Disclosure Note

Innovation Federal Credit Union is a federally regulated credit union, incorporated and domiciled in Canada.

This document represents the Basel III Pillar 3 disclosure requirements for Small and Medium Sized Deposit-Taking Institutions (SMSB), classified as Category 2. Category 2 SMSBs are those with less than $10 billion in assets and meet any of the following criteria:

i. report greater than $100 million in total loans
ii. enter into interest rate or foreign exchange derivatives with a combined notional amount greater than 100% of total capital
iii. have any other types of derivative exposure
iv. have exposure to other off-balance sheet items greater than 100% of total capital

Disclosure amounts are based on consolidated annual audited financial statements and unaudited interim financial statements. All results are reported in Canadian dollars.

Modified CC1 – Composition of capital for SMSBs

Purpose: Provide a breakdown of the constituent elements of an SMSB's capital.

Content: Breakdown of regulatory capital according to the scope of regulatory consolidation

Frequency: Quarterly.

Format: Fixed.

Accompanying narrative: Category 1 SMSBs are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such change.

		a
		Amounts
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	20,325
2	Retained earnings	337,317
3	Accumulated other comprehensive income (and other reserves)	
4	*Directly issued capital subject to phase out from CET1 (only applicable to Federal Credit Unions)*	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital before regulatory adjustments**	357,643
	Common Equity Tier 1 capital: regulatory adjustments	
28	**Total regulatory adjustments to Common Equity Tier 1**	1,384
29	**Common Equity Tier 1 capital (CET1)**	356,259
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	*Directly issued capital instruments subject to phase out from Additional Tier 1 (applicable only to Federal Credit Unions)*	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	
35	*of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)*	
36	**Additional Tier 1 capital before regulatory adjustments**	-
	Additional Tier 1 capital: regulatory adjustments	
43	**Total regulatory adjustments to additional Tier 1 capital**	-
44	**Additional Tier 1 capital (AT1)**	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	356,259
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	*Directly issued capital instruments subject to phase out from Tier 2 (applicable only to Federal Credit Unions)*	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	*of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)*	
50	Collective allowances	7,838
51	**Tier 2 capital before regulatory adjustments**	7,838
	Tier 2 capital: regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 capital**	-
58	**Tier 2 capital (T2)**	7,838
59	**Total capital (TC = T1 + T2)**	364,097
60	**Total risk-weighted assets**	2,168,724
60a	**Credit Valuation Adjustment (CVA) Risk-weighted Assets (RWA)**	
	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	16.43
62	Tier 1 (as a percentage of risk-weighted assets)	16.43
63	Total capital (as a percentage of risk-weighted assets)	16.79
	OSFI target	
69	Common Equity Tier 1 target ratio	7.00
70	Tier 1 capital target ratio	8.50
71	Total capital target ratio	10.50
	Capital instruments subject to phase-out arrangements (For Federal Credit Unions only)	
80	Current cap on CET1 instruments subject to phase-out arrangements	
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase-out arrangements	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	
84	Current cap on Tier 2 instruments subject to phase-out arrangements	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	

Template KM1: Key metrics (at consolidated group level)

Purpose: To provide an overview of an SMSB's prudential regulatory metrics.

Content: Key prudential metrics related to risk-based capital ratios, leverage ratio and liquidity standards. SMSBs are required to disclose each metric's value using the corresponding standard's specifications for the reporting period-end (designated by T in the template below) as well as the four previous quarter-end figures (T–1 to T–4). All metrics are intended to reflect actual bank values for (T), with the exception of "fully loaded expected credit losses (ECL)" metrics, the leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) and metrics designated as "pre-floor" which may not reflect actual values.

Frequency: Quarterly.

Format: Fixed. If SMSBs wish to add rows to provide additional regulatory or financial metrics, they must provide definitions for these metrics and a full explanation of how the metrics are calculated (including the scope of consolidation and the regulatory capital used if relevant). The additional metrics must not replace the metrics in this disclosure requirement.

Accompanying narrative: Category 1 SMSBs only are expected to supplement the template with a narrative commentary to explain any significant change in each metric's value compared with previous quarters, including the key drivers of such changes (eg whether the changes are due to changes in the regulatory framework, group structure or business model).

		a	b	c	d	e
		T	T–1	T–2	T–3	T–4
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	356,259	353,139	349,388		
1a	Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied	356,259	353,139	349,388		
2	Tier 1	356,259	353,139	349,388		
2a	Tier 1 with transitional arrangements for ECL provisioning not applied	356,259	353,139	349,388		
3	Total capital	364,097	360,823	356,465		
3a	Total capital with transitional arrangements for ECL provisioning not applied (%)	364,097	360,823	356,465		
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	2,168,724	2,053,345	1,977,527		
4a	Total risk-weighted assets (pre-floor)	2,168,724	2,053,345	1,977,527		
	Risk-based capital ratios as a percentage of RWA					
5	CET1 ratio (%)	16.43	17.20	17.67		
5a	Common Equity Tier 1 ratio with transitional arrangements for ECL provisioning not applied	16.43	17.20	17.67		
5b	CET1 ratio (%) (pre-floor ratio)	16.43	17.20	17.67		
6	Tier 1 ratio (%)	16.43	17.20	17.67		
6a	Tier 1 ratio with transitional arrangements for ECL provisioning not applied (%)	16.43	17.20	17.67		
6b	Tier 1 ratio (%) (pre-floor ratio)	16.43	17.20	17.67		
7	Total capital ratio (%)	16.79	17.57	18.03		
7a	Total capital ratio with transitional arrangements for ECL provisioning not applied (%)	16.79	17.57	18.03		
7b	Total capital ratio (%) (pre-floor ratio)	16.79	17.57	18.03		
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50	2.50	2.50		
9	Countercyclical buffer requirement (%)	-	-			
10	Bank G-SIB and/or D-SIB additional requirements (%) **[Not applicable for SMSBs]**					
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50	2.50	2.50		
12	CET1 available after meeting the bank's minimum capital requirements (%)	9.43	10.20	10.67		
	Basel III Leverage ratio					
13	Total Basel III leverage ratio exposure measure	4,016,530	3,762,680	3,663,773		
14	Basel III leverage ratio (row 2 / row 13)	8.87	9.39	9.54		
14a	Basel III leverage ratio (row 2a / row 13) with transitional arrangements for ECL provisioning not applied	8.87	9.39	9.54		

Template LR2: Leverage ratio common disclosure template

Purpose: To provide a detailed breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements and buffers.

Content: Quantitative information.

Frequency: Quarterly.

Format: Fixed.

Accompanying narrative: Category 1 SMSBs must describe the key factors that have had a material impact on the leverage ratio for this reporting period compared with the previous reporting period.

		a	b
		T	T–1
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	3,785,183	3,527,959
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Asset amounts deducted in determining Tier 1 capital)	1,384	1,422
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)**	3,786,567	3,529,380
Derivative exposures			
6	Replacement cost associated with all derivative transactions	2,489	2,577
7	Add-on amounts for potential future exposure associated with all derivative transactions	353	353
8	(Exempted central counterparty-leg of client cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of lines 6 to 10)**	2,842	2,930
Securities financing transaction exposures			
12	Gross SFT assets recognised for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	Counterparty credit risk (CCR) exposure for SFTs		
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	619,105	620,275
18	(Adjustments for conversion to credit equivalent amounts)	(389,215)	(387,062)
19	**Off-balance sheet items (sum of lines 17 and 18)**	229,889	233,213
Capital and total exposures			
20	**Tier 1 capital**	356,259	353,139
21	**Total Exposures (sum of lines 5, 11, 16 and 19)**	4,016,530	3,762,680
Leverage ratio			
22	**Basel III leverage ratio**	8.87	9.39

General qualitative information about credit risk

Purpose: Describe the main characteristics and elements of credit risk management (business model and credit risk profile, organisation and functions involved in credit risk management, risk management reporting).

Content: Qualitative information**.**

Format: Fixed.

Frequency: Annual**.**

SMSBs must describe their risk management objectives and policies for credit risk, focusing in particular on:

(a)	How the business model translates into the components of the SMSB's credit risk profile	Employees within Innovation Federal Credit Union (IFCU) involved in the credit-granting process work in the business origination function, the credit analysis function, and the credit approval function. IFCU ensures the credit granting process coordinates the efforts of all of these various individuals and ensures all are accountable for conducting their activities in a manner consistent with IFCU's Risk Appetite in order to ensure that sound credit decisions are made. All employees working in these areas and who are responsible for granting, analyzing or adjudicating credit can access IFCU Policies in order to ensure the consistent application of standards under which IFCU's lending business is underwritten and administered. IFCU has established a formal transaction evaluation and approval process for the granting of credits. Approvals are made in accordance with IFCU's written Policies and granted by the appropriate level of management. A clear audit trail documenting the approval process and identifying the individual(s) and/or Committee(s) providing input and approving the credit decision is required. The evaluation process establishes the minimum requirements for the information on which the analysis, recommendation, approval, or decline is based. A thorough analysis, using both quantitative factors and qualitative factors, includes one that determines the Borrower's ability to withstand possible adverse conditions over the longer term and is reflective of the Borrower's business and industry. This means that the risk rating is responsive to on-going changes in the Borrower's financial position, such as the down portion of an economic cycle or a move in the opposite direction during an upswing. Banking is responsible for monitoring accounts and must advise Credit if there are internal or external factors indicating a potential for deterioration in the credit, such as payment arrears, breaches of covenants, or any negative trends. When there are indications that the risk has increased, Banking advises Credit and a revised risk rating completed, with consideration given to downgrading the Borrower. All accounts must be reviewed, and re-risk rated at least annually using the Borrower's year-end Financial Statements. A full review of all risks must be conducted. A complete review of any collateral is also undertaken along with ensuring registrations remain in order. IFCU has a disciplined and vigorous remedial management process for deteriorating credits, triggered by specific events, and which is administered through a specialized workout section. Accordingly, a reduction in credit quality is recognized at an early stage when there may be more options available for improving the credit. All loans must be made in accordance with provisions of The Bank Act, the Office of the Superintendent for Financial Institution's (OSFI) Corporate Governance Sound Business and Financial Practice, Interest Act (Canada), Personal Property Security Act (Provincial), Land Titles Act, Agreement for Harmonization of Cost of Credit Disclosure Laws (Canada), Saskatchewan Farm Security Act, Agriculture Acts and Regulations (Canada), and any other applicable provincial or federal legislation which have a direct or implied effect upon lending activities.
(b)	Criteria and approach used for defining credit risk management policy and for setting credit risk limits	Credit risk comes primarily from IFCU's direct lending activities. Managing this credit risk involves focusing on underwriting, pricing loans according to their risk, and ensuring the overall portfolio is well diversified. The goal of credit risk management at IFCU is to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. This means that IFCU operates within sound, well-defined credit-granting criteria. IFCU provides loans to eligible Borrowers based on the character, integrity, and financial resources (cash flow and capacity) of the Borrower, secured by collateral, where appropriate, and with appropriate covenants and conditions. The needs of Borrowers are balanced with the requirements necessary to mitigate risks associated with lending. Credit policies establish the framework for lending and guide the credit-granting activities of IFCU to ensure prudent lending practices and procedures are exercised and proper controls and reporting requirements are identified and met. These guiding policies, aligned with the Risk Appetite Framework and set by Management and approved by the Board, define IFCU's perception and attitude towards the credit risks it faces and manages. Policies are reviewed bi-annually by senior management in Banking and Credit and referred to the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO) for input and approval. The IFCU Board of Directors then has the responsibility for approving and reviewing the credit risk strategy and significant credit risk policies which reflect IFCU's tolerance for risk and the level of profitability expected to be achieved for incurring various credit risks. The Board must also determine IFCU's capital level to ensure it is adequate for the risks assumed throughout the entire Credit Union. It is also the responsibility of the Board of Directors to delegate approval authority and establish lending limits for Committees and the Chief Executive Officer (CEO). The CEO will authorize credit approval limits to the Chief Risk Officer (CRO) based on an assessment of the CRO's experience and knowledge of credit, up to the maximum percentage established. The CEO or CRO will designate limits to all lending staff. These lending limits are first established based on regulatory limits, then secondly on the maximum internal limits. These maximum internal limits are based on a percentage of the regulatory limits and are updated each year. IFCU's maximum lending limits to an entity or to a connection are reviewed and set based on 25% of Total Capital balances as identified in the previous year's audited Financial Statements. The maximum lending limits are indicative of IFCU's level of risk tolerance. While these Regulatory lending limits are maximum amounts, IFCU has both qualitative and quantitative limits in the Risk Appetite Framework that set out the credit risk that IFCU is willing to accept in the execution of its strategy.
(c)	Structure and organisation of the credit risk management and control function	The corporate objective of IFCU is to create and protect Member value by growing and diversifying its business in a risk adjusted manner. To do this, IFCU senior management and the Board decide which risks IFCU is willing to take on and which risks it is not willing to take on. These decisions are made within a constant balance between risk and return. The Risk Appetite Framework helps with this strategic risk / return trade-off discussion and decision. The Framework articulates the level and type of risk IFCU will accept within its risk capacity while carrying out its corporate objective. Directors, officers and employees of IFCU are all accountable for conducting their activities in a manner consistent with the Risk Appetite. The IFCU Board of Directors has the responsibility for approving and reviewing the credit risk strategy and significant credit risk policies which reflect IFCU's tolerance for risk and the level of profitability expected to be achieved for incurring various credit risks. The Board also determines IFCU's capital level to ensure it is adequate for the risks assumed throughout the entire Credit Union. Policies and practices have been developed and represent the operational procedures under which IFCU's lending business are underwritten and administered. Both the policies and practices align to the Risk Appetite Framework and OSFI requirements for management and control of exposure to risk in order to enhance the soundness and safety of IFCU. Senior management has the responsibility for implementing the credit risk strategy approved by the Board and for developing policies and procedures for identifying, measuring, monitoring, and controlling credit risk at both the individual and portfolio levels. Senior management and the Board manage credit risk through Management and Board Committees. The Risk Committee (RC) of the Board is appointed annually by the Board in accordance with the Board Mandate. The RC is responsible for performing the duties set out below to enable the Board to fulfill its oversight responsibilities in relation to: • Establishment of the Risk Management Framework • Establishment of the Risk Management Corporate Policies and Strategies • Reviewing and monitoring the Risk Profile • Reviewing and monitoring Legal and Regulatory Compliance • Overseeing the Enterprise Risk Management functions.
		The Enterprise Risk Committee (ERC) is the senior risk management committee that oversees, at the leadership and operational level, identification, measurement, monitoring, and reporting of IFCU's operational and strategic risks. In general, the ERC is responsible for: • Ensuring the efficient and effective management of IFCU's operational and strategic risks, in a manner consistent with direction from the Board, within IFCU's Risk Appetite, and with applicable regulatory standards. • Implementing IFCU's enterprise-wide Risk Management Frameworks, including risk practices and procedures that are designed to maintain operational viability and safeguard IFCU's assets and interests. • Assessing and reviewing IFCU's Risk Appetite in concert with IFCU's desired risk culture, and implementing appropriate changes to operational strategies, frameworks, policies, practices, and procedures. The Credit Management Committee (CMC) oversees, at the leadership and operational level, management of IFCU's loan portfolio, consistent with direction from the ERC. In general, the CMC is responsible for: • Ensuring the efficient and effective management of the loan portfolio, consistent with IFCU's Risk Appetite, and with applicable regulatory standards. • Assisting the CRO, in a consultant role, to ensure IFCU has prudent sound lending practices designed to maintain operational viability and to safeguard IFCU's credit portfolio. All loans are adjudicated based upon delegation of authorities. IFCU's adjudicators form part of a specialized credit group whose role is to analyze and approve credits within their limits with expertise commensurate with the size and complexity of the transaction. The larger and more complex credit are adjudicated by Level I and Level II Credit Committees with members being made up of senior and executive management.
(d)	Relationships between the credit risk management, risk control, compliance and internal audit functions	Credit risk management includes the responsibility for ensuring compliance with applicable regulatory obligations including detecting and deterring money laundering and terrorist financing activities, and compliance with responsible business conduct, which includes providing access to basic banking services, amongst others. IFCU will not knowingly provide loans or conduct any type of business with a Borrower who may be involved in money laundering or terrorist financing activities. IFCU complies with the regulatory obligations found in the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and supporting regulations. IFCU also complies with the Bank Act and Financial Consumer Protection Framework (FCPF) regulations. IFCU carefully considers the reputation of the Member/Borrower and the suitability of the transaction as part of the due diligence assessment. Accordingly, employees must be conversant and follow the Know Your Member or Know Your Client policies. Rigorous credit risk management includes a structure for ongoing assessments of, inter alia, policies, processes, reporting, limits, compliance, and systems to identify areas of weakness. IFCU has therefore established a system of independent and ongoing assessments of the credit risk management processes. These internal audits are conducted on a periodic basis to determine that: • Credit activities are in compliance with IFCU's credit policies and practices, and • Credits are authorized within the guidelines established by the Board, and • Overall policy and industry reviews are being accurately reported to senior management. The results of such reviews are communicated directly to senior management and the Board.
(e)	Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors	IFCU's prudent lending practices and procedures include proper controls and reporting requirements are identified and met. Credit risk monitoring and reporting ensure preventative measures are in place to minimize potential losses. It is therefore the responsibility of the Chief Risk Officer to report to the Risk Committee of the Board of Directors, on a quarterly basis, reporting which includes: • Analysis of the credit risk profile of the portfolio • The total number and amount of all loans approved • IFCU's actual loan portfolio mix • Loans to Directors, Committee members, and employees within the Credit Union lending limits set out by OSFI • Loans to Executive Management or the Chief Executive Officer • Higher risk accounts • Loan Write-Offs • Summary statistics of Performing Loans, Impaired Loans, and Foreclosed Property, including reporting as a percentage of Net Loans • All exceptions to policy approved by higher level authorities. With respect to reporting on credit risk management, IFCU has established a system of independent and ongoing assessments of the credit risk management processes. The results of such reviews by the internal Audit function are communicated directly to senior management and the Board.

ORA: General qualitative information on a bank's operational risk framework

Purpose: To describe the main characteristics and elements of a bank's operational risk management framework.

Content: Qualitative information.

Frequency: Annual.

Format: Flexible.

SMSBs must describe:

(a) Their policies, frameworks and guidelines for the management of operational risk.	The Operational Risk Management Framework outlines a structured approach for identifying, assessing, and managing operational risks that arise from business activities. The framework specifies the governance structure, three lines of defence model, and operational risk management tools and techniques established that support stakeholder accountability, transparency, and effective decision-making which improves the internal control environment and operational efficiency. The risk & control self-assessment (RCSA), internal operational risk event collection and analysis, and risk assessments (products, processes, business initiatives, etc.) are tools used to assess operational risk information to provide an operational risk profile. The document also notes the risk treatment approaches (mitigation, acceptance, avoidance, and termination) risk monitoring, risk escalation, and risk reporting required to make informed decisions. Innovation's Risk Escalation Management and Assessment Policy outlines the risk management control system that facilitates the identification, evaluation, discussion, escalation, and acceptance or avoidance of risk issues associated with new changes to business practicesor business initiatives, or with identified risk events and associated management action plans. Roles and responsibilities, documentation requirements and retention, as well as have been clearly defined in this policy.
(b) The structure and organisation of their operational risk management and control function.	Operational risk management (ORM) is a business function within Risk Management. The reporting structure is directly into the Vice President, Risk and Compliance who in turn, reports in to the Chief Risk Officer (CRO). The CRO also has direct reporting line to the Chief Executive Officer and the Board. The Enterprise Risk Committee (ERC) and Risk Commitee (RC) review actual risk profiles reported against risk appetite statements and limits to make informed decisions. Frameworks, policies, and operating procedures have been established to support operational risk management practices across the organization. Operational risks are managed both at the enterprise level (top risks, emerging risks, project risks, new initiative risks) and department level (process). ORM has two team members - Manager, ORM and a Risk Analyst, focused on supporting the first line of defence in managing the operational risks within their daily operations. Examples of operational risk management tools being used by the team are risk taxonomy, risk & control assessments, and internal operational risk event collection and analysis. Objective challenges are provided to the business units with recommendations for improvements of internal control environments. Risk education and communication occurs frequently to increase employee awareness of operational risks and the risk culture at IFCU.
(c) Their operational risk measurement system (ie the systems and data used to measure operational risk in order to estimate the operational risk capital charge).	Operational risk is quantified based on the simplified standardized approach outlined in the OSFI CAR 2023 Guidelines in Chapter 3 – Operational Risk. The Simplified Standardized Approach has been identified as suitable for capital allocation for small and medium sized businesses with category II and III. The capital allocation calculation for operational risk is a fixed percentage of the average of the previous three years positive adjusted gross income. Adjusted gross income is defined as net interest income plus net non-interest income. The Alpha factor, or fixed percentage, has been set by the Basel Committee at 15%.
(d) The scope and main context of their reporting framework on operational risk to executive management and to the board of directors.	The scope of operational risk reporting includes reviews and monitoring activities pertaining to risk governance frameworks, policies, and practices, personnel, internal audit, legal, risk assessments, and risk events. The enterprise risk dashboard is a section of the CRO report that includes risk trends for established risk appetite and top risks and actions required for risks out of risk appetite. The ORM team provides additional reporting on operational risks in business functions specific to fintech opportunities, fraud, transaction processing, people, and technology. The reports contain details of recent significant internal operational risk events and losses, significant risk elements as identifed from risk & control assessments of business processes, project implementation status, and action plan/ corrective action dashboard to improvement the internal control environment. These items are reported formally at the ERC on a quarterly basis and are also inputs to the CRO's opinion on operational risks as presented to the Board at the quarterly RC meetings.
(e) The risk mitigation and risk transfer used in the management of operational risk. This includes mitigation by policy (such as the policies on risk culture, risk appetite, and outsourcing), by divesting from high-risk businesses, and by the establishment of controls. The remaining exposure can then be absorbed by the bank or transferred. For instance, the impact of operational losses can be mitigated with insurance.	Innovation's Risk Appetite Framework defines the enterprise risk appetite and the structure established to determine and proactively manage risk appetite in the normal course of its business activities. Qualitative and quantitative risk appetite statements have been defined and approved by the Board per risk category. The qualitative risk appetite statements include maintaining insurance coverage appropriate for Innovation's business, reviewing critical third-party arrangements, protection of business and member data as per regulations, etc. These have been communicated to business line leaders to provide guidance when making decisions regarding investment, performance, and capital. The Risk Management team monitors the application of the risk appetite through different programs and escalates negatively trending risks to the CRO for further discussion with the business on appropriate actions to be take in addressing the risks. Risk assessments of top risks are performed quarterly by executive management on risks such as cybersecurity, information technology, personnel, third-party relationships, etc. and mapped to the mitigating controls are identifed and implemented as appropriate. Corrective actions are identified, discussed, and implemented in the event of a risk appetite breach. The Enterprise Risk Management (ERM) Framework also outlines the risk management process which includes the risk treatment approaches to be adopted if risks are outside the tolerable level. These include implementing controls, transferring the risk to a third-party (i.e. an insurance company), assuming the risk, or discontinuing any further action on the risk. The Third Party Outsourcing Management Policy outlines the due diligence, risk assessment, monitoring, and offboarding activities performed by relevant stakeholders before entering, during, and terminating any arrangement. Arrangements deemed critical or high risk are esclated to executive management and the Board for review and approval.