

**INNOVATION FEDERAL CREDIT UNION
BY-LAW NO. 2**

SHARE CAPITAL

1. MEANING OF TERMS

1.1 Defined Terms

As used in these By-laws the following terms have the definitions set forth below:

“**Act**” means *The Bank Act* (Canada) and any successor legislation thereto, as enacted and as amended, from time to time, by the Parliament of Canada, including regulations made thereunder;

“**Annual Meeting**” means the annual meeting of members of Innovation Federal Credit Union;

“**Board of Directors**” means the board of directors of Innovation Federal Credit Union;

“**Credit Union**” means Innovation Federal Credit Union; and

“**Intermediate Entitlement**” means the greater of zero and the value of the Credit Union’s gross common equity tier 1 capital (or equivalent thereof under the regulatory capital rules applicable to the Credit Union) - as reflected in the Credit Union’s consolidated balance sheet most recently filed with the Office of the Superintendent of Financial Institutions before the Credit Union’s liquidation, dissolution or winding-up - and multiplied by a factor of 0.9999. The Intermediate Entitlement is shared rateably between the holders of membership shares and Class C Equity Shares in proportion to:

(A) in the case where the only Class C Equity Shares issued and outstanding were issued as part of a non-viability contingent capital conversion, the aggregate number of all outstanding membership shares and the aggregate number of all outstanding Class C Equity Shares, respectively; or

(B) in the case where some or all of the Class C Equity Shares issued and outstanding were issued prior to a non-viability contingent capital conversion, the aggregate value of the issue price of all outstanding membership shares and the aggregate value of the issue price of all outstanding Class C Equity Shares, respectively. For greater certainty, the aggregate issue price of any Class C Equity Shares issued in connection with a non-viability contingent capital conversion will be (i) in the case of a conversion of subordinated debt, the aggregate nominal issue price of the subordinated debt instrument plus accrued but unpaid interest thereon (if any) at the time of conversion; and (ii) in the case of a conversion of another class of shares, the aggregate nominal issue price of those shares plus declared but unpaid dividends thereon (if any) at the time of conversion

1.2 Other Terms

Other terms, whenever used in these Bylaws, shall have their respective meanings ascribed to each such term in the Act.

2. HEADINGS

- 2.1 The section headings used in these Bylaws are not substantive and are included solely for convenience of reference only.
- 2.2 These Bylaws must be read and applied in conjunction with the Act. Except where the Act states the Bylaws may otherwise provide, any applicable provision of the Act that is inconsistent with these Bylaws shall prevail.

3. AUTHORIZED CAPITAL

- 3.1 The authorized capital of the ~~the~~ Credit Union shall consist of:

- (a) an unlimited number of membership shares without par value (the “**membership shares**”), to be issued at a price equal to the aggregate book value of the total number of issued and outstanding membership shares as of the date of issuance, divided by the total number of issued and outstanding membership shares as of the date of issuance;
- (b) an unlimited number of non-voting, Class A preferred shares without par value (the “**Class A Preferred Member Shares**”); ~~and~~
- (c) an unlimited number of non-voting, Class B preferred shares without par value (the “**Class B Preferred Shares**”); and
- ~~(e)(d)~~ an unlimited number of non-voting, Class C equity shares without par value (the “**Class C Equity Shares**”).

4. MEMBERSHIP SHARES

- 4.1 The rights of the holders of the membership shares of the Credit Union shall be equal in all respects and shall be as follows:
- (a) the right to receive dividends declared by the Board of Directors on those shares; and
 - (b) in the event of the liquidation, dissolution or winding-up of the Credit Union, voluntary or involuntary, or any other distribution of assets of the Credit Union among its members and shareholders for the purpose of winding-up its affairs, the holders of membership shares - subject to the prior rights of the holders of the Class A Preferred Member Shares and the Class B Preferred Shares with respect to a return of capital and dividends on the occurrence of such event - shall be entitled to receive the Intermediate Entitlement (rateably with the entitlement thereto of the

holders of Class C Equity Shares) and ~~the right to receive~~ the remaining property and assets of the Credit Union ~~on dissolution~~.

- 4.2 Unless permitted by a resolution of the Board of Directors, membership shares are not transferable.

5. MEMBERSHIP

5.1 Qualification

Subject to the Act, any person may become a member of the Credit Union if the person has applied for membership in accordance with these Bylaws, subscribed and paid for in full the minimum number of membership shares specified in Section 5.2, and the application was approved by the Board of Directors or an employee authorized by the Board of Directors.

5.2 Minimum Membership Shares

All persons wishing to become a member shall hold a minimum of one (1) membership share.

5.3 Procedure for Acceptance of Members

Every application for membership shall be in writing or prescribed electronic means and be accompanied by payment in full of the number of membership shares to be purchased by a member on the date of application for membership. The Board of Directors may, in their sole discretion, delegate the authority to approve or reject applications for membership.

6. WITHDRAWAL FROM MEMBERSHIP

- 6.1 A member may withdraw from membership in the Credit Union by giving the Credit Union such notice as may be prescribed by the Board of Directors.
- 6.2 The membership of any person may be terminated by a resolution of the Board of Directors in accordance with these Bylaws and the Act on such grounds that are not prohibited by the Act or laws against discrimination.
- 6.3 A resolution passed by the Board of Directors under Section 6.2 is not valid unless a prior written notice of at least 21 days was given to the member setting forth the date, time, and venue of the meeting of the Board of Directors called to consider the resolution and a statement that the member has the right to appear to make submissions at the meeting of the Board of Directors.
- 6.4 A person may appeal a resolution passed by the Board of Directors under Section 6.2 expelling that person from membership in the Credit Union by filing a written notice of appeal with the Board of Directors at least 90 days prior to the Annual Meeting. If such

notice of appeal is filed, the Board of Directors shall submit an ordinary resolution to members for consideration at the Annual Meeting on whether to reinstate the expelled person's membership in the Credit Union. If at least a majority of the members voting at the Annual Meeting vote to approve such resolution, the expelled person shall be reinstated as a member of the Credit Union.

7. REDEMPTION OF MEMBERSHIP SHARES

- 7.1 A person who has withdrawn from membership in the Credit Union or whose membership in the Credit Union has been terminated under these Bylaws shall have the right to request that the Credit Union, at the discretion of the Board of Directors and subject to the approval of the Superintendent, redeem all of the membership shares held by that person and shall have all such other rights as may be provided for in the Act and these Bylaws. Membership shares which are redeemed by the Credit Union shall be redeemed at their issue price, plus any dividends declared but unpaid thereon.
- 7.2 Where a member has a loan with the Credit Union, all shares and other interests shall be firstly applied to the repayment of the loan with any balance remaining to be paid to the member.
- 7.3 Any closed or terminated account will not qualify for any dividend or patronage returns declared by the Board of Directors at a subsequent date.

8. MEMBERSHIP CERTIFICATE

- 8.1 Membership share certificates need not be issued to members.

9. ALLOCATION OF SURPLUS

- 9.1 Subject to the rights of the holders of any shares ranking in priority to the membership shares, the Board of Directors may distribute any surplus earnings arising from the operations of the Credit Union by paying dividends on membership shares and patronage allocations to members. Dividends or patronage allocations declared, if any, at the discretion of the Board of Directors may be paid in cash or as an allocation of membership shares, or any combination of them. The maximum dividend payable in any year on a membership share shall not exceed 1,000 per cent of the value of its issue price and, for greater certainty, dividends on membership shares shall be non-cumulative, and shall not be paid unless a dividend is first or concurrently paid on any issued and outstanding Class C Equity Shares and the value of dividend per Class C Equity Share (as a percentage of the average issue price) is equal to or greater than the value of dividend per membership share (as a percentage of the average issue price).
- 9.2 Members shall be informed in writing or prescribed electronic means of the membership shares allocated or to be allocated pursuant to Section 9.1.

- 9.3 The [Ccredit Union](#) may allocate a portion of surplus arising from the operation of the Credit Union to non-members.
- 9.4 Any closed or terminated account will not qualify for any dividend or patronage returns declared by the Board of Directors at a subsequent date.

10. CLASS A PREFERRED MEMBER SHARE ATTRIBUTES

The Class A Preferred Member Shares shall have attached thereto the following rights, privileges, restrictions and conditions:

10.1 General Restriction

Subject to the Act, the Credit Union shall not issue any Class A Preferred Member Shares to any person that is not a member of the Credit Union. The transfer of Class A Preferred Member Shares of the Credit Union shall be restricted in that no shareholder shall be entitled to transfer any Class A Preferred Member Share to a person that is not a member of the Credit Union, and the Credit Union shall not register or otherwise recognize any transfer of Class A Preferred Member Shares in contravention of this restriction.

10.2 Directors' Right to Issue in One or More Series

The Class A Preferred Member Shares may be issued at any time or from time-to-time in one or more series. Before any shares of a series are issued, the Board of Directors shall fix the number of shares that will form such series, if any, and shall, subject to any limitations set out in these Bylaws or in the Act, determine the designation, rights, privileges, restrictions and conditions to be attached to the Class A Preferred Member Shares of such series, the whole subject to the filing with the *Office of the Superintendent of Financial Institutions* (Canada) of the particulars of such series, including the rights, privileges, restrictions and conditions determined by the Board of Directors.

10.3 Ranking of Class A Preferred Member Shares

No rights, privileges, restrictions or conditions attached to a series of Class A Preferred Member Shares confer on the series a priority in respect of dividends or return of capital over any other series of Class A Preferred Member Shares. The Class A Preferred Member Shares:

- (a) rank equally with the Class B Preferred Shares; and
- (b) are entitled to a preference over the membership shares, [the Class C Equity Shares](#) and any other shares ranking junior to the Class A Preferred Member Shares

with respect to priority in the payment of dividends and in the return of capital in the event of the liquidation, dissolution or winding-up of the Credit Union, whether voluntary or involuntary, or any other distribution of the assets of the Credit Union among its members

and shareholders for the specific purpose of winding up its affairs. After payment to the holders of the Class A Preferred Member Shares of the amount so payable to them, they shall not be entitled to share in any further distribution of the property or assets of the Credit Union.

If any cumulative dividends, whether or not declared, or declared non-cumulative dividends or amounts payable on return of capital are not paid in full in respect of any series of Class A Preferred Member Shares, then the Class A Preferred Member Shares of all series participate ratably in respect of such dividends in accordance with the sums that would be payable on such shares if all such dividends were declared and paid in full, and in respect of such return of capital in accordance with the sums that would be payable on such return of capital if all sums so payable were paid in full; provided, however, that if there are insufficient assets to satisfy in full all such claims as aforesaid, then the claims of the holders of the Class A Preferred Member Shares with respect to return of capital shall be paid and satisfied first and any assets remaining thereafter shall be applied towards the payment and satisfaction of claims in respect of dividends. The Class A Preferred Member Shares of any series may also be given such other preferences not inconsistent with the rights, privileges, restrictions and conditions attached to the Class A Preferred Member Shares as a class over the membership shares and any other shares ranking junior to the Class A Preferred Member Shares as may be determined in the case of such series of Class A Preferred Member Shares.

10.4 Voting Rights

Except as hereinafter referred to or as required by law or as specified in the rights, privileges, restrictions and conditions attached from time to time to any series of Class A Preferred Member Shares, the holders of the Class A Preferred Member Shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the members of the Credit Union.

10.5 Amendment with Approval of Holders of Class A Preferred Member Shares

The rights, privileges, restrictions and conditions attached to the Class A Preferred Member Shares as a class may be added to, changed or removed but only with the approval of the holders of the Class A Preferred Member Shares given as hereinafter specified.

10.6 Approval of Holders of Class A Preferred Member Shares

The approval of the holders of the Class A Preferred Member Shares to add to, change or remove any right, privilege, restriction or condition attaching to the Class A Preferred Member Shares as a class or in respect of any other matter requiring the consent of the holders of the Class A Preferred Member Shares may be given in such manner as may then be required by law. The formalities to be observed with respect to the giving of notice of any such meeting or any continuation of an adjourned meeting, the quorum required therefor and the conduct thereof shall be those from time to time required by the Act as in force at the time of the meeting and those, if any, prescribed by the by-laws or the

administrative resolutions of the Credit Union with respect to meetings of the Credit Union. On every poll taken at every meeting of the holders of the Class A Preferred Member Shares as a class, or at any joint meeting of the holders of two or more series of Class A Preferred Member Shares, each holder of Class A Preferred Member Shares entitled to vote thereat shall have one vote in respect of each Class A Preferred Member Share held.

11. CLASS B PREFERRED SHARE ATTRIBUTES

The Class B Preferred Shares shall have attached thereto the following rights, privileges, restrictions and conditions:

11.1 Directors' Right to Issue in One or More Series

The Class B Preferred Shares may be issued at any time or from time-to-time in one or more series. Before any shares of a series are issued, the Board of Directors shall fix the number of shares that will form such series, if any, and shall, subject to any limitations set out in these Bylaws or in the Act, determine the designation, rights, privileges, restrictions and conditions to be attached to the Class B Preferred Shares of such series, the whole subject to the filing with the *Office of the Superintendent of Financial Institutions* (Canada) of the particulars of such series, including the rights, privileges, restrictions and conditions determined by the Board of Directors.

11.2 Ranking of Class B Preferred Shares

No rights, privileges, restrictions or conditions attached to a series of Class B Preferred Shares confer on the series a priority in respect of dividends or return of capital over any other series of Class B Preferred Shares. The Class B Preferred Shares:

- (a) rank equally with the Class A Preferred Member Shares; and
- (b) are entitled to a preference over the membership shares, [the Class C Equity Shares](#) and any other shares ranking junior to the Class B Preferred Shares

with respect to priority in the payment of dividends and in the return of capital in the event of the liquidation, dissolution or winding-up of the Credit Union, whether voluntary or involuntary, or any other distribution of the assets of the Credit Union among its members and shareholders for the specific purpose of winding up its affairs. After payment to the holders of the Class B Preferred Shares of the amount so payable to them, they shall not be entitled to share in any further distribution of the property or assets of the Credit Union.

If any cumulative dividends, whether or not declared, or declared non-cumulative dividends or amounts payable on return of capital are not paid in full in respect of any series of Class B Preferred Shares, then the Class B Preferred Shares of all series participate ratably in respect of such dividends in accordance with the sums that would be payable on such shares if all such dividends were declared and paid in full, and in respect of such return of capital in accordance with the sums that would be payable on such return of capital

if all sums so payable were paid in full; provided, however, that if there are insufficient assets to satisfy in full all such claims as aforesaid, then the claims of the holders of the Class B Preferred Shares with respect to return of capital shall be paid and satisfied first and any assets remaining thereafter shall be applied towards the payment and satisfaction of claims in respect of dividends. The Class B Preferred Shares of any series may also be given such other preferences not inconsistent with the rights, privileges, restrictions and conditions attached to the Class B Preferred Shares as a class over the membership shares and any other shares ranking junior to the Class B Preferred Shares as may be determined in the case of such series of Class B Preferred Shares.

11.3 Voting Rights

Except as hereinafter referred to or as required by law or as specified in the rights, privileges, restrictions and conditions attached from time to time to any series of Class B Preferred Shares, the holders of the Class B Preferred Shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the members of the Credit Union.

11.4 Amendment with Approval of Holders of Class B Preferred Shares

The rights, privileges, restrictions and conditions attached to the Class B Preferred Shares as a class may be added to, changed or removed but only with the approval of the holders of the Class B Preferred Shares given as hereinafter specified.

11.5 Approval of Holders of Class B Preferred Shares

The approval of the holders of the Class B Preferred Shares to add to, change or remove any right, privilege, restriction or condition attaching to the Class B Preferred Shares as a class or in respect of any other matter requiring the consent of the holders of the Class B Preferred Shares may be given in such manner as may then be required by law. The formalities to be observed with respect to the giving of notice of any such meeting or any continuation of an adjourned meeting, the quorum required therefor and the conduct thereof shall be those from time to time required by the Act as in force at the time of the meeting and those, if any, prescribed by the by-laws or the administrative resolutions of the Credit Union with respect to meetings of the Credit Union. On every poll taken at every meeting of the holders of the Class B Preferred Shares as a class, or at any joint meeting of the holders of two or more series of Class B Preferred Shares, each holder of Class B Preferred Shares entitled to vote thereat shall have one vote in respect of each Class B Preferred Share held.

12. CLASS C EQUITY SHARE ATTRIBUTES

The Class C Equity Shares shall have attached thereto the following rights, privileges, restrictions and conditions:

12.1 Issue Price

Class C Equity Shares shall be issued at a price to be determined by resolution of the board.

12.2 Dividends

Holders of Class C Equity Shares shall be entitled to receive non-cumulative dividends declared thereon in the sole discretion of the board.

12.3 Ranking

In the event of the liquidation, dissolution or winding-up of the Credit Union, voluntary or involuntary, or any other distribution of assets of the Credit Union among its members and shareholders for the purpose of winding-up its affairs, the holders of Class C Equity Shares — subject to the prior rights of the holders of the Class A Preferred Member Shares and the Class B Preferred Shares with respect to a return of capital and dividends on the occurrence of such event — shall be entitled to receive the Intermediate Entitlement (rateably with the entitlement thereto of the holders of membership shares), and after payment to the holders of the Class C Equity Shares of the amount so payable to them, they shall not be entitled to share in any further distribution of the property or assets of the Credit Union.

12.4 Voting Rights

Except as hereinafter referred to or as required by law, the holders of the Class C Equity Shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the members of the Credit Union.

12.5 Amendment with Approval of Holders of Class C Equity Shares

The rights, privileges, restrictions and conditions attached to the Class C Equity Shares as a class may be added to, changed or removed but only with the approval of the holders of the Class C Equity Shares given as hereinafter specified.

12.6 Approval of Holders of Class C Equity Shares

The approval of the holders of the Class C Equity Shares to add to, change or remove any right, privilege, restriction or condition attaching to the Class C Equity Shares as a class or in respect of any other matter requiring the consent of the holders of the Class C Equity Shares may be given in such manner as may then be required by law. The formalities to be observed with respect to the giving of notice of any such meeting or any continuation of an adjourned meeting, the quorum required therefor and the conduct thereof shall be those from time to time required by the Act as in force at the time of the meeting and those, if any, prescribed by the Bylaws or the administrative resolutions of the Credit Union with respect to meetings of the Credit Union. On every poll taken at every meeting of the holders of the Class C Equity Shares as a class, each holder of Class C Equity Shares entitled to vote shall have one vote in respect of each Class C Equity Share held.

Proposed By-law Changes

The Board and management of Innovation consider and review various options to support Innovation's growth, to meet the financial and lending needs of our members, and to make investments in our products, services and capabilities so that Innovation can better serve you. One such option is to issue instruments to raise additional capital (in the form of shares or debt). Innovation is proposing to update its capital structure through the creation of Class C Shares, which will provide additional options to raise capital when needed and the ability to develop instruments that are attractive to potential investors.

With the proposed changes to the By-laws, Innovation would also be able to create and issue instruments that receive desired capital treatment under OSFI's Capital Adequacy Requirements Guideline (in particular, instruments qualifying as additional Tier 1 capital or Tier 2 capital).

By-law Change FAQs

What is capital?

Capital refers to the net worth of an institution, representing the difference between assets and liabilities. It acts as a cushion or safety net to absorb potential losses from bad loans, investments or other unexpected events.

Capital is made up of profits that have been earned and kept, money invested by shareholders as well as other long-term financing, such as debt instruments issued to investors. Innovation's current capital is made up primarily of retained profits and membership shares.

Why is capital important?

It supports both existing and future business and provides a safety net for a variety of corporate risks. It is a critical component of financial strength and stability that instills confidence in the organization. It promotes responsible governance. Capital is regulated by the Office of the Superintendent of Financial Institutions (OSFI).

Who are Innovation's current shareholders?

Currently, Innovation only has membership shares, which cost \$5 each.

Why does Innovation need a By-law change?

Innovation strives to be adequately capitalized at all times and to maintain a capital buffer to support future growth.

By-Law No. 2 must be revised to include a new share class if Innovation decides to issue capital to investors outside of membership shares that would qualify for certain regulatory capital treatment. Issuing capital means raising funds by selling new capital to investors.

Does Innovation plan to issue capital?

Innovation has a strong capital base, with all capital ratios exceeding regulatory guidelines and internal risk appetite minimum targets. Augmenting the current capital structure with a capital market issuance may be considered in the future to diversify the existing capital base as well as support existing and future growth initiatives. Any new issuance would be supported by a business case and Board of Directors (Board) approved Resolution.

Why does Innovation need Class C Shares?

By-law No. 2 is being amended to add an unlimited number of non-voting Class C Equity Shares, which could be used to satisfy OSFI requirements that certain instruments must convert into Class C Equity Shares (in order for those other instruments to qualify as regulatory capital) in the highly unlikely event that Innovation becomes non-viable. This is referred to as non-viability contingent capital (NVCC).

The NVCC requirements aim to ensure that investors in non-membership shares bear losses before taxpayers where the government determines it is in the public interest to rescue a non-viable institution. This is an unlikely scenario as Innovation maintains healthy capital levels and meets applicable regulatory capital requirements.

How is the membership impacted?

Membership shares are the only voting share class. They retain voting rights and governance control. The Class C Equity Shares will rank junior (lower rank) to the Class A Preferred Member Shares and Class B Preferred Shares (currently none have been issued of either class) and rank equally with the membership shares in terms of priority of

payout in the event of a liquidation, dissolution or winding up of Innovation.

Dividends on the Class C Shares can only be declared at the sole discretion of the Board and there is no guaranteed dividend rate on these shares. If the Class C Shares are issued and a dividend is declared on the membership shares, a dividend must also be declared on the Class C Shares that is at least equal to the dividend declared on the membership shares.

Except as may be required by law, the Class C Equity Shares will not have the right to attend or vote at any meeting of Innovation’s members. Non-voting shares generally have no rights to vote; however, under the *Bank Act*, non-voting shares would have the ability to vote separately as a class on certain fundamental transactions, such as amalgamation, a conversion to a bank with common shares, or the sale of all of Innovation’s assets.

In the unlikely event that a separate class vote is required, holders of non-membership shares would receive one vote per share (as opposed to the typical one vote per member). However, it is important to note that any investor, whether it be a person, group of connected persons, or company, is not permitted to hold more than 10% of any share class unless granted prior approval from the Minister of Finance.

What is the proposed By-law change?

By-law No. 2 is being amended to add an unlimited number of non-voting Class C Equity Shares. If approved, there would be four share classes versus the existing three:

Description	Voting Rights	Status
Membership Shares	Yes	Existing
Class A Non-Voting Preferred Member Share	No	Existing
Class B Non-Voting Non-Member Preferred Share	No	Existing
Class C Non-Voting Non-Member Equity Share	No	New

Who elects the Board of Directors?

As a retail financial cooperative, only those who hold a membership share have the ability to elect the Board of Directors. One member, one vote, providing an equal say in the governance of Innovation. The Board of Directors has ultimate accountability for Innovation’s governance and risks, based on governing legislation and by-laws.

If additional capital is to be issued in the future, what approvals are required?

In the event additional capital is required in the future, Board policy requires management to prepare and present a detailed business plan for approval by the Board. The Board is required to formally approve any new capital issuance. Regulatory bodies would also be consulted throughout the process.

How will Innovation ensure cooperative principles are maintained if new capital is required in the future?

Innovation firmly believes in and is driven by cooperative principles. One member, one vote. Members retain ultimate governance control and have the ability to vote for the Board. The Board provides oversight of governance and management. From a cooperative ownership lens, additional capital issuances of non-voting shares, which encompasses Class A Preferred Member Shares, Class B Preferred Shares or Class C Equity Shares, is beneficial as it strengthens the capital position of the credit union, while members retain the voting rights and governance control.