CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

SECOND QUARTER
30 JUNE 2019
(Unaudited)

Canada

CMHC SCHL

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Management’s Discussion and Analysis

OVERVIEW

The following Management’s Discussion and Analysis (MD&A) of the financial condition and results of operations as approved by the Audit Committee on 26 August 2019 is prepared for the second quarter ended 30 June 2019 and is intended to provide readers with an overview of our performance including comparatives against the same three and six month period in 2018. The MD&A includes explanations of significant deviations in actual financial results from the targets outlined in the Corporate Plan Summary that may impact the current and future quarters of our fiscal year. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2018 Annual Report. The unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and do not include all of the information required for full annual consolidated financial statements. The unaudited quarterly consolidated financial statements have been reviewed by Ernst & Young LLP. All amounts are expressed in millions of Canadian dollars, unless otherwise stated.

Information related to our significant accounting policies, judgments and estimates can be found in our 2018 Annual Report. Except for the adoption of International Financial Reporting Standard (IFRS) 16 *Leases*, as disclosed in Note 3 of our unaudited quarterly consolidated financial statements, there have been no material changes to our significant accounting policies, judgments or estimates to the end of the second quarter of 2019.

Forward-looking statements

Our Quarterly Financial Report (QFR) contains forward-looking statements including, but not limited to, statements made in “The Operating Environment and Outlook for 2019” and “Financial Results” sections of the report. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties which may cause actual results to differ materially from expectations expressed in these forward-looking statements.

Non-IFRS measures

We use a number of financial measures to assess our performance. Some of these measures are not calculated in accordance with IFRS, are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability with other institutions. These non-IFRS measures are presented to supplement the information disclosed in the unaudited quarterly consolidated financial statements, which are prepared in accordance with IFRS, and may be useful in analyzing performance and understanding the measures used by management in its financial and operational decision making. Definitions of the non-IFRS measures used throughout the QFR can be found in the Glossary for Non-IFRS Financial Measures section of the 2018 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2019

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

Economic conditions and housing indicators

The uncertain external backdrop continues to pose risks to the outlook and could further weigh on foreign demand for Canada's exports if trade tensions escalate. Despite this, on aggregate, the economic environment remains broadly unchanged. The soft outlook for economic growth in Canada persisted into the first quarter of 2019, with annualized gross domestic product (GDP) increasing at a slower-than-anticipated pace of 0.4 per cent. Overall, GDP is forecast to expand by a moderate 1.4 per cent in 2019, before strengthening to 1.7 per cent in 2020, according to the June 2019 Industry Consensus[1].

The composition of demand shifted away from housing and spending on interest rate-sensitive items. This was driven in part by households adjusting their spending to higher borrowing rates, the lagged effects of housing market policies, and lower oil prices.

While the net impact of lower oil prices on the Canadian economy is negative, the effect across regions varies. Economies in the oil-producing provinces continue to adjust to the effects on household income and wealth accumulation. As well, the effects on Canadian exports and business investment in energy-related industries have materialized quickly, especially given the level of uncertainty around global demand and trade policy issues.

Looking ahead, the stronger growth profile for GDP that emerges in mid-2019 occurs as the negative effects of lower oil prices on investment growth in the energy sector start to dissipate and activity in the non-energy sector gains further traction. In this context, businesses increase investment and employment levels to address capacity constraints, thereby contributing to current economic activity and building future productive capacity for the economy.

Household consumption growth is also expected to improve after a weak first quarter, as the effects of temporary factors start to fade and employment remains robust. Indeed, labour market conditions will be key in smoothing the path for household expenditures this year. On this front, indicators continue to provide a firm basis for steady gains in employment and income, with the unemployment rate at its historical lows of 5.5 per cent in June.

Despite the improvement, spending activity should be modestly slower than in 2018 as higher interest rates have increased the cost of new borrowing and servicing outstanding debt. Meanwhile, growth of household credit continues to rise faster than income. As a result, the ratio of household debt to disposable income has reached another all-time high, peaking at a seasonally-adjusted 178 per cent over the past three quarters. Overall, household spending is projected to ease from 2.1 per cent in 2018 to 1.8 per cent in 2019.

As well, housing market activity in recent months has been slower than anticipated, suggesting that the combined effect of tighter mortgage finance guidelines and higher borrowing rates has been larger than previously estimated. At the same time, the dampening impact of housing policy measures on the overall economy should also begin to dissipate later in the year.

All this put Canada's average MLS® price at $477,336 during the first five months of 2019, below its 2016 level when price growth hit a 27-year high of nearly 15 per cent. This represents a 2.1 per cent drop from the same period a year earlier, marking the second consecutive decline in home prices since the 2009 recession. Over the same period, MLS® sales activity bounced back somewhat by 1 per cent to 190,014 units, while national housing starts slowed to 83,167 units, a drop of nearly 8 per cent over the period.

[1] *Consensus Economics* survey of private sector forecasters, as of June 2019.

Federal Budget 2019

As a result of new investments proposed in Federal Budget 2019, Canada's National Housing Strategy (NHS) becomes a 10-year, $55+ billion plan that will give more Canadians a place to call home.

New measures proposed in Budget 2019 will build on the Government's previous investments to enhance housing affordability for those who need it most. NHS measures proposed in Budget 2019 include:

- An investment of $1.25 billion over three years towards a new First-Time Home Buyer Incentive (FTHBI) to help make homeownership more affordable for first-time home buyers. The FTHBI is expected to launch in early September 2019.
- Up to $100 million in lending to shared equity mortgage providers over a five-year period, starting in 2019/20, to help these providers scale-up their business and encourage new players to enter the market.
- An expansion of the Rental Construction Financing initiative by $10 billion over 9 years to support the construction of 28,500 additional rental units in communities across Canada, increasing the total loans available to $13.75 billion and the construction of 42,500 total units.
- An investment of $300 million toward a new Housing Supply Challenge that will invite communities and other groups to propose initiatives that break down barriers limiting the creation of new housing. The Challenge will be launched in Spring 2020.
- Investments of $4 million over two years to support the work of the Expert Panel on the Future of Housing Supply and Affordability, which seeks to identify and evaluate measures to increase housing supply in British Columbia, and $5 million over two years for state-of-the-art housing supply modelling and related data collection.

The federal government also enacted a new legislation, the National Strategy Act ("Act") in June 2019. The Act will require the federal government to maintain a National Housing Strategy that prioritizes the housing needs of the most vulnerable and will require regular reporting to Parliament on progress toward the Strategy's goals and outcomes. The legislation will also put in place strong accountability and participatory measures through the creation of a Federal Housing Advocate to identify and report on systemic housing issues, and through a diverse National Housing Council to advise on housing matters.

National Housing Strategy

In the second quarter of 2019, CMHC continued delivery of NHS initiatives that launched in the spring of 2018 and continued the in-take and selection of funding applications.

We continued bilateral negotiations with provinces and territories under the new Housing Partnership Framework. This quarter, bilateral agreements were announced for Manitoba, Saskatchewan and Newfoundland and Labrador. We also continued the work with provinces and territories to co-develop the Canada Housing Benefit, set to launch in April 2020.

In the first half of 2019, we entered into contribution agreements to get work underway for the NHS Demonstration Initiative, Solutions Labs, Research and Planning Fund, and the Collaborative Housing Research Network. This work supports research and demonstrations to inform decision-making, to encourage innovative solutions and partnerships, and to build research capacity in the academic and housing sector.

Office of the Superintendent of Financial Institutions (OSFI) guidelines

Mortgage Insurer Capital Adequacy Test guideline

We implemented the Mortgage Insurer Capital Adequacy Test (MICAT) guideline on 1 January 2019. MICAT combines the January 2017 advisory on Capital Requirements for Federally Regulated Mortgage Insurers and the relevant portions of the 2018 Minimum Capital Test (MCT) for Federally Regulated Property and Casualty Insurance Companies.

With this new guideline OSFI simplified the calculation of insurance risk, streamlined the requirements for single-family residential mortgages, included requirements for IFRS 16, and specified credit risk factors for securitized assets.

Changes in the MICAT framework predominantly relate to streamlining the requirements for single-family residential mortgages as follows:

- Base total asset requirements will require the mortgage insurer to use the borrower's credit score at origination and remove the use of updated credit scores, and;
- Increases the base total asset requirements uniformly by 5%, with a corresponding 1% increase in operational risk, to allow for deterioration in borrower credit scores after origination.

Refer to Note 9 – Capital Management of the unaudited quarterly consolidated financial statements for complete disclosure.

Updates on future changes to accounting standards

Information relating to all standards issued by the International Accounting Standards Board (IASB) affecting the Corporation can be found in Note 3 of our 2018 audited consolidated financial statements.

IFRS 17 Insurance Contracts – effective date of 1 January 2021

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), which will replace IFRS 4 *Insurance Contracts*. Our insurance contracts meet the definition of financial guarantee contracts under IFRS 9 *Financial Instruments* (IFRS 9), and of insurance contracts under IFRS 17. On 26 June 2019, the IASB issued an Exposure Draft (ED) containing proposed amendments responding to concerns and implementation challenges raised by stakeholders. In total, there are 12 amendments proposed to 8 areas of the standard. The ED also contains several minor adjustments to clarify wording or correct unintended consequences and several proposed changes to defined terms in the standard. The IASB staff have indicated that they plan to finalize and issue the amended standard by Q2 2020. The most notable proposed amendment to CMHC is the proposed deferral of the effective date by one year, to 1 January 2022. We are evaluating the entire suite of proposed amendments and assessing the impact on our implementation roadmap.

Under IFRS 17, insurance contract liabilities will include the present value of future insurance cash flows, adjusted for risk, as well as contractual service margin, which will be released over the coverage period. Contractual service margin will represent the difference between the premium received at inception and the present value of the risk-adjusted cash flows (i.e. profit to be earned in the future). If this difference is negative at inception, the insurance contract would be considered onerous and the difference immediately recorded in income. There are also revised presentation and disclosure requirements.

We have a multi-disciplinary team dedicated to analyzing and implementing the new accounting standard, and a detailed project plan is in place. We continue to evaluate where we will need to change our existing accounting and reporting processes and how this could affect our consolidated financial statements.

Financial Outlook

As a result of our annual review of insurance products, we made a pricing change for portfolio insurance effective 1 April 2019. The new pricing is more risk-sensitive and may lead to slightly lower average premium rates for portfolio insurance if the trend of improving portfolio quality continues. There were no changes to premiums for transactional homeowner and multi-unit residential mortgage loan insurance.

FINANCIAL RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 30 June 2019 and 31 December 2018	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Total assets	8,888	9,139	18,673	19,231	245,756	239,424	(1,075)	(3,918)	272,242	263,876
Total liabilities	8,641	8,848	6,396	7,148	243,323	236,912	(1,027)	(3,913)	257,333	248,995
Total equity of Canada	247	291	12,277	12,083	2,433	2,512	(48)	(5)	14,909	14,881

We declare dividends to the government only after we meet regulatory and other capitalization requirements that ensure that our Mortgage Insurance and Mortgage Funding activities are appropriately capitalized. Because we continue to meet these requirements, we have declared $1,010 million of dividends since the end of 2018. Comprehensive income of $1,038 million more than offset this, resulting in a slight increase in total equity of Canada.

Our total assets and liabilities increased approximately in line with each other, at $8,366 million (3%) and $8,338 million (3%), respectively. This was driven by two main factors: the issuance of Canada Mortgage Bonds (CMB), as well as the sale of a significant amount of CMBs that our Mortgage Insurance Activity previously held as investments as we re-balance our investment portfolio. These factors caused increases in both loans and borrowings at amortized cost.

Condensed consolidated statements of income and comprehensive income

Three months ended 30 June	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Government funding for housing programs	380	463	-	-	-	-	-	-	380	463
Premiums and fees earned	-	-	357	359	142	117	-	-	499	476
All other income[1]	6	10	152	178	26	15	(43)	9	141	212
Total revenues	**386**	**473**	**509**	**537**	**168**	**132**	**(43)**	**9**	**1,020**	**1,151**
Housing programs	380	463	-	-	-	-	-	-	380	463
Insurance claims	-	-	36	72	-	-	-	-	36	72
Operating expenses	7	7	74	82	16	14	-	-	97	103
Total expenses	**387**	**470**	**110**	**154**	**16**	**14**	**-**	**-**	**513**	**638**
Income taxes	(1)	(1)	102	94	38	30	(11)	2	128	125
Net income	**-**	**4**	**297**	**289**	**114**	**88**	**(32)**	**7**	**379**	**388**
Other comprehensive income (loss)	(23)	37	63	(18)	12	3	32	5	84	27
Comprehensive income	**(23)**	**41**	**360**	**271**	**126**	**91**	**-**	**12**	**463**	**415**

[1] *Includes net interest income, investment income, net gains (losses) on financial instruments and other income.*

Six months ended 30 June	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Government funding for housing programs	1,157	1,489	-	-	-	-	-	-	1,157	1,489
Premiums and fees earned	-	-	712	712	280	230	-	-	992	942
All other income[1]	18	13	323	237	48	33	(39)	13	350	296
Total revenues	**1,175**	**1,502**	**1,035**	**949**	**328**	**263**	**(39)**	**13**	**2,499**	**2,727**
Housing programs	1,157	1,489	-	-	-	-	-	-	1,157	1,489
Insurance claims	-	-	109	137	-	-	-	-	109	137
Operating expenses	14	13	159	160	32	28	-	-	205	201
Total expenses	**1,171**	**1,502**	**268**	**297**	**32**	**28**	**-**	**-**	**1,471**	**1,827**
Income taxes	(1)	(3)	192	160	74	59	(10)	3	255	219
Net income	**5**	**3**	**575**	**492**	**222**	**176**	**(29)**	**10**	**773**	**681**
Other comprehensive income (loss)	(49)	41	279	(120)	50	3	(15)	19	265	(57)
Comprehensive income	**(44)**	**44**	**854**	**372**	**272**	**179**	**(44)**	**29**	**1,038**	**624**

[1] *Includes net interest income, investment income, net gains (losses) on financial instruments and other income.*

Q2 2019 vs Q2 2018

Our total revenues decreased by $131 million (11%) from the same quarter last year mainly due to:

- A decrease of $83 million (18%) in government funding, driven by the expiry of funding for Budget 2016 initiatives and Investments in Affordable Housing (IAH) funding that ended in the first quarter of 2019, partially offset by an increase in funding for NHS initiatives.
- A decrease of $42 million (100%) in net gains on financial instruments, mainly as a result of having sold all of our common equity investments by the end of the second quarter of 2019. This compares to a net gain on common equities as a result of good market conditions in the same quarter last year.

Total expenses decreased by $125 million (20%) from the same quarter last year mainly due to:

- The expiry of funding for Budget 2016 initiatives and Investments in Affordable Housing as described above, which resulted in lower housing programs expenses by $83 million (18%).
- A decrease in insurance claims of $36 million (50%) resulting from lower claims paid due to lower unemployment rate at a national level.

Other comprehensive income increased by $57 million (211%) from the same quarter last year mainly due to:

- A decrease in bond yields in the current quarter, compared to an increase in the second quarter of 2018. This resulted in an increase of $178 million (302%) in net unrealized gains from debt instruments held at fair value through other comprehensive income.
- This was partially offset by an increase of $133 million (155%) in remeasurement losses on defined benefit plans. This was the net result of a decrease in the discount rate we used to measure the defined benefit plans obligation, in line with decreasing bond yields, and partially offset by a higher return on plan assets, compared to the second quarter of 2018.

YTD 2019 vs. YTD 2018

Our total revenues decreased by $228 million (8%) from the same six-month period last year mainly due to:

- A decrease of $332 million (22%) in government funding, for the same reasons as described above.
- A decrease of $24 million (9%) in investment income, primarily due to a decrease in average portfolio size as a result of selling investments to fund dividend payments to the Government.
- These decreases were offset by an increase of $106 million (212%) in net gains on financial instruments, mainly caused by a significant rebound in equity markets in the first quarter of 2019, during which we sold much of our equity investment portfolio as described above.
- In addition, Mortgage Funding guarantee fees earned increased by $50 million (22%) due to recent price increases and the implementation of a revised tiered pricing structure.

Total expenses decreased by $356 million (19%) from the same period last year due to a decrease in government funding of $332 million (22%) and a decrease in insurance claims of $28 million (20%), as noted above.

Financial metrics and ratios

Mortgage Insurance

(in millions, unless otherwise indicated)	Insurance-in-force ($B) As at 30 June 2019	31 December 2018
Transactional homeowner	231	236
Portfolio	128	136
Multi-unit residential	80	76
Total	**439**	**448**

Under Section 11 of the National Housing Act (NHA), the total of outstanding insured amounts of all insured loans may not exceed $600 billion (2018 – $600 billion). Insurance-in-force decreased by $9 billion (2%) due to lower volumes insured in the current year compared to recent years, and run-off of existing policies-in-force. New loans insured were $22 billion, while estimated loan amortization and pay-downs were $31 billion.

(in millions, unless otherwise indicated)	Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid[3]	
	Three months ended							
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Transactional homeowner	31,327	34,086	8,002	8,655	291	307	42	48
Portfolio	11,842	14,479	2,774	2,611	13	6	3	5
Multi-unit residential	29,947	24,151	3,415	2,739	124	102	1	-
Total	**73,116**	**72,716**	**14,191**	**14,005**	**428**	**415**	**46**	**53**

[1] *Portfolio substitutions were 1,402 units and $108 million for the three months ended 30 June 2019 (9,086 units and $1,269 million for the three months ended 30 June 2018).*

[2] *Premiums and fees received may not equal premiums and fees deferred on contracts written during the period due to timing of receipts.*

[3] *Claims paid does not include social housing mortgage and index-linked mortgage claims.*

(in millions, unless otherwise indicated)	Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid[3]	
	Six months ended							
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Transactional homeowner	45,220	49,998	11,766	12,909	421	455	112	110
Portfolio	18,911	21,963	4,139	3,862	17	9	7	8
Multi-unit residential	52,432	48,885	6,178	5,499	213	192	1	4
Total	**116,563**	**120,846**	**22,083**	**22,270**	**651**	**656**	**120**	**122**

[1] *Portfolio substitutions were 5,168 units and $637 million for the six months ended 30 June 2019 (14,180 units and $1,944 million for the six months ended 30 June 2018).*

[2] *Premiums and fees received may not equal premiums and fees deferred on contracts written during the period due to timing of receipts.*

[3] *Claims paid does not include social housing mortgage and index-linked mortgage claims.*

Q2 2019 vs Q2 2018

Transactional homeowner volumes decreased by 2,759 units (8%) and $653 million (8%) primarily due to our reduced share of a shrinking insured mortgage market. In addition, portfolio unit volumes decreased by 2,637 units (18%) due to lower eligible volumes for the portfolio substitutions product. Portfolio insured dollars increased by $163 million (6%) driven by larger new pools submitted. Multi-unit residential volumes increased by 5,796 units (24%) and $676 million (25%) driven by increased borrower refinancing, mainly due to increasing rental prices.

Higher multi-unit and portfolio new volumes account for the majority of the $13 million (3%) increase in total premiums and fees received, partially offset by lower premiums received for transactional homeowner.

YTD 2019 vs. YTD 2018

For the same reasons described above, transactional homeowner volumes decreased by 4,778 units (10%) and $1.1 billion (9%), portfolio unit volumes decreased by 3,052 units (14%), portfolio insured dollars increased by $277 million (7%), and multi-unit residential volumes increased by 3,547 units (7%) and $679 million (12%).

Lower transactional homeowner volumes account for the majority of the $5 million (1%) decrease in total premiums and fees received.

	Three months ended		Six months ended	
(in percentages)	**30 June 2019**	**30 June 2018**	**30 June 2019**	**30 June 2018**
Loss ratio[1]	10.2	20.1	15.4	19.2
Operating expense ratio	20.7	22.8	22.4	22.5
Combined ratio	30.9	42.9	37.7	41.7
Severity ratio	28.8	29.1	30.8	30.1
Return on equity	9.7	8.3	9.4	6.8
Return on required equity	11.3	8.7	11.0	7.5

[1] *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was 13.2% and 18.6% for the three and six months ended 30 June 2019 (19.2% and 21.7% for the three and six months ended 30 June 2018).*

Q2 2019 vs Q2 2018 and YTD 2019 vs YTD 2018

The loss ratio decreased by 9.9 and 3.8 percentage points from the same quarter and six month period last year, respectively, due to lower transactional homeowner insurance claims as well as lower claims reserves, as a result of more favourable economic conditions.

The operating expense ratio decreased by 2.1 and 0.1 percentage points from the same quarter and six month period last year, respectively, due to lower operating expenses, mostly attributable to technology transformation projects that were being completed last year.

The severity ratio decreased by 0.3 percentage points from the same quarter last year, due to lower claims as a percentage of insured loan amount, driven by stronger sales proceeds. The six-month ratio was consistent with the same period last year.

Higher net income, coupled with a decrease in required equity as explained below in the capital management section, caused increases in the return on required equity of 2.6 and 3.5 percentage points from the same quarter and six month period last year. These factors, in addition to the declaration of dividends, also caused return on equity to increase by 1.4 and 2.6 percentage points over the same periods.

	As at 30 June 2019		As at 31 December 2018	
	No. of delinquent loans	**Arrears rate**	**No. of delinquent loans**	**Arrears rate**
Transactional homeowner	4,692	0.40%	5,048	0.42%
Portfolio	1,293	0.14%	1,296	0.13%
Multi-unit residential	93	0.39%	86	0.36%
Total	**6,078**	**0.29%**	**6,430**	**0.29%**

The arrears rate includes all loans more than 90 days past due as a percentage of outstanding insured loans. There were lower reported delinquencies in all regions except the Atlantic, which is consistent with the slightly weaker economic conditions in this region.

Mortgage Funding

(in millions, unless otherwise indicated)	Total guarantees-in-force ($B) As at 30 June 2019	31 December 2018
NHA MBS	251	254
CMB	241	234
Total	**492**	**488**

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion. Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee. Guarantees-in-force were $492 billion as at 30 June 2019, an increase of $4 billion (1%) as new CMB guarantees provided by CMHC exceeded CMB maturities.

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Three months ended			
(in millions, unless otherwise indicated)	30 June 2019	30 June 2018	30 June 2019	30 June 2018
NHA MBS	31	28	97	84
CMB	11	10	39	36
Total	**42**	**38**	**136**	**120**

[1] *Guarantee and application fees received for NHA MBS; guarantee fees received for CMB.*

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Six months ended			
(in millions, unless otherwise indicated)	30 June 2019	30 June 2018	30 June 2019	30 June 2018
NHA MBS	60	55	189	170
CMB	21	20	75	71
Total	**81**	**75**	**264**	**241**

[1] *Guarantee and application fees received for NHA MBS; guarantee fees received for CMB.*

Guarantee and application fees received increased by $16 million (13%) and $23 million (10%) from the same quarter and six month period last year, respectively. This is mainly due to higher NHA MBS volumes securitized as a result of an increase in the annual NHA MBS guarantee limit for 2019.

	Three months ended		Six months ended	
(in percentages)	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Operating expense ratio	9.7	9.6	9.2	9.6
Return on equity	18.4	14.7	18.0	14.7
Return on required equity	34.9	19.9	34.5	16.8

Q2 2019 vs Q2 2018 and YTD 2019 vs YTD 2018

Return on equity increased by 3.7 and 3.3 percentage points from the same quarter and six month period last year, respectively, mainly due to higher net income and the declaration of dividends in the first two quarters of this year.

Return on required equity increased by 15.0 and 17.7 percentage points from the same quarter and six month period last year, respectively. This is due to the combined effect of the increase in annualized net income, largely driven by higher guarantee and application fees earned from pricing changes in recent years as well as increased volumes, and decrease in average required equity for the year, due to our revised view on the risks associated with our Mortgage Funding program.

Government Funding for Housing Programs

The following table reconciles the amount of government funding for housing programs authorized by Parliament as available to us during the Government's fiscal year (31 March) with the total amount we received in our calendar year.

	Six months ended 30 June	
(in millions)	**2019**	**2018**
Amounts provided for housing programs:		
Amounts authorized in 2018/19 (2017/18)		
Main estimates	2,452	2,735
Supplementary estimates A[1,2,3]	7	41
Supplementary estimates B[1,2,4]	1	1
Supplementary estimates C[1]	-	1
Less: Portion received in calendar 2018 (2017)	(1,309)	(1,663)
Less: Government funding lapsed for 2018/19 (2017/18)[5]	(356)	(74)
Less: Frozen Allotment	(18)	(15)
2018/19 (2017/18) government funding for housing programs received in 2019 (2018)	**777**	**1,026**
Amounts authorized in 2019/20 (2018/19)		
Main estimates	2,657	2,452
Supplementary estimates A[1,3]	-	7
Supplementary estimates B[1,4]	-	1
Supplementary estimates C	-	-
Total fiscal year government funding for housing programs	**2,657**	**2,460**
Less: portion to be received in subsequent quarters	(2,270)	(1,979)
Less: Frozen Allotment	-	(18)
2019/20 (2018/19) government funding for housing programs received in 2019 (2018) calendar year	**387**	**463**
Total government funding for housing programs received – six months ended 30 June	**1,164**	**1,489**

1 *Supplementary estimates are additional government funding voted on by Parliament during the Government's fiscal year.*

2 *Budget 2016 provided funding over two years for investments in social infrastructure, as well as funding over five years for a new Affordable Rental Housing Innovation Fund. Years one and two of these investments are reflected within the 2017/18 and 2018/19 government funding.*

3 *Approved reprofile request from 2017/18 to 2018/19 in supplementary estimates A for Shelter Enhancement Program.*

4 *Approved supplementary estimates B for First Nations Housing Management Professional Initiative (HMPI).*

5 *Pending reprofile request from 2018/19 to 2019/20 for Rental Construction Financing initiative, Innovation Fund, Prepayment Flexibility program, and other NHS initiatives.*

Capital Management

Frameworks

For our Assisted Housing activity, we maintain a reserve fund pursuant to Section 29 of the CMHC Act. Our Lending Programs operate on a break-even basis; however, a portion of their earnings are retained in this reserve fund as part of our strategy to address future interest rate and credit risk exposure on our loans. Unrealized fair value market fluctuations and re-measurement losses on defined benefit plan liabilities are absorbed in retained earnings. We do not hold capital for Housing programs, as this activity does not present risks to the Corporation that would require capital to be set aside.

For our Mortgage Insurance activity, our capital management framework follows OSFI regulations with respect to the use of the MICAT.

With respect to our Mortgage Funding activity, our capital management framework follows industry best practices and incorporates regulatory principles from OSFI, including those set out in OSFI's E19 – Own Risk and Solvency Assessment guideline, and those of the Basel Committee on Banking Supervision. Our capital adequacy assessment uses an integrated approach to evaluate our capital needs from both a regulatory and economic capital basis to establish capital targets that take into consideration our strategy and risk appetite.

Ratios

The table below presents our capital management ratios.

	As at	
(in percentages)	**30 June 2019**	**31 December 2018**
Mortgage Insurance: Capital available to minimum capital required (% MICAT)	197%	168%[1]
Mortgage Funding: Available equity to required equity	203%	209%

[1] *Prior to implementing MICAT on 1 January 2019, this ratio was calculated using the Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies (MCT). The MICAT ratio as at 31 December 2018 was estimated at 181% excluding transitional arrangements.*

Our Mortgage Insurance MICAT ratio increased by 29 percentage points mainly due to the implementation of the MICAT guideline on 1 January 2019, which resulted in less capital required. Capital required for market risk also decreased because we sold many of our equity investments, as we rebalance our investment portfolio; and capital available increased due to the increase in comprehensive income, partially offset by our declaration of $660 million of dividends in Q1 and Q2. We remain adequately capitalized as at 30 June 2019.

Our Mortgage Funding available equity to required equity ratio decreased by 6 percentage points. This is due to the decrease in available equity following the declaration of $350 million worth of dividends in Q1 and Q2, partially offset by the contribution of comprehensive income in the quarter.

Refer to Note 9 – Capital Management of the unaudited quarterly consolidated financial statements for further disclosure on capital management.

Financial Resources

The Mortgage Insurance investment portfolio is funded by cash flow generated by premiums, fees and interest received, net of claims and operating expenses. The investment objective and asset allocation for the Mortgage Insurance investment portfolio focuses on maximizing risk-adjusting return while minimizing the need to liquidate investments. As at 30 June 2019, total investments had a fair value of $17.8 billion (31 December 2018 – $18.4 billion).

The Mortgage Funding investment portfolio is funded by guarantee and application fees and interest received net of expenses. The portfolio is intended to cover risk exposures associated with our Mortgage Funding guarantee programs. The objective of the Mortgage Funding investment portfolio is to maximize our capacity to meet liquidity needs of the timely payment guarantee and to preserve capitalization amounts through investments in Government of Canada securities. As at 30 June 2019, total investments under management had a fair value of $4.0 billion (31 December 2018 – $4.2 billion).

RISK MANAGEMENT

We are exposed to a variety of risks in our operating environment that could have an impact on the achievement of our objectives. These risks are discussed in detail in our 2018 Annual Report. There have been no material developments impacting our risk management approaches during this reporting period.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q2 2019	Q1 2019[2]	Q4 2018	Q3 2018	Q2 2018	Q1 2018[3]	Q4 2017	Q3 2017
Consolidated Results								
Total assets	272,242	269,973	263,876	272,513	268,185	270,522	267,115	268,771
Total liabilities	257,333	255,022	248,995	256,839	251,875	253,627	249,374	251,209
Total equity of Canada	14,909	14,951	14,881	15,674	16,310	16,895	17,741	17,562
Total revenues	1,020	1,477	1,047	1,049	1,151	1,576	1,430	1,266
Total expenses (including income taxes)	641	1,083	698	662	763	1,283	861	799
Net income	379	394	349	387	388	293	569	467
Assisted Housing								
Government funding for housing programs	380	777	431	416	463	1,026	594	521
Net income (loss)	-	5	13	10	4	(1)	71	4
Total equity of Canada	247	270	291	310	275	235	234	203
Mortgage Insurance								
Insurance-in-force ($B)	439	442	448	453	463	472	480	484
Total insured volumes	14,191	7,891	12,159	13,304	14,005	8,265	15,382	12,539
Premiums and fees received	428	223	380	409	415	241	353	414
Premiums and fees earned	357	355	356	358	359	353	390	394
Claims paid	46	74	60	60	53	69	84	74
Insurance claims	36	73	38	35	72	65	(22)	41
Net income	297	278	233	283	289	203	412	382
Arrears rate	0.29%	0.30%	0.29%	0.29%	0.27%%	0.29%	0.29%	0.30%
Loss ratio	10.2%	20.6%	10.7%	9.8%	20.1%	19.8%	(5.6) %	10.4%
Operating expense ratio	20.7%	24.0%	25.6%	18.7%	22.8%	22.1%	23.1%	17.5%
Combined ratio	30.9%	44.6%	36.6%	28.5%	42.9%	41.9%	17.5%	27.9%
Severity ratio	28.8%	29.3%	30.0%	32.1%	29.1%	31.9%	31.9%	31.6%
Return on equity	9.7%	9.1%	7.6%	8.8%	8.3%	5.5%	10.3%	10.1%
Return on required equity	11.3%	10.2%	8.3%	9.1%	8.7%	6.0%	11.4%	10.2%
Capital available to minimum capital required (% MICAT)[1]	197%	189%	168%	175%	177%	177%	184%	179%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	28.0%	28.5%	29.1%	29.7%	30.6%	31.0%	31.9%	32.7%
Mortgage Funding								
Guarantees-in-force ($B)	492	494	488	484	479	481	477	459
Securities guaranteed	41,708	38,924	48,556	43,766	37,819	36,733	54,149	41,172
Guarantee and application fees received	136	128	252	156	120	121	257	134
Guarantee and application fees earned	142	138	132	121	117	113	108	98
Net income	114	108	102	94	88	88	80	76
Operating expense ratio	9.7%	8.7%	10.5%	8.4%	9.6%	9.5%	11.2%	10.4%
Return on equity	18.4%	17.5%	16.0%	15.1%	14.7%	14.9%	14.1%	13.5%
Return on required equity	34.9%	34.1%	26.0%	21.2%	19.9%	19.7%	16.8%	15.4%
Available equity to required equity	203%	207%	209%	149%	143%	137%	136%	112%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees	31.4%	32.2%	31.9%	31.7%	31.7%	32.0%	32.2%	31.2%

1 *We implemented the MICAT guideline in Q1 2019. Prior quarters were based off the MCT.*

2 *We implemented IFRS 16 Leases in Q1 2019. Prior quarters were based off International Accounting Standard 17 and related interpretations.*

3 *We implemented IFRS 9 and IFRS 15 Revenue from Contracts with Customers in Q1 2018. Prior quarters were based off IAS 39 Financial Instruments: Recognition and Measurement and IAS 18 Revenue.*

As at 30 June 2019 and 31 December 2018	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
(in millions)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Assets										
Cash and cash equivalents	352	527	689	309	1	1	-	-	1,042	837
Accrued interest receivable	101	123	104	113	489	501	(2)	(13)	692	724
Investment securities:										
Fair value through profit or loss	1,138	1,374	130	615	-	-	(399)	(398)	869	1,591
Fair value through other comprehensive income	-	-	16,980	17,450	3,977	4,221	(674)	(3,507)	20,283	18,164
Amortized cost	309	-	-	-	-	-	-	-	309	-
Derivatives	31	33	21	-	-	-	-	-	52	33
Due from the Government of Canada	382	158	-	-	-	-	-	-	382	158
Loans:										
Fair value through profit or loss	1,607	2,019	24	21	-	-	-	-	1,631	2,040
Amortized cost	4,552	4,402	103	107	241,171	234,653	-	-	245,826	239,162
Accounts receivable and other assets	152	239	575	569	118	48	-	-	845	856
Investment property	264	264	47	47	-	-	-	-	311	311
	8,888	9,139	18,673	19,231	245,756	239,424	(1,075)	(3,918)	272,242	263,876
Liabilities										
Securities sold under repurchase agreements	-	-	-	280	-	-	-	-	-	280
Accounts payable and other liabilities	380	376	173	100	99	30	-	-	652	506
Accrued interest payable	110	69	-	-	479	490	(2)	(13)	587	546
Dividends payable	-	-	-	500	-	175	-	-	-	675
Derivatives	12	18	11	99	-	-	-	-	23	117
Provision for claims	-	-	504	512	-	-	-	-	504	512
Borrowings:										
Fair value through profit or loss	2,837	3,430	-	-	-	-	-	-	2,837	3,430
Amortized cost	5,069	4,768	-	-	241,171	234,653	(1,006)	(3,896)	245,234	235,525
Defined benefit plans liability	194	146	281	209	6	(1)	-	-	481	354
Unearned premiums and fees	-	-	5,338	5,375	1,557	1,573	-	-	6,895	6,948
Deferred income tax liabilities	39	41	89	73	11	(8)	(19)	(4)	120	102
	8,641	8,848	6,396	7,148	243,323	236,912	(1,027)	(3,913)	257,333	248,995
Equity of Canada	247	291	12,277	12,083	2,433	2,512	(48)	(5)	14,909	14,881
	8,888	9,139	18,673	19,231	245,756	239,424	(1,075)	(3,918)	272,242	263,876

[1] *Eliminations remove inter-segment holdings of CMB.*

6. Government Funding and Housing Programs Expenses

Government funding was used to fund the following housing programs expenses, including operating expenses incurred to support these programs.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2019**	**2018**	**2019**	**2018**
Assistance for housing needs	348	432	1,079	1,419
Financing for housing	10	11	18	20
Housing expertise and capacity development	29	20	67	50
Total	387	463	1,164	1,489
Government funding deferred in the period	(7)	-	(7)	-
Total recognized	**380**	**463**	**1,157**	**1,489**

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 30 June 2019 is mainly composed of Housing programs expenses incurred but not yet reimbursed.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2019**	**2018**	**2019**	**2018**
Balance at beginning of period	520	706	158	126
Total government funding recognized in revenues during the period	387	463	1,164	1,489
Total government funding received during the period	(525)	(955)	(944)	(1,399)
Third party remittances to the Government of Canada	-	2	4	-
Balance at end of period	**382**	**216**	**382**	**216**

7. Mortgage Insurance

Unearned premiums and fees

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

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2019**	**2018**	**2019**	**2018**
Balance at beginning of period	5,248	5,247	5,375	5,352
Premiums deferred on contracts written in the period	438	423	661	666
Premiums earned in the period	(349)	(350)	(697)	(698)
Application fees deferred on contracts written in the period	5	3	7	7
Application fees earned in the period[1]	(4)	(3)	(8)	(7)
Balance at end of period	**5,338**	**5,320**	**5,338**	**5,320**

[1] *Only includes earned application fees on multi-unit residential loans during the period. Application fees on low loan-to-value transactional homeowner applications are earned immediately as they are received.*

Deferred acquisition costs

Deferred acquisition costs (DAC) are included in accounts receivable and other assets. The following table presents the changes in the DAC balance.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2019**	**2018**	**2019**	**2018**
Balance at beginning of period	182	167	181	165
Acquisition costs deferred	18	17	33	31
Amortization of DAC	(13)	(12)	(27)	(24)
Balance at end of period	**187**	**172**	**187**	**172**

Provision for claims

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

Provision for claims comprises the following:

	As at					
	30 June 2019			31 December 2018		
(in millions)	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**
Undiscounted estimated losses	364	110	474	369	120	489
Discounting	(4)	(15)	(19)	(7)	(20)	(27)
Discounted provision for adverse deviation	28	21	49	28	22	50
Total provision for claims	**388**	**116**	**504**	**390**	**122**	**512**

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

	Three months ended 30 June					
	2019			2018		
(in millions)	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**
Provision for claims, beginning of period	398	119	517	387	162	549
Net claims paid during the period	(46)	-	(46)	(53)	1	(52)
Provision for claims provided for and losses incurred during the period[1]	57	1	58	57	-	57
Unfavourable (favourable) development on prior period claims	(21)	(4)	(25)	(11)	(5)	(16)
Provision for claims, end of period	**388**	**116**	**504**	**380**	**158**	**538**

[1] *Included as part of insurance claims on the consolidated statements of income and comprehensive income. Provision for claims provided for and losses may not equal insurance claims expense as certain expenses incurred do not impact the provision for claims.*

	Six months ended 30 June					
	2019			2018		
(in millions)	**IBNR, IBNER and CIP**	**SH/ILM**	**Total**	**IBNR, IBNER and CIP**	**SH/ILM**	**Total**
Provision for claims, beginning of period	390	122	512	385	170	555
Net claims paid during the period	(120)	(3)	(123)	(122)	(4)	(126)
Provision for claims provided for and losses incurred during the period[1]	118	2	120	116	1	117
Unfavourable (favourable) development on prior period claims	-	(5)	(5)	1	(9)	(8)
Provision for claims, end of period	**388**	**116**	**504**	**380**	**158**	**538**

[1] *Included as part of insurance claims on the consolidated statements of income and comprehensive income. Provision for claims provided for and losses may not equal insurance claims expense as certain expenses incurred do not impact the provision for claims.*

Insurance policy liability adequacy

We perform a liability adequacy test on the premium liabilities and claim liabilities quarterly. Premium liabilities represent a provision for future claims and expenses that are expected to arise from the unearned portion of the policies in-force. Thus, this provision is for claims that have not yet occurred and, therefore, covers the period from the date of the valuation to the date of default (the assumed claim occurrence date).

The liability adequacy test as at 30 June 2019 identified that no premium deficiency reserve is required.

8. Mortgage Funding

We guarantee the timely payment of principal and interest of CMB issued by CHT under the CMB program and *National Housing Act* Mortgage-Backed Securities (NHA MBS) issued by approved issuers on the basis of housing loans under the NHA MBS program in the event that an issuer is unable to satisfy its obligations under these programs. In that circumstance, we will mitigate our loss by realizing on the collateral securing the obligations under each of the programs.

At the balance sheet date, we have not received a claim on our timely payment guarantees (TPG). As such, no provision in addition to the remaining unearned premium is required.

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

	Three months ended 30 June					
	2019			2018		
(in millions)	**NHA MBS**	**CMB**	**Total**	**NHA MBS**	**CMB**	**Total**
Balance at beginning of period	1,066	497	1,563	935	480	1,415
TPG and application fees received	97	39	136	84	36	120
TPG and application fees earned	(108)	(34)	(142)	(86)	(31)	(117)
Balance at end of period	**1,055**	**502**	**1,557**	**933**	**485**	**1,418**

	Six months ended 30 June					
	2019			2018		
(in millions)	**NHA MBS**	**CMB**	**Total**	**NHA MBS**	**CMB**	**Total**
Balance at beginning of period	1,079	494	1,573	931	476	1,407
TPG and application fees received	189	75	264	170	71	241
TPG and application fees earned	(213)	(67)	(280)	(168)	(62)	(230)
Balance at end of period	**1,055**	**502**	**1,557**	**933**	**485**	**1,418**

9. Capital Management

For capital management, we consider our capital available to be equal to the total equity of Canada less assets with a capital requirement of 100%.

Our primary objective with respect to capital management is to ensure that our commercial operations, being our Mortgage Insurance and Mortgage Funding Activities, have adequate capital to deliver their mandate while remaining financially self-sustaining and also to follow prudent business practices and guidelines existing in the private sector as appropriate. Beyond the $25 million capital prescribed by the CMHC Act, we currently have no externally imposed minimal capital requirements; however, we voluntarily follow guidelines set out by the Office of the Superintendent of Financial Institutions (OSFI).

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

We set an internal target for our Mortgage Insurance Activity and our Mortgage Funding Activity at a level that is expected to cover all material risks. The internal target is calibrated using specified confidence intervals and is designed to provide Management with an early indication of the need to resolve financial problems. Under our capital management policy, we operate at available capital levels above the internal target on all but unusual and infrequent occasions. Accordingly, we have established an operating level for our Mortgage Insurance Activity and our Mortgage Funding Activity in excess of our internal target. The operating level is calibrated using confidence intervals specified by our capital management policy and is designed to provide Management with adequate time to resolve financial problems before available capital decreases below the internal target.

We declare dividends to the Government from our Mortgage Insurance and Mortgage Funding Activities, to the extent there are profits and retained earnings not allocated to reserves, capitalization or to meet the needs of the Corporation for purposes of the NHA, CMHC Act or any other purpose authorized by Parliament relating to housing. However, our capital is not managed to issue a dividend. In the current quarter, we paid $505 million of dividends that were declared in the first quarter of 2019, and we declared and paid an additional $505 million of dividends.

The components of consolidated capital available are presented below.

	As at	
(in millions)	**30 June 2019**	**31 December 2018**
Contributed capital	25	25
Accumulated other comprehensive income	381	5
Appropriated retained earnings	11,105	13,049
Unappropriated retained earnings[1]	3,398	1,802
Total equity of Canada[2]	**14,909**	**14,881**
Less: assets with a capital requirement of 100%	(36)	(33)
Total capital available	**14,873**	**14,848**

[1] *Unappropriated retained earnings represents retained earnings in excess of our operating level for the Mortgage Insurance and Mortgage Funding Activities.*

[2] *Equity of Canada includes the impact of eliminations.*

Mortgage Insurance capital

The following table presents the components of capital available.

	As at	
(in millions, unless otherwise indicated)	**30 June 2019**	**31 December 2018**
Appropriated capital[1]	10,255	11,801
Unappropriated capital	2,022	282
Total Mortgage Insurance capital	**12,277**	**12,083**
Less: assets with a capital requirement of 100%	(36)	(33)
Total Mortgage Insurance capital available	**12,241**	**12,050**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)[2,3]	197%	168%

[1] *We appropriate retained earnings and AOCI at the operating level of 165% of MICAT.*

[2] *The MICAT guideline is effective 1 January 2019. For 2018, capital available to minimum capital required is calculated as the MCT ratio.*

[3] *We have not made use of transitional arrangements, which expire during the fourth quarter of 2019, as provided by the OSFI Advisory. Our MICAT ratio as at 30 June 2019 would be 199% with transitional arrangements (31 December 2018 – 184%).*

Mortgage Funding capital

The following table presents the components of the capital available.

	As at	
(in millions, unless otherwise indicated)	**30 June 2019**	**31 December 2018**
Appropriated capital[1]	1,200	1,201
Unappropriated capital	1,233	1,311
Total Mortgage Funding capital available	**2,433**	**2,512**
Capital available to capital required (%)	203%	209%

1 *We appropriate retained earnings and AOCI at the operating level (capital required) which is set at 110% of economic capital. Our internal target is set at 105% of economic capital.*

Assisted Housing capital

Lending programs

We maintain a reserve fund pursuant to Section 29 of the CMHC Act. A portion of the Lending programs' earnings is retained in this reserve fund as part of our strategy to address interest rate risk exposure on pre-payable loans as well as credit risk exposure on unsecured loans. The reserve fund is subject to a statutory limit of $240 million (2019 – $240 million), which we have determined through our ORSA to be in a reasonable range. Should the statutory limit be exceeded, we would be required to pay the excess to the Government.

Unrealized fair value fluctuations as well as remeasurement losses on defined benefit plans are absorbed in retained earnings. The Housing programs' portion of remeasurements is recorded in retained earnings until it is reimbursed by the Government through government funding for housing programs.

The following table presents the components of the capital available.

	As at	
(in millions)	**30 June 2019**	**31 December 2018**
Reserve fund	100	111
Retained earnings	122	155
Total Lending programs capital available	**222**	**266**

Housing programs

We do not hold capital for housing programs as this activity does not present risks to the Corporation that would require capital to be set aside.

10. Fair Value Measurement

We measure certain financial instruments and non-financial assets at fair value in the consolidated balance sheet and disclose the fair value of certain other items. Fair value is determined using a consistent measurement framework.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value measurement of non-financial assets takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. For financial instruments, accrued interest is separately recorded and disclosed.

Fair value hierarchy

The methods used to measure fair value make maximum use of relevant observable inputs and minimize the use of unobservable inputs. Fair value measurements are classified in a fair value hierarchy as Level 1, 2 or 3 according to the observability of the most significant inputs used in making the measurements.

Level 1: Assets and liabilities that are measured based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market is one where transactions are occurring with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Assets and liabilities that are measured based on observable inputs other than Level 1 prices. Level 2 inputs include prices obtained from third-party pricing services based on independent dealers' quotes for identical assets or liabilities in markets that are not considered sufficiently active. Level 2 also includes fair values obtained by discounting expected future cash flows, making maximum use of directly or indirectly observable market data such as yield curves and implied forward curves constructed from foreign exchange rates, benchmark interest rates and credit spreads of identical or similar assets or liabilities.

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

Generally, the unit of account for a financial instrument is the individual instrument, and valuation adjustments are applied at an individual instrument level, consistent with that unit of account.

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

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

	As at					
	30 June 2019			31 December 2018		
(in millions)	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value
Financial assets						
Loans at amortized cost[1]	245,826	250,247	4,421	239,162	239,820	658
Investments at amortized cost[2]	309	309	-	-	-	-
Financial liabilities						
Borrowings at amortized cost[3]	245,234	249,741	4,507	235,525	236,311	786

1 *$249,890 million (31 December 2018 – $239,704 million) fair value categorized as Level 2, $357 million (31 December 2018 – $116 million) fair value categorized as Level 3.*

2 *$309 million (31 December 2018 – nil) fair value categorized as Level 2.*

3 *$142,722 million (31 December 2018 – $120,580 million) fair value categorized as Level 1, $107,019 million (31 December 2018 – $115,731 million) fair value categorized as Level 2.*

Fair value hierarchy for items carried at fair value

The following table presents the fair value hierarchy for assets and liabilities carried at fair value in the consolidated balance sheet.

	As at							
	30 June 2019				31 December 2018			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	143	-	143	-	80	-	80
Federal government issued	658	-	-	658	24	-	-	24
Total cash equivalents	658	143	-	801	24	80	-	104
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	143	-	143	-	278	-	278
Provinces/municipalities	131	226	-	357	229	177	-	406
Sovereign and related entities	-	264	-	264	-	317	-	317
Equities								
Canadian common shares	-	-	-	-	492	-	-	492
Limited partnership units	-	-	105	105	-	-	98	98
Total at FVTPL	131	633	105	869	721	772	98	1,591
FVOCI								
Debt instruments								
Corporate/other entities	1,751	5,825	-	7,576	1,412	7,200	-	8,612
Federal government issued	7,895	164	-	8,059	4,663	57	-	4,720
Provinces/municipalities	2,608	1,765	-	4,373	1,978	2,487	-	4,465
Sovereign and related entities	-	270	-	270	-	268	-	268
Equities								
Canadian preferred shares	5	-	-	5	99	-	-	99
Total at FVOCI	12,259	8,024	-	20,283	8,152	10,012	-	18,164
Loans designated at FVTPL	-	1,590	-	1,590	-	2,002	-	2,002
Loans mandatorily at FVTPL	-	17	24	41	-	17	21	38
Derivatives	-	52	-	52	-	33	-	33
Investment property	-	-	311	311	-	-	311	311
Total assets carried at fair value	**13,048**	**10,459**	**440**	**23,947**	**8,897**	**12,916**	**430**	**22,243**
Liabilities								
Borrowings designated at FVTPL	-	2,837	-	2,837	-	3,430	-	3,430
Derivatives	-	23	-	23	-	117	-	117
Total liabilities carried at fair value	**-**	**2,860**	**-**	**2,860**	**-**	**3,547**	**-**	**3,547**

Transfers between fair value hierarchy levels

For assets and liabilities measured at fair value on a recurring basis, we determine if reclassifications have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period. Transfers are dependent on our assessment of market trading activity of the last month of each reporting period using internal classification criteria. Transfers between levels are deemed to occur at the beginning of the quarter in which the transfer occurs. During the three and six months ended 30 June 2019, there were $583 million and $1,020 million of transfers from Level 2 to Level 1, respectively (three and six months ended 30 June 2018 - $344 million and $1,693 million, respectively). During the three and six months ended 30 June 2019, there were $25 million and $375 million of transfers from Level 1 to Level 2, respectively (three and six months ended 30 June 2018 – $386 million and $422 million, respectively).

Change in fair value measurement for items classified as Level 3

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

(in millions)	Investment securities - FVTPL	Loans - FVTPL	Investment property	Total
Three months ended 30 June 2019				
Fair value as at 1 April 2019	103	24	311	438
Purchases	2	12	-	14
Net gains in net income[1,2]	-	-	-	-
Cash receipts on settlements/disposals	-	(12)	-	(12)
Fair value as at 30 June 2019	**105**	**24**	**311**	**440**
Six months ended 30 June 2019				
Fair Value as at 1 January 2019	98	21	311	430
Purchases	5	25	-	30
Net gains in net income[1,2]	2	1	-	3
Cash receipts on settlements/disposals	-	(23)	-	(23)
Fair value as at 30 June 2019	**105**	**24**	**311**	**440**
Three months ended 30 June 2018				
Fair value as at 1 April 2018	92	34	305	431
Purchases	2	10	-	12
Net gains in net income[1,2]	3	-	-	3
Cash receipts on settlements/disposals	(5)	(22)	-	(27)
Fair value as at 30 June 2018	**92**	**22**	**305**	**419**
Six months ended 30 June 2018				
Fair Value as at 1 January 2018	88	26	305	419
Purchases	6	25	-	31
Net gains in net income[1,2]	3	-	-	3
Cash receipts on settlements/disposals	(5)	(29)	-	(34)
Fair value as at 30 June 2018	**92**	**22**	**305**	**419**

[1] *Included in net gains (losses) on financial instruments for investment securities; other income for investment property.*

[2] *Solely relates to unrealized gains for assets held at the end of the respective periods.*

Unobservable inputs for items classified as Level 3

The valuations of items classified as Level 3 use unobservable inputs, changes in which may significantly affect the measurement of fair value. Valuations were based on assessments of the prevailing conditions at 30 June 2019, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 30 June 2019 did not materially change from 31 December 2018. The sensitivity of the fair value of items classified as Level 3 to changes in unobservable inputs remained as disclosed in the audited consolidated financial statements for the year ended 31 December 2018.

11. Investment Securities

The following table shows the cumulative unrealized gains (losses) on investment securities recorded at fair value.

	As at							
	30 June 2019				31 December 2018			
(in millions)	Amortized cost[1]	Gross cumulative unrealized gains	Gross cumulative unrealized losses	Fair value	Amortized cost[1]	Gross cumulative unrealized gains	Gross cumulative unrealized losses	Fair value
Debt instruments								
FVTPL	765	1	(2)	764	1,007	2	(8)	1,001
FVOCI[2]	19,791	510	(23)	20,278	17,964	275	(174)	18,065
Equities								
FVTPL	83	23	(1)	105	371	223	(4)	590
FVOCI	6	-	(1)	5	108	-	(9)	99

1 *Amortized cost for equities is weighted-average acquisition cost.*

2 *Includes debt instruments denominated in U.S. dollars with a carrying value of $2,327 million (31 December 2018 – $2,278 million).*

At 30 June 2019, we do not hold investment securities (31 December 2018 – $283 million) that are part of securities sold under repurchase agreements with terms that do not exceed 93 days. We continue to earn investment income and recognize in OCI changes in fair value on these investment securities during the period, with the exception of investments in CHT-issued CMB, which are eliminated from the consolidated financial statements.

Credit quality

The following table presents the credit quality of debt instruments held at FVOCI and at amortized cost, all of which have an expected credit loss (ECL) allowance based on 12-month ECL. Credit ratings are based on our internal credit rating system and amounts in the table represent the gross carrying amounts of the financial assets.

	As at 30 June 2019				
(in millions)	AAA	AA- to AA+	A- to A+	BBB- to BBB+	Total
Investment securities[1]					
FVOCI	8,850	1,721	8,140	1,567	20,278
Amortized cost	82	21	206	-	309

1 *The internal credit ratings are based upon internal assessments of the counterparty creditworthiness. These ratings correspond to those provided by the credit rating agencies except in cases where stand-alone ratings exist. A counterparty internal credit rating cannot be higher than the highest stand-alone rating from any of the agencies. A stand-alone rating removes the assumption of Government support from the rating.*

Expected credit losses

The ECL allowance for debt instruments held at FVOCI was $6 million at 30 June 2019 (30 June 2018 – $7 million). During the three and six months ended 30 June 2019, ECLs on debt instruments held at FVOCI increased by $1 million and nil, respectively (decrease of $2 million for the three and six months ended 30 June 2018).

The ECL allowance for debt instruments held at amortized cost was nil at 30 June 2019 (30 June 2018 – nil) and no amount was recognized in net gains (losses) on financial instruments for these securities during the three and six months ended 30 June 2019 (nil for the three and six months ended 30 June 2018).

12. Loans

The following table presents the cash flows and non-cash changes for loans.

	Three months ended 30 June							
		Cash flows		Non-cash changes				
(in millions)	Opening balance	Repayments	Disbursements	Fair value changes	Accretion	ECL	Transfers[1]	Balance at end of period
2019								
FVTPL								
Lending programs	1,782	(64)	-	2	-	-	(113)	1,607
MI Activity loans	24	(12)	13	(1)	-	-	-	24
Total at FVTPL	**1,806**	**(76)**	**13**	**1**	**-**	**-**	**(113)**	**1,631**
Amortized cost								
Loans under the CMB program	240,153	(10,053)	11,060	-	11	-	-	241,171
Lending programs	4,458	(126)	108	-	-	(1)	113	4,552
MI Activity loans	103	(4)	1	-	-	3	-	103
Total amortized cost	**244,714**	**(10,183)**	**11,169**	**-**	**11**	**2**	**113**	**245,826**
Total	**246,520**	**(10,259)**	**11,182**	**1**	**11**	**2**	**-**	**247,457**
2018								
FVTPL								
Lending programs	2,630	(99)	-	(3)	-		(177)	2,351
MI Activity loans	51	(22)	10	-	-		-	39
Total at FVTPL	**2,681**	**(121)**	**10**	**(3)**	**-**		**(177)**	**2,390**
Amortized cost								
Loans under the CMB program	237,244	(10,050)	9,966	-	10		-	237,170
Lending programs	4,198	(141)	39	-	-	-	177	4,273
MI Activity loans	112	(4)	3	-	-	(1)	-	110
Total amortized cost	**241,554**	**(10,195)**	**10,008**	**-**	**10**	**(1)**	**177**	**241,553**
Total	**244,235**	**(10,316)**	**10,018**	**(3)**	**10**	**(1)**	**-**	**243,943**

[1] *Transfers are matured loans that have been renewed where the new loans are no longer part of a portfolio of economically hedged loans and borrowings and therefore classified at amortized cost.*

		Six months ended 30 June						
		Cash flows		Non-cash changes				
(in millions)	Opening balance	Repayments	Disbursements	Fair value changes	Accretion	ECL	Transfers[1]	Balance at end of period
2019								
FVTPL								
Lending programs	2,019	(135)	-	10	-	-	(287)	1,607
MI Activity loans	21	(23)	25	1	-	-	-	24
Total at FVTPL	**2,040**	**(158)**	**25**	**11**	**-**	**-**	**(287)**	**1,631**
Amortized cost								
Loans under the CMB program	234,653	(14,844)	21,339	-	23	-	-	241,171
Lending programs	4,402	(321)	185	-	-	(1)	287	4,552
MI Activity loans	107	(9)	4	-	-	1	-	103
Total amortized cost	**239,162**	**(15,174)**	**21,528**	**-**	**23**	**-**	**287**	**245,826**
Total	**241,202**	**(15,332)**	**21,553**	**11**	**23**	**-**	**-**	**247,457**
2018								
FVTPL								
Lending programs	2,906	(194)	-	(9)	-	-	(352)	2,351
MI Activity loans	43	(29)	25	-	-	-	-	39
Total at FVTPL	**2,949**	**(223)**	**25**	**(9)**	**-**	**-**	**(352)**	**2,390**
Amortized cost								
Loans under the CMB program	233,786	(16,100)	19,464	-	20		-	237,170
Lending programs	4,138	(324)	108	-	-	(1)	352	4,273
MI Activity loans	117	(7)	6	-	-	(6)	-	110
Total amortized cost	**238,041**	**(16,431)**	**19,578**	**-**	**20**	**(7)**	**352**	**241,553**
Total	**240,990**	**(16,654)**	**19,603**	**(9)**	**20**	**(7)**	**-**	**243,943**

[1] *Transfers are matured loans that have been renewed where the new loans are no longer part of a portfolio of economically hedged loans and borrowings and therefore classified at amortized cost.*

The collection of principal and accrued interest on 99% (31 December 2018 – 99%) of our loans is guaranteed by various levels of government, CMHC mortgage insurance or by investment grade collateral representing the sole source of repayment on our loans under the CMB program. For loans designated at FVTPL, there were no changes in fair value attributable to changes in credit risk.

Total undrawn loan commitments outstanding at 30 June 2019 were $1,186 million, of which $1,176 million are subject to 12-month ECL and $10 million are commitments outstanding on purchased or credit impaired loans.

At 30 June 2019, the ECL on undrawn loan commitments was $5 million (31 December 2018 – $3 million), and the ECL on loans was $105 million (31 December 2018 – $105 million).

13. Borrowings

The following table presents the cash flows and non-cash changes for borrowings.

		Three months ended 30 June					
		Cash flows		Non-cash changes			
(in millions)	**Balance at beginning of period**	**Issuances**	**Repayments**	**Fair value changes**	**Accretion**	**Eliminations**	**Balance at end of period**
2019							
Designated at FVTPL							
Borrowings from the Government of Canada	3,093	-	(261)	5	-	-	2,837
Borrowings at amortized cost							
Canada mortgage bonds	236,481	11,060	(10,053)	-	11	2,666	240,165
Borrowings from the Government of Canada	4,937	1,398	(1,262)	(8)	4	-	5,069
Total borrowings at amortized cost	**241,418**	**12,458**	**(11,315)**	**(8)**	**15**	**2,666**	**245,234**
Total	**244,511**	**12,458**	**(11,576)**	**(3)**	**15**	**2,666**	**248,071**
2018							
Designated at FVTPL							
Borrowings from the Government of Canada	4,262	-	(343)	(6)	-	-	3,913
Borrowings at amortized cost							
Canada mortgage bonds	232,994	9,966	(10,050)	-	10	138	233,058
Borrowings from the Government of Canada	4,355	243	(145)	(2)	2	-	4,453
Total borrowings at amortized cost	**237,349**	**10,209**	**(10,195)**	**(2)**	**12**	**138**	**237,511**
Total	**241,611**	**10,209**	**(10,538)**	**(8)**	**12**	**138**	**241,424**

	Six months ended 30 June						
		Cash flows		Non-cash changes			
(in millions)	**Balance at beginning of period**	**Issuances**	**Repayments**	**Fair value changes**	**Accretion**	**Eliminations**	**Balance at end of period**
2019							
Designated at FVTPL							
Borrowings from the Government of Canada	3,430	-	(617)	24	-	-	2,837
Borrowings at amortized cost							
Canada mortgage bonds	230,757	21,339	(14,844)	-	23	2,890	240,165
Borrowings from the Government of Canada	4,768	1,769	(1,463)	(14)	9	0	5,069
Total borrowings at amortized cost	**235,525**	**23,108**	**(16,307)**	**(14)**	**32**	**2,890**	**245,234**
Total	**238,955**	**23,108**	**(16,924)**	**10**	**32**	**2,890**	**248,071**
2018							
Designated at FVTPL							
Borrowings from the Government of Canada	4,564	-	(637)	(14)	-	-	3,913
Other financial liabilities							
Canada mortgage bonds	229,242	19,464	(16,100)	-	20	432	233,058
Borrowings from the Government of Canada	4,350	443	(343)	(4)	7	-	4,453
Total borrowings at amortized cost	**233,592**	**19,907**	**(16,443)**	**(4)**	**27**	**432**	**237,511**
Total	**238,156**	**19,907**	**(17,080)**	**(18)**	**27**	**432**	**241,424**

When CMHC holds CMB to maturity or acquires CMB in the primary market, the related cash flows are excluded from the consolidated statement of cash flows. During the three and six months ended 30 June 2019, no CMB maturities have been excluded from repayments in the table above and from investment securities – sales and maturities in the consolidated statement of cash flows (three and six months ended 30 June 2018 – nil).

14. Financial instruments income and expenses

Gains and losses from financial instruments

The following table presents the gains (losses) related to financial instruments recognized in the consolidated statement of income and comprehensive income.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2019**	**2018**	**2019**	**2018**
Financial Instruments designated at FVTPL				
Investment securities	2	-	7	(1)
Loans	2	(3)	10	(9)
Borrowings	(5)	6	(24)	14
Total financial instruments designated at FVTPL	**(1)**	**3**	**(7)**	**4**
Financial instruments mandatorily at FVTPL				
Equity securities	(1)	36	59	(38)
Debt instruments	(1)	-	(1)	(1)
Derivatives	45	(46)	94	(102)
Loans	1	-	1	-
Total financial instruments mandatorily at FVTPL	**44**	**(10)**	**153**	**(141)**
Debt instruments held at FVOCI[1]	(48)	35	(101)	82
Loans at amortized cost – prepayments	1	13	4	16
Borrowings – amortized cost[2]	5	(4)	8	(10)
Expected credit loss (recovery) on financial assets	(1)	5	(1)	(1)
Total	-	**42**	**56**	**(50)**

[1] *Includes foreign exchange losses during the three and six months ended 30 June 2019 of $52 million and $104 million (gains for the three and six months ended 30 June 2018 – $38 and $92 million) resulting from translation of U.S. dollar-denominated debt instruments.*

[2] *Includes losses from the retirement of borrowings during the three and six months ended 30 June 2019 of $3 million and $6 million (three and six months ended 30 June 2018 – $6 million and $14 million), net of gains during the three and six months ended 30 June 2019 from the issuance of borrowings of $8 million and $14 million (three and six months ended 30 June 2018 – $2 and $4 million).*

15. Market Risk

Market risk is the risk of adverse financial impacts arising from changes in underlying market factors, including interest rates, foreign exchange rates, and equity prices. There were no material changes to our assessment and management of market risk in the three and six months ended 30 June 2019.

Value at risk (VaR)

Market risk for investment securities in the Mortgage Insurance and Mortgage Funding Activities is evaluated through the use of VaR models. VaR is a statistical technique used to measure the maximum potential loss of an investment portfolio over a specified holding period with a given level of confidence. The VaR for the Mortgage Insurance and Mortgage Funding Activities calculated with 95% confidence over a 22 business day holding period is outlined in the table below. The VaR figures are based on one year of historical prices and correlations of bond and equity markets and 26 weeks of volatility.

	As at	
(in millions)	**30 June 2019**	**31 December 2018**
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	163	148
USD-denominated securities	32	30
Equity risk	-	26
Effect of diversification	(8)	(36)
Total VaR	**187**	**168**

We are exposed to currency risk from our holdings in foreign currency denominated investment securities. Our internal policies limit the amount of foreign currency investments and require full hedging of currency risk. We held $2,327 million in debt instruments denominated in U.S. dollars as at 30 June 2019 (31 December 2018 – $2,278 million), and residual currency risk was assessed as immaterial.

Interest rate sensitivity

Market risk for the Assisted Housing Activity portfolio of loans, investments, borrowings and swaps is evaluated by measuring their sensitivity to changes in interest rates.

For the Assisted Housing Activity's financial instruments designated at FVTPL and derivatives, we assessed the impact of a 200 bps shift in interest rates as immaterial as at 30 June 2019.

The Assisted Housing Activity's loans and borrowings measured at amortized cost are also exposed to interest rate risk. The net impact of a shift in interest rates on their fair value is presented below.

	As at			
	30 June 2019		31 December 2018	
	Interest rate shift		Interest rate shift	
(in millions)	-200 bps	+200 bps	-200 bps	+200 bps
Increase (decrease) to fair value of net assets[1]	(106)	96	(75)	63

[1] *The changes in fair value of net assets resulting from interest rate shifts presented in this table would not be recognized in comprehensive income as the underlying financial instruments are measured at amortized cost.*

16. Credit Risk

Credit risk is the potential for financial loss arising from failure of a borrower or an institutional counterparty to fulfill its contractual obligations. Full descriptions of credit risks related to our financial instruments and how we manage those risks are disclosed in Note 19 of our audited consolidated financial statements. There has been no change to the nature of the risks and how they are managed for the three and six month period ended 30 June 2019.

17. Pension and Other Post-Employment Benefits

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

	Three months ended 30 June			
	Pension plans		Other post-employment plans	
(in millions)	2019	2018	2019	2018
Current service cost	9	9	1	1
Net interest expense	3	2	1	1
Expense recognized in net income	**12**	**11**	**2**	**2**
Net actuarial gains (losses) arising from changes in financial assumptions	(124)	49	(6)	3
Return on plan assets (excluding amounts included in net interest expense)	73	49	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(51)**	**98**	**(6)**	**3**
CMHC's contributions	16	19	4	3
Employee contributions	6	5	-	-
Total contributions	**22**	**24**	**4**	**3**

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

	Six months ended 30 June			
	Pension plans		Other post-employment plans	
(in millions)	2019	2018	2019	2018
Current service cost	18	19	6	1
Net interest expense	6	6	2	2
Expense recognized in net income	**24**	**25**	**8**	**3**
Net actuarial gains (losses) arising from changes in financial assumptions	(354)	91	(18)	5
Return on plan assets (excluding amounts included in net interest expense)	240	19	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(114)**	**110**	**(18)**	**5**
CMHC's contributions	31	41	6	4
Employee contributions	16	8	-	-
Total contributions	**47**	**49**	**6**	**4**

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

We remeasure our defined benefit obligations and the fair value of plan assets at interim periods. The discount rate is determined in accordance with guidance issued by the Canadian Institution of Actuaries by reference to Canadian AA-Corporate bonds with terms to maturity approximating the duration of the obligation.

18. Income Taxes

The following table presents the components of income tax.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	2019	2018	2019	2018
Current income tax expense	120	126	235	225
Deferred income tax relating to origination and reversal of temporary differences	8	(1)	20	(6)
Total income tax expense included in net income	**128**	**125**	**255**	**219**
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized losses (gains) from FVOCI financial instruments	38	(16)	120	(48)
Reclassification of prior years' net unrealized gains realized in the period in net income	1	-	1	(1)
Remeasurement losses (gains) on defined benefit plans	(10)	15	(22)	19
Total income tax recovery included in other comprehensive income (loss)	**29**	**(1)**	**99**	**(30)**
Total	**157**	**124**	**354**	**189**

19. Related Party Transactions

We pay the Government fees in recognition of its financial backing of the Mortgage Insurance and Mortgage Funding Activities. The fees, which are recorded in operating expenses, amount to $10 million and $21 million for the three and six months ended 30 June 2019, respectively (three and six months ended 30 June 2018 – $10 million and $19 million) for the Mortgage Insurance Activity and $6 million and $12 million for the three and six months ended 30 June 2019, respectively (three and six months ended 30 June 2018 – $6 million and $11 million) for the Mortgage Funding Activity.

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

20. Commitments and Contingent Liabilities

Under Section 11 of the NHA, the total of outstanding insured amounts of all insured loans may not exceed $600 billion (31 December 2018 – $600 billion). As at 30 June 2019, insurance-in-force, which represents the risk exposure of the Mortgage Insurance Activity, totalled $439 billion (31 December 2018 – $448 billion). Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (31 December 2018 – $600 billion). At 30 June 2019, guarantees-in-force, which represents the risk exposure of the Mortgage Funding Activity, totalled $492 billion (31 December 2018 – $488 billion).

There are legal claims of $3 million (31 December 2018 – $4 million) against CMHC. Due to the uncertainty of the outcome of these claims, no provision for loss has been recorded. We do not expect the ultimate resolution of any of the proceedings to which we are party to have a significant adverse effect on our financial position.

We have $50 million of cash and cash equivalents as at 30 June 2019 (31 December 2018 – $78 million) that relates to funds received from the Government that may only be used as part of the Affordable Rental Housing Innovation Fund. We also have $142 million of cash and cash equivalents (31 December 2018 – $260 million) that may only be used as part of the Rental Construction Financing initiative.

CANADA MORTGAGE AND HOUSING CORPORATION

700 Montreal Road

Ottawa, Ontario

K1A 0P7

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