



Disclosure Note

Innovation Federal Credit Union (Innovation) 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.

Qualitative reporting regarding credit risk, credit valuation adjustment and operational risk is provided annually. Market risk reporting does not apply as Innovation is not internationally active.

For additional information, please visit OSFI's Financial Data and Forms website: <https://www.osfi-bsif.gc.ca/en/data-forms/financial-data>

Modified CC1 – Composition of capital for SMSBs

(Thousands of Canadian dollars, aside from percentage or otherwise noted)

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

		a
		31-Dec-25
		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	21,618
2	Retained earnings	386,875
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	408,493
	Common Equity Tier 1 capital: regulatory adjustments	
28	Total regulatory adjustments to Common Equity Tier 1	1,096
29	Common Equity Tier 1 capital (CET1)	407,397
	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)	407,397
	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	11,597
51	Tier 2 capital before regulatory adjustments	11,597
	Tier 2 capital: regulatory adjustments	
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	11,597
59	Total capital (TC = T1 + T2)	418,994
60	Total risk-weighted assets	2,552,183
60a	Credit Valuation Adjustment (CVA) Risk-weighted Assets (RWA)	-
	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	15.96%
62	Tier 1 (as a percentage of risk-weighted assets)	15.96%
63	Total capital (as a percentage of risk-weighted assets)	16.42%
	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	0
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase-out arrangements	0
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on Tier 2 instruments subject to phase-out arrangements	0
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	0

KM1: Key metrics (at consolidated group level)

(Thousands of Canadian dollars, aside from percentage or otherwise noted)

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

		a	b	c	d	e
		31-Dec-25	30-Sep-25	30-Jun-25	31-Mar-25	31-Dec-24
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	407,397	402,266	394,835	390,022	381,252
1a	Common Equity Tier 1 with transitional arrangements for ECL provisioning not applied	407,397	402,266	394,835	390,022	381,252
2	Tier 1	407,397	402,266	394,835	390,022	381,252
2a	Tier 1 with transitional arrangements for ECL provisioning not applied	407,397	402,266	394,835	390,022	381,252
3	Total capital	418,994	412,413	406,365	401,810	392,190
3a	Total capital with transitional arrangements for ECL provisioning not applied (%)	418,994	412,413	406,365	401,810	392,190
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	2,552,183	2,690,577	2,628,905	2,632,183	2,579,181
4a	Total risk-weighted assets (pre-floor)	2,552,183	2,690,577	2,628,905	2,632,183	2,579,181
Risk-based capital ratios as a percentage of RWA						
5	CET1 ratio (%)	15.96%	14.95%	15.02%	14.82%	14.78%
5a	Common Equity Tier 1 ratio with transitional arrangements for ECL provisioning not applied	15.96%	14.95%	15.02%	14.82%	14.78%
5b	CET1 ratio (%) (pre-floor ratio)	15.96%	14.95%	15.02%	14.82%	14.78%
6	Tier 1 ratio (%)	15.96%	14.95%	15.02%	14.82%	14.78%
6a	Tier 1 ratio with transitional arrangements for ECL provisioning not applied (%)	15.96%	14.95%	15.02%	14.82%	14.78%
6b	Tier 1 ratio (%) (pre-floor ratio)	15.96%	14.95%	15.02%	14.82%	14.78%
7	Total capital ratio (%)	16.42%	15.33%	15.46%	15.27%	15.21%
7a	Total capital ratio with transitional arrangements for ECL provisioning not applied (%)	16.42%	15.33%	15.46%	15.27%	15.21%
7b	Total capital ratio (%) (pre-floor ratio)	16.42%	15.33%	15.46%	15.27%	15.21%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	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%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	8.96%	7.95%	8.02%	7.82%	7.78%
Basel III Leverage ratio						
13	Total Basel III leverage ratio exposure measure	4,584,492	4,516,902	4,521,804	4,608,531	4,467,917
14	Basel III leverage ratio (row 2 / row 13)	8.89%	8.91%	8.73%	8.46%	8.53%
14a	Basel III leverage ratio (row 2a / row 13) with transitional arrangements for ECL provisioning not applied	8.89%	8.91%	8.73%	8.46%	8.53%

LR2: Leverage ratio common disclosure template

(Thousands of Canadian dollars, aside from percentage or otherwise noted)

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.

		a	b
		31-Dec-25	30-Sep-25
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	4,465,894	4,370,704
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)	(1,096)	(1,131)
5	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)	4,464,798	4,369,573
Derivative exposures			
6	Replacement cost associated with all derivative transactions	220	480
7	Add-on amounts for potential future exposure associated with all derivative transactions	420	350
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)	640	830
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	453,464	515,132
18	(Adjustments for conversion to credit equivalent amounts)	(334,409)	(368,633)
19	Off-balance sheet items (sum of lines 17 and 18)	119,054	146,499
Capital and total exposures			
20	Tier 1 capital	407,397	402,266
21	Total Exposures (sum of lines 5, 11, 16 and 19)	4,584,492	4,516,902
Leverage ratio			
22	Basel III leverage ratio	8.89%	8.91%

CVA1: The reduced basic approach for Credit Valuation Adjustment (BA-CVA)

Purpose: To provide the components used for the computation of capital requirements under the reduced BA-CVA for CVA risk.

Innovation Federal Credit Union (Innovation) uses interest rate swaps to hedge interest rate volatility and interest rate risk in the banking book.

		a	b
		Components	Capital requirements under BA-CVA
1	Aggregation of systematic components of CVA risk	25.03	
2	Aggregation of idiosyncratic components of CVA risk	13.62	
3	Total		11.18

CVAA: General qualitative disclosure requirements related to CVA

Purpose: To provide a description of the risk management objectives and policies for CVA risk.

<p>(a) An explanation and/or a description of the SMSB's processes implemented to identify, measure, monitor and control the SMSB's CVA risks, including policies for hedging CVA risk and the processes for monitoring the continuing effectiveness of hedges.</p>	<p>Innovation has established policies governing derivative transactions and their intended use. Hedge accounting for derivatives is not currently applied, and market valuation adjustments are recognized in net interest income. Credit Valuation Adjustment (CVA) risk is reported in accordance with OSFI's Capital Adequacy Reporting Guideline. Innovation does not hedge CVA risk.</p>
<p>(b) Whether the bank is eligible and has chosen to set its capital requirement for CVA at 100% of the bank's capital requirement for counterparty credit risk as applicable under [CAR 2024, Chapter 8, paragraph 9].</p>	<p>Innovation is below the materiality threshold specified in the OSFI Capital Adequacy Guideline and is eligible to set the capital requirement at 100% for counterparty credit risk. Innovation has, however, implemented the reduced version Basic Approach to calculate CVA.</p>

CRA: 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).

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

<p>(a) How the business model translates into the components of the SMSB's credit risk profile</p>	<p>Employees within Innovation involved in the credit-granting process work in the business origination function, the credit analysis function, and the credit approval function. Innovation 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 Innovation'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 Innovation Policies in order to ensure the consistent application of standards under which Innovation's lending business is underwritten and administered.</p> <p>Innovation has established a formal transaction evaluation and approval process for the granting of credits. Approvals are made in accordance with Innovation's written Policies, Practices and Procedures 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.</p> <p>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 ongoing 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.</p> <p>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.</p> <p>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 applicable risks must be conducted. A complete review of any collateral is also undertaken along with ensuring registrations remain in order. Innovation has a disciplined and vigorous remedial management process for deteriorating credits, triggered by specific events, and which is administered by a special accounts manager. Accordingly, a reduction in credit quality is recognized at an early stage when there may be more options available for improving the credit.</p> <p>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 Guideline, 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.</p>
<p>(b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits</p>	<p>Credit risk comes primarily from Innovation'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 Innovation is to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. This means that Innovation operates within sound, well-defined credit-granting criteria.</p> <p>Innovation provides loans to eligible Borrowers based on the character, integrity, and financial resources (cash flow and capacity) of the Borrower, secured by collateral and/or support from guarantors where available, and with appropriate covenants and conditions. The needs of Borrowers are balanced with the requirements necessary to mitigate risks associated with lending.</p> <p>Credit policies establish the framework for lending and guide the credit-granting activities of Innovation 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 Innovation's perception and attitude towards the credit risks it faces and manages. Policies are reviewed biennially or more frequently by senior management in Banking and Credit and referred to the Chief Risk Officer (CRO) and the Enterprise Risk Committee for input before recommendation to the Board of Directors for approval.</p> <p>The Innovation Board of Directors then has the responsibility for approving and reviewing the credit risk strategy and significant credit risk policies which reflect Innovation's tolerance for risk and the level of profitability expected to be achieved for incurring various credit risks. The Board must also determine Innovation's capital level to ensure it is adequate for the risks assumed throughout the entire Credit Union.</p> <p>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 authorizes 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 designates 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.</p> <p>Innovation'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 Innovation's level of risk tolerance. While these Regulatory lending limits are maximum amounts, Innovation has both qualitative and quantitative limits in the Risk Appetite Framework that set out the credit risk that Innovation is willing to accept in the execution of its strategy.</p>
<p>(c) Structure and organisation of the credit risk management and control function</p>	<p>The corporate objective of Innovation is to create and protect Member value by growing and diversifying its business in a risk adjusted manner. The Risk Appetite Framework helps with this strategic risk / return trade-off discussion and decision. The Risk Appetite Framework articulates the level and type of risk Innovation will accept within its risk capacity while carrying out its corporate objective. Directors, officers and employees of Innovation are all accountable for conducting their activities in a manner consistent with the Risk Appetite.</p> <p>The Innovation Board of Directors has the responsibility for approving and reviewing the credit risk strategy and significant credit risk policies which reflect Innovation's tolerance for risk and the level of profitability expected to be achieved for incurring various credit risks. The Board also determines Innovation's capital level to ensure it is adequate for the risks assumed throughout the organization. Policies and practices have been developed and represent the operational procedures under which Innovation'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 Innovation.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> - Establishing the risk management frameworks, including the Risk Appetite Framework, Enterprise Risk Management Framework, and Regulatory Compliance Management Framework. - Establishing risk management policies. - Reviewing and monitoring the risk profile of the organization. - Ensuring compliance with legal and regulatory requirements. - Overseeing the Risk Management function and ensuring it is independent from operational management, is adequately resourced, and has appropriate stature and visibility throughout the organization.

CRA: General qualitative information about credit risk (Continued)

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).

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

<p>(c) Structure and organisation of the credit risk management and control function (Continued)</p>	<p>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 Innovation's operational and strategic risks. In general, the ERC is responsible for:</p> <ul style="list-style-type: none"> - Ensuring the efficient and effective management of Innovation's enterprise-wide risks, in a manner consistent with direction from the Board, within Innovation's risk appetite, and with applicable regulatory standards. - Implementing Innovation's enterprise-wide risk management frameworks, including risk practices and procedures that are designed to maintain operational viability and safeguard Innovation's assets and interests. - Assessing and reviewing Innovation's risk appetite in concert with Innovation's desired risk culture, and implementing appropriate changes to operational strategies, frameworks, policies, practices, and procedures. <p>The Credit Management Committee (CMC) oversees, at the leadership and operational level, management of Innovation's loan portfolio, consistent with direction from the ERC. In general, the CMC is responsible for:</p> <ul style="list-style-type: none"> - Ensuring the efficient and effective management of the loan portfolio, consistent with Innovation's risk appetite, and with applicable regulatory standards. - Assisting the CRO, in a consultant role, to ensure Innovation has prudent sound lending practices designed to maintain operational viability and to safeguard Innovation's credit portfolio. <p>All loans are adjudicated based upon delegation of authorities. Innovation'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, Level II and Level III Credit Committees with members being made up of senior and executive management.</p>
<p>(d) Relationships between the credit risk management, risk control, compliance and internal audit functions</p>	<p>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.</p> <p>Innovation 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. Innovation complies with the regulatory obligations found in the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and supporting regulations. Innovation also complies with the Bank Act and Financial Consumer Protection Framework (FCPF) regulations. Innovation 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.</p> <p>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. Innovation 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:</p> <ul style="list-style-type: none"> - Credit activities are in compliance with Innovation'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. <p>The results of such reviews are communicated directly to senior management and the Board.</p>
<p>(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</p>	<p>Innovation'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. The Chief Risk Officer provides quarterly reports to the Risk Committee of the Board of Directors that includes:</p> <ul style="list-style-type: none"> - Analysis of the credit risk profile of the portfolio. - The total number and amount of all loans approved. - Innovation'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. <p>With respect to reporting on credit risk management, Innovation 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.</p>

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.

SMSBs must describe:

<p>(a) Their policies, frameworks and guidelines for the management of operational risk.</p>	<p>Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This includes legal risk but excludes strategic and reputational risk. Operational Risk and Resilience (ORR) is an essential component of the overall Enterprise Risk Management (ERM) program established by Innovation Federal Credit Union (Innovation).</p> <p>The ORR Framework at Innovation is designed to support the overall corporate governance structure. The Board Policy Framework outlines the hierarchy of risk governance documents and approval authorities. It includes several overarching frameworks approved by the Board of Directors including the ORR Framework. Innovation has incorporated the Three Lines of Defence Model for risk management which defines the operational risk management and resiliency roles and responsibilities for business line management, independent risk function, and independent internal audit review.</p> <p>The ORR framework provides the means for Innovation to satisfy itself that it is operating within an acceptable level of risk as established by the Board of Directors (the Board) through the Risk Appetite Framework (RAF) in the context of Operational Risk. It integrates risk-based preventive and detective processes, including policies, practices, and procedures to identify, assess, control, monitor, and report operational risks. The ERM and ORR Frameworks provide the governance to appropriately raise and escalate risk concerns to the appropriate management levels for informed decisions.</p> <p>Supporting policies, processes and tools are in place to assess operations such as risk and control self-assessments, third party risk management, technology oversight, change management, operational risk event analysis, and resiliency management.</p>
<p>(b) The structure and organisation of their operational risk management and control function.</p>	<p>ORM is an oversight function within the Risk Management Group (RMG) led by the Chief Risk Officer (CRO). The CRO reports functionally to the Board of Directors, through the Risk Committee, and directly to the Chief Executive Officer and is a member of the Executive Leadership Team (ELT). In addition, to ensure independence from business and operating activities, the CRO has direct access to the Board through the Risk Committee and the right to meet separately, from other members of management, at each regularly scheduled meeting.</p> <p>The CRO is responsible for the oversight of all risks (i.e., financial, non-financial, technical and regulatory) across Innovation. The CRO and the Risk Management Group are responsible for identifying, measuring, monitoring and reporting on the risks of Innovation on an enterprise-wide and disaggregated level, independently of the business lines or operational management. The CRO is also responsible for relationships with regulatory authorities.</p> <p>The CRO establishes appropriate risk governance, oversight and controls through a formal management risk committee structure, which ensures that there is a structured, disciplined process for decision making necessary to achieve Innovation's strategic and financial objectives.</p>
<p>(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).</p>	<p>Operational risk is quantified based on the simplified standardized approach outlined in the OSFI CAR 2024 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%.</p>
<p>(d) The scope and main context of their reporting framework on operational risk to executive management and to the board of directors.</p>	<p>Operational risk reporting at Innovation encompasses a comprehensive range of activities designed to ensure that executive management and the Board are well-informed about the organization's risk profile and the effectiveness of its risk management practices.</p> <p>Key components of operational risk management report (embedded in the CRO report) include a summary of risk trends for key operational risk and top risk exposures in relation to the established risk appetites, risk assessment outcomes and mitigation strategies, resiliency analysis and testing results, and incident reporting and management of emerging risks and significant events.</p> <p>These activities are formally reported quarterly at the respective oversight committee meetings, which is subsequently shared with the Board at the quarterly Risk Committee meetings.</p>
<p>(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.</p>	<p>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. These support decision-making and include maintaining insurance coverage appropriate for Innovation's business, reviewing critical third-party arrangements, protection of business and member data as per regulations.</p> <p>In addition, policies and practices have been established to support the identification evaluation, discussion, escalation, and acceptance or avoidance of risk issues associated with new changes to business practices or business initiatives, or with identified risk events and associated management action plans when outside the tolerable level.</p> <p>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 address the risks.</p>