Meridian Annual Report 2019

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Our Story

As the largest credit union in Ontario, and the second largest one in Canada, Meridian delivers financial products and services to over 375,000 Members through a network of 92 branches, 14 Business Banking Centres, a Member Contact Centre and online services.

We are a 100% Member-owned financial institution that puts the well-being of our Members first. Our employees take the time to understand the financial goals and aspirations of our Members. This allows us to offer solutions that meet their needs proactively.

Our focus is on strategies that are in the best long-term interest of our Members, not short-term corporate earnings objectives. In doing so, we deepen relationships with existing Members and foster lasting relationships with new Members. By providing access to over 90 branches, 14 Business Centres, 3,700 ABMs and 24/7 online and mobile banking, we make it easy and convenient for our Members to do their banking with us.

We also grow lives through a commitment to invest money, time and talent to help build prosperous, resilient communities. Our Commitment to Communities is based on the cooperative values and beliefs that our Members and employees share.

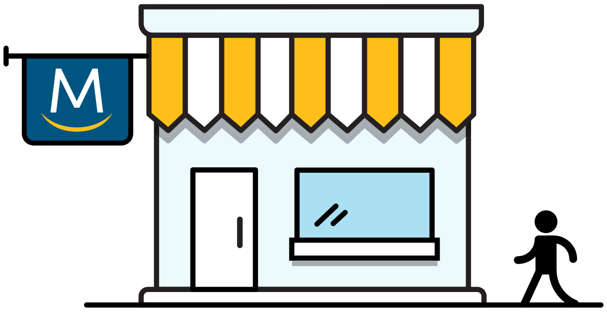
Our Greater Purpose is to help Canadians achieve a better life.

Meridian OneCap

Meridian's wholly owned subsidiary, Meridian OneCap Credit Corp., is a leading supplier of customized commercial equipment leasing solutions that has built a solid reputation for the superior customer service of its team of knowledgeable industry leaders.

motusbank

Meridian launched its subsidiary and Canada's newest digital bank, motusbank, on April 2, 2019 after receiving the Order to Commence from the Office of the Superintendent of Financial Institutions.



Message from the Board Chair

2019 will be a year to remember for many reasons. Without doubt, we are living in uncertain times. Yet, against a backdrop of global unease, Meridian demonstrated both resilience and stability as we brought the "Meridian experience" to more Canadians. We welcomed more than 27,000 new Members in 2019.

Good and effective governance is essential to ensuring Meridian is well positioned to succeed. As a Board, we work diligently to help grow the organization's resiliency to address challenges in the marketplace and be well equipped for future opportunities to serve our Members and their communities.

In 2019, the Board continued to improve its strong governance framework, particularly by allocating time to discuss strategy and strategic risks at every quarterly Board meeting. The Board is supportive and confident in Management's plans to continue advancing Meridian's Blueprint for Growth strategy and to make it simpler for more Canadians to achieve a better life.

The Board further improved its nomination process, which has resulted in a much higher number of applicants interested in joining the Meridian Board. We are pleased to have attracted this broader pool of diverse candidates to complement our Board. We enthusiastically welcomed Andrew Lo and Gail Harding as new members to the Board, who each bring broader, diverse perspectives and insights to our already robust board discussions.

Your Meridian Board members are dedicated to continuous development and spend considerable time attending internal education sessions as well as external courses and conferences. The results of our last Board evaluation indicate that our Director development program increases the Directors' contributions and allows them to serve Members more effectively.

As a Member-based organization, Meridian understands that excellence in governance and trust are two key fundamentals that go hand-in-hand. This belief underpins the Board's dedication to ensuring the best and highest standards of Corporate Governance.

Meridian was honoured to be a 2019 recipient of two Governance Professionals of Canada Excellence in Governance Awards. For the second consecutive year, Meridian received the Award of Excellence for Best Approach to Achieving Effective Board and Committee Operations and the Award of Excellence for Best Practices in Enterprise Risk Management.

Every day, our management team and employees bring tremendous passion, tireless commitment and deep purpose to their work for the benefit of our Members. The Board continues to be impressed by the exceptional employee engagement results Meridian receives. For this, we must also acknowledge and thank Bill Maurin for his skillful navigation at the helm of this trusted organization.

Message from the Board Chair (continued)

We receive many presentations during the year from Management about the business. Perhaps one of the Board's favourites is the annual presentation from our Member Relations Officer – for the passion she exudes for her work and the real-life stories we hear about how Meridian makes a difference in the lives of our Members.

On behalf of the Board, I thank our Members for choosing us. It is an honour and privilege to work on your behalf with a team that believes in respect for others, fairness, collaboration and a profound desire to make things better for our Members.

Karen Farbridge
Chair, Board of Directors
March 11, 2020

Message from the President & CEO

A key measure that any organization uses to measure its relevance is growth. At Meridian, we view growth as a vote of confidence from our Members. It is also a strong signal to us that the advice, the services and the products that we offer you are hitting the mark.

I am proud to report that Meridian is thriving on this front. Since 2016, we have increased our assets by over $8.0B, and as we head into 2020, we stand at $23.9B in assets under management. Growth is also a means for us to bring what we call the "Meridian difference" to more Members. We are pleased with our success on that front as well. We have grown our net Membership by 81,000 in the last three years, bringing our total Members served to 378,402. To put that in perspective, while Meridian comprises roughly 8% of the Canadian Anglophone credit union system assets, it has generated 30-35% of the net growth in membership within that system, effectively punching four times above its weight. We have achieved this together.

During the last four years, we have launched Meridian OneCap and motusbank, and have grown our physical channels to include 92 branches and 14 Business Banking Centres. In 2019, we introduced two new design concept branches – Bramalea Civic Centre and Meridian Hall Hub – as we look for new ways to better accommodate the consumers' needs in today's world. At the same time, we have continued to expand the functionality of our digital channel and contact centre.

We also added to a growing list of industry first product and service innovations. These include the "Raise the Rate," a GIC that empowers investors to get the most for their money by allowing them to price match for better interest rates at their discretion, and Price Drop, a free digital banking service, that puts dollars back in the pockets of our Members by automating the time-consuming process of finding the best price for retail purchases.

These results and achievements reinforce my personal belief that two fundamental ingredients are essential for our continued and future success: differentiation and business transformation.

Staying the course demands having a clear sense of purpose. That we have. Every day, we come to work fueled with a passion to help Canadians achieve a better life. And we are delighted that through our Voice of Members program, 74% of you are telling us that we are doing a great job at that.

Message from the President & CEO (continued)

In 2020, we will continue to hone our purpose by highlighting our ultimate goal, which is to improve the financial wellness and well-being of our Members. We will work on solutions that help our Members manage existing issues, like housing affordability, which impact the quality of life for many Canadians.

Growth as we have been experiencing does not happen without our talented, creative and engaged Meridian employees. They are focused on delivering the finest and most meaningful experiences to you, our Members. What motivates them is the opportunity to make a positive difference in the lives of our Members.

Some of the challenges we've experienced in 2019 will remain in our path in 2020 – whether it's a low interest rate environment, shrinking margins that make it harder to generate profitable growth, increased competition from not only the Big 5 but also new market players, and a dynamic and changing financial services/leasing marketplace. The more recent risk of a global pandemic, and the economic impact that it will have, is a further new, and substantial, headwind.

We deal with these changes as we have all others: through teamwork and a relentless focus on Member service. Meridian is an exceptionally resilient and responsive organization. It proved that during the financial crisis, it proved that last year, and it will prove it again in 2020 and beyond as we embrace these challenges. I have every confidence that continued focus on executing our strategy will drive long-term value for our Members and the communities we serve.

On behalf of Meridian's Leadership Team, I want to thank all of the people, from the frontlines to the back offices, who make a difference to our Members.

I also want to thank you, our Members, for choosing us. We believe it is a privilege to serve you and we will continue to work hard to earn that privilege every day.

Bill Maurin
President & CEO
March 11, 2020

Board & Management Team

Executive Leadership Team

Left to right: **Gary Genik** SVP, Chief Operating Officer, **Sunny Sodhi** SVP, Chief Strategy and Corporate Affairs Officer, **Leo Gautreau** SVP, Chief Risk Officer, **Hugh Swandel** SVP Meridian OneCap Credit Corporation, **Tara Daniel** SVP, Chief Financial Officer, **David Moore** Chief Marketing Officer, SVP Retail Banking, **Bill Maurin** President, Chief Executive Officer, **David Baldarelli** Chief Digital Officer, Meridian & Chief Operating Officer, motusbank, **Wade Stayzer** Chief People & Culture Officer & SVP Business Banking

Board of Directors

Back row (left to right): **Mike Valente, Peter Patchet, Jeff Chesebrough, Ken Bolton, Andrew Lo, Larry Doran, Bruce West**
Front row (left to right): **Gail Harding, Tamara Paton** Vice Chair, **Karen Farbridge** Chair, **Carol Hunter, Colleen Sidford**

Corporate Governance Report

Approach to Governance at Meridian

The Meridian's Board of Directors is committed to the highest standards of Corporate Governance in order to demonstrate our stewardship to Members, employees and the communities we serve. We believe this is essential for continued success and enduring trust from our Members.

Meridian operates on a principle-based governance philosophy with key principles that provide the foundation for our governance policies and practices, such as:

- Fulfilling our legal and fiduciary obligations and ensuring it is adhering to statutory and regulatory requirements at all times;
- Acting in the best interests of Meridian and the totality of our Membership;
- Continually educating the Membership on the role of the Board and other key governance issues, including efforts to ensure that Members can effectively exercise their rights and obligations in respect of the director election process;
- Ensuring Meridian has the means, capability and willingness to put into practice effective measures to direct ourselves prudently;
- Ensuring Meridian has a clear strategic direction;
- Ensuring effective stewardship of business operations and risk management, particularly through an effective enterprise-wide risk management framework;
- Reflecting Meridian's commitment to integrity, open communication, teamwork and continuous improvement; and
- Continually assessing our effectiveness in fulfilling these responsibilities.

Excellence in Governance Awards

Meridian is honoured to be a 2019 recipient of two Governance Professionals of Canada Excellence in Governance Awards. For the second consecutive year, Meridian received the Award of Excellence for Best Approach to Achieving Effective Board and Committee Operations. Meridian also received the Award of Excellence for Best Practices in Enterprise Risk Management.

The category of Best Approach to Achieving Effective Board and Committee Operations recognizes best practices and innovations applied to ensure that Board and committee composition, processes and time are actively managed to maximize their governance and strategic oversight functions. Judges cited the way Meridian has continued to strive for excellence following our 2018 win, crafting new approaches with fresh ideas to advance the operation of our Board and committees. The category of Best Practices in Enterprise Risk Management looks at how management is managing and/or mitigating an organization's material risks, bringing them to the Board's attention and assisting the Board to better understand and evaluate their effect on the organization. The judging panel cited Meridian's promoting of a proactive risk ownership, through our Board Risk Committee and our Board oversight, in order to ensure clear and strong ownership of best practices throughout the organization.

Governing Legislation and Regulation

Meridian operates within a comprehensive regulatory framework which is underpinned by provincial legislation, the *Credit Unions and Caisses Populaires Act, 1994* (the "Act"). As of June 1, 2019, Credit Unions are regulated by the Financial Services Regulatory Authority ("FSRA"), which took over operations from our previous regulators, the Financial Services Commission of Ontario ("FSCO") and the Deposit Insurance Corporation of Ontario ("DICO"). FSRA administers regulations under the Act, as well as Rules and Guidance, which were inherited from DICO and FSCO. FSRA oversees both market conduct and prudential regulation of all credit unions, including compliance with solvency rules, and provides deposit insurance held in Ontario credit unions and caisses populaires up to prescribed limits.

As part of this responsibility, FSRA has the authority to issue by-laws to ensure that insured institutions operate in accordance with sound business and financial practices. In early 2015, DICO - FSRA's predecessor - issued Guidance Notes respecting desired practices in Corporate Governance for the Board, Management, and the Audit & Finance Committee of the Board. Meridian has conducted a gap analysis against this Guidance and is pleased to report that no gaps were identified. In order to promote responsible governance through strength and stability, Meridian meets quarterly with FSRA representatives, provides regular reporting to FSRA and participates in periodic risk-based examinations.

The last review of the Act commenced in 2014. Meridian was very actively engaged in contributing to this review, which culminated in the Minister of Finance of the day proposing changes to the Act that came into effect on January 1, 2018.

These changes included:

- Increasing the deposit insurance limit for credit union deposits from $100,000 to $250,000;
- Allowing credit unions to enter into loan syndication agreements with counterparties in other provinces so they can offer greater financing to Ontario individuals and businesses;
- Permitting credit unions to own insurance agents or registered insurance brokers as subsidiaries so that credit unions may diversify their investment opportunities; and
- Working toward levelling the playing field with banks by modifying regulations in various Ontario statutes to include credit unions as permissible financial institutions for various purposes that are currently restricted to banks.

Since then, Meridian has been an active participant in efforts to lobby for further changes to modernize the Act and, in March of 2019, the Ontario Minister of Finance committed to another comprehensive review of the Act. Meridian has been active with credit union sector partners in this review and we anticipate that an updated Act will be introduced for debate by the Ontario legislature some time in 2020.

In parallel to this modernization of the Act, FSRA is working with the credit union sector and other stakeholders on a comprehensive review of all "inherited" rules and guidance with a view to reducing "red-tape" compliance cost by 25%, while still protecting the interests of consumers and the financial integrity of the system – a goal we share. This work will continue throughout 2020 and the credit union sector is urging FSRA to set up processes to ensure there is an ongoing and regular mechanism to review and continuously improve regulations, rules and regulatory guidance.

Governing Legislation and Regulation (continued)

Our subsidiary, motusbank, is subject to regulatory oversight from the federal government's Office of Superintendent of Financial Institutions (OSFI), the Financial Consumer Agency of Canada (FCAC) and other federal regulatory bodies operating under the authority of the *Bank Act*. Meridian and motusbank are working to develop productive and collaborative relationships with these federal regulators.

Board Mandate

The Board of Directors protects the best interests of Meridian's Members and stakeholders, protects and enhances Meridian's assets, and is responsible for ensuring that Meridian has a clear strategic direction. It is further responsible for overseeing Management to ensure that Meridian's operations are managed in a sound and prudent manner, thereby assuring Members that all statutory and regulatory requirements are met. Every Director is responsible for exercising independent judgment with honesty and integrity.

In accordance with its mandate, the Board proactively contributes to the development of, and ultimately approves, the long-term vision of Meridian. Establishing this vision is an important responsibility of the Board, as it is the basis upon which the strategy of Meridian is developed and serves as our aspirational guidepost for the future.

During 2018, the Board confirmed Meridian's longer-term vision statements and value proposition framework, central to which is our goal to be known as the financial services partner that attracts and retains Members because of a differentiated Member experience.

Board Composition and Election

In accordance with our by-laws, Meridian's Board is composed of 12 Directors, all of whom are independent. The process for the election of Directors is comprehensive. Each year the Board reviews the skills, knowledge and experience of the Board to determine whether any gaps exist in order to ensure the highest quality Board composition. The Board's Nominating Committee is requested by the Board to seek to fill any identified gaps as they solicit candidates for nomination from Meridian's Members. Prospective candidates receive an extensive information package. Meridian's Director Candidate Application Package details the desired skills and attributes for Candidates and is available on our website.

Meridian has a robust nomination process for the selection of Directors, under the oversight of the Board's Nominating Committee. This year, the Nominating Committee retained an external advisor, Odgers Berndtson, to assist in evaluating each application and establishing a short list of top candidates to be interviewed by the Committee. Following the interviews, it is the Nominating Committee's responsibility to recommend to the Membership the best qualified candidates to complement Meridian's existing Board members, in accordance with the criteria established by the Committee. Candidates not recommended by the Nominating Committee may ask to be placed on the ballot for election by the Membership.

Our Members can vote electronically for the election of Directors by casting a ballot via the internet. Our Members can do so at any of our branches. Meridian's Directors are elected for three-year terms and represent a broad range of skills, experience and backgrounds.

Board Diversity

Meridian's Board has adopted a Statement of Intent which states that Meridian recognizes and embraces the benefits of diversity in Board members. The Board demonstrates a diversity of thought that aligns with the needs of the demographic composition of the communities we serve today and in the future. A truly diverse Board includes and makes good use of differences in the skills, regional and industry experience, background, race, gender, ethnicity, Indigenous status and other attributes of Directors. Meridian considers diversity of thought, experience and background equally important. The best qualified candidates will be recommended for election to the Board, taking into account broad diversity required to represent our Membership of today and tomorrow.

The current 12 Directors reflect gender diversity, as well as a spectrum of education and experience, in particular significant professional experience.

Orientation and Continuing Education

New Directors are offered a comprehensive orientation program to familiarize themselves with Meridian's governance processes and business operations. The Governance Committee conducts a debriefing of the orientation session to capture enhancement opportunities for subsequent years. The Governance Committee continues to evaluate this program to ensure the most effective orientation is provided to new Directors. Individual Committees of the Board have also established their own orientation programs to better educate new Committee members on their responsibilities.

The Board has an approved budget for ongoing Director training and development, including educational sessions for the "Board as a Whole," industry-sponsored seminars and other conferences for individual Directors that are relevant to Meridian's business. The Board has a policy in place that sets an objective for the majority of Meridian's Directors to receive an external director accreditation designation.

In 2019, the following Board and Committee education sessions were held to address topics considered to be particularly important in light of the evolving business of Meridian.

BOARD OF DIRECTORS

- Anti-Money Laundering
- *Bank Act* (Canada)
- Code of Ethics
- Real Estate Investment
- Wealth Management
- Ongoing Education on the Credit Union System

AUDIT & FINANCE COMMITTEE

- CPA Conference Learnings
- Committee Effectiveness
- Internal Controls Environment
- Materiality & Audit Quality Indicators

NOMINATING COMMITTEE

- Interview Skills

RISK COMMITTEE

- Global Risk Institute: Board Oversight & Insight Learnings
- Cyber Security
- Securitization

Enhanced Orientation and Education Process

In addition to the education sessions listed above, Meridian recently enhanced its orientation program to include attendance by each new Director at one meeting of each of the committees of which such Director is not a member, as well as to incorporate meetings with each of the Board Chair, Board Vice Chair, and CEO. The education program was also enhanced to include a new listing of educational opportunities which is updated and circulated quarterly to Directors for consideration.

Board Evaluations

The Board is committed to effective governance and continuous improvement. Annually, the Governance Committee facilitates a Board evaluation process to assess the effectiveness of the Board, each Committee of the Board, as well as the Board Chair, Vice Chair and Committee Chairs. The evaluation is conducted either through an external consultant or internally. In 2019, the Board conducted an internal evaluation. Through the results of the evaluation, the Board developed an action plan to ensure it strives towards a continual improvement in Board effectiveness, and Meridian's governance framework continues to adhere to the highest standards. The Governance Committee is responsible for monitoring the action plan and providing a progress report to the Board.

Board Committees

The Board has delegated the oversight for monitoring adherence to its policies to five Committees with the following primary accountabilities:

AUDIT & FINANCE COMMITTEE

- Review financial statements, internal controls, accounting policies and reporting procedures;
- Review Meridian's financial performance relative to established metrics;
- Ensure the integrity of financial reporting;
- Oversee Meridian's annual budget;
- Oversee internal and external audit processes, including approval of the external audit plan and year-end findings report;
- Oversee capital management processes and reporting;
- Monitor the independence of external auditors;
- Oversee compliance with applicable statutory and regulatory requirements;
- Oversee compliance with established thresholds or limits required under Board policies; and
- Oversee the reporting relationship of the Chief Audit Executive.

GOVERNANCE COMMITTEE

- Maintain a healthy governance culture and oversight of all governance policies;
- Assess the effectiveness of the Board, its Committees and Committee Chairs;
- Oversee the Board's annual strategic planning process;
- Oversee the development plans for Directors;
- Accountable for the general content, objectives and guidelines of Meridian's annual report; and
- Oversee the activities associated with the Annual General Meeting and any Special Members' Meetings.

HUMAN RESOURCES COMMITTEE

- Oversight of the HR policies and programs, to ensure that they are developed, implemented and adhered to by Management in support of Meridian's business strategies;
- Review and recommend Director compensation;
- Administer the review process of the CEO's performance and compensation;
- Oversee and review employee variable short term and long-term incentive programs;
- Oversee the employee pension plans; and
- Oversee the succession planning for the President & CEO and Executive Leadership Team.

NOMINATING COMMITTEE

- Oversee the nomination, assessment and recommendation of candidates for the Board;
- Assess the adequacy of the candidate pool to ensure it addresses any identified gaps; and
- Oversee the Director election process.

RISK COMMITTEE

- Ensure a robust process for identifying, assessing, managing and monitoring critical and emerging risks;
- Ensure that policy guidelines and systems are in place to ensure that enterprise risks are at an acceptable level;
- Provide strategic oversight to risk management policies and FSRA standards;
- Ensure a robust process for identifying and managing technology risk including technology implementation and cybersecurity;
- Oversee the establishment of a risk appetite framework; and
- Review and approve individual restricted party credit applications.

Years of Service on the Board and Committee Membership 2019

The following are the members of the Board, their respective year of election, as well as the Committees served on in 2019:

DIRECTOR	AUDIT & FINANCE	GOVERNANCE	HUMAN RESOURCES	NOMINATING	RISK
Ken Bolton (2015*)	**X Chair**				**X**
Jeff Chesebrough (2015*)		**X**	**X**		
Larry Doran (2014*)	**X**				**X Chair**
Karen Farbridge Board Chair (2015*)		**X**	**X**		
Gail Harding (2019*)	**X**	**X**			
Carol Hunter (2016*)	**X**	**X Chair**			
Andrew Lo (2019*)				**X**	**X**
Peter Patchet (2017*)	**X**		**X Chair**		
Tamara Paton Board Vice Chair (2013*)				**X**	**X**
Colleen Sidford (2012*)			**X**	**X Chair**	
Mike Valente (2017*)		**X**			**X**
Bruce West (2018*)			**X**	**X**	

***Year first elected to the board**

2019 Board Initiatives

The Board believes it is important to offer a high level of transparency in its interactions with the Members. To that end, the Board provides the Members with information on its activities. The Board is pleased to advise of the following initiatives implemented in 2019:

- Developed a best-in-class Director Candidate Application Package to attract a larger number of diverse candidates to complement the Board's skills and expertise;
- Voluntarily upgraded its background check procedures of Director candidates to be in line with more stringent federally regulated financial institutions;
- Formalized a process to fill mid-term vacancies on the Board;
- Improved Director development plans to include education focused on Committee Chair succession, as well as emphasis on innovation;
- Enhanced its Director education through a robust Director Orientation program focused on Committee oversight and Board culture, additional internal education sessions, and a cycle of Line of Business reviews;
- Introduced annual Board Chair objectives to monitor key governance areas of focus, which the Board Chair was later evaluated against through the Board's annual evaluation process;
- Revised the structure of Board meetings to dedicate more time to medium- and long-term horizon planning;
- Enhanced Management's reporting to the Board to support continuous oversight of Meridian's strategy; and
- Conducted an extensive request for proposal ("RFP") process for the external auditor.

Subsidiary Governance

Meridian has two material subsidiaries, Meridian OneCap Credit Corp. and motusbank, both of which are wholly owned. On the recommendation of the Governance Committee, the Board adopted a Subsidiary Governance Policy to ensure that appropriate levels of governance are maintained in our subsidiaries. The Policy establishes an enterprise-wide approach to the governance of Meridian's subsidiaries. This Policy provides a degree of central oversight and is responsive to evolving legal and regulatory requirements, regulator expectations and subsidiary governance practices.

Board Code of Conduct

Meridian's Board has adopted a policy that outlines the duties and obligations of Directors, and annually requires each Director to sign a Statement of Director Commitment, which confirms that they have read the Board's policies and agree to respect and abide by them at all times.

Director Compensation

Meridian's Human Resources Committee is responsible for recommending Director compensation to the Board. Meridian recognizes the importance of attracting and retaining a high quality and dedicated Board of Directors, and therefore offers a level of remuneration that makes us competitive in the marketplace.

In accordance with the Board's compensation policy, Director remuneration will be reasonable and competitive as compared with businesses of comparable size and complexity within the Canadian financial industry, including Canadian credit unions that place a similar level of accountability and oversight on Directors, and require Directors to achieve a high degree of ongoing education and technical proficiency. Every two years, the Human Resources Committee engages a third party director compensation advisor to assist it in this work. The third party review is a robust process that includes an independent market survey and compares Meridian's Director compensation against other Canadian credit unions as well as organizations of comparable size and complexity within the Canadian financial industry. The Director compensation philosophy aligns strategically with Meridian's long-term sustainability and business objectives.

All-In Fee Structure

In 2018, on the recommendation of its independent compensation consultants and the Human Resources Committee, the Meridian Board of Directors adopted an all-in fee structure, removing per-meeting fees for attendance at Board and Committee meetings. This single fee is intended to recognize a Director's skills, knowledge, experience and level of responsibility. It also recognizes the time required of Directors in fulfilling their responsibilities, including but not limited to travelling, preparing for and attending meetings, attending education sessions, assembling information, and attending and participating in community activities and other credit union functions as required.

The Board believes this all-in fee structure is better aligned with the changing role of Directors and more reflective of the continuous nature of their contributions during the year. It is also aligned with prevailing industry trends and generally easier to administer. Where extraordinary circumstances result in a significant number of additional meetings beyond the typical amount, the Board has discretion to provide additional compensation which is fair and reasonable for the additional meetings.

The following table represents the specific remuneration for Directors for 2019.

POSITION	ALL IN FEE
Board Member	$60,000
ADDITIONAL FEE FOR CHAIR ROLES	
Board Chair	$40,000
Board Vice Chair	$10,000
Audit & Finance Committee Chair	$15,000
Governance Committee Chair	$10,000
Human Resources Committee Chair	$10,000
Nominating Committee Chair	$10,000
Risk Committee Chair	$10,000

All-in Fee Structure (continued)

In keeping with good governance practice of disclosure, the table below summarizes the total gross compensation (excluding expense reimbursement) received by each Director during 2019:

DIRECTOR	ANNUAL FEE	CHAIR FEE	OTHER (1, 2, 3)	TOTAL
Ken Bolton Audit & Finance Committee Chair	**$60,000**	**$15,000**	**$3,000[2]**	**$78,000**
Ted Cadsby Served as a Director until 4/19	**$20,000**	-	-	**$20,000**
Jeff Chesebrough Nominating Committee Chair until 4/19	**$60,000**	**$3,333**	-	**$63,333**
Larry Doran Risk Committee Chair	**$60,000**	**$10,000**	-	**$70,000**
Karen Farbridge Board Chair	**$60,000**	**$40,000**	**$41,000[1]**	**$141,000**
Gail Harding Elected to serve as Director effective 4/19	**$40,000**	-	**$2,000[3]**	**$42,000**
Carol Hunter Governance Committee Chair	**$60,000**	**$10,000**	-	**$70,000**
Andrew Lo Elected to serve as Director effective 4/19	**$40,000**	-	-	**$40,000**
Peter Patchet Human Resources Committee Chair effective 4/19	**$60,000**	**$6,667**	-	**$66,667**
Tamara Paton Board Vice Chair	**$60,000**	**$10,000**	**$26,000[1]**	**$96,000**
Colleen Sidford Human Resources Committee Chair until 4/19; Nominating Committee Chair effective 4/19	**$60,000**	**$10,000**	-	**$70,000**
Mike Valente	**$60,000**	-	-	**$60,000**
Bruce West	**$60,000**	-	**$3,000[2]**	**$63,000**

Note 1: Fee received as a Director of motusbank.
Note 2: Fee received for the 2020 External Auditor RFP Selection Committee.
Note 3: Fee received for travel spent greater than 5 hours for Board and/or Committee meetings.

Executive Compensation & CEO Performance Management

Meridian's Human Resources Committee is responsible for recommending to the Board the compensation of the CEO and ensuring that the compensation practices relating to the Executive Leadership Team are consistent with Meridian's compensation philosophy. A third party executive compensation specialist is engaged by the Committee to assist it in this work, including support in selecting appropriate market references (i.e. data sources, peer group development principles, benchmark positions) and guidance in interpreting market pay levels and practices.

The third party review is a robust process, which involves using comparator organizations from both financial services and general business/industry. Peer group identification and target positioning guide an examination of Meridian's competitive position as compared to organizations of comparable size and complexity within the Canadian financial industry. Where applicable, Meridian considers market references from broader Canadian general industry reflecting the diverse talent market that may be considered for certain executive roles at Meridian. Market compensation data from over 100 peer organizations, identified as a representative market for executive talent, are reviewed to ensure the Committee is equipped with an understanding of market practice to make informed executive pay decisions.

The CEO and Executive Leadership Team roles are benchmarked against external, market comparable roles. Again, both financial services and general industry are used as part of the benchmark role review.

The Board determines the form and amount of CEO compensation based on this review and resulting recommendations from the Committee.

Meridian's Executive compensation consists of both a short-term incentive plan, in line with the incentive plan applicable to all employees, and a long-term incentive plan. The performance metrics upon which both of these plans are based are closely reviewed by the Committee and ultimately approved by the Board annually. Detailed information regarding Executive compensation can be found within the Notes to the Consolidated Financial Statements, which are included in the Annual Report.

The Committee is also responsible for developing performance objectives for the CEO and evaluating the CEO's performance against those objectives annually. The CEO's goals are clearly stated and aligned to strategic imperatives. There is an orientation toward qualitative evaluation, with the understanding that quantitative results against the enterprise scorecard (which has a broad range of quantitative plan targets) are part of the overall evaluation process. Emphasis is placed on the appropriate balance to incentivize achievement of both short- and long-term objectives while ensuring Meridian's long-term success.

Director Attendance

The Board has a policy for "Attendance by Directors" and receives annual reporting of individual attendance. While the policy reflects a 12-month rolling attendance record due to the need to capture consecutive meeting attendance, the following chart reflects Director attendance during the 2019 calendar year. It includes former and newly elected Directors whose terms ended and/or commenced concurrent with the Annual General Meeting in April 2019.

The percentages pertain to the attendance at both Board and Committee meetings held during the period January 1, 2019, to December 31, 2019. Overall, this translates to a 99% average attendance by Meridian's Directors.

12 MONTHS OF 2019							
	Board of Directors		Committee		Total		
Director	**Attend**	**Held**	**Attend**	**Held**	**Attend**	**Held**	**%**
Ken Bolton	7	7	10	10	17	17	100
Ted Cadsby Until 4/19	2	2	2	2	4	4	100
Jeff Chesebrough	7	7	12	12	19	19	100
Larry Doran	7	7	10	10	17	17	100
Karen Farbridge	7	7	10	10	17	17	100
Gail Harding As of 4/19	5	5	7	7	12	12	100
Carol Hunter	7	7	10	10	17	17	100
Andrew Lo As of 4/19	5	5	7	7	12	12	100
Peter Patchet	7	7	13	13	20	20	100
Tamara Paton	7	7	10	10	17	17	100
Colleen Sidford	7	7	13	13	20	20	100
Mike Valente	7	7	10	10	17	17	100
Bruce West	7	7	10	11	17	18	94

The Board continues to be very pleased with the progress that Meridian has made since inception in 2005. Many of Meridian's recent successes are highlighted in the Management Discussion & Analysis that follows. Your Board would like to thank all Members for your continued loyalty in 2019.

You may contact the Board through our Governance Office by writing to:

Email:
Board.ofDirectors@meridiancu.ca

Mail:
Meridian Credit Union
c/o Corporate Secretary
3280 Bloor Street West
Centre Tower, Suite 2700
Toronto, ON M8X 2X3

For further information about Meridian's Board, please visit:
www.meridiancu.ca/About-Meridian/Corporate/Governance/Board-of-Directors.aspx

Additional references:

The 2019 Director Candidate Application Guide is available at:
https://www.meridiancu.ca/About-Meridian/Corporate/Governance/Board-Elections.aspx

Corporate Highlights

Partnership with TO Live

Meridian and TO Live have announced that two of Toronto's iconic performing arts facilities, The Sony Centre for the Performing Arts and the Toronto Centre for the Arts, would be renamed Meridian Hall and Meridian Arts Centre on September 15, 2019. In addition to naming rights, this expansive partnership includes Meridian branding and content fully integrated into the venues, as well as their digital and promotional platforms. This new partnership amplifies Meridian's ongoing commitment to supporting culturally rich and diverse communities.

motusbank Launch

motusbank officially launched on April 2, 2019, with an exceptional digital service offering, providing Canadians access to some of the most competitive rates and fees in the country. From a people, process and technology perspective, the launch has been an exceptional success with more than 10,000 new Members and growing. Our strong results, including the experience we deliver through motusbank are thanks to all the hard work and planning that went into the bank build.

Product and Service Innovation

We make lives simpler and easier for our Members by sharing "wow" products and services developed through digital innovation. This year we released the one-of-a-kind "Raise the Rate" GIC which gives Members the ability to rate match and move to a higher interest rate during the investment term. We also introduced Rate Scoop, which provides Members advanced notice of an upcoming rate change. In addition, we were the first financial institution to roll out Price Drop, a free service offering for all new and existing Meridian and motusbank Members, which provides a convenient, seamless solution to save money on retail purchases.

New Branch Openings

While the industry is moving towards a digital future with smaller physical footprints, Meridian is more visible in the GTHA area than ever before. As a result, awareness of the Meridian brand has increased across Ontario. This year we opened four branches in Ottawa, Brampton and Toronto. Of these – Bramalea Civic Centre and Meridian Hall Hub – two are new design concept branches that allow us to engage with our Members in a non-traditional format that accommodates the needs of consumers in today's world.

Mentoring Partnership

In 2019 we became an Employer Partner in the Mentoring Partnership Program with the Toronto Region Immigrant Employment Council ("TRIEC"). Meridian employees who become mentors in the TRIEC program stand to gain both professionally and personally, including valuable mentorship skills to enhance their career development. An important benefit added is that our participation will enhance Meridian's capability to attract and retain top talent, engage with employees and leverage innovative ideas through diverse perspectives.

New to Canada

Newcomers have always been an integral part of Canada's continued growth and success and will continue to play an important role in Canada's growth. Our comprehensive New to Canada Program welcomes new Canadians to Meridian as a place to grow their own financial and overall well-being. We know that newcomers will play a key role in Meridian's long-term growth and business development as credit unions present an attractive alternative for banking services.

Meridian's Commitment to Communities

Meridian's Commitment to Communities is based on our Greater Purpose of helping Canadians achieve a better life. We believe that by creating and promoting community programs and partnerships that engage, educate and empower Canadians, we bring to life our promise to put the well-being of our Members, employees and communities first. Here are some highlights from 2019 that reflect this commitment.

Good Neighbour Program

The Good Neighbour Program is Meridian's local sponsorship program through which our teams across Ontario forge partnerships with hundreds of charities and not-for-profit and public organizations, working together to support the well-being of the communities in which we live and work.

90+
BRANCHES

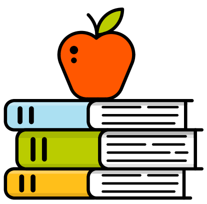
OVER
400
COMMUNITY EVENTS, PROGRAMS AND INITIATIVES ACROSS ONTARIO

Below are two examples of community partnerships by our Niagara, Durham and Hamilton region teams to support youth mental health and nutrition.

Fill the Pig, Feel Better

We partnered with the Pathstone Foundation to run the "Fill the Pig, Feel Better" Community Campaign in support of children's mental health across Niagara. Together we raised $50,000, which went towards supporting access to mental health services through walk-in clinics for children and their families. The campaign was so successful that it was recreated in the Durham Region in partnership with the Ontario Shores Foundation in support of adolescent mental health and recovery.

Food4Kids



Meridian is a proud sponsor of Food4Kids Hamilton, an organization providing packages of healthy food for kids aged 4-17 years with limited or no access to food. Food packages are assembled by volunteers and delivered to schools each Friday, ensuring that children have nourishment over the weekend. There are over 1,300 children in Hamilton struggling through weekends without food. Many of our employees are proud volunteers, helping to supply them with healthy food year-round.

My Commitment to Communities

Meridian is proud to increase our employees' impact across Ontario with up to $1,000 in personal donation and fundraising matching to any Canadian charity and up to $500 in volunteer rewards for any not-for-profit organization. The My Commitment to Communities Program is powered by a leading software portal, enabling our employees to find and engage with the causes that are near and dear to their hearts, and make a difference in our communities.

OVER 50% EMPLOYEE PARTICIPATION IN OUR MY COMMITMENT TO COMMUNITIES PROGRAM

OVER 10,000 HOURS VOLUNTEERED

425+ ORGANIZATIONS SUPPORTED

2019 National Credit Union Social Responsibility Award

The My Commitment to Communities Program was the recipient of the coveted 2019 National Credit Union Social Responsibility Award bestowed by the Canadian Credit Union Association (CCUA).

The award recognizes the leadership, innovation and advancement that credit unions demonstrate in their social and environmental performance, creating shared value by integrating social and environmental impact into core business, and using that integration to drive economic value. Through Meridian's digital My Commitment to Communities Program, our employees have a direct social and economic impact on the organizations in their own backyards that often play key support roles in their lives.

Industry Leadership

Meridian is proud to be an Imagine Canada Caring Company, which recognizes corporate leaders in community investment and social responsibility. Meridian is also a member of the Volunteer Canada Corporate Community Engagement Council, which works collaboratively to deliver strong leadership in the area of corporate citizenship in Canada, particularly in employee community engagement.

Management's Discussion & Analysis

This management's discussion and analysis ("MD&A") gives readers an overview of Meridian Credit Union Limited ("Meridian"), and enables them to assess Meridian's financial condition and results of operations for the fiscal year 2019, as compared to prior years. The MD&A should be read in conjunction with the Consolidated Financial Statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise indicated, all amounts in the MD&A are expressed in Canadian dollars. The MD&A commentary is as of March 11, 2020.

In accordance with its terms of reference, Meridian's Audit and Finance Committee of the Board of Directors has reviewed the content of the MD&A and recommended its approval to the Board of Directors. The MD&A was approved by Meridian's Board of Directors.

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Cautions Relating to Statements

This MD&A includes forward-looking statements, which by their very nature require management to make assumptions and involve inherent risks and uncertainties. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "intend", "estimate", "may increase", "may impact" and other similar expressions, or future or conditional verbs such as "will", "should", "would" and "could". A number of important factors, many of which are beyond management's control, could cause actual future results, conditions, actions or events to differ materially from the targets, projections, expectations, estimates or intentions expressed in forward-looking statements. These factors include, but are not limited to, changes in general economic conditions in Canada, particularly those in Ontario; legislative or regulatory developments; changes in accounting standards or policies; and Meridian's success in anticipating and managing the risks inherent in these factors. Readers are cautioned that the foregoing list is not exhaustive. Undue reliance should not be placed on forward-looking statements, as actual results may differ materially from expectations. Meridian does not undertake to update any forward-looking statements contained in this MD&A.

The Credit Union is not required to comply with the Canadian Securities Administrators National Instrument 51-102 Continuous Disclosure Obligations and related Staff Notices. The Credit Union prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards and refers to them in this MD&A. In addition, the Credit Union uses non-GAAP financial measures within the MD&A, which the Credit Union believes provides the reader with a better understanding of how management views the business. Where the Credit Union has used non-GAAP measures they have been defined within the report, as they may not be comparable to similar terms used by other organizations.

Core Business & Strategy

Corporate Overview

As Ontario's largest credit union, Meridian delivers financial products and services to over 375,000 Members through a network of 92 branches, 14 Business Banking centres, a Member Contact Centre and online services.

We are a Member-owned financial institution that puts the well-being of our Members first. Our employees take the time to understand the financial goals and aspirations of our Members. This allows us to offer solutions that meet their needs proactively.

We focus on strategies that are in the best long-term interest of our Members, not short-term corporate earnings objectives. In doing so, we deepen relationships with existing Members and foster lasting relationships with new Members.

We also grow lives through a commitment to invest money, time and talent to help build prosperous, resilient communities. Our Commitment to Communities is based on the cooperative values and beliefs that our Members and employees share.

Our Greater Purpose is to help Canadians achieve a better life.

Our Corporate Strategy

Meridian strives to be the leader in Member-centric cooperative banking. At its core, our medium-term strategic objectives continue to be focused on differentiation, which entails taking Meridian's service excellence to higher levels, and transformation, centered on modernizing how we do things, thus making our operations simpler, more transparent and faster. This supports Meridian's longer-term sustainability and our ability to deliver on our value proposition to Members. Our strategic objectives are as follows:

1. <u>Market & Membership Growth</u>

- We want to bring the Meridian experience to as many Canadians as possible, while ensuring that we reflect the demographics of the markets we serve, thus becoming a much larger financial services partner to deliver on our value proposition.
- We plan to leverage digital banking, alternative distribution channels, partnerships, and new products and services that enable a more holistic approach to meet Member needs to grow our Membership and the markets we serve.

2. <u>Differentiated Member Experience</u>

- Our goal is to become the market leader in delivering a unique and personalized Member experience "where banking feels good."
- Our employees deliver a memorable, unique, simplified and personalized sales and service experience to best suit Member needs.
- Our innovative products and services demonstrate our value proposition, which is focused on helping Canadians achieve a better life and always putting the well-being of our Members first.
- We will empower our Members to make decisions in their best interest through operational transparency.

Core Business & Strategy (continued)

3. Social Commitment

- Our goal is to help build more resilient Members, households, businesses, and communities.
- Our knowledge of the communities in which we operate is a key ingredient for how we help strengthen communities and our Members' well-being within them.
- Our employees volunteer in the communities we serve and are constantly looking for opportunities to improve our Members' overall well-being.

4. Diversified Business Model

- The objective is to evolve Meridian's business model to remain relevant in the future and continue to create value for Members.
- Growth and diversification in our business model enable us to meet more Member needs and bring our value proposition to more Canadians in an efficient and effective manner.
- We further diversified our business model in April 2019 with the launch of motusbank, a national digital bank.

5. Exceptional Employee Experience

- The goal is to develop highly engaged employees with the capabilities required to support our future growth and meet Member needs.
- We continue to create and deliver a highly diverse, collaborative and innovative workforce.

Key Performance Drivers

Critical to our success are our Members, our employees and our presence in the community. These ultimately drive our performance, creating a financially sound and sustainable credit union. We pay attention to our success factors by listening to what our Members say, and ensuring that the marketplace is aware of Meridian's value proposition and that our employees are fully engaged.

Voice of Member

Voice of Member is a Member Experience program that provides Meridian an opportunity to hear the opinions of our Members and measure satisfaction and loyalty. It enables us to better respond to Member needs and truly add value as we help improve their financial well-being. Favourable Member ratings are a direct indicator that we are delivering on our value proposition and result in growth in our relationship value with Members, which includes lending, deposits and wealth management.

✓ At the heart of our Voice of Member program is the Net Promoter Score. This metric has been embraced globally by leading companies as the standard for measuring and improving customer loyalty. In 2019, our Net Promoter Score was 47.4.

✓ Research indicates that Net Promoter Score has become the loyalty metric of choice for supporting both short and long-term financial success.

Awareness of Meridian

We regularly assess awareness of Meridian and our unique value proposition. We monitor our progress over time in the areas of awareness, differentiated Member experience and access. These factors influence our ability to deliver on our greater purpose, "to help Canadians achieve a better life."

✓ Continued focus on our greater purpose and the brand attributes that ladder up to that are key in driving new Member growth and share of wallet opportunities.

✓ Our research shows that Meridian's awareness in market remained stable year over year, with Aided Awareness holding strong at 70%.

Key Performance Drivers continued

Employee Engagement

We continuously undertake activities that ensure our employees are engaged and empowered to make decisions in the best interest of our Members. We provide tools to help them effectively manage risks, just like an owner. We also promote the well-being of our employees through our iMwell and iSave programs and engage in activities to improve their overall well-being.

✓ Meridian strives to achieve Top Employer status, benchmarking against the top quartile in the Canadian database for Engagement.

✓ Meridian has a strong, engaged culture and we will continue to invest in our areas of strength, including our Leader Effectiveness, Employee Empowerment and our commitment to Corporate Social Responsibility, which enable our ability to service our Members and deliver an exceptional Member Experience. Our survey results inform action plans to further strengthen engagement, which have been implemented at both the enterprise and local levels. Our survey participation rate of 94% of all employees is well above the average of 74%, and is a reflection of our strong feedback culture. In 2019, our engagement score was 73% enterprise wide.

Membership Growth

Growth in Membership means that Meridian is able to increase the financial well-being of and bring our value proposition to more Canadians. Growth in our Membership base is influenced by increased awareness of Meridian and an expansion in Meridian's points of access.

✓ In the Credit Union, the total number of Members increased by more than 27,000 in 2019, which increased our membership base by over 8%. In the launch year of motusbank, over 10,000 new relationships were onboarded to join the Meridian family!

Capital Position

A key indicator of our financial soundness is the strength of our capital base, which consists mainly of Member shares and retained earnings. A strong capital position allows us to absorb shocks stemming from economic downturns and market risk, invest in activities and ventures that add value to our Members, and protects Members' interests. We continue to focus on maintaining strong capital ratios, building our capital base through retained earnings and, in 2019, through a $50 million privately placed subordinated debenture.

✓ Meridian's capital and risk-weighted capital ratios remained strong and continue to be well within regulatory and risk appetite ranges in 2019.

Capability to Deliver Results

Meridian's long-term sustainability hinges on our success in achieving our strategic imperatives, which are supported by multiple initiatives. We continue to strengthen our capabilities in our delivery network, organizational processes, technology, organizational structure and employees. The following 2019 successes and ongoing initiatives highlight our ability to achieve our strategic imperatives and meet current and future needs of our existing and potential Members:

Market and Membership Growth

✓ Digital Strategy

Delivering value our Members can't imagine living without is what guides our digital strategy. We believe in building innovative and differentiated Member experiences such as Price Drop. The first such service offered in Canada by a financial institution, it helps Members find meaningful savings on their everyday purchases. Our digital strategy and Member experience approach was recognized with the Credit Union of the Year award at the 2019 Canadian FinTech and AI Awards.

In 2019, we focused on ensuring we delivered robust, convenient and delightful Member experiences. Here is a short sample of what we did:

- **Improved our digital-lending experience**
  We have streamlined the co-borrower application process, have enabled digital signature capabilities and can now confirm an applicant's identity at any Canada Post location country-wide.

- **Enabled our Members to do more digitally**
  Members can easily link and transfer funds to and from their other financial institutions with higher limits, switch their payroll from their other bank by answering a few questions, view all their accounts including wealth and investments in one place, easily reverse a mistaken bill payment and securely access their Meridian banking app using Face ID on their smartphone.

- **Improved the way we work**
  We embedded design thinking and agile development principles, increased our speed to market, and enhanced overall quality of experience through data-driven learning and iterative release cycles.

  In 2020, we will take on the challenge of utilizing digital to improve the overall well-being of our Members as we continue to iterate, innovate and deliver differentiated digital Member experiences.

Capability to Deliver Results (continued)

✓ Increased Footprint

We will continue to expand our branch footprint in targeted Ontario markets. Meridian opened three Retail Banking branches and two Business Banking Centres in 2019, making it easier for existing and future retail and commercial Members to access our services.

- Two new Brampton locations (Fletcher's Meadow and Bramalea City Centre) and one in Ottawa (Barrhaven, opened in January 2019)
- Two new Business Banking Centres (Markham and Brampton)

✓ New to Canada Program

Launched at the end of 2018, the New to Canada Program brings new Canadians unique and special offers to help them choose Meridian as their financial institution. We started to promote this program in 2019 in the markets we serve.

Differentiated Member Experience

✓ Flex-Equity Mortgages

Our Flex-Equity Mortgage Line enables Members to easily access the equity in their home. This new product combines a mortgage and a home equity line of credit. As Members pay down the principal on their mortgage, they automatically get access to cash, based on their home equity.

✓ PSO Innovations

Meridian is constantly looking to improve and innovate our Product/Service Offerings ("PSO"). 2019 saw the following initiative take flight:

"Raise the Rate GIC" is a new and innovative way for our Members to invest without worry about rates rising. If rates rise, you can request the higher rate, and if they fall, you can stay in the rate you are at!

✓ Rate Scoop

Rate Scoop creates operational transparency when it comes to rate changes. This service gives advanced notice of upcoming rate changes so there are no surprises. Members can opt to have a notification of rate changes sent to their email or they can check our website, as it will feature an alert during the advanced notification period.

Capability to Deliver Results (continued)

Social Commitment

✓ Meridian's Commitment Communities

Meridian's Commitment to Communities is based on our to Communities fundamental belief in our role in empowering Member, employee and community well-being.

Our three signature community programs play a significant role in delivering on our commitment to community banking:

- **Good Neighbour Program**
  Local charitable, not-for-profit and public organizations across Ontario that share the same values we do and are dedicated to strengthening our shared communities can apply to become a community partner. Our community sponsorship decisions are made by our local teams to address the unique needs of each of our communities. These programs tackle issues in the community and help with our Members' overall well-being.

- **My Commitment to Communities Employee Program**
  This is our leading employee community engagement program to match donations and fundraising to any Canadian charity up to a maximum of $1,000, and up to $500 to reward volunteer time with any non-profit organization.

- **Sean Jackson Scholarship**
  We award an annual $10,000 scholarship, named in honour of our first CEO, to one graduating Ontario high school student who demonstrates academic excellence and a commitment to community involvement and innovation. Ontario-based grade 12 students are invited to apply at Meridiancu.ca/Scholarship.

✓ Member Well-being

Meridian is focused on improving the financial well-being of our Members. We have partnered with the Financial Health Network, a non-profit trusted resource for business leaders, policymakers and innovators aiming to improve the financial health of their customers, employees and communities. We publish financial health articles and advice, as well as content with a focus on home ownership, in the "Good Sense" section of our website.

Capability to Deliver Results (continued)

Business Model Diversification

✓ motusbank Subsidiary	Meridian officially launched motusbank, our national bank subsidiary, in April 2019. This is a key component of our overall strategy and enables Meridian's value proposition to be delivered to a larger number of Canadians.
✓ Partnerships	Partnerships are a key driver of our national strategy. We have been able to secure and deepen relationships with partners such as RateHub, Borrowell, Caddle and LoanConnect, and continue to develop new partnerships. These partnerships also serve to build our branch awareness.
✓ Operating Efficiency	Adoption of the LEAN process improvement methodology is gaining momentum at Meridian. A number of Kaizens were executed during 2019, to review processes for several business functions such as Business Banking Loan Originations, resulting in a reduction in loan fulfillment time and elimination of non-value-adding activities. We are implementing Robotic Process Automation ("RPA") for operationally intensive processes, which, together with LEAN improvements, will be a key driver in achieving operational efficiencies.

Exceptional Employee Experience

✓ Diversity and Inclusion	Strengthening the Diversity and Inclusion ("D&I") culture at Meridian is a key focus, as we recognize how this work drives innovation, creates trusted partnerships with our Members and community, and contributes to the overall success and growth of the business. Our commitment to an inclusive workplace is a critical element of our culture that extends intentionally to the great experiences our Members expect from us. A dedicated cross-functional group of employees are part of an organizational Diversity and Inclusion Leadership Advisory Council supporting Meridian's comprehensive D&I strategy. This important strategy continues to build greater awareness, openness, respect and lasting connections to the diverse communities we serve.

Capability to Deliver Results (continued)

✓ Exceptional Employee Experience Promise

During 2019, we launched our employee value proposition. This includes the following:

- We equip our employees with the knowledge to help them grow their careers.
- We empower our employees to think outside the box and bring forward new ideas, that will actually get implemented.
- We strive to deliver a collaborative work environment that is fun and full of energy. This is built on a foundation of trust, diversity of thought, and inclusiveness.
- We have a long tradition of contributing to the communities where we work and live, which benefits the health of the community for our Members and employees.
- We are steadfast in our promise to understand that life is full of ups and downs, so we will always be there for our employees and will always have their back.

Consolidated Financial Results
2019 Financial Overview

Over the past year, the Bank of Canada did not move the overnight rate, after increasing it to 1.75% in 2018. With many economists predicting rate increases to continue into 2019, the flattening and inversion of the yield curve highlighted the headwinds that the overall economy faced.

Canada experienced an inverted yield curve in 2019, indicating that traders are expecting the Bank of Canada to lower interest rates. Trade tensions between the U.S. and China remained unsolved, making financial markets highly sensitive and volatile through 2019. The Bank of Canada's economic outlook turned dovish in 2019. These changes in the economy challenged us to act diligently so as to meet Member needs while protecting the balance sheet from interest rate risk. Despite these challenges, success was realized, as Meridian had a very strong year for lending growth, positively impacting our financial margin in 2019.

Meridian continues to invest in a mix of strategic and foundational initiatives as we continue to expand our digital capabilities, add more branches, diversify our business and enhance our supporting infrastructure. The formal launch of our digital bank, motusbank, in April 2019 was a significant investment for Meridian, and should be a contributing factor to our performance in future years as it continues to grow and become profitable. Meridian is focused on ensuring the right balance between investments, earnings performance, funding requirements and capitalization is maintained. This ensures Meridian has sustainable profitability, a key ingredient to support our growth and allow our value proposition to reach as many Canadians as possible.

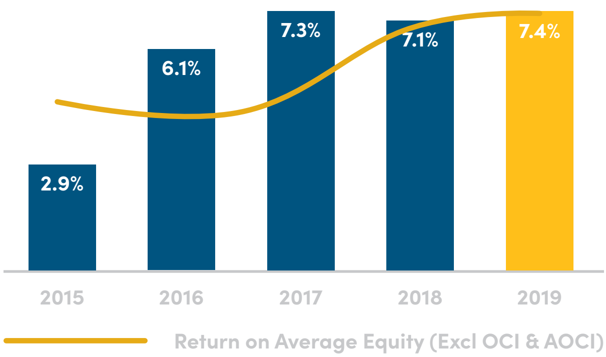
Meridian Credit Union acquired Meridian OneCap Credit Corp. (formally Roynat Leasing) in 2016 to form a wholly owned leasing subsidiary. In the three years since acquiring, we have realized the benefits of having a leasing subsidiary, which provides our Commercial Members access to a completely new suite of products and services.

Overall, Meridian's operating performance was strong, with significant growth in relationships with Members. Total assets grew by $3.1 billion or 17% to $21.0 billion at the end of 2019, driven largely by lending to Members, mainly residential mortgages and Commercial business activities. Assets under management, which include off-balance sheet Wealth management assets, increased by $3.5 billion or 17% to $23.9 billion, with $0.5 billion of the growth coming from Wealth assets, which ended 2019 at $3.0 billion. Our deposit portfolio grew $1.7 billion or 13% to $14.9 billion, while our loan portfolio increased $2.4 billion or 16% to $17.3 billion in 2019.

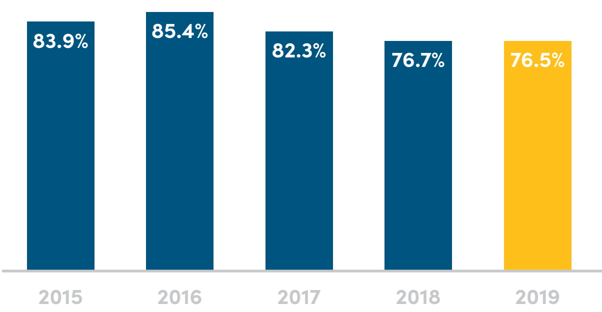
Meridian generated $94.0 million in pre-tax earnings, an increase of $8.2 million over the previous year. The increased earnings were attributable to increased relationships with Members and an increase in the number of Members (which drives net interest and non-interest revenue). Meridian experienced a small gain in Other Comprehensive Income ("OCI") of $0.9 million, mainly the result of hedging activities. These factors contributed to an after-tax return on equity ("ROE") of 7.4% in 2019, compared to 7.1% achieved in 2018. Meridian was able to realize higher earnings despite economic earning pressures. ROE represents total comprehensive income as a percentage of average total equity. Removing the impact of the OCI gain in 2019 results in no meaningful difference (represented by the line on the next graph).

Consolidated Financial Results
2019 Financial Overview (continued)

Return on Average Equity



Efficiency Ratio

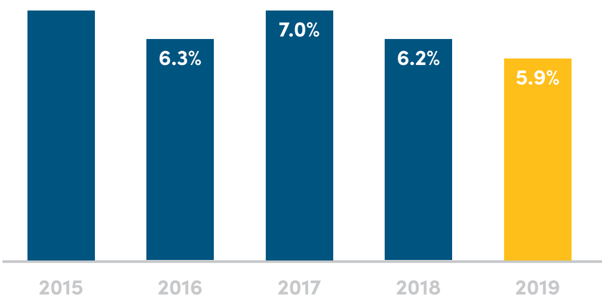


Meridian's operating margin grew to $400.2 million over the year, 9% higher than the 2018 results. The main causes of this increase were the significant growth in relationships with Members, which resulted in higher net interest and non-interest income. Favourable revenue was offset by an increase in operating expenses, largely attributable to higher costs associated with the diversification of our business and our workforce growth, which is needed to support our relationships with Members and create a more effective environment to meet their needs. The increases also included technology improvements, community and brand investments, and investments in strategic initiatives. We are starting to realize the benefits from our long-term strategy objectives introduced in 2015. This included the official launch of motusbank in 2019, which increased expenses but is anticipated to provide a long-term benefit and allow us to deliver our value proposition to more Canadians. Our heavy investments in infrastructure, people, processes, technology, marketing, products and services created short-term earnings pressures from 2014 to 2016, putting pressure on our ROE and efficiency ratios. ROE has since increased through 2017-2019, showing Meridian's investments improve our long-term financial outlook and allow us to achieve sustainable growth in the years to come.

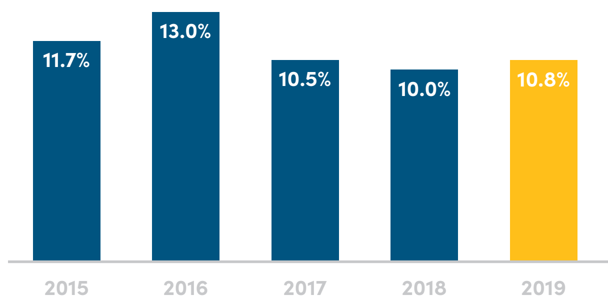
The efficiency ratio is a measure of productivity and is calculated as non-interest expense divided by operating margin, expressed as a percentage. Faster growth in revenues relative to increased expenses, previously described, resulted in a lower and better efficiency ratio of 76.5% in 2019, compared to 76.7% in 2018. The ratio has started to improve to levels not seen since before our long-term strategy was implemented in 2015. 2019 didn't see as strong of an improvement, as earnings were pressured due to market conditions while expenses increased due to our workforce growth and launch of motusbank.

Consolidated Financial Results
2019 Financial Overview (continued)

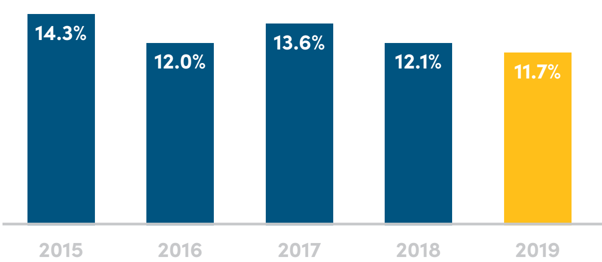
Capital Ratio



Liquidity Ratio



Risk Weighted Capital Ratio

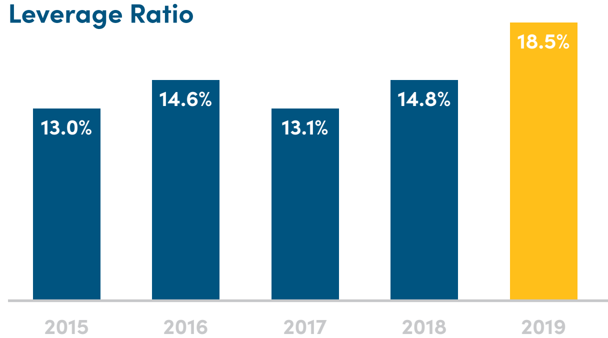


Meridian's Capital and Risk Weighted Capital ratios decreased to 5.9% and 11.7%, respectively, in 2019, due to strong Retail and Commercial Lending.

These ratios remain well above the minimum regulatory requirements of 4.0% and 8.0%, respectively, and within our own risk appetite target ranges. The setting and monitoring of our risk appetite ranges are discussed in more detail in the Risk Management section.

Meridian's liquidity ratio increased to 10.8% during 2019 from 10.0% a year earlier due to increased deposits, cash and investments. The increase in the liquidity ratio was achieved through the strategic decision to grow both organic and inorganic funding sources in support of very strong loan growth.

Leverage Ratio



Meridian's leverage ratio, which is total funding coming from external sources as a percentage of total on-book assets, increased to 18.5% in 2019 from 14.8% in 2018, resulting from increased external funding requirements due to exceptional lending growth.

The changes in the liquidity and leverage ratios were a conscious decision by the business, as we are looking to diversify funding by source, strengthen our liquidity base and lower overall cost of funding. All of the regulatory ratios remain well within our risk appetite target ranges and far exceed regulatory minimums.

2019 Financial Performance Review

Consolidated Income Statement For the year ended December 31, 2019	2019 ($ thousands)	2018 ($ thousands)
NET INTEREST INCOME	327,073	297,306
Less: provision for credit losses	19,967	12,892
Non-interest income	93,138	83,814
Share of profits from investment in joint venture	-	4
Operating margin	400,244	368,232
NON-INTEREST EXPENSES		
Salaries and employee benefits	182,326	168,892
Administration	87,043	75,150
Occupancy	10,452	18,854
Amortization of intangible assets	7,242	8,136
Depreciation	19,181	11,352
Total non-interest expenses	306,244	282,384
Pre-tax earnings	94,000	85,848
Income tax expense	12,508	12,280
Profits attributable to Members	81,492	73,568

Total Revenue

Total revenue, which consists of interest and non-interest income before provisions for credit losses, grew $39.1 million to $420.2 million in 2019. The increase was largely driven by strong growth in relationships with Members and our OneCap leasing portfolio receivables. OneCap contributed $35.2 million and motusbank contributed $1.1 million to total revenue. Increased net interest income was generated from strong growth in lending to Members and partially offset by the cost of deposits and other sources used to fund lending.

Increased lending and complexity drove higher Commercial lending fees, which increased $1.8 million from 2018. Wealth management assets also grew exceptionally, with assets ending the year at $3.0 billion. This resulted in higher Wealth trailer fee revenue, increasing by $2.4 million from 2018. OneCap was able to increase non-interest income by $3.0 million over 2018, which was a significant contributor to Meridian's increased non-interest income.

2019 Financial Performance Review (continued)

Net Interest Income

Net interest income is comprised of interest income on assets such as loans, securities and receivables, less interest expense paid on liabilities such as deposits and wholesale funding. For the year, net interest income was $327.1 million, an increase of $29.8 million or 10.0% over 2018. Interest income on assets increased $113.6 million, while interest expense on liabilities increased $83.8 million.

Net interest margin is the ratio of net interest income to average total assets, expressed as a percentage. In 2019, net interest margin was 1.68%, which is a decrease of 9 basis points from 2018. A combination of intensified competition in commercial and retail lending, along with an inverted yield curve, caused compression in the financial margin as longer-termed asset yields fell faster than short-term deposit rates. Growth in net interest margin remains challenged by a competitive interest rate environment, and an increasingly competitive financial services sector in both Commercial and Retail portfolios. However, increasing contributions from new and diverse lines of business, such as the OneCap leasing portfolio, and the launch of motusbank should improve this ratio in the coming years. Focus continues on revenue diversification as a key strategy to reduce the concentration of margin-driven business.

Meridian's average total assets increased $2.7 billion or 15.9% in 2019, due primarily to growth in the lending portfolio. Average loan balance growth increased $2.2 billion or 15.5% in 2019, while the interest revenue associated with these loans increased 19.2%. Interest revenue growth has outpaced lending growth as lower rate loans mature and have been replaced with higher yielding loans. However, given the competitive interest rate environment, we may see these growth rates start to grow at similar paces.

Asset growth was funded through both external funding and exceptional deposit growth in 2019. Growth in average deposit balances was $1.6 billion or 13.1% over 2018. The remaining asset growth was supported through external sources of funding such as securitization and the use of borrowing facilities as necessary.

Net interest income is affected by fluctuations in capital markets beyond normal operating activities. As necessary, Meridian undertakes hedging activities, which may include the transacting of derivative instruments to protect Meridian and our Members from changes in external market conditions. These hedging activities, in turn, generate their own net interest income or loss, countering the impact on the underlying item.

Over the course of 2019, Meridian entered into receive fixed swaps and pay fixed swaps, intended to hedge the risk to net interest margin attributable to changing interest rates. The notional amounts of our derivatives represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in our consolidated balance sheet. The fair value of over-the-counter ("OTC") derivative contracts is recorded in our consolidated balance sheet. The interest income or expense associated with quarterly cash settlements are reflected in the profit and loss.

2019 Financial Performance Review (continued)

	Net Interest Income ($ millions)		Change	Average Assets & Liabilities ($ millions)		Change	Net Interest Margin (in basis points)		
	2019	2018	%	2019	2018	%	2019	2018	Change
Cash and cash equivalents	5.2	2.5	108.0	492.1	376.1	30.8	105.7	66.5	39.2
Investments	24.3	16.6	46.4	1,310.3	1,023.0	28.1	185.5	162.3	23.2
Loans	240.6	197.8	21.6	4,677.9	4,100.6	14.1	514.3	482.4	32.0
Lines of credit	80.6	68.3	18.0	1,494.1	1,414.5	5.6	539.5	482.9	56.6
Mortgages	290.3	247.1	17.5	9,953.1	8,446.9	17.8	291.7	292.5	(0.9)
Finance Receivables	63.0	58.1	8.4	1,173.9	1,113.8	5.4	536.7	521.6	15.0
Other Assets				328.3	289.1	13.6			
Interest income / total assets	704.0	590.4	19.2	19,429.7	16,764.0	15.9	362.3	352.2	10.1
Demands	79.2	70.8	11.9	6,837.4	6,625.5	3.2	115.8	106.9	9.0
Fixed terms	204.1	131.2	55.6	7,171.7	5,761.2	24.5	284.6	227.7	56.9
Borrowings	93.5	85.1	9.9	4,108.6	3,223.4	27.5	227.6	264.0	(36.4)
Subordinated debt	0.1	0.0	0.0	24.9	0.0	0.0	40.1	0.0	40.1
Other liabilities	0.0	6.0	(100.0)	170.5	104.4	63.3	0.0	574.7	(574.7)
Interest expense / total liabilities	376.9	293.1	28.6	18,313.1	15,714.5	16.5	205.8	186.5	19.3
Members' equity				1,116.6	1,049.5	6.4			
Total liabilities and Member's equity	376.9	293.1	28.6	19,429.7	16,764.0	15.9	194.0	174.8	19.2
Total	327.1	297.3	10.0				168.3	177.3	(9.0)

2019 Financial Performance Review (continued)

Provision for Credit Losses

Provisions for credit losses (“PCL”) are measured in accordance with IFRS 9, using a three-stage impairment model. Relevant exposures within the scope of the IFRS 9 impairment model for Meridian include Loans, Finance Receivables, as well as off-balance sheet exposures, including loan commitments and letters of credit. For a more detailed discussion of the models used, refer to Note 3.7 and 33.1 of the Consolidated Financial Statements.

External macroeconomic changes can have an impact on the PCL. This could increase or reduce the PCL on our specific and general provisions if a specific industry or sector is more at risk of default, given new economic data. The PCL was $20.0 million in 2019, compared to $12.9 million in 2018. The PCL for the Commercial loan portfolio was $4.3 million ($0.2 million in 2018). A $6.5 million loss was attributable to the Retail loan portfolio ($2.4 million in 2018) and a $9.2 million loss ($10.3 million in 2018) was attributable to Finance Receivables related to OneCap. Commercial losses are composed of a relatively small number of larger and sometimes individually significant losses. Due to the specialized nature of the underlying security, it can take several years to sell properties or realize on the security.

Of the $4.3 million expense on the Commercial portfolio, $1.2 million relates to provisions taken against impaired loans, driven by $3.3 million of new impairments ($5.1 million in 2018) partially offset by $2.1 million improvements due to revised security valuations on existing impairments ($2.3 million in 2018). There was a further expense of $3.1 million from stage 1 and 2 provisions ($0.7 million improvement in 2018) driven mainly by portfolio growth. Finance Receivables losses are comprised of a larger number of small- and medium-sized amounts. The Finance Receivables PCL was comprised of $8.9 million related to impaired accounts ($9.1 million specific in 2018) and $0.3 million related to accounts that are performing or have had a significant increase in credit risk since origination ($1.2 million collective in 2018).

The total PCL represented 0.11% of the portfolio in 2019, which was an increase from 0.08% in 2018. The Commercial loss rate was 0.08% for 2019 versus immaterial losses in 2018. The Retail loss rate, at 0.05% of the respective portfolio, was an increase from the 0.02% loss rate observed in 2018. The finance receivable loss rate is 0.79%, which was a decrease from 0.87% in 2018.

2019 Financial Performance Review (continued)

Credit Portfolio Quality

Loan and finance receivable expected credit loss provisioning is determined in accordance with established policy. Management reviews the loan and finance receivable allowance position and impairment levels at least quarterly. Management also reviews the status of all high-risk accounts ("Watchlist" accounts), which are actively monitored. Provisioning is adjusted where necessary to ensure compliance with policies and to include management's best estimate of losses based on the currently available information. The Provision for Credit Losses is reflected in the Income Statement in the current year.

The gross impaired loans and finance receivables balance is $86.5 million ($97.5 million in 2018) and represents 0.47% of the total loan and finance receivable portfolio. The total allowance for impaired loans and finance receivables, at $53.8 million, was $8.2 million higher than the prior year. The increase was due mainly to higher stage 1 and 2 provisions driven by portfolio growth and higher unresolved stage 3 provisions in OneCap.

The $53.8 million allowance for expected credit losses includes $12.5 million attributable to stage 3 allowance and $41.3 million attributable to stage 1 and stage 2 allowances. The allowance for expected credit losses, as a ratio to total loans and finance receivables, was 0.29% in 2019, of which 0.07% represented the stage 3 allowance and 0.22% was the stage 1 and stage 2 allowances.

Asset Quality Coverage – Loans and Finance Receivables

($ millions)	2019	2018
Total loans	18,519.1	16,078.9
Gross impaired loans "GIL"	86.5	97.5
Allowance for expected credit losses	53.8	45.6
Provision for credit losses "PCL"	20.0	12.9
GIL as % of total loans	0.47%	0.61%
GIL as % of Members' equity	7.49%	9.05%
Allowance as % of total loans	0.29%	0.28%
PCL as % of total loans	0.11%	0.08%
Commercial loans:		
% Better than average	27.46%	29.82%
% Average	48.47%	50.50%
	75.93%	80.32%

2019 Financial Performance Review (continued)

A risk rating system is utilized to assess and monitor the risk profile of our Commercial loan portfolio. The model is based on an in-depth assessment of the borrower's risk of default, which is measured by industry, business, management and financial risk factors, along with the risk of loss given default. The risk of loss given default is based on an assessment of security composition and relative historical recovery experience. The Commercial loan portfolio, stratified by risk rating ranging from "very low" to "impaired," is reviewed monthly. Most of the portfolio continued to fall into the combined "better than average" and "average" categories. Collectively, these two ratings accounted for approximately 75.9% of the total Commercial portfolio (80.3% in 2018). In addition, a comprehensive Early Warning System allows for timely identification of accounts that require follow-up and additional attention through the adjudication process or an increase in risk rating to Watchlist status, with the objective of correcting issues that may otherwise result in future impairment of the account.

Meridian continues to enhance credit management processes through updating advanced early warning systems that identify potential credit deterioration, a more stringent control environment, improved credit-based analytics and reporting, as well as an enriched Member experience. In addition, Meridian has developed a robust target risk profile methodology that identifies the optimal borrower risk curve by balancing the trade-off between risk and reward within the lending portfolio. A direct output of this strategy has yielded a flattening of the risk curve with a corresponding increase to "higher" risk lending reflective of higher margin lending relationship within an acceptable credit risk tolerance. A combination of strong adjudication procedures, in-depth portfolio analysis, concentration monitoring and Early Warning System techniques has provided sufficient and appropriate assurance regarding the credit quality and changing risk profile of the lending portfolio.

2019 Financial Performance Review (continued)

Non-Interest Income

Non-interest income rose by $9.3 million or 11.1% to $93.1 million in 2019. OneCap contributed $13.8 million and motusbank contributed $0.1 million to non-interest income. Revenue from service fees rose $1.7 million to $19.0 million. Our existing and increased Membership contributed $0.7 million, and our OneCap leasing business accounted for the remaining $1.1 million in service fee growth.

Mutual fund revenue accounted for $2.4 million of the increase in non-interest income, growing by 12.4% to $21.8 million. Mutual fund revenue increase is driven by the growth in Wealth balances due to strong market appreciation and sales during the year. Sales throughout the year were influenced by an increase in Meridian's Wealth management workforce, as well as back office efficiencies.

Loan servicing fees grew by $1.8 million or 8.5% to $23.1 million driven by increased complexity and volumes of Commercial lending. During 2019, our commercial loan portfolio grew $812.3 million, an increase of 17.4% over 2018.

Insurance commissions grew by $1.0 million to $9.0 million on account of life insurance sales, as we encouraged Members to engage in their overall estate planning, as well as our increased insurance commissions on leases through OneCap. Foreign exchange income increased by $0.3 million to $5.6 million. This was influenced by the gain on Meridian's US dollar accounts, reflecting the continued strength of the US dollar versus the Canadian dollar.

Credit Card revenue grew by $0.9 million or 60.0% to $2.4 million driven by growth in the number of Meridian Visa cards our Members hold. Other non-interest income increased $1.5 million to $8.8 million driven by end of term gains and other fee-based income from the OneCap leasing business.

The following table summarizes the composition of Meridian's non-interest income:

Non-Interest Income			
($ millions)	**2019**	**2018**	**% Change**
Service fees	19.0	17.3	9.8%
Mutual fund revenue	21.8	19.4	12.4%
Loan servicing fees	23.1	21.3	8.5%
Insurance commissions	9.0	8.0	12.5%
Foreign exchange	5.6	5.3	5.7%
Dividend income	1.8	2.0	-10.0%
Interac revenue	1.6	1.7	-5.9%
Credit card revenue	2.4	1.5	60.0%
Other	8.8	7.3	20.5%
Total	93.1	83.8	11.1%

2019 Financial Performance Review (continued)

Non-Interest Expenses

Non-interest expenses rose to $306.2 million in 2019, from $282.4 million in 2018. The 8.4% increase in expenses was mainly associated with activities that support Meridian's strategic imperatives. Higher spending was related to the launch of motusbank, branch expansion, community investment and marketing to build brand awareness.

Personnel expenses, which include all employee salaries, benefits and incentive compensation, accounted for 56% of the increase in expenses (13% decrease from 69% in 2018). Higher personnel expenses are largely attributable to incremental employees required to support the newly launched motusbank, our expanding network of branches, strong growth within our existing network of people and support of strategic initiatives. OneCap employees accounted for $11.4 million and motusbank employees accounted for $2.5 million in personnel expenses. Additional support is provided to our existing delivery network to ensure our Members receive a truly unique and personalized experience.

General operating expenses increased 10.1% or $1.9 million. Increased community investment, consultant fees and travel expenses drive the increase. Occupancy costs decreased by $8.4 million to $10.5 million due to the (IFRS) 16 Leases coming into effect January 1, 2019, which changed the way leases are reported. 2018 results have not been restated. The most significant change required the recognition of right-of-use assets and lease liabilities on the balance sheet for most leases, including previously classified operating leases, where in the prior year only finance leases were recognized on the balance sheet. On the income statement, depreciation now includes the right-of-use assets, where previously occupancy included the lease expenses. This is where you will see the large difference, between occupancy and depreciation. Please refer to the Consolidated Financial Statements for more information and impacts regarding the new Lease standard.

Additionally, three new branches and two new Business Banking Centres were opened in 2019, which will increase occupancy once a full year's cost is reflected in 2020.

Marketing expense increased by $2.0 million to $13.4 million. Of this amount, $1.8 million relates to motusbank, as there was heavy focus on marketing in its first year of operations. Marketing expense includes our Community Investment budget, which is an investment in the development and administration of digital and local programs that bring life to Meridian's longstanding Commitment to Communities. These programs build our brand by making a bold community impact while engaging and empowering our employees, Members and future Members.

Transaction services increased $2.0 million to $17.3 million due to our increased Membership and Credit Card base. Depreciation increased $7.8 million to $19.2 million. This increase is due to IFRS 16 Leases that was discussed previously. This caused a change between occupancy and depreciation expenses.

Software and hardware expenses increased by $2.7 million to $11.4 million. This increase is due to the launch of motusbank and our growing workforce, which require more software, hardware and associated maintenance costs to ensure we can deliver our unique and personalized experience consistently to our Members.

Deposit insurance increased $2.1 million to $10.4 million. This is driven by the increase in our deposits on our balance sheet. Amortization decreased $0.9 million to $7.2 million. This is due to decreased OneCap amortized broker and vendor relations, which have steadily decreased since we acquired OneCap in 2016.

2019 Financial Performance Review (continued)

Meridian's investment in strategic initiatives decreased 13.8% in 2019 to $4.0 million. The decrease is directly related to the reduction in spend compared to 2018 to prepare for the launch of motusbank and prudent cost management of other strategic initiatives. Investments continue to relate to projects that support Meridian's strategic imperatives and enable us to achieve long-term sustainability.

These initiatives include building three new branches (one of which was opened in January 2019), motusbank launch costs, business banking technology enhancements, enhancement of our lending processes and technology, full redesign of our digital banking and public website, a new Human Resource system, and numerous product and service design projects supporting our strategic imperative of delivering a differentiated Member experience.

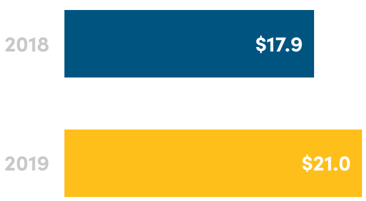
Non-Interest Expense

($ millions)	2019	2018	% Change
Salaries and benefits	182.3	168.9	7.9%
• Salaries	129.8	118.6	9.4%
• Benefits	32.5	28.7	13.2%
• Variable incentive	20.0	21.6	-7.4%
General	20.7	18.8	10.1%
Occupancy	10.5	18.9	-44.4%
Marketing	13.4	11.4	17.5%
Transaction services	17.3	15.3	13.1%
Depreciation	19.2	11.4	68.4%
Software and hardware	11.4	8.7	31.0%
Deposit insurance	10.4	8.3	25.3%
Amortization	7.2	8.1	-11.1%
Human resources	2.9	3.2	-9.4%
Other expenses	10.9	9.4	16.0%
Total	306.2	282.4	8.4%

Financial Conditions Review

Balance Sheet Summary

Total Assets ($ billions)



Meridian's total assets grew by 17.1% to $21.0 billion in 2019, an increase of $3.1 billion over the previous year.

The $3.1 billion increase in total assets was driven by growth in loans. This growth accounts for 80% of the increase in total assets. Increase in liquid investments makes up the majority of the remaining increase in total assets. These are used as safeguards in the case of any external shock, so we would have ample reserve to help us through any challenges.

Loans grew by 16.4% or $2.4 billion to $17.3 billion, with Residential mortgages accounting for 64.9% of this growth and Commercial loans accounting for 33.1%.

Loans ($ billions)

Residential mortgages increased by $1.6 billion or 17.8% over 2018. Growth was generated across all channels, including the branch network, digital lending platform, mobile mortgage specialists and mortgage brokers. In the face of heavy competition experienced in the market throughout 2019, Meridian was able to post market-leading rates, which was instrumental in growing Meridian's Retail mortgage portfolio in 2019.

Deposits grew by 13.1% or $1.7 billion to $14.9 billion in 2019.

Deposits ($ billions)

Competition for deposits among financial institutions continued throughout 2019. Despite this, Meridian experienced strong deposit growth. Growth in term deposits, both registered and unregistered, was the largest driver of deposit growth. There was a shift in deposit preference from demand accounts to term deposits as deposit rates started to rise. With many special term offers such as our 18-month GIC at 2.55% and 1-Year Cashable GIC at 2.5%, our GIC balances grew significantly, with our unregistered term deposits increasing $944.7 million or 21.0% over 2018. Tax Free Savings Accounts ("TFSAs") continued to perform well in 2019, with balances growing by $293.0 million. Our Registered Retirement and Income funds also performed well, increasing $245.9 million over 2018.

Other than deposits, Meridian's most significant change in liabilities was our mortgage securitizations, which grew by $573.4 million. The increase supported funding for Meridian's strong lending activity in 2019.

Financial Conditions Review (continued)

Wealth ($ billions)

Total Relationships ($ billions)

Meridian's off-balance sheet assets consist of our wealth portfolio, which is comprised largely of mutual fund assets held by Members.

Meridian's wealth portfolio experienced strong growth in 2019, increasing $0.5 billion or 19.5% over 2018. $301.6 million or 62.2% of this growth is attributable to increased market value of Members' investments. Although there were many global uncertainties, risk did not fully materialize and 2019 saw strong growth in the North American market. The remaining growth represents net sales of $183.2 million, an increase of $20 million over 2018. The increase is attributable to our growing sales force and back office efficiencies identified with growing and dedicated staff.

Overall, the total Member relationships managed by Meridian, which includes lending, deposits and wealth, grew by 15.2% or $4.7 billion to $35.2 billion in 2019.

Growth was diversified across business lines and product categories. Lending grew the fastest, a clear indicator that Members are taking advantage of Meridian's market-leading offers, helping them reach their financial dreams with a unique and personalized experience. This growth is allowing Meridian to extend our value proposition to a larger section of Canadians.

Financial Conditions Review (continued)

Liquidity Review

Managing liquidity and funding risk is critical to ensure the stability and soundness of Meridian, depositor confidence and earnings. Meridian's policies and procedures ensure Meridian holds sufficient liquid assets on the balance sheet and has contingent funding capacity to meet financial commitments in times of stress. As of December 31, 2019, Meridian's liquid asset ratio was 9.9%, compared to 9.2% at the end of 2018, well above the minimum requirement established by the Board.

Meridian maintains a prudent and disciplined approach to managing liquidity risk. Meridian targets a 90-day survival horizon under a combined Meridian-specific and market-wide stress scenario, and maintains a minimum buffer over regulatory requirements prescribed by the Financial Services Regulatory Authority of Ontario ("FSRA") Liquidity Guidelines. Under the Liquidity Guidelines, Ontario Credit Unions are required to maintain a Liquidity Coverage Ratio (LCR), which is the ratio of net cash outflows over a 30-day period calculated using the prescribed liquidity stress scenario to high quality liquid assets held for liquidity, at a minimum of 100%. As of December 31, 2019, Meridian's Liquidity Coverage Ratio was 165%, compared to 139% at the end of 2018. Meridian monitors and reports no less frequently than monthly our Liquidity Ratio to FSRA.

As at December 31, 2019, the Credit Union's liquidity ratio was 10.8% (2018 – 10.0%).

Meridian's funding strategy follows a sustainable growth approach in that the funding of organic lending growth is primarily accomplished through organic deposit growth. Meridian maintains a large and stable base of deposits that, along with our strong capital base, supports the maintenance of a sound liquidity position. Deposits include Retail and Commercial fixed rate deposits.

Meridian regularly securitizes insured residential mortgages by issuing National Housing Act Mortgage-Backed Securities ("NHA MBS") to enhance our liquidity position and diversify sources of funding. The Credit Union's total NHA MBS issuance for 2019 was $1,107.3 million (2018 – $817.4 million), sold either to third party investors or to the Canada Mortgage and Housing Corporation-sponsored Canada Mortgage Bond Program. Meridian continues to maintain and investigate new, diverse funding sources in the event that access to securitization funding is limited or only available at significantly higher rates in the future. Diversification of external funding sources is an important aspect of the Credit Union's overall risk management strategy.

Capital Management

Overview

Meridian is committed to a disciplined approach to capital management and to maintaining a strong capital base to support the risks associated with our business activities. Maintaining a strong capital position contributes to safety for our Members, promotes confidence in attracting new Members to Meridian, maintains strong returns to Meridian's Class A Shareholders and allows Meridian to take advantage of growth opportunities.

Meridian's capital management philosophy is to remain adequately capitalized at all times and to maintain a prudent cushion of equity to ensure our on-going economic stability as well as finance new growth opportunities.

The principles and key elements of our capital management framework are outlined in the Board Capital Management Policy. This policy establishes and assigns the responsibilities related to capital, and sets forth both general and specific policy guidelines related to capital management and the reporting mechanisms.

The Audit and Finance Committee, which reports into the Board of Directors, provides ultimate oversight and approval of capital management, including the Capital Management Policy and Annual Capital Plan. Its members regularly review Meridian's capital position and key capital management activities. The Executive Leadership Team provides senior management oversight of the capital management process, including review and discussion of significant capital policies, issues and action items. The Risk Committee has strategic oversight of the Capital Management Policy, while the Audit & Finance Committee monitors compliance with the policy.

Managing and Monitoring Capital

Meridian has a comprehensive risk management framework to ensure that the risks taken while conducting business activities are consistent with our risk appetite. In managing our capital position, close attention is paid to the cost and availability of the types of capital, desired leverage, changes in both assets and risk weighted assets, and the opportunities to profitably deploy capital.

Capital levels are monitored monthly and compared to forecasted levels for both capital and risk weighted capital. Our monitoring and forecasting procedures track the expected growth rate in assets relative to earnings to determine if additional share capital is required. These projections also take full account of any future impact of changes in accounting standards. A detailed discussion of capital management is provided in the notes to the Consolidated Financial Statements.

Capital Management (continued)

Capital Review

Meridian's regulatory capital ratios are strong and well exceed the requirements of the *Credit Unions and Caisses Populaires Act, 1994* (the "Act"), which regulates Ontario Credit Unions and underlies Board policy requirements. These ratios underscore Meridian's strength long-term stability and commitment to a disciplined approach to capital management that balances the interests and requirements of both Members and regulators.

Meridian's capital adequacy ratio was 5.9% as of December 31, 2019, compared to 6.2% at the end of 2018 and in excess of the 4.0% stipulated in the Act.

Meridian's risk weighted capital adequacy ratio was 11.7% at the end of 2019, down from 12.1% at the end of 2018, and well in excess of the 8.0% stipulated in the Act.

Meridian's capital quality also exceeds regulatory minimum requirements. Provincial regulations require that at least 50% of a credit union's capital base be comprised of primary or Tier 1 capital. In order to maintain an appropriate level of conservatism, our internal capital management philosophy is to keep our Tier 1 capital as a percentage of total capital greater than 60%. As of year-end, 86.8% of Meridian's capital base consisted of Tier 1 capital, marginally lower by 3.8% from 2018 due to Meridian raising $50MM in subordinated debt in the year, but still well in excess of internal and provincial minimums. The subordinated debt raise provides Meridian with more safeguards against external shocks and helps to improve our Capital ratios.

Internal Capital Adequacy Assessment Process

Meridian performs an Internal Capital Adequacy Assessment Process ("ICAAP") and maintains a Stress Testing program, in line with FSRA requirements. Meridian performs an ICAAP for the purpose of setting internal capital targets and developing strategies to achieve them. The ICAAP builds on Meridian's minimum regulatory capital requirements, using a comprehensive assessment of risks and consideration of relevant stress testing to determine minimum capital levels that are appropriate to support Meridian's unique risk profile. The ICAAP is integrated with Meridian's strategic and business planning function, operational departments and Enterprise Risk Management function.

Risk Management

Effective risk management is critical to the attainment of Meridian's strategic imperatives. Meridian has built a strong overall risk culture that empowers all employees to be engaged in the identification and management of risk within our risk appetite. The Board of Directors and all employees are responsible for ensuring that the risks to which Meridian is exposed are aligned to the Board-approved risk appetite. Meridian has established a risk appetite framework across the organization for Management and the Board of Directors to communicate, understand and assess the level of risk that they are willing to accept. A clear risk appetite enables Meridian to make better strategic and tactical decisions on a risk-reward basis with consideration for our capacity to manage associated risks.

Meridian uses Enterprise Risk Management ("ERM") to fully consider risk in all decision-making to ensure that risk exposures of Meridian are effectively and prudently managed. Meridian's ERM framework complies with FSRA's By-Law No. 5, Standards of Sound Business and Financial Practices, and gives consideration to guidance provided by other relevant regulatory bodies and industry best practices.

Meridian maintains an ERM framework to identify, assess, respond to and monitor risk, including:

1. Technology and tools that facilitate the efficient and convenient execution of our ERM processes;

2. A risk register of the risks to which Meridian is exposed;

3. Processes to identify, assess and monitor our risks;

4. Processes to respond to risk exposures in excess of the Board-approved risk appetite; and

5. A risk culture embodying the philosophy that risk management is the responsibility of everyone at Meridian, including the Board of Directors, Management and all employees.

Meridian generally adheres to the Three Lines of Defence model of risk management such that:

1. Business units within Meridian form the First Line of Defence, performing day-to-day risk management activities;

2. Risk oversight functions form the Second Line of Defence, facilitating the first line to effectively manage risk and providing independent, effective challenge to first-line risk management actions; and

3. Internal Audit Services forms the Third Line of Defence, providing independent, objective assurance.

Meridian's subsidiaries maintain similar ERM frameworks appropriate to their size and complexity and provide ongoing reporting to inform Meridian's broader ERM processes.

Meridian recognizes four broad types of risk: Strategic Risk, Operational Risk, Credit Risk and Financial Risk. There are numerous specific risks, many of which are beyond Meridian's direct control. Their impact can be difficult to predict and could cause our results to differ significantly from our plans, imperatives and estimates. Meridian considers it critical to regularly assess our operating environment and highlight top and emerging risks. Risks are identified, discussed and actioned by members of the Senior Leadership Team and reported quarterly to the Management Risk Committee, the Risk Committee of the Board and the Board of Directors. Specific plans to mitigate top and emerging risks are prepared, monitored and adjusted as required.

Risk Management (continued)

Strategic Risk

Strategic Risk is the risk that Meridian is unable to develop or implement appropriate business plans and strategies, effectively allocate resources, build or maintain a sustainable competitive advantage, or meet the ongoing needs and expectations of our Members. As described herein, Meridian considers a range of potential future situations in developing our strategies and develops plans that provide optimal outcomes. Over time, the key assumptions used to determine the strategies are monitored and may be adjusted appropriately. Meridian continuously evolves our business model to support our planned growth and maintain a culture of improving the financial well-being of our Members.

Climate change risk is a strategic consideration given the potential long-term exposure of Meridian to the physical and transitional risks associated with ongoing climate change. Management has developed and provided to the Board an analysis identifying the exposure and potential impacts of climate change, including direct impacts to Meridian, impacts to our Members and implications to the organization's strategic plans. Robust processes and a proactive risk aware culture help ensure that trends in climate-related risks are identified and prioritized as appropriate on an ongoing basis.

Operational Risk

Operational Risk is the risk that Meridian's processes, technology or people fail to deliver the required results. This can include responding to external events such as legal or regulatory actions. Meridian has a number of programs that manage specific risks under the Operational Risk umbrella, including people-related risks, criminal risks (fraud, money laundering), physical and information security risks, business continuity risk, as well as outsourcer and vendor risks. Meridian maintains an Operational Risk Management Framework that integrates the various operational risk programs. Meridian effectively balances the risk we accept in our day-to-day operations while striving to enable business solutions that create Member value.

Credit Risk

Credit Risk is the risk of financial loss when a borrowing Member fails to meet their contractual obligations. Credit risk can be exacerbated by broad impacts to markets in which Meridian's business is concentrated. Meridian's lending philosophy is established by the Board of Directors through the Credit Risk Management Policy. The Credit Risk Management Policy provides direction to Management relative to operational credit policies, lending authorities, assessment and limits of specific and aggregate credit risk, individual and industry sector concentration limits, as well as monitoring and reporting requirements. Meridian will extend credit to Members and businesses of strong character with a demonstrated willingness and ability to repay. A detailed discussion of the management of credit risk is provided in the Consolidated Financial Statements.

Financial Risk

Financial Risk is the risk that Meridian is unable to secure adequate, timely and reasonably priced funding or that key factors in financial markets change resulting in financial impacts to Meridian. These risks include changes to interest rates and foreign exchange rates, risks that Meridian's pension is not adequately funded, and funding and liquidity risks. Liquid assets are a critical element of Meridian's ongoing operations, both to manage short-term cash flows in normal operations and to fund the lending growth laid out in Meridian's financial plans. Meridian's strategy includes planned levels of both deposits and diverse external funding sources. Meridian updates funding requirement levels daily to ensure both funding diversification and adequate contingency lines. Meridian manages interest rate, liquidity and funding risks in line with its risk appetite and in support of its profitability objectives. A detailed discussion of the management of funding and liquidity risk is provided in the audited Consolidated Financial Statements.

2020 Outlook

In December 2019, the Conference Board of Canada estimated 2020 GDP growth in the Canadian economy at 1.8%. This is slightly higher than 2019's growth at 1.7%. 2021 is expected to increase over 2020 at 1.9%.

The biggest fear for the Canadian economy has shifted from the possible risk of a global trade induced recession to a global slowdown and recession caused by the impacts of COVID-19. The Minister of Finance, Bill Morneau, has signalled that he expects the economic outlook for Canada to be negatively impacted by the coronavirus outbreak, with particular impact felt in the tourism sector and oil & gas sector. The virus has currently spread through over 121 countries and territories, with the growth of infections in Europe continuing to increase exponentially. These uncertainties have challenged policy makers and highlight the difficult decisions facing the Bank of Canada around interest rates and monetary policy, and the Minister of Finance around fiscal policy. As a result, the Bank of Canada lowered its overnight rate 50 basis points in March with the market expectations of further rate cuts to quickly follow. This is a marked shift from the previous "neutral" view that was held at the end of 2019 and is in response to rapidly falling oil prices, which are retreating at the expectation of slowing global economic growth, as well as increased production from Saudi Arabia.

Canadian consumer spending is expected to see modest growth in 2020. This is being driven by lowered borrowing costs and continued trends of lowered unemployment and job growth overall. The Bank of Canada has also noted a recovery in resale housing markets and a much-anticipated rebound in energy sector investment, though some of this investment is challenged by government intervention and ongoing protests. These factors are expected to help the Canadian economy in 2020.

In 2020, the housing market for both new and existing homes is anticipated to start to grow again. This is in response to employment and population growth, as well as now lower mortgage interest rates. These factors are expected to overcome the government policies (stress tests) designed to slow demand.

With oil prices retreating at the expectation of slowing global economic growth, the Canadian dollar is at elevated risk of declining relative to its US counterpart.

Looking specifically at Ontario, and ignoring the potential impact to the local economy of COVID-19, real GDP is expected to increase to 1.8% in 2020 (1.6% for 2019) as business and consumer confidence is expected to improve. Strong employment growth in 2019 (2.6%) is expected to dip to 1.5% in 2020 with manufacturing and primary resource sectors slowing down. Housing is going to remain supportive of the economy with rising population growth. Much of the growth is coming from international migrations as Ontario looks to get ahead of the aging population trend by welcoming more immigrants, especially skilled workers and economic migrants.

2020 Outlook (continued)

Meridian Initiatives

While the expected impact of COVID-19 continues to rapidly evolve, Meridian is well positioned to withstand its impact.

The following outlines some of the major initiatives planned for 2020:

- **Enhanced Sales and Service Experience:** Meridian is looking to build on bringing a service that is second to none. We want to deliver a unique and personalized experience "where banking feels good." We will be bringing that experience in a consistent manner through all channels: branch, commercial, digital, contact centre and mobile sales force.

- **Line of Business Diversification:** We will continue to be diligent in investigating selective acquisitions and/or builds of new business lines to join the Meridian family. Meridian continues to leverage OneCap and seek opportunities where it enables profitable expansion into transformational business lines. OneCap, along with our launch of motusbank, are two large-scale strategic initiatives oriented towards diversifying our business model and bringing Meridian's value proposition to a greater number of Canadians.

- **Branch & Commercial Banking Expansion:** Meridian will continue to invest in new Retail and Commercial branches. A new Business Banking Centre is planned to open in 2020 (London). As these new locations grow their Members, they're anticipated to contribute to Meridian's sustainable profitability over time.

- **New Products:** Meridian continues to strive to bring innovative and market-leading products to our Members to address unmet needs and differentiate ourselves. In 2020, Meridian will strive to build upon our national footprint with unique product offers for motusbank. To focus on the needs of our Members, we anticipate a constant focus on looking for opportunities to address these needs from a product and technology perspective.

- **Subordinated Notes Issuance:** Meridian is issuing a total of $125 million in subordinated notes to Caisse de dépôt et placement du Québec in 2020 with $75 million settled in February and a $50 million commitment to be settled no later than August. The debentures will further strengthen Meridian's capital base and provide further safeguards against external shocks.

2020 Outlook (continued)

Anticipated strong growth in relationships is expected to result in increased revenue. Pre-tax earnings growth continues to help support investment in strategic initiatives and maintain a strong capital base. As motusbank enters into its second year of operations, it is expected to continue to extend Meridian's value proposition through increased membership and relationship growth on a National level. Increasing volumes allows this start-up business to scale in to order to build a sustainable revenue base that leverages Meridian's infrastructure, which ultimately supports the strategic growth of Meridian. A continued focus on structural cost optimization will help increase earnings, efficiency ratios, and in turn, our ability to reinvest back into the business to help bring our value proposition to more Canadians.

Meridian is strategically positioning the balance sheet in 2020 by holding higher levels of liquid assets, which will be supported by the continued expansion into new funding sources. The increase in liquidity protects Meridian's balance sheet from potential market events while optimizing new funding sources as we capitalize on Meridian's position in the Canadian financial system.

Capital is essential to allow Meridian to continue to invest strategically to support our Members' future needs. Management is committed to implementing strategies to maintain capital levels that are financially sound and will employ long-term strategies to further strengthen Meridian's capital base. The Ontario government has signalled that it will be introducing a modernized *Credit Unions and Caisses Populaires Act* in 2020. This Act will include changes to our capital adequacy regulations, which are expected to be introduced later in 2020 or early 2021, governing the amount and type of capital credit unions, including Meridian, must maintain. We do not expect these changes to have a material impact on Meridian's Capital Plan, but rather, we anticipate that the changes will further strengthen the regulatory capital of all credit unions and provide greater assurance of sector stability.

Consolidated Financial Statements of

MERIDIAN CREDIT UNION LIMITED

Year ended December 31, 2019

MERIDIAN CREDIT UNION LIMITED

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Independent auditor's report

To the Members of Meridian Credit Union Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Meridian Credit Union Limited and its subsidiaries (together, the Credit Union) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Credit Union's consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated 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 consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 10, 2020

MERIDIAN CREDIT UNION LIMITED
CONSOLIDATED BALANCE SHEET
As at December 31, 2019 with comparative figures for 2018

(thousands of Canadian dollars)	Note		December 31 2019		December 31 2018
ASSETS					
Cash and cash equivalents	5	$	575,906	$	408,330
Receivables	6		6,882		2,863
Current income tax receivable			3,088		-
Investments in debt instruments	7		1,400,098		1,061,506
Loans	8		17,349,909		14,900,308
Finance receivables, net	9		1,169,165		1,178,544
Derivative financial assets	10		32,012		23,410
Investments in equity instruments	11		84,517		74,218
Investment in associates	12		-		328
Intangible assets	13		31,749		36,727
Goodwill	14		73,232		73,232
Property, plant and equipment	15		43,694		46,639
Deferred income tax assets	17		48,707		44,592
Right-of-use assets	16		82,033		-
Other assets	18		59,122		48,558
Total assets		$	20,960,114	$	17,899,255
LIABILITIES					
Deposits	19	$	14,869,498	$	13,148,717
Borrowings	20		300,444		11
Lease liabilities	16		85,594		-
Payables and other liabilities	21		73,664		57,312
Current income tax payable			6,381		4,645
Secured borrowings	22		1,359,020		1,127,736
Mortgage securitization liabilities	23		3,001,663		2,428,275
Derivative financial liabilities	10		10,063		6,922
Pension and other employee obligations	24		48,580		47,827
Membership shares	26		376		350
Subordinated debt	25		49,895		-
Total liabilities			19,805,178		16,821,795
MEMBERS' EQUITY					
Members' capital accounts	26		579,566		561,507
Contributed surplus			104,761		104,761
Retained earnings			456,781		399,246
Accumulated other comprehensive income			13,828		11,946
Total equity attributable to Members			1,154,936		1,077,460
Total liabilities and Members' equity		$	20,960,114	$	17,899,255

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

MERIDIAN CREDIT UNION LIMITED
CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2019 with comparative figures for 2018

(thousands of Canadian dollars)	Note	2019	2018
INTEREST INCOME			
Interest income - loans		$ 611,537	$ 513,568
Interest income - other		92,455	76,819
Total interest income		703,992	590,387
INTEREST EXPENSE			
Interest expense - deposits		283,329	203,700
Interest expense - other		93,590	89,381
Total interest expense		376,919	293,081
Net interest income	27	327,073	297,306
Provision for credit losses	8, 9	19,967	12,892
Net interest income after provision for credit losses		307,106	284,414
Non-interest income	28	93,138	83,814
Share of profits from investment in joint venture		-	4
Net interest and non-interest income		400,244	368,232
NON-INTEREST EXPENSES			
Salaries and employee benefits	24	182,325	168,892
Administration		87,043	75,150
Occupancy		10,452	18,854
Amortization of intangible assets	13	7,243	8,136
Depreciation of property, plant and equipment	15	11,132	11,352
Depreciation, right-of-use assets	16	8,049	-
Total non-interest expenses		306,244	282,384
Operating earnings		94,000	85,848
Income tax expense	29	12,508	12,280
Profits for the year attributable to Members		$ 81,492	$ 73,568

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

MERIDIAN CREDIT UNION LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019 with comparative figures for 2018

(thousands of Canadian dollars)	Note		2019		2018
Profits for the year attributable to Members		$	81,492	$	73,568
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified to profit or loss					
Actuarial (losses) gains in defined benefit pension plans	24		(1,251)		738
Related income taxes recovery (expense)	29		232		(137)
			(1,019)		601
Items that may be subsequently reclassified to profit or loss					
Cash flow hedges - effective portion of changes in fair value	10		4,772		(1,125)
Cash flow hedges - reclassified to profit or loss	10		(2,983)		1,118
Related income taxes recovery	10, 29		93		90
			1,882		83
Other comprehensive income for the year, net of income taxes			863		684
Total comprehensive income for the year attributable to Members		$	82,355	$	74,252

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

MERIDIAN CREDIT UNION LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2019 with comparative figures for 2018

(thousands of Canadian dollars)	Note	Members' capital	Contributed surplus	Retained earnings	Hedging reserves	Total equity
Balance as at January 1, 2019		$ 561,507	$ 104,761	$ 399,246	$ 11,946	$ 1,077,460
Dividends on Members' capital accounts	26	-	-	(22,938)	-	(22,938)
Shares issued to Members net of redemptions	26	(1,245)	-	-	-	(1,245)
Shares issued as dividends	26	19,304	-	-	-	19,304
Transactions with owners		18,059	-	(22,938)	-	(4,879)
Profits for the year attributable to Members		-	-	81,492	-	81,492
Other comprehensive income for the year, net of income taxes:						
Actuarial gains in defined benefit pension plans	24	-	-	(1,019)	-	(1,019)
Cash flow hedges - effective portion of changes in fair value		-	-	-	5,020	5,020
Cash flow hedges - reclassified to profit or loss	10	-	-	-	(3,138)	(3,138)
Total comprehensive income for the year attributable to Members		-	-	80,473	1,882	82,355
Balance as at December 31, 2019		$ 579,566	$ 104,761	$ 456,781	$ 13,828	$ 1,154,936

(thousands of Canadian dollars)	Note	Members' capital	Contributed surplus	Retained earnings	Hedging reserves	Total equity
Balance as at January 1, 2018		$ 548,694	$ 104,761	$ 355,553	$ 11,863	$ 1,020,871
Changes on initial application of IFRS 9		-	-	(11,795)	-	(11,795)
Restated balance as at January 1, 2018		548,694	104,761	343,758	11,863	1,009,076
Dividends on Members' capital accounts	26	-	-	(18,681)	-	(18,681)
Shares issued to Members net of redemptions	26	(2,325)	-	-	-	(2,325)
Shares issued as dividends	26	15,138	-	-	-	15,138
Transactions with owners		12,813	-	(18,681)	-	(5,868)
Profits for the year attributable to Members		-	-	73,568	-	73,568
Other comprehensive income for the year, net of income taxes:						
Actuarial losses in defined benefit pension plans	24	-	-	601	-	601
Cash flow hedges - effective portion of changes in fair value		-	-	-	83	83
Total comprehensive income for the year attributable to Members		-	-	74,169	83	74,252
Balance as at December 31, 2018		$ 561,507	$ 104,761	$ 399,246	$ 11,946	$ 1,077,460

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

MERIDIAN CREDIT UNION LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2019 with comparative figures for 2018

(thousands of Canadian dollars)	Note		2019		2018
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		$	717,587	$	621,424
Interest paid			(345,329)		(277,287)
Fee and commission receipts			70,118		63,218
Other income received			12,401		10,034
Premiums paid on index-linked option contracts			(2,806)		(2,921)
Recoveries on loans previously written off	8		373		2,316
Payments to employees and suppliers			(275,419)		(261,195)
Proceeds on settlement of derivatives			10,011		(244)
Income taxes paid			(17,648)		(7,165)
Net cash flows from operating activities before adjustments for changes in operating assets and liabilities			169,288		148,180
Adjustments for net changes in operating assets and liabilities:					
Net change in loans			(2,449,738)		(1,879,860)
Purchase of leasing equipment			(525,375)		(632,896)
Principal payments received on finance receivables			528,553		486,667
Net change in receivables			(2,635)		2,497
Net change in other assets and liabilities			(17,790)		539
Net change in Members\` deposits			1,680,577		1,512,903
Net cash flows used in operating activities			(617,120)		(361,970)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of reinvestment securities			-		(34,615)
Net change in other investments			(395,861)		(191,681)
Distributions received from investment in joint venture			-		1,540
Purchase of intangible assets	13		(2,265)		(1,138)
Net change in right of use assets	16		(87,032)		-
Purchase of property, plant and equipment	15		(10,321)		(7,496)
Proceeds on sale of property, plant and equipment	15		44		-
Net cash flows used in investing activities			(495,435)		(233,390)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from securitization of mortgages			1,074,274		478,862
Net change in mortgage securitization liabilities			(454,670)		27,302
Net change in borrowings			300,887		(32,811)
Net change in subordinated debt			50,038		-
Net change in leases liabilities			82,890		-
Issuance of secured notes net			231,488		191,371
Dividends paid on Members' capital accounts			(3,558)		(2,611)
Net cash from changes in Membership shares			26		29
Net change in Member capital accounts			(1,244)		(2,326)
Net cash flows from financing activities			1,280,131		659,816
Net increase in cash and cash equivalents			167,576		64,456
Cash and cash equivalents, beginning of year			408,330		343,874
Cash and cash equivalents, end of year [1]	5	$	575,906	$	408,330

[1] Cash and cash equivalents include restricted funds in the amount of $22,985 (2018 – $23,296).

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

1 Nature of operations

Meridian Credit Union Limited ("the Credit Union" or "Meridian") is incorporated in Canada under the Credit Unions and Caisses Populaires Act (the "Act"), and is a member of the the Financial Services Regulatory Authority of Ontario ("FSRA") and of Central 1 Credit Union ("Central 1"). The Credit Union is headquartered at 75 Corporate Park Drive in St. Catharines, ON.

The Credit Union is primarily involved in the raising of funds and the application of those funds in providing financial services to Members. The activities of the Credit Union are regulated by FSRA. The Credit Union has 92 branches and 14 business-banking centres across Ontario.

On April 22, 2016, the Credit Union acquired Meridian OneCap Credit Corp. ("OneCap"), a wholly owned subsidiary that is primarily involved in lease financing that operates throughout Canada. On August 29, 2018 the Credit Union incorporated Meridian Holdco Limited ("Holdco") and on October 3, 2018 Motus Bank ("motusbank") received Letters Patent of Incorporation from the Minister of Finance. On January 10, 2019 motusbank received Orders to Commence and Carry on Business from the Minister of Finance. motusbank is a wholly-owned subsidiary of the Holdco, which in turn is a wholly-owned subsidiary of the Credit Union. The activities of motusbank are regulated by the Office of the Superintendent of Financial Institutions ("OSFI").

2 Basis of presentation

2.1 Statement of compliance

The consolidated financial statements of the Credit Union have been prepared in accordance with International Financial Reporting Standards ("IFRS") and legislation for Ontario's Credit Unions and Caisses Populaires.

Unless otherwise indicated, all amounts except for per share figures are expressed in thousands of Canadian dollars.

2.2 Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates. Estimates and judgments are continually evaluated and are made based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances.

The items subject to the most significant application of judgment and estimates are as follows:

Classification of financial assets

As described in note 3.4, determining the appropriate business model for financial assets and assessing whether cash flows generated by an asset constitute solely payments of principal and interest ("SPPI") can be complex and may require significant judgment.

Fair value of financial instruments

As described in note 33.4, where the fair value of financial assets and financial liabilities cannot be derived from active markets, the Credit Union uses valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs, such as discount rates and prepayment rates.

Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Note 33.4 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments.

Allowance for expected credit losses on financial assets

Allowances for expected credit losses ("ECL") are applied to financial assets measured at amortized cost or fair value through other comprehensive income ("FVTOCI"), other than equities. The measurement of ECL requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of Members defaulting and the resulting losses).

2 Basis of presentation (continued)

2.2 Use of estimates and judgments (continued)

Allowance for expected credit losses on financial assets (continued)

A number of significant judgments and estimates are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for credit impairment;
- Determining the value and timing of receipts from collateral and other credit risk enhancements;
- Determining the criteria for a significant increase in credit risk ("SICR");
- Establishing appropriate levels of aggregation for products and business lines for the purposes of expected credit loss modelling;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number, design and relative weightings of forward-looking scenarios to be incorporated into the measurement of ECL.

The approach used for measuring allowances for ECL and the use of significant estimates and judgments is disclosed in more detail in note 33.1.

Impairment of non-financial assets

The Credit Union performs an assessment of its intangible assets and goodwill at each consolidated balance sheet date to determine whether an impairment loss should be recorded in the consolidated income statement. Broker and vendor relationships comprise most of the Credit Union's intangible assets.

The carrying value of broker and vendor relationships is significantly impacted by estimates about the future earnings expected to be generated from new lease originations with existing equipment vendors and brokers. Management assesses the recoverability of the carrying value at least annually.

Management assesses the carrying amount of goodwill for impairment at least annually. Management uses significant judgment to determine if the recoverable amount is less than the carrying value.

Further details on impairment of intangible assets are disclosed in note 3.11.

Recognition of securitization arrangements

As part of its program of liquidity, capital and interest rate risk management, the Credit Union enters into arrangements to fund growth by entering into mortgage securitization arrangements. As a result of these transactions and depending on the nature of the arrangement, the Credit Union may be subject to the recognition of the funds received as secured borrowings and the continued recognition of the securitized assets. The determination of the requirements for continued recognition requires significant judgment.

Further details of securitization arrangements are disclosed in note 23.

Deferred income taxes

Deferred income tax assets are recognized in respect of unused tax losses or deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred income tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

Further details on deferred income taxes are included in note 3.15 and note 17.

Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Any changes in these assumptions will impact the carrying value of the pension obligations.

Note 24 provides detailed information about the key assumptions used in the valuation of retirement benefit obligations, as well as the detailed sensitivity analysis for these assumptions.

2 Basis of presentation (continued)

2.2 Use of estimates and judgments (continued)

Valuation of right-of-use assets and lease liabilities

The valuation of right-of-use assets and lease liabilities require that the Credit Union make assumptions about the lease term and the interest rate used for discounting future cash flows. Given that contractual terms of lease contracts often contain renewal options, judgment is required to determine the likelihood that these options will be exercised. Where implicit interest rates are not determinable from a lease contract, judgment is used to determine an appropriate discount rate that is reflective of the rate that would be incurred if the Credit Union were to purchase the assets outright.

Further details on leased assets and liabilities are included in note 3.12 and note 16.

2.3 Regulatory compliance

Regulations to the Act specify that certain items are required to be disclosed in the consolidated financial statements that are presented at annual meetings of Members. This information has been integrated into these consolidated financial statements and notes. When necessary, reasonable estimates and interpretations have been made in presenting this information.

Note 32 contains additional information disclosed to support regulatory compliance.

3 Summary of significant accounting policies

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities, including derivative financial instruments, at fair value.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Except for the changes explained in note 4, the Credit Union has consistently applied the following accounting policies to all periods presented in the consolidated financial statements.

The adoption of new accounting standards, including IFRS 16, at the start of 2019 resulted in certain changes to the Credit Union's accounting policies. As comparative period results continue to be prepared using the previous standards, where relevant, the policies outlined below reference those in place after the start of the current year, those in place before the start of the current year, and those in place in both periods.

3.1 Basis of consolidation

The financial results of wholly owned subsidiaries of the Credit Union are included within these consolidated financial statements. All intercompany balances and transactions have been eliminated on consolidation.

Investments in which the Credit Union exerts significant influence but not control over operating and financing decisions are accounted for using the equity method. Under equity accounting, investments are initially recorded at cost and adjusted for the Credit Union's proportionate share of the net income or loss which is recorded in share of profits from investment in associate and share of profits from investment in joint venture in the consolidated income statement.

Investments in which the Credit Union exercises joint control are initially recognized at cost and subsequently accounted for using the equity method. The Credit Union's share of profits from investment in the joint venture is based on financial statements adjusted to conform to the accounting policies of the Credit Union.

3.2 Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they are recorded in the acquiree's financial statements prior to acquisition. At acquisition date, the assets and liabilities of the acquired subsidiary are included in the consolidated balance sheet at their fair value, which are also used as the basis for subsequent measurement in accordance with the Credit Union's accounting policies. Goodwill, if any, is stated after separating out identifiable intangible assets if the fair value of identifiable net assets at the date of acquisition is less than the consideration paid at the date of acquisition. Any excess of identifiable net assets over consideration paid is recognized in the consolidated income statement immediately after acquisition. Costs incurred in connection with the acquisition are recognized in profit or loss as incurred.

3 Summary of significant accounting policies (continued)

3.3 Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional and presentation currency.

Monetary assets and liabilities denominated in foreign currencies, primarily United States ("U.S.") dollars, are translated into Canadian dollars at exchange rates prevailing on the consolidated balance sheet date. Income and expenses are translated at the exchange rates in effect on the date of the transaction. Exchange gains and losses arising on the translation of monetary items are included in non-interest income for the year.

3.4 Financial instruments

Classification and measurement of financial assets

Financial assets are initially recognized at fair value, and are classified and subsequently measured at (i) amortized cost, (ii) fair value through profit or loss ("FVTPL"), or (iii) FVTOCI. The classification and measurement of financial assets is based on the type of financial asset, the business model to which it belongs, and its contractual cash flow characteristics.

Financial assets and financial liabilities, including derivative financial instruments, are recognized on the consolidated balance sheet of the Credit Union at the time the Credit Union becomes a party to the contractual provisions of the instrument. The Credit Union recognizes financial instruments at the trade date.

(a) Debt Instruments

Financial assets that are debt instruments include loans, bonds, and securities purchased under reverse repurchase agreements. Classification and subsequent measurement of debt instruments depend on: (i) the Credit Union's business model for managing the financial asset and (ii) its contractual cash flow characteristics. Finance receivables are outside the scope of IFRS 9 classification and measurement requirements and are not subject to the policies outlined below.

Business model evaluation:
The business model reflects how the Credit Union manages a portfolio of assets to generate returns. That is, whether the Credit Union's objective for the portfolio of financial assets is to generate returns through the collection of contractual cash flows, through both the collection of contractual cash and selling, or through active trading. Factors considered by the Credit Union in determining the business model of a portfolio of financial assets include: past experience on the collection of contractual cash flows and selling within the portfolio, how the portfolio's performance is evaluated and reported to management, how the portfolio's risks are assessed and managed. For example, the Credit Union's business model for residential mortgages is to collect the associated contractual cash flows.

Cash flow characteristics evaluation:
Once the business model of a portfolio of financial assets is assessed, individual financial assets therein are evaluated for their cash flow characteristics and in order to determine whether these represent SPPI. In making this assessment, the Credit Union considers whether contractual cash flows are consistent with a basic lending arrangement (e.g. interest including only consideration for the time value of money, other basic lending risks, and a profit margin that is consistent with a basic lending arrangement).

Amortized cost:
Where a debt instrument is managed in a business model where returns are generated through the collection of contractual cash flows which represent SPPI, it is measured at amortized cost. Debt instruments carried at amortized cost are recorded at fair value at initial recognition less provisions for ECL. Interest income is recognized using the effective interest rate method and is recorded in total interest income. Impairment losses are recognized in profit or loss at each balance sheet date in accordance with the three-stage impairment model outlined in note 3.7. Upon de-recognition of financial assets carried at amortized cost, any difference between disposal proceeds and the carrying value is recognized immediately in profit or loss. The Credit Union has classified its cash and cash equivalents, receivables, investments in debt instruments, and loans as amortized cost.

FVTPL:
Where a debt instrument is managed in a business model that is held for trading or its cash flows do not represent SPPI, it is carried at FVTPL. Debt instruments carried at FVTPL are recorded at fair value at initial recognition with all subsequent re-measurements being recognized in profit or loss. At the reporting date, the Credit Union had not classified any debt instruments as FVTPL.

3 Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

FVTOCI:
Where a debt instrument is managed in a business model where returns are generated both through the collection of contractual cash flows and through selling, and its contractual cash flows represent SPPI, it is classified as FVTOCI. Debt instruments carried at FVTOCI are recorded at fair value at initial recognition. Subsequent re-measurements in fair value are recorded in other comprehensive income ("OCI"), except for interest recognized using the effective interest rate method or the re-measurement of ECL, both of which are recognized in profit or loss. Impairment losses are recognized in profit or loss in accordance with the three-stage impairment model outlined in note 3.7. Interest income is recognized using the effective interest rate method. Upon de-recognition of debt instruments carried at FVTOCI, cumulative fair value movements recognized in OCI are recycled to profit or loss. At the reporting date, the Credit Union had not classified any debt instruments as FVTOCI.

(b) Equity instruments

Equity instruments are instruments that do not contain a contractual obligation to pay, evidence a residual interest in the issuer's net assets, and are considered equity from the perspective of the issuer. Examples of equity instruments include common shares.

Equity instruments are classified as FVTPL unless they are not held for trading purposes and an irrevocable election is made at inception to designate the asset as FVTOCI. The Credit Union has not elected to designate any investments in equity instruments as FVTOCI. Equity instruments classified as FVTPL are recorded at fair value at initial recognition with subsequent re-measurements in fair value recognized in profit or loss.

Classification and measurement of financial assets and financial liabilities

Derivative financial instruments:
Derivative financial instruments are contracts, such as options, swaps, swaptions and forward contracts, where the value of the contract is derived from the price of an underlying variable. The most common underlying variables include stocks, bonds, commodities, currencies, interest rates and market rates. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices as well as to meet the requirements to participate in the Canada Mortgage Bond Program ("CMB Program") for securitization as discussed in note 23. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Assets in this category are measured at fair value. Gains or losses are recognized in profit or loss in other interest income, unless the derivative is designated as a hedging instrument. For designated hedging instruments, the recognition of the gain or loss will depend on the hedge accounting rules described below. Gains or losses on derivative financial instruments are based on changes in fair value determined by reference to active market transactions or using a valuation technique where no active market exists.

Embedded derivatives:
Certain derivatives embedded in other financial liabilities, such as the embedded option in an index-linked term deposit product, are treated as separate derivative financial instruments when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at FVTPL. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

Hedge accounting:
The Credit Union documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. The Credit Union also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk.

In a cash flow hedge, the effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss within net interest income. Amounts accumulated in OCI are reclassified to profit or loss in the periods when the hedged item affects profit or loss and are recorded within net interest income. The Credit Union utilizes cash flow hedges primarily to convert floating rate assets and liabilities to fixed rate.

3 Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

When a hedging instrument in a cash flow hedging relationship expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in AOCI at that time remains in AOCI and is recognized in the statement of comprehensive income as the hedged item affects earnings. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the income statement within net interest income. If a forecasted transaction is no longer highly probable of occurring, but is still likely to occur, hedge accounting will be discontinued and the cumulative gain or loss existing in AOCI at that time remains in AOCI and is amortized to net interest income in the statement of comprehensive income at the same time the hedged item will affect earnings.

In a fair value hedge, the full change in the fair value of derivatives is recognized in profit or loss. Where derivatives are designated and qualify as fair value hedges, the carrying value of the hedged item is adjusted to reflect its change in fair value since the inception of the hedge relationship. The full amount of the fair value adjustment is also taken to profit or loss to offset fair value changes on the derivative. Any difference between the change in fair value of the derivatives and fair value adjustments on the hedged items are recognized within net interest income. The Credit Union utilizes fair value hedges primarily to convert fixed rate assets to a floating rate.

When a hedging instrument in a fair value hedging relationship expires or is sold, it no longer meets the criteria for hedge accounting, or the hedging relationship is voluntarily discontinued, any cumulative fair value adjustment is recognized in profit or loss over the remaining life of the hedged item by adjusting its effective interest rate. Where the hedged item is de-recognized prior to the end of the hedging relationship, any cumulative fair value adjustment recognized is immediately recognized in profit or loss.

At the reporting date, the Credit Union had not elected to adopt the hedge accounting aspects of IFRS 9 and continues to apply hedge accounting as per IAS 39. Hedge accounting disclosure requirements of IFRS 9 have been included.

Classification and measurement of financial liabilities

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost, except for derivative financial liabilities which are subsequently measured at FVTPL. Financial liabilities measured at amortized cost include: deposits, borrowings, payables, secured borrowings and mortgage securitization liabilities.

Obligations related to securities sold under repurchase agreements
Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated balance sheet. The corresponding cash received is recognized in the consolidated balance sheet with a corresponding obligation to return it, including accrued interest as a liability within obligations related to securities sold under repurchase agreements, reflecting the transaction's economic substance as a loan to the Credit Union. The difference between the sale and repurchase price is treated as interest and recognized over the life of the agreement using the effective interest method. These agreements are classified as financial liabilities at amortized cost.

Derecognition of financial instruments

Financial assets are derecognized when contractual rights to the cash flows from the asset have expired, or when substantially all of the risks and rewards of ownership are transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of ownership, it assesses whether it has retained control over the transferred asset.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Reclassifications

The credit union reclassifies debt instruments only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

3 Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

Modification of financial assets measured at amortized cost

The Credit Union sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this occurs, the Credit Union assesses whether the new terms are substantially different from the original terms by considering the following factors:

- If the borrower is in financial difficulty, whether the modifications merely reduce the contractual cash flows to amount the borrower is expected to pay
- Whether any substantial new terms are introduced, such as profit sharing or equity-based returns, that substantially affect the risk profile of the loan
- Significant extension of the loan term when the borrower is not in financial difficulty
- Significant change in interest rate
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan

If the terms are substantially different, the Credit Union derecognizes the original financial asset, recognizes a new financial asset, and calculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment purposes. The Credit Union also assesses whether the new financial asset recognized is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally planned payments. Differences in the carrying amount are recognized in profit or loss as a gain or loss on de-recognition.

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition. The Credit Union recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

3.5 Interest income and expense

Interest-bearing financial instruments

Interest income and expense for all interest-bearing financial instruments, except those classified as FVTPL and finance receivables, are recognized within interest income or interest expense in the consolidated income statement as they accrue using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and incorporates any fees and transaction costs that are integral to establishing the contract.

Finance receivables

OneCap provides financing to customers through direct financing leases and loans.

Direct financing leases, which are contracts under terms that provide for the transfer of substantially all the benefits and risks of the equipment ownership to customers, are carried at amortized cost. These leases are recorded at the aggregate minimum payments plus residual values accruing to the Company less unearned finance income. Revenue is recognized in interest income.

Retail loans and dealer financing loans are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan.

At lease inception, the aggregate future minimum lease payments and contractual residual value of the leased asset less unearned income are recorded as finance receivables. Revenue is recognized over the lease term to approximate an equal rate of return on the outstanding net investment. Contractual residual values of finance leases represent an estimate of the values of the equipment at the end of the lease contracts. During the term of each lease, management evaluates the adequacy of its estimate of the residual value and makes allowances to the extent the fair value at lease maturity is estimated to be less than the contractual lease residual value.

3 Summary of significant accounting policies (continued)

3.5 Interest income and expense (continued)

Finance receivables (continued)

Initial direct costs that relate to the origination of the finance receivables are capitalized and amortized as part of effective interest. These costs are incremental to individual leases or loans and comprise certain specific activities related to processing requests for financing, such as the costs to underwrite the transaction and commission payments.

3.6 Fee and commission income

Fee and commission income not directly attributable to the acquisition of financial instruments is recognized as the related performance obligation is satisfied, either over time or at a point in time.

Revenue is recognized by determining the transaction price of distinct goods or services and allocating the price to the satisfaction of each performance obligation (i.e. the delivery of each distinct good or service). The result is to recognize revenue in a manner that depicts the amount of consideration due to the transfer of each good or service.

Fee and commission income that is directly attributable to acquiring or issuing a financial asset or financial liability not classified as FVTPL is added to or deducted from the initial carrying value. Fee and commission income is then included in the calculation of the effective interest rate and amortized through profit or loss over the term of the financial asset or financial liability. For financial instruments carried at FVTPL, transaction costs are immediately recognized in profit or loss on initial recognition.

3.7 Impairment of financial assets

At initial recognition, the Credit Union recognizes allowances for ECL on all debt instruments measured at amortized cost or FVTOCI. ECL are also recognized for finance receivables, contract assets, loan commitments and financial guarantees. In the section below, the use of the term "financial asset" should be assumed to apply to all assets and exposures within the scope of the IFRS 9 impairment model.

At each reporting date, the Credit Union measures the loss allowance for a financial asset at an amount equal to its lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition and it was not originated as credit impaired, the Credit Union measures the loss allowance for the financial asset at an amount equal to its 12-month ECL.

The Credit Union's measurement of ECL incorporates an assessment of the following parameters:

- Probability of default ("PD")
- Exposure at default ("EAD")
- Loss given default ("LGD")

The Credit Union's measurement of ECL also reflects:

- An unbiased and probability-weighted amount determined by evaluating a range of outcomes
- The time value of money
- Information about past events, current conditions and forward-looking information

Note 33.1 includes more detailed descriptions of the Credit Union's methodologies for determining PD, EAD and LGD. The note also includes descriptions of how the Credit Union determines a SICR, the definition of default, the approach for incorporating forward-looking information, and other information pertaining to the measurement of ECL.

A three-stage framework is used for the establishment of ECL based on changes in a financial asset's credit quality since initial recognition. The measurement of ECL and recognition of interest revenue is dependent on the stage to which the financial asset belongs.

Stage 1 includes all financial assets that, at the reporting date, have not had a SICR since initial recognition and were not originated as credit impaired. Loss allowances at an amount equal to 12-month ECL are recognized on all financial assets in stage 1 with interest income recognized using the effective interest rate on the financial asset's gross carrying amount.

Stage 2 includes all financial assets that, at the reporting date, have had a SICR since initial recognition, but are not credit impaired. Loss allowances at an amount equal to lifetime ECL are recognized on all financial assets in stage 2 with interest income recognized using the effective interest rate on the financial asset's gross carrying amount.

3 Summary of significant accounting policies (continued)

3.7 Impairment of financial assets (continued)

Stage 3 includes all financial assets for which a default event has occurred (i.e. the asset has become credit impaired). Loss allowances at an amount equal to lifetime ECL are recognized on all financial assets in stage 3 with interest income recognized using the effective interest rate on the financial asset's amortized cost carrying amount (i.e. net of the loss allowance). In determining whether a default event has occurred, the Credit Union considers evidence such as delinquency, bankruptcy, breach of covenants, or other evidence as determined by management.

Stage 3 loss allowances on financial assets are assessed on an individual basis. They are measured at the amount required to reduce the carrying value of the impaired asset to its estimated realizable amount. This is generally the fair value of the underlying security of the asset, net of expected costs of realization. Expected costs of realization are determined by discounting the security at the financial asset's original effective interest rate.

Write offs

The Credit Union directly reduces the gross carrying amount of a financial asset along with the associated impairment allowance when it has no reasonable expectations of recovering the financial asset either partly or in full.

3.8 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately include computer software, other than software which is considered to be an integral part of property classified as property, plant and equipment which is included in computer hardware and software, as well as design plans which will be used in the future construction or renovation of branch locations or commercial banking centres. Intangible assets acquired separately are recorded at cost. Cost includes expenditures that are directly attributable to bringing the asset to its state of intended use.

Intangible assets acquired through business combinations

Intangible assets acquired through business combinations have limited lives and include core deposit intangibles and broker and vendor relationships.

Core deposit intangibles represent the cost savings inherent in acquiring a deposit portfolio with a lower cost of funding versus going into the market for the funds. An accelerated method of amortization is used for core deposit intangible assets based on the anticipated deposit runoff pattern over a seven year period.

Broker and vendor relationships represent the fair value of future earnings expected to be generated from new lease originations with equipment vendors and brokers at the time of acquisition. This intangible is amortized as earnings are realized based on forecasted originations, anticipated annual retention rates and earnings projections over a twenty three year period.

Other intangible assets are amortized to income on a straight-line basis over the period during which the assets are anticipated to provide economic benefit, which currently ranges from three to ten years.

Intangible assets are subject to impairment review as described in note 3.11.

The Credit Union does not have any intangible assets with indefinite lives.

3.9 Property, plant and equipment

Recognition and measurement

Land is carried at cost less impairment losses. Buildings and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the computer hardware.

Depreciation

Land is not depreciated. Depreciation of other assets commences when the asset is available for use and is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

3 Summary of significant accounting policies (continued)

3.9 Property, plant and equipment (continued)

Depreciation (continued)

Buildings and improvements	5-40 years
Furniture and office equipment	5-10 years
Computer hardware and software	3-5 years
Leasehold improvements	lease term to a maximum of 10 years

Where components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Residual value estimates and estimates of useful life are reviewed, and adjusted if appropriate, at each consolidated balance sheet date.

Assets are subject to impairment review as described under note 3.11.

3.10 Goodwill

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash-generating units ("CGU") to which it relates.

After initial recognition, goodwill is carried at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

3.11 Impairment of non-financial assets

Non-financial assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

For the purpose of assessing impairment, Credit Union assets are grouped at branch level, which is considered to be the lowest level or CGU for which they are separately identifiable. Meridian's wholly owned subsidiary is considered to be the CGU for non-financial assets relating to that business. The recoverable amount of a CGU is determined based on a value in use calculation.

For broker and vendor relationship intangibles, the recoverable amount is determined by applying current assumptions about lease originations, retention rates and earnings projections of the CGU.

For core deposit intangibles, the recoverable amount is determined by applying current assumptions about the inherent cost savings and runoff patterns to the remaining deposit portfolio balance.

For other non-financial assets the recoverable amount is the higher of an asset's fair value less costs to sell and value in use of the CGU to which the asset relates.

Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill is evaluated for impairment against the carrying amount of the CGU at least annually. The carrying amount of the CGU includes the carrying amounts of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionally based on the carrying amount of each asset. Any impairment loss is charged to income in the period in which the impairment is identified.

3 Summary of significant accounting policies (continued)

3.12 Leases

Policies applicable beginning January 1, 2019 (IFRS 16)

At inception, the Credit Union assesses whether a contract is or contains a lease. A lease arrangement conveys to the user the right to control the use of an identified asset for a period of time in exchange for consideration.

Meridian as Lessee:

The Credit Union recognizes a right-of-use ("ROU") asset and lease liability at the commencement of the lease.

The ROU asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability as described below;
- any lease payments made at or before commencement date, less any lease incentives received that are not considered compensation for leasehold improvements;
- any initial direct costs incurred; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset or restoring the underlying asset to the condition required by the terms and conditions of the lease if there is an obligation for those costs.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term and is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if the rate cannot be readily determined, the Credit Union's incremental borrowing rate. Generally, the Credit Union uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- all contractual payments such as fixed payments less any lease incentives receivable that are not considered compensation for leasehold improvements;
- variable lease payments;
- residual value guarantees;
- exercise price of purchase if it is reasonably certain that the option will be exercised; and
- any other amounts expected to be payable

When the lease contains a renewal option that the Credit Union considers reasonably certain to be exercised, the cost of one renewal option period is included in the lease payments.

The lease liability is subsequently measured at amortized cost using the effective interest method. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the Credit Union's assessment of whether it will exercise a renewal option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

For leases with terms not exceeding twelve months and for leases of low-value assets, the Credit Union has elected not to recognize ROU assets and liabilities. The lease payments under these contracts are recognized on a straight-line basis over the lease term within non-interest expenses.

Meridian as Lessor:

When the Credit Union acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

When the Credit Union is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. The classification of a sublease should follow from the classification of the head lease. If the head lease has been classified as an operating lease, the sublease will also be classified as an operating lease. Otherwise, the sublease will be classified by reference to the right-of-use asset arising from the head lease.

Lease classification is only reassessed if there is a lease modification. Changes in estimates or circumstances do not give rise to a new classification.

3 Summary of significant accounting policies (continued)

3.12 Leases (continued)

Policies applicable beginning January 1, 2019 (IFRS 16) (continued)

Lease payments from operating leases are recognized as income on either a straight-line basis or another systematic basis where that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Policies applicable before January 1, 2019 (IAS 17)

Leases where the Credit Union assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset under a finance lease is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset and depreciated using the straight-line method over the term of the lease. The interest element of the finance cost is charged to profit or loss over the lease period.

Other leases are operating leases and the leased assets are not recognized on the Credit Union's consolidated balance sheet. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

3.13 Provisions

Provisions are recognized when the Credit Union has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Credit Union expects a provision to be reimbursed, the reimbursement is recognized as an asset only when the reimbursement is virtually certain. At each consolidated balance sheet date, the Credit Union assesses the adequacy of its pre-existing provisions and adjusts the amounts as necessary based on actual experience and changes in future estimates.

Provisions are measured at the present value of the estimated expenditure required to settle the present obligation and are recorded within operating expenses on the consolidated income statement.

3.14 Employee benefits

(a) Pension obligations

The Credit Union provides post-employment benefits through defined benefit plans as well as a defined contribution plan.

A defined contribution plan is a pension plan under which the Credit Union pays fixed contributions into a separate entity. The Credit Union has no legal or constructive obligation to pay further contributions after its payment of the fixed contribution. The contributions are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The cost of the plan is actuarially determined using the projected unit cost method pro-rated on service and management's best estimate of discount rates, expected plan investment performance, salary escalation, and retirement ages of employees. The plans include an annual indexation of the lesser of 4% or the increase in the previous calendar year's Consumer Price Index.

Service cost is the change in the present value of the defined benefit obligation resulting from employee service in either the current period or prior periods and from any gain or loss on settlement. Net interest is the change in the net defined benefit liability or asset that arises from the passage of time. Both service cost and net interest are recognized immediately in salaries and employee benefits.

Re-measurements of the net defined benefit liability include actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets excluding amounts included in net interest and changes in the effect of any asset ceilings. Re-measurements are recognized immediately in OCI.

The net defined benefit liability or asset recognized in the consolidated balance sheet is the plans' deficit or surplus at the balance sheet date, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The plans' deficit or surplus is the present value of the defined benefit obligation less the fair value of plan assets.

(b) Other post-retirement obligations

Other post-retirement obligations include health and dental care benefits for eligible retired employees. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans along with management's best estimate of expected health care costs.

3 Summary of significant accounting policies (continued)

3.14 Employee benefits (continued)

All employees are eligible for a retirement service award effective July 1, 2015. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

(c) Other short-term benefits
Liabilities for employee benefits for wages, salaries, termination pay and vacation pay represent the undiscounted amount which the Credit Union expects to pay as at the consolidated balance sheet date including related costs.

3.15 Income taxes

Income tax expense on the consolidated income statement comprises current and deferred income taxes. Income taxes are recognized in profit or loss, except to the extent that they relate to items recognized directly in OCI, in which case they are recognized in OCI.

Current income taxes are the expected taxes refundable or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the consolidated balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are recognized using the liability method, providing for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying value of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated balance sheet date.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be utilized.

3.16 Share capital

(a) Member shares
Shares are classified as liabilities or Members' equity according to their terms. Where shares are redeemable at the option of the Member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Residual value in excess of the face value on Member share liabilities, if any, is classified as equity. Where shares are redeemable at the discretion of the Credit Union's Board of Directors, the shares are classified as equity.

(b) Distributions to Members
Dividends on shares classified as liabilities are charged to profit or loss, while dividends on shares classified as equity are charged to retained earnings. Dividends declared on the Membership shares shall be paid in cash. Members may elect to receive dividends declared on Class A shares by way of cash or newly issued, fully paid equity shares of the same class. Dividends payable in cash are recorded in the period in which they are declared by the Credit Union's Board of Directors. Dividends payable by way of newly issued shares are recorded in the period in which the shares are issued.

(c) Share issue costs
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of income taxes, from the proceeds.

4 Changes in accounting policies

Issued standards now effective

IFRS 16, *Leases:*

The Credit Union has adopted IFRS 16 as issued by the IASB in January 2016 with a transition date of January 1, 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the consolidated financial statements. The new standard replaces the previous leases standard, IAS 17 and sets out the principles for recognition, measurement, presentation and disclosure of leases. In accordance with the transition provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognized on January 1, 2019. Comparative figures for the 2018 financial year have not been restated. Where financial statement line items have been re-named as a result of the new classification and measurement requirements of IFRS 16, prior period balances are disclosed under the re-named financial statement line items at their previous IAS 17 carrying values.

4 Changes in accounting policies (continued)

Issued standards now effective (continued)

On adoption of IFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as operating liabilities under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Credit Union's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.19%.

The table below provides a reconciliation between the amount of operating lease commitments disclosed as at December 31, 2018 under IAS 17 and the lease liabilities recognized as at January 1, 2019 under IFRS 16:

	2019
Operating lease commitments (Lessee) disclosed at December 31, 2018	58,637
Add: adjustments as a result of including renewal options	37,371
Less: short-term leases recognized on a straight-line basis as expense	(229)
Discounting	(15,115)
Lease liability recognized as at January 1, 2019	80,664

Right-of-use assets relating to leases previously accounted for as operating leases was measured at an amount equal to the associated lease liabilities of $80,664 less lease receivables related to subleases of $2,089 and unamortized operating lease liabilities of $875, for a balance of $77,700 as at January 1, 2019.

The carrying amounts of leases accounted for as finance leases under IAS 17 at December 31, 2018 were carried over on transition to IFRS 16. The carrying value of the underlying assets was $6 and was previously included in property, plant and equipment. The carrying amount of the associated lease liability was $11 and was previously included in borrowings.

In applying IFRS 16 for the first time, the Credit Union has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The accounting policies applicable to the Credit Union as a lessor in the comparative period were not different from IFRS 16. However, the Credit Union has reassessed all subleases at January 1, 2019 based on the remaining contractual terms and conditions of the head lease and sublease at that date. The carrying value of lease receivables relating to subleases as at January 1, 2019 is $2,089 with a corresponding reduction to the underlying right-of-use asset.

	2019
Operating lease commitments (lessor) disclosed at December 31, 2018	1,250
Less: leases classified as operating leases under IFRS 16	(102)
Add: adjustments as a result of including renewal options	1,306
Discounting	(365)
Lease receivable recognized as at January 1, 2019	2,089

4 Changes in accounting policies (continued)

The following table provides a reconciliation of statement of financial position balances from IAS 17 to IFRS 16 on January 1, 2019:

	IAS 17 as at December 31 2018	Reclassifications	Remeasurements	IFRS 16 as at January 1 2019
Lease receivable	-	-	2,089	2,089
Right-of-use asset	-	6	77,700	77,706
Property, plant and equipment	46,639	(6)	-	46,633
Borrrowings	(11)	11	-	-
Lease liabilities	-	(11)	(80,664)	(80,675)
Accounts payable and accrued liabilities	(875)	-	875	-

Issued standards not yet effective

Interest Rate Benchmark Reform:

The IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 on September 26, 2019, to provide relief from the potential effects of uncertainty arising from Interbank Offered Rate ("IBOR") reform. These amendments modify hedge accounting requirements, allowing the Credit Union to assume that the interest rate benchmark on which cash flows of the hedged item and hedging instrument are based are not altered as a result of IBOR reform, thereby allowing hedge accounting to continue. The amendments no longer apply once uncertainties arising from IBOR reform are no longer present. The amendments require specific disclosures for the affected hedging relationships. The amendments are effective for the Credit Union from January 1, 2020. The Credit Union is currently assessing the impact of IBOR reform and the amendments on its hedging relationships as well as the impact and extent of the additional disclosure requirements.

5 Cash and cash equivalents

Cash and cash equivalents include cash on hand, restricted funds, short-term investments and deposits with other financial institutions.

	2019	2018
Cash on hand	35,474	40,947
Deposits with other financial institutions	367,433	182,871
Short-term investments	150,014	161,216
Restricted funds	22,985	23,296
Total cash and cash equivalents	575,906	408,330

Included in deposits with other financial institutions is $40,598 (2018 – $48,192) held as an unscheduled prepayment cash reserve, a requirement of the Credit Union's participation in the National Housing Act Mortgage-Backed Securities ("NHA MBS") program. The use of these funds is restricted to those allowed as provided for by the NHA MBS program.

Restricted funds represent cash reserve accounts which are held in trust as security for secured borrowings.

6 Receivables

	2019	2018
Commodity tax receivables	163	144
Other receivables	6,719	2,719
Total receivables - current	6,882	2,863

7 Investments in debt instruments

	2019	2018
Central 1 liquidity reserve deposit	1,173,337	1,007,098
Securities purchased under reverse repurchase agreements	24,525	-
Other investments in debt instruments	202,236	54,408
All investments in debt instruments	1,400,098	1,061,506

Central 1 liquidity reserve deposit

The Credit Union is a member of Central 1. As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit an amount equal to 6% of its assets. The deposits bear interest at varying rates, dependent on the terms of the investments.

Securities purchased under reverse repurchase agreements

The Credit Union purchases securities eligible for reinvestment in the CMB Program under reverse repurchase agreements for reinvestment management purposes.

Other investments in debt instruments

The Credit Union held nil (2018 – one) interest bearing deposit with nil (2018 – one) Canadian financial institution for Canada Housing Trust ("CHT") pledge. These financial instruments are pledged in trust with CHT for CMB reinvestment purposes.

The Credit Union held fourteen (2018 – nil) interest bearing deposits with two (2018 – nil) Canadian financial institutions. In addition, motusbank held two (2018 – one) Government of Canada T-Bills, three (2018 – nil) Government bonds, three (2018 – nil) Corporate bonds with three (2018 – nil) Canadian corporations, and ten (2018 – nil) interest bearing deposits with seven (2018 – nil) Canadian financial institutions.

8 Loans

	2019	2018
Residential mortgages	10,532,464	8,941,855
Personal loans	1,377,644	1,324,484
Commercial loans	5,478,507	4,666,247
	17,388,615	14,932,586
Allowance for impaired loans	(38,706)	(32,278)
Total net loans	17,349,909	14,900,308
Current	5,351,499	4,768,671
Non-current	11,998,410	10,131,637

Residential mortgage loans are repayable in monthly blended principal and interest instalments over a maximum term of ten years, based on a maximum amortization period of 35 years. Open mortgages may be paid off at any time without notice or penalty and closed mortgages may be paid off at the discretion of the borrowers, but are subject to penalty. Commercial loans and personal loans are generally repayable in monthly blended principal and interest instalments over a maximum amortization period of 30 years, except for line of credit and dealer floorplan loans, which are repayable on a revolving credit basis and require minimum monthly payments. Outstanding balances on credit card loans, included in personal and commercial loans, may be repaid with any amount equal to or exceeding the minimum required payment. The minimum required payment is based on a percentage of the outstanding balance.

8 Loans (continued)

Movements in Loss Allowance

Allowances for credit losses are impacted by a variety of factors. The following tables describe the movement in allowances for credit losses by loan category:

Residential Mortgages	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2019	160	519	501	1,180
Transfers:				
Transfer from Stage 1 to Stage 2	(18)	106	-	88
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	13	(130)	-	(117)
Transfer from Stage 2 to Stage 3	-	(3)	6	3
Transfer from Stage 3 to Stage 2	-	1	-	1
New originations	38	132	-	170
Derecognized loans	(26)	(83)	(57)	(166)
Changes within each stage	(27)	(63)	(20)	(110)
Changes to macro-economic adjustments	(22)	(20)	-	(42)
Balance as at December 31, 2019	118	459	430	1,007
Movement in loss allowance	(42)	(60)	(71)	(173)
Recoveries	-	-	(67)	(67)
P&L charge for the period	(42)	(60)	(138)	(240)

Personal Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2019	1,639	5,529	676	7,844
Transfers:				
Transfer from Stage 1 to Stage 2	(227)	2,628	-	2,401
Transfer from Stage 1 to Stage 3	(61)	-	1,618	1,557
Transfer from Stage 2 to Stage 1	130	(1,220)	-	(1,090)
Transfer from Stage 2 to Stage 3	-	(318)	2,118	1,800
Transfer from Stage 3 to Stage 2	-	7	(23)	(16)
Transfer from Stage 3 to Stage 1	-	-	(2)	(2)
New originations	421	1,008	543	1,972
Derecognized loans	(160)	(474)	(112)	(746)
Changes within each stage	(99)	268	(37)	132
Changes to macro-economic adjustments	-	997	-	997
Write-offs	-	-	(3,271)	(3,271)
Balance as at December 31, 2019	1,643	8,425	1,510	11,578
Movement in loss allowance	4	2,896	834	3,734
Recoveries	-	-	(290)	(290)
Write-offs	-	-	3,271	3,271
P&L charge for the period	4	2,896	3,815	6,715

8 Loans (continued)

Commercial Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2019	10,481	6,336	6,437	23,254
Transfers:				
Transfer from Stage 1 to Stage 2	(1,164)	3,510	-	2,346
Transfer from Stage 1 to Stage 3	(12)	-	395	383
Transfer from Stage 2 to Stage 1	508	(1,329)	-	(821)
Transfer from Stage 2 to Stage 3	-	(210)	1,691	1,481
Transfer from Stage 3 to Stage 2	-	9	-	9
New originations	4,540	1,039	1,225	6,804
Derecognized loans	(2,071)	(1,219)	(3,584)	(6,874)
Changes within each stage	653	80	1,439	2,172
Changes to macro-economic adjustments	99	81	-	180
Changes to models	-	(1,395)	-	(1,395)
Write-offs	-	-	(1,418)	(1,418)
Balance as at December 31, 2019	13,034	6,902	6,185	26,121
Movement in loss allowance	2,553	566	(252)	2,867
Recoveries	-	-	(16)	(16)
Write-offs	-	-	1,418	1,418
P&L charge for the period	2,553	566	1,150	4,269

Residential Mortgages	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2018	239	779	691	1,709
Transfers:				
Transfer from Stage 1 to Stage 2	(24)	116	-	92
Transfer from Stage 2 to Stage 1	12	(164)	-	(152)
Transfer from Stage 2 to Stage 3	-	(7)	26	19
New originations	47	156	-	203
Derecognized loans	(20)	(113)	(74)	(207)
Changes within each stage	(54)	(102)	(128)	(284)
Changes to macro-economic adjustments	(40)	(146)	-	(186)
Write-offs	-	-	(14)	(14)
Balance as at December 31, 2018	160	519	501	1,180
Movement in loss allowance	(79)	(260)	(190)	(529)
Recoveries	-	-	(21)	(21)
Write-offs	-	-	14	14
P&L charge for the period	(79)	(260)	(197)	(536)

8 Loans (continued)

Personal Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2018	1,285	4,503	838	6,626
Transfers:				
Transfer from Stage 1 to Stage 2	(145)	1,796	-	1,651
Transfer from Stage 1 to Stage 3	(13)	-	702	689
Transfer from Stage 2 to Stage 1	77	(904)	-	(827)
Transfer from Stage 2 to Stage 3	-	(151)	1,094	943
Transfer from Stage 3 to Stage 2	-	17	(29)	(12)
New originations	743	999	624	2,366
Derecognized loans	(251)	(463)	(325)	(1,039)
Changes within each stage	56	210	(134)	132
Changes to macro-economic adjustments	(113)	(478)	-	(591)
Write-offs	-	-	(2,094)	(2,094)
Balance as at December 31, 2018	1,639	5,529	676	7,844
Movement in loss allowance	354	1,026	(162)	1,218
Recoveries	-	-	(375)	(375)
Write-offs	-	-	2,094	2,094
P&L charge for the period	354	1,026	1,557	2,937

Commercial Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2018	9,647	7,840	4,121	21,608
Transfers:				
Transfer from Stage 1 to Stage 2	(639)	1,898	-	1,259
Transfer from Stage 1 to Stage 3	(123)	-	919	796
Transfer from Stage 2 to Stage 1	361	(1,330)	-	(969)
Transfer from Stage 2 to Stage 3	-	(690)	292	(398)
Transfer from Stage 3 to Stage 2	-	9	(11)	(2)
New originations	3,455	931	4,272	8,658
Derecognized loans	(2,786)	(2,023)	(2,313)	(7,122)
Changes within each stage	(725)	(997)	(363)	(2,085)
Changes to macro-economic adjustments	1,291	698	-	1,989
Write-offs	-	-	(480)	(480)
Balance as at December 31, 2018	10,481	6,336	6,437	23,254
Movement in loss allowance	834	(1,504)	2,315	1,645
Recoveries	-	-	(1,920)	(1,920)
Write-offs	-	-	480	480
P&L charge for the period	834	(1,504)	875	205

8 Loans (continued)

There was a 18% increase in the gross carrying value of residential mortgages over the period (2018 - 16% increase); however, this had a minimal impact on the loss allowance, which only increased $4 as a result (2018 - immaterial). There was a 4% increase in the gross carrying value of personal loans over the period (2018 - 9% increase), generating a corresponding increase of $1,226 in the loss allowance (2018 - $1,327 increase). The write off of personal loans with a gross carrying value of $3,271 resulted in a reduction in the loss allowance by the same amount (2018 - $2,094 reduction). There was a 17% increase in the gross carrying value of commercial loans over the period (2018 - 14% increase). This increase did not have a significant impact on the loss allowance, movements on which were largely driven by other factors (2018 - $1,536 increase). The write off of commercial loans with a gross carrying value of $1,418 resulted in a reduction in the loss allowance by the same amount (2018 - $480 reduction).

	Residential mortgages	Personal loans	Commercial loans	Total
Gross impaired loans	11,229	3,884	60,863	75,976
Related security, net of expected costs	(10,799)	(2,374)	(54,678)	(67,851)
Balance as at December 31, 2019	430	1,510	6,185	8,125
Interest income recognized on impaired loans				5,150

	Residential mortgages	Personal loans	Commercial loans	Total
Gross impaired loans	10,308	4,203	75,609	90,120
Related security, net of expected costs	(9,807)	(3,527)	(69,172)	(82,506)
Balance as at December 31, 2018	501	676	6,437	7,614
Interest income recognized on impaired loans				2,871

Maximum exposure to credit risk

The following tables contain an analysis of the credit risk exposure of loans. The gross carrying amount of the loans below also represent the Credit Union's maximum exposure to credit risk on these loans.

Retail Mortgages	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Credit grade				
Unrated	141,366	38,284	-	179,650
A+	5,353,270	385,303	-	5,738,573
A	2,282,209	427,287	-	2,709,496
B	843,674	286,481	-	1,130,155
C	355,166	148,613	-	503,779
D	128,053	66,707	-	194,760
E	40,998	23,824	-	64,822
Defaulted	-	-	11,229	11,229
Gross carrying amount	9,144,736	1,376,499	11,229	10,532,464
Loss allowance	118	459	430	1,007
Carrying amount as at December 31, 2019	9,144,618	1,376,040	10,799	10,531,457

8 Loans (continued)

Personal Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	57,392	14,806	-	72,198
A+	703,749	30,698	-	734,447
A	295,622	47,725	-	343,347
B	114,086	26,773	-	140,859
C	32,470	13,520	-	45,990
D	24,961	6,183	-	31,144
E	3,222	2,553	-	5,775
Defaulted	-	-	3,884	3,884
Gross carrying amount	1,231,502	142,258	3,884	1,377,644
Loss allowance	1,643	8,425	1,510	11,578
Carrying amount as at December 31, 2019	1,229,859	133,833	2,374	1,366,066

Commercial Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	3,306	139	-	3,445
Very low	1,934	-	-	1,934
Low	29,609	148	-	29,757
Better	1,454,075	50,387	-	1,504,462
Average	2,426,971	228,416	-	2,655,387
Higher	664,249	462,583	-	1,126,832
Watch List	7	59,120	-	59,127
Distressed	2	36,698	-	36,700
Defaulted	-	-	60,863	60,863
Gross carrying amount	4,580,153	837,491	60,863	5,478,507
Loss allowance	13,034	6,902	6,185	26,121
Carrying amount as at December 31, 2019	4,567,119	830,589	54,678	5,452,386

8 Loans (continued)

Retail Mortgages	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	156,504	48,843	-	205,347
A+	4,211,177	223,221	-	4,434,398
A	2,134,256	347,468	-	2,481,724
B	785,383	258,314	-	1,043,697
C	346,791	155,666	-	502,457
D	131,396	62,686	-	194,082
E	43,790	26,052	-	69,842
Defaulted	-	-	10,308	10,308
Gross carrying amount	7,809,297	1,122,250	10,308	8,941,855
Loss allowance	160	519	501	1,180
Carrying amount as at December 31, 2018	7,809,137	1,121,731	9,807	8,940,675

Personal Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	97,865	20,458	-	118,323
A+	633,574	25,023	-	658,597
A	297,708	45,923	-	343,631
B	88,957	24,810	-	113,767
C	55,483	11,162	-	66,645
D	7,699	7,669	-	15,368
E	1,601	2,349	-	3,950
Defaulted	-	-	4,203	4,203
Gross carrying amount	1,182,887	137,394	4,203	1,324,484
Loss allowance	1,639	5,529	676	7,844
Carrying amount as at December 31, 2018	1,181,248	131,865	3,527	1,316,640

8 Loans (continued)

Commercial Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	12,039	1,306	-	13,345
Very low	7,230	-	-	7,230
Low	46,844	414	-	47,258
Better	1,362,973	28,384	-	1,391,357
Average	2,142,543	213,814	-	2,356,357
Higher	353,522	354,987	-	708,509
Watch List	231	65,785	-	66,016
Distressed	-	566	-	566
Defaulted	-	-	75,609	75,609
Gross carrying amount	3,925,382	665,256	75,609	4,666,247
Loss allowance	10,481	6,336	6,437	23,254
Carrying amount as at December 31, 2018	3,914,901	658,920	69,172	4,642,993

Loans past due but not impaired

	< 30 days	30-59 days	60-89 days
Retail	214,850	23,438	6,059
Commercial	28,431	13,285	4,967
Total as at December 31, 2019	243,281	36,723	11,026

	< 30 days	30-59 days	60-89 days	90 days and greater
Retail	222,352	24,223	3,853	12
Commercial	77,201	1,036	8	488
Total as at December 31, 2018	299,553	25,259	3,861	500

Collateral

There are documented policies and procedures in place for the valuation of financial and non-financial collateral. The fair valuation of non-financial collateral is performed if there has been a significant change in the terms and conditions of the loan and/or the loan is considered impaired. For impaired loans, an assessment of the collateral is taken into consideration when estimating the net realizable amount of the loans.

The amount and type of collateral and other credit enhancements required depend on the Credit Union's assessment of counterparty credit quality and repayment capacity. Non-financial collateral is used in connection with both Commercial and Retail loan exposure. The Credit Union standards for collateral valuation, frequency of recalculation of the collateral requirement, documentation, registration and perfection procedures and monitoring are in effect. Non-financial collateral taken by the Credit Union includes vehicles, residential real estate, real estate under development, commercial real estate and business assets, such as accounts receivable, inventory and fixed assets. The main types of financial collateral taken by the Credit Union include cash and negotiable securities issued by governments and investment grade issuers, and assignment of life insurance. Guarantees are also taken to reduce credit exposure risk.

	2019	2018
Fair value of collateral held on assets either past due >30 days or impaired	162,387	159,096

9 Finance receivables

	2019	2018
Gross investment in finance leases	1,162,944	1,168,644
Unearned revenue	(106,977)	(108,623)
Unguaranteed residual values on finance leases	712	596
Net investment in finance receivables	1,056,679	1,060,617
Retail and dealer loans	134,650	137,878
Unamortized deferred costs and subsidies	7,922	8,472
Security deposits	(15,041)	(15,141)
Allowance for credit losses	(15,045)	(13,282)
Total finance receivables	1,169,165	1,178,544

Contractual maturities of finance leases and retail loans and dealer financing loans

The contractual maturities of finance leases and retail loans and dealer financing loans are summarized as follows:

	Finance leases	Retail and dealer loans	Total
0 to 12 months	58,836	15,327	74,163
1 to 3 years	393,611	52,969	446,580
3 to 5 years	545,689	63,426	609,115
Over 5 years	58,543	2,928	61,471
Balance as at December 31, 2019	1,056,679	134,650	1,191,329

	Finance leases	Retail and dealer loans	Total
0 to 12 months	57,980	11,291	69,271
1 to 3 years	350,297	43,280	393,577
3 to 5 years	580,317	72,667	652,984
Over 5 years	72,023	10,640	82,663
Balance as at December 31, 2018	1,060,617	137,878	1,198,495

Finance leases and retail and dealer loans past due

The following table is an analysis of finance receivables that are past due as at the statement of financial position date but not impaired:

	Finance leases	Retail and dealer loans	Total
<30 days	564	55	619
30-59 days	1,975	62	2,037
60-89 days	667	269	936
Past due but not impaired as at December 31, 2019	3,206	386	3,592

9 Finance receivables (continued)

	Finance leases	Retail and dealer loans	Total
< 30 days	751	63	814
30-59 days	1,689	394	2,083
60-89 days	405	132	537
Past due but not impaired as at December 31, 2018	2,845	589	3,434

Allowance for credit losses

On December 31, 2019, impaired finance receivables amounted to $10,496 (2018 - $7,372). A portion of the finance receivables is expected to be recovered and $6,118 (2018 - $4,485) has been provided for in the allowance for credit losses.

The following table represents the reconciliation of the changes in the allowance for credit losses:

	Stage 3 allowance	Stage 1 & 2 allowance	Total allowance
Year ended December 31, 2019			
Balance as at January 1, 2019	2,887	10,395	13,282
Finance receivables written off	(8,757)	-	(8,757)
Recoveries on finance receivables previously written off	1,297	-	1,297
Provision for credit losses, net of recoveries	8,951	272	9,223
Balance as at December 31, 2019	4,378	10,667	15,045

	Stage 3 allowance	Stage 1 & 2 allowance	Total allowance
Year ended December 31, 2018			
Balance as at January 1, 2018	2,447	9,211	11,658
Finance receivables written off	(9,048)	-	(9,048)
Recoveries on finance receivables previously written off	386	-	386
Provision for credit losses, net of recoveries	9,102	1,184	10,286
Balance as at December 31, 2018	2,887	10,395	13,282

9 Finance receivables (continued)

Movements in Loss Allowance

Allowances for credit losses are impacted by a variety of factors. The following table describe the movement in allowances for credit losses on finance receivables:

Finance receivables	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2019	9,218	1,177	2,887	13,282
Transfers:				
Transfer from Stage 1 to Stage 2	(258)	565	-	307
Transfer from Stage 1 to Stage 3	(179)	-	6,976	6,797
Transfer from Stage 2 to Stage 1	55	(285)	-	(230)
Transfer from Stage 2 to Stage 3	-	(124)	1,812	1,688
Transfer from Stage 3 to Stage 2	-	4	(126)	(122)
New originations	4,544	314	1,085	5,943
Finance receivables paid out	(662)	(114)	(189)	(965)
Changes within each Stage	(3,291)	(213)	690	(2,814)
Macro-economic adjustments	(194)	110	-	(84)
Write-offs	-	-	(8,757)	(8,757)
Balance as at December 31, 2019	9,233	1,434	4,378	15,045

Finance receivables	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2018	8,575	636	2,447	11,658
Transfers:				
Transfer from Stage 1 to Stage 2	(445)	614	-	169
Transfer from Stage 1 to Stage 3	(126)	-	5,950	5,824
Transfer from Stage 2 to Stage 1	36	(223)	-	(187)
Transfer from Stage 2 to Stage 3	-	(74)	1,451	1,377
Transfer from Stage 3 to Stage 2	-	3	(174)	(171)
New originations	5,082	310	1,265	6,657
Finance receivables paid out	(1,598)	(144)	445	(1,297)
Changes within each Stage	(2,891)	(43)	551	(2,383)
Macro-economic adjustments	585	98	-	683
Write-offs	-	-	(9,048)	(9,048)
Balance as at December 31, 2018	9,218	1,177	2,887	13,282

9 Finance receivables (continued)

Maximum exposure to credit risk

The following tables contain an analysis of the credit risk exposure of finance receivables. The gross carrying amount of finance receivables below also represent the Credit Union's maximum exposure to credit risk on these finance receivables. The Credit Union has not purchased any credit-impaired finance receivables.

	Finance receivables			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	1,128,189	52,458	-	1,180,647
Default	-	-	10,682	10,682
Gross carrying amount	1,128,189	52,458	10,682	1,191,329
Loss allowance	(9,233)	(1,434)	(4,378)	(15,045)
Carrying amount at December 31, 2019	1,118,956	51,024	6,304	1,176,284

	Finance receivables			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	1,145,396	45,671	-	1,191,067
Default	-	-	7,428	7,428
Gross carrying amount	1,145,396	45,671	7,428	1,198,495
Loss allowance	(9,218)	(1,177)	(2,887)	(13,282)
Carrying amount at December 31, 2018	1,136,178	44,494	4,541	1,185,213

10 Derivative financial instruments

The tables below provide a summary of the Credit Union's derivative portfolio and the notional value of the financial assets or financial liabilities to which the derivatives relate.

	Maturities of derivatives (notional amount)				Fair value	
	Within 1 year	1 to 5 years	More than 5 years	Total	Derivative instrument assets	Derivative instrument liabilities
Year ended December 31, 2019						
Foreign exchange derivatives:						
Forward contracts	835	785	-	1,620	9	-
Equity index-linked options:						
Purchased equity options	100,139	135,451	-	235,590	20,039	-
Interest rate derivatives:						
Designated cash flow hedges	1,093,000	907,000	1,104,737	3,104,737	11,816	5,457
Economic hedges	-	268,204	7,000	275,204	148	4,606
Total derivative contract as at December 31, 2019	1,193,974	1,311,440	1,111,737	3,617,151	32,012	10,063

10 Derivative financial instruments (continued)

	Maturities of derivatives (notional amount)				Fair value	
	Within 1 year	1 to 5 years	More than 5 years	Total	Derivative instrument assets	Derivative instrument liabilities
Year ended December 31, 2018						
Foreign exchange derivatives:						
Forward contracts	825	635	-	1,460	103	100
Equity index-linked options:						
Purchased equity options	147,458	176,055	-	323,513	11,033	-
Interest rate derivatives:						
Designated cash flow hedges	1,245,000	360,000	1,086,037	2,691,037	12,061	2,058
Economic hedges	225,000	293,000	53,000	571,000	213	4,764
Total derivative contract as at December 31, 2018	1,618,283	829,690	1,139,037	3,587,010	23,410	6,922

The notional amounts are used as the basis for determining payments under the contracts and are not actually exchanged between the Credit Union and its counterparties. They do not represent credit or market risk exposure.

The Credit Union has credit risk, which arises from the possibility that its counterparty to a derivative contract could default on their obligation to the Credit Union. However, credit risk associated with derivative contracts is normally a small fraction of the notional principal amount of the contract. Derivative contracts expose the Credit Union to credit loss where there is a favourable change in market rates from the Credit Union's perspective and the counterparty fails to perform. The Credit Union only enters into derivative contracts with a counterparty that the Credit Union has determined to be creditworthy.

Foreign exchange forward contracts
As part of its ongoing program for managing foreign currency exposure, the Credit Union enters into foreign exchange forward contracts to purchase or sell U.S. dollars. These agreements function as an economic hedge against the Credit Union's net U.S. dollar denominated liability position. The fair value of these contracts as at December 31, 2019 was $9 (2018 – $3). Of this net balance, $9 (2018 - $103) is included in derivative instrument assets and $nil (2018 - $100) is included in derivative instrument liabilities. Gains/losses on foreign exchange forward contracts are included in non-interest income.

Equity index-linked derivatives and options
The Credit Union has $232,222 (2018 - $320,581) of commodity and equity index-linked term deposit products outstanding to its Members. These term deposits have maturities of up to five years and pay interest to the depositors, at the end of the term, based on the performance of various market indices. The Credit Union has purchased index-linked options agreements with certain counterparties to offset the exposure to the indices associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term the Credit Union receives from the counterparties payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

The purpose of the options agreements is to provide an economic hedge against market fluctuations. These options agreements have fair values that vary based on changes in commodity and equity indices. The fair value of these options agreements amounted to $20,039 as at December 31, 2019 (2018 - $11,033). The fair value of the embedded written option in the equity index-linked term deposit products amounted to $19,704 as at December 31, 2019 (2018 – $10,900) and is included as part of Members' deposits (see note 19). Although hedge accounting is not applied, these agreements continue to be effective as economic hedges.

Interest rate swaps
As part of its interest rate risk management process, the Credit Union utilizes interest rate contracts in the form of interest rate swaps, forward interest rate swaps, floors and caps, to maintain its interest rate exposure within the preset limits defined within the Board of Directors' (the "Board") approved policy. The notional amount relating to these contracts as at December 31, 2019 is $2,318,329 (2018 - $2,186,125). In compliance with agreements for the secured borrowing facilities, OneCap utilizes interest rate swaps to manage interest rate exposure risk in connection with financing variable rate equipment contract backed notes. The notional amount of swaps relating to secured borrowing agreements at December 31, 2019 is $1,061,612 (2018 – $1,075,912).

10 Derivative financial instruments (continued)

Designated cash flow or fair value hedges are interest rate swap agreements which qualify as hedging relationships for accounting purposes under IAS 39, Financial Instruments: Recognition and Measurement. All other interest rate swaps agreements are considered economic hedges. The Credit Union has designated certain hedging relationships involving interest rate swaps that convert variable rate deposits to fixed rate deposits or variable rate loans to fixed rate loans as cash flow hedges. The Credit Union has also designated certain hedging relationships involving interest rate swaps that convert variable rate loans to fixed rate loans. Interest rate swaps that convert variable rate notes to fixed rate notes are also designated as cash flow hedges. The amount of AOCI that is expected to be reclassified to profit or loss is $12,553 (2018 – $15,879)

The Credit Union has also designated certain hedging relationships involving interest rate swaps to convert fixed rate loans into variable rate loans as fair value hedges. Cumulative hedge accounting adjustments recognized relating to fair value hedges is $(2,838).

Interest rate swap agreements (including forward interest rate swaps) are valued by netting the credit adjustment, discounted variable and fixed cash flows. Variable cash flows are calculated using implied interest rates as determined by current Canadian Dealer Offered Rate ("CDOR") and swap interest rates, and term relationships. Fixed cash flows are calculated based on the rates stated in the agreements. These notional cash flows are discounted using the relevant points on the zero interest rate curve as derived from the month-end CDOR and swap rates. As at December 31, 2019, the fixed interest rates on the Credit Union's interest rate swaps is between 1.40% and 2.90% (2018 – 1.30% and 2.80%) and the fixed interest rate on OneCap's interest rate swaps is between 1.6% and 2.7% (2018 – 1.8% and 2.7%).

Bond forward contracts
As part of its interest rate risk management process, the Credit Union utilizes bond forwards to maintain its interest rate exposure on forecasted debt issuances associated with securitization activity. These hedging relationships are designated as cash flow hedges. The effective portion of realized gains (losses) on these derivatives are deferred and amortized in accordance with the effective interest rate method along with the debt originated. The amount of AOCI that is expected to be reclassified to profit or loss over the next 60 months is $4,970 (2018 – $(144)).

The following tables contain details of the hedging instruments used in the Credit Union's hedging strategies:

		Carrying amount		
Year ended December 31, 2019	Notional	Assets	Liabilities	Changes in fair value used for calculating hedge ineffectiveness
Cash flow hedges				
Interest rate				
Interest rate swaps	3,104,737	11,816	5,457	10,082

		Carrying amount		
Year ended December 31, 2018	Notional	Assets	Liabilities	Changes in fair value used for calculating hedge ineffectiveness
Cash flow hedges				
Interest rate				
Interest rate swaps	2,691,037	12,061	2,058	(5,682)

10 Derivative financial instruments (continued)

The following tables contain details of the hedged exposures covered by the Credit Union's hedging strategies:

	Carrying value of hedged item		Balance Sheet line item	Change in fair value of hedged item for ineffectiveness assessment	Cash flow hedging reserve	
Year ended December 31, 2019	Assets	Liabilities			Continuing hedges	Discontinued hedges
Cash flow hedges						
Interest rate						
Floating rate loans	1,350,000	-	Loans	1,155	1,084	-
Floating rate deposits	-	360,125	Deposits	3,022	(531)	-
Floating rate borrowings	-	300,000	Borrowings	(7,272)	(7,272)	-
Mortgage securitizations	-	-	Mortgage securitization liabilities	-	-	(4,970)
Lease securitizations	-	1,061,612	Secured borrowings	(2,407)	(1,042)	(4,496)
Floating rate subordinated liabilities	-	33,000	Subordinated liabilities	(299)	(296)	-

	Carrying value of hedged item		Balance Sheet line item	Change in fair value of hedged item for ineffectiveness assessment	Cash flow hedging reserve	
Year ended December 31, 2018	Assets	Liabilities			Continuing hedges	Discontinued hedges
Cash flow hedges						
Interest rate						
Floating rate loans	680,000	-	Loans	(358)	(375)	-
Floating rate deposits	-	935,125	Deposits	277	(4,536)	-
Lease securitizations	-	1,075,912	Secured borrowings	3,649	3,607	(14,574)
Mortgage securitization liabilities	-	-	Mortgage securitization liabilities	-	-	144

10 Derivative financial instruments (continued)

The following tables contain information regarding the effectiveness of the hedging relationships designated by the Credit Union, as well as the impacts on profit or loss and OCI:

				Amounts reclassified to P&L as:		
December 31, 2019	**Gains/(loss) recognized in OCI**	**Hedge ineffectiveness recognized in P&L**	**P&L item that includes hedge ineffectiveness**	**Hedged cash flows that will no longer occur**	**Hedged item affected P&L**	**P&L line item that includes reclassified amount**
Cash flow hedges						
Interest rate						
Floating rate loans	(1,458)	(15)	Interest income	-	-	Interest income
Floating rate deposits	(4,005)	(53)	Interest expense	-	-	Interest expense
Floating rate borrowings	7,272	632	Interest expense	-	-	Interest expense
Mortgage securitizations	5,114	-	Interest expense	-	(450)	Interest expense
Lease securitizations	(5,430)	(1,362)	Interest expense	-	3,433	Interest expense
Floating rate subordinated liabilities	296	-	Interest expense	-	-	Interest expense
Fair value hedges						
Interest rate						
Fixed rate loans	-	(1,590)	Interest income	-	85	Interest expense

				Amounts reclassified to P&L as:		
December 31, 2018	**Gains/(loss) recognized in OCI**	**Hedge ineffectiveness recognized in P&L**	**P&L item that includes hedge ineffectiveness**	**Hedged cash flows that will no longer occur**	**Hedged item affected P&L**	**P&L line item that includes reclassified amount**
Cash flow hedges						
Interest rate						
Floating rate loans	624	23	Interest income	-	-	Interest income
Floating rate deposits	(126)	200	Interest expense	-	-	Interest expense
Lease securitizations	(602)	(3,219)	Interest expense	-	(482)	Interest expense
Mortgage securitizations	97	(125)	Interest expense	-	(636)	Interest expense

10 Derivative financial instruments (continued)

The following tables show a reconciliation of each equity component and an analysis of OCI in relation to hedge accounting:

	Cash flow hedge reserve
Balance as at January 1, 2019	11,946
Amounts recognized in other comprehensive income:	
Cash flow hedge - interest rate risk	
Interest rate swaps	108
Bond forwards	4,664
P&L	(2,983)
Taxation	93
Balance as at December 31, 2019	13,828

	Cash flow hedge reserve
Balance as at January 1, 2018	11,863
Amounts recognized in other comprehensive income:	
Cash flow hedge - interest rate risk	
Interest rate swaps	(586)
Bond forwards	(539)
P&L	1,118
Taxation	90
Balance as at December 31, 2018	11,946

11 Investment in equity instruments

	2019	2018
Central 1 Class A shares	6,452	6,099
Central 1 Class E shares	15,070	15,070
Central 1 Class F shares	58,857	51,249
Other shares or units	4,138	1,800
Total investments in equity instruments	84,517	74,218

Shares in Central 1
As a condition of maintaining membership in Central 1, the Credit Union is required to maintain an investment in shares of Central 1, as determined by the Central 1 Board of Directors. They may be surrendered upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Central 1 by-law providing for the redemption of its share capital.

Central 1 Class A and Class F shares are carried at fair value. These shares are subject to rebalancing at least annually and the redemption value is equal to par value. Accordingly, fair value is considered to be equivalent to par value or redemption value.

Central 1 Class E shares are carried at fair value. This class of shares is not subject to annual rebalancing and the redemption value is not equal to par value.

11 Investment in equity instruments (continued)

Other shares or units
The Credit Union holds an insignificant number of shares or units in cooperative and other entities. The carrying value of these shares is considered to be a reasonable approximation of fair value.

12 Investment in associates

The Credit Union had an investment in CUCO Cooperative Association ("CUCO Co-op"), which was owned collectively by Ontario credit unions and located in Toronto, ON. CUCO Co-op had a year end of December 31.

CUCO Co-op was formed in 2011, through the restructuring of Credit Union Central of Ontario and ABCP (2008) Limited Partnership (the "LP"). During 2017, the final third party asset-backed commercial paper ("ABCP") investment held by CUCO Co-op matured. As at December 31, 2017, the assets of CUCO Co-op consisted primarily of cash resources.

At a special general meeting of the shareholders on September 27, 2017, the shareholders of CUCO Co-op voted to dissolve the company. The dissolution took place on June 18, 2018 and immediately prior to being dissolved, CUCO Co-op's remaining assets were placed with Concentra Trust. A Tax clearance certificate was obtained from Canada Revenue Agency in 2019, and a final distribution was made to the shareholders.

During 2018 and 2019, the Credit Union owned 22% of the voting shares of CUCO Co-op, maintaining the largest individual shareholding and held one of five positions on the Board. Consequently, the Credit Union maintained significant influence over the activities of CUCO Co-op. The activities of CUCO Co-op were not considered strategic to the Credit Union. The Credit Union accounted for its investment in CUCO Co-op using the equity method.

The Credit Union has not incurred any contingent liabilities or other commitments relating to its investment in the partnership.

13 Intangible assets

	Broker and vendor relationships	Core deposit intangible assets	Software	Other	Total
Year ended December 31, 2019					
As at January 1, 2019, net carrying value	34,251	-	1,972	504	36,727
Additions	-	-	1,689	576	2,265
Amortization	(5,953)	-	(1,093)	(197)	(7,243)
As at December 31, 2019, net carrying value	28,298	-	2,568	883	31,749
As at December 31, 2019					
Cost	51,300	15,195	17,931	1,312	85,738
Accumulated amortization	(23,002)	(15,195)	(15,363)	(429)	(53,989)
Net carrying value	28,298	-	2,568	883	31,749

13 Intangible assets (continued)

	Broker and vendor relationships	Core deposit intangible assets	Software	Other	Total
Year ended December 31, 2018					
As at January 1, 2018, net carrying value	41,144	146	2,301	134	43,725
Additions	-	-	744	394	1,138
Amortization	(6,893)	(146)	(1,073)	(24)	(8,136)
As at December 31, 2018, net carrying value	34,251	-	1,972	504	36,727
As at December 31, 2018					
Cost	51,300	15,195	16,242	737	83,474
Accumulated amortization	(17,049)	(15,195)	(14,270)	(233)	(46,747)
Net carrying value	34,251	-	1,972	504	36,727

14 Goodwill

	2019	2018
Balance at beginning and end of the period	73,232	73,232

Goodwill was tested for impairment during the years ended December 31, 2019 and 2018, and no impairment loss was recognized.

15 Property, plant and equipment

	Land	Building and improvements	Furniture and office equipment	Computer hardware and software	Leasehold improvements	Total
Year ended December 31, 2019						
As at January 1, 2019, net carrying value	2,337	7,981	10,838	7,746	17,737	46,639
Changes on initial application of IFRS 16	-	-	-	(6)	-	(6)
Restated balance at January 1, 2019, net carrying value	2,337	7,981	10,838	7,740	17,737	46,633
Additions	-	591	4,127	3,105	768	8,591
Disposals	-	-	(292)	(37)	(69)	(398)
Amortization	-	(1,139)	(3,541)	(3,697)	(2,755)	(11,132)
As at December 31, 2019, net carrying value	2,337	7,433	11,132	7,111	15,681	43,694
As at December 31, 2019						
Cost	2,337	24,079	37,469	44,543	39,679	148,107
Accumulated amortization	-	(16,646)	(26,337)	(37,432)	(23,998)	(104,413)
Net carrying value	2,337	7,433	11,132	7,111	15,681	43,694

15 Property, plant and equipment (continued)

	Land	Building and improvements	Furniture and office equipment	Computer hardware and software	Leasehold improvements	Total
Year ended December 31, 2018						
As at January 1, 2018, net carrying value	2,337	8,456	11,627	8,859	19,258	50,537
Additions	-	693	2,567	2,708	1,547	7,515
Disposals	-	(2)	(3)	(27)	(29)	(61)
Amortization	-	(1,166)	(3,353)	(3,794)	(3,039)	(11,352)
As at December 31, 2018, net carrying value	2,337	7,981	10,838	7,746	17,737	46,639
As at December 31, 2018						
Cost	2,337	23,508	35,560	44,502	40,201	146,108
Accumulated amortization	-	(15,527)	(24,722)	(36,756)	(22,464)	(99,469)
Net carrying value	2,337	7,981	10,838	7,746	17,737	46,639

The Credit Union leases equipment under non-cancellable finance lease agreements, which were included in computer hardware prior to January 1, 2019. At January 1, 2019, the net carrying value of capitalized finance leases was $6, with cost of $2,624 and accumulated depreciation was $2,618.

16 Leased assets and liabilities

	Property	Equipment	Total
Right-of-use assets			
As at January 1, 2019, net carrying value	77,700	6	77,706
Additions	12,376	-	12,376
Amortization	(8,045)	(4)	(8,049)
As at December 31, 2019, net carrying value	82,031	2	82,033
As at December 31, 2019			
Cost	90,116	38	90,154
Accumulated amortization	(8,085)	(36)	(8,121)
Net carrying value	82,031	2	82,033

	2019
Lease liabilities	
Current	7,279
Non-current	78,315
Total lease liabilities	85,594

16 Leased assets and liabilities (continued)

The Credit Union enters into non-cancellable leases for various branches and offices as well as equipment. The terms of the leases are between three to 15 years. The leases have varying terms, escalation clauses and renewal rights. Prior to January 1, 2019 these leases were classified as operating leases. Future minimum lease payments as at December 31, 2018 are as follows:

	2018
Within 1 year	9,889
1 to 5 years	38,794
Over 5 years	9,953
Total	58,636

Total operating lease payments made during 2018 were $9,933 and were included in the consolidated income statement within occupancy expenses.

Payments associated with short-term leases during 2019 are $147 and are included within non-interest expenses.

Lessor:

	2019
Lease receivable	
Current	154
Non-current	1,231
Total lease liabilities	1,385

The Credit Union subleases office space within leased premises. These subleases are classified as finance leases in 2019 under IFRS 16. Prior to January 1, 2019 these subleases were classified as operating leases. The future undiscounted lease payments relating to subleases are as follows:

	2018
Within 1 year	248
2 years	233
3 years	135
4 years	135
5 years	135
Over 5 years	262
Total	1,148

Total operating lease payments received from sublease properties during 2018 were $248 and are included on the consolidated statement of comprehensive income within non-interest income.

The Credit Union leases office space in buildings owned and partially co-occupied by the Credit Union. These properties are not considered investment properties and the leases are classified as operating leases. Future minimum operating lease payments due to the Credit Union (including subleases in 2018) are as follows:

16 Leased assets and liabilities (continued)

	2019	2018
Within 1 year	41	56
2 years	21	25
3 years	8	17
4 years	6	3
5 years	2	1
Total	78	102

Total operating lease payments received during 2019 were $53 (2018 - $61) and are included in the consolidated income statement within non-interest income.

17 Deferred income taxes

	2019	2018
Deferred income tax assets		
Deferred tax assets to be recovered in greater than 12 months	81,922	65,253
Deferred tax assets to be recovered within 12 months	17,058	14,918
Total deferred income tax assets	98,980	80,171
Deferred income tax liabilities		
Deferred tax liabilities to be paid in greater than 12 months	39,907	25,837
Deferred tax liabilities to be paid within 12 months	10,366	9,742
Total deferred income tax liabilities	50,273	35,579
Net deferred income tax assets	48,707	44,592

The movement in the deferred income tax account is as follows:

		Recognized in			
	January 1, 2019	Profit or loss	OCI	Members' equity	December 31, 2019
Non-capital losses available for carry-forward	154	2,190	-	-	2,344
Allowance for impaired loans and leases	8,479	1,762	-	-	10,241
Employee future benefits	3,059	(95)	232	-	3,196
Other accrued expenses	1,798	27	-	-	1,825
Property, plant and equipment	23,024	(1,075)	-	-	21,949
Intangible assets arising from acquisition	(23,651)	1,415	-	-	(22,236)
Right-of-use assets	-	(15,650)	-	-	(15,650)
Deferred expenses	(4,968)	(117)	-	-	(5,085)
Finance receivables	36,949	(564)	-	-	36,385
Financial instruments adjustments	829	1,524	-	-	2,353
Deferred loan fees	2,615	442	-	-	3,057
Mortgage securitization fees	(2,836)	(560)	-	-	(3,396)
Capital lease obligation	-	16,056	-	-	16,056
Cash flow hedges	(2,414)	(390)	93	-	(2,711)
Other	1,554	(1,175)	-	-	379
Total	44,592	3,790	325	-	48,707

17 Deferred income taxes (continued)

	January 1, 2018	Recognized in Profit or loss	Recognized in OCI	Recognized in Members' equity	December 31, 2018
Non-capital losses available for carry-forward	5,272	(5,118)	-	-	154
Allowance for impaired loans and leases	4,956	386	-	3,137	8,479
Employee future benefits	3,570	(374)	(137)	-	3,059
Other accrued expenses	1,565	233	-	-	1,798
Property, plant and equipment	24,591	(1,567)	-	-	23,024
Intangible assets arising from acquisition	(25,513)	1,862	-	-	(23,651)
Deferred expenses	(3,844)	(1,124)	-	-	(4,968)
Finance receivables	35,388	1,561	-	-	36,949
Financial instruments adjustments	(126)	955	-	-	829
Deferred loan fees	2,613	2	-	-	2,615
Mortgage securitization fees	(2,650)	(186)	-	-	(2,836)
Cash flow hedges	(3,638)	1,133	91	-	(2,414)
Other	977	577	-	-	1,554
Total	43,161	(1,660)	(46)	3,137	44,592

18 Other assets

	2019	2018
Employee discounts	22,523	21,980
Deferred securitization fees	18,357	15,330
Prepaid assets	12,590	6,079
Other	5,652	5,169
Total other assets	59,122	48,558
Current	14,406	15,720
Non-current	44,716	32,838

19 Deposits

	2019	2018
Demand deposits	6,151,595	5,932,456
Term deposits	5,448,934	4,504,196
Registered plans	3,268,969	2,712,065
Total deposits	14,869,498	13,148,717
Current	11,758,702	10,582,503
Non-current	3,110,796	2,566,214

Term deposits include equity index-linked deposits and the embedded derivatives as described in note 10.

20 Borrowings

	2019	2018
Canadian Imperial Bank of Commerce	300,444	-
Finance lease liabilities	-	11
Non current	444	7
Non-current	300,000	4

Canadian Imperial Bank of Canada facility

The Credit Union has a $300,000 (2018 - $300,000) revolving secured credit facility with the Canadian Imperial Bank of Commerce ("CIBC"). As at December 31, 2019, the credit facility had a $nil balance (2018 - $nil). The credit facility is secured by eligible mortgages insured through either Canadian Mortgage and Housing Corporation ("CMHC") or Genworth.

The Credit Union has a $300,000 (2018 - $nil) secured term facility with CIBC. As at December 31, 2019, the credit facility had a $300,000 balance (2018 - $nil). The credit facility is secured by mortgages not eligible for securitization.

Bank of Nova Scotia credit facility

OneCap has established a credit facility with The Bank of Nova Scotia totaling $2,000 (2018 - $2,000) to be used for working capital purposes. The agreement is a revolver facility. The operating line of credit is secured by a standby letter of credit in the amount of $2,000 (2018 - $2,000) issued by the National Bank of Canada under the following facility. As at December 31, 2019, OneCap had access to $2,000 (2018 - $2,000) of available financing from the credit facility.

National Bank of Canada credit facility

OneCap has established a credit facility with National Bank of Canada totaling $72,000 (2018 - $72,000) to finance the acquisition of assets and for operations. The credit agreement has a maturity date of October 31, 2020 and is secured by eligible equipment leases and loans. As at December 31, 2019, OneCap had access to $72,000 (2018 - $72,000) of available financing from the credit facility.

Other credit facilities

The Credit Union has a settlement risk line totaling $25,000 (2018 - $25,000) with the Bank of Montreal. As at December 31, 2019, the settlement line had a balance of $nil (2018 - $nil).

motusbank has a settlement risk line totaling $100 with the Bank of Montreal. As at December 31, 2019, the settlement line had a balance of $nil.

The Credit Union has an overdraft line totaling $850 (2018 - $850) with Caisse Centrale Desjardins ("CCD"). As at December 31, 2019, the overdraft line had a balance of $nil (2018 - $nil).

motusbank had an overdraft line totaling $20 with Caisse Centrale Desjardins ("CCD"). As at December 31, 2019, the overdraft line had a balance of $0.

The Credit Union has established a credit facility with Central 1 which is composed of liquidity and contingency facilities. The Credit Union can borrow up to $150,000 and US $10,000 (2018 - $290,000 and US $10,000) on its liquidity facility for which the balance outstanding was $nil as at December 31, 2019 (2018 – $nil). A contingency credit facility has been established in the amount of $400,000 (2018 - $400,000).

motusbank has established a credit facility with Central 1 which is composed of liquidity and contingency facilities. Motus bank can borrow up to $39,500 and US $500 on it's liquidity facility for which the balance outstanding was $nil as at December 31, 2019. A contingency credit facility has been established in the amount of $5,000.

Assets have been pledged as security for the credit facility with Central 1 by an assignment of book debts and a general security agreement subject to adjustment for mortgage collateral pledged against bank borrowings.

The Credit Union has established a secured credit facility with Federation des Caisses Desjardins du Québec ("Desjardins") totaling $150,000 (2018 - $nil). As at December 31, 2019, the credit facility has a balance of $nil. The credit facility is secured by eligible insured residential mortgages.

21 Payables and other liabilities

	2019	2018
Accounts payable and accrued liabilities	63,098	42,837
Deferred income	392	3,040
Cheques and other items in transit	10,174	11,435
Total payables and other liabilities	73,664	57,312
Current	73,447	54,818
Non-current	217	2,494

22 Secured borrowings

	2019	2018
Obligations related to securities sold under repurchase agreements	294,817	49,016
Variable rate equipment contract backed notes	1,064,203	1,078,720
Total secured borrowings	1,359,020	1,127,736
Current	660,220	436,198
Non-current	698,800	691,538

The Company was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2019 and 2018.

Variable rate equipment contract backed notes

In accordance with a Note Purchase Agreement, OneCap sells variable rate equipment contract backed notes to investors. The notes are collateralized by a specific portfolio of loan and lease contracts secured by new and used small and medium ticket equipment (Portfolio of Assets) originated in Canada. The principal and interest are paid on a monthly basis from collections on the Portfolio of Assets. The Note Purchase Agreement has a commitment expiration date of October 31, 2020 (2018 - October 31, 2019). The stated maturity date of the notes is 10 years following the expiration date during which time the notes will amortize and collections from the Portfolio of Assets will be allocated to the notes until they are paid in full.

The carrying value of finance receivables that are pledged as collateral for the notes at December 31, 2019 is $1,147,392 (2018 - $1,162,998). In addition, OneCap has cash reserves of $22,985 (2018 - $23,296) held as collateral for the notes as disclosed in note 5.

23 Mortgage securitization liabilities

	2019	2018
Mortgage securitization liabilities	3,001,663	2,428,275
Current	427,701	293,214
Non-current	2,573,962	2,134,961

As part of its program of liquidity, capital and interest rate risk management, the Credit Union enters into arrangements to fund growth by entering into mortgage securitization arrangements. These arrangements allow the Credit Union to transfer fully insured residential mortgages to unrelated third parties, generally through the transfer of these assets to multi-seller conduits which issue securities to investors.

These transactions are derecognized from the consolidated balance sheet when the transaction meets the derecognition criteria described in note 3.4. In instances where the Credit Union's mortgage securitizations do not result in a transfer of contractual cash flows of the mortgages or an assumption of an obligation to pay the cash flows of the mortgages to a transferee, the Credit Union has not derecognized the transferred asset and has instead recorded a secured borrowing with respect to any consideration received.

During the year, the Credit Union had outstanding mortgage securitization liabilities pertaining to the use of a securitization vehicle to access liquidity.

Under the securitization vehicle the Credit Union packages insured mortgage loan receivables into NHA MBS and in turn sells the MBS to CHT directly through the CMB Program. CHT is financed through the issuance of government-guaranteed mortgage bonds, which are sold to third party investors. Proceeds of the issuances are used by CHT to purchase the government-guaranteed MBS from approved Issuers.

The Credit Union issues MBS to CHT under two broad structures. Historically under the terms of the CMB Program, Central 1, on behalf of the Credit Union, acts as counterparty to interest rate swap agreements under which Central 1 pays CHT the interest due to investors on the government-guaranteed mortgage bonds and receives the interest on the MBS sold to CHT. The terms of the interest rate swap agreements are mirrored back exactly between Central 1 and the Credit Union, resulting in the Credit Union ultimately paying CHT the interest due to investors on the government-guaranteed mortgage bonds and receiving the interest on the MBS sold to CHT. Accordingly, because they prevent derecognition of MBS liabilities as per their amortization profiles, these interest rate swap agreements are not recognized.

During 2017, the Credit Union entered into an additional securitization structure. Agreements have been entered into whereby National Bank or Central 1 acts as counterparty to interest rate swap agreements under which National Bank or Central 1 pays CHT the interest due to investors on the government-guaranteed mortgage bonds and receives the interest on the MBS sold to CHT. No swap is mirrored back between National Bank or Central 1 and the Credit Union. As such, National Bank or Central 1 assumes the associated reinvestment risk. Accordingly, on such structures, the Credit Union derecognizes MBS liabilities issued to CHT in line with their amortization profiles.

As all mortgages securitized by the Credit Union are required to be fully insured prior to sale, they pose minimal to no credit risk to the Credit Union immediately before or any time after the securitization transaction. Under all schemes, the Credit Union remains exposed to interest rate and timely payment risks associated with the underlying assets. As such, the assets, liabilities, revenues and expenses have not been derecognized and the transactions are accounted for as secured financing transactions in the Credit Union's consolidated balance sheet and consolidated income statement.

In addition to securitizing mortgages for liquidity purposes as described above, the Credit Union also packages residential insured mortgage loan receivables into MBS and in turn utilizes them to meet the reinvestment needs of the CMB Program. As principal is received on mortgages securitized into the CMB Program through the securitization vehicle, it is required to be reinvested in accordance with CMB guidelines. These MBS are transferred to CHT as required to meet these reinvestment requirements.

Costs incurred in the establishment of a securitization issue are amortized over the life of the issue as part of mortgage securitization cost of funds included within interest expense – other.

Active management of the securitization program and the reinvestment portfolio helps to minimize exposure and ensure that sufficient assets are maintained to meet reinvestment requirements.

The following summarizes the carrying and fair values of assets of the Credit Union that have been securitized and sold by the Credit Union to third parties, as well as the carrying and fair values of the corresponding mortgage securitization liabilities:

23 Mortgage securitization liabilities (continued)

	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Securitized mortgages sold via CMB Program	1,979,146	1,945,157	1,707,073	1,684,459
Sold MBS to third parties	852,086	826,984	671,016	653,593
Securities purchased under reverse repurchase agreements, asset backed commercial paper, and Government of Canada bonds (included in financial investments)	169,219	169,219	46,306	46,306
Unscheduled principal payment reserve (included in cash and cash equivalents)	40,598	40,598	48,192	48,192
Principal and interest receipts to be reinvested in the following month (included in cash and cash equivalents)	15,708	15,708	18,531	18,531
Total designated assets	3,056,757	2,997,666	2,491,118	2,451,081
Mortgage securitization liabilities	(3,001,663)	(2,950,337)	(2,428,275)	(2,408,661)
Net amount	55,094	47,329	62,843	42,420

24 Pension and other employee obligations

	2019	2018
Short-term employee benefits payable	33,147	32,216
Retirement benefit obligations	15,433	15,611
Total pension and other employee obligations	48,580	47,827

The Credit Union provides a number of pension and other retirement benefits to its current and retired employees. These plans include the following:

Contributory Defined Benefit Pension Plans

The Credit Union has two contributory defined benefit pension plans.

The first defined benefit plan ("DB1") provides retirement income and related benefits for eligible employees based on length of credited service and final average earnings. This plan was closed to new members effective January 1, 2005 and the service and final average earnings were frozen effective December 31, 2014. Members of this plan became members of the Credit Union's defined contribution pension plan starting January 1, 2015.

The most recent valuation of the DB1 Plan for funding purposes was as of December 31, 2018. The next actuarial valuation is expected to be completed as at December 31, 2021. The Credit Union is responsible for contributing to the DB1 pension fund such amounts as are required in accordance with, and within the time limits specified in, applicable pension laws. Effective January 1, 2015, members of the DB1 Plan are neither required nor permitted to contribute to the plan. The DB1 pension fund is held in trust by CIBC Mellon.

The second defined benefit plan ("DB2") provides retirement income and related benefits for eligible employees based on length of credited service and final average earnings. This plan was closed to new members effective June 1, 2011 and the service and final average earnings were frozen effective December 31, 2012. Members of this plan became members of the Credit Union's defined contribution pension plan starting January 1, 2013.

The most recent valuation of the DB2 Plan for funding purposes was as at December 31, 2018. The next valuation is expected to be completed as at December 31, 2021. The Credit Union is responsible for contributing to the DB2 pension fund such amounts as are required in accordance with, and within the time limits specified in, applicable pension laws. Effective January 1, 2013, members of the DB2 Plan are neither required nor permitted to contribute to the plan. The DB2 pension fund is held in trust by CIBC Mellon.

24 Pension and other employee obligations (continued)

Both of the defined benefit pension plans are operated under Ontario's Pension Benefits Act. The Pension Benefits Act is administered by the Superintendent of Financial Services appointed by the FSRA. Plan valuations must be filed with both the FSRA and with the Canada Revenue Agency.

The Pension Benefits Act prescribes the minimum contributions that the Credit Union must make to the plan. The Income Tax Act (Canada) places a maximum limit on the amount of employer contributions. Responsibility for governance of the plans, including investment decisions and contribution schedules lies with the Credit Union.

Non-contributory Supplemental Executive Retirement Plan 1

This plan is a defined benefit pension plan which provides designated employees benefits in excess of the benefits payable to such employees under the DB1 Plan, under which benefits are restricted by the maximum permitted under the Income Tax Act (Canada). The benefits payable under the Supplemental Plan are based on the benefit formula under the DB1 Plan. The Credit Union has established a trust fund, pursuant to a trust agreement between the Credit Union and the trustee, for the purpose of providing security for the benefits accrued under the Supplemental Plan. A member of this plan will neither be required nor permitted to make any contribution to this plan.

Supplemental Executive Retirement Plan 2

This plan mirrors the structure of the Defined Contribution ("DC") Plan and contains employer pension contributions that exceed the maximum permitted under the Income Tax Act (Canada). Contributions are made on a notional basis and paid out to employees upon termination or retirement. A member of this plan will neither be required nor permitted to make any contribution to this plan.

Defined Contribution Pension Plan and Group Registered Retirement Savings Plan ("RRSP")

For periods of service prior to December 18, 2016, an employee who became a member of the DC Plan was not required or permitted to contribute to the DC Plan, but was required to contribute 3% of earnings to a group RRSP. Thereafter, mandatory contributions of 3% of earnings are directed to the DC Plan. Employees are also permitted to contribute additional amounts to a group RRSP, up to a maximum of 7% of earnings. The Credit Union will contribute each plan year a portion thereof, in respect of a member who is accruing continuous service in Canada, a percentage of the member's earnings based on the member's completed years of continuous service.

Post-Employment Benefits

The Credit Union provides health and dental care benefits for eligible retired employees through various plans. Each plan has its own membership and eligibility criteria and offers unique benefits. Only one plan remains open to new entrants who are at least 55 years of age with a minimum of 10 years of service. The plan provides healthcare coverage only and ceases at age 65.

Additionally, the Credit Union provides a retirement service award program which covers all permanent employees who work at least 15 hours per week. Employees who are at least 55 years of age with a minimum of 10 years of service receive a service lump sum payment of $0.2 per year of service upon retirement.

For financial reporting purposes, the Credit Union measures the benefit obligations and pension plan assets as at December 31 each year.

Components of the net benefit plan expense are as follows:

(a) Service cost is the increase in the present value of the accrued benefit obligation resulting from employee service in the current period or prior periods and from any gain or loss on settlement.

(b) Net interest cost is the change in the net defined benefit liability or asset that arises from the passage of time.

(c) Remeasurements of the net defined benefit liability include actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets excluding amounts included in net interest and changes in the effect of any asset ceilings.

In 2015 the Credit Union curtailed the post-employment medical benefit plan. Affected employees will no longer be eligible for certain health and dental benefits unless they are aged 55 or older as of July 1, 2017.

In 2015 the Credit Union introduced a new retirement service award program for all employees effective July 1, 2015. All employees, other than those grandfathered above, receive the new retirement service award.

24 Pension and other employee obligations (continued)

	2019	2018
Consolidated balance sheet obligations for:		
Pension benefit plans	7,165	8,220
Post-employment benefits	8,268	7,391
	15,433	15,611
The amounts recognized in the consolidated balance sheet are determined as follows:		
Present value of funded obligations	54,025	49,850
Fair value of plan assets	(47,973)	(42,610)
Funded plans' deficit	6,052	7,240
Present value of unfunded obligations	9,381	8,371
Liability recognized in the consolidated balance sheet	15,433	15,611
Consolidated income statement charged to salaries and employee benefits for:		
Defined benefit pension plans	637	665
Defined contribution pension plan	6,660	6,352
Total pension plans	7,297	7,017
Post-employment benefits	669	186
	7,966	7,203
Consolidated re-measurement loss (gain) included in other comprehensive income for:		
Pension benefit plans	(632)	498
Post-employment benefits	(619)	(1,236)
	(1,251)	(738)

	Defined benefit pensions		Post-employment benefits	
	2019	2018	2019	2018
The movement in the present value of the defined benefit obligation over the year is as follows:				
Defined benefit obligation, January 1	50,830	54,984	7,391	8,912
Current service cost	106	109	396	415
Past service cost	-	-	-	(532)
Interest cost	1,877	1,928	305	277
Benefits paid	(2,662)	(4,109)	(443)	(445)
Remeasurement losses (gains) due to:				
Changes in demographic assumptions	-	-	-	(2,276)
Changes in financial assumptions	6,212	(2,062)	619	(22)
Experience (gains) losses	(1,225)	(20)	-	1,062
Defined benefit obligation, December 31	55,138	50,830	8,268	7,391

24 Pension and other employee obligations (continued)

	Defined benefit pensions		Post-employment benefits	
	2019	2018	2019	2018
The movement in the fair value of plan assets for the year is as follows:				
Fair value of plan assets, January 1	42,610	45,577	-	-
Interest income	1,576	1,604	-	-
Return on plan assets, excluding interest income	4,355	(2,580)	-	-
Employer contributions	2,288	2,338	443	445
Benefits paid	(2,626)	(4,099)	(443)	(445)
Administrative expenses	(230)	(230)	-	-
Fair value of plan assets, December 31	47,973	42,610	-	-
Net defined benefit liability	7,165	8,220	8,268	7,391

Actuarial assumptions

	Total pension benefits		Post-employment benefits	
	2019	2018	2019	2018
The principal actuarial assumptions used were as follows:				
Discount rate	3.10%	3.80%	3.10%	3.80%
Pension growth rate	2.00%	2.00%	-	-
Long-term increase in health care costs	-	-	4.00%	4.00%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in Canada. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65 as follows:

	2019	2018
Retiring at the end of the reporting period:		
Male	86.9	86.8
Female	89.6	89.3
Retiring 20 years after the end of the reporting period:		
Male	88.4	88.3
Female	91.0	90.8

The weighted average duration of the defined benefit obligation as at December 31, 2019 is 13.9 years (2018 – 13.9 years).

24 Pension and other employee obligations (continued)

The following shows the expected maturity analysis of undiscounted defined benefit pension and post-employment benefits:

	Within 1 year	1 to 5 years	Over 5 years	Total
At December 31, 2019				
Defined benefit pensions	2,700	11,029	75,422	89,151
Post-employment benefits	430	1,906	23,169	25,505
Total	3,130	12,935	98,591	114,656
At December 31, 2018				
Defined benefit pensions	2,377	10,371	82,895	95,643
Post-employment benefits	443	1,800	17,764	20,007
Total	2,820	12,171	100,659	115,650

Benefit plan assets

The defined benefit pension plans' policies are to invest in a diversified portfolio of investments to minimize concentration of credit risk. The plan assets are primarily composed of equity and fixed income investments. The allocation of the plan assets by investment category is as follows:

	2019	%	2018	%
Equity investments	24,316	51 %	21,142	50 %
Fixed income investments	23,657	49 %	21,468	50 %
Total	47,973	100 %	42,610	100 %

All of the benefit plan assets have a quoted market price in an active market.

In 2018 a new DB investment strategy was implemented, with a goal of matching the Plans' assets to liabilities with a 10-year target to fully fund and annuitize the Plans. The strategy includes a portfolio mix that is no greater than 60% equities and no less than 35% fixed income, with the flexibility to re-adjust the asset mix to no less than 50% equities and no more than 15% alternative assets.

Contributions for the upcoming fiscal year are anticipated to be approximately $1,966 (2018 - $1,266) for defined benefit pension plans, $7,628 (2018 - $7,663) for defined contribution plans and $430 (2018 - $443) for other employee benefit plans.

24 Pension and other employee obligations (continued)

The following table outlines the key weighted-average economic assumptions used in measuring the accrued benefit obligation:

		Accrued benefit obligation		
	Defined benefit pensions		Post-employment benefits	
	2019	2018	2019	2018
Discount rate				
Impact of: 1% increase	(6,780)	(6,265)	(854)	(738)
1% decrease	8,572	7,920	1,025	879
Pension growth rate				
Impact of: 1% increase	6,817	6,731	-	-
1% decrease	(5,605)	(5,535)	-	-
Life expectancy				
Impact of: 1% increase	1,480	1,274	178	155
1% decrease	(1,479)	(1,285)	(176)	(154)
Health care cost trend				
Impact of: 1% increase	-	-	674	624
1% decrease	-	-	(574)	(517)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the consolidated balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Risks:

Through its defined benefit pension plans and post-employment plans, the Credit Union is exposed to a number of risks, the most significant of which are detailed below:

a) Equity Risk
The plans hold a significant proportion of equity investments, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.
As the plans mature and their funded status improves, the Credit Union intends to reduce the level of investment risk by investing more in assets that better match the liabilities. However the Credit Union believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the long term strategy to manage the plans efficiently.

b) Changes in bond yields
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' fixed income investments.

c) Inflation risk
The majority of the plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. Caps on the level of inflationary increases are in place to protect the plan against extreme inflation. A portion of the plans' assets are invested in real return bonds, which are expected to provide some protection against changes in inflation. However, a significant portion of the plans' assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

24 Pension and other employee obligations (continued)

d) Life expectancy
The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

25 Subordinated debt

On December 13, 2019, the Credit Union issued $50,000 principal amount of subordinated debt with Desjardins with term to maturity of 10 years, redeemable after 5 years. This facility carries a floating rate linked to Desjardins cost of funds plus 350bps. As of December 31, 2019 the interest rate was 5.49% per annum, payable in interest only payments quarterly.

26 Share capital

	Par value per share	2019	2018
Membership shares classified as liabilities			
Membership shares	1	376	350
As at December 31	-	376	350
"50th Anniversary" Class A shares	1	72,081	69,750
Series 96 Class A shares	1	50,417	48,676
Series 98 Class A shares	1	4,308	4,154
Series 01 Class A shares	1	65,372	63,174
Series 09 Class A shares	1	81,087	79,561
Series 15 Class A shares	1	132,252	127,934
Series 17 Class A shares	1	174,049	168,258
As at December 31	-	579,566	561,507

(number of shares)	Membership Shares	"50th Anniversary" Class A shares	Series 96 Class A shares	Series 98 Class A shares
Issued as at January 1, 2018	322,409	67,772,627	47,029,222	4,105,957
Shares issued to Members net of redemptions	27,497	(443,030)	(33,174)	(106,719)
Shares issued as dividends	-	2,420,456	1,680,292	154,456
Issued as at December 31, 2018	349,906	69,750,053	48,676,340	4,153,694
Shares issued to Members net of redemptions	26,317	(158,784)	-	-
Shares issued as dividends	-	2,489,325	1,740,237	154,147
Issued as at December 31, 2019	376,223	72,080,594	50,416,577	4,307,841

26 Share capital (continued)

(number of shares)	Series 01 Class A shares	Series 09 Class A shares	Series 15 Class A shares	Series 17 Class A shares
Issued as at January 1, 2018	61,158,943	78,844,166	124,057,583	166,926,444
Shares issued to Members net of redemptions	(107,931)	(1,634,715)	-	-
Shares issued as dividends	2,123,302	2,567,704	4,167,782	2,023,940
Issued as at December 31, 2018	63,174,314	79,777,155	128,225,365	168,950,384
Shares issued to Members net of redemptions	-	(1,085,661)	-	-
Shares issued as dividends	2,197,615	2,612,229	4,318,016	5,792,572
Issued as at December 31, 2019	65,371,929	81,303,723	132,543,381	174,742,956

(a) Authorized share capital

The authorized share capital of the Credit Union consists of the following:
(i) an unlimited number of Class A special shares, issuable in series ("Class A shares");
(ii) an unlimited number of Class B special shares, issuable in series ("Class B shares"); and
(iii) an unlimited number of Membership shares.

Membership shares rank junior to Class A shares and to Class B shares for priority in the payment of dividends and, in the event of the liquidation, dissolution or winding up of the Credit Union. In addition, Class B shares rank junior to Class A shares. There are no Class B shares outstanding.

(b) Class A shares

"50th Anniversary" Class A shares

The "50th Anniversary" Class A shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate adjusted every five years. The new dividend rate for each five-year period will be set by the Board in its absolute discretion at a rate not less than the chartered bank average five-year GIC rate published by the Bank of Canada Review. The dividend rate for the five-year period beginning on January 1, 2016 was set at 4.00%.

The holders of the "50th Anniversary" Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 33.5.

Any declaration of dividends for the "50th Anniversary" Class A shares is made by the Board in the fourth quarter of the fiscal year and the dividends, if and when declared, are payable annually on January 1. These shares are redeemable at the sole and absolute discretion of the Credit Union's Board of Directors. Based on these redemption characteristics, these shares have been recorded within Members' equity as Members' capital accounts.

Dividends declared on the "50th Anniversary" Class A shares in 2019 for the year ended December 31, 2019 amounted to $2,884 (2018 - $2,791), of which $301 (2018 - $302) will be paid in cash and have been recorded in the current year. The remaining $2,583 (2018 - $2,489) will be paid in the form of newly issued "50th Anniversary" Class A shares and will be recorded in the following fiscal year when the shares are issued.

Series 96 Class A shares

The series 96 Class A shares are cumulative, non-voting, non-participating shares with a dividend rate adjusted every five years. The new dividend rate for each five-year period will be set by the Board in its absolute discretion at a rate not less than 1% above the chartered bank average five-year GIC rate published by the Bank of Canada Review. The dividend rate for the five-year period beginning September 27, 2016 was set at 4.00%.

The holders of series 96 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 33.5. Any declaration of dividends for the series 96 Class A shares is made by the Board in the third quarter of the fiscal year and the dividends, if and when declared, are payable annually on September 26. These shares are redeemable at the sole and absolute discretion of the Credit Union's Board of Directors. Based on these redemption characteristics, these shares have been recorded within Members' equity as Members' capital accounts.

26 Share capital (continued)

Dividends declared and paid on the series 96 Class A shares in 2019 amounted to $1,948 (2018 - $1,881), of which $208 was paid in cash (2018 - $201) and $1,740 (2018 - $1,680) was paid in the form of newly issued series 96 Class A shares. The full amount of the series 96 dividend was recorded in the current fiscal year.

Series 98 Class A shares

The series 98 Class A shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate of the average of the month-end five-year GIC rates for the period, plus 1%. The new dividend rate for each five-year period will be set by the Board in its absolute discretion at a rate not less than the chartered bank average five-year GIC rate published by the Bank of Canada Review. The dividend rate for the five-year period beginning January 1, 2016 was set at 4.00%.

The holders of series 98 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 33.5. Any declaration of dividends for the Series 98 Class A shares is made by the Board in the fourth quarter of the fiscal year and the dividends, if and when declared, are payable annually on January 1. These shares are redeemable at the sole and absolute discretion of the Credit Union's Board of Directors. Based on these redemption characteristics, these shares have been recorded within Members' equity as Members' capital accounts.

Dividends declared on the series 98 Class A shares in 2019 for the year ended December 31, 2019 amounted to $172 (2018 - $166), of which $19 (2018 - $12) will be paid in cash and have been recorded in the current year. The remaining $153 (2018 - $154) will be paid in the form of newly issued series 98 Class A shares and will be recorded in the following fiscal year when the shares are issued.

Series 01 Class A shares

The series 01 Class A shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate adjusted every five years. The new dividend rate for each five-year period will be set by the Board in its absolute discretion at a rate not less than 1% above the chartered bank average five-year GIC rate published by the Bank of Canada Review. The dividend rate for the five-year period beginning on December 13, 2016 was set at 4.00%.

The holders of series 01 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 33.5. Any declaration of dividends for the series 01 Class A shares is made by the Board in the third quarter of the fiscal year and the dividends, if and when declared, are payable annually on December 12. These shares are redeemable at the sole and absolute discretion of the Credit Union's Board of Directors. Based on these redemption characteristics, these shares have been recorded within Members' equity as Members' capital accounts.

Dividends declared and paid on the series 01 Class A shares in 2019 for the year ended December 31, 2019 amounted to $2,528 (2018 - $2,444), of which $331 was paid in cash (2018 - $319) and $2,197 (2018 - $2,125) was paid in the form of newly issued series 01 Class A shares. The full amount of the series 01 dividend was recorded in the current fiscal year.

Series 09 Class A shares

The series 09 Class A shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate adjusted every five years. The new dividend rate for each five-year period will be set by the Board in its absolute discretion at a rate not less than a rate that exceeds by 125 basis points the yield on the monthly series of the Government of Canada five-year bonds as published by the Bank of Canada Review. The dividend rate for the five-year period beginning on January 1, 2015 was set at 3.90%.

The holders of series 09 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 33.5. Any declaration of dividends for the Series 09 Class A shares is made by the Board in the fourth quarter of the fiscal year and the dividends, if and when declared, are payable annually following each fiscal year end and prior to the annual general meeting of Members. These shares are redeemable at the sole and absolute discretion of the Credit Union's Board of Directors. Based on these redemption characteristics, these shares have been recorded within Members' equity as Members' capital accounts.

Dividends declared on the series 09 Class A shares in 2019 for the year ended December 31, 2019 amounted to $3,173 (2018 - $3,114), of which $517 (2018 - $502) will be paid in cash and have been recorded in the current year. The remaining $2,656 (2018 - $2,612) will be paid in the form of newly issued series 09 Class A shares and will be recorded in the following fiscal year when the shares are issued.

26 Share capital (continued)

Series 15 Class A shares

Series 15 Class A shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate adjusted every five years. The new dividend rate for each five-year period will be set by the Board in its absolute discretion at a rate not less than a rate that exceeds by 125 basis points the yield on the monthly series of the Government of Canada five-year bonds as published by the Bank of Canada. The dividend rate for the five-year period ending December 31, 2019 was set at 4.00%.

The holders of Series 15 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 33.5 and subject to Applicable Law. Any declaration of dividends for the Series 15 Class A shares is made by the Board in the fourth quarter of the fiscal year and the dividends, if and when declared, are payable annually following each fiscal year end and prior to the annual general meeting of Members. These shares are redeemable at the discretion of the Credit Union's Board of Directors, and subject to any approval by a regulator if required pursuant to Applicable Law, not before the end of the fifth year from the date of issuance. Based on these redemption characteristics, these shares have been recorded within Members' equity as Members' capital accounts.

Dividends declared on the Series 15 Class A shares in 2019 for the year ended December 31, 2019 amounted to $5,304 (2018 - $5,131), of which $872 (2018 - $813) will be paid in cash and have been recorded in the current year. The remaining $4,431 (2018 - $4,318) will be paid in the form of newly issued series 15 Class A shares and will be recorded in the following fiscal year when the shares are issued.

Series 17 Class A shares

Series 17 Class A shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate adjusted every five years. The new dividend rate for each five-year period will be set by the Board in its absolute discretion at a rate not less than a rate that exceeds by 300 basis points the yield on the monthly series of the Government of Canada five-year bonds as published by the Bank of Canada. The dividend rate for the five-year period ending December 31, 2021 was set at 4.25%.

The holders of Series 17 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 33.5 and subject to Applicable Law. Any declaration of dividends for the Series 17 Class A shares is made by the Board in the fourth quarter of the fiscal year and the dividends, if and when declared, are payable annually following each fiscal year end and prior to the annual general meeting of Members. These shares are redeemable at the discretion of the Credit Union's Board of Directors, and subject to any approval by a regulator if required pursuant to Applicable Law, not before the end of the fifth year from the date of issuance. Based on these redemption characteristics, these shares have been recorded within Members' equity as Members' capital accounts.

Dividends declared on the Series 17 Class A shares in 2019 for the year ended December 31, 2019 amounted to $7,430 (2018 - $7,184), of which $1,387 (2018 - $1,391) will be paid in cash and have been recorded in the current year. The remaining $6,403 (2018 - $5,793) will be paid in the form of newly issued series 17 Class A shares and will be recorded in the following fiscal year when the shares are issued.

(c) Membership shares

Par value of one Membership share of the Credit Union is $1 and Members must hold one share. There were 378,402 Members at December 31, 2019 (2018 – 351,066).

These shares are redeemable at their issue price only when the Member withdraws from Membership in the Credit Union subject to:

(i) the Credit Union's meeting capital adequacy requirements; and

(ii) the discretion of the Board, who may require notice.

Based on the redemption features of these shares, they have been recorded as Membership shares within the liability portion of the consolidated balance sheet, and have been designated as other liabilities. The residual equity component is nil.

26 Share capital (continued)

(d) Dividends

Dividends recognized as distributions to Members during the year are as follows:

	2019	2018
"50th Anniversary" Class A shares	2,790	2,722
Series 96 Class A shares	1,948	1,881
Series 98 Class A shares	173	166
Series 01 Class A shares	2,528	2,444
Series 09 Class A shares	3,129	3,070
Series 15 Class A shares	5,190	4,981
Series 17 Class A shares	7,180	3,417
Balance, December 31	22,938	18,681

Dividends declared during the year that will be paid subsequent to December 31 and which Members have elected to receive by way of newly issued shares of the same series amount to $15,866 (2018 - $15,366). These dividends will be charged to retained earnings in the following year when the shares are issued as follows:

	2019	2018
"50th Anniversary" Class A shares	2,583	2,489
Series 98 Class A shares	153	154
Series 09 Class A shares	2,656	2,612
Series 15 Class A shares	4,431	4,318
Series 17 Class A shares	6,043	5,793
Balance, December 31	15,866	15,366

No dividends have been declared or paid on Membership shares for the years ended December 31, 2019 or December 31, 2018.

27 Net interest income

	2019	2018
Interest income		
Residential mortgages	290,053	243,775
Personal loans	70,969	61,494
Commercial loans	250,515	208,299
Interest income - loans	611,537	513,568
Finance receivables	63,014	58,102
Cash and cash equivalents	7,589	5,612
Investment in debt instruments	21,373	13,105
Net gain on interest rate derivative instruments	479	-
Total interest income	703,992	590,387
Interest expense		
Demand deposits	69,072	63,218
Term deposits	142,268	94,820
Registered plans	71,989	45,662
Interest expense - deposits	283,329	203,700
Interest on borrowings	29,117	30,775
Mortgage securitization cost of funds	61,928	51,080
Net loss on interest rate derivative instruments	-	7,526
Interest on finance leases	2,545	-
Total interest expense	376,919	293,081

Interest income on institutional loans, agricultural loans, unincorporated association loans and syndicated loans is included within Commercial loans.

28 Non-interest income

	2019	2018
Loan servicing fees	23,135	21,343
Mutual fund revenue	21,802	19,421
Service fees	19,035	17,270
Insurance commissions	8,966	8,041
Foreign exchange	5,583	5,262
Leasing revenue	6,467	5,118
Dividend income	1,801	1,985
Other revenue	6,349	5,374
Total non-interest income	93,138	83,814

The dividend income amount reported above was earned on investments in equity instruments that are measured at FVTPL. There were no investments in equity instruments measured at FVTOCI.

29 Income tax expense

	2019	2018
Current income tax expense	16,298	10,620
Future income tax expense	(3,790)	1,660
Total income tax expense	12,508	12,280

Note 17 provides information on the Credit Union's deferred income tax assets and liabilities, including amounts recognized directly in OCI.

The tax on the Credit Union's consolidated operating earnings before income taxes differs from the amount that would arise using the Canadian federal and provincial statutorily enacted tax rates as follows:

	2019		2018	
	Tax provision	% of Pre-tax income	Tax provision	% of Pre-tax income
Operating earnings for the year, before tax	94,000	n/a	85,848	n/a
Income tax expense at statutory rates	24,910	27 %	22,750	26.5 %
Credit union rate reduction	(8,033)	(9)%	(7,567)	(8.8)%
Deductible dividend payments	(4,244)	(4.5)%	(3,456)	(4.0)%
Non-deductible expense	186	0.2 %	207	0.2 %
Non-taxable income	(1)	- %	(3)	- %
Adjustment of prior year provision	(13)	- %	(302)	(0.4)%
Impact of future tax rates	-	- %	672	0.8 %
Other items	(297)	(0.4)%	(21)	- %
Income tax expense	12,508	13.3 %	12,280	14.3 %
Other comprehensive income for the year, before tax	538	n/a	731	n/a
Deferred income tax expense, recognized directly in other comprehensive income	(325)	(60.4)%	46	6.3 %

The amount of income taxes relating to each component of income or OCI can be summarized as follows:

	2019		
	Before income taxes	Income tax expense	Net of income taxes
Net gain on cash flow hedges	4,772	(741)	4,031
Net loss on cash flow hedges transferred to net income	(2,983)	834	(2,149)
Actuarial loss in defined benefit pension plans	(1,251)	232	(1,019)
Other comprehensive income for the year ended December 31, 2019	538	325	863

29 Income tax expense (continued)

	2018		
	Before income taxes	Income tax expense	Net of income taxes
Net loss on cash flow hedges	(1,125)	291	(834)
Net gain on cash flow hedges transferred to net income	1,118	(201)	917
Actuarial gain in defined benefit pension plans	738	(137)	601
Other comprehensive income for the year ended December 31, 2018	731	(47)	684

30 Related party transactions

The Credit Union's related parties include its subsidiaries, associates and joint venture, key management personnel and their close family members as well as any entities that are controlled, jointly controlled or significantly influenced by them, and the post-employment benefit plans. Unless otherwise noted, transactions with related parties include no special terms and conditions and no guarantees were given to or received from the related parties. Outstanding balances are usually settled in cash.

(a) Associate

CUCO Co-op, as referred to in note 12, was a related party of the Credit Union.

(b) Post-employment benefit plans

The defined benefit plans referred to in note 24 are related parties of the Credit Union.

The assets in the defined benefit plans do not include shares in the Credit Union. The Credit Union's transactions with the defined benefit plans include contributions paid to the plans, which are disclosed in note 24. The Credit Union has not entered into other transactions with the defined benefit plans, neither has it any outstanding balances at the reporting dates.

(c) Key management personnel

Key management personnel include all members of the Board, officers of the Credit Union and members of the Executive Leadership Team.

Transactions with related parties

The compensation paid or payable to key management personnel for director or employee services is shown below:

	2019	2018
Salaries, retainers, per diems and other short-term employee benefits	6,643	7,202
Post-employment benefits	180	162
Total compensation	6,823	7,364

Related party balances and transactions are detailed below:

Loans advanced to related parties

	2019	2018
Loan balance as at January 1	6,693	5,150
Change in loan balances during the year	(665)	1,543
Loan balance as at December 31	6,028	6,693
Total interest revenue earned on loans	171	158

30 Related party transactions (continued)

Revolving credit facilities granted to related parties

	2019	2018
Total value of facilities approved as at January 1	3,924	1,714
Increase in limits granted	394	5,516
Total value of facilities approved at December 31	4,318	7,230
Balance outstanding	(2,165)	(3,306)
Net balance available on facilities as at December 31	2,153	3,924
Total interest revenue earned on revolving credit facilities	46	69

Term deposits held for related parties

	2019	2018
Deposit balance as at January 1	864	744
Net change in deposits during the period	326	120
Deposit balance as at December 31	1,190	864
Total interest expense on term deposits	27	11

Demand deposit balances held for related parties

	2019	2018
Deposit balance as at January 1	1,914	3,153
Net change in deposits during the year	(271)	(1,239)
Demand deposit balance as at December 31	1,643	1,914
Total interest expense on demand deposits	20	27

Other transactions with related parties

Sales/purchases of goods and services

Key management personnel and parties related to them provided $nil (2018 - $nil) of goods and services to the Credit Union. Related parties are subject to the same internal request for pricing procedures as third party suppliers for material purchases and contracts for service.

Shares and dividends

As at December 31, 2019 related parties hold share capital valued at $1,217 (2018 - $1,322). During the year, dividends of $54 (2018 - $54) were paid on these shares.

Guarantees and commitments

Commitments on undrawn credit facilities and letters of credit in the amount of $2,154 (2018 - $3,924) have been issued to related parties.

31 Contingent liabilities and commitments

(a) Legal proceedings

During the normal course of business, the Credit Union enters into legal proceedings primarily relating to the recovery of delinquent loans. As a result, various counterclaims or proceedings have been or may be instituted against the Credit Union. The disposition of the matters that are pending or asserted is not expected by management to have a material effect on the financial position of the Credit Union or on its results of operations.

(b) NHA MBS commitments

The Credit Union is required, as an Issuer of NHA MBS, to remit the NHA MBS principal and interest amounts due on outstanding securities to Computershare in the following month, who distributes payments to NHA MBS investors on behalf of CMHC. The total NHA MBS principal and interest amounts due as at December 31, 2019 on NHA MBS that Meridian retains ownership of, either directly or through participation in the CMB Program, are $83,867 (2018 - $59,815).

The Credit Union will be required in early 2020, as an Issuer of NHA MBS, to fund an additional unscheduled prepayment cash reserve, calculated based on the outstanding principal balance of all outstanding NHA MBS as at December 31, 2019. As at December 31, 2019 the expected amount of the cash reserve required is $54,067 (2018 - $40,598). As the obligation to fund the increased cash reserve will not take effect until 2020, no amount has been recorded in the consolidated financial statements of the Credit Union as at December 31, 2019 to reflect this commitment.

(c) Collateral

The Credit Union is required, as a participant in the CMB Program, to enter into an agreement, whereby, if required by CHT, the Credit Union will assign collateral in the event that the net position of the mirrored CHT interest rate swap is outside of a predetermined range set by CHT. The Credit Union has a $nil balance of assigned collateral as at December 31, 2019 (2018 - $nil).

(d) Commitments for loans

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its Members. Such commitments, which are not included in the consolidated balance sheet, include documentary and commercial letters of credit, which require the Credit Union to honour drafts presented by third parties on completion of specific activities; and commitments to extend credit, which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to certain conditions.

These credit arrangements are subject to the Credit Union's normal credit standards, financial controls and monitoring procedures and collateral may be obtained where appropriate. The contract amounts for these commitments set out in the table below represent the maximum credit risk exposure to the Credit Union should the contracts be fully drawn, the counterparty default and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn on, the contract amounts do not necessarily represent future cash requirements.

	2019	2018
Undrawn overdrafts and credit facilities	2,809,079	2,567,231
Standby and commercial letters of credit	218,647	184,100
Loans approved but not funded:		
Retail mortgages	50,290	59,464
Personal loans	1,196	1,539
Commercial loans	1,519,547	1,205,970
Total loan commitments as at December 31	4,598,759	4,018,304

(e) Guarantees

In the normal course of business, the Credit Union enters into agreements that may contain features which meet the definition of a guarantee under IFRS. The maximum potential amount of future payments represents the amounts that could be lost to the Credit Union under guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

31 Contingent liabilities and commitments (continued)

The Credit Union has, as a participant in Central 1's Mortgage Pool Purchase and Securitization Program, indemnified Central 1 for all costs and expenses incurred by Central 1 in respect of the Credit Union's participation. The indemnification is considered by management to be in the normal course of business. The amounts that may become payable in future years are not determinable at this time. Management considers that the costs, if any, are not material.

(f) Meridian's Commitment to Communities

As part of Meridian's Commitment to Communities program, the Credit Union has entered into a number of contracts relating to commitments of contributions and sponsorships.

Meridian Hall and Meridian Arts Centre

In 2018 the Credit Union entered into a 15-year contract with TO Live (formerly Civic Theaters Toronto) to contribute $30,750 plus applicable tax over fifteen years toward sponsoring two iconic cultural properties currently known as the Toronto Centre for the Arts and the Sony Centre for the Performing Arts located in Toronto, Ontario. In exchange for the contributions, Meridian will be granted naming rights to the two locations for the next fifteen years. The facilities will be known as "Meridian Hall" and "Meridian Arts Centre" starting September 15, 2019. The contract term is from September 15, 2019 to September 14, 2034.

Meridian Community Centre

In 2018 the Credit Union entered into a 25-year contract with the Town of Pelham to contribute $1,000 plus applicable tax over twenty-five years toward sponsoring the Pelham Community Centre located in Pelham, Ontario. In exchange for the contributions, Meridian was granted naming rights for the life of the facility. The facility is known as "Meridian Community Centre". The contract term is from March 1, 2018 to February 28, 2043.

Meridian Theatres @ Centrepointe

In 2018 the Credit Union entered into a 15-year contract with the City of Ottawa to contribute $975 plus applicable tax over fifteen years toward sponsoring the Centrepointe Theatres located in Ottawa, Ontario. In exchange for the contributions, Meridian was granted naming rights for the next fifteen years. The facility is known as "Meridian Theaters @ Centrepointe". The contract term is from April 1, 2018 to December 31, 2033.

Greater Fort Erie Secondary School's - Meridian Centre for the Arts

In 2018 the Credit Union entered into a 20-year contract with the Greater Fort Erie District School Board to contribute $500 tax-inclusive over twenty years toward sponsoring the Greater Fort Erie Centre for Arts located in Fort Erie, Ontario. In exchange for the contributions, Meridian was granted naming rights for the next twenty years. The facility is known as "Meridian Centre for the Arts". The contract term is from September 1, 2018 to August 31, 2038.

Meridian Centre

In 2013 the Credit Union entered into a contract with the City of St. Catharines to contribute $5,234 over 25 years to the new multi-purpose spectator facility constructed in downtown St. Catharines, which is named The Meridian Centre. In addition to being given exclusive naming rights, Meridian has been designated as the official financial services provider during the term of the contract. The contract term is from September 1, 2013 to August 31, 2039.

Meridian Place

In 2014 the Credit Union entered into a 25-year contract with the City of Barrie to contribute $750 over ten years toward the building of a new town square in the community of Barrie, Ontario. In exchange for the contribution, Meridian was granted naming rights for the next 25 years. The public square is known as Meridian Place. The contract term is from July 1, 2014 to June 30, 2039.

Hamilton Farmers' Market – proudly supported by Meridian

In 2017 the Credit Union entered into a 5-year contract with the City of Hamilton to contribute $750 over five years toward sponsoring the Hamilton Farmers' Market located in Hamilton, Ontario. In exchange for the contributions, Meridian was granted naming rights for the next five years. The facility is known as "Hamilton Farmers' Market – proudly supported by Meridian". The contract term is from April 1, 2017 to March 31, 2022.

31 Contingent liabilities and commitments (continued)

Future payments for all contributions and sponsorship contracts are as follows:

	2019	2018
Within 1 year	2,735	2,736
1 to 5 years	13,541	13,555
Over 5 years	23,541	26,263
Total	39,817	42,554

Total payments made during 2019 were $2,735 (2018 - $588) of which $1,229 (2018 - $524) are included on the consolidated income statement within administration expenses.

(g) Equity investments

In 2019, the Credit Union made an initial equity investment of $2,500, representing a 25% stake, in the V!VA West Rouge Limited Partnership to build and operate a 270 unit residential retirement home in Scarborough, Ontario. The Credit Union may be required to provide up to an additional $4,250 equity finance over the next three years as is required for the purposes of completing the development of the property. To the extent that the General Partner is unable to arrange outside funds to meet the requirements of the business of the Partnership, the Credit Union may also be required to provide additional debt finance in proportion to its equity stake.

32 Regulatory information

Restricted party transactions

The Credit Union employs the definition of restricted party contained in the Act and regulations. A restricted party includes a person who is, or has been within the preceding twelve months, a director, officer or auditor of the Credit Union, any corporation in which the person owns more than 10% of the voting shares, his or her spouse, their dependent relatives who live in the same household as the person, and any corporation controlled by such spouse or dependent relative.

As at December 31, 2019, the aggregate value of loans issued to restricted parties was $6,854 (2018 - $6,570). These loans have been advanced on the same terms and conditions as have been accorded to all Members of the Credit Union, unless the restricted party is an employee, in which case they received the standard employee discount. There was no allowance for impaired loans required in respect of these loans.

Directors received $965 (2018 - $706) for annual retainer and per diem and $80 (2018 - $49) for reimbursement of travel and out-of-pocket expenses.

Remuneration of officers and employees

The Act requires credit unions to disclose remuneration paid during the year to the officers and employees of the Credit Union whose total cash based remuneration for the year exceeds $150. If there are more than five officers and employees of a Credit Union whose total remuneration for the year was over $150, the five officers and employees with the highest total remuneration for the year are disclosed. The table below provides this information for the current year:

	Total salary received	Total bonuses received	Monetary value of benefits received
Bill Maurin, President & CEO	542	776	100
Gary Genik, SVP Chief Operating Officer	337	338	70
Leo Gautreau, SVP Chief Risk Officer	305	339	66
Sunny Sodhi, SVP Chief Strategy & Corporate Affairs Officer	284	342	54
David Moore, Chief Marketing Officer, SVP Retail Banking	269	188	63

32 Regulatory information (continued)

Deposit insurance

The annual premium paid to FSRA and CDIC for insuring deposits during the year ended December 31, 2019 was $10,370 (2018 - $8,310). The premium rates are based on relative risk to the insurance fund as measured by an overall composite risk score encompassing financial and other risk based factors.

Central 1 fees

The total fees paid to Central 1 amounted to $4,287 (2018 - $4,593) and are included within non-interest expense on the consolidated income statement. These fees were primarily in respect of Membership dues, banking and clearing, and other services.

33 Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Risk Committee and charged it with the responsibility for, among other things, the development and monitoring of risk management policies. The Risk Committee reports regularly to the Board on its activities.

33.1 Credit risk

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Credit risk is one of the most significant and pervasive risks in the business of a Credit Union. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective is to create and execute a methodological approach to credit risk assessment in order to better understand, select and manage exposures to deliver stable ongoing earnings. The strategy is to ensure central oversight of credit risk and foster a culture of accountability, independence and balance. The responsibility for credit risk management is organization wide in scope, and is managed through the following infrastructure:

(i) centralized approval by the Board, of the Credit Risk Management Policy including, but not limited to, the following six areas:
   a. credit risk assessment, including policies related to credit risk analysis, risk rating and risk scoring;
   b. credit risk mitigation, including credit structuring, collateral and guarantees;
   c. credit risk approval, including credit risk limits and exceptions;
   d. credit processes focusing on documentation and administration (supported by a robust loan origination system for all lines of business);
   e. credit reviews that focus on monitoring of financial performance, covenant compliance and any sign of deteriorating performance;
   f. credit portfolio management, including sectoral, geographic, and overall risk concentration limits and risk quantification;

(ii) centralized approval by the Vice President Credit Management of the discretionary limits of lending officers throughout the Credit Union;

(iii) credit adjudication subject to compliance with established policies, exposure guidelines and discretionary limits, as well as adherence to established standards of credit assessment. A Credit Management Committee ("CMC") has been established and is charged with the high level oversight of the Retail, Small Business and Commercial credit portfolios, including sectoral exposure and geographic concentration, delinquencies, and risk attributes. The CMC reviews portfolio metrics on a regular basis and will consider appropriate responses to changes therein;

(iv) credit department oversight of the following:
   a. the establishment of guidelines to monitor and limit concentrations in the portfolios in accordance with Board-approved policies governing industry risk and group exposures;
   b. the development and implementation of credit risk models and policies for establishing borrower risk ratings to quantify and monitor the level of risk and facilitate management of Commercial credit business;
   c. approval of the scoring techniques and standards used in extending, monitoring and reporting of mortgages, personal loans and lines of credit as well as business related credit products; and
   d. implementation of an ongoing monitoring process of the key risk parameters used in our credit risk models.

The Board has delegated to the CEO the authority to establish a lending hierarchy. As such, a procedure for the delegation of lending authority has been developed and is in active use. The Credit Union employs persons who are trained in managing its credit granting activities. Staff may be delegated individual authorities based on experience and background. Designated staff whose primary job accountabilities are to manage the quality and risk of the Credit Union's portfolio are granted the authority to use judgment and discretion consistent with policy, in discharging their duties.

33 Financial risk management (continued)

33.1 Credit risk (continued)

Management has the responsibility to:

(i) systematically identify, quantify, control and report on existing and potential credit risks and environmental risks in the loan portfolio;
(ii) prudently manage the exposure to default and loss arising from those risks;
(iii) employ and train, as necessary, personnel who can implement risk measurement and credit management techniques, as required by policy; and
(iv) meet the requirements as established by FSRA

Measuring, monitoring and reporting activities on risk position and exposure are maintained and compliance and audit responsibilities are in place and adhered to. Both the Board and the Board's Risk Committee receive regular summary performance measurements of the credit portfolio.

The Credit Union's credit risk portfolio is primarily classified as "Retail", "Small Business", "Commercial", "Credit Card" or "Finance Receivable", and a different risk measurement process is employed for each portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

For the purpose of credit management, credit exposure is assessed along these two dimensions: probability of default, which is an estimate of the probability that an obligor with a certain borrower risk rating will default within a one-year time horizon, and loss given default, which represents the portion of credit exposure at default expected to be lost when an obligor defaults.

The Credit Union follows a formal loan granting process that addresses appropriate security documentation, its registration, the need and use of credit bureau reports and other searches, situations where co-signers or guarantors may be or will be required, the use of wage assignments and the use of accredited appraisers, lawyers and other professionals.

The Credit Union's credit risk portfolio is diversified with the objective of spreading risk. Diversification is assessed using different measures in each portfolio. In the Retail portfolio, diversification areas include authorized loan types, forms of security and sectoral groupings and/or such other objective criteria that the Board may set from time to time. In the Small Business and Commercial loan portfolio, diversification is achieved through the establishment of credit exposure limits for specific industry sectors, individual borrowers and borrower groups (multiple borrowers grouped together based on shared security and/or the same income source). Industry rating models and detailed industry analysis are key elements of this process. Where several industry segments are affected by common risk factors, an exposure limit may be assigned to those segments in aggregate. Management regularly reviews the above parameters to ensure that acceptable diversification is maintained. The top five industry sectors represent approximately 66% (2018 - 64%) of the total Commercial loan portfolio.

Finance Receivables are diversified based on both geography (within Canada) and the asset classes being leased to obligors. Diversification within the portfolio is reviewed on a regular basis. The top five asset classes represent 75% (2018 – 75%) of the portfolio.

Credit scoring is the primary risk rating system for assessing Retail exposure risk. Retail exposure is managed on a pooled basis, where each pool consists of exposures that possess similar homogeneous characteristics. The Retail credit segment is composed of a large number of Members, and includes residential mortgages, as well as secured and unsecured loans and lines of credit. Requests for Retail credit are generally processed using automated credit and behavioural decisioning tools. Standard evaluation criteria may include, but are not limited to: gross debt service ratio, total debt service ratio, and loan to value ratio. Within this framework, underwriters in branches and corporate office adjudicate within designated approval limits. Retail exposures are assessed on a pooled basis and measured against an internal benchmark of acceptable risk penetration levels within each pool. Internal benchmarks are established using "Equifax Beacon score". Equifax Inc. is a global service provider of this credit score, which is a mathematical model used to predict how likely a person is to repay a loan. The score is based on information contained in an individual's credit report. This information is obtained from credit lenders from which the consumers have borrowed in the past. The benchmark is measured monthly to ensure that the risk of the portfolio is managed on an ongoing basis. The risk ratings of the portfolio range from A+, which represents very low risk, to E, which represents the highest risk.

The Small Business and Commercial credit risk rating model is premised on a comprehensive assessment of the borrower's risk of default, through measurement of industry, business, management and financial risk factors along with the risk of loss given default, based on assessment of security composition and relative historical recovery experience. The model includes a standard set of questions and answers that align to an implied level of risk. Questions are given varied weightings and an overall borrower risk rating is derived from a cumulative weighting of the answers. The Commercial loan portfolio stratified by risk rating is reviewed monthly.

33 Financial risk management (continued)

33.1 Credit risk (continued)

Meridian's Credit Card portfolio entered its third year of operations, and second complete full year cycle. The portfolio remains stable, with key performance indicators reported through operational management and the Credit Management Committee on a monthly basis. Consumer card adjudication is completed through a combination of decision engines and manual review. Business card adjudication is managed through the Business Loan Origination System and existing credit granting practices.

Finance Receivables credit risk is assessed using either a credit scoring system or a credit risk rating model depending on the size of the financing. Smaller financings are assessed using a credit scoring system similar to the Credit Union's Retail assessment process. A robust credit risk rating is determined for larger financing arrangements.

The Credit Union's credit risk policies, processes and methodologies have not changed materially from the prior year. Credit risk policies, processes and methodologies governing the acquired Finance Receivables portfolio largely align to those of the Credit Union.

Except as noted, the carrying value of financial assets recorded in the consolidated financial statements, which is net of expected credit losses, represents the Credit Union's maximum exposure to credit risk. The Credit Union is also exposed to credit risk through transactions, which are not recognized in the consolidated balance sheet, such as granting financial guarantees and extending loan commitments. Refer to note 31 for further details. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained. Refer to notes 8 and 9 for a description of the nature of the security held against loans as at the consolidated balance sheet date.

Expected credit loss measurement:

IFRS 9 outlines a three-stage model for the impairment of in-scope financial assets and other off-balance sheet exposures as outlined in note 3. Throughout the discussion below, the term "financial asset" should be assumed to apply to all exposures covered by the IFRS 9 impairment model.

- A financial asset that is not credit impaired on initial recognition is classified as 'stage 1' and continues to be monitored for changes in credit risk. Financial assets in stage 1 have a loss allowance measured at an amount equal to ECL resulting from defaults possible over the next 12 months.
- If a SICR since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet considered to be credit impaired. Financial assets in stage 2 have a loss allowance measured at an amount equal to ECL resulting from defaults possible over their residual expected life.
- If the financial instrument is credit impaired, it is moved to 'stage 3'. Similar to stage 2, financial assets in stage 3 have a loss allowance measured at an amount equal to ECL resulting from defaults possible over their residual expected life. However, when a financial asset is moved to stage 3, a more detailed analysis incorporating specific characteristics of the loan (e.g. security) is undertaken.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that entities should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired at initial recognition. Their ECL is always measured on a lifetime basis (stage 3).

For the purposes of expected credit loss modelling, the Credit Union has segregated in-scope financial assets into groupings consistent with internal credit risk management practices. For the Credit Union, loans have been segmented into the following portfolios: retail, commercial, small business and credit card. Separate models have been developed for loans in motusbank and finance receivables in OneCap. Within each portfolio, financial assets have been further segregated into product groupings with similar contractual features.

The key judgments and assumptions adopted by the Credit Union in addressing the requirements of the standard are discussed below:

Significant increase in credit risk:

The Credit Union assesses a range of both qualitative and quantitative factors when determining if there has been a SICR since initial recognition. A SICR is deemed to have occurred if any of the following criteria have been met:

- The loan is 30 days past due
- External credit metrics, including rating agency and credit bureau scores, have deteriorated by an amount considered by management to be significant
- Internal credit metrics, including Member risk ratings and early warning system scores, have deteriorated by an amount considered by management to be significant

33 Financial risk management (continued)

33.1 Credit risk (continued)

The external credit metrics used in this assessment vary across the Credit Union's portfolios. Wherever possible, the thresholds set have been aligned with those that would drive lending decisions such as loan approvals, limits, pricing, etc. Due to transactional volume, the staging decision for retail, credit card and finance receivable portfolios relies primarily on external metrics. However, robust internal credit risk assessments are performed regularly for commercial and small business Members. These include annual reviews as well as other 'early warning' triggers and are considered in the staging decision for loans in those portfolios.

The Credit Union has not applied the low credit risk exemption for any financial instruments in the year ended December 2019 or 2018.

Definition of default and credit-impaired assets:

The Credit Union's definition of default and credit impairment is consistent across credit management and accounting policies, with a financial instrument considered to be credit impaired when it meets any of the following criteria:

- The loan is 90 days past due
- The Member has filed for bankruptcy or consumer proposal in the current month or the bankruptcy is expected to result in the member not meeting the contractual terms of the loan
- The borrower has failed to meet the terms under which a loan has been granted (e.g. breach of financial covenants) and legal action has commenced
- Based on other objective evidence, the Member's internal risk rating has been set to 'Impaired' and Credit Recovery has taken over responsibility for the file

The definition of default has been applied consistently across all of the Credit Union's portfolios as well as in all aspects if the expected credit loss calculation (e.g. probability of default, exposure at default and loss given default).

Measuring ECL – Explanation of inputs, assumptions and estimation techniques:

Allowances for ECL are measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired. ECL are the discounted product of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD").

Probability of default:

The PD represents the likelihood of a Member defaulting on its financial obligation, either over the next 12 months or the remaining lifetime (depending on the stage to which the financial asset belongs).

The approach for calculating PD will vary depending on the portfolio. Internal credit risk metrics, external credit bureau scores, as well as delinquency are used to measure a Member's level of credit risk. These indicators are converted into a 12-month PD using models based either on internal loss history or industry data.

When required, 12-month PDs are converted to lifetime PDs by extrapolating them over the loan's residual expected life using the relationship between time and default. The relationship between time and default is assumed to be linear. This is supported by vintage loss analyses prepared for each product. For term facilities, residual expected life is based on contractual maturity. For revolving products, this is estimated based on the historical average time to close for similar products.

Exposure at default:

The EAD represents the amount the Credit Union expects to be owed at the time of default. For example, on revolving facilities, the Credit Union considers the amount that is expected to be drawn leading up to default. On term facilities, the Credit Union considers the amount it expects to be paid down leading up to default.

Twelve-month and lifetime EADs are determined based on the historical average payment or drawdown profile for similar products.

Loss given default:

The LGD represents what the Credit Union expects to lose on a defaulted exposure. In reality, LGD will vary by the type of counterparty, type and seniority of claim and availability of other credit support. For ECL modelling purposes, the Credit Union has grouped products with similar risk characteristics pertaining to collateral. The LGD is expressed as a percentage of EAD.

33 Financial risk management (continued)

33.1 Credit risk (continued)

These inputs are combined to project ECL over either the next 12 months or the entire lifetime of a credit exposure. The expected credit loss is discounted back to present using the instrument's effective interest rate.

Assumptions underlying the ECL calculation and modelling inputs are monitored and reviewed at least annually. Over the period, the Credit Union updated the methodology used to calculate LGD for its Commercial portfolio to better reflect the value and risk of security for loans internally rated as Watch List or Distressed.

Forward-looking information incorporated into the ECL models:

The modelling approach discussed above is with respect to the estimation of 'point-in-time' ECL. These represent an estimation of losses expected under prevailing macroeconomic conditions. The standard requires entities to assess ECL on a forward-looking basis. The Credit Union has chosen to incorporate this requirement as an overlay to the point-in-time model outputs. Overlays have been applied at the portfolio rather than product or ECL input level.

The Credit Union has performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio. The relationship between historical credit losses and range of macroeconomic variables have been assessed for each of the Credit Union's portfolios to determine directional correlation and statistical strength. Those macroeconomic variables that were demonstrated to be correlated to credit losses were incorporated into multivariate linear regression models. Models have been used to estimate loss levels under various alternative economic scenarios as measured by the chosen macroeconomic variables. Adjustment factors have been calculated by assessing the relative size of losses implied by the model under current conditions versus the alternative forward-looking scenarios. These factors are applied to point-in-time ECL to estimate ECL under alternative economic scenarios.

Four forward-looking scenarios have been considered:

i. Baseline
ii. Stronger near-term growth
iii. Slower near-term growth
iv. Moderate recession

Each of these scenarios has been informed by Moody's Canada Macroeconomic Outlook, which is updated quarterly and includes both baseline and alternative scenarios deemed to be relevant to the Canadian economy. Moody's estimates high-level probability bands for each scenario which have been overlaid with management judgment to arrive at the weightings assigned to each scenario for the macroeconomic overlay. Interest rate scenarios are based on expectations of ten-year Government of Canada bond yields.

The approach used to calculate the macroeconomic overlay changed slightly in 2019 as the Credit Union started using scenarios from Moody's. In 2018, only three scenarios were considered and interest rates were measured using five-year Government of Canada bond yields.

33 Financial risk management (continued)

33.1 Credit risk (continued)

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at December 31, 2019 are set out below. The ranges (where relevant) capture variability between Ontario versus national economic forecasts used for portfolios depending on their geographic footprint.

		2020	2021	2022	2023	2024
Real GDP Growth	Baseline	1.5-1.9%	1.6-1.6%	1.6-2.3%	2.0-2.2%	1.8-1.8%
	Stronger near-term growth	1.5-2.6%	2.3-3.2%	3.2-3.3%	2.2-3.0%	2.0-2.0%
	Slower near-term growth	1.2-1.5%	0.3-0.9%	0.3-2.2%	2.0-2.1%	1.2-1.9%
	Moderate recession	(0.7)-1.5%	(1.4)-(1.0)%	(1.5)-3.4%	2.9-3.3%	1.6-3.0%
Unemployment	Baseline	5.7-5.9%	6.2-6.3%	6.1-6.5%	6.1-6.5%	6.2-6.6%
	Stronger near-term growth	5.0-5.3%	5.2-5.4%	5.3-5.7%	5.7-6.1%	5.9-6.3%
	Slower near-term growth	6.0-6.3%	7.1-7.3%	7.1-7.5%	6.7-7.2%	6.4-6.9%
	Moderate recession	6.9-7.2%	8.7-9.1%	8.1-8.7%	7.3-8.0%	7.1-7.7%
Interest Rates	Baseline	2.2%	3.0%	3.7%	3.8%	3.9%
	Stronger near-term growth	2.4%	3.3%	4.0%	3.8%	3.9%
	Slower near-term growth	1.7%	2.1%	3.3%	3.8%	4.0%
	Moderate recession	1.4%	1.2%	1.9%	2.4%	2.9%

The weightings assigned to each scenario were as follows:

Baseline:	40%
Stronger near-term growth:	15%
Slower near-term growth:	30%
Moderate recession:	15%

The most significant period-end assumptions used for the ECL estimate as at December 31, 2018 are set out below. The ranges (where relevant) capture variability between Ontario versus national economic forecasts used for the Credit Union and OneCap respectively.

		2019	2020	2021	2022	2023
Interest rates	Planning	2.8%	2.9%	3.0%	3.0%	3.1%
	Upside	2.9%	3.0%	3.1%	3.1%	3.2%
	Downside	2.3%	2.3%	2.3%	2.3%	2.3%
Unemployment	Planning	5.5 - 5.8%	5.6 - 5.9%	5.4 - 5.9%	5.5 - 5.9%	5.6 - 5.9%
	Upside	5.3 - 5.6%	5.2 - 5.5%	5.1 - 5.6%	5.0 - 5.4%	5.0 - 5.4%
	Downside	6.3 - 6.6%	6.5 - 6.8%	6.7 - 7.2%	6.6 - 7.0%	6.5 - 6.8%
Real GDP Growth	Planning	1.9 - 1.9%	1.7 - 1.7%	1.8 - 1.8%	1.9 - 2.0%	1.8 - 1.8%
	Upside	2.2 - 2.6%	2.6 - 2.2%	2.1 - 2.6%	2.0 - 2.6%	2.0 - 2.6%
	Downside	0.5 - 1.0%	0.5 - 0.5%	1.0 - 1.0%	1.0 - 1.0%	1.0 - 1.0%

For 2018, the weightings assigned to each scenario were consistent across portfolio, with a probability of 60% applied to the planning scenario, 10% to the upside scenario and 30% applied to the downside scenario.

Models used to calculate the macroeconomic overlay adjustments, as well as the scenario design and weightings, are reviewed at least annually. Additional qualitative adjustments have been made for the commercial, small business and credit card portfolios due to low levels of historical impairments.

Given the sensitivity of allowances for ECL to estimates of future economic conditions under planning, upside and downside scenarios, as well as the probabilities assigned to each, an analysis has been undertaken to understand the impact of alternative scenarios and weightings. For 2019, the sensitivities were as follows:

33 Financial risk management (continued)

33.1 Credit risk (continued)

Interest Rates:

Moving interest rates across up or down by 50 basis points across all scenarios resulted in an increase of $825 or decrease of $825 respectively to the allowance (2018 - $800).

Unemployment:

Moving unemployment rates across up or down by 50 basis points across all scenarios resulted in an increase of $1,365 or decrease of $1,365 respectively to the allowance (2018 - $1,200).

Real GDP Growth:

Moving real GDP growth rates across up or down by 50 basis points across all scenarios resulted in a decrease of $875 or increase of $875 respectively to the allowance (2018 - $800).

Probability Weightings:

Increasing or decreasing the probability weighting assigned to the downside scenario by ten percent versus the planning scenario resulted in an increase of $1,430 or decrease of $1,430 respectively to the allowance (2018 - $1,600).

33.2 Market risk

(a) Interest rate risk

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when it enters into banking transactions with its Members, namely deposit taking and lending. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is repriced when interest rates change, when there is cash flow from final maturity, normal amortization, or when Members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively Members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. Overall responsibility for asset/liability management rests with the Board. As such, the Board receives regular reports on risk exposures and performance against approved limits. The Board delegates the responsibility to manage the interest rate risk on a day-to-day basis to the Asset/Liability Committee ("ALCO"), which meets no less frequently than monthly. ALCO is chaired by the CFO and includes other senior executives.

The key elements of the Credit Union's interest rate risk management framework include:

i. guidelines and limits on the structuring of the maturities, price and mix of deposits, loans, mortgages and investments and the management of asset cash flows in relation to liability cash flows;
ii. guidelines and limits on the use of derivative financial instruments to hedge against a risk of loss from interest rate changes; and
iii. requirements for comprehensive measuring, monitoring and reporting on risk position and exposure management.

Valuations of all asset and liability positions, as well as off-balance sheet exposures, are performed no less frequently than monthly. The Credit Union's objective is to establish and maintain a balance sheet and off-balance sheet structure that will protect and enhance the Credit Union's net interest income and the value of the Credit Union's capital during all phases of the interest rate cycle and varying economic conditions.

The carrying values of interest sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next reprice to market rates or mature, and are summed to show the interest rate sensitivity gap. Amounts relating to non-interest sensitive assets and liabilities are also disclosed for the purpose of tying back to the total carrying value of each line item. Loans are adjusted for prepayment estimates which reflect expected repayments on other than contractual maturity dates. The prepayment rate applied to the portfolio is based on experience and current economic conditions. The average rates presented represent the weighted average effective yield based on the earlier of contractual repricing or maturity dates. Further information related to the derivative financial instruments used to manage interest rate risk is included in note 10.

33 Financial risk management (continued)

33.2 Market risk (continued)

	December 31, 2019					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Assets						
Cash and cash equivalents	423,860	150,000	-	-	2,046	575,906
Yield	1.85 %	1.76 %	-	-	-	1.82 %
Receivables	-	154	697	534	5,497	6,882
Yield	-	3.20 %	3.23 %	3.32 %	-	0.66 %
Investments in debt instruments	-	1,059,889	335,358	-	4,851	1,400,098
Yield	-	1.73 %	1.44 %	-	-	1.66 %
Loans	4,295,961	3,351,715	9,631,577	37,380	33,276	17,349,909
Yield	5.13 %	3.42 %	3.21 %	3.75 %	-	3.72 %
Finance receivables	9,118	403,926	760,122	9,905	(13,906)	1,169,165
Yield	6.49 %	5.87 %	5.86 %	5.79 %	-	5.94 %
Derivative financial assets	32,012	-	-	-	-	32,012
Yield	-	-	-	-	-	-
Investments in equity investments	-	-	-	-	84,517	84,517
Yield	-	-	-	-	-	-
Other assets	-	-	-	-	341,625	341,625
Yield	-	-	-	-	-	-
Total assets	4,760,951	4,965,684	10,727,754	47,819	457,906	20,960,114
Liabilities and Members' equity						
Deposits	5,509,457	4,707,847	3,099,426	5	1,552,763	14,869,498
Yield	1.49 %	2.65 %	2.83 %	2.85 %	-	1.98 %
Borrowings	300,000	-	-	-	444	300,444
Yield	2.81 %	-	-	-	-	2.81 %
Lease liabilities	-	7,279	32,292	46,023	-	85,594
Yield	-	2.88 %	3.13 %	3.06 %	-	3.07 %
Secured borrowings	1,061,612	294,783	-	-	2,625	1,359,020
Yield	2.93 %	2.08 %	-	-	-	2.74 %
Mortgage securitization liabilities	122,243	657,558	2,239,992	-	(18,130)	3,001,663
Yield	2.46 %	1.77 %	1.86 %	-	-	1.88 %
Derivative financial liabilities	10,063	-	-	-	-	10,063
Yield	-	-	-	-	-	-
Subordinated Debt	50,000	-	-	-	(105)	49,895
Yield	5.49 %	-	-	-	-	5.50 %
Other liabilities and Members' equity	-	-	-	-	1,283,937	1,283,937
Yield	-	-	-	-	-	-
Total liabilities and Members' equity	7,053,375	5,667,467	5,371,710	46,028	2,821,534	20,960,114

33 Financial risk management (continued)

33.2 Market risk (continued)

	December 31, 2019					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Fixed pay swaps	2,029,379	(364,470)	(1,611,301)	(53,608)	-	-
Yield	2.03 %	1.95 %	1.94 %	1.92 %	-	-
Fixed receive swaps	(1,350,000)	1,193,000	157,000	-	-	-
Yield	1.89 %	1.88 %	1.91 %	-	-	-
Total derivatives	679,379	828,530	(1,454,301)	(53,608)	-	-
Interest sensitivity position	(1,613,045)	126,747	3,901,743	(51,817)	(2,363,628)	-

33 Financial risk management (continued)

	December 31, 2018					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Assets						
Cash and cash equivalents	237,612	160,730	-	-	9,988	408,330
Yield	1.43 %	2.11 %	-	-	-	1.66 %
Investments in debt instruments	-	624,080	431,933	-	5,493	1,061,506
Yield	-	1.74 %	1.32 %	-	-	1.56 %
Loans	4,087,692	2,829,437	7,906,072	26,368	50,739	14,900,308
Yield	5.14 %	3.48 %	3.24 %	3.72 %	-	3.79 %
Finance receivables	4,807	397,967	780,114	13,264	(17,608)	1,178,544
Yield	6.64 %	5.74 %	5.75 %	5.60 %	-	5.83 %
Derivative financial assets	23,410	-	-	-	-	23,410
Yield	-	-	-	-	-	-
Investments in equity instruments	-	-	-	-	74,218	74,218
Yield	-	-	-	-	-	-
Other assets	-	-	-	-	252,939	252,939
Yield	-	-	-	-	-	-
Total assets	4,353,521	4,012,214	9,118,119	39,632	375,769	17,899,255
Liabilities and Members' equity						
Deposits	5,289,969	3,811,210	2,554,563	-	1,492,975	13,148,717
Yield	2.00 %	2.11 %	-	-	-	1.88 %
Borrowings	-	-	-	-	11	11
Yield	-	-	-	-	-	-
Secured borrowings	1,075,912	49,016	-	-	2,808	1,127,736
Yield	3.19 %	2.18 %	-	-	-	3.14 %
Mortgage securitization liabilities	122,179	702,091	1,603,049	-	956	2,428,275
Yield	1.22 %	1.98 %	1.66 %	-	-	1.73 %
Derivative financial liabilities	6,922	-	-	-	-	6,922
Yield	-	-	-	-	-	-
Other liabilities and Members' equity	-	-	-	-	1,187,594	1,187,594
Yield	-	-	-	-	-	-
Total liabilities and Members' equity	6,494,982	4,562,317	4,157,612	-	2,684,344	17,899,255
Fixed pay swaps	2,324,037	(933,702)	(1,318,619)	(71,716)	-	-
Yield	2.24 %	1.83 %	2.06 %	2.70 %	-	-
Fixed receive swaps	(938,000)	895,000	43,000	-	-	-
Yield	2.25 %	2.26 %	2.43 %	-	-	-
Total derivatives	1,386,037	(38,702)	(1,275,619)	(71,716)	-	-
Interest sensitivity position	(755,424)	(588,805)	3,684,888	(32,084)	(2,308,575)	-

33 Financial risk management (continued)

The management of interest rate risk against internal exposure limits is supplemented by monitoring the sensitivity of the Credit Union's financial assets and financial liabilities to standard interest rate shock scenarios. The key metrics used to monitor this sensitivity are Earnings at Risk ("EaR") and Economic Value of Equity at Risk ("EVaR"). EaR is defined as the change in our net interest income from a predetermined shock to interest rates measured over a 12 month period. EVaR is defined as the change in the present value of the Credit Union's asset portfolio resulting from a predetermined shock versus the change in the present value of the Credit Union's liability portfolio resulting from the same predetermined interest rate shock. The Credit Union completes various static and dynamic interest rate shock scenarios throughout the year, including a 100 basis point ("bps") rate shock. The estimated impact of a 100 bps rate shock on these metrics is presented below.

	2019	2018
EaR: 100 bps exposure	(1,756)	(12,484)
EVaR: 100 bps exposure	(4.36%)	(2.37%)

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Credit Union is exposed to foreign currency risk as a result of its Members' activities in foreign currency denominated deposits and cash transactions. The Credit Union's foreign currency risk is subject to formal risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits are designed to ensure, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and variances from approved limits. The aforementioned activities that expose the Credit Union to foreign currency risk are measured, monitored and controlled daily to minimize the adverse impact of sudden changes in foreign currency values with respect to the Canadian dollar. U.S. dollar denominated liabilities are hedged through a combination of U.S. dollar investments and forward rate agreements to buy U.S. dollars and net exposure as measured on a daily basis is limited to 1% of prior year ending Members' equity. The Credit Union uses forward foreign currency derivative financial instruments to neutralize its exposure to foreign exchange contracts with Members. As at December 31, 2019 and December 31, 2018, the Credit Union's exposure to a 10% change in the foreign currency exchange rate, which is reasonably possible, is insignificant.

(c) Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The Credit Union is exposed to other price risk in its own investment portfolio. The Credit Union adheres to the principles of quality and risk diversification in its investment practices. The Credit Union's other price risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits assist in ensuring, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. As at December 31, 2019 and December 31, 2018, the Credit Union has limited investments subject to other price risk and this exposure is insignificant.

33 Financial risk management (continued)

33.3 Liquidity risk

Liquidity risk arises in the course of managing the Credit Union's financial assets and financial liabilities. It is the risk that the Credit Union is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund its consolidated balance sheet under both normal and stressed market environments. The Credit Union's liquidity risk is subject to formal risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits assist in ensuring, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. ALCO provides management oversight of liquidity risk through its monthly meetings.

The key elements of the Credit Union's liquidity risk management framework include:

- Limits on the sources, quality and amount of liquid assets to meet normal operational requirements, regulatory requirements and contingency funding
- A methodology to achieve an acceptable yield on the operating liquidity investment portfolio within prudent risk management bounds
- Prudence tests of quality and diversity where investments bear credit risk
- Parameters to limit term extension risk
- Implementation of deposit concentration limits in order to assist in ensuring diversification and stability of deposit funding
- Requirements for adequate measuring, monitoring and reporting on risk position and exposure management.

Under FSRA regulations, the Credit Union will establish and maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs, including depositor withdrawals and all other obligations as they come due. The liquid asset ratio measures the Credit Union's liquid assets as a percentage of total assets and is used by the Credit Union to monitor its liquidity position, in addition to Liquidity Coverage Ratio and Net Cumulative Cash Flows metrics. The Credit Union targets to maintain a liquid asset ratio within the range of 8.00% to 13%. The low end of the range has been established in order to maintain a comfortable cushion beyond minimum operating liquidity needs, even during periods of market volatility. A cap has been placed on the range in recognition of the fact that too much excess liquidity has a negative impact on earnings. As at December 31, 2019, the Credit Union's liquid asset ratio was 9.92% (2018 – 9.20%).

The table below sets out the period in which the Credit Union's non-derivative financial assets and financial liabilities will mature and be eligible for renegotiation or withdrawal. These cash flows are not discounted and include both the contractual cash flows pertaining to the Credit Union's consolidated balance sheet assets and liabilities and the future contractual cash flows that they will generate. In the case of loans, the table reflects adjustments to the contractual cash flows for prepayment estimates, which reflect expected repayments on other than contractual maturity dates. The prepayment rate applied to the portfolio is based on experience and current economic conditions. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies, as set out in note 31.

33 Financial risk management (continued)

33.3 Liquidity risk (continued)

	December 31, 2019						
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	575,915	-	-	-	-	-	575,915
Receivables	5,584	180	406	406	580	-	7,156
Current income tax receivable	3,088	-	-	-	-	-	3,088
Investment in debt instruments	55,846	1,028,942	353,135	-	-	1,173	1,439,096
Loans	909,212	4,915,254	7,732,546	4,922,629	167,592	-	18,647,233
Finance receivables	46,752	412,137	601,401	209,281	9,920	7,922	1,287,413
Investments in equity instruments	-	-	-	-	-	84,517	84,517
Total financial assets	1,596,397	6,356,513	8,687,488	5,132,316	178,092	93,612	22,044,418
Financial liabilities							
Deposits	7,245,749	4,634,544	2,464,550	805,426	6	-	15,150,275
Borrowings	718	8,015	17,512	310,120	-	-	336,365
Payables and other liabilities	115,795	-	-	-	-	-	115,795
Current income tax payable	2,848	-	-	-	-	-	2,848
Secured borrowings	331,163	380,079	515,491	178,638	6,086	-	1,411,457
Mortgage securitization liabilities	22,591	740,175	1,716,952	664,350	-	-	3,144,068
Subordinated debt	235	2,549	5,569	5,569	64,135	-	78,057
Finance lease liabilities	818	9,030	20,120	19,943	50,758	-	100,669
Total financial liabilities	7,719,917	5,774,392	4,740,194	1,984,046	120,985	-	20,339,534
Net	(6,123,520)	582,121	3,947,294	3,148,270	57,107	93,612	1,704,884

33 Financial risk management (continued)

33.3 Liquidity risk (continued)

	December 31, 2018						
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	277,093	131,593	-	-	-	-	408,686
Receivables	2,891	-	-	-	-	-	2,891
Current income tax receivable	4,200	-	-	-	-	-	4,200
Investment in debt instruments	93,266	541,516	379,611	77,356	-	1,150	1,092,899
Loans	886,342	4,359,144	6,524,221	4,188,455	116,005	-	16,074,167
Finance receivables	37,370	406,903	596,088	237,756	13,184	8,388	1,299,689
Investments in equity investments	-	-	-	-	-	74,218	74,218
Total financial assets	1,301,162	5,439,156	7,499,920	4,503,567	129,189	83,756	18,956,750
Deposits	7,096,544	3,713,469	1,781,145	923,995	-	-	13,515,153
Payables and other liabilities	84,636	-	-	-	-	-	84,636
Current income tax payable	8,845	-	-	-	-	-	8,845
Secured borrowings	84,622	378,991	512,508	201,569	10,129	-	1,187,819
Mortgage securitization liabilities	40,016	701,176	1,577,703	200,849	-	-	2,519,744
Total financial liabilities	7,314,663	4,793,636	3,871,356	1,326,413	10,129	-	17,316,197
Net	(6,013,501)	645,520	3,628,564	3,177,154	119,060	83,756	1,640,553

33 Financial risk management (continued)

The table below sets out the undiscounted contractual cash flows of the Credit Union's derivative financial assets and liabilities:

December 31, 2019	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Equity index-linked options	-	8,596	8,769	2,745	-	20,110
Gross-settled foreign exchange forward contracts						
Outflow	-	(826)	(788)	-	-	(1,614)
Inflow	730	830	793	-	-	2,353
Interest rate swaps						
Outflow	-	(2,227)	(130)	(351)	(235)	(2,943)
Inflow	-	1,329	2,135	2,814	144	6,422
Total	730	7,702	10,779	5,208	(91)	24,328

December 31, 2018	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Equity index-linked options	-	3,994	5,364	1,793	-	11,151
Gross-settled foreign exchange forward contracts						
Outflow	-	(763)	(594)	-	-	(1,357)
Inflow	-	765	595	-	-	1,360
Interest rate swaps						
Outflow	(147)	(469)	(674)	(1,088)	(27)	(2,405)
Inflow	332	5,811	4,538	498	14	11,193
Total	185	9,338	9,229	1,203	(13)	19,942

Derivative financial assets and liabilities reflect interest rate swaps that will be settled on a net basis and foreign exchange forward contracts and index-linked equity options that will be settled on a gross basis (see note 10).

The gross inflows/(outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial assets and liabilities held for risk management purposes and which are infrequently terminated before contractual maturity. The future cash flows on derivative instruments may differ from the amount in the above table as interest rates, exchange rate and equity market indices change. Cash outflows relating to the embedded written option in equity index-linked deposits are included with deposits in the previous table for non-derivative financial assets and liabilities.

33.4 Fair value

The following table represents the fair values of the Credit Union's financial assets and financial liabilities for each classification of financial instruments. The fair values for short-term financial assets and financial liabilities approximate carrying value. These include accrued interest receivable, accounts payable, accrued liabilities and accrued interest payable. The fair values disclosed do not include the value of liabilities that are not considered financial instruments.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of the Credit Union's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

33 Financial risk management (continued)

33.4 Fair value (continued)

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	December 31, 2019			December 31, 2018		
	Carrying value	Fair value	Fair value differences	Carrying value	Fair value	Fair value difference
Financial assets at FVTPL:						
Derivative instruments						
Equity index-linked options	20,039	20,039	-	11,034	11,034	-
Interest rate swaps assets	11,964	11,964	-	12,274	12,274	-
Foreign exchange contracts assets	9	9	-	103	103	-
Investments in equity investments	84,517	84,517	-	74,218	74,218	-
Amortized cost:						
Cash and cash equivalents	575,907	575,879	(28)	408,330	408,198	(132)
Receivables	6,882	6,882	-	2,863	2,863	-
Investments in debt instruments	1,400,098	1,385,991	(14,107)	1,061,506	1,048,045	(13,461)
Loans	17,349,909	17,139,741	(210,168)	14,900,308	14,667,930	(232,378)
Finance receivables	1,169,165	1,169,499	334	1,178,544	1,163,360	(15,184)
Total financial assets	20,618,490	20,394,521	(223,969)	17,649,180	17,388,025	(261,155)
Financial liabilities at FVTPL:						
Derivative instruments						
Interest rate swaps	10,063	10,063	-	6,822	6,822	-
Foreign exchange contracts	-	-	-	100	100	-
Other liabilities:						
Deposits	14,869,498	14,929,528	60,030	13,148,717	13,180,929	32,212
Borrowings	300,444	300,444	-	-	-	-
Payables and other liabilities	57,497	57,497	-	39,876	39,876	-
Secured borrowings	1,359,020	1,359,020	-	1,127,736	1,127,736	-
Mortgage securitization liabilities	3,001,663	2,950,337	(51,326)	2,428,275	2,408,661	(19,614)
Subordinated debt	49,895	50,143	248	-	-	-
Employee obligations	33,212	33,212	-	32,298	32,298	-
Membership shares	376	376	-	350	350	-
Total financial liabilities	19,681,668	19,690,620	8,952	16,784,174	16,796,772	12,598

Interest rate sensitivity is the main cause of changes in the fair values of the Credit Union's financial instruments. With the exception of financial assets and financial liabilities recorded at FVTPL, the carrying values of the above financial instruments are not adjusted to reflect the fair value.

33 Financial risk management (continued)

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

i. The fair value of cash and cash equivalents, excluding short-term deposits with original maturities of 100 days or less, are assumed to approximate their carrying values, due to their short-term nature. The fair value of short-term deposits with original maturities of 100 days or less are based on fair market values, which are derived from valuation models and a credit valuation adjustment is applied to account for counterparty risk.

ii. With the exception of investments reported using the equity method of accounting, the fair value of investments is determined by discounting the expected future cash flows of these investments at current market rates and a credit valuation adjustment is applied to account for counterparty risk.

iii. The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to carrying value. The interest rates on these loans and deposits reprice on a periodic basis with market fluctuation. Repricing of uninsured floating rate deposits incorporates a spread that accounts for the Credit Union's own credit risk. Impairment allowances, which are included in the carry value of variable rate loans, are assumed to capture changes in credit spreads.

iv. The estimated fair value of fixed rate deposits and Member entitlements is determined by discounting the expected future cash flows of these investments, deposits and borrowings at current market rates for products with similar terms and credit risks. A credit valuation adjustment is applied when determining the current market rates used to calculate the fair value of uninsured fixed rate deposits to account for counterparty and the Credit Union's own credit risk.

v. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows of these loans at current market rates for products with similar terms and credit risks. Historical prepayment experience is considered along with current market conditions in determining expected future cash flows. In determining the adjustment for credit risk, consideration is given to market conditions, the value of underlying security and other indicators of the borrower's creditworthiness.

vi. The estimated fair value of derivative instruments is determined through valuation models based on the derivative notional amounts, maturity dates and rates and a credit valuation adjustment is applied to account for counterparty and the Credit Union's own credit risk.

vii. The fair values of other liabilities are assumed to approximate their carrying values, due to their short-term nature.

Fair values are determined based on a three level fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels of the hierarchy are as follow:

Level 1 - Unadjusted quoted prices in active markets for identical financial assets and financial liabilities;

Level 2 - Inputs other than quoted prices that are observable for the financial asset or financial liability either directly or indirectly;

Level 3 - Inputs that are not based on observable market data.

The following table illustrates the classification of the Credit Union's financial instruments within the fair value hierarchy.

33 Financial risk management (continued)

	Fair value as at December 31, 2019		
	Level 1	Level 2	Level 3
Recurring measurements			
Financial assets			
Derivative financial assets:			
Equity index-linked options	-	20,039	-
Interest rate swaps	-	11,964	-
Foreign exchange contracts	-	9	-
Investments in equity instruments	-	84,517	-
Total financial assets	-	116,529	-
Financial liabilities			
Embedded derivatives in index-linked deposits	-	(19,704)	-
Derivative financial liabilities:			
Interest rate swaps	-	(6,788)	-
Total financial liabilities	-	(26,492)	-
Fair values disclosed			
Cash and cash equivalents	425,893	149,986	-
Receivables	-	6,883	-
Investments in debt instruments	-	1,385,991	-
Loans	-	-	17,422,994
Finance receivables	-	-	1,169,499
Members' deposits	-	(14,909,825)	-
Borrowings	-	(283,253)	-
Secured borrowings	-	(1,359,020)	-
Mortgage securitization liabilities	-	2,950,337	-
Subordinated debt	-	(50,143)	-
Membership shares	-	(376)	-

	Fair value as at December 31, 2018		
	Level 1	Level 2	Level 3
Recurring measurements			
Financial assets			
Derivative financial assets:			
Equity index-linked options	-	11,034	-
Interest rate swaps assets	-	12,274	-
Foreign exchange contracts	-	103	-
Investments in equity instruments	-	74,218	-
Total financial assets	-	97,629	-
Financial liabilities			
Embedded derivatives in index-linked deposits	-	(10,900)	-
Derivative financial liabilities:			
Interest rate swaps	-	(6,822)	-
Foreign exchange contracts	-	(100)	-

33 Financial risk management (continued)

	Fair value as at December 31, 2018		
	Level 1	Level 2	Level 3
Total financial liabilities	-	(17,822)	-
Fair values disclosed			
Cash and cash equivalents	245,475	162,724	-
Receivables	-	2,863	-
Investments in debt instruments	-	1,048,045	-
Loans	-	-	14,667,930
Finance receivables	-	-	1,163,360
Members' deposits	-	(13,170,029)	-
Secured borrowings	-	(1,127,736)	-
Mortgage securitization liabilities	-	(2,408,661)	-
Membership shares	-	(350)	-

The fair values of cash and cash equivalents, receivables, payables and other liabilities and employee obligations approximate their carrying values due to their short-term nature.

There have been no transfers between levels of the fair value hierarchy during the year.

33.5 Capital management

The Credit Union maintains policies and procedures relative to capital management so as to ensure the capital levels are sufficient to cover risks inherent in the business.

The Credit Union's objectives when managing capital are:

- To ensure that the quantity, quality and composition of capital needed reflects the inherent risks of the entity and to support the current and planned operations and portfolio growth
- To provide a safety net for the variety of risks to which the entity is exposed in the conduct of its business and to overcome the losses from unexpected difficulties either in earnings or in asset values
- To provide a basis for confidence among Members, depositors, creditors and Regulatory agencies
- To form a solid foundation for business expansion and ongoing reinvestment in business capabilities, including technology and process automation and enhancement
- To establish a capital management policy for the entity appropriate for current legal and economic conditions, including compliance with regulatory requirements and with FSRA's standards of Sound Business and Financial Practices.

The Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets and of risk weighted assets. Risk weighted assets are calculated by applying risk weighted percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent on the degree of risk inherent in the asset.

Tier 1 capital, otherwise known as core capital, is the highest quality. It is comprised of retained earnings, contributed surplus, Members' capital accounts, and Member entitlements with the exception of the series 96 Class A shares. Of the "50th Anniversary", series 98, series 01, and series 09 Class A shares that have been included within Members' capital accounts, only 90% are allowable as Tier 1 capital due to specific features of these shares. Series 15 and series 17 Class A shares are included at 100% due to a redemption restriction for 5 years from date of issuance. Tier 1 capital as at December 31, 2019 was $1,016,336 (2018 - $937,459).

Tier 2 capital, otherwise known as supplementary capital, contributes to the overall strength of a financial institution as a going concern, but is of a lesser quality than Tier 1 capital relative to both permanence and freedom from charges. It is comprised of the series 96 Class A shares and the 10% portion of the "50th Anniversary", series 98, series 01, and series 09 Class A shares that are not admissible as Tier 1 capital. It also includes the subordinated debt and the eligible portion of stage 1 and 2 expected credit loss allowances. Tier 2 capital as at December 31, 2019 was $154,289 (2018 - $96,800).

33 Financial risk management (continued)

33.5 Capital management (continued)

The Act requires credit unions to maintain a minimum capital ratio of 4% and a risk weighted capital ratio of 8%. The Credit Union has a stated policy that it will maintain at all times capital equal to the minimum required by the Act plus a prudent cushion. The Credit Union's internal policy also dictates that the ratio of Tier 1 capital to total capital will be a minimum of 60%. These internal limits are increased by the Board in tandem with significant increasing risk detected in the economic environment of the Credit Union. The Credit Union is in compliance with the Act as indicated by the table below:

	Regulatory	Capital leverage ratio		Risk weighted capital	
	capital	Minimum	Actual	Minimum	Actual
2019	1,170,625	4.00 %	5.94 %	8.00 %	11.74 %
2018	1,034,258	4.00 %	6.17 %	8.00 %	12.14 %

Motusbank manages capital in accordance with the guidelines established by OSFI, based on standards issued by the Bank for International Settlements' Basel Committee on Banking Supervision ("BCBS"). OSFI's Capital Adequacy Requirements ("CAR") Guideline details how Basel III rules apply to Canadian banks. Regulatory capital is calculated as a percentage of total risk weighted assets. Risk weighted assets are calculated by applying risk weighted percentages, as prescribed by the CAR guideline, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent on the degree of risk inherent in the asset.

OSFI has mandated that all OSFI-regulated financial institutions meet target Capital Ratios: those being a CET1 ratio of 7.0%, a Tier 1 Capital Ratio of 8.5% and a total Capital Ratio of 10.5%. Motusbank has a stated policy that it will maintain at all times capital equal to the minimum required by the Act plus a prudent cushion. Motusbank does not currently hold any Additional Tier 1 capital. Motusbank is in compliance with its regulatory requirements.

Canadian banks are required to report on OSFI's Leverage Ratio which is based on Basel III guidelines. OSFI has established minimum Leverage Ratio targets on a confidential and institution-by-institution basis.

34 Reconciliation of liabilities arising from financing activities

	2019	2018
Proceeds from securitization of mortgages	1,074,274	478,862
Net change in mortgage securitization liabilities	(454,670)	27,302
Net change in borrowings	300,887	(32,811)
Net change in secured borrowings	231,488	191,371
Net change in subordinated debt	50,038	-
Net change in leases liabilities	82,890	-
Net cash from changes in Membership shares	26	29
Net cash from changes in liabilities	1,284,933	664,753
Dividends paid on Members' capital accounts	(3,558)	(2,611)
Net change in Member capital accounts	(1,244)	(2,326)
Cash provided by financing activities	1,280,131	659,816

34 Reconciliation of liabilities arising from financing activities (continued)

	January 1, 2019	Cash Flow	Non-Cash Changes		December 31, 2019
			Changes in Accrued Interest	Amortization of Deferred Amounts	
Borrowings	11	300,433	-	-	300,444
Secured borrowings	1,127,736	231,488	(204)	-	1,359,020
Mortgage securitization liabilities	2,428,275	619,604	219	(46,435)	3,001,663
Membership shares	350	26	-	-	376
Total	3,556,372	1,151,551	15	(46,435)	4,661,503

	January 1, 2018	Cash Flow	Non-Cash Changes		December 31, 2018
			Changes in Accrued Interest	Amortization of Deferred Amounts	
Borrowings	32,822	(32,811)	-	-	11
Secured borrowings	937,293	191,371	(928)	-	1,127,736
Mortgage securitization liabilities	1,920,761	506,164	150	1,200	2,428,275
Membership shares	321	29	-	-	350
Total	2,891,197	664,753	(778)	1,200	3,556,372

35 Comparative information

Certain comparative information has been revised to conform to the presentation adopted in these current year financial statements and accompanying notes.

36 Events after the reporting period

On February 14, 2020, the Credit Union entered into a subscription agreement to issue $125,000 of subordinated debentures to Caisse de dépôt et placement du Québec via its subsidiary CDPQ Revenu Fixe Inc. ("CDPQ"). One debenture was issued for $75,000 in February 2020 and a second will be issued for $50,000, no later than August 21, 2020. The term to maturity is 10 years, redeemable after 5 years.

37 Authorization of consolidated financial statements

The consolidated financial statements for the year ended December 31, 2019 were approved by the Board of Directors on March 10, 2020. The accompanying notes are an integral part of these consolidated financial statements.

Amendments to the consolidated financial statements subsequent to issuance are not permitted without Board approval.

K Farbridge — R Bolton

Karen Farbridge
Chair, Board of Directors

Ken Bolton
Chair, Audit & Finance Committee

Meridian Corporate Addresses

Corporate Offices

Corporate Head Office - St. Catharines
75 Corporate Park Dr.
St. Catharines, ON L2S 3W3
905-988-1000

Corporate Office - Toronto
3280 Bloor St. W., Centre Tower, 7th floor
Toronto, ON M8X 2X3
416-597-4400

Contact Centre

531 Lake St.
St. Catharines, ON L2N 4H6
1-866-592-2226