

CMHC and the CMHC Risk Appetite Statement (cont'd)



2009 results

- Mortgage Loan Insurance: approval of \$183 B of insurance for 1.2 million households
- Securitization: guaranteed \$135 B in annual securities

CMHC and the CMHC

Risk Appetite Statement (cont'd)

Risk Appetite Statement contains 4 sections:

- RAS introduction:

CMHC is exposed to a variety of risks as it strives to achieve the objectives set out in its corporate and business plans. This high level risk appetite statement describes the level at which risks should be avoided and where strategies must be implemented to manage risk.

- Objective risk tolerance statements for five-year planning horizon:

During the organization's five year corporate planning horizon the organization wants a very high level of confidence that:

- Percentage of over/under spending on government funded programs is limited
- Maximum permitted exposure to financial risk expressed as a percentage of capital in the three primary business lines - mortgage insurance, securitization and lending
- Maximum permitted variance on operating expenses vs. budget

CMHC and the CMHC Risk Appetite Statement (cont'd)

- Subjective risk tolerance statement for five-year planning horizon:

It is considered unacceptable that CMHC would experience a significant negative impact to the reputation of CMHC or to its ability to achieve key objectives in the business and corporate plans.

- Annual objectives in Risk Appetite Statement:
Negative variances of more than X per cent to annual priority corporate objectives should be avoided.

Items to Consider for your Risk Appetite Statement

- Financial :
 - Income loss
 - Capital levels
 - Market, credit, liquidity risks
- Market share
- Reputation
- Service quality
- Safety
- Effectiveness – achieving internal/external deadlines
- Note: tolerance levels need to be easy to understand and communicate



Good Governance and Enterprise Risk Management

- ERM is an expected and important element in good governance of an organization
- Board approved ERM policy is also critical to:
 - Ensuring consistent application of ERM activities
 - Proving organization's commitment to ERM program
 - Providing Board and senior management with assurance that ERM activities are and will continue to be followed



Enterprise Risk Management Policy at CMHC

- Identifies responsibilities
- Risk Appetite Statement
- Risk categories
- Reporting requirements



Enterprise Risk Management Policy at CMHC (cont'd)

Responsibilities

- Board and Audit Committee
 - Annually approve ERM policy and risk appetite statement
 - Review risk reporting and approve mitigation strategies
- President and CEO
 - Annual completion of ERM letter of representation
 - Appoint ERM committee and resource group members