

CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

SECOND QUARTER

June 30, 2015

(Unaudited)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 19 August 2015 is prepared for the second quarter ended 30 June 2015 and is intended to provide readers with an overview of our performance including comparatives against the prior quarter and the same quarter in 2014. 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 2014 Annual Report. The unaudited Quarterly Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are reviewed by CMHC's external auditors. All amounts are expressed in Canadian dollars.

Forward-Looking Statements

Our Quarterly Financial Report (QFR) contains forward-looking statements including, but not limited to, statements made in the "Operating Environment", "Performance by Activity", and "Risk Management" sections of the report. Specific forward-looking statements include, but are not limited to, statements with respect to our outlook for the regulatory environment in which we operate, the outlook and priorities for each activity and the risk environment.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. These risks and uncertainties, many of which are beyond our control, include, but are not limited to, national and international economic, financial and regulatory conditions, and could cause actual results to differ materially from the expectations expressed in these forward-looking statements. Forward-looking statements are typically identified by words such as "may", "should", "could", "would", "will", as well as expressions such as "believe", "expect", "forecast", "anticipate", "intend", "plan", "estimate" and other similar expressions.

The forward-looking information contained in the Quarterly Financial Report is presented to assist readers in understanding our financial condition and performance. It may not be suitable for other purposes and readers should not place undue reliance on it. The forward-looking statements are based on management's current predictions, forecasts, projections, expectations and conclusions and the assumptions related to these predictions, forecasts, projections, expectations and conclusions may not prove to be correct. We do not undertake to update any forward-looking statements made in this Quarterly Financial Report.

Non-IFRS Measures

We use a number of financial measures to assess our performance. Some of these measures are not calculated in accordance with IFRS, are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability with other institutions. These non-IFRS measures are presented to supplement the information disclosed in the unaudited Quarterly Consolidated Financial Statements and Notes to 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. A definition of non-IFRS measures used throughout the Quarterly Financial Report can be found in the Glossary for Non-IFRS Financial Measures section of the 2014 Annual Report.

Information related to the disclosure of changes in accounting policies and critical accounting policies and estimates can be found in our 2014 Annual Report. There have been no significant changes in accounting policies during the second quarter of 2015.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2015

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

Economic Context and Housing Indicators (as at 16 July 2015)

Reflecting continued uncertainty surrounding the impact of oil price declines and weaker-than-expected growth in non-oil exports in the first half of 2015, the consensus among private sector forecasters weakened in July¹. The consensus helps guide CMHC's views regarding economic activity. The revisions to the forecast mainly impact the second half of 2015, with little change to the outlook in 2016. These developments remain consistent with the forecast ranges published in CMHC's latest *Housing Market Outlook* in April, albeit at the lower range for 2015. According to the latest consensus forecast:

- Real Canadian Gross Domestic Product (GDP) is forecast to increase between 1.0 and 1.6 per cent in 2015 and between 1.0 and 2.7 per cent in 2016².
- The overall Canadian unemployment rate will decrease marginally, while remaining between 6.6 and 7.0 per cent in 2015 and within a range of 6.3 to 7.3 per cent in 2016 compared to 6.9 per cent in 2014.

In the second quarter of 2015, total housing starts declined relative to the same quarter in 2014 while sales increased. Total housing starts³ in the second quarter of 2015 decreased 1.9 per cent compared to the second quarter of 2014 and Multiple Listing Service[®] (MLS[®])⁴ Sales⁵ increased 7.7 per cent over the same period. In Alberta, resale market conditions moved from sellers' to buyers' market in the first quarter of 2015 and have remained in buyers' market conditions, despite slightly stronger sales in recent months.

In CMHC's April Housing Market Outlook, housing starts were forecast to range between 166,540 and 188,580 units in 2015 on an annual basis, and between 162,840 to 190,830 units in 2016. MLS[®] sales were forecast to range between 437,100 and 494,500 units in 2015 and between 424,500 to 491,300 units in 2016. So far in 2015, weaker-than-expected economic growth since the publication of the Outlook has not been reflected in a slowdown in housing markets. Housing starts and MLS[®] sales for Canada are tracking slightly higher than our point forecast. The risks to the housing market are balanced on both the upside and downside. On the downside, as GDP growth is moving toward the lower end of the consensus forecast range, there is potential downside risk to CMHC's forecast for total starts, MLS[®] sales, and average prices that could result in these indicators moving closer to the bottom end of the forecast range. On the other hand, according to the Bank of Canada, the U.S. economy is expected to rebound in the second half of 2015. This, coupled with a low exchange rate and lower interest rates, could continue to support housing starts and MLS sales levels in the upper portion of CMHC's forecast range.

The MLS[®] Home Price Index⁶, which uses statistical techniques to control for changes over time in the types and quality of homes sold, registered an increase of 5.1 per cent in June 2015 compared to the same month last year. The year over year growth in the Index has been stable so far in 2015. CMHC's second quarter Housing Market Outlook forecast the average MLS[®] price to be between \$402,139 and \$439,589 in 2015 and between \$398,191 and \$457,200 in 2016.

- Nationally, employment⁷ gains so far in 2015 continue to support housing demand. Average monthly gains from January to June 2015 were stronger than the average gains over the same period in 2014. Employment growth mostly reflected gains in full-time employment, while part-time employment declined. While average monthly gains from January to June 2015 in the oil-producing provinces of Saskatchewan and Newfoundland and Labrador registered relatively little change when compared to gains over the same period in 2014, Alberta has seen the average monthly

¹ CMHC's latest *Housing Market Outlook* was published in April 2015 and is based on Consensus Economics' survey of private sector forecasters, as of 13 April 2015.

² According to the April Consensus Forecast, GDP was expected to increase between 1.5 and 2.0 per cent in 2015 and between 1.0 and 2.6 per cent in 2016. The outlook for the unemployment rate has remained constant.

³ Housing starts quarterly, actual (not seasonally adjusted).

⁴ Multiple Listing Service[®] (MLS[®]) is a registered trademark owned by the Canadian Real Estate Association.

⁵ MLS[®] Sales quarterly, actual (not seasonally adjusted).

⁶ National MLS[®] Home Price Index, seasonally adjusted.

⁷ Statistics Canada, Table 282-0001.

employment gain halved so far in 2015 when compared to the same period in 2014. This reflects a stronger dampening effect from lower oil prices in Alberta, where the break-even point for energy projects is generally higher than in Saskatchewan and Newfoundland and Labrador.

- Mortgage rates are not expected to rise before the end of 2015. We forecast the five-year rate to lie within the 4.00 to 5.50 per cent range in 2015 and 4.20 to 6.20 per cent range in 2016. Low mortgage rates will continue to support housing demand.

Strategic Directions

At its March 2015 meeting, the Board of Directors approved three strategic directions set out by CMHC Management. These strategic directions will focus our efforts and activities to help Canadians meet their housing needs:

- Align Risk with Mandate
- Lead through Information and Insight
- Be a High-Performing Organization

Assisted Housing Developments

Building on CMHC's prepayment flexibilities for co-operative and non-profit social housing providers announced in 2013, Economic Action Plan 2015 proposes to provide \$150 million over four years, starting in 2016-2017, to support social housing in Canada by allowing social housing providers to prepay their long-term non-renewable mortgages without penalty.

Eliminating the mortgage prepayment penalty on long-term, non-renewable loans will enable co-operative and non-profit social housing providers to access private sector loans with more favourable interest rates, significantly reducing their mortgage interest expenses.

Mortgage Loan Insurance Developments

In Economic Action Plan 2015, the Government announced that it would implement regulatory measures that limit the extension of portfolio insurance through the substitution of mortgages in insured pools, limit the use of portfolio insurance to CMHC securitization vehicles and prohibit the use of government-backed mortgages as collateral in securitization vehicles that are not sponsored by CMHC.

We previously eliminated the substitution feature on new portfolio pools on 1 January 2014. The substitution continues to exist for portfolio pools insured on or before 31 December 2013.

Mortgage Loan Insurance Premiums

As a result of our annual review of insurance products and capital requirements, we announced an increase in homeowner mortgage loan insurance premiums for homebuyers with less than a 10 per cent down-payment. Effective 1 June 2015, mortgage loan insurance premiums for these homebuyers increased by approximately 15 per cent. There were no changes to premiums for our portfolio insurance and multi-unit insurance products or to premiums for homebuyers who make down payments of 10 per cent or more of the purchase price of their home.

Portfolio Insurance

For 2015, we have maintained our annual limit of issuance of portfolio insurance at \$9 billion. We will continue to employ a lender allocation methodology for our portfolio insurance product while considering the size of lender requests. This process helps to increase access to funding for small and medium-sized lenders while increasing market discipline in residential lending and reducing taxpayer exposure to the housing sector.

Minimum Capital Test for Mortgage Loan Insurers

The Office of the Superintendent of Financial Institutions (OSFI) is in the process of developing a new capital framework specific to mortgage insurers which will replace the current Minimum Capital Test (MCT). As a result, mortgage loan insurers are expected to use an interim capital framework, which is a modified version of the MCT for federally regulated property and casualty insurers that was released by OSFI on 24 September 2014. We implemented the new interim capital framework on 1 January 2015, which resulted in an increase in MCT required capital and a reduction in our MCT ratio.

Securitization Developments

Expiry of Insured Mortgage Purchase Program

On 15 March 2015, the final Insured Mortgage Purchase Program (IMPP) securities matured resulting in the successful completion of this program. The IMPP was introduced during the latter part of 2008 and early 2009 by the Government of Canada as a temporary measure to maintain the availability of longer-term credit in Canada and it was instrumental in moderating the impact of the global financial crisis on credit conditions in Canada.

Securitization Guarantee Fees

Effective 1 April 2015, guarantee fees charged to Issuers on *National Housing Act* Mortgage Backed Securities (NHA MBS) and Canada Mortgage Bonds (CMB) increased. These actions narrow the funding cost difference between government sponsored and private market funding sources and encourage the development of private market funding alternatives.

Fees Payable to the Government of Canada

Effective 1 April 2015, the fees we pay to the Government of Canada in recognition of the Government's financial backing of the Canada Mortgage Bond increased.

Annual Limit on New Securities Guaranteed

Pursuant to the NHA, the Minister of Finance approves the terms and conditions for our Securitization Programs, including the maximum guarantees for the year. The 2015 approved limits are the same as the 2014 limits: \$80 billion in NHA MBS and \$40 billion in CMB.

FINANCIAL HIGHLIGHTS

(in millions, unless otherwise indicated)								
CORPORATE RESULTS	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Total Assets	249,968	246,916	248,490	246,557	251,274	253,081	270,051	289,091
Total Liabilities	230,998	228,182	230,308	228,933	234,125	236,570	254,213	273,943
Total Equity of Canada	18,970	18,734	18,182	17,624	17,149	16,511	15,838	15,148
Total Revenues	1,127	1,255	1,875	1,811	1,202	1,311	1,426	1,255
Total Expenses (including Income Taxes)	779	913	997	905	767	905	873	803
Net Income	348	342	878	906	435	406	553	452
ASSISTED HOUSING								
Parliamentary Appropriations for Housing Programs Expenses	480	630	498	435	490	587	538	501
Net Income	2	5	2	46	-	4	63	21
Total Equity of Canada	198	158	191	187	151	158	192	128
MORTGAGE LOAN INSURANCE								
Insurance-in-force (\$B)	534	539	543	546	551	555	557	560
Total Insured Volumes	16,440	9,293	14,455	16,045	15,769	9,328	14,457	17,646
Premiums and Fees Received	393	220	328	409	372	206	321	401
Premiums and Fees Earned	400	375	440	425	423	400	457	444
Claims Paid	88	90	94	114	87	95	100	73
Insurance Claims	98	87	83	85	58	102	71	70
Net Income	295	283	821	812	389	352	432	369
Loss Ratio	24.5 %	23.2 %	18.9 %	20.0 %	13.7 %	25.5 %	15.5 %	15.8 %
Operating Expense Ratio	14.5 %	14.9 %	18.9 %	13.9 %	11.8 %	14.3 %	12.5 %	12.4 %
Combined Ratio	39.0 %	38.1 %	37.8 %	33.9 %	25.5 %	39.8 %	28.0 %	28.2 %
Severity Ratio	29.5 %	30.2 %	27.1 %	33.0 %	27.7 %	28.3 %	28.9 %	28.9 %
Return on Equity	6.9 %	6.8 %	13.2 %	13.0 %	10.2 %	9.6 %	12.3 %	10.9 %
Return on Capital Holding Target	11.9 %	11.4 %	24.1 %	20.2 %	14.7 %	13.3 %	16.8 %	14.7 %
Capital Available to Minimum Capital Required (% MCT)	337 %	331 %	343 %	294 %	272 %	264 %	250 %	243 %
% Estimated Outstanding Canadian Residential Mortgages with CMHC Insurance Coverage (\$)	41.2 %	42.1 %	42.7 %	43.7 %	44.8 %	45.3 %	45.6 %	47.0 %
SECURITIZATION								
Guarantees-in-force (\$B)	420	421	422	404	402	400	398	399
Securities Guaranteed	24,598	23,124	40,356	30,393	24,389	22,505	20,522	29,007
Guarantee and Application Fees Received	98	55	88	73	59	53	49	64
Guarantee and Application Fees Earned	61	60	66	61	59	59	59	64
Net Income	49	49	53	48	49	47	49	53
Operating Expense Ratio	12.1 %	11.9 %	11.2 %	11.2 %	10.3 %	10.7 %	11.3 %	10.9 %
Return on Equity	11.1 %	11.4 %	13.1 %	12.4 %	13.1 %	13.1 %	14.2 %	15.9 %
Capital Available to Capital Required	158 %	159 %	157 %	152 %	209 %	199 %	182 %	166 %
% Estimated Outstanding Canadian Residential Mortgages with CMHC Securitization Guarantee (\$)	33.1 %	33.7 %	32.8 %	32.5 %	32.5 %	32.0 %	31.1 %	30.6 %

CONDENSED CONSOLIDATED FINANCIAL RESULTS

Condensed Consolidated Balance Sheet

(in millions)	As at	
	30 June 2015	31 December 2014
Total Assets	249,968	248,490
Total Liabilities	230,998	230,308
Total Equity of Canada	18,970	18,182

Total Assets

As at 30 June 2015, Total Assets were \$249,968 million, an increase of \$1,478 million (0.6%) from 31 December 2014 primarily due to an increase in Loans and Receivables partially offset by Cash and Cash Equivalents and Investment Securities.

Loans and Receivables were \$217,558 million an increase of \$1,614 million (0.7%) primarily due to purchases of NHA mortgage backed securities partially offset by the maturity of the IMPP in Q1 2015 in the Securitization activity.

Cash, Cash Equivalents and Investment Securities decreased by \$84 million (0.4%) due to a decline in Cash and Cash Equivalents, partially offset by an increase in Investment Securities – Available for Sale. The change in Cash, Cash Equivalents and Investment Securities is primarily due to the continued implementation of the new investment asset mix resulting in the rebalancing from money market instruments to bond investments. In addition, money market investments funded by Securities Sold Under Repurchase Agreements declined as there were fewer attractive short-term investment opportunities due to a decline in yields from 2014 to 2015.

Total Liabilities

Total Liabilities were \$230,998 million as at 30 June 2015, an increase of \$690 million (0.3%) from 31 December 2014 primarily due to an increase in Borrowings – Other Financial Liabilities and partially offset by a decrease in Borrowings – Designated at Fair Value through Profit or Loss, Accounts Payable and Other Liabilities and Unearned Premiums and Fees.

Borrowings – Other Liabilities were \$215,124 million as at 30 June 2015, an increase of \$1,602 million (0.7%), mainly due to CMB issuances partially offset by the maturity of the IMPP in Q1.

Borrowings – Designated at Fair Value through Profit or Loss were \$7,269 million as at 30 June 2015, a decrease of \$408 million (5.3%), primarily due to loan repayments of principal partially offset by an increase in fair value.

Accounts Payable and Other Liabilities decreased by \$213 million (31.6%) over the period primarily due to payment of the income taxes and Government of Canada guarantee fees which were payable as at 31 December 2014.

Unearned Premiums and Fees decreased by \$111 million (1.8%), as premiums received were less than premiums earned in our Mortgage Loan Insurance Activity, due to declining volumes.

Total Equity of Canada

Total Equity of Canada was \$18,970 million at 30 June 2015, an increase of \$788 million (4.3%) representing the Comprehensive Income recognized in 2015.

Condensed Consolidated Statement of Income and Comprehensive Income

(in millions)	Three months ended			Six months ended	
	30 June 2015	31 March 2015	30 June 2014	30 June 2015	30 June 2014
Total Revenues	1,127	1,255	1,202	2,382	2,513
Total Expenses	668	804	628	1,472	1,406
Income Taxes	111	109	139	220	266
Net Income	348	342	435	690	841
Other Comprehensive Income	(112)	210	203	98	470
Comprehensive Income	236	552	638	788	1,311

Total Revenues

Q2 2015 vs. Q1 2015

Total Revenues decreased by \$128 million (10.2%) from the prior quarter primarily as a result of lower Parliamentary Appropriations for Housing Programs partially offset by higher Premiums and Fees Earned.

Parliamentary Appropriations for Housing Programs decreased by \$150 million (23.8%). The major contributors to the decrease included: \$92 million due to the timing of expenditures under the Investment in Affordable Housing, \$15 million due to timing of expenditures for the affordable housing in Nunavut and \$39 million due to timing of subsidy payments for the existing social housing portfolio.

Premiums and Fees Earned increased by \$26 million (6.0%) primarily due to the higher Premiums and Fees Received and higher Insured Volumes.

Q2 2015 vs. Q2 2014

Total Revenues decreased by \$75 million (6.2%) from the same quarter last year primarily due to lower Premiums and Fees Earned, Investment income and Other Income.

Premiums and Fees Earned were \$21 million (4.4%) lower than the same quarter last year primarily due to declining volumes in the Mortgage Loan Insurance Activity over the past several years, partially offset by the increase in premium pricing fees implemented in 2014 and 2015.

Investment Income was \$20 million (12.7%) lower than the same quarter last year due to the new investment asset mix in the Mortgage Loan Insurance Activity and lower bond yields. The investment portfolio is more heavily weighted in fixed income investments with shorter durations and lower yields resulting in a decrease in interest income earned in comparison to prior period. Dividend income earned also declined as our equity investments decreased significantly.

Other Income decreased by \$23 million (43.4%) primarily due to a decline in the volume of trading activity in the Mortgage Loan Insurance investment portfolio under the new investment asset mix which was implemented in the second half of 2014.

YTD 2015 vs. YTD 2014

Total Revenues were \$2,382 million, a \$131 million (5.2%) decrease from the same six month period last year primarily due to Premiums and Fees Earned, Investment Income and Other Income partially offset by Parliamentary Appropriations for Housing Programs.

Premiums and Fees Earned were \$45 million (4.8%) lower than the same six month period last year primarily due to declining volumes in the Mortgage Loan Insurance Activity over the past several years, partially offset by the increase in premium pricing fees implemented in 1 May 2014 and 1 June 2015.

Investment Income was \$32 million (10.5%) lower than the same period last year due to the new investment asset mix and a decline in bond yields in the Mortgage Loan Insurance Activity as previously explained.

Other Income decreased by \$79 million (55.2%) primarily due to a decline in the volume of trading activity in the Mortgage Loan Insurance investment portfolio as previously explained.

Parliamentary Appropriations for Housing Programs increased \$33 million (3.1%) from the same six month period last year primarily as a result of an increase of \$106 million due to the timing of expenditures under the Investment in Affordable Housing which was partially offset by \$70 million due to the timing of expenditures for the affordable housing in Nunavut.

Total Expenses

Q2 2015 vs. Q1 2015

Total Expenses were \$668 million, a \$136 million (16.9%) decrease from the prior quarter primarily due to lower Housing Programs expenses.

Housing Programs expenses decreased by \$150 million (23.8%) from the prior quarter in accordance with Parliamentary Appropriations for Housing Programs previously noted.

Q2 2015 vs. Q2 2014

Total Expenses increased by \$40 million (6.4%) over the same quarter last year primarily due to an increase in Insurance Claims. Insurance Claims increased relative to the same quarter last year as the arrears and economic conditions did not improve as much over the current quarter as the same quarter last year.

YTD 2015 vs. YTD 2014

Total Expenses were \$1,472 million, a \$66 million (4.7%) increase over the same six month period last year primarily due to an increase in Housing Program Expenses and Insurance Claims as previously explained.

Net Income

Q2 2015 vs. Q1 2015

Net Income remained relatively consistent with the prior quarter as the variances in Parliamentary Appropriations for Housing Programs and Housing Programs expenses offset one another and have no effect on Net Income.

Q2 2015 vs. Q2 2014

Net Income decreased by \$87 million (20.0%) from the same quarter last year primarily due to lower Other Income, Investment Income and Premiums and Fees Earned and higher Insurance Claims as previously explained.

YTD 2015 vs. YTD 2014

Net Income was \$690 million, a \$151 million (18.0%) decrease from the same six month period last year primarily due to a decrease in Investment Income, Other Income, and Premiums and Fees Earned as previously explained.

Other Comprehensive Income

Q2 2015 vs. Q1 2015

Other Comprehensive Loss was \$112 million, a \$322 million (153.3%) decrease from the prior quarter primarily due to a decline in Net Unrealized Gains (Losses) from Available for Sale Financial Instruments and Remeasurements of the Net Defined Benefit Plan.

Net Unrealized Gains (Losses) from Available for Sale Financial Instruments (net of tax) decreased from the prior quarter by \$515 million (168.3%) primarily due to a sharp increase in bond yields during Q2 2015 which resulted in unrealized losses on the bond portfolio. In contrast, a sharp decline in bond yields in Q1 2015 created unrealized gains.

Offsetting the Net Unrealized Gains (Losses) from Available for Sale Financial Instruments was a \$193 million (201.0%) increase in the Remeasurements of the Net Defined Benefit Plans primarily as a result of an increase in the discount rate for the three months ended 30 June 2015 (from 3.5% to 4%), whereas the discount rate for the three months ended 31 March 2015 declined (from 4.0% to 3.5%).

Q2 2015 vs. Q2 2014

Other Comprehensive Income decreased \$315 million (155.2%) from the same quarter last year primarily due to a \$463 million (180.2%) decrease in the Net Unrealized Gains (Losses) from Available for Sale Financial Instruments (net of tax). The decrease is primarily due to an increase in bond yields during Q2 2015 resulting in unrealized losses on the bond portfolio compared to a decline in bond yields in Q2 2014. Also contributing to the decrease was a decline in the equity portfolio due to weaker performance in equity markets in Q2 2015.

Offsetting the Net Unrealized Gains (Losses) from Available for Sale Financial Instruments was a \$118 million (561.9%) increase in Remeasurements of the Net Defined Benefit Plans, primarily as a result of an increase in the discount rate for the three months ended 30 June 2015, whereas the discount rate decreased for the same period last year.

YTD 2015 vs. YTD 2014

Other Comprehensive Income was \$98 million, a \$372 million (79.1%) decrease from the same six month period last year primarily due to Net Unrealized Gains (Losses) from Available for Sale Financial Instruments partially offset by Remeasurements of the Net Defined Benefit Plans.

Net Unrealized Gains (Losses) from Available for Sale Financial Instruments (net of tax) decreased from prior year by \$527 million (83.8%) largely due to a decline in fair value gains in the equity portfolio caused by weaker performance in equity markets in 2015 coupled with a smaller equity exposure under the new investment asset mix. Also contributing to the decrease was lower unrealized gains on the bond portfolio due to a smaller decline in year-to-date bond yields compared to 2014.

Remeasurements of the Net Defined Benefit Plans was \$1 million, an increase of \$117 million (100.9%) primarily as a result of a stable discount rate for the six months ended 30 June 2015, whereas the discount rate for the comparative period decreased significantly resulting in an actuarial loss.

FINANCIAL RESULTS BY REPORTABLE BUSINESS SEGMENT

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

ASSISTED HOUSING

FINANCIAL ANALYSIS

(in millions)	Three months ended			Six months ended	
	30 June 2015	31 March 2015	30 June 2014	30 June 2015	30 June 2014
Parliamentary Appropriations for Housing Programs	480	630	490	1,110	1,077
Net Interest Income	-	-	1	-	4
Other Income	7	10	2	17	6
Total Revenues	487	640	493	1,127	1,087
Housing Programs Expenses	480	630	490	1,110	1,077
Operating Expenses	6	5	4	11	9
Total Expenses	486	635	494	1,121	1,086
Income before Income Taxes	1	5	(1)	6	1
Income Taxes	(1)	-	(1)	(1)	(3)
Net Income	2	5	-	7	4

Total Revenues

Q2 2015 vs. Q1 2015

Total Revenues decreased by \$153 million (23.9%) from the prior quarter. This lower revenue was primarily due to a decrease in Parliamentary Appropriations for Housing Programs.

Appropriations spending related to Housing Programs Expenses for the three months ended 30 June 2015 was \$480 million, a decrease of \$150 million (23.8%) when compared to the three months ended 31 March 2015. Of this decrease, \$92 million was due to the timing of expenditures under the Investment in Affordable Housing, \$15 million was due to timing of expenditures for affordable housing in Nunavut and \$39 million was due to timing of subsidy payments for the existing social housing portfolio.

Q2 2015 vs. Q2 2014

Total Revenues decreased by \$6 million (1.2%) which was comparable to the same quarter last year.

YTD 2015 vs. YTD 2014

Total Revenues increased by \$40 million (3.7%) compared to the same period last year. This growth was primarily due to an increase in Parliamentary Appropriations for Housing Programs.

Appropriations spending related to Housing Programs Expenses for the six months ended 30 June 2015 was \$1,110 million, an increase of \$33 million (3.1%) when compared to the same period last year. This increase was mainly due to the timing of expenditures under the Investment of Affordable Housing \$106 million, partially offset by the timing of expenditures for affordable housing in Nunavut \$70 million.

Total Expenses

Q2 2015 vs. Q1 2015

Total Expenses decreased by \$149 million (23.5%) from the prior quarter, primarily due to the decrease in Housing Programs expenses as previously explained.

Q2 2015 vs. Q2 2014

Total Expenses decreased by \$8 million (1.6%) which was comparable to the same quarter last year.

YTD 2015 vs. YTD 2014

Total Expenses increased by \$35 million (3.2%) compared to the same period last year, primarily driven by the growth in Housing Programs expenses as previously explained.

Net Income

The Lending Activity is operated on a planned breakeven basis over the long-term such that in any given year a profit or loss may be realized.

Q2 2015 vs. Q1 2015 and Q2 2015 vs. Q2 2014 and YTD 2015 vs. YTD 2014

Net Income was relatively consistent with the prior quarter, the same quarter last year and the same six month period last year.

FINANCIAL CONDITION**Assisted Housing Capital Management***Lending Programs*

We maintain a Reserve Fund pursuant to Section 29 of the *Canada Mortgage and Housing Corporation Act* (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 pre-payable loans as well as credit risk exposure on unsecured loans. The Reserve Fund is subject to a statutory limit of \$240 million. Should the statutory limit be exceeded, we would be required to pay the excess to the Government of Canada.

Retained Earnings absorb unrealized fair value market fluctuations incurred by the Lending Programs as well as Remeasurements of the Net Defined Benefit Plans for Assisted Housing. 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 for the Lending Programs.

(in millions)	As at	
	30 June 2015	31 December 2014
Reserve Fund	134	143
Retained Earnings	39	23
Total Lending Programs Capital Available	173	166

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.

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.

(in millions)	Six months ended 30 June	
	2015	2014
Amounts provided for Housing Programs:		
Amounts authorized in 2014/15 (2013/14)		
Main Estimates	2,097	2,131
Less: Portion recognized in calendar 2014 (2013)	(1,423)	(1,498)
Less: Appropriations lapsed for 2014/15 (2013/14)	(44)	(46)
2014/15 (2013/14) portions recognized in 2015 (2014)	630	587
Amounts authorized in 2015/16 (2014/15)		
Main Estimates	2,026	2,097
Less: Portion to be recognized in subsequent quarters	(1,546)	(1,607)
2015/16 (2014/15) portions recognized in 2015 (2014)	480	490
Total appropriations recognized – six months ended 30 June	1,110	1,077

Total appropriations approved by Parliament for fiscal year 2015/16 are \$2,026 million. The total spending against the reference level as at 30 June 2015 was \$480 million (23.7%).

MORTGAGE LOAN INSURANCE

We provide mortgage loan insurance for transactional homeowner, portfolio and multi-unit residential units in all parts of Canada, including areas or markets not served or under-served by private mortgage insurers. 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 of Canada, with due regard for loss. We derive our Net Income primarily from this activity.

Our mortgage loan insurance business is exposed to seasonal variation, with the first quarter typically being the slowest period. 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.

MORTGAGE LOAN INSURANCE PRODUCTS

Transactional Homeowner insurance – insurance against borrower default for loans secured by residential properties of 4 or fewer units issued at the time the loan is originated, the cost of which is usually passed on to the borrower; and includes:

- **High ratio homeowner loans** – the borrower has less than a 20% down payment at origination. At least one of the units must be owner-occupied. Mortgage loan insurance on these loans is a legislative requirement for federally regulated as well as for most provincially regulated lenders.
- **Low ratio homeowner loans** – the borrower has a down payment of 20% or more at origination. Mortgage loan insurance on these loans is not a legislative requirement; however, lenders may require mortgage loan insurance as a condition of approving the loan. Units can be owner-occupied or non-owner occupied (i.e., rental units).

Portfolio insurance – insurance against borrower default for pools of low ratio mortgages that are under repayment and secured by residential properties of 4 or fewer units. Unlike transactional homeowner insurance, premiums are not passed onto the borrower.

Multi-unit Residential insurance – insurance provided exclusively by CMHC in the marketplace against borrower default on loans for the construction, purchase and refinancing of multi-unit residential properties consisting of 5 or more units. These properties include rental buildings, licensed care facilities and retirement homes, affordable housing projects and purpose-built student housing.

FINANCIAL METRICS

Measures (in millions, unless otherwise indicated)	Three months ended			Six months ended	
	30 June 2015	31 March 2015	30 June 2014	30 June 2015	30 June 2014
Insurance-in-force (\$B)	534	539	551	534	551
Transactional Homeowner	279	281	287	279	287
Portfolio	200	203	212	200	212
Multi-unit Residential	55	55	52	55	52
Total Insured Volumes (units)	82,878	50,230	87,765	133,108	143,151
Transactional Homeowner	50,007	25,164	54,204	75,171	82,073
Portfolio	11,684	7,875	6,082	19,559	12,867
Multi-unit Residential	21,187	17,191	27,479	38,378	48,211
Total Insured Volumes (\$M)	16,440	9,293	15,769	25,733	25,097
Transactional Homeowner	11,771	6,005	12,489	17,776	19,000
Portfolio	3,238	2,080	1,496	5,318	3,165
Multi-unit Residential	1,431	1,208	1,784	2,639	2,932
Premiums and Fees Received	393	220	372	613	578
Transactional Homeowner	323	163	301	486	452
Portfolio	15	12	8	27	15
Multi-unit Residential	55	45	63	100	111
Claims Paid	88	90	87	178	182
Transactional Homeowner	77	81	83	158	171
Portfolio	6	5	3	11	10
Multi-unit Residential	5	4	1	9	1
Arrears Rate (%)	0.34	0.34	0.33	0.34	0.33

Insurance-in-force

The Mortgage Loan Insurance Activity is exposed to insurance risk from underwriting of mortgage insurance contracts. Mortgage insurance contracts transfer risk to us by indemnifying lending institutions against credit losses arising from borrower default. Under a mortgage insurance policy, a lending institution is insured against risk of loss arising from borrower default for the entire unpaid principal balance of the loan plus interest for a predetermined length of time, in accordance with and subject to the terms of the mortgage insurance policy. Insurance-in-force is the total amount of outstanding loan balances covered by mortgage loan insurance policies at a specific period in time and represents the risk exposure of the Mortgage Loan Insurance Activity.

At 30 June 2015, Insurance-in-force was \$534 billion, a \$9 billion (1.7%) decrease from 31 December 2014. New loans insured were \$26 billion, while estimated loan amortization and pay-downs were \$35 billion.

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed \$600 billion (2014 – \$600 billion).

Insured Volumes

Our insured loan volumes are influenced by the economy, housing markets, competitive pressures and the regulatory environment.

Q2 2015 vs. Q1 2015

Our total insured units for the second quarter of 2015 were 82,878 units, 32,648 units (65.0%) higher than the prior quarter primarily as a result of seasonality. Typically, our volumes are lowest in the first quarter, with the second quarter being a more active season for mortgage insurance business as housing activity increases in the spring season.

- Transactional Homeowner volumes increased by 24,843 units (98.7%), with purchase and refinance units increasing by 104.0% and 58.1%, respectively, due to seasonality.
- Portfolio volumes increased by 3,809 units (48.4%) as lenders took up more of the portfolio insurance product in the second quarter.
- Multi-unit Residential volumes increased by 3,996 units (23.2%), with purchase and refinance units increasing by 35.2% and 20.0%, respectively. Multi-unit Residential volumes are highly variable on a quarterly basis.

Q2 2015 vs. Q2 2014

Our total insured volumes in the second quarter of 2015 were 4,887 units (5.6%) lower than in the same quarter last year primarily as a result of the decreases in the Transactional Homeowner and Multi-unit Residential business.

- Transactional Homeowner volumes decreased by 4,197 units (7.7%), with purchase and refinance units decreasing by 6.0% and 21.8%, respectively, mostly as a result of a decline in market share.
- Portfolio volumes increased by 5,602 units (92.1%) as lenders insured more of their annual allocation in the second quarter of 2015 when compared to the same period in 2014.
- Multi-unit Residential volumes decreased by 6,292 units (22.9%) primarily due to decreases in Multi-unit Residential refinance transactions. Refinancing volumes, which accounted for 76.8% of the total multi-unit volumes in the second quarter of 2015, decreased by 27.3% when compared to the same period last year.

YTD 2015 vs. YTD 2014

Our total insured volumes for the first six months of 2015 were 133,108 units, 10,043 units (7.0%) lower than in the same period last year primarily as a result of the decreases in Transactional Homeowner and Multi-unit Residential business.

- Transactional Homeowner volumes decreased by 6,902 units (8.4%), with purchase and refinance units decreasing by 6.4% and 23.4%, respectively, primarily as a result of a decline in market share.

- Portfolio volumes increased by 6,692 units (52.0%) primarily due to the timing of lender take-up of the portfolio insurance product, which is highly variable. CMHC limits access to its portfolio insurance product through an allocation process. A total annual allocation of \$9 billion (2014 - \$9 billion) was distributed among lenders, of which \$5,318 million, or 59.1%, was used at 30 June 2015 (30 June 2014 - \$3,165 million, or 35.2%).
- Multi-unit Residential volumes decreased by 9,833 units (20.4%), primarily due to decreases in Multi-unit Residential refinance transactions. Refinancing volumes, which represents 77.8% of the total multi-unit volumes, decreased by 23.4% in comparison to the same period last year.

Premiums and Fees Received

Q2 2015 vs. Q1 2015

Premiums and Fees Received increased by \$173 million (78.6%) from the prior quarter due to seasonally higher volumes. A price increase in homeowner mortgage loan insurance premiums for homebuyers with less than a 10% down-payment, effective 1 June 2015, was also a factor in the increase over the previous quarter.

Q2 2015 vs. Q2 2014 and YTD 2015 vs. YTD 2014

Premiums and Fees Received increased by \$21 million (5.6%) and \$35 million (6.1%) for the three and six months periods ended 30 June 2015, respectively, mainly due to the increase in Transactional Homeowner premiums which came into effect on 1 May 2014 and 1 June 2015. The effect of the pricing increase was partially offset by lower Transactional Homeowner and Multi-unit Residential volumes. Premiums and Fees Received for Portfolio for both comparative periods increased due to higher volumes.

Claims Paid and Arrears

Q2 2015 vs. Q1 2015 and Q2 2015 vs. Q2 2014 and YTD 2015 vs. YTD 2014

Claims paid were relatively consistent when compared to the prior quarter, the same quarter last year and the same six month period last year, as lower claims on Transactional Homeowner were partially offset by higher claims for Portfolio and Multi-unit Residential.

	As at			
	30 June 2015		31 December 2014	
	No. of Loans in Arrears	Arrears Rate	No. of Loans in Arrears	Arrears Rate
Transactional Homeowner	7,222	0.50 %	7,586	0.52 %
Portfolio	2,003	0.16 %	1,988	0.15 %
Multi-unit Residential	129	0.59 %	137	0.62 %
Total	9,354	0.34 %	9,711	0.35 %

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 as at 30 June 2015 was 0.34%, a 0.01 point decrease from year-end 2014. The total number of loans in arrears was 9,354 at 30 June 2015, a 357 unit (3.7%) decrease compared to year-end 2014. The decline in the number of loans in arrears has tracked the decline in the number of loans in force over the previous two quarters.

Transactional Homeowner arrears represented 77.2% of the total arrears volumes, Portfolio represented 21.4% and Multi-unit Residential represented 1.4%. Recent limitations on portfolio insurance will result in a change in the mix of loans insured by CMHC going forward. As portfolio arrears rates are lower than Transactional Homeowner arrears rates, our overall arrears rate is expected to increase over time.

FINANCIAL ANALYSIS

(in millions, unless otherwise indicated)	Three months ended			Six months ended	
	30 June 2015	31 March 2015	30 June 2014	30 June 2015	30 June 2014
Premiums and Fees Earned	400	375	423	775	823
Investment Income	141	137	159	278	308
Other Income	5	5	40	10	114
Total Revenues	546	517	622	1,063	1,245
Insurance Claims	98	87	58	185	160
Operating Expenses	58	56	50	114	107
Total Expenses	156	143	108	299	267
Income before Income Taxes	390	374	514	764	978
Income Taxes	95	91	125	186	237
Net Income	295	283	389	578	741
Severity Ratio	29.5 %	30.2 %	27.7 %	31.1 %	28.9 %
Loss Ratio	24.5 %	23.2 %	13.7 %	23.9 %	19.4 %
Operating Expense Ratio	14.5 %	14.9 %	11.8 %	14.7 %	13.0 %
Combined Ratio	39.0 %	38.1 %	25.5 %	38.6 %	32.4 %
Capital Available to Minimum Capital Required (% MCT)	337 %	331 %	272 %	337 %	272 %
Return on Equity ¹	6.9 %	6.8 %	10.2 %	6.9 %	9.9 %
Return on Capital Holding Target	11.9 %	11.4 %	14.7 %	11.6 %	14.0 %

¹ Reflects annualized Net Income divided by the average of the beginning and ending Equity for the period.

Total Revenues

Q2 2015 vs. Q1 2015

Total Revenues increased over the prior quarter by \$29 million (5.6%) largely attributable to higher Premiums and Fees Earned. Premiums and Fees Earned increased by \$25 million (6.7%) from the prior quarter consistent with the higher Premiums and Fees Received and Insured Volumes.

Q2 2015 vs. Q2 2014 and YTD 2015 vs. YTD 2014

Total Revenues decreased by \$76 million (12.2%) and \$182 million (14.6%) from the same quarter last year and the same six month period last year primarily due to lower Premiums and Fees Earned, Investment Income and Other Income.

Premiums and Fees Earned decreased by \$23 million (5.4%) and \$48 million (5.8%) for the same quarter last year and the same six month period last year, respectively, reflecting declining volumes over the past several years, partially offset by the increase in premium pricing implemented in 1 May 2014 and 1 June 2015.

Investment Income decreased by \$18 million (11.3%) and \$30 million (9.7%) for the same quarter last year and the same six month period last year, respectively. The investment portfolio was more heavily weighted towards fixed income investments with shorter durations and lower yields resulting in a decrease in interest income earned in comparison to prior period. Dividend income earned also declined as our holdings in equities also decreased significantly.

Other Income decreased by \$35 million (87.5%) and \$104 million (91.2%) from the same quarter last year and the same six month period last year, respectively, due to a decline in net realized gains on both equity and fixed income investments. The decrease is primarily due to a reduction in the trading volumes of investment securities under the new investment asset mix.

Total Expenses

Q2 2015 vs. Q1 2015

Total Expenses increased by \$13 million (9.1%) from the prior quarter primarily due to higher Insurance Claims, driven mainly by higher costs and losses incurred on title transfer properties as well as higher claims avoidance costs in the second quarter.

Q2 2015 vs. Q2 2014

Total Expenses increased by \$48 million (44.4%) from the same quarter last year due to increases in Insurance Claims.

Insurance Claims Losses increased relative to the same quarter last year as the arrears and economic conditions did not improve as much over the current quarter as the same quarter last year.

YTD 2015 vs. YTD 2014

Total Expenses increased by \$32 million (12.0%) over the same six month period last year due to the increases in Insurance Claims previously described.

Net Income

Q2 2015 vs. Q1 2015

Net Income increased \$12 million (4.2%) over the prior quarter driven by higher Premiums and Fees Earned, partially offset by the higher Insurance Claims as previously described.

Q2 2015 vs. Q2 2014 and YTD 2015 vs. YTD 2014

Net income decreased by \$94 million (24.2%) and \$163 million (22.0%) from the prior quarter and the same six month period last year, respectively, due to lower Premiums and Fees Earned, Investment Income and Other Income as well as higher Insurance Claims as previously described.

Ratios

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

Q2 2015 vs. Q1 2015

The Loss Ratio was 24.5% for Q1 2015, a 1.3 point increase from the prior quarter primarily due to higher Insurance Claims, partially offset by increased Premiums and Fees Earned.

Return on Equity and Return on Capital Holding Target in the second quarter were 6.9% and 11.9%, respectively. Return on Equity was consistent with the prior quarter, while Return on Capital Holding Target increased on a slightly lower Capital Holding Target amount.

Q2 2015 vs. Q2 2014 and YTD 2015 vs. YTD 2014

The Severity Ratio increased by 1.8 and 2.2 points for the same quarter last year and the same six month period last year, respectively, which is attributable to fluctuating deficiency sales rates, housing prices and recovery levels.

The Loss Ratio from the same quarter last year and the same six month period last year increased by 10.8 and 4.5 points, respectively, primarily due to higher Insurance Claims and lower Premium and Fees Earned.

The Operating Expense Ratio increased by 2.7 and 1.7 points, respectively, primarily due to lower Premium and Fees Earned and higher Operating Expenses that had a proportional impact on the ratio.

Return on Equity decreased by 3.3 and 3.0 points from the same quarter last year and the same six month period last year, respectively, due to lower Net Income and higher Equity of Canada.

Return on Capital Holding Target decreased by 2.8 and 2.4 points for the three and six months ended 30 June 2015, respectively, due to lower Net Income, which was partially offset by lower capital holding requirements.

FINANCIAL CONDITION

Balance Sheet Review

(in millions)	As at	
	30 June 2015	31 December 2014
Cash, Cash Equivalents and Investment Securities	23,132	23,216
Accrued Interest Receivable	133	103
Accounts Receivable and Other Assets	665	446
Total Assets	23,930	23,765
Securities Sold Under Repurchase Agreements	232	325
Provision for Claims	766	778
Unearned Premiums and Fees	5,432	5,575
Defined Benefit Plans Liability	269	284
Accounts Payable and Other Liabilities	132	385
Total Liabilities	6,831	7,347
Total Equity of Canada	17,099	16,418

Total Assets

Total Assets increased by \$165 million (0.7%) mainly due to an increase in Accounts Receivable and Other Assets, partially offset by a decrease in Cash, Cash Equivalents and Investment Securities.

Accounts Receivable and Other Assets increased by \$219 million (49.1%), primarily due to 2015 tax instalment payments and the deferral of Government of Canada guarantee fees.

Cash, Cash Equivalents and Investment Securities decreased by \$84 million (0.4%) primarily due to a decline in Cash and Cash Equivalents of \$907 million (76.2%), partially offset by an increase in Investment Securities – Available for Sale of \$821 million (3.7%). The change in Cash and Cash Equivalents and Investment Securities – Available for Sale were primarily due to the continued implementation of the new investment asset mix resulting in the rebalancing from money market instruments to bond investments. In addition, money market investments funded by Securities Sold Under Repurchase Agreements declined as there were fewer attractive short-term investment opportunities due to a decline in yields from 2014 to 2015.

Total Liabilities

Total Liabilities of \$6,831 million at 30 June 2015 were \$516 million (7.0%) lower than at 31 December 2014 primarily due to lower Accounts Payable and Other Liabilities, Unearned Premiums and Fees and Securities Sold Under Repurchase Agreements.

Accounts Payable and Other Liabilities decreased by \$253 million (65.7%) due to payment of the income taxes and Government of Canada guarantee fees which were payable at 31 December 2014.

Unearned Premiums and Fees decreased by \$143 million (2.6%), as premiums received were less than premiums earned, reflecting a decline in volumes.

Securities Sold Under Repurchase Agreements, generally used to fund short-term investments for the purpose of generating additional income, decreased by \$93 million (28.6%) as explained above.

Total Equity of Canada

Total Equity of Canada of \$17,099 million at 30 June 2015 was \$681 million (4.1%) higher than at 31 December 2014 due to the Comprehensive Income recognized in 2015.

Capital Management

OSFI is in the process of developing a new capital framework specific to mortgage insurers which will replace the current MCT. CMHC adopted an interim OSFI capital framework on 1 January 2015. As a result, the required capital increased mainly due to an increased margin for interest rate risk and, to a lesser extent, due to a higher risk-based asset factor for equities, resulting in a decrease in the MCT ratio.

We set an Internal Capital Target above the minimum capital required. The Internal Capital Target is set at a level that covers all material risks of the Mortgage Loan Insurance Activity. The Internal Capital Target is calibrated using specified confidence intervals designed to provide management with an early indication of the need to resolve financial problems. The Internal Capital Target has been set at 205% (31 December 2014 - 205%) of the minimum capital required.

Under our Capital Management Framework, we operate at available capital levels above the Internal Capital Target on all but unusual and infrequent occasions. Accordingly, we have established a Holding Capital Target in excess of the Internal Capital Target. The Holding Capital Target is calibrated using confidence intervals specified by our Capital Management Framework and is designed to provide us with adequate time to resolve financial problems before available capital decreases below the Internal Capital Target. The Holding Capital Target has been set at 220% (31 December 2014 – 220%) of the minimum capital required.

We appropriate Retained Earnings and Accumulated Other Comprehensive Income at the 220% Holding Capital Target. The Holding Capital Target was \$10,984 million as at 30 June 2015 (31 December 2014 – \$10,634 million). As at 30 June 2015, the Capital Available to Minimum Capital Required was 337% or \$16,806 million (31 December 2014 – 343% or \$16,173 million).

The following table presents the components of capital available for the Mortgage Loan Insurance Activity.

(in millions, unless otherwise indicated)	As at	
	30 June 2015	31 December 2014
Accumulated Other Comprehensive Income	909	807
Appropriated Retained Earnings	10,075	9,827
Appropriated Capital	10,984	10,634
Unappropriated Retained Earnings	6,115	5,784
Total Mortgage Loan Insurance Capital	17,099	16,418
Less: OSFI-mandated Deductions from Capital	293	245
Total Mortgage Loan Insurance Capital Available	16,806	16,173
Internal Capital Target	205 %	205 %
Holding Capital Target	220 %	220 %
Capital Available to Minimum Capital Required (% MCT)	337 %	343 %

Financial Resources

The Mortgage Loan Insurance investment portfolio is funded by cash flow generated by premiums and 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 liquidated investments.

As at 30 June 2015, total investments under management had a fair value of \$23.1 billion, remaining relatively unchanged from \$23.2 billion at 31 December 2014.

SECURITIZATION

We facilitate access to funds for residential mortgage financing through securitization guarantee products and administration of the legal framework for Canadian covered bonds. Our mandate is to promote the efficient functioning and competitiveness of the housing finance market, and promote and contribute to the stability of the financial system. Under the Securitization Activity, we guarantee the timely payment of interest and principal of securities issued on the basis of eligible loans. The guarantee of the mortgage-backed securities is provided on a commercial basis. Revenues cover all expenses and we are expected to generate a reasonable return for the Government of Canada, with due regard for loss.

Under Section 15 of the *National Housing Act*, the aggregate outstanding amount of principal guarantees may not exceed \$600 billion.

For 2015, the Minister of Finance has authorized us to provide up to \$80 billion for new guarantees of market NHA MBS and up to \$40 billion of new guarantees for CMB. These limits are sufficient to meet normal demand.

SECURITIZATION PROGRAMS

National Housing Act Mortgage-Backed Securities (NHA MBS) program – The NHA MBS program provides a framework for transforming residential mortgages into marketable amortizing securities issued by Approved Lenders. The residential mortgages are insured against borrower default under the *National Housing Act* (in the case of CMHC) and the *Protection of Residential Mortgage or Hypothecary Insurance Act* (in the case of private mortgage insurers). The timely payment of principal and interest to investors is guaranteed by CMHC and backed by the Government of Canada.

Canada Mortgage Bonds (CMB) program – Under the CMB Program, Canada Housing Trust, a special purpose trust issues non-amortizing CMB to investors and uses the proceeds to purchase NHA MBS issued under the NHA MBS program. Monthly cash flows from the amortizing NHA MBS are transformed via swaps into non-amortizing bond cash flows with fixed or floating rate interest payments and principal at maturity (a “bullet payment”). The timely payment of principal and interest on CMB to investors is guaranteed by CMHC and backed by the Government of Canada. We consolidate the accounts of Canada Housing Trust (CHT). CHT assets are neither owned nor held for our benefit. The beneficiaries of the Trust, after payment of all obligations, are one or more charitable organizations.

Legal Framework for Canadian Registered Covered Bonds – We are responsible for the administration of the Covered Bond Legal framework. We operate the legal framework on a cost recovery basis. Neither the Government of Canada nor CMHC provide any guarantees or backing for the covered bond issues.

FINANCIAL METRICS

(in millions, unless otherwise indicated)	Three months ended			Six months ended	
	30 June 2015	31 March 2015	30 June 2014	30 June 2015	30 June 2014
Total Guarantees-in-force (\$B)	420	421	402	420	402
NHA MBS	207	213	195	207	195
CMB	213	208	207	213	207
Total New Securities Guaranteed	24,598	23,124	24,389	47,722	46,894
NHA MBS	14,598	14,124	14,889	28,722	28,394
CMB	10,000	9,000	9,500	19,000	18,500
Guarantee and Application Fees Received	98	55	59	153	112
MBS Guarantee and Application Fees Received	50	34	36	84	67
CMB Guarantee Fees Received	48	21	23	69	45

Guarantees-in-force

Total Guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee.

Guarantees-in-force totalled \$420 billion at 30 June 2015, a \$1 billion (0.2%) decrease over 31 March 2015. Guarantees-in-force change as new guarantees are made and as guaranteed securities mature. In the six month period ending 30 June 2015, maturities exceeded new guarantees granted by CMHC.

New Securities Guaranteed

Q2 2015 vs. Q1 2015

New Securities Guaranteed for the second quarter of 2015 was comparable to the prior quarter with an increase of \$1,474 million (6.4%). In establishing the quarterly guarantee capacity, unutilized NHA MBS guarantee from previous quarters is reallocated to subsequent quarters to ensure maximization of the annual limit.

Q2 2015 vs. Q2 2014 and YTD 2015 vs. YTD 2014

New Securities Guaranteed for the three and six month periods ending 30 June 2015 were comparable to the same three and six month period last year with marginal increases over the periods.

Guarantee and Application Fees Received

Q2 2015 vs. Q1 2015 and Q2 2015 vs. Q2 2014 and YTD 2015 vs. YTD 2014

Guarantee and application fees received were higher compared to the prior quarter and the same three and six month periods last year mainly due to the increase in fee rate effective 1 April 2015, as new securities guaranteed were relatively stable over each period. The guarantee fees received are deferred and recognized as revenue over the period covered by the underlying guaranteed securities. The impact of the increase in fee rate will not significantly impact our revenue earned until after 2015.

FINANCIAL ANALYSIS

(in millions, unless otherwise indicated)	Three months ended			Six months ended	
	30 June 2015	31 March 2015	30 June 2014	30 June 2015	30 June 2014
Premiums and Fees Earned	61	60	59	121	118
Net Interest Income	2	3	2	5	5
Investment Income	9	10	10	19	18
Other Income	20	18	20	38	40
Total Revenues	92	91	91	184	181
Operating Expenses	26	26	26	52	53
Total Expenses	26	26	26	52	53
Income before Income Taxes	66	65	65	131	128
Income Taxes	17	16	16	33	32
Net Income	49	49	49	98	96
Operating Expense Ratio	12.1 %	11.9 %	10.3 %	12.0 %	10.5 %
Capital Available to Capital Required	158 %	159 %	209 %	158 %	209 %
Return on Equity ¹	11.1 %	11.4 %	13.1 %	11.4 %	13.1 %

¹ Reflects annualized Net Income divided by the average of the beginning and ending Equity for the period.

Total Revenues

Q2 2015 vs. Q1 2015 and Q2 2015 vs. Q2 2014 and YTD 2015 vs YTD 2014

Total Revenues were relatively consistent with the prior quarter, the same quarter last year and the same six month period last year which is in line with volume levels in each period.

Total Expenses

Q2 2015 vs. Q1 2015 and Q2 2015 vs. Q2 2014 and YTD 2015 vs YTD 2014

Total Expenses were consistent with the prior quarter, the same quarter last year and the same six month period last year.

Net Income

Q2 2015 vs. Q1 2015 and Q2 2015 vs. Q2 2014 and YTD 2015 vs. YTD 2014

Net Income was consistent with the prior quarter, the same quarter last year and the same six month period last year. The results reflect a stable level of business activity over the periods presented.

Ratios

To supplement financial results of the Securitization programs (excluding CHT), we also use financial measures and ratios to analyze our financial performance. Refer to the Capital Management section for further information on the capital available to capital required ratio.

Q2 2015 vs. Q1 2015 and Q2 2015 vs. Q2 2014 and YTD 2015 vs. YTD 2014

The Operating Expense Ratio moved negligibly from the prior quarter and increased by 1.8 and 1.5 percentage points from the same quarter last year and the same six month period last year, respectively. Revenue levels were fairly consistent with small increases for each period. Operating Expenses, excluding covered bond expenses, had increases of up to 16.1% due to higher overhead costs and an increase in the Government of Canada fee paid. Operating expenses rose at a higher rate than revenues resulting in an increase in the overall ratio.

The Return on Equity ratio decreased from the prior quarter, the same quarter last year and the same six month period which is consistent with an overall downward trend. The ratio decreases gradually as Net Income remains constant while the equity balance grew due to annual positive cash flows.

FINANCIAL CONDITION

Capital Management

Capital is appropriated for the guarantees provided under NHA MBS and CMB programs. The amount appropriated is based on regulatory and economic capital principles and has been established to be 100% of the capital required under these principles. As at 30 June 2015, the capital required was \$1,128 million (31 December 2014 – \$1,064 million). The Capital Available to Capital Required was 158% or \$1,778 million as at 30 June 2015 (31 December 2014 – 157% or \$1,663 million).

The Capital Available to Capital Required ratio decreased 51 percentage points from the same quarter last year primarily as a result of 2014 capital requirement enhancements including increased capital requirements for exposure to counterparty risk (swaps), operational risk and interest rate risk which were applied in the third quarter of 2014.

We do not hold separate capital for CHT because our exposure is limited to mortgage insurance and timely payment guarantees which are covered by the Mortgage Loan Insurance capital and Securitization capital respectively.

The following table presents the components of the capital available for the Securitization Activity.

(in millions, unless otherwise indicated)	As at	
	30 June 2015	31 December 2014
Accumulated Other Comprehensive Income	49	34
Appropriated Retained Earnings	1,079	1,030
Appropriated Capital	1,128	1,064
Unappropriated Retained Earnings	650	601
Total Securitization Capital	1,778	1,665
Less: Deductions from Capital	-	2
Total Securitization Capital Available	1,778	1,663
Capital Available to Capital Required	158 %	157 %

Financial Resources

The Securitization investment portfolio is funded by cash flow from guarantee and application fees and interest received, net of claims and expenses. The portfolio is intended to cover obligations associated with our securitization guarantee programs. The objective of the Securitization investment portfolio is to maximize the capacity to meet liquidity needs of the timely payment guarantee and to preserve capital through investments in Government of Canada securities. The strategic asset allocation policy benchmark for the Securitization investment portfolio is comprised of Canada Non-Agency Bonds (98%) and 91-day T-Bills (2%). The portfolio is managed passively against its benchmark index.

As at 30 June 2015, total investments under management had a fair value of \$2.4 billion compared to \$2.2 billion at the end of 2014.

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 2014 Annual Report. There have been no material developments impacting our risk management since the last reporting period.

CHANGES IN PERSONNEL

KEY MANAGEMENT PERSONNEL

During the second quarter of 2015, the following changes were made to our key management personnel:

- Kathryn Howard, Senior Vice-President, Human Resources left the Corporation.
- Marie-Claude Tremblay was appointed Senior Vice-President, Human Resources.

UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

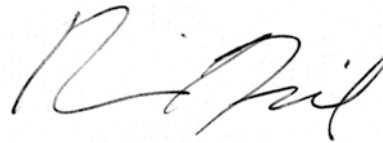
Period ended 30 June 2015

Management is responsible for the preparation and fair presentation of these unaudited Quarterly Consolidated Financial Statements in accordance with the Treasury Board of Canada's *Standard on Quarterly Financial Reports for Crown Corporations* and 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



Brian Naish, CPA, CA
Chief Financial Officer

19 August 2015

CONSOLIDATED BALANCE SHEET

(in millions of Canadian dollars)	Notes	As at	
		30 June 2015	31 December 2014
ASSETS			
Cash and Cash Equivalents		1,405	2,169
Securities Purchased Under Resale Agreements		-	126
Investment Securities:	5		
Designated at Fair Value through Profit or Loss		1,162	1,060
Available for Sale		22,563	21,812
Loans:	6		
Designated at Fair Value through Profit or Loss		5,221	5,503
Loans and Receivables		217,558	215,944
Accrued Interest Receivable		659	719
Derivatives		121	105
Due from the Government of Canada	7	347	285
Accounts Receivable and Other Assets		932	767
		249,968	248,490
LIABILITIES			
Securities Sold Under Repurchase Agreements		232	325
Borrowings:	8		
Designated at Fair Value through Profit or Loss		7,269	7,677
Other Financial Liabilities		215,214	213,612
Accrued Interest Payable		465	521
Derivatives		33	31
Accounts Payable and Other Liabilities		460	673
Defined Benefit Plans Liability	9	455	479
Provision for Claims	10	766	778
Unearned Premiums and Fees		6,056	6,167
Deferred Income Tax Liabilities		48	45
		230,998	230,308
Commitments and Contingent Liabilities	17		
EQUITY OF CANADA			
Contributed Capital		25	25
Accumulated Other Comprehensive Income		900	803
Retained Earnings		18,045	17,354
		18,970	18,182
		249,968	248,490

The accompanying notes to these Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(in millions of Canadian dollars)	Notes	Three months ended 30 June		Six months ended 30 June	
		2015	2014	2015	2014
Parliamentary Appropriations for Housing Programs	7	480	490	1,110	1,077
Premiums and Fees Earned		461	482	896	941
Net Interest Income					
Interest Income					
Loans	6	1,197	1,371	2,452	2,798
Other		16	15	34	29
		1,213	1,386	2,486	2,827
Interest Expense	8	1,194	1,366	2,446	2,779
		19	20	40	48
Investment Income		137	157	272	304
Net Realized Gains (Losses)	4	4	97	9	144
Net Unrealized Gains (Losses)	4	2	(68)	10	(51)
Other Income		24	24	45	50
TOTAL REVENUES AND PARLIAMENTARY APPROPRIATIONS		1,127	1,202	2,382	2,513
EXPENSES					
Housing Programs	7	480	490	1,110	1,077
Insurance Claims	10	98	58	185	160
Operating Expenses		90	80	177	169
		668	628	1,472	1,406
INCOME BEFORE INCOME TAXES		459	574	910	1,107
Income Taxes	12	111	139	220	266
NET INCOME		348	435	690	841
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX					
Items that Will Be Subsequently Reclassified to Net Income:					
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments		(206)	257	102	629
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period in Net Income		(3)	(33)	(5)	(43)
Total Items that Will Be Subsequently Reclassified to Net Income		(209)	224	97	586
Items that Will Not Be Subsequently Reclassified to Net Income:					
Remeasurements of the Net Defined Benefit Plans		97	(21)	1	(116)
		(112)	203	98	470
COMPREHENSIVE INCOME		236	638	788	1,311

The accompanying notes to these Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

(in millions of Canadian dollars)	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
CONTRIBUTED CAPITAL	25	25	25	25
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Balance at Beginning of Period	1,109	1,305	803	943
Other Comprehensive Income (Loss)	(209)	224	97	586
Balance at End of Period	900	1,529	900	1,529
RETAINED EARNINGS				
Balance at Beginning of Period	17,600	15,181	17,354	14,870
Net Income	348	435	690	841
Other Comprehensive Income (Loss)	97	(21)	1	(116)
Balance at End of Period	18,045	15,595	18,045	15,595
EQUITY OF CANADA	18,970	17,149	18,970	17,149

The accompanying notes to these Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of Canadian dollars)	Notes	Three months ended 30 June		Six months ended 30 June	
		2015	2014	2015	2014
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net Income		348	435	690	841
Items Not Affecting Cash or Cash Equivalents:					
Amortization of Premiums and Discounts on Financial Instruments		48	22	80	43
Deferred Income Taxes		21	-	3	-
Change in Fair Value of Financial Instruments Carried at Fair Value	4	(2)	68	(10)	51
Net (Gain) Loss on Financial Instruments	4	(4)	(97)	(9)	(144)
Net Change in Non-cash Operating Assets and Liabilities:					
Accrued Interest Receivable		680	612	60	127
Derivatives		(3)	(3)	(5)	(4)
Due from the Government of Canada		86	26	(62)	(25)
Accounts Receivable and Other Assets		(155)	(16)	(165)	(22)
Accrued Interest Payable		(660)	(567)	(56)	(91)
Accounts Payable and Other Liabilities		(122)	73	(213)	212
Defined Benefit Plans Liability		(132)	1	(24)	102
Provision for Claims		(6)	(34)	(12)	(34)
Unearned Premiums and Fees		46	(33)	(111)	(229)
Other		163	(98)	(40)	(329)
Loans:	6				
Repayments		5,714	11,125	17,808	38,849
Disbursements		(10,038)	(9,522)	(19,119)	(18,516)
Borrowings:	8				
Repayments		(6,432)	(11,697)	(19,484)	(39,808)
Issuances		10,341	9,871	20,681	19,664
		(107)	166	12	687
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES					
Investment Securities:					
Sales and Maturities		2,967	3,234	6,157	5,597
Purchases		(3,565)	(3,521)	(6,966)	(6,113)
Securities Purchased Under Resale Agreements		361	186	126	(54)
Securities Sold Under Repurchase Agreements		12	13	(93)	270
		(225)	(88)	(776)	(300)
Increase (Decrease) in Cash and Cash Equivalents		(332)	78	(764)	387
Cash and Cash Equivalents					
Beginning of Period		1,737	1,645	2,169	1,336
End of Period		1,405	1,723	1,405	1,723
Represented by:					
Cash		7	11	7	11
Cash Equivalents		1,398	1,712	1,398	1,712
		1,405	1,723	1,405	1,723
Supplementary Disclosure of Cash Flows from Operating Activities					
Amount of Interest Received During the Period		2,104	2,180	2,967	3,357
Amount of Interest Paid During the Period		1,880	1,968	2,576	2,943
Amount of Dividends Received During the Period		10	22	19	39
Amount of Income Taxes Paid During the Period		190	130	613	258

The accompanying notes to these Consolidated Financial Statements are an integral part of these statements.

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2015

I. CORPORATE INFORMATION

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

Within the Public Accounts of Canada, the annual Consolidated Net Income reduces the Government’s annual deficit; the Consolidated Retained Earnings and Accumulated Other Comprehensive Income reduce the Government’s accumulated deficit.

In September 2008, CMHC, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the FAA requiring due consideration to the personal integrity of those to whom it lends or provides benefits. We continue to meet the requirements of this directive. In December 2014, the Corporation was issued another directive (P.C. 2014-1380) pursuant to Section 89 of the FAA directing CMHC to implement pension plan reforms. These are intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employees and employer for pension contributions to be phased in for all members by 31 December 2017. The Corporation’s implementation strategy will be outlined in its corporate plans until commitments under this directive are fully implemented.

Our mandate, as set out in the NHA, is to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions. In relation to financing for housing, the NHA’s purpose is to promote housing affordability and choice, to facilitate access to, and competition and efficiency in the provision of, housing finance, to protect the availability of adequate funding for housing, and generally to contribute to the well-being of the housing sector. In addition, we have the following objectives in carrying out any activities related to mortgage loan insurance and guarantee programs and in administering the Canadian covered bond legal framework: (a) to promote the efficient functioning and competitiveness of the housing finance market; (b) to promote and contribute to the stability of the financial system, including the housing market; and (c) to have due regard to the Corporation’s exposure to loss. Our mandate is carried out through the following activities: Market Analysis and Research, Assisted Housing, Mortgage Loan Insurance, Securitization, and People and Processes.

2. BASIS OF PRESENTATION

Our unaudited Quarterly Consolidated Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. They should be read in conjunction with our audited Consolidated Financial Statements for the year ended 31 December 2014. These unaudited Quarterly Consolidated Financial Statements were approved and authorized for issue by our Audit Committee on 19 August 2015.

Our unaudited Quarterly Consolidated Financial Statements include the accounts of CMHC and, as required by International Financial Reporting Standards (IFRS) 10 *Consolidated Financial Statements* (IFRS 10), the accounts of CHT, a special purpose entity to which CMHC has exposure to its risks and rewards. Inter-entity balances and transactions have been eliminated in our unaudited Quarterly Consolidated Financial Statements.

Significant Accounting Policies

The significant accounting policies used in the preparation of our unaudited Quarterly Consolidated Financial Statements are disclosed in Note 2 of our 2014 Annual Report and are in compliance with IFRS effective as at 30 June 2015 as issued by the International Accounting Standards Board (IASB).

Income Taxes

CMHC (non-consolidated entity) is a prescribed federal Crown Corporation under Reg. 7100 of the *Income Tax Act* (ITA) and is subject to federal income tax as a prescribed Corporation for purposes of subsection 27(2) of the ITA. It is not subject to provincial income tax.

Judgments in Applying Accounting Policies

In the process of applying the Corporation's accounting policies, Management is required to make various judgments, apart from those involving estimations, that can significantly affect the amounts it recognizes in the unaudited Quarterly Consolidated Financial Statements. The judgments having the most significant effect on the amounts recognized in our unaudited Quarterly Consolidated Financial Statements are disclosed in Note 4 of our audited Consolidated Financial Statements for the year ended 31 December 2014.

Use of Estimates and Assumptions

The preparation of our unaudited Quarterly Consolidated Financial Statements requires Management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, comprehensive income and related disclosures. Key areas where Management has made estimates and assumptions include those related to Provision for Claims, Unearned Premiums, Fair Value of Financial Instruments, and Pension and Other Post-employment Benefits. Actual results could differ from these estimates and assumptions. Where these differ, the impact will be recorded in future periods.

Seasonality

Our mortgage loan insurance business is exposed to some seasonal variation. While Premiums Earned and Income from Investment Securities 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.

3. CURRENT AND FUTURE ACCOUNTING CHANGES

There are no new pronouncements that are applicable to us for the current reporting period. We actively monitor the new standards and amendments to existing standards that have been issued by the IASB. The following presents a pronouncement which was assessed as having a possible impact on our Consolidated Financial Statements.

The International Accounting Standards Board (IASB) confirmed on 22 July 2015 a one-year deferral of the effective date of the revenue Standard, IFRS 15 *Revenue from Contracts with Customers*, to 1 January 2018. We have not yet determined the full impact of this new standard on our Consolidated Financial Statements.

4. FAIR VALUE MEASUREMENTS

Fair Value Measurement

We carry certain financial instruments and non-financial assets at fair value in our unaudited Quarterly Consolidated Balance Sheet and disclose the fair value of certain other items. Fair value is determined using a consistent measurement framework.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of non-financial assets (e.g., Non-current Assets Held for Sale and Investment Property) takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. For financial instruments, accrued interest is separately recorded and disclosed.

Fair Value Hierarchy

The methods and assumptions used in determining fair value are the same as those used in the preparation of our 2014 Annual Report. These methods make maximum use of relevant observable inputs and minimize the use of unobservable inputs. Fair value measurements are classified in a fair value hierarchy as Level 1, 2 or 3 according to the observability of the most significant inputs used in making the measurements.

Level 1: Assets and liabilities that are measured based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Assets and liabilities not quoted in active markets that are measured 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 benchmark interest rates and credit spreads of identical or similar assets or liabilities.

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

We have processes and controls in place to ensure fair value is appropriately measured. The valuation of Level 3 financial instruments is performed by the Operations Support Division (OSD) which reports to the Senior Vice President, Capital Markets. OSD has developed the models and methodologies to determine fair value which are reviewed and monitored on an ongoing basis. The validity of Level 3 valuations is verified against market transactions involving identical or similar instruments on an ongoing basis. These valuations are independently verified on an ongoing basis by the sector of the Chief Risk Officer.

For Investment Property, fair value is determined by property appraisers who hold recognized and relevant professional qualifications. Valuations are performed by independent external property appraisers and our internal appraisers on a rotating basis.

Comparison of Carrying and Fair Values

The following table compares the carrying and fair values of financial instruments, except where the carrying amount is a reasonable approximation of fair value. Carrying value is the amount at which an item is measured on the unaudited Quarterly Consolidated Balance Sheet. Fair value is estimated using valuation methods as described above.

(in millions)	Carrying Value				Fair Value	Fair Value Over (Under) Carrying Value
	Amortized Cost	Fair Value through Net Income	Fair Value through OCI	Total		
As at 30 June 2015						
Financial Assets						
Cash and Cash Equivalents ¹	232	1,122	51	1,405	1,405	-
Securities Purchased Under Resale Agreements	-	-	-	-	-	-
Investment Securities:						
Designated at Fair Value through Profit or Loss	-	1,162	-	1,162	1,162	-
Available for Sale	-	-	22,563	22,563	22,563	-
Loans:						
Designated at Fair Value through Profit or Loss	-	5,221	-	5,221	5,221	-
Loans and Receivables	217,558	-	-	217,558	225,547	7,989
Derivatives	-	121	-	121	121	-
Financial Liabilities						
Securities Sold Under Repurchase Agreements	232	-	-	232	232	-
Borrowings:						
Designated at Fair Value through Profit or Loss	-	7,269	-	7,269	7,269	-
Other Financial Liabilities	215,214	-	-	215,214	223,357	8,143
Derivatives	-	33	-	33	33	-
As at 31 December 2014						
Financial Assets						
Cash and Cash Equivalents ¹	325	979	865	2,169	2,169	-
Securities Purchased Under Resale Agreements	126	-	-	126	126	-
Investment Securities:						
Designated at Fair Value through Profit or Loss	-	1,060	-	1,060	1,060	-
Available for Sale	-	-	21,812	21,812	21,812	-
Loans:						
Designated at Fair Value through Profit or Loss	-	5,503	-	5,503	5,503	-
Loans and Receivables	215,944	-	-	215,944	222,381	6,437
Derivatives	-	105	-	105	105	-
Financial Liabilities						
Securities Sold Under Repurchase Agreements	325	-	-	325	325	-
Borrowings:						
Designated at Fair Value through Profit or Loss	-	7,677	-	7,677	7,677	-
Other Financial Liabilities	213,612	-	-	213,612	220,219	6,607
Derivatives	-	31	-	31	31	-

¹ Of the total Cash and Cash Equivalents, \$1,122 million (31 December 2014 – \$979 million) is classified as Designated at Fair Value through Profit or Loss, \$51 million (31 December 2014 – \$865 million) is classified as Available for Sale, and \$232 million (31 December 2014 – \$325 million) is classified as Held to Maturity.

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 unaudited Quarterly Consolidated Balance Sheet.

(in millions)	As at 30 June 2015					
	Total Items Carried at Fair Value				Items not Carried at Fair Value	
	Level 1	Level 2	Level 3	Total	Fair Value	Total
ASSETS						
Cash and Cash Equivalents:						
Cash	7	-	-	7	-	7
Interest Bearing Deposits with Banks	-	1,046	-	1,046	30	1,076
Corporate/Other Entities	-	50	-	50	20	70
Government of Canada	1	-	-	1	-	1
Provinces/Municipalities	-	69	-	69	182	251
Total Cash and Cash Equivalents	8	1,165	-	1,173	232	1,405
Investment Securities:						
Designated at Fair Value through Profit or Loss:						
Fixed Income:						
Corporate/Other Entities	43	25	162	230	-	230
Provinces/Municipalities	658	25	-	683	-	683
Sovereign and Related Entities	96	153	-	249	-	249
Total Designated at Fair Value through Profit or Loss	797	203	162	1,162	-	1,162
Available for Sale:						
Fixed Income:						
Corporate/Other Entities	10,187	34	-	10,221	-	10,221
Government of Canada	4,265	-	-	4,265	-	4,265
Provinces/Municipalities	6,558	-	-	6,558	-	6,558
Sovereign and Related Entities	303	51	-	354	-	354
Equities:						
Canadian	1,136	-	29	1,165	-	1,165
Total Available for Sale	22,449	85	29	22,563	-	22,563
Loans:						
Designated at Fair Value through Profit or Loss	-	5,221	-	5,221	-	5,221
Derivatives	-	121	-	121	-	121
Accounts Receivable and Other Assets:						
Investment Property	-	-	248	248	-	248
Other Accounts Receivable and Other Assets	-	-	-	-	684	684
Total Accounts Receivable and Other Assets	-	-	248	248	684	932
Assets not Recorded at Fair Value	-	-	-	-	218,564	218,564
TOTAL ASSETS	23,254	6,795	439	30,488	219,480	249,968
LIABILITIES AND EQUITY OF CANADA						
Borrowings:						
Designated at Fair Value through Profit or Loss	903	6,366	-	7,269	-	7,269
Derivatives	-	33	-	33	-	33
Liabilities and Equity of Canada not Recorded at Fair Value	-	-	-	-	242,666	242,666
TOTAL LIABILITIES AND EQUITY OF CANADA	903	6,399	-	7,302	242,666	249,968

(in millions)	As at 31 December 2014					
	Total Items Carried at Fair Value				Items not Carried at Fair Value	Total
	Level 1	Level 2	Level 3	Total		
ASSETS						
Cash and Cash Equivalents:						
Cash	6	-	-	6	-	6
Interest Bearing Deposits with Banks	-	933	-	933	45	978
Corporate/Other Entities	-	90	-	90	159	249
Government of Canada	815	-	-	815	-	815
Provinces/Municipalities	-	-	-	-	121	121
Total Cash and Cash Equivalents	821	1,023	-	1,844	325	2,169
Investment Securities:						
Designated at Fair Value through Profit or Loss:						
Fixed Income:						
Corporate/Other Entities	75	8	159	242	-	242
Provinces/Municipalities	661	-	-	661	-	661
Sovereign and Related Entities	30	127	-	157	-	157
Total Designated at Fair Value through Profit or Loss	766	135	159	1,060	-	1,060
Available for Sale:						
Fixed Income:						
Corporate/Other Entities	6,734	-	-	6,734	-	6,734
Government of Canada	8,006	-	-	8,006	-	8,006
Provinces/Municipalities	5,560	-	-	5,560	-	5,560
Sovereign and Related Entities	247	50	-	297	-	297
Equities:						
Canadian	1,196	-	19	1,215	-	1,215
Total Available for Sale	21,743	50	19	21,812	-	21,812
Loans:						
Designated at Fair Value through Profit or Loss	-	5,503	-	5,503	-	5,503
Derivatives	-	105	-	105	-	105
Accounts Receivable and Other Assets:						
Investment Property	-	-	247	247	-	247
Other Accounts Receivable and Other Assets	-	-	-	-	520	520
Total Accounts Receivable and Other Assets	-	-	247	247	520	767
Assets not Recorded at Fair Value	-	-	-	-	217,074	217,074
TOTAL ASSETS	23,330	6,816	425	30,571	217,919	248,490
LIABILITIES AND EQUITY OF CANADA						
Borrowings:						
Designated at Fair Value through Profit or Loss	1,417	6,260	-	7,677	-	7,677
Derivatives	-	31	-	31	-	31
Liabilities and Equity of Canada not Recorded at Fair Value	-	-	-	-	240,782	240,782
TOTAL LIABILITIES AND EQUITY OF CANADA	1,417	6,291	-	7,708	240,782	248,490

Transfers Between Fair Value Hierarchy Levels

For assets and liabilities carried at fair value in the unaudited Quarterly Consolidated Financial Statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

Transfers may occur between levels of the fair value hierarchy as a result of changes in the availability of quoted market prices or observable market inputs. During the six months ended 30 June 2015, there were no transfers between hierarchy levels.

Change in Fair Value Measurement for Items Classified as Level 3

The following table presents the changes in fair value measurements for items carried at fair value and classified as Level 3.

(in millions)	Three months ended 30 June 2015						Balance at End of Period
	1 April 2015	Purchases	Transfers In (Out)	Unrealized Gains in Net Income ¹	Unrealized Gains in OCI ²	Cash Receipts on Settlements / Disposals	
Investment Securities							
Designated at Fair Value through Profit or Loss							
Asset-Backed Securities	161	-	-	1	-	-	162
Available for Sale							
Limited Partnership Investment	24	3	-	-	2	-	29
Total Investment Securities	185	3	-	1	2	-	191
Accounts Receivable and Other Assets							
Investment Property	247	-	-	1	-	-	248
Total Accounts Receivable and Other Assets	247	-	-	1	-	-	248
Total	432	3	-	2	2	-	439

¹ Included in Net Unrealized Gains (Losses) for Investment Securities; Other Income for Investment Property.

² Included in Net Unrealized Gains (Losses) from Available for Sale Financial Instruments.

(in millions)	Six months ended 30 June 2015						Balance at End of Period
	1 January 2015	Purchases	Transfers In (Out)	Unrealized Gains in Net Income ¹	Unrealized Gains in OCI ²	Cash Receipts on Settlements / Disposals	
Investment Securities							
Designated at Fair Value through Profit or Loss							
Asset-Backed Securities	159	-	-	3	-	-	162
Available for Sale							
Limited Partnership Investment	19	3	-	-	7	-	29
Total Investment Securities	178	3	-	3	7	-	191
Accounts Receivable and Other Assets							
Investment Property	247	-	-	1	-	-	248
Total Accounts Receivable and Other Assets	247	-	-	1	-	-	248
Total	425	3	-	4	7	-	439

¹ Included in Net Unrealized Gains (Losses) for Investment Securities; Other Income for Investment Property.

² Included in Net Unrealized Gains (Losses) from Available for Sale Financial Instruments.

(in millions)	Three months ended 30 June 2014							Balance at End of Period
	1 April 2014	Purchases	Transfers In (Out)	Unrealized Gains in Net Income ¹	Unrealized Gains in OCI ²	Cash Receipts on Settlements / Disposals		
Investment Securities								
Designated at Fair Value through Profit or Loss								
Asset-Backed Securities	155	-	-	1	-	-	-	156
Available for Sale								
Limited Partnership Investment	19	-	-	-	-	-	-	19
Total Investment Securities	174	-	-	1	-	-	-	175
Accounts Receivable and Other Assets								
Investment Property	254	-	-	-	-	(8)		246
Total Accounts Receivable and Other Assets	254	-	-	-	-	(8)	(8)	246
Total	428	-	-	1	-	(8)	(8)	421

¹ Included in Net Unrealized Gains (Losses) for Investment Securities; Other Income for Investment Property.

² Included in Net Unrealized Gains (Losses) from Available for Sale Financial Instruments.

(in millions)	Six months ended 30 June 2014							Balance at End of Period
	1 January 2014	Purchases	Transfers In (Out)	Unrealized Gains in Net Income ¹	Unrealized Gains in OCI ²	Cash Receipts on Settlements / Disposals		
Investment Securities								
Designated at Fair Value through Profit or Loss								
Asset-Backed Securities	150	-	-	6	-	-	-	156
Available for Sale								
Limited Partnership Investment	17	1	-	-	1	-	-	19
Total Investment Securities	167	1	-	6	1	-	-	175
Accounts Receivable and Other Assets								
Investment Property	234	18	-	2	-	(8)		246
Total Accounts Receivable and Other Assets	234	18	-	2	-	(8)	(8)	246
Total	401	19	-	8	1	(8)	(8)	421

¹ Included in Net Unrealized Gains (Losses) for Investment Securities; Other Income for Investment Property.

² Included in Net Unrealized Gains (Losses) from Available for Sale Financial Instruments.

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 30 June 2015, 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.

(in millions)	30 June 2015				31 December 2014	
	Asset Fair Value	Valuation Technique	Unobservable Inputs	Weighted Average Input / Range	Asset Fair Value	Weighted Average Input / Range
Investment Securities						
Designated at Fair Value through Profit or Loss						
Asset-Backed Securities	162	Discounted Cash Flow	Risk Premium	1.4%	159	1.6%
Available for Sale						
Limited Partnership Investment	29	Share of Partnership Equity	Reported Partnership Equity	n.a.	19	n.a.
Total Investment Securities	191				178	
Accounts Receivable and Other Assets						
Investment Property Held By Mortgage Loan Insurance Activity	98	Discounted Cash Flow	Estimated Rental Value per Square Foot	\$3 - \$40	98	\$3 - \$40
			Discount Rate	6.8% - 8.5%		6.8% - 8.5%
Investment Property Held By Assisted Housing Activity	20	Discounted Cash Flow	Estimated Rental Value per Square Foot	\$25 - \$148	20	\$25 - \$148
			Discount Rate	4.5% - 6.0%		4.5% - 6.0%
	130	Market Approach	Value per Square Foot	\$0 - \$237	129	\$0 - \$237
Total Accounts Receivable and Other Assets	248				247	
Total Level 3 Items Carried at Fair Value	439				425	

Asset-Backed Securities

The fair value of Asset-Backed Securities is determined by discounting expected future cash flows using market observable discount rates and an unobservable risk premium which take into account the lack of market liquidity and inherent risk of the securities. Significant increases (decreases) in these premiums would result in a significant decrease (increase) in the fair value measurement.

Investment Property

The fair value of Investment Property includes unobservable inputs which may significantly affect the measurement of fair value. Significant increases (decreases) in estimated rental value and estimated price per square feet would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in discount rate would result in a significantly lower (higher) fair value.

Gains and Losses from Financial Instruments

The unrealized gains and losses arising from changes in fair value related to financial instruments classified as Held for Trading and those Designated at Fair Value through Profit or Loss are presented in the following table.

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
Held for Trading				
Equities	-	(69)	-	(55)
Derivatives	(17)	5	9	21
Total Held for Trading	(17)	(64)	9	(34)
Designated at Fair Value through Profit or Loss				
Investment Securities	(2)	1	8	6
Loans	(27)	(1)	16	3
Borrowings	48	(4)	(23)	(26)
Total Designated at Fair Value through Profit or Loss	19	(4)	1	(17)
Gains (Losses) from Related Party Transactions	-	-	-	-
Total Net Unrealized Gains (Losses)	2	(68)	10	(51)

The realized gains and losses related to financial instruments are presented in the table below.

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
Held for Trading	-	61	-	68
Available for Sale	6	45	11	94
Retirement of Debt	(2)	(9)	(2)	(18)
Total Net Realized Gains (Losses)	4	97	9	144

5. 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.

(in millions)	As at					
	30 June 2015				31 December 2014	
	Amortized Cost ¹	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost ¹	Fair Value
Investment Securities:						
Fixed Income						
Designated at Fair Value through Profit or Loss	1,081	81	-	1,162	987	1,060
Available for Sale	20,622	779	(3)	21,398	20,004	20,597
Equities						
Available for Sale	717	449	(1)	1,165	714	1,215

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

We have Investment Securities of \$232 million (31 December 2014 – \$325 million) that are part of Securities Sold Under Repurchase Agreements. The terms of these transactions do not exceed 93 days, the credit rating of the instruments must be at a minimum of R-1 (mid) and they must be issued by a financial institution. We continue to earn Investment Income and recognize in Other Comprehensive Income changes in fair values on these Investment Securities during the period.

The cumulative unrealized loss from Available for Sale fixed income and equity investments of \$4 million (31 December 2014 – \$1 million) has been recorded in Accumulated Other Comprehensive Income and has not been recognized as an impairment loss in Net Income.

During the three and six months ended 30 June 2015, there were no impairment losses (three and six months ended 30 June 2014 – nil) recognized in Net Income through Net Realized Gains (Losses) and no reversals of previously realized fixed income investment security impairments occurred during the periods.

6. LOANS

The following table presents repayments and disbursements for Loans.

(in millions)	Three months ended 30 June			
	2015		2014	
	Repayments	Disbursements	Repayments	Disbursements
Designated at Fair Value through Profit or Loss				
Lending Programs	158	14	150	15
Total Designated at Fair Value through Profit or Loss	158	14	150	15
Loans and Receivables				
Loans under the IMPP	-	-	2,922	-
Loans under the CMB Program	5,500	10,022	8,000	9,504
Lending Programs	56	2	53	3
Total Loans and Receivables	5,556	10,024	10,975	9,507
Total	5,714	10,038	11,125	9,522

(in millions)	Six months ended 30 June			
	2015		2014	
	Repayments	Disbursements	Repayments	Disbursements
Designated at Fair Value through Profit or Loss				
Lending Programs	317	36	297	33
Total Designated at Fair Value through Profit or Loss	317	36	297	33
Loans and Receivables				
Loans under the IMPP	2,025	-	21,137	-
Loans under the CMB Program	15,250	19,080	17,200	18,476
Lending Programs	216	3	215	7
Total Loans and Receivables	17,491	19,083	38,552	18,483
Total	17,808	19,119	38,849	18,516

The following table presents the Interest Income related to Loans.

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
Designated at Fair Value through Profit or Loss Loans and Receivables	31	38	63	76
Total	1,197	1,371	2,452	2,798

There has been no change in the fair value of Loans – Designated at Fair Value through Profit or Loss as a result of changes in credit risk. We are assured collection of principal and accrued interest on 99% (31 December 2014 – 99%) of our loans.

Uninsured loans are assessed on a regular basis to determine if an allowance for credit losses is necessary. As at 30 June 2015, an impairment allowance of \$23 million has been recorded (31 December 2014 – \$22 million).

7. PARLIAMENTARY APPROPRIATIONS AND HOUSING PROGRAMS EXPENSES

We receive parliamentary appropriations to fund the following program expenditures, including Operating Expenses of \$29 million and \$58 million for the three and six months ended 30 June 2015, respectively (three and six months ended 30 June 2014 – \$26 million and \$53 million), in support of Housing Programs.

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
Funding Under Long-term Commitments for Existing Social Housing	402	397	843	847
Funding for New Commitments of Affordable Housing	66	82	242	206
Housing Support	2	1	5	3
Market Analysis Information	5	5	11	10
Housing Policy, Research and Information Transfer	5	5	9	11
Total	480	490	1,110	1,077

The following table presents the changes in the Due from the Government of Canada account. The outstanding balance as at 30 June 2015 is mainly composed of Housing Programs Expenses incurred but not yet reimbursed.

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
Balance at Beginning of Period	433	362	285	311
Total Appropriations Recognized in Revenues During the Period	480	490	1,110	1,077
Total Appropriations Received During the Period	(565)	(515)	(1,050)	(1,050)
Third Party Reimbursements in Excess of Remittance to Government of Canada	(1)	(1)	2	(2)
Balance at End of Period	347	336	347	336

8. BORROWINGS

The following table presents repayments and issuances for Borrowings.

(in millions)	Three months ended 30 June			
	2015		2014	
	Repayments	Issuances	Repayments	Issuances
Designated at Fair Value through Profit or Loss				
Capital Market Borrowings	500	-	-	-
Borrowings from the Government of Canada	367	319	713	367
Total Designated at Fair Value through Profit or Loss	867	319	713	367
Other Financial Liabilities				
Canada Mortgage Bonds	5,500	10,022	8,000	9,504
Borrowings from the Government of Canada	65	-	2,984	-
Total Other Financial Liabilities	5,565	10,022	10,984	9,504
Total	6,432	10,341	11,697	9,871

(in millions)	Six months ended 30 June			
	2015		2014	
	Repayments	Issuances	Repayments	Issuances
Designated at Fair Value through Profit or Loss				
Capital Market Borrowings	500	-	-	-
Borrowings from the Government of Canada	1,531	1,601	1,319	1,188
Total Designated at Fair Value through Profit or Loss	2,031	1,601	1,319	1,188
Other Financial Liabilities				
Canada Mortgage Bonds	15,250	19,080	17,200	18,476
Borrowings from the Government of Canada	2,203	-	21,289	-
Total Other Financial Liabilities	17,453	19,080	38,489	18,476
Total	19,484	20,681	39,808	19,664

The following table presents the Interest Expense related to Borrowings.

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
	Designated at Fair Value through Profit or Loss	42	50	88
Other Financial Liabilities	1,152	1,316	2,358	2,680
Total	1,194	1,366	2,446	2,779

9. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Information about the defined benefit plans is as follows:

Changes in defined benefit liability in the three month period ended 30 June 2015

(in millions)	Pension Expense Included in Net Income				Benefits Paid	Remeasurements of the Net Defined Benefit Plans Included in OCI	Employees' Contributions	CMHC's Contributions	30 June 2015
	1 April 2015	Current Service Cost	Interest Cost / Income	Sub-total Included in Net Income					
Pension Benefit Plans									
Defined Benefit Obligation	2,164	9	20	29	(19)	(150)	4	-	2,028
Fair Value of Plan Assets	1,793	-	17	17	(19)	(46)	4	26	1,775
Pension Benefit Plans Liability	371	9	3	12	-	(104)	-	(26)	253
Other Post-employment Benefit Plans									
Defined Benefit Obligation	216	1	2	3	(2)	(15)	-	-	202
Fair Value of Plan Assets	-	-	-	-	(2)	-	-	2	-
Other Post-employment Benefit Plans Liability	216	1	2	3	-	(15)	-	(2)	202
Defined Benefit Plans Liability	587	10	5	15	-	(119)	-	(28)	455

Changes in defined benefit liability in the six month period ended 30 June 2015

(in millions)	Pension Expense Included in Net Income				Benefits Paid	Remeasurements of the Net Defined Benefit Plans Included in OCI	Employees' Contributions	CMHC's Contributions	30 June 2015
	1 January 2015	Current Service Cost	Interest Cost / Income	Sub-total Included in Net Income					
Pension Benefit Plans									
Defined Benefit Obligation	2,002	17	39	56	(38)	1	7	-	2,028
Fair Value of Plan Assets	1,719	-	33	33	(38)	7	7	47	1,775
Pension Benefit Plans Liability	283	17	6	23	-	(6)	-	(47)	253
Other Post-employment Benefit Plans									
Defined Benefit Obligation	196	2	4	6	(4)	4	-	-	202
Fair Value of Plan Assets	-	-	-	-	(4)	-	-	4	-
Other Post-employment Benefit Plans Liability	196	2	4	6	-	4	-	(4)	202
Defined Benefit Plans Liability	479	19	10	29	-	(2)	-	(51)	455

Changes in defined benefit liability in the three month period ended 30 June 2014

(in millions)	1 April 2014	Pension Expense Included in Net Income			Benefits Paid	Remeasurements of the Net Defined Benefit Plans Included in OCI	Employees' Contributions	CMHC's Contributions	30 June 2014
		Current Service Cost	Interest Cost / Income	Sub-total Included in Net Income					
Pension Benefit Plans									
Defined Benefit Obligation	1,866	7	21	28	(18)	58	4	-	1,938
Fair Value of Plan Assets	1,607	-	17	17	(18)	41	4	35	1,686
Pension Benefit Plans Liability	259	7	4	11	-	17	-	(35)	252
Other Post-employment Benefit Plans									
Defined Benefit Obligation	192	1	2	3	(1)	6	-	-	200
Fair Value of Plan Assets	-	-	-	-	(1)	-	-	1	-
Other Post-employment Benefit Plans Liability	192	1	2	3	-	6	-	(1)	200
Defined Benefit Plans Liability	451	8	6	14	-	23	-	(36)	452

Changes in defined benefit liability in the six month period ended 30 June 2014

(in millions)	1 January 2014	Pension Expense Included in Net Income			Benefits Paid	Remeasurements of the Net Defined Benefit Plans Included in OCI	Employees' Contributions	CMHC's Contributions	30 June 2014
		Current Service Cost	Interest Cost / Income	Sub-total Included in Net Income					
Pension Benefit Plans									
Defined Benefit Obligation	1,719	13	41	54	(37)	194	8	-	1,938
Fair Value of Plan Assets	1,544	-	36	36	(37)	76	8	59	1,686
Pension Benefit Plans Liability	175	13	5	18	-	118	-	(59)	252
Other Post-employment Benefit Plans									
Defined Benefit Obligation	175	2	4	6	(4)	23	-	-	200
Fair Value of Plan Assets	-	-	-	-	(4)	-	-	4	-
Other Post-employment Benefit Plans Liability	175	2	4	6	-	23	-	(4)	200
Defined Benefit Plans Liability	350	15	9	24	-	141	-	(63)	452

10. MORTGAGE LOAN INSURANCE

Unearned Premiums and Fees

The following table presents the changes in the Unearned Premiums and Fees balance.

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
Balance at Beginning of Period	5,422	5,756	5,575	5,947
Premium Deferred on Contracts Written in the Period	401	382	617	586
Premiums Earned in the Period	(393)	(415)	(763)	(809)
Application Fees Deferred on Contracts Written in the Period	5	3	8	6
Application Fees Earned in the Period	(3)	(2)	(5)	(6)
Balance at End of Period	5,432	5,724	5,432	5,724

Provision for Claims

The Provision for Claims includes amounts set aside for Incurred But Not Reported (IBNR) claims, Claims in Process (CIP) and for Social Housing Mortgage and Index Linked Mortgage claims (SH & ILM). The following table presents the changes in the Provision for Claims balance.

(in millions)	Three months ended 30 June					
	2015			2014		
	IBNR & CIP	SH & ILM	Total	IBNR & CIP	SH & ILM	Total
Balance at Beginning of Period	542	230	772	647	222	869
Claims paid and Related expenses During the Period	(103)	(1)	(104)	(91)	(1)	(92)
Insurance Claims losses During the Period	97	1	98	59	(1)	58
Balance at End of Period	536	230	766	615	220	835

(in millions)	Six months ended 30 June					
	2015			2014		
	IBNR & CIP	SH & ILM	Total	IBNR & CIP	SH & ILM	Total
Balance at Beginning of Period	551	227	778	650	219	869
Claims paid and Related expenses During the Period	(195)	(2)	(197)	(193)	(1)	(194)
Insurance Claims losses During the Period	180	5	185	158	2	160
Balance at End of Period	536	230	766	615	220	835

Insurance-in-force

At 30 June 2015, insurance-in-force, which represents the risk exposure of the Mortgage Loan Insurance Activity, totalled \$534 billion (31 December 2014 – \$543 billion).

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed \$600 billion (31 December 2014 – \$600 billion).

Insurance Policy Liability Adequacy

Liability adequacy tests are performed quarterly by Management and are also performed on an annual basis as part of the Actuarial Valuation. 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 test for the Corporation, as at 30 June 2015, has identified that no provision for premium deficiency is required.

11. SECURITIZATION

Guarantees-in-force

The following table presents the total Guarantees-in-force by program, which represents the maximum principal obligation related to the timely payment guarantee.

(in billions)	As at	
	30 June 2015	31 December 2014
NHA MBS ¹	207	213
CMB ²	213	209
Total	420	422

¹ Includes nil (31 December 2014 – \$0.5 billion) in NHA MBS held as collateral in the IMPP.

² Includes \$2.6 billion (31 December 2014 – \$2.6 billion) in investments which are eliminated on the unaudited Quarterly Consolidated Balance Sheet.

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed \$600 billion (31 December 2014 – \$600 billion).

12. INCOME TAXES

The following table presents the components of income tax.

(in millions)	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
Current Income Tax Expense				
Tax Expense for Current Period	100	137	217	264
Deferred Income Tax Expense				
Origination and Reversal of Temporary Differences	11	2	3	2
Total Income Tax Expense Included in Net Income	111	139	220	266
Income Tax Expense (Recovery) on Other Comprehensive Income (Loss)				
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	(68)	85	34	209
Reclassification of Prior Year's Net Unrealized (Gains) Losses Realized in the Period	(1)	(12)	(2)	(16)
Remeasurements of the Net Defined Benefit Plans	22	(4)	1	(25)
Total Income Tax Expense (Recovery) Included in Other Comprehensive Income (Loss)	(47)	69	33	168
Total	64	208	253	434

13. MARKET RISK

Market risk is the risk of adverse financial impacts arising from changes in underlying market factors, including interest rates, foreign exchange rates, and equity prices.

Value at Risk (VaR)

Market risk for investment securities in the Mortgage Loan Insurance and Securitization Activities is evaluated through the use of VaR models. VaR is a statistical technique used to measure the maximum potential loss of an investment portfolio over a specified holding period with a given level of confidence. As at 1 January 2015, we changed our VaR methodology to better reflect the potential loss in the event there are extreme movements in our portfolio. Accordingly, the VaR for 31 December 2014 has been restated.

The VaR for the Mortgage Loan Insurance and Securitization Activities as at 30 June 2015, 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.

(in millions)	As at	
	30 June 2015	31 December 2014
Investment Securities:		
Available for Sale		
Interest rate risk	267	196
Equity risk	58	65
Effect of Diversification	(60)	(65)
Total VaR	265	196

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.

Financial Instruments at Fair Value through Profit or Loss would react to a shift in interest rates as follows:

(in millions)	As at			
	30 June 2015		31 December 2014	
	Interest Rate Shift		Interest Rate Shift	
	-200 bps	+200 bps	-200 bps	+200 bps
Net Unrealized Gains (Losses)	(9)	(44)	-	-

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 would be as follows:

(in millions)	As at			
	30 June 2015		31 December 2014	
	Interest Rate Shift		Interest Rate Shift	
	-200 bps	+200 bps	-200 bps	+200 bps
Increase (Decrease) to Fair Value of Net Assets	(75)	70	(79)	72

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 \$ 0.1 million at 30 June 2015 (31 December 2014 – \$0.1 million). This is calculated with 95% confidence over a one-year period.

14. CREDIT RISK

Credit risk is the potential for financial loss arising from failure of a borrower or an institutional counterparty to fulfill its contractual obligations. We are exposed to credit risk from various sources including borrower default through mortgage insurance contracts (refer to Note 10), and institutional counterparty credit risk arising from financial guarantees under NHA MBS and CMB programs (refer to Note 11), lending arrangements (refer to Note 6), fixed income investments and derivative transactions.

Credit risk associated with mortgage loan insurance is managed through prudent product design, underwriting and default management practices, and the establishment of adequate capital reserves.

Credit risk associated with timely payment guarantees is managed through due diligence in approving NHA MBS Issuers, ongoing monitoring of Issuer credit quality and program compliance, and the requirement that all mortgages supporting the NHA MBS be insured against borrower default. We have further mitigated this risk by having been assigned all rights, title and interest in the underlying mortgages so that we have access to principal and interest payments in the event of Issuer default.

Credit risk associated with Loans in the Assisted Housing Activity is in part mitigated through measures that include loan guarantees from other government entities. Losses due to default are largely recoverable from various levels of government.

Under the CMB program, we are exposed to credit-related counterparty risk in the event of default of swap counterparties. This risk is mitigated by transacting with highly rated swap counterparties and collateralization requirements based on credit ratings.

The fair value of the loan collateral held under the CMB program was \$219,722 million as at 30 June 2015 (31 December 2014 – \$211,980 million). 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. There was no collateral held under the IMPP program as at 30 June 2015 (31 December 2014 – \$2,026 million) as this program was completed on 15 March 2015.

Credit risk associated with fixed income investments and derivatives is managed through the implementation of policies which include minimum counterparty credit ratings and investment portfolio diversification limits by issuer, credit rating, term and by industry sector, and through the use of appropriate legal agreements and collateralization requirements for derivatives.

Financial collateral is collected from swap counterparties to mitigate credit risk related to derivative transactions. We have the right, in the event of default, to liquidate and apply financial collateral held against amounts due from swap counterparties. There was no swap collateral as at 30 June 2015 (31 December 2014 - \$1 million).

15. SEGMENTED INFORMATION

As described in Note 1, the unaudited 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 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 2014 Annual Report. The Assisted Housing Activity includes certain corporate items that are not allocated to each activity. Revenues are attributed to, and assets are located in, Canada. Revenues for the reportable segments are generated as follows:

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

Three months ended 30 June (in millions)	Assisted Housing		Mortgage Loan Insurance		Securitization		Eliminations		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Parliamentary Appropriations for Housing Programs	480	490	-	-	-	-	-	-	480	490
Premiums and Fees Earned	-	-	400	423	61	59	-	-	461	482
Net Interest Income										
Interest Income										
Loans	106	120	-	-	1,091	1,251	-	-	1,197	1,371
Other	17	17	-	-	-	-	(1)	(2)	16	15
	123	137	-	-	1,091	1,251	(1)	(2)	1,213	1,386
Interest Expense	123	136	-	-	1,089	1,249	(18)	(19)	1,194	1,366
	-	1	-	-	2	2	17	17	19	20
Investment Income	-	-	141	159	9	10	(13)	(12)	137	157
Net Realized Gains (Losses)	-	-	4	108	2	-	(2)	(11)	4	97
Net Unrealized Gains (Losses)	1	(2)	1	(68)	-	-	-	2	2	(68)
Other Income	6	4	-	-	18	20	-	-	24	24
TOTAL REVENUES AND PARLIAMENTARY EXPENSES	487	493	546	622	92	91	2	(4)	1,127	1,202
Housing Programs	480	490	-	-	-	-	-	-	480	490
Insurance Claims	-	-	98	58	-	-	-	-	98	58
Operating Expenses	6	4	58	50	26	26	-	-	90	80
	486	494	156	108	26	26	-	-	668	628
INCOME BEFORE INCOME TAXES	1	(1)	390	514	66	65	2	(4)	459	574
Income Taxes	(1)	(1)	95	125	17	16	-	(1)	111	139
NET INCOME (LOSS)	2	-	295	389	49	49	2	(3)	348	435
Total Revenues and Parliamentary Appropriations	487	493	546	622	92	91	2	(4)	1,127	1,202
Inter-segment Revenues ¹	(1)	-	(15)	(23)	18	19	(2)	4	-	-
External Revenues and Parliamentary Appropriations	486	493	531	599	110	110	-	-	1,127	1,202

¹ Inter-segment Revenues relate to the following:

- the Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds, and recognizes revenues from investing in holdings of Capital Market Borrowings; and
- the Assisted Housing Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds.

Six months ended 30 June (in millions)	Mortgage Loan									
	Assisted Housing		Insurance		Securitization		Eliminations		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Parliamentary Appropriations for Housing Programs	1,110	1,077	-	-	-	-	-	-	1,110	1,077
Premiums and Fees Earned	-	-	775	823	121	118	-	-	896	941
Net Interest Income										
Interest Income										
Loans	215	242	-	-	2,237	2,556	-	-	2,452	2,798
Other	36	33	-	-	-	-	(2)	(4)	34	29
	251	275	-	-	2,237	2,556	(2)	(4)	2,486	2,827
Interest Expense	251	271	-	-	2,232	2,551	(37)	(43)	2,446	2,779
	-	4	-	-	5	5	35	39	40	48
Investment Income	-	-	278	308	19	18	(25)	(22)	272	304
Net Realized Gains (Losses)	-	-	8	164	3	-	(2)	(20)	9	144
Net Unrealized Gains (Losses)	7	(2)	2	(52)	-	-	1	3	10	(51)
Other Income	10	8	-	2	35	40	-	-	45	50
TOTAL REVENUES AND PARLIAMENTARY APPROPRIATIONS	1,127	1,087	1,063	1,245	183	181	9	-	2,382	2,513
EXPENSES										
Housing Programs	1,110	1,077	-	-	-	-	-	-	1,110	1,077
Insurance Claims	-	-	185	160	-	-	-	-	185	160
Operating Expenses	11	9	114	107	52	53	-	-	177	169
	1,121	1,086	299	267	52	53	-	-	1,472	1,406
INCOME BEFORE INCOME TAXES	6	1	764	978	131	128	9	-	910	1,107
Income Taxes	(1)	(3)	186	237	33	32	2	-	220	266
NET INCOME (LOSS)	7	4	578	741	98	96	7	-	690	841
Total Revenues and Parliamentary Appropriations	1,127	1,087	1,063	1,245	183	181	9	-	2,382	2,513
Inter-segment Revenues ¹	(1)	(1)	(27)	(42)	37	43	(9)	-	-	-
External Revenues and Parliamentary Appropriations	1,126	1,086	1,036	1,203	220	224	-	-	2,382	2,513

¹ Inter-segment Revenues relate to the following:

- the Mortgage Loan Insurance Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds, and recognizes revenues from investing in holdings of Capital Market Borrowings; and
- the Assisted Housing Activity recognizes revenues from investing in holdings of Canada Mortgage Bonds.

As at 30 June 2015 and 31 December 2014 (in millions)	Assisted Housing		Mortgage Loan Insurance		Securitization		Eliminations ¹		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
ASSETS										
Cash and Cash Equivalents	1,121	978	283	1,190	1	1	-	-	1,405	2,169
Securities Purchased Under Resale Agreements	-	126	-	-	-	-	-	-	-	126
Investment Securities:										
Designated at Fair Value through Profit or Loss	1,122	1,194	89	87	1	1	(50)	(222)	1,162	1,060
Available for Sale	-	-	22,760	21,939	2,373	2,223	(2,570)	(2,350)	22,563	21,812
Held for Trading	-	-	-	-	-	-	-	-	-	-
Loans:										
Designated at Fair Value through Profit or Loss	5,221	5,503	-	-	-	-	-	-	5,221	5,503
Loans and Receivables	4,235	4,432	-	-	213,323	211,512	-	-	217,558	215,944
Accrued Interest Receivable	164	211	133	103	368	411	(6)	(6)	659	719
Derivatives	121	105	-	-	-	-	-	-	121	105
Due from the Government of Canada	347	285	-	-	-	-	-	-	347	285
Accounts Receivable and Other Assets	216	273	665	446	51	48	-	-	932	767
	12,547	13,107	23,930	23,765	216,117	214,196	(2,626)	(2,578)	249,968	248,490
LIABILITIES										
Securities Sold Under Repurchase Agreements	-	-	232	325	-	-	-	-	232	325
Borrowings:										
Designated at Fair Value through Profit or Loss	7,283	7,691	-	-	-	-	(14)	(14)	7,269	7,677
Other Financial Liabilities	4,356	4,533	-	-	213,323	211,512	(2,465)	(2,433)	215,214	213,612
Accrued Interest Payable	110	123	-	-	361	404	(6)	(6)	465	521
Derivatives	33	31	-	-	-	-	-	-	33	31
Accounts Payable and Other Liabilities	380	340	67	325	12	8	1	-	460	673
Defined Benefit Plans Liability	182	190	269	284	4	5	-	-	455	479
Provision for Claims	-	-	766	778	-	-	-	-	766	778
Unearned Premiums and Fees	-	-	5,432	5,575	624	592	-	-	6,056	6,167
Deferred Income Tax Liabilities	5	8	65	60	15	10	(37)	(33)	48	45
	12,349	12,916	6,831	7,347	214,339	212,531	(2,521)	(2,486)	230,998	230,308
EQUITY OF CANADA	198	191	17,099	16,418	1,778	1,665	(105)	(92)	18,970	18,182
	12,547	13,107	23,930	23,765	216,117	214,196	(2,626)	(2,578)	249,968	248,490

¹ The Balance Sheet Eliminations remove inter-segment holdings of Canada Mortgage Bonds and Capital Market Borrowings, as well as inter-segment receivables/payables.

16. RELATED PARTY TRANSACTIONS

We pay the Government of Canada fees in recognition of the Government's financial backing of the Mortgage Loan Insurance and Securitization Activities. The fees, which are recorded in Operating Expenses, amount to \$4 million and \$7 million for the three and six month period ended 30 June 2015, respectively (three and six months ended 30 June 2014 – \$3 million and \$6 million, respectively) for the Securitization Activity and \$3.6 million and \$6.2 million for the three and six month period ended 30 June 2015, respectively (three and six months ended 30 June 2014 – \$1.1 million and 1.3 million, respectively) for the Mortgage Loan Insurance Activity.

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

17. CONTINGENT LIABILITIES

There are legal claims of \$20 million (31 December 2014 – \$24 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.

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