

**INNOVATION FEDERAL
CREDIT UNION**

***CONSOLIDATED
FINANCIAL STATEMENTS***

December 31, 2024

Independent Auditor's Report

To the Members of
Innovation Federal Credit Union

Opinion

We have audited the consolidated financial statements of Innovation Federal Credit Union (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2024, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Credit Union as a basis for forming an opinion on the financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants

March 26, 2025

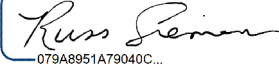
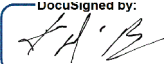
Regina, Saskatchewan

INNOVATION FEDERAL CREDIT UNION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(In thousands of Canadian \$)
As at December 31, 2024

	Note	2024	2023
ASSETS			
Cash and cash equivalents	4	\$ 220,178	\$ 356,779
Investments	5	233,066	181,396
Loans	6	3,733,405	3,193,839
Accounts receivable		6,687	6,231
Prepaid expenses		16,209	16,274
Derivative assets	8	748	1,617
Property and equipment	9	13,940	13,768
Investment property	9	1,100	1,086
Right of use assets	10	817	749
Intangible assets	11	1,237	1,384
Deferred income tax asset	22	12,568	12,060
		<u>\$ 4,239,955</u>	<u>\$ 3,785,183</u>
LIABILITIES			
Deposits	12	\$ 3,601,175	\$ 3,305,029
Securitized borrowings	14	110,210	69,016
Accounts payable and accrued liabilities		16,690	35,532
Short-term notes payable	13	109,518	-
Derivative liabilities	8	177	191
Lease liabilities	10	867	769
Income taxes payable		4,266	3,656
Deferred income tax liabilities	22	3,519	3,799
Deferred revenue		388	392
Membership shares and distributions	16	31,154	29,482
		<u>3,877,964</u>	<u>3,447,866</u>
Commitments	21		
EQUITY			
Retained earnings		<u>361,991</u>	<u>337,317</u>
		<u>361,991</u>	<u>337,317</u>
		<u>\$ 4,239,955</u>	<u>\$ 3,785,183</u>

The accompanying notes are an integral part of the consolidated financial statements

APPROVED BY THE BOARD

Signed by:  Director
..... 079A8951A79040C...
DocuSigned by:  Director
..... E4131DA8F56E413...

INNOVATION FEDERAL CREDIT UNION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In thousands of Canadian \$)
Year ended December 31, 2024

	Note	2024	2023
INTEREST INCOME			
Loans		\$ 214,427	\$ 163,230
Investments		21,440	21,593
Derivative instruments		820	823
		<u>236,687</u>	<u>185,646</u>
INTEREST EXPENSE			
Deposits		104,903	73,283
Borrowings		4,676	2,432
Member distributions	16	5,271	4,241
		<u>114,850</u>	<u>79,956</u>
REALIZED GAIN ON FVTPL INVESTMENTS		240	444
NET INTEREST INCOME BEFORE CREDIT LOSSES		122,077	106,134
PROVISION FOR CREDIT LOSSES	7	<u>9,553</u>	<u>4,166</u>
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		112,524	101,968
UNREALIZED GAIN ON FVTPL INVESTMENTS		3,355	2,588
UNREALIZED LOSS ON DERIVATIVES		(855)	(323)
OTHER INCOME	15	<u>17,494</u>	<u>15,424</u>
NET INTEREST AND OTHER INCOME		<u>132,518</u>	<u>119,657</u>
OPERATING EXPENSES			
Personnel		57,822	50,739
Security		2,420	2,824
Organizational		1,301	964
Occupancy		4,257	3,959
General business		33,351	33,746
		<u>99,151</u>	<u>92,232</u>
INCOME BEFORE PROVISION FOR INCOME TAXES		<u>33,367</u>	<u>27,425</u>
PROVISION FOR (RECOVERY OF) INCOME TAXES			
Current	22	9,480	5,124
Deferred	22	(787)	2,073
		<u>8,693</u>	<u>7,197</u>
NET INCOME AND COMPREHENSIVE INCOME		<u>\$ 24,674</u>	<u>\$ 20,228</u>

The accompanying notes are an integral part of the consolidated financial statements

INNOVATION FEDERAL CREDIT UNION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In thousands of Canadian \$)
Year ended December 31, 2024

	Note	2024	2023
RETAINED EARNINGS			
Balance, beginning of year		\$ 337,317	\$ 317,089
Net income and comprehensive income		<u>24,674</u>	<u>20,228</u>
Balance, end of year		<u>\$ 361,991</u>	<u>\$ 337,317</u>

The accompanying notes are an integral part of the consolidated financial statements

INNOVATION FEDERAL CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of Canadian \$)
Year ended December 31, 2024

	Note	2024	2023
OPERATING ACTIVITIES			
Net income		\$ 24,674	\$ 20,228
Adjustments for non-cash items:			
Net interest income before credit losses		(122,077)	(108,971)
Provision for credit losses	7	9,553	4,166
Unrealized gain on financial instruments		(2,500)	(2,265)
Loss (gain) on disposal of property and equipment		35	(39)
Depreciation - property and equipment	9	2,247	2,026
Depreciation - right of use assets	10	327	210
Depreciation - investment property	9	224	183
Securitized borrowings		(153)	1,341
Amortization - intangible assets	11	147	178
Current income tax expense	22	9,480	5,124
Deferred income tax (recovery) expense	22	(787)	2,073
Changes in non-cash working capital			
Loans		(538,383)	(528,941)
Accounts receivable		(456)	29,116
Prepaid expenses		65	(2,709)
Deposits		281,065	431,340
Accounts payable and accrued liabilities		(18,842)	16,322
Deferred revenue		(4)	(22)
Dividends received		1,173	884
Interest received		223,744	181,945
Interest paid		(93,175)	(52,318)
Income taxes received		(8,870)	(577)
		<u>(232,513)</u>	<u>(706)</u>
INVESTING ACTIVITIES			
Purchases of investment securities		(116,987)	(515,150)
Proceeds on sale of investment securities		69,946	766,990
Purchase of property and equipment	9	(2,586)	(2,908)
Purchase of investment property	9	(238)	(187,00)
Proceeds from disposal of property and equipment		132	125
		<u>(49,733)</u>	<u>248,870</u>
FINANCING ACTIVITIES			
Repayment of lease liabilities	10	(298)	(212)
Payment of membership distributions		(5,271)	(4,241)
Proceeds on membership distributions		1,672	1,997
Repayment of securitized borrowings		(39,233)	(16,341)
Proceeds from securitized borrowings		80,580	3,524
Repayment of short term deposit notes		(75,000)	
Proceeds of short term deposit notes		183,195	
		<u>145,645</u>	<u>(15,273)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(136,600)	232,891
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		356,779	123,888
CASH AND CASH EQUIVALENTS, END OF YEAR		\$ 220,178	\$ 356,779

The accompanying notes are an integral part of the consolidated financial statements

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

1. REPORTING ENTITY

Innovation Federal Credit Union and its subsidiaries (collectively “Innovation”) is a federal credit union domiciled in Canada. The address of Innovation’s registered office is 198 1st Avenue NE, Swift Current, Saskatchewan. Innovation is a financial service provider.

On June 16, 2023, Innovation Credit Union received final approval from the Minister of Finance and officially ceased operations as a provincial credit union under the Credit Union Act, 1998 (Saskatchewan) and Innovation Federal Credit Union continued operations as a federal credit union pursuant to subsection 35(1) of The Bank Act (Canada).

Innovation operates 29 (2023 – 27) advice centers and serves members and non-members in North Battleford, Swift Current, Meadow Lake and surrounding areas. Innovation Federal Credit Union is a member of the Canada Deposit Insurance Corporation (“CDIC”).

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with IFRS[®] Accounting Standards as issued by the International Accounting Standards Board (“IASB”) and the accounting guidelines as issued by the Office of the Superintendent of Financial Institutions Canada (“OSFI”), as required under Section 308(4) of the Bank Act.

The consolidated financial statements for the year ended December 31, 2024 were authorized for issue by the Board of Directors (the “Board”) on March 26, 2025.

The consolidated financial statements have been prepared using the historical cost basis unless otherwise noted in the accounting policies. The consolidated financial statements are presented in Canadian dollars, which is Innovation’s functional currency.

3. MATERIAL ACCOUNTING POLICIES

Accounting policy information is material if, when considered together with other information included in the entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

The accounting policies used in the preparation of these consolidated financial statements are summarized below. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

Use of Estimates, Key Judgments and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and disclosure of contingent assets and contingent liabilities at the date of these consolidated financial statements as well as the reported amounts of income and expenses during the reporting year.

Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate was revised and in any future years affected.

The most significant uses of judgments, estimates and assumptions are as follows:

a) Valuation of Financial Instruments

Innovation determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include consideration of liquidity and other risks affecting the specific instrument.

b) Determination of Allowance for Credit Losses

Innovation measures loss allowances at an amount equal to lifetime expected credit loss ("ECL"), except for debt investments that are determined to have low credit risk at the reporting date, and loans where credit risk has not increased significantly since their initial recognition. The measurement of loss allowances on loans is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior. A number of significant judgments are also required in applying the account requirements for measuring the ECL, such as:

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

b) Determination of Allowance for Credit Losses (continued)

- Determining criteria for significant increase of credit risk: IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased Innovation takes into account qualitative and quantitative reasonable and supportable information.
- Choosing appropriate models and assumptions: Innovation uses various models and assumptions in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.
- When measuring ECL Innovation uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers.
- Probability of default ("PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, and assumptions/expectations of future conditions.
- Loss Given Default ("LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

c) Securitized Borrowings

Innovation securitizes groups of assets by selling them to an independent special purpose or qualifying special purpose entity ("SPE") or trust. Such transactions create liquidity for Innovation and release capital for future needs. As Innovation remains exposed to credit risk, the underlying loans have not been derecognized and are reported in Innovation's consolidated statement of financial position as securitized borrowings. Securitized loans are derecognized from the consolidated statement of financial position when substantially all the risks and rewards of ownership are transferred to the SPE. Judgment is required in making this determination.

d) Property and Equipment

Depreciation methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

e) Investment property

Investment property consists of land and buildings held to earn rental income. Investment property is measured at cost less accumulated depreciation and accumulated impairment losses. Property held for use in the supply of service to members or for administrative use that has a portion that earns rental income is allocated between investment property and property and equipment, based on the floor space usage.

Depreciation is recorded in occupancy expense in the consolidated statement of comprehensive income on a straight-line basis over the estimated useful life, commencing in the month the asset becomes available for use. The estimated useful lives of investment property are determined on the same basis as those of property and equipment above. Depreciation methods, residual values and estimates of useful lives are reviewed annually.

f) Intangible Assets

Amortization methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

g) Impairment of Non-Financial Assets

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. These are called cash-generating units ("CGUs") and the allocation of assets to CGUs requires estimation and judgment.

An impairment loss is recognized immediately in profit and loss if the carrying amount of an asset or a CGU exceeds its recoverable amount. There is estimation uncertainty in the determination of the recoverable amounts for CGUs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

g) Impairment of Non-Financial Assets (continued)

reversed immediately through profit and loss if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

h) Classification of Financial Assets

Business Model Assessment

Innovation assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to Innovation's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated;
- the stated objective for managing the financial asset, frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Financial assets are held in business models categorized into three areas:

- Held-to-Collect - Primary objective is to hold financial assets to collect contractual cash flows.
- Both Held-to-Collect and For-Sale - Both collecting contractual cash flows and sales are integral to achieving the objective of the business model.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

h) Classification of Financial Assets (continued)

Business Model Assessment (continued)

- Other - Business model is neither held-to-collect nor held-to-collect and for-sale and includes trading, managing assets on a fair value basis, or maximizing cash through sale.

Assessment whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest, Innovation considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. Examples of events that could change the amount and timing of cash flows are leverage features, prepayment and extension terms, terms that limit Innovation's claim to cash flows from specified assets and features that modify consideration of the time value of money.

Basis of Consolidation

The consolidated financial statements include the financial statements of Innovation and its subsidiaries. Assets, liabilities, income and expenses of subsidiaries are included in the consolidated financial statements after eliminating inter-company transactions and balances.

Subsidiaries are entities controlled by Innovation. Control is achieved where Innovation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Included in the consolidated financial statements is Innovative Holdings Inc. and Innovation Wealth Ltd., both subsidiaries headquartered in Swift Current, Saskatchewan in which Innovation holds 100% of the voting rights.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognized when Innovation becomes a party to the contractual provisions of the instrument.

Recognized financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Classification and Subsequent Measurement

a) Financial assets: debt instruments

Financial assets which meet the definition of debt, including loans, certain investments and derivatives are classified into one of the following measurement categories:

- Amortized cost; or
- Fair value through other comprehensive income ("FVOCI"); or
- Fair value through profit or loss

Debt instruments may be designated at FVTPL upon initial recognition if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. For all other debt instruments, classification is determined based on an assessment of: (i) the business model under which the asset is held; and (ii) the contractual cash flow characteristics of the instrument.

Innovation does not hold debt instruments measured at FVOCI.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

ai) Debt instruments measured at amortized cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent strictly payments of principal and interest ("SPPI"). After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated considering any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization of premiums, discounts and other transaction costs is included in interest income in the consolidated statement of comprehensive income.

Impairment of debt instruments measured at amortized cost is calculated using the ECL approach. Debt instruments, including loans and certain investments are presented net of the related allowance for impairments on the consolidated statement of financial position.

aii) Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis, assets whose cash flows do not represent payments that are SPPI, and assets which are designated as such at initial recognition. These instruments are measured at fair value in the consolidated statement of financial position, with transaction costs recognized immediately in the consolidated statement of comprehensive income. Realized and unrealized gains and losses are recognized as part of realized and unrealized gains on FVTPL investments and derivatives in the consolidated statement of comprehensive income.

b) Financial assets: equity instruments

Financial assets which meet the definition of equity are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

b) Financial assets: equity instruments (continued)

For equity instruments measured at FVTPL, changes in fair value are recognized as part of the consolidated statement of comprehensive income.

Innovation can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer-term investment purposes. The FVOCI election is made upon initial recognition, on an instrument-by-instrument basis and once made is irrevocable. Both realized and unrealized gains and losses on these instruments are recorded in Other Comprehensive Income ("OCI") and are not subsequently reclassified to the consolidated statement of comprehensive income. Dividends received are recorded in interest income in the consolidated statement of comprehensive income. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the consolidated statement of comprehensive income on sale of the security.

c) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities may be designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial liabilities at FVTPL are measured at fair value with changes in fair value being recognized in the consolidated statement of comprehensive income. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

With the exception of its derivative financial instruments which are FVTPL, Innovation's holdings in financial liabilities are classified as measured at amortized cost.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

d) Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or when Innovation has transferred substantially all the risks and rewards of ownership of the assets.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, Innovation derecognizes the transferred asset only if it no longer controls the asset. Control is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If Innovation retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. When a financial asset is derecognized in full, a gain or loss is recognized in net income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received, including any new assets and/or liabilities recognized.

Financial liabilities are derecognized when the associated obligation has been discharged, cancelled, or otherwise extinguished.

e) Derivative Financial Instruments

Innovation enters into derivative transactions to manage interest rate risk. Innovation also enters into derivative transactions on an intermediary basis on behalf of its members. Innovation does not have a trading program for derivatives.

Derivative financial instruments are classified as FVTPL and measured at fair value in the consolidated statement of financial position. Changes in fair value are included in the consolidated statement of comprehensive income within unrealized gain on derivatives instruments.

f) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Innovation has embedded derivatives that require bifurcation in its index-linked deposit products.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

g) Financial asset impairment

Innovation establishes an allowance for credit losses for the following categories of financial assets that are not measured at FVTPL:

- Financial assets at amortized cost; and
- Undrawn lending commitments.

gi) *ECL impairment model*

Innovation uses an ECL methodology to measure impairment of its financial instruments. ECLs reflect the present value of all cash shortfalls related to default events which may occur over a specified period of time. Innovation's allowance for credit losses are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The allowances reflect an unbiased, probability-weighted outcome which considers multiple scenarios, based on reasonable and supportable forecasts.

Innovation's ECL impairment model measures loss allowances using a three-stage approach based on the change in credit risk since origination:

- 12-month ECL (Stage 1) – Where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months ECL is recorded. The ECL is computed using a probability of default occurring over the next 12 months.
- Lifetime ECL not credit-impaired (Stage 2) – When a financial instrument experiences a significant increase in credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of ECL based on the probability of default over the remaining estimated life of the financial instrument.
- Lifetime ECL credit-impaired (Stage 3) – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime ECLs.

Financial assets may migrate forward or backward through the three stages as their credit risk deteriorates or improves. When measuring ECLs, Innovation considers the maximum contractual period over which it is exposed to credit risk (expected life). All contractual terms are considered when determining the expected life, including prepayment and extension options.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

g) Financial asset impairment (continued)

gii) Model parameters

The following variables represent the key inputs in Innovation's ECLs:

- Probability of Default ("PD") – an estimate of the likelihood of default over a given time horizon.
- Loss Given Default ("LGD") – an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral.
- Exposure at Default ("EAD") – an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities.

These parameters are generally derived from Innovation's own historical loss data by major asset class.

giii) Significant increase in credit risk

At each reporting date, Innovation assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. In making this assessment, Innovation considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Innovation allocates its loans to a relevant credit risk grade depending on their credit quality. The quantitative information is primary indicator of significant increase in credit risk and is based on the change in lifetime PD. Significant increase in credit risk is evaluated based on the risk rating migration of the exposures with consideration of forward-looking macroeconomic factors.

For corporate lending there is a particular focus on assets that are included on a 'watch list', given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

g) Financial asset impairment (continued)

giii) Significant increase in credit risk (continued)

Innovation considers the credit score changes of its members and events such as bankruptcy.

There is a rebuttable presumption that the credit risk of the financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days overdue. Innovation currently does not rebut this presumption.

giv) Forward-looking information

The measurement of ECLs for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

In its models, Innovation relies on forward-looking macroeconomic factors, such as the Government of Canada bond rates, unemployment rates and real GDP.

Innovation utilizes multiple probability-weighted scenarios to estimate the forward-looking macroeconomic factors. Innovation considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. Innovation relies upon forecasts generated by an external vendor.

The external vendor provides multiple forecasted scenarios which are then assessed and probability-weighted by Innovation using judgment.

Typically, Innovation will probability-weight the “base case” scenario most heavily as it represents the most likely outcome and is aligned with information used by Innovation for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The economic scenarios used in the determination of ECLs at December 31, 2024 include the following ranges of macroeconomic factors:

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

g) Financial asset impairment (continued)

giv) Forward-looking information (continued)

	12 Month Average Forecast			5 Year Average Forecast		
% Change ¹	Base Case	Best Case	Worst Case	Base Case	Best Case	Worst Case
3 Month GOC Bond Rate	-33.26%	-0.84%	-57.96%	-8.86%	-6.12%	-12.09%
3 Month BA Rate	-29.93%	0.24%	-53.29%	-8.30%	-6.08%	-12.10%
Unemployment Rate	6.60%	5.85%	7.67%	5.30%	4.85%	6.52%
Housing Price Index (HPI)	2.80%	4.28%	-4.30%	2.75%	3.98%	-0.76%

¹ The % change represents the change in the macro economic factor as a % difference from the most recent publicly available results as of December 31, 2024

The economic scenarios used in the determination of ECLs at December 31, 2023 include the following ranges of macroeconomic factors:

	12 Month Average Forecast			5 Year Average Forecast		
% Change ¹	Base Case	Best Case	Worst Case	Base Case	Best Case	Worst Case
3 Month GOC Bond Rate	-1.49%	22.52%	-45.09%	-9.40%	-15.09%	-15.09%
3 Month BA Rate	-0.78%	20.59%	-39.99%	-8.99%	-14.45%	-14.45%
Unemployment Rate	6.18%	5.43%	7.27%	5.49%	6.71%	6.71%
Housing Price Index (HPI)	-1.09%	5.56%	-9.60%	1.12%	-1.51%	-1.51%

¹ The % change represents the change in the macro economic factor as a % difference from the most recent publicly available results as of December 31, 2023

The sensitivity of ECLs to future economic conditions is measured by assuming each forward-looking scenario (i.e. baseline, upside and downside) were weighted 100% instead of applying scenario probability weights across the three scenarios. The resulting increase (decrease) in the allowance for credit losses arising under these range of scenarios for the year ended December 31, 2024 would be \$253 to (\$143) (2023 - \$508 to (\$266)).

gv) Modified financial assets

If the terms of a financial asset are modified, Innovation evaluates whether the cash flows of the modified instrument are substantially different by comparing the present value of the original cash flows to the revised cash flows discounted at the effective interest rate. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial instrument are deemed to have expired. In this case, the original financial asset or liability is derecognized and a new financial asset or liability is recognized in the consolidated statement of financial position at fair value.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

g) Financial asset impairment (continued)

gv) Modified financial assets (continued)

interest rate. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial instrument are deemed to have expired. In this case, the original financial asset or liability is derecognized and a new financial asset or liability is recognized in the consolidated statement of financial position at fair value.

If the cash flows of the modified financial instrument carried at amortized cost are not substantially different, then the modification does not result in derecognition and the gross carrying amount of the asset or liability is adjusted to match the present value of the revised contractual cash flows. The difference between the original and revised gross carrying amount is recognized as a modification gain or loss in the consolidated statement of comprehensive income.

If such a modification is carried out on a credit-impaired (Stage 3) loan, then the gain or loss is included within the provision for credit losses. In all other cases, it is recorded as other income.

gvi) Definition of default

Innovation considers a financial instrument to be in default (Stage 3) as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- High probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- Measurable decrease in the estimated future cash flows from the loan or value of the underlying collateral.

In addition to these observable indicators, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Innovation does not currently rebut this presumption except for certain insured loans where, due to the strength of the underlying credit enhancement, it is reasonably certain that collection efforts will result in a full recovery of the defaulted loan.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

g) Financial asset impairment (continued)

gvii) Write-off policy

Innovation writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may occur earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the net provision for credit losses in the consolidated statement of comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid securities with an original maturity of less than or equal to three months. They are subject to insignificant risk of changes in fair value and are used to manage short-term cash commitments. Cash and cash equivalents are carried at amortized cost on the consolidated statement of financial position.

Loans

Loans are measured initially at fair value plus transaction costs, and subsequently at amortized cost using the effective interest method, less any impairment losses. All loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Property and Equipment

Property and equipment are reported at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized in profit and loss and is calculated using the straight-line method over the estimated useful life of the related asset as follows (with the exception of land, which is not depreciated):

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

Facilities	10 - 40 years
Computer hardware	4 - 8 years
Furniture and equipment	5 years
Automotive	5 years

The estimated useful lives, residual values and depreciation methods are reviewed annually and adjusted if appropriate.

Gains and losses on the disposal or retirement of property and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and are recorded in profit or loss in the year of disposal or retirement.

Intangible Assets

Intangible assets include certain computer software, naming rights and low-cost core deposits arising from stable member relationships obtained through business combinations where Innovation is considered the acquirer. All intangibles are initially recorded at cost or at their assessed fair value at the time of the business combination.

All Innovation's intangible assets have a finite life, and are amortized using the straight-line method over the useful life of the asset as follows:

Software	2 - 10 years
Naming rights	40 years
Core deposits	9 years

Amortization is included in the consolidated statement of comprehensive income. The estimated useful lives and amortization methods are reviewed annually and adjusted if appropriate. Gains and losses on the disposal of intangible assets are recorded in profit or loss in the year of disposal.

In determining if a SaaS (Software as a Service) arrangement is eligible for capitalization as an intangible asset, Innovation assesses the arrangement to determine if it has control of the software or a specific portion of the software. For those arrangements, or specific portions of arrangements where control does not exist, Innovation recognizes any related implementation costs as prepaid expenses or

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

Intangible Assets (continued)

operating expenses as incurred through net income and comprehensive income. Where control exists the costs are capitalized as intangible assets and depreciated over the respective useful lives.

Impairment of Tangible and Intangible Assets

Annually, Innovation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, Innovation estimates the recoverable amount of a group of assets (or CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, Innovation estimates future cash flows it expects to derive from the asset or group of assets along with expectations about possible variations in the amount and timing of those cash flows. The estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of a CGU is estimated to be less than the carrying amount, the carrying amount of the asset or assets within a CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. The increased carrying amount will not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

Income Taxes

Income tax expense comprises of current and deferred income tax. Current and deferred income taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for taxation purposes. These amounts are measured using enacted or substantively enacted tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of the deductions available to be carried forward to future periods for tax purposes to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized in the year of change, except when they relate to items recognized directly in other comprehensive income.

Deferred income taxes are offset when there is a legally enforceable right to offset current tax liabilities against current tax assets, and when they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but Innovation intends to settle its current tax liabilities and assets on a net basis or simultaneously.

Leases

a) *As lessor*

At inception, Innovation classifies a lease which transfers substantially all of the risks and rewards incidental to ownership of the underlying asset as a finance lease. All other leases are classified as operating leases.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

a) As lessor (continued)

When assets are held subject to a finance lease, Innovation recognizes a finance lease asset included in loans in the consolidated statement of financial position representing its net investment in the lease. Interest income is recognized over the term of the lease using the implicit interest rate, which reflects a constant rate of return.

For operating leases, Innovation recognizes lease payments received as income on a straight-line basis over the term of the lease.

b) As lessee

Innovation classifies a contract, or component of a contract, as a lease if it conveys a right to control the use of an identifiable asset for a period of time in exchange for consideration. With the exception of certain short-term and low-value leases, Innovation recognizes a right-of-use asset and lease liability for all leases at commencement.

Lease liabilities are initially measured at the present value of the lease payments due over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at Innovation's incremental borrowing rate. Lease payments included in the measurement of the lease liability include fixed contractual payments, variable contractual payments based upon a rate or index and any amounts payable with respect to purchase, extension and/or termination options when it is reasonably certain that Innovation will exercise the option. Subsequent to initial recognition, lease liabilities are measured at amortized cost using the effective interest method.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability plus initial direct costs and estimated decommissioning costs, less any lease incentives received. Right-of-use assets are subsequently amortized on a straight-line basis over the term of the lease or the estimated useful life of the asset, whichever is shorter.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenue is recognized when Innovation satisfies a performance obligation by transferring the promised good or service to the customer, and the customer obtains control of the good or service. The recognition of revenue can either be over time or at a point in time, depending on when the performance obligation is satisfied. Determining the timing and transfer of control, at a point in time or over time, requires judgment.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. The interest income is calculated by applying the effective interest rate to the gross carrying amount of the non-credit impaired financial assets. For credit-impaired financial assets the interest income is calculated by applying the effective interest rate to the amortized cost of the credit-impaired financial assets.

Other income includes service charges on products, transaction fees, other fees and commissions and insurance fees, which are recognized over the period the services are performed.

Membership Equity

Membership shares are classified as financial liabilities in the consolidated statement of financial position in accordance with their terms. All shares are redeemable at the option of the member after one year from the request of membership withdrawal.

Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Carrying values of non-monetary assets and liabilities that are measured in terms of historical cost reflect the exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to Canadian dollars at the exchange rate at the date that the fair value was determined.

Translation gains and losses are included in other income in the consolidated statement of comprehensive income.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

Employee Future Benefits

Innovation's employee future benefit program consists of a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which Innovation pays fixed contributions into a separate entity. Innovation has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Innovation's contributions to the defined contribution plan are expensed as incurred. Pension benefits of \$2,639 (2023 - \$2,200) were paid to defined contribution retirement plans during the year.

COVID-19 Considerations

In response to the COVID-19 pandemic, Innovation participated in the following assistance programs provided by the Government of Canada:

Canada Emergency Business Account ("CEBA"): under the CEBA program, Innovation provided interest-free loans until January 18, 2024 and at a rate of 5% thereafter for eligible loan holders in good standing. These loans were funded by the Export Development Bank of Canada ("EDC") to existing eligible small business members, with the full principal amount due on December 31, 2026. As Innovation does not retain substantially all the risks and rewards of the financial assets, and all cash flows are passed through to the EDC, these loans are derecognized from Innovation's consolidated statement of financial position.

Future Accounting Changes

Innovation actively monitors developments and changes in accounting standards from the IASB, as well as requirements from the other regulatory bodies, including OSFI.

a) Presentation and disclosure in financial statements (IFRS 18)

In April 2024, the IASB issued a new standard – IFRS 18 - Presentation and Disclosure in Financial Statements. The standard becomes effective January 1, 2027, prospectively. The key objective is to set requirements for the presentation of general-purpose financial statements. It is expected that Innovation will have structural changes to the financial statements which are currently being assessed.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

3. MATERIAL ACCOUNTING POLICIES (continued)

Future Accounting Changes (continued)

b) Classification and disclosures (Amendments to IFRS 9)

In May 2024, the IASB issued amendments to IFRS 9, which will become effective prospectively on January 1, 2026. These amendments include clarifying the classification of financial assets with environmental, social, and corporate governance impacts. The amendments also introduce new disclosure requirements for equity investments. Innovation is currently assessing the impact.

c) Electronic transfer payments (Amendments to IFRS 9)

In May 2024, the IASB also issued amendments to IFRS 9 regarding the derecognition of electronic transfer payments. These will become effective on January 1, 2026. The amendments clarify that financial assets and liabilities should be derecognized on the settlement date rather than the initiation date. Additionally, the IASB has developed an accounting policy option that allows a company to derecognize a financial liability before delivering cash on the settlement date, provided certain criteria are met. Innovation is currently assessing the impact.

4. CASH AND CASH EQUIVALENTS

	2024	2023
Cash on hand	\$ 12,361	\$ 9,654
Cash held with SaskCentral	2,721	2,841
Cash held with Concentra Bank	170,568	3,508
Cash held with Central 1	34,528	45,349
Cash held with National Bank	-	295,427
Total	\$ 220,178	\$ 356,779

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

5. INVESTMENTS

The following table provides information on the investments held by Innovation.

	2024	2023
Debt Investments (Amortized Cost)		
Mortgage-backed securities	\$ 25,878	\$ 34,575
Corporate debt and covered bonds	81,792	35,946
Deposits and debt securities	60,099	35,950
Accrued Interest	2,231	1,108
Impairment	(107)	(38)
Debt Investments (FVTPL)		
Deposits with financial institutions	-	2,698
Other debt securities	28,037	35,286
Accrued Interest	129	324
Equity Securities (FVTPL)		
Investment funds and other entities	34,483	35,199
Accrued Interest	524	348
Total Investments	\$ 233,066	\$ 181,396

Innovation's investment securities portfolio is comprised of a large number of investment securities carrying a wide variety of terms, conditions and issuers held for the purpose of liquidity management and effective utilization of excess funds.

At December 31, 2024, \$126,904 (2023 - \$99,189) of debt investments mature more than 12 months after the reporting date.

SaskCentral Membership Shares

Currently Innovation holds \$8,182 in Class B membership shares (2023 - \$10,557) of SaskCentral. The voting rights, characteristics, and value of membership shares are set out in the bylaws of SaskCentral. Membership shares of SaskCentral carry an issuance and redemption price of \$10 (not in thousands) per share.

These shares are classified as FVTPL. There is no active market for these shares as they are issued only by virtue of membership in SaskCentral. The shares are redeemable upon withdrawal of membership or at the discretion of the board of directors of SaskCentral. The shares may be surrendered upon withdrawal from membership for

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

5. INVESTMENTS (continued)

SaskCentral Membership Shares (continued)

proceeds equal to the paid-in value, to be received in accordance with a SaskCentral by-law providing for the redemption of its share capital.

6. LOANS

							2024
	Performing	Impaired	ECL Allowance			Net	
			12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)		
Agriculture	\$ 483,653	\$ -	\$ (674)	(843)	\$ -	\$ 482,136	
Commercial	1,318,013	28,949	(1,831)	(3,295)	(6,742)	1,335,094	
Consumer	1,883,252	2,330	(1,388)	(2,773)	(1,363)	1,880,058	
Finance Leases	6,402	376	(27)	-	(250)	6,501	
Foreclosed Property	-	36	-	-	-	36	
Accrued Interest	25,508	4,072	-	-	-	29,580	
Total Loans	\$ 3,716,828	\$ 35,763	\$ (3,920)	\$ (6,911)	\$ (8,355)	\$ 3,733,405	

							2023
	Performing	Impaired	ECL Allowance			Net	
			12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)		
Agriculture	\$ 422,231	\$ 189	\$ (322)	(822)	\$ (4)	\$ 421,272	
Commercial	1,108,586	5,145	(1,036)	(2,188)	(3,448)	1,107,059	
Consumer	1,640,116	2,396	(1,753)	(1,642)	(1,284)	1,637,833	
Finance Leases	8,488	376	(37)	-	(250)	8,577	
Foreclosed Property	-	184	-	-	-	184	
Accrued Interest	18,232	682	-	-	-	18,914	
Total Loans	\$ 3,197,653	\$ 8,972	\$ (3,148)	\$ (4,652)	\$ (4,986)	\$ 3,193,839	

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

6. LOANS (continued)

The aging of loans, including those that were past due but not impaired and those that were individually impaired, as at December 31 was:

	<u>2024</u>		<u>2023</u>	
	Performing	Impaired	Performing	Impaired
Current	\$ 3,650,672	\$ 1,346	\$ 3,168,466	\$ 1,032
32-60 days	19,640	4	2,166	180
61-90 days	2,246	79	900	29
91 -120 days	4,675	327	455	38
120+ days	14,087	29,935	7,434	7,011
Accrued Interest	25,508	4,072	18,232	682
Total	\$ 3,716,828	\$ 35,763	\$ 3,197,653	\$ 8,972

Innovation holds collateral against loans to customers in the form of interests over property, other securities over assets, and guarantees.

During the year, Innovation obtained residential property and commercial property with carrying values of \$36 and (2023 - \$184) by taking possession of collateral held as security. Repossessed property is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

7. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES

The following tables show reconciliations from the opening to the closing balance of the allowance for impairment by class of financial instrument.

	<u>2024</u>			
Total	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2024	\$ 3,148	\$ 4,652	\$ 4,986	\$ 12,786
Transfer to 12-month ECL	1,069	(1,026)	(43)	-
Transfer to lifetime ECL not credit-impaired	(233)	249	(16)	-
Transfer to lifetime ECL credit-impaired	(1,499)	(786)	2,285	-
Net remeasurement of loss allowance	528	4,016	4,563	9,107
New financial assets originated	1,358	535	14	1,907
Financial assets that have been derecognized	(451)	(729)	(351)	(1,531)
Write-offs	-	-	(3,480)	(3,480)
Recoveries	-	-	397	397
Balance at December 31, 2024	\$ 3,920	\$ 6,911	\$ 8,355	\$ 19,186

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

7. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES (continued)

Agricultural	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2024	\$ 334	\$ 822	\$ 253	\$ 1,409
Transfer to 12-month ECL	265	(265)	-	-
Transfer to lifetime ECL not credit-impaired	(10)	10	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-
Net remeasurement of loss allowance ¹	(218)	327	-	109
New financial assets originated	343	52	-	395
Financial assets that have been derecognized	(29)	(103)	(9)	(141)
Write-offs	-	-	(1)	(1)
Recoveries	-	-	7	7
Balance at December 31, 2024	\$ 685	\$ 843	\$ 250	\$ 1,778

¹Includes finance leases from our agricultural borrowers with a total allowance of \$261.

Commercial	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2024	\$ 1,061	\$ 2,188	\$ 3,449	\$ 6,698
Transfer to 12-month ECL	309	(309)	-	-
Transfer to lifetime ECL not credit-impaired	(24)	24	-	-
Transfer to lifetime ECL credit-impaired	(134)	(392)	526	-
Net remeasurement of loss allowance ²	317	1,983	3,601	5,901
New financial assets originated	411	72	-	483
Financial assets that have been derecognized	(93)	(271)	(273)	(637)
Write-offs	-	-	(679)	(679)
Recoveries	-	-	118	118
Balance at December 31, 2024	\$ 1,847	\$ 3,295	\$ 6,742	\$ 11,884

²Includes finance leases from our commercial borrowers with a total allowance of \$16.

Consumer	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2024	\$ 1,753	\$ 1,642	\$ 1,284	\$ 4,679
Transfer to 12-month ECL	495	(452)	(43)	-
Transfer to lifetime ECL not credit-impaired	(199)	215	(16)	-
Transfer to lifetime ECL credit-impaired	(1,365)	(394)	1,759	-
Net remeasurement of loss allowance	429	1,706	962	3,097
New financial assets originated	604	411	14	1,029
Financial assets that have been derecognized	(329)	(355)	(69)	(753)
Write-offs	-	-	(2,800)	(2,800)
Recoveries	-	-	272	272
Balance at December 31, 2024	\$ 1,388	\$ 2,773	\$ 1,363	\$ 5,524

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

7. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES (continued)

2023

Total	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2023	\$ 3,194	\$ 4,410	\$ 2,955	\$ 10,559
Transfer to 12-month ECL	613	(613)	-	-
Transfer to lifetime ECL not credit-impaired	(140)	169	(29)	-
Transfer to lifetime ECL credit-impaired	(8)	(224)	232	-
Net remeasurement of loss allowance	(1,150)	983	4,317	4,150
New financial assets originated	1,188	335	80	1,603
Financial assets that have been derecognized	(549)	(408)	(643)	(1,600)
Write-offs	-	-	(2,118)	(2,118)
Recoveries	-	-	192	192
Balance at December 31, 2023	\$ 3,148	\$ 4,652	\$ 4,986	\$ 12,786

Agricultural	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1	\$ 491	\$ 1,074	\$ 100	\$ 1,665
Transfer to 12-month ECL	220	(220)	-	-
Transfer to lifetime ECL not credit-impaired	(21)	21	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-
Net remeasurement of loss allowance ¹	(414)	120	153	(141)
New financial assets originated	69	19	-	88
Financial assets that have been derecognized	(11)	(192)	-	(203)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance at December 31	\$ 334	\$ 822	\$ 253	\$ 1,409

¹Includes finance leases from our agricultural borrowers with a total allowance of \$262.

Commercial	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1	\$ 1,285	\$ 2,452	\$ 1,965	\$ 5,702
Transfer to 12-month ECL	172	(172)	-	-
Transfer to lifetime ECL not credit-impaired	(9)	9	-	-
Transfer to lifetime ECL credit-impaired	-	(203)	203	-
Net remeasurement of loss allowance ²	(394)	206	1,817	1,629
New financial assets originated	307	18	-	325
Financial assets that have been derecognized	(300)	(122)	(24)	(446)
Write-offs	-	-	(684)	(684)
Recoveries	-	-	172	172
Balance at December 31	\$ 1,061	\$ 2,188	\$ 3,449	\$ 6,698

²Includes finance leases from our commercial borrowers with a total allowance of \$25.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

7. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES (continued)

Consumer	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1	\$ 1,418	\$ 884	\$ 890	\$ 3,192
Transfer to 12-month ECL	221	(221)	-	-
Transfer to lifetime ECL not credit-impaired	(110)	139	(29)	-
Transfer to lifetime ECL credit-impaired	(8)	(21)	29	-
Net remeasurement of loss allowance	(342)	657	2,347	2,662
New financial assets originated	812	298	80	1,190
Financial assets that have been derecognized	(238)	(94)	(619)	(951)
Write-offs	-	-	(1,434)	(1,434)
Recoveries	-	-	20	20
Balance at December 31	\$ 1,753	\$ 1,642	\$ 1,284	\$ 4,679

The proportion of allowance relating to undrawn commitments included above is \$138 (2023- \$55).

The following table summarized the net provision for credit losses and recoveries included in the consolidated statement of comprehensive income:

2024				
Debt instruments at Amortized Cost	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total
Agriculture loans	\$ 96	\$ 276	\$ (9)	\$ 363
Commercial loans	635	1,784	3,328	5,747
Consumer loans	704	1,762	907	3,373
Investments	70	-	-	70
Net provision for credit losses	\$ 1,505	\$ 3,822	\$ 4,226	\$ 9,553

2023				
Debt instruments at Amortized Cost	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total
Agriculture loans	\$ (356)	\$ (53)	\$ 153	\$ (256)
Commercial loans	(387)	102	1,793	1,508
Consumer loans	232	861	1,808	2,901
Investments	13	-	-	13
Net provision for credit losses	\$ (498)	\$ 910	\$ 3,754	\$ 4,166

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

8. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of the derivatives are measured. The notional amounts indicate the volume of transactions outstanding at December 31, 2024 and are not indicative of either the market risk or the credit risk.

	Maturities of derivatives (notional amount)					Net fair value			
	2024		2023			2024		2023	
	Under 1 year	1 to 5 years	Over 5 years	Total	Total	Assets	Liabilities	Assets	Liabilities
Derivatives at FVTPL									
Interest rate swaps	\$ 40,000	\$ -	\$ -	\$40,000	\$ 60,000	\$571	\$ -	\$1,426	\$ -
Index-linked options	457	-	-	457	653	177	177	191	191
	\$ 40,457	\$ -	\$ -	\$40,457	\$ 60,653	\$748	\$ 177	\$1,617	\$ 191

Interest rate swaps

Innovation currently enters into interest rate swaps with Concentra Bank to manage exposure to interest rate risk. Interest rate swaps are contractual agreements between two parties to exchange a series of cash flows based on agreed upon rates to a notional amount.

Generally, counterparties exchange a fixed and floating interest rate payment to manage exposure to interest rate risk by modifying the interest rate characteristics of assets or liabilities.

Index-linked options

Innovation offers index-linked deposit products to its members that pay interest to the depositors at the end of the term, based on stock market index performance. Innovation has entered into index-linked options with SaskCentral that have equivalent maturities to offset the exposure associated with these products. Innovation pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term Innovation receives from SaskCentral payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

9. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

Property and equipment

	2024					
	Land	Facilities	Computer Hardware	Furniture & Equipment	Automotive	Total
Cost						
Balance at January 1, 2024	\$ 1,718	\$ 32,319	\$ 13,826	\$ 4,207	\$ 1,072	\$ 53,142
Additions	-	569	1,580	174	263	2,586
Disposals	-	-	(103)	-	(88)	(191)
Transfer to investment property	-	(238)	-	-	-	(238)
Balance at December 31, 2024	\$ 1,718	\$ 32,650	\$ 15,303	\$ 4,381	\$ 1,247	\$ 55,299
Depreciation						
Balance at January 1, 2024	\$ -	\$ 24,298	\$ 10,650	\$ 3,697	\$ 729	\$ 39,374
Depreciation expense	-	934	1,032	142	139	2,247
Disposals	-	-	(41)	-	(83)	(124)
Transfer to investment property	-	(138)	-	-	-	(138)
Balance at December 31, 2024	\$ -	\$ 25,094	\$ 11,641	\$ 3,839	\$ 785	\$ 41,359
Net Book Value						
Balance at December 31, 2024	\$ 1,718	\$ 7,556	\$ 3,662	\$ 542	\$ 462	\$ 13,940
	2023					
	Land	Facilities	Computer Hardware	Furniture & Equipment	Automotive	Total
Cost						
Balance at January 1, 2023	\$ 1,718	\$ 32,332	\$ 12,041	\$ 3,761	\$ 1,038	\$ 50,890
Additions	-	174	2,147	446	141	2,908
Disposals	-	-	(362)	-	(107)	(469)
Transfer to investment property	-	(187)	-	-	-	(187)
Balance at December 31, 2023	\$ 1,718	\$ 32,319	\$ 13,826	\$ 4,207	\$ 1,072	\$ 53,142
Depreciation						
Balance at January 1, 2023	\$ -	\$ 23,441	\$ 10,148	\$ 3,595	\$ 734	\$ 37,918
Depreciation expense	-	961	864	102	99	2,026
Disposals	-	-	(362)	-	(104)	(466)
Transfer to investment property	-	(104)	-	-	-	(104)
Balance at December 31, 2023	\$ -	\$ 24,298	\$ 10,650	\$ 3,697	\$ 729	\$ 39,374
Net Book Value						
Balance at December 31, 2023	\$ 1,718	\$ 8,021	\$ 3,176	\$ 510	\$ 343	\$ 13,768

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

9. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY (continued)

Investment Property

	2024	2023
Cost		
Balance at January 1	\$ 2,420	\$ 2,233
Transfer from property and equipment	238	187
Balance at December 31	\$ 2,658	\$ 2,420
Depreciation		
Balance at January 1	\$ 1,334	\$ 1,152
Transfer from property and equipment	138	103
Depreciation expense	86	79
Balance at December 31	\$ 1,558	\$ 1,334
Net Book Value		
Balance at December 31	\$ 1,100	\$ 1,086

The fair value of the investment property above as at December 31, 2024 is \$1,752 (2023 - \$1,575).

10. LEASES

Right of use (ROU) assets

	2024			2023		
	Facilities	Other	Total	Facilities	Other	Total
Cost						
Balance at January 1	\$ 1,533	\$ 72	\$ 1,605	\$ 985	\$ 35	\$ 1,020
Additions	396	-	396	548	37	585
Disposals	(513)	-	(513)	-	-	-
Balance at December 31	\$ 1,416	\$ 72	\$ 1,488	\$ 1,533	\$ 72	\$ 1,605
Depreciation						
Balance at January 1	\$ 816	\$ 40	\$ 856	\$ 613	\$ 33	\$ 646
Depreciation expense	320	7	327	203	7	210
Disposals	(512)	-	(512)	\$ -	\$ -	-
Balance at December 31	\$ 624	\$ 47	\$ 671	\$ 816	\$ 40	\$ 856
Net Book Value						
Balance at December 31	\$ 792	\$ 25	\$ 817	\$ 717	\$ 32	\$ 749

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

10. LEASES (continued)

Lease liabilities

	2024	2023
Interest expense on lease liabilities	\$ 53	\$ 16
Expense relating to variable lease payments	152	114
Total amounts recognized in profit or loss	\$ 205	\$ 130
Repayment of lease liabilities	299	213
Total cash outflows for leases	\$ 504	\$ 343

The variable lease payments that are not included in the calculation of the lease liability include operating costs associated with the lease that are not based on an index or rate.

The lease liability carrying value as at December 31, 2024 is \$867 (2023- \$769).

The contractual maturity of future lease payments are as follows:

	2024	2023
1 year or less	\$ 374	\$ 326
1 to 5 years	\$ 754	\$ 904

11. INTANGIBLE ASSETS

	2024			
	Software	Naming Rights	Core Deposits	Total
Cost				
Balance at January 1	\$ 6,483	\$ 1,500	\$ 901	8,884
Balance at December 31	\$ 6,483	\$ 1,500	\$ 901	\$ 8,884
Amortization				
Balance at January 1	\$ 6,477	\$ 512	\$ 511	7,500
Amortization expense	5	38	104	147
Balance at December 31	\$ 6,482	\$ 550	\$ 615	\$ 7,647
Carrying Value				
Balance at December 31	\$ 1	\$ 950	\$ 286	\$ 1,237

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

11. INTANGIBLE ASSETS (continued)

					2023
	Software	Naming Rights	Core Deposits	Total	
Cost					
Balance at January 1	\$ 6,483	\$ 1,500	\$ 901	\$ 8,884	
Balance at December 31	\$ 6,483	\$ 1,500	\$ 901	\$ 8,884	
Amortization					
Balance at January 1	\$ 6,440	\$ 474	\$ 407	\$ 7,321	
Amortization expense	37	38	104	179	
Balance at December 31	\$ 6,477	\$ 512	\$ 511	\$ 7,500	
Carrying Value					
Balance at December 31	\$ 6	\$ 988	\$ 390	\$ 1,384	

12. DEPOSITS

	2024	2023
Operating and Savings	\$ 1,602,901	\$ 1,645,137
TFSA	187,922	162,312
FHSA	530	-
Term Deposits	1,591,703	1,298,001
RRSP	108,739	106,659
RRIF	58,601	57,222
Interest Payable	50,779	35,698
Total Deposits	\$ 3,601,175	\$ 3,305,029

At December 31, 2024, \$794,814 (2023 - \$566,075) of deposits are expected to be settled more than 12 months after the reporting date.

13. FUNDING FACILITIES

Loans Payable

	2024		2023	
	Balance	Credit Limit	Balance	Credit Limit
SaskCentral Line of Credit (CDN)	\$ -	\$ 10,000	\$ -	\$ 10,000
Central 1 Line of Credit (CDN)	-	45,000	-	45,000
National Bank Credit Line	-	50,000	-	50,000
Desjardins Credit Line	-	50,000	-	50,000
Total Credit Facilities (CDN)	\$ -	\$ 155,000	\$ -	\$ 155,000
SaskCentral Line of Credit (USD)	-	100	-	100
Central 1 Line of Credit (USD)	-	500	-	500
Total Credit Facilities (USD)	\$ -	\$ 600	\$ -	\$ 600

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

13. FUNDING FACILITIES (continued)

Loans Payable (continued)

Innovation has an authorized line of credit bearing interest at prime less 0.50% (2023 – prime less 0.50%) with SaskCentral. Innovation also has an authorized line of credit (USD) bearing interest at USD prime plus 0.50% (2023 - prime plus 0.50%) with SaskCentral.

Innovation has an authorized line of credit bearing interest at the Canadian Overnight Bank Rate plus 1% (2023 – Canadian Overnight Bank Rate plus 1%) and an annual standby fee of 0.25% (2023- 0.25%) with Central 1. Innovation also has an authorized line of credit bearing interest at the US Base Rate and an annual standby fee of 0.25% (2023- 0.25%) with Central 1.

Innovation has an authorized committed revolving credit facility with National Bank bearing interest at adjusted Daily Compounded CORRA plus credit spread adjustment plus 1.70% (2023- Daily Compounded CORRA plus 0.50% and an annual standby fee of 0.37% (2023- 0.10%).

Innovation has an authorized demand loan with Desjardin bearing interest at Desjardin's internal cost of funds plus 0.80% for Insurable Tranche funding (2023- 0.80%) and an annual standby fee of 0.225% (2023 – annual standby fee of 0.225%).

These loans are secured by an assignment of book debts, residential mortgages and accounts receivable, a financial services agreement and operating account agreement.

Short-term Notes Payable

In 2024, IFCU began issuing Bearer Deposit Notes (BDNs), which are recorded as short-term notes payable. BDNs are unsecured debt instruments issued at a discount to their face value. The purchaser receives the face value plus interest at maturity.

	2024	2023
Face value	\$ 110,000	\$ -
Discount	(482)	-
Total short-term notes payable	\$ 109,518	\$ -

In 2024 interest expense of \$1,323 (2023 - \$Nil) was recognized related to the BDNs.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

14. SECURITIZED BORROWINGS

Innovation participates in the Canada Mortgage and Housing Corporation ("CMHC") sponsored National Housing Act Mortgage-Backed Securities ("NHA MBS") program where Innovation assigns all legal rights, interest, and title in certain insured residential mortgages to CMHC in exchange for NHA MBS certificates. As Innovation continues to be exposed to substantially all of the risks and rewards of ownership of the original mortgages, Innovation has determined that the assignment of the mortgages does not constitute a transfer.

At December 31, 2024, the carrying value of the residential mortgage loans, including accrued interest is \$111,736 (2023 - \$70,389). Due to retention of substantially all the risks and rewards of ownership of these assets, Innovation continues to recognize them within loans on the consolidated statement of financial position, and the transfers are accounted for as secured financing transactions. The associated liability of \$110,210 (2023 - \$69,016), secured by these assets, is included in securitized borrowings on the consolidated statement of financial position and is carried at amortized cost.

Innovation also retains certain amounts of its issued NHA MBS certificates as part of its liquidity management strategy. As at December 31, 2024 residential mortgages of \$237,622 (2023 - \$217,982) with a fair value of \$230,188 (2023 - \$203,405) were assigned to NHA MBS certificates and retained by Innovation. These unsold NHA MBS certificates are reported in consumer loans on the consolidated statement of financial position.

15. OTHER INCOME

	2024	2023
Service charges on products	\$ 1,183	\$ 1,207
Loan fees, commissions and insurance	4,927	4,469
Other fees and commissions	4,138	3,278
Innovation Wealth	6,200	5,601
Other revenue	1,046	869
Total	\$ 17,494	\$ 15,424

16. MEMBERSHIP SHARES AND DISTRIBUTIONS

Innovation may issue an unlimited number of membership shares and consists of fully paid shares with a par value of \$5 per share (not in thousands). The membership shares are redeemable under certain conditions stipulated in the *Bank Act* and in the by-laws of Innovation. Innovation has the ability to distribute to members surplus earnings in the form of patronage allocations and/or dividends.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

16. MEMBERSHIP SHARES AND DISTRIBUTIONS (continued)

Membership shares and distributions is comprised of the following:

	2024	2023
Membership Shares - par value	\$ 338	\$ 311
Membership Shares - patronage allocations	20,160	20,015
Membership rewards - unrestricted	10,656	9,156
Total Membership Shares and Distributions	\$ 31,154	\$ 29,482

Unrestricted Member Rewards included available distributions made to members including dividends. These balances are disbursable at the option of the member.

The Board of Directors declared total member distributions in the amount of \$5,271 (2023 - \$4,241) based on 2024 earnings. The member distributions approved by the Board of Directors quarterly were based on the balance of active Member Reward accounts, members under the age of 19 as of that quarter, loan interest paid and deposit interest earned by each member during the quarter (excluding credit cards and registered products deposits). The credit union introduced Monthly Transaction Rewards, a new cash dividend program based on digital transaction activity in 2024.

The member distributions are reported on the consolidated financial statements as follows: \$1,359 (2023 - \$1,319) cash dividends, \$125 (2023 - \$104) youth cash dividends, \$437 (2023 - nil) Monthly Transaction Rewards, and \$3,350 (2023 - \$2,818) patronage allocations to Membership Shares.

17. CAPITAL MANAGEMENT

Innovation conducts its capital management in accordance with OSFI Capital Adequacy Requirements (CAR) - Guideline. Innovation has adopted a Capital Plan that is approved by the Board of Directors. A Capital Contingency Plan is also in place to identify, measure, monitor, and control capital during a stressed event.

Regulatory standards require small to medium size deposit taking institutions (SMSBs) to maintain the following minimum ratios, which include a 2.5% capital conservation buffer:

Common equity tier 1 (CET1)	7.00%
Tier 1 capital	8.50%
Total capital	10.50%

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

17. CAPITAL MANAGEMENT (continued)

Total capital consists of tier 1 and tier 2 capital.

Tier 1 capital is comprised of the highest quality capital elements. It consists of two components: CET1 and additional tier 1 capital. CET1 includes common shares, retained earnings, contributed surplus, accumulated other comprehensive income and applied regulatory adjustments. Deductions from CET1 include items such as goodwill, intangible assets, deferred tax assets (except those arising from temporary differences) and significant investments in commercial entities. Additional tier 1 capital consists of qualifying shares and other investment shares issued by Innovation that meet the criteria for inclusion in additional tier 1 capital.

Tier 2 capital includes items such as collective allowance for credit losses, subordinated indebtedness, and qualifying member or non-member shares, or other investment shares issued by Innovation that meet the criteria for inclusion in tier 2 capital and are not included in tier 1 capital.

Regulatory standards also require category I and II SMSBs to maintain a minimum leverage ratio of 3.0%, as prescribed in OSFI's Leverage Requirements Guideline. This ratio is calculated by dividing tier 1 capital by on balance sheet exposures, derivative exposures, securities financing transactions and off-balance sheet items.

During the year, Innovation complied with all regulatory capital requirements. Noncompliance may result in supervisory intervention measures.

The following table summarizes key capital information:

Capital Summary	2024	2023
Common equity tier 1 capital	\$ 381,252	\$ 356,259
Total tier 1 capital	381,252	356,259
Total tier 2 capital	10,938	7,838
Total capital	\$ 392,190	\$ 364,097
Risk-weighted assets	\$ 2,579,181	\$ 2,168,724
Leveraged assets	4,467,918	4,016,530
Common equity tier 1 to risk weighted assets	14.78%	16.43%
Total Tier 1 to risk weighted assets	14.78%	16.43%
Total capital to risk weighted assets	15.21%	16.79%
Total Tier 1 capital to leveraged assets	8.53%	8.87%

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

18. RELATED PARTY TRANSACTIONS

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control, or significant influence over the other or is a member, or close family of a member, of the key management personnel of Innovation. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties.

Loans

At December 31, 2024, certain directors, senior management and their spouses, children and dependents were indebted to Innovation for an amount totaling \$4,183 (2023 - \$4,180). The loans to the directors were granted under the same lending policies applicable to other members. Certain management loans qualify for the staff lending program at preferential rates. These loans have been recorded at amortized cost with the discount amortized using the effective interest method. Director and management loans are included in loans on the consolidated statement of financial position.

There were no loans forgiven or written down during the year with related parties.

Deposits

As of December 31, 2024, certain directors, senior management and their spouses, children and dependents over which the director or executive has substantial control had deposits at Innovation for an amount totaling \$2,400 (2023 - \$2,212).

Directors and other key management personnel may hold deposit accounts. These accounts are maintained under the same terms and conditions as the accounts of other members and are included in deposits on the consolidated statement of financial position.

Remuneration

Compensation for directors and other key management personnel was comprised of:

	2024	2023
Salaries and other short-term employee benefits	\$ 4,702	\$ 3,849
Other long-term benefits	190	167
	\$ 4,892	\$ 4,016

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables summarize the classification of Innovation's financial instruments:

	2024			2023		
	FVTPL	Amortized Cost	Total Carrying Value	FVTPL	Amortized Cost	Total Carrying Value
FINANCIAL ASSETS						
Cash and cash equivalents	\$ -	\$ 220,178	\$ 220,178	\$ -	\$ 356,779	\$ 356,779
Investments	63,173	169,893	233,066	73,855	107,541	181,396
Loans	-	3,733,405	3,733,405	-	3,193,839	3,193,839
Accounts receivable	-	6,687	6,687	-	6,231	6,231
Derivative assets	748	-	748	1,617	-	1,617
FINANCIAL LIABILITIES						
Deposits	\$ -	\$ 3,601,175	\$ 3,601,175	\$ -	\$ 3,305,029	\$ 3,305,029
Securitized borrowings	-	110,210	110,210	-	69,016	69,016
Accounts payable and accrued liabil	-	16,690	16,690	-	35,532	35,532
Short term notes payable	-	109,518	109,518	-	-	-
Derivative liabilities	177	-	177	191	-	191
Membership shares and distribution	-	31,154	31,154	-	29,482	29,482

Fair value of financial instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair values are determined, where possible, by reference to quoted bid or asking prices in an active market. In the absence of an active market, Innovation determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market-based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

Innovation classifies fair value measurements of financial instruments recognized in the consolidated statement of financial position using the following three-tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

- Level 1: Quoted market prices (unadjusted) are available in active markets for identical assets or liabilities; and
- Level 2: Fair value measurements are derived from inputs other than quoted prices that are included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

- Level 3: Fair value measurements derived from valuation techniques that include significant unobservable inputs.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or income. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

The following methods and assumptions were used to estimate fair values of financial instruments:

- The carrying values for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and membership shares and distributions approximated their fair values.
- The terms for short-term deposit notes are consistently three months; therefore, the face value of the notes approximates the fair value.
- Estimated fair values of investments are based on quoted market prices of similar investments (Level 2). Venture capital funds are carried at the last disclosed net asset value (Level 3).
- For variable interest rate loans that re-price frequently, carrying values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans to expected maturity amounts.
- Fair value of deposits without a specified maturity term is the stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.
- Fair values of securitized borrowings are estimated using discounted cash flow calculations with market interest rates for similar groups of loans to expected maturity amounts.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

- The fair value of derivative financial instruments is estimated by referring to the appropriate current market yields with matching terms to maturity. These instruments have been valued assuming they will not be sold, using present value or other techniques, and are not necessarily representative of the amounts realizable in an immediate settlement of the instrument.

The interest rates used to discount estimated cash flows, when applicable, are based on the government treasury bill rates for investments with maturities less than a year and government bond rates for longer-term investments. Loan discount rates are based on Innovation's residential mortgage floor rates for insured loans and commercial mortgage renewal rates for all other lending. These are as follows:

	2024	2023
Investments	2.07% - 3.13%	3.23% - 5.04%
Loans	4.09% - 6.67%	5.79% - 6.89%
Deposits	3.30% - 3.45%	2.68% - 3.95%

The fair value and related carrying value of the financial instruments have been summarized in the table below by level within the fair value hierarchy, except for those financial instruments whose carrying amount is a reasonable approximation of fair value.

	2024				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Measured at FVTPL					
Investments	\$ 63,173	\$ 63,173	\$ -	\$ 36,833	\$ 26,340
Derivative assets	748	748	-	748	-
Measured at Amortized Cost					
Investments	169,893	172,818	-	172,818	-
Loans	3,733,405	3,705,022	-	3,705,022	-
	\$ 3,967,219	\$ 3,941,761	\$ -	\$ 3,915,421	\$ 26,340
FINANCIAL LIABILITIES					
Measured at FVTPL					
Derivative liabilities	\$ 177	\$ 177	\$ -	\$ 177	\$ -
Measured at Amortized Cost					
Short term notes payable	109,518	110,000	-	110,000	-
Deposits	3,601,175	3,578,481	-	3,578,481	-
Securitized borrowings	110,210	111,831	-	111,831	-
	\$ 3,821,080	\$ 3,800,489	\$ -	\$ 3,800,489	\$ -

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

					2023
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Measured at FVTPL					
Investments	\$ 73,855	\$ 73,855	\$ -	\$ 51,063	\$ 22,792
Derivative assets	1,617	1,617	-	1,617	-
Measured at Amortized Cost					
Investments	107,541	106,113	-	106,113	-
Loans	3,193,839	3,153,746	-	3,153,746	-
	\$ 3,376,852	\$ 3,335,331	\$ -	\$ 3,312,539	\$ 22,792
FINANCIAL LIABILITIES					
Measured at FVTPL					
Derivative liabilities	\$ 191	\$ 191	\$ -	\$ 191	\$ -
Measured at Amortized Cost					
Deposits	3,305,029	3,244,804	-	3,244,804	-
Securitized borrowings	69,015	67,045	-	67,045	-
	\$ 3,374,235	\$ 3,312,040	\$ -	\$ 3,312,040	\$ -

There were no transfers between Level 1 and Level 2 in the period and there are no liabilities measured using Level 3 of the fair value hierarchy.

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	2024	2023
Opening Balance	\$ 22,792	\$ 17,944
Unrealized gains included in net income	2,938	977
Purchases	850	5,618
Disposals	(417)	(1,562)
Change in accrued interest	177	(185)
Closing Balance	\$ 26,340	\$ 22,792

20. FINANCIAL INSTRUMENT RISK MANAGEMENT

Innovation is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how Innovation manages its exposure to them.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk

The business of Innovation necessitates the management of credit risk. Credit risk arises from a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise from principal and interest amounts on loans.

The Board of Directors of Innovation oversees the risk management process. In addition, OSFI establishes standards with which Innovation must comply. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of Innovation and reviews the effectiveness of internal control processes.

Innovation uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist Innovation in implementing a prudent and effective credit granting process to assess the borrower's ability to repay.

Innovation also mitigates credit risk by obtaining quality collateral. Innovation considers collateral to be of good quality if it can determine the legal validity and market value on an ongoing basis. Innovation's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by Innovation are, but are not limited to, real and non-real property by way of mortgages and security agreements.

Innovation has documented policies and procedures in place for the valuation of financial and non-financial collateral. Valuations of collateral are performed periodically to ensure they remain reasonable. The collateral and other credit enhancements held by the Innovation as security for loans include:

- mortgages over residential lots and properties;
- recourse to business assets such as real estate, equipment, inventory and accounts receivable;
- recourse to the commercial real estate properties being financed; and
- recourse to liquid assets, guarantees and securities.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

In some cases, Innovation obtains third-party guarantees and insurance to reduce the risk of loan default. In total, 17% (2023 – 14%) of the Innovation's loan portfolio is guaranteed by a government program or agency. The largest of these guarantees is in the residential mortgage portfolio, which is guaranteed by either Canada Mortgage and Housing Corporation (CMHC), a government owned corporation, at 11% (2023 – 11%) or Sagen at 2% (2023 – 3%).

The following table summarizes the outstanding loan balances by type of collateral held as security ranked in descending order of quality. In instances where a loan has multiple forms of collateral, it has been grouped based on the highest quality collateral held:

	2024	2023
Fully secured by government guarantee or default insurance	\$ 644,316	\$ 455,333
Fully or partially secured by tangible mortgage assets ¹	2,630,249	2,450,144
Fully or partially secured by tangible non mortgage assets	369,427	210,811
Unsecured	79,019	71,422
	\$ 3,723,011	\$ 3,187,710

¹Includes both loans and lines of credit secured by mortgage assets.

The below table outlines additional information with respect to collateral for credit-impaired (stage 3) and foreclosed loans:

	2024	2023
Credit-impaired (Stage 3) loans		
Fair value of collateral held as security for stage 3 loans	\$ 50,461	\$ 10,491
Stage 3 loans without an allowance due to adequate security	\$ 1,850	\$ 125
Foreclosed loans		
Assets acquired via enforcement of security during the year	\$ 38	\$ 271

In addition, Innovation monitors its loan concentration to ensure it is in compliance with its policies.

Credit risk also may arise from principal and interest amounts on investments. Innovation manages credit risk through adherence to internal policies and procedures for the acquisition of investments. Safety of principal is accomplished by ensuring that all investments purchased are reasonable and prudent. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

Innovation's investment portfolio excluding accrued interest and impairment is as follows:

	2024	2023
	Amount	Amount
Long Term Issuer Rating AAA	\$ 25,878	\$ 34,575
Long Term Issuer Rating AA(low) to AA(high)	34,224	49,245
Long Term Issuer Rating A(low) to A(high)	26,291	28,869
Long Term Issuer Rating BBB(low) to BBB(high)	109,413	31,766
Unrated	34,484	35,200
	\$ 230,290	\$ 179,655

At December 31, 2024, Innovation does not hold any credit derivative financial instruments (2023 - \$Nil). Innovation is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments but does not anticipate non-performance by any of the counterparties. Management monitors the credit risk and credit standing of counterparties on a regular basis.

In addition, in the normal course of business Innovation has entered various commitments to extend credit that may not be reported on the consolidated statement of financial position, as well as guarantees and standby letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

Guarantees and standby letters of credit represent irrevocable commitments that Innovation will make payments in the event a member cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to members. Documentary and commercial letters of credit are instruments issued on behalf of a member authorizing a third party to draw drafts on Innovation up to a stipulated amount subject to specific terms and conditions. Innovation is at risk for any drafts drawn that are not ultimately settled by the member and the amounts are collateralized by the goods to which they relate.

Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

The unused portion of authorized loans and lines of credit and from standby letters of credit totals \$564,739 (2023 - \$614,302). This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

The following table provides a summary of Innovation's risk rating framework as at December 31, 2024:

Portfolio	Method	Low Risk	Moderate Risk	High Risk
Commercial/Agriculture	Internal Risk Ratings	1 - 3	4 - 6	7 - 10
Consumer	External Credit Scores*	>720	640-720	<640
Investments	External Credit Ratings	AAA - BBB	BB - B	<CCC

*TransUnion - Innovation transitioned credit score providers from Equifax to TransUnion in 2024

As at December 31, 2024	Stage 1		Stage 2		Stage 3		Total
Agriculture							
Low Risk	\$	147,486	\$	-	\$	-	\$ 147,486
Moderate Risk		285,020		29,466		-	314,486
High Risk		5,387		16,294		-	21,681
Impaired		-		-		-	-
Total Exposure	\$	437,893	\$	45,760	\$	-	\$ 483,653
Allowance for credit losses		(664)		(832)		-	(1,496)
	\$	437,229	\$	44,928	\$	-	\$ 482,157
Commercial							
Low Risk	\$	114,140	\$	958	\$	-	\$ 115,098
Moderate Risk		1,122,694		37,272		-	1,159,966
High Risk		9,839		33,110		-	42,949
Impaired		-		-		28,949	28,949
Total Exposure	\$	1,246,673	\$	71,340	\$	28,949	\$ 1,346,962
Allowance for credit losses		(1,815)		(3,246)		(6,740)	(11,801)
	\$	1,244,858	\$	68,094	\$	22,209	\$ 1,335,161
Consumer Loans							
Low Risk	\$	1,132,246	\$	3,606	\$	-	\$ 1,135,852
Moderate Risk		522,986		19,019		-	542,005
High Risk		123,281		82,114		-	205,395
Impaired		-		-		2,330	2,330
Total Exposure	\$	1,778,513	\$	104,739	\$	2,330	\$ 1,885,582
Allowance for credit losses		(1,363)		(2,746)		(1,365)	(5,474)
	\$	1,777,150	\$	101,993	\$	965	\$ 1,880,108

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

As at December 31, 2024	Stage 1	Stage 2	Stage 3	Total
Finance Leases				
Low Risk	\$ 1,751	\$ -	\$ -	\$ 1,751
Moderate Risk	4,595	-	-	4,595
High Risk	56	-	-	56
Impaired	-	-	376	376
Total Exposure	\$ 6,402	\$ -	\$ 376	\$ 6,778
Allowance for credit losses	(27)	-	(250)	(277)
	\$ 6,375	\$ -	\$ 126	\$ 6,501
Undrawn Commitments				
Low Risk	\$ 259,894	\$ -	\$ -	\$ 259,894
Moderate Risk	293,391	7,416	28	300,835
High Risk	1,603	2,407	-	4,010
Impaired	-	-	-	-
Total Exposure	\$ 554,888	\$ 9,823	\$ 28	\$ 564,739
Allowance for credit losses	(51)	(87)	-	(138)
	\$ 554,837	\$ 9,736	\$ 28	\$ 564,601
Debt Securities				
Low Risk	\$ 170,000	\$ -	\$ -	\$ 170,000
Total Exposure	\$ 170,000	\$ -	\$ -	\$ 170,000
Allowance for credit losses	(107)	-	-	(107)
	\$ 169,893	\$ -	\$ -	\$ 169,893

The following table provides an overview/summary of Innovation's risk rating framework as at December 31, 2023:

Portfolio	Method	Low Risk	Moderate Risk	High Risk
Commercial/Agriculture	Internal Risk Ratings	1 - 3	4 - 6	7 - 10
Consumer	External Credit Scores*	>680	620-680	<620
Investments	External Credit Ratings	AAA - BBB	BB - B	<CCC

*Equifax - Innovation transitioned credit score providers from Equifax to TransUnion in 2024

As at December 31, 2023	Stage 1	Stage 2	Stage 3	Total
Agriculture				
Low Risk	\$ 150,809	\$ -	\$ -	\$ 150,809
Moderate Risk	216,905	26,924	-	243,829
High Risk	6,388	21,205	-	27,593
Impaired	-	-	189	189
Total Exposure	\$ 374,102	\$ 48,129	\$ 189	\$ 422,420
Allowance for credit losses	(322)	(822)	(4)	(1,148)
	\$ 373,780	\$ 47,307	\$ 185	\$ 421,272

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

As at December 31, 2023	Stage 1	Stage 2	Stage 3	Total
Commercial				
Low Risk	\$ 112,780	\$ -	\$ -	\$ 112,780
Moderate Risk	939,071	10,293	-	949,364
High Risk	13,203	33,239	-	46,442
Impaired	-	-	5,145	5,145
Total Exposure	\$ 1,065,054	\$ 43,532	\$ 5,145	\$ 1,113,731
Allowance for credit losses	(1,036)	(2,188)	(3,448)	(6,672)
	\$ 1,064,018	\$ 41,344	\$ 1,697	\$ 1,107,059
Consumer Loans				
Low Risk	\$ 1,316,254	\$ 4,450	\$ -	\$ 1,320,704
Moderate Risk	215,724	18,817	-	234,541
High Risk	33,106	51,578	-	84,684
Impaired	-	-	2,583	2,583
Total Exposure	\$ 1,565,084	\$ 74,845	\$ 2,583	\$ 1,642,512
Allowance for credit losses	(1,753)	(1,642)	(1,284)	(4,679)
	\$ 1,563,331	\$ 73,203	\$ 1,299	\$ 1,637,833
Finance Leases				
Low Risk	\$ 3,134	\$ -	\$ -	\$ 3,134
Moderate Risk	5,275	-	-	5,275
High Risk	79	-	-	79
Impaired	-	-	376	376
Total Exposure	\$ 8,488	\$ -	\$ 376	\$ 8,864
Allowance for credit losses	(37)	-	(250)	(287)
	\$ 8,451	\$ -	\$ 126	\$ 8,577
Undrawn Commitments				
Low Risk	\$ 126,946	\$ -	\$ -	\$ 126,946
Moderate Risk	36,878	3,306	-	40,184
High Risk	413	1,750	-	2,163
Impaired	-	-	-	-
Total Exposure	\$ 164,237	\$ 5,056	\$ -	\$ 169,293
Allowance for credit losses	(27)	(28)	-	(55)
	\$ 164,210	\$ 5,028	\$ -	\$ 169,238
Debt Securities				
Low Risk	\$ 107,579	\$ -	\$ -	\$ 107,579
Total Exposure	\$ 107,579	\$ -	\$ -	\$ 107,579
Allowance for credit losses	(38)	-	-	(38)
	\$ 107,541	\$ -	\$ -	\$ 107,541

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk is the risk that Innovation is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports to the Board monthly on Innovation's compliance with the policy. In addition, OSFI establishes standards to which Innovation must comply.

Innovation manages the liquidity risk resulting from inflows and outflows by ensuring there is adequate liquidity available to meet financial obligations. This entails holding high quality liquid assets and maintaining credit facilities to fund potential shortfalls, as described in Note 13.

OSFI prescribes liquidity adequacy measures and minimum liquidity requirements. The liquidity adequacy rules are based on the international liquidity framework, including Basel III, which have been adopted by financial institutions around the globe, including Canadian banks.

The primary measures for liquidity adequacy at Innovation include the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF"). The LCR is calculated as the stock of high-quality liquid assets ("HQLA") divided by net cash outflows over a 30-day stress scenario. Innovation seeks to maintain this ratio greater than or equal to 120%. HQLA are assets that can be easily converted into cash at little or no loss of value. OSFI defines the LCR by grouping HQLA into either Level 1 or Level 2 categories and applying various weightings to reflect their value in stressed conditions. Level 1 assets are the highest quality assets whereas Level 2 assets are considered less liquid. Net cash outflows are defined as total expected cash outflows minus total expected inflows; various categories of outflows are applied run-off rates while inflows are multiplied by the rate they are expected to flow in under a stressed scenario.

Regulatory standards required Innovation to maintain a minimum liquidity coverage ratio of 100% in 2024. During the year Innovation maintained internal liquidity adequacy targets that exceed regulatory requirements.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk (continued)

NCCF measures detailed cash flows to determine funding mismatches between assets and liabilities over various time bands under stressed conditions. OSFI requires institutions to meet a supervisory communicated, institution specific survival horizon.

The following are the contractual maturities of Innovation's non-derivative financial liabilities:

	2024			
	< 1 year	1-2 years	2 3 + Years	Total
<i>Non-derivative financial liabilities</i>				
Deposits	\$ 2,833,012	\$ 523,221	\$ 184,303	\$ 3,679,187
Securitized borrowings	22,516	-	85,915	125,204
Accounts payable and accrued liabilities	16,690	-	-	16,690
Short-term notes payable	110,000	-	-	110,000
Membership shares and distributions	-	-	31,154	31,154
Total	\$ 2,982,217	\$ 523,221	\$ 301,372	\$ 3,962,235

	2023			
	< 1 year	1-2 years	2 3 + Years	Total
<i>Non-derivative financial liabilities</i>				
Deposits	\$ 2,749,266	\$ 341,216	\$ 173,154	\$ 3,363,927
Securitized borrowings	24,376	31,204	16,364	71,966
Accounts payable and accrued liabilities	35,532	-	-	35,532
Membership shares and distributions	-	-	29,482	29,482
Total	\$ 2,809,174	\$ 372,420	\$ 219,000	\$ 3,500,908

Market Risk

Market risk is the risk of loss in value of financial instruments or the cash flows arising from them, which may arise from changes in market factors such as interest rates, foreign currency risk, equity prices and credit spreads. Innovation's exposure changes depending on market conditions. The primary market risk that Innovation is exposed to is interest rate risk.

Innovation uses different risk management processes to manage market risk.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Market risk is managed in accordance with policies and procedures established by the Board of Directors.

Senior management is responsible for managing market risk in accordance with Innovation's internal policy. Senior management reports monthly to the Board Innovation's compliance with the policy and regulatory requirements and dollar volume and yields of all investments by investment category. All exceptions noted are to be reported to the Board.

The Board is responsible for monitoring significant variances and to ensure that corrective measures are implemented.

Interest Rate Risk

Interest rate risk arises from fluctuations in interest rates, which may impact assets and liabilities differently due to maturity mismatches, basis risk and embedded options. Innovation prudently measures and manages risks that arise from changes in interest rates, specifically the current or prospective risk to capital and earnings. Interest rate risk is measured using Economic Value of Equity ("EVE") and Earnings at Risk ("EaR").

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk. Re-pricing dates are based on the earlier of maturity or the contractual re-pricing date and effective interest rates, where applicable, representing the weighted average effective yield. The totals are based on static data and do not reflect future expectations. Derivative instruments, including interest rate swaps and index-linked deposit options, are not included above. Refer to Note 8 for maturity dates of derivative instruments.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

	Variable Rate	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	2024
ASSETS								
Cash	\$ -	\$ 170,568	\$ -	\$ -	\$ -	\$ -	\$ 49,610	\$ 220,178
Effective interest rate	-	3.87%	-	-	-	-	-	3.87%
Investments	-	-	17,992	78,925	133,372	-	2,777	\$ 233,066
Effective interest rate	-	-	3.53%	3.54%	4.49%	-	-	4.07%
Loans	934,997	-	275,746	768,389	1,661,275	78,126	14,872	\$ 3,733,405
Effective interest rate	7.38%	7.38%	6.57%	5.81%	5.30%	6.07%	0.00%	6.19%
Accounts receivable	-	-	-	-	-	-	6,687	\$ 6,687
	\$ 934,997	\$ 170,568	\$ 293,738	\$ 847,314	\$ 1,794,647	\$ 78,126	\$ 73,946	\$ 4,193,336
LIABILITIES								
Deposits	\$ -	\$ 1,426,651	\$ 260,364	\$ 835,021	\$ 791,500	\$ 8,641	\$ 278,998	\$ 3,601,175
Effective interest rate	-	1.01%	4.17%	3.71%	3.66%	-	-	2.57%
Securitized borrowings	-	-	6,123	18,933	85,154	-	-	\$ 110,210
Effective interest rate	-	-	2.10%	2.20%	3.77%	-	-	3.41%
Accounts payable and accrued liabilities	-	-	-	-	-	-	16,690	\$ 16,690
Short-term deposit notes	-	-	109,518	-	-	-	-	\$ 109,518
Effective interest rate	-	-	3.72%	-	-	-	-	3.72%
Membership shares and distributions	-	-	-	-	-	-	31,154	\$ 31,154
	\$ -	\$ 1,426,651	\$ 376,005	\$ 853,954	\$ 876,654	\$ 8,641	\$ 326,842	\$ 3,868,747
2024 Statement of Financial Position gap	\$ 934,997	\$ (1,256,083)	\$ (82,267)	\$ (6,640)	\$ 917,993	\$ 69,485	\$ (252,896)	\$ 324,589

	Variable Rate	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	2023
ASSETS								
Cash	\$ -	\$ 223,934	\$ 75,000	\$ -	\$ -	\$ -	\$ 57,845	\$ 356,779
Effective interest rate	-	5.49%	5.37%	-	-	-	-	5.46%
Investments	-	10,612	23,858	29,145	116,039	-	1,742	\$ 181,396
Effective interest rate	-	0.00%	4.71%	5.13%	4.05%	-	-	4.07%
Loans	872,735	4,941	218,438	610,928	1,423,420	55,023	8,354	\$ 3,193,839
Effective interest rate	9.23%	9.21%	5.61%	5.71%	4.81%	5.52%	-	6.27%
Accounts receivable	-	-	-	-	-	-	6,231	\$ 6,231
	\$ 872,735	\$ 239,487	\$ 317,296	\$ 640,073	\$ 1,539,459	\$ 55,023	\$ 74,172	\$ 3,738,245
LIABILITIES								
Deposits	\$ -	\$ 1,480,072	\$ 212,770	\$ 791,959	\$ 558,663	\$ 7,412	\$ 254,153	\$ 3,305,029
Effective interest rate	-	1.95%	3.68%	4.27%	3.22%	-	-	2.90%
Securitized borrowings	-	-	3,489	28,959	36,568	-	-	\$ 69,016
Effective interest rate	-	-	2.11%	1.93%	2.30%	-	-	2.14%
Accounts payable and accrued liabilities	-	-	-	-	-	-	35,532	\$ 35,532
Membership shares and distributions	-	-	-	-	-	-	29,482	\$ 29,482
	\$ -	\$ 1,480,072	\$ 216,259	\$ 820,918	\$ 595,231	\$ 7,412	\$ 319,167	\$ 3,439,059
2023 Statement of Financial Position gap	\$ 872,735	\$ (1,240,585)	\$ 101,037	\$ (180,845)	\$ 944,228	\$ 47,611	\$ (244,995)	\$ 299,186

The above tables do not identify management's expectations of future events where repricing and maturity dates differ from contractual dates. The above table excludes derivative instruments, including interest rate swaps and index-linked deposit options. Refer to Note 8 for maturity dates of derivative instruments.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

EVE is a long-term measure that calculates the change in present value of all asset cash flows minus the present value of all liability cash flows, plus or minus the present value of off-balance sheet instruments. Shock scenarios are compared to the flat environment to reflect rate sensitivities across the maturity buckets and determine the potential impact to capital. A significant decline in the equity value would be an indicator of balance sheet structure problems.

EaR identifies how net interest income responds to unique changes in rates. EaR is calculated using a dynamic (forward-looking) balance sheet. As a result, the impact on profitability is contingent on growth, new volume mix assumptions, balance sheet composition, maturity matching, basis risk and interest rates.

Metric		2024		2023
EaR impact due to an immediate 1% change in interest rates	\$	2,792	\$	5,490
EVE impact due to an immediate 1% change in interest rates	\$	2,858	\$	5,542

Innovation utilizes proactive strategies to manage interest rate risk, including derivatives, product offerings, pricing promotions, syndications, securitizations, and duration adjustments. Permitted derivative products are outlined in the Investment Policy.

Innovation may engage with derivative counterparties if proper due diligence and reviews in accordance with OSFI's B10 guidance are conducted and approved by the voting members of the Strategic Financial Management Committee and regulator, as required.

An International Swaps and Derivatives Association Agreement ("ISDA") and Credit Support Annex ("CSA") must also be in place prior to transacting with counterparties.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Innovation's exposure to foreign currency risk arises due to members' U.S. dollar deposits. In seeking to manage the risks from foreign exchange rate fluctuations, Innovation enters into U.S. dollar money market investments which protect against any adverse movements in the exchange rate.

21. COMMITMENTS

Innovation has entered into various commitments that include the following:

- Invest up to \$4,263 (2023 - \$4,630) of additional capital in certain venture capital funds.
- Invest \$5,235 (2023 - \$5,714) in community development initiatives.

In addition, there are other commitments related to strategic initiatives and information technology contracts. These other commitments are as follows:

2025	\$	13,286
2026		15,526
2027		16,333
2028		17,179
2029		18,074
Total Other Commitments	\$	80,398

22. INCOME TAXES

Income tax expense is comprised of:

	2024	2023
Current income tax expense		
Current period	\$ 9,480	\$ 5,124
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	(787)	2,073
Provision for income taxes	\$ 8,693	\$ 7,197

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

22. INCOME TAXES (continued)

The income tax expense for the year can be reconciled to the accounting net income as follows:

	2024	2023
Income before provision for income taxes	\$ 33,367	\$ 27,425
Combined federal and provincial tax rate	27%	27%
Income tax expense at statutory rate	\$ 9,009	\$ 7,405
Adjusted for effect of:		
Non-deductible expenses	53	33
Income not taxable in determining profit	(358)	(258)
Prior year true-up adjustments	(22)	8
Other	11	9
	\$ 8,693	\$ 7,197
Effective tax rate	26.05%	26.24%

Deferred income tax assets and liabilities recognized are attributable to the following:

	2024	2023
Deferred income tax assets are comprised of the following:		
Loans and leases	\$ 3,343	\$ 2,450
Property and equipment	9,225	9,610
	\$ 12,568	\$ 12,060
Deferred income tax liabilities are comprised of the following:		
Other	\$ 525	\$ 480
Prepaid expenses	2,994	3,113
Property and equipment	-	206
	\$ 3,519	\$ 3,799

23. MEMBERSHIP

The following membership data is as at December 31, 2024, and is annexed in accordance with subsection 308 (3) of the Bank Act. As at December 31, 2024, Innovation Federal Credit Union is organized and carrying on business on a cooperative basis in accordance with subsection 12(1) of the Bank Act.

INNOVATION FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian \$)
For the year ended December 31, 2024

23. MEMBERSHIP (continued)

	2024	2023
Number of Members (not in thousands)	67,562	62,297
Percentage of members who are natural persons	90.60%	89.90%
Percentage of financial services transacted with members on the basis of gross revenues	61.12%	58.95%

24. COMPARATIVE FIGURES

Innovation reclassified loan servicing fees in the 2023 comparative figures on the statement of comprehensive income to conform to the current year's presentation. This reclassification resulted in a decrease in loan interest income and a decrease in general business expense. The table below shows the changes:

	2023 (Prior to reclassification)	Adjustment	2023 (New comparative)
Interest income			
Loans	\$ 166,067	\$ (2,837)	\$ 163,230
Operating expenses			
General business	\$ 36,583	\$ (2,837)	\$ 33,746