


PENSION PLAN ANNUAL REPORT 2016

Canada

CMHC SCHL

OUR MISSION

Defined Benefit (DB Plan)

The mission of the CMHC defined benefit 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's assets to maximize returns while safeguarding assets.

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REPORT TO EMPLOYEES AND PENSIONERS

The CMHC defined benefit Plan ('the Plan') is an important part of CMHC's total compensation package and a reliable source of income for all our retirees. On behalf of the Pension Fund Trustees, it is my pleasure to present the key highlights and our progress in managing your funds in 2016.

The Plan remains fully funded at 110.1% and in 2016 achieved a return on investments of 7.1%. The Plan's rigorous governance framework ensures that investment decisions are made in the long-term interests of all beneficiaries.

Over the past year, the Plan began to implement a new asset mix with the goal of reducing market risks related to our liabilities. The new asset mix will result in less variability in the Plan's funded status, helping to keep the Plan sustainable.

In 2016, employees contributed a total of 9.9% of their base salary to the Plan, while CMHC contributions were 14.3%. In addition to the regular contributions, CMHC contributed $70.7 million in special payments related to the solvency deficits.

CMHC has also announced that the defined benefit plan, with some modifications, will be re-opened to new entrants beginning January 2018. Employees hired after April 2013 and who were not eligible to participate in the defined benefit plan will be transferred into the modified defined benefit plan. At the same time, as per the Government of Canada directive, employer and employee contributions will be shared equally. The change will not impact current pensioners.

As ever, we remain committed to providing CMHC employees and retirees with a competitive and sustainable pension plan.

EVAN SIDDALL
CHAIR, PENSION FUND TRUSTEES
PRESIDENT AND CHIEF EXECUTIVE OFFICER
CANADA MORTGAGE AND HOUSING CORPORATION

TRUSTEES OF THE DEFINED BENEFIT PLAN AND OBSERVER

(as at December 31, 2016)

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
(Ontario)

Stephen Hall
Retiree Pension
Council Member

Michel Tremblay
Senior Vice-President
Policy, Research and
Public Affairs

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)

$1,871.4 MILLION

Net assets available for benefits as of December 31, 2016

110.1%

Fully funded on a going-concern basis, 2016 (vs. 104.2% in 2015)

83.6%

Solvency ratio, 2016, increased (vs. 81.1% in 2015)

7.1%

2016 Rate of return (gross, nominal)

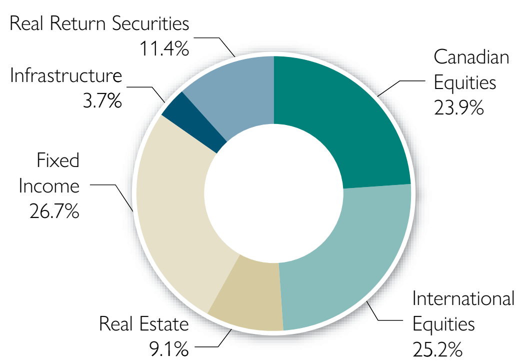
9.2%

Four-year annualized rate of return (gross, nominal)

5.9%

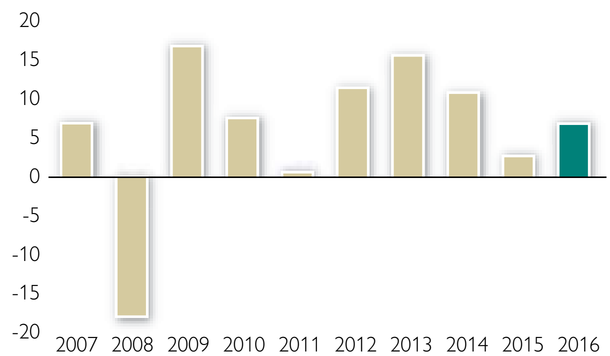
Ten-year annualized rate of return (gross, nominal)

Asset mix (DB)



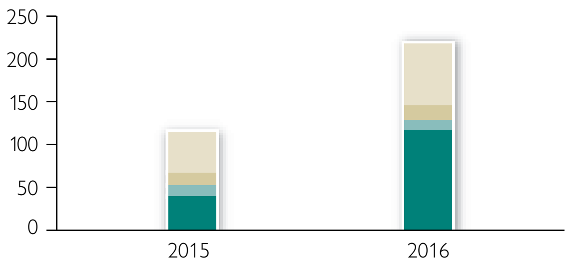
Rate of return (DB)

For the year ended December 31, 2016 (%)



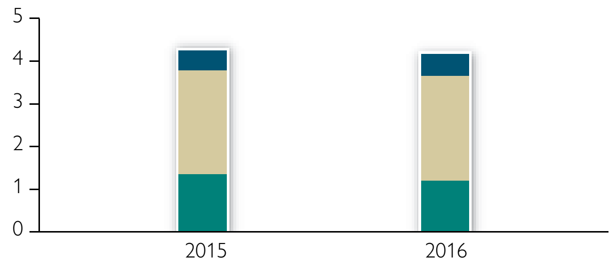
Funding mix (DB)

($ Millions)



Membership (DB)

(# of Persons Thousands)



About the Pension Plan Benefits Promise

CMHC PENSION PLAN

Part 1: CMHC Defined Benefit 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% 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 2016, that adjustment was made on January 1, 2017, when pension benefits were increased by 1.3%. This adjustment is based on the average change in the CPI over the 12-month period ending September 30, 2016.

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.

CMHC has announced that the defined benefit plan will be modified and re-opened to new entrants beginning January 1, 2018. The DC plan will be closed to new entrants as of December 31, 2017 and members of the DC plan will be transferred 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. Plan modifications will apply to services on or after January 1, 2018.

Contribution

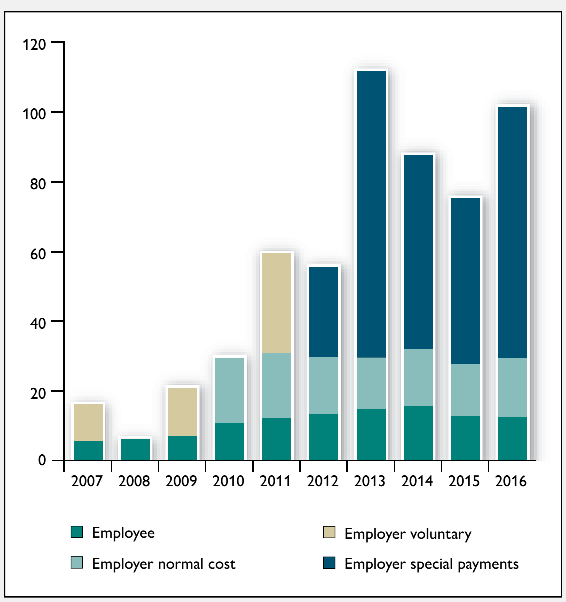
The employee contribution rate is 8.15% of earnings subject to CPP/QPP, which for 2016 were earnings up to $54,900, and at 10.4% for earnings above this level. In 2016, employees contributed a total of $12.2 million to the Pension Fund.

CMHC's total contributions to the Pension Fund in 2016 with respect to the DB Plan were $89.1 million. This included full normal contributions as well as special payments of $70.7 million related to the solvency deficits reported by the actuarial valuation as at December 31, 2015.

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 2017, the Board reviewed the results of the actuarial valuation as at December 31, 2016 and recommendations for contributions in 2017. 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 2017.

Employee and Employer Contributions
($ Millions)

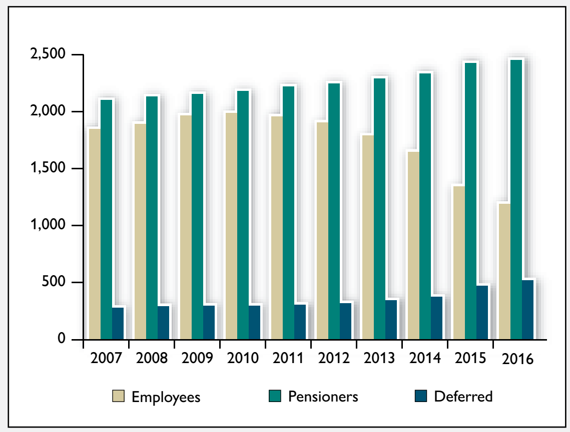


Membership

During 2016, 54 employees retired from CMHC.

At year-end, the DB Plan had 4,168 members including 1,192 employees, 2,455 pensioners and beneficiaries, and 521 members with deferred vested benefits. In addition, there were 189 members with Transfer Restriction Annuities.

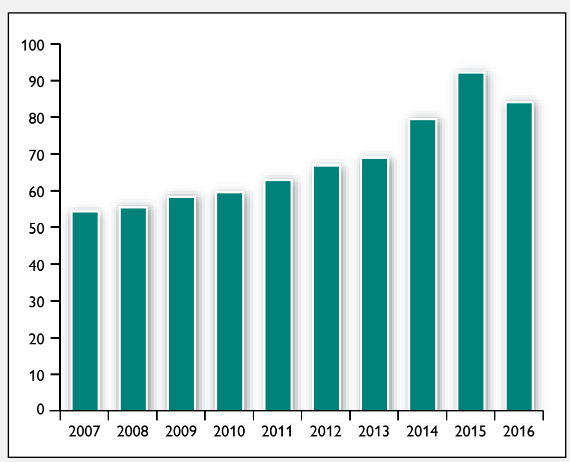
Plan Membership
(Number of Persons)



Total Benefits Paid in 2016

A total of $77.2 million in pension benefits was paid to DB Plan members in 2016.

Benefits and Net Contributions Transferred or Refunded
($ Millions)



Part 2: CMHC Defined Contribution 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.

Effective July 1, 2016, CMHC closed the DC component of the CMHC Pension Plan and established a new DC plan which was accepted by Canada Revenue Agency for registration under section 147.1 of the Income Tax Act, with effect from July 1, 2016. On December 1, 2016, the entire balance of the DC component of the CMHC Plan of approximately $6.9M was transferred to the new DC plan.

Membership

As at 31 December 2016, the DC Plan had 602 members.

General information on the CMHC Defined Benefit Pension Plan

Regulatory Authorities

As a federally registered pension plans, CMHC's defined benefit Pension Plan is subject to the federal P*ension 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 2016, CMHC continued to offer a Retirement Planning Seminars Program to employees. The program consists of one-day seminars. CMHC's other ongoing communication activities included the Annual Statement of Pension Benefits to each DB Plan member and the annual summary of the highlights of the DB Pension Council meetings.

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 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. 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 Plan is 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 1: CMHC Defined Benefit 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.

Trustees
10 December 2016

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

DB Pension Council
11 December 2016

Back row (L to R): Trevor Gloyn, Stephen Hall, Claude Gautreau, Ian Moore
Front row (L to R): Marie Murphy, Terry Cole, Isabelle Bourdeau, Louis-Alexandre Laroche

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 Fund is to achieve a total rate of return that will provide for the pension benefit obligations 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 Plan is defined by the Statement of Investment Policies and Goals (SIP&G).

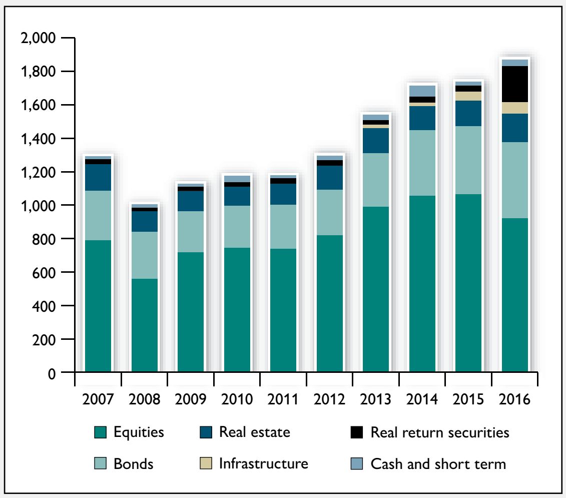
The SIP&G established by the Trustees for the Pension Fund sets out the policies necessary for the management and administration of the Fund. It includes further definition of permitted investments as well as the requirements for diversifying investments and managing financial risks.

It also includes policies for measuring, monitoring, and reporting on the performance of the Pension Fund. The SIP&G conforms to the requirements of the PBSA. In accordance with the requirements of the PBSA, it was updated and approved by Trustees in 2016.

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 Plan. It is reviewed at least every five years. The asset allocation policy has been established at 40% public equity investments, 41% fixed income securities and 19% real estate and infrastructure, on a net asset basis. The policy includes a permissible range around these percentage weights. Additionally, the policy allows for the use of a modest level of leverage of 25%

of net asset value to purchase fixed income assets to reduce the interest rate risk of the portfolio. Equity investments include Canadian and foreign equities. Fixed income is comprised of Canadian bonds and money market investments. Until the Fund has invested a target amount of 19% in real estate and infrastructure, the asset allocation policy is being adjusted to have a corresponding higher amount, for example, 47%, in public equity investments and a lower amount, for example, 12%, in real estate and infrastructure 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.

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 at December 31, 2016 (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 is forecasted to have expanded by 3.1% in 2016, led by stronger than expected growth in advanced economies in contrast to an unexpected slowdown in emerging market economies. There remains a wide dispersion of possible outcomes for the upcoming year given uncertainty around US policy and its impact on the global economy.

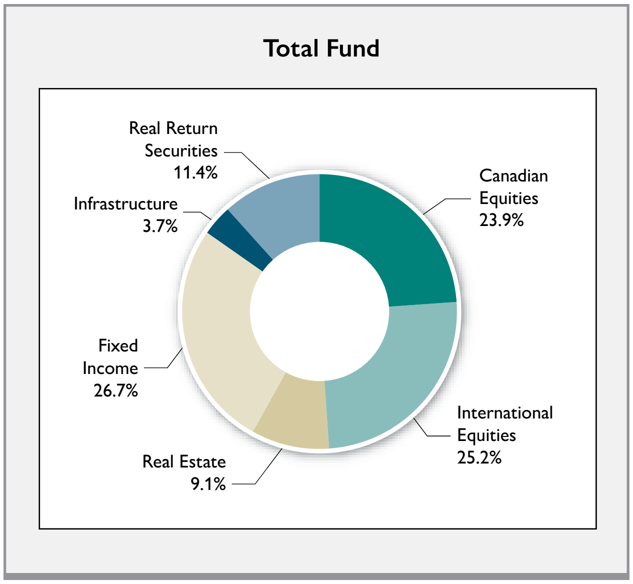
Interest rates rose in the latter half of 2016 as a result of an expected expansionary fiscal policy implying stronger future demand and higher inflation. Oil prices rose reflecting an agreement among major producers to limit supply. As a result the Canadian equity market posted the strongest gains amongst all other developed markets.

Pension Fund Performance

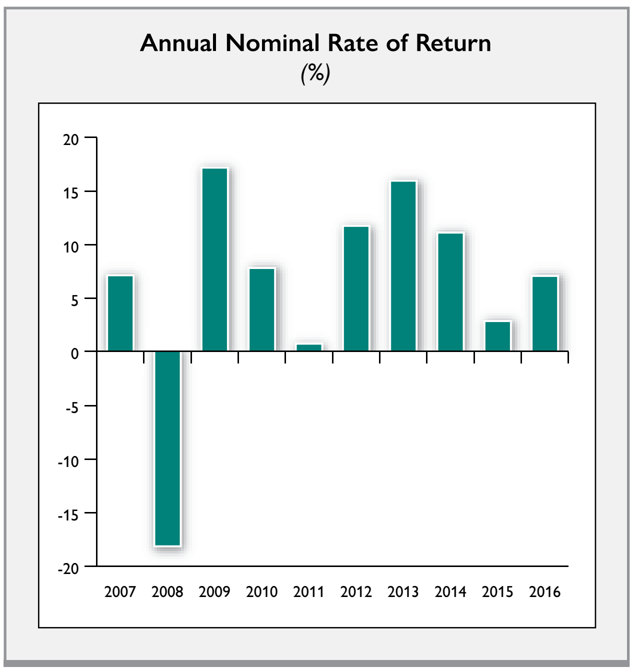
The majority of the Fund's investments are actively managed by internal investment managers. External investment managers are also appointed by Trustees with a range of active and passive investment mandates. Portfolio managers are responsible for individual security selection within their mandates.

The Fund's net assets available for benefits at December 31, 2016 were $1,871.4 million, compared to $1,738.4 million at the end of 2015.

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 2016 was 7.1%, which was 1.5% above the benchmark, which returned 5.6%.

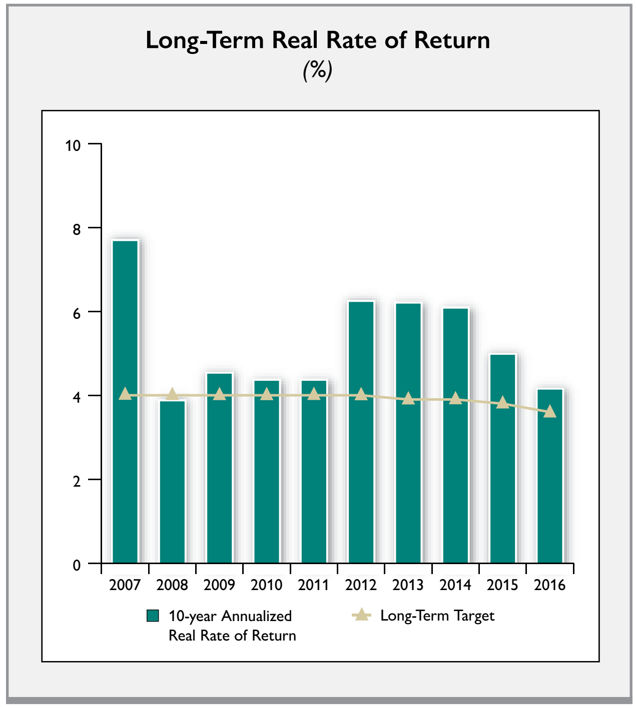


The overall return of the fund was positively impacted by strong equity market returns. Over the past 10 years, the Fund's performance has on average exceeded its benchmark by about 0.8% on an annualized basis.



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 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 4.2%, which is significantly higher than the long-term real rate of return objective and actuarial assumption of 3.4%.



This actuarial assumption is reviewed when an actuarial valuation is performed. For the year-end 2016 actuarial valuation, it was determined that the long-term real return expectation be reduced to 3.4% from 3.6% in the preceding year.

Performance by Asset Class

The Pension Fund recognizes that asset class selection is an important factor in the long term performance of the Fund. The Fund periodically reviews the merits of each asset class to assess the optimal mix required to meet its long term 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, to carefully monitor investment activities, and to evaluate whether those objectives are being met.

ASSET CLASS	RETURNS %[1] 1 YEAR	4 YEAR	10 YEAR
Equities			
Canadian Equities	21.8	11.7	6.0
Benchmark	21.1	8.5	4.7
US Equity	11.2	19.7	7.4
Benchmark	11.1	19.7	7.8
International Equities	3.0	9.2	2.3
Benchmark	(1.5)	10.6	1.7
Fixed Income			
Fixed Income	(1.9)	2.3	4.5
Benchmark	(2.7)	2.0	-
Inflation Sensitive			
Real Return Bonds	1.1	0.5	4.9
Benchmark	1.0	0.5	4.9
Infrastructure	10.0	-	-
Benchmark	5.4	-	-
Real Estate	7.0	8.0	10.2
Benchmark	5.4	7.8	9.2
Total[2]			
Fund	7.1	9.2	5.9
Benchmark	5.6	8.2	5.1

1 All returns are gross of fees
2 Returns generated by money market included in total fund return

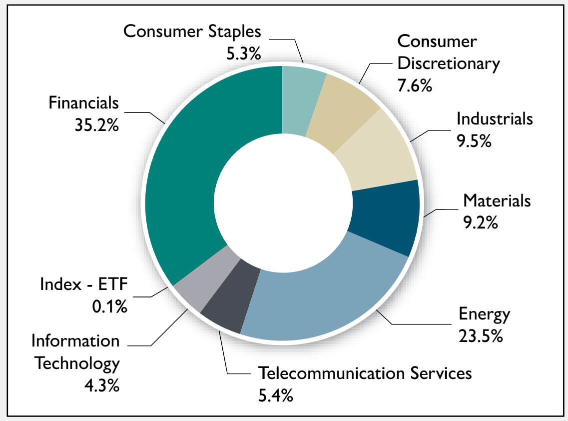
Canadian Equities

Portfolio managers invest in companies based on fundamental factors and select companies with 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 the best performers in the global developed markets universe. The portfolio returned 21.8% in 2016 compared to the benchmark return of 21.1%. Energy, Materials and Financials contributed the bulk of the returns.

The portfolio remains tilted toward quality and dividend paying stocks with overweight exposure in more stable segments of the market and underweight cyclical sectors. This allocation has continued to benefit the portfolio's performance relative to the index.

Canadian Equities



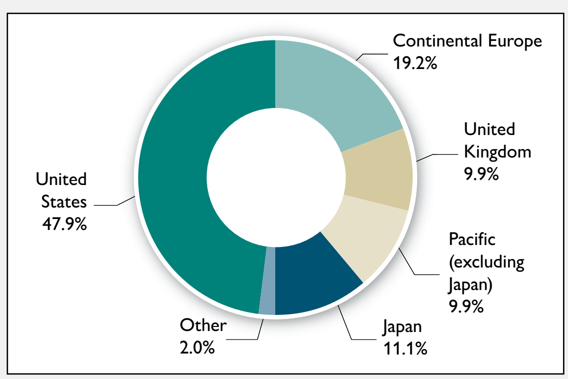
International Equities

International Equities broaden our exposures beyond what is available in the Canadian market. US equity investments are managed passively, whilst non-U.S. international equity investments are managed actively.

US equity returns were 11.2% in 2016 compared to the benchmark return of 11.1%.

The return of the non-U.S. international equity investments was 3.0% in 2016 compared to the benchmark return of (1.5%). The outperformance of the portfolio is mainly related to Materials, Technology and Energy related holdings. We also maintain a currency hedging program which has added 4.1% to performance as the Canadian Dollar has appreciated against the EAFE currency basket. The hedging policy is aimed at reducing the volatility of returns over time when measured in Canadian dollars.

International Equities

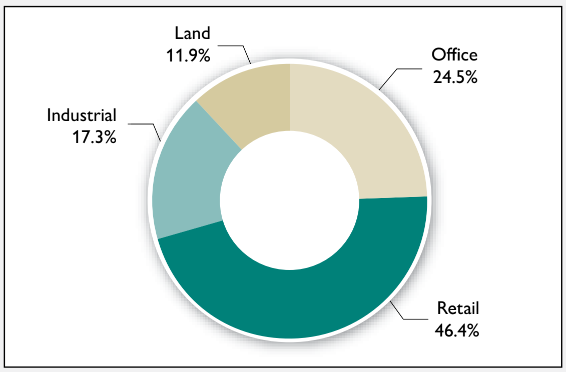


Real Estate and Infrastructure

Real Estate

Portfolio managers invest 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 holdings are diversified by commercial property type and by region.

Real Estate



The portfolio returned 7.0% in 2016 compared to the benchmark return of 5.4%.

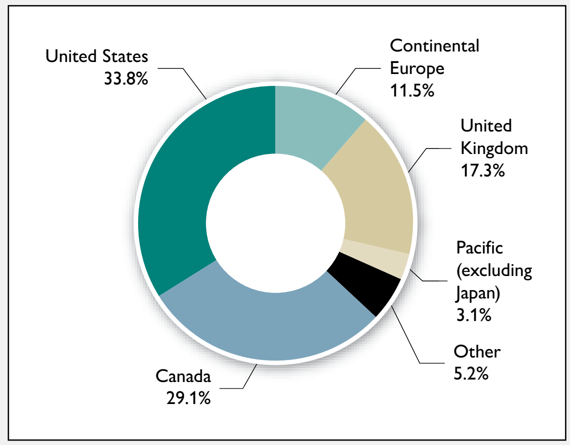
Infrastructure

The pension plan continued to expand its allocation to infrastructure investments in 2016 as additional opportunities arose. Infrastructure investments are considered after an extensive due diligence process. Our focus is to operate in industries that provide predictable regulatory environments and stable cash flows.

The infrastructure portfolio continued to perform well returning 10.0% in 2016 against the benchmark return of 5.4%. Excluding the effect of the currency hedging program, the infrastructure portfolio returned 5.6%. 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

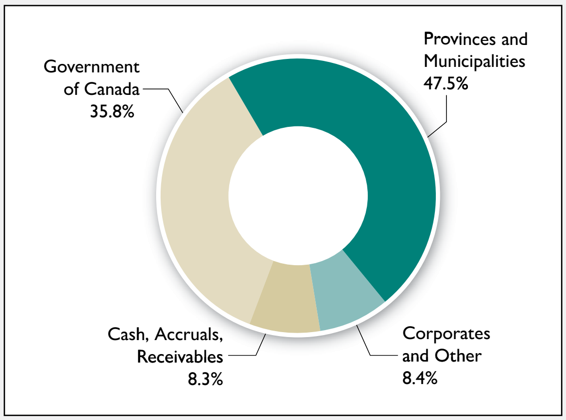


Fixed Income

The fixed income portfolio is composed of nominal and real return bonds. Whereas a nominal bond pays a fixed coupon over time, real return bonds pay a coupon that is periodically adjusted for inflation and therefore provides protection against the risk of inflation. 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 nominal portion of the Fund's fixed income portfolio returned (1.9%) in 2016 compared to the benchmark return of (2.7%). The outperformance is mainly related to the Fund's overweight position in provincial and credit exposures. These securities provide higher yields compared to Government of Canada bonds and over time help provide the portfolio with higher income levels. The real return portion of the Fund's fixed income portfolio returned 1.1% in 2016.

Fixed Income



Operations Management

The net assets of the Pension Fund increased by $133.0 million in 2016.

Investment income was $125.5 million as a result of changes in the fair value of investments and income received.

Total contributions in 2016 were $26.2 million higher compared to 2015 mainly due to an increase in special payments. As a result of lower solvency deficits reported in the December 31, 2015 actuarial valuation, CMHC made special payments in the amount of $72.1 million, an increase of $24.5 million from the previous year.

Benefits payments decreased by $8.0 million in 2016 compared to 2015 due to lower amounts of commuted value and transfer payments.

Operating expenses were $0.7 million higher in 2016 compared 2015. The increase was mainly due to one-time costs related to outsourcing of pension administration activities.

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%. 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 December 31, 2016 valuation reported that the Plan has a surplus on a going concern basis with an actuarial surplus of $166.4 million and a going concern funded ratio of 110.1%. As at December 31, 2016, the actuarial value of net assets was $1,811.2 million and the actuarial value of liabilities was $1,644.8 million.

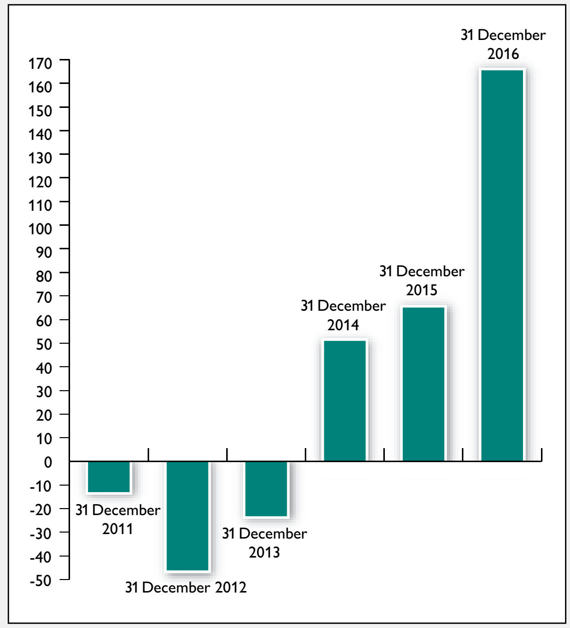
As permitted by the PBSA, the actuarial value of assets used for the determination of the going concern funded position is determined through a method that smoothes fluctuations in actual investment returns relative to expected investment returns over five years. The going concern funded ratio improved 5.9 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 December 31, 2016 valuation also reported that the Plan continues to have a deficit on a solvency basis with an actuarial deficit of $366.9 million and a solvency funded ratio of 83.6%. The solvency funded ratio improved slightly because of higher investment returns. The actuarial value of net assets in this valuation is based on the Fund's market value of net assets at December 31, 2016 and was $1,869.3 million. The actuarial value of liabilities on a solvency basis was $2,236.2 million.

The anticipated solvency special payment in 2017 would be $76.0 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 CMHC Pension Plan for purposes of determining the pension obligations of the Plan, and changes therein, for the year ended 31 December 2016, 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 2016 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 2016 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 2016 and found the results of these tests to be satisfactory.

To our knowledge, the actuarial valuation as at 31 December 2016 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 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.

MERCER

Actuaries of the CMHC Pension Plan
Ottawa, Ontario
April 6, 2017

Pascal Berger, FCIA, FSA
Principal

Annie Valin, FCIA, FSA
Principal

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, 2016, 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, 2016, 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
MARCH 22, 2017
LICENSED PUBLIC ACCOUNTANTS

FINANCIAL STATEMENTS

Canada Mortgage and Housing Corporation Pension Plan

STATEMENT OF FINANCIAL POSITION

As at December 31 *(in thousands of dollars)*	**2016**	**2015**
ASSETS		
Defined benefit		
Investments *(note 3)*	**1,998,518**	1,874,032
Contributions receivable from the employer	**6,367**	246
Contributions receivable from the employees	**199**	151
Accounts receivable	**2,436**	6,998
Accrued interest and dividends receivable	**3,958**	4,000
Cash	**688**	1,468
Total defined benefit	**2,012,166**	1,886,895
Defined contribution *(note 3)*	**-**	4,317
Total assets	**2,012,166**	1,891,212
LIABILITIES		
Accounts payable and accrued liabilities	**11,811**	10,080
Mortgages payable *(note 4)*	**128,943**	138,399
Total liabilities	**140,754**	148,479
NET ASSETS AVAILABLE FOR BENEFITS		
Available for defined benefit obligations	**1,871,412**	1,738,416
Available for defined contribution obligations	**-**	4,317
Net assets	**1,871,412**	1,742,733
PENSION OBLIGATIONS *(note 10)*		
Actuarial present value of accrued pension benefits	**1,644,787**	1,584,739
Defined contribution	**-**	4,317
Total pension obligations	**1,644,787**	1,589,056
SURPLUS	**226,625**	153,677

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)*	**2016**	**2015**
INCREASE IN NET ASSETS		
Investment income *(note 5)*	**125,973**	47,961
Contributions *(note 6)*		
Employer	**90,840**	64,355
Employees	**13,777**	14,285
	104,617	78,640
	230,590	126,601
DECREASE IN NET ASSETS		
Benefits *(note 7)*	**77,204**	75,657
Net contributions transferred or refunded *(note 8)*	**15,018**	16,831
Operating expenses *(note 9)*	**9,689**	8,967
	101,911	101,455
Total change in net assets	**128,679**	25,146
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	**1,742,733**	1,717,587
End of year	**1,871,412**	1,742,733

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)*	**2016**	**2015**
DEFINED BENEFIT **Pension obligations, beginning of year**	**1,584,739**	1,503,397
Change in pension obligations		
Changes in actuarial assumptions	**30,731**	50,855
Interest accrued on benefits	**87,217**	85,355
Experience (gains) losses	**(2,896)**	8,708
Benefits accrued	**29,590**	28,654
Benefits paid *(note 7)*	**(77,204)**	(75,657)
Contributions transferred or refunded *(note 8)*	**(6,985)**	(16,518)
Other	**(405)**	(55)
Net change in pension obligations	**60,048**	81,342
Pension obligations, end of year	**1,644,787**	1,584,739
DEFINED CONTRIBUTION **Pension obligations, beginning of year**	**4,317**	1,075
Increase in the pension obligations	**2,590**	3,242
Transfer of assets to new DC plan *(note 8)*	**(6,907)**	-
Pension obligations, end of year	**-**	4,317
Total pension obligations, end of year *(note 10)*	**1,644,787**	1,589,056

See accompanying notes to the financial statements.

Canada Mortgage and Housing Corporation Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

1. DESCRIPTION OF PLAN

a) General

The Canada Mortgage and Housing Corporation Pension Plan (the "CMHC Plan" or "the Fund") 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.

Prior to July 1, 2016, the CMHC Plan had 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 applied to new employees hired on and after April 4, 2013 who are not eligible to join the DB component of the CMHC Plan.

Effective July 1, 2016, CMHC closed the DC component of the CMHC Plan and established a new DC plan, which was accepted by Canada Revenue Agency for registration under section 147.1 of the *Income Tax Act*. On December 1, 2016, the entire balance of the DC component of the CMHC Plan was transferred to the new DC plan.

For the purposes of the notes to the financial statements, "Plan" refers to the current DB registered plan 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 10).

ii) Defined contribution component

The benefits of the DC component are funded by members and CMHC's contributions (Note 6), 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.

e) Changes to the Pension Plan

In 2015, CMHC announced that the defined benefit plan would be modified and re-opened to new entrants beginning January 1, 2018. The existing defined benefit plan would be closed to new entrants as of December 31, 2017 and employees will be transferred 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 service starting January 1, 2018.

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 *CPA Canada Handbook – Accounting* ("CPA Canada Handbook"), prescribes accounting policies specific to investments and pension obligations. These financial statements present the information of the CMHC Plan as a separate reporting entity independent of the Plan Sponsor and members of the CMHC Plan.

For accounting policies which do not relate to either investments or pension obligations, International Financial Reporting Standards ("IFRS") are applied. To the extent that IFRS is inconsistent with Section 4600, Section 4600 takes precedence.

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 10). 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

Investments are recorded at fair value on the trade date and are stated at fair value at the reporting date. Transaction costs are expensed as incurred. 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. Net revenue from infrastructure funds represents cash distribution entitlements of the Pension Plan. Net revenue from real estate represents net rental revenue after expenses. 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. The Fund is currently determining the impact of this new standard on the Pension Plan financial statements.

3. INVESTMENTS

DEFINED BENEFIT

The Plan invests in fixed income securities, equities, inflation linked securities, real estate and infrastructure funds.

a) General

The following table shows the fair value and the cost of investments at the reporting date.

	2016		2015	
(in thousands of dollars)	**Amortized cost (1)**	**Fair value**	**Amortized cost (1)**	**Fair value**
Fixed income				
Short-term investments	**39,750**	**39,771**	22,440	22,444
Bonds and debentures				
Government of Canada	**189,817**	**178,439**	114,039	115,844
Provinces/municipals	**241,690**	**237,010**	155,461	169,489
Corporate/other	**40,092**	**42,244**	117,440	123,254
Total bonds and debentures	**471,599**	**457,693**	386,940	408,587
Total fixed income	**511,349**	**497,464**	409,380	431,031
Equity				
Canadian	**224,351**	**447,568**	281,157	455,045
American	**207,022**	**226,070**	254,639	306,474
Other foreign	**260,715**	**245,715**	281,596	301,463
Total equity	**692,088**	**919,353**	817,392	1,062,982
Inflation sensitive				
Real return securities	**212,548**	**212,730**	27,973	36,251
Infrastructure	**68,548**	**69,891**	50,212	51,401
Real estate	**212,097**	**299,080**	208,171	292,367
Total inflation sensitive	**493,193**	**581,701**	286,356	380,019
Total investments	**1,696,630**	**1,998,518**	1,513,128	1,874,032

[1] Cost for equity

b) Financial instruments

As at December 31, 2016, the Plan's investments in financial instruments include $427.4 million (2015 - $171.0 million) of fixed income securities at fair value issued by the Plan Sponsor or its related parties, which include Government of Canada bonds.

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

Growth Assets	59%
Liability Hedging Assets	61%
Money Market	5%

c) 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 valuation methodologies where significant inputs are not based on observable market data.

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 $(0.2) million (2015 - $0.7 million) and infrastructure includes the fair value of forward currency contracts of $0.1 million (2015 - $0.3 million).

As at December 31, 2016

(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income				
Short-term investments	39,771	-	-	39,771
Bonds and debentures				
Government of Canada	176,130	2,309	-	178,439
Provinces/municipals	58,171	178,839	-	237,010
Corporate/other	-	42,244	-	42,244
Total bonds and debentures	234,301	223,392	-	457,693
Total fixed income	274,072	223,392	-	497,464
Equity				
Canadian	447,568	-	-	447,568
American	226,070	-	-	226,070
Other foreign	245,889	(174)	-	245,715
Total equity	919,527	(174)	-	919,353
Inflation sensitive				
Real return securities	183,406	29,324	-	212,730
Infrastructure	-	128	69,763	69,891
Total inflation sensitive	183,406	29,452	69,763	282,621
	1,377,005	252,670	69,763	1,699,438

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 nfrastructure 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, 2016, 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:

(in thousands of dollars)	**2016**	**2015**
Fair value at beginning of year	**51,146**	20,379
Purchases	**19,513**	25,804
Sales	**(757)**	(229)
Unrealized fair value (losses) gains	**(139)**	5,192
Fair value at end of year	**69,763**	51,146

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.

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)	**2016**	**2015**
Fair value at beginning of year	**292,367**	277,593
Additions	**3,897**	27,567
Capital expenditures	**670**	4,366
Disposals	**(641)**	(13,563)
Unrealized fair value gains (losses)	**2,787**	(3,596)
Fair value at end of year	**299,080**	292,367

Transfers between fair-value-hierarchy-levels and reclassification

For assets and liabilities measured at fair-value in the Financial Statements, the Fund determines 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 year the Fund reclassified certain fixed income securities and inflation sensitive securities from Level 1 to Level 2.

d) 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.

The impact of a 1% increase/decrease in interest rate on the fair value of fixed income securities would be:

	2016		**2015**	
(in thousands of dollars)	**Increase**	**Decrease**	Increase	Decrease
Short-term investments	(14)	14	(51)	52
Bonds and debentures	(54,417)	65,785	(28,088)	32,666
Real return securities	(44,359)	59,164	(5,044)	6,238
	(98,790)	124,963	(33,183)	38,956

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 foreign investments. Currency exposure arising from investments in EAFE equities and infrastructure investments are hedged through forward currency contracts. The current policy is to hedge 50% of the currency exposure arising from EAFE 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. Effective 2016, as a result of implementation of the Strategic Asset Allocation, US equities are no longer 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:

	2016		**2015**	
(in thousands of dollars)	**Increase**	**Decrease**	Increase	Decrease
US	2,261	(2,261)	1,577	(1,577)
Other foreign	1,263	(1,263)	1,427	(1,427)
	3,524	(3,524)	3,004	(3,004)

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:

	2016		**2015**	
(in thousands of dollars)	**$**	**%**	**$**	**%**
Financials	**227,040**	**24.7**	270,762	25.5
Energy	**131,034**	**14.3**	124,082	11.7
Industrials	**98,506**	**10.7**	115,234	10.8
Consumer discretionary	**87,366**	**9.5**	117,237	11.0
Information technology	**80,843**	**8.8**	106,258	10.0
Consumer staples	**76,327**	**8.3**	93,980	8.8
Materials	**69,349**	**7.5**	75,244	7.1
Health care	**61,438**	**6.7**	81,322	7.7
Telecommunication services	**42,328**	**4.6**	44,637	4.2
Other	**24,106**	**2.6**	6,422	0.6
Utilities	**20,627**	**2.2**	21,894	2.1
Index exchange traded funds	**389**	**0.1**	5,910	0.5
	919,353	**100**	1,062,982	100

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 d) 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)	**2016**	**2015**
AAA	**438,199**	179,486
A- to AA+	**257,820**	230,025
BBB	**14,175**	35,327
	710,194	444,838

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 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 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 $11.8 million (2015 - $10.1 million). The maturity analysis for mortgages payable is provided under Note 4.

DEFINED CONTRIBUTION

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.

Effective July 1, 2016, the DC plan closed and all assets were transferred to a new DC plan on December 1, 2016.

4. MORTGAGES PAYABLE

Mortgages mature at various dates between January 2017 and February 2026. Mortgages are secured by land and specific rental properties which bear interest at rates ranging from 2.31% to 5.52%. The mortgages have both fixed and variable interest rates. The estimated payments of principal and interest are as follows:

	2016	
(in thousands of dollars)	**Principal**	**Interest**
2017	**48,290**	**3,778**
2018	**13,381**	**3,218**
2019	**1,979**	**2,580**
2020	**5,086**	**2,487**
2021	**8,325**	**2,123**
2022-2026	**51,882**	**4,909**
	128,943	**19,095**

During 2016, interest paid on these mortgages amounted to $5.9 million (2015 - $5.6 million).

5. INVESTMENT INCOME

The following is a summary of investment income (loss) for the defined benefit plan by asset class:

(in thousands of dollars)	**Income**	**Change in fair value [1]**	**2016 Total**	**2015 Total**
Fixed income				
Short-term investments	**485**	**111**	596	465
Bonds and debentures	**11,805**	**(23,188)**	(11,383)	13,964
Equity				
Canadian	**14,181**	**78,559**	92,740	(35,675)
American	**6,468**	**20,428**	26,896	35,474
Other foreign	**6,440**	**(654)**	5,786	17,662
Inflation sensitive				
Real return securities	**603**	**(8,096)**	(7,493)	960
Net revenue from infrastructure	**3,877**	**3,651**	7,528	2,264
Net revenue from real estate	**6,995**	**3,856**	10,851	12,775
Total investment income	**50,854**	**74,667**	125,521	47,889

1 Change in fair value includes a realized net gain of $134 million and an unrealized net loss of $59 million.

Investment income for the DC plan was $452 (2015 - $72).

6. CONTRIBUTIONS

The contributions are composed of the following:

(in thousands of dollars)	**2016**	**2015**
Defined benefit		
Employer		
Current service	**17,017**	14,953
Special payments	**72,087**	47,543
Total employer	**89,104**	62,496
Employees		
Current service	**12,043**	12,215
Past service	**205**	437
Total employees	**12,248**	12,652
Total defined benefit	**101,352**	75,148
Defined contribution		
Employer	**1,736**	1,859
Employee	**1,529**	1,633
Total defined contribution	**3,265**	3,492
Total	**104,617**	78,640

As a result of the deficit reported in the December 31, 2015 actuarial valuation report, $70.7 million (2015 - $44 million) in solvency special payments were required.

Special payments also included $1.4 million (2015 - $3.5 million) to fund transfer deficiencies for members electing to transfer out of the plan in 2016.

7. BENEFITS

(in thousands of dollars)	**2016**	**2015**
Retirement	**75,905**	72,822
Disability	**106**	137
Transfer restriction annuity	**1,193**	2,698
Total	**77,204**	75,657

8. NET CONTRIBUTIONS TRANSFERRED OR REFUNDED

(in thousands of dollars)	**2016**	**2015**
Defined benefit	**6,985**	16,518
Defined contribution	**1,126**	313
Transfer to new DC plan	**6,907**	-
Total	**15,018**	16,831

9. 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)	**2016**	**2015**
Operating expenses		
Pension benefits administration	**2,927**	2,566
Investment personnel and related costs	**2,484**	1,853
Investment management fees	**2,265**	2,694
Support services	**548**	701
Actuarial fees	**364**	146
Computers and software	**336**	218
Quote and data services	**248**	304
Occupancy costs	**175**	176
Other	**123**	102
Audit fees	**92**	91
Trustees and investment committee	**61**	17
Custodial fees	**49**	41
Consulting fees	**17**	58
Total	**9,689**	8,967

10. PENSION OBLIGATIONS

As at December 31, 2016, 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 economic assumptions:

	2016	**2015**
Real discount rate	**3.40%**	3.60%
Inflation/indexation	**2.00%**	2.00%
Rate of compensation increase	**2.75%**	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, 2016 valuation, the actuarial present value of accrued pension benefits is $1.6 billion (2015 - $1.6 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.

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.

At the date of transfer, the defined contribution pension obligations of $6.9 million (2015 - $4.3 million) equalled 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 as at December 31, 2017.

11. 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)	**2016**	**2015**
Short-term investments [1]	**39,771**	22,444
Bonds and debentures [2]	**178,439**	115,844
Real return securities [1]	**209,157**	32,746
Total	**427,367**	171,034

1 This is invested in related parties other than the Plan Sponsor.

2 $18.1 million (2015 - $64.5 million) in CMHC and $160.3 million (2015 - $51.3 million) in related parties other than the Plan Sponsor.

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 $4.7 million (2015 - $5.0 million) for administrative services provided by the Sponsor to the Plan. Accounts payable and accrued liabilities as at December 31, 2016 is $1.6 million (2015 - $1.4 million) due to CMHC for administrative services provided to the Plan.

12. 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) The Plan is 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, 2016, the commitments amounted to $4.5 million (2015 - $13 million).

iii) The Plan is committed to fund real estate 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, 2016, the commitments amounted to $8.2 million (2015 - $18.6 million).

iv) As at December 31, 2016, the Plan has a $0.9 million (2015 - $0.9 million) letter of credit outstanding related to the potential development of one of its real estate properties.

13. CAPITAL MANAGEMENT

The Plan defines its capital as the funded status. An independent actuary periodically determines the funding surpluses or deficits of the Plan. The Plan's primary objective with respect to capital management is to ensure that plan assets are 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*. Management has adopted a Statement of Investment Policies and Guidelines ("SIP&G") for the Plan, which sets investment objectives, guidelines and benchmarks used in investing the Plan's assets, permitted categories of investments, asset mix diversification and rate of return expectations. The Plan's SIP&G was last updated on December 5, 2016. The Plan Trustees are responsible for ensuring that the Plan assets are managed in accordance with the SIP&G.

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.

14. COMPARATIVE FIGURES

Certain 2015 comparative figures have been reclassified to conform to the current year presentation.

COMMITTEE MEMBERSHIP AND PLAN ADMINISTRATION

(as at 31 December 2016)

Chair	
Stéphane Poulin	Manager, Total Rewards
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 Fund Investment Committee

Members	
Wojo Zielonka	Chair, Senior Vice-President, Capital Markets
Kathleen Devenny	Corporate Controller
Romy Bowers	Chief Risk Officer
Lisa Williams	Vice-President, Multi-Unit Insurance
Claude Gautreau	Pension Council Member, Knowledge Transfer Consultant
Clive Morgan	External Advisor
René Delsanne	External Advisor
Graham Pugh	External Advisor
Advisors	
Sharon Rosentzveig	Assistant General Counsel
Michelle Sauvé	Manager, Audit (observer)
Andréane Rodrigue	Transactional Audit Analyst (observer)

DB Pension Council

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
Vacant	Ontario, Prairie and Territories, and B.C. regions
Vacant	National Capital Region

Plan and Fund Administration

Human Resources	
Stéphane Poulin	Manager, Total Rewards
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:

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Pension Fund & Investments
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