Canada Mortgage and Housing Corporation

Quarterly Financial Report

FIRST QUARTER

March 31st, 2017

(Unaudited)

Canada

CMHC SCHL

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Management's Discussion and Analysis

Overview

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 17 May 2017 is prepared for the first quarter ended 31 March 2017 and is intended to provide readers with an overview of our performance including comparatives against the same three month period in 2016. 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 2016 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 CMHC's external auditors. 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 2016 Annual Report. There have been no material changes to our significant accounting policies, judgments or estimates to the end of the first quarter of 2017.

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 2017", 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 International Financial Reporting Standards (IFRS), are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability with other institutions. These non-IFRS measures are presented to supplement the information disclosed in the unaudited quarterly consolidated financial statements which are prepared in accordance with IFRS and may be useful in analyzing performance and understanding the measures used by management in its financial and operational decision making. Definitions of the non-IFRS measures used throughout the quarterly financial report can be found in the Glossary for Non-IFRS Financial Measures section of the 2016 Annual Report.

The Operating Environment and Outlook for 2017

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

Economic conditions and housing indicators (as of April 2017)

The outlook for the world economy remains well below potential over the near term. The UK's exit from the European Union, persistent weakness in commodity prices, and financial imbalances in China are just some of the factors causing the uncertainty.

In Canada, economic growth was weak in 2016. Business investment was a major drag on the economy. At the same time, Canada's trade sector continued to dampen gross domestic product (GDP) growth, despite the depreciation of the loonie against the U.S. dollar. On the positive side, consumer spending growth picked up, while residential investment continued to increase. Overall, the Canadian economy managed an increase of 1.4% in 2016. Real GDP is forecast to expand at a steady pace throughout the forecast, with growth in the 1.2-2.6% range in 2017 and 2018. Growth will be driven largely by government stimulus, a rebound in exports, and improved performance in the energy sector.

The most important risk to Canada's economic outlook remains household debt. This vulnerability could amplify the impact of an economic shock if indebted households begin to deleverage or struggle to repay their debt balances in the event of a rise in unemployment. Rising interest rates are another risk that would boost the cost of debt charges carried by borrowers causing many households to cut back on spending.

Against this backdrop, CMHC's Housing Market Assessment framework continues to detect strong overall evidence of problematic conditions. On a national basis, the framework identifies the level of evidence as strong due to overvaluation and acceleration in house prices. At the regional level, the overall assessment indicates strong evidence of problematic conditions in Toronto, Hamilton, and Vancouver. And now, evidence of overvaluation has increased from moderate to strong in Victoria, as house prices remain higher than levels consistent with underlying fundamentals.

Altogether, resale prices continued to post gains throughout 2016, with much of the growth fuelled by British Columbia's lower mainland and the Greater Toronto Area. In 2017, house prices will continue to rise, but at a considerably slower pace than in the previous years. There are a number of factors that are expected to dampen the outlook including tighter mortgage rules, the uncertainty over resource prices, and the shift in the distribution of sales from the higher end of the market toward lower-priced units, such as condominiums.

On an annual basis, the national average price of existing homes was $490,000 in 2016, and is expected to range between $484,000 and $508,000 in 2017. Meanwhile, resale activity is expected to moderate, ranging from 490,000 units to 510,000 units in 2017, after posting 535,000 units in 2016. Demographic fundamentals are expected to stay soft throughout the near term, and this will result in weaker housing starts this year and next. Housing starts are forecast to drop from 198,000 units in 2016, with the annual total to remain in the 173,000-184,000 units range in 2017 and 2018.

National Housing Strategy

On National Housing Day, 22 November 2016, a 'What We Heard' report was released summarizing the views, ideas and insights we gathered through the National Housing Strategy (NHS) consultations. A key finding was that Canadians want better housing outcomes for those in greatest need. In addition, NHS survey respondents cited affordability, sustainability, inclusivity, and housing that supports a better quality of life, amongst the most important housing outcomes to strive towards.

A number of key themes emerged:

- *Help those in greatest need*
- *Foster a strong social and affordable housing sector*
- *Improve Indigenous and northern housing*
- *Enhance housing affordability and choice*
- *Support sustainable housing and communities*
- *Take a collaborative approach*
- *Link housing and essential services*

Development of the NHS will involve examining long-standing and emerging housing challenges and capitalizing on opportunities to address them in new and innovative ways. We are considering all of the ideas put forth by Canadians and continue to work with stakeholders to determine how the views and insights gathered can support an NHS that best responds to the housing needs of Canadians.

Budget 2017 proposes new federal investments of over $11.2 billion over 11 years, as well as preservation of social housing funding and new low-cost loans to support affordable housing under a National Housing Strategy. These figures will build on new federal funding of $5 billion that was made available through Budget 2016, a portion of which is reflected in CMHC's expenditures for Housing Programs in the first quarter of 2017. The incremental federal funding proposed through Budget 2017 will support affordable housing through new investments and lending including:

- $5 billion for a National Housing Fund to address critical housing issues and prioritize support for vulnerable citizens. The Fund will include funding for renewal of the social housing sector, innovative approaches to the development of affordable housing, and a co-investment fund to facilitate multi-faceted partnerships needed to address the most complex housing challenges, including a people-centered approach linking housing, supports and services, and more complex community renewal projects to achieve better social, economic and environmental outcomes. It also includes money for direct lending, which will increase the impact of these investment dollars.
- $3.2 billion in federal funding to renew the federal-provincial-territorial partnership in housing and support shared housing priorities. Provinces and territories are expected to cost-match this funding.
- $2.1billion for the Homelessness Partnering Strategy to reduce chronic and episodic homelessness, led by Employment and Social Development Canada.
- $300 million to support territorial efforts to improve housing outcomes in the North.
- $241 million to support expanded housing research and enhance data collection, analytics and demonstration capacity.
- $225 million to improve housing conditions for First Nations, Inuit and Métis living in rural and urban communities.
- $202 million to make surplus federal lands and buildings available to housing providers at low or no cost for the development of affordable housing.

CMHC will be entrusted to directly deliver $9.1 billion of this important investment.

Budget 2017 also announced the preservation of funding for CMHC related to the expiry of long-term social housing operating agreements. The use and renewal of these funds will be determined over the next year when CMHC will return to Cabinet.

The Government of Canada (Government) through CMHC, will undertake targeted consultations with the housing sector to finalize the design of programs and initiatives and will release a comprehensive National Housing Strategy in 2017.

Assisted Housing developments

We will continue to help Canadians in need gain access to suitable housing they can afford by finding new and flexible ways to maximize the impact of our resources, while implementing and delivering on the National Housing Strategy from Budget 2017.

Mortgage Loan Insurance developments

Mortgage loan insurance premiums

As a result of our annual review of insurance products in 2016, and to reflect the new Office of the Superintendent of Financial Institutions (OSFI) capital requirements, we adjusted pricing for portfolio mortgage insurance effective 1 January 2017, and increased transactional homeowner mortgage loan insurance premiums for newly originated loans, effective 17 March 2017. For the average CMHC-insured homebuyer, the higher transactional premium will result in an increase of approximately $5 to their monthly mortgage payment.

Changes to capital requirements for residential mortgages

On 15 December 2016, OSFI released its revised capital advisory for mortgage insurers titled Capital Requirements for Federally Regulated Mortgage Insurers (Advisory) with an effective date of 1 January 2017. The objective of the Advisory was to introduce a new standard approach that updates the capital requirements for mortgage insurance risk and increases the probability that mortgage insurance companies can absorb severe, but plausible losses. The framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization, and outstanding loan balance. Refer to Note 7 – Capital Management of the unaudited quarterly consolidated financial statements for complete disclosure.

Affordable Rental Housing

Subsequent to 31 March 2017, CMHC announced two initiatives that will help Canadians meet their housing needs. The Rental Construction Financing initiative will provide $2.5 billion in low-cost loans to support the construction of new rental housing. The initiative was announced as part of Budget 2016 and is expected to fund the construction of 10,000 new rental housing units in Canada. Starting in 2017, the initiative will provide up to $625 million in loans each year for four years to encourage the development of new rental housing by municipalities, non-profit organizations and housing developers.

CMHC also introduced enhancements to its multi-unit mortgage loan insurance to further enable the construction, purchase and refinancing of affordable rental housing options. The changes are designed to stimulate the creation and preservation of affordable rental housing.

Securitization developments

Refined guarantee fee structure for shorter-term NHA MBS

Effective 1 January 2017, CMHC introduced a more refined guarantee fee term structure for shorter-term *National Housing Act* Mortgage-Backed Securities (NHA MBS) to provide flexibility and better align costs of these short-term NHA MBS with the annualized guarantee fee costs for longer-term NHA MBS.

New administration fee applicable to issuers' unused annual NHA MBS guarantee allocation

CMHC is introducing a 0.01% administration fee that will be assessed against a portion of an issuer's unused NHA MBS guarantee allocation beyond a specified threshold. The policy took effect on 1 April 2017 and will be applied to unused allocations. The new fee is meant to better align requested guarantees with actual NHA MBS funding needs of issuers and to smooth out the allocation of NHA MBS guarantees throughout the year.

Condensed Consolidated Financial Results

Condensed consolidated balance sheets

	As at	
(in millions)	**31 March 2017**	**31 December 2016**
Total assets	266,188	259,532
Total liabilities	244,782	238,542
Total equity of Canada	21,406	20,990

Total assets increased by $6,656 million (2.6%) from 31 December 2016, primarily due to increases in loans – loans and receivables and due from the Government of Canada. Loans – loans and receivables increased by $5,964 million (2.6%) due to the net impact of issuances and maturities of Canada Mortgage Bonds (CMB) in the first quarter of 2017 of $10.8 billion and $4.7 billion, respectively. Amounts due from the Government of Canada increased by $968 million (1640.7%) primarily due to increases in spending for new initiatives under Budget 2016, partially offset by appropriations received during the period.

Total liabilities increased by $6,240 million (2.6%) from 31 December 2016 due to increases in borrowings – other financial liabilities and accounts payable and other liabilities. Borrowings – other financial liabilities increased by $5,551 million (2.5%) mainly due to net issuances of CMB. Accounts payable and other liabilities increased by $644 million (117.5%) primarily due to increases in Housing program accruals.

Condensed consolidated statements of income and comprehensive income

	Three months ended	
(in millions)	**31 March 2017**	**31 March 2016**
Total revenues	2,250	1,201
Total expenses	1,762	789
Income taxes	118	99
Net income	370	313
Other comprehensive (loss) income	46	(13)
Comprehensive income	416	300

Total revenues increased by $1,049 million (87.3%) from the same quarter last year due to increases in parliamentary appropriations for housing programs, net gains on financial instruments and premiums and fees earned.

Parliamentary appropriations for housing programs increased by $976 million (165.4%) primarily due to increases in new commitments for affordable housing resulting from spending for new initiatives under Budget 2016.

Net gains on financial instruments increased by $37 million (168.2%) primarily due to a decrease in the cost of debt retirement on purchases of CMB.

Premiums and fees earned increased by $25 million (5.7%) as a result of the maturity of older NHA MBS and CMB pools being replaced by more recent issuances that reflect the increased guarantee fee rates implemented in 2015 in the Securitization Activity and an increase in premiums and fees received in recent years in the Mortgage Loan Insurance Activity.

Total expenses increased by $973 million (123.3%) from the same quarter last year mainly due to the increase in Housing program expenses and operating expenses, partially offset by a decrease in insurance claims.

Housing program expenses increased by $976 million (165.4%) in accordance with parliamentary appropriations for housing programs as previously noted.

Operating expenses increased by $22 million (22.7%) mainly due higher costs from our technology transformation initiative.

Insurance claims decreased by $25 million (24.5%) due to a lower number of policies in force, improvement in arrears and unemployment rates at a national level, along with increasing housing prices in the Greater Toronto Area and Vancouver.

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

	Three months ended	
(in millions)	**31 March 2017**	**31 March 2016**
Net interest income	-	3
Parliamentary appropriations for housing programs	1,566	590
Other income	13	12
Total revenues	**1,579**	**605**
Housing programs expenses	1,566	590
Operating expenses	7	3
Total expenses	**1,573**	**593**
Income before income taxes	**6**	**12**
Income taxes	-	2
Net income	**6**	**10**

Total revenues increased by $974 million (161.0%) from the same quarter last year. This is primarily driven by an increase in parliamentary appropriations for housing programs, as a result of an increase of $945 million in spending for new initiatives under Budget 2016, and $35 million due to the timing of expenditure claims from the provinces and territories under the Investment in Affordable Housing. Of the $945 million in spending under Budget 2016, $893 million relates to new commitments for affordable housing and $52 million is for new commitments for housing in First Nation communities.

Total expenses increased by $980 million (165.3%) primarily driven by an increase in Housing programs expenses as explained above.

Capital management

We manage our capital[1] to address risk exposures in our Lending portfolio due to declining business which affects our ability to maintain breakeven 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. Refer to the unaudited quarterly consolidated financial statements Note 7 – Capital Management for complete disclosure on capital management.

[1] *References to "capital" in this quarterly financial report 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.

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.

	Three months ended 31 March	
(in millions)	**2017**	**2016**
Amounts provided for housing programs:		
Amounts authorized in 2016/17 (2015/16)		
Main estimates	2,028	2,026
Supplementary estimates A[1,2]	1,070	-
Supplementary estimates B[1,2]	78	-
Less: Portion recognized in calendar 2016 (2015)	(1,563)	(1,419)
Less: Appropriations lapsed for 2016/17 (2015/16)	(47)	(17)
2016/17 (2015/16) portions recognized in 2017 (2016)	**1,566**	**590**
Amounts authorized in 2017/18 (2016/17)		
Main estimates	2,735	2,028
Supplementary estimates A[1,2]	-	1,070
Supplementary estimates B[1,2]	-	78
Total fiscal year appropriations	**2,735**	**3,176**
Less: Portion to be recognized in subsequent quarters	(2,735)	(3,176)
2017/18 (2016/17) portions recognized in 2017 (2016)	**-**	**-**
Total appropriations recognized – three months ended 31 March	**1,566**	**590**

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.*

The total spending against the reference level as at 31 March 2017 was $3,129 million (98.5%). Included within the $3,176 million reference level for 2016/2017 is a lapse with a frozen allotment in the amount of $35 million to reflect the transfer of delivery of the Inuit Housing Funding from CMHC to Indigenous and Northern Affairs Canada. When netted against this frozen allotment, CMHC's lapse is $12 million.

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. We derive our net income primarily from this activity.

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

	As at	
(in billions)	**31 March 2017**	**31 December 2016**
Insurance-in-force	**502**	**512**
Transactional homeowner	260	264
Portfolio	179	185
Multi-unit Residential	63	63

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed $600 billion (31 December 2016 – $600 billion). At 31 March 2017, insurance-in-force was $502 billion, a $10 billion (2%) decrease from 31 December 2016. New loans insured were $8 billion, while estimated loan amortization and pay-downs were $18 billion.

	Three months ended	
(in millions, unless otherwise indicated)	**31 March 2017**	**31 March 2016**
Total insured volumes (units)	**48,746**	**82,834**
Transactional homeowner	18,624	24,162
Portfolio[1]	4,662	36,690
Multi-unit Residential	25,460	21,982
Total insured volumes ($)	**8,253**	**14,336**
Transactional homeowner	4,858	5,766
Portfolio[1]	1,207	6,979
Multi-unit residential	2,188	1,591
Premiums and fees received[2]	**228**	**248**
Transactional homeowner	149	173
Portfolio	9	17
Multi-unit residential	70	58
Claims Paid[3]	**77**	**102**
Transactional homeowner	69	83
Portfolio	6	9
Multi-unit residential	2	10
Arrears rate (%)	**0.32**	**0.34**

[1] *Portfolio volumes have been modified to reflect Lender substitutions along with new business volumes.*
[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.*

Our total insured volumes in the first quarter of 2017 were 34,088 units (41.2%) lower than the same quarter last year primarily due to the decrease in portfolio volumes.

- Portfolio volumes (new and substitutions) decreased by 32,028 units (87.3%) mainly due to the market adjusting to new pricing as a result of the increased capital requirements.
- Transactional homeowner volumes decreased by 5,538 units (22.9%) as both purchase and refinance volumes decreased largely due to new regulations announced by the Government in the fourth quarter of 2016. Purchase volumes are impacted by the requirement of the "mortgage rate stress test" that requires borrowers to demonstrate their ability to make their mortgage payments at a higher interest rate. Furthermore, the regulations eliminated the refinance product.
- Multi-unit residential volumes increased by 3,478 units (15.8%) primarily due to an increase in multi-unit residential refinance transactions mainly resulting from the low interest rate environment.

Premiums and fees received decreased by $20 million (8.1%) from the same quarter last year primarily due to lower premiums and fees received for transactional homeowner and portfolio products, slightly offset by increases in the multi-unit residential product for the same reasons noted above.

Claims paid decreased by $25 million (24.5%) due to a lower number of policies in force, improvement in arrears and unemployment rates at a national level, along with increasing housing prices in the Greater Toronto Area and Vancouver.

	As at			
	31 March 2017		31 December 2016	
	No. of Delinquent Loans	**Arrears Rate**	**No. of Delinquent Loans**	**Arrears Rate**
Transactional homeowner	6,373	0.48 %	6,456	0.48 %
Portfolio	1,549	0.14 %	1,563	0.13 %
Multi-unit residential	100	0.46 %	94	0.43 %
Total	**8,022**	**0.32 %**	**8,113**	**0.32 %**

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 has remained constant while the total number of delinquent loans as at 31 March 2017 has decreased slightly compared to year end 2016. There has been a slight decrease in the number of delinquent loans in all regions except for the oil-producing regions, mainly Alberta and Saskatchewan, where we have seen a slight increase in the number of delinquent loans and arrears rate. The decreases in the other regions were enough to offset the increases in the oil-producing regions, resulting in a slight overall reduction in the number of delinquent loans.

Financial analysis

	Three months ended	
(in millions)	**31 March 2017**	**31 March 2016**
Premiums and fees earned	377	368
Investment income	151	144
Other income[1]	12	3
Total revenues	**540**	**515**
Insurance claims	77	102
Operating expenses	81	66
Total expenses	**158**	**168**
Income before income taxes	**382**	**347**
Income taxes	93	84
Net income	**289**	**263**

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

Premiums and fees earned increased by $9 million (2.4%) as previously discussed under the condensed consolidated statements of income and comprehensive income.

Other income increased by $9 million (300.0%) primarily due to an increase in net gains on financial instruments recognized on fixed income sales due to portfolio rebalancing.

Investment income increased by $7 million (4.9%) primarily due to a larger investment base, an increase in duration, and a $2.8 million dividend, offset by a decrease in market yields due to a low interest rate environment.

Insurance claims decreased by $25 million (24.5%) as previously discussed under the condensed consolidated statements of income and comprehensive income.

Operating expenses increased by $15 million (22.7%) mainly due to higher costs from our technology transformation initiative.

Ratios

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

	Three months ended	
(in percentages)	**31 March 2017**	**31 March 2016**
Severity ratio	30.5	34.4
Loss ratio	20.4	27.7
Operating expense ratio	21.5	17.9
Combined ratio	41.9	45.6
Return on equity	6.1	5.9

The severity ratio decreased by 3.9 percentage points due to lower claims as a percentage of insured loan amount as well as stronger sales proceeds, both of which contribute to a lower severity.

The loss ratio decreased by 7.3 percentage points primarily due to the decrease in insurance claims and the increase in earned premiums and fees as previously discussed.

The operating expense ratio increased by 3.6 percentage points due to the increase in operating expenses, slightly offset by the increase in earned premiums and fees as previously discussed.

The combined ratio decreased by 3.7 percentage points primarily due to the decrease in insurance claims and higher earned revenues, offset by an increase in operating expenses 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 7 – Capital Management for complete disclosure on capital management.

	Three months ended	
(in percentages)	**31 March 2017**	**31 March 2016**
Capital available to minimum capital required (% MCT)[1]	215	362
Return on capital holding target	11.3	10.5

[1] *We have not made use of transitional arrangements as provided by the OSFI Advisory. Our MCT ratio as at 31 March 2017 would be 277% with transitional arrangements.*

Capital available to minimum capital required decreased by 147 percentage points mainly due to OSFI's revised capital advisory for mortgage insurers implemented on 1 January 2017 which resulted in an increase in minimum capital required.

The return on capital holding target increased by 0.8 percentage points mainly due to higher net income as previously discussed.

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 31 March 2017 total investments had a fair value of $25.7 billion (31 December 2016 - $25.4 billion) which is materially consistent with its book value.

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 (31 December 2016 - $600 billion). Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee, and is broken down as follows.

	As at	
(in billions)	**31 March 2017**	**31 December 2016**
Total guarantees-in-force	**457**	**452**
NHA MBS	228	229
CMB	229	223

Guarantees-in-force were $457 billion as at 31 March 2017, an increase of $5 billion (1.1%) as new guarantees provided by CMHC exceeded maturities.

	Three months ended	
(in millions)	**31 March 2017**	**31 March 2016**
Total new securities guaranteed	**34,180**	**21,834**
NHA MBS	23,430	12,584
CMB	10,750	9,250
Guarantee and application fees received	**115**	**89**
MBS guarantee and application fees received	75	44
CMB guarantee fees received	40	45

New securities guaranteed increased by $12,346 million (56.5%) primarily due to the policy changes introduced on 1 July 2016. The total new securities guaranteed in 2016 takes into consideration NHA MBS sold into CMB series issued after 1 July 2016, as original or reinvestment assets, for these are now subject to a NHA MBS guarantee fee.

Guarantee and application fees received were $26 million (29.2%) higher than the same quarter last year. NHA MBS guarantee and application fees received increased by $31 million mainly due to the policy changes regarding NHA MBS sold into CMB series discussed above. CMB guarantee fees decreased by $5 million mainly due to decreases in the CMB fees effective 1 July 2016, partially offset by an increase in CMB volumes.

Financial analysis

	Three months ended	
(in millions)	**31 March 2017**	**31 March 2016**
Net interest income	3	3
Premiums and fees earned[1]	87	71
Investment income	11	11
Other income	21	19
Total revenues	**122**	**104**
Total expenses	**31**	**28**
Income before income taxes	**91**	**76**
Income taxes	23	19
Net income	**68**	**57**

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

Net income increased by $11 million (19.3%) from the same quarter last year, primarily due to the increase in guarantee and application fees earned, which were $16 million (22.5%) higher than the same quarter last year. The increase is mainly as a result of the maturity of older NHA MBS and CMB pools being replaced by more recent issuances that reflect the increased guarantee fee rates implemented in 2015.

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.

	Three months ended	
(in percentages)	**31 March 2017**	**31 March 2016**
Operating expense ratio	10.7	11.6
Return on equity	12.9	11.8

The operating expense ratio decreased by 0.9 percentage points from the same quarter last year due to higher guarantee and application fees earned.

Return on equity increased by 1.1 percentage points from the same quarter last year due to higher net income.

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 7 – Capital Management for complete disclosure on capital management.

	Three months ended	
(in percentages)	**31 March 2017**	**31 March 2016**
Capital available to capital required	106	161
Return on required capital	13.2	17.8

Capital available to capital required was 55 percentage points lower and the return on required capital was 4.6 percentage points lower than the same quarter last year due to enhancements to modelling of catastrophic risk within our 2016 assessment of guarantee risk, which increased our required capital for the Securitization Activity.

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 31 March 2017, total investments under management had a fair value of $3.2 billion (31 December 2016 - $3.1 billion) which is materially consistent with its book value.

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 2016 Annual Report. There have been no material developments impacting our risk management approaches during this reporting period.

Changes in Key Management Personnel

The following changes to our key management personnel were announced prior to the release of the QFR:

- Effective 29 January 2017 André Plourde left CMHC's Board of Directors;
- Effective 6 March 2017 Sébastien Gignac left the Corporation and Mark Chamie assumed the responsibility of Acting Vice-President, Legal Services;
- Effective 6 March 2017, Romy Bowers assumed the responsibility of Chief Compliance Officer in addition to her role as Chief Risk Officer.

Historical Quarterly Information

(in millions, unless otherwise indicated)	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Consolidated Results								
Total assets	266,188	259,532	260,495	254,319	256,789	252,107	255,897	249,968
Total liabilities	244,782	238,542	239,742	233,981	236,850	232,468	236,708	230,998
Total equity of Canada	21,406	20,990	20,753	20,338	19,939	19,639	19,189	18,970
Total revenues	2,250	1,186	1,200	1,106	1,201	1,147	1,107	1,127
Total expenses (including income taxes)	1,880	790	869	768	888	729	727	779
Net income	370	396	331	338	313	418	380	348
Assisted Housing								
Parliamentary appropriations for housing programs expenses	1,566	569	531	463	590	476	463	480
Net income	6	(29)	3	2	10	6	12	2
Total equity of Canada	186	196	154	148	176	202	188	198
Mortgage Loan Insurance								
Insurance-in-force ($B)	502	512	514	523	520	526	525	534
Total insured volumes[1]	8,253	20,528	22,539	26,872	14,336	25,358	18,770	23,313
Premiums and fees received	228	374	458	478	248	397	428	393
Premiums and fees earned	377	344	400	393	368	419	398	400
Claims paid	77	82	103	90	102	99	76	88
Insurance claims	77	(13)	134	111	102	52	53	98
Net income	289	364	268	288	263	360	326	295
Loss ratio	20.4 %	(3.8) %	33.5 %	28.2 %	27.7 %	12.4 %	13.3 %	24.5 %
Operating expense ratio	21.5 %	21.2 %	16.1 %	14.0 %	17.9 %	9.8 %	14.3 %	14.5 %
Combined ratio	41.9 %	17.4 %	49.6 %	42.2 %	45.6 %	22.2 %	27.6 %	39.0 %
Severity ratio	30.5 %	29.9 %	26.2 %	27.5 %	34.4 %	29.6 %	29.5 %	29.5 %
Return on equity	6.1 %	7.7 %	5.8 %	6.4 %	5.9 %	8.2 %	7.6 %	6.9 %
Return on capital holding target	11.3 %	14.2 %	10.4 %	11.3 %	10.5 %	14.8 %	13.4 %	11.9 %
Capital available to minimum capital required (% MCT)	215 %	384 %	374 %	366 %	362 %	354 %	345 %	337 %
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage ($)	34.9 %	36.0 %	36.9 %	38.1 %	38.1 %	39.1 %	39.8 %	41.2 %
Securitization								
Guarantees-in-force ($B)	457	452	435	426	429	431	426	420
Securities guaranteed	34,180	52,117	43,109	27,373	21,834	36,077	31,923	24,598
Guarantee and application fees received	115	240	142	108	89	195	125	98
Guarantee and application fees earned	87	66	76	71	71	79	68	61
Net income	68	53	59	55	57	63	54	49
Operating expense ratio	10.7 %	14.2 %	11.9 %	12.5 %	11.6 %	8.7 %	12.3 %	12.1 %
Return on equity	12.9 %	9.9 %	11.3 %	10.9 %	11.8 %	13.2 %	12.0 %	11.1 %
Return on required capital	13.2 %	12.4 %	17.6 %	16.6 %	17.8 %	20.0 %	17.8 %	16.5 %
Capital available to capital required	106 %	100 %	165 %	165 %	161 %	159 %	157 %	158 %
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees ($)	32.6 %	32.6 %	31.5 %	32.0 %	32.3 %	32.5 %	32.5 %	33.1 %

[1] *Portfolio volumes have been modified to reflect Lender substitutions along with new business volumes.*

Unaudited Quarterly Consolidated Financial Statements

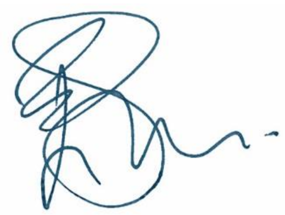
Contents

Management's Responsibility for Financial Reporting

Period ended 31 March 2017

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

Wojciech (Wojo) Zielonka, CPA, CA, ICD.D
Chief Financial Officer and
Senior Vice-President, Capital Markets

17 May 2017

Consolidated Balance Sheets

(in millions of Canadian dollars)	Notes	As at 31 March 2017	As at 31 December 2016
Assets			
Cash and cash equivalents		1,430	1,995
Securities purchased under resale agreements		-	17
Investment securities:	9		
Designated at fair value through profit or loss		1,085	1,173
Available for sale		23,382	23,226
Loans:	10		
Designated at fair value through profit or loss		3,745	4,020
Loans and receivables		233,274	227,310
Accrued interest receivable		1,211	705
Derivatives		80	86
Due from the Government of Canada	5	1,027	59
Accounts receivable and other assets		686	674
Investment property		268	267
		266,188	259,532
Liabilities			
Securities sold under repurchase agreements		768	704
Borrowings:	11		
Designated at fair value through profit or loss		5,534	5,905
Other financial liabilities		228,707	223,156
Accrued interest payable		985	542
Derivatives		30	32
Accounts payable and other liabilities		1,192	548
Defined benefit plans liability		418	384
Provision for claims	6	655	654
Unearned premiums and fees		6,450	6,564
Deferred income tax liabilities		43	53
		244,782	238,542
Commitments and contingent liabilities	17		
Equity of Canada			
Contributed capital		25	25
Accumulated other comprehensive income		846	761
Retained earnings		20,535	20,204
		21,406	20,990
		266,188	259,532

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

Consolidated Statements of Income and Comprehensive Income

(in millions of Canadian dollars)	Notes	Three months ended 31 March 2017	2016
Interest income			
Loans – designated at fair value through profit or loss		16	25
Loans and receivables		1,098	1,116
Other		12	14
		1,126	1,155
Interest expense			
Borrowings – designated at fair value through profit or loss		25	34
Other financial liabilities		1,068	1,089
		1,093	1,123
Net interest income		**33**	**32**
Non-interest revenues and parliamentary appropriations			
Parliamentary appropriations for housing programs	5	1,566	590
Premiums and fees earned		464	439
Investment income		142	137
Net gains (losses) on financial instruments	8	15	(22)
Other income		30	25
Total revenues and parliamentary appropriations		**2,250**	**1,201**
Non-interest expenses			
Housing programs	5	1,566	590
Insurance claims	6	77	102
Operating expenses		119	97
		1,762	789
Income before income taxes		**488**	**412**
Income taxes	15	118	99
Net income		**370**	**313**
Other comprehensive income (loss), net of tax			
Items that will be subsequently reclassified to net income			
Net unrealized gains from available for sale financial instruments		87	77
Reclassification of prior years' net unrealized gains realized in the period in net income		(2)	(1)
Total items that will be subsequently reclassified to net income		85	76
Items that will not be subsequently reclassified to net income:			
Remeasurements of the net defined benefit plans		(39)	(89)
		46	(13)
Comprehensive income		**416**	**300**

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

Consolidated Statements of Equity of Canada

	Three months ended 31 March	
(in millions of Canadian dollars)	**2017**	**2016**
Contributed capital	**25**	**25**
Accumulated other comprehensive income		
Balance at beginning of period	761	807
Other comprehensive income	85	76
Balance at end of period	**846**	**883**
Retained earnings		
Balance at beginning of period	20,204	18,807
Net income	370	313
Other comprehensive loss	(39)	(89)
Balance at end of period	**20,535**	**19,031**
Equity of Canada	**21,406**	**19,939**

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

Consolidated Statements of Cash Flows

(in millions of Canadian dollars)	Notes	Three months ended 31 March 2017	2016
Cash flows provided by (used in) operating activities			
Net income		370	313
Adjustments to determine net cash flows provided by (used in) operating activities			
Amortization of premiums and discounts on financial instruments		54	52
Deferred income taxes		-	(1)
Net (gains) losses on financial instruments	8	(18)	27
Accrued interest receivable		(506)	(611)
Derivatives		4	(7)
Due from the Government of Canada		(968)	(286)
Accounts receivable and other assets		(12)	100
Accrued interest payable		443	607
Accounts payable and other liabilities		611	29
Defined benefit plans liability		(14)	(6)
Provision for claims		1	(2)
Unearned premiums and fees		(114)	(109)
Other		(2)	(9)
Loans	10		
Repayments		5,085	4,859
Disbursements		(10,768)	(9,324)
Borrowings	11		
Repayments		(5,622)	(5,518)
Issuances		11,192	9,908
		(264)	22
Cash flows provided by (used in) investing activities			
Investment securities			
Sales and maturities		1,952	1,494
Purchases		(2,334)	(1,863)
Investment property			
Additions		-	(1)
Securities purchased under resale agreements		17	35
Securities sold under repurchase agreements		64	(200)
		(301)	(535)
Change in cash and cash equivalents		(565)	(513)
Cash and cash equivalents			
Beginning of period		1,995	2,020
End of period		1,430	1,507
Represented by			
Cash		(4)	-
Cash equivalents		1,434	1,507
		1,430	1,507
Supplementary disclosure of cash flows from operating activities			
Amount of interest received during the period		855	759
Amount of interest paid during the period		690	565
Amount of dividends received during the period		13	10
Amount of income taxes paid during the period		147	-

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

Notes to Unaudited Quarterly Consolidated Financial Statements

CMHC 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 I 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 months ended 31 March 2017 and were approved and authorized for issue by our Audit Committee on 17 May 2017.

1. Basis of Presentation and Significant Accounting Policies

Our 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. They should be read in conjunction with our audited consolidated financial statements for the year ended 31 December 2016. These unaudited quarterly consolidated financial statements 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 2016.

Seasonality

We have concluded that our business is not highly seasonal in accordance with IAS 34; however, our mortgage loan insurance business is exposed to some seasonal variation. Premiums received for some insurance products vary each quarter because of seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage policies written, which, for purchase transactions, typically peak in the spring and summer months. Losses on claims, included in 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.

2. Changes in Accounting Policies

Future accounting changes

There were no new standards and amendments to existing standards issued by the International Accounting Standards Board (IASB) during the three month period 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 2016.

3. Use of Judgments and Estimates

The preparation of financial statements requires Senior Management (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 31 March 2017 were consistent with those disclosed in Note 4 of our audited consolidated financial statements as at and for the year ended 31 December 2016.

4. 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 2016. 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 31 March	**Assisted Housing**		**Mortgage Loan Insurance**		**Securitization**		**Eliminations**		**Total**	
(in millions)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Interest income	95	113	-	-	1,032	1,042	(1)	-	1,126	1,155
Interest expense	95	110	-	-	1,029	1,039	(31)	(26)	1,093	1,123
Net interest income	-	3	-	-	3	3	30	26	33	32
Non-interest revenues and parliamentary appropriations										
Parliamentary appropriations for housing programs	1,566	590	-	-	-	-	-	-	1,566	590
Premiums and fees earned	-	-	377	368	87	71	-	-	464	439
Investment income (losses)	-	-	151	144	11	11	(20)	(18)	142	137
Net gains (losses) on financial instruments	6	6	10	3	-	-	(1)	(31)	15	(22)
Other income	7	6	2	-	21	19	-	-	30	25
Total revenues and parliamentary appropriations	**1,579**	**605**	**540**	**515**	**122**	**104**	**9**	**(23)**	**2,250**	**1,201**
Non-interest expenses										
Housing programs	1,566	590	-	-	-	-	-	-	1,566	590
Insurance claims	-	-	77	102	-	-	-	-	77	102
Operating expenses	7	3	81	66	31	28	-	-	119	97
	1,573	593	158	168	31	28	-	-	1,762	789
Income before income taxes	**6**	**12**	**382**	**347**	**91**	**76**	**9**	**(23)**	**488**	**412**
Income taxes	-	2	93	84	23	19	2	(6)	118	99
Net income	**6**	**10**	**289**	**263**	**68**	**57**	**7**	**(17)**	**370**	**313**
Total revenues and parliamentary appropriations	1,579	605	540	515	122	104	9	(23)	2,250	1,201
Inter-segment income[1]	(1)	-	(21)	(49)	31	26	(9)	23	-	-
External revenues and parliamentary appropriations	1,578	605	519	466	153	130	-	-	2,250	1,201

[1] *Inter-segment revenues relate to the following:*

- *The Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds (CMB), and recognizes revenues from investing in holdings of Capital Market Borrowings; and*
- *The Assisted Housing Activity recognizes revenues from investing in holdings of CMB.*

As at 31 March 2017 and 31 December 2016	Assisted Housing		Mortgage Loan Insurance		Securitization		Eliminations[1]		Total	
(in millions)	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Assets										
Cash and cash equivalents	573	1,101	791	704	66	190	-	-	1,430	1,995
Securities purchased under resale agreements	-	17	-	-	-	-	-	-	-	17
Investment securities:										
Designated at fair value through profit or loss	1,485	1,499	1	73	-	1	(401)	(400)	1,085	1,173
Available for sale	-	-	24,855	24,523	3,161	2,937	(4,634)	(4,234)	23,382	23,226
Loans:										
Designated at fair value through profit or loss	3,745	4,021	-	-	-	-	-	(1)	3,745	4,020
Loans and receivables	3,987	3,995	-	-	229,287	223,315	-	-	233,274	227,310
Accrued interest receivable	104	162	184	149	947	407	(24)	(13)	1,211	705
Derivatives	80	86	-	-	-	-	-	-	80	86
Due from the Government of Canada	1,027	59	-	-	-	-	-	-	1,027	59
Accounts receivable and other assets	265	63	375	518	46	92	-	1	686	674
Investment property	169	169	99	98	-	-	-	-	268	267
	11,435	11,172	26,305	26,065	233,507	226,942	(5,059)	(4,647)	266,188	259,532
Liabilities										
Securities sold under repurchase agreements	-	-	768	704	-	-	-	-	768	704
Borrowings:										
Designated at fair value through profit or loss	5,534	5,908	-	-	-	-	-	(3)	5,534	5,905
Other financial liabilities	4,304	4,327	-	-	229,287	223,315	(4,884)	(4,486)	228,707	223,156
Accrued interest payable	82	154	-	-	928	399	(25)	(11)	985	542
Derivatives	29	32	1	-	-	-	-	-	30	32
Accounts payable and other liabilities	1,128	391	59	113	5	44	-	-	1,192	548
Defined benefit plans liability	170	158	247	226	1	-	-	-	418	384
Provision for claims	-	-	655	654	-	-	-	-	655	654
Unearned premiums and fees	-	-	5,330	5,472	1,120	1,092	-	-	6,450	6,564
Deferred income tax liabilities	2	6	73	80	7	6	(39)	(39)	43	53
	11,249	10,976	7,133	7,249	231,348	224,856	(4,948)	(4,539)	244,782	238,542
Equity of Canada	186	196	19,172	18,816	2,159	2,086	(111)	(108)	21,406	20,990
	11,435	11,172	26,305	26,065	233,507	226,942	(5,059)	(4,647)	266,188	259,532

[1] *The balance sheet eliminations remove inter-segment holdings of CMB and Capital Market Borrowings, as well as inter-segment receivables/payables.*

5. Parliamentary Appropriations and Housing Programs Expenses

We receive parliamentary appropriations to fund the following program expenditures, including operating expenses of $41 million (three months ended 31 March 2016 – $33 million), in support of housing programs.

	Three months ended 31 March	
(in millions)	**2017**	**2016**
Funding under long-term commitments for existing social housing	440	462
Funding for new commitments of affordable housing	1,105	111
Housing support	5	5
Market analysis information	7	4
Housing policy, research and information transfer	9	8
Total	**1,566**	**590**

The following table presents the changes in the due from the Government of Canada account. The outstanding balance as at 31 March is mainly composed of housing programs expenses incurred but not yet reimbursed.

	Three months ended 31 March	
(in millions)	**2017**	**2016**
Balance at beginning of period	59	161
Total appropriations recognized in revenues during the period	1,566	590
Total appropriations received during the period	(599)	(304)
Third party reimbursements in excess of remittance to Government of Canada	1	-
Balance at end of period	**1,027**	**447**

6. Mortgage Loan Insurance

Unearned premiums and fees

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

	Three months ended 31 March	
(in millions)	**2017**	**2016**
Balance at beginning of period	5,472	5,432
Premium deferred on contracts written in the period	226	236
Premiums earned in the period	(371)	(361)
Application fees deferred on contracts written in the period	6	3
Application fees earned in the period[1]	(3)	(4)
Balance at end of period	**5,330**	**5,306**

[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.

	Three months ended 31 March	
(in millions)	**2017**	**2016**
Balance at beginning of period	149	127
Acquisition costs deferred	15	8
Amortization of deferred acquisition costs	(11)	(12)
Balance at end of period	**153**	**123**

Provision for claims

The provision for claims includes amounts set aside for claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER), claims in process (CIP) and social housing and index-linked mortgages (SH and ILM).

Provision for claims comprises the following:

	As at					
	31 March 2017			31 December 2016		
(in millions)	*IBNR, IBNER and CIP*	*SH and ILM*	Total	*IBNR, IBNER and CIP*	*SH and ILM*	Total
Undiscounted estimated losses	447	154	601	446	154	600
Discounting	(6)	-	(6)	(5)	-	(5)
Discounted provision for adverse deviation	35	25	60	34	25	59
Total provision for claims	**476**	**179**	**655**	**475**	**179**	**654**

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

	Three months ended 31 March					
	2017			2016		
(in millions)	*IBNR, IBNER and CIP*	*SH and ILM*	*Total*	*IBNR, IBNER and CIP*	*SH and ILM*	*Total*
Provision for claims, beginning of period	475	179	654	485	223	708
Net claims paid during the period	(77)	(1)	(78)	(102)	(1)	(103)
Provision for claims provided for and losses incurred during the period[1]	78	1	79	99	2	101
Provision for claims, end of period	**476**	**179**	**655**	**482**	**224**	**706**

[1] *Included as part of insurance claims on the consolidated statements of income and comprehensive income. Provision for claims provided for and losses incurred may not equal insurance claims expense as certain 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. Premium liabilities represent a provision for future claims and expenses which are expected to arise from the unearned portion of the policies in-force. Thus, this provision is for claims that have not yet occurred and, therefore, covers the period from the date of the valuation to the date of default (the assumed claim occurrence date).

The liability adequacy tests for the Corporation as at 31 March 2017 and 31 December 2016 have identified that no provision for premium deficiency is required at these reporting dates.

7. 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. We currently have no externally imposed minimal capital requirements.

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

We set an internal target for our Mortgage Loan Insurance Activity and our Securitization Activity at a level that is expected to cover all material risks. The internal target is calibrated using specified confidence intervals and is designed to provide 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 Mortgage Loan Insurance Activity and our Securitization Activity in excess of our internal target. The operating level is calibrated using confidence intervals specified by our Capital Management Policy and is designed to provide Management with adequate time to resolve financial problems before available capital decreases below the internal target.

Driven by our capital adequacy requirements, in 2017 we will start making dividend payments to the Government to the extent there are profits and retained earnings not allocated to appropriated capital or to meet the needs of the Corporation for purposes of the NHA. However, our capital is not managed to issue a dividend.

The components of consolidated capital available are presented below.

	As at	
(in millions)	**March 2017**	**December 2016**
Contributed capital	25	25
Accumulated other comprehensive income	846	761
Appropriated retained earnings	15,899	11,956
Retained earnings other[1]	4,636	8,248
Total equity of Canada[2]	**21,406**	**20,990**
Less: assets with a capital requirement of 100%	-	(200)
Total capital available	**21,406**	**20,790**

[1] *Retained earnings other represents retained earnings not needed to support our capitalization framework for the Mortgage Loan Insurance and Securitization Activities.*

[2] *The accumulated other comprehensive income (AOCI) and retained earnings other components of total equity of Canada include the impact of eliminations.*

Mortgage Loan Insurance capital

The appropriated capital of the Mortgage Loan Insurance Activity is based on our Board of Directors approved Capital Management Policy which follows guidelines developed by the Office of the Superintendent of Financial Institutions (OSFI). OSFI's minimum regulatory capital requirement is 100% of its Minimum Capital Test (MCT). The OSFI Supervisory target is 150% of the capital required. We set an internal target above the Supervisory capital required under OSFI guidelines.

On 15 December 2016, OSFI released its revised capital advisory for mortgage insurers titled Capital Requirements for Federally Regulated Mortgage Insurers (Advisory) with an effective date of 1 January 2017. The objective of the Advisory was to introduce a new standard approach that updates the capital requirements for mortgage insurance risk and increases the probability that mortgage insurance companies can absorb severe, but plausible losses. The framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization, and outstanding loan balance.

The Advisory focuses on capital requirements for insurance risk, which primarily consist of:

- A base requirement that applies to all insured mortgages at all times; and
- A supplementary requirement that applies only to mortgages originated during periods when the housing market for the region that corresponds to the mortgage has a house price-to-income ratio that exceeds a specified threshold (with this supplementary requirement not applying to mortgages insured prior to 1 January 2017); less
- Premium liabilities, consisting of unearned premiums reserve and the reserve for IBNR claims.

Supplementary capital will be tied to the behaviour of property prices, both in terms of recent housing price trends and the behaviour of housing prices relative to household incomes using data for each of the 11 cities in the Teranet–National Bank House Price Index™ for those exposures within such cities. The Supplementary Capital Requirement Indicators (SCRI), based primarily on the ratio of the Teranet Index for a metropolitan area over the national per capita income, is compared to a prescribed threshold value for that particular area. If the SCRI exceed the threshold value for that metropolitan area, then additional capital is required for any new insured mortgages originated during the next quarter in that metropolitan area. The supplementary capital requirement continues to apply for the life of those loans.

We have reviewed the methodology for calculating SCRI and as at 31 March 2017 observed that Calgary, Edmonton, Toronto, Vancouver and Victoria were breaching their SCRI thresholds, as prescribed by OSFI. These metropolitan areas represent approximately one third of transactional new insurance written in the three month period ended 31 March 2017.

The Advisory includes transitional arrangements to allow for a smooth transition to the new framework. Although the Advisory requires us to make use of these transitional arrangements, they are not considered when we manage capital internally.

Based on analysis completed in the fourth quarter of 2016, the Board of Directors approved a change to the insurance internal target from 205% under the old MCT framework to 155% under the new MCT framework, and a change to the operating level from 220% under the old MCT framework to 165% under the new MCT framework. The Corporation implemented the revised MCT capital requirements and targets on 1 January 2017.

At 31 December 2016, the operating level of 220% required that we appropriate $10,653 million under the old MCT framework which resulted in a capital available to minimum capital required of 384%. Applying the new MCT framework excluding transitional arrangements at 31 December 2016 for purposes of comparison, the operating level of 165% would have required that we appropriate $14,865 million, which would have resulted in a capital available to minimum capital required of 209% as at 31 December 2016.

The following table presents the components of capital available.

	As at	
(in millions, unless otherwise indicated)	**March 2017**	**December 2016**
Total mortgage loan insurance capital	**19,172**	**18,816**
Less: assets with a capital requirement of 100%	-	(200)
Total mortgage loan insurance capital available	**19,172**	**18,616**
Appropriated capital[1]	14,739	10,653
Unappropriated retained earnings	4,433	8,163
Internal target	155%	205%
Operating level	165%	220%
Capital available to minimum capital required (% MCT)[2]	215%	384%

[1] *We appropriate retained earnings and AOCI at the operating level.*

[2] *We have not made use of transitional arrangements as provided by the OSFI Advisory. Our MCT ratio as at 31 March 2017 would be 277% with transitional arrangements.*

Securitization capital

Capital related to the Securitization Activity is appropriated for the guarantees provided by our NHA MBS and CMB programs. There is no regulatory capital and the appropriated amount of capital is based on our 'Own View', as outlined above. We do not have separate capital amounts for CHT because the timely payment guarantee exposure to CMB issued by CHT is covered by the Securitization capital. The amount of Securitization capital held also recognizes the risk mitigation provided by mortgage loan insurers, who are required to hold capital for the underlying mortgage default risk.

The following table presents the components of the capital available.

	As at	
(in millions, unless otherwise indicated)	**March 2017**	**December 2016**
Total securitization capital available	**2,159**	**2,086**
Appropriated capital[1]	2,038	2,086
Unappropriated retained earnings	121	-
Capital available to capital required (%)	106%	100%

[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 are retained in this reserve fund as part of our strategy to address interest rate risk exposure on prepayable loans as well as credit risk exposure on unsecured loans. The reserve fund is subject to a statutory limit of $240 million (2016 – $240 million). Should the statutory limit be exceeded, we would be required to pay the excess to the Government.

Unrealized fair value market fluctuations as well as remeasurements of the net 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.

	As at	
(in millions)	**March 2017**	**December 2016**
Reserve fund	116	96
Retained earnings	45	75
Total Lending programs capital available	**161**	**171**

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.

8. Fair Value Measurement

We measure certain financial instruments and non-financial assets at fair value in the consolidated balance sheets and disclose the fair value of certain other items. 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. For financial instruments, accrued interest is separately recorded and disclosed.

Fair value is determined using a consistent measurement framework. The methods and assumptions used in measuring fair value are the same as those used in the preparation of our audited consolidated financial statements for the year ended 31 December 2016. These methods make maximum use of relevant observable inputs and minimize the use of unobservable inputs.

Fair value hierarchy

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, unobservable inputs are significant to the overall measurement of fair value.

For financial instruments classified as level 3, the valuation techniques include discounted cash flow analysis using unobservable risk premiums and, for our equity investments in private limited partnerships, the use of net asset values as reported by the fund managers.

For investment property, which is classified as level 3, fair value is measured using discounted cash flow analysis and market approach techniques. Discounted cash flow analysis is generally used for rent producing properties, having as significant unobservable inputs assumptions about the properties' future cash flows, including future rental values, and discount rates reflecting the properties' characteristics. The market approach is generally applied to non-income generating properties, such as vacant land, and has the estimated price per square foot as a significant unobservable input, derived in part by market transactions involving comparable properties.

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

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

	As at					
	31 March 2017			31 December 2016		
(in millions)	Carrying Value	Fair Value	Fair Value Over Carrying Value	Carrying Value	Fair Value	Fair Value Over Carrying Value
Financial assets						
Loans - loans and receivables[1]	233,274	238,364	5,090	227,310	232,162	4,852
Financial liabilities						
Borrowings - other financial liabilities[2]	228,707	233,864	5,157	223,156	228,124	4,968

[1] *Fair value of loans and receivables is categorized as level 2.*

[2] *$92,623 million (31 December 2016 – $47,000 million) fair value categorized as level 1, $141,241 million (31 December 2016 – $181,124 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 quarterly consolidated balance sheets.

	As at							
	31 March 2017				31 December 2016			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash and cash equivalents								
Interest bearing deposits with banks	-	187	-	187	-	258	-	258
Corporate/other entities	-	25	-	25	-	25	-	25
Federal government issued	69	-	-	69	189	-	-	189
Provinces/municipalities	-	83	-	83	-	65	-	65
Total cash and cash equivalents[1]	69	295	-	364	189	348	-	537
Investment securities								
Designated at fair value through profit or loss								
Fixed income								
Corporate/other entities	-	195	-	195	-	193	137	330
Provinces/municipalities	258	243	-	501	138	339	-	477
Sovereign and related entities	-	389	-	389	-	366	-	366
Total designated at fair value through profit or loss	258	827	-	1,085	138	898	137	1,173
Available for sale								
Fixed income								
Corporate/other entities	-	10,158	-	10,158	-	10,384	-	10,384
Federal government issued	3,694	101	-	3,795	3,749	58	-	3,807
Provinces/municipalities	3,988	3,796	-	7,784	3,274	4,167	-	7,441
Sovereign and related entities	-	353	-	353	-	352	-	352
Equities – Canadian	1,243	-	49	1,292	1,204	-	38	1,242
Total available for sale	8,925	14,408	49	23,382	8,227	14,961	38	23,226
Loans								
Designated at fair value through profit or loss	-	3,745	-	3,745	-	4,020	-	4,020
Derivatives	-	80	-	80	-	86	-	86
Investment property	-	-	268	268	-	-	267	267
Total assets carried at fair value	**9,252**	**19,355**	**317**	**28,924**	**8,554**	**20,313**	**442**	**29,309**
Liabilities								
Borrowings								
Designated at fair value through profit or loss	-	5,534	-	5,534	-	5,905	-	5,905
Derivatives	-	30	-	30	-	32	-	32
Total liabilities carried at fair value	**-**	**5,564**	**-**	**5,564**	**-**	**5,937**	**-**	**5,937**

[1] *Of the total cash and cash equivalents carried at fair value, $277 million (31 December 2016 - $348 million) is classified as designated at fair value through profit or loss (FVTPL) and $87 million (31 December 2016 - $189 million) is classified as available for sale. Cash and cash equivalents on the consolidated balance sheet also includes $1,066 million (31 December 2016 - $1,458 million) of cash and cash equivalents carried at amortized cost.*

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. There were $1,136 million of transfers from level 2 to level 1 and $783 million of transfers from level 1 to level 2 during the three months ended 31 March 2017 (three months ended 31 March 2016 – nil).

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.

	Investment securities				
(in millions)	**Designated at fair value through profit or loss – asset backed securities**	**Available for sale – limited partnership units**	**Total investment securities**	**Investment property**	**Total**
Three months ended 31 March 2017					
Fair value as at 1 January 2017	137	38	175	267	442
Purchases	-	7	7	-	7
Gains in net income[1,2]	-	-	-	1	1
Gains in OCI	-	5	5	-	5
Cash receipts on settlements/disposals	(137)	(1)	(138)	-	(138)
Fair value as at 31 March 2017	**-**	**49**	**49**	**268**	**317**
Three months ended 31 March 2016					
Fair value as at 1 January 2016	164	34	198	258	456
Purchases	-	-	-	1	1
Gains in net income[1,2]	1	-	1	-	1
Gains in OCI	-	6	6	-	6
Fair value as at 31 March 2016	**165**	**40**	**205**	**259**	**464**

[1] *Included in net gains (losses)on financial instruments for investment securities; other income for investment property.*
[2] *Solely relates to unrealized gains for assets held at the end of the respective periods.*

Unobservable inputs for items classified as level 3

The valuation 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 31 March 2017, 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.

			31 March 2017		31 December 2016	
(in millions, unless otherwise indicated)	**Valuation Technique**	**Unobservable inputs**	**Asset fair value**	**Weighted average input/range**	**Asset fair value**	**Weighted average input/range**
Investment securities						
Designated at fair value through profit or loss						
Asset-backed securities	Discounted cash flow	Risk premium	-	-	137	1.4%
Available for sale						
Limited partnership investment	Share of partnership equity	Reported partnership equity	49	n.a.	38	n.a.
Total investment securities			**49**		**175**	
Investment property						
Mortgage Loan Insurance Activity	Discounted cash flow	Estimated rental value per square foot	99	$4 - $39	98	$4 - $39
		Discount rate		6.5% - 7.3%		6.5% - 7.3%
Assisted Housing Activity	Discounted cash flow	Estimated rental value per square foot	20	$22 - $148	20	$22 - $148
		Discount rate		4.0% - 6.0%		4.0% - 6.0%
	Market Approach	Value per square foot	149	$0 - $325	149	$0 - $325
Total investment property			**268**		**267**	
Total level 3 items carried at fair value			**317**		**442**	

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.

Gains and losses from financial instruments

The following table presents the gains and losses related to financial instruments.

	Three months ended 31 March	
(in millions)	**2017**	**2016**
Held for trading		
Derivatives	(3)	5
Total held for trading	**(3)**	**5**
Designated at fair value through profit or loss		
Investment securities	3	-
Loans	(4)	(6)
Borrowings	3	8
Total designated at fair value through profit or loss	**2**	**2**
Available for sale - investment securities[1]	8	2
Loans and receivables - prepayments	24	-
Borrowings – other financial liabilities[2]	(16)	(31)
Total	**15**	**(22)**

[1] *Includes foreign exchange losses of $1 million (2016 – nil) resulting from translation of U.S. dollar denominated debt securities.*
[2] *Includes losses of $19 million (2016 – $31 million) from the retirement of borrowings, net of gains of $3 million (2016 – nil) from the issuance of borrowings.*

9. Investment Securities

Investment securities include fixed income and equity securities. The following table shows the cumulative unrealized gains (losses) on investment securities recorded at fair value.

	As at					
	31 March 2017				31 December 2016	
(in millions)	**Amortized cost[1]**	**Gross cumulative unrealized gains**	**Gross cumulative unrealized losses**	**Fair value**	**Amortized cost[1]**	**Fair value**
Investment securities						
Fixed income						
Designated at fair value through profit or loss	1,081	7	(3)	1,085	1,112	1,173
Available for sale[2]	21,503	607	(20)	22,090	21,474	21,984
Equities						
Available for sale	723	569	-	1,292	710	1,242

[1] *Amortized cost for equities is acquisition cost less impairment losses, if any.*
[2] *Includes debt securities denominated in U.S. dollars with a carrying value of $273 million (2016 – nil).*

We have investment securities of $765 million (31 December 2016 – $696 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 other comprehensive income (loss) changes in fair values on these investment securities during the period.

During the three months ended 31 March 2017, there were no impairment losses (three months ended 31 March 2016 – nil) recognized in net gains (losses) on financial instruments and no reversals of previously realized fixed income investment security impairments occurred during the period.

10. Loans

The following table presents repayments and disbursements for loans.

		Three months ended 31 March					
		Cash flows		Non-cash changes			
(in millions)	Balance at beginning of period	Repayments	Disbursements	Fair value changes	Accretion	Transfers[1]	Balance at end of period
2017							
Designated at fair value through profit or loss							
Lending programs	4,020	(124)	-	(4)	-	(147)	3,745
Loans and receivables							
Loans under the CMB program	223,315	(4,780)	10,742	-	10	-	229,287
Lending programs	3,995	(181)	26	-	-	147	3,987
Total loans and receivables	**227,310**	**(4,961)**	**10,768**	**-**	**10**	**147**	**233,274**
Total	**231,330**	**(5,085)**	**10,768**	**(4)**	**10**	**-**	**237,019**
2016							
Designated at fair value through profit or loss							
Lending programs	4,955	(148)	2	(6)	-	(27)	4,776
Loans and receivables							
Loans under the CMB program	215,622	(4,542)	9,294	-	8	-	220,382
Lending programs	4,091	(169)	28	-	-	27	3,977
Total loans and receivables	**219,713**	**(4,711)**	**9,322**	**-**	**8**	**27**	**224,359**
Total	**224,668**	**(4,859)**	**9,324**	**(6)**	**8**	**-**	**229,135**

[1] *Transfers from designated at fair value through profit or loss to loans and receivables are loans that, upon renewal, are no longer part of a portfolio of economically hedged loans and borrowings.*

For loans designated at FVTPL, there were no changes in fair value attributable to changes in credit risk. We are assured collection of principal and accrued interest on 99% (31 December 2016 – 99%) of our loans.

Uninsured loans are assessed on a regular basis to determine if an allowance for credit losses is necessary. As at 31 March 2017, an impairment allowance of $23 million has been recognized (31 December 2016 – $23 million).

11. Borrowings

The following table presents repayments and issuances for borrowings.

		Three months ended 31 March					
		Cash flows		Non-cash changes			
(in millions)	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accretion	Eliminations	Balance at end of period
2017							
Designated at fair value through profit or loss							
Borrowings from the Government of Canada	5,632	256	(351)	(3)	-	-	5,534
Capital market borrowings	273	-	(275)	-	-	2	-
Total designated at fair value through profit or loss	**5,905**	**256**	**(626)**	**(3)**	**-**	**2**	**5,534**
Other financial liabilities							
Canada mortgage bonds	218,829	10,742	(4,780)	-	10	(398)	224,403
Borrowings from the Government of Canada	4,327	194	(216)	(3)	2	-	4,304
Total other financial liabilities	**223,156**	**10,936**	**(4,996)**	**(3)**	**12**	**(398)**	**228,707**
Total	**229,061**	**11,192**	**(5,622)**	**(6)**	**12**	**(396)**	**234,241**
2016							
Designated at fair value through profit or loss							
Borrowings from the Government of Canada	6,339	614	(418)	(5)	-	-	6,530
Capital market borrowings	739	-	(465)	(3)	-	10	281
Total designated at fair value through profit or loss	**7,078**	**614**	**(883)**	**(8)**	**-**	**10**	**6,811**
Other financial liabilities							
Canada mortgage bonds	212,080	9,294	(4,542)	-	8	(425)	216,416
Borrowings from the Government of Canada	4,194	-	(93)	-	1	-	4,102
Total other financial liabilities	**216,274**	**9,294**	**(4,635)**	**-**	**9**	**(425)**	**220,518**
Total	**223,352**	**9,908**	**(5,518)**	**(8)**	**9**	**(415)**	**227,329**

When CMHC holds CMB to maturity or acquires CMB in the primary market, the related cash flows are excluded from the consolidated statements of cash flows. During the three months ended 31 March 2017 no CMB maturities have been excluded from investment securities – sales and maturities and borrowings – repayments in the consolidated statements of cash flows. There were no purchases in the primary market during the three months ended 31 March 2017 (31 March 2016 – nil).

12. 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

Market risk for investment securities in the Mortgage Loan Insurance and Securitization Activities is evaluated through the use of value at risk (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 March 2017, 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.

	As at	
(in millions)	**31 March 2017**	**31 December 2016**
Investment securities:		
Available for sale		
Interest rate risk	268	271
Equity risk	62	66
Effect of diversification	(73)	(78)
Total VaR	**257**	**259**

We are exposed to currency risk from our holdings in foreign currency denominated investment securities. CMHC internal policies limit the amount of foreign currency investments and require full hedging of currency risk. As at 31 March 2017 we held $273 million in available for sale debt securities denominated in U.S. dollars (31 December 2016 – nil). We have entered into foreign currency forward contracts to hedge currency risk and the exposures presented in the table above reflect the offsetting effect of the hedging instruments. Currency risk was assessed as immaterial as at 31 March 2017.

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 held for trading, we assessed the impact of a 200 bps shift in interest rates as immaterial as at 31 March 2017.

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 from a disclosure perspective is presented below.

	As at			
	31 March 2017		**31 December 2016**	
	Interest rate shift		**Interest rate shift**	
(in millions)	**-200 bps**	**+200 bps**	**-200 bps**	**+200 bps**
Increase (decrease) to fair value of net assets[1]	(57)	56	(62)	61

[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, which is limited by our policy to $1.5 million, is $0.5 million at 31 March 2017 (31 December 2016 – $1.4 million). This is calculated with 95% confidence over a one-year period.

13. 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 are disclosed in Note 18 of our audited consolidated financial statements for the year ended 31 December 2016. There has been no change to the nature of the risk for the three month period ended 31 March 2017.

Under the CMB program, we are exposed to credit risk in the event of default by any of our swap counterparties. This risk is mitigated by transacting with highly rated swap counterparties and collateralization requirements based on credit ratings. The fair value of total loan collateral held under the CMB program was $233,633 million, 101.9% of loan carrying value, as at 31 March 2017 (31 December 2016 - $226,947 million, 101.6% of carrying value). This includes the fair value of swap collateral held and the fair value of NHA MBS and reinvestment securities sold by Canadian financial institutions to us.

14. Pension and Other Post-employment Benefits

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

	Three months ended 31 March			
	Pension plans		Other post-employment plans	
(in millions)	**2017**	**2016**	**2017**	**2016**
Current service cost	7	8	1	-
Net interest expense	2	3	-	1
Expense recognized in net income	**9**	**11**	**1**	**1**
Net actuarial losses arising from changes in financial assumptions	(67)	(88)	(4)	(6)
Return on plan assets (excluding amounts included in net interest expense)	23	(15)	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(44)**	**(103)**	**(4)**	**(6)**
CMHC's contributions	23	18	1	1
Employee contributions	3	3	-	-
Total contributions	**26**	**21**	**1**	**1**

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

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.

Expenses for the defined contribution plan were $0.8 million for the three month period ended 31 March 2017 (three months ended 31 March 2016 - $0.7 million).

15. Income Taxes

The following table presents the components of income tax.

	Three months ended 31 March	
(in millions)	**2017**	**2016**
Current income tax expense	116	100
Deferred income tax expense	2	(1)
Total income tax expense included in net income	**118**	**99**
Income tax expense (recovery) on other comprehensive income (loss)		
Net unrealized gains on available for sale financial instruments	29	26
Reclassification of prior years' net unrealized gains realized in the period	(1)	-
Remeasurements of the net defined benefit plans	(9)	(20)
Total income tax expense included in other comprehensive income (loss)	**19**	**6**
Total	**137**	**105**

16. 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, amounted to $8 million for the three month period ended 31 March 2017 (three months ended 31 March 2016 – $5 million) for the Mortgage Loan Insurance Activity and $5 million for the three month period ended 31 March 2017 (three months ended 31 March 2016 – $4 million) for the Securitization Activity.

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

17. 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 2016 – $600 billion). At 31 March 2017, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled $502 billion (31 December 2016 – $512 billion).

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2016 – $600 billion). At 31 March 2017, guarantees-in-force, which represents the risk exposure of the Securitization Activity, totalled $457 billion (31 December 2016 - $452 billion).

There are legal claims of $9 million (31 December 2016 – $9 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.

18. Reclassifications and Comparative Figures

Comparative information in the consolidated statements of cash flows have been reclassified to reflect adjustments made within the current year's presentation of cash flows provided by (used in) operating activities section.

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