CMB program, the credit risk exposures are, by design, the CMB loans that are the sole source of funds to fulfill CHT’s CMB obligations. As discussed above, the NHA MBS, reinvestment assets and swaps represent the sole source of repayment on the loans. The SICR assessment for the CMB guarantee is based on the credit risk of these supporting assets all of which have been assessed as low credit risk.

We have assessed the TPG under both the NHA MBS and CMB programs as having low credit risk and will apply the low credit risk exemption (stage 1).

Forward looking macroeconomic variables

The Corporation has incorporated forward looking economic information into its ECL by performing the calculation under multiple scenarios resulting in a probability-weighted average ECL based on the weightings of each scenario. We have used three sets of economic scenarios for all instruments representing a baseline, upside and downside scenario.

We performed an economic variable selection process to identify the sets of macroeconomic variables that had the highest correlation with our portfolios. This process resulted in three sets of economic variables that are most highly correlated to our portfolios dependent on the geographic and industry sector of the exposure that include the following variables: unemployment rates, oil prices, 10-year corporate bond spreads and the CBOE Volatility Index.

All macroeconomic variables are projected over a five year period, subsequently reverting to long-run averages. Forecasts and scenarios weightings are prepared by the Corporation annually and reviewed quarterly by a cross-functional committee represented by members of our Capital Markets, Finance, Risk and Market Analysis sectors with recommendations presented to an executive committee for approval.

Impact of adoption of IFRS 9

Reclassifications

The following table compares the carrying amount of financial assets and liabilities under IAS 39 with those under IFRS 9 upon transition at 1 January 2018. We have not restated 2017 comparative information presented under IAS 39. Differences upon transition have been recorded directly in retained earnings.

Financial instrument type	Notes	IAS 39			IFRS 9		
		Classification	Carrying Amount	Reclassification	Remeasurement	Classification	Carrying Amount
Assets:							
Cash and cash equivalents	1, 7	Designated at FVTPL	55	-	-	Designated at FVTPL	55
	1	Available for sale (AFS)	67	-	-	Debt instruments at FVOCI	67
	1	Loans and receivables	765	-	-	Amortized cost	765
Total cash and cash equivalents			887	-	-		887
Accrued interest receivable	1	Loans and receivables	705	-	-	Amortized Cost	705
Investment securities							
Debt instruments	1, 7	Designated at FVTPL	1,234	-	-	Designated at FVTPL	1,234
	1	AFS	20,842	-	-	Debt instruments at FVOCI	20,842
	2	AFS	97	-	-	FVTPL	97
Common equities	4	AFS	1,105	-	-	FVTPL	1,105
Preferred equities	5	AFS	68	-	-	Equity instruments at FVOCI	68
Total investment securities			23,346	-	-		23,346
Derivatives	1, 7	FVTPL	61	-	-	FVTPL	61
Due from government of Canada	1	Loans and receivables	126	-	-	Amortized Cost	126
Loans	1, 7	Designated at FVTPL	2,906	-	-	Designated at FVTPL	2,906
	1, 3, 6	Loans and receivables	237,944	102	(5)	Amortized Cost	238,041
	3	Loans and receivables	-	26	-	FVTPL	26
	6	Loans and receivables	-	15	2	FVTPL	17
Total loans			240,850	143	(3)		240,990
Accounts receivable and other assets	3						
		Loans and receivables	193	(143)	-	Amortized cost	50
	1	N/A	642	-	-	N/A	642
Total accounts receivable and other assets			835	(143)	-		692
Investment property		N/A	305	-	-	N/A	305
Total assets			267,115	-	(3)		267,112

Financial instrument type	Notes	IAS 39			IFRS 9		
		Classification	Carrying Amount	Reclassification	Remeasurement	Classification	Carrying Amount
Liabilities:							
Securities sold under repurchase agreements	1	Other financial liabilities	297	-	-	Amortized cost	297
Accrued interest payable	1	Other financial liabilities	545	-	-	Amortized cost	545
Dividends payable	1	Other financial liabilities	2,000	-	-	Amortized cost	2,000
Derivatives	1, 7	FVTPL	39	-	-	FVTPL	39
Borrowings	1, 7	Designated at FVTPL	4,564	-	-	Designated at FVTPL	4,564
	1	Other financial liabilities	233,592	-	-	Amortized cost	233,592
Total borrowings			238,156	-	-		238,156
Accounts payable and other liabilities	1	Other financial liabilities	481			Amortized cost	481
		N/A	80			N/A	80
Total accounts payable and other liabilities			561				561
Other		N/A	7,776	-	-	N/A	7,776
Total liabilities			249,374	-	-		249,374

Reconciliation of impairment allowance from IAS 39 to IFRS 9

The following table reconciles our opening loss allowance under IAS 39's incurred loss model to our expected credit loss allowance under IFRS 9's expected credit loss model, before tax.

Measurement Category	Loan loss allowance under IAS	Reclassification ⁹	Remeasurement ¹⁰	ECL allowance under IFRS
	39 ⁸			9
Debt instruments at AFS (IAS 39) / FVOCI (IFRS 9)	-	-	9	9
Loans and receivables (IAS 39) / Amortized cost (IFRS 9)	113	(17)	5	101
Total	113	(17)	14	110

Impact of transition on Equity of Canada

The following table presents the IFRS 9 and IFRS 15 transitional impacts on accumulated OCI and retained earnings as at January 1, 2018.

Accumulated other comprehensive income	
Closing Balance as at 31 December 2017	490
Impact of adopting IFRS 9, net of tax:	
Impact of reclassifying equity securities from AFS to FVTPL ⁴	(371)
Impact of reclassifying debt instruments from AFS to FVTPL ²	(3)
Recognition of ECL on debt instruments at FVOCI ¹⁰	6
Total impact of adopting IFRS 9, net of tax	(368)
Restated opening balance as at 1 January 2018	122
Retained earnings	
Closing Balance as at 31 December 2017	17,226
Impact of adopting IFRS 15, net of tax	(53)
Impact of adopting IFRS 9, net of tax:	
Impact of reclassifying equity securities from AFS to FVTPL ⁴	371
Impact of reclassifying debt instruments from AFS to FVTPL ²	3
Recognition of ECL on debt instruments at FVOCI ¹⁰	(6)
Re-measurement of loans reclassified from amortized cost to FVTPL	2
Re-measurement of ECL on loans at amortized cost ¹⁰	(4)
Total impact of adopting IFRS 9, net of tax	366
Restated opening balance as at 1 January 2018	17,539

¹ Financial instruments reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no changes to their measurement basis.

² In our MLI Activity, at January 1, 2018, we held \$97 million in subordinated debt instruments which were classified as AFS and measured at FVOCI under IAS 39. These instruments fail the SPPI test and are classified as at FVTPL under IFRS 9. Upon transition, \$3 million, net of tax, was reclassified from AOCI to retained earnings.

³ In our MLI Activity, at January 1, 2018, we held \$143 million of loans presented in accounts receivable and other assets that have been reclassified to loans. Of these loans, \$26 million fail the SPPI test and were classified as at FVTPL and \$117 million were classified as amortized cost under IFRS 9.

⁴ Under IAS 39, our common share equity securities and limited partnership units held in our MLI Activity were classified as AFS. Under IFRS 9, equity securities are mandatorily classified as financial assets at FVTPL unless an irrevocable election is made to present fair value changes in OCI. We have not made use of this election and therefore our common equity securities and limited partnership units were re-classified from AFS to FVTPL. Upon transition, \$371 million in unrealized gains (losses), net of tax, were reclassified from AOCI to retained earnings.

⁵ Under IAS 39, preferred equity securities of \$68 million held in our MLI Activity were classified as AFS. Under IFRS 9, we have elected to present fair value changes in OCI. Under this election, there is no recycling of gains and losses from OCI to net income upon derecognition. This differs from our previous practices under AFS where realized gains and losses are recycled to net income when the investment is sold or derecognized.

⁶ Under IAS 39, loans held under the Municipal Infrastructure Lending Program (MILP) within our Assisted Housing Activity were classified as loans and receivables. Under IFRS 9, one loan of \$15 million within this portfolio contains contractual cash flows that fail the SPPI test and has been reclassified to FVTPL. All other loans held within the MILP program pass the SPPI test and are classified and measured at amortized cost under IFRS 9.

⁷ As at the transition date of 1 January 2018, all of our loans, investment securities and borrowings that were previously designated at FVTPL to eliminate an accounting mismatch with derivatives used in economic hedges of interest rate risk will remain so under IFRS 9 as there have been no changes in the structure of the hedges.

⁸ Under IAS 39, loss allowance was recognized against related loan balance and presented in accounts receivable and other assets.

⁹ Reclassification represents the impact to the impairment allowances from classification and measurement changes.

¹⁰ Re-measurement represents the before tax impact to the impairment allowance from the adoption of the IFRS 9 ECL model.

Future accounting changes

There have been no new standards or amendments to existing standards issued by the International Accounting Standards Board (IASB) that would affect CMHC in the future other than those disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2017, and the Conceptual Framework for Financial Reporting indicated below. As disclosed in Note 3 of our audited consolidated financial statements for the year ended 31 December 2017, we will implement IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments* on 1 January 2019 and IFRS 17 *Insurance Contracts* on 1 January 2021.

Conceptual Framework for Financial Reporting

In March 2018 the IASB issued the revised *Conceptual Framework for Financial Reporting*, replacing the previous version of the *Conceptual Framework* issued in 2010.

The revised *Conceptual Framework* has an effective date of 1 January 2020, with earlier application permitted, for companies that use the *Conceptual Framework* to develop accounting policies when no IFRS Standard applies to a particular transaction. The revised *Conceptual Framework* includes: a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance, in particular the definitions of an asset and a liability and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. We have not yet determined the full impact on our consolidated financial statements.

4. Critical Judgments in Applying Accounting Policies and Making Estimates

The preparation of financial statements requires Management to make various judgments, estimates and assumptions that can significantly affect the amounts recognized in the financial statements. Actual results may differ from these estimates. Where these differ, the impact will be recorded in future periods. Significant judgments and estimates at 30 June 2018 were consistent with those disclosed in Note 4 of our audited consolidated financial statements for the year ended 31 December 2017, with the exception of those related to IFRS 9 effective 1 January 2018 which are described below.

Classification and measurement of financial assets

Business model assessment

The classification and measurement of our debt instruments is dependent on our determination of the business model which is based on the objectives under which our portfolios of financial assets are managed and is based on reasonably expected scenarios. Judgement is required in assessing the business model which considers the criteria described in Note 3.

Solely payments of principal and interest test

As a second step in the classification process of our debt instruments, we assess the contractual terms of our debt instruments to determine whether the cash flows meet the SPPI criteria. To make this assessment we apply judgement and consider relevant factors such as, but not limited to: non-cash distributions; performance-linked features; period for which the interest rate is set; conversion options; equity linked payments; limits on claims to specified assets (non-recourse items).

Measurement of expected credit losses

The measurement of ECL on our financial assets is an area that requires the use of complex models and significant assumptions and judgements that are driven by a number of factors, changes in which can result in different levels of allowances.

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is described in Note 3.

Elements of the ECL model that are considered accounting judgements and estimates include:

- determining criteria for SICR;
- development of appropriate models and assumptions for the measurement of ECL;
- determination of the economic variables most highly correlated to our portfolios of financial assets; and
- establishing the number and relative weightings of forward-looking macroeconomic scenarios and their effect on economic inputs in the ECL model

5. Segmented Information

The quarterly consolidated financial statements include the Assisted Housing, Mortgage Loan Insurance and Securitization Activities, each of which provides different programs in support of our objectives. The accounts for Canada Housing Trust (CHT), a separate legal entity, are included within the Securitization Activity. The financial results of each activity are determined using the accounting policies described in Note 2 of our audited consolidated financial statements for the year ended 31 December 2017. Revenues are generated and assets are located in Canada.

Revenues for the reportable segments are generated as follows:

- Assisted Housing revenues include parliamentary appropriations and interest income on loans;
- Mortgage Loan Insurance revenues include premiums, fees and investment income; and
- Securitization revenues include guarantee and application fees, investment income and interest income on loans.

Three months ended 30 June (in millions)	Assisted Housing Activity		Mortgage Loan Insurance Activity		Securitization Activity		Eliminations ¹		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Interest income	85	96	-	-	1,221	1,058	(1)	(1)	1,305	1,153
Interest expense	81	92	-	-	1,218	1,055	(27)	(31)	1,272	1,116
Net interest income	4	4	-	-	3	3	26	30	33	37
Parliamentary appropriations for housing programs	463	548	-	-	-	-	-	-	463	548
Premiums and fees earned	-	-	359	396	117	91	-	-	476	487
Investment income (losses)	-	-	137	153	13	12	(19)	(20)	131	145
Net gains (losses) on financial instruments	1	(7)	42	8	(3)	1	2	(2)	42	-
Other income	5	7	(1)	-	2	-	-	-	6	7
Total revenues and parliamentary appropriations	473	552	537	557	132	107	9	8	1,151	1,224
Non-interest expenses										
Housing programs	463	548	-	-	-	-	-	-	463	548
Insurance claims	-	-	72	51	-	-	-	-	72	51
Operating expenses	7	7	82	78	14	13	-	-	103	98
Total expenses	470	555	154	129	14	13	-	-	638	697
Income (loss) before income taxes	3	(3)	383	428	118	94	9	8	513	527
Income taxes	(1)	(2)	94	107	30	23	2	2	125	130
Net income (loss)	4	(1)	289	321	88	71	7	6	388	397
Total revenues and parliamentary appropriations	473	552	537	557	132	107	9	8	1,151	1,224
Inter-segment income (loss) ¹	(1)	-	(17)	(23)	27	31	(9)	(8)	-	-
External revenues and parliamentary appropriations	472	552	520	534	159	138	-	-	1,151	1,224

¹ Inter-segment income relates to the following:

- The Assisted Housing Activity recognizes revenues from investing in holdings of CMB;
- The Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of CMB; and
- Within the Securitization Activity, CHT recognizes interest expense on CMBs held by the Assisted Housing and Mortgage Loan Insurance Activities.

Six months ended 30 June (in millions)	Assisted Housing Activity		Mortgage Loan Insurance Activity		Securitization Activity		Eliminations ¹		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Interest income	171	191	-	-	2,387	2,090	(2)	(2)	2,556	2,279
Interest expense	163	187	-	-	2,381	2,084	(56)	(62)	2,488	2,209
Net interest income	8	4	-	-	6	6	54	60	68	70
Parliamentary appropriations for housing programs	1,489	2,114	-	-	-	-	-	-	1,489	2,114
Premiums and fees earned	-	-	712	773	230	178	-	-	942	951
Investment income (losses)	-	-	275	304	27	23	(40)	(40)	262	287
Net gains (losses) on financial instruments	(8)	(1)	(37)	18	(4)	1	(1)	(3)	(50)	15
Other income	13	14	(1)	2	4	3	-	-	16	19
Total revenues and parliamentary appropriations	1,502	2,131	949	1,097	263	211	13	17	2,727	3,456
Non-interest expenses										
Housing programs	1,489	2,114	-	-	-	-	-	-	1,489	2,114
Insurance claims	-	-	137	128	-	-	-	-	137	128
Operating expenses	13	14	160	159	28	26	-	-	201	199
Total expenses	1,502	2,128	297	287	28	26	-	-	1,827	2,441
Income before income taxes	-	3	652	810	235	185	13	17	900	1,015
Income taxes	(3)	(2)	160	200	59	46	3	4	219	248
Net income	3	5	492	610	176	139	10	13	681	767
Total revenues and parliamentary appropriations	1,502	2,131	949	1,097	263	211	13	17	2,727	3,456
Inter-segment income (loss) ¹	(2)	(1)	(41)	(44)	56	62	(13)	(17)	-	-
External revenues and parliamentary appropriations	1,500	2,130	908	1,053	319	273	-	-	2,727	3,456

¹ Inter-segment income relates to the following:

- The Assisted Housing Activity recognizes revenues from investing in holdings of CMB;
- The Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of CMB; and
- Within the Securitization Activity, CHT recognizes interest expense on CMBs held by the Assisted Housing and Mortgage Loan Insurance Activities.

As at 30 June 2018 and 31 December 2017 (in millions)	Assisted Housing Activity		Mortgage Loan Insurance Activity		Securitization Activity		Eliminations ¹		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Assets										
Cash and cash equivalents	322	519	585	342	1	26	-	-	908	887
Securities purchased under resale agreements	-	-	38	-	-	-	-	-	38	-
Accrued interest receivable	108	140	126	140	476	439	(14)	(14)	696	705
Investment securities:										
Fair value through profit or loss	1,575	1,630	832	1	-	-	(397)	(397)	2,010	1,234
Fair value through other comprehensive income	-	-	19,111	-	3,816	-	(3,714)	-	19,213	-
Available for sale	-	-	-	22,689	-	3,608	-	(4,185)	-	22,112
Derivatives	40	51	2	10	-	-	-	-	42	61
Due from the Government of Canada	216	126	-	-	-	-	-	-	216	126
Loans:										
Fair value through profit or loss	2,368	2,906	22	-	-	-	-	-	2,390	2,906
Amortized cost	4,273	4,158	110	-	237,170	233,786	-	-	241,553	237,944
Accounts receivable and other assets	156	163	612	618	46	54	-	-	814	835
Investment property	256	256	49	49	-	-	-	-	305	305
	9,314	9,949	21,487	23,849	241,509	237,913	(4,125)	(4,596)	268,185	267,115
Liabilities										
Securities sold under repurchase agreements	-	-	622	297	-	-	-	-	622	297
Accounts payable and other liabilities	358	429	87	101	16	31	-	-	461	561
Accrued interest payable	121	129	-	-	467	430	(15)	(14)	573	545
Dividend payable	-	-	1,000	2,000	-	-	-	-	1,000	2,000
Derivatives	23	26	96	13	-	-	-	-	119	39
Provision for claims	-	-	538	555	-	-	-	-	538	555
Borrowings:										
Fair value through profit or loss	3,913	4,564	-	-	-	-	-	-	3,913	4,564
Amortized cost	4,453	4,350	-	-	237,170	233,786	(4,112)	(4,544)	237,511	233,592
Defined benefit plans liability	134	181	187	266	(3)	3	-	-	318	450
Unearned premiums and fees	-	-	5,320	5,352	1,418	1,335	-	-	6,738	6,687
Deferred income tax liabilities	37	36	68	68	(21)	(8)	(2)	(12)	82	84
	9,039	9,715	7,918	8,652	239,047	235,577	(4,129)	(4,570)	251,875	249,374
Equity of Canada	275	234	13,569	15,197	2,462	2,336	4	(26)	16,310	17,741
	9,314	9,949	21,487	23,849	241,509	237,913	(4,125)	(4,596)	268,185	267,115

¹ Eliminations remove inter-segment holdings of CMB.

6. Parliamentary Appropriations and Housing Programs Expenses

Parliamentary appropriations were used to fund the following housing programs expenses, including operating expenses incurred to support these programs.

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Assistance for housing needs	432	517	1,419	2,051
Financing for housing	11	12	20	16
Housing expertise and capacity development	20	19	50	47
Total	463	548	1,489	2,114

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 30 June 2018 is mainly composed of Housing programs expenses incurred but not yet reimbursed.

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Balance at beginning of period	706	1,027	126	59
Total appropriations recognized in revenues during the period	463	548	1,489	2,114
Total appropriations received during the period	(955)	(1,271)	(1,399)	(1,870)
Third party remittances (owing) to the Government of Canada	2	-	-	1
Balance at end of period	216	304	216	304

7. Mortgage Loan Insurance

Unearned premiums and fees

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

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Balance at beginning of period	5,247	5,330	5,352	5,472
Premiums deferred on contracts written in the period	423	451	666	677
Premiums earned in the period	(350)	(387)	(698)	(758)
Application fees deferred on contracts written in the period	3	3	7	9
Application fees earned in the period ¹	(3)	(4)	(7)	(7)
Balance at end of period	5,320	5,393	5,320	5,393

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 application fees are earned immediately as they are received.

Deferred acquisition costs

Deferred acquisition costs (DAC) are included in accounts receivable and other assets. The following table presents the changes in the DAC balance.

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Balance at beginning of period	167	153	165	149
Acquisition costs deferred	17	15	31	30
Amortization of DAC	(12)	(11)	(24)	(22)
Balance at end of period	172	157	172	157

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/ILM).

Provision for claims comprises the following:

<i>(in millions)</i>	As at					
	30 June 2018			31 December 2017		
	IBNR, IBNER and CIP	SH/ILM	Total	IBNR, IBNER and CIP	SH/ILM	Total
Undiscounted estimated losses	359	149	508	364	158	522
Discounting	(7)	(18)	(25)	(6)	(17)	(23)
Discounted provision for adverse deviation	28	27	55	27	29	56
Total provision for claims	380	158	538	385	170	555

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

<i>(in millions)</i>	Three months ended 30 June					
	2018			2017		
	IBNR, IBNER and CIP	SH/ILM	Total	IBNR, IBNER and CIP	SH/ILM	Total
Provision for claims, beginning of period	387	162	549	476	179	655
Net claims paid during the period	(53)	1	(52)	(94)	2	(92)
Provision for claims provided for and losses incurred during the period ¹	57	-	57	62	(17)	45
Unfavourable (favourable) development on prior period claims	(11)	(5)	(16)	-	-	-
Provision for claims, end of period	380	158	538	444	164	608

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

<i>(in millions)</i>	Six months ended 30 June					
	2018			2017		
	IBNR, IBNER and CIP	SH/ILM	Total	IBNR, IBNER and CIP	SH/ILM	Total
Provision for claims, beginning of period	385	170	555	475	179	654
Net claims paid during the period	(122)	(4)	(126)	(171)	1	(170)
Provision for claims provided for and losses incurred during the period ¹	116	1	117	138	1	139
Unfavourable (favourable) development on prior period claims	1	(9)	(8)	2	(17)	(15)
Provision for claims, end of period	380	158	538	444	164	608

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

Insurance policy liability adequacy

We perform a liability adequacy test on the premium liabilities and claim liabilities quarterly. Premium liabilities represent a provision for future claims and expenses that are expected to arise from the unearned portion of the policies in-force. Thus, this provision is for claims that have not yet occurred and, therefore, covers the period from the date of the valuation to the date of default (the assumed claim occurrence date).

The liability adequacy test for the Corporation as at 30 June 2018 has identified that no premium deficiency reserve is required.

8. Securitization

We guarantee the timely payment of principal and interest of CMB issued by CHT under the CMB program and NHA MBS issued by Approved Issuers on the basis of housing loans under the NHA MBS program in the event that an issuer is unable to satisfy its obligations under these programs. In that circumstance, we will mitigate our loss by realizing on the collateral securing the obligations under each of the programs.

At the balance sheet date, the Corporation has not received a claim on its TPG. As such, no provision in addition to the remaining unearned premium is required.

ECL on our TPG's have been assessed as immaterial at 30 June 2018 and are lower than the balance of unearned fees and therefore have not been recognized.

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

	Three months ended 30 June					
	2018			2017		
	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance at beginning of period	935	480	1,415	664	456	1,120
TPG and application fees received	84	36	120	85	36	121
TPG and application fees earned	(86)	(31)	(117)	(62)	(29)	(91)
Balance at end of period	933	485	1,418	687	463	1,150

	Six months ended 30 June					
	2018			2017		
	NHA MBS	CMB	Total	NHA MBS	CMB	Total
Balance reported at the end of the previous year	859	476	1,335	648	444	1,092
IFRS 15 adjustment for application fees	72	-	72	-	-	-
Restated opening balance	931	476	1,407	648	444	1,092
TPG and application fees received	170	71	241	160	76	236
TPG and application fees earned	(168)	(62)	(230)	(121)	(57)	(178)
Balance at end of period	933	485	1,418	687	463	1,150

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 have adequate capital to deliver their mandate while remaining financially self-sustaining and also to follow prudent business practices and guidelines existing in the private sector as appropriate. Beyond the \$25 million capital prescribed by the CMHC Act, we currently have no externally imposed minimal capital requirements; however, we voluntarily follow guidelines set out by the Office of the Superintendent of Financial Institutions (OSFI).

We perform an Own Risk & Solvency Assessment, which is an integrated process that evaluates capital adequacy on both a regulatory and economic capital basis and is used to establish capital targets taking into consideration our strategy and risk appetite. Our 'Own View' of capital needs is determined by identifying our risks and evaluating whether or not an explicit amount of capital is necessary to absorb losses from each risk. With the above we have also met the requirements of the CMHC Act and the NHA.

We set an internal target for our commercial operations at a level that is expected to cover all material risks. The internal target is calibrated using specified confidence intervals and is designed to provide Management with an early indication of the need to resolve financial problems. Under our Capital Management Policy, we operate at available capital levels above the internal target on all but unusual and infrequent occasions. Accordingly, we have established an operating level (holding target) for our commercial operations in excess of our internal target. The operating level is calibrated using confidence

intervals specified by our Capital Management Policy and is designed to provide Management with adequate time to resolve financial problems before available capital decreases below the internal target.

Beginning in 2017, we started making dividend payments to the Government from our Mortgage Loan Insurance Activity to the extent there are profits and retained earnings not allocated to reserves, capitalization or to meet the needs of the Corporation for purposes of the NHA, CMHC Act or any other purpose authorized by Parliament relating to housing. However, our capital is not managed to issue a dividend. The following table presents the change in the dividend payable balance.

<i>(in millions)</i>	Dividend declarations ¹		Amount payable		Dividend payable at 30 June 2018
	Date	Amount	at 31 December 2017	Amount paid during the period	
2017 Special dividend	29 June 2017	4,000	2,000	2,000	-
Quarterly dividend	22 March 2018	1,000	-	1,000	-
Quarterly dividend	24 May 2018	1,000	-	-	1,000
			2,000	3,000	1,000

¹ Dividends declared in 2017 and paid in full by 31 December 2017 have been excluded from the table.

The components of consolidated capital available are presented below.

<i>(in millions)</i>	As at	
	30 June 2018	31 December 2017
Contributed capital	25	25
Accumulated other comprehensive income (loss)	(30)	490
Appropriated retained earnings	14,446	14,918
Unappropriated retained earnings ¹	1,869	2,308
Total equity of Canada²	16,310	17,741
Less: assets with a capital requirement of 100%	(16)	(10)
Total capital available	16,294	17,731

¹ Unappropriated retained earnings represents retained earnings in excess of our operating level for the Mortgage Loan Insurance and Securitization Activities.

² Equity of Canada includes the impact of eliminations.

Mortgage Loan Insurance capital

The following table presents the components of capital available.

<i>(in millions, unless otherwise indicated)</i>	As at	
	30 June 2018	31 December 2017
Appropriated capital ¹	12,636	13,648
Unappropriated capital	933	1,549
Total mortgage loan insurance capital	13,569	15,197
Less: assets with a capital requirement of 100%	(16)	(10)
Total mortgage loan insurance capital available	13,553	15,187
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MCT) ²	177%	184%

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

² We have not made use of transitional arrangements as provided by the OSFI Advisory. Our MCT ratio as at 30 June 2018 would be 192% (31 December 2017 – 211%) with transitional arrangements.

Securitization capital

The following table presents the components of the capital available.

<i>(in millions, unless otherwise indicated)</i>	As at	
	30 June 2018	31 December 2017
Appropriated capital ¹	1,724	1,724
Unappropriated capital	738	612
Total securitization capital available	2,462	2,336
Capital available to capital required (%)	143%	135%

¹ We appropriate retained earnings and AOCI at the operating level (capital required) which is set at 110% of economic capital. Our internal target is set at 105% of economic capital.

Assisted Housing capital

Lending programs

We maintain a reserve fund pursuant to Section 29 of the CMHC Act. A portion of the Lending programs' earnings is retained in this reserve fund as part of our strategy to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. The reserve fund is subject to a statutory limit of \$240 million (2017 – \$240 million). Should the statutory limit be exceeded, we would be required to pay the excess to the Government.

Unrealized fair value fluctuations as well as remeasurement losses on defined benefit plans are absorbed in retained earnings. The Housing programs' portion of remeasurements is recorded in retained earnings until it is reimbursed by the Government through housing programs appropriations.

The following table presents the components of the capital available.

<i>(in millions)</i>	As at	
	30 June 2018	31 December 2017
Reserve fund	111	116
Retained earnings	139	93
Total Lending programs capital available	250	209

Housing programs

We do not hold capital for housing programs as this activity does not present risks to the Corporation that would require capital to be set aside.

10. Fair Value Measurement

We measure certain financial instruments and non-financial assets at fair value in the consolidated balance sheet and disclose the fair value of certain other items. Fair value is determined using a consistent measurement framework.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value measurement of non-financial assets (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. An active market is one where transactions are occurring with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Assets and liabilities that are measured based on observable inputs other than level 1 prices. Level 2 inputs include prices obtained from third-party pricing services based on independent dealers' quotes for identical assets or liabilities in markets that are not considered sufficiently active. Level 2 also includes fair values obtained by discounting expected future cash flows, making maximum use of directly or indirectly observable market data such as yield curves and implied forward curves constructed from foreign exchange rates, benchmark interest rates and credit spreads of identical or similar assets or liabilities.

Level 3: Assets and liabilities not quoted in active markets that are measured using valuation techniques. Where possible, inputs to the valuation techniques are based on observable market data, such as yield curves and implied forward curves constructed from benchmark interest rates and credit spreads of similar assets or liabilities. Where observable inputs are not available, unobservable inputs are used. For level 3 assets and liabilities, unobservable inputs are significant to the overall measurement of fair value.

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

Comparison of carrying and fair values for financial instruments not carried at fair value

The following table compares the carrying and fair values of financial instruments not carried at fair value. Carrying value is the amount at which an item is measured in the consolidated balance sheet.

<i>(in millions)</i>	As at					
	30 June 2018			31 December 2017		
	Carrying value	Fair value	Fair value over (under) carrying value	Carrying value	Fair value	Fair value over carrying value
Financial assets						
Loans at amortized cost ¹	241,553	241,546	(7)	237,944	239,137	1,193
Financial liabilities						
Borrowings at amortized cost ²	237,511	237,638	127	233,592	234,918	1,326

¹ \$241,436 million (31 December 2017 – \$239,137 million) fair value categorized as level 2, \$110 million (31 December 2017 – nil) fair value categorized as level 3.

² \$107,833 million (31 December 2017 – \$111,380 million) fair value categorized as level 1, \$129,805 million (31 December 2017 – \$123,538 million) fair value categorized as level 2.

Fair value hierarchy for items carried at fair value

The following table presents the fair value hierarchy for assets and liabilities carried at fair value in the consolidated balance sheet.

<i>(in millions)</i>	As at							
	30 June 2018				31 December 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	10	-	10	-	55	-	55
Federal government issued	1	-	-	1	67	-	-	67
Total cash equivalents	1	10	-	11	67	55	-	122
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	367	-	367	-	373	-	373
Provinces/municipalities	280	192	-	472	78	399	-	477
Sovereign and related entities	-	383	-	383	-	384	-	384
Equities								
Canadian common shares	696	-	-	696	-	-	-	-
Limited partnership units	-	-	92	92	-	-	-	-
Total at FVTPL	976	942	92	2,010	78	1,156	-	1,234
FVOCI								
Debt instruments								
Corporate/other entities	1,603	7,949	-	9,552	-	-	-	-
Federal government issued	4,115	100	-	4,215	-	-	-	-
Provinces/municipalities	2,389	2,672	-	5,061	-	-	-	-
Sovereign and related entities	-	286	-	286	-	-	-	-
Equities								
Canadian preferred shares	99	-	-	99	-	-	-	-
Total at FVOCI	8,206	11,007	-	19,213	-	-	-	-
AFS								
Debt instruments								
Corporate/other entities	-	-	-	-	1,010	9,663	-	10,673
Federal government issued	-	-	-	-	4,105	86	-	4,191
Provinces/municipalities	-	-	-	-	2,054	3,734	-	5,788
Sovereign and related entities	-	-	-	-	-	287	-	287
Equities								
Canadian common shares	-	-	-	-	1,017	-	-	1,017
Limited partnership units	-	-	-	-	-	-	88	88
Canadian preferred shares	-	-	-	-	68	-	-	68
Total AFS	-	-	-	-	8,254	13,770	88	22,112
Loans designated at FVTPL	-	2,351	-	2,351	-	2,906	-	2,906
Loans mandatorily at FVTPL	-	17	22	39	-	-	-	-
Derivatives	-	42	-	42	-	61	-	61
Investment property	-	-	305	305	-	-	305	305
Total assets carried at fair value	9,183	14,369	419	23,971	8,399	17,948	393	26,740
Liabilities								
Borrowings designated at FVTPL	-	3,913	-	3,913	-	4,564	-	4,564
Derivatives	-	119	-	119	-	39	-	39
Total liabilities carried at fair value	-	4,032	-	4,032	-	4,603	-	4,603

Transfers between fair value hierarchy levels

For assets and liabilities measured at fair value on a recurring basis, we determine if reclassifications have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period. Transfers are dependent on our assessment of market trading activity of the last month of each reporting period using internal classification criteria. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. During the three and six months ended 30 June 2018, there were \$344 million and \$1,693 million of transfers from level 2 to level 1, respectively (three and six months ended 30 June 2017 - \$523 million and \$1,659 million). During the three and six months ended 30 June 2018, there were \$386 million and \$422 million of transfers from level 1 to level 2 respectively (three and six months ended 30 June 2017 - \$1,130 million and \$1,913 million).

Change in fair value measurement for items classified as level 3

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

<i>(in millions)</i>	Investment securities			Loans - FVTPL ³	Investment property	Total
	FVTPL – asset backed securities	Equities at FVTPL – limited partnership units ⁴	Total investment securities			
Three months ended 30 June 2018						
Fair value as at 1 April 2018	-	92	92	34	305	431
Purchases	-	2	2	10	-	12
Net gains in net income ^{1,2}	-	3	3	-	-	3
Cash receipts on settlements/disposals	-	(5)	(5)	(22)	-	(27)
Fair value as at 30 June 2018	-	92	92	22	305	419
Six months ended 30 June 2018						
Fair value as at 1 January 2018	-	88	88	26	305	419
Purchases	-	6	6	25	-	31
Net gains in net income ^{1,2}	-	3	3	-	-	3
Cash receipts on settlements/disposals	-	(5)	(5)	(29)	-	(34)
Fair value as at 30 June 2018	-	92	92	22	305	419
Three months ended 30 June 2017						
Fair value as at 1 April 2017	-	49	49	-	268	317
Purchases	-	2	2	-	-	2
Net gains in net income ^{1,2}	-	-	-	-	(1)	(1)
Gains in OCI	-	(2)	(2)	-	-	(2)
Cash receipts on settlements/disposals	-	-	-	-	-	-
Fair value as at 30 June 2017	-	49	49	-	267	316
Six months ended 30 June 2017						
Fair value as at 1 January 2017	137	38	175	-	267	442
Purchases	-	9	9	-	-	9
Net gains in net income ^{1,2}	-	-	-	-	-	-
Gains in OCI	-	3	3	-	-	3
Cash receipts on settlements/disposals	(137)	(1)	(138)	-	-	(138)
Fair value as at 30 June 2017	-	49	49	-	267	316

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 Consists of MLI Activity loans that were reclassified from accounts receivable and other assets to loans at FVTPL as at 1 January 2018.

⁴ Under IAS 39, limited partnership units were previously classified as AFS.

Unobservable inputs for items classified as level 3

The valuations of items classified as level 3 use unobservable inputs, changes in which may significantly affect the measurement of fair value. Valuations were based on assessments of the prevailing conditions at 30 June 2018, which may change materially in subsequent periods. The following table presents quantitative information about the significant unobservable inputs used in level 3 fair value measurements for items carried at fair value.

<i>(in millions, unless otherwise indicated)</i>	Valuation technique	Unobservable inputs	30 June 2018		31 December 2017	
			Asset fair value	Weighted average input/range	Asset fair value	Weighted average input/range
Investment securities						
Equities at FVTPL - Limited partnership units ¹	Share of partnership equity	Reported partnership equity	92	n.a.	88	n.a.
Investment property						
Mortgage Loan Insurance Activity	Discounted cash flow	Estimated rental value per square foot Discount rate	49	\$16 - \$42 7%	49	\$16 - \$42 7%
Assisted Housing Activity	Discounted cash flow	Estimated rental value per square foot	21	\$25 - \$149 4% - 6%	21	\$25 - \$149 4% - 6%
		Discount rate				
	Market approach	Value per square foot	235	\$0 - \$491	235	\$0 - \$491
Total investment property			305		305	
Loans at FVTPL						
MLI activity workout loans	Discounted cash flow	Loss rate	9	63.4%	-	-
MLI activity mortgage assignments	Market approach	Value per square foot	13	\$4 - \$385	-	-
Total loans at FVTPL			22			
Total level 3 items carried at fair value			419		393	

¹ Under IAS 39, limited partnership units were previously classified as AFS

Level 3 sensitivity analysis

Investment property

For investment property, increases (decreases) in estimated rental value and price per square foot could result in a significantly higher (lower) fair value of the properties. Increases (decreases) in discount rates could result in a significantly lower (higher) fair value.

11. Cash and Cash Equivalents

The following table provides a breakdown of our cash and cash equivalents:

<i>(in millions)</i>	As at							
	30 June 2018				31 December 2017			
	Amortized cost	FVOCI	FVTPL	Total	Loans and receivables	AFS	FVTPL	Total
Cash	8	-	-	8	3	-	-	3
Interest-bearing deposits with banks	290	-	10	300	450	-	55	505
Corporate/other entities	197	-	-	197	208	-	-	208
Federal government issued	-	1	-	1	-	67	-	67
Provinces/municipalities	402	-	-	402	104	-	-	104
Total cash and cash equivalents	897	1	10	908	765	67	55	887

We have \$80 million of cash and cash equivalents as at 30 June 2018 (31 December 2017 – \$80 million) that relates to funds received from the Government that may only be used as part of the Affordable Rental Housing Innovation Fund.

We also have \$82 million of cash and cash equivalents (31 December 2017 – \$75 million) that may only be used as part of the Rental Construction Financing Initiative.

12. Investment Securities

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

<i>(in millions)</i>	As at							
	30 June 2018				31 December 2017			
	Amortized cost ¹	Gross cumulative unrealized gains	Gross cumulative unrealized losses	Fair value	Amortized cost ¹	Gross cumulative unrealized gains	Gross cumulative unrealized losses	Fair value
Debt instruments								
FVTPL	1,232	2	(11)	1,223	1,242	2	(10)	1,234
FVOCI ²	19,137	205	(228)	19,114	-	-	-	-
AFS	-	-	-	-	20,837	264	(162)	20,939
Equities								
FVTPL	455	334	(2)	787	-	-	-	-
FVOCI	98	2	(1)	99	-	-	-	-
AFS	-	-	-	-	670	504	(1)	1,173

¹ Amortized cost for equities is acquisition cost less impairment losses, if any.

² Includes debt instruments denominated in U.S. dollars with a carrying value of \$2,187 million (31 December 2017 - \$1,792 million)

We have investment securities of \$620 million (31 December 2017 – \$295 million) that are part of securities sold under repurchase agreements with terms that do not exceed 93 days. We continue to earn investment income and recognize in OCI changes in fair value on these investment securities during the period, with the exception of investments in CHT-issued CMB, which are eliminated from the consolidated financial statements.

Credit quality – FVOCI

The following table presents the credit quality of debt instruments held at FVOCI, 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 fair value of the financial asset.

(in millions)	As at 30 June 2018					Total
	AAA	AA- to AA+	A- to A+	BBB- to BBB+		
Investment securities ¹	5,063	2,120	10,272	1,659	19,114	

¹ The internal credit ratings are based upon internal assessments of the counterparty creditworthiness. These ratings correspond to those provided by the credit rating agencies except in cases where stand-alone ratings exist. A counterparty internal credit rating cannot be higher than the highest stand-alone rating from any of the agencies. A stand-alone rating removes the assumption of Government support from the rating.

Expected credit losses – FVOCI

The ECL allowance for debt instruments held at FVOCI was \$7 million at 30 June 2018 and there was a \$2 million decrease in ECL recognized in net gains (losses) on financial instruments for these securities during the three and six months ended 30 June 2018.

There were no impairment losses recognized in net gains (losses) on financial instruments for investment securities during the three or six months ended 30 June 2017 and no reversals of previously realized debt instrument impairments.

13. Loans

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

(in millions)	Restated opening balance ⁴	Three months ended 30 June						Balance at end of period
		Cash flows		Non-cash changes				
		Repayments	Disbursements	Fair value changes	Accretion	ECL	Transfers ¹	
2018								
FVTPL								
Lending programs designated at FVTPL	2,630	(99)	-	(3)	-	-	(177)	2,351
Loans mandatorily at FVTPL ²	51	(22)	10	-	-	-	-	39
Total at FVTPL	2,681	(121)	10	(3)	-	-	(177)	2,390
Amortized cost³								
Loans under the CMB program	237,244	(10,050)	9,966	-	10	-	-	237,170
Lending programs	4,198	(141)	39	-	-	-	177	4,273
MLI Activity loans ²	112	(4)	3	-	-	(1)	-	110
Total amortized cost	241,554	(10,195)	10,008	-	10	(1)	177	241,553
Total	244,235	(10,316)	10,018	(3)	10	(1)	-	243,943
2017								
Designated at FVTPL								
Lending programs	3,745	(117)	-	(25)	-	-	(214)	3,389
Loans and receivables³								
Loans under the CMB program	229,287	(10,072)	10,109	-	9	-	-	229,333
Lending programs	3,987	(119)	32	-	-	-	214	4,114
Total loans and receivables	233,274	(10,191)	10,141	-	9	-	214	233,447
Total	237,019	(10,308)	10,141	(25)	9	-	-	236,836

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

² Includes MLI Activity loans that were previously classified within accounts receivable and other assets but were reclassified to loans at FVTPL and amortized cost as at 1 January 2018.

³ On 1 January 2018, upon adoption of IFRS 9, loans and receivables were renamed to loans at amortized cost.

⁴ Restated opening balances for the 2018 period are presented in accordance with IFRS 9. Reclassifications and remeasurements upon transition from IAS 39 to IFRS 9 are presented in Note 3.

<i>(in millions)</i>	Six months ended 30 June								Balance at end of period
	Restated opening balance ⁴	Cash flows		Non-cash changes					
		Repayments	Disbursements	Fair value changes	Accretion	ECL	Transfers ¹		
2018									
FVTPL									
Lending programs designated at FVTPL	2,906	(194)	-	(9)	-	-	(352)	2,351	
Loans mandatorily at FVTPL ²	43	(29)	25	-	-	-	-	39	
Total at FVTPL	2,949	(223)	25	(9)	-	-	(352)	2,390	
Amortized cost³									
Loans under the CMB program	233,786	(16,100)	19,464	-	20	-	-	237,170	
Lending programs	4,138	(324)	108	-	-	(1)	352	4,273	
MLI Activity loans ²	117	(7)	6	-	-	(6)	-	110	
Total amortized cost	238,041	(16,431)	19,578	-	20	(7)	352	241,553	
Total	240,990	(16,654)	19,603	(9)	20	(7)	-	243,943	
2017									
Designated at FVTPL									
Lending programs	4,020	(241)	-	(29)	-	-	(361)	3,389	
Loans and receivables³									
Loans under the CMB program	223,315	(14,852)	20,851	-	19	-	-	229,333	
Lending programs	3,995	(300)	58	-	-	-	361	4,114	
Total loans and receivables	227,310	(15,152)	20,909	-	19	-	361	233,447	
Total	231,330	(15,393)	20,909	(29)	19	-	-	236,836	

¹ Transfers are matured loans whose terms 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

² Includes MLI Activity loans that were previously classified within accounts receivable and other assets but were reclassified to loans at FVTPL and amortized cost as at 1 January 2018.

³ On 1 January 2018, upon adoption of IFRS 9, loans and receivables were renamed to loans at amortized cost.

⁴ Restated opening balances for the 2018 period are presented in accordance with IFRS 9. Reclassifications and remeasurements upon transition from IAS 39 to IFRS 9 are presented in Note 3.

Credit quality – amortized cost

The following table presents the credit quality of loans at amortized cost, presented separately for those based on 12-month or lifetime ECL. For loans where past due information is used as the primary criteria in assessing SICR, aging of loans past due from contractual due date is presented. For loans where past due information is not the primary criteria used in assessing SICR, credit quality is presented by credit rating category based on our internal credit rating system. Amounts in the table represent the gross carrying amount of the financial asset.

Loans at amortized cost (in millions)	As at 30 June 2018				POCI	Total
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL (not credit impaired)	Stage 3: Lifetime ECL (credit impaired)			
Days past due:						
0-30 days	2,341	-	-	-	-	2,341
30-90	-	3	-	-	-	3
90+	-	-	100	-	-	100
POCI	-	-	-	119	-	119
Total gross carrying amount	2,341	3	100	119	-	2,563
Internal credit ratings¹:						
AAA	-	-	-	-	-	-
AA- to AA+	705	-	-	-	-	705
A- to A+	325	-	-	-	-	325
BBB- to BBB+	898	-	-	-	-	898
Total gross carrying amount	1,928	-	-	-	-	1,928
Total	4,269	3	100	119	-	4,491
ECL allowance	(1)	-	(44)	(63)	-	(108)
Total, net of ECL allowance	4,268	3	56	56	-	4,383
Loans under the CMB program ²	-	-	-	-	-	237,170
Total loans at amortized cost						241,553

¹ The internal credit ratings are based upon internal assessments of the counterparty creditworthiness. These ratings correspond to those provided by the credit rating agencies except in cases where stand-alone ratings exist. A counterparty internal credit rating cannot be higher than the highest stand-alone rating from any of the agencies. A stand-alone rating removes the assumption of Government support from the rating.

² ECL are not recognized for Loans under the CMB program since the credit risk arising from these loans is reflected in the credit risk of the NHA MBS and CMB TPGs and recognized in unearned premiums and fees. The sole source of repayment on these loans are the NHA MBS securities, reinvestment assets and swaps which are the same credit risk drivers as the NHA MBS and CMB TPGs.

We are assured collection of principal and accrued interest on 99% (31 December 2017 – 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. For loans designated at FVTPL, there were no changes in fair value attributable to changes in credit risk.

Total undrawn loan commitments outstanding at 30 June 2018 were \$110 million, of which \$98 million are subject to 12-month ECL and \$12 million are commitments outstanding on purchased or credit impaired loans.

Expected credit losses

The table below presents the change in the ECL allowance recognized in the consolidated statement of income on loans held at amortized cost.

<i>(in millions)</i>	Three months ended June 30					2017 – IAS 39 ¹
	2018 – IFRS 9					
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit impaired	Stage 3: Lifetime ECL credit impaired	POCI	Total	
ECL allowance – beginning of period:						
Lending program loans	1	-	5	-	6	23
MLI activity loans	-	-	38	63	101	188
Total ECL allowance – beginning of period	1	-	43	63	107	211
Increase in ECL allowance:						
Lending program loans	-	-	-	-	-	-
MLI activity loans	-	-	1	-	1	9
Total increase in ECL allowance ²	-	-	1	-	1	9
ECL allowance – end of period:						
Lending program loans	1	-	5	-	6	23
MLI activity loans	-	-	39	63	102	197
Total ECL allowance – end of period	1	-	44	63	108	220

¹ IAS 39 loss allowance for MLI activity loans was presented in accounts receivable and other assets.

² Included in net gains (losses) on financial instruments for Lending program loans and insurance claims expense for MLI activity loans.

<i>(in millions)</i>	Six months ended June 30					2017 – IAS 39 ¹
	2018 – IFRS 9					
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit impaired	Stage 3: Lifetime ECL credit impaired	POCI	Total	
ECL allowance – beginning of period:						
Lending program loans	1	-	4	-	5	23
MLI activity loans	-	-	33	63	96	187
Total ECL allowance – beginning of period	1	-	37	63	101	210
Increase in ECL allowance:						
Lending program loans	-	-	1	-	1	-
MLI activity loans	-	-	6	-	6	10
Total increase in ECL allowance ²	-	-	7	-	7	10
ECL allowance – end of period:						
Lending program loans	1	-	5	-	6	23
MLI activity loans	-	-	39	63	102	197
Total ECL allowance – end of period	1	-	44	63	108	220

¹ IAS 39 loss allowance for MLI activity loans was presented in accounts receivable and other assets.

² Included in net gains (losses) on financial instruments for Lending program loans and insurance claims expense for MLI activity loans.

During the three and six months ended 30 June 2018, ECLs on loans increased by \$1 million and \$7 million, respectively, primarily due to transfers of loans from stage 1 to stage 3 during the period.

The allowance for expected credit losses on undrawn loan commitments was \$8 million at 30 June 2018, an increase of \$8 million during the three and six months ended 30 June 2018.

14. Borrowings

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

<i>(in millions)</i>	Three months ended 30 June						Balance at end of period
	Balance at beginning of period	Cash flows		Non-cash changes			
		Issuances	Repayments	Fair value changes	Accretion	Eliminations	
2018							
Designated at FVTPL							
Borrowings from the Government of Canada	4,262	-	(343)	(6)	-	-	3,913
Borrowings at amortized cost							
Canada mortgage bonds	232,994	9,966	(10,050)	-	10	138	233,058
Borrowings from the Government of Canada	4,355	243	(145)	(2)	2	-	4,453
Total borrowings at amortized cost	237,349	10,209	(10,195)	(2)	12	138	237,511
Total	241,611	10,209	(10,538)	(8)	12	138	241,424
2017							
Designated at FVTPL							
Borrowings from the Government of Canada	5,534	743	(1,137)	(35)	-	-	5,105
Other financial liabilities							
Canada mortgage bonds	224,403	10,109	(9,939)	-	9	28	224,610
Borrowings from the Government of Canada	4,304	163	(123)	(2)	-	-	4,342
Total other financial liabilities	228,707	10,272	(10,062)	(2)	9	28	228,952
Total	234,241	11,015	(11,199)	(37)	9	28	234,057

<i>(in millions)</i>	Six months ended 30 June						Balance at end of period
	Balance at beginning of period	Cash flows		Non-cash changes			
		Issuances	Repayments	Fair value changes	Accretion	Eliminations	
2018							
Designated at FVTPL							
Borrowings from the Government of Canada	4,564	-	(637)	(14)	-	-	3,913
Borrowings at amortized cost							
Canada mortgage bonds	229,242	19,464	(16,100)	-	20	432	233,058
Borrowings from the Government of Canada	4,350	443	(343)	(4)	7	-	4,453
Total borrowings at amortized cost	233,592	19,907	(16,443)	(4)	27	432	237,511
Total	238,156	19,907	(17,080)	(18)	27	432	241,424
2017							
Designated at FVTPL							
Borrowings from the Government of Canada	5,632	999	(1,488)	(38)	-	-	5,105
Capital market borrowings	273	-	(275)	-	-	2	-
Total designated at FVTPL	5,905	999	(1,763)	(38)	-	2	5,105
Other financial liabilities							
Canada mortgage bonds	218,829	20,851	(14,719)	-	19	(370)	224,610
Borrowings from the Government of Canada	4,327	357	(339)	(5)	2	-	4,342
Total other financial liabilities	223,156	21,208	(15,508)	(5)	21	(370)	228,952
Total	229,061	22,207	(16,821)	(43)	21	(368)	234,057

When CMHC holds CMB to maturity or acquires CMB in the primary market, the related cash flows are excluded from the consolidated statement of cash flows. During the three and six months ended 30 June 2018, no CMB maturities have been excluded from repayments in the table above and from investment securities – sales and maturities in the consolidated statement of cash flows (three and six months ended 30 June 2017 – \$133 million). There were no purchases in the primary market during the three and six months ended 30 June 2018 (30 June 2017 – nil).

15. Financial instruments income and expenses

Interest income, investment income and interest expense

The following table outlines the total interest income and expense calculated using the effective interest method for financial instruments and the dividend income recognized in the consolidated statement of income and comprehensive income.

<i>(in millions)</i>	Three months ended					
	30 June 2018			30 June 2017		
	Interest income	Investment income	Interest expense	Interest income	Investment income	Interest expense
Interest for financial instruments not at FVTPL:						
Cash equivalents	1	2	-	-	2	-
Debt instruments – FVOCI	-	120	-	-	-	-
Debt instruments – AFS	-	-	-	-	132	-
Loans – amortized cost	1,283	-	-	1,126	-	-
Securities sold under repurchase agreements	-	(2)	-	-	(1)	-
Borrowings – amortized cost	-	-	1,253	-	-	1,093
Total interest for financial instruments not at FVTPL	1,284	120	1,253	1,126	133	1,093
Interest for financial instruments at FVTPL:						
Debt instruments	5	2	-	6	-	-
Loans	10	-	-	15	-	-
Borrowings	-	-	19	-	-	23
Derivatives	6	-	-	6	-	-
Total interest for financial instruments at FVTPL	21	2	19	27	-	23
Total Interest	1,305	122	1,272	1,153	133	1,116
Dividend income ¹	-	9	-	-	12	-
Total	1,305	131	1,272	1,153	145	1,116

¹ All dividend income was recognized on investments still held at the end of the period.

<i>(in millions)</i>	Six months ended					
	30 June 2018			30 June 2017		
	Interest income	Investment income	Interest expense	Interest income	Investment income	Interest expense
Interest for financial instruments not at FVTPL:						
Cash equivalents	2	4	-	1	2	-
Debt instruments – FVOCI	-	241	-	-	-	-
Debt instruments – AFS	-	-	-	-	263	-
Loans – amortized cost	2,511	-	-	2,225	-	-
Securities sold under repurchase agreements	-	(4)	-	-	(2)	-
Borrowings – amortized cost	-	-	2,449	-	-	2,161
Total interest for financial instruments not at FVTPL	2,513	241	2,449	2,226	263	2,161
Interest for financial instruments at FVTPL:						
Debt instruments	10	3	-	10	-	-
Loans	22	-	-	31	-	-
Borrowings	-	-	39	-	-	48
Derivatives	11	-	-	12	-	-
Total interest for financial instruments at FVTPL	43	3	39	53	-	48
Total Interest	2,556	244	2,488	2,279	263	2,209
Dividend income ¹	-	18	-	-	24	-
Total	2,556	262	2,488	2,279	287	2,209

¹ In the six months ended 30 June 2018 all dividend income was recognized on investments still held at the end of the period (six months ended 30 June 2017 - \$23 million).

Gains and losses from financial instruments

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

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Financial Instruments designated at FVTPL				
Investment securities	-	(6)	(1)	(3)
Loans	(3)	(25)	(9)	(29)
Borrowings	6	35	14	38
Total financial instruments designated at FVTPL	3	4	4	6
Financial instruments mandatorily at FVTPL				
Equity securities	36	-	(38)	-
Debt instruments	-	-	(1)	-
Derivatives	(46)	11	(102)	8
Total financial instruments mandatorily at FVTPL	(10)	11	(141)	8
Debt instruments held at FVOCI ¹	35	-	82	-
AFS – investment securities ¹	-	(13)	-	(5)
Loans at amortized cost – prepayments	13	16	16	40
Borrowings – amortized cost ²	(4)	(18)	(10)	(34)
Expected credit loss recoveries (credit losses) on financial assets	5	-	(1)	-
Total	42	-	(50)	15

¹ Includes foreign exchange gains during the three and six months ended 30 June 2018 of \$38 and \$92 million respectively (three and six months ended 30 June 2017 – \$21 and \$22 million) resulting from translation of U.S. dollar-denominated debt instruments.

² Includes losses from the retirement of borrowings during the three and six months ended 30 June 2018 of \$6 and \$14 million respectively (three and six months ended 30 June 2017 – \$20 and \$39 million), net of gains during the three and six months ended 30 June 2018 from the issuance of borrowings of \$2 and \$4 million, respectively (three and six months ended 30 June 2017 – \$2 and \$5 million).

16. 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.

Value at risk (VaR)

Market risk for investment securities in the Mortgage Loan Insurance and Securitization Activities is evaluated through the use of VaR models. VaR is a statistical technique used to measure the maximum potential loss of an investment portfolio over a specified holding period with a given level of confidence. The VaR for the Mortgage Loan Insurance and Securitization Activities as at 31 December, calculated with 95% confidence over a 22 business day holding period, is outlined in the table below. VaR is presented separately for individual market risk factors and for the total portfolio. The effect of diversification results from the fact that market risks are not perfectly correlated and, consequently, there is a benefit from investment diversification. The VaR figures are based on one year of historical prices and correlations of bond and equity markets and 26 weeks of volatility.

<i>(in millions)</i>	As at	
	30 June 2018	31 December 2017
Investment securities:		
Interest rate risk on debt instruments	198	213
Equity risk	31	43
Effect of diversification	(31)	(50)
Total VaR	198	206

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 \$2,187 million in debt instruments denominated in U.S. dollars as at 30 June 2018 (31 December 2017 – \$1,792 million).

Our strategy to fully hedge currency risk is to continuously enter into a series of short-term foreign currency forward contracts. Under these contracts, most of which are settled net, we exchange U.S. dollars for Canadian dollars at an exchange rate fixed at the outset of the contract for settlement at a future pre-determined date. Given the short terms of the forward contracts, full hedging of currency risk over the life of the foreign-denominated debt instruments will require continued application of our strategy in the future. The exposures presented in the Value at Risk table above reflect the offsetting effect of the hedging instruments. Currency risk was assessed as immaterial as at 30 June 2018.

Interest rate sensitivity

Market risk for the Assisted Housing Activity portfolio of loans, investments, borrowings and swaps is evaluated 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 impact of a 200 bps shift in interest rates as immaterial as at 30 June 2018.

The Assisted Housing Activity's loans and borrowings measured at amortized cost are also exposed to interest rate risk. The net impact of a shift in interest rates on their fair value is presented below.

<i>(in millions)</i>	As at			
	30 June 2018		31 December 2017	
	Interest rate shift		Interest rate shift	
	-200 bps	+200 bps	-200 bps	+200 bps
Increase (decrease) to fair value of net assets ¹	(51)	42	(56)	49

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.

The Assisted Housing Activity's net interest income is also sensitive to interest rate movements. The maximum negative exposure of net interest income is \$0.7 million at 30 June 2018 (31 December 2017 – \$1.2 million). This is calculated by scenario analysis using multiple simulations of interest rate volatility with 95% confidence over a one-year period.

17. Credit Risk

Credit risk is the potential for financial loss arising from failure of a borrower or an institutional counterparty to fulfill its contractual obligations. Full descriptions of credit risks related to our financial instruments and how we manage those risks are disclosed in Note 18 of our audited consolidated financial statements. There has been no change to the nature of the risk and how they are managed for the three and six month period ended 30 June 2018.

18. Pension and Other Post-Employment Benefits

Expense, remeasurements and contributions for the defined benefit plans are presented below:

<i>(in millions)</i>	Three months ended 30 June			
	Pension plans		Other post-employment plans	
	2018	2017	2018	2017
Current service cost	9	8	1	1
Net interest expense	2	4	1	1
Expense recognized in net income	11	12	2	2
Net actuarial gains (losses) arising from changes in financial assumptions	49	(108)	3	(7)
Return on plan assets (excluding amounts included in net interest expense)	49	11	-	-
Net remeasurements recognized in other comprehensive income (loss)¹	98	(97)	3	(7)
CMHC's contributions	19	32	3	1
Employee contributions	5	3	-	-
Total contributions	24	35	3	1

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

<i>(in millions)</i>	Six months ended 30 June			
	Pension plans		Other post-employment plans	
	2018	2017	2018	2017
Current service cost	19	15	1	1
Net interest expense	6	6	2	2
Expense recognized in net income	25	21	3	3
Net actuarial gains (losses) arising from changes in financial assumptions	91	(175)	5	(11)
Return on plan assets (excluding amounts included in net interest expense)	19	34	-	-
Net remeasurements recognized in other comprehensive income (loss)¹	110	(141)	5	(11)
CMHC's contributions	41	55	4	2
Employee contributions	8	6	-	-
Total contributions	49	61	4	2

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

We remeasure our defined benefit obligations and the fair value of plan assets at interim periods. The discount rate is determined in accordance with guidance issued by the Canadian Institution of Actuaries by reference to Canadian AA-Corporate bonds with terms to maturity approximating the duration of the obligation. Effective 31 December 2017, the defined contribution plan was closed and all employees were transferred to the new modified defined benefit pension plan. As a result, expenses for the defined contribution plan were nil for the three and six months ended 30 June 2018 (three and six months ended 30 June 2017 - \$1.2 million and \$2.0 million).

19. Income Taxes

The following table presents the components of income tax.

<i>(in millions)</i>	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Current income tax expense	126	108	225	224
Deferred income tax relating to origination and reversal of temporary differences	(1)	22	(6)	24
Total income tax expense included in net income	125	130	219	248
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized losses from FVOCI financial instruments	(16)	-	(48)	-
Net unrealized gains from AFS financial instruments	-	(37)	-	(8)
Reclassification of prior years' net unrealized gains realized in the period in net income	-	(2)	(1)	(3)
Remeasurement losses on defined benefit plans	15	(18)	19	(27)
Total income tax recovery included in other comprehensive income (loss)	(1)	(57)	(30)	(38)
Total	124	73	189	210

20. Related Party Transactions

We pay the Government fees in recognition of its financial backing of the Mortgage Loan Insurance and Securitization Activities. The fees, which are recorded in operating expenses, amount to \$10 million and \$19 million for the three and six months ended 30 June 2018, respectively (three and six months ended 30 June 2017 – \$9 million and \$17 million) for the Mortgage Loan Insurance Activity and \$6 million and \$11 million for the three and six months ended 30 June 2018, respectively (three and six months ended 30 June 2017 – \$5 million and \$10 million) for the Securitization Activity.

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

21. Commitments and Contingent Liabilities

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed \$600 billion (31 December 2017 – \$600 billion). At 30 June 2018, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled \$463 billion (31 December 2017 – \$480 billion). Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed \$600 billion (31 December 2017 – \$600 billion). At 30 June 2018, guarantees-in-force, which represents the risk exposure of the Securitization Activity, totalled \$479 billion (31 December 2017 – \$477 billion).

There are legal claims of \$8 million (31 December 2017 – \$8 million) against CMHC. Due to the uncertainty of the outcome of these claims, no provision for loss has been recorded. We do not expect the ultimate resolution of any of the proceedings to which we are party to have a significant adverse effect on our financial position.

22. Comparative Figures

Certain comparative information in the consolidated statement of income and comprehensive income has been reclassified to conform to the current period's presentation. The same comparative information has been reclassified accordingly in the related notes to the consolidated financial statements.

Parliamentary appropriations presented in Note 6 have been reclassified to conform to the current period's presentation in accordance with Treasury Board's *Policy on Results*. CMHC is required to report appropriated funds following the Departmental Results Framework for the Government beginning April 1, 2018.

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