PENSION PLAN ANNUAL REPORT

2015

Canada

CMHC SCHL

OUR MISSION

Defined Benefit Component (DB Plan)

The mission of the defined benefit component of the CMHC Pension Plan is to provide its members and beneficiaries with pension benefits in accordance with the provisions of the CMHC Pension Plan Rules. This is accomplished through efficient administration of the Plan and prudent investment of the Pension Fund to maximize returns while safeguarding assets.

Defined Contribution Component (DC Plan)

The mission of the defined contribution component of the CMHC Pension Plan is to provide Plan members with the opportunity to save for retirement with regard to their individual circumstances, through the provision of investment options and plan services in a reasonably cost-efficient manner.

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Table of Contents

REPORT TO EMPLOYEES AND PENSIONERS

On behalf of CMHC and the Pension Fund Trustees, it is my pleasure to present to you the key highlights from the 2015 Pension Plan Annual Report.

In 2015, CMHC's Board of Directors approved a new defined benefit pension plan design for all CMHC employees, based on the criteria of uniformity, risk sharing, competitiveness and cost control. The changes to the pension plan will only apply to service that follows the implementation date of January 1, 2018. All benefits earned by employees under the existing plans prior to the implementation date will remain unchanged.

CMHC's employee DB pension contribution rates increased as planned on July 1, 2015. This is consistent with the Government of Canada's intention to achieve a 50-50 cost-sharing of pension plan contributions between the employer and employees.

In 2015, employees contributed a total of $12.7 million while CMHC's total contributions were $62.5 million, which included $44 million in special payments related to the solvency deficit. CMHC plans to make special solvency payments in addition to the full normal contributions in 2016.

Defined Benefit Plan

I am pleased to report that the plan remains financially healthy and is fully funded on a going-concern basis (104.2%). The Plan continues to have a solvency deficit with a solvency ratio of 81.1%. However, the solvency valuation is less representative of the long-term financial health of the Plan because it assumes the Plan is terminated immediately.

In 2015, a challenging domestic environment and mixed global economic conditions contributed to investment returns of 2.88 per cent, lower than the Plan has experienced over the last few years. These lower investment returns were largely offset by solvency payments made by CMHC during the year.

Defined Contribution Plan

The DC component of the pension plan applies to all employees hired after April 4, 2013, as well as eligible contract employees. Membership in the DC component of the plan increased to 486 members. Performance measures for DC members vary based on their chosen investment portfolios.

The Board of Directors, DB Pension Trustees and DC Pension Committee, with the support of the Pension Investment Committee and the Investments and Pension Fund Division, remain steadfast in our commitment to providing CMHC employees and retirees with competitive and viable retirement options.

Evan Siddall
Chair, Pension Fund Trustees
President and Chief Executive Officer

TRUSTEES OF THE DEFINED BENEFIT PLAN AND OBSERVER
(as at 31 December 2015)

Evan Siddall
Chair,
Pension Fund Trustees President
and Chief Executive Officer

André Plourde
Member of the
Board of Directors

Steven Mennill
Senior Vice-President
Insurance

Christina Haddad
Regional Vice-President

Stephen Hall
Retiree Pension
Council Member

Debra Darke
Senior Vice-President, Corporate
Development, Policy and Research

Ian Moore
Corporate Representative
Pension Council Member

Louis-Alexandre Laroche
Corporate Representative
Pension Council Member

Louise Poirier-Landry
Board Member (Observer)

Financial Highlights

Defined Benefit (DB)

$1,738.4 MILLION
Net Assets Available for Benefits as of December 31, 2015

104.2%
Fully funded on a going-concern basis, 2015, (vs. 103.5% in 2014)

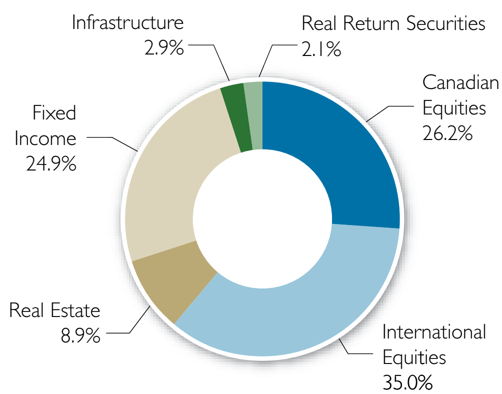
81.1%
Solvency ratio, 2015, declined slightly (vs. 81.6% in 2014)

2.9%
2015 Rate of Return (gross, nominal)

10.3%
Four-Year Annualized Rate of Return (gross, nominal)

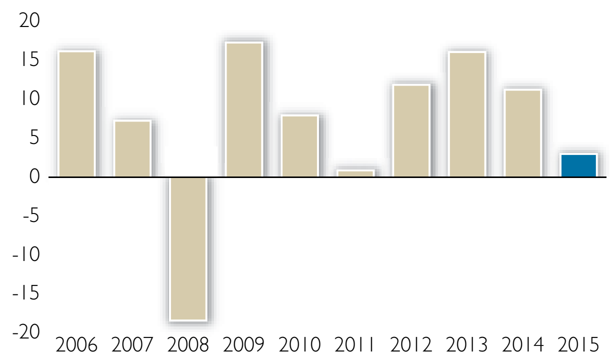
6.7%
Ten-Year Annualized Rate of Return (gross, nominal)

Asset Mix (DB)



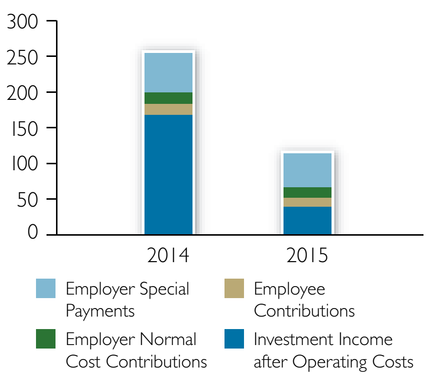
Rate of Return (DB)

For the year ended December 31, 2015 (%)



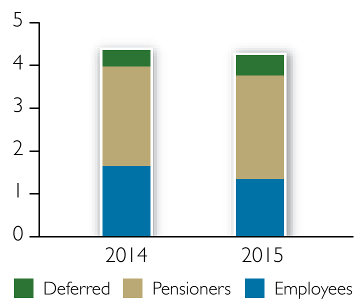
Funding Mix (DB)

($ Millions)

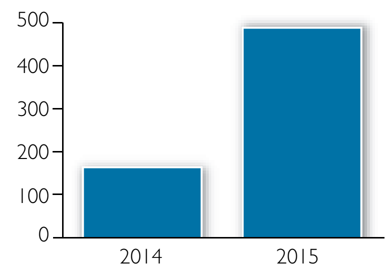


Membership (DB)

(# of Persons Thousands)



Defined Contribution (DC) Membership *(# of Persons)*



About the Pension Plan Benefits Promise

CMHC PENSION PLAN

Part I: Defined Benefit Component of the CMHC Pension Plan (the "DB Plan")

The DB Plan provides a defined benefit pension, which means that at retirement, members receive a retirement income based on a formula that is known in advance. Subject to the applicable plan rules, generally the formula is based on 2 per cent of the average salary of the member's best five consecutive years multiplied by the number of years of benefit service up to a maximum of 35 years.

The DB Plan includes provisions for indexation and survivor benefits for a member's eligible spouse or common-law partner and eligible dependent children. Pension benefits are adjusted for inflation annually, based on the Canadian Consumer Price Index (CPI), in accordance with the indexing provisions of the Plan. For 2015, that adjustment was made on January 1, 2016, when pension benefits were increased by 1.3 per cent. This adjustment is based on the average change in the Consumer Price Index over the 12-month period ending 30 September 2015.

The DB Plan applies to employees hired prior to April 4, 2013, or otherwise eligible to participate in the DB Plan, as specifically provided in the DB Plan.

Contribution

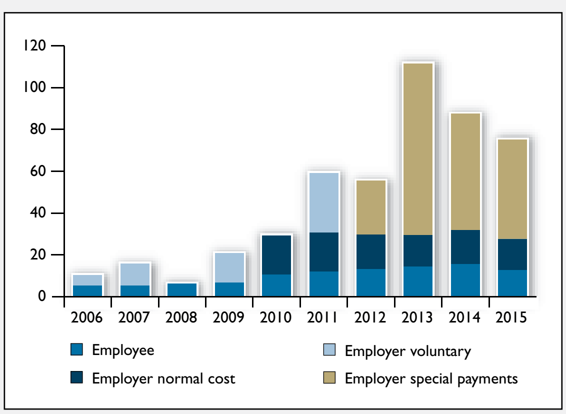
The employee contribution rate, since July 1, 2015, is 8.15 per cent of earnings subject to CPP/QPP, which for 2015 were earnings up to $53,600, and at 10.4 per cent for earnings above this level. In 2015, employees contributed a total of $12.7 million to the Pension Fund.

CMHC's total contributions to the Pension Fund in 2015 with respect to the DB Plan were $62.5 million. This included full normal contributions as well as special payments of $44 million related to the solvency deficits reported by the actuarial valuation as at 31 December 2014.

On an annual basis, CMHC reviews the level of employer and employee contributions to the DB Plan: firstly, with regard to the financial status of the Pension Fund; and then secondly, in comparison to other plans, in order to benchmark the competitiveness of the CMHC DB Plan. The goal is also to gradually move towards the 50:50 cost-sharing ratio between employer and employee outlined by the Federal government, to align Crown corporation pension plans with those available to federal employees.

In March 2016, the Board reviewed the results of the actuarial valuation as at 31 December 2015 and recommendations for contributions in 2016. The actuarial valuation reports that the DB Plan is fully funded on a going concern basis with a surplus, but continues to have a deficit on a solvency basis. Based on these actuarial valuations, CMHC will continue to make special solvency payments, in addition to the full normal contributions in 2016.

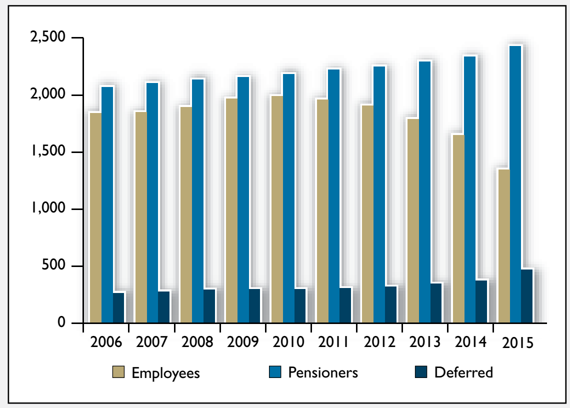
Employee and Employer Contributions
($ Millions)



Membership

During 2015, 143 employees retired from CMHC. At year-end, the DB Plan had 4,244 members including 1,346 employees, 2,426 pensioners and beneficiaries, and 472 members with deferred vested benefits. In addition, there were 212 members with Transfer Restriction Annuities.

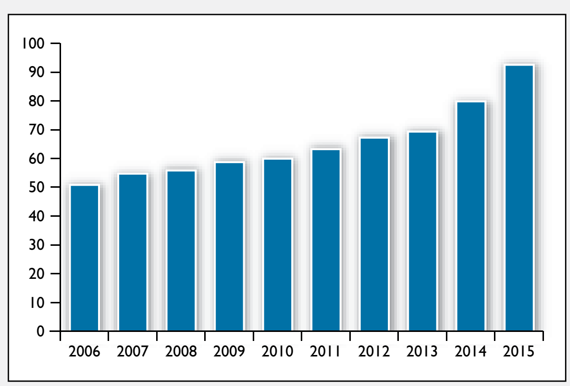
Plan Membership
(Number of Persons)



Total Benefits Paid in 2015

A total of $75.7 million in pension benefits was paid to DB Plan members in 2015.

Benefits and Net Contributions Transferred or Refunded
($ Millions)



Part 2: Defined Contribution Component of the CMHC Pension Plan Governance (the "DC Plan")

The DC Plan is a contributory plan. The Plan defines the contributions to be made by CMHC and by the employee, but does not define the amount of retirement income the member will receive. DC Plan retirement income of each member is not predetermined based on a formula, as is the case with the DB Plan, but is based on the investment earnings of each member's retirement account, net of fees and expenses related to the administration of the DC Plan.

The money is invested by the DC Plan members among a range of investment options available through Standard Life Financial—the Plan administrator. The DC Plan applies to new employees hired on or after April 4, 2013, who are not eligible to join the DB Plan.

Membership

As at 31 December 2015, the DC Plan had 486 members.

General information on the CMHC Pension Plan

Regulatory Authorities

As a federally registered pension plan, CMHC's Pension Plan is subject to the federal *Pension Benefits Standards Act, 1985* (PBSA) and its regulations, and to the *Income Tax Act* (ITA).The Plan is registered with the Office of the Superintendent of Financial Institutions (OSFI) and the Canada Revenue Agency (CRA).The Plan Rules, as well as the Plan's funding and operations, must comply with the standards prescribed by the PBSA and ITA.

Communications

One of CMHC's key objectives is to promote increased awareness and understanding of its Pension Plan and the benefits it provides, while providing opportunities for member feedback.

In 2015, CMHC continued to offer a Retirement Planning Seminars Program to employees.The program consists of two-day seminars for employees within 10 years of retirement and one-day seminars for those further away from retirement. CMHC's other ongoing communication activities included the Annual Statement of Pension Benefits to each DB Plan member, the annual summary of the highlights of the DB Pension Council meetings and quarterly financial statements for DC Plan member.

Plan documents

For more information about the plan, visit the CMHC Retirement Savings Program in HR-Online at https://intranet/hronline.nsf/WebAWD/CAB104-E. Information related to the Pension Plan is also available on CMHC's website, including a description of the governance of the Pension Plan and Fund and key roles and responsibilities.

Effective Governance

PLAN GOVERNANCE

The concept of pension plan governance is commonly defined by pension authorities as the structures and processes for overseeing, managing and administering a pension plan to ensure all obligations of the plan are met.

Good corporate governance is at the heart of all of CMHC's activities and successes and is echoed in the governance framework for the Pension Plan and its Fund. A sound framework ensures that the ongoing obligations of the Pension Plan to its stakeholders can be met, with effective decision-making processes, prudent and efficient management of resources, and regular communication. The governance structure of the DB and DC Plans are outlined below, but more information regarding the roles and responsibilities of the key governance components of the CMHC Pension Plan can be found in the *Pension Governance at CMHC* section on CMHC's website.

Part I: Defined Benefit Component of the CMHC Pension Plan Governance

CMHC's DB Plan governance structure is comprised of the Board of Directors, the Pension Fund Trustees, the Pension Fund Investment Committee, the Investments and Pension Fund Division, CMHC's President and Chief Executive Officer, the Management Committee, and the Human Resources Sector (Total Rewards Strategy).

Two other bodies, the Pension Plan Coordination Committee and the Pension Council, play supportive roles for CMHC's pension governance structure.

The Pension Council consists of elected employee and retired members of the Pension Plan. Its functions are to promote awareness and understanding of the Plan among members, and to review financial, actuarial and administrative aspects of the Plan annually.

Part 2: Defined Contribution Component of the CMHC Pension Plan Governance

CMHC's pension governance structure with respect to the DC Pension Plan is comprised of eight bodies: the Board of Directors, CMHC's President and Chief Executive Officer, the Management Committee, the DC Pension Committee, the Investments and Pension Fund Division, Human Resources Sector (Total Reward Strategy) and the Record Keeper.

The Record Keeper is responsible for the day to day operations of the Plan, including but not limited to managing the offerings and selection of member investments, developing Plan communication material and decision-making tools, producing member investment statements and reporting on various performance criteria.

Trustees
10 December 2015

Standing (L to R): Evan Siddall, Ian Moore, Debra Darke, Steven Mennill, Christina Haddad, Stephen Hall, Louis-Alexandre Laroche
Sitting (L to R): André Plourde, Louise Poirier-Landry

DB Pension Council
11 December 2015

Standing (L to R): Louis-Alexandre Laroche, Ted Tsiakopoulos, Stephen Hall, Claude Gautreau, Ian Moore, Terry Cole
Sitting (L to R): Marie Murphy, Julie Philippe, Isabelle Bourdeau, Carol Frketich

An Investment Strategy Based on Sound Principles

PENSION FUND PERFORMANCE AND OPERATIONS RELATED TO THE ASSETS OF THE DB PLAN

Investment Framework

The overall long-term investment objective for the DB Pension Fund is to achieve a total rate of return that will provide for the pension benefit obligations of the CMHC DB Pension Plan with an acceptable level of volatility of expected contribution requirements. In pursuing this long-term objective, the Pension Fund strives to maximize returns on investments within approved policies, which specify the limits and parameters within which risk may be taken.

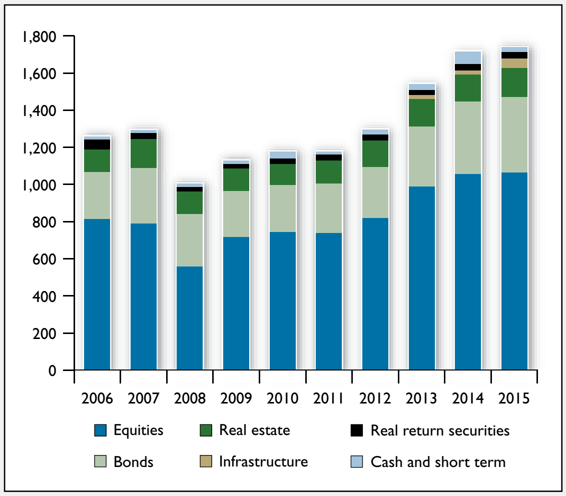
The investment framework of the CMHC DB Pension Plan is defined by the Statement of Investment Policies and Goals.

The Statement of Investment Policies and Goals established by the Trustees for the Pension Fund sets out the policies necessary for the management and administration of the Fund. It includes further definition of permitted investments as well as the requirements for diversifying investments and managing financial risks. It also includes policies for measuring, monitoring, and reporting on the performance of the Pension Fund. The Statement of Investment Policies and Goals conforms to the requirements of the PBSA. In accordance with the requirements of the PBSA, it was updated and approved by Trustees in 2015.

The Fund's asset allocation policy recommended by Trustees and approved by the Board, is a key driver of the Fund's returns and contribution requirements. The Pension Fund's asset allocation policy is based upon the principle of diversification of investments among various asset classes relative to the liabilities of the DB Pension Plan. It is reviewed at least every five years. The asset allocation policy has been established at 57 per cent public equity investments, 28 per cent fixed income securities and 15 per cent inflation sensitive investments. The policy includes a permissible range around these percentage weights. Equity investments include Canadian and foreign equities. Fixed income is comprised of Canadian bonds and money market investments. The inflation sensitive category encompasses real return securities, real estate and infrastructure investments. Until the Fund has invested a target amount of 5 per cent in infrastructure investments, the asset allocation policy is being adjusted to have a corresponding higher amount, for example, 59 per cent, in public equity investments and a lower amount, for example, 13 per cent, in inflation sensitive investments.

Net Assets of the Fund

($ Millions)



Risk Management

The risk parameters under which the DB Pension Fund is managed, are established by the Risk Appetite statement and asset allocation policy. These policies aim to identify and manage the strategic, operational, and financial risks faced by the Fund.

The Board of Director's specific requirements for managing these risks are addressed by a range of established policies and practices.

The financial risks relating to the Pension Fund are managed primarily through the diversification of assets, limits and parameters for credit risk, market risk, and liquidity risk, annual audits of financial statements, and annual actuarial valuations. An actuarial valuation was conducted as of year-end 2015 (refer to the Actuarial Valuation section of this Annual Report).

More information relating to financial risks is provided in the notes to the financial statements.

Regular measurement and reporting of Pension Fund performance is also vital. An extensive set of risk and return indicators is used to measure the Fund's ongoing performance. These indicators and the Fund's performance, including compliance with investment and risk management policies, are reviewed by the Investment Committee and Trustees.

Economic Environment

Global economic growth continued to expand by 3.1 per cent in 2015. In developed economies, a modest but uneven recovery continued, while growth in emerging markets continued to decelerate for a fifth consecutive year. The key themes that continue to influence the global economic environment and affect markets are: persistently lower commodity prices, growth concerns in China and monetary policy in the United States. These concerns led to equity market volatility and lower returns.

The depth of the price decline in oil took most forecasters and market participants by surprise. The ultimate overall macroeconomic impact of such a decline in oil prices is not yet clear. The lower oil price is expected to support consumer demand in a number of countries.

Chinese Industrial production growth continued to decelerate in 2015. The slowdown is having a profound effect on China's trading partners, in particular those exposed to supplying it with commodities. The decline is leading to higher market volatility as market participants assess the ability of Chinese policy makers to successfully transition to a more balanced economic model while maintaining overall growth of 6.5 per cent.

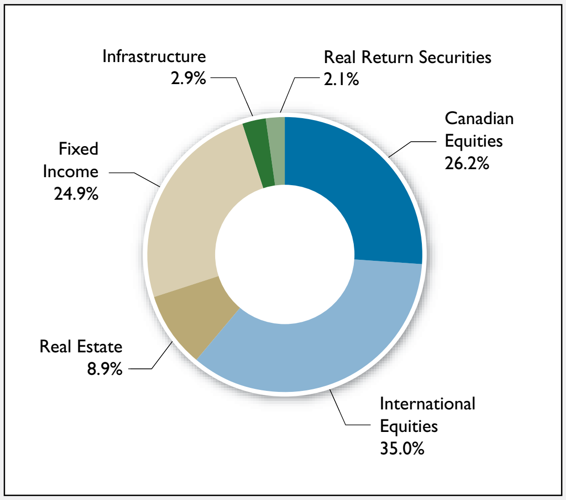
The United States raised its target rate after seven years of highly accommodative monetary policy by 0.25 per cent. This was done even as other major central banks particularly in Europe and Japan continue to ease with core inflation rate remaining below target.

Pension Fund Performance

The majority of the Fund's investments are actively managed by internal investment managers. External investment managers are also appointed by Trustees with a range of active and passive investment mandates. Portfolio managers are responsible for individual security selections within their mandates.

The Fund's net assets available for benefits at 31 December 2015 were $1,738.4 million, compared to $1,716.5 million at the end of 2014.

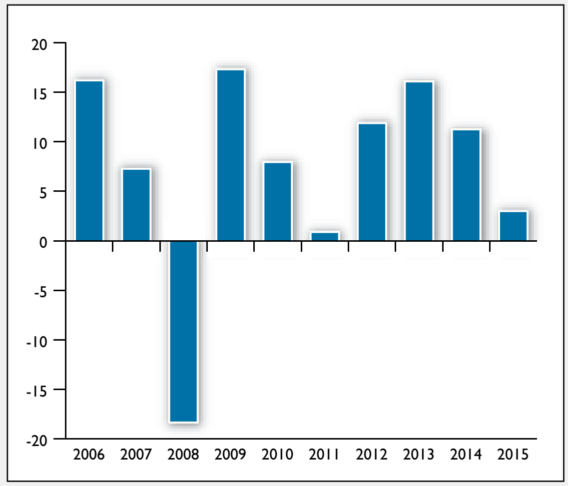
Total Fund



The Fund's performance is measured against a passive benchmark portfolio that is based on the strategic asset allocation policy. The total investment return for the Fund in 2015 was 2.88 per cent, which was 0.37 per cent below the benchmark, which returned 3.25 per cent.

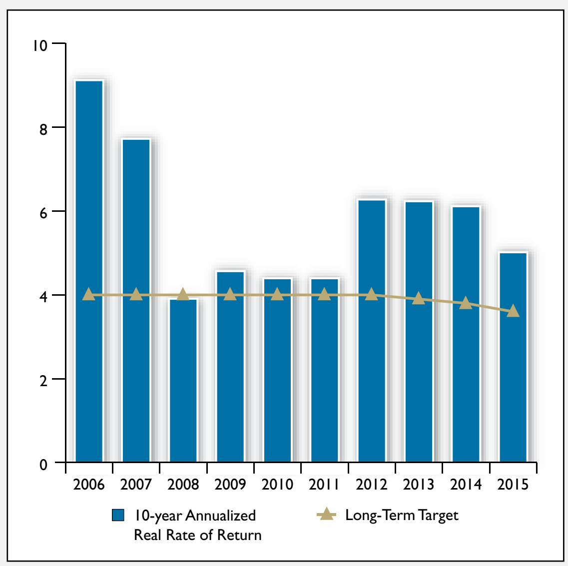
The overall return of the fund was adversely impacted by poor equity market returns while the weakness of the Canadian dollar helped to improve the returns of our international investments. Over the past 10 years, the Fund's performance has on average exceeded its benchmark by about 0.79 per cent on an annualized basis. This is net of all operating expenses.

Annual Nominal Rate of Return
(%)



It is important to focus on the real rate of return achieved over the long-term, given that pension benefits are indexed to inflation, based on the Consumer Price Index (CPI). The real rate of return is the nominal rate of return less inflation. The Fund's 10-year annualized real rate of return was 5.76 per cent, which is significantly higher than the long-term real rate of return objective and actuarial assumption of 3.6 per cent.

Long-Term Real Rate of Return
(%)



This actuarial assumption is reviewed when an actuarial valuation is performed. For the year-end 2015 actuarial valuation, it was determined that the long-term real return expectation be reduced to 3.6 per cent from 3.8 per cent in the preceding year.

Performance by Asset Class

The Pension Fund recognizes that asset class selection is an important factor in the long run performance of the overall Fund. The Fund periodically reviews the merits of each asset class to assess the optimal mix required to meet its long run objectives. The periodic asset allocation review is approved by the Board. Each asset class is assigned a benchmark to measure the effectiveness of individual investment strategies and carefully monitors the investment activities to ensure that those objectives are being met.

		RETURNS %[1]		
ASSET CLASS	**WEIGHT**	**10 YEAR**	**4 YEAR**	**1 YEAR**
Equities	59			
Canadian Equities	27	5.48	8.76	-7.13
Benchmark		4.58	5.26	-8.32
US Equity	16	7.91	21.02	13.01
Benchmark		8.22	20.74	13.1
International Equities	16	4.19	13.01	5.6
Benchmark		3.94	15.09	12.02
Fixed Income	26			
Fixed Income	26	5.15	3.72	3.43
Benchmark		5.03	3.62	3.52
Inflation Sensitive	13			
Real Return Bonds	2	4.58	0.97	2.76
Benchmark		4.49	0.99	2.79
Infrastructure	3	-	-	10.65
Benchmark		-	-	5.17
Real Estate	8	12.86	11.54	8.58
Benchmark		10.56	10.19	5.2
Total[2]				
Fund		6.72	10.33	2.88
Benchmark		5.93	9.17	3.25

[1] All returns are gross of fees

[2] Returns generated by money market included in total fund return

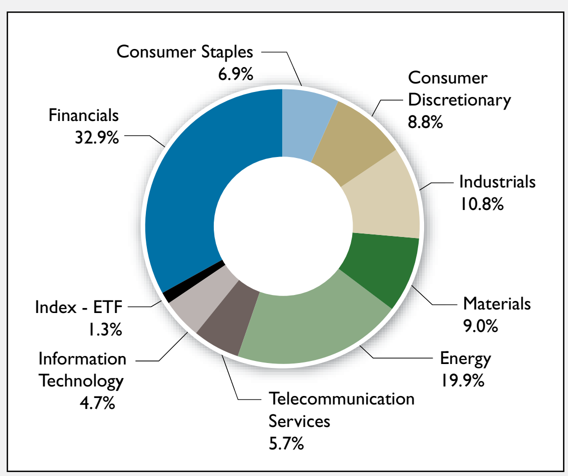
Canadian Equities

The Canadian Equities team invests in companies based on fundamental factors and selects companies that it believes have long term growth potential and reasonable valuations. The portfolio is intended to be well balanced across sectors and provide predictable dividend distributions.

The Canadian Equity market ranked amongst one of the worst performers in the global developed markets universe. The portfolio returned -7.13 per cent in 2015 compared to the benchmark return of -8.32. The Canadian equity market is heavily exposed to the price of resources. The Energy sector in itself accounted for more than half of the Canadian market decline, while the materials sector, being heavily exposed to events in China, also acted as a significant drag to returns. Information Technology and Consumer Staples sectors in Canada posted positive annual returns.

As the low interest rate environment in Canada persists, dividend stocks continue to offer attractive return characteristics. The sustainability of dividend payments for Energy and Materials sectors however becomes questionable as commodity prices remain depressed. The portfolio remains tilted toward quality and dividend paying stocks with overweight exposure in more stable segments of the market and underweight cyclical sectors including Materials. This allocation has continued to benefit the portfolio's performance relative to the index.

Canadian Equities



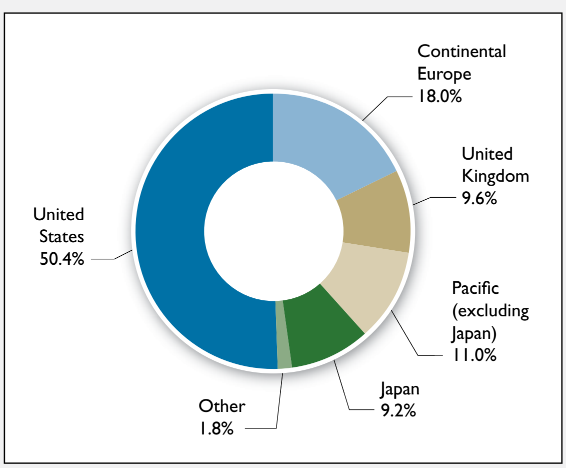
International Equities

International Equities broaden our exposures beyond what is available in the Canadian market. US equity investments are managed passively against the S&P 500 Equity Index and the MSCI USA Minimum Volatility Index. Minimum volatility indices are intended to reduce return volatility and aim to outperform broad market indices in adverse market conditions. The fund also invests in two actively managed equity funds benchmarked against the MSCI EAFE (Europe, Australasia and Far East) Index with each fund intended to exploit growth and value oriented securities respectively.

The US equity investments are passively managed; they will not deviate much from their benchmark indices and avoid active management fees. The combined US equity returns were 13.01 per cent in 2015 compared to the benchmark return of 13.1 per cent.

International equity investments are managed actively to opportunistically take advantage of market opportunities. The combined International equities return was 5.6 per cent in 2015 compared to the benchmark return of 12.02 per cent. The underperformance of the portfolio is mainly related to the European Financial sector exposure as well as overweights in emerging markets and resource related sectors. We also maintain a currency hedging program which has acted as a drag on performance as the Canadian Dollar declined. The policy however, is aimed at reducing the volatility of returns over time when measured in Canadian dollars.

International Equities



A major benefit of foreign equity investments is portfolio diversification. Global equity markets tend to be more diversified among different industry sectors than the Canadian equity market, which is heavily concentrated in the Materials, Energy, and Financial sectors. By investing abroad, the portfolio gains exposure to sectors not widely available in Canada, such as the Consumer Discretionary, Consumer Staples, and Healthcare sectors, and to faster growing geographic regions such as the Far East. The returns for the year demonstrate the merits of our exposure to international equities.

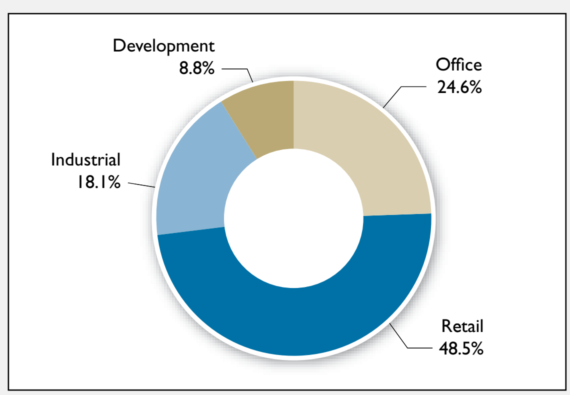
Inflation Sensitive

Inflation sensitive assets include Real Estate, Infrastructure and Real Return Bonds. Investments in real return securities are intended to offset the risk to the Plan of providing pension payments that rise with the level of inflation.

Real Estate

The Real Estate team invests in a select portfolio of real estate assets. The Fund's real estate holdings provide exposure to an important Canadian asset class. The process of selecting Real Estate investment opportunities involves thorough analysis of markets, property locations, legal and financial implications, environmental conditions and potential returns. Investments are financed in part through mortgages on properties. The Fund participates directly in the management of most of its real estate investments. The holdings are diversified by commercial property type and by region.

Real Estate



The portfolio returned 8.58 per cent in 2015 compared to the benchmark return of 5.2 per cent.

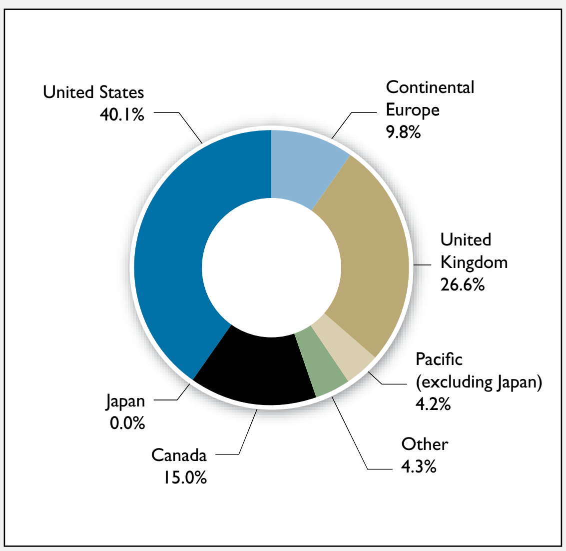
Infrastructure

The pension plan continued to expand its allocation to infrastructure investments in 2015 as additional opportunities arose. Infrastructure investments are considered after an extensive due diligence process and our focus is to operate in industries that provide predictable regulatory environments and stable cash flows.

The infrastructure portfolio continued to perform well returning 10.65 per cent in 2015 against the benchmark return of 5.17 per cent. Excluding the effect of our currency hedging program, our infrastructure portfolio returned 24.53 per cent. Infrastructure assets continue to benefit from the low interest rates and attractive valuations.

The infrastructure portfolio consists of four institutional fund holdings and commitments. The underlying assets are diversified across transportation, regulated energy and water, power generation and communications sectors. The United States and the United Kingdom remain the largest weights in the portfolio.

Infrastructure



Real Return Securities

Whereas a bond pays a fixed coupon over time, real return bonds pay a coupon that is periodically adjusted for inflation and therefore provide protection against the risk of inflation. Holdings consist primarily of real return bonds issued by the Government of Canada and the provinces.

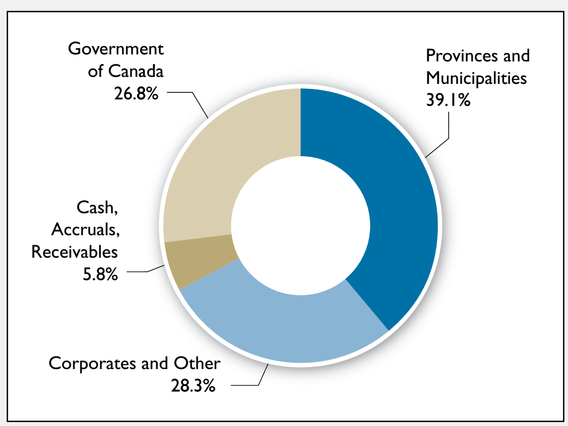
The portfolio returned 2.76 per cent in 2015 compared to the benchmark return of 2.79.

Fixed Income

The pension fund allocates to fixed income to reduce the overall portfolio volatility, provide investment income and to limit the interest rate risk inherent in the plan's liabilities. The fund invests in securities issued by the Government of Canada, by various provincial entities and to corporate entities in Canada. Our corporate fixed income portfolio is evaluated against stringent criteria to minimize credit risk and include only investment grade issuers.

The fixed income portfolio returned 3.43 per cent in 2015 compared to the benchmark return of 3.52 per cent. The slight underperformance is mainly related to our overweight exposure to provincial and corporate bonds which were impacted by global market volatility. These securities however, typically provide higher yields and over time help provide the portfolio with higher income levels.

Fixed Income



Operations Management

The net assets of the Pension Fund increased by $21.9 million in 2015.

Interest, dividends and net revenues from real estate and infrastructure were $1.8 million higher than in 2014 mainly due to higher dividends from the Canadian and Foreign equity holdings.

Total contributions in 2015 were lower than in 2014 by $12.3 million mainly due to a decrease in special payments and a decrease in employee contributions. As a result of lower deficits reported in the December 31, 2014 actuarial valuation, CMHC made special payments in the amount of $44 million, a decrease of $7.1 million from the previous year.

Benefits payments increased by $12.7 million in 2015 when compared to 2014 due to the continued growth in the number of retirees as well as higher than normal commuted value and transfer payments. This was partly offset by lower transfer restriction annuities payments in 2015 than 2014.

Operating expenses were $9.0 million in 2015, which was $1.0 million higher than in 2014. The increase is mainly due to higher investment management fees as a result of new infrastructure investments.

The Fund annually assesses its overall operating expenses against average costs for funds of its size and asset mix in Canada. The Fund's operating costs are slightly lower than its peers.

Commitment to Financial Health

ACTUARIAL VALUATION

All federally registered pension plans are required to undertake an actuarial valuation annually for regulatory purposes unless the solvency ratio is greater than 120 per cent. The principal purposes of an actuarial valuation include determining the financial position of a plan and providing the basis for contributions from the employer.

The actuarial valuation, which is carried out by an independent external actuary, must meet stringent legislative standards. It addresses long-term demographic trends, retirement experience and a wide variety of other factors that are analyzed in depth to determine whether changes in the Pension Plan's basic assumptions are needed. The valuation report is reviewed by CMHC's Management Committee and then approved by the Board of Directors for filing with OSFI and CRA.

Any differences between actuarial assumptions and future experience will emerge as gains and losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it at that time. The actuarial valuation focuses on two fundamental aspects of the funded status of CMHC's registered defined benefit plan: going concern and solvency. These measure the sufficiency of the Pension Fund's assets to meet the Pension Plan's liabilities from two different perspectives.

Going concern valuation: The going concern valuation assumes that the Plan continues indefinitely. This valuation uses the expected long-term investment return associated with the Fund's diversified mix of assets at the valuation date to value the Plan.

Solvency valuation: The solvency valuation assumes a hypothetical immediate termination of the Plan and that no further contributions are made. This valuation uses the interest rates prevailing at the valuation date to value the Plan based on an assumption that all assets are invested only in high quality fixed income-related investments.

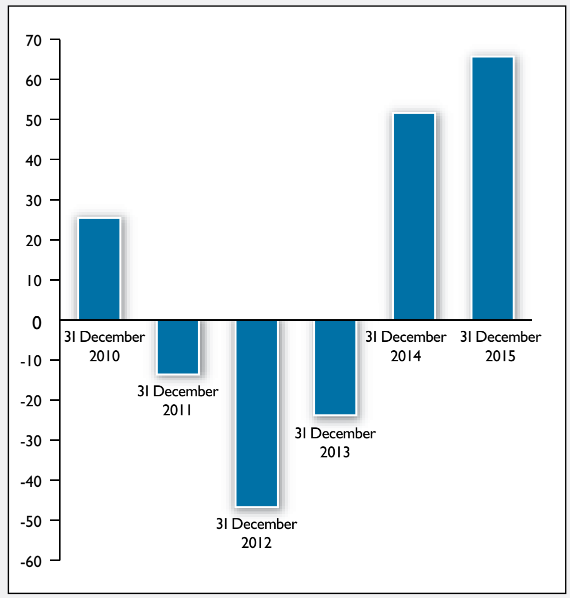
The 31 December 2015 valuation reported that the Plan has a surplus on a going concern basis with an actuarial surplus of $66.0 million and a going concern funded ratio of 104.2 per cent. As at 31 December 2015, the actuarial value of net assets was $1,650.7 million and the actuarial value of liabilities was $1,584.7 million. As permitted by the PBSA, the actuarial value of assets used for the determination of the going concern funded position is determined through a method that smoothes fluctuations in actual investment returns relative to expected investment returns over five years. The going concern funded ratio improved 0.7 percentage points since last year's valuation.

The funded position on a going concern basis, as determined by the actuarial valuations filed with regulators, is shown in the chart.

The 31 December 2015 valuation also reported that the Plan continues to have a deficit on a solvency basis with an actuarial deficit of $404.1 million and a solvency funded ratio of 81.1 per cent. The solvency funded ratio deteriorated slightly because of lower investment returns. The actuarial value of net assets in this valuation is based on the Fund's market value of net assets at 31 December 2015 and was $1,736.3 million. The actuarial value of liabilities on a solvency basis was $2,140.4 million.

The anticipated solvency special payment in 2016 would be $70.7 million.. These provisions exist in legislation to make solvency funding requirements less sensitive to financial market volatility and do not alter CMHC's responsibility for its obligations to Pension Plan members.

Net Actuarial Position
($ Millions)



ACTUARIAL OPINION

Mercer (Canada) Limited was retained by Canada Mortgage and Housing Corporation to perform an actuarial valuation of the defined benefit component of the CMHC Pension Plan for purposes of determining the pension obligations of the Plan, and changes therein, for the year ended 31 December 2015, for inclusion in the Plan's financial statements prepared in accordance with Section 4600 of the *Chartered Professional Accountant Handbook*. The objective of the Plan's financial statements is to fairly present the financial position of the Plan as at 31 December 2015 on a going concern basis. The results of our valuation might not be appropriate for and should not be relied upon or used for any other purposes.

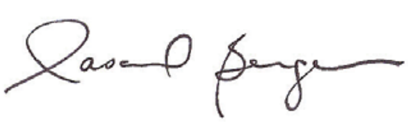
We have reviewed the net assets available for benefits as of 31 December 2015 for internal consistency and we have no reason to doubt its substantial accuracy. We have also tested the membership data received from CMHC for the year ended 31 December 2015 and found the results of these tests to be satisfactory.

To our knowledge, the actuarial valuation as at 31 December 2015 reflects the Plan's provisions at that date. The actuarial method prescribed by the *Chartered Professional Accountant Handbook* was used. The actuarial assumptions were selected by CMHC as their best long-term estimates of future events, in consultation with Mercer. Nonetheless, the future experience of the Plan will inevitably differ, perhaps significantly, from the actuarial assumptions and will result in gains or losses which will be revealed in future valuations.

In our opinion, the data on which the valuation is based is sufficient and reliable for the purposes of the valuation and the actuarial assumptions are in accordance with accepted actuarial practice in Canada.

Our valuation and related report were prepared, and our opinions given, in accordance with accepted actuarial practice in Canada.

Actuaries Of The CMHC Pension Plan
Ottawa, Ontario
March 29, 2016



Pascal Berger, FCIA, FSA
Principal

Annie Valin, FCIA, FSA
Senior Associate

INDEPENDENT AUDITORS' REPORT

To the Trustees of Canada Mortgage and Housing Corporation Pension Plan

We have audited the accompanying financial statements of **Canada Mortgage and Housing Corporation Pension Plan**, which comprise the statement of financial position as at December 31, 2015, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Canada Mortgage and Housing Corporation Pension Plan** as at December 31, 2015, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst & Young LLP

Ottawa, Canada
Chartered Professional Accountants
April 4, 2016
Licensed Public Accountants

FINANCIAL STATEMENTS

Canada Mortgage and Housing Corporation Pension Plan

STATEMENT OF FINANCIAL POSITION

As at December 31 *(in thousands of dollars)*	**2015**	**2014**
ASSETS		
Defined benefit		
Investments *(note 3)*	**1,874,032**	1,846,956
Contributions receivable from the employer	**246**	170
Contributions receivable from the employees	**151**	140
Accounts receivable	**6,998**	1,206
Accrued interest and dividends receivable	**4,000**	3,709
Cash	**1,468**	1,677
Total defined benefit	**1,886,895**	1,853,858
Defined contribution *(note 3)*	**4,317**	1,075
Total assets	**1,891,212**	1,854,933
LIABILITIES		
Accounts payable and accrued liabilities	**10,080**	4,696
Mortgages payable *(note 4)*	**138,399**	132,650
Total liabilities	**148,479**	137,346
NET ASSETS AVAILABLE FOR BENEFITS		
Available for defined benefit obligations	**1,738,416**	1,716,512
Available for defined contribution obligations	**4,317**	1,075
Net assets	**1,742,733**	1,717,587
PENSION OBLIGATIONS *(note 12)*		
Actuarial present value of accrued pension benefits	**1,584,739**	1,503,397
Defined contribution	**4,317**	1,075
Total pension obligations	**1,589,056**	1,504,472
SURPLUS	**153,677**	213,115

See accompanying notes to the financial statements.

On behalf of the Trustees:

Evan Siddall

Chair, Pension Fund Trustees
President and Chief Executive Officer of CMHC

Steven C. Mennill

Trustee of the Pension Fund
Senior Vice-President, Insurance

Canada Mortgage and Housing Corporation Pension Plan

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31 *(in thousands of dollars)*	2015	2014
INCREASE IN NET ASSETS		
Defined benefit		
Investment income		
Interest		
Short-term investments	**471**	709
Bonds and debentures	**11,934**	11,593
Real return securities	**331**	485
	12,736	12,787
Dividends		
Canadian	**14,590**	13,904
American	**7,092**	6,849
Other foreign	**10,332**	9,399
	32,014	30,152
Net revenue from infrastructure *(note 5)*	**2,062**	1,360
Net revenue from real estate *(note 6)*	**7,740**	8,411
Total investment income - defined benefit	**54,552**	52,710
Increase (decrease) in fair value of investments *(note 7)*	**(6,591)**	122,736
Contributions *(note 8)*		
Employer	**64,355**	72,353
Employees	**14,285**	16,058
	78,640	88,411
	126,601	263,857
DECREASE IN NET ASSETS		
Benefits *(note 9)*	**75,657**	76,657
Net contributions transferred or refunded *(note 10)*	**16,831**	2,868
Operating expenses *(note 11)*	**8,967**	8,057
	101,455	87,582
Total change in net assets	**25,146**	176,275
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	**1,717,587**	1,541,312
End of year	**1,742,733**	1,717,587

See accompanying notes to the financial statements.

Canada Mortgage and Housing Corporation Pension Plan

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

Year ended December 31 *(in thousands of dollars)*	**2015**	**2014**
Defined Benefit		
Pension obligations, beginning of year	**1,503,397**	1,445,871
Change in pension obligations		
Changes in actuarial assumptions	**50,855**	9,388
Interest accrued on benefits	**85,355**	84,404
Experience losses	**8,708**	1,900
Benefits accrued	**28,654**	32,271
Benefits paid	**(92,175)**	(79,513)
Impact of reorganization	**-**	6,690
Other	**(55)**	2,386
Net change in pension obligations	**81,342**	57,526
Pension obligations, end of year	**1,584,739**	1,503,397
Defined Contribution		
Pension obligations, beginning of year	**1,075**	108
Increase in the pension obligations	**3,242**	967
Pension obligations, end of year	**4,317**	1,075
Total pension obligations, end of year *(note 12)*	**1,589,056**	1,504,472

See accompanying notes to the financial statements.

Canada Mortgage and Housing Corporation Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

1. DESCRIPTION OF PLAN

a) General

The Canada Mortgage and Housing Corporation Pension Plan (the "CMHC Plan") is a compulsory contributory pension plan for all employees who satisfy certain eligibility conditions. Under the CMHC Plan, contributions are made by the CMHC Plan members and Canada Mortgage and Housing Corporation ("CMHC"). The CMHC Plan is registered under the *Pension Benefits Standards Act, 1985* ("PBSA") registration #55086.

The CMHC Plan has a defined benefit ("DB") and a defined contribution ("DC") component. The DB component applies to employees hired prior to April 4, 2013, or otherwise eligible to participate in the DB component as specifically provided therein. The DC component applies to new employees hired on and after April 4, 2013 who are not eligible to join the DB component of the CMHC Plan.

During the year, the Corporation announced that the defined benefit plan will be modified and re-opened to new entrants beginning January 1, 2018. The existing defined contribution plan will be closed to new entrants as of December 31, 2017 and employees will be transfered to the modified defined benefit pension plan. Any benefits earned by employees in the current defined benefit plan up to December 31, 2017 will be unchanged. All plan modifications will only apply to future service starting January 1, 2018.

For the purposes of the notes to the financial statements, "Plan" refers to the current DB component only, unless the DC component is specified.

b) Benefits

The following is a summary of the current DB and DC components of the CMHC Plan. For more complete information, reference should be made to the Pension Plan Rules.

i) **Defined benefit component**
Under the Pension Plan Rules, pension benefits for the DB component are determined by a formula based on 2% of the average salary of the member's best five consecutive years multiplied by the number of years of benefit service up to a maximum of 35 years. The pension is payable at age 60 or upon retirement allowing for certain early retirement provisions in accordance with the Pension Plan Rules. The DB component provides survivor benefits for a member's eligible spouse or common-law partner and eligible dependent children. The benefits are indexed to the Consumer Price Index ("CPI") and integrated with the Québec/Canada Pension Plan from age 65.

ii) **Defined contribution component**
DC Plan members are required to contribute a minimum of 3% of their earnings and may contribute up to 6% of their earnings. CMHC provides a matching contribution of 100% to 180% based on a three-tier point schedule according to a member's age and years of service with CMHC for which contributions to the DC Plan were made. Contributions are deposited into a personal DC Plan account. Benefits for the DC component are the amounts accumulated in the member's account.

c) Funding policy

i) **Defined benefit component**
The PBSA requires that CMHC, being the Plan Sponsor, fund the DB benefits determined under the Plan. The determination of the value of these benefits is made on the basis of actuarial valuations. The PBSA and its regulations require that valuations

be performed annually, unless the solvency ratio is greater than 120%. These valuations are prepared in line with the *Standards of Practice - Pension Plans* as prescribed by the Canadian Institute of Actuaries (see Note 12).

ii) Defined contribution component
The benefits of the DC component are funded by members and CMHC's contributions (Note 8), investment income, transfers from other plans and any other acceptable distribution or contributions made on an ad hoc basis.

d) Disclosures for the DC component

Investments are defined as the capital of the DC component. The individual members of the DC component bear the risks associated with the investments and manage these risks by managing the asset allocation of their account balances.

Administrative and investment fees (the "fees") related to the DC component are paid by the employees. CMHC may decide to pay some or all of these fees at its discretion.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements have been prepared in accordance with the Canadian accounting standards for pension plans as set out in Section 4600, Pension Plans, in Part IV of the *Chartered Professional Accountants ("CPA Canada") Handbook*. These financial statements present the information of the CMHC Plan as a separate reporting entity independent of the Plan Sponsor and participants of the CMHC Plan.

In accordance with Section 4600, the CMHC Plan adopted accounting policies that comply on a consistent basis with International Financial Reporting Standards ("IFRS") in Part 1 of the *CPA Canada Handbook*, to the extent that those standards do not conflict with the requirements of Section 4600.

The objective of these financial statements is to assist Plan members and other users in reviewing the activities of the Plan or the benefit security of an individual Plan member's benefits. The financial statements do not purport to reflect the financial status of the Plan if terminated on the statement date, the funding requirements of the Plan or the pension expense that should be included in the financial statements of the Plan Sponsor. Because the financial statements pertain to the Plan as a whole, they provide no information about the portion of assets attributable to any individual member or group of members.

b) Accounting estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the reported amounts of changes in net assets available for benefits during the year and the reported amount of the actuarial present value of accrued pension benefits and net assets available for benefits at the date of the financial statements (Note 12). These estimates are based on management's best knowledge of current events and actions that the Plan may undertake in the future. Actual results may differ from these estimates.

c) Investments

The CMHC Pension Fund ("Fund") relates to the DB component of the CMHC Plan. Investment transactions are comprised of fixed income and equity securities as well as investments in real estate and infrastructure. They are recorded at fair value as of the trade date, which is the date upon which the substantial risks and rewards have been transferred. Transaction costs are expensed as incurred. Investments are stated at fair value in the financial statements. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The increase (decrease) in the fair value of investments includes realized gains and losses from the sale of investments and unrealized gains and losses from the change in the difference between the cost or fair value at the end of the previous period and fair value at the end of the current period including appraisal adjustments on real estate valuations.

The following describes how the fair value of investments is determined:

i) Short-term money market securities consist of Government of Canada Treasury bills and are valued at quoted market bid prices.

ii) Bonds, debentures and real return securities are valued at quoted market bid prices where available. For those instruments where quoted market prices are not available, estimated values are calculated based on trade prices for similar securities as appropriate.

iii) Canadian and American equities fair value is based on quoted market prices. For other foreign equities, the fair value is the net asset value per unit provided by the issuers. The net asset value is calculated based on the quoted market prices of the funds asset less the funds liability divided by the total number of outstanding units.

iv) Real estate is comprised of direct investments in real estate (rental income and capital appreciation properties) and investments in real estate companies established under Section 149 of the *Income Tax Act*. Real estate is valued at estimated fair values based on independent appraisals at least once every three years plus net working capital.

v) Infrastructure is comprised of investments in infrastructure funds. The fair value is the net asset value per unit provided by the issuers. The net asset value is based on independent appraisals of the valuation of the underlying infrastructure and infrastructure-related assets held by these funds, which are completed on an annual basis.

Revenue from real estate and infrastructure funds is recorded on an accrual basis. Since real estate is valued on a fair value basis, depreciation and amortization are not charged to income.

Dividend income is recognized on the ex-dividend date.

d) Short-term assets and liabilities

Due to their short-term nature, cash, contributions receivable, accounts receivable, accrued interest and dividends receivable, and accounts payable and accrued liabilities are carried at cost, which approximates fair value. Payment of pensions, refunds and transfers, which are due as at year-end, are recorded as accounts payable and accrued liabilities.

e) Mortgages payable

Mortgages are valued at amortized cost, which approximates fair value. Mortgages associated with real estate are made at commercial mortgage rates.

f) Foreign currency translation and forward currency contracts

Foreign currency transactions are translated into Canadian dollars at the rate of exchange prevailing at the dates of the transactions. The fair value of the investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

The Fund enters into forward currency contracts to manage its exposure to foreign currencies. Forward currency contracts are reported at fair value as at the reporting date. The realized and unrealized gains and losses arising from these transactions are included in the increase (decrease) in the fair value of investments on the statement of changes in net assets available for benefits.

g) Current and Future changes in accounting policies

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments,* to replace IAS 39, *Financial Instruments: Recognition and Measurement.*

This standard becomes effective January 1, 2018. Earlier application is permitted. We are currently determining the impact of this new standard on the Pension Plan financial statements.

A narrow scope amendment to IAS 40, *Investment Property*, became effective July 1, 2014 for financial years ending on or after March 31, 2015. This amendment clarifies the classification of property as investment property or as owner-occupied property. There is no impact on the Pension Plan financial statements.

3. INVESTMENTS

DEFINED BENEFIT

a) General

The table below outlines the Plan's investments in financial instruments (excluding real estate) as at December 31. Other foreign equity includes the fair value of forward currency contracts of $0.7 million (2014 - $2.5 million) and infrastructure includes the fair value of forward currency contracts of $0.3 million (2014 - $0.2 million).

	2015		**2014**	
(in thousands of dollars)	**Amortized cost (1)**	**Fair value**	Amortized cost (1)	Fair value
Fixed income				
Short-term investments	**22,440**	**22,444**	66,262	66,356
Bonds and debentures				
Government of Canada	**114,039**	**115,844**	96,969	98,575
Provinces/municipals	**155,461**	**169,489**	146,308	160,056
Corporate/other	**117,440**	**123,254**	126,519	133,969
Total bonds and debentures	**386,940**	**408,587**	369,796	392,600
Total fixed income	**409,380**	**431,031**	436,058	458,956
Equity				
Canadian	**281,157**	**455,045**	257,740	489,867
American	**254,639**	**306,474**	213,604	290,206
Other foreign	**281,596**	**301,463**	237,626	275,020
Total equity	**817,392**	**1,062,982**	708,970	1,055,093
Inflation sensitive				
Real return securities	**27,973**	**36,251**	27,131	34,770
Infrastructure	**50,212**	**51,401**	20,609	20,544
Total inflation sensitive	**78,185**	**87,652**	47,740	55,314
Total investment in financial instruments	**1,304,957**	**1,581,665**	1,192,768	1,569,363

[1] Cost for equity

As at December 31, 2015, the Plan's investments in financial instruments include $171.0 million (2014 - $196.3 million) of fixed income securities at fair value issued by the Plan Sponsor or its related parties, which include Government of Canada bonds.

Real estate investments are classified as a Level 3 instrument in the fair-value hierarchy (Note 3(b)). The following table provides a reconciliation of the fair value of Level 3 investments in real estate for the year ending December 31:

(in thousands of dollars)	**2015**	**2014**
Fair value at beginning of year	**277,593**	273,004
Additions	**27,567**	5,413
Capital expenditures	**4,366**	-
Disposals	**(13,563)**	(2,675)
Unrealized fair value gains (losses)	**(3,596)**	1,851
Fair value at end of year	**292,367**	277,593

The Fund asset mix is maintained within the following ranges:

	%
Equity	
Canadian	20% to 35%
American	10% to 22%
Other foreign	10% to 22%
Total equity	45% to 65%
Fixed income	
Bonds and debentures	20% to 40%
Cash equivalents (short-term investments and cash)	0% to 5%
Total fixed income	20% to 40%
Inflation sensitive	
Real estate	4% to 12%
Infrastructure	0% to 8%
Real return securities	0% to 5%
Total inflation sensitive	6% to 20%

The Fund's long-term asset allocation policy is as follows:

Equity	57%
Fixed income	28%
Inflation sensitive	15%

b) Fair-value hierarchy

Financial instruments recorded at fair value are classified using a fair-value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1**
  Financial assets and liabilities are measured based on quoted prices in active markets for an identical asset.
- **Level 2**
  Financial assets and liabilities not quoted in active markets are measured based on discounted cash flow or other valuation methodologies making maximum use of directly or indirectly observable market data.
- **Level 3**
  Financial assets and liabilities not quoted in active markets are measured based on discounted cash flow analysis techniques or other valuations methodologies where significant inputs are not based on observable market data.

The following tables represent the fair value hierarchy of financial assets, excluding real estate:

As at December 31, 2015

(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed Income				
Short-term investments	22,444	-	-	22,444
Bonds and debentures				
Government of Canada	115,844	-	-	115,844
Provinces/municipals	169,489	-	-	169,489
Corporate/other	121,866	1,388	-	123,254
Total bonds and debentures	407,199	1,388	-	408,587
Total fixed income	429,643	1,388	-	431,031
Equity				
Canadian	455,045	-	-	455,045
American	306,474	-	-	306,474
Other foreign	300,733	730	-	301,463
Total equity	1,062,252	730	-	1,062,982
Inflation sensitive				
Real return securities	36,251	-	-	36,251
Infrastructure	-	255	51,146	51,401
Total inflation sensitive	36,251	255	51,146	87,652
	1,528,146	2,373	51,146	1,581,665

The valuation for Level 3 investments in infrastructure includes unobservable inputs which may significantly affect the measurement of fair value. The valuation was based on management's assessment of the prevailing conditions as at December 31, 2015, which may change materially in subsequent periods.

The following table provides a reconciliation of the fair value of Level 3 investments in infrastructure for the year ending December 31:

Significant increases (decreases) in estimated revenue, inflation rates and earnings before interest, taxes, depreciation and amortization (EBITDA) multiples could result in a significantly higher (lower) fair value of the infrastructure investments. Significant increases (decreases) in operational costs and discount rates could result in a significantly lower (higher) fair value.

(in thousands of dollars)	**2015**	**2014**
Fair value at beginning of year	**20,379**	19,141
Purchases	**25,804**	-
Sales	**(229)**	(229)
Unrealized fair value gains	**5,192**	1,467
Fair value at end of year	**51,146**	20,379

As at December 31, 2014

(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income				
Short-term investments	66,356	-	-	66,356
Bonds and debentures				
Government of Canada	98,575	-	-	98,575
Provinces/municipalities	160,056	-	-	160,056
Corporate/other	133,565	404	-	133,969
Total bonds and debentures	392,196	404	-	392,600
Total fixed income	458,552	404	-	458,956
Equity				
Canadian	489,867	-	-	489,867
American	290,206	-	-	290,206
Other foreign	272,560	2,460	-	275,020
Total equity	1,052,633	2,460	-	1,055,093
Inflation sensitive				
Real return securities	34,770	-	-	34,770
Infrastructure	-	165	20,379	20,544
Total inflation sensitive	34,770	165	20,379	55,314
	1,545,955	3,029	20,379	1,569,363

There were no significant transfers between Level 1, 2 and 3 in 2015 and 2014.

c) Risk management

The key financial risks related to the assets of the Plan are market risk, credit risk and liquidity risk. These are mitigated by policies that define the Fund's overall objective and circumscribe investments in terms of what is permitted, how investments may be made, and minimum standards for diversification, quality, and liquidity. Policies also describe the management structure and monitoring procedures adopted for the ongoing operation of the Fund.

i) Market risk

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rates, foreign currency rates and equity prices. The Fund is able to mitigate this risk by incorporating diversification requirements in its investment policies and guidelines. Diversification reduces the risk of market value decreases and helps protect the Fund from potential negative impacts within one asset class or sector.

Interest rate risk

Interest rate risk relates to the impact of interest rate changes on the Plan's cash flows. The risk arises from differences in the timing and amount of cash flows related to Plan assets and liabilities.

The Plan's interest rate risk is managed through the implementation of policies that limit risk for the Plan's investment activities. The asset allocation policy takes into account the liability profile of the Plan and diversifies the assets of the Fund. Other policies limit the price sensitivity of fixed income assets to interest rate changes relative to established benchmark indices.

In 2015, the Pension Fund improved its methodology to calculate the sensitivity of the interest rate on the fair value of fixed income securities. The 2014 figures were restated under this methodology for comparative purposes. The impact of a 1% increase/decrease in interest rate on the fair value of fixed income securities would be:

	2015		**2014**	
(in thousands of dollars)	**Increase**	**Decrease**	Increase	Decrease
Short-term investments	**(51)**	**52**	(39)	39
Bonds and debentures	**(28,088)**	**32,666**	(26,889)	31,421
Real return securities	**(5,044)**	**6,238**	(4,926)	6,105
	(33,183)	**38,956**	(31,854)	37,565

Foreign currency risk

Foreign currency risk is the risk that the value of an investment will fluctuate as a result of changes in foreign exchange rates and is associated with the Plan's investments in American and other foreign equities. Exposure to U.S. currency arising from investments in American equities is hedged through investments in pooled funds that transact in U.S. currency hedging instruments. Other currency exposure arising from investments in foreign equities and infrastructure investments are hedged through forward currency contracts. The current policy is to hedge 50% of the currency exposure arising from American and other foreign equity holdings and 100% of the currency exposure arising from infrastructure investments, with a tolerance band of ±10 percentage points of the approved total percentage of assets to be hedged.

Fluctuation in foreign exchange rates will have a negative or positive impact on the value of the unhedged portion of investments in foreign denominations. The following table demonstrates the impact a 1% increase/decrease in foreign currency will have on the fair value of the investments net of foreign currency contracts:

	2015		**2014**	
(in thousands of dollars)	**Increase**	**Decrease**	Increase	Decrease
U.S.	**1,577**	**(1,577)**	1,481	(1,481)
Other foreign	**1,427**	**(1,427)**	1,477	(1,477)
	3,004	**(3,004)**	2,958	(2,958)

Equity price risk

Equity price risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer, or factors affecting all securities traded in the market. The Plan's exposure to equity price risk arises primarily from investments in equities and to a lesser extent investments in real estate and infrastructure. Policies set minimum standards for diversification of assets at the total Fund level and within individual portfolios.

When a significant portion of an equity portfolio is invested in similar sectors a concentration of equity price risk exists. The following table outlines the sectors the equity portfolios are invested in:

	2015		2014	
(in thousands of dollars)	**$**	**%**	**$**	**%**
Financials	**270,762**	**25.5**	248,035	23.5
Energy	**124,082**	**11.7**	162,371	15.4
Consumer discretionary	**117,237**	**11.0**	117,632	11.1
Industrials	**115,234**	**10.8**	116,997	11.1
Information technology	**106,258**	**10.0**	104,311	9.9
Consumer staples	**93,980**	**8.8**	86,125	8.2
Health care	**81,322**	**7.7**	67,332	6.4
Materials	**75,244**	**7.1**	88,220	8.3
Telecommunication services	**44,637**	**4.2**	38,963	3.7
Utilities	**21,894**	**2.1**	14,659	1.4
Other	**6,422**	**0.6**	10,448	1.0
Index ETF	**5,910**	**0.5**	-	-
	1,062,982	**100**	1,055,093	100.0

ii) Credit risk
Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. Credit risk includes the risk of default, and encompasses both the probability of loss and the probable size of the loss, net of recoveries and collateral, over time.

The Plan's credit risk associated with investments is managed through the implementation of policies, which include minimum credit rating requirements and limits by sector, counterparty, and credit rating. In the event that a credit change renders an approved investment holding ineligible, the Fund will take the necessary actions to restructure holdings while minimizing losses. The credit quality of issuers of debt securities is assessed by reference to published credit ratings and investment management analysis.

Concentration risk is the amount of the credit risk the Fund is exposed to in relation to sectors. This concentration is shown in Note 3 section c) i).

Credit risk exposure on fixed income and real return investments is divided into short-term (less than one year) and long-term (greater than one year). All short-term exposure is rated "R-1 high" or equivalent. The maximum exposure to credit risk for fixed income and real return investments is the carrying amount of these investments.

The following table represents the credit risk exposure on long-term investment securities:

(in thousands of dollars)	**2015**	**2014**
AAA	**179,486**	163,474
A- to AA+	**230,025**	228,444
BBB	**35,327**	35,452
	444,838	427,370

Credit risk arising from forward currency contracts is managed by entering into contracts with creditworthy counterparties subject to minimum credit rating requirements and by setting limits on the allowable amount of exposure to each of these counterparties.

iii) Liquidity risk
Liquidity risk is the risk that the Plan would have insufficient cash flows to meet its pension obligations, investment-related obligations, and operating expenses as they come due. Liquidity risk is managed through holdings of highly liquid short-term investments, forecasting of cash flow requirements, and daily monitoring. Cash sources include investment income, proceeds from the sale of investments, and employee and employer contributions. The largest single source of cash in the year was from the sale and maturity of investments which provided $621 million (2014 - $573.4 million) to the Fund.

The Plan's financial liabilities consist of accounts payable and accrued liabilities and mortgages payable. The term to maturity of accounts payable and accrued liabilities is within one year and the net amount payable is $10.1 million (2014 - $4.7 million). The maturity analysis for mortgages payable is provided under Note 4.

DEFINED CONTRIBUTION

a) General

The individual members of the DC component bear the risks associated with the investments and manage these risks by managing the asset allocation of their account balances. The employee and employer contributions are invested by the DC Plan members among a range of investment options available through the Plan administrator.

4. MORTGAGES PAYABLE

Mortgages mature at various dates between January 2016 and February 2026. Mortgages are secured by land and specific rental properties which bear interest at rates ranging from 2.23% to 5.517%. The mortgages have both fixed and variable interest rates. The estimated payments of principal and interest are as follows:

	2015		**2014**	
(in thousands of dollars)	**Principal**	**Interest**	Principal	Interest
2015	**-**	**-**	34,128	5,546
2016	**25,019**	**5,172**	13,084	4,287
2017	**32,727**	**3,608**	27,359	2,927
2018	**13,381**	**3,218**	12,557	2,475
2019	**1,979**	**2,580**	1,127	1,864
2020-2026	**65,293**	**9,519**	44,395	6,502
	138,399	**24,097**	132,650	23,601

During 2015, interest paid on these mortgages amounted to $5.6 million (2014 - $5.7 million).

5. NET REVENUE FROM INFRASTRUCTURE

Net revenue from infrastructure represents cash distributions from the funds.

6. NET REVENUE FROM REAL ESTATE

Net revenue from real estate represents rental revenues less expenses, including tenant improvements, and is net of management fees.

7. INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS

The increase (decrease) in fair value of investments is composed of both realized and unrealized gains and losses from investments of the DB and DC components.

(in thousands of dollars)	**2015**	**2014**
Defined benefit	**(6,654)**	122,689
Defined contribution	**63**	47
Total	**(6,591)**	122,736

8. CONTRIBUTIONS

The contributions are composed of the following:

(in thousands of dollars)	**2015**	**2014**
Defined benefit		
Employer		
Current service contributions	**14,953**	16,066
Special payments	**47,543**	55,796
Total employer	**62,496**	71,862
Employees		
Current service contributions	**12,215**	13,099
Past service contributions	**437**	2,520
Total employees	**12,652**	15,619
Total defined benefit	**75,148**	87,481
Defined contribution		
Employer	**1,859**	491
Employee	**1,633**	439
Total defined contribution	**3,492**	930
Total	**78,640**	88,411

As a result of the deficits reported in the December 31, 2014 actuarial valuation report, special payments were required in 2015. The going concern and solvency special payments amounted to nil (2014 - $2.5 million) and $44 million (2014 - $51.1 million), respectively, in 2015.

Special payments also included $3.5 million (2014 - $2.1 million) to fund transfer deficiencies for members electing to transfer out of the plan in 2015.

9. BENEFITS

(in thousands of dollars)	**2015**	**2014**
Retirement	**72,822**	68,415
Disability	**137**	154
Transfer restriction annuity	**2,698**	8,088
Total	**75,657**	76,657

10. NET CONTRIBUTIONS TRANSFERRED OR REFUNDED

(in thousands of dollars)	**2015**	**2014**
Defined benefit	**16,518**	2,858
Defined contribution	**313**	10
Total	**16,831**	2,868

11. OPERATING EXPENSES

Operating expenses include the administrative costs related to the management of the Plan. The following table outlines the operating expenses for the year ended December 31:

(in thousands of dollars)	**2015**	**2014**
Operating expenses		
Investment management fees	**2,694**	1,676
Pension benefits administration	**2,566**	2,385
Investment personnel and related costs	**1,853**	2,126
Support services	**701**	680
Quote and data services	**304**	237
Computers and software	**218**	206
Occupancy costs	**176**	168
Actuarial fees	**146**	221
Other	**102**	196
Audit fees	**91**	89
Consulting fees	**58**	-
Custodial fees	**41**	41
Trustees and investment committee	**17**	32
Total	**8,967**	8,057

12. PENSION OBLIGATIONS

As at December 31, 2015, an actuarial valuation of the Plan was conducted by Mercer. A copy of this valuation will be filed with the Office of the Superintendent of Financial Institutions and Canada Revenue Agency.

The valuation was prepared using the projected unit credit method with the following significant assumptions:

	2015	**2014**
Real discount rate	**3.80%**	3.80%
Inflation/indexation	**2.00%**	2.00%
Rate of compensation increase	**3.00%**	3.00%

Variances between such estimates and actual experience, which may be material, will emerge as gains and losses in future valuations. Based on the December 31, 2015 valuation, the actuarial present value of accrued pension benefits is $1.6 billion (2014 - $1.5 billion).

As is standard for actuarial valuations, it is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. It is not possible to determine the magnitude of any such changes as they relate to general economic conditions.

CMHC bears the risk of experience loss against the long-term assumptions and credit risk associated with the Plan asset portfolio and is responsible for the liability associated with the ongoing operations of the Plan.

The defined contribution pension obligations of $4.3 million (2014 – $1.1 million) equals the net assets available for benefits; that is, the aggregate of the amounts accumulated in the members' account.

In accordance with the PBSA, the next required actuarial valuation will be December 31, 2016.

13. RELATED PARTY TRANSACTIONS

The Fund enters into transactions with CMHC, the Plan Sponsor, and its related parties. CMHC is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

The following table summarizes the amount invested in instruments issued by CMHC or its related parties as at December 31:

(in thousands of dollars)	**2015**	**2014**
Short-term investments [1]	**22,444**	66,356
Bonds and debentures [2]	**115,844**	98,575
Real return securities [1]	**32,746**	31,343
Total	**171,034**	196,274

[1] This is invested in related parties

[2] $64.5 million (2014 - $48.4 million) in CMHC and $51.3 million (2014 - $50.2 million) in its related parties.

Transactions with CMHC, the Plan Sponsor, were conducted in the normal course of activities and measured at the amount of consideration established and agreed to by both parties. Included in operating expenses is $5.0 million (2014 - $5.1 million) for administrative services provided by the Sponsor to the Plan. Accounts payable and accrued liabilities as at December 31, 2015 is $1.4 million (2014 - $1.3 million) due to CMHC for administrative services provided to the Plan.

14. COMMITMENTS AND CONTINGENT LIABILITIES

i) Various claims have been instituted against the Trustees of the Fund and/or CMHC pertaining to the Plan. In view of the inherent difficulty of predicting the outcome of such claims, the Plan cannot state what the eventual outcome of such matters will be; however, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the financial position of the Plan.

ii) In 2014, the Plan committed to fund infrastructure investments. The funding is expected to occur over the next several years in accordance with the agreed upon terms and conditions. As at December 31, 2015, the commitments amounted to $13 million (2014 - $31 million).

iii) In 2015, the Plan committed to fund $18.6 million in real estate investments (2014 - nil).

iv) As at December 31, 2015, the Plan has a $0.9 million (2014 - $0.9 million) letter of credit outstanding related to the potential development of one of its real estate properties.

15. CAPITAL MANAGEMENT

The funding surpluses or deficits determined periodically through the funding valuations prepared by an independent actuary are considered the capital of the Plan. The Plan's primary objective with respect to capital management is to ensure that it is adequate to provide for the pension benefits in accordance with the provisions of the CMHC Pension Plan Rules.

The Plan Rules, as well as the Plan's funding and operations are subject to the PBSA and its regulations, and to the *Income Tax Act*.

CMHC has managed the Plan's capital in accordance with the legal and regulatory requirements. There have been no changes in what is considered to be capital or the objectives of managing capital during the year.

COMMITTEE MEMBERSHIP AND PLAN ADMINISTRATION
(as at 31 December 2015)

DB Pension Fund Investment Committee

Members	
Wojo Zielonka	Chair, Senior Vice-President, Capital Markets
Brian Naish	Chief Financial Officer
Romy Bowers	Chief Risk Officer
Lisa Williams	National Director, Multi-Unit Underwriting
Claude Gautreau	Pension Council Member, Knowledge Transfer Consultant
Clive Morgan	External Advisor
René Delsanne	External Advisor
Advisors	
Sharon Rosentzveig	Director, Legal Services
Michelle Sauvé	Manager, Audit (observer)
Andreane Rodrigue	Transactional Audit Analyst (observer)

DB Pension Council

Chair	
Julie Philippe	Director, Total Reward Strategy
Employee Representatives	
Claude Gautreau	Atlantic Region
Isabelle Bourdeau	Quebec Region
Ted Tsiakopoulos	Ontario Region
Ian Moore	Prairie and Territories Region
Carol Frketich	B.C. Region
Louis-Alexandre Laroche	National Office and Ottawa Point of Service
Terry Cole	National Office and Ottawa Point of Service
Pensioner Representatives	
Marie Murphy	Atlantic and Quebec regions
Stephen Hall	Ontario, Prairie and Territories, and B.C. regions
Trevor Gloyn	National Capital Region

DB Pension Council (continued)

Alternate Employee	
Charles Fortin	Atlantic Region
Vacant	Quebec Region
Vacant	Ontario Region
Vacant	Prairie and Territories Region
Janet Flowers	B.C. Region
Charles Liu	National Office and Ottawa Point of Service
Kamal Gupta	National Office and Ottawa Point of Service
Alternate Pensioner	
Paul Poliquin	Atlantic and Quebec regions
Lee King	Ontario, Prairie and Territories, and B.C. regions
Vacant	National Capital Region

Plan and Fund Administration

Human Resources	
Julie Philippe	Director, Total Reward Strategy
Stéphane Poulin	Manager, Pension Policy and Administration
Investments and Pension	
Mark Chamie	Vice President, Investments and Pension Fund
Legal Advisors	
Sharon Rosentzveig	Assistant General Counsel
Louise Michel	Director, Legal Services, Assisted Housing and Underwriting
Pension Consultant	
Mercer (Canada) Limited Ottawa, Ontario	
Actuary	
Mercer (Canada) Limited Ottawa, Ontario	
Auditors	
Ernst & Young LLP Chartered Accountants Licensed Public Accountants Ottawa, Ontario	

For Answers to your Pension Questions

For information regarding your pension, please contact the CMHC Pay and Benefits Centre at 1-800-465-9932 or visit the CMHC Pay and Benefits Centre Web Portal by typing the following address into your browser's address bar: www.cmhc.ca/employees

To Provide Feedback on this Report

The CMHC Pension Plan Annual Report provides all members with financial and operational information on the Plan and Fund. Your feedback on this Report would be welcomed. Please address your comments or suggestions to:

Senior Manager
Pension Fund & Investments
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, ON K1A 0P7

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