CANADA MORTGAGE AND HOUSING CORPORATION

Quarterly Financial Report

SECOND QUARTER
30 JUNE 2020
(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 25 August 2020 is prepared for the second quarter ended 30 June 2020 and is intended to provide readers with an overview of our performance including comparatives against the same three and six month periods in 2019. This MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements as well as the 2019 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 2019 Annual Report. As a result of the launch of the Insured Mortgage Purchase Program (IMPP) we have disclosed our accounting policy and critical judgment related to the program in note 2 to the unaudited quarterly consolidated financial statements. The global COVID-19 pandemic has led to additional measurement uncertainty when making judgments and developing assumptions used in estimates. Additional information has been included in Note 4 of our unaudited quarterly consolidated financial statements. Except for the matters discussed above, there have been no material changes to our significant accounting policies, judgments or estimates to the end of the second quarter of 2020.

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 2020” section 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 2019 Annual Report.

THE OPERATING ENVIRONMENT AND OUTLOOK FOR 2020

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

COVID-19

In the second quarter of 2020, the outbreak of the coronavirus that causes the disease identified as "COVID-19" has continued to impact economies around the world. The Government of Canada has continued to announce new economic measures to help stabilize the economy during this challenging period. Throughout this quarter, we have seen the relaxing of emergency measures by some provincial governments, allowing some businesses and parts of the economy to reopen.

We and other mortgage insurers are offering tools to lenders that can assist homeowners and multi-unit borrowers who may be experiencing financial difficulty. These include payment deferral, loan re-amortization, capitalization of outstanding interest arrears and other eligible expenses, and special payment arrangements. The Government, through CMHC, is providing increased flexibility for homeowners and multi-unit borrowers facing financial difficulties to defer mortgage payments on CMHC-insured mortgage loans. CMHC will permit lenders to allow payment deferral. Similar flexibility will be provided to housing providers that have direct loans with CMHC should they experience financial difficulty, with the objective of providing a solution that meets their needs.

As a further proactive and coordinated measure to strengthen the financial system and the Canadian economy, the Government launched an Insured Mortgage Purchase Program (IMPP) on 16 March 2020. Under this program, the Government will purchase up to $150 billion of insured mortgage pools through CMHC, of which $5.8 billion was purchased by 30 June 2020. The IMPP provides long-term stable funding to banks and mortgage lenders, helps facilitate continued lending to Canadian consumers and businesses, and adds liquidity to Canada's mortgage market. Since the IMPP is financed through the Crown Borrowing Program, the Minister of Finance has approved increases to our total outstanding short-term and long-term borrowing limits to $20 billion and $154 billion, respectively. In addition, the Minister of Finance increased our NHA MBS and CMB guarantee limits to $295 billion and $60 billion, respectively.

On 20 March 2020, the Minister of Finance announced changes to the eligibility criteria for portfolio insurance to help mortgage lenders access the IMPP. Effective 24 March 2020, low loan-to-value mortgages funded prior to 20 March 2020 with amortization up to 30 years from the date the loan was funded, as well as refinance loans, are eligible until 31 December 2020. As of 30 June 2020, we had approved $10.3 billion of portfolio insurance volumes under these extended eligibility criteria. The Government enabled these measures by raising CMHC's guarantees-in-force and insurance-in-force limits to $750 billion each. These increased limits are only to be in place for a five-year period with the expectation that they will then be decreased.

On 24 April 2020, the Government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses, a program that provides rent relief for small businesses experiencing financial hardship due to COVID-19. The program offers forgivable loans to eligible commercial property owners so that they can reduce the rent owed by their impacted small business tenants by at least 75% for the months of April, May, and June 2020. The Government subsequently announced that CECRA would be extended to also cover rent for July and August 2020. The forgivable loans from the Federal and Provincial governments will each cover 25% of the monthly rent, the landlord will absorb another 25%, leaving the tenant to pay the remaining 25%. We are administering this program on behalf of the Government of Canada and our provincial and territorial partners by providing the forgivable loans to the eligible commercial property owners, and were approved to distribute up to $3 billion. As at 30 June 2020, we have disbursed $196 million.

In July 2020, the federal government announced $16.7 million in funding for Granville Island to enable CMHC to provide rent relief to its tenants. CMHC manages Granville Island, on behalf of the Government of Canada. CMHC is the landlord for many of the businesses of Granville Island and as such, these tenants did not qualify for rent relief under CECRA.

In response to the anticipated impact of the pandemic on Canadian house prices, and in order to protect future homebuyers and reduce risk, on 4 June 2020 we announced changes to our mortgage underwriting criteria effective 1 July 2020.

- A revised limit for the Gross Debt Servicing (GDS) to Total Debt Servicing (TDS) ratio of 35 GDS to 42 TDS;
- A minimum credit score of 680 for at least one borrower; and
- Non-traditional sources of down payments that increase indebtedness will no longer be treated as equity for insurance purposes.

Further, we have also suspended refinancing for multi-unit mortgage insurance, except where funds are used for repairs or reinvestment in housing. These decisions are within CMHC's authorities under the *National Housing Act* and are in anticipation of potential house price adjustments. We continue to monitor market conditions and work with our federal colleagues on potential prudent policy options.

Due to the rapidly changing environment, we are experiencing increased volatility in our financial results due to re-measurements in our financial instruments, pension obligations, expected credit losses and the provision for claims. While we have started to see some impacts on our mortgage insurance claims as a result of the pandemic, the full impact will not be known for a number of months. The impact to homeowner transactional volumes to date has not been as significant as it has been in previous economic downturns. Portfolio insurance volumes are expected to increase until the end of the year as a result of the short-term expanded eligibility criteria that has allowed for participation in the IMPP.

Given our role as Canada's national housing agency, we may take further action to support Canadians through the crisis and subsequently to support the economic recovery. According to our Risk Appetite Framework, our role as a key stabilizing component of the Canadian financial system means we will continue to increase our appetite for risk as we and other institutions absorb the impacts of these events. Additional government responses to the pandemic might require further program changes and risk absorption by CMHC. There can be no assurance of the impact or magnitude of these events on our future financial results. As a result, we have prudently suspended our dividend to conserve our capital to support further action by the Government, through CMHC, should the need arise. At 30 June 2020, our capital position remains strong and our excess capital of $5 billion will serve to buffer future impacts to our capital position.

To support the management of our capital during the crisis, we are performing stress tests and scenario analysis to understand the potential future impacts that may materialize in future periods.

In the event our capital position is significantly impacted, under the Capital and Dividend Policy Framework for Financial Crown Corporations, the Government is prepared to inject capital into CMHC should additional capital be needed to deliver on our public policy mandate. This was further reinforced on 24 March 2020, when the Government approved a $10 billion recapitalization limit for CMHC.

In early-March we enacted our Crisis Readiness Framework (CRF) in order to monitor current developments and provide timely direction with regards to our COVID-19 response. The CRF and its governance structure promote an efficient and effective response while, in times of crisis, our Risk Appetite increases as we focus on system stability.

Our primary focus was, and continues to be, the health and safety of our staff and ensuring the continuity of our operations. Our "Results Only" work philosophy enables our employees to work remotely, minimizing the operational impact of the pandemic on our core activities. We identified essential and critical staff needed to ensure business continuity, and our people leaders continue to monitor staffing levels in these key areas.

Some operational and financial targets as outlined in our 2020-2024 Corporate Plan may not be achieved given the current economic environment, as our stakeholders focus on their response to the global COVID-19 pandemic and due to our increased focus on financial stability.

Economic conditions and housing indicators

The shock of the coronavirus pandemic on the Canadian economy has been unprecedented. Initial containment measures in March and April 2020 led to a sudden and severe drop in economic activity. Home isolation of consumers decreased demand, while closure of non-essential businesses depressed supply. In the first two months of the pandemic, three million Canadians lost their jobs. Many others became underemployed.

Before the coronavirus pandemic, Canada's economy was operating near its potential. Real GDP grew at an annual rate of 1.7 per cent in 2019, following a 2.0 per cent growth rate in 2018. In both years, the economy grew resiliently despite being constrained by elevated household debt and international trade tensions. The latest data shows that Canada's economic activity declined at an annualized rate of 8.2% in the first quarter of 2020.

In addition, since the beginning of the pandemic, many workers have seen their weekly hours decline dramatically. Consequently, total actual hours worked fell by almost 30 per cent in April compared to pre-pandemic levels observed in February. With gradual reopening beginning in May of 2020, the Canadian economy has somewhat recuperated. Forty per cent of the jobs lost in the first two months of the pandemic have been recovered as of June 2020. However, the speed and timing of a full recovery to pre-pandemic levels of economic activity remains uncertain as consumer and business sentiment continue to be subdued.

A slower recovery could result from a second wave of virus cases and renewed containment measures in either Canada or our major trading partners, a prolonged first wave for Canada's key economic partners, tightening financial conditions, and enduring economic uncertainty and dislocation. While therapeutics, such as antivirals, and control measures will serve as a stopgap, a return to pre-pandemic economic activity is unlikely until researchers find an effective vaccine for the disease.

The policy response to the economic shock is unprecedented. Direct support for households and business from federal, provincial and territorial governments in 2020 is estimated to be $256 billion[1] or about 12 per cent of Canadian GDP. The Bank of Canada (BoC) has kept the policy interest rate at 0.25 since April. The BoC is also committed to continue adding liquidity to financial institutions, purchasing key assets to support market functioning, and providing additional monetary stimulus to bring down borrowing costs for businesses.

The economic shock has not yet been fully reflected in the latest housing market data. Although prices fell in March and April, Canada's MLS® price averaged a record high of $524,225 during the first six months of 2020. This represents a 9 per cent increase from the same period in 2019. Meanwhile, MLS® sales decreased 9 per cent to 421,336 units (seasonally adjusted at annualized rate; SAAR) and housing starts decreased 3 per cent to 199,647 units (SAAR), during the first six months of 2020.

Going forward, housing demand will likely be constrained by depressed consumer sentiment and income loss. Higher debt levels could also strain housing demand. Consumer debt-to-disposable income remains elevated at 177 per cent in the first quarter of 2020, and is forecast[2] to deteriorate to well past 200 per cent through 2021. On the other hand, supply on resale markets could also be constrained by potential sellers delaying listing their home for sale until prices improve and the potential shutdown of construction sites if COVID-19 cases increase again.

The housing market will face significant uncertainty in the short term, as containment measures and subsequent measures during the recuperation phase dampen both housing supply and demand. In the medium term, however, falling housing demand from weaker household incomes and financial conditions will likely outweigh diminished housing supply resulting in significant downside risk to prices, sales and starts.

Progress on the National Housing Strategy

CMHC continues to deliver on Canada's National Housing Strategy (NHS), a 10-year, $55+ billion plan that will give more Canadians a place to call home.

In the first half of 2020, CMHC continued delivery of NHS initiatives launched throughout 2018 and 2019. The NHS initiatives ramp up over the next few periods as our older programs continue to sunset. We actively examined ways in which we could accelerate the flow of funding for projects under the NHS overall, and worked to simplify the application and approvals processes. Progress on the NHS against targets is reported quarterly on the website (www.placetocallhome.ca).

We continue the work with provinces and territories to co-develop the Canada Housing Benefit. Four jurisdictions have launched their programs following finalized agreements and action plans. Formal announcements and community outreach for the Canada Housing Benefit (CHB) have been delayed by COVID-19. Also, as a result of the pandemic some provinces and territories have been forced to divert resources toward pandemic response measures, but we continue to pursue co-development of the CHB in remaining jurisdictions where agreements and action plans have not yet been executed.

[1] Department of Finance Canada, *Economic and Fiscal Snapshot 2020*

[2] CMHC, *Supporting Financial Stability During the COVID-19 Pandemic for Standing Committee on Finance: 19 May 2020*

Due to the current COVID-19 pandemic, some modifications to delivery of the NHS have been enacted on a short-term basis, in order to ensure continuity for housing providers and vulnerable populations during this unprecedented time. Of note:

- The launch date for Phase II of the Federal Community Housing initiative has been delayed to 1 September 2020. Eligible housing providers who opted in and who have federally administered operating agreements expiring in the coming months will continue to receive their current level of financial assistance until the end of August;
- Housing providers may be eligible for up to six (6) months of loan payment deferral (principal and interest) with regards to a CMHC-financed loan in good standing, should they encounter difficulty in making payments due to COVID-related factors, including construction and labour disruptions; and,
- The National Housing Conference, originally scheduled for 12 and 13 May 2020, has been postponed to an undetermined date.

Office of the Superintendent of Financial Institutions (OSFI) guidelines

In light of the COVID-19 situation, most consultations with OSFI have been put on hold. Additionally, the proposed changes to the mortgage rate stress test that were to take effect on 6 April 2020 have been suspended with no new effective date announced.

OSFI has also issued guidance to mortgage insurers with respect to the Mortgage Insurance Capital Adequacy Test for loans that have been approved for deferral by financial institutions. Specifically, loans that were performing and are now being deferred under the new programs are treated as performing loans for capital purposes.

Total Requirements for First-Time Home Buyer Incentive (FTHBI) Mortgages

We implemented the Mortgage Insurer Capital Adequacy Test (MICAT) Total Requirements for FTHBI insured Mortgages Advisory on 1 January 2020. This Advisory complements the MICAT Guideline that was implemented on 1 January 2019 and sets out a new method for calculating the reciprocal of loan-to-value (LTV) ratio. For FTHBI insured mortgages, the reciprocal of LTV ratio is the weighted average of:

- The reciprocal of LTV ratio calculated using the outstanding balance of the loan (current method); and
- The reciprocal of LTV ratio calculated using the sum of the outstanding balance of the loan and the shared equity amount.

There was no material financial impact as a result of implementing this new requirement. Refer to Note 9 – Capital Management of the unaudited quarterly consolidated financial statements for complete capital 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 2 of our 2019 audited consolidated financial statements.

IFRS 17 Insurance Contracts – effective date of 1 January 2023

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), which will replace IFRS 4 *Insurance Contracts*.

In June 2020, the IASB amended IFRS 17 to address concerns and implementation challenges raised by stakeholders. The most notable proposed amendment to CMHC is that the IASB has deferred the effective date by two years, to 1 January 2023. We evaluated the entire suite of amendments and except for the deferral, we do not expect them to have a significant impact on our implementation.

Under IFRS 17, insurance contract liabilities will include the present value of future insurance cash flows, adjusted for risk, as well as a contractual service margin and deferred acquisition costs, 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 RESULTS

Key financial highlights

Condensed consolidated balance sheets

As at 30 June 2020 and 31 December 2019	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Total assets	10,990	9,698	19,889	18,586	263,930	249,020	(642)	(1,045)	294,167	276,259
Total liabilities	10,722	9,396	7,093	6,523	261,256	246,735	(598)	(1,008)	278,473	261,646
Total equity of Canada	268	302	12,796	12,063	2,674	2,285	(44)	(37)	15,694	14,613

Our total assets and liabilities increased approximately in line with each other, by $17,908 million (6%) and $16,827 million (6%), respectively. This was mainly driven by the issuance of Canada Mortgage Bonds (CMB) and the purchase of insured mortgage pools under the IMPP, as a result of increased demand for liquidity from financial institutions. This resulted in 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)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Government funding for housing programs	629	380	-	-	-	-	-	-	629	380
Premiums and fees earned	-	-	346	357	170	142	-	-	516	499
All other income[1]	47	6	553	152	39	26	(3)	(43)	636	141
Total revenues and government funding	**676**	**386**	**899**	**509**	**209**	**168**	**(3)**	**(43)**	**1,781**	**1,020**
Housing programs	557	329	-	-	-	-	-	-	557	329
Insurance claims	-	-	292	36	-	-	-	-	292	36
Operating expenses	88	58	74	74	18	16	-	-	180	148
Total expenses	**645**	**387**	**366**	**110**	**18**	**16**	**-**	**-**	**1,029**	**513**
Income taxes	6	(1)	133	102	48	38	(1)	(11)	186	128
Net income	**25**	**-**	**400**	**297**	**143**	**114**	**(2)**	**(32)**	**566**	**379**
Other comprehensive income (loss)	(136)	(23)	(173)	63	4	12	3	32	(302)	84
Comprehensive income	**(111)**	**(23)**	**227**	**360**	**147**	**126**	**1**	**-**	**264**	**463**

[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)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Government funding for housing programs	1,543	1,157	-	-	-	-	-	-	1,543	1,157
Premiums and fees earned	-	-	681	712	330	280	-	-	1,011	992
All other income[1]	44	18	581	323	60	48	1	(39)	686	350
Total revenues and government funding	**1,587**	**1,175**	**1,262**	**1,035**	**390**	**328**	**1**	**(39)**	**3,240**	**2,499**
Housing programs	1,399	1,062	-	-	-	-	-	-	1,399	1,062
Insurance claims	-	-	414	109	-	-	-	-	414	109
Operating expenses	151	109	143	159	36	32	-	-	330	300
Total expenses	**1,550**	**1,171**	**557**	**268**	**36**	**32**	**-**	**-**	**2,143**	**1,471**
Income taxes	6	(1)	177	192	89	74	-	(10)	272	255
Net income	**31**	**5**	**528**	**575**	**265**	**222**	**1**	**(29)**	**825**	**773**
Other comprehensive income (loss)	(65)	(49)	204	279	124	50	(7)	(15)	256	265
Comprehensive income	**(34)**	**(44)**	**732**	**854**	**389**	**272**	**(6)**	**(44)**	**1,081**	**1,038**

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

Q2 2020 vs Q2 2019 and YTD 2020 vs YTD 2019

Our total revenues and government funding increased by $761 million (75%) and $741 million (30%) from the same three and six month period last year, respectively, mainly due to:

- An increase of $249 million (66%) and $386 million (33%) in government funding for housing programs from the same three and six month period last year, respectively, driven mainly by an increase in funding for the Federal/Provincial/Territorial Housing Partnership, the National Housing Co-Investment Fund (NHCF) and other NHS initiatives. Additionally, $221 million in government funding is explained by the newly launched CECRA initiative in the second quarter of 2020.
- An increase of $519 million (100%) and $375 million (670%) in net gains on financial instruments from the same three and six month period last year, respectively, mainly caused by the disposal of a significant portion of our fixed income investments as we rebalanced our insurance investment portfolio. These gains were previously recorded in other comprehensive income (OCI) and reclassified into income upon disposal. In addition, we reduced our expected credit loss (ECL) provisions by $69 million in the second quarter, due to improved projections for the key financial variables that drive our ECL provisions.
- An increase of $17 million (3%) and $19 million (2%) in premiums and fees earned from the same three and six month period last year, respectively, driven by higher earned fees in the Mortgage Funding activity due to pricing changes made in recent years and an increase in volume as explained below. This was partially offset by lower earned premiums in the Mortgage Insurance activity mainly due to the earning patterns revised to reflect longer claim occurrence patterns.
- An increase of $41 million (683%) and $26 million (144%) in all other income in the Assisted Housing activity from the same three and six month period last year, respectively, mainly caused by day one gains due to preferred rates on our borrowings from the Government of Canada for NHS initiatives.

Total expenses increased by $516 million (101%) and $672 million (46%) from the same three and six month period last year, respectively, mainly due to:

- The increase in government funding for housing programs as described above, which resulted in higher housing programs and operating expenses.
- An increase of $256 million (711%) and $305 million (280%) in insurance claims from the same three and six month period last year, respectively, mainly caused by an increase in our provision for claims due to the economic impacts of COVID-19 on the key economic variables that drive insurance claims, including our expectation of insurance claims for mortgage loans currently in deferral.

Other comprehensive income decreased by $386 million (460%) and $9 million (3%) from the same three and six month period last year, respectively, mainly due to:

- A decrease in bond yields resulting in unrealized gains on our financial instruments following the market instability that occurred in the first and second quarter of 2020. This increase was offset by the transfer of some gains from OCI to income as explained above.
- An increase of $206 million (438%) and $6 million (1%) from the same three and six month periods last year, respectively, in remeasurement losses on defined benefit plans as a result of a decrease in the discount rate used to measure the defined benefit plans obligation.

Financial metrics and ratios

Mortgage Insurance

	Insurance-in-force ($B)	
	As at	
(in millions, unless otherwise indicated)	**30 June 2020**	**31 December 2019**
Transactional homeowner	223	227
Portfolio	119	117
Multi-unit residential	91	85
Total	**433**	**429**

Under Section 11 of the National Housing Act (NHA), the total of outstanding insured amounts of all insured loans may not exceed $750 billion (2019 – $600 billion). Insurance-in-force increased by $4 billion (1%) due to higher volumes insured in the current year compared to recent years exceeding run-off of existing policies-in-force. New loans insured were $34 billion, while estimated loan amortization and pay-downs were $30 billion.

(in millions, unless otherwise indicated)	Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid	
	Three months ended							
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Transactional homeowner	28,982	31,327	8,000	8,002	283	291	31	42
Portfolio	60,066	11,842	14,374	2,774	76	13	3	3
Multi-unit residential[3]	44,109	29,947	5,892	3,415	214	124	-	1
Total	**133,157**	**73,116**	**28,266**	**14,191**	**573**	**428**	**34**	**46**

[1] *Portfolio substitutions were 18,979 units and $4,060 million for the three months ended 30 June 2020 (1,402 units and $108 million for the three months ended 30 June 2019).*

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

[3] *Multi-unit residential premiums and fees received includes $5 million for the three months ended 30 June 2020 ($2 million for the three months ended 30 June 2019) received from the government for RCFi.*

(in millions, unless otherwise indicated)	Insured volumes[1] (units)		Insured volumes[1] ($)		Premiums and fees received[2]		Claims paid	
	Six months ended							
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Transactional homeowner	44,005	45,220	12,203	11,766	432	421	87	112
Portfolio	64,288	18,911	15,701	4,139	83	17	7	7
Multi-unit residential[3]	80,866	52,432	11,157	6,178	406	213	3	1
Total	**189,159**	**116,563**	**39,061**	**22,083**	**921**	**651**	**97**	**120**

[1] *Portfolio substitutions were 18,979 units and $4,060 million for the six months ended 30 June 2020 (5,168 units and $637 million for the six months ended 30 June 2019).*

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

[3] *Multi-unit residential premiums and fees received includes $20 million for the six months ended 30 June 2020 ($4 million for the six months ended 30 June 2019) received from the government for RCFi.*

Q2 2020 vs Q2 2019 and YTD 2020 vs YTD 2019

Transactional homeowner volumes decreased by 2,345 (7%) and 1,215 (3%) units, from the same three and six month period last year, respectively, as a result of the weaker housing market caused by COVID-19. This offsets the increase in units from the first quarter driven by a strong housing market. Portfolio unit volumes increased by 48,224 (407%) and 45,377 (240%) units for the same three and six month period last year, respectively, due to the launch of IMPP in late March 2020 which increased portfolio volumes in Q2 as portfolio insurance is required for lenders to access the funding. In addition, Multi-unit residential volumes increased by 14,162 (47%) and 28,434 (54%) units from the same three and six month period last year, respectively, with multi-unit refinancing representing most of the increase as many borrowers refinanced to benefit from the lower interest rates. Approximately 70% of the refinanced loans were to fund building improvements and renovations. Insured dollars for these products increased by $12.7 billion (90%) and $15.7 billion (71%) from the same three and six month period last year, respectively, driven by the increase in units in portfolio and multi-unit, and higher property values in transactional homeowner.

Higher volumes in multi-unit and portfolio products account for the majority of the $270 million (41%) increase in total premiums and fees received.

	Three months ended		Six months ended	
(in percentages)	**30 June 2020**	**30 June 2019**	**30 June 2020**	**30 June 2019**
Loss ratio[1]	84.3	10.2	60.7	15.4
Operating expense ratio	21.3	20.7	21.0	22.4
Combined ratio	105.6	30.9	83.1	37.7
Severity ratio	28.9	28.8	29.6	30.8
Return on equity	13.2	9.7	8.8	9.4
Return on required equity	14.9	11.3	10.3	11.0

[1] *Loss ratio on transactional homeowner and portfolio products excluding multi-unit residential was 104.1% and 71.5% for the three and six months ended 30 June 2020, respectively (13.2% and 18.6% for the three and six months ended 30 June 2019).*

Q2 2020 vs Q2 2019 and YTD 2020 vs YTD 2019

The loss ratio increased mainly due to higher claims expenses, as a result of a higher unemployment rate and a lower gross domestic product (GDP) caused by the COVID-19 pandemic.

The operating expense ratio increased from the same three month period last year as a result of lower earned premiums and fees as explained above. For the same six month period, a decrease in operating expenses, mostly attributable to lower salaries and professional fees resulted in a decrease in the operating expense ratio.

The severity ratio decreased from the same three and six month period last year due to lower claims paid as a percentage of insured loan amount, driven by stronger sales proceeds as explained above.

The return on equity and return on required equity ratios decreased from the same six month period last year due to the lower net income as explained above. The return on equity and return on required equity ratios increased from the same three month period last year due to an increase in net income mainly driven by the net gains on financial instruments as explained above.

	As at 30 June 2020		As at 31 December 2019	
	No. of delinquent loans	**Arrears rate**	**No. of delinquent loans**	**Arrears rate**
Transactional homeowner	5,061	0.46%	4,859	0.43%
Portfolio	1,523	0.18%	1,275	0.15%
Multi-unit residential	96	0.38%	67	0.28%
Total	**6,680**	**0.34%**	**6,201**	**0.31%**

The arrears rate includes all loans more than 90 days past due as a percentage of outstanding insured loans. There were higher reported delinquencies in all regions except the Atlantic, which is consistent with the slightly weaker economic conditions for these regions. Payment deferrals related to COVID-19 are not included in arrears data.

Mortgage Funding

(in millions, unless otherwise indicated)	Total guarantees-in-force ($B) As at 30 June 2020	31 December 2019
NHA MBS	264	249
CMB	252	244
Total	**516**	**493**

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $750 billion (2019 – $600 billion). This limit was increased during the first quarter of 2020 by $150 billion and will be in effect until 24 March 2025.

Total guarantees-in-force represents the maximum principal obligation related to this timely payment guarantee. Guarantees-in-force were $516 billion as at 30 June 2020, an increase of $23 billion (5%) as new guarantees provided by CMHC exceeded maturities. This is due to financial institutions accessing our programs for additional sources of liquidity. The increased limit of the Guarantees-in-force in the first quarter alongside the introduction of the IMPP facilitated the increased issuances. Guarantees-in-force remain under the $750 billion legislative limit.

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Three months ended			
(in millions, unless otherwise indicated)	30 June 2020	30 June 2019	30 June 2020	30 June 2019
NHA MBS[2]	66	31	262	97
CMB	18	11	61	39
Total	**84**	**42**	**323**	**136**

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

[2] *$1 billion of new securities and $22 million of securities guaranteed in previous quarters were sold into the IMPP.*

	New securities guaranteed ($B)		Guarantee and application fees received[1]	
	Six months ended			
(in millions, unless otherwise indicated)	30 June 2020	30 June 2019	30 June 2020	30 June 2019
NHA MBS[2]	101	60	377	189
CMB	29	21	100	75
Total	**130**	**81**	**477**	**264**

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

[2] *$4.2 billion of new securities and $1,572 million of securities guaranteed in previous quarters were sold into the IMPP.*

Q2 2020 vs Q2 2019 and YTD 2020 vs YTD 2019

Guarantee and application fees received increased by $187 million (138%) and $213 million (81%), from the same three and six month period last year, respectively. This is due to higher NHA MBS and CMB volumes securitized as well as more volumes exceeded the annual guarantee fee threshold compared with Q2 2019, which carry a higher guarantee fee.

(in percentages)	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Operating expense ratio	9.0	9.7	8.7	9.2
Return on equity	21.9	18.4	21.4	18.0
Return on required equity	42.9	34.9	40.8	34.5

Q2 2020 vs Q2 2019 and YTD 2020 vs YTD 2019

The operating expense ratio decreased by 0.7 and 0.5 percentage points from the same three and six month period last year, respectively, as guarantee and application fees earned were higher due to fee increases in recent years as well as increased volumes.

Return on equity and return on required equity ratios increased from the same three and six month period last year due to the increase in annualized net income, largely driven by higher guarantee and application fees earned as explained above.

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.

(in millions)	Six months ended 30 June 2020	Six months ended 30 June 2019
Amounts provided for housing programs:		
Amounts authorized in 2019/20 (2018/19)		
Main estimates	2,657	2,452
Supplementary estimates A[1,2]	9	7
Supplementary estimates B[1,3]	78	1
Less: Portion recognized in calendar 2019 (2018)	(1,282)	(1,309)
Less: Government funding lapsed for 2019/20 (2018/19)	(64)	(356)
Less: Frozen Allotment	(463)	(18)
2019/20 (2018/19) government funding for housing programs funded in 2020 (2019)	**935**	**777**
Less: Funding deferred in period	(21)	-
2019/20 (2018/19) government funding for housing programs recognized in 2020 (2019)	**914**	**777**
Amounts authorized in 2020/21 (2019/20)		
Main estimates	2,920	2,657
Supplementary estimates A[1,2,4]	3,038	9
Supplementary estimates B[1,3]	-	78
Total fiscal year government funding for housing programs	**5,958**	**2,744**
Less: portion to be recognized in subsequent quarters	(4,466)	(2,357)
Less: Frozen Allotment	(44)	-
2020/21 (2019/20) government funding for housing programs funded in 2020 (2019) calendar year	**1,448**	**387**
Less: Funding deferred in period	(819)	(7)
2020/21 (2019/20) government funding for housing programs recognized in 2020 (2019) calendar year	**629**	**380**
Total government funding for housing programs recognized – six months ended 30 June	**1,543**	**1,157**

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

2 *Approved 2019/20 supplementary estimates A for Housing Research and Data Initiative, First-Time Home Buyer Initiative, Human-rights based approach to housing and other initiatives.*

3 *Approved 2019/20 supplementary estimates B for Co-Investment Fund, Innovation Fund, First-Time Home Buyer Initiative and other initiatives.*

4 *Approved 2020/21 supplementary estimates A for Canada Emergency Commercial Rent Assistance, Housing Supply Challenge and funding to respond to the National Inquiry into Missing and Murdered Indigenous Women and Girls' Final Report: Reclaiming Power and Place Assistance.*

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 2020**	**31 December 2019**
Mortgage Insurance: Capital available to minimum capital required (% MICAT)	231%	195%
Mortgage Funding: Available equity to required equity	223%	190%

Our Mortgage Insurance MICAT ratio increased by 36 percentage points mainly due to the increase in available equity, driven by net income and the temporary suspension of dividends announced on 26 March 2020. Capital required for insurance risk also decreased due to lower insurance-in-force since 31 December 2019 as new volumes are lower than maturities. We remain adequately capitalized as at 30 June 2020.

Our Mortgage Funding available equity to required equity ratio increased by 33 percentage points. This is due to the increase in available equity, primarily driven by the temporary suspension of the dividend in the second quarter of 2020 as well as the contribution of income in the period.

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 2020, total investments had a fair value of $19.1 billion (31 December 2019 – $17.8 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 2020, total investments under management had a fair value of $4.5 billion (31 December 2019 – $3.9 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 2019 Annual Report and there have been no changes to our risk management approaches during this reporting period.

We are exposed to heightened operational risks including people risk as we manage the impact of the COVID-19 crisis on the health and well-being of our employees. We continue to monitor the evolution of COVID-19 to ensure our plans remain appropriate and we support our employees through best practice workplace reintegration measures. We continue to monitor potential emerging risks including being on heightened alert for a potential second wave of infections and have business continuity plans in place to manage our operations. Our recent investments in technology and increased risk monitoring are helping us navigate through the current crisis. We continue to deliver all our regular programs ensuring critical services to Canadians are uninterrupted as well as supporting additional federal government measures under our financial stability mandate.

Global financial markets have somewhat improved recently and market, credit and liquidity risks have shifted from being elevated to a moderate level. However, substantial risks remain from a second wave of COVID-19 infections that can prolong economic recovery. We continue to manage any developing risks to our commercial programs and investments effectively through high quality investments and heightened monitoring of our counterparties and program participants. Our Mortgage Insurance activity providing support for lenders, homeowners and multi-unit landlords may face increased default risks as payment deferrals and government support programs expire in the event that incomes do not fully recover. In addition, a decline in house prices across Canada and higher rates of unemployment, commodity price shocks and continuation of social distancing measures for a longer duration will impact the economy.

As we exercise our financial stability mandate, we may continue to focus on limiting the negative impact of COVID-19 on Canadians over some near-term strategic objectives. Our crisis readiness framework and our risk appetite in times of crisis continue to enable us to manage current crisis and any evolving risks.

HISTORICAL QUARTERLY INFORMATION

(in millions, unless otherwise indicated)	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019[2]	Q4 2018	Q3 2018
Consolidated Results								
Total assets	294,167	283,711	276,259	276,685	272,242	269,976	263,876	272,513
Total liabilities	278,473	268,281	261,646	261,857	257,333	255,025	248,995	256,839
Total equity of Canada	15,694	15,430	14,613	14,828	14,909	14,951	14,881	15,674
Total revenues and government funding	1,781	1,459	1,191	1,049	1,020	1,479	1,047	1,049
Total expenses (including income taxes)	1,215	1,200	767	666	641	1,085	698	662
Net income	566	259	424	383	379	394	349	387
Assisted Housing								
Government funding for housing programs	629	914	489	393	380	777	431	416
Net income (loss)	25	6	27	10	-	5	13	10
Total equity of Canada	268	379	302	270	247	270	291	310
Mortgage Insurance								
Insurance-in-force ($B)	433	425	429	433	439	442	448	453
Total insured volumes	26,939	10,795	14,320	14,063	14,191	7,891	12,159	13,304
Premiums and fees received	573	348	432	466	428	223	380	409
Premiums and fees earned	346	335	358	359	357	355	356	358
Claims paid	34	63	63	53	46	74	60	60
Insurance claims	292	122	40	42	36	73	38	35
Net income	400	128	266	255	297	278	233	283
Arrears rate	0.34%	0.32%	0.31%	0.30%	0.29%	0.30%	0.29%	0.29%
Loss ratio	84.3%	36.5%	11.3%	11.6%	10.2%	20.6%	10.7%	9.8%
Operating expense ratio	21.3%	20.6%	22.0%	20.8%	20.7%	24.0%	25.6%	18.7%
Combined ratio	105.6%	57.1%	33.3%	32.4%	30.9%	44.6%	36.6%	28.5%
Severity ratio	28.9%	28.8%	29.9%	30.0%	28.8%	29.3%	30.0%	32.1%
Return on equity	13.2%	4.2%	8.8%	8.3%	9.7%	9.1%	7.6%	8.8%
Return on required equity	14.9%	4.9%	10.6%	9.8%	11.3%	10.2%	8.3%	9.1%
Capital available to minimum capital required (% MICAT)[1]	231%	207%	195%	197%	197%	189%	168%	175%
% Estimated outstanding Canadian residential mortgages with CMHC insurance coverage	25.8%	26.0%	26.4%	27.0%	28.0%	28.5%	29.1%	29.7%
Mortgage Funding								
Guarantees-in-force ($B)	516	494	493	488	492	494	488	484
Securities guaranteed	84,342	45,930	50,140	42,930	41,708	38,924	48,556	43,766
Guarantee and application fees received	323	154	129	164	136	128	252	156
Guarantee and application fees earned	170	160	156	146	142	138	132	121
Net income	143	122	126	116	114	108	102	94
Operating expense ratio	9.0%	8.4%	9.3%	9.3%	9.7%	8.7%	10.5%	8.4%
Return on equity	21.9%	20.4%	21.7%	19.1%	18.4%	17.5%	16.0%	15.1%
Return on required equity	42.9%	38.7%	38.9%	35.9%	34.9%	34.1%	26.0%	21.2%
Available equity to required equity	223%	211%	190%	198%	203%	207%	209%	149%
% Estimated outstanding Canadian residential mortgages with CMHC securitization guarantees	30.6%	30.3%	30.6%	30.9%	31.4%	32.2%	31.9%	31.7%

[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 Leases and related interpretations.*

Unaudited Quarterly Consolidated Financial Statements

CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Period ended 30 June 2020

Management is responsible for the preparation and fair presentation of these unaudited quarterly consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, and for such internal controls as Management determines are necessary to enable the preparation of unaudited quarterly consolidated financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the unaudited quarterly consolidated financial statements.

Based on our knowledge, these unaudited quarterly consolidated financial statements present fairly, in all material respects, our financial position, results of operations and cash flows, as at the date of and for the periods presented in the unaudited quarterly consolidated financial statements.

Evan Siddall, BA, LL.B
President and Chief Executive Officer

Lisa Williams, CPA, CA
Chief Financial Officer

25 August 2020

CONSOLIDATED BALANCE SHEET

		As at	
(in millions of Canadian dollars)	Notes	30 June 2020	31 December 2019
Assets			
Cash and cash equivalents		2,232	922
Securities purchased under resale agreements		898	-
Accrued interest receivable		661	737
Investment securities:			
Fair value through profit or loss	11	488	809
Fair value through other comprehensive income	11	21,592	20,633
Amortized cost	10	1,376	947
Derivatives		39	68
Due from the Government of Canada	6	267	249
Loans:	12		
Fair value through profit or loss		963	1,331
Amortized cost		264,411	249,439
Accounts receivable and other assets		962	848
Investment property		278	276
		294,167	276,259
Liabilities			
Accounts payable and other liabilities		1,530	796
Accrued interest payable		534	591
Derivatives		16	8
Provision for claims	7	720	407
Borrowings:	13		
Fair value through profit or loss		1,659	2,374
Amortized cost		265,679	249,741
Defined benefit plans liability		597	449
Unearned premiums and fees	7, 8	7,558	7,151
Deferred income tax liabilities		180	129
		278,473	261,646
Commitments and contingent liabilities	20		
Equity of Canada	9		
Contributed capital		25	25
Accumulated other comprehensive income		618	247
Retained earnings		15,051	14,341
		15,694	14,613
		294,167	276,259

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

		Three months ended 30 June		Six months ended 30 June	
(in millions of Canadian dollars)	**Notes**	**2020**	**2019**	**2020**	**2019**
Interest income		1,248	1,354	2,597	2,705
Interest expense		1,249	1,339	2,585	2,663
Net interest income		(1)	15	12	42
Government funding for housing programs	6	629	380	1,543	1,157
Premiums and fees earned	7, 8	516	499	1,011	992
Investment income		105	120	223	238
Net gains on financial instruments	14	519	-	431	56
Other income		13	6	20	14
Total revenues and government funding		1,781	1,020	3,240	2,499
Non-interest expenses					
Housing programs	6	557	329	1,399	1,062
Insurance claims		292	36	414	109
Operating expenses		180	148	330	300
Total expenses		1,029	513	2,143	1,471
Income before income taxes		752	507	1,097	1,028
Income taxes	18	186	128	272	255
Net income		566	379	825	773
Other comprehensive income (loss), net of tax					
Items that will be subsequently reclassified to net income					
Net unrealized gains from debt instruments held at fair value through other comprehensive income		22	119	396	363
Reclassification of losses (gains) on debt instruments held at fair value through other comprehensive income on disposal in the period		(72)	13	(25)	13
Total items that will be subsequently reclassified to net income		(50)	132	371	376
Items that will not be subsequently reclassified to net income					
Net losses from equity securities designated at fair value through other comprehensive income		-	(1)	-	(1)
Remeasurement losses on defined benefit plans	17, 18	(252)	(47)	(115)	(110)
Total items that will not be subsequently reclassified to net income		(252)	(48)	(115)	(111)
Total comprehensive income (loss), net of tax		(302)	84	256	265
Comprehensive income		264	463	1,081	1,038

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

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

		Three months ended 30 June		Six months ended 30 June	
(in millions of Canadian dollars)	Notes	2020	2019	2020	2019
Contributed capital		25	25	25	25
Accumulated other comprehensive income					
Balance at beginning of period		667	249	247	5
Other comprehensive income (loss)		(49)	132	371	376
Balance at end of period		618	381	618	381
Retained earnings					
Balance at beginning of period		14,738	14,677	14,341	14,851
Net income		566	379	825	773
Other comprehensive income (loss)		(253)	(48)	(115)	(111)
Dividend	9	-	(505)	-	(1,010)
Balance at end of period		15,051	14,503	15,051	14,503
Equity of Canada		15,694	14,909	15,694	14,909

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Three months ended 30 June		Six months ended 30 June	
(in millions of Canadian dollars)	**Notes**	**2020**	**2019**	**2020**	**2019**
Cash flows from operating activities					
Net income		566	379	825	773
Adjustments to determine cash flows from operating activities					
Amortization of premiums and discounts on financial instruments		35	17	54	35
Net (gains) losses on financial instruments		(426)	46	(564)	46
Deferred income taxes	18	51	8	(2)	20
Changes in operating assets and liabilities					
Derivatives		(158)	(61)	37	(113)
Accrued interest receivable		577	586	76	32
Due from the Government of Canada		550	138	(41)	(224)
Accounts receivable and other assets		(88)	(34)	(114)	(91)
Accounts payable and other liabilities		461	(124)	703	142
Accrued interest payable		(553)	(553)	(57)	41
Provision for claims		255	(12)	313	(5)
Defined benefit plans liability		10	(6)	13	(5)
Unearned premiums and fees		397	84	407	(53)
Other		(5)	-	(4)	(4)
Loans	12				
Repayments		10,400	10,259	21,111	15,332
Disbursements		(19,847)	(11,182)	(35,653)	(21,553)
Borrowings	13				
Repayments		(13,227)	(11,576)	(26,627)	(16,924)
Issuances		22,551	12,458	41,699	23,108
		1,549	427	2,176	557
Cash flows from investing activities					
Investment securities					
Sales and maturities		9,989	4,826	11,016	6,726
Purchases		(10,094)	(4,120)	(10,984)	(5,113)
Securities purchased under resale agreements		(684)	-	(898)	-
Securities sold under repurchase agreements		-	(171)	-	(280)
		(789)	535	(866)	1,333
Cash flows from financing activities					
Dividends paid		-	(1,010)	-	(1,685)
Change in cash and cash equivalents		760	(48)	1,310	205
Cash and cash equivalents					
Beginning of period		1,472	1,090	922	837
End of period		2,232	1,042	2,232	1,042
Represented by					
Cash		632	41	632	41
Cash equivalents		1,600	1,001	1,600	1,001
		2,232	1,042	2,232	1,042
Supplementary disclosure of cash flows from operating activities					
Amount of interest received during the period		2,046	2,111	3,091	3,134
Amount of interest paid during the period		1,885	1,936	2,787	2,759
Amount of dividends received during the period		1	2	2	9
Amount of income taxes paid during the period		200	32	411	106

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

NOTES TO UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Canada Mortgage and Housing Corporation (CMHC or Corporation) was established in Canada as a Crown corporation in 1946 by the *Canada Mortgage and Housing Corporation Act* (CMHC Act) to carry out the provisions of the *National Housing Act* (NHA). We are also subject to Part X of the *Financial Administration Act* by virtue of being listed in Part 1 of Schedule III, wholly owned by the Government of Canada (Government), and an agent Crown corporation. Our Corporation's National Office is located at 700 Montreal Road, Ottawa, Ontario, Canada, K1A 0P7.

These unaudited quarterly consolidated financial statements are as at and for the six months ended 30 June 2020 and were approved and authorized for issue by our Audit Committee on 25 August 2020.

2. Basis of Preparation and Significant Accounting Policies

Our unaudited quarterly consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* (IAS 34) and do not include all of the information required for full annual consolidated financial statements. Except for the accounting policy described below, we follow the same accounting policies and methods of application as disclosed in Note 2 of our audited consolidated financial statements for the year ended 31 December 2019. These unaudited quarterly consolidated financial statements should be read in conjunction with those financial statements.

Canada Emergency Commercial Rent Assistance (CECRA) for Small Businesses

On 24 April 2020, the Government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses. This program will provide forgivable loans to qualified commercial property owners who have set up rental forgiveness arrangements with their small business tenants. Under the program, forgivable loans will be offered to eligible commercial property owners so that they can reduce the rent owed by their impacted small business tenants by at least 75% for the months of April, May, June, July and August 2020. The forgivable loans from the Federal and Provincial governments will each cover 25% of the monthly rent, the landlord will absorb another 25%, leaving the tenant to pay the remaining 25%.

We are administering the program on behalf of the government of Canada and our provincial partners by providing the forgivable loans to the eligible commercial property owners. Funding for the program comes from the Government by way of appropriations similar to the way funding is received for housing programs activities. The financial results related to CECRA will be reported to our Chief Operating Decision Maker (CODM), the Executive Committee, within the Assisted Housing segment. Accordingly, we report CECRA results within that segment of our financial statements.

We follow existing accounting policies for the CECRA program.

Insured Mortgage Purchase Program (IMPP)

In March 2020, the Government launched the IMPP, under which it will purchase up to $150 billion of insured mortgage pools through CMHC. The IMPP is structured similarly to the Canada Mortgage Bond (CMB) Program, with the key difference being that CMHC directly purchases and holds the National Housing Act Mortgage-Backed Securities (NHA MBS) under the IMPP, whereas Canada Housing Trust (CHT) directly purchases and holds them under the CMB Program and we then consolidate CHT's accounts with CMHC's. The IMPP's primary financial statement impact is the recognition of loans and borrowings at amortized cost and the associated interest income and interest expense.

IMPP description

Loans under the IMPP represent amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS to us and are funded by the issuance of Borrowings from the Government of Canada. Both the loans and borrowings are amortizing and may be fixed or floating rate. Principal and interest payments occur monthly, and principal repayments on the borrowings are equal to principal receipts on the loans.

Under the IMPP, substantially all of the risks and rewards of the NHA MBS are retained by the issuers through swap agreements with the Corporation. Consequently, the NHA MBS serve as collateral to the loans and are not recognized in the consolidated balance sheet. This collateral is, however, held in the name of the Corporation and represents the sole source of principal repayment for the loans. The amount due from the swap counterparties represents both the interest earned on the loans, which is recognized in interest income, and the interest expense on the borrowings, which is recognized in interest expense.

Classification and measurement

We classify the loans and borrowings under the IMPP as follows.

<table>
<tr><th>Classification</th><th>Financial instruments</th><th>Description</th><th>Criteria and accounting treatment</th></tr>
<tr><td>Financial assets at amortized cost</td><td>Loans – IMPP</td><td>Amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS to CMHC.</td><td>Financial assets are classified at amortized cost if the assets:
a) are held within a business model whose objective is to collect contractual cash flows;
b) generate cash flows on specified dates that are solely payment of principal and interest (SPPI); and
c) have not been designated as FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from classifying them as at amortized cost.

Financial assets at amortized cost are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate method (EIRM), net of an allowance for expected credit losses (ECL).

Interest income is recognized using the EIRM in interest income.

ECL are recognized in net gains (losses) on financial instruments.

Gains and losses arising on derecognition are recognized directly in net gains (losses) on financial instruments.</td></tr>
<tr><td>Financial liabilities at amortized cost</td><td>Borrowings from the Government of Canada – IMPP</td><td>Amortizing borrowings incurred to fund loans under the IMPP.</td><td>Financial liabilities are classified at amortized cost, unless they have been classified at FVTPL.

Financial liabilities are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the EIRM, with interest expense recorded in interest expense.</td></tr>
</table>

Measurement of expected credit losses

Loans under the IMPP are collateralized by the NHA MBS acquired in the transactions. The NHA MBS and swaps represent the sole source of principal and interest repayment on the loans, and thus directly affect the probability of a default occurring. Therefore, our assessment of significant increase in credit risk (SICR) is based on the credit risk of these supporting assets.

The supporting assets are limited to NHA MBS rated R-1 (high) or AAA and swap counterparties with a minimum rating of A-. As such, all loans under the IMPP are presumed to have low credit risk and we have applied the low credit risk exemption (stage 1).

Presentation of results

The IMPP is a mortgage funding activity, intended to provide liquidity to financial institutions so they can continue to lend. Financial results of the IMPP will be reported to our CODM, the Executive Committee, within the Mortgage Funding segment. Accordingly, we report IMPP results within that segment in our financial statements.

Additional IMPP disclosures

These disclosures are in addition to information on the IMPP found in Notes 8, 10, 12, 13, 15, and 16.

The following tables present the contractual maturity profile and average yield of IMPP loans and borrowings based on carrying value.

	Year of maturity[1]						
(in millions, unless otherwise indicated)	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**Total as at 30 June 2020**
Loans under the IMPP	-	13	152	240	4,534	740	5,679
Weighted-average yield	-	1.3%	1.5%	1.7%	1.7%	1.7%	1.7%
Borrowings from the Government of Canada – IMPP	-	13	152	240	4,534	740	5,679
Weighted-average yield	-	1.3%	1.5%	1.7%	1.7%	1.7%	1.7%

[1] *Year of maturity in the table above reflects the year in which we will receive the final cash flows from the underlying NHA MBS pools. However, we will actually receive cash flows earlier and over time. Under the IMPP, we use any principal cash flows received from the loans to repay the borrowings.*

In the three and six months ended 30 June 2020, interest income and interest expense under the IMPP were $23 million (three and six months ended 30 June 2019 – nil).

Seasonality

We have concluded that our business is not highly seasonal in accordance with IAS 34; however, our Mortgage Insurance (MI) business is exposed to some seasonal variation. Premiums received for some insurance products vary each quarter because of seasonality in housing markets. Variations are driven by the level of mortgage originations and related mortgage policies written, which, for purchase transactions, typically peak in the spring and summer months. Insurance claims vary from quarter to quarter primarily as the result of prevailing economic conditions as well as the characteristics of the insurance-in-force portfolio, such as size and age.

3. Current and future accounting changes

Current accounting changes

We actively monitor new standards and amendments to existing standards that have been issued by the IASB. There were no new or amended standards issued by the IASB that had an impact on our quarterly consolidated financial statements.

Conceptual Framework for Financial Reporting

We adopted the revised *Conceptual Framework for Financial Reporting* (Conceptual Framework) on 1 January 2020. The *Conceptual Framework* is used to develop accounting policies when no IFRS Standard applies to a particular transaction. The revised *Conceptual Framework* includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance, in particular the definitions of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

We have completed our assessment and concluded that the revised *Conceptual Framework* does not have an impact on our consolidated financial statements.

Future accounting changes

The following new standard and interpretation issued by the IASB have been assessed as having a possible impact on the Corporation in the future. We intend to adopt this standard and this interpretation, if applicable, as at the required effective date indicated below and are currently assessing the impact on our consolidated financial statements.

IFRS 17 Insurance Contracts – effective date of 1 January 2023

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), which will replace IFRS 4 *Insurance Contracts*.

In June 2020, the IASB amended IFRS 17 to address concerns and implementation challenges raised by stakeholders. The most notable proposed amendment to CMHC is that the IASB has deferred the effective date by two years, to 1 January 2023. We evaluated the entire suite of amendments and except for the deferral, we do not expect them to have a significant impact on our implementation.

Under IFRS 17, insurance contract liabilities will include the present value of future insurance cash flows, adjusted for risk, as well as a contractual service margin and deferred acquisition costs, 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.

4. Critical Judgments in Applying Accounting Policies and Making Estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires Management to make various judgments, estimates and assumptions that can significantly affect the amounts recognized in the financial statements. Actual results may differ from these estimates. Where these differ, the impact will be recorded in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities have been disclosed in Note 4 of our audited consolidated financial statements for the year ended 31 December 2019. Notable changes to the key judgments and estimates are reflected below.

The outbreak of a novel strain of coronavirus, causing the disease specifically identified as “COVID-19” has led to a global pandemic that is significantly impacting a number of global economies. The economic impacts of COVID-19 are not fully known and there may be additional government, private sector and regulatory responses introduced to mitigate the outbreak and the related economic impacts. As a result of these and other factors, there is additional uncertainty with respect to making judgments and the assumptions used in making estimates as well as their impact on our financial results.

Judgments in applying accounting policies

Derecognition

In assessing whether transfers of NHA MBS from Canadian financial institutions to CMHC under the IMPP qualify for derecognition, significant judgment is applied in determining whether substantially all the risks and rewards of ownership of the NHA MBS have been transferred. We have determined that the sellers of NHA MBS to CMHC fail to meet the derecognition criteria as they retain the risks and rewards of the NHA MBS through swap agreements. As a result, we do not recognize the underlying NHA MBS in the consolidated balance sheet but rather account for the transfers as loans.

Use of estimates and assumptions

Our methodology for the estimation of expected credit losses on debt securities classified as amortized cost or FVOCI includes different economic scenarios (baseline, optimistic and pessimistic) that are based on forecasted macro-economic inputs published by third parties and reviewed and approved by our Chief Economist. The significant inputs to the ECL model include forecasted Canadian and US equity markets, unemployment rates, credit spreads, oil price and volatility index (VIX).

We assign a weight to the different scenarios for the purpose of calculating the ECL provision. The appropriate weight assigned to each economic scenario is determined by our Chief Economist.

The ECL at 30 June 2020 was calculated using a 35% weighting to the pessimistic scenario, 50% weighting to the baseline and 15% weight to the optimistic scenario (31 December 2019 – 35% pessimistic, 45% baseline and 20% optimistic). The revised scenarios, in conjunction with our revised weightings, reflect a higher probability of losses in the next 12 months compared to 31 December 2019. See Notes 11 and 12 for more information on expected credit losses.

Provision for claims

We have revised our estimate of the provision for claims at 30 June 2020, reflecting up to date arrears information and economic assumptions available at the balance sheet date. The provision for claims includes only incurred losses up to 30 June 2020 and does not include any losses on claims that may occur in future periods. The impact of mortgage deferral arrangements by financial institutions makes it difficult to determine the claims that were incurred during the quarter. As a result, we have relied on our internal model to estimate the incurred claims between 1 April 2020 and 31 December 2020, and based on our economic assumptions, experience and judgement, have selected the portion of these that occurred before 30 June 2020.

We consider a number of scenarios when establishing a reasonable range for the provision for claims and our final estimate reflects the following key assumptions: average unemployment rate of 17.25% for the remainder of 2020 and 11.94% for 2021; change in house price index of negative 6.9% for the remainder of 2020 and negative 2.4% for 2021; change in real gross domestic product of negative 4.4% for the remainder of 2020 and 6.1% for 2021. See Note 7 for more information on the provision for claims.

Valuation of pension benefit obligation

The current market circumstances have resulted in decreased bond yields and credit spreads that have impacted the discount rate used to measure the pension benefit obligation. We have revised our estimate of the defined benefit plans liability at 30 June 2020 to reflect these changes. See Note 17 for more information on the valuation of our pension obligation.

5. Segmented Information

The quarterly consolidated financial statements include the Assisted Housing (AH), Mortgage Insurance (MI) and Mortgage Funding (MF) segments, each of which provides different programs in support of our objectives. The accounts for CHT, a separate legal entity, are included within the Mortgage Funding reportable segment. The financial results of each segment are determined using the accounting policies described in Note 2 of our audited consolidated financial statements for the year ended 31 December 2019, as well as the new accounting policy described in Note 2 of these quarterly consolidated financial statements. Revenues are generated and assets are located in Canada.

Revenues for the reportable segments are generated as follows:

- Assisted Housing revenues include government funding and interest income on loans;
- Mortgage Insurance revenues include premiums, fees and investment income; and
- Mortgage Funding revenues include guarantee and application fees, investment income and interest income on loans.

Three months ended 30 June	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations		Total	
(in millions)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Interest income	71	72	-	-	1,178	1,284	(1)	(2)	1,248	1,354
Interest expense	80	75	-	-	1,176	1,281	(7)	(17)	1,249	1,339
Net interest income (loss)	**(9)**	**(3)**	**-**	**-**	**2**	**3**	**6**	**15**	**(1)**	**15**
Government funding for housing programs	629	380	-	-	-	-	-	-	629	380
Premiums and fees earned	-	-	346	357	170	142	-	-	516	499
Investment income	-	-	90	113	18	18	(3)	(11)	105	120
Net gains on financial instruments	49	3	462	40	14	4	(6)	(47)	519	-
Other income (loss)	7	6	1	(1)	5	1	-	-	13	6
Total revenues and government funding	**676**	**386**	**899**	**509**	**209**	**168**	**(3)**	**(43)**	**1,781**	**1,020**
Non-interest expenses										
Housing programs	557	329	-	-	-	-	-	-	557	329
Insurance claims	-	-	292	36	-	-	-	-	292	36
Operating expenses	88	58	74	74	18	16	-	-	180	148
Total expenses	**645**	**387**	**366**	**110**	**18**	**16**	**-**	**-**	**1,029**	**513**
Income (loss) before income taxes	**31**	**(1)**	**533**	**399**	**191**	**152**	**(3)**	**(43)**	**752**	**507**
Income taxes	6	(1)	133	102	48	38	(1)	(11)	186	128
Net income	**25**	**-**	**400**	**297**	**143**	**114**	**(2)**	**(32)**	**566**	**379**
Total revenues and government funding	676	386	899	509	209	168	(3)	(43)	1,781	1,020
Inter-segment income (loss)[1]	(1)	(2)	(9)	(58)	7	17	3	43	-	-
External revenues and government funding	675	384	890	451	216	185	-	-	1,781	1,020

[1] *Inter-segment income relates to the following:*

- *Assisted Housing recognizes interest income from investing in holdings of CMB*;
- *Mortgage Insurance recognizes investment income from investing in holdings of CMB; and*
- *Within Mortgage Funding, CHT recognizes interest expense on CMB held by Assisted Housing and Mortgage Insurance.*

Six months ended 30 June	**Assisted Housing Activity**		**Mortgage Insurance Activity**		**Mortgage Funding Activity**		**Eliminations**		**Total**	
(in millions)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Interest income	146	148	-	-	2,453	2,561	(2)	(4)	2,597	2,705
Interest expense	154	149	-	-	2,447	2,555	(16)	(41)	2,585	2,663
Net interest income (loss)	**(8)**	**(1)**	**-**	**-**	**6**	**6**	**14**	**37**	**12**	**42**
Government funding for housing programs	1,543	1,157	-	-	-	-	-	-	1,543	1,157
Premiums and fees earned	-	-	681	712	330	280	-	-	1,011	992
Investment income	-	-	194	230	35	36	(6)	(28)	223	238
Net gains on financial instruments	39	7	387	94	12	3	(7)	(48)	431	56
Other income (loss)	13	12	-	(1)	7	3	-	-	20	14
Total revenues and government funding	**1,587**	**1,175**	**1,262**	**1,035**	**390**	**328**	**1**	**(39)**	**3,240**	**2,499**
Non-interest expenses										
Housing programs	1,399	1,062	-	-	-	-	-	-	1,399	1,062
Insurance claims	-	-	414	109	-	-	-	-	414	109
Operating expenses	151	109	143	159	36	32	-	-	330	300
Total expenses	**1,550**	**1,171**	**557**	**268**	**36**	**32**	**-**	**-**	**2,143**	**1,471**
Income before income taxes	**37**	**4**	**705**	**767**	**354**	**296**	**1**	**(39)**	**1,097**	**1,028**
Income taxes	6	(1)	177	192	89	74	-	(10)	272	255
Net income	**31**	**5**	**528**	**575**	**265**	**222**	**1**	**(29)**	**825**	**773**
Total revenues and government funding	1,587	1,175	1,262	1,035	390	328	1	(39)	3,240	2,499
Inter-segment income (loss)[1]	(2)	(4)	(13)	(76)	16	41	(1)	39	-	-
External revenues and government funding	1,585	1,171	1,249	959	406	369	-	-	3,240	2,499

[1] *Inter-segment income relates to the following:*

- *Assisted Housing recognizes interest income from investing in holdings of CMB;*
- *Mortgage Insurance recognizes investment income from investing in holdings of CMB; and*
- *Within Mortgage Funding, CHT recognizes interest expense on CMB held by Assisted Housing and Mortgage Insurance.*

As at 30 June 2020 and 31 December 2019	Assisted Housing Activity		Mortgage Insurance Activity		Mortgage Funding Activity		Eliminations[1]		Total	
(in millions)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Assets										
Cash and cash equivalents	796	630	1,431	291	5	1	-	-	2,232	922
Securities purchased under resale agreements	898	-	-	-	-	-	-	-	898	-
Accrued interest receivable	80	103	94	96	488	540	(1)	(2)	661	737
Investment securities:										
Fair value through profit or loss	566	1,037	122	122	-	-	(200)	(350)	488	809
Fair value through other comprehensive income	-	-	17,501	17,370	4,507	3,931	(416)	(668)	21,592	20,633
Amortized cost	1,401	972	-	-	-	-	(25)	(25)	1,376	947
Derivatives	29	19	10	49	-	-	-	-	39	68
Due from the Government of Canada	267	249	-	-	-	-	-	-	267	249
Loans:										
Fair value through profit or loss	939	1,307	24	24	-	-	-	-	963	1,331
Amortized cost	5,497	4,893	92	101	258,822	244,445	-	-	264,411	249,439
Accounts receivable and other assets	250	221	604	524	108	103	-	-	962	848
Investment property	267	267	11	9	-	-	-	-	278	276
	10,990	9,698	19,889	18,586	263,930	249,020	(642)	(1,045)	294,167	276,259
Liabilities										
Accounts payable and other liabilities	1,248	425	180	269	102	102	-	-	1,530	796
Accrued interest payable	60	64	-	-	475	529	(1)	(2)	534	591
Derivatives	5	8	11	-	-	-	-	-	16	8
Provision for claims	-	-	720	407	-	-	-	-	720	407
Borrowings:										
Fair value through profit or loss	1,659	2,374	-	-	-	-	-	-	1,659	2,374
Amortized cost	7,437	6,287	-	-	258,822	244,445	(580)	(991)	265,679	249,741
Defined benefit plans liability	258	185	327	260	12	4	-	-	597	449
Unearned premiums and fees	-	-	5,756	5,496	1,802	1,655	-	-	7,558	7,151
Deferred income tax liabilities	55	53	99	91	43	-	(17)	(15)	180	129
	10,722	9,396	7,093	6,523	261,256	246,735	(598)	(1,008)	278,473	261,646
Equity of Canada	268	302	12,796	12,063	2,674	2,285	(44)	(37)	15,694	14,613
	10,990	9,698	19,889	18,586	263,930	249,020	(642)	(1,045)	294,167	276,259

[1] *The balance sheet eliminations remove inter-segment holdings of CMB and inter-segment receivables/payables*

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)	**2020**	**2019**	**2020**	**2019**
Assistance for housing needs	336	348	1,089	1,079
Financing for housing	1,084	10	1,229	18
Housing expertise and capacity development	28	29	65	67
Total[1]	**1,448**	**387**	**2,383**	**1,164**
Government funding deferred in the period	(819)	(7)	(840)	(7)
Total Government funding recognized[2]	**629**	**380**	**1,543**	**1,157**

[1] *Includes operating expenses of $84 million and $141 million for the three and six months ended 30 June 2020, respectively (three and six months ended 30 June 2019 – $51 million and $95 million).*

[2] *Total government funding recognized does not include gains resulting from below market rate funds borrowed under the Crown Borrowing Program, which are recognized in net gains (losses) on financial instruments. These gains totaled $30 million and $54 million for the three and six months, respectively, ended 30 June 2020 (three and six months ended 30 June 2019 – $8 million and $14 million).*

The following table presents the change in the due from the Government of Canada account. The outstanding balance as at 30 June 2020 is mainly composed of Housing programs expenses incurred but not yet reimbursed.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2020**	**2019**	**2020**	**2019**
Balance at beginning of period	775	520	249	158
Add back prior period adjustments (net)	7	-	-	-
Total government funding	1,448	387	2,383	1,164
Government funding received during the period	(1,912)	(525)	(2,314)	(944)
Third party remittances to the Government of Canada	1	-	1	4
Balance at end of period before future period adjustment	**319**	**382**	**319**	**382**
Change in prior period adjustments (net)	3	-	3	-
Funding owed to Government in future periods[1]	(55)	-	(55)	-
Balance at end of period	**267**	**382**	**267**	**382**

[1] *Provincial and Territorial share of funding for Canada Emergency Commercial Rent Assistance program*

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)	2020	2019	2020	2019
Balance at beginning of period	5,512	5,248	5,496	5,375
Premiums deferred on contracts written in the period	577	438	922	661
Premiums earned in the period	(337)	(349)	(666)	(697)
Application fees deferred on contracts written in the period	8	5	11	7
Application fees earned in the period[1]	(4)	(4)	(7)	(8)
Balance at end of period	**5,756**	**5,338**	**5,756**	**5,338**

[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)	2020	2019	2020	2019
Balance at beginning of period	197	182	194	181
Acquisition costs deferred	16	18	33	33
Amortization of DAC	(14)	(13)	(28)	(27)
Balance at end of period	**199**	**187**	**199**	**187**

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 2020			31 December 2019		
(in millions)	IBNR, IBNER and CIP	SH and ILM	Total	IBNR, IBNER and CIP	SH and ILM	Total
Undiscounted estimated losses	632	38	670	341	40	381
Discounting	(5)	(3)	(8)	(4)	(6)	(10)
Discounted provision for adverse deviation	50	8	58	27	9	36
Total provision for claims	**677**	**43**	**720**	**364**	**43**	**407**

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

	Three months ended 30 June					
	2020			2019		
(in millions)	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**
Provision for claims, beginning of period	422	43	465	398	60	458
Net claims paid during the period	(34)	-	(34)	(46)	-	(46)
Provision for claims provided for and losses incurred during the period[1]	246	-	246	57	1	58
Unfavourable (favourable) development on prior period claims	43	-	43	(21)	(3)	(24)
Provision for claims, end of period	**677**	**43**	**720**	**388**	**58**	**446**

[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					
	2020			2019		
(in millions)	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**	**IBNR, IBNER and CIP**	**SH and ILM**	**Total**
Provision for claims, beginning of period	364	43	407	390	61	451
Net claims paid during the period	(97)	-	(97)	(120)	(3)	(123)
Provision for claims provided for and losses incurred during the period[1]	314	-	314	118	2	120
Unfavourable (favourable) development on prior period claims	96	-	96	-	(2)	(2)
Provision for claims, end of period	**677**	**43**	**720**	**388**	**58**	**446**

[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 2020 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 NHA MBS issued by approved issuers on the basis of housing loans under the NHA MBS program and the IMPP 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.

For 2020, the Minister of Finance has authorized CMHC to provide up to $295 billion of new guarantees of market NHA MBS and up to $60 billion of new guarantees for CMB.

At the balance sheet date, we have not received a claim on our timely payment guarantees (TPG). Based on our analysis, 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					
	2020			2019		
(in millions)	**NHA MBS**	**CMB**	**Total**	**NHA MBS**	**CMB**	**Total**
Balance at beginning of period	1,144	505	1,649	1,066	497	1,563
TPG and application fees received	262	61	323	97	39	136
TPG and application fees earned	(129)	(41)	(170)	(108)	(34)	(142)
Balance at end of period	**1,277**	**525**	**1,802**	**1,055**	**502**	**1,557**

	Six months ended 30 June					
	2020			2019		
(in millions)	**NHA MBS**	**CMB**	**Total**	**NHA MBS**	**CMB**	**Total**
Balance at beginning of period	1,152	503	1,655	1,079	494	1,573
TPG and application fees received	377	100	477	189	75	264
TPG and application fees earned	(252)	(78)	(330)	(213)	(67)	(280)
Balance at end of period	**1,277**	**525**	**1,802**	**1,055**	**502**	**1,557**

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. We have not paid or declared any dividends during the three and six month periods ended 30 June 2020 (three months ended 30 June 2019 – $1,010 million paid and $505 million declared; six months ended 30 June 2019 – $1,685 million paid and $1,010 million declared).

On 24 March 2020, the Government approved a $10 billion recapitalization limit in the event that CMHC may need to be recapitalized in the future.

The components of consolidated capital available are presented below.

(in millions)	As at 30 June 2020	 31 December 2019
Contributed capital	25	25
Accumulated other comprehensive income	618	247
Appropriated retained earnings	10,008	11,178
Unappropriated retained earnings[1]	5,043	3,163
Total equity of Canada[2]	**15,694**	**14,613**
Less: assets with a capital requirement of 100%	(40)	(40)
Total capital available	**15,654**	**14,573**

[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.

(in millions, unless otherwise indicated)	As at 30 June 2020	 31 December 2019
Appropriated capital[1]	9,159	10,192
Unappropriated capital	3,637	1,871
Total Mortgage Insurance capital	**12,796**	**12,063**
Less: assets with a capital requirement of 100%	(40)	(40)
Total Mortgage Insurance capital available	**12,756**	**12,023**
Internal target	155%	155%
Operating level	165%	165%
Capital available to minimum capital required (% MICAT)	231%	195%

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

Mortgage Funding capital

The following table presents the components of the capital available.

(in millions, unless otherwise indicated)	As at 30 June 2020	 31 December 2019
Appropriated capital[1]	1,201	1,199
Unappropriated capital	1,473	1,086
Total Mortgage Funding capital available	**2,674**	**2,285**
Capital available to capital required (%)	223%	190%

[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 2020**	**31 December 2019**
Reserve fund	80	94
Retained earnings	163	183
Total Lending programs capital available	**243**	**277**

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 2020			31 December 2019		
(in millions)	Carrying value	Fair value	Fair value over (under) carrying value	Carrying value	Fair value	Fair value over (under) carrying value
Financial assets[1]						
Investments at amortized cost[2]	1,376	1,392	16	947	946	(1)
Loans at amortized cost[3]	264,411	275,648	11,237	249,439	251,777	2,338
Financial liabilities						
Borrowings at amortized cost[4]	265,679	277,042	11,363	249,741	252,142	2,401

[1] *Does not include cash and cash equivalents of $1,107 million (31 December 2019 - $555 million) and securities purchased under resale agreements of $898 million (31 December 2019 – nil) carried at amortized cost as the fair value of these financial instruments is equal to their carrying value.*

[2] *$1,392 million (31 December 2019 – $946 million) fair value categorized as level 2.*

[3] *$274,387 million (31 December 2019 – $251,107 million) fair value categorized as level 2, $1,261 million (31 December 2019 – $670 million) fair value categorized as level 3.*

[4] *$69,005 million (31 December 2019 – $146,905 million) fair value categorized as level 1, $208,037 million (31 December 2019 – $105,237 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 2020				31 December 2019			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash equivalents								
Interest bearing deposits with banks	-	316	-	316	-	131	-	131
Federal government issued	791	18	-	809	286	-	-	286
Provinces/municipalities	-	-	-	-	-	-	-	-
Total cash equivalents	791	334	-	1,125	286	131	-	417
Investment securities								
FVTPL								
Debt instruments								
Corporate/other entities	-	58	-	58	-	122	-	122
Provinces/municipalities	-	207	-	207	26	304	-	330
Sovereign and related entities	-	101	-	101	-	239	-	239
Equities								
Limited partnership units	-	-	122	122	-	-	118	118
Total at FVTPL	-	366	122	488	26	665	118	809
FVOCI								
Debt instruments								
Corporate/other entities	3,022	4,112	-	7,134	1,625	5,390	-	7,015
Federal government issued	9,420	1,532	-	10,952	9,280	40	-	9,320
Provinces/municipalities	-	3,342	-	3,342	667	3,463	-	4,130
Sovereign and related entities	19	145	-	164	-	168	-	168
Total at FVOCI	12,461	9,131	-	21,592	11,572	9,061	-	20,633
Loans designated at FVTPL	-	806	-	806	-	1,244	-	1,244
Loans mandatorily at FVTPL	-	17	140	157	-	17	70	87
Derivatives	-	39	-	39	-	68	-	68
Investment property	-	-	278	278	-	-	276	276
Total assets carried at fair value	**13,252**	**10,693**	**540**	**24,485**	**11,884**	**11,186**	**464**	**23,534**
Liabilities								
Borrowings designated at FVTPL	-	1,659	-	1,659	-	2,374	-	2,374
Derivatives	-	16	-	16	-	8	-	8
Total liabilities carried at fair value	**-**	**1,675**	**-**	**1,675**	**-**	**2,382**	**-**	**2,382**

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 2020, there were $582 million and $2,631 million of transfers from level 2 to level 1, respectively (three and six months ended 30 June 2019 - $583 million and $1,020 million, respectively). During the three and six months ended 30 June 2020, there were $4,166 million and $4,417 million of transfers from level 1 to level 2, respectively (three and six months ended 30 June 2019 – $25 million and $375 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 2020				
Fair value as at 1 April 2020	121	98	276	495
Purchases	2	49	-	51
Net gains in net income[1,2]	(1)	(3)	2	(2)
Gain in OCI	-	-	-	-
Cash receipts on settlements/disposals	-	(4)	-	(4)
Fair value as at 30 June 2020	**122**	**140**	**278**	**540**
Six months ended 30 June 2020				
Fair value as at 1 January 2020	118	70	276	464
Purchases	2	83	-	85
Net gains in net income[1,2]	2	(3)	2	1
Gain in OCI	-	-	-	-
Cash receipts on settlements/disposals	-	(10)	-	(10)
Fair value as at 30 June 2020	**122**	**140**	**278**	**540**
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]	-	-	-	-
Gain in OCI	-	-	-	-
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**

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 2020, which may change materially in subsequent periods. The techniques and unobservable inputs used in valuing the items classified as Level 3 at 30 June 2020 did not materially change from 31 December 2019. 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 2019.

11. Investment Securities

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

	As at							
	30 June 2020				31 December 2019			
(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	361	5	-	366	692	1	(2)	691
FVOCI[2]	20,773	848	(29)	21,592	20,345	368	(80)	20,633
Equities								
FVTPL	91	33	(2)	122	89	29	-	118

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

[2] *Includes debt instruments denominated in U.S. dollars with a carrying value of $4,085 million (31 December 2019 – $2,334 million).*

At 30 June 2020, we do not hold investment securities (31 December 2019 – nil) that are part of securities sold under repurchase agreements with terms that do not exceed 93 days.

We 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 ECL allowance based on 12-month ECL with the exception of two instruments at FVOCI with a gross carrying value of $16 million that have an ECL allowance based on lifetime 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 2020						31 December 2019					
(in millions)	AAA	AA- to AA+	A-to A+	BBB- to BBB+	Lower than BBB-	Total	AAA	AA- to AA+	A-to A+	BBB- to BBB+	Lower than BBB-	Total
Investment securities[1]												
FVOCI	11,639	1,970	4,891	3,036	56	21,592	9,973	1,653	7,591	1,416	-	20,633
Amortized Cost	393	406	577	-	-	1,376	434	213	300	-	-	947

[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

At 30 June 2020, the ECL on debt instruments held at FVOCI was $29 million (31 December 2019 – $5 million), and the ECL on debt instruments held at amortized cost was $3 million (31 December 2019 – nil). Changes in ECL are recognized in net gains (losses) on financial instruments.

12. Loans

The following tables present 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	Capitalized Interest	Transfers[1]	Balance at end of period
2020									
FVTPL									
Lending programs	1,168	(43)	44	3	-	-	-	(233)	939
MI Activity loans	26	(11)	5	4	-	-	-	-	24
Total at FVTPL	**1,194**	**(54)**	**49**	**7**	**-**	**-**	**-**	**(233)**	**963**
Amortized cost									
CMB program loans	244,534	(10,074)	18,671	-	12	-	-	-	253,143
IMPP Loans	5,000	(138)	817	-	-	-	-	-	5,679
Lending programs	5,051	(118)	310	-	-	17	4	233	5,497
MI Activity loans	96	(16)	-	-	2	10	-	-	92
Total amortized cost	**254,681**	**(10,346)**	**19,798**	**-**	**14**	**27**	**4**	**233**	**264,411**
Total	**255,875**	**(10,400)**	**19,847**	**7**	**14**	**27**	**4**	**-**	**265,374**
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									
CMB program loans	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**

[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	Capitalized Interest	Transfers[1]	Balance at end of period
2020									
FVTPL									
Lending programs	1,307	(95)	70	17	-	-	-	(360)	939
MI Activity loans	24	(17)	13	4	-	-	-	-	24
Total at FVTPL	**1,331**	**(112)**	**83**	**21**	**-**	**-**	**-**	**(360)**	**963**
Amortized cost									
CMB program loans	244,445	(20,494)	29,167	-	25	-	-	-	253,143
IMPP Loans	-	(138)	5,817	-	-	-	-	-	5,679
Lending programs	4,893	(344)	585	-	-	(5)	8	360	5,497
MI Activity loans	101	(23)	1	-	3	10	-	-	92
Total amortized cost	**249,439**	**(20,999)**	**35,570**	**-**	**28**	**5**	**8**	**360**	**264,411**
Total	**250,770**	**(21,111)**	**35,653**	**21**	**28**	**5**	**8**	**-**	**265,374**
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									
CMB program loans	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**

[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.*

We are assured collection of principal and accrued interest on 99% (31 December 2019 – 99%) of our loans by various levels of government, CHMC mortgage insurance or by investment grade collateral representing the sole source of repayment on our loans under the CMB program and IMPP. For loans designated at FVTPL, the change in fair value attributable to changes in credit risk was immaterial.

Expected credit losses

Total undrawn loan commitments outstanding at 30 June 2020 were $3,151 million, of which $3,143 million are subject to 12-month ECL and $8 million are commitments outstanding on purchased or credit impaired loans.

At 30 June 2020, the ECL on undrawn loan commitments was $8 million (31 December 2019 – $6 million), and the ECL on loans was $94 million (31 December 2019 – $102 million). Changes in ECL are recognized in net gains (losses) on financial instruments for Lending program loans and in insurance claims expense for MI Activity loans.

13. Borrowings

The following tables present 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 and other	Eliminations	Balance at end of period
2020							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	2,094	-	(440)	5	-	-	1,659
Borrowings at amortized cost							
Canada mortgage bonds	243,620	18,671	(9,862)	-	12	122	252,563
Borrowings from the Government of Canada – IMPP	5,000	817	(138)	-	-	-	5,679
Borrowings from the Government of Canada – Lending programs	7,180	3,063	(2,787)	(30)	11	-	7,437
Total borrowings at amortized cost	**255,800**	**22,551**	**(12,787)**	**(30)**	**23**	**122**	**265,679**
Total	**257,894**	**22,551**	**(13,227)**	**(25)**	**23**	**122**	**267,338**
2019							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	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 – Lending programs	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**

		Six months ended 30 June					
		Cash flows		Non-cash changes			
(in millions)	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accretion and other	Eliminations	Balance at end of period
2020							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	2,374	-	(752)	37	-	-	1,659
Borrowings at amortized cost							
Canada mortgage bonds	243,454	29,167	(20,202)	-	25	119	252,563
Borrowings from the Government of Canada – IMPP	-	5,817	(138)	-	-	-	5,679
Borrowings from the Government of Canada – Lending programs	6,287	6,715	(5,535)	(54)	24	-	7,437
Total borrowings at amortized cost	**249,741**	**41,699**	**(25,875)**	**(54)**	**49**	**119**	**265,679**
Total	**252,115**	**41,699**	**(26,627)**	**(17)**	**49**	**119**	**267,338**
2019							
Designated at FVTPL							
Borrowings from the Government of Canada – Lending programs	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 – Lending programs	4,768	1,769	(1,463)	(14)	9	-	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**

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 2020, $212 million and $292 million, respectively (three and six months ended 30 June 2019 – nil) of 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.

Borrowing authorities

The Minister of Finance approves CMHC's Borrowing Plan annually and establishes limits and parameters for borrowings. The limits and parameters pertain to capital market borrowings and borrowings from the Government of Canada that have been incurred since April 2008 in the Assisted Housing and Mortgage Funding Activities.The Minister of Finance approved increases to the Borrowing Authorities in March 2020 in conjunction with the launch of the IMPP, which is financed through the Crown Borrowing Program. For 2020, the limits on our short-term borrowings outstanding and long-term borrowings issued are $20 billion and $154 billion, respectively (2019 – $5 billion and $4 billion). Actual short-term borrowings outstanding as at 30 June 2020 were $296 million (31 December 2019 – $78 million). Actual long-term borrowings issued in the three and six months ended 30 June 2020 were $1.5 billion and $7.1 billion, respectively (three and six months ended 30 June 2019 –$246 million and $509 million).

The legislative authority, which is separate from the limits above and does not apply to borrowings of CHT, requires that the total indebtedness outstanding at any time, other than to the Government, not exceed $20 billion (2019 – $20 billion). The outstanding principal balance of this indebtedness was nil as at 30 June 2020 (2019 – 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)	**2020**	**2019**	**2020**	**2019**
Financial Instruments designated at FVTPL				
Investment securities	1	2	6	7
Loans	4	2	17	10
Borrowings	(5)	(5)	(37)	(24)
Total financial instruments designated at FVTPL	**-**	**(1)**	**(14)**	**(7)**
Financial instruments mandatorily at FVTPL				
Equity securities	(1)	(1)	2	59
Debt instruments	-	(1)	-	(1)
Derivatives	80	45	(144)	94
Loans	3	1	4	1
Total financial instruments mandatorily at FVTPL	**82**	**44**	**(138)**	**153**
Debt instruments held at FVOCI[1]	346	(48)	567	(101)
Loans at amortized cost – prepayments	1	1	3	4
Borrowings – amortized cost[2]	30	5	44	8
Expected credit (loss) recovery on financial assets[3]	60	(1)	(31)	(1)
Total	**519**	**-**	**431**	**56**

1 *Includes a foreign exchange loss during the three months ended 30 June 2020 of $136 million and a foreign exchange gain during the six months ended 30 June 2020 of $84 million (losses for the three and six months six ended 30 June 2019 – $52 million and $104 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 2020 of $nil and $10 million (three and six months ended 30 June 2019 – $3 million and $6 million), net of gains during the three and six months ended 30 June 2020 from the issuance of borrowings of $30 million and $54 million (three and six months ended 30 June 2019 – $8 million and $14 million).*

3 *Excludes a release of expected credit losses on MI Activity loans at amortized cost during the three and six months ended 30 June 2020 of $10 million and $10 million, respectively (expected credit losses during the three and six months ended 30 June 2019 – $3 million and $3 million). These are presented in insurance claims expense.*

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.

Interest rate risk

Loans under the IMPP are exposed to both interest rate risk and prepayment risk. Prepayment risk is the risk that NHA MBS may experience varying degrees of prepayment throughout the term, which may reduce the NHA MBS holder's future interest income. To mitigate these risks, we enter into swap agreements with approved financial institution counterparties. Under these agreements, both interest rate and prepayment risks are transferred to swap counterparties. We pay the effective interest received on the underlying NHA MBS less administration costs to the swap counterparties in exchange for an amount equal to the interest owed on the borrowings from the Government of Canada. As a result of these swap agreements, changes in interest rates or prepayments related to the IMPP have no impact on the consolidated statement of income and comprehensive income.

For other programs, there were no material changes to our assessment and management of market risk in the six months ended 30 June 2020.

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 2020**	**31 December 2019**
Investment securities:		
Interest rate risk on debt instruments		
CAD-denominated securities	186	207
USD-denominated securities	104	35
Effect of diversification	(45)	(5)
Total VaR	**245**	**237**

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 $4,085 million in debt instruments denominated in U.S. dollars as at 30 June 2020 (31 December 2019 – $2,334 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 2020.

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 as at 30 June 2020 is presented below.

	As at			
	30 June 2020		**31 December 2019**	
	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]	(231)	292	(260)	211

[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.

As a result of the economic implications of the COVID-19 global pandemic, our potential for financial loss has increased in the near term, which is reflected in the expected credit loss provision as outlined in Note 11 and 12.

Maximum exposure to credit risk

For all financial assets other than guarantees or derivatives, the maximum exposure to credit risk is the carrying amount.

Under the IMPP, loans represent amounts due from Canadian financial institutions as a result of the sale of their beneficial interest in NHA MBS to us. The loans are collateralized by the NHA MBS, which are rated R-1 (high) or AAA. This collateral is held in our name and represents the sole source of principal repayments for the loans.

Under the IMPP, we are exposed to credit-related counterparty risk in the event of default of swap counterparties. This risk is mitigated by transacting with highly rated swap counterparties and collateralization requirements based on credit ratings. All IMPP swap counterparties must have a minimum credit rating of A-, or its equivalent, from at least two rating agencies.

The fair value of the loan collateral under the IMPP was $5,776 million, 102% of loan carrying value, as at 30 June 2020 (31 December 2019 – nil).

For other programs, there has been no change to the nature of the risks and how they are managed for the six month period ended 30 June 2020.

Concentrations and credit quality

The economic effects of the COVID-19 have not caused significant shifts in geographic or industry concentrations in CMHC's portfolio. Additionally, the portfolio's overall credit quality remains strong, with shifts mainly in the timing of expected losses.

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)	**2020**	**2019**	**2020**	**2019**
Current service cost	11	9	-	1
Net interest expense	3	3	1	1
Expense recognized in net income	**14**	**12**	**1**	**2**
Net actuarial losses arising from changes in financial assumptions	(439)	(124)	(22)	(6)
Return on plan assets (excluding amounts included in net interest expense)	167	73	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(272)**	**(51)**	**(22)**	**(6)**
CMHC's contributions	5	16	1	4
Employee contributions	6	6	-	-
Total contributions	**11**	**22**	**1**	**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.*

	Six months ended 30 June			
	Pension plans		**Other post-employment plans**	
(in millions)	**2020**	**2019**	**2020**	**2019**
Current service cost	22	18	-	6
Net interest expense	6	6	2	2
Expense recognized in net income	**28**	**24**	**2**	**8**
Net actuarial losses arising from changes in financial assumptions	(146)	(354)	(8)	(18)
Return on plan assets (excluding amounts included in net interest expense)	19	240	-	-
Net remeasurements recognized in other comprehensive income (loss)[1]	**(127)**	**(114)**	**(8)**	**(18)**
CMHC's contributions	16	31	1	6
Employee contributions	11	16	-	-
Total contributions	**27**	**47**	**1**	**6**

[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. The discount rate used to remeasure the defined benefit obligations at 30 June 2020 was 2.8% (31 December 2019 – 3.1%).

18. Income Taxes

The following table presents the components of income tax.

	Three months ended 30 June		Six months ended 30 June	
(in millions)	**2020**	**2019**	**2020**	**2019**
Current income tax expense	135	120	274	235
Deferred income tax relating to origination and reversal of temporary differences	51	8	(2)	20
Total income tax expense included in net income	**186**	**128**	**272**	**255**
Income tax expense (recovery) on other comprehensive income (loss)				
Net unrealized losses (gains) from FVOCI financial instruments	(9)	38	134	120
Reclassification of prior years' net unrealized gains realized in the period in net income	(9)	1	(9)	1
Remeasurement losses on defined benefit plans	(42)	(10)	(20)	(22)
Total income tax expense (recovery) included in other comprehensive income	**(60)**	**29**	**105**	**99**
Total	**126**	**157**	**377**	**354**

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 $11 million and $22 million for the three and six months ended 30 June 2020 (three and six months ended 30 June 2019 – $10 million and $21 million) for the Mortgage Insurance Activity and $8 million and $15 million for the three and six months ended 30 June 2020 (three and six months ended 30 June 2019 – $6 million and $12 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 $750 billion (31 December 2019 – $600 billion). At 30 June 2020, insurance-in-force, which represents the risk exposure of the Mortgage Insurance Activity, totalled $433 billion (31 December 2019 – $429 billion).

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $750 billion (31 December 2019 – $600 billion). At 30 June 2020, guarantees-in-force, which represents the risk exposure of the Mortgage Funding Activity, totalled $516 billion (31 December 2019 – $493 billion).

There are legal claims of $4 million (31 December 2019 – $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 $10 million of cash and cash equivalents as at 30 June 2020 (31 December 2019 – $26 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 $337 million of cash and cash equivalents (31 December 2019 – $417 million) that may only be used as part of the Rental Construction Financing initiative, $101 million (31 December 2019 – $34 million) that may only be used as part of the National Housing Co-Investment Fund, and $804 million (31 December 2019 - $nil) that may only be used for the CECRA Program.

As at 30 June 2020, we have $9,327 million in contractual financial obligations relating to housing programs which extend for periods up to 25 years (31 December 2019 - $9,625 million).

21. Comparative Figures

Operating expenses presented in the consolidated statement of income and comprehensive income have been reclassified to conform to the current period's presentation. Operating expenses related to the administration of housing programs were included in housing program expenses and are now included in the operating expenses under the Assisted Housing segment to align with the nature of the expense.

Provision for claims presented in the consolidated balance sheet, and in Note 7, has been reclassified to conform to the current period's presentation. The provision on self-insured loans is now presented in the accounts payable and other liabilities in accordance with IAS 37.

22. Subsequent Events

On 31 July 2020, the Government announced that the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses will be extended by one month to include expenses for the month of August, however the total amount of funding for the program has not changed.

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