CANADA MORTGAGE AND HOUSING CORPORATION

2017-2021

Summary of the Corporate Plan

Including Summaries of the 2017 Operating Budget and the 2017 Capital Budget

INNOVATION INSIDE AND OUT

Canada

CMHC SCHL

CMHC's 2017-2021 Corporate Plan was approved by the Governor in Council on December 15, 2016. The Summary of the 2017-2021 Corporate Plan has been prepared in accordance with section 125 of the Financial Administration Act (FAA) and serves to inform Canadians and Parliamentarians of the major objectives and priorities for the upcoming planning period, and reflects the current direction identified by Government and through internal management processes. Pursuant to section 153(1) of the FAA, the Summary excludes commercially sensitive information which if disclosed would be detrimental to the commercial interest of CMHC.

MINISTER'S FOREWORD

I am pleased to submit Canada Mortgage and Housing Corporation's (CMHC) Summary of the 2017-2021 Corporate Plan.

The Summary outlines CMHC's directions for the next five years, which include delivering more than $2 billion in new housing investments announced in Budget 2016. These investments are helping to expand affordable housing options for Canadians, including those in greatest need.

Last year, CMHC led consultations across the country to encourage Canadians to talk about housing and develop innovative housing solutions and approaches. This year, the Government will release a comprehensive National Housing Strategy aimed at achieving better housing, social, economic and environmental outcomes for all Canadians.

The Government continues to focus on supporting economic growth and protecting the financial security of Canadians. In this regard, CMHC is a key advisor on the stability of the housing finance system and will support the public consultations on lender risk sharing announced last fall.

Jean-Yves Duclos
Minister of Families, Children and Social Development

INNOVATION IS A CHOICE

Innovation is a deliberate choice. It's a way of approaching opportunities and taking on challenges with openness to change and curiosity about new possibilities. We're making innovation the core of our culture—in the way we work and in the way we engage with our partners and the people we serve.

We will find many new ways to innovate with modernized technology. More than 30 technology projects are underway over the next 36 months to help us better manage our core business processes so that we can use our time more productively. The result will be a leaner, more efficient, knowledge-based organization with a digital strategy at the core.

At the same time, we continue to mature our risk management culture and strengthen our governance and analytical practices. We see risk management and innovation as partners, and a strong risk management culture fosters innovation.

As a thought leader, we are advancing new ideas in housing finance by bringing together experts from Canada and around the world. We are leading consultations on a National Housing Strategy that will lead to a vision for housing in Canada. We are also working with colleagues throughout the federal government to further promote the stability of our housing finance system.

Innovation has taken hold at CMHC. You will see highlights throughout our 2017-2021 Corporate Plan Summary.

Evan Siddall
President and Chief Executive Officer

FOCUS ON PERFORMANCE

We are focused on our most important 2017 performance targets to achieve our outcomes and fulfill our commitment to Canadians.

≥ 198,660

More Canadians have access to affordable, adequate housing

Addressing Data Gaps

≥ 85%

Clients say new products are relevant

Risk

100%

Benchmarking categories show improved results

≥ 85%

Achievement of the Technology Transformation integrated project plan milestones

Diversity at CMHC

Indigenous People	≥ 2.8%
Visible Minorities	≥ 22.1%
Persons with Disabilities	≥ 3.7%
Women in Senior Leadership	≥ 54.4%

≥ $2.3M

Revenue per Employee

Operating Budget Expense Ratio

0 **Target = 12.5%** 20%

PERFORMANCE HIGHLIGHTS

Net income will grow over the planning period, supported by declining operating expenses.

- Total Revenues: Increases in Parliamentary Appropriations from Budget 2016 initiatives are weighted toward the first half of the planning horizon. The expiry of funding under the Investment in Affordable Housing (IAH) initiatives at 31 March 2019 is partially offset by an increase in Premiums and Fees Earned due to higher NHA MBS guaranteed volumes and an increase in investment income due to growing retained earnings from operations.
- Total Expenses: Expenses for Parliamentary Appropriations follow the same trajectory as the associated Revenues peaking in 2017 with the Budget 2016 initiatives. Forecast insurance claims are expected to temper over the planning period with improving economic conditions. Higher operating expenses in 2016 through 2018 reflect CMHC's investment in technology transformation.
- As projections are inherently unreliable, we also assess the impact of a cautious "downside" projection. Please refer to Annex C.

(in millions, unless otherwise indicated)	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
CORPORATE RESULTS							
Total Revenues	4,636	5,151	5,885	5,263	5,032	5,095	5,227
Total Expenses (including Income Taxes)	3,148	3,845	4,464	3,701	3,291	3,217	3,201
Net Income	1,488	1,306	1,421	1,562	1,741	1,878	2,026
Operating Budget Expense Ratio	11.1%	12.1%	12.5%	13.1%	13.4%	13.3%	13.1%
Total Assets	252,107	259,104	269,234	270,746	280,452	282,146	282,552
Total Liabilities	232,468	238,168	247,222	247,387	255,622	255,295	253,494
Total Equity of Canada	19,639	20,936	22,012	23,359	24,830	26,851	29,058
Employees (Full-time Equivalents (FTE))	1,721.5	1,870.8	1,888.6	1,813.4	1,769.5	1,734.9	1,719.2
Revenue per employee (FTE)	1.7	1.9	2.3	2.0	1.8	1.8	1.8
Employee Engagement Score	74%	75%*	80%	80%	80%	80%	80%
Women in Senior Leadership***	43.0%	42.0%	54.4%	54.4%	54.4%	54.4%	54.4%
Women – Employment Equity Group	57.3%	57.4%	**	**	**	**	**
Visible Minorities – Employment Equity Group	19.2%	20.2%	22.1%	24.0%	25.9%	25.9%	25.9%
Persons with Disabilities – Employment Equity Group	3.4%	3.2%	3.7%	4.3%	4.9%	4.9%	4.9%
Indigenous People – Employment Equity Group	2.1%	2.2%	2.8%	3.3%	3.9%	3.9%	3.9%
ASSISTED HOUSING							
Parliamentary Appropriations for Housing Programs	2,049	2,557	3,155	2,411	1,977	1,870	1,808
Net Income	25	19	14	19	0	5	(4)
MORTGAGE LOAN INSURANCE							
Insurance-in-Force	525,511	519,511	511,894	502,639	494,294	488,384	484,120
Total Insured Volumes	80,447	91,030	85,859	82,646	81,159	81,531	81,624
Premiums and Fees Received	1,438	1,497	1,527	1,549	1,603	1,692	1,798
Premiums and Fees Earned	1,592	1,568	1,566	1,559	1,560	1,581	1,630
Insurance Claims	290	421	332	296	281	265	253
Net Income	1,264	1,074	1,109	1,178	1,297	1,388	1,504
Loss Ratio	18.2%	26.8%	21.2%	19.0%	18.0%	16.8%	15.5%
Operating Expense Ratio	13.3%	20.1%	23.8%	22.3%	21.2%	21.0%	20.8%
Combined Ratio	31.5%	46.9%	45.0%	41.3%	39.2%	37.8%	36.3%
Return on Capital Holding Target	12.9%	10.5%	10.7%	11.2%	11.8%	12.1%	12.5%
Capital Available to Minimum Capital Required (%MCT)	354%	379%	408%	432%	444%	461%	479%
SECURITIZATION							
Guarantees-in-Force	431,000	460,000	492,000	505,000	522,000	497,000	494,000
Annual Securities Guaranteed	115,722	145,000	171,000	179,000	186,000	193,000	200,000
Guarantee and Application Fees Received	473	593	646	655	661	667	678
Guarantee and Application Fees Earned	268	313	390	468	546	614	643
Net Income	215	239	295	359	424	479	508
Operating Expense Ratio	11.1%	12.1%	12.3%	10.4%	9.0%	8.5%	7.9%
Return on Required Capital	17.9%	20.1%	21.1%	21.3%	22.1%	23.5%	24.8%
Capital Available to Capital Required (%MCT)	159%	165%	167%	177%	190%	213%	234%

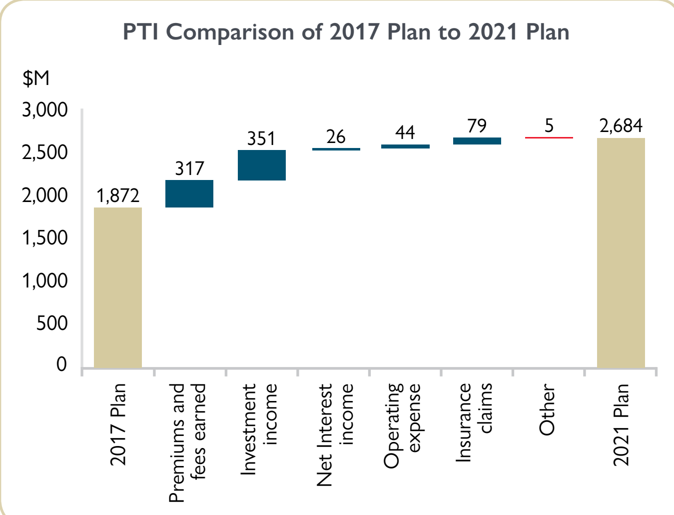
Annex B provides a status of our mid-year performance relative to the targets we set in our 2016-2020 Corporate Plan.

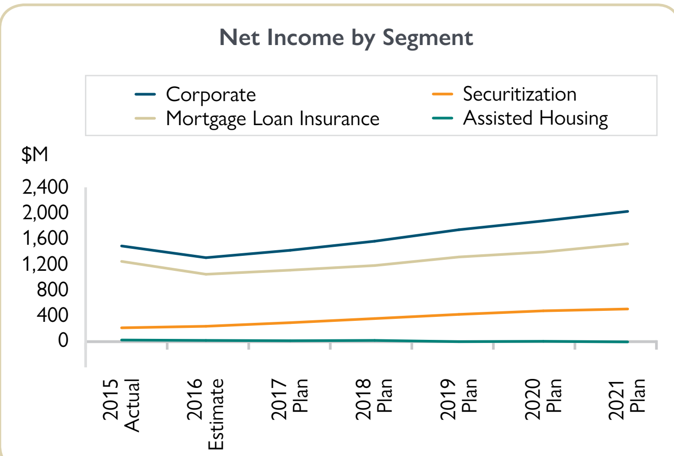
* *2016 Results*

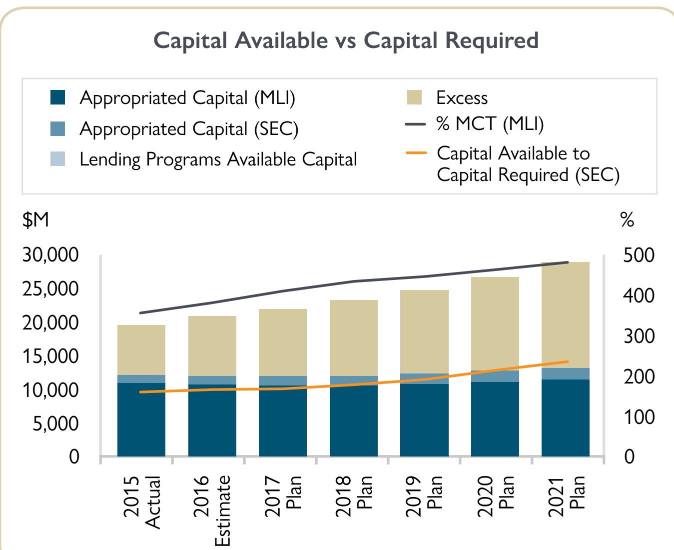
** *representation rate exceeds labour market availability*

*** *Management Committee and National Leadership Team. The 2017 target is based on the Labour Market Availability of women for jobs that are comparable to jobs at CMHC.*

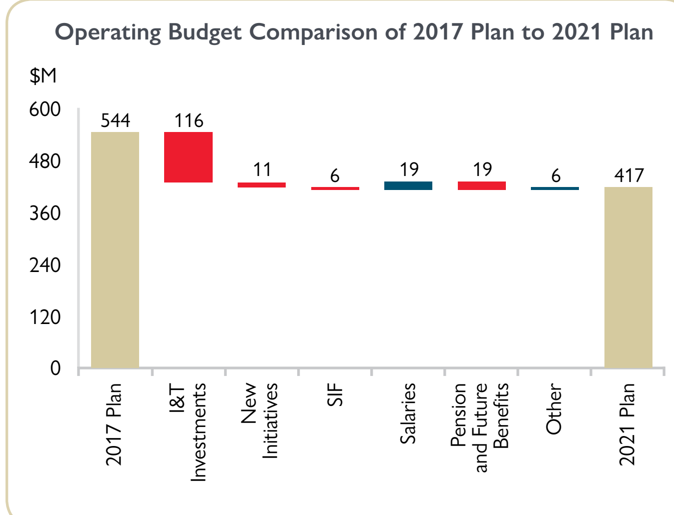
Pre-Tax Income (PTI) increases over planning period due to higher NHA MBS volumes and Investment Income and leads to increased Capital and higher Return on Capital

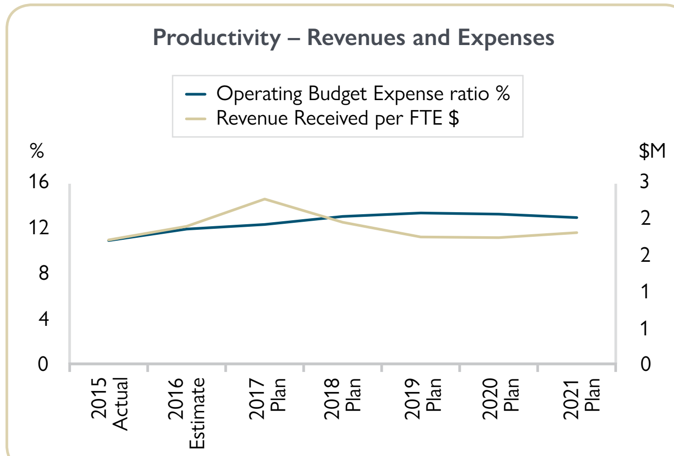




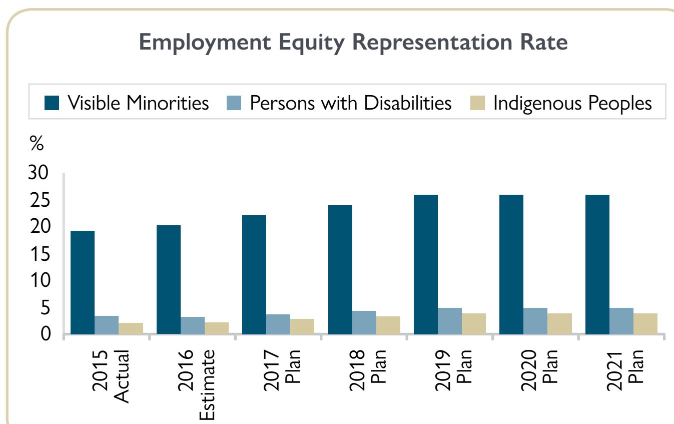


Operating expenses decrease by 2021 following the additional investments in technology transformation. Productivity ratios fluctuate largely as a result of changes in Parliamentary Appropriations





We are committed to ensuring that our workforce reflects the composition of the Canadian labour force



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CORPORATE PLAN FRAMEWORK

Our Corporate Plan framework provides direct continuity between our mandate, mission and vision, the activities we engage in and our long-term outcomes.

OUR STRATEGY

Innovation and transformation go hand in hand. New ideas bring change. Change demands new ideas. Our commitment to innovation comes from the knowledge that our sector, the economy and Canadian society are continually changing. To remain a thriving, trusted, leading organization, we must also continue to change.

Our mission is to help Canadians meet their housing needs. Our strategy consists of three directions: *achieve better outcomes by managing risk, lead through innovation and insight and be a high-performing organization*.

ACHIEVE BETTER OUTCOMES BY MANAGING RISK

Risk takes many forms and can affect our ability to support housing affordability and financial stability. Strengthening our core risk management capabilities remains an important focus for the 2017–2021 planning period.

We will develop best-in-class modelling to better understand the risks we face and their potential impact, and will use stress testing to evaluate our financial performance, capital levels, risk tolerance thresholds and operations—all to ensure key risks are managed appropriately.

Our focus on fraud prevention will put us at the forefront of innovation and deliver value to the entire mortgage industry.

LEAD THROUGH INNOVATION AND INSIGHT

In our context, innovation and insight mean many things. They mean working with partners across the housing spectrum in new ways and sharing fresh ideas to meet Canadians' housing needs—for us in 2016 and 2017, this also means developing a National Housing Strategy. They also mean using new sources of data to fill knowledge gaps so those making decisions about housing in Canada do so based on the best-quality and timeliest information.

Housing is a dynamic sector, evolving continually under the forces of social and economic change and technological advancement. We are determined to foster a culture of innovation so that we can adapt with agility and generate the most innovative, forward-thinking housing solutions possible.

BE A HIGH-PERFORMING ORGANIZATION

As a Crown corporation working on behalf of Canadians, we consider it our responsibility to operate as efficiently and effectively as possible. Doing so will allow us to deliver the results Canadians expect—and to serve our clients in all parts of the housing sector with excellence. Those clients include mortgage lenders, decision-makers and analysts who depend on timely, high-quality housing information as well as those who operate and live in affordable housing across the country.

To be a high-performing organization, we are investing in technology transformation and business process redesign, both of which support innovation and efficiency and will accelerate the achievement of our business strategy, bringing us into a digital world. Through our investment in recruitment, training and advancement of our employees, we will have a unified, engaged and change-ready team to meet our business needs today, and into the future.

THE VIEW AHEAD

The outcomes of the National Housing Strategy process will inform the evolution of our vision to be the heart of a world-leading housing system and shape our strategic directions and priorities in years to come.

The federal government launched *Let's Talk Housing* in 2016 to engage citizens, industry stakeholders, other levels of government and Indigenous leaders in sharing ideas and contributing to the development of Canada's National Housing Strategy (NHS). CMHC played a significant role in leading that process and we look forward to being a part of its future directions.

In 2017 we will review our strategy, role and programs in light of the National Housing Strategy. Because this analysis and planning will take place after the finalization of our Corporate Plan, we will share details on future directions, priorities, outcomes and any financial impacts across all areas of our organization, in future reporting and our 2018–2022 Corporate Plan.

SUMMARY OF MEDIUM-TERM INITIATIVES

The following medium-term initiatives reflect the priorities for CMHC over the planning period.

Achieve Better Outcomes by Managing Risk

To support housing affordability and financial stability

- Implement the National Housing Strategy
- Strengthen core risk management capabilities and achieve a pervasive culture of risk awareness/management
- Develop policies and help advise government on the appropriate evolution of our role in housing finance
- Support extensive lender risk sharing consultations
- Reposition our multi-unit insurance business line and redevelop our product offering
- Evolve our mortgage loan insurance products to best serve Canadian borrowers and lenders
- Develop policy options to diversify financing sources for mortgage lending
- Develop policy options for Securitization to reduce risk exposure to catastrophic events

Lead Through Innovation and Insight

To drive housing solutions and support informed decision making

- Increase availability of reliable housing information and data, and advance open data solutions
- Innovate consciously in all that we do

Be a High-Performing Organization

To deliver results for Canadians and excellent service to our clients

- Recruit, aquire and retain a diverse and talented workforce
- Engage, empower and inspire employees to innovate
- Support employees' growth and leadership development and align talent to meet business needs
- Transform CMHC into a modern technology-enabled organization

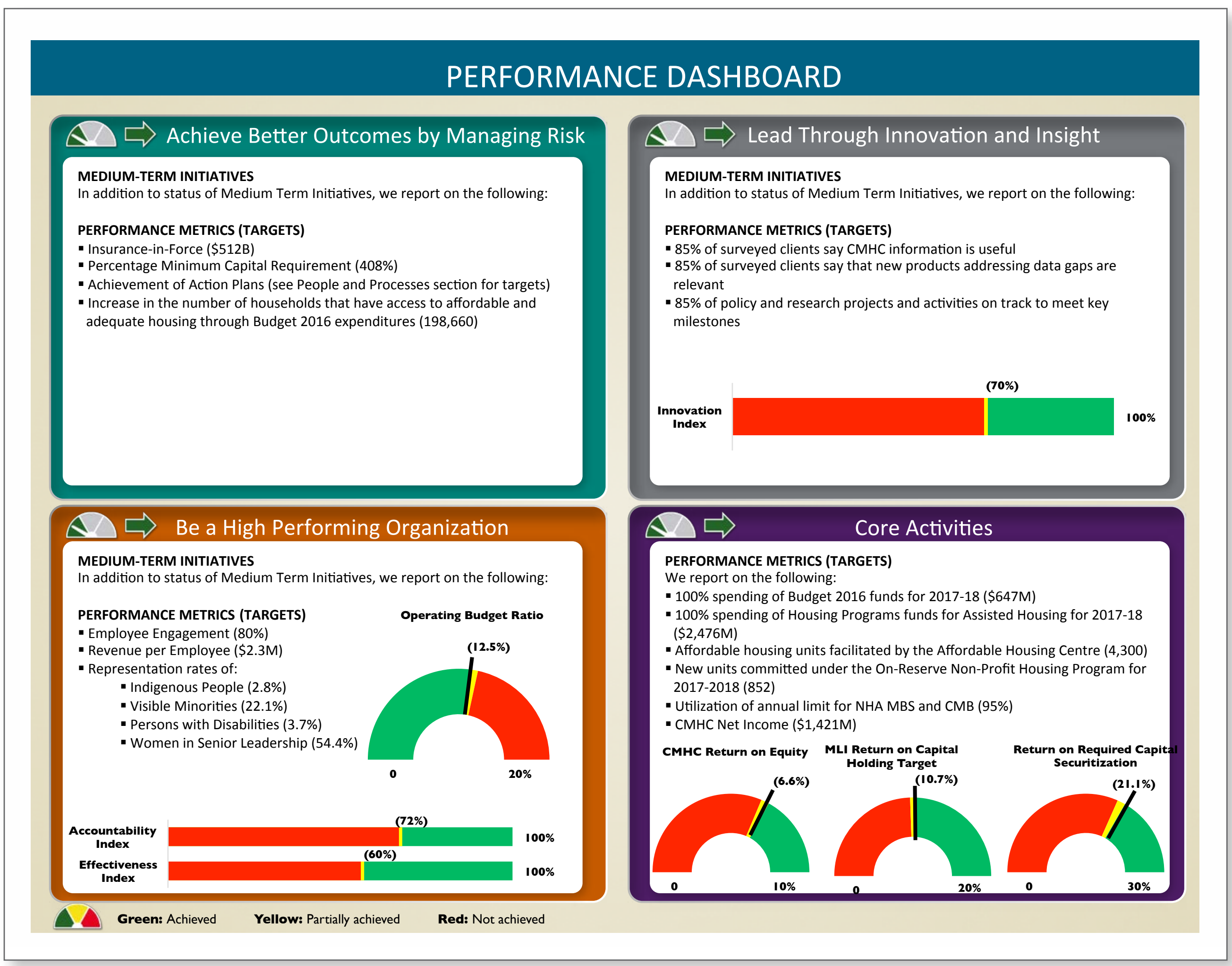
REPORTING ON PERFORMANCE

To ensure we achieve our outcomes, we establish medium-term initiatives and performance targets related to each of our strategic directions and our core activities. Our management team sets these targets with the aim of keeping our organization focused on results. All targets are fully owned by management and employees and supported by appropriate resources.

Our performance dashboard summarizes our most important work by our three strategic directions and key core activities as described in each of the activity chapters. The reporting framework ensures Management and our Board of Directors are informed on a timely basis of our progress for each strategic direction as described in our Strategy and core activities. With this information they can adjust the allocation of resources or realign priorities to achieve our outcomes and fulfil our commitment to Canadians. We also share our performance with Canadians. Financial performance is made available publicly on a quarterly basis through our Quarterly Financial Report and annually to Canadians through our Annual Report.

"Consistent execution in the form of discipline, rigour and efficiency is the currency for innovation."

Evan Siddall, President and Chief Executive Officer



OPERATING ENVIRONMENT

The following elements of the economic and housing market outlook were considered when developing our Corporate Plan.

ECONOMIC FACTORS

Although Canada's exports started strong in 2016, buoyed by a lower exchange rate against the U.S. dollar and an improving U.S. economy, GDP growth declined by 1.6% (at annualized rate) in the second quarter of 2016, largely because of the wildfires in Alberta.[1] Rebuilding and the resumption of oil production and exports in Alberta combined with fiscal stimulus measures (for infrastructures and families) will contribute to a rebound in GDP growth in the second half of 2016. By 2017, Canadian economic growth is forecast to strengthen as further improvement in global economic conditions drive demand for non-energy exports and the adjustment to weaker oil prices is nearing completion.

Private sector forecasters now expect that growth in Canada's real GDP will be within the 1.1% to 1.4% range in 2016 and within the 1.8% to 3.0% range in 2017. Annual real GDP growth is predicted to remain in this range over the period from 2018 to 2021.

The annual inflation rate—as measured by the year-over-year increase in the Consumer Price Index (CPI)—was 1.1% in August 2016.[2] Private sector forecasters are expecting the CPI to increase to between 1.5% and 1.7% in 2016, and between 1.9% and 2.4% in 2017.[3] In the following years, the CPI inflation rate should hover near 2%, the mid-point of the Bank of Canada's inflation control target range of 1% to 3%.

The Bank of Canada's target overnight rate has been 0.5% since July 2015. Over the same period, the five-year posted conventional mortgage interest rate has also been relatively stable, around 4.64%, the lowest levels since data collection began in 1973.

The five-year posted mortgage interest rate is projected to be between 4.5% and 4.9% in 2016[4], and within 4.4% and 5.2% in 2017. Interest rates are predicted to gradually increase in the following years as economic conditions improve and the inflation rate converges to the Bank of Canada's targeted rate. Accordingly, the five-year posted mortgage rate should be between 4.5% and 5.7% in 2018 and increase gradually thereafter to be between 5% and 6.2% in 2021.

(Refer to Annex C for impact of a downside scenario.)

Based on private sector forecasters, the average unemployment rate for 2016 is projected to be between 7.0% and 7.2%. For 2017, it will likely be between 6.4% and 7.3%. In the following years, gradually improving economic and labour market conditions will help reduce the unemployment rate to within the 6.0% to 6.6% range.

Other key assumptions	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Investment Balances ($M)	23,315	24,285	24,959	25,918	26,981	29,389	31,501
Duration of Fixed Income Securities – MLI	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Duration of Fixed Income Securities – Securitization	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Yield Earned*	2.4%	2.3%	2.3%	2.4%	2.8%	2.9%	3.0%

* *Investment Income/Average Investment Balances*

[1] *Statistics Canada*

[2] *Statistics Canada CANSIM Series No. V41690973*

[3] *Consensus Forecast published in September 2016 for 2016-2017 period by Consensus Economics*

[4] *CMHC Q4 2016 Housing Market Outlook, based on economists' and financial market analysts' views of interest rates as of September 2016*

HOUSING MARKET OUTLOOK

Regional housing market dynamics continued to diverge in 2016, with strong activity and price growth in British Columbia and Ontario, declining activity and price growth in oil-producing regions, and stable conditions in the rest of Canada.

Total housing starts are expected to be within the 185,100 to 192,900 units range in 2016, a moderate decline from the 2015 level of 195,535 units. In 2017, we expect housing starts to decline further and to be within the 174,500 and 184,300 units range. The expected decline in total housing starts over 2015 to 2017 mostly reflects a decline in single units as homebuyers will shift demand from higher priced single-detached homes to lower-priced alternatives in multi-unit buildings. Multiple starts will also decline as demand is channeled towards existing newly completed and unoccupied units. For 2018, we predict that housing starts will be between 172,200 and 183,100, essentially stable from their predicted 2017 levels. We expect annual housing starts to reach levels consistent with demographic and economic conditions in the following years and be within 171,100 to 182,500 units over 2019-2021.

MLS® sales are expected to increase from their 2015 level of 505,500 and be within the 517,000 to 533,400 units range in 2016. Over the period 2017-2018, resales should fall in line with demographic, economic and financial (mortgage rates) fundamentals with respective ranges of 489,500 to 509,700 units in 2017 and 488,100 to 511,100 units in 2018. The number of annual MLS® sales would increase gradually in the following years in line with these fundamental determinants and be within 493,000 to 526,400 units over 2019-2021.

For 2016, we predict the average MLS® price to be between $473,400 and $495,000, which is an increase of between 6.9% and 11.7% from its 2015 level. In the future, this price should increase at a slower pace and reach between $483,600 and $507,800 in 2017 and $497,700 and $525,100 in 2018. This slower pace of increase for the average MLS® price is due to an expected change in the composition of MLS® sales towards more moderately priced homes and demand moving more in line with fundamental demographic, economic and financial determinants of the housing markets. Thereafter, the average MLS® price should increase broadly in line with households' cost of living, ranging between $532,700 and $557,200 in 2021.

The national forecast masks regional differences as regional housing market dynamics continue to diverge in the first half of the planning horizon. These regional differences should dissipate in the second half of the planning horizon. Oil-producing provinces are expected to continue to see relatively weak economic, employment and in-migration growth as they adjust to lower oil prices in the first portion of the planning horizon. British Columbia and Ontario will be buoyed by stronger economic, employment and demographic growth as they benefit from the positive impacts of declining energy prices, and a low Canadian dollar against the U.S. dollar. Nevertheless, due to the gradual and modest increase in mortgage rates by the end of 2018, MLS® sales in these provinces will decline in 2017 and 2018 before the return of moderate growth in the remaining years of the forecast. Price gains are also expected to slow over the forecast period due to an anticipated shift in MLS® sales toward more moderately priced homes. Stabilization of activity in the resale market will result in less demand spilling over into the new home market.

HOUSING MARKET OUTLOOK – RISKS

The adjustment of the Canadian economy to weak oil prices remains a significant domestic risk. Lower oil prices have negatively affected the oil-producing economies of Alberta, Saskatchewan, and Newfoundland and Labrador.

Weaker than expected economic activity in China, the U.S. as well as financial uncertainty related to the impact of the UK vote to exit the European Union may reduce GDP growth in Canada through reduced demand for our exports and weaker commodity prices.

In addition to these uncertainties, two key vulnerabilities could exacerbate adverse impacts on the Canadian housing markets and financial system:

- The combination of household debt at a historical peak relative to personal disposable income (167.6% in the second quarter of 2016[5]) and the concentration of Canadians' net wealth in non-liquid assets such as real estate — real estate as a share of net worth was at 49.1% in the second quarter of 2016[6] — together create a vulnerability. If the unemployment rate were to rise materially as a result of lower aggregate demand, some households would need to access their wealth to make ends meet. For those households whose wealth was concentrated in a non-liquid asset such as housing, many could be forced to sell. The additional supply of homes for sale would compound any downward pressure on home prices from lower aggregate demand, leading to further negative effects on the economy.
- Housing markets in some urban centres may be vulnerable to overvaluation, i.e., when prices exceed levels consistent with fundamental determinants of the housing market, such as personal disposable income and population. CMHC's Housing Market Assessment (HMA)[7] shows evidence of overvaluation across Canada.

A stronger than expected U.S. economy would stimulate demand for our exports, therefore increasing GDP and incomes in Canada, which would help to sustain domestic housing markets by supporting their fundamental determinants. This could reduce the magnitude of the estimated overvaluation currently existing at the national and regional levels.

HOUSING NEED

Roughly 1.6 million Canadian households were in core housing need in 2011, the latest year for which data are available. Households in the North were more likely to be in core housing need than households in southern Canada. Renter households were about four times more likely to be in core housing need than homeowner households. About 50% of on-reserve housing was below adequacy or suitability standards in 2011.

GOVERNMENT DIRECTION

Measures announced in Budget 2016 are reflected in the activity chapters of this plan. Findings from the consultation announced by the federal government on the National Housing Strategy will inform directions, priorities, reporting and outcomes for the 2018-2022 Corporate Plan.

CMHC complies with Government of Canada Orders in Council (OIC), specifically the Pension Plan (P.C. 2014-1380) and the OIC on travel, hospitality, conference and event expenditure polices (P.C. 2015-1109).

We will implement new changes to the rules for insured mortgages announced October 3, 2016. The impacts of these changes will be provided in our 2018-2022 plan.

[5] Statistics Canada CANSIM Series No. V62698064

[6] CMHC calculations, based on Statistics Canada CANSIM Series No: V62694002, V62693922, V62693923 and V62693930

[7] A detailed description of the HMA framework and results as at October 2016 can be found on CMHC's website.

DIVIDEND PROPOSAL

Over the past year, CMHC and other Crown corporations have been working with the Department of Finance on the development of a common capital and dividend policy framework. Beginning in 2017, we propose to start making dividend payments to Government 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 National Housing Act (NHA), CMHC Act or any other purpose authorized by Parliament relating to housing. Payments are intended to be made in accordance with the NHA, CMHC Act, Financial Administration Act (FAA) and our dividend policy, which is consistent with the Department of Finance's draft Capital and Dividend Policy Framework for financial crown corporations. This includes ensuring we have sound methodologies to determine the adequate level of capitalization we need to retain to meet our business needs, in good times and bad. A scarcer level of capital will also promote more economy in decision making.

Our dividend will be determined based on:

- CMHC's view of capitalization needs in accordance with our specific risk profile and information from our models for economic capital and stress testing.
- The amounts to be set aside for capitalization based on regulatory models (e.g. OSFI).
- A margin for uncertainty and provision for unknown risks informed by our risk appetite, stress testing and scenarios analysis.
- Sufficient range for normal fluctuations in financial results and business needs (e.g. sufficient capitalization to cover risk for changing business volumes and for liquidity).

Dividends that will be declared by our Board of Directors will be based on our Corporate Plan approved Dividend Proposal following the close of our financial year and paid to Government after our Annual Report has been tabled in Parliament.

This will also provide the opportunity to fully assess the impact of OSFI's recently announced changes to models for calculating regulatory capital and requirements for the new Affordable Rental Housing Financing Initiative announced in Budget 2016, for example.

Until it is determined that a dividend is to be paid out as described above, mortgage loan insurance and securitization profits will continue to be available for housing purposes and retention in accordance with NHA Sections 21(2)(c) and (21(2)(d), after providing for capitalization.

We expect to complete this analysis by second quarter 2017 and to pay a dividend as soon as June 2017.

RISK MANAGEMENT

We are exposed to a variety of risks that could affect the achievement of our objectives. To protect the public resources entrusted to us as well as CMHC's reputation, we strive to be a best-in-class manager of housing-related credit and liquidity risks.

Our comprehensive Enterprise Risk Management (ERM) Framework guides our activities and encourages a risk-aware culture through discussion, evaluation and management of risks across the organization. Our structured risk management approach ensures regular risk assessment and reporting—including the regular review and approval of our risk management policies, regular updates to our ERM Risk Register[8], risk appetite and tolerance statements, and quarterly risk management reporting. Further information on our ERM framework and risk categories can be found in our 2015 Annual Report.

We also conduct an *own risk and solvency assessment* (ORSA) to identify risks and assess our current and likely future capital needs and solvency positions. Stress testing is an important part of this, and is conducted across our organization in parallel with our annual corporate planning process. (Read more about this in the "Stress testing" section.)

We continuously refine our risk management approach according to industry best practices and changes in our operating environment. Our ERM framework includes a "Three Lines of Defence" operating model to further enhance our risk governance structure and culture and promote the understanding, evaluation and management of risks at all levels of the organization, across all activities.

RISK APPETITE FRAMEWORK

CMHC is responsible for promoting the stability of the Canadian housing system, which contributes in turn to the stability of the Canadian financial system. As a result of this, we accept the requirement to manage certain strategic, operational and financial risks. In doing so, we:

- Establish risk appetite principles and statements;
- Actively manage risks we are uniquely able to accept and affect;
- Eliminate risks we cannot control wherever cost-effective, whether via outsourcing or hedging activities; and
- Mitigate inherent and residual risks.

As a federal Crown Corporation, CMHC's risk capacity is determined by its legislated limits as reflected in the National Housing Act (NHA). This includes a limit of $600 billion on outstanding insured mortgages, subject to regulations regarding the classes of eligible housing loans that can be insured. It also includes a limit on outstanding guaranteed principal amounts of $600 billion, subject to the terms and conditions approved by the Minister of Finance.

We are in the process of enhancing our Risk Appetite Framework in order to ensure that it is fully aligned with our commercial and public mandates and cascades to all business segments. This will improve alignment between risk appetite and strategy, and improve consistency among risk appetite statements and risk tolerances. These enhancements will also address how our risk appetite, tolerances and behaviours adapt in a time of severe crisis, which would consider scenarios similar to those presented in the stress testing section.

[8] *The Risk Register provides an assessment of key risks to the Corporation.*

STRESS TESTING

We use stress testing to evaluate how various economic and operational scenarios could affect our financial performance, capital levels and risk tolerance thresholds.

Stress testing ensures that top and emerging risks are identified and managed appropriately. Our annual corporate-wide stress testing program was developed through a structured, corporate-wide consultative process.

The following observations emerged from our 2016 stress testing program and will inform our risk management approach for 2017–2021 as well as learnings for our business operations.

Deterministic corporate-wide stress testing

Deterministic corporate-wide stress test scenarios	Key learnings
Global deflation • *Scenario:* Severe and prolonged economic depression. • *Financial impact:* Despite significant cumulative claim losses, insurance capital ratio remains above the internal capital holding level of 220% MCT. Oil price shock • *Scenario:* Price of oil falls to US$20 per barrel in 2017 and subsequently ranges between US$20-30 for further four years. • *Financial impact:* Capital levels are sufficient. Earthquakes • *Scenario:* A high-magnitude earthquake that disrupts critical infrastructure and services, including broader financial impacts as a result of its effect on homeowners and businesses. • *Financial impact:* Despite significant securitization losses due to assumed issuer default, captial available exceeds capital required. Reverse Stress Test • *Scenario:* A sudden increase in interest rates leads to higher borrowing costs for both Canadian consumers and financial institutions, leading to a severe drop in Canadian house prices and ultimately the failure of a Canadian financial institution. • *Financial impact:* Among the five scenarios, this has the most severe financial impact on insurance business, with the lowest point of available capital (MCT) falling to 212% (below the 220% internal target).	Insurance • Improve cross-training initiatives so underwriting staff have the capacity to support: (i) default management/claims functions in times of crisis; and (ii) the transfer/support of underwriting operations across regions in times of heightened volumes. • Need to review internal processes to address localized regional shocks, including prospect of significantly higher market share and business volumes. Securitization • In the event of a crisis, CMHC may seek Minister of Finance approval to update authorities for setting the NHA MBS guarantee limit and, if required, the guarantees-in-force limit, in order to inject liquidity into the system. • Need to continue enhancing servicer and title transfer procedure documentation to minimize the risk of delays and unexpected costs during and after transfers. Assisted Housing • Where applicable, need to have stimulus programs ready to be delivered (e.g., top-ups to Investment in Affordable Housing (IAH) or other mechanisms deemed appropriate through the National Housing Strategy). • Need to do a crisis scenario table top to develop action plan among federal entities.

Summary Financial Impacts (2017-2021)

In millions, unless indicated	Base - CP Reforecast	Reverse Stress Test	Global Deflation*	Oil Price Shock	Earthquake	"+5p.p. UR with -30% House Price Inflation"	"+5p.p. UR with -35% House Price Inflation"
Cumulative Claim Losses	1,818	12,803	13,861	4,604	3,826	11,604	14,478
Cumulative net income (loss) – Insurance	7,974	-1,672	-2,093	4,604	5,695	-649	-2,945
Cumulative net income – Securitization	2,119	2,287	2,201	2,078	789	N/A	N/A
Lowest point of available capital (MCT) – Insurance	409%	212%	259%	390%	391%	218%	161%
Lowest point of available capital – Securitization	2,224	2,198	2,513	2,393	1,067	N/A	N/A
Lowest market value of invested assets – Insurance	24,231	21,481	23,826	24,475	24,325	22,773	20,618
HO insurance market share	50%	70%	90%	50%	50%	70%	70%
Change in GDP (peak to trough – Q4/2016-Q4/2021)	11.5%	-2.0%	-2.5%	8.2%	-0.5%	-6.4%	-6.4%
Peak unemployment rate	6.6%	11.3%	13.5%	8.8%	8.4%	12.0%	12.0%
Change in housing prices	9.0%	-30.0%	-25.0%	-7.8%	-0.6%	-30.0%	-35.0%
5-year mortgage interest rate, peak to trough change (p.p.)	1.5	2.0	2.1	2.7	1.9	1.1	1.1

* *The Global Deflation Scenario assumes no issuer/insurer default*

In addition, we conduct business resumption exercises and business sector specific stress testing: Business resumption exercises involving participation across a number of departments is routinely carried out as part of CMHC's stress testing program with results reported internally to senior management and the Board. Outcomes from the exercise are valuable towards development of effective business continuity plans ensuring CMHC's continued ability to deliver on its mandate.

Business sector specific stress testing scenarios	Key learnings
Insurance sensitivity testing *Scenarios:* • Five percentage point increase in the unemployment rate combined with a 35% decline in house prices. • Five percentage point increase in the unemployment rate combined with a 30% decline in house prices.	• Current capital holding targets were tested by assessing the financial impacts of changes in unemployment rates, house prices, and market shares.

ASSISTED HOUSING

We will help Canadians in need gain access to suitable housing they can afford—by finding new and flexible ways to maximize the impact of our resources.

We provide federal funding in support of housing programs for Canadians in need. Our programs include financial assistance for some 500,000 households living in existing social housing both off and on reserve, funding for affordable housing delivered through partnerships with provinces and territories and support for First Nations capacity building. Our activities also include lending programs for social housing.

INTENDED OUTCOMES

Our short- and medium-term outcomes will contribute to the achievement of our long-term outcomes: for Canada to have a stable, competitive and innovative housing system; and for Canadians in need to have access to affordable and suitable housing.

SHORT TERM

Resulting from our activities in the next 12 months

Canadians have improved access to affordable housing through existing programs and implementation of Budget 2016 measures.

MEDIUM TERM

Resulting from our activities over 2 to 3 years

Housing providers are able to provide more affordable, adequate housing.

More Canadians in need are living in housing they can afford and that meets their needs.

OUR STRATEGY

Our housing programs are vitally important to vulnerable Canadians—including low-income families, seniors, people with disabilities and Indigenous People. Key elements of our strategy are to:

- Amaze our clients, including housing providers and the people who depend on them, by challenging the status quo.
- Work with our partners to develop innovative and collaborative approaches to achieving better housing outcomes.
- Leverage our breadth of housing expertise and culture of innovation to deliver results.

The following medium-term initiative is the priority for the planning period, in addition to reviewing and implementing the National Housing Strategy.

Achieve Better Outcomes by Managing Risk

- Deliver on Budget 2016 measures to invest in housing

OUR PLAN IN DETAIL

Through the medium-term initiatives below we will deliver on our outcomes, aligning with our strategic direction to *achieve better outcomes by managing risk to support housing affordability and financial stability*. In 2017, we will review the directions and impact on our role and programs going forward resulting from the National Housing Strategy. The financial and resource impact of the delivery of our programs is noted later in this chapter.

Work with our partners to deliver on Budget 2016 measures to invest in housing, in addition to existing funding and programs. This will involve:

Additional social infrastructure investments (to 2017-18):

- Deliver additional funding through our Investment in Affordable Housing agreements, including funding targeted to increase affordable housing for seniors and housing for victims of family violence:
  - Deliver funding for the renovation of existing social housing, including supporting energy and water efficiency retrofits;
  - Support renovations and retrofits to housing in First Nation communities and fund the construction of new shelters in First Nation communities;
  - Develop and deliver skills and capacity development initiatives for First Nation communities;
  - Deliver additional funding under the Housing Internship Initiative for First Nation and Inuit Youth to provide work experience and on-the-job training;
  - Implement additional funding to assist homeowners in certain regions of Quebec that have experienced significant structural damage due to the presence of pyrrhotite in the concrete of foundations;
  - Continue to help, on a temporary basis, non-profit and co-operative social housing providers under federal administration whose operating agreements end prior to March 2018, to ensure the housing continues to be affordable.
- Delivering the Affordable Rental Housing Innovation Fund:
  - Support innovative approaches (such as housing models with a mix of rental and homeownership) to lower the costs and risks of financing affordable rental housing projects;
  - Share information from this work so others can benefit from lessons learned.
- Delivering the Affordable Rental Housing Financing Initiative:
  - Encourage the construction of affordable rental housing by providing low-cost loans to municipalities and housing developers making low-cost capital available to developers during the earliest, most risky phases of development.

Our progress at mid-2016 informs our work going forward in this plan:

- Focused on providing the right type of information to housing providers so they can keep their projects viable.
- Expanded skills and capacity development initiatives on reserve.
- Implementation of Budget 2016 measures.

See Annex B for 2016 performance results at mid-year.

As announced in 2015, we will waive prepayment penalties so housing providers can access loans at current rates.

We will also report to Canadians on the results on the delivery of these programs, and will make public the findings from our evaluations as they become available.

"Our client-focused business model is a key feature of our approach to proactively working with housing providers on the existing social housing stock we manage, including in First Nation communities."

Charles MacArthur
Regional Operations and Assisted Housing

Focus on Innovation

The Innovation Fund: Inspiring fresh thinking

Innovation Team: Simon Lahoud, Tom Siems, Lance Jakubec, Jason Ainslie, Julie Gauthier and Dany Skelling

Roughly a third of Canadian households depend on rental housing. Yet rental construction has fallen over the past 30 years—from more than 20 per cent to roughly 10 per cent of new housing starts. By lowering the costs and the risk associated with the development of new affordable rental housing, without the need for ongoing government subsidies, the Affordable Rental Housing Innovation Fund is designed to facilitate the construction of up to 4,000 affordable rental units.

The Fund will support approaches that:

- develop innovative and unique models of affordable rental housing;
- were successful in other markets, for example internationally;
- have achieved success but have not had broad-based take-up.

Proponents will have access to an Innovation Lab where they can consult with industry professionals to improve their proposals and build upon ideas. Proposals will be presented to a Blue Ribbon Panel of industry leaders.

PERFORMANCE INDICATORS

The following performance indicators, along with the medium-term initiatives, will assess the progress towards achieving our short and medium-term outcomes:

2017 TARGET	PERFORMANCE INDICATOR
= 100%	Spending of Budget 2016 funds for 2017-18 (fiscal year $647M)
= 100%	Spending of Housing Programs funds for Assisted Housing for 2017-18 (fiscal year $2,476M)
≥ 4300	Affordable housing units facilitated by the Affordable Housing Centre
≥ 852	New units committed under the On-Reserve Non-Profit Housing Program for 2017-18 (fiscal year)
≥ 198,660	Increase in the number of households that have access to affordable and adequate housing through Budget 2016 expenditures (2 year cumulative fiscal year – by end of 2017-18)

FINANCIAL PLAN AND OUTLOOK

CMHC Housing Program expenditures each fiscal year are paid for out of Parliamentary Appropriations.

Housing Programs operate on a breakeven basis as appropriations equal expenditures each year. Lending Programs operate on a long-term, breakeven basis. A portion of the cumulative earnings from Lending are retained in a Reserve Fund to address credit and interest rate risk. Through our Reserve Fund, we retain income in profitable periods to reduce deficit funding from government if losses are experienced. Where timing mismatches occur between funding of loans and the payment of borrowings within this activity, the difference is invested in investment securities.

Financial Analysis

Income Statement Summary

(in millions)	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Parliamentary Appropriations for Housing Programs	2,049	2,557	3,155	2,411	1,977	1,870	1,808
Net Interest Income	9	10	24	17	13	12	11
Other Income	36	35	19	27	4	11	3
Total Revenues	2,094	2,602	3,198	2,455	1,994	1,893	1,822
Housing Programs Expenses	2,049	2,557	3,155	2,411	1,977	1,870	1,808
Operating Expenses*	18	27	33	26	23	22	21
Total Expenses	2,067	2,584	3,188	2,437	2,000	1,892	1,829
Income Before Income Taxes	27	18	10	18	(6)	1	(7)
Income Taxes	2	(1)	(4)	(1)	(6)	(4)	(3)
Net Income	25	19	14	19	0	5	(4)

* *Operating Expenses represent only those related to Lending Programs. Operating Expenses for Housing Programs are included within Housing Program Expenses and detailed in the table that follows.*

Housing Programs spending

(in millions)	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Funding Under Long-Term Commitments for Existing Social Housing	1,650	1,719	1,742	1,693	1,728	1,697	1,696
Funding for New Commitments of Affordable Housing	348	771	1,229	531	100	34	33
Housing Support	10	12	125	132	98	88	33
Market Analysis	22	29	31	28	25	25	22
Research (Housing Policy, Research and Information Transfer)	19	26	28	27	26	26	24
Housing Programs	2,049	2,557	3,155	2,411	1,977	1,870	1,808
Operating Expenses included in Housing Programs	112	134	165	142	127	117	102

Total revenues and Expenses increase in 2016 and 2017 due to Budget 2016 affordable housing investments over two fiscal years (2016-17 and 2017-18). After 2017, revenues and expenses decline due to the planned expiry of federal funding for the Investment in Affordable Housing (IAH) (March 31, 2019).

On other existing loans, we plan to retire a significant portion of existing borrowings in 2017 as a result of earlier prepayments. While reducing portfolio risk and lessening interest revenue and expense mismatches in future years, this accelerates a loss into 2017 ($48 million) that would otherwise have been profiled over many future periods.

Some elements of our operating expenses do not perfectly correlate with the reduced margin on our declining lending portfolio. Our investment in technology transformation is expected to increase our operating expenses and reduce our net income. The retained profits in our Reserve Fund will offset future period shortfalls.

Capital Management

We provide loans to social housing groups, First Nations, provinces, territories and municipalities who sponsor federally-subsidized social housing. We maintain a Reserve Fund pursuant to section 29 of the CMHC Act, the intent of which is 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. Any amount above this limit will be paid to the Receiver General. A risk-based capital assessment for the existing portfolio under CMHC Lending Programs was completed in 2016 and confirmed the $240 million statutory limit remains adequate.

As in prior years and as previously approved, to manage capital and to ensure that risk exposures are adequately managed, unrealized amounts (such as gains and losses from financial instruments and Investment Properties as well as re-measurements of the Defined Benefit Pension Plans) are set aside in Retained Earnings. To the extent that gains would be realized they would be used for the same purposes as the Reserve Fund. Capital for the lending activity is comprised of Retained Earnings and the Reserve Fund. Total Equity for Assisted Housing includes Available Capital for the lending activity and Contributed Capital.

Components of Total Equity over the planning period

(in millions)	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Retained Earnings	41	34	120	176	198	222	230
Reserve Fund*	136	125	83	76	70	63	56
Available Capital	177	159	203	252	268	285	286
Contributed Capital	25	25	25	25	25	25	25
Total Equity	202	184	228	277	293	310	311

* *Subject to statutory limit of $240 million.*

INVESTMENT PLAN

Performance

If loan funding and the payment of borrowings is ever mistimed within our lending programs, we invest principal repayments in high-quality fixed income and money market instruments (currently with a minimum A rating), taking into consideration our risk appetite and business activities. Investments under management had a market value of $2.1 billion as at June 30, 2016 ($1.9 billion as at June 30, 2015). We expect over the planning period that the market value of our investments under management will be within $1.3 billion to $2.3 billion.

MARKET ANALYSIS AND RESEARCH

We will provide accurate, timely and impartial value-added analysis and insight and expand the availability of housing-related information to support informed decision making.

We create, interpret and share housing-related information to support decision making. Our work includes market analysis and analytical tools to improve our understanding of the housing system, research and information on a range of issues that promote affordability and choice, and policy advice which supports government decision making.

INTENDED OUTCOMES

Our short and medium-term outcomes will contribute to the achievement of our long-term outcomes of Canada has a stable, competitive and innovative housing system and Canadians in need have access to affordable and suitable housing.

SHORT TERM

Resulting from our activities in the next 12 months

Policy recommendations on the strategic approach and tools needed to fill data gaps are implemented.

Government has timely, evidence-based policy advice.

Industry and housing stakeholders have timely, relevant information to make informed decisions.

MEDIUM TERM

Resulting from our activities over 2 to 3 years

Comprehensive housing data is available for research, analysis and decision making.

OUR STRATEGY

Our market analysis, policy and research activities generate new knowledge to inform housing decisions. Key elements of our strategy are:

- Collaborate with housing sector players to exchange knowledge, generate fresh insights and mobilize our collective resources to achieve common goals.
- Foster a climate of innovation at CMHC and throughout the housing system to drive improved housing outcomes for Canadians, informed by the best and most up-to-date data and analytical insights.
- Engage with government, academics, and housing system stakeholders – both domestic and international – to establish a shared understanding of housing challenges and a vision for improving housing in Canada.

The following medium-term initiatives are priorities for the planning period, in addition to reviewing and implementing the National Housing Strategy.

Lead Through Innovation and Insight

- Expand our suite of housing analytics tools and publications
- Increase availability of reliable housing information and data, and advance open data solutions

OUR PLAN IN DETAIL

Through the medium-term initiatives below we will deliver on our outcomes, aligning with our strategic direction to *lead through innovation and insight* to drive housing solutions and support informed decision making. Our priorities respond to the demand for greater innovation, evidenced-based policy making and the need for speed in anticipating policy challenges and delivering data, analysis and advice.

In 2017, we will review the directions and impact on our role and programs going forward resulting from the National Housing Strategy. The financial and resource impact of the delivery of our programs is noted later in this chapter.

Expand our suite of housing analytics tools and publications

- Expand our tools and information products stemming from what we learn from the National Housing Strategy and from our work to address data gaps and on escalation of house prices.
- Focus to include affordability, affordable housing, rental housing, and household credit as well as tools for tracking house prices and underlying factors.

Increase the availability of reliable housing information and data, and advance open data solutions

- Make more high-quality housing information publicly available in a timely way and address priority data gaps by tapping into emerging data resources such as Big Data and micro data.
- Collaborate with other organizations to fill information gaps related to the rapid, recurring increases in property prices in major urban centres and high household debt and provide more housing-related information in the public domain.
- Re-examine our research priorities and data needs drawing on consultations related to the National Housing Strategy.

Our progress at mid-2016 informs our work going forward in this plan:

- Hosted the Housing Finance International Symposium.
- Held foreign ownership roundtables in Vancouver, Toronto and Montreal.
- Supported Canada's National Housing Strategy (NHS) by working with key partners, provinces and territories and Indigenous leaders, and by consulting with stakeholders and domestic and international housing experts. We also launched the social media campaign and the Let's Talk Housing website.

See Annex B for 2016 performance results at mid-year.

"We are identifying priority data gaps so that we can work together with our partners and give Canadians the benefit of timely housing-related data and analysis."

Michel Laurence
Housing Markets and Indicators

Focus on Innovation

An International Leader in Housing Finance Knowledge and Policy

We're convening annual international housing finance symposiums to bring together experts on emerging housing finance issues of interest to Canada and other countries. We will hold our second symposium in 2017 targeting a broader international audience.

We have also launched the Housing Finance Centre of Excellence to serve as a virtual community and forum for international housing finance experts from government, academia, industry and the broader research community.

These and other efforts will help place CMHC closer to the forefront internationally of innovation in housing finance policy and research. Creating an open dialogue with domestic and international thought leaders on housing finance will help ensure that CMHC continues to play a strategic role within an innovative, world-leading housing finance system that optimizes housing outcomes for Canadians, is a source of financial stability and is achieved with appropriate taxpayer exposure.

Christian Bordeleau
Senior Specialist, Housing Finance and Head, International Housing Finance Symposium

HOUSING FINANCE SYMPOSIUM
AN INTERNATIONAL CONVERSATION

PERFORMANCE INDICATORS

The following performance indicators, along with the medium-term initiatives, will assess the progress towards achieving our short and medium-term outcomes.

2017 TARGET	PERFORMANCE INDICATOR
≥ 85%	Of surveyed clients say CMHC information is useful
≥ 85%	Of surveyed clients say new products addressing data gaps are relevant
≥ 85%	Of policy and research projects and activities on track to meet key milestones

FINANCIAL PLAN AND OUTLOOK

Market Analysis and Research activities are cost-recovered from revenues from Assisted Housing's Parliamentary Appropriations for Housing Programs as well as the Mortgage Loan Insurance Activity.

Financial Analysis

Income Statement Summary

(in millions)	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Assisted Housing recovery	44	55	59	55	51	50	46
Mortgage Loan Insurance recovery	15	20	21	19	18	18	18
Total Revenue	59	75	80	74	69	68	64
Market Analysis*	39	49	52	47	44	43	41
Research	20	26	28	27	25	25	23
Total Expenses	59	75	80	74	69	68	64
Net Income	-	-	-	-	-	-	-

* *Includes Market Analysis costs recovered from Mortgage Loan Insurance and Assisted Housing*

In 2016 and 2017, we are investing additional resources to support the development of the National Housing Strategy. While otherwise the level of business activity is expected to remain relatively steady for our Market Analysis and Research segment, all CMHC segments will experience an increase in operating expenses over the next three years as we transform our technology.

MORTGAGE LOAN INSURANCE

We will provide competitive insurance products, supported by industry-leading client service, and will maintain sufficient size and breadth to promote access to housing finance and stability in Canada's housing and financial markets.

We provide mortgage loan insurance in all parts of Canada, including areas not well served or under-served by private mortgage insurers. We operate on a commercial basis at no cost to taxpayers. Our products include insurance against borrower default on: homeowner loans for residential properties of 4 or fewer units; and, loans on multi-unit residential properties consisting of 5 or more units. We also provide insurance on pools of low ratio homewoner mortgages (with down payments of more than 20% of purchase price).

INTENDED OUTCOMES

Our short and medium-term outcomes will contribute to the achievement of our long-term outcomes of Canada has a stable, competitive and innovative housing system and Canadians in need have access to affordable and suitable housing.

SHORT TERM

Resulting from our activities in the next 12 months

A range of mortgage insurance products and pricing is provided—spanning the spectrum of needs—and CMHC has a presence in all regions throughout the economic cycle.

MEDIUM TERM

Resulting from our activities over 2 to 3 years

Access to housing financing is facilitated through evolving services and products in a competitive and profitable mortgage insurance marketplace.

Canadians have access to competitive mortgage insurance products that span the spectrum of their needs.

CMHC contributes to the stability of housing finance system throughout the economic cycle.

OUR STRATEGY

Our mortgage loan insurance activity plays a distinct role in Canada's housing finance system by providing approved lenders with mortgage loan insurance for homeownership and rental properties (including affordable housing projects) as well as portfolio insurance. Key elements of our strategy are to:

- Compete for clients' business, providing industry leading client service through customized business strategies.
- Maintain market presence, ensuring access to mortgage loan insurance and supporting the stability of Canada's housing finance system.
- Stand out as an industry thought leader, setting the standard in information and data collection, providing clear and consistent policies, applying a rigorous quality assurance regime and promoting collaboration on industry issues such as fraud protection.
- Continue to improve and evolve our products and services, responding to market conditions and changes to regulatory environments.
- Contribute our breadth of expertise to sound policy advice, supporting, informing and advancing government initiatives.

The following medium-term initiatives are a priority for Mortgage Loan Insurance over the planning period, in addition to reviewing and implementing the National Housing Strategy.

Achieve Better Outcomes by Managing Risk

- Develop policies and help advise government on the appropriate evolution of our role in housing finance
- Support extensive lender risk sharing consultations
- Reposition our multi-unit insurance business line and redevelop our product offering
- Evolve our mortgage loan insurance products to best serve Canadian borrowers and lenders

OUR PLAN IN DETAIL

Through the medium-term initiatives below we will deliver on our outcomes, aligning with our strategic direction to *achieve better outcomes by managing risk to support housing affordability and financial stability*. Our priority for the planning period is to ensure that we have well-considered strategies to respond to uncertainties in the economy, evolving regulatory frameworks, and the increased demand for rental housing.

In 2017, we will review the directions and impact on our role and programs going forward resulting from the National Housing Strategy. The financial and resource impact of the delivery of our programs is noted later in this chapter.

Develop policies and help advise government on the appropriate evolution of our role in housing finance to ensure housing continues to be a source of economic strength for Canada:

- Carry out research and analysis to help define a role for government in housing finance to ensure the system remains stable, innovative and competitive.
- Advise on and implement policies on housing finance priorities—responding quickly with evidence-based advice.
- Continue working on policy options to mitigate current and emerging housing system vulnerabilities.
- Examine opportunities to reduce mortgage fraud at an industry level and improve the housing finance framework.

Support extensive lender risk sharing consultations:

- On October 3, 2016, the Minister of Finance announced the government's intention to begin consultations on a proposal to have lenders share some of the default risk associated with insured mortgages. Under our current regime, the government fully backs CMHC's obligations to lenders for insured loan losses. The government also guarantees private insurers' obligations to lenders, less a deductible of 10 per cent of the original principal amount of the insured mortgages. The Minister announced that implementing a lender risk sharing policy would be a significant structural change to Canada's housing finance system.
- CMHC has worked closely with the Department of Finance in preparing for these consultations and we support this inquiry as a means of further improving our housing finance system. CMHC participates actively in these markets; as such, we will continue to support these discussions in keeping with our mandate to promote access to housing markets and financial stability.

Our progress at mid-2016 informs our work going forward in this plan:

- Led the industry's implementation of amendments to regulations that restore portfolio insurance to its original purpose.
- Improved our fraud risk management framework.
- Updated our Master Loan Insurance Policy.
- Gave policy advice to government on vulnerabilities in the housing finance system
- Analysis of various levels of market share indicates that at 45-50 percent market share should enable us to scale up quickly and efficiently should gaps in the marketplace arise.

See Annex B for 2016 performance results at mid-year.

Reposition our multi-unit insurance business line and redevelop our product offering, maintaining a product suite that continues to meet the needs of our lender clients and a pricing strategy that reasonably reflects the related risk – while reinforcing our role and competitive position in the industry as Canada's authority on housing:

- Clarify with clients our role and positioning within the multi-unit housing domain. In this context, we are redeveloping the product line to differentiate our offerings among the various types of rental housing to meet a broad range of client needs (from market to affordable rental housing) while maintaining a pricing strategy that reasonably reflects the related risk.
- Implement a value proposition, messaging platform, client satisfaction framework and training strategy.
- Establish a multi-unit data and taxonomy strategy.
- Re-engineer our underwriting system and align our underwriting, default management, real estate and claims operations for process efficiencies.

Focus on Innovation

Leading fraud prevention in the mortgage industry

Our approach to fraud prevention is risk-based and priority-focussed. We are leveraging our unique data assets and advanced analytic techniques to materially improve mortgage fraud detection. We are:

- investing in new technology to detect and stop more fraud, particularly schemes that expose our clients to financial loss;
- pairing our unique, cross-industry view of the mortgage industry with modern analytical methodologies to bring new dimensions to fraud analysis, particularly focused on organized fraud.

Enhanced Claims Service

CMHC is introducing an enhanced claims process that will increase overall efficiencies, reduce costs and improve client service. By taking a more active role earlier in the claim administration process and engaging the services of third party service providers, we will:

- reduce the timeframe required to complete all major activities including the legal process, property management and property sale;
- negotiate pricing for third party services that will result in overall claim costs savings;

Response from lenders to date on this initiative has been very positive.

"Our market is highly competitive and constantly changing. To ensure Canadians have the housing options they need, we are retooling our business to be agile, adaptive and consistently ahead of the curve."

Glen Trevisani
Mortgage Loan Insurance Operations

Evolve our mortgage loan insurance products to best serve Canadian borrowers and lenders, adapting to changing regulatory frameworks and operating environments.

- Continue to fulfill existing commitments to the Government's budget initiatives, disposal of Crown properties, assessing the impact of lender risk sharing and implementing any changes to government-legislated mortgage insurance parameters.
- Consider our role in the mortgage industry's due diligence process by:
  - Operationally integrate our underwriting and services functions
  - Improving our underwriting and loss risk models
  - Implementing a new risk-based approach to lender quality assurance
  - Further developing our key account management and client relations management (CRM) framework with greater support for our CRM systems
- Integrate regulatory capital and economic capital into our pricing analysis.

PERFORMANCE INDICATORS

The following performance indicators, along with the medium-term initiatives, will assess the progress towards achieving our short and medium-term outcomes – with a focus on assessing performance related to access, stability, competitiveness and risk:

2017 TARGET	PERFORMANCE INDICATOR
	Access:
≥ 13.5%	Of applications approved are from rural areas
≥ 60%	Of applications approved are from first time buyers
	Stability:
≥ 10.7%	Return on Capital Holding Target[9]
	Competitiveness:
≤ 23.8%	Operating expense ratio
	Risk:
≥ 408%	Percentage Minimum Capital Required (MCT)
≤ $512B	Insurance in Force

[9] *This indicator is subject to change post-dividend policy.*

FINANCIAL PLAN AND OUTLOOK

All expenses are covered by our revenues from insurance premiums and application fees for insuring transactional homeowner, portfolio and multi-unit residential property loans, and by our investment income. Those expenses include insurance claims losses. We expect to generate a reasonable return for the Government of Canada with due regard for loss.

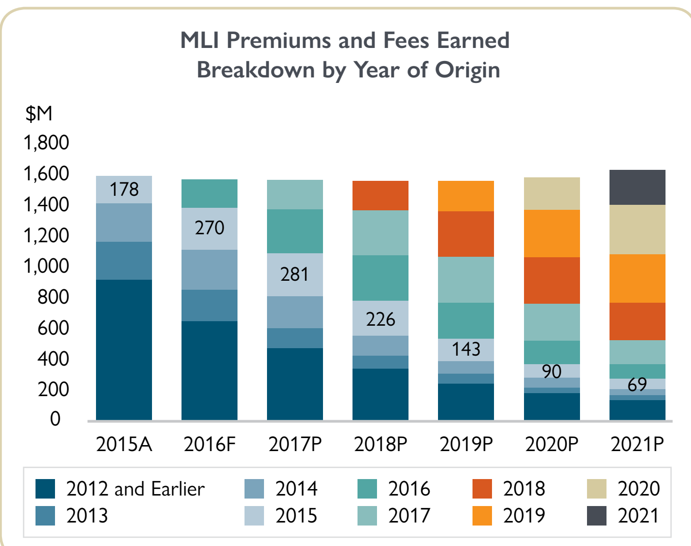
Financial Analysis

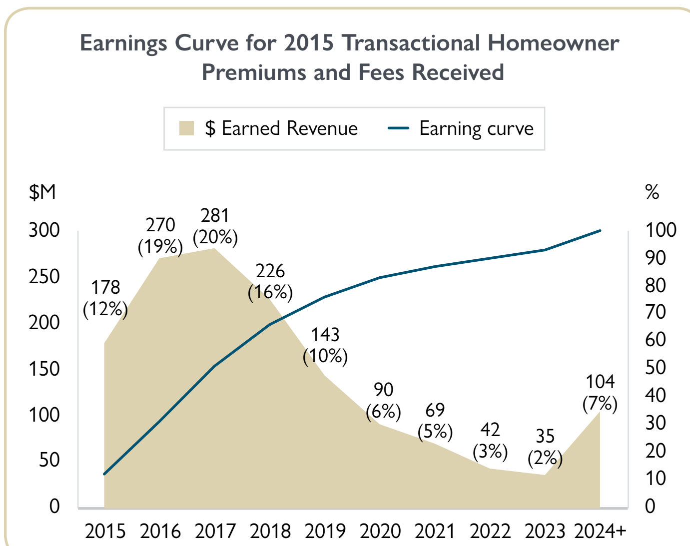
Income Statement Summary

(in millions)	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Premiums and Fees Earned	1,592	1,568	1,566	1,559	1,560	1,581	1,630
Investment Income	568	579	598	634	758	843	944
Other Income	15	7	6	7	7	8	7
Total Revenues:	2,175	2,154	2,170	2,200	2,325	2,432	2,581
Insurance Claims	290	421	332	296	281	265	253
Operating Expenses	212	315	373	348	330	332	339
Total Expenses:	502	736	705	644	611	597	592
Income before Income Taxes	1,673	1,418	1,465	1,556	1,714	1,835	1,989
Income Taxes	409	344	356	378	417	447	485
Net Income	1,264	1,074	1,109	1,178	1,297	1,388	1,504

Total revenues increase over the planning period, primarily as a result of income from investment portfolio growth. Revenue on premiums earned remains relatively flat, with an upward turn in 2021.

Responding to competitive pressures, a revised allocation of new portfolio volumes distributed among lenders leads to increased revenues which offset otherwise decreasing premiums and fees earned from lower insured volumes over the past several years.





Total expenses are turning upwards in 2016 and 2017 reflecting our needed investments in technology transformation. Insurance claims are also tracking upward in 2016 and 2017 as a result of higher unemployment rates and the weakening economy in oil-producing regions, then trend downward over the planning period, reflecting the aging book of business.

Net income increases progressively over the planning period following the completion of our multi-year technology transformation and based on higher investment income.

Capital Management

In November 2015, OSFI advised that it was finalizing a new capital framework specific to mortgage insurers that would replace the current Minimum Capital Test (MCT) for insurance risk. Mortgage loan insurers have been using an interim capital framework, which is a modified version of the MCT for federally regulated property and casualty insurers that was released by OSFI on 24 September 2014. We implemented the new interim capital framework on January 1, 2015.

Under CMHC's Capital Management framework we annually validate and calibrate, if necessary, both our Internal Capitalization Target and the Capital Holding Target (Holding Level). The Internal Capitalization Target is calibrated using specified confidence intervals and is designed to provide management with an early indication of the need to resolve financial problems. As a result of last year's validation process, the Internal Capitalization Target was maintained at 205% of the regulatory Minimum Base Required Capital (Minimum Capital).

We intend to operate at available capitalization levels above the internal capitalization target on all but unusual and infrequent occasions. Accordingly, we have established a holding level in excess of the internal capitalization target. The holding level is calibrated using confidence intervals and stress testing and is designed to provide management with an early indication of the adequacy of capitalization amounts. As a result of last year's validation process, the holding level is set at 220% of the minimum capitalization required.

The new capital requirements for insurance risk provides a new standard approach for residential mortgage insurance that is more risk sensitive, and incorporates new key drivers of risk and loss including credit worthiness, remaining amortization, and outstanding loan balance. They will also include higher capital requirements for loans originated in markets where house prices are high relative to borrower incomes. The planned changes will ensure that capital requirements keep pace with housing market conditions and reflect the underlying risks.

The new capital requirements will be finalized for implementation beginning January 1, 2017. There are transitional arrangements that are designed to phase-in the impact of the new capital requirements for some components of the legacy business and for the impact on operational risk requirements.

CMHC has analysed the impact of the new regulatory framework and assessed its expected impact on the capital position for Insurance at the end of 2016 and going forward to lead to an increase in the level of capital we will need to hold. Specifically, the previous 220% MCT holding level calibrates close to 150% MCT under the new regulatory framework. Available capital remains unchanged, but now represents approximately 265% MCT (vs 379% MCT previously). Given the recalibration of the Supervisory Target, we expect to hold a smaller buffer above the target, as supported by our stress testing results. Further calibration to account for the run-off of the transitional arrangement (~$2B additional capital) and the benefits from credit score refresh ($1-2B less capital) will need to be taken into account in finalizing the initial dividend capacity. OSFI continues to refine the framework based on comments received during the consultation period and results are subject to change.

Components of Capital over the planning period

(in millions, unless otherwise indicated)	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Accumulated Other Comprehensive Income	803	937	549	291	(28)	65	231
Appropriated retained earnings	10,014	9,677	9,942	10,163	10,710	10,944	11,121
Appropriated Capital	10,817	10,614	10,491	10,454	10,682	11,009	11,352
Unappropriated retained earnings	6,842	8,193	9,085	10,092	10,867	12,043	13,378
Total Mortgage Loan Insurance Capital	17,659	18,807	19,576	20,546	21,549	23,052	24,730
Less OSFI deductions	(264)	(539)	(119)	0	0	0	0
Total Mortgage Loan Insurance Capital available	17,395	18,268	19,457	20,546	21,549	23,052	24,730
CMHC's Internal Capitalization Target (% MCT)	205%	205%	205%	205%	205%	205%	205%
Capital Holding Target (% MCT)	220%	220%	220%	220%	220%	220%	220%
Capital Available to Minimum Capital Required (100% MCT)	354%	379%	408%	432%	444%	461%	479%
Return on Equity	7.4%	5.9%	5.8%	5.9%	6.2%	6.2%	6.3%

Under our stress testing framework, the Board of Directors annually approves a stress testing program that includes sensitivity testing, solvency testing, stress (reverse stress) testing and a number of deterministic scenarios. The results of the stress testing program support our target capital levels.

The economic factors with the largest impact on the financial condition of our mortgage loan insurance activity are unemployment rates, house prices, and interest rates, in that order. It is highly unlikely that any one of these factors in isolation would trigger liabilities to exceed assets. The combination of rising unemployment rates, rising interest rates and declining house prices leading to liabilities exceeding assets would have to reach levels far outside historical experience and also occur over an extended period of time, allowing us the opportunity to take mitigating actions to limit their impact.

The declines in Available Capital would exceed the requirements of our risk appetite statement early in the period and prompt changes in underwriting, products or pricing to offset the economic impact. While we had 354 per cent MCT at as December 31, 2015, we ran a number of deterministic tests that assumed a starting point of just 220 per cent MCT (our holding level). Further discussion of our stress testing practices can be found in the Risk Management section of this Corporate Plan. Based on historical data from the 1991 recession, we have used to demonstrate the impacts of a less severe downside scenario for this Corporate Plan; additional details are found in Annex C.

Investment Plan

Performance

Investments under management had a market value of $24,430 million as at June 30 2016.[10] The size of the mortgage loan insurance investment portfolio has grown significantly over the last few years and this trend is expected to continue. The funds available for investment are primarily generated from the net cash flow of premiums, application fees, interest and distributions received, net of claims and expenses paid.

The buy-and-maintain investment strategy for managing the investment portfolio has meant greater emphasis on book yield as a key performance measure. The book yield of the fixed income portfolio as of June 30, 2016, was 2.43 per cent but is expected to decline as older bonds mature and are reinvested in a lower yield market environment.

[10] The investments under management exclude investments related to repo activity.

Investment Outlook and Projected Returns

The key objectives of the investment asset allocation are to meet cashflow requirements with a high degree of certainty, maximize risk-adjusted returns and minimize the requirement to sell assets. Consequently, the main focus of the investment strategy has been to buy high-quality bonds of shorter duration—to more closely match the duration of the liabilities, which are then held until maturity. The investment policy targets a minimum allocation of 90 per cent to bonds, although currently the allocation to bonds is approximately 95 per cent, with the balance invested mostly in equities.

The key development in the investment strategy is the planned investment in foreign bonds on a fully hedged basis. The main reason for including foreign bonds in the portfolio is to reduce concentration risk related to Canadian fixed income investments. As a result of the hedge, foreign bonds are not expected to have any significant excess returns over the long run in relation to Canadian bonds. Investments in the foreign bond portfolio are expected to begin toward the end of the fourth quarter of 2016.

The following table shows the projected annual average income return of the mortgage loan insurance portfolio:

Annual average income return

Asset Class Returns	2016	2017	2018	2019	2020	2021
Projected Annual Income Returns	1.82%	1.93%	2.51%	3.17%	3.56%	3.57%

Our buy-and-maintain investment strategy has also meant that less emphasis is placed on total returns as a measure of performance. However, total returns are still considered for their impact on available capital. The projected annual average total return of the mortgage loan insurance portfolio, including income and price returns, is shown below:

Annual average total return

Asset Class Returns	2016	2017	2018	2019	2020	2021
Projected Annual Total Returns	1.91%	-0.09%	0.32%	2.01%	3.74%	3.86%

Actual returns may be significantly different than projections as the returns provided above are based on projections around interest rates and asset returns. For example, a 50 basis point increase in the yield curve will have a $440 million impact on total return of the Fixed Income assets.

Our money market and fixed-income strategies will focus on risk-adjusted book yield, taking into consideration such things as interest rate risks versus our liabilities, credit risk and cash flow requirements. Due to the significance of fixed-income instruments in the asset mix, we supplement our analysis of credit risk at the instrument level by evaluating the overall quality of our credit portfolios. By adapting a methodology from a major rating agency to our internal ratings, the analysis illustrated in the table below indicates the level of protection provided by our fixed-income portfolios and sub-portfolios against losses from credit defaults.

Level of protection against losses

Credit Quality Ratings	Average Rating	
Mortgage Loan Insurance Portfolio (Fixed Income)	100%	A+
Canada and Sovereigns	22%	Strong AAA
Provinces and Municipalities	31%	Strong A+
Corporate	43%	A-
Money Market	2%	Strong AAA

The portfolio asset allocation as at June 30, is 94.8 per cent fixed income, 4.7 per cent equities and 0.5 per cent real estate. Equities are managed on a risk-adjusted basis. Securities are selected on the expectation that they will be able to provide a better risk-adjusted return relative to fixed income. The investment strategy for the real estate portfolio consists of direct and indirect holdings (through joint-ventures, partnerships and funds) in commercial real estate investments.

SECURITIZATION

Continuous improvement of our programs will promote a stable and innovative housing finance system in Canada with viable private funding channels that limit government risk.

We provide securitization programs by which eligible mortgages can be sold as securities to investors, providing funding to residential homeowners. We are responsible for the administration of the Covered Bond Legal Framework, another source of mortgage funding.

INTENDED OUTCOMES

Our short and medium-term outcomes will contribute to the achievement of our long-term outcome of Canada has a stable, competitive and innovative housing system.

SHORT TERM

Resulting from our activities in the next 12 months

Issuers and lenders have stable sources of funding for mortgage lending.

Enhanced access to liquidity by better aligning with other government agencies and departments.

MEDIUM TERM

Resulting from our activities over 2 to 3 years

Issuers and lenders rely less on government-backed sources of funding through the introduction of alternative product structures.

OUR STRATEGY

We ensure that Canadian financial institutions have access to funds for mortgage lending through sound management of our securitization guarantee programs and administration of the legal framework for Canadian covered bonds. Key elements of our strategy are:

- Innovative approaches so that government support of mortgage funding is targeted strategically, pricing reflects risks and benefits, and government exposure to risk is reduced over the long term.
- Sound advice based on broad market knowledge and understanding of risks to inform the government's housing finance policy decisions.

The following medium-term initiatives are priorities for the planning period, in addition to reviewing and implementing the National Housing Strategy.

Achieve Better Outcomes by Managing Risk

- Develop policy options to diversify funding sources for mortgage lending
- Develop policy options for Securitization to reduce risk exposure to catastrophic events

OUR PLAN IN DETAIL

Through the medium-term initiatives below we will deliver on our outcomes, aligning with our strategic direction to *achieve better outcomes by managing risk to support housing affordability and financial stability*. In 2017, we will review the directions and impact on our role and programs going forward resulting from the National Housing Strategy. The financial and resource impact of the delivery of our programs is noted later in this chapter.

Develop policy options to diversify financing sources for mortgage lending

- Research to identify barriers that prevent private capital from playing a larger role in mortgage funding and present policy options to government.
- Explore alternative structures to our products and other potential securitization offerings, and funding options that could reduce government risk exposure.

Develop policy options for Securitization to reduce risk exposure to catastrophic events

- Catastrophic events are those with low probability of occurring but with potentially significant financial consequences if they were to occur.
- CMHC's Securitization activities are exposed to catastrophic events which result in the failure of program participants.
- Collaborate with the Government of Canada to better understand the risks in relation to housing and develop policy options for our Securitization programs to reduce CMHC's risk exposure.

Our progress in 2016 informs our work going forward.

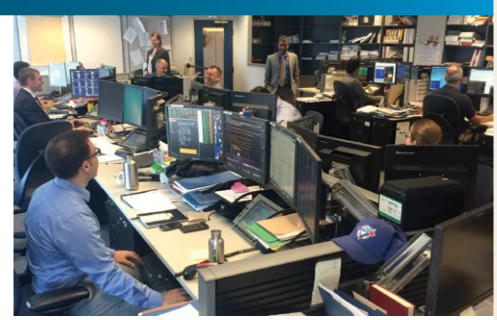
- Progress is being made on assessing market-driven pricing approaches, to be discussed at an intergovernmental working group.
- Most Approved Issuers are now issuing multi-insurer pools on a regular basis and our 2016 target was well surpassed mid-way through the year.
- We are on track to meet our performance target for the delivery of our NHA MBS and CMB guarantee programs.

See Annex B for 2016 performance results at mid-year.

Focus on Innovation

Better tools, better insights

Advanced, modern tools are essential to evolving our products and to providing more flexibility to respond to changes in pricing and regulations. As part of Technology Transformation, CMHC is developing and implementing a data management strategy that will improve data quality as well as the performance of our products to help inform investors.



Our Trading Room

Over the 2017-2021 planning period, we will create a robust technology platform with:

- centralized data for all programs
- efficiency-driving automation
- self-serve capabilities
- conformance to best practices for data integrity and security

This will support stronger investor relations built on greater information sharing, so we can focus on value-added activities.

PERFORMANCE INDICATORS

The following performance indicators, along with the medium-term initiatives, will assess progress towards achieving our short and medium-term outcomes. The following are key short-term targets we will use to assess the impact and effectiveness of our work.

2017 TARGET	PERFORMANCE INDICATOR
≤ 12.3%	Operating expense ratio
≥ 21.1%	Return on required capital
≥ 95%	Utilization of annual limit for National Housing Act Mortgage-Backed Securities
≥ 95%	Utilization of annual limit for Canada Mortgage Bonds (CMB)

FINANCIAL PLAN AND OUTLOOK

Revenues are earned from application fees, guarantee fees and investment income as well as interest income (net of interest expenses) on loans receivable under the CMB program. Expenses consist of operating costs. Securitization activity also includes revenues and costs related to the legal framework for covered bonds administered by CMHC. Application and annual fees relating to these responsibilities are on a cost-recovery basis.

For 2016, the Minister of Finance has approved new guarantee limits of $105 billion under the NHA MBS program and $40 billion under the CMB program for a total of $145 billion. The projected guarantee limits are subject to approval of the Minister of Finance. As a result of the new fee structure introduced July 1, 2016, guarantee limits have been adjusted to account for NHA MBS sold to CHT as reinvestment assets that were not previously subject to limits or fees. The CHT is a special purpose trust that acquires interests in eligible insured housing loans, such as NHA MBS, and issues CMB. We consolidate the accounts of CHT with securitization. CHT's assets and liabilities are neither owned by nor held for our benefit. The beneficiaries of the trust, after payment of all obligations, are one or more charitable organizations.

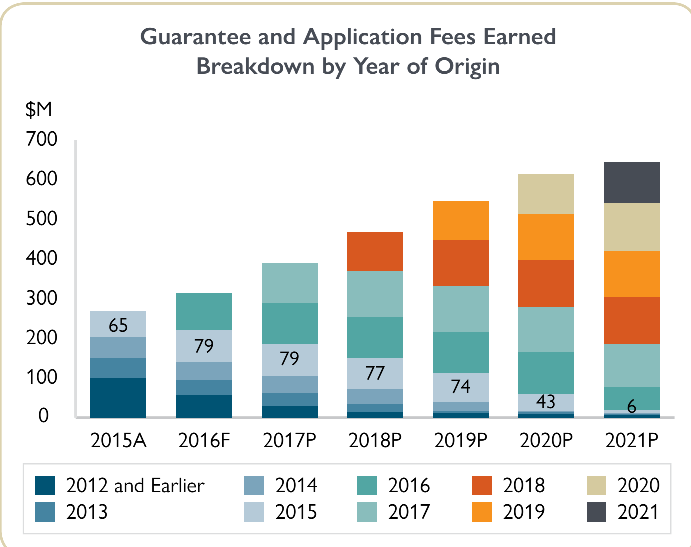
Guarantees-in-Force are projected to show a gradual increase from 2017 to 2019 as new guarantees exceed maturities. They are then projected to decrease in the years 2020 and 2021 when maturities exceed new guarantees. Guarantees-in-Force will remain under the $600 billion legislative limit.

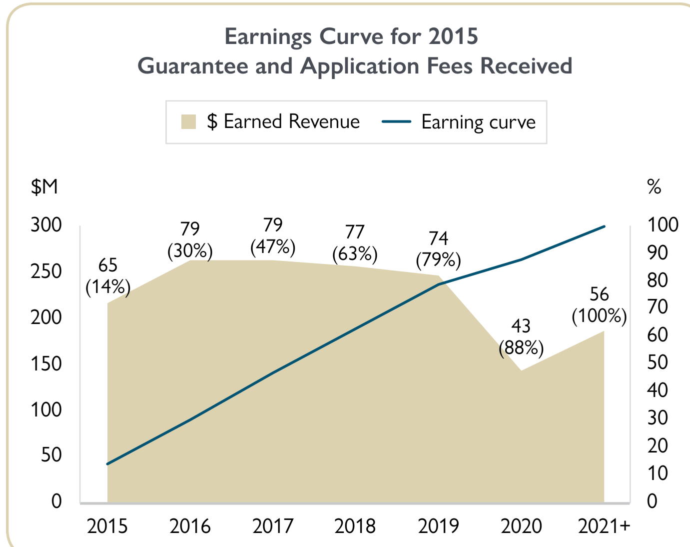
Financial Analysis

Income Statement Summary

(in millions)	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Guarantee and Application Fees Earned	268	313	390	468	546	614	643
Net Interest Income	8	8	8	8	8	8	8
Investment Income	39	40	47	56	65	73	81
Other Income	74	68	68	68	68	68	68
Total Revenues	389	429	513	600	687	763	800
Operating Expenses	103	111	120	121	121	124	122
Total Expenses	103	111	120	121	121	124	122
Income before Income Taxes	286	318	393	479	566	639	678
Income Taxes	71	79	98	120	142	160	170
Net Income	215	239	295	359	424	479	508

Total revenues increase over the planning period due to higher NHA MBS guaranteed volumes and a new fee structure introduced on July 1, 2016. That new fee structure includes changes to the CMB program that subject all NHA MBS sold as original or reinvestment assets to the Canada Housing Trust for CMB series issued after July 1, 2016, to separate NHA MBS guarantee fees. Our projections do not assume any changes in the fee structure beyond the year 2016.





Total expenses increase over the planning horizon due to higher guarantee fees paid to the Government of Canada. Net income increases over the planning period reflecting higher fees earned.

Capital Management

For securitization, we calculate capitalization requirements according to regulatory and economic capital principles, applying risk factors to securitization investment assets and liability exposures.

Our Securitization capitalization framework is undergoing a review that could affect the estimate of capitalization required. The review is focused on ensuring that the capitalization framework comprehensively reflects the risks to which CMHC is exposed. As part of this review, one area that has been identified for potential enhancement relates to catastrophic risks (e.g., earthquakes) that could potentially expose CMHC to losses if an issuer were to default as a result. Once work on the capital framework is completed, any change would be reflected in the quarterly financial report following approval by the Board of Directors.

Our available capital of $2.1 billion is expected to accommodate any increases to our required capital as a result of this new framework. Changes to capital required would affect appropriated and unappropriated retained earnings and, as a result, any metrics associated with required capital.

Capitalization also factors in CMHC's ability to meet its timely payment guarantee. This risk is managed through a highly liquid investment portfolio. Any other provisions, corporate assets, reserves and means under any of CMHC's business lines and programs can also be utilized to satisfy a call on a guarantee until they can be replenished out of the program to which the guarantee relates or by the Government of Canada.

Components of Capital over the planning period

(in millions)	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Accumulated other comprehensive income (Loss)	63	53	(39)	(129)	(167)	(132)	(85)
Appropriated retained earnings	1,137	1,239	1,440	1,605	1,749	1,786	1,823
Appropriated capital	1,200	1,292	1,401	1,476	1,582	1,654	1,738
Unappropriated retained earnings	707	840	938	1,136	1,419	1,862	2,335
Total securitization capital available	1,907	2,132	2,339	2,612	3,001	3,516	4,073
Capital available to capital required	159%	165%	167%	177%	190%	213%	234%
Return on Equity	12.0%	11.8%	13.2%	14.5%	15.1%	14.7%	13.4%

Further discussion on our stress testing can be found in the Risk Management section.

Investment Plan

Performance

Investments under management totalled $2.9 billion (market value) as at June 30, 2016. The size of the securitization portfolio has grown significantly over the last few years due to fee increases and this trend is expected to continue. The funds available for investment are generated primarily from net cash flow as a result of guarantee and application fees and interest received (net of claims and expenses paid). As at June 30, 2016, the year-to-date total return for the consolidated securitization portfolio was 3.04 per cent, which was identical to the consolidated benchmark index return.

Investment Outlook and Projected Returns

The following table shows the projected average annual returns for each asset class under the strategic asset allocation policy of the investment portfolio. The last review of strategic asset allocation determined that the Securitization investment portfolio would hold only Government of Canada bonds and money market instruments to support liquidity and CMHC's timely payment guarantee. As a result, 100 per cent of the portfolio is invested in highly rated fixed-income instruments. These are total returns, including both income and price returns.

The expected annual average total return of the Securitization portfolio shown below is based on the returns provided and the strategic asset allocation.

Annual average total return

Asset Class Returns	2017	2018	2019	2020	2021
Projected Annual Total Returns	-2.39%	-1.79%	0.35%	2.63%	2.85%

Actual returns may be significantly different than projections as the returns provided above are based on projections around interest rates. For example, a 50 basis point increase in the yield curve will have a $99 million impact on total return.

PEOPLE AND PROCESSES

We will empower our people to innovate and make decisions based on shared values—ensuring that CMHC is a dynamic, forward-thinking organization that manages risk skilfully and embraces change.

OUR STRATEGY

Our People and Processes activities help us achieve all three of our strategic directions. Key elements of our strategy are to:

- Attract and retain the best talent, and provide the tools they need to thrive as high performers.
- Innovate consciously in all that we do.
- Foster a healthy and resilient workforce that is well equipped to lead us through our technology transformation and drive innovation at all levels.
- Transform CMHC into a modern technology-enabled organization, reducing our overhead and increasing efficiency.
- Promote our role as Canada's authority on housing via open and honest communications.
- Take risks where necessary to achieve our goals–doing so thoughtfully and in full awareness of what those risks are and how to approach them.
- Manage our finances with the utmost responsibility and transparency on behalf of all Canadians.

The following medium-term initiatives are priorities for the planning period:

Be a High-Performing Organization

- Engage, empower and inspire employees to innovate
- Recruit, acquire and retain a diverse and talented workforce
- Support employees' growth and leadership development and align talent to meet business needs
- Along with our partner, Accenture, transform CMHC into a modern technology-enabled organization

Achieve Better Outcomes by Managing Risk

- Strengthen core risk management capabilities and achieve a pervasive culture of risk awareness/management

"CMHC's Innovation Framework not only defines what innovation means to CMHC, but also applies a simple lens where all individuals can identify their role in fostering a culture that supports innovation."

Steffan Jones
Innovation and Change Management

OUR PLAN IN DETAIL

Through the medium-term initiatives below we will support delivery on outcomes, aligning with all three of our strategic directions. In 2017, we will review the directions and impact on our role and programs resulting from the National Housing Strategy. Financial resources to support our people and processes are found in the Operating Budget chapter.

Engage, empower and inspire employees to innovate

- Foster a culture that supports innovation through the implementation of an Innovation Framework which is founded on the following four critical building blocks.
  - Programs and Processes: Having the right processes in place to move/innovate ideas to implemented programs or services that deliver value.
  - Organization and Culture: Enabling our employees to engage in innovation activities with transparent accountabilities and governance in place. Actively working on removing barriers to innovation to foster a culture that supports innovation.
  - Resources and Competencies: Having the right financial resources, talent and tools to support innovation activities.
  - Metrics and Incentives: Establishing targets and indicators to guide innovation decisions and to measure progress. Supporting innovation contributions through formal and informal recognition.

Our Mental Health Initiative, launched in 2014, aligns itself with the federal public service workplace Mental Health Strategy and the National Standard of Canada for Psychological Health and Safety in the Workplace.

We continue to engrain wellness and mentally healthy practices in our culture and foster individual and corporate accountability for wellness and mental health at CMHC.

Recruit, acquire and retain a diverse and talented workforce

- Continue to broaden our outreach to identify, attract and onboard diverse talent.
- Develop Talent Acquisition Framework to meet our evolving business needs.
- Compensate people at a level competitive with the general marketplace.

Support employees' growth and leadership development and align talent to meet business needs

- Implement a Career Framework to support performance management, career development and succession planning.

Strengthen core risk management capabilities and achieve a pervasive culture of risk awareness/management

- Continue foundational work to establish core accountabilities, including a new focus on independent analytics.
- Design and achieve our desired or "target" risk culture.
- Strengthen corporate wide risk awareness through ongoing Risk Management Communications and Training Plan.
- Complete and execute economic capital roadmap to plan future work.

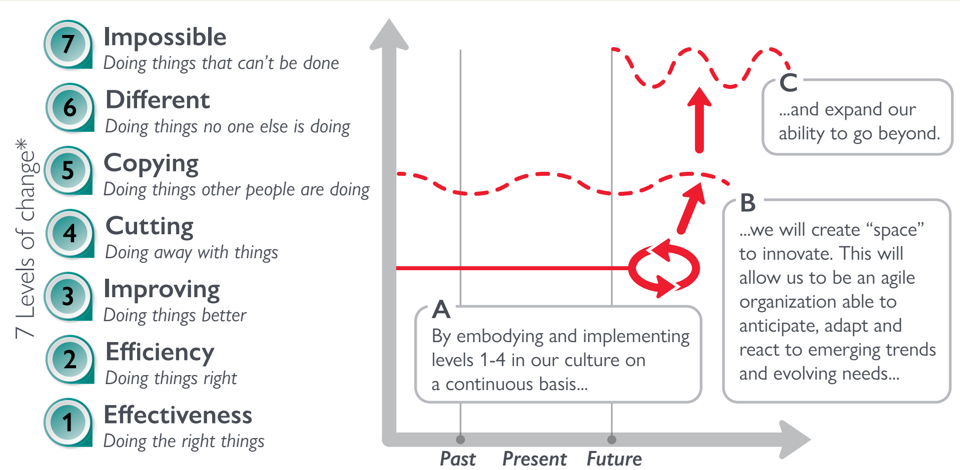
Focus on Innovation

A framework for innovation

CMHC's Innovation Framework centers on: *Accurately identifying a clear, concise problem or opportunity, leading to the implementation of a new solution that creates value.*

Change to innovate: Making our way through the levels of change through consistent execution.

By assessing our work through the lens of a 7 levels of change[11] model (see below) we equip our employees with the approaches and techniques through which we can collectively challenge ourselves to execute on small but impactful changes and innovations, and 'create space' to move into the higher levels of change and seek bigger, more substantial innovations. The 7 levels of change are:



* *Source: Rolf Smith,* The 7 Levels of Change: The Guide to Innovation in the World's Largest Corporations, *1997*

The Innovation Framework includes tangible measures that we will use to assess our progress over time and intangible measures that focus on employees' mindsets, behaviours and values. Together, these measures will demonstrate the maturity of our innovative activities and cultural impact. A tangible start for this maturity is evident in the implementation of our new internal ideation platform. Employees now have the ability to submit, collaborate and vote on innovative ideas through an easy to use, transparent tool – IDEOPOLIS.

- IDEOPOLIS: CMHC's virtual environment that enables all employees to share, collaborate and vote on ideas across sectors and regions, bringing ideas to life in an open and transparent way.

Utilising the results from our 2016 Pulse Survey, emphasis will also be placed on eliminating or mitigating perceived and real barriers to innovation identified by our employees, such as technology, approvals process and workload.

The Innovation Framework paves the path and demonstrates our commitment to building a culture where individuals at all levels are educated, equipped and enabled to innovate and where we are recognized as being innovative, inside and out.

[11] *Rolf Smith,* The 7 Levels of Change: The Guide to Innovation in the World's Largest Corporations, *1997*

Transform CMHC into a modern technology-enabled organization, reducing our overhead and increasing efficiency

- Agreement with IT service provider for technology operations and transformation. CMHC will be responsible for IT strategy, client relationship management, security and risk, and partner oversight (additional detail in Operating Budget chapter).
- Better management of core business processes, a mobile strategy for employees and clients; use of analytics for superior market analysis; new products and many workplace efficiencies that will allow us to use our time more productively.
- Reduce operational risk and ensure continued levels of technology service; operational performance will be closely monitored and measured to ensure stable continuous operations, to gauge additional technology-enable productivity gains and to maximize the value of operational investments.

Focus on Innovation

The enhanced capacity of a global technology leader will support our transformation to a resilient organization with the information, tools and culture to embrace and lead change, ensuring that we are always best positioned to help Canadians meet their housing needs.

Our technology partner will provide us with up to 10 years of IT service delivery and transformation. Among the benefits are greatly enhanced data governance and security; an evergreen inventory of tools, skills and expertise; and many new opportunities for innovation throughout the organization. The key advantages to our partnership is that we will reach our end state on a substantially accelerated timeline and we will realize operating cost savings, with the potential of significant other enterprise savings in later years.

Paul Mason
Chief Information Officer - IT
Paul leads the IT sector and is shaping the strategy for the future direction of information and technology at CMHC.

We have agreed to a risk-sharing arrangement that cements our relationship as partners, as do key milestones and our ability to invite third-party companies to bid on certain projects and systems. As well, we have embedded several off-ramps into the agreement should we need to exit due to poor performance. These features comprise an important control for managing risk to ensure we achieve our goals.

PERFORMANCE INDICATORS

The following performance indicators, along with the medium-term initiatives, will assess the progress towards achieving our short and medium-term outcomes. The following are key short-term targets we will use to assess the impact and effectiveness of our work.

Be a High-Performing Organization

2017 TARGET	PERFORMANCE INDICATOR
≥ 80%	Employee engagement score
≥ 72%	Accountability index score
≥ 60%	Effectiveness index score
≥ 2.8%	Representation rates of Indigenous People
≥ 22.1%	Representation rates of Visible Minorities
≥ 3.7%	Representation rates of Persons with Disabilities
≥ 54.4%	Representation rates of Women in Senior Leadership*
≤ 12.5%	Operating budget ratio
≥ $2.3M	Revenue per employee
≥ 85%	Achievement of the Technology Transformation integrated project plan milestones
≥ 99.8%	Availability of systems for mission critical applications

* *Management Committee and National Leadership Team. The 2017 target is based on Labour Market Availability of women for jobs that are comparable to jobs at CMHC.*

Achieve Better Outcomes by Managing Risk

2017 TARGET	PERFORMANCE INDICATOR
≥ 85%	Achievement of Internal Audit action plans
≥ 85%	Achievement of Model vetting action plans
= 100%	Completion of annual risk management training plan
= 100%	Of CRO sector benchmarking categories show improved results
≥ 1	Or more CRO sector benchmarking categories match industry standards

Lead Through Innovation and Insight

2017 TARGET	PERFORMANCE INDICATOR
≥ 70%	Innovation index score

Core Activities

2017 TARGET	PERFORMANCE INDICATOR
≥ 6.6%	Return on equity
≥ $1,421M	Net income

RESOURCE REQUIREMENTS

OPERATING BUDGET

Our operating budget supports the achievement of our strategic directions as well as the resources we require to deliver our programs, products and services described in the preceding activity chapters.

Over the next five years, we are planning investments related to risk management, technology transformation and the Budget 2016 housing measures:

Improving our Risk Foundation

Our commercial activities—those related to mortgage loan insurance and securitization—expose the Government of Canada to substantial financial risk. We therefore need to invest in a robust governance, risk-management and control environment to ensure we have the ability to withstand not only economic or regulatory changes but also a sustained and serious economic crisis.

We are currently investing in a number of initiatives to strengthen our core risk management capabilities (as set out in the People and Processes chapter). All areas of the corporation will benefit from these investments, including our management of resources for housing programs.

Technology Transformation and Data Analytics

Technology transformation and data analytics are key areas of investment to help us become a company with the information, tools and culture to explore new opportunities and enable our people to efficiently contribute to our mandate and mission.

In the past, CMHC has underinvested in technology. We introduced a multi-year information technology roadmap in 2014 which took a tactical approach to estimating the level of investment needed to meet our needs into the future. In 2015, we put a "pause" on the roadmap projects to explore a more strategic approach in partnership with a top tier IT organization. Following a competitive process, we entered into an agreement with Accenture in August 2016 where risk sharing components have been built in the contract to ensure alignment of outcomes between CMHC and Accenture.

Our agreement with Accenture has three phases:

1. Transition: a four-month transition period (starting in 2016) focused on knowledge transfer.
2. Run: at the end of the transition period (Dec. 2016) and for the duration of the agreement, Accenture will take on responsibility for technology operations including all infrastructure and applications.
3. Transformation: More than 30 transformation projects will be staggered throughout the next 36 months (beginning in 2016) in four work streams, including:
   - IT transformation in all business lines as well as business process re-engineering in Human Resources, Finance and Procurement (in 2017)
   - Analytics and business process outsourcing in Procurement (next steps to be determined in fall of 2016).

Through the transition phase the Integrated Project Plan for transformation will be finalized and some of the transformation initiatives will begin. Our transformation plan will take into account resource requirements, business impacts and priorities throughout the organization.

As we emerge from the transformation processes taking place over the next 36 months, we expect that technology will become an enabler for CMHC, promoting and supporting innovation and efficiency while accelerating and influencing our business strategy. It will also provide an opportunity to explore the possibilities of how data and analytics could potentially create new products and services and move us forward into a digital world.

Some efficiencies (savings) related to the agreement with Accenture have already been factored into our operating budget; however, more are expected to be realized with the combined focus on technology solutions, innovation and process redesign.

Budget 2016 – Housing Measures

The new funding for housing measures announced in Budget 2016, which we will deliver and administer over the five-year planning period, also led to increases in our operating budget. Budget 2016 doubled the funding for the Investment in Affordable Housing (IAH) Program and provided new funding for seniors, victims of family violence, Northern housing, and the renovation and repair of existing social housing. It also provided a substantial increase in new funding for First Nations communities to 2017–2018. Budget 2016 also announced five-year funding for a new Affordable Rental Housing Innovation Fund and a new Affordable Rental Housing Financing Initiative. (For more details about these new housing measures, see the Assisted Housing chapter of this plan.) Funding for the delivery and administration of these new investments is provided for in our operating budget forecast.

2015 Results | 2016 Forecast | 2017-2021 Plan

Summary of Operating Budget

(in millions)	2015 Plan	2015 Actual	2016 Plan	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Total (excl. Pension/Post-Employment Benefits)	329.9	305.7	351.8	385.3	481.2	417.7	380.1	370.8	373.6
Pension/Post-Employment Benefits	51.8	27.1	57.6	54.6	62.4	57.1	48.5	44.6	43.0
Total	381.7	332.8	409.4	439.9	543.6	474.8	428.6	415.4	416.6

In addition to the investments related to risk management, technology transformation and the Budget 2016 housing measures, there are a number of additional items that contribute to our planned operating budget.

Our People

We will continue to invest in our people. We have planned for an enhanced learning program as well as a broader, deeper leadership development program.

We are continuing to assess an enterprise-wide "workplace of the future" initiative to improve the work environment for our employees and support our objective to be a high-performing organization. While provision has not been made in the 2017-2021 Plan, we will bring forward a proposal in a subsequent year's Plan.

Pension Costs

As indicated in the Operating Environment chapter of this Plan, we have responded to the Order in Council issued December 2014 with a new design for our benefit pension plan that reflects the criteria of uniformity, risk sharing, competitiveness and cost control. The new pension plan will come into effect on January 1, 2018. After that date, the normal retirement age will be increased to 65 years for all current and future plan members. In addition, the cost of the plan, including the cost for the conditional indexation, will be shared equally between employees and CMHC starting January 1, 2018, for both of the benefit accrual options offered in the new plan design. We will review the plan every three years to ensure the 50–50 balance is maintained.

The increase in pension expense for the 2017 operating budget forecast reflects the actuarial estimate of pension expenses based on the current environment of lower projected returns on our pension fund investments and lower discount rates. The conditional indexation introduced in the new plan design will reduce the volatility of the actuarial valuation going forward.

We are also forecasting an increase in pension expense beginning in 2018, which reflects our defined benefit pension plan to be introduced which is partially offset by the impact of reduced post-employment benefits.

Full-Time Equivalents (FTEs)

Activity	2015 Plan	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Total	1,928.7	1,721.5	1,870.8	1,888.6	1,813.4	1,769.5	1,734.9	1,719.2

With many new and revised roles to fill following our organizational restructuring in late 2014, our take-up of Full Time Equivalents (FTEs) lagged our 2015 plan, and is beginning to catch up only in 2016. Going forward, a significant number of temporary staff will be required to implement the measures announced in Budget 2016, with the majority needed within the first two years of the planning period. Partially offsetting this growth, the strategic partnership with Accenture for our technology needs will result in a decline of FTEs effective 2017. Our technology transformation initiative will also result in more efficient business processes, which will yield further FTE reductions over the planning period, primarily in Human Resources and Finance functions. In addition, FTEs in our business areas are expected to be reduced as claims and default management activities moderate and as our mortgage loan insurance and assisted housing portfolios continue to mature.

CAPITAL BUDGET

The largest portion of our capital budget provides for lending activities to permit eligible borrowers to acquire and renovate existing housing or construct new housing under the various assisted housing programs of the NHA, and to help Canadians in need to access affordable, sound and suitable housing. The capital budget authority is also used to refinance privately financed social housing projects under our Assisted Housing activity. The other portion of our capital budget provides for the replacement of assets at the end of service life, the acquisition of new assets and enhancements to existing assets.

Our capital requirement projections for 2017 are $906 million. The increase in the Loans and Investments portfolio is due primarily to two new initiatives for Affordable Rental Housing announced in Budget 2016 (Innovation Fund and Financing Initiative). The remaining increase is due to additional commitment activity under the Direct Lending initiative for new construction under the On-Reserve Non-Profit Housing Program (Section 95) resulting from our approach to ensuring the full take-up of the appropriations-based funding.

2015 Results | 2016 Forecast | 2017-2021 Plan

Components of Capital Budget

(in millions)	2015 Plan	2015 Actual	2016 Plan	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Total Loans and Investments	144	121	171	171	899	888	847	837	192
Total Furniture Equipment and Business Premises	11	11	11	11	7	4	4	4	4
Total Capital Budget	155	132	182	182	906	892	851	841	196

BORROWING PLAN

Borrowing Authority

CMHC derives its borrowing authorities pursuant to subsections 21(1) and (2) and section 22 of the Canada Mortgage and Housing Corporation Act, and subsections 127(1) and (3) of the Financial Administration Act. The Minister of Finance's approval of our borrowing activities is required as part of this corporate plan, and we comply with the requirements set out in the Department of Finance's Financial Risk Management Guidelines for Crown Corporations. This borrowing plan deals strictly with our direct authority to borrow for the delivery of our programs. Although we consolidate the accounts of the Canada Housing Trust (CHT) into our financial statements, we are not the borrower. CHT borrowings, including those under the Canada Mortgage Bonds (CMB) program, are therefore excluded from this borrowing plan, as are existing mortgages or other debt obligations secured against property that is transferred to CMHC as part of our insurance and investment activities.

Our Plan includes authority to borrow from the Crown Borrowing Program to meet the funding requirements forecasted in this document, with short-term borrowings outstanding not exceeding $3.0 billion and new long-term borrowings not exceeding $1.4 billion. Further borrowings in excess of this amount will be subject to approval by the Ministher of Finance.

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Table 1: Consolidated Financial Statements
Balance Sheet (in millions of dollars)

Description	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
ASSETS							
Cash and Cash Equivalents	2,020	1,459	1,428	1,289	1,215	1,024	852
Securities Purchased Under Resale Agreements	35	-	-	-	-	-	-
Investment Securities:							
Designated at Fair Value through Profit or Loss	1,147	729	598	455	250	700	700
Available for Sale	22,168	23,556	24,361	25,463	26,731	28,689	30,801
Loans:							
Designated at Fair Value through Profit or Loss	4,955	4,437	4,024	3,677	3,378	3,118	2,744
Loans and Receivables	219,713	226,803	236,711	237,652	246,542	246,198	244,903
Accrued Interest Receivable	694	755	713	796	917	993	1,103
Derivatives	117	107	69	41	21	9	4
Due from the Government of Canada	161	300	300	300	300	300	300
Investment Property	258	162	169	175	182	190	197
Accounts Receivable and Other Assets	839	796	861	898	916	925	948
Deferred Income Tax Assets	-	-	-	-	-	-	-
Total Assets	252,107	259,104	269,234	270,746	280,452	282,146	282,552
LIABILITIES							
Securities Sold Under Repurchase Agreements	697	250	250	250	250	250	250
Borrowings:							
Designated at Fair Value through Profit or Loss	7,078	6,720	6,141	5,488	4,829	4,353	3,834
Other Financial Liabilities	216,274	222,038	231,785	232,454	241,132	240,934	239,290
Accrued Interest Payable	461	482	450	539	668	742	849
Derivatives	31	25	14	8	4	2	2
Accounts Payable and Other Liabilities	487	918	778	834	849	998	1,056
Defined Benefit Plans Liability	445	521	422	331	277	248	245
Provision for Claims	708	742	694	625	592	562	537
Unearned Premiums and Fees	6,229	6,438	6,656	6,832	6,990	7,155	7,358
Deferred Income Tax Liabilities	58	34	32	26	31	51	73
Total Liabilities	232,468	238,168	247,222	247,387	255,622	255,295	253,494
EQUITY OF CANADA							
Contributed Capital	25	25	25	25	25	25	25
Accumulated Other Comprehensive Income (Loss)	807	898	471	172	(140)	(33)	135
Retained Earnings	18,671	19,888	21,433	23,086	24,875	26,796	28,842
Reserve Fund	136	125	83	76	70	63	56
Total Equity of Canada	19,639	20,936	22,012	23,359	24,830	26,851	29,058
Total Liabilities and Equity of Canada	252,107	259,104	269,234	270,746	280,452	282,146	282,552

Table 2: Consolidated Financial Statements
Statement of Income, Comprehensive Income and Equity of Canada (in millions of dollars)

Description	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Interest Income							
Loans - designated at fair value through profit or loss	114	94	77	68	60	59	62
Loans and receivables	4,720	4,610	4,421	4,421	4,656	5,011	5,487
Other	68	42	38	46	42	37	38
	4,902	4,746	4,536	4,535	4,758	5,107	5,587
Interest Expense							
Borrowings - designated at fair value through profit or loss	169	124	106	107	97	90	92
Other financial liabilities	4,637	4,495	4,293	4,297	4,527	4,867	5,332
	4,806	4,619	4,399	4,404	4,624	4,957	5,424
Net Interest Income	96	127	137	131	134	150	163
NON-INTEREST INCOME AND PARLIAMENTARY APPROPRIATIONS							
Parliamentary Appropriations for Housing Programs	2,049	2,557	3,155	2,411	1,977	1,870	1,808
Premiums and Fees Earned	1,860	1,881	1,956	2,027	2,106	2,195	2,273
Investment Income	553	545	572	615	742	824	923
Net Realized Gains (Losses)	(35)	(64)	(78)	(25)	(9)	(30)	(17)
Net Unrealized Gains (Losses)	15	2	37	-	(21)	(15)	(9)
Other Income	98	103	106	104	103	101	86
Total income and parliamentary appropriations	4,636	5,151	5,885	5,263	5,032	5,095	5,227
NON-INTEREST EXPENSES							
Housing Programs	2,049	2,557	3,155	2,411	1,977	1,870	1,808
Insurance Claims	290	421	332	296	281	265	253
Operating Expenses	333	452	526	495	474	478	482
Total Expenses	2,672	3,430	4,013	3,202	2,732	2,613	2,543
Income before Income Taxes	1,964	1,721	1,872	2,061	2,300	2,482	2,684
Income Taxes	476	415	451	499	559	604	658
NET INCOME	1,488	1,306	1,421	1,562	1,741	1,878	2,026
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX							
Items that Will Be Subsequently Reclassified to Net Income:							
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments	16	91	(427)	(299)	(312)	107	168
Reclassification of Prior Years' Net Unrealized (Gains) Losses Realized in the Period in Net Income	(12)	-	-	-	-	-	-
Total Items that Will Be Subsequently Reclassified to Net Income	4	91	(427)	(299)	(312)	107	168
Items that Will Not Be Subsequently Reclassified to Net Income:							
Remeasurements of the Net Defined Benefit Plans	(35)	(100)	82	84	42	36	13
Other Comprehensive Income	(31)	(9)	(345)	(215)	(270)	143	181
COMPREHENSIVE INCOME	1,457	1,297	1,076	1,347	1,471	2,021	2,207
CONTRIBUTED CAPITAL	25	25	25	25	25	25	25
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)							
Balance at Beginning of Year	803	807	898	471	172	(140)	(33)
Other Comprehensive Income (Loss)	4	91	(427)	(299)	(312)	107	168
Balance at End of Year	807	898	471	172	(140)	(33)	135
RETAINED EARNINGS							
Balance at Beginning of Year	17,211	18,671	19,888	21,433	23,086	24,875	26,796
Net Income	1,488	1,306	1,421	1,562	1,741	1,878	2,026
Other Comprehensive Income (Loss)	(35)	(100)	82	84	42	36	13
Transferred to Reserve Fund	7	11	42	7	6	7	7
Balance at End of Year	18,671	19,888	21,433	23,086	24,875	26,796	28,842
RESERVE FUND							
Balance at Beginning of Year	143	136	125	83	76	70	63
Transferred from Retained Earnings	(7)	(11)	(42)	(7)	(6)	(7)	(7)
Balance at End of Year	136	125	83	76	70	63	56
EQUITY OF CANADA	19,639	20,936	22,012	23,359	24,830	26,851	29,058

Table 3: Consolidated Financial Statements
Statement of Cash Flows (in millions of dollars)

Description	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES							
Net Income	1,488	1,306	1,421	1,562	1,741	1,878	2,026
Adjustments to determine net cash flows provided by (used in) operating activities							
Amortization of Premiums and Discounts on Financial Instruments	180	199	143	167	103	93	99
Deferred Income Taxes	13	(24)	(2)	(6)	5	20	22
Change in Fair Value of Financial Instruments Carried at Fair Value	(15)	(2)	(37)	-	21	15	9
Net (Gain) Loss on Financial Instruments	35	64	78	25	9	30	17
Net Change in Non-cash Operating Assets and Liabilities:							
Accrued Interest Receivable	25	(61)	42	(83)	(121)	(76)	(110)
Derivatives	(7)	10	38	28	20	12	5
Due from the Government of Canada	124	(139)	-	-	-	-	-
Accounts Receivable and Other Assets	(319)	43	(65)	(37)	(18)	(9)	(23)
Accrued Interest Payable	(60)	(21)	32	(89)	(129)	(74)	(107)
Accounts Payable and Other Liabilities	(186)	431	(140)	56	15	149	58
Defined Benefit Plans Liability	(34)	(24)	(17)	(7)	(12)	7	10
Provision for Claims	(70)	34	(48)	(69)	(33)	(30)	(25)
Unearned Premiums and Fees	62	209	218	176	158	165	203
Other	(66)	23	(105)	186	331	99	164
Loans:							
Repayments	34,089	33,073	30,548	39,490	31,541	40,749	41,649
Disbursements	(37,329)	(40,090)	(40,134)	(40,159)	(40,166)	(40,166)	(40,010)
Borrowings:							
Repayments	(36,307)	(34,333)	(31,238)	(40,161)	(32,147)	(41,536)	(42,255)
Issuances	39,500	41,607	40,817	40,540	40,398	40,698	40,389
	1,123	2,305	1,551	1,619	1,716	2,024	2,121
CASH FLOWS PROVIDED BY (USED IN) INVESTMENT ACTIVITIES							
Investment Securities							
Sales and maturities	9,394	2,953	3,741	2,852	8,491	3,185	3,643
Purchases	(11,125)	(5,407)	(5,323)	(4,610)	(10,281)	(5,400)	(5,936)
Investment property							
Additions	(4)						
Securities purchased under resale agreements	91	35	-	-	-	-	-
Securities sold under repurchase agreements	372	(447)	-	-	-	-	-
	(1,272)	(2,866)	(1,582)	(1,758)	(1,790)	(2,215)	(2,293)
Increase(Decrease) in Cash and Cash Equivalents	(149)	(561)	(31)	(139)	(74)	(191)	(172)
CASH AND CASH EQUIVALENTS							
Beginning of Year	2,169	2,020	1,459	1,428	1,289	1,215	1,024
End of Year	2,020	1,459	1,428	1,289	1,215	1,024	852
REPRESENTED BY							
Cash	(1)						
Cash equivalents	2,021	1,459	1,428	1,289	1,215	1,024	852
	2,020	1,459	1,428	1,289	1,215	1,024	852
Supplementary Disclosure of Cash Flow from Operating Activities							
Amount of Interest Received During the Year	5,761	5,632	5,171	5,233	5,435	5,889	6,442
Amount of Interest Paid During the Year	5,027	5,081	4,597	4,604	4,757	5,164	5,630
Amount of Dividends Received During the Year	39	40	42	44	45	47	48
Amount of Income Taxes Paid During the Year	930	(165)	469	367	451	487	648

ANNEX A – CORPORATE PROFILE AND GOVERNANCE

MANDATE AND LEGISLATIVE FRAMEWORK

CMHC is a federal Crown corporation incorporated under the *Canada Mortgage and Housing Corporation Act* (CMHC Act) and is accountable to Parliament through the Minister for CMHC[12] (the Minister). Our legislative framework consists of the CMHC Act, the *National Housing Act* (NHA) and the *Financial Administration Act* (FAA).

As set out in the NHA, CMHC's mandate is to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions. In relation to financing for housing, the NHA's purpose is to promote housing affordability and choice; to facilitate access to and competition and efficiency in the provision of housing finance; to protect the availability of adequate funding for housing; and to contribute to the well-being of the housing sector. Additional "objects" in the NHA relate to the Corporation's housing finance activities. These are: a) to promote the efficient functioning and competitiveness of the housing finance market; b) to promote and contribute to the stability of the financial system, including the housing market; and c) to have due regard to the Corporation's exposure to loss.

ANNUAL REVIEWS BY THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS

The NHA specifies that the Superintendent of Financial Institutions, at least once each calendar year, will make or cause to be made any examination or inquiry that the Superintendent considers to be necessary or expedient to determine if the Corporation is carrying out any or all of its commercial activities in a safe and sound manner with due regard to loss. The Superintendent reports the results and recommendations to the Board of Directors, the Minister and the Minister of Finance.

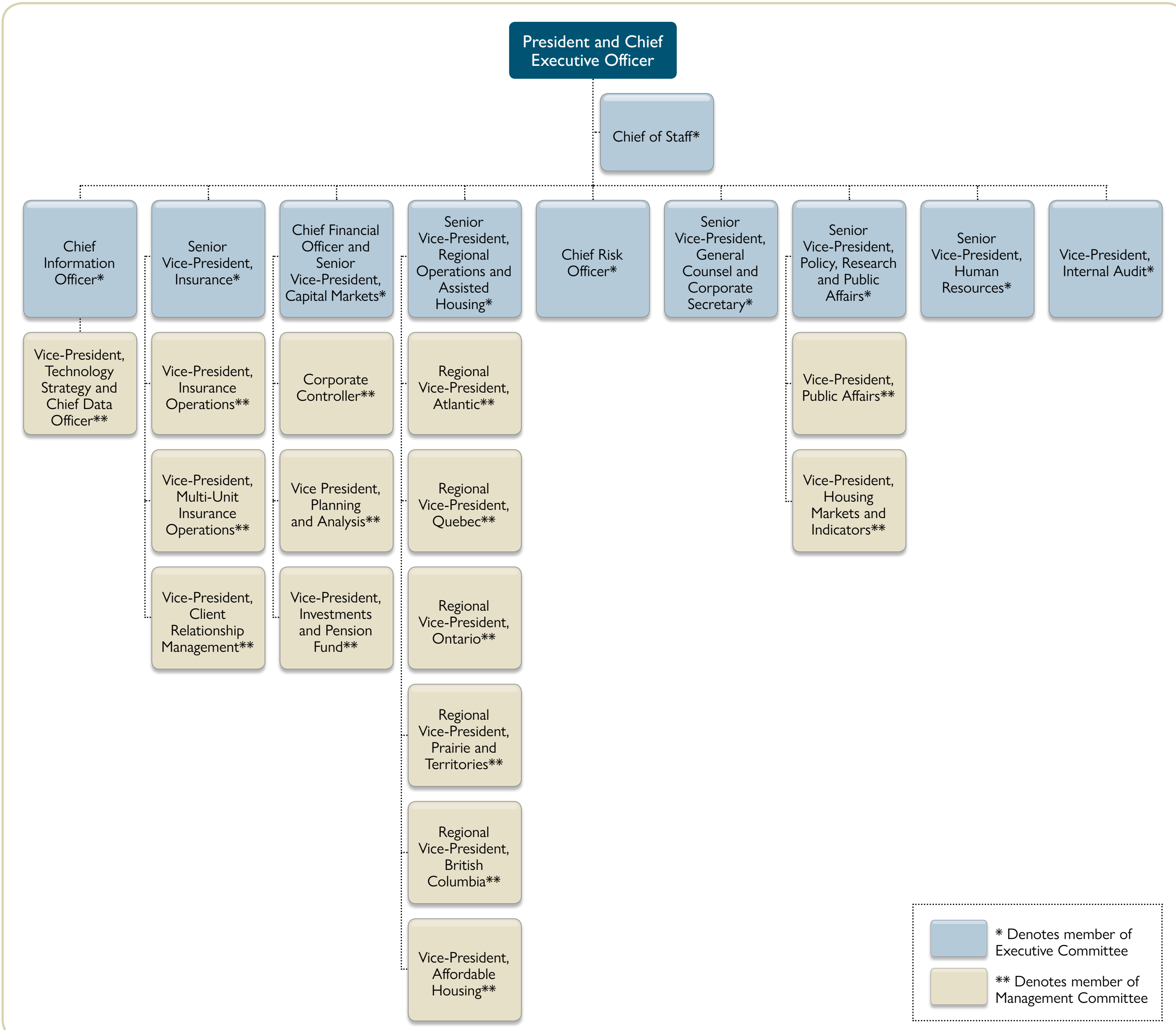
CORPORATE STRUCTURE

The Board of Directors is responsible for managing the affairs of the Corporation and the conduct of our business in accordance with applicable legislation as well as the governing by-laws of the Corporation. The Board comprises the Chairperson, the President and Chief Executive Officer (CEO), the Minister's Deputy Minister, the Deputy Minister of Finance, and eight other directors. Board members are appointed pursuant to sub-sections 6(2) and 6(4) of the CMHC Act. Charters for the Board's committees (Audit, Corporate Governance and Nominating, Human Resources, and Risk Management) are posted on CMHC's website (http://www.cmhc-schl.gc.ca/en/corp/about/cogo/cogo_002.cfm).

Our primary management decision making body is our Executive Committee. Several functional operating committees support sectoral management. Our Management Committee is responsible for monitoring progress on corporate priorities, resource management and long-term planning.

[12] *The Minister designated for the purpose of the CMHC Act and the NHA is currently the Minister of Families, Children and Social Development.*

The following shows CMHC's management structure as at September 2016:



CMHC's headquarters are in Ottawa. The Corporation has five regional business centres situated in Halifax, Montreal, Toronto, Calgary and Vancouver. CMHC provides advisory and other services to the Canada Housing Trust (CHT) and the First Nations Market Housing Fund (FNMHF). We also manage and administer Granville Island on behalf of the Government of Canada.

ANNEX B – 2016 MID-YEAR PERFORMANCE

Performance Indicators		2016 Plan	Mid-year June 30, 2016 Plan	Mid-year June 30, 2016 Actual
Market Analysis and Research	Overall usefulness of market analysis and research information	≥ 85%	Measured at year end	Measured at year end
	Expenditure of grants and contribution budget for research and information transfer for 2016-2017	= 100%	≥ 15%	23%
	Policy and research projects on track to meet key milestones	≥ 85%	≥ 85%	76.4%[13]
Assisted Housing	Reduction in the higher risk projects in CMHC managed portfolio	≥ 2.0%	Measured at year end	Measured at year end
	Housing Programs expenditures for Assisted Housing for 2016-2017	= $1,821M	≥ $429M	$422M
	Estimated number of households assisted through long-term social housing commitments	≥ 521,500	Measured at year end	Measured at year end
	Affordable housing units facilitated by the Affordable Housing Centre in 2016	≥ 3,225	≥ 1,613	1,253[13]
	New units committed under the On-Reserve Non-Profit Housing Program in 2016-2017	≥ 702	≥ 0	7
	Direct Lending – subsequent renewals in 2016	≥ $811M	≥ $495M	$491M
Mortgage Loan Insurance	Return on Capital Holding Target	11% - 13%	≥ 10.5%	10.7%
	Operating Expense Ratio	≤ 18.7%	≤ 18.7%	15.9%
	Insurance-in-Force ($B)	≤ $516B	$521B	$523B
Securitization	Operating Expense Ratio	≤ 11.8%	≤ 11.8%	12.1%[14]
	% of multi-insurer pools – Approved Issuers issuing multi-insurer NHA MBS	≥ 10%	≥ 10%	72%
	Maximum lapse beyond issuer demand in total amount of NHA MBS ($80B) and CMB ($40B) guaranteed	≤ $2B each	Measured at year end	Measured at year end
	Return on Required Capital	≥ 20.0%	≥ 20.0%	17.2%[15]
People and Processes	Operating Budget Expense Ratio	≤ 13.3%	≤ 13.1 %	12.7%
	Net Income	≥ $1,345M	≥ $649M	$651M
	Return on Equity	≥ 6.6%	≥ 6.5%	6.5%
	Improvement in risk management culture:			
	Understanding of risk management at CMHC	≥ 80%	Measured at year end	Measured at year end
	Achievement of action plan items	≥ 90%	≥ 90%	71%
	• Internal Audit action plans	≥ 85%	≥ 85%	71%[13]
	• Model vetting action plans	≥ 90%	≥ 90%	N/A
	• Regulatory compliance action plans	≥ 90%	≥ 90%	N/A
	Engagement Survey Results			
	Employee engagement	≥ 80%	Measured at year end	Measured at year end
	Employee enablement	≥ 69%		
	Authority and empowerment	≥ 73%		
	Innovation	≥ 54%		
	Quality and client focus	≥ 80%		

[13] Behind schedule but year-end target expected to be achieved.

[14] Higher than plan mainly due to lower than plan guarantee and application fees earned caused by timing and extent of fee increases and prepayment assumptions in plan.

[15] Lower than plan driven by a higher average capital required due to a higher market value of the portfolio (decrease in market yields) and a lower net income due to the plan straightlining over the year the higher guarantee fees received from volumes that exceed the threshold while these will only be breached in Q4. Expected to be on target by year-end.

ANNEX C – IMPACT OF A DOWNSIDE SCENARIO

Similar to last year, the 2017-2021 Corporate Plan base is consistent with a relatively stable economic environment. However, recognizing the length of historical business cycles in Canada, the impact of a possible recession should be considered during the planning horizon. We analyzed historical data from several recessions that occurred over the period from 1980 to 2010. Management has chosen a downside scenario for this Corporate Plan using historical data from the 1991 recession. The major rationale for using the 1991 recession is that it provided a sharper increase in the unemployment rate relative to other recessions.

From the 1991 recession, the historical peak-to-trough decline in the MLS® price of 4.8 per cent and the trough-to-peak increase in the unemployment rate of 4 percentage points were applied to 2016 Q2 data to generate similar fluctuations in the projected unemployment rate and home prices over the planning horizon. Compared to the base-line reflected in the Corporate Plan, projected mortgage rate increases in the down-side scenario follow a similar trajectory but with a four-quarter delay.

The detailed impacts of this downside scenario are provided below.

APPLICATION TO CMHC'S BUSINESS ACTIVITIES

The downside scenario has been applied to CMHC's Mortgage Loan Insurance activity, largely through its impacts on claims. Under this recessionary scenario, claims frequency reaches and exceeds long-term averages toward the end of the planning horizon. Claims severity is not impacted significantly as the peak-to-trough home price decline is less than 5 per cent and gives way to price increases after this initial decline. While claims paid increase over the five years, the volume of claims begins to decline in the outer years, although net income remains below the base line every year.

After the 2008-2009 financial crisis, CMHC saw the volume of its new Insurance business written increase as private sector competitors moved to shore up their US-based operations. While an increase in new business is also possible under this recessionary scenario, we do not expect the private sector competition to reduce their role in the marketplace as much as that which occurred in 2008-2009, and as a result the increases to CMHC's business volumes would not be expected to be as material. New business volumes have therefore been modelled as neutral, remaining constant with the Corporate Plan base line.

No changes have been made under this scenario to the Assisted Housing activity as the impact to Assisted Housing was found to be immaterial. Also, no changes have been made under this scenario to the Securitization activity as demand would be expected to continue to drive full take-up within the cap set by the Minister of Finance.

The impacts, presented in the table below, are due to a reduction in net income as a result of higher Insurance claims losses.

Summary of impact

(in millions, unless otherwise indicated)	Corporate Plan	Downside Scenario	Difference
Total Equity of Canada (2021)	29,058	28,126	(932)
Cumulative Net Income (to 2021)	9,934	9,002	(932)
Cumulative Insurance Losses (to 2021)	1,848	3,036	1,188
Capital Available to Minimum Capital Required (2021) (%MCT)	479%	465%	(14) pts

Our Values

Because **we** care about what we do

Be an **owner**

Amaze our clients

Think **"yes"** first

Do the **right** thing

Believe in each other: we are better together

Celebrate both wins and failures

Ask **"why?"**

Be **fearless** in the face of change

Make a **difference**

Have **fun** every day

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ALTERNATIVE TEXT AND DATA FOR FIGURES

PTI Comparison of 2017 Plan to 2021 Plan

$M	2017 Plan	Premiums and fees earned	Investment income	Net Interest income	Operating expense	Insurance claims	Other	2021 Plan
Bench marks	1,872							2,684
Rises		317	351	26	44	79		
Drops							5	

Net Income by Segment

$M	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Corporate	1,488	1,306	1,421	1,562	1,741	1,878	2,026
Mortgage Loan Insurance	1,248	1,048	1,112	1,184	1,317	1,394	1,522
Securitization	215	239	295	359	424	479	508
Assisted Housing	25	19	14	19	0	5	-4

Capital Available vs Capital Required

$M	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Appropriated Capital (MLI)	10,817	10,614	10,491	10,454	10,682	11,009	11,352
Appropriated Capital (SEC)	1,200	1,292	1,401	1,476	1,582	1,654	1,738
Lending Programs Available Capital	0	0	0	0	0	0	0
Excess	7,445	8,869	9,917	11,176	12,299	13,903	15,683
% MCT (MLI)	354%	379%	408%	432%	444%	461%	479%
Capital Available to Capital Required (SEC)	159%	165%	167%	177%	190%	213%	234%

Operating Budget Comparison of 2017 Plan to 2021 Plan

$M	2017 Plan	I&T Investments	New Initiatives	SIF	Salaries	Pension and Future Benefits	Other	2021 Plan
Bench marks	544							417
Rises					19		6	
Drops		116	11	6		19		

Productivity - Revenues and Expenses

	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Operating Budget Expense ratio %	11.1	12.1	12.5	13.2	13.5	13.4	13.1
Revenue Received per FTE $	1,743	1,928	2,299	1,983	1,783	1,774	1,842

Employment Equity Representation Rate

%	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Visible Minorities	19.2	20.2	22.1	24	25.9	25.9	25.9
Persons with Disabilities	3.4	3.2	3.7	4.3	4.9	4.9	4.9
Indigenous Peoples	2.1	2.2	2.8	3.3	3.9	3.9	3.9

MLI Premiums and Fees Earned Breakdown by Year of Origin

$M	2015A	2016F	2017P	2018P	2019P	2020P	2021P
2012 and Earlier	916	650	473	342	244	181	138
2013	249	204	131	82	63	37	32
2014	249	258	205	132	83	63	37
2015	178	270	281	226	143	90	69
2016		186	285	294	234	152	95
2017			191	290	299	238	154
2018				193	294	303	242
2019					200	305	315
2020						212	323
2021							225

Earnings Curve for 2015 Transactional Homeowner Premiums and Fees Received

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024+
Earned Revenue $	178	270	281	226	143	90	69	42	35	104
Earning curve %	12	19	20	16	10	6	5	3	2	7

Guarantee and Application Fees Earned Breakdown by Year of Origin

$M	2015A	2016F	2017P	2018P	2019P	2020P	2021P
2012 and Earlier	99	57	28	15	12	10	6
2013	50	39	34	18	4	3	3
2014	54	45	44	40	22	4	3
2015	65	79	79	77	74	43	6
2016		93	104	104	104	104	60
2017			101	115	115	115	108
2018				99	117	117	117
2019					98	118	118
2020						100	119
2021							103

Earnings Curve for 2015 Guarantee and Application Fees Received

	2015	2016	2017	2018	2019	2020	2021+
Earned Revenue $	65	79	79	77	74	43	56
Earning curve %	14	30	47	63	79	88	100