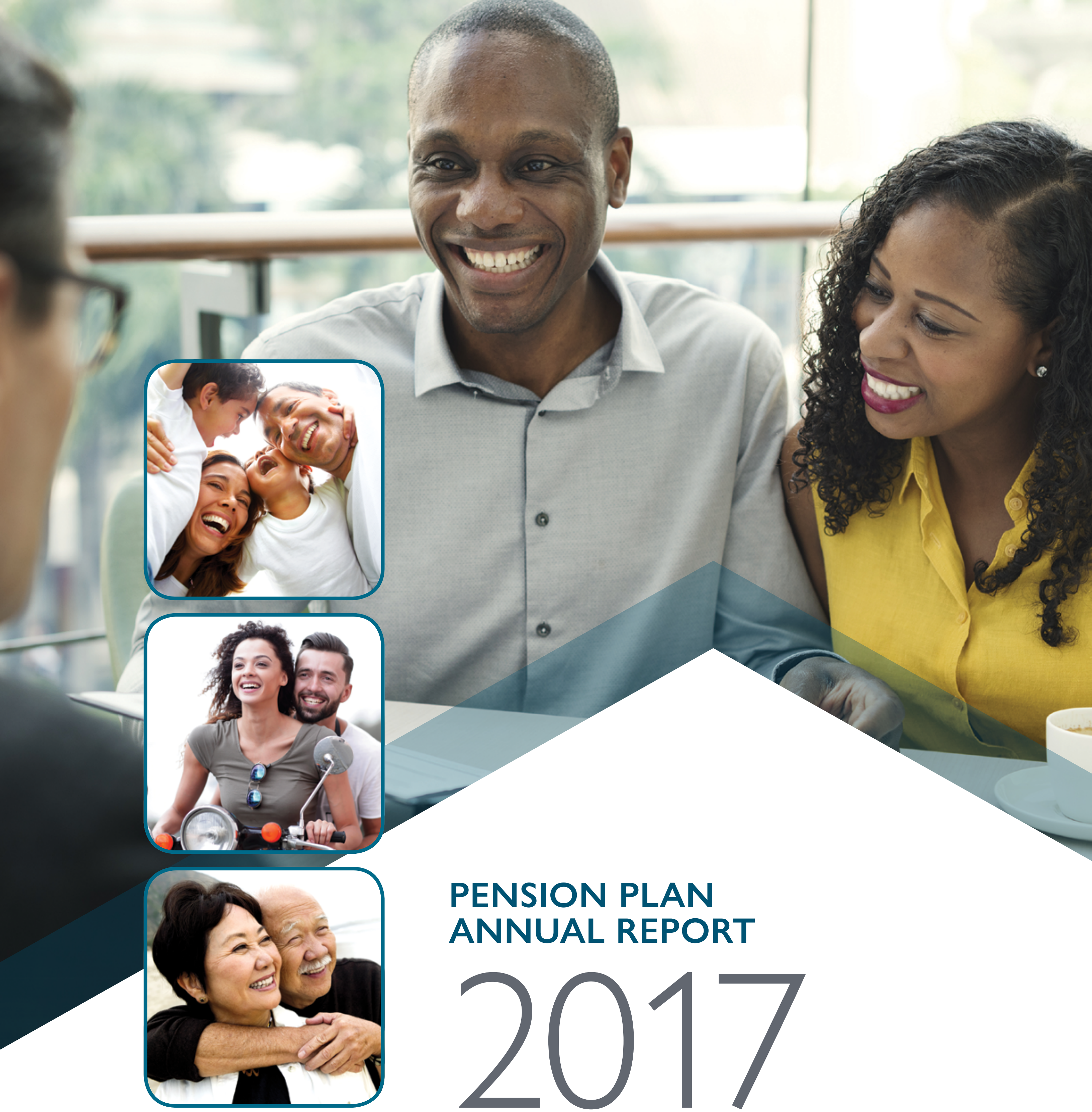

PENSION PLAN ANNUAL REPORT

2017

Canada

CMHC SCHL

OUR MISSION

The mission of the Canada Mortgage and Housing Corporation (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 and prudent investment of the Pension Plan's assets to maximize returns while safeguarding assets.

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Printed in Canada
Produced by CMHC

Table of Contents

REPORT TO EMPLOYEES AND PENSIONERS

The CMHC Pension 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 performance in managing your funds in 2017.

The Plan remains fully funded at 114.4% and in 2017 achieved a return on investments of 7.9%. The Plan's rigorous governance framework ensures that investment decisions are made in the long-term interests of all beneficiaries.

In 2017, we continued 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 2017, employees contributed a total of 10.0% of their base salary to the Plan, while CMHC contributions were 14.7%. In addition to the regular contributions, the company contributed $76.0 million in special payments related to the solvency deficits.

On January 1, 2018, the defined benefit plan was modified and reopened to new entrants beginning January 2018. All eligible employees of the Corporation now belong to the newly modified Plan. The changes apply only to benefits accrued after January 1, 2018, and will not impact current pensioners or the pension benefits earned by employees for pre-2018 service.

As per the Government of Canada directive, the Plan continues to move toward equal sharing of employer and employee contributions.

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

(as at December 2017)

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

Louise Poirier-Landry
Member of the
Board of Directors
(end of term January 2018)

Steven Mennill
Senior Vice-President
Mortgage Insurance
(end of term January 2018)

Christina Haddad
Acting Vice-President
Public Affairs

Stephen Hall
Retiree Pension
Council Member
(end of term December 2020)

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

Louis-Alexandre Laroche
Corporate Representative
Pension Council Member
(end of term December 2017)

Paul Greene
Corporate Representative
Pension Council Member
(end of term December 2019)

Financial Highlights as at Dec. 31, 2017

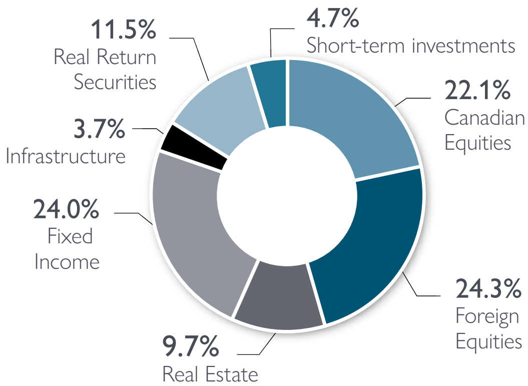
Defined benefit (DB)

$2,042.3 MILLION
Net assets available for benefits

114.4%
Fully funded on a going-concern basis (vs. 110.1% in 2016)

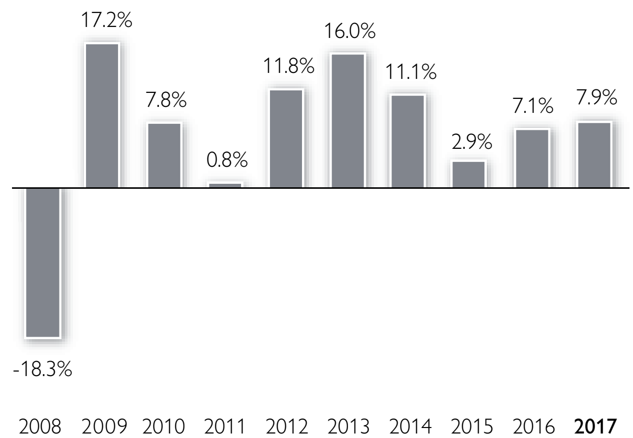
91.4%
Solvency ratio increased (vs. 83.6% in 2016)

Asset mix (DB)



Rate of return (DB)

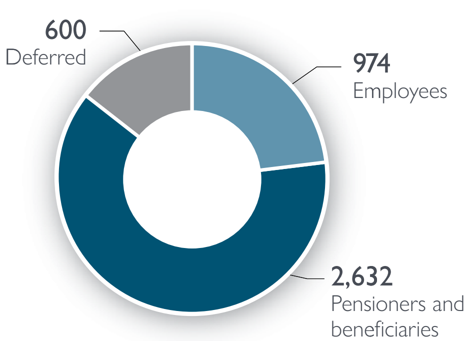
For the year ended December 31



7.2% Four-year annualized rate of return (gross, nominal)
5.9% Ten-year annualized rate of return (gross, nominal)

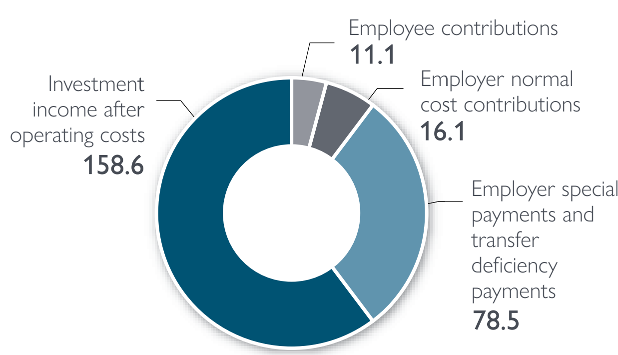
Membership (DB)

(# of Persons)



Funding Mix (DB)

($ Milions)



About the Pension Plan Benefits Promise

CMHC PENSION PLAN

Part 1: CMHC Defined Benefit Pension Plan ("the Plan")

The 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, the formula is based on a percentage of the average salary of the member's best five consecutive years multiplied by the number of years of benefit service.

The 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 2017, that adjustment was made on January 1, 2018, when pension benefits were increased by 1.6%. This adjustment is based on the average change in the CPI over the 12-month period ending September 30, 2017 over the average change in the CPI of the 12-month period of the preceding year.

On January 1, 2018 the Plan was modified and opened to new entrants. All eligible employees of the Corporation now belong to the newly modified Plan. This includes employees who were members of the CMHC Defined Contribution Pension Plan. Any benefits earned by employees up to December 31, 2017 remain unchanged. The new Pension Plan structure applies to service accrued on or after January 1, 2018.

As per the Government of Canada directive, the Plan continues to move toward equal sharing of employer and employee contributions.

Contribution

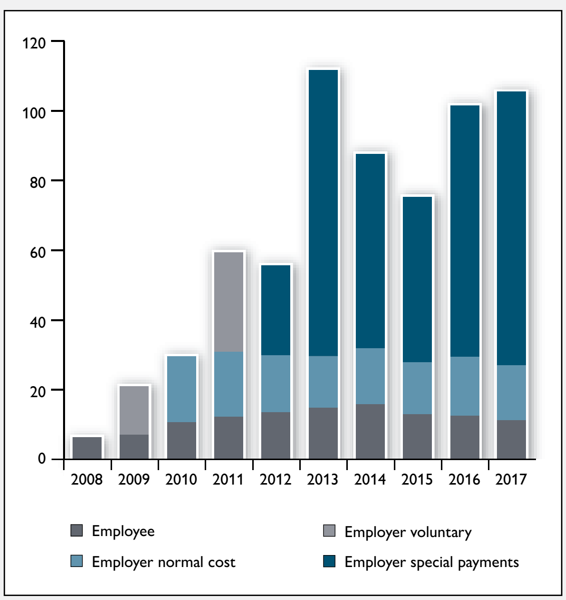
In 2017, the employee contribution rate was 8.15% up to YMPE ($55,300), and at 10.4% for earnings above this level. Therefore employees contributed a total of $11.1 million to the Plan.

CMHC's total contributions to the Plan in 2017 were $94.6 million. This included full normal contributions as well as special payments of $76.0 million related to the solvency deficit reported by the actuarial valuation as at December 31, 2016.

On an annual basis, CMHC reviews the level of employer and employee contributions to the Plan: firstly, with regard to the financial status of the Plan; and then secondly, in comparison to other plans, in order to benchmark the competitiveness of the Plan. The goal is to maintain a 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 2018, the Board reviewed the results of the actuarial valuation as at December 31, 2017 as well as the recommendations for employer contributions in 2018 and employee contributions in 2019. The actuarial valuation reports that the 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 make full normal contributions in 2018 and assess the level of special payments needed to fund the solvency deficit.

Employee and Employer Contributions
($ Millions)

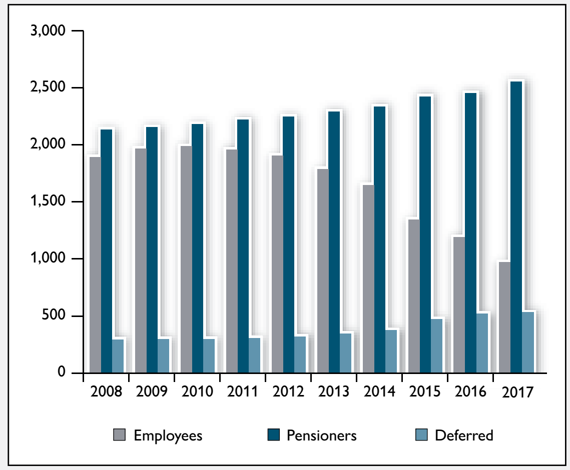


Membership

During 2017, 144 employees retired from CMHC.

At year-end, the Plan had 4,206 members including 974 employees, 2,632 pensioners and beneficiaries, and 600 members with deferred vested benefits.

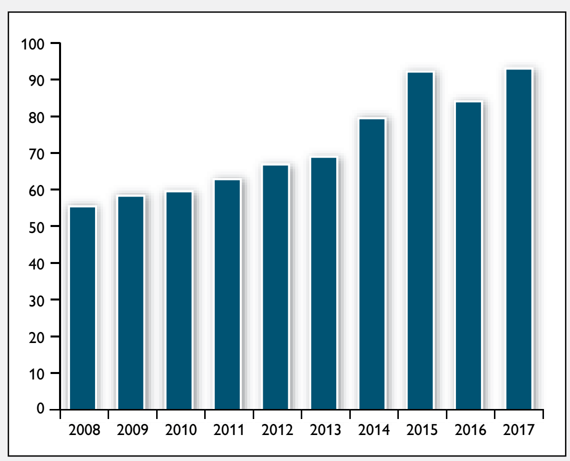
Plan Membership
(Number of Persons)



Total Benefits Paid in 2017

A total of $93.3 million in pension benefits was paid to Plan members in 2017.

Benefits and Net Contributions Transferred or Refunded
($ Millions)



Part 2: Defined Contribution Pension 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.

The DC plan was closed to new entrants and no contributions have been made to this plan effective December 31, 2017 and on January 1, 2018, all eligible employees started participating in the new defined benefit Pension Plan structure.

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 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 2017, CMHC continued to offer Retirement Planning Seminars to employees. CMHC's other ongoing communication activities included the Annual Statement of Pension Benefits to each Plan member, special bulletins providing details of the new defined benefit Pension Plan structure and the annual summary of the highlights of the DB Pension Council meetings.

Plan documents

Information related to the Plan is available on CMHC's website, including a description of the governance of the Plan and key roles and responsibilities under the governance structure of the Plan.

Additional information can be obtained by contacting the CMHC pay and benefits centre at 1-800-465-9932.

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 Plan is outlined below, but more information regarding the roles and responsibilities of the key governance components of the Plan can be found in the Pension Governance section on CMHC's website.

CMHC Pension Plan Governance

CMHC's 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
December 2017

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

DB Pension Council
December 2017

Back row (L to R): Paul Greene, Claude Gautreau, Louis-Alexandre Laroche, Stephen Hall
Front row (L to R): Marie Murphy, Kamal Gupta, Stéphane Poulin*

**alternate to Terry Cole*

An Investment Strategy Based on Sound Principles

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

Investment Framework

The overall long-term investment objective of the Pension Fund ("the Fund") is to achieve a total rate of return that will provide for pension benefit obligations with an acceptable level of volatility of expected contribution requirements. In pursuing this long-term objective, the 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 Procedures (SIP&P). The SIP&P established by the Trustees for the 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 Fund. The SIP&P conforms to the requirements of the PBSA. In accordance with the requirements of the PBSA, it was updated and approved by Trustees in 2017.

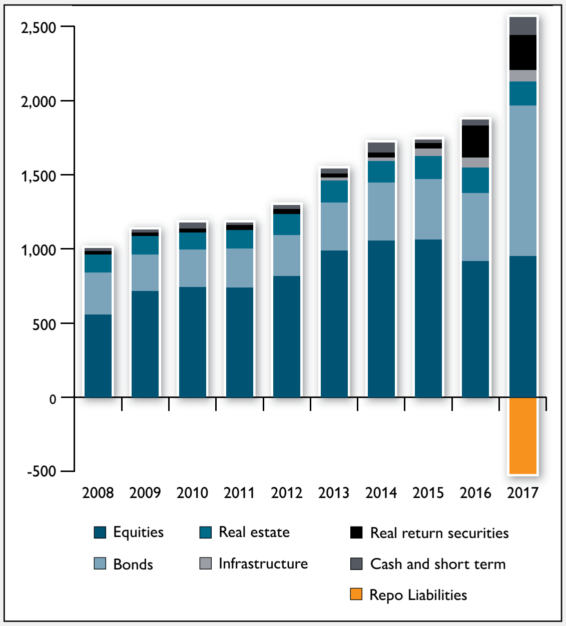
The Fund's asset allocation policy recommended by Trustees and approved by the Board, is a key driver of the Fund's returns and contribution requirements. The Fund's asset allocation policy is based upon the principle of diversification of investments among various asset classes relative to the liabilities 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, 13%, in real estate and infrastructure investments.

Net Assets of the Fund

($ Millions)



Risk Management

The risk parameters under which the 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 Fund are managed primarily through the diversification of assets, as well as limits and parameters for credit risk, market risk, and liquidity risk.

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 3.7% in 2017. Unlike prior years the pickup in growth has been broad based with positive surprises in Europe and Asia. In the short term, US tax policy changes improved consumer and business confidence with changes expected to support corporate investment and wage gains.

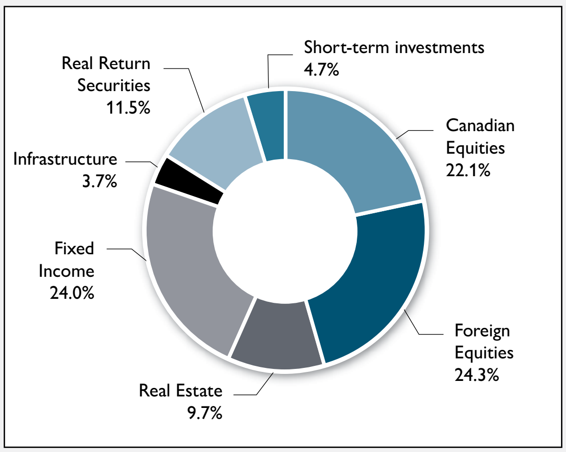
Interest rates rose in the latter half of 2017 with the Bank of Canada raising rates as the Canadian economy grew strongly and inflation approached the Bank of Canada target. Global expansionary fiscal policy and coordinated global demand growth have led to generally firming underlying core inflation and interest rates.

Pension Fund Performance

The majority of the Fund's investments are actively managed by internal investment managers. External investment managers are also appointed for 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, 2017 were $2,042.3 million, compared to $1,871.4 million at the end of 2016.

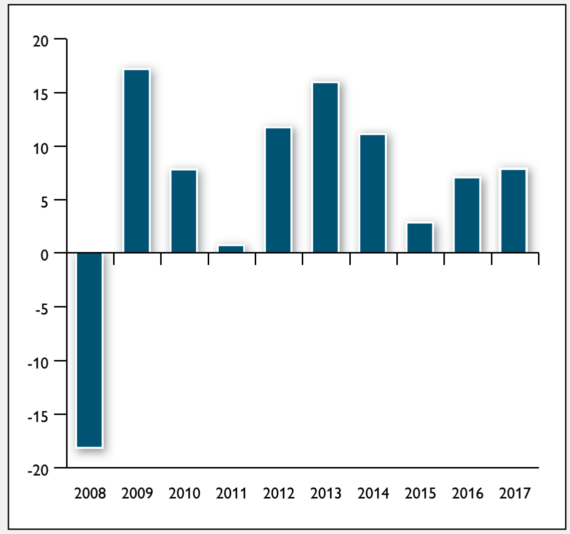
Asset Mix



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 2017 was in line with the benchmark of 7.9%.

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 0.6% on an annualized basis.

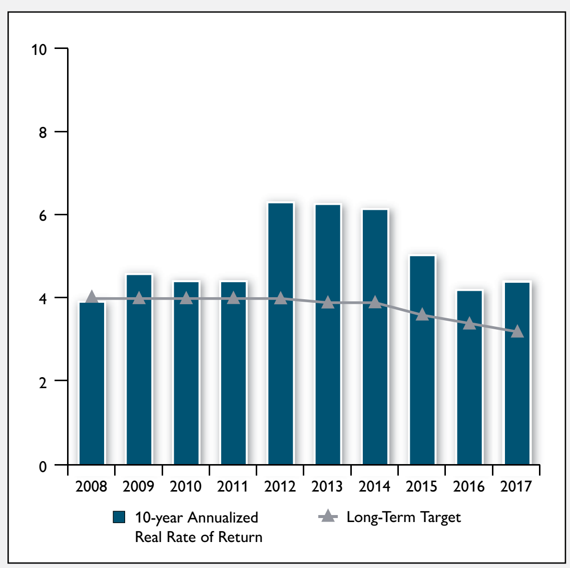
Annual Nominal Rate of Return *(%)*



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 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 4.4%, which is significantly higher than the long-term real rate of return objective and actuarial assumption of 3.2%.

Long-Term Real Rate of Return *(%)*



Performance by Asset Class

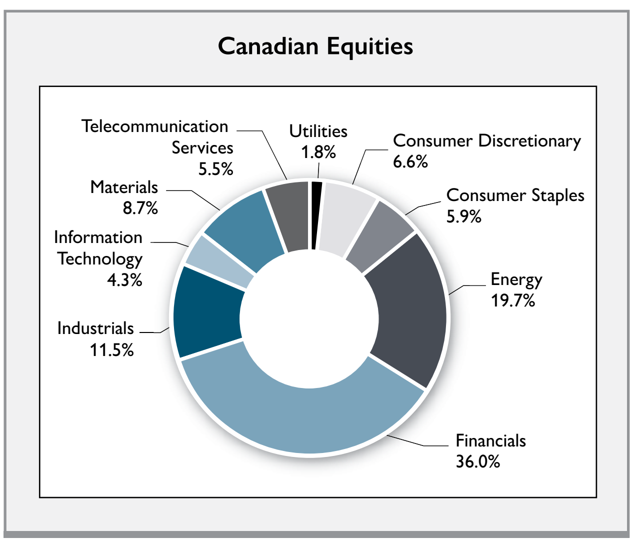
The Pension Fund recognizes that asset class selection is an important factor in the long term performance of the Fund. The Fund periodically reviews the merits of each asset class to assess the optimal mix required to meet its long term objectives. The periodic asset allocation review is approved by 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.

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 portfolio returned 10.1% in 2017 compared to the benchmark return of 9.1%.

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

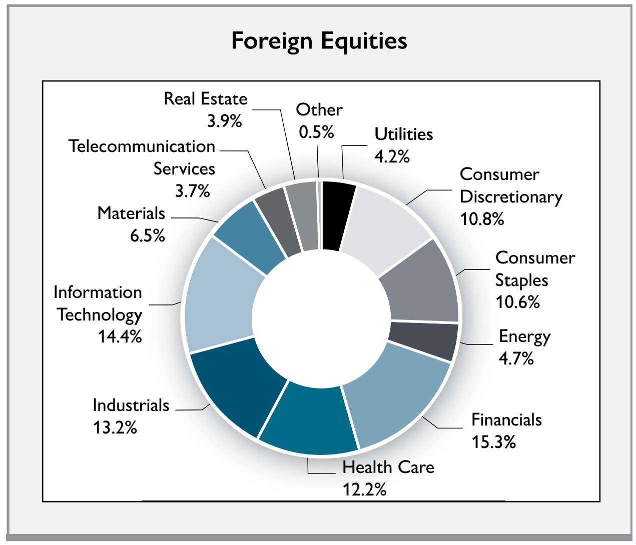


Foreign Equities

Foreign equities broaden our exposures beyond what is available in the Canadian market. US equity investments are managed passively, whilst non-U.S. foreign equity investments are managed passively and actively.

The US equity portfolio returned 12.6% in 2017, as did the benchmark.

The return of the non-U.S. foreign equity investments was 18.7% in 2017 compared to the benchmark return of 16.0%.



Real Estate and Infrastructure

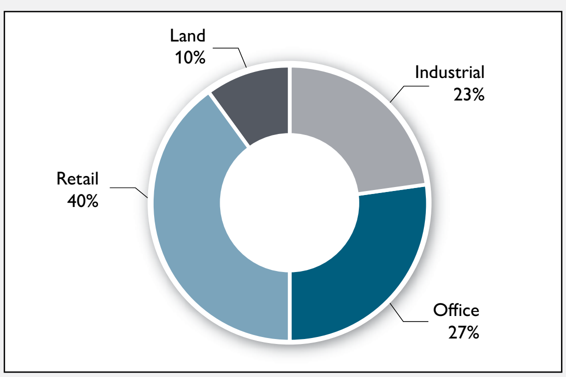
Portfolio managers invest in a portfolio of real estate investments, held through direct holdings and funds, and infrastructure investments held exclusively through funds.

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.

The pension plan continued to expand its allocation to infrastructure investments in 2017 as additional opportunities arose. Infrastructure investments are considered after an extensive due diligence process. Our focus is to invest in industries that provide predictable regulatory environments and stable cash flows.

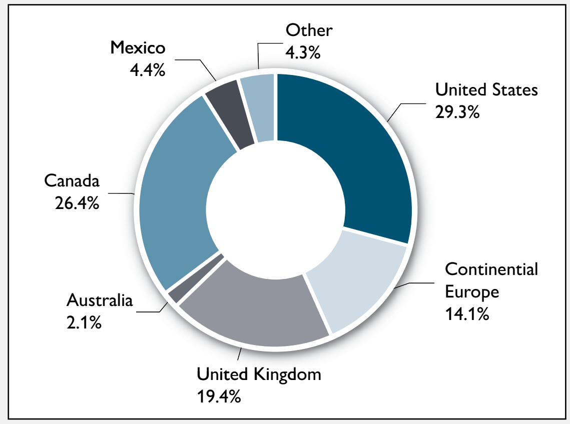
The Real Asset portfolio returned 3.4% in 2017 compared to the benchmark return of 8.2%. The underperformance of Real Assets was mainly due to non-recurring costs.

Real Estate
Investment by Sector



Infrastructure

Infrastructure
Geographic Location



Fixed Income

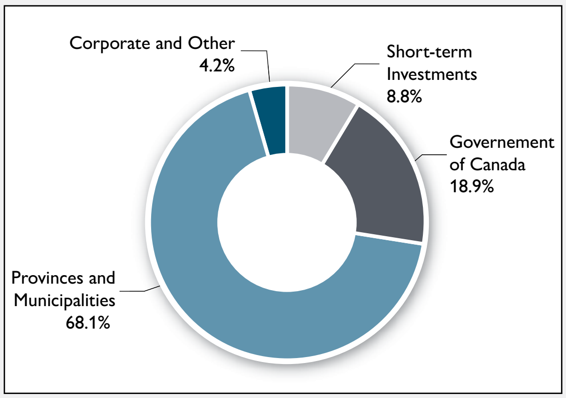
The fixed income portfolio is composed of nominal and real return bonds. Whereas a nominal bond pays a fixed coupon over time, real return bonds pay a coupon that is periodically adjusted for inflation and therefore provides protection against the risk of inflation. The Pension Fund allocates to fixed 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 by 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 long bond portion of the Fund's fixed portfolio returned 5.9% compared to a benchmark return of 5.3%, whilst the Universe portion returned 3.0% in 2017 compared to a benchmark return of 2.5%. Both the long bond and Universe portfolios benefited from overweight positions in provincial bond exposures.

The real return portion of the Fund's fixed income portfolio returned 0.4% in 2017 which was in line with the benchmark of 0.4%.

Consistent with the strategic asset allocation of the Fund, a leveraged bond program, amounting to 25% of the net asset value of the Fund, was put in place in 2017 to reduce the overall interest risk of the Plan. The leveraged bond portfolio returned 0.6% in 2017, net of the cost of funding.

Fixed Income
Nominal Bonds



Operations Management

The net assets of the Pension Fund increased by $170.9 million in 2017.

Investment earnings of $167.7 million were driven by gains in fair value of investments and investment income. The returns were in large part driven by strong equity returns.

As a result of continued solvency deficits reported in the December 31, 2016 actuarial valuation, CMHC made solvency special payments in the amount of $76.0 million and solvency transfer deficiency payments of $2.4 million, an increase of $5.3 million and $1.0 million, respectively, from the previous year.

Total contributions to the DB Plan in 2017 were $4.3 million higher than in 2016 mainly due to an increase in special payments. DB Plan Benefits payments increased by $9.2 million in 2017 when compared to 2016 due to higher numbers of commuted value and transfer payments.

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 management 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 Fund's assets to meet the 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.

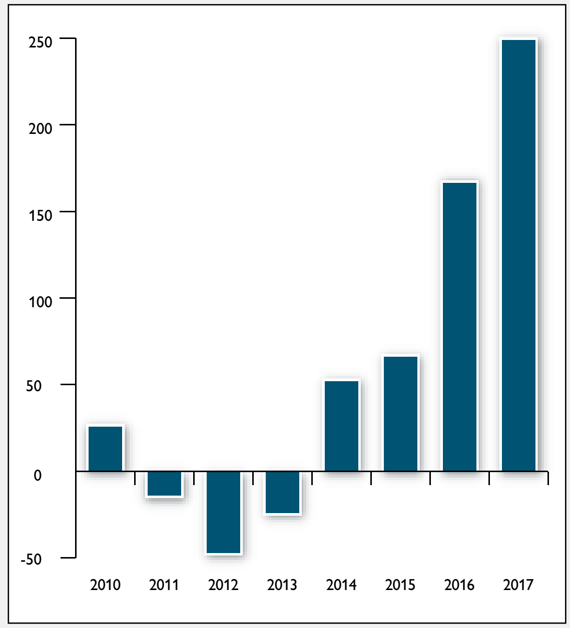
Solvency valuation: The solvency valuation assumes a hypothetical immediate termination of the Plan and that no further contributions are made. This valuation uses the interest rates prevailing at the valuation date to value the Plan based on an assumption that all assets are invested only in high quality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

The December 31, 2017 valuation reported that the Plan has a surplus on a going concern basis with an actuarial surplus of $249.0 million and a going concern funded ratio of 114.4%. As at 31 December 2017, the actuarial value of net assets was $1,975.2 million and the actuarial value of liabilities was $1,726.1 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 4.3 percentage points since last year's valuation due to solvency special payments made by CMHC and higher than expected investment returns partially offset by a slight drop in the discount rate.

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, 2017 valuation also reported that the Plan continues to have a deficit on a solvency basis with an actuarial deficit of $192.4 million and a solvency funded ratio of 91.4%. The solvency funded ratio improved slightly because of higher investment returns and solvency special payments made by CMHC. The actuarial value of net assets in this valuation is based on the Fund's market value of net assets at December 31, 2017 and was $2,038.9 million (net of termination costs of $3.4 million). The actuarial value of liabilities on a solvency basis was $2,231.3 million.

Net Actuarial Position on a Going Concern Basis



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 2017, 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 2017 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 2017 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 2017 and found the results of these tests to be satisfactory.

To our knowledge, the actuarial valuation as at 31 December 2017 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
MARCH 8, 2018

Pascal Berger, FCIA, FSA
Principal

Nicolas Lafontaine, 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 31 December 2017, 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 31 December 2017, 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
22 March, 2018
Licensed Public Accountants

FINANCIAL STATEMENTS

Canada Mortgage and Housing Corporation Pension Plan

STATEMENT OF FINANCIAL POSITION

As at 31 December *(in thousands of Canadian dollars)*	**2017**	**2016**
ASSETS		
Investments *(note 3)*	**2,584,369**	1,998,518
Accrued interest and dividends receivable	**9,086**	3,958
Cash	**795**	688
Contributions receivable		
Employer	**473**	6,367
Employees	**166**	199
Accounts receivable	**64**	2,436
	2,594,953	2,012,166
LIABILITIES		
Securities sold under repurchase agreements	**518,959**	-
Mortgages payable *(note 6)*	**9,705**	128,943
Accounts payable and accrued liabilities	**23,958**	11,811
	552,622	140,754
NET ASSETS AVAILABLE FOR BENEFITS	**2,042,331**	1,871,412
PENSION OBLIGATIONS *(note 7)*	**1,726,124**	1,644,787
SURPLUS	**316,207**	226,625

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

On behalf of the Trustees:

Evan Siddall
CHAIR, PENSION FUND TRUSTEES
PRESIDENT AND CHIEF EXECUTIVE OFFICER OF CMHC

MICHEL TREMBLAY
TRUSTEE OF THE PENSION FUND
SENIOR VICE-PRESIDENT, POLICY AND RESEARCH

Canada Mortgage and Housing Corporation Pension Plan

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December *(in thousands of Canadian dollars)*	**2017**	**2016**
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	**1,871,412**	1,742,733
INCREASE IN NET ASSETS		
Investment earnings *(note 4)*		
Change in fair value of investments	**117,690**	74,667
Investment income	**50,018**	51,306
	167,708	125,973
Contributions *(note 8)*		
Employer	**94,574**	90,840
Employees	**11,062**	13,777
	105,636	104,617
	273,344	230,590
DECREASE IN NET ASSETS		
Benefits paid *(note 9)*	**79,327**	77,204
Transfers and refunds *(note 10)*	**13,954**	15,018
Operating expenses *(note 11)*	**9,144**	9,689
	102,425	101,911
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	**170,919**	128,679
NET ASSETS AVAILABLE FOR BENEFITS		
End of year	**2,042,331**	1,871,412

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

Canada Mortgage and Housing Corporation Pension Plan

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

Year ended 31 December *(in thousands of Canadian dollars)*	**2017**	**2016**
DEFINED BENEFIT		
Pension obligations, beginning of year	**1,644,787**	1,584,739
Increase (decrease) in pension obligations		
Interest accrued on benefits	**87,031**	87,217
Changes in actuarial assumptions	**60,666**	30,731
Benefits accrued	**27,086**	29,590
Benefits paid *(note 9)*	**(79,327)**	(77,204)
Transfers and refunds *(note 10)*	**(13,954)**	(6,985)
Experience gain	**(5,109)**	(2,896)
Other loss (gain)	**4,944**	(405)
Net increase in pension obligations	**81,337**	60,048
Pension obligations, end of year	**1,726,124**	1,644,787
DEFINED CONTRIBUTION		
Pension obligations, beginning of year	**-**	4,317
Increase in pension obligations	**-**	2,590
Transfer of assets to new DC plan *(note 10)*	**-**	(6,907)
Pension obligations, end of year	**-**	-
Total pension obligations, end of year *(note 7)*	**1,726,124**	1,644,787

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

Canada Mortgage and Housing Corporation Pension Plan

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2017

1. DESCRIPTION OF PLAN

a) General

The Canada Mortgage and Housing Corporation Pension Plan (the Plan or the Fund) is a compulsory contributory pension plan for all employees who satisfy certain eligibility conditions. Under the Plan, contributions are made by Plan members and the Plan Sponsor, Canada Mortgage and Housing Corporation (CMHC). The Plan's registration number with the Office of the Superintendent of Financial Institutions (OSFI) is 55086 and it is subject to the *Pension Benefits Standards Act, 1985* (PBSA).

The Plan is comprised of a defined benefit (DB) component and, prior to 1 July 2016, also included a defined contribution (DC) component. The DB component applies to employees hired prior to 4 April 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 4 April 2013 who were not eligible to join the DB component of the Plan.

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

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

In 2017, the Fund established wholly owned corporations which enter into investments in real estate.

b) Benefits

The following is a summary of the Plan's current DB component as at 31 December 2017 and the previous DC component. 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 and integrated with the Québec/Canada Pension Plan from age 65.

ii) Defined contribution component

Under the former DC component, members were required to contribute a minimum of 3% of their earnings and up to 6% of their earnings. CMHC provided 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 were deposited into a personal DC Plan account. Benefits for the DC component were 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 (Note 7).

ii) Defined contribution component

Under the former DC component, benefits were funded by members and CMHC's contributions, investment income, transfers from other plans and any other acceptable distribution or contributions made on an ad hoc basis.

d) Changes to the Plan

In 2015, CMHC announced that the DB plan would be modified and re-opened to new entrants beginning 1 January 2018. The existing DB plan was closed to new entrants after 31 December 2017 and employees who were members of the existing DB and DC plans have since been transferred to the modified DB pension plan. Any benefits earned by employees in the existing DB plan up to 31 December 2017 will be unchanged. All plan modifications will only apply to service starting 1 January 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements have been prepared on a going concern basis in accordance with the Canadian accounting standards for pension plans as set out in Section 4600, *Pension Plans* (Section 4600), in Part IV of the *CPA Canada Handbook – Accounting*, which prescribes accounting policies specific to investments and pension obligations. These financial statements present the information of the Plan as a separate reporting entity independent of the Plan Sponsor and Plan members.

In accordance with Section 4600, investments, including those in which the Plan has a controlling interest, are presented on a non-consolidated basis.

For accounting policies which do not relate to 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 7). 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 consist of short-term investments, bonds and debentures, real return securities, equities, foreign currency forward contracts, real estate and infrastructure.

Valuation of investments

Purchases and sales of investments are recorded on the settlement date. Investments are measured at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The Fund follows IFRS 13, *Fair Value Measurement*, to determine the fair value of its investments.

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

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

ii) Bonds, debentures and real return securities are valued primarily by indicative quotes obtained from multi-dealer consensus pricing services. For those instruments where observable quotes are not available, estimated values are calculated using discounted cash flow techniques and trade prices for similar securities as appropriate.

iii) Canadian and United States (U.S.) equities' fair value is based on closing bid price quotes from active markets. Other foreign equities' fair value is the net asset value per unit, as reported by the investment fund managers. The net asset value is calculated based on the quoted market prices of the fund's assets less the fund's liabilities, divided by the total number of outstanding units.

iv) Foreign currency forward contracts, which the Fund enters into to manage its exposure to foreign currencies, are valued by discounting estimated future cash flows using observable discount rate curves constructed using foreign exchange and interest rates.

v) Real estate is comprised of direct investments in real estate (properties held to earn rental income or for capital appreciation, or both), investments in wholly owned real estate corporation established under Section 149 of the *Income Tax Act*, and investments in real estate pooled funds. Real estate is valued at estimated fair values based on independent appraisals completed at least once every three years plus net working capital.

vi) Infrastructure is comprised of investments in infrastructure funds. The fair value is the net asset value per unit reported by the investment fund managers. The net asset value is based on independent appraisals of the underlying infrastructure and infrastructure-related assets held by these funds.

Investment earnings

Investment earnings consist of changes in the fair value of investments and investment income.

The change in the fair value of investments is comprised of unrealized gains and losses from changes in fair value in the period including appraisal adjustments on real estate valuations, as well as realized gains and losses on the sale of investments.

Investment income is recorded on an accrual basis. Interest income is recognized using the effective interest method. Infrastructure fund income represents cash distribution entitlements of the Fund and real estate income represents net rental revenue after expenses. As 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 when the right to the dividend is established.

Investment transaction costs

Transaction costs, which are incremental costs incurred on the purchase and sale of investments, are expensed as incurred.

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 measured at cost, which approximates fair value.

e) Securities sold under repurchase agreements

Repurchase agreements consist of the sale of securities with the commitment to repurchase the securities from the original buyer at a specified price and future date in the near term. These are measured at fair value. Proceeds received from these agreements are generally invested in short-term investments.

f) Mortgages payable

Mortgages are measured at amortized cost. Mortgages associated with real estate are made at commercial mortgage rates.

g) Pension obligations

Pension obligations for the DB component are determined based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is prepared on a going concern basis and uses the projected unit credit method and management's best estimate of future events.

h) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Contributions for past service and special payments are recorded in the year they are made. Transfer deficiency payments are recorded in the year to which they relate.

i) Benefits paid

Benefits are recorded in the period in which they are paid. Benefit payments that are due as at year-end are recorded in accounts payable and accrued liabilities.

j) Foreign currency translation

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

k) Current and future changes in accounting policies

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. This standard becomes effective 1 January 2018. The Fund does not expect any impact on its financial statements.

3. INVESTMENTS

a) General

The following table shows the cost and fair value of the Fund's investments.

	2017		2016	
(in thousands)	**Cost (1)**	**Fair value**	**Cost (1)**	**Fair value**
Liability hedging assets				
Fixed income				
Short-term investments	**97,207**	**97,178**	39,750	39,771
Bonds and debentures				
Government of Canada	**215,638**	**210,813**	189,817	178,439
Provinces/municipalities	**738,131**	**754,732**	241,690	237,010
Corporate/other	**44,757**	**46,354**	40,092	42,244
Total bonds and debentures	**998,526**	**1,011,899**	471,599	457,693
Real return securities	**237,347**	**237,163**	212,548	212,730
	1,333,080	**1,346,240**	723,897	710,194
Growth assets				
Equity				
Canadian	**220,979**	**453,691**	224,351	447,568
U.S.	**211,638**	**240,592**	207,022	226,070
Other foreign(2)	**259,022**	**258,822**	260,715	245,715
Total equity	**691,639**	**953,105**	692,088	919,353
Real assets				
Real estate(3)	**119,495**	**209,247**	212,097	299,080
Infrastructure(2)	**70,804**	**75,777**	68,548	69,891
Total real assets	**190,299**	**285,024**	280,645	368,971
	881,938	**1,238,129**	972,733	1,288,324
Total	**2,215,018**	**2,584,369**	1,696,630	1,998,518

(1) Represents amortized cost for fixed income.

(2) Other foreign equity and infrastructure include foreign currency forward contracts with fair values of \$0.7 million (2016 – \$(0.2) million) and \$0.8 million (2016 – \$0.1 million), respectively.

(3) Real estate includes \$99.1 million held by the Fund's subsidiaries (2016 – nil), which is reported net of the subsidiaries` mortgage liabilities of \$122.5 million (2016 – nil) and net working capital of \$0.5 million (2016 – nil).

The Fund has investments of $511 million (2016 – nil) that are part of securities sold under repurchase agreements. We continue to earn investment income and recognize changes in fair value on these investments in the statement of changes in net assets available for benefits.

b) Fair value hierarchy

Investments 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: Assets and liabilities that are measured based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market is one where transactions are occurring with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Assets and liabilities that are measured based on observable inputs other than level 1 prices. Level 2 inputs include prices obtained from third-party pricing services based on independent dealers' quotes for identical assets or liabilities in markets that are not considered sufficiently active. Level 2 also includes fair values obtained by discounted cash flow or other valuation techniques 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 or other valuation methodologies where significant inputs are not based on observable market data.

The following table presents the fair value hierarchy for the Fund's investments.

	2017				2016			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level3**	**Total**
Liability hedging assets								
Fixed income								
Short-term investments	**97,178**	**-**	**-**	**97,178**	39,771	-	-	39,771
Bonds and debentures								
Government of Canada	**187,007**	**23,806**	**-**	**210,813**	176,130	2,309	-	178,439
Provinces/municipalities	**178,427**	**576,305**	**-**	**754,732**	58,171	178,839	-	237,010
Corporate/other	**-**	**46,354**	**-**	**46,354**	-	42,244	-	42,244
Total bonds and debentures	**365,434**	**646,465**	**-**	**1,011,899**	234,301	223,392	-	457,693
Real return securities	**208,338**	**28,825**	**-**	**237,163**	183,406	29,324	-	212,730
	670,950	**675,290**	**-**	**1,346,240**	457,478	252,716	-	710,194
Growth assets								
Equity								
Canadian	**453,691**	**-**	**-**	**453,691**	447,568	-	-	447,568
U.S.	**240,592**	**-**	**-**	**240,592**	226,070	-	-	226,070
Other foreign [1]	**258,110**	**712**	**-**	**258,822**	245,889	(174)	-	245,715
Total equity	**952,393**	**712**	**-**	**953,105**	919,527	(174)	-	919,353
Real assets								
Real estate[2]	**-**	**-**	**209,247**	**209,247**	-	-	299,080	299,080
Infrastructure[1]	**-**	**756**	**75,021**	**75,777**	-	128	69,763	69,891
Total real assets	**-**	**756**	**284,268**	**285,024**	-	128	368,843	368,971
	952,393	**1,468**	**284,268**	**1,238,129**	919,527	(46)	368,843	1,288,324
Total	**1,623,343**	**676,758**	**284,268**	**2,584,369**	1,377,005	252,670	368,843	1,998,518

(1) Other foreign and infrastructure include foreign currency forward contracts with fair values of $0.7 million (2016 – $(0.2) million) and $0.8 million (2016 – $0.1 million), respectively.

(2) Real estate includes $99.1 million held by the Fund's subsidiaries (2016 – nil), which is reported net of the subsidiaries` mortgage liabilities of $122.5 million (2016 – nil) and net working capital of $0.5 million (2016 – nil).

The following table presents the change in the fair value of level 3 investments:

(in thousands)	**Real estate**	**Infrastructure**	**Total**
2017			
Fair value as at 1 January 2017	**299,080**	**69,763**	**368,843**
Additions	**40,671**	**4,500**	**45,171**
Disposals	**(23,386)**	**(218)**	**(23,604)**
Reclassification of assets and liabilities on transfer of real estate to subsidiary	**(108,308)**	**-**	**(108,308)**
Unrealized fair value gains (losses)	**1,190**	**976**	**2,166**
Fair value as at 31 December 2017	**209,247**	**75,021**	**284,268**
2016			
Fair value as at 1 January 2016	292,367	51,146	343,513
Additions	4,567	19,513	24,080
Disposals	(641)	(757)	(1,398)
Unrealized fair value gains (losses)	2,787	(139)	2,648
Fair value as at 31 December 2016	**299,080**	**69,763**	**368,843**

Level 3 unobservable inputs and sensitivity analysis

The valuations for level 3 investments in real estate and infrastructure, which are based on independent appraisals, include unobservable inputs which may significantly affect the measurement of fair value. The valuations were based on management's assessment of the prevailing conditions as at 31 December 2017, which may change materially in subsequent periods.

Real estate

The fair values of investments in real estate are determined primarily based on discounted cash flow methodologies. Significant increases (decreases) in inputs such as occupancy rates and capitalization rates could result in significantly higher (lower) fair values. Significant increases (decreases) in inputs such as discount rates could result in significantly lower (higher) fair values.

Infrastructure

The Fund invests in infrastructure through limited-partnership investment funds. The fair value of these investments is based on the net asset values reported by the investment fund managers. In determining net asset values fund managers obtain independent appraisals of significant infrastructure assets.

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 reassessing 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 $37 million of securities from level 1 to level 2 (2016 – $126 million).

4. INVESTMENT EARNINGS

The following is a summary of investment earnings (losses) for the DB plan by asset class:

	2017			2016		
(in thousands)	Change in fair value(1)	Investment income	Total	Change in fair value(1)	Investment income	Total
Liability hedging assets						
Fixed income						
Short-term investments	**24**	**476**	**500**	111	485	596
Bonds and debentures	**20,946**	**14,501**	**35,447**	(23,188)	11,805	(11,383)
Real return securities	**(343)**	**1,453**	**1,110**	(8,096)	603	(7,493)
	20,627	**16,430**	**37,057**	(31,173)	12,893	(18,280)
Growth assets						
Equity						
Canadian	**29,861**	**13,112**	**42,973**	78,559	14,181	92,740
U.S.	**22,076**	**5,384**	**27,460**	20,428	6,468	26,896
Other foreign	**36,403**	**7,542**	**43,945**	(654)	6,440	5,786
Total equity	**88,340**	**26,038**	**114,378**	98,333	27,089	125,422
Real assets						
Real estate	**7,217**	**3,464**	**10,681**	3,856	6,995	10,851
Infrastructure	**1,506**	**4,086**	**5,592**	3,651	3,877	7,528
Total real assets	**8,723**	**7,550**	**16,273**	7,507	10,872	18,379
	97,063	**33,588**	**130,651**	105,840	37,961	143,801
Total	**117,690**	**50,018**	**167,708**	74,667	50,854	125,521

(1) Change in fair value includes a realized net gain of $51 million (2016 – $134 million) and an unrealized net gain of $67 million (2016 – net loss of $59 million).

Investment earnings for the DC plan were nil (2016 – $0.5 million) as the DC plan was transferred to a new plan in 2016.

5. RISK EXPOSURE AND MANAGEMENT

The key financial risks related to the Fund's assets 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.

a) Market risk

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rates, foreign exchange rates and equity prices. The Fund is able to partially 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 is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Pension obligations are also subject to interest rate risk. The Fund's interest rate exposure arises from mismatches in the timing and amount of cash flows of its assets and liabilities.

The Fund's interest rate risk is managed through its asset allocation policy, which takes into account the liability profile of the Fund and diversifies its assets, and other policies which limit the price sensitivity of fixed income assets to interest rate changes relative to established benchmark indices.

The impact of a 1% increase or decrease in interest rates on the fair value of fixed income securities, real return securities and securities sold under repurchase agreements would be:

	2017		2016	
(in thousands)	**Increase**	**Decrease**	**Increase**	**Decrease**
Short-term investments	**(224)**	**224**	(14)	14
Bonds and debentures	**(122,859)**	**149,989**	(54,417)	65,785
Real return securities	**(48,546)**	**64,256**	(44,359)	59,164
Securities sold under repurchase agreements	**359**	**(359)**	-	-
	(171,270)	**214,110**	(98,790)	124,963

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an investment will fluctuate as a result of changes in foreign exchange rates and is associated with the Fund's foreign investments. Currency exposure arising from investments in Europe, Australasia and Far East (EAFE) equities and infrastructure investments are hedged through foreign currency forward 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 real estate and 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 of a 1% increase or decrease in foreign exchange rates on the fair value of the investments net of foreign currency contracts:

	2017		2016	
(in thousands)	**Increase**	**Decrease**	**Increase**	**Decrease**
U.S.	**2,406**	**(2,406)**	2,261	(2,261)
Other foreign[(1)]	**1,309**	**(1,309)**	1,263	(1,263)
Total	**3,715**	**(3,715)**	3,524	(3,524)

(1) Represents EAFE investments.

Equity price risk

Equity price risk is the risk that the fair value of an investment will fluctuate because 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 Fund'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.

A concentration of equity price risk exists when a significant portion of an equity portfolio is invested in entities that operate in the same industry or engage in similar activities and are affected similarly by changes in economic or other conditions. The following table outlines the sectors the equity portfolios are invested in:

	2017		**2016**	
(in thousands, unless otherwise indicated)	**$**	**%**	**$**	**%**
Financials	**239,860**	**25.2**	227,040	24.7
Industrials	**117,751**	**12.4**	98,506	10.7
Energy	**112,953**	**11.9**	131,034	14.3
Information Technology	**91,385**	**9.6**	80,843	8.8
Consumer Discretionary	**83,878**	**8.8**	87,366	9.5
Consumer Staples	**79,330**	**8.3**	76,327	8.3
Materials	**71,919**	**7.5**	69,349	7.5
Health Care	**61,138**	**6.4**	61,438	6.7
Telecommunication Services	**43,204**	**4.5**	42,328	4.6
Utilities	**29,666**	**3.1**	20,627	2.2
Real Estate	**19,258**	**2.0**	20,913	2.3
Other	**2,763**	**0.3**	3,582	0.4
Total	**953,105**	**100.0**	919,353	100.0

As at 31 December 2017, 36.9% (2016 – 46.0%) of the Fund's investments were in equities. The impact of an increase or decrease of 10% in equity prices, with all other factors held constant, would be an increase or decrease, respectively, in net assets available for benefits of $95 million (2016 – $92 million).

b) 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 Fund's credit risk associated with investments is managed through policies that 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.

Credit risk exposure on fixed income and real return securities is divided into short-term (less than one year) and long-term (greater than one year). All short-term exposure must be rated R-1 high or equivalent unless issued or fully guaranteed by the Government of Canada or a Canadian province. The maximum exposure to credit risk for fixed income and real return securities is the carrying amount of these investments.

A concentration of credit risk exists when a significant portion of a credit portfolio is invested in entities that operate in the same industry or engage in similar activities and are affected similarly by changes in economic or other conditions.

The following table indicates the credit risk exposure and concentration of credit risk of fixed income and real return securities:

	2017		2016	
(in thousands, unless otherwise indicated)	**$**	**%**	**$**	**%**
Securities issued or guaranteed by:				
Government of Canada	**541,565**	**40.2**	426,220	60.0
Provinces/municipalities	**748,770**	**55.6**	230,338	32.4
Corporate/other	**55,905**	**4.2**	53,636	7.6
	1,346,240	**100.0**	710,194	100.0
Credit rating:				
AAA	**594,274**	**44.1**	438,199	61.7
A- to AA+	**737,754**	**54.8**	257,820	36.3
BBB	**14,212**	**1.1**	14,175	2.0
	1,346,240	**100.0**	710,194	100.0

Credit risk arising from foreign currency forward 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.

c) 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 Plan's financial liabilities consist of securities sold under repurchase agreements, mortgages payable, accounts payable and accrued liabilities and certain foreign currency forward contracts. The maturity analysis for mortgages payable is provided in Note 6. All securities sold under repurchase agreements have remaining terms that do not exceed 60 days. The term to maturity of accounts payable and accrued liabilities is within one year and the net amount payable is $23.9 million (2016 – $11.8 million). Those foreign currency forward contracts in liability positions have terms that do not exceed 30 days.

6. MORTGAGES PAYABLE

Mortgages mature in November 2022 and November 2025. Mortgages are secured by land and specific rental properties and bear interest at fixed rates of 3.45% and 3.81%. The estimated payments of principal and interest are as follows:

	2017	
(in thousands)	**Principal**	**Interest**
2018	**277**	**348**
2019	**287**	**338**
2020	**297**	**327**
2021	**308**	**316**
2022	**3,708**	**295**
2023-2025	**4,828**	**502**
Total	**9,705**	**2,126**

During 2017, interest paid on these mortgages amounted to $0.7 million (2016 – $5.9 million).

Mortgages of $108.3 million were transferred in 2017 along with the related real estate investment assets to the Fund's subsidiary. The subsidiary`s mortgages are recognized net in investment assets.

7. PENSION OBLIGATIONS

As at 31 December 2017, an actuarial valuation of the Plan was conducted by Mercer (Canada) Limited. A copy of this valuation will be filed with OSFI and CRA.

The valuation was prepared using the projected unit credit method and reflects management's best estimate of future economic events, involving both demographic and economic assumptions. The demographic assumptions include considerations such as mortality, withdrawals and retirement rates. The significant economic assumptions are as follows:

	2017	**2016**
Real discount rate	**3.2%**	3.40%
Inflation rate	**2.00%**	2.00%
Rate of compensation increase	**3.25%** **+ age based promotional scale**	7.0% until a maximum salary level is reached; 2.75% thereafter + age based promotional scale
Mortality table (issued by the Canadian Institute of Actuaries)	CPM2014 (CPM-B scale)	CPM2014 (CPM-B scale)

Variances between such estimates and actual experience, which may be material, will emerge as gains and losses in future valuations. Based on the 31 December 2017 valuation, the actuarial present value of accrued pension benefits is $1.7 billion (2016 – $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.

In accordance with the PBSA, the next required actuarial valuation will be as at 31 December 2018.

8. CONTRIBUTIONS

Contributions are comprised of the following:

(in thousands)	**2017**	**2016**
Defined benefit		
Employer		
Current service	**16,107**	17,017
Special payments	**78,467**	72,087
Total employer	**94,574**	89,104
Employees		
Current service	**10,901**	12,043
Past service	**161**	205
Total employees	**11,062**	12,248
	105,636	101,352
Defined contribution		
Employer	**-**	1,736
Employees	**-**	1,529
	-	3,265
Total	**105,636**	104,617

As a result of the solvency deficit reported in the December 31, 2016 actuarial valuation report, $76.0 million (2016 - $70.7 million) in solvency special payments were made.

Special payments also included $2.4 million (2016 – $1.4 million) to fund transfer deficiencies for members electing to transfer out of the Plan in 2017.

9. BENEFITS PAID

(in thousands)	**2017**	**2016**
Retirement	**78,309**	75,905
Disability	**105**	106
Transfer restriction annuity	**913**	1,193
Total	**79,327**	77,204

10. TRANSFERS AND REFUNDS

(in thousands)	**2017**	**2016**
Defined benefit	**13,954**	6,985
Defined contribution	**-**	1,126
Transfer to new DC plan	**-**	6,907
Total	**13,954**	15,018

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:

(in thousands)	**2017**	**2016**
Investment personnel and support services	**3,052**	3,032
Pension benefits administration	**2,404**	2,927
Investment management fees	**2,393**	2,265
Computers, software and data services	**598**	584
Other	**204**	310
Occupancy costs	**176**	175
Actuarial Fees	**131**	194
Audit fees	**93**	92
Trustees, investment committee and custodial fees	**93**	110
Total	**9,144**	9,689

12. RELATED PARTY TRANSACTIONS

The Fund's related parties include key management personnel and CMHC and its related parties. CMHC, the Plan Sponsor, 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 and amounts owed by related parties:

(in thousands)	**2017**	**2016**
Short-term investments (1)	**97,178**	39,771
Bonds and debentures (2)	**211,110**	178,439
Real return securities (1)	**233,573**	209,157
Total	**541,861**	427,367

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

(2) $38.9 million (2016 – $18.1 million) in CMHC and $172.1 million (2016 – $160.3 million) in related parties other than the Plan Sponsor.

Transactions with CMHC were conducted in the normal course of operations and measured at the amount of consideration established and agreed to by both parties. Included in operating expenses is $4.1 million (2016 – $4.7 million) for administrative services provided by the Plan Sponsor. Included in accounts payable and accrued liabilities is $1.3 million (2016 – $1.6 million) due to the Plan Sponsor for administrative services provided to the Plan and $20.6 million (2016 – $7.3 million) for payments made by the sponsor on behalf of the Pension fund.

The Plan defines its key management personnel as the Plan's Trustees, CMHC's Board of Directors and those senior executives responsible for planning, directing and controlling the Plan's activities. The remuneration of those senior executives is paid by the Plan and, as they are also employees of CMHC, a portion of their remuneration is reimbursed by CMHC. The Plan does not pay the remuneration of CMHC's Board of Directors.

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 the *Income Tax Act*. Management has adopted a Statement of Investment Policies and Procedures (SIP&P) 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&P was last updated on 5 December 2017. The Plan Trustees are responsible for ensuring that the Plan assets are managed in accordance with the SIP&P.

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

Liability hedging assets	
Cash	5%
Fixed income	24%
Real return securities	12%
Growth assets	
Equity	40%
Real assets	19%

Through leveraged long government bonds, the SIP&P 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.

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. 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 makes committments to fund infrastructure investments. The funding is ordinarily expected to occur over several years in accordance with the agreed upon terms and conditions. As at 31 December 2017, the commitments amounted to nil (2016 – $4.5 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 31 December 2017, the commitments amounted to $37.0 million (2016 – $8.2 million). At the end of the year, $14.0 million had been commited by wholly owned subsidiaries of the Fund.

iv. As at 31 December 2017, the Plan had a nil (2016 – $0.9 million) letter of credit outstanding related to the potential development of one of its real estate properties.

15. COMPARATIVE FIGURES

Certain categories of comparative figures in Notes 5 and 11 have been reclassified to conform to the current year's presentation.

COMMITTEE MEMBERSHIP AND PLAN ADMINISTRATION

(as at 31 December 2017)

DB Pension Council

Chair	
Stéphane Poulin	Director, Total Rewards
Employee Representatives	
Claude Gautreau	Atlantic Region
Isabelle Bourdeau	Quebec Region
Ted Tsiakopoulos	Ontario Region
Paul Greene	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
Mark McInnis	National Capital Region

DB Pension Fund Investment Committee

Members	
Wojo Zielonka	Chair, Senior Vice-President, Capital Markets and Chief Financial Officer
Christine A Charbonneau	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
Graham Pugh	External Advisor
Advisors	
	Assistant General Counsel
	Manager, Audit (observer)
	Transactional Audit Analyst (observer)

Plan and Fund Administration

Human Resources	
Stéphane Poulin	Director, 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	
Benefits Administrator	
Aon Hewitt	

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:

Director, Financial reporting
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, ON K1A 0P7

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