Meridian Annual Report 2021

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Message from the Board Chair

With COVID-19 as a consistent backdrop, 2021 proved to be an exceptional year once again for Meridian's Board. The pandemic continued to have an impact on the economy, our Members, the communities in which Meridian operates, and our employees. This was top of mind for the Board throughout the year.

Meridian was able to support its Members through this time of change through the resilience of our employees and their remarkable ability to confront change with positive outcomes. Their strength underpins Meridian's commitment as a financial co-operative to build the resilience of our Members to achieve their goals and the capacity to address obstacles in their path.

Change demands constant improvement in all areas of our work including governance. Meridian is honoured to have once again received an Excellence in Governance Award (EGA) from Governance Professionals of Canada. These awards recognize the contribution governance professionals make in best practices that build and sustain stakeholder value. For the third consecutive year, Meridian earned an EGA for Board/Director Effectiveness. The Board is well supported by an exceptional Governance Team.

With the support of a compensation advisor, the Board's Human Resources Committee also launched the first phase of a broad executive compensation program review. Our goal is to appropriately recognize and reward employees while ensuring our offering remains attractive in an increasingly competitive talent market.

During 2021, the Board led a CEO transition which is a significant change for any organization.

As a recognized governance practice, the Board had prepared for the possibility of a change in leadership. Led by the Human Resources Committee, we conducted a comprehensive national search. Our work was supported by several strategic advisors including a diversity and inclusion specialist and an executive recruitment firm.

The Board was thrilled to announce the appointment of Jay-Ann Gilfoy, as the new President and CEO of Meridian and motusbank and has the utmost confidence in her leadership to lead us through our next era.

Our future is filled with exciting possibilities. The Board approved a new purpose and vision statement in 2021 laying the foundation for a new strategy in 2023.

As part of this work, Board and management committed to enhance the integration of Environmental, Social and Governance (ESG) priorities within Meridian's next three-year strategy.

Message from the Board Chair (continued)

ESG issues present crucial challenges that boards and executive teams must address. These issues have become especially salient in the last couple of years given the impacts of the pandemic, climate change and extreme weather events, Indigenous reconciliation, and social movements like Black Lives Matter. All of this has galvanized organizations to scrutinize their responsibilities and roles in their communities.

We are looking to embed ESG principles into every facet of our business and strategy to bring even greater value to our employees, Members, and communities.

What might this look like?

An ESG focus can lead to finance solutions that support the transition to a green and sustainable economy. We believe we can enhance our focus on climate-related initiatives, rethinking how they can support innovation, to become a leader in the Canadian financial sector.

An ESG focus also means enhancing our fair and inclusive banking experience for our Members and bringing that experience to those who are underserved in our communities. We are also focussed on employee wellbeing through our commitment to Diversity, Inclusion, Equity and Belonging.

Integrating ESG into all that we do – from accountable leadership to transparent performance and impact reports – is an important lens through which our organization should be measured.

Meridian's Board is fortunate to be surrounded by tremendous talent. On behalf of the Board, I thank our leadership and management teams, and our employees, for their dedication to helping our Members achieve their best life.

I also extend my deep gratitude to my colleagues on the Board for their time and commitment throughout this exceptional year. They have demonstrated their stewardship to Members, employees, and the communities we serve. I am confident that next year's Board will foster continued success and enduring trust for all.

Karen Farbridge
Chair, Board of Directors

Message from the President & CEO

What makes Meridian stand out and what opportunities lie ahead for us? These are questions I've been exploring during my first months here as President and CEO.

I was honoured to join Meridian in January 2022. One of the things that drew me to Meridian is that it is a purpose-driven organization. In my early days as CEO, a priority for me has been to understand why and how. I embarked on a series of virtual listening sessions with Members and employees, eager to hear about what we do well, where we can do better, and how we are delivering on our purpose and vision: *helping you achieve your best life by being an inclusive, transparent and people focused financial partner.*

It's clear that Meridian is well positioned to deliver on our purpose. I believe we can be a strong financial organization while fulfilling on our purpose. If we focus on providing meaningful services to our retail, wealth, and business Members in the communities we are located in across the province, we will be profitable and successful.

During my listening sessions, I heard a great deal about what differentiates us. Things like putting Members first and having their backs. Truly listening and caring. Providing holistic advice. And doing the right thing.

Many Members have reached out to say how excited they are to be with us. They feel we have a connection to what's important in their lives. That's so encouraging and was a great first impression for me.

Another differentiating factor was sensing our employees' commitment and passion. It hasn't wavered through the pandemic, when the lives of many of our Members and employees have been turned upside down. The Member focus is deep in the Meridian DNA. It's real.

Having that focus is one of the things that I was told should never change. Others include our sense of empathy and teamwork, a deep community involvement, the degree of local decision-making and support, and the Meridian culture. Those should all remain as our guideposts.

Just as important for me has been understanding what we can change. The answers vary, like improvements to technology, processes and training. What links these is that they revolve around how we can best serve our Members, which gets back to helping us to achieve our purpose too.

Message from the President & CEO (continued)

When I think of purpose, it also takes into consideration what we are doing as a financial co-operative to improve the social fabric of our communities and to help create a future that integrates environmental sustainability. Our Members, employees, and other stakeholders care about those priorities. How can we weave in those elements in a way that's relevant?

We already excel in community engagement and employee volunteerism. From a governance perspective, we are award-winning. Both are critical to Environmental, Social and Governance (ESG) performance. We have a commitment to Diversity, Equity, Inclusion and Belonging inside our organization and we serve diverse populations in our Membership. We can do even more, like using the tools at our disposal to help solve community problems or being more purposeful with our products to deliver on a better future for everybody.

The environment is where we have an opportunity to make an even greater impact. Reducing our own carbon footprint, encouraging others to do the same in our communities, and helping to finance efforts that will transform the parts of our economy that have been carbon heavy. There's a role for us to play in accelerating this transformation.

I'm confident Meridian is on the right path.

We're fortunate to be operating from a position of financial strength with asset growth of 5%, earnings of $185MM and a Return on Equity of 17.4%. These and other key financial credentials position us well for the future.

2022 promises another year of growth across our lines of business. This growth is critical, as it gives us the resources to make improvements for the benefit of our Members with new offerings.

Employees and Members will continue to help inform our journey. Throughout the year, our Voice of Member (VoM) program measures Member experience and gathers feedback at each key touchpoint. Each line of business is focused on actioning Member feedback and implementing initiatives that will further enhance the Member experience in 2022.

A new strategic plan is on the horizon that will bring our purpose to life even more boldly. We will find ways to continually improve our products, services and experiences, in a way that matters most to our Members.

We have a strong foundation at Meridian. We'll continue to build on it to meet our purpose of helping you achieve your best life. On behalf of Meridian's leadership, I want to thank our Members for giving us that opportunity, and all our team for their efforts to make it a reality.

Jay-Ann Gilfoy
President & CEO

Corporate Governance Report

Approach to Governance at Meridian

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

Meridian's Board has implemented the following principles-based corporate governance policies and practices, which provide the foundation for fulfilling our legal and fiduciary obligations and satisfying itself that Meridian is adhering to statutory and regulatory requirements at all times:

- Acting in the best interests of Meridian, our Membership, and our stakeholders;
- Ensuring Meridian has a clear strategic direction that enables us to deliver on our purpose;
- Monitoring Meridian's financial performance, including annual budgets, capital plans, and multi-year financial projections;
- Overseeing that Meridian has the means, capability, and willingness to put into practice effective measures to direct ourselves prudently;
- Providing effective stewardship of business operations and risk management, particularly through an effective enterprise-wide risk management framework;
- Ensuring Meridian's culture reflects our commitment to integrity, open communication, teamwork, and continuous improvement;
- Educating our Membership on the role of Meridian's Board and other key corporate governance issues, including efforts to enable Members to effectively exercise their rights and obligations in respect of the director election process; and
- Assessing our effectiveness in fulfilling these responsibilities.

2021 Board Initiatives

Meridian's Board believes it is important to offer a high level of transparency in its interactions with Members. To that end, Meridian's Board provides Members with information on its activities.

The COVID-19 pandemic continued to pose many challenges for Meridian and our Members. Meridian's Board adopted best practices for engaging in productive virtual meetings throughout 2021. In addition to receiving regular updates from Management on the health and safety of the organization and its employees, Meridian's Board received reports on trends in connection with the future of work and the shift to more human workplace practices. With COVID-19 continuing to impact the economy and the communities in which Meridian operates, and the ongoing uncertainty about the depth and duration of the crisis, Meridian's Board adapted to the fluid environment by continuing its focus on risk management through enhanced reporting. Meridian's Board also worked with Management on scenario-based financial planning and employee special incentive payments.

2021 was an exceptional year for Meridian's Board, as it worked through a CEO transition, the development of a new strategy, and a broad executive compensation program review.

2021 Board Initiatives (continued)

Meridian's Board leveraged its robust CEO succession planning process to lead the CEO transition with the support of an executive recruitment advisor; a Diversity, Equity & Inclusion ("DEI") advisor; and an executive compensation advisor. This process culminated with the announcement on November 1, 2021, of Jay-Ann Gilfoy as Meridian and motusbank's new President and CEO.

2021 was both the final execution year of Meridian's Blueprint for Growth strategy as well as the development year for the production of the new enterprise strategic plan. Meridian's Board approved Meridian's new purpose and vision statements, and oversaw the development of Meridian's next strategic plan. As part of that work, Meridian's Board and Management developed a process to enhance the integration of environmental, social, and governance ("ESG") priorities within Meridian's strategy.

With the support of an executive compensation advisor, the Human Resources Committee of Meridian's Board led a broad executive compensation program review to seek recommendations aligned to Meridian's total rewards philosophy of attracting, engaging, and retaining top talent through pay for performance.

In addition, in 2021 Meridian's Board continued to enhance its corporate governance practices by implementing and continuing the following initiatives:

- Enhancing its oversight of technology transformational initiatives in support of the digitalization of Meridian's services;
- Increasing its focus on DEI by creating an inclusive board environment and allocating more time to DEI discussions on Board and Committee meeting agendas;
- Improving its oversight of operations with a deeper dive on one line of business at each quarterly Board meeting;
- Reviewing financial reports to satisfy itself of Meridian's financial health;
- Meeting with, and receiving reports from, the external and internal auditors to confirm the integrity of internal controls and financial reporting;
- Maintaining strong oversight of subsidiary governance through enhanced reporting including engaging an external consultant to review the ongoing strategy for motusbank; and
- Engaging with an external advisor to conduct a holistic review of the Board, Committee, and Board Chair effectiveness.

Meridian & Environmental, Social and Governance ("ESG")

Meridian is dedicated to making it possible for Members, employees, and communities to commit to embedding ESG principles and creating long-term value in a uniquely Meridian way. For Meridian, this means embedding environmental, social, and governance principles into every facet of our business to unlock the resilience and prosperity of our people, Members, and communities through:

- Future-proofing our business through innovative finance solutions to support the green and sustainable economy transition for our Members and communities;
- Supporting a fair, diverse, and inclusive banking Member experience, tapping into traditionally underserved groups and evolving our inclusive service offering; and
- Integrating ESG into all aspects of business, ensuring accountable leadership, and disclosing transparently on performance and impact.

Excellence In Governance Awards

Meridian is honoured to have once again been a recipient of a Governance Professionals of Canada Excellence in Governance Awards ("EGA") in 2021. These awards recognize the important contribution governance professionals make in terms of best practices that build and sustain shareholder and stakeholder value.

For the third consecutive year, Meridian received an EGA for Board/Director Effectiveness, recognizing Meridian's 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 Meridian's comprehensive approach and leading practices in board orientation and education, agenda development, individual requirements, and board duties.

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"). Credit unions are regulated by the Financial Services Regulatory Authority ("FSRA"), which administers regulations under the Act, as well as Rules and Guidance. 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.

On November 5, 2020, the Ontario government tabled the 2020 provincial budget, which included a comprehensive modernization of the Act. The Bill was passed on December 8, 2020. The Ministry of Finance is currently consulting on the regulatory framework underpinning the Credit Unions and Caisses Populaires Act, 2020 (the "New Act"). The tentative implementation date for the New Act is Q2 2022.

Regulations relating to the New Act are expected to be finalized for the legislation to take effect. Meridian has been actively participating with the industry on a number of consultations, including new rules on Recovery Planning, Standards of Sound Business and Financial Practices, Capital Adequacy Requirements, Liquidity Adequacy Requirements, and the Code of Market Conduct Framework.

Effective July 5, 2021, FSRA published its Recovery Planning Guidance (the "Guidance"). The purpose of recovery planning is to enhance the crisis preparedness and overall resiliency of individual credit unions and promote general safety, soundness, and confidence in the credit union system overall. The Guidance details that the recovery plan must be fully integrated with Meridian's other key risk management policies, processes, risk appetite, and frameworks. FSRA has established a two-stage implementation timeline for credit unions to comply with the Guidance: (i) an interim submission to FSRA by April 29, 2022; and (ii) a final submission to FSRA by January 13, 2023. FSRA has published its final guidance on the Code of Market Conduct Framework. Credit unions have until March 31, 2022, to adopt and implement a market conduct framework and until March 31, 2023, to complete their first self-assessment and report to their boards.

To promote responsible corporate governance through strength and stability, Meridian meets quarterly with FSRA representatives, provides regular reporting to FSRA, and participates in periodic risk-based examinations.

Our subsidiary, motusbank, is subject to regulatory oversight from the federal government's Office of the 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 maintain productive and collaborative relationships with these federal regulators.

Board Mandate

Meridian's Board 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 and strong culture. It is further responsible for overseeing Management to satisfy itself 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, Meridian's Board proactively contributes to the development of, and ultimately approves, the purpose and long-term vision of Meridian. This is an important responsibility of Meridian's Board, as it is the basis upon which the Meridian's strategy is developed and serves as our aspirational guidepost for the future.

During 2021, Meridian's Board updated its Mandate to clarify the Board's oversight of Meridian's purpose and long-term vision statements, and Meridian's approach to ESG.

Board Composition and Election

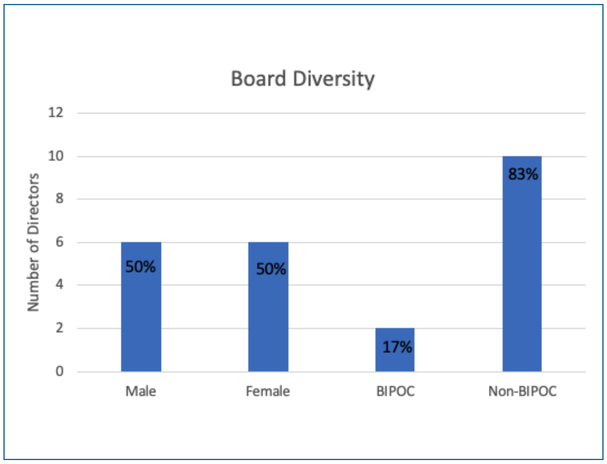
In accordance with our by-laws, Meridian's Board is composed of 12 Directors, all of whom are independent and represent a broad range of skills, experience, and backgrounds. The process for the election of Directors is comprehensive. Each year Meridian's Board reviews the skills, knowledge, and experience of the Board to determine whether any gaps exist in order to consider the future needs of the Board's composition. The Board's Nominating Committee is requested to seek to fill any identified gaps as they solicit candidates for nomination from Meridian's Members. Prospective candidates are provided Meridian's Director Candidate Application Package detailing the desired skills and attributes for candidates; it is also made available on our website.

Meridian has a robust nomination process for the selection of Directors, under the oversight of the Board's Nominating Committee. The Nominating Committee retains an external advisor to assist in evaluating each application and establishing a short list of the most suitable 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 Meridian's Board. 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 or at any of our branches. Meridian's Directors are elected for three-year terms.

Board Diversity

Meridian's Board has adopted a Statement of Intent which states that Meridian recognizes and embraces the benefits of diversity, equity, and inclusivity in Board members. We believe that 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 important. The best qualified candidates will be recommended for election to Meridian's Board, taking into account broad diversity required to represent our Membership of today and tomorrow.



In 2021, the Meridian Board experienced gender parity. The current 12 Directors reflect gender and BIPOC 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 onboarding orientation program to familiarize themselves with Meridian's business, organizational structure, corporate governance policies, processes, and business operations, including how Meridian's operations are affected by industry-specific regulations. The Governance Committee conducts a debriefing of the orientation session to capture enhancement opportunities for subsequent years. The Governance Committee continues to evaluate and enhance this program to satisfy the needs of new Directors to best understand the environment in which Meridian and its subsidiaries operate. Individual Committees of Meridian's Board have also established their own orientation programs to better educate new Committee members on their responsibilities.

Meridian's 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. Meridian's Board has a policy in place that sets an objective for the majority of Meridian's Directors to receive or have an external director accreditation designation.

In 2021, the following Board and Committee education sessions were held to address topics considered to be particularly important in light of the evolving business and disruptive forces faced by Meridian. All Board members are invited to attend Committee education sessions.

BOARD EDUCATION SESSIONS

BOARD OF DIRECTORS
- Member Resilience Campaign
- Retail Banking
- Meridian OneCap Credit Corp.
- Open Banking
- Environmental, Social & Governance
- Diversity, Equity & Inclusion
- Code of Ethics
- Cyber Security
- Securitization

AUDIT & FINANCE COMMITTEE
- Derivatives Accounting
- Funds Transfer Pricing & Meridian's Methodology
- Pension Audited Financial Statements

GOVERNANCE COMMITTEE
- CUCPA Amendments

HUMAN RESOURCES
- Funds Transfer Pricing & Meridian's Methodology
- Pension & Annuitization
- Diversity, Equity & Inclusion Principles

RISK COMMITTEE
- Business Continuity & Crisis Management

Enhanced Orientation and Education Process

In addition to the education sessions listed above, Meridian has an enhanced 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 the Board Chair and the CEO. The education program also includes an ongoing listing of educational opportunities that is updated and circulated quarterly to Directors for consideration. The Meridian Board also has a corporate membership with the Institute of Corporate Directors ("ICD").

Board Evaluation

Meridian's Board is committed to effective corporate governance and continuous improvement. Annually, the Governance Committee facilitates a Board evaluation process to assess the effectiveness of Meridian's Board, each Committee of the Board, as well as the Board Chair and Committee Chairs. The evaluation is conducted either through an external consultant or internally. In early 2021, Meridian's Board conducted an internal evaluation. Through the results of the evaluation, Meridian's Board developed a robust action plan to ensure it strives towards continual improvement in Board effectiveness, and Meridian's corporate governance framework continues to adhere to the highest standards. The Governance Committee is responsible for monitoring the action plan and providing a quarterly progress report to Meridian's Board.

In late 2021, the Governance Committee conducted a request for proposals to engage an independent external advisor to conduct the annual Board evaluation including a peer-to-peer assessment, individual interviews of Board members and Management, benchmarking data, and summary reports of results and recommendations for key development opportunities and priorities to ensure the Board continues to follow best practices. The advisor's report was delivered to the Board in February 2022.

Board Committees

Meridian's 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, reporting procedures, and reporting systems;
- Review Meridian's financial performance relative to key performance indicators;
- Ensure the integrity of financial reporting;
- Oversee Meridian's annual budget, capital plan, and multi-year financial projections;
- Oversee internal and external audit processes and activities, including approval of its annual audit plans, and receive 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 Meridian's Board policies; and
- Oversee the reporting relationship of the Chief Audit Executive.

GOVERNANCE COMMITTEE

- Maintain a healthy corporate governance culture and oversee corporate governance policies;
- Assess the effectiveness of Meridian's Board, its Committees, and Committee Chairs;
- Oversee the Meridian Board's annual strategic planning process;
- Oversee the Board effectiveness evaluation process, and individual and collective continuing education and development plans for Directors;
- Be 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.

RISK COMMITTEE

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

NOMINATING COMMITTEE

- Oversee the nomination, assessment, and recommendation of candidates for Meridian's Board, including the determination of the Director Selection Criteria;
- Ensure the integrity and quality of the nominating processes;
- Assess the adequacy of the candidate pool to ensure it addresses any identified gaps; and
- Oversee the Director election process.

HUMAN RESOURCES COMMITTEE

- Oversee talent, corporate culture, and employee conduct;
- Oversee 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 the compensation and talent management plan for the Executive Leadership Team;
- Oversee the employee pension plans and benefit programs; and
- Oversee the succession planning for the President & CEO and Executive Leadership Team.

Years of Service on the Board and Committee Membership in 2021

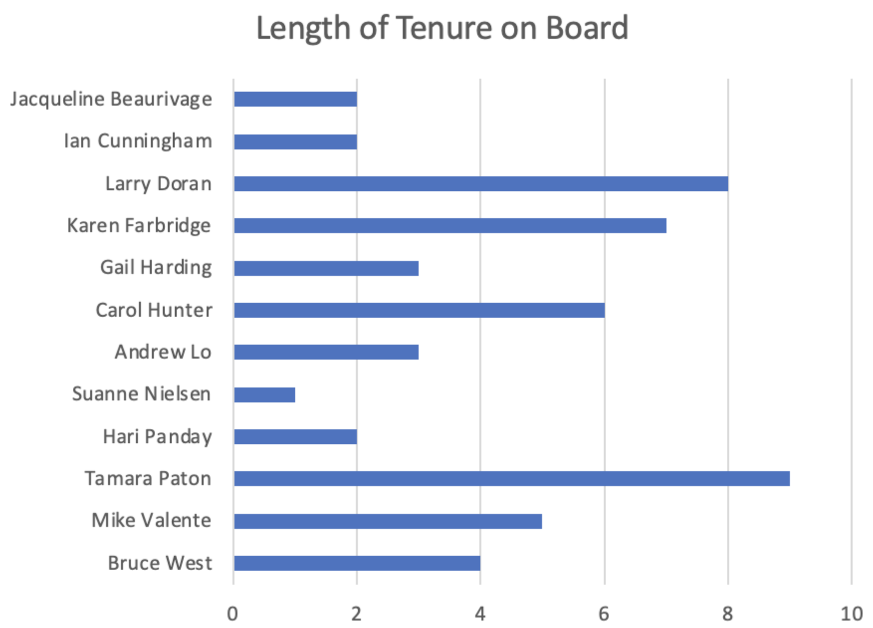
The following are the members of the Board, their respective year of election, as well as the Committees served on in 2021:

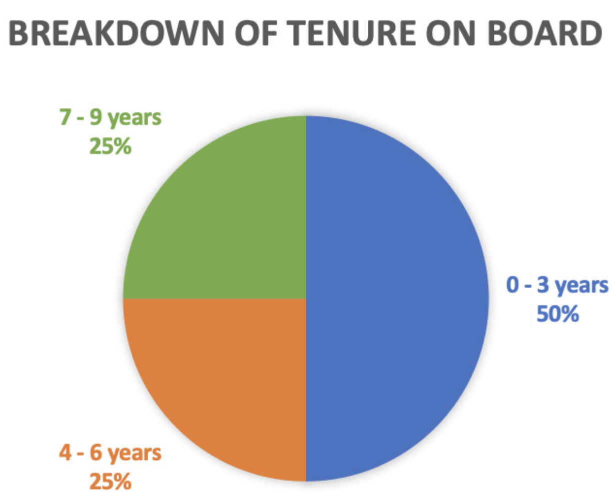
DIRECTOR	AUDIT & FINANCE	GOVERNANCE	HUMAN RESOURCES	NOMINATING	RISK
Jacqueline Beaurivage (2020*)				X	X
Ian Cunningham (2020*)			X	X	
Larry Doran (2014*)		X		X Chair	
Karen Farbridge Board Chair (2015*)		X	X	X	
Gail Harding (2019*)		X			X Chair
Carol Hunter (2016*)	X	X			
Andrew Lo (2019*)	X				X
Suanne Nielsen (2021*)			X	X	
Hari Panday (2020*)	X	X Chair			
Tamara Paton (2013*)			X Chair		X
Mike Valente (2017*)	X				X
Bruce West (2018*)	X Chair		X		

***Indicates year the Director was elected**

Tenure on Board of Directors

The following chart visually depicts the tenure of each Director of Meridian's Board as of December 31, 2021.





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 and oversight are maintained in our subsidiaries. The Policy establishes an enterprise-wide approach to the governance of Meridian's subsidiaries. This Policy is responsive to evolving legal and regulatory requirements, regulator expectations, and subsidiary governance practices. In accordance with the Subsidiary Governance Policy, two Directors of the Meridian Board also serve as independent Directors on the motusbank Board of Directors.

Board Code of Conduct

Meridian's Board has adopted a Code of Conduct and Conflict of Interest Policy that outline the duties and obligations of Directors. Directors complete training on an annual basis and 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 compared to 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.

The Human Resources Committee regularly 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. In 2021, the Human Resources Committee reviewed Director Compensation based on the recommendation of an independent external advisor, resulting in an increase of 8.3% to the director retainer since the last compensation review, which was conducted in 2018, in order to maintain competitiveness within the market.

All-In Fee Structure

Meridian's Board uses an all-in fee structure to compensate Directors for time spent on Meridian business. 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. In addition, two Directors of the Meridian Board also serve on the motusbank Board and receive additional compensation therefor.

Meridian's 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 additional meetings beyond the typical number, the Board has discretion to provide a pre-determined additional fee which is fair, competitive, and reasonable for the additional meetings.

The following table represents the specific remuneration for Directors for 2021, effective as of May 1, 2021:

POSITION	ALL-IN FEE
Board Member	$65,000
ADDITIONAL FEE FOR CHAIR ROLES	
Board Chair	$40,000
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	$15,000

All-in Fee Structure (continued)

The table below summarizes the total gross compensation (excluding expense reimbursement) received by each Director during 2021:

DIRECTOR	ANNUAL FEE	CHAIR FEE	OTHER (1, 2)	TOTAL
Jacqueline Beaurivage	$63,333		$11,000[2]	$74,333
Ken Bolton Audit & Finance Committee Chair until 4/21; elected to serve as Director until 4/21	$20,000	$5,000	$4,500[2]	$29,500
Ian Cunningham	$63,333		$26,500[2]	$89,833
Larry Doran Risk Committee Chair until 4/21; Nominating Committee Chair effective 4/21	$63,333	$10,000	$10,500[2]	$83,833
Karen Farbridge Board Chair	$63,333	$40,000	$43,125[1] $42,000[2]	$188,458
Gail Harding Risk Committee Chair effective 4/21	$63,333	$10,000	$12,000[2]	$85,333
Carol Hunter Nominating Committee Chair until 4/21	$63,333	$3,333	$9,000[2]	$75,666
Andrew Lo	$63,333		$8,500[2]	$71,833
Suanne Nielsen Elected to serve as Director effective 4/21	$43,333		$20,500[2]	$63,833
Hari Panday Governance Committee Chair effective 4/21	$63,333	$6,666	$9,500[2]	$79,499
Tamara Paton Human Resources Committee Chair	$63,333	$10,000	$30,658[1] $44,000[2]	$147,991
Mike Valente	$63,333		$11,000[2]	$74,333
Bruce West Governance Committee Chair until 4/21; Audit & Finance Committee Chair effective 4/21	$63,333	$13,333	$27,000[2]	$103,666

Note 1: Fee received as a Director of motusbank
Note 2: 2021 was an exceptional year for Meridian due to the ongoing pandemic, a CEO transition, the development of a new strategy, and a broad executive compensation program review. There were a total of 80 Board and Committee meetings held throughout the year, which is an 86% increase from the previous year. Directors received additional fees for attendance at additional meetings.

Executive Compensation & CEO Performance Management

Meridian's Human Resources Committee is responsible for overseeing and 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. An independent external advisor 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 financial services, credit unions, and general 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 of the selected peer group are reviewed to ensure the Committee is equipped with an understanding of executive talent market practice to make informed executive pay decisions.

The CEO and Executive Leadership Team roles are benchmarked against external, market comparable roles. Again, financial services, credit unions, 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 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 recommending for Board approval the CEO's performance objectives and evaluating the CEO's performance against those objectives annually. The CEO's goals are clearly stated and aligned with 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 on a 12-month rolling basis to capture consecutive meeting attendance in accordance with regulation.

2021 was an exceptional year for Meridian due to the ongoing pandemic, a CEO transition, the development of a new strategy, and a broad executive compensation program review.

There were a total of 80 Board and Committee meetings held throughout the year, which is an 86% increase from the previous year. The following chart reflects Director attendance during the 2021 calendar year, including former and newly elected Directors whose terms either ended and/or commenced concurrent with the Annual General Meeting in April 2021. Overall, this translates to a 97% average attendance by Meridian's Directors.

12 MONTHS OF 2021

	Board of Directors		Committee		Total		
Director	**Attend**	**Held**	**Attend**	**Held**	**Attend**	**Held**	**%**
Jacqueline Beaurivage	22	24	16	16	38	40	95
Ken Bolton Until 4/21	6	6	4	4	10	10	100
Ian Cunningham	23	24	35	35	58	59	98
Larry Doran	24	24	10	10	34	34	100
Karen Farbridge	24	24	37	37	61	61	100
Gail Harding	24	24	13	13	37	37	100
Carol Hunter	23	24	11	11	34	35	97
Andrew Lo	16	17	14	17	30	34	88
Suanne Nielsen After 4/21	18	18	28	29	46	47	98
Hari Panday	23	24	9	9	32	33	97
Tamara Paton	24	24	37	37	61	61	100
Mike Valente	23	24	15	15	38	39	97
Bruce West	24	24	33	33	57	57	100

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, 7th Floor
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:

Additional references:
The Candidate's Guide and Board of Directors Application is available at:
https://www.meridiancu.ca/MeridianCreditUnion/media/Meridian-Credit-Union/pdfs/MER-001-2383-2021-Director-Application-Form_AODA.pdf

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 2021, as compared to prior years. The MD&A should be read in conjunction with the audited 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 12, 2022.

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.

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; industry developments and changes in the competitive environment; 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.Meridian is not required to comply with the Canadian Securities Administrators National Instrument 51-102 Continuous Disclosure Obligations and related Staff Notices. Meridian prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards and refers to them in this MD&A. In addition, Meridian uses non-GAAP financial measures within the MD&A, which Meridian believes provides the reader with a better understanding of how management views the business. Where Meridian 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 365,000 Members through a network of 89 branches, and access to business banking services at 15 locations, a Member Contact Centre and online/mobile services. Meridian also has two subsidiaries: Meridian OneCap Credit Corp., a leading supplier of customized commercial equipment leasing solutions; and motusbank, a national digital bank.

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 interests of Meridian, including our Members and other stakeholders, not short-term corporate earnings objectives. In doing so, we deepen relationships with existing Members, and foster lasting relationships with new Members.

We also contribute to community well-being through a commitment to invest money, time and talent to help build prosperous, resilient places to live work and play. Our Commitment to Communities is based on the cooperative values and beliefs that our Members and employees share.

Our Corporate Strategy

Meridian strives to help our Members achieve their best life. At the core of our purpose is to focus on **differentiation**, which entails taking Meridian's service excellence to higher levels, and **transformation**, centred on modernizing how we do things, thus making our operations simpler, more transparent, and faster for our members. The ongoing COVID-19 pandemic has accelerated the need for management to swiftly adjust focus where appropriate to better serve our Members throughout the pandemic and beyond. This supports Meridian's longer-term sustainability and our ability to deliver on our value proposition to Members. Our strategic objectives for 2022 are as follows:

1. <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 our Members achieve their best life and always putting the well-being of our Members first.
- We will empower Members to make decisions in their best interest through operational transparency.

2. <u>Social Commitment</u>

- Our goal is to help build more resilient Members, households, businesses, and communities.
- We are on a path to ensure diversity, equity, inclusion and belonging are part of our internal and external experiences.
- 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.

Core Business & Strategy (continued)

3. Market & Membership Growth

- 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 continue 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.

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 and continuous business transformation enable us to meet more Member needs and bring our value proposition to more Canadians in an efficient and effective manner.

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 ("VOM") is a Member experience program that applies a systematic approach to collecting and analyzing Member feedback and creating actionable insights to improve Member experience. VOM programs are proven to help organizations retain clients, build better products, deliver better services, and systematically understand Member experiences to drive positive change. Organizations that understand their Members' journeys are much more likely to improve their products to fit their Members' evolving requirements and therefore foster their loyalty.

✓ At the heart of Meridian's VOM program is the Net Promoter Score ("NPS"). Meridian's 2021 NPS results were mixed. The 2021 relationship survey NPS of 42.8 was higher than 2020 (41.8); however, the touchpoint survey NPS of 58.9 ended the year lower than 2020 (63.7). Relationship surveys measure the overall health of Meridian's relationship with Members, while touchpoint surveys measure specific Member interactions (Branch, Digital, Contact Centre, New Member and New Product). Both surveys did not achieve their respective 2021 targets of 47.4 and 65.0. Meridian was adversely impacted by negative sentiments through the pandemic, which drove scores lower than targets.

✓ Implementation of initiatives focused on improving Member experience and VOM results include online appointment booking, management of mortgage processing times, refreshing chequing account packages, updating cheque holds policy statements, as well as a heightened focus on consistent delivery of quality advice and service.

✓ The program also measures Meridian's impact on Member well-being through the Financial Wellness and Better Life metrics. In 2021, Member well-being results for relationship surveys indicated that 75.8% of Members agree that Meridian makes a difference in their overall financial wellness and 69.3% of Members agree that Meridian is helping them achieve a better life.

Awareness of Meridian

We regularly assess awareness of Meridian and our unique value proposition. We monitor our progress over time across the marketing funnel and monitor items such as awareness, consideration, differentiated Member experience, and access. These factors help to influence and guide us in our ability to deliver on our greater purpose, "to help our Members achieve their best life." We remain focused on achieving our greater purpose by promoting and using our brand attributes and guiding principles in our communication to Members and prospects. These components and language build our brand pyramid and guide us in driving new Member growth from prospects and share of wallet opportunities with Members.

✓ We remain focused on achieving our greater purpose with a significant investment in our new "What If" brand campaign. The goal of the campaign is to build awareness and increase consideration of Meridian as the financial institution ("FI") that helps Members build resilience.

✓ Our research shows that Meridian's awareness in market increased from 2020 to 2021. This can be largely attributed to increased spending on advertising across all lines of businesses in addition to the focused efforts of the "What If" campaign. The Spring and Fall waves of the campaign generated considerable spikes in both awareness and consideration for Meridian.

Key Performance Drivers (continued)

Employee Experience

A great employee experience is important at Meridian. It contributes to our employees' engagement – the strength of their relationship with our organization. Meridian's Voice of Employee (VOE) Program queries employee perception about key aspects of their experience at work. The results identify areas of strengths and opportunity and help us ensure our employees are engaged in delivering on our Purpose.

Meridian's VOE program gathers and analyzes employee feedback, including open-ended text responses, and detects sentiment with natural language processing technology. The Employee Experience score, along with accompanying verbatims, provides a 360-degree view of employees' interaction and experience with Meridian's culture, physical environment, and technology.

✓ Meridian is reassured by our employees' sentiment. The Meridian Group of Companies' 2021 Employee Experience score for all metrics combined is 75% favourability, unchanged from last year. Survey results show that employees believe in our company and how we conduct business. Employees report high levels of engagement and cite leadership effectiveness and corporate social responsibility as key areas of strength. Opportunity areas are also reinforced, including the efficiency of work processes.

✓ Meridian's Employee participation rate continues to be strong at 88%. Consistent high-level response rates to open-ended text questions reflects a culture where feedback is provided, and leaders listen – an important attribute of an adaptive culture.

✓ Meridian's survey results inform organizational action plans to further strengthen the employee experience, which have been implemented at both the enterprise and local levels, and will continue to be monitored.

Membership Growth

Growth in our Membership base is influenced by increased awareness of Meridian, expansion in Meridian's points of access, and continued efforts to expand and enable an omnichannel experience. By growing our Membership, we continue to expand our reach and work towards our goal of increasing the financial resilience of not only our Members but all Canadians.

✓ In the Credit Union, Membership growth continued to be impacted by the COVID-19 pandemic and a very competitive FI space. Membership base increased by 8,500 accounts this year after adjusting for dormant/inactive accounts.

✓ motusbank had a modest year with respect to Membership growth, seeing its total base expand by just over 1,800 in 2021. Factors influencing this were the ongoing pandemic as well as a pullback in marketing efforts through the back half of the year given exceptional balance sheet growth in Q2.

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 protect Members' interests. We continue to focus on maintaining elevated capital ratios and building our capital base through strong retained earnings growth.

✓ Meridian's capital and risk weighted capital ratios remained strong and continued to be well within regulatory and risk appetite ranges in 2021 despite the pandemic. We have positioned our Capital well to sustain external economic shocks and provide the ability for future growth.

Capability to Deliver Results

Meridian's long-term sustainability is underscored by 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 2021 successes and ongoing initiatives highlight our ability to achieve our strategic imperatives in the face of COVID-19, and meet current and future needs of our existing and potential Members:

Differentiated Member Experience

✓ PSO Innovations

Meridian is constantly looking to improve and innovate our Product/ Service Offerings. 2021 saw the following initiatives take flight:

- "Multi First Mortgage Process" was launched to help support Members who are looking to finance new dollars and leverage their existing mortgage charge.
- Two specialized mortgages, "Horizon" (aimed at individuals with bruised credit scores) and "Hybrid" (combined loan and mortgage product), continue to be included in the product line-up which address unique lending needs. Volumes are lower in these segments compared to the portfolio of newly acquired mortgages.
- "Interac Instant for Business" allows Business Banking Members the ability to send up to $25,000 through Interac, creating a digital alternative to traditional payment products and services (wires, cheques, etc.). All of our platforms now have full-service Interac functionality.

Meridian continues to strive to bring innovative and market-leading products to our Members to address unmet needs and differentiate ourselves. 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.

✓ Member Experience Programs

Meridian introduced the MXcellence program, which is designed to share success stories, tips, and ideas on how to enhance the Member Experience. Champions of this program exist within each branch, and they help with the sharing of information and celebrating differentiated Member interactions. In addition, Meridian ran a "Surprise & Delight" program last fall, waiving a mortgage payment for 25 Members who were first-time homebuyers. Also, Members who were impacted by the Barrie tornado were provided with gestures of "surprise and delight" by their local branch managers.

Capability to Deliver Results (continued)

✓ Financial Well-Being Indicator

The Financial Well-being Indicator (FWBI) is a statistical scoring model designed to identify borrowing Members who could benefit from having a conversation with an advisor about their financial well-being and how Meridian may be able to assist. FWBI skills-building sessions with branch teams have provided support to employees on how to address the topic with Members and uncover solutions to assist.

✓ Member Journey

While not directly impacting Membership growth but certainly growing market share, enhancement of Member journeys has helped expand share of wallet in the communities we serve. These journeys allow Members to navigate their financial path and well-being as we deliver more consistent communications, tailored offers, and general awareness of differentiated Meridian products and services. In 2021, these included the following:

- Post 100-day Wealth journey, where content is more consistently delivered to new Members to make them aware of our strong products and Member-first advisor approach. While still in its infancy, this program aims to generate growth, Member loyalty, and longevity.
- Meridian has a sizeable portfolio of Broker-originated mortgages and recently implemented a formal touchpoint strategy with these Members. This strategy aims to discuss a needs-based approach to their current mortgage as well as identify beneficial cross-sell opportunities. The primary goal of this program was to reduce mortgage payouts but has shown a secondary benefit of growing share of wallet.

The above efforts will be utilized as learnings for 2022. Where we have seen successes, we will further promote these programs; where items need to be optimized, we will enhance them; and where efforts that did not resonate with our Membership, we will use them as learnings when scoping new campaigns.

Capability to Deliver Results (continued)

Social Commitment

✓ Meridian's Commitment to Communities

Meridian's Commitment to Communities is based on our fundamental belief in our role in empowering Members, employees and community well-being. In 2021, Meridian invested $3.6MM of which $1.2MM is directed to local branch communities.

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

- 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: 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. All Ontario-based grade 12 students are invited to apply.

Through the 2021 Good Neighbour Program, Meridian supported over 135 non-profit organizations with $425,000 in grants, including Pathstone Mental Health and Greater Hamilton Food Share. Meridian reinforced our commitment to our communities by quickly engaging disaster relief organizations when needed, most notably in response to the BC floods and wildfires, the Barrie tornado, and the humanitarian crisis involving refugees from Afghanistan. All of this was accompanied by the My Commitment to Communities Employee Program, which saw Meridian employees donate $265,000 to 381 non-profits. Through the Employee Matching Program, Meridian donated an additional $310,000 in supporting the causes closest to our community. This was punctuated by our Employee Year End Giving Campaign, which ran from November 29 through December 31 and saw employees commit to over $135,000 in donations. Just one of the many highlights of the holiday season was the Meridian Mo Bros, who raised $40,000 in support of the Movember Foundation.

Capability to Deliver Results (continued)

✓ Member Well-being

Meridian's purpose is to help Members achieve their best life. We are focused on improving the 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. With the support of this partner, Meridian has continued to promote the Financial Resilience Score to both Members and prospects to support Canadians in determining where they stand financially.

This tool was further enhanced in 2021 to support Members in their financial resilience journeys. Working with our research partner, Maru/Matchbox, we have been able to establish benchmarks for the Financial Resilience Score, delivering strong context, learnings, and insights for our Members. This evolution has allowed us to include specific and relevant content to help Members get started or continue forward on their resilience journey.

We also worked to help further support small businesses. With small business accounting for 80% of Canadian employment, 2020 and 2021 really showed how important building a resilient business is. To help support this important segment of our Membership, Meridian set out to help businesses evaluate how resilient they are (through the Financial Resilience Score for Business Banking), and empower these businesses with new tools and resources housed on the new Business Banking website.

Community partnerships were developed to support both Members and our communities at large in building their well-being and resilience. With a key focus on housing affordability as well as mental and physical health, partnerships with key organizations such as Evergreen, MAP, Right to Play, and more were developed to move forward community resilience.

Capability to Deliver Results (continued)

Social Commitment

✓ Digital Banking Strategy

Delivering value our Members can't imagine living without is what guides our digital strategy. We believe in building digital capabilities that matter, providing real-time and relevant financial insights, and ensuring that Meridian's digital platforms are innovative and market leading. Our mobile and online offerings continue to meet the needs of Members. Recent upgrades in both platforms have kept the platforms "fresh" with the intent of providing increased value with each release. Meridian's online and mobile platforms have both recently been rated within the Top 10 of all Canadian FI offerings by Surviscor.

In 2021, we remained focused on building functionality and improvements that provide value for Members where they need it most. Almost all FIs are rolling out new functionality on an escalated scale and working to create parity between their online and mobile platforms. Meridian is equally as focused on delivering our Members robust, convenient, and delightful experiences. Here is a short sample of work completed:

- Mobile Banking Redesign. We updated both Meridian Credit Union ("MCU") and motusbank Mobile Banking platforms with a more user friendly interface and backend technology improvements for ease of maintenance, future management, and cost savings.
- Fraud / AML Prevention. We continued to invest in fraud controls to ensure a robust program is in place.
- Improved Online Member Onboarding. We made improvements to electronic options for Members to fund their accounts, along with waiving the first month of chequing fees to improve the Member experience. In addition, a number of additional back-office and fraud improvements were made to create a risk adverse and seamless process for new members.
- Implemented Interac Instant. We implemented functionality allowing near real-time account-based transfer that includes higher transfer limits, upgraded fraud features, and migration to the latest API standard. Instant "receive" is implemented across Retail Banking and Business Banking channels. Instant "send" is implemented in Business Online Banking.

Capability to Deliver Results (continued)

✓ Digital Banking Strategy

In 2022, we will continue to invest in the digital platforms and the people who support them, as these are the catalysts that will allow for efficient growth in new products and services. We will accelerate our development efforts by continuing to embrace and evolve an agile, product-focused development approach. We will focus on re-engineering key Member experiences to be omnichannel and look to humanize our approach to digital banking. We believe a unique opportunity exists for Meridian to support Members on their financial journey and help them make both big and small financial decisions with confidence. In addition, we will look to provide personal, predictive, and proactive financial advice to improve financial well-being. With data-driven solution partners, Meridian can help Members take control of their finances without requiring them to do the heavy lifting.

✓ Brand Investment

Meridian engaged in significant brand investment efforts through 2021 which touched all lines of business positively, with the most impactful being our organization wide "What If" campaign.

- Meridian's "What If" campaign was a major investment in our brand that was unprecedented in scale over our long history. Launch phase in Spring 2021 focused on building awareness and establishing a strong brand connection, while the acceleration phase through the Fall built on early year efforts to move prospects to the consideration stage of their purchase journey. While immediate Membership growth was not a primary goal of this campaign, there were notable increases in our Membership base when media was heavy.
- From a line of business perspective, our Business Banking team launched a very successful community-first Small Business contest with the goal of shining a spotlight on community businesses and their owners. With minimal financial investment but considerable back-end efforts, the team generated significant buzz in market, received thousands of nominations, and generated meaningful new Member relationships.
- While the Credit Union has its own strong brand to lean on, partnerships are always being analyzed where there is brand alignment and value for our Membership base and employees. On a smaller scale, but no less impactful for segments of our Membership, the following were achieved in 2021:
    - Our Business Banking team initiated many new partnerships in 2021 that will add value to our Members, such as Lifeworks, which offers Employee Assistance Programs (EAP) to their employees.
    - Retail Banking have engaged in a number of partnerships and initiatives through the year that have generated growth and contributed to Membership onboarding, with the largest being our DriveON vehicle financing channel.
    - Wealth continues to evaluate partnerships and opportunities with a focus on podcasts and webinars that feature prominent speakers from the industry.

Capability to Deliver Results (continued)

✓ Community Marketing

While major investment was made in awareness activities, our lines of business also made efforts in 2021 in their communities to grow markets at modest cost but potentially high scale. These campaigns were primarily outbound and included the following:

- The most significant of these efforts was our growth acceleration program that focused on two markets that needed a boost in awareness to drive traffic and ultimately growth in late 2021: rural and urban branches. Efforts were tailored to each market, with rural branches deploying a strategy that skewed to out-of-home advertising, while urban branches leveraged a digital first strategy. These efforts were immediately successful in increasing awareness and driving traffic to branches, which will allow branches the opportunity to grow their Membership bases over the long term.

- Competitor strategies are constantly evolving and are something that we watch closely, particularly when competitors are either opening or closing physical branches. Successful strategies in 2021 were deployed to multiple areas where there was an FI need in a local community. Offers focused on Wealth and drove a number of new Members with substantial portfolios.

✓ Marketing Innovation

The Credit Union operates in a competitive space which has been even more heightened by the COVID-19 pandemic. As a result, new and creative ways to let the Meridian voice be heard were successfully attempted in 2021 and centered around off-season marketing. Off-season efforts allow a brand to build an image, create top-of-mind awareness, and engage more actively with a more attentive audience that is not being bombarded with messaging from a large competitive set. These strategies have proven to be effective, and learnings will continue to be leveraged moving forward.

Capability to Deliver Results (continued)

✓ Subsidiaries & Partnerships

Meridian introduced DriveON, our new joint-venture partnership with Credit Union ("CU") Dealer Finance Corporation, which allows us to offer vehicle financing directly through select car dealerships in Ontario. For Meridian, this is a new way for us to conveniently serve existing Members and a compelling proposition to attract new Members. New and existing Members appreciate the benefits that DriveON brings at a time when they are making such an important financial decision.

In 2022, 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 grow the OneCap equipment finance business and explore opportunities for profitable expansion into transformational business lines. OneCap, motusbank and the launch of DriveON are three large-scale strategic initiatives which combined diversify our business model and bring Meridian's value proposition to a wider audience across Canada.

✓ Business Transformation Initiatives

In 2021, we continued to focus on the Customer Relationship Management ("CRM") software implementation initiative, an ambitious multi-year project launched in 2020 which will update legacy systems, centralize Member's information, and strengthen Member relationships. The implementation phase kicked off in Spring 2021 and will be completed in Q4 2022. This will enable Meridian to deepen the relationship with current Members and help interact with potential Members. We also made considerable progress in our Retail Lending Redesign initiative, our most transformational program in support of our largest line of business. Staff and Member experience will radically improve, as will our overall efficiency in fulfillment of lending services. In 2022, we will continue to focus on driving these key initiatives forward, as they continue to be key drivers in achieving operational efficiencies.

Capability to Deliver Results (continued)

✓ Open Banking Readiness

In August 2021, the advisory committee on Open Banking released its final consultation report outlining the recommendations and next steps for Open Banking regulation in Canada. The Advisory Report makes recommendations on how to implement a secure open banking system ("OB system") in Canada by January 2023. The recommendations from the Advisory Report are the product of two phases of consultations, a study by the Senate, and countless other industry engagements, all of which included extensive participation and input from CCUA, credit unions, and other industry stakeholders. Highlights of the recommendations included in the Advisory Report that were made by the credit union sector are shown below:

- The ability for credit unions to participate in the OB system on a voluntary basis;
- Policymakers and regulators at the provincial level are welcomed to participate in the development process for the rules of the OB system, to ensure alignment from a regulatory perspective;
- Governance bodies are to have balanced representation from the various industry participants (credit unions, banks, fintechs, consumer groups, etc.);
- Reciprocity of data-sharing, with exemptions for proprietary and value-added data;
- Accreditation, liability, and redress procedures to protect the interests of Members and consumers.

Preparation and development of our technical capabilities relating to Application Programming Interface ("API") connectivity continued in 2021. This work and the implementation of the Mulesoft solution are an important precursor that prepares us well ahead of the expected requirements relating to open banking, and we will continue to develop our technical capabilities and our technology platform in 2022. In addition, we will continue to closely follow the next steps related to the consultation and appropriately determine the implications and preparation work required internally to meet the consultation deadlines. Further, as we undertake strategic planning activities in 2022, we expect that open banking initiatives will be integrated accordingly.

Capability to Deliver Results (continued)

✓ Diversity, Equity, Inclusion & Belonging (DEIB)

Strengthening Diversity, Equity, Inclusion and Belonging ("DEIB") at Meridian is a key focus. Meridian leads with its values and strives to create an environment where employees can bring their whole selves to work. This enriches the employee experience, drives innovation, creates trusted partnerships with our Members and community, supports well-being, and contributes to the overall success and growth of the business. In 2021, Employee Resource Groups ("ERGs") were formed with a focus on BIPOC (Black, Indigenous, and People of Colour); Women in Leadership; LGBTQIA2sA+, and People with Disabilities, all of which are supported by an overarching focus on Mental Health. ERGs are voluntary, employee-led groups with a goal of generating awareness and creating a sense of community for Meridian employees. ERG Members are fuelled by their passions to create change and foster a diverse, inclusive workplace aligned with Meridian's mission, values, goals, business practices, and objectives. Meridian's DEIB strategy is supported by Meridian's Board of Directors, Diversity and Inclusion Executive Council, Executive Leadership Team, and a dedicated DEIB Program Manager. This important strategy continues to build greater awareness, openness, respect, and lasting connections both within the organization and the diverse communities we serve.

✓ Exceptional Employee Experience Promise

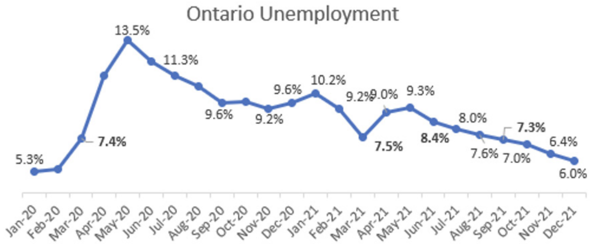
Meridian's Employee Value Proposition ("EVP") makes a bold commitment to current and prospective employees. Fulfillment on this commitment creates a productive working environment for employees and is aligned to specific Talent, Business and Member metrics key to a thriving business. Connecting both the EVP and target outcomes is an Adaptive Culture framework identifying the cultural elements of an organization that thrives in uncertainty, displays resilience, and is focused on critical outcomes connected to our Members' and employees' experience. In 2021, implementation of Meridian's Adaptive Culture Program began with a Culture Bootcamp for Meridian's leaders, supported by an integrated, multi-year Leader and Employee Learning Program. An enterprise culture and development plan has been deployed to further strengthen leadership capabilities, deepening advice-based subject matter expertise while supporting diversity and inclusion, and employee resilience.

As Meridian planned for the post-COVID reality, input from employees was recognized as a necessary and valuable reference point to draw from in shaping Meridian's new workplace and employee experience. In 2020/2021, Meridian implemented a Voice of Employee Program aimed at gauging employee sentiment on critical elements of the Employee Experience and Meridian's culture. Meridian's fulsome "Voice of Employee" program reinforces our People First and Active Listening attributes of an Adaptive Culture and continues to provide leadership with meaningful insights and progress checks along the way. Anticipating ongoing uncertainty in 2021, our goal was to remain close to our employees and focused on the Employee Experience. Meridian is reassured by several results in the most recent Employee Experience survey, which informed the enterprise opportunities for 2022. Meridian will continue to invest in its strong leadership as we navigate a high-change environment. An efficiency-mindset will remain a priority as we strive to improve practices and processes that enable productivity and a better employee experience.

Consolidated Financial Results

2021 Financial Overview

While 2021 began with significant COVID-19 driven challenges, including an extensive lockdown, the impacts of COVID-19 started to show some improvement as the year progressed. By mid-year, there was a rebound in the economy with a reduction in COVID-19 restrictions as mass vaccinations and lower positive case counts led to a reopening. Despite early 2021 macroeconomic challenges, Meridian experienced strong growth and financial results in 2021, in part due to the resilience of our employees, and management strategies to support our Members and strengthen the financial stability of the organization. The expected loan losses from last year's COVID-19 lockdowns and economic slowdown did not materialize, and, in fact, Meridian experienced record low delinquencies and credit losses in 2021. The low interest rate environment shifted Member and consumer deposit preference to liquid accounts and influenced a high level of loan prepayment activity, generating record-breaking fees across the industry. Ontario's unemployment rate started to decline in Q2 and ended the year at 6%. December's unemployment rate reached the lowest level since February 2020.



Offsetting the economic recovery, supply chain shortages, higher energy prices, and labour shortages in some industries pushed prices and inflation higher. The housing markets in Ontario were strong as Members took advantage of the exceptionally low interest rate environment with rate increases on the horizon.

In response to COVID-19, the Canadian government introduced a comprehensive suite of economic stability packages which provided some relief to parts of the economy. These broad-based government support programs largely ended in October 2021 with the launch of more targeted programs to create jobs and spur the economy. The long-term impacts of this change on consumers and businesses remain uncertain. In the third quarter of this year, provincial governments started to materially wind down restrictions that were enacted due to the COVID-19 3rd wave, enabling some key commercial sectors such as hospitality to begin recovery. The emergence of the Omicron variant in late Q4 reintroduced uncertainty and prompted additional lockdown measures to be implemented as 2022 began.

The government support programs have made provisioning for future expected credit losses more difficult. In 2020, new factors were identified and used in internal expected loss modeling. Although a consistent provision methodology was used in 2021 as in the prior year, certain factors have evolved as new information has become available and considers both the reopening of the economy and the recent variants.

As the pandemic continues to unfold, the most significant unknowns are the length of time it will take to return to a normal state of economic growth and unemployment, and an unpredictable yield curve given Bank of Canada reaction to rising inflation and volatile equity markets. Each of these has the potential for material impact to our Members' cash flows, credit scores, and behaviours that are difficult to predict.

The Bank of Canada overnight rate has remained unchanged since March 2020 closing the year at 0.25%. At the end of 2021, inflation rose to 5% and is expected to remain there for the first half of 2022. This is a 30-year high not seen since 1990, and well above the Bank of Canada's 2% target. The Bank of Canada monetary policy report outlined that interest rates will rise in 2022 to curb rising inflation. There remains the expectation that rates will rise in 2022; however, the Bank of Canada will have to balance inflationary pressures with economic recovery.

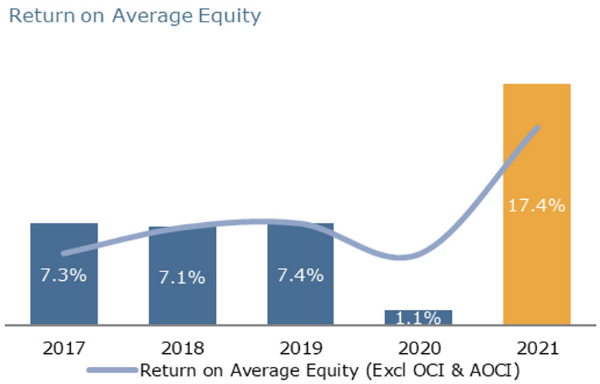
Over the years, Meridian has focused investment on a mix of strategic and foundational initiatives as we continue to expand our digital capabilities, broaden our product and service offerings, diversify our business model, and enhance our supporting infrastructure. Significant investment was made in 2014 and the years that followed in our branch and business banking centre expansion strategy, after which focus moved to diversifying our investments by purchasing a wholly owned leasing subsidiary (OneCap) in 2016 and launching a national digital bank (motusbank) in 2019. In 2021, we focused on improving our core technology infrastructure and made digital investment to improve the Member experience and drive efficiencies within the business. These investments will provide benefits to Members, employees, and profitability.

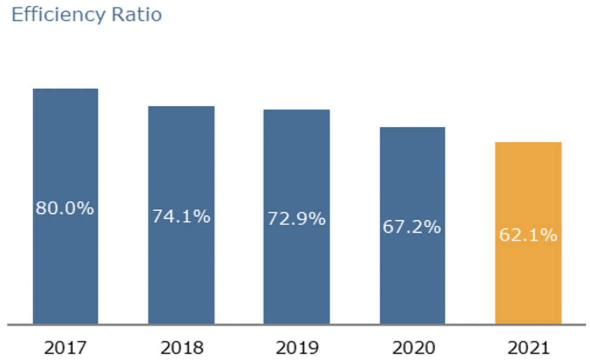
Meridian strives to find the right balance when setting targets for growth, investments, earnings performance, and risk management, while ensuring capitalization is maintained in an efficient manner. This safeguards Meridian and allows for sustainable profitability, a key ingredient to support our future and enable our greater purpose to help our Members live their best lives.

Total assets grew by $1.0 billion or 5% to $24.1 billion at the end of 2021, driven largely by residential mortgages, Commercial lending, and OneCap lease receivables. Assets under management, which include off-balance sheet Wealth Management assets, increased by $1.8 billion or 7% to $28.3 billion, with $0.8 billion of the growth coming from Wealth assets, which ended 2021 at $4.2 billion. Meridian's deposit portfolio grew $1.1 billion or 7% to $16.9 billion, while our loan portfolio increased $1.5 billion or 8% to $19.4 billion in 2021.

Meridian generated $218.4 million in pre-tax earnings, an increase of $151.2 million over the previous year. The increased earnings were mainly due to a reduction in the Provision for Credit Losses ("PCL"), as anticipated losses related to the pandemic did not materialize, resulting in a $93.6 million decrease to the PCL over 2020. Return on equity ("ROE") represents total comprehensive income as a percentage of average total equity. The after-tax ROE was 17.4% in 2021, compared to 1.1% achieved in 2020.

Consolidated Financial Results (continued)

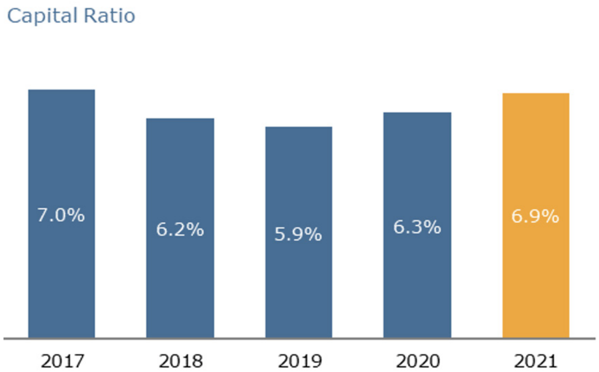


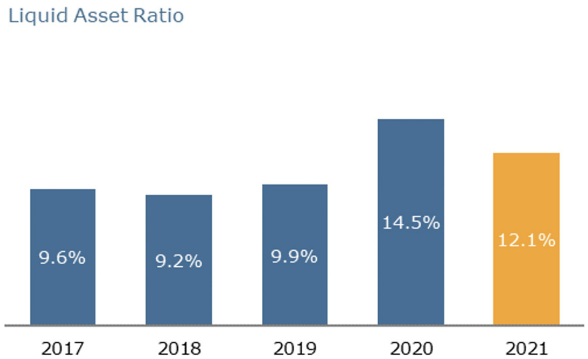


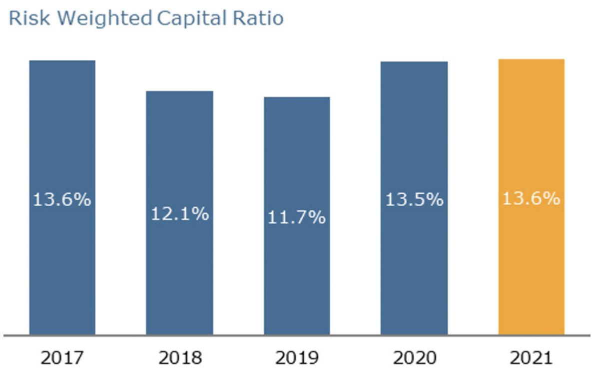
Meridian's operating margin was $543.2 million for 2021, a 52% increase from 2020 results. The primary cause of this increase was the unwinding of PCL. Total revenues increased $93.1 million over 2020 mainly due to interest rate declines impacting deposits repricing faster than lending, plus high prepayment fees. Non-Interest Expenses increased $35.6 million from the previous year. The increase was seen in two main areas: salaries and benefits as a result of annual merit increases, and commissions linked to strong 2021 wealth sales performance. Service excellence bonus payments to front-line employees continued during COVID-19 lockdowns. The rise in salaries and benefits expense was tempered by significant staffing vacancies and reduced branch hours due to COVID-19. The second area of expense growth was in marketing costs to support the "What If" branding campaign. Thirdly, Meridian grew its investment in foundational initiatives to help drive efficiencies and capital efficient growth in the future.

The efficiency ratio is a measure of productivity and is calculated as total non-interest expense divided by total revenues, not including loan loss provisioning. Our long-term strategic focus on investments in infrastructure, and growth and expansion of our branch network impacted earnings in 2017 through 2019, putting pressure on efficiency ratios. Growth in revenues relative to slower expense growths, as previously noted, resulted in an improvement in the efficiency ratio to 62.1% in 2021, compared to 67.2% in 2020.

Consolidated Financial Results (continued)







Meridian's liquid asset ratio declined to 12.1% during 2021 from a high of 14.5% a year earlier due to a reduction in cash and investments. This moves the ratio back into the target range of 11-13%. The 2020 ratio benefitted from Members holding more cash reserves.

All regulatory ratios remain well within our risk appetite target ranges and far exceed regulatory minimums.

Meridian's Capital and Risk Weighted Capital ratios increased to 6.9% and 13.6%, respectively, in 2021 due to strong earnings relative to asset growth. These ratios remain well above the minimum regulatory requirements of 4% and 8%, 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.

2021 Financial Performance Review

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2021

	2021	2020
Net Interest Income	420,043	361,497
Less: Provision for credit losses	(19,847)	73,792
Fees and Other Income	87,619	75,673
Securitization Income	462	3,605
Net gain/(loss) on financial instruments	15,176	(10,527)
Share of profits from investment in joint venture	93	-
Non-interest income	103,350	68,751
Operating Margin	543,240	356,456
NON-INTEREST EXPENSES		
Salaries and employee benefits	204,823	179,063
Administration	88,286	75,157
Occupancy	9,241	9,837
Amortization of intangible assets	5,564	6,558
Depreciation	16,906	18,640
Total non-interest expenses	324,820	289,255

Total Revenue

Total revenue, which comprises net interest income and non-interest income before PCL, rose $93.1 million to $523.4 million in 2021. Net interest income increased $58.5 million to $420.0 million. The market saw interest rate declines which reduced both our asset yields and cost to borrow. Our cost to borrow decrease outpaced the decline in asset yields due to changes in the mix of the deposit portfolio. In addition, Meridian experienced increased mortgage prepayment fees and higher loan fees. Non-interest income increased $34.6 million to $103.3 million. The year-over-year increase can be attributed to a gain in financial instruments, increased total fees, and other income mainly from mutual fund commissions offset by a decrease in securitization income.

Beginning in 2021, Commercial loan origination fees and Commercial prepayment penalties were reclassified from non-interest income to net interest income. Prior years have been restated to remain consistent.

Net Interest Income

Net interest income includes 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 $420.0 million, an increase of $58.5 million or 16% over 2020. Interest income on assets decreased $23.4 million, while interest expense on liabilities decreased $81.9 million. Net interest margin is the ratio of net interest income to average total assets, expressed as a percentage. In 2021, net interest margin was 1.78%, which is an increase of 14 basis points from 2020. A combination of factors drove this change including lower interest rates as interest rate declines repriced shorter-term deposits faster than longer-term loans, Member preference moving to lower cost liquid demand deposits, and a slight change in lending mix with higher growth in Commercial loans than Retail loans. In addition, Meridian experienced increased mortgage prepayment fees ($19.8 million) as a result of the low interest rate environment and higher loan fees reflecting strong Commercial loan originations ($1.1 million). Continued growth from our revenue diversification strategy, including revenue from DriveON, and OneCap also contributed to the increase.

Meridian's average total assets increased $1.6 billion or 7.2% in 2021, including growth in our liquid assets (cash and equivalents) to insure against the uncertainty of COVID-19 and ensure financial strength in case of any further economic volatility.

Average loan balance growth increased $1.0 billion or 6% in 2021, while the interest revenue associated with these loans declined by 1%. Lending growth has outpaced loan revenue growth as loans reprice at lower rates and continued competitive pressure adversely impacts margins.

Meridian's asset growth is funded through a mix of organic and inorganic growth. Growth in average deposit balances was $1.0 billion or 7% in 2021. The remaining asset growth was almost entirely supported through securitization.

2021 Financial Performance Review (continued)

Provision for Credit Losses

PCL is 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 3.8 and 35.1 of the Consolidated Financial Statements.

PCL is made up of write-offs, expected losses on specifically identified accounts (stage 3 expense) as well as losses expected but not yet identified on performing accounts (stage 1 and 2 expense). There was an overall PCL recovery of $19.8 million in 2021 ($73.8 million expense in 2020), which was driven by significant reversals of stage 1 and 2 allowances across several portfolios, improvements on or resolution of several historical stage 3 impairments in the Commercial portfolio, as well as very low levels of stage 3 provisions on Finance Receivables.

In 2020, the Credit Union increased its stage 1 and 2 provisions significantly in expectation of incremental losses relating to the COVID-19 pandemic. These losses did not materialize over the course of 2021 to the extent previously anticipated. This coupled with a generally improving economic outlook supported a partial reversal of incremental stage 1 and 2 provision previously taken to reflect the impact of COVID-19. Although stage 1 and 2 allowances were reduced significantly, levels remain higher than before the pandemic to absorb losses that may still be forthcoming as government supports taper and the economy returns to a post-pandemic equilibrium.

The PCL on the Commercial loan portfolio was a recovery of $13.3 million ($47.3 million expense in 2020). This was comprised of a $6.7 million recovery on stage 1 and 2 provisions ($30.7 million expense in 2020) and a $6.6 million recovery on stage 3 provisions ($16.6 million expense in 2020).

	Net interest income ($ millions)		Change	Average assets and liabilities ($ millions)		Change	Net interest margin (in basis points)		
	2021	2020	%	2021	2020	%	2021	2020	Change
Cash and cash equivalents	4.1	6.5	(36.9)	1,560.6	1,094.4	42.6	26.3	59.4	(33.1)
Investments	12.5	25.8	(51.6)	1,829.3	1,767.0	3.5	68.3	146.0	(77.7)
Loans	270.0	268.7	0.5	5,870.2	4,960.5	18.3	460.0	541.7	(81.7)
Lines of credit	50.3	67.6	(25.6)	1,277.5	1,617.0	(21.0)	393.7	418.1	(24.3)
Mortgages	330.1	322.6	2.3	11,525.0	11,062.7	4.2	286.4	291.6	(5.2)
Finance receivables	60.0	59.2	1.4	1,141.4	1,124.4	1.5	525.7	526.5	(0.8)
Other assets				382.1	380.5	0.4			
Interest income / total assets	727.0	750.4	(3.1)	23,586.1	22,006.5	7.2	308.2	341.0	(32.8)
Demands	29.7	41.7	(28.8)	8,595.7	7,494.7	14.7	34.6	55.6	(21.1)
Fixed terms	151.1	218.2	(30.8)	7,741.4	7,829.1	(1.1)	195.2	278.7	(83.5)
Borrowings	108.6	116.1	(6.5)	5,504.9	5,137.6	7.1	197.3	226.0	(28.7)
Subordinated debt	8.4	6.8	23.5	175.3	112.5	55.7	479.2	604.2	(125.0)
Other liabilities	9.2	6.1	50.8	301.6	272.7	10.6	305.0	223.7	81.4
Interest expense / total liabilities	307.0	388.9	(21.1)	22,318.9	20,846.6	7.1	137.6	186.6	(49.0)
Members' equity				1,267.2	1,159.8	9.3			
Total liabilities and Members' equity	307.0	388.9	(21.1)	23,586.1	22,006.5	7.2	130.2	176.7	(46.6)
Total	420.0	361.5	16.2				178.1	164.3	13.8

2021 Financial Performance Review (continued)

Recoveries on stage 1 and 2 provisions were driven by the partial reversal of pandemic-related allowances taken in 2020, while the stage 3 recovery was driven by improvements on or the resolution of several large historical impairments in the Commercial portfolio.

The PCL on the Retail Banking loan portfolio was an expense of $1.7 million ($3.8 million expense in 2020). This was comprised of a $1.2 million recovery on stage 1 and 2 provisions ($1.4 million expense in 2020) and $2.9 million in stage 3 expense ($2.4 million expense in 2020). Recoveries on stage 1 and 2 provisions were driven by the partial reversal of pandemic-related allowances taken in 2020, while the stage 3 expense was driven by one large residential mortgage impairment and a number of smaller losses on unsecured loans.

The PCL on Finance Receivables was a recovery of $8.3 million ($22.7 million expense in 2020). This was comprised of an $8.8 million recovery on stage 1 provisions ($14.0 million expense in 2020) and $0.5 million in stage 3 expense ($8.7 million expense in 2020). Recoveries on the stage 1 provision were driven by the partial reversal of pandemic-related allowances taken in 2020, while stage 3 expense was very low versus historical levels due to strong performance of industry sectors in which the portfolio is concentrated as well as a strong resale market for equipment repossessed on defaulted leases.

Historically, a significant driver of stage 1 and 2 expense has been growth, as PCL is required to be taken on all new loans at initial recognition. In 2021, PCL taken on new loans net of those released on loans derecognized instead contributed to an $7.7 million recovery on the allowance ($14.1 million expense in 2020), as derecognized loans had larger allowances associated with them due to largely being originated before the onset of the pandemic.

The stage 1 and 2 allowance as a percentage of performing loans was 0.35% in 2021, which was a decrease of 0.11% from 2020, where the coverage ratio was 0.46%. This decrease reflects the increased optimism on the economic recovery and the fact that stage 3 losses have not materialized to the extent contemplated at 2020 year-end. However, the stage 1 and 2 allowance as a percentage of performing loans remains higher than pre-pandemic levels to provide for losses that still may be forthcoming over 2022.

2021 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 include management's best estimate of losses based on the currently available information. The PCL is reflected in the Income Statement in the current year.

The gross impaired loans and finance receivables balance is $98.6 million ($117.7 million in 2020) and represents 0.48% of the total loan and finance receivable portfolio (0.62% in 2020). The total allowance for expected credit losses on loans and finance receivables stands at $87.4 million ($115.5 million in 2020). The decrease was driven by lower allowances across all stages. Stage 1 and 2 allowances were reduced to $70.7 million ($87.3 million in 2020), as COVID-related losses are no longer anticipated to the extent previously assumed, although a buffer continues to be held for some losses that still may be forthcoming. The stage 3 allowance was reduced to $16.7 million ($28.2 million in 2020) due to improvements on or the resolution of several large Commercial impairments as well as lower levels of impaired Finance Receivables.

A risk rating system is used to assess and monitor the risk profile of the 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.

Asset quality coverage - loans and finance receivables

($ millions)	2021	2020
Total Loans	20,618.0	19,018.2
Gross Impaired Loans "GIL"	98.6	117.7
Allowance for Expected Credit Losses	87.4	115.5
Provision for Credit Losses	(19.8)	73.8
GIL as % of total loans	0.48%	0.62%
GIL as % of Members equity	7.18%	10.11%
Allowance as % of total loans	0.42%	0.61%
PCL as % of total loans	-0.10%	0.39%
ECL as % of performing loans (stage 1 and 2)	0.35%	0.46%
Commercial loans:		
% Better than average	16.53%	20.55%
% Average	35.98%	42.69%
	52.52%	63.24%

The Commercial loan portfolio stratified by risk rating ranging from "very low" to "impaired" is reviewed monthly. The proportion of Commercial loans rated "better than average" or "average" has declined somewhat from 2020 in light of re-ratings incorporating additional COVID-19 related risks. In 2020, these categories made up 63.2% of the portfolio, but this declined to 52.5% in 2021. Although the proportion of loans in "higher than average risk" has increased, risks associated with these were already captured through overlays to 2020 expected credit losses through adjustments to models, and this movement reflects risk ratings catching up. 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.

2021 Financial Performance Review (continued)

Meridian continues to promote those government funding programs still available aimed at helping Canadians navigate through the economic challenges brought by the COVID-19 pandemic. The economic recovery gathered pace throughout most of 2021 but tapered off towards the end of the year due to the emergence of the new Omicron variant and the reinstatement of restrictions in some jurisdictions. It is anticipated these will be eased once again following the most recent wave of the pandemic; however, some uncertainty remains over the durability of the reopening, more lasting impacts on consumer behaviour, as well as how some sectors may fare after government supports cease. The credit quality of the portfolio continues to be actively monitored using a wide array of tools and techniques, with real-time insights and sound financial advice provided to Members to help them maintain their financial well-being.

Non-Interest Income

Total non-interest income increased by $34.6 million or 50.4% to $103.4 million in 2021. The increase consists of $11.9 million increase in total fees and other income, and $25.7 million net increase in gain on financial instruments, offset by $3.1 million decrease in securitization income. Excluding the increase in financial instruments net gains, non-interest income increased $8.9 million in 2021.

Total fees and other income rose by $11.9 million or 16% to $87.6 million in 2021.

Mutual fund revenue was the biggest contributor accounting for $6.0 million of the increase, growing by 26% to $28.7 million. Mutual fund revenue increase was driven by the growth in Wealth balances due to both strong sales and market appreciation during the year, reflecting a focus on increasing share of wallet and penetration of our Member base.

Loan servicing fees grew by $3.1 million or 56% to $8.6 million driven by Commercial lending. During 2021, our Commercial loan portfolio grew $417 million, an increase of 7% over 2020. Foreign exchange income was relatively unchanged increasing by $0.3 million to $5.0 million, reflecting continued travel restrictions as a result of COVID-19 mitigation measures. Dividend income decreased $0.8 million as a $1.8 million reduction in the Central 1 dividend was partly offset by an increase in preferred share dividends of $1.0 million.

2021 Financial Performance Review (continued)

Credit Card revenue grew by $1.3 million or 52% to $3.8 million driven by increased sales. Other income increased $1.0 million or 40.0% to $3.6 million driven by motusbank fraud recoveries of $0.9 million and service fees of $0.5 million from Canadian Emergency Business Accounts (CEBA) offset by $0.3 million decrease in miscellaneous fees.

The net increase in gain on financial instruments of $25.7 million over 2020 is made up of $21.2 million increase in financial instruments income due to mark-to-market changes in derivatives, a $1.2 million reduction in financial instruments expenses, and a $3.3 million one-time gain in 2021 from the transfer of management of statutory liquidity deposits from Central 1 to Meridian. As swap and bond yields increased throughout 2021, Meridian's net derivative position resulted in a gain in mark-to-market valuations of $16.1 million in 2021, which was a loss of $5.1 million in 2020. These derivatives are intended to protect Meridian's earnings through 2025 with the Bank of Canada expected to increase its overnight lending rate through 2022 and into 2023.

Non-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 its 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 instrument.

Securitization income declined by $3.1 million due to reduced sales volume of multi-unit residential mortgages ("MURMS") loans to the Canada Mortgage and Housing Corporation ("CMHC"). The following table summarizes the composition of Meridian's non-interest income:

Non-Interest Income

($ millions)	2021	2020	% Change
Service fees	19.4	18.9	2.6%
Mutual fund revenue	28.7	22.7	26.4%
Loan servicing fees	8.6	5.5	56.4%
Insurance commissions	7.0	6.9	1.4%
Foreign exchange	5.0	4.7	6.4%
Leasing revenue	6.8	6.5	4.6%
Dividend Income	3.4	4.2	-19.0%
Interac revenue	1.3	1.2	8.3%
Credit card revenue	3.8	2.5	52.0%
Other	3.6	2.6	40.0%
Total Fees & Other Income	87.6	75.7	15.8%
Gain/(Loss) on Financial Instruments	15.2	(10.5)	244.8%
Securitization Income	0.5	3.6	-86.1%
Total Non-Interest Income	103.4	68.8	50.3%

2021 Financial Performance Review (continued)

Non-Interest Expenses

Non-interest expenses increased to $324.8 million in 2021, from $289.3 million in 2020. The 12% increase in expenses was mainly associated with salaries and benefits, and marketing.

Personnel expenses, which include all employee salaries, benefits, and incentive compensation, accounted for approximately 73% of the increase in expenses. Higher personnel expenses were driven by merit, increased variable incentive, benefit expenses, and severance. Benefits expense increased as lockdowns caused by COVID-19 have eased, allowing employees to take advantage of their full suite of benefits. Variable incentive compensation increased commensurate with financial performance. Salary expenses increased $1.3 million or 1% to $137.6 million in 2021. Higher performance-based sales commissions associated with wealth growth and annual merit increases contributed to the increase in salary expense. Additionally, Meridian continues to pay front-line employees a service excellence bonus premium during the COVID-19 lockdowns.

General operating expenses increased 13% or $1.9 million. Higher consulting fees, work-from-home allowance plus additional funding for initiatives drove the increase. Occupancy costs decreased by $0.6 million to $9.2 million due to lower common area building maintenance expenses, as some branches were temporarily closed during the lockdowns, and net rental income from subleases of office space.

Marketing expense increased by $6.2 million to $11.4 million in 2021 as we invested in brand awareness along with campaign marketing. Meridian launched the "What If" campaign to invest in brand recognition to drive increased awareness and consideration.

Meridian's longstanding Commitment to Communities was brought to life through investment in the development and running of various digital and local programs. These programs build our brand by making a bold community impact while engaging and empowering our employees, Members, and future Members. During 2021, our total Commitment to Communities investment increased $0.8 million to $3.6 million. The total investment included our direct branch level granting of $1.2 million and does not reflect additional contributions in the form of "in kind" services.

Transaction services increased by $0.6 million to $18.1 million due to growing membership, ABM fees, and associated administrative costs. Software and hardware expenses increased by $3.2 million to $14.9 million. This increase is due to our growing workforce, requiring more software, hardware, and associated licensing costs to ensure we can deliver our unique and personalized experience consistently to our Members, and our conversion to a cloud-based strategy. This strategy drove a decrease in depreciation of $1.7 million to $16.9 million, as some hardware costs were no longer capitalized in 2021.

Deposit insurance increased $0.3 million to $12.5 million. This is driven mainly by the increase in deposit balances. Amortization decreased $1.0 million to $5.6 million due to decreased OneCap broker and vendor relationship intangible asset amortizations, which has steadily decreased since the acquisition of OneCap in 2016.

2021 Financial Performance Review (continued)

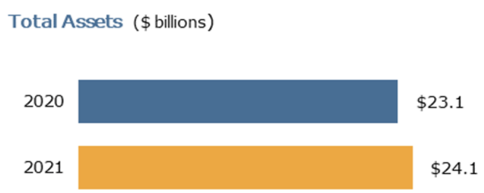
Meridian's investment in strategic initiatives increased $3.4 million to $5.5 million. The increase is related to investments that continue to support Meridian's strategic imperatives and enable us to achieve long-term sustainability. 2021 initiatives were mainly focused on business transformation and digitization: an enterprise customer relationship management system, enhancement of our lending processes and technology, credit card strategy, and numerous innovative product and service designs supporting our strategic imperative of delivering a differentiated Member experience. These expenses are reported across various expense categories.

Non-Interest Expense

($ millions)	2021	2020	% Change
Salaries and Benefits	204.9	179.1	14.4%
Salaries	137.6	136.3	1.0%
Benefits	37.7	29.8	26.5%
Variable Incentive	29.5	12.9	128.7%
General	16.6	14.7	12.9%
Occupancy	9.2	9.8	-6.1%
Marketing	11.4	5.2	119.2%
Community Investment	3.6	2.8	28.6%
Transaction Services	18.1	17.5	3.4%
Depreciation	16.9	18.6	-9.1%
Software and Hardware	14.9	11.7	27.4%
Deposit Insurance	12.5	12.2	2.5%
Amortization	5.6	6.6	-15.2%
Human Resources	2.0	2.2	-9.1%
Other Expenses	9.1	8.9	2.2%
Total	324.8	289.3	12.3%

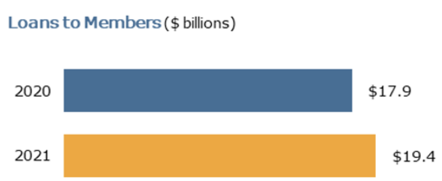
Financial Conditions Review

Balance Sheet Summary



Meridian's total assets grew by 5% to $24.1 billion in 2021, an increase of $1.0 billion over the previous year.

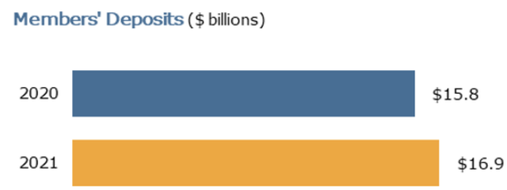
The $1.0 billion increase in total assets was driven by an increase in residential mortgages and focus on diversification of loans with DriveON and the health care sector. We continued to support government programs and the needs of our Members during these uncertain times. OneCap lease assets grew $0.1 billion in 2021. A reduction in liquid investments of $0.5 billion partly offset loan growth.



Loans to Members grew by 8% or $1.5 billion to $19.4 billion. Residential mortgages accounted for 70% of this growth and Commercial loans accounted for 30%.

Residential mortgages increased by $1.1 billion or 10% growth over 2020. Focus continued on profitability in a competitive market. All channels, including the branch network, digital lending platform, mobile mortgage specialists, mortgage brokers, and third-party originations, experienced growth. Strong growth in Commercial loans continued, increasing by $0.4 billion or 8%.

This growth was attributable to strong performance in the land development and construction sector, and in the health care sector, as well as diversification through syndications and the commercial owner-occupied lending program that was launched at the end of 2020.

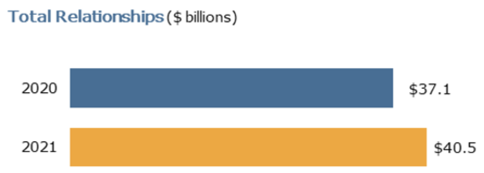


Deposits grew by 7% or $1.1 billion to $16.9 billion in 2021.

Growth in demand deposits was the primary driver of the increase, as Member preference continued to favour demand deposits due to the low interest rate environment and the desire to hold onto cash through uncertain times. The shift in deposit preference has helped reduce interest expense and strengthen margin.

Other than deposits, Meridian's borrowings (including secured) increased by 45% or $0.6 billion, which was offset by a decline in mortgage securitization funding of 18% or $0.8 billion.

Financial Conditions Review (continued)



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 2021 growing $0.7 billion or 23% over 2020. Net sales contributed $451 million or 59% of this growth, an increase of $224 million over net sales in the previous year. This is a key strategic growth area to diversify revenue. The growth was driven by our growing sales force, focus on increasing share of wallet, penetration of our Member base, and excess Member liquidity. The remainder of the increase was $314 million or 41% of the growth, resulting from the increased market value of Members' investments. Notwithstanding global uncertainties with COVID-19 and the emergence of the Omicron variant at the end of the year, the markets sustained strong growth throughout the year.

Overall, the total Member relationships managed by Meridian, which includes lending, deposits, and wealth, grew by 9% or $3.4 billion to $40.5 billion in 2021.

Notwithstanding the high level of uncertainty and challenges in 2021, Meridian was able to grow relationships across all channels. This growth allows Meridian to extend its value proposition to a larger number 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, 2021, Meridian's liquid asset ratio was 12.1%, compared to 14.5% at the end of 2020, well above the minimum requirement established by the Board. As the economy opened up through the year, Meridian allowed its excess liquidity to fall to more optimal levels with total liquid assets in the targeted range of 9%-13%.

Meridian maintains a sensible and disciplined approach to managing liquidity risk. Meridian targets a survival horizon, appropriately based on current economic and financial conditions, under a combined Meridian-specific and market-wide stress scenario, maintaining 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, at a minimum of 100%. As of December 31, 2021, Meridian's Liquidity Coverage Ratio was 218%, compared to 468% at the end of 2020. Meridian monitors and reports no less frequently than monthly our regulatory liquidity metrics to FSRA.

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

Meridian regularly securitizes insured residential mortgages by participating in government-sponsored securitization programs to enhance its liquidity position and diversify sources of funding. The Credit Union's total funding raised through securitization during 2021 was $1,337 million (2020 – $2,586 million), sold either to third party investors or the CMHC-sponsored Canada Mortgage Bond program.

Meridian OneCap Credit Corporation ("MOCC") is a wholly owned subsidiary of Meridian. MOCC established Meridian OneCap Limited Partnership ("LP") to purchase equipment leases and loan assets originated by the OneCap team. The LP is a master trust, a structure designed to provide MOCC with maximum flexibility and ensure sustainable funding to support MOCC's long-term growth. The LP currently issues Asset Backed Notes to finance the purchase of lease assets from MOCC. MOCC maintains a one-year committed credit facility and a three-year committed credit facility, which are funded by Class A and Class B notes. In 2021, MOCC increased securitization balances outstanding to third party investors by $102 million, to a year-ending balance of $1,058 million.

Meridian continues to maintain, and investigate new, diverse funding sources in the event that access to securitization funding is limited in the future or only available at significantly higher rates. Diversification of external funding sources is an important aspect of Meridian's overall risk management strategy.

Capital Management

Overview

Meridian is committed to a disciplined approach to capital management and maintaining a strong capital base to support the risks associated with its 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 maintain a prudent cushion of equity to ensure its ongoing 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 Three-Year Capital Plan. They 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. At the operational level, the Treasury Team is responsible for the overall management of capital including planning, forecasting, and execution of the Capital Plan.

The Risk Committee has strategic oversight of the Capital Management Policy and oversees the target risk-based capital requirement determined by the Internal Capital Adequacy Assessment Process ("ICAAP"), while the Audit and 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 its 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 Planning is an important element of financial planning and establishment of strategic objectives, and it is developed in accordance with the capital management policy. Each year, a Capital Plan and a 3- Year Outlook is developed as part of the Financial Plan, which establishes targets for coming years and business plans to achieve those targets. 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 audited consolidated financial statements.

Capital Management (continued)

Capital Review

Meridian is well capitalized, with regulatory ratios well exceeding the requirements of the Credit Unions and Caisses Populaires Act, 1994 (the "Act"), which regulates Ontario Credit Unions and underlies Board policy requirements. Meridian's capital adequacy ratio was 6.9% as of December 31, 2021, compared to 6.4% at the end of 2020 and in excess of the 4.0% stipulated in the Act.

Meridian's risk weighted capital adequacy ratio was 13.6% at the end of 2021, up from 13.5% at the end of 2020, and well in excess of the 8.0% stipulated in the Act.

The favorable trends in the capital adequacy ratio and the risk weighted capital ratio are due to strong retained earnings growth and moderation in overall asset growth in comparison to previous years. These ratios underscore Meridian's strength and long-term stability and commitment to a disciplined approach to capital management that balances the interests and requirements of Members and regulators.

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, 79.9% of Meridian's capital base consisted of Tier 1 capital, higher compared to 2020 (76.5%) due to Meridian's strong earnings through the year.

Regulatory Capital Development

On June 14, 2021, the Financial Services Regulatory Authority of Ontario ("FSRA") held a 90-day public consultation on its proposed Capital Adequacy Requirements for Credit Unions and Caisses Populaires. The proposed rules will promote a stronger credit union sector through the assessment and maintenance of adequate and appropriate forms of internal capital, and better alignment with international standards. It sets new requirements for the following:

- Calculation of capital ratios and supervisory minimums (Tier 1 and Tier 2 Capital, Risk Weighted Assets, Capital Conservation Buffer, Total Capital Ratio, and Leverage Ratio)
- Capital reporting of subsidiaries on a consolidated basis
- Calculation of Credit Risk of Risk Weighted Assets
- Internal Capital Adequacy Assessment Process

The Proposed rule will be made under the new Credit Unions and Caisses Populaires Act, 2020, once proclaimed into force in 2022.

Meridian will continue to monitor and prepare for developments impacting regulatory capital requirements.

Capital Management (continued)

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 the strategic imperatives of Meridian. Meridian has built a strong overall risk culture that empowers all employees to be engaged in the identification and management of risk within its risk appetite. The Board of Directors and all employees are responsible to ensure 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 based on a risk-reward basis with consideration for its capacity to manage associated risks.

Meridian uses ERM to fully consider risk in all decision-making to ensure that the 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 considers guidance provided by other relevant regulatory bodies and industry best practices.

Risk Management (continued)

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

i. Technology and tools that facilitate the efficient and convenient execution of its ERM processes;

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

iii. Processes to identify, assess and monitor its risks;

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

v. 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.

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

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

viii. 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

ix. 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 results to differ significantly from plans, imperatives, and estimates. Meridian considers it critical to regularly assess its 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.

Meridian has in place a full complement of risk management programs, policies, standard operating procedures, and internal controls that are designed to mitigate risks to acceptable levels. Appropriate consideration has been given to all relevant risks, and controls are consistently applied, implemented and adhered to throughout the organization. Meridian has successfully invoked risk management programs and appropriately adapted its risk appetite and existing controls to mitigate the potential risk impacts related to COVID-19 and associated operating changes.

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 its Members. As described herein, Meridian considers a range of potential future situations in developing its 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 its business model to support its 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 analysis identifying the exposure and potential impacts of climate change, including direct impacts to Meridian, impacts on 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 including 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 (cyber risk), 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 it accepts in its 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 audited consolidated financial statements.

Risk Management (continued)

Financial Risk

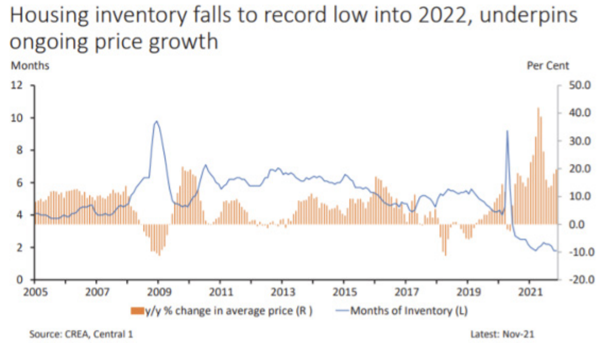
Financial Risk is the risk that Meridian is unable to secure adequate, timely and reasonably priced funding or that key factors in financial markets change resulting in financial impacts to Meridian. These risks include changes to interest rates and foreign exchange rates, risks that Meridian's pension 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.

2022 Outlook

The economic outlook for 2022 and beyond remains relatively strong despite the rapid worldwide spread of the latest COVID-19 variant of concern, Omicron. This highly contagious strain does not appear to have the same strength as other variants but may negatively impact near-term growth. Other COVID-19 related factors such as labour shortages, inflation, supply chain issues, and longer-term structural challenges will also play a role in the near-term outlook. A higher level of volatility in global growth and oil prices is expected as the uncertainty surrounding ongoing unrest in the Ukraine is fully understood. After expanding by 4.6% in 2021, the economy is projected to grow by 4% in 2022, with decreased downside risk as the Omicron situation is improving and restrictions are being loosened across the country. The economy is projected to have strong growth levels in 2023 at 2.7% as the economy absorbs the large amount of slack remaining in some sectors. This follows a contraction of the economy in 2020 of 5.3%. Looking specifically at the Ontario economy, growth is projected to be 4.4%, unchanged from 2021 and ranking as the fastest rate east of the prairies. The political reaction and economic ramifications of the situation in the Ukraine continue to evolve and growth expectations will be dependent on the outcome of these actions.

In Canada, households are expected to continue to be the main driver of near-term growth. Real disposable income grew at its fastest pace on record in 2020 due to the government relief programs, and real consumer spending was up 17.9% in the third quarter of 2021. Aggregate household savings reached new heights in 2020 at $206 billion and stayed above $170 billion through 2021. Household savings are expected to decline sharply in 2022 to just under $79 billion and return to normal in 2023 due to increased consumer spending, especially on services and travel sectors, as the risks from the coronavirus dissipate.

The likelihood of interest rate hikes from the Bank of Canada in 2022 has increased due to record levels of inflation and high housing prices that coincide with an anticipated economic rebound from the latest wave of the pandemic. According to Statistics Canada, the annual rate of inflation hit 4.8% in December, the highest level in 30 years. Tempering the expectations of rate increases is the uncertainty related to the political unrest in Ukraine and ancillary impact on oil prices and global economic growth. In addition to the March 2022 25 basis points increase, consensus expectations among economists is that the Bank of Canada will look to raise its overnight rate by 75 to 100 basis points by the end of the year.



Housing starts fell 22% in December 2021 to 236,106 units, missing market expectations of 270,000 units, according to the Canadian Mortgage and Housing Corporation ("CMHC"). Housing starts in Canada is expected to be 230,000 units by the end of Q1 2022 and the long-term starts are projected to trend around 200,000 units in 2023. Since the onset of the pandemic, the average house price increased by $185,000 or 35%, with most provinces experiencing substantial gains as demand ran far ahead of supply across the country. The rapid drawdown of inventory and tight market conditions points to robust price growth through the first half of 2022, before slowing growth thereafter as inventories respond to easing demand. Average annual price growth of 5-10% is projected for 2022.

2022 Outlook (continued)

Over the next three years, Canada will seek to welcome over 1.2 million new immigrants. In 2021, Immigration, Refugees and Citizenship Canada ("IRCC") achieved its target of welcoming 401,000 immigrants. In 2022, this target will rise to 411,000 new permanent residents (PRs). COVID-19 has weakened the Canadian economy in the short run and increased government spending on social services. Based on its demographic realities and its immigration trends, it appears likely that Canada will continue to gradually increase its immigration levels over the foreseeable future. Immigration will remain critical to supporting a healthy economy and fiscal situation in the country.

Meridian anticipates moderate growth in relationships to result in increased revenues. Pre-tax earnings growth continues to help support investment in strategic initiatives and maintain a strong capital base. A continued focus on structural cost optimization will help increase earnings, efficiencies and, in turn, our ability to reinvest back into the business to help expand our value proposition.

Meridian is strategically positioning the balance sheet in 2022 by holding high levels of liquid assets which will be constantly reviewed to see if they can be deployed in an efficient manner. The increase in liquidity protects Meridian's balance sheet from potential further 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 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.

Consolidated Financial Statements of

MERIDIAN CREDIT UNION LIMITED

Year ended December 31, 2021

MERIDIAN CREDIT UNION LIMITED

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

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, 2021 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, 2021;
- 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 significant accounting policies and other explanatory information.

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.

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.

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

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

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, 2022

MERIDIAN CREDIT UNION LIMITED

CONSOLIDATED BALANCE SHEET

As at December 31, 2021 with comparative figures for 2020

(thousands of Canadian dollars)	Note	December 31 2021	December 31 2020
ASSETS			
Cash and cash equivalents	5	$ 1,508,413	$ 1,612,807
Receivables	6	15,358	8,681
Current income tax receivable		-	3,354
Investments in debt instruments	7	1,547,910	1,935,044
Investments in equity instruments	8	61,345	114,268
Loans	9	19,414,746	17,930,439
Finance receivables, net	10	1,203,254	1,079,610
Derivative financial assets	11	47,658	14,950
Investment in joint venture	12	393	-
Intangible assets	13	23,597	26,422
Goodwill	14	73,232	73,232
Property, plant and equipment	15	30,753	35,449
Deferred income tax assets	16	53,192	67,557
Right-of-use assets	17	62,651	67,025
Other assets	18	77,101	83,949
Total assets		$ 24,119,603	$ 23,052,787
LIABILITIES			
Deposits	19	$ 16,896,177	$ 15,778,023
Borrowings	20	300,287	300,279
Lease liabilities	17	68,596	72,715
Payables and other liabilities	21	142,913	160,487
Current income tax payable		12,529	99
Secured borrowings	22	1,523,300	955,380
Mortgage securitization liabilities	23	3,572,125	4,358,412
Derivative financial liabilities	11	5,762	48,634
Pension and other employee obligations	24	52,446	39,233
Membership shares	25	378	388
Subordinated debt	26	175,367	175,200
Total liabilities		22,749,880	21,888,850
MEMBERS' EQUITY			
Members' capital accounts	25	620,075	599,494
Contributed surplus		104,761	104,761
Retained earnings		660,146	492,687
Accumulated other comprehensive income		(15,259)	(33,005)
Total equity attributable to Members		1,369,723	1,163,937
Total liabilities and Members' equity		$ 24,119,603	$ 23,052,787

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, 2021 with comparative figures for 2020

(thousands of Canadian dollars)	Note	2021	2020
INTEREST INCOME			
Interest income - loans		$ 650,442	$ 658,855
Interest income - other		76,600	91,545
Total interest income		727,042	750,400
INTEREST EXPENSE			
Interest expense - deposits		185,812	266,001
Interest expense - other		121,187	122,902
Total interest expense		306,999	388,903
Net interest income	27	420,043	361,497
Provision for credit losses	9, 10	(19,847)	73,792
Net interest income after provision for credit losses		439,890	287,705
Fees and other income	28	87,619	75,673
Securitization income	29	462	3,605
Net gain (loss) on financial instruments	30	15,176	(10,527)
Share of profits from investment in joint venture	12	93	-
Net interest and non-interest income		543,240	356,456
NON-INTEREST EXPENSES			
Salaries and employee benefits	24	204,823	179,063
Administration		88,286	75,157
Occupancy		9,241	9,837
Amortization of intangible assets	13	5,564	6,558
Depreciation of property, plant and equipment	15	8,806	10,304
Depreciation, right-of-use assets	17	8,100	8,336
Total non-interest expenses		324,820	289,255
Operating earnings		218,420	67,201
Income tax expense	31	33,573	6,820
Profits for the year attributable to Members		$ 184,847	$ 60,381

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, 2021 with comparative figures for 2020

(thousands of Canadian dollars)	Note	2021	2020
Profits for the year attributable to Members		$ 184,847	$ 60,381
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to profit or loss			
Actuarial gains (losses) in defined benefit pension plans	24	8,516	(816)
Gains (losses) on equity instruments designated as FVTOCI		(395)	435
Asset ceiling adjustment on defined benefit plans	24	(7,132)	-
Related income tax (expense) recovery	31	(174)	53
		815	(328)
Items that may be subsequently reclassified to profit or loss			
Cash flow hedges - effective portion of changes in fair value	11	36,070	(58,476)
Cash flow hedges - reclassified to profit or loss	11	1,302	(1,193)
Unrealized gains (losses) on debt instruments classified as FVTOCI		(6,525)	46
Related income tax (expense) recovery	11, 31	(6,950)	12,450
		23,897	(47,173)
Other comprehensive income (loss) for the year, net of income taxes		24,712	(47,501)
Total comprehensive income for the year attributable to Members		$ 209,559	$ 12,880

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, 2021 with comparative figures for 2020

(thousands of Canadian dollars)	Note	Members' capital	Contributed surplus	Retained earnings	Fair value reserve	Hedging reserves	Pension reserve	Total equity
Balance as at January 1, 2021		$ 599,494	$ 104,761	$ 492,687	$ 378	$ (33,383)	$ -	$ 1,163,937
Dividends on Members' capital accounts	25	-	-	(24,354)	-	-	-	(24,354)
Shares issued as dividends	25	20,581	-	-	-	-	-	20,581
Transactions with owners		20,581	-	(24,354)	-	-	-	(3,773)
Profits for the year attributable to Members		-	-	184,847	-	-	-	184,847
Other comprehensive income (loss) for the year, net of income taxes:								
Actuarial gains (losses) in defined benefit pension plans	24	-	-	6,966	-	-	(5,834)	1,132
Cash flow hedges - effective portion of changes in fair value		-	-	-	-	29,234	-	29,234
Loss on debt and equity instruments designated as FVTOCI		-	-	-	(5,654)	-	-	(5,654)
Total comprehensive income (loss) for the year attributable to Members		-	-	191,813	(5,654)	29,234	(5,834)	209,559
Balance as at December 31, 2021		$ 620,075	$ 104,761	$ 660,146	$ (5,276)	$ (4,149)	$ (5,834)	$ 1,369,723

(thousands of Canadian dollars)	Note	Members' capital	Contributed surplus	Retained earnings	Fair value reserve	Hedging reserves	Pension reserve	Total equity
Balance as at January 1, 2020		$ 579,566	$ 104,761	$ 456,781	$ -	$ 13,828	$ -	$ 1,154,936
Dividends on Members' capital accounts	25	-	-	(23,807)	-	-	-	(23,807)
Shares issued as dividends	25	19,928	-	-	-	-	-	19,928
Transactions with owners		19,928	-	(23,807)	-	-	-	(3,879)
Profits for the year attributable to Members		-	-	60,381	-	-	-	60,381
Other comprehensive income for the year, net of income taxes:								
Actuarial losses in defined benefit pension plans	24	-	-	(668)	-	-	-	(668)
Cash flow hedges - effective portion of changes in fair value		-	-	-	-	(46,477)	-	(46,477)
Cash flow hedges - reclassified to profit or loss	11	-	-	-	-	(734)	-	(734)
Unrealized gains on debt and equity instruments classified as FVTOCI		-	-	-	378	-	-	378
Total comprehensive income for the year attributable to Members		-	-	59,713	378	(47,211)	-	12,880
Balance as at December 31, 2020		$ 599,494	$ 104,761	$ 492,687	$ 378	$ (33,383)	$ -	$ 1,163,937

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, 2021 with comparative figures for 2020

(thousands of Canadian dollars)	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		$ 734,697	$ 737,977
Interest paid		(327,747)	(403,944)
Fee and commission receipts		73,813	65,815
Other income received		14,064	12,965
Premiums paid on index-linked option contracts		(3,598)	(2,106)
Recoveries on loans previously written off	9	544	564
Payments to employees and suppliers		(318,665)	(197,000)
Proceeds on settlement of derivatives		(4,374)	(14,953)
Income taxes paid		(4,092)	(19,641)
Net cash flows from operating activities before adjustments for changes in operating assets and liabilities		164,642	179,677
Adjustments for net changes in operating assets and liabilities:			
Net change in loans		(1,472,303)	(616,972)
Purchase of leasing equipment		(667,319)	(430,177)
Principal payments received on finance receivables		557,621	498,647
Net change in receivables		(7,205)	(937)
Net change in other assets and liabilities		(4,645)	(35,840)
Net change in deposits		1,127,269	929,781
Net cash flows from (used in) operating activities		(301,940)	524,179
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments in debt and equity instruments [1]		(2,781,662)	(2,083,007)
Proceeds from the sale and maturity of investments in debt and equity instruments [1]		3,217,177	1,644,619
Dividend income		3,261	4,171
Purchase of investment in joint venture	12	(300)	-
Purchase of intangible assets	13	(2,738)	(1,231)
Net change in right of use assets	17	-	1,135
Purchase of property, plant and equipment	15	(4,122)	(2,459)
Proceeds on sale of property, plant and equipment	15	4	210
Net cash flows from (used in) investing activities		431,620	(436,562)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from securitization of mortgages		1,298,269	2,589,989
Net change in mortgage securitization liabilities		(2,085,630)	(1,352,282)
Net change in borrowings		1	(273)
Net change in subordinated debt		160	125,249
Payments related to lease obligations		(7,872)	(7,520)
Issuance of secured notes, net		568,018	(402,221)
Dividends paid on Members' capital accounts		(7,010)	(3,670)
Net cash from changes in Membership shares		(10)	12
Net cash flows from (used in) financing activities		(234,074)	949,284
Net increase (decrease) in cash and cash equivalents		(104,394)	1,036,901
Cash and cash equivalents, beginning of year		1,612,807	575,906
Cash and cash equivalents, end of year [2]	5	$ 1,508,413	$ 1,612,807

1 The prior year amount has been restated to show purchases and proceeds from investments in debt and equity instruments separately. These were previously presented as net change in other investments of $438,388.
2 Cash and cash equivalents includes restricted funds in the amount of $27,018 (2020 – $28,193).

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 its activities are regulated by the Financial Services Regulatory Authority of Ontario ("FSRA"). The Credit Union is a member 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 Credit Union has 89 branches and 15 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. Motusbank is primarily involved in the raising of funds and the application of those funds in providing financial services to customers. Its business is primarily conducted using an online platform. 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. There were no modifications as required by FSRA or OSFI regulations to the preparation of the consolidated financial statements.

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.

Impact of COVID-19:

COVID-19 was declared a pandemic by the World Health Organization in March 2020. Policies put in place by governments worldwide to contain the spread, including federal and provincial governments in Canada, resulted in a significant reduction in economic activity during the initial phase of the pandemic. These policies included the closure of non-essential businesses as well as restrictions on both international and domestic travel. Although some restrictions were lifted over the course of 2020, some persisted while others were reintroduced to address subsequent waves of the pandemic. This trend continued throughout 2021. Although widespread vaccination allowed for a more significant reopening in the second half of 2021, some restrictions remained in place or were reintroduced due to the emergence of the Omicron variant towards the end of the year. The situation varies across the provinces where the Credit Union and its subsidiaries operate.

To assist Members and customers dealing with the impact of COVID-19 related economic restrictions, the Credit Union and its subsidiaries offered various types of payment relief. These programs had largely run their course by 2021, with most Members returning to regularly scheduled payments. In addition to payment relief offered by the Credit Union and its subsidiaries, governments also extended financial supports for individuals and businesses, some of which have been facilitated by financial institutions, including Meridian. Many of these programs remained in place over the course of 2021. The extent to which Meridian has participated in COVID-related government programs is discussed in more detail in note 9. Uncertainty remains over how Members, and the economy more generally, will fare once these government supports are eliminated. Even as economic restrictions are lifted, there will likely be longer-term impacts on consumer behaviour, which could continue to put some business models at risk.

COVID-19 and the related economic uncertainty continue to heighten the level of judgment applied in several accounting estimates. Refer to details on the most significant new assumptions and judgments related to the estimation of allowances for expected credit losses ("ECL") later in this note as well as in note 35.1. Further information on estimates and assumptions used for the purposes of assessing goodwill impairment can be found in note 14.

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

2 Basis of presentation (continued)

2.2 Use of estimates and judgments (continued)

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

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 35.4 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 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).

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 COVID-19 pandemic has required additional estimates and judgments beyond the items outlined above, including:

- Determining the expected duration and intensity of the pandemic, the resulting economic restrictions, and their impact on Members' and customers' employment or business operations;
- Determining the impact of government supports on Members' and customers' ability to pay; and
- Determining the impact of payment relief programs offered by the Credit Union on Members' and customers' ability to pay.

The approach used for measuring allowances for ECL and the use of significant estimates and judgments is disclosed in more detail in note 35.1.

2 Basis of presentation (continued)

2.2 Use of estimates and judgments (continued)

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 arising from the relationship 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. The estimation of the recoverable amount for the cash-generating unit ("CGU") requires the use of significant judgment; and the models are sensitive to changes in future cash flows, discount rates, and terminal growth rates. The environment is rapidly evolving and as a result, management's economic outlook has a higher than usual degree of uncertainty, which may, in future periods, materially change the expected future cash flows of the CGU and result in an impairment charge. Actual experience may differ materially from current expectations, including in relation to the duration and severity of the economic contraction and the ultimate timing and extent of a future recovery.

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 3.12 and note 13.

Recognition and derecognition 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. Conversely, other securitization arrangements may meet the criteria for derecognition. Judgment is required in determining the requirements for continued recognition or derecognition of financial assets under such arrangements. Where securitization arrangements result in the derecognition of financial assets, estimation is required in determining the fair value of new assets recognized relating to residual interests or the fair value of associated liabilities.

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 3.16 and note 16.

Retirement benefit obligations

The present value of 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 3.13 and note 17.

Recognition of interests in subsidiaries, associates and joint arrangements.

The Credit Union has ownership interests in entities that give rise to control, joint control and/or significant influence – these can be classified as investments in associates, subsidiaries or joint ventures. The definitions of control, joint control and significant influence as pronounced in IFRS 3, IFRS 11 and IAS 28 guide the Credit Union in making these determinations. Management balances qualitative and quantitative factors to determine the presence of control, joint control or significant influence at each reporting date to determine the appropriate classification of these interests.

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 34 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.

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 joint control or 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 the consolidated income statement.

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 depends 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 flows 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, and 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 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 measured at amortized cost are recorded at fair value at initial recognition less an allowance 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 3.8. Upon derecognition of financial assets measured 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, loans and certain investments in debt instruments 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 measured at FVTPL. Debt instruments measured 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 measured at FVTOCI are recorded at fair value at initial recognition. Subsequent re-measurements in fair value are recorded in other comprehensive income, 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 3.8. Upon derecognition of debt instruments measured at FVTOCI, cumulative fair value movements recognized in OCI are recycled to profit or loss. The Credit Union holds a portfolio of debt instruments which are measured at 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. Equity instruments measured at FVTOCI are recorded at fair value at initial recognition. Subsequent re-measurements of fair value are recorded in OCI. Dividends are recorded directly in profit or loss. Upon derecognition of debt instruments measured at FVTOCI, cumulative fair value movements are not recycled and remain permanently in equity. The Credit Union holds investments in preferred shares which it has elected to designate as FVTOCI.

Classification and measurement of financial assets and financial liabilities

Derivative financial instruments:
Derivative financial instruments are contracts, such as options, swaps, 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 purposes as discussed in note 23. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Assets or liabilities in this category are measured at fair value. Gains or losses are recognized in profit or loss in net gain (loss) on financial instruments, 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 measured 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 in net gain (loss) on financial instruments. 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 forecast 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 gain (loss) on financial instruments. If a forecast 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 affects 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 gain (loss) on financial instruments.

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 derecognized 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 cash received from the security 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. Control is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If the Credit Union retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. When a financial asset is derecognized, a gain or loss is recognized in net income for an amount equal to the difference between the carrying value of the asset and the value of the consideration received, including any new assets and / or liabilities recognized.

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 derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition. 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

Meridian 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 measured at amortized cost. These leases are recorded at the aggregate minimum payments plus residual values accruing to the Credit Union 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 Dividend income

Dividends are recognized on the ex-dividend date, which is the day on which new purchasers of the shares are no longer entitled to the next dividend. Dividends are presented in fees and other income.

3.7 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 measured at FVTPL, transaction costs are immediately recognized in profit or loss on initial recognition.

3.8 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 35.1 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.

3 Summary of significant accounting policies (continued)

3.8 Impairment of financial assets (continued)

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.

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.

3.9 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 business 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 broker and vendor relationships.

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 3.12.

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

3.10 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.

3 Summary of significant accounting policies (continued)

3.10 Property, plant and equipment (continued)

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:

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 3.12.

3.11 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.

Goodwill is subject to impairment review as described in note 3.12.

3.12 Impairment of non-financial assets

Non-financial assets that are subject to amortization or depreciation, and goodwill, 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 OneCap is considered to be the CGU for non-financial assets relating to that business. The recoverable amount of a CGU is determined based on the higher of value in use or fair value less costs to sell.

For broker and vendor relationship intangibles, current assumptions about future lease originations, retention rates and earnings projections of OneCap are used to assess whether future cash flows on leases generated through acquired brokers and vendors are in excess of the carrying value of the intangible asset.

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.

Key assumptions used in the estimation of the recoverable amount include discount rates and growth rates used to extrapolate cash flow projections. The values assigned to the key assumptions represent management's assessment of future trends in the industry and have been based on historical data from both external and internal sources. The cash flow projections include specific estimates for five years and a terminal growth rate thereafter. Given that key assumptions are based on estimates, uncertainty exists with respect to the recoverable amount valuation. Details of the goodwill impairment analysis are included under note 14.

3 Summary of significant accounting policies (continued)

3.12 Impairment of non-financial assets (continued)

As at the balance sheet date, OneCap assesses for impairment triggers that have taken place subsequent to the last impairment test that may indicate that further impairment has occurred.

3.13 Leases

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.

3 Summary of significant accounting policies (continued)

3.13 Leases (continued)

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

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.

3.14 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.

3.15 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.

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 Summary of significant accounting policies (continued)

3.16 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.

Dividends paid by the Credit Union are treated as a reduction to retained earnings but are deductible for tax purposes. As such, these are reflected as a reduction to current tax expense.

3.17 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

Interest Rate Benchmark Reform:

In August 2020, the IASB issued Phase 2 of Interest Rate Benchmark Reform, with amendments to IFRS 9, IAS 39 and IFRS 7. The Phase 2 Amendments address issues that arise upon replacing an existing interest rate benchmark with the alternative benchmark and introduces additional disclosure requirements. The Phase 2 amendments provide two key reliefs:

- If qualifying criteria are met, hedging relationships that are directly impacted by the reform would be able to continue hedge accounting upon transition to the alternative benchmark.

- For modifications to financial instruments resulting from the reform which are transacted on an economically equivalent basis, entities are allowed to reflect the benchmark change prospectively in the effective interest rate rather than as an immediate gain or loss.

4 Changes in accounting policies (continued)

Issued standards now effective (continued)

The Phase 2 amendments became effective for the Credit Union on January 1, 2021. The most common interest rate benchmark in the Canadian market has historically been the Canadian Dollar Offered Rate ("CDOR"). As part of global IBOR reform efforts, Canada has implemented a new index, the Canadian Overnight Repo Rate Average ("CORRA"). It is expected that CORRA will eventually be adopted across a wide range of financial products and with time could become the dominant Canadian interest rate benchmark. For now, however, Canada has adopted a multi-rate approach with both CDOR and CORRA co-existing as interest rate benchmarks. The Credit Union has undertaken an in-depth analysis of its exposure to CDOR and does not expect any of the financial instruments currently linked to this index to change. However, fallback language has been incorporated into some contracts. In time, the Credit Union may see new financial instruments priced using CORRA.

COVID-19 Related Rent Concessions Amendment:

On May 28, 2020 the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way they would if they were not lease modifications, for payments originally due before June 30, 2021 (applicable to reporting periods before this date). As of March 31, 2021, the eligibility period for payments within the scope of this practical expedient was extended to June 30, 2022. This amendment did not have an impact on any of the Credit Union's leases.

Issued standards not yet effective

Definitions and Terminology:

On February 12, 2021, the IASB published an amendment to IAS 1 stating that complete financial statements should include notes comprising "Material Accounting Policy Information", replacing the previous term "Significant Accounting Policy." Material Accounting Policy Information is defined as information, that when considered together with other information in the statements, can be reasonably expected to influence decisions taken by users of the financial statements. This amendment will be effective for periods beginning on or after January 1, 2023.

On February 12, 2021, the IASB published an amendment to IAS 8, defining "accounting estimates" as monetary amounts in financial statements that are subject to measurement uncertainty.

These amendments are effective for periods beginning on or after January 1, 2023 and are not expected to impact the Credit Union.

Income Taxes:

In May 2021, an amendment to IAS 12 was issued regarding Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences, effective for reporting periods beginning on or after January 1, 2023. This amendment is not expected to impact the Credit Union as the exemption is not currently applied.

5 Cash and cash equivalents

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

	2021	2020
Cash on hand	39,404	38,712
Deposits with other financial institutions	1,432,102	626,669
Short-term investments	9,890	919,233
Restricted funds	27,017	28,193
Total cash and cash equivalents	1,508,413	1,612,807

Included in deposits with other financial institutions is $70,559 (2020 – $54,067) 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

	2021	2020
Commodity tax receivables	641	682
Other receivables	14,717	7,999
Total receivables	15,358	8,681
Current	13,693	8,681
Non-current	1,665	-

7 Investments in debt instruments

	2021	2020
Amortized cost:		
Central 1 liquidity reserve deposit	-	445,414
Securities purchased under reverse repurchase agreements	26,265	33,030
Other investments in debt instruments	439,493	1,210,534
Fair value through OCI:		
Debt securities	1,082,152	246,066
All investments in debt instruments	1,547,910	1,935,044

Debt securities

On January 4 2021, the segregation of the mandatory liquidity pool maintained by Central 1 Credit Union was finalized, as per Central 1's requirements. Central 1 liquidity reserve deposits of $1,334,191 held by the Credit Union were settled in exchange for a portfolio of debt instruments which qualify as high-quality liquid assets ("HQLA"). The Credit Union received an amount of HQLA whose fair value was equal to the fair value of the deposits held immediately before the transition date. The new portfolio of securities is measured at FVTOCI. As a result of this transfer, there was a $3,265 gain to the Credit Union recorded in the Consolidated Income Statement. The Credit Union continues to manage this portfolio of HQLA as part of its ongoing liquidity management strategy. These form part of the business model as the portfolio of debt securities described in the following paragraph. Motusbank has an existing portfolio of debt securities which continues to be measured at amortized cost.

7 Investments in debt instruments (continued)

In 2020, the Credit Union began acquiring a portfolio of debt securities with a business model intended to include both collecting contractual cash flows and selling. This portfolio now includes the debt securities received from Central 1 upon the transfer described above. The cash flow characteristics of these debt instruments are SPPI. As such the portfolio is measured as FVTOCI.

Securities purchased under reverse repurchase agreements

The Credit Union sells mortgage-backed securities to Canada Housing Trust ("CHT") as part of the Canada Mortgage Bond ("CMB") program. This program requires financial institutions to maintain a certain balance of eligible securities in their Principal Reinvestment ("PRA") account. The Credit Union purchases eligible assets for this purpose through reverse purchase agreements.

Other investments in debt instruments

The Credit Union held one (2020 – three) interest bearing deposit with one (2020 – 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 thirteen (2020 – fifty-five) interest bearing deposits with nine (2020 – eleven) Canadian financial institutions. In addition, motusbank held four (2020 – nil) Government of Canada T-Bills, zero (2020 – three) Government bonds, one (2020 – nil) Corporate bonds with Canadian corporations, and three (2020 – four) interest bearing deposits with Canadian financial institutions.

8 Investments in equity instruments

	2021	2020
Fair value through profit or loss:		
Central 1 Class A shares	7,092	7,003
Central 1 Class E shares	15,070	15,070
Central 1 Class F shares	-	61,286
Real estate investments	7,500	7,250
Private equity investments	6,830	-
Other shares or units	213	139
Fair value through other comprehensive income:		
Investment in preferred shares	24,640	23,520
Total investments in equity instruments	61,345	114,268

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 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. There is no secondary market for Class E shares. Fair values for certain FVTPL assets are considered to approximate their par value based on the terms of those shares. The Credit Union continues to monitor these shares for any indication that a new measure of fair value is available and any change in the resulting fair value would be recognized in profit or loss.

Central 1 Class F shares related to the Credit Union's participation in Central 1's liquidity reserve deposit program and were redeemed on January 4, 2021 as part of the transition of that portfolio. They were previously carried at fair value.

8 Investments in equity instruments (continued)

Real estate investments
The Credit Union has a portfolio of strategic real estate investments. These are investments in partnership units that qualify as equity investments, and are measured at FVTPL. The Credit Union reviews these investments at least annually to determine whether adjustments to their carrying value are required.

Private equity investments
The Credit Union has a portfolio of investments in private equity funds, which are held for the purpose of revenue enhancement and diversification. These are measured at FVTPL.

Investments in preferred shares
The Credit Union invests in preferred shares issued by Canadian financial institutions as part of its liquidity management strategy. An irrevocable election was made at initial recognition to classify these investments as FVTOCI.

Other shares or units
The Credit Union holds an insignificant number of shares or units in cooperative and other entities.

9 Loans

	2021	2020
Residential mortgages	12,074,882	11,008,984
Personal loans	1,270,548	1,286,797
Commercial loans	6,138,656	5,721,660
	19,484,086	18,017,441
Allowance for impaired loans	(69,340)	(87,002)
Total net loans	19,414,746	17,930,439
Current	4,189,859	4,252,672
Non-current	15,224,887	13,677,767

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.

In light of COVID-19, the Credit Union has also participated in a number of programs designed by the Government of Canada to support businesses impacted by policies restricting economic activity during the pandemic. These include:

The Canada Emergency Business Account ("CEBA") – Under this program, Canadian financial institutions facilitate interest-free loans of up to $60,000 to eligible small business Members as a source of liquidity for immediate operating costs. The loans are funded entirely by the Government of Canada, with the Credit Union retaining no credit risk. As such, these loans are not recognized on the Credit Union's consolidated balance sheet. Outstanding loans advanced under this program amounted to $202,544 at year end (2020 - $144,225).

BDC Co-Lending Program – Under this program the Business Development Bank of Canada ("BDC") partners with Canadian financial institutions in jointly providing loans, which are funded based on an 80/20 split, respectively, to eligible business Members to meet their operational and liquidity needs. All risks and rewards of such loans are shared between BDC and the Credit Union based on the proportional stake of each. As such, the Credit Union recognizes only its 20% share in each loan. Outstanding loans advanced under this program amounted to $30,117 at year end (2020 - $12,887).

BDC Highly Affected Sectors Credit Availability Program ("HASCAP") Guarantee – Under this program, the Business Development Bank of Canada ("BDC") partners with Canadian financial institutions in issuing loans to eligible borrowers who have seen at least a 50% decline in business as a result of COVID-19. Loans issued through this program must meet eligibility and adjudication criteria that are integral to the underwriting process, and if such loans experienced a default event, the principal amounts would be guaranteed by BDC. The Credit Union recognizes these loans on the consolidated balance sheet and recognizes anticipated guarantee payments as reductions of Expected Credit Loss ("ECL"). Outstanding loans advanced under this program amounted to $31,242 at year end (2020 - $nil).

9 Loans (continued)

EDC Business Credit Availability Program ("BCAP") - Under this program, Export Development Canada ("EDC") provides guarantees of up to $6.25 million on loans advanced by the Credit Union to businesses, allowing them to access working capital to cover operational costs as a result of the COVID-19 pandemic. Outstanding loans advanced under this program amounted to $469 at year end (2020 - $500).

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, 2021	54	293	698	1,045
Transfers:				
Transfer from Stage 1 to Stage 2	(6)	35	-	29
Transfer from Stage 2 to Stage 1	4	(46)	-	(42)
New originations	25	39	-	64
Derecognized loans	(8)	(83)	-	(91)
Changes within each stage	(3)	(20)	1,316	1,293
Changes to macro-economic and other qualitative adjustments	(2)	(12)	-	(14)
Write-offs	-	-	(1,000)	(1,000)
Balance as at December 31, 2021	64	206	1,014	1,284
Movement in loss allowance	10	(87)	316	239
Recoveries	-	-	(29)	(29)
Write-offs	-	-	1,000	1,000
P&L charge for the period	10	(87)	1,287	1,210

9 Loans (continued)

Personal Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2021	1,996	9,700	1,138	12,834
Transfers:				
Transfer from Stage 1 to Stage 2	(195)	1,933	-	1,738
Transfer from Stage 1 to Stage 3	(8)	-	562	554
Transfer from Stage 2 to Stage 1	129	(1,620)	-	(1,491)
Transfer from Stage 2 to Stage 3	-	(318)	1,442	1,124
Transfer from Stage 3 to Stage 2	-	12	(68)	(56)
Transfer from Stage 3 to Stage 1	-	-	(25)	(25)
New originations	214	1,080	124	1,418
Derecognized loans	(160)	(1,128)	(77)	(1,365)
Changes within each stage	(110)	(619)	142	(587)
Changes to macro-economic and other qualitative adjustments	(160)	(123)	-	(283)
Write-offs	-	-	(2,125)	(2,125)
Balance as at December 31, 2021	1,706	8,917	1,113	11,736
Movement in loss allowance	(290)	(783)	(25)	(1,098)
Recoveries	-	-	(494)	(494)
Write-offs	-	-	2,125	2,125
P&L charge for the period	(290)	(783)	1,606	533

Commercial Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2021	9,819	40,811	22,493	73,123
Transfers:				
Transfer from Stage 1 to Stage 2	(712)	1,798	-	1,086
Transfer from Stage 1 to Stage 3	(1)	-	25	24
Transfer from Stage 2 to Stage 1	1,107	(3,576)	-	(2,469)
Transfer from Stage 2 to Stage 3	-	(1,533)	1,643	110
Transfer from Stage 3 to Stage 1	1	-	(20)	(19)
New originations	5,479	5,419	156	11,054
Derecognized loans	(2,524)	(8,393)	(8,898)	(19,815)
Changes within each stage	(809)	4,777	605	4,573
Changes to macro-economic and other qualitative adjustments	(1,630)	(6,123)	-	(7,753)
Write-offs	-	-	(3,594)	(3,594)
Balance as at December 31, 2021	10,730	33,180	12,410	56,320
Movement in loss allowance	911	(7,631)	(10,083)	(16,803)
Recoveries	-	-	(43)	(43)
Write-offs	-	-	3,594	3,594
P&L charge for the period	911	(7,631)	(6,532)	(13,252)

9 Loans (continued)

Residential Mortgages	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2020	118	459	430	1,007
Transfers:				
Transfer from Stage 1 to Stage 2	(27)	100	-	73
Transfer from Stage 2 to Stage 1	3	(107)	-	(104)
Transfer from Stage 2 to Stage 3	-	(2)	-	(2)
New originations	12	57	-	69
Derecognized loans	(21)	(90)	-	(111)
Changes within each stage	(40)	(75)	272	157
Changes to macro-economic and other qualitative adjustments	9	(49)	-	(40)
Write-offs	-	-	(4)	(4)
Balance as at December 31, 2020	54	293	698	1,045
Movement in loss allowance	(64)	(166)	268	38
Recoveries	-	-	(10)	(10)
Write-offs	-	-	4	4
P&L charge for the period	(64)	(166)	262	32

Personal Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2020	1,643	8,425	1,510	11,578
Transfers:				
Transfer from Stage 1 to Stage 2	(207)	2,278	-	2,071
Transfer from Stage 1 to Stage 3	(22)	-	821	799
Transfer from Stage 2 to Stage 1	124	(1,532)	-	(1,408)
Transfer from Stage 2 to Stage 3	-	(349)	1,714	1,365
Transfer from Stage 3 to Stage 2	-	16	(111)	(95)
Transfer from Stage 3 to Stage 1	-	-	(41)	(41)
New originations	415	2,273	466	3,154
Derecognized loans	(453)	(1,762)	(182)	(2,397)
Changes within each stage	(171)	39	(20)	(152)
Changes to macro-economic and other qualitative adjustments	667	312	-	979
Write-offs	-	-	(3,019)	(3,019)
Balance as at December 31, 2020	1,996	9,700	1,138	12,834
Movement in loss allowance	353	1,275	(372)	1,256
Recoveries	-	-	(545)	(545)
Write-offs	-	-	3,019	3,019
P&L charge for the period	353	1,275	2,102	3,730

9 Loans (continued)

Commercial Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2020	13,034	6,902	6,185	26,121
Transfers:				
Transfer from Stage 1 to Stage 2	(3,463)	20,847	-	17,384
Transfer from Stage 1 to Stage 3	(9)	-	1,660	1,651
Transfer from Stage 2 to Stage 1	353	(868)	-	(515)
Transfer from Stage 2 to Stage 3	-	(238)	8,121	7,883
Transfer from Stage 3 to Stage 2	-	4	(625)	(621)
New originations	2,212	7,653	21	9,886
Derecognized loans	(2,410)	(1,441)	(1,739)	(5,590)
Changes within each stage	(878)	1,030	9,175	9,327
Changes to macro-economic and other qualitative adjustments	980	6,922	-	7,902
Write-offs	-	-	(305)	(305)
Balance as at December 31, 2020	9,819	40,811	22,493	73,123
Movement in loss allowance	(3,215)	33,909	16,308	47,002
Recoveries	-	-	(17)	(17)
Write-offs	-	-	305	305
P&L charge for the period	(3,215)	33,909	16,596	47,290

Although all loans are originated in stage 1 (except those originated as credit impaired), to the extent that loans were originated in the year and were subsequently moved to another stage, they will show on the new originations line in the stage in which they ended the year. To the extent that COVID-19 related adjustments to ECL as described in note 35.1 were calculated at product level, they have been presented in the main body of the tables above and not on the other qualitative adjustments line.

There was a 10% increase in the gross carrying value of residential mortgages over the period (2020 - 5% increase); however growth did not contribute to an overall increase in the allowance as loans derecognized had higher ECLs than new originations. The write-off of residential mortgages with a gross carrying value of $1,000 resulted in a reduction in the loss allowance by the same amount (2020 nil). There was a 1% decrease in the gross carrying value of personal loans over the period (2020 - 7% decrease); however, new originations contributed $53 ECL in excess of the impact of loans derecognized (2020 - $757 increase). The write-off of personal loans with a gross carrying value of $2,125 resulted in a reduction in the loss allowance by the same amount (2020 - $3,019 reduction). There was a 7% increase in the gross carrying value of commercial loans over the period (2020 - 4% increase). However, this did not contribute to an overall increase in the allowance as loans derecognized had higher ECLs than new originations. The write-off of commercial loans with a gross carrying value of $3,594 resulted in a reduction in the loss allowance by the same amount (2020 - $305 reduction).

	Residential mortgages	Personal loans	Commercial loans	Total
Gross impaired loans	5,212	2,854	87,169	95,235
Related security, net of expected costs	(4,198)	(1,741)	(74,759)	(80,698)
Balance as at December 31, 2021	1,014	1,113	12,410	14,537
Interest income recognized on impaired loans				5,708

9 Loans (continued)

	Residential mortgages	Personal loans	Commercial loans	Total
Gross impaired loans	8,608	3,868	96,220	108,696
Related security, net of expected costs	(7,910)	(2,730)	(73,727)	(84,367)
Balance as at December 31, 2020	698	1,138	22,493	24,329
Interest income recognized on impaired loans				5,095

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	81,032	28,346	-	109,378
A+	6,273,452	1,135,785	-	7,409,237
A	2,119,374	665,296	-	2,784,670
B	749,543	318,745	-	1,068,288
C	323,750	169,438	-	493,188
D	101,480	62,515	-	163,995
E	20,446	20,468	-	40,914
Defaulted	-	-	5,212	5,212
Gross carrying amount	9,669,077	2,400,593	5,212	12,074,882
Loss allowance	64	206	1,014	1,284
Carrying amount as at December 31, 2021	9,669,013	2,400,387	4,198	12,073,598

Personal Loans	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Credit grade				
Unrated	50,596	32,144	-	82,740
A+	608,896	137,699	-	746,595
A	203,240	71,088	-	274,328
B	60,540	28,541	-	89,081
C	23,342	34,074	-	57,416
D	5,049	7,679	-	12,728
E	2,868	1,938	-	4,806
Defaulted	-	-	2,854	2,854
Gross carrying amount	954,531	313,163	2,854	1,270,548
Loss allowance	1,706	8,917	1,113	11,736
Carrying amount as at December 31, 2021	952,825	304,246	1,741	1,258,812

9 Loans (continued)

Commercial Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	846	416	-	1,262
Very low	1,055	-	-	1,055
Low	20,252	186	-	20,438
Better	961,256	53,579	-	1,014,835
Average	1,940,304	268,587	-	2,208,891
Higher	1,341,457	1,279,765	-	2,621,222
Watch List	110	118,650	-	118,760
Distressed	68	64,956	-	65,024
Defaulted	-	-	87,169	87,169
Gross carrying amount	4,265,348	1,786,139	87,169	6,138,656
Loss allowance	10,730	33,180	12,410	56,320
Carrying amount as at December 31, 2021	4,254,618	1,752,959	74,759	6,082,336

Retail Mortgages	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	100,775	40,462	-	141,237
A+	5,386,054	1,005,870	-	6,391,924
A	1,964,488	704,598	-	2,669,086
B	679,897	411,036	-	1,090,933
C	287,017	206,914	-	493,931
D	75,071	86,443	-	161,514
E	22,331	29,420	-	51,751
Defaulted	-	-	8,608	8,608
Gross carrying amount	8,515,633	2,484,743	8,608	11,008,984
Loss allowance	54	293	698	1,045
Carrying amount as at December 31, 2020	8,515,579	2,484,450	7,910	11,007,939

9 Loans (continued)

Personal Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	48,666	13,560	-	62,226
A+	648,732	81,785	-	730,517
A	241,460	64,944	-	306,404
B	90,728	29,886	-	120,614
C	28,473	14,404	-	42,877
D	5,000	10,197	-	15,197
E	2,771	2,323	-	5,094
Defaulted	-	-	3,868	3,868
Gross carrying amount	1,065,830	217,099	3,868	1,286,797
Loss allowance	1,996	9,700	1,138	12,834
Carrying amount as at December 31, 2020	1,063,834	207,399	2,730	1,273,963

Commercial Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	3,360	370	-	3,730
Very low	658	87	-	745
Low	26,703	1,889	-	28,592
Better	930,674	245,227	-	1,175,901
Average	1,686,571	756,152	-	2,442,723
Higher	562,346	1,290,782	-	1,853,128
Watch List	85	101,194	-	101,279
Distressed	76	19,266	-	19,342
Defaulted	-	-	96,220	96,220
Gross carrying amount	3,210,473	2,414,967	96,220	5,721,660
Loss allowance	9,819	40,811	22,493	73,123
Carrying amount as at December 31, 2020	3,200,654	2,374,156	73,727	5,648,537

9 Loans (continued)

Loans past due but not impaired

	< 30 days	30-59 days	60-89 days
Retail	128,738	15,594	2,425
Commercial	59,537	117	-
Total as at December 31, 2021	188,275	15,711	2,425

	< 30 days	30-59 days	60-89 days
Retail	140,522	11,932	2,402
Commercial	65,489	43,448	73
Total as at December 31, 2020	206,011	55,380	2,475

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.

	2021	2020
Fair value of collateral held on assets either past due >30 days or impaired	137,694	185,667

10 Finance receivables

	2021	2020
Gross investment in finance leases	1,205,282	1,103,210
Unearned revenue	(102,742)	(95,227)
Unguaranteed residual values on finance leases	383	683
Net investment in finance receivables	1,102,923	1,008,666
Retail and dealer loans	128,745	108,531
Unamortized deferred costs and subsidies	7,950	6,430
Security deposits	(18,324)	(15,491)
Allowance for credit losses	(18,040)	(28,526)
Total finance receivables	1,203,254	1,079,610

10 Finance receivables (continued)

Contractual maturities of finance leases, 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	82,418	14,490	96,908
1 to 3 years	415,089	52,508	467,597
3 to 5 years	524,795	53,578	578,373
Over 5 years	80,621	8,169	88,790
Balance as at December 31, 2021	1,102,923	128,745	1,231,668

	Finance leases	Retail and dealer loans	Total
0 to 12 months	70,146	12,409	82,555
1 to 3 years	431,626	49,955	481,581
3 to 5 years	454,064	44,062	498,126
Over 5 years	52,830	2,105	54,935
Balance as at December 31, 2020	1,008,666	108,531	1,117,197

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	-	-	-
30-59 days	2,197	139	2,336
60-89 days	324	-	324
Past due but not impaired as at December 31, 2021	2,521	139	2,660

As at December 31, 2021 the value of finance receivables for customers who participated in COVID-19 abatement programs is $83,146 (2020 - $159,088). Of the amount, $82,914 (2020 - $154,460) relates to customers who have made payments as agreed under the program and are classified as current. A total of $179 (2020 - $4,554) relates to customers who have missed a scheduled payment and are included in the past due amounts above, and $53 (2020 - $74) relates to accounts that are now impaired. No finance receivables were added to the abatement programs in 2021.

10 Finance receivables (continued)

	Finance leases	Retail and dealer loans	Total
< 30 days	182	1	183
30-59 days	1,973	73	2,046
60-89 days	2,966	266	3,232
Past due but not impaired as at December 31, 2020	5,121	340	5,461

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, 2021			
Balance as at January 1, 2021	3,862	24,664	28,526
Finance receivables written off	(3,795)	-	(3,795)
Recoveries on finance receivables previously written off	1,647	-	1,647
Provision for credit losses, net of recoveries	468	(8,806)	(8,338)
Balance as at December 31, 2021	2,182	15,858	18,040

	Stage 3 allowance	Stage 1 & 2 allowance	Total allowance
Year ended December 31, 2020			
Balance as at January 1, 2020	4,378	10,667	15,045
Finance receivables written off	(10,403)	-	(10,403)
Recoveries on finance receivables previously written off	1,144	-	1,144
Provision for credit losses, net of recoveries	8,743	13,997	22,740
Balance as at December 31, 2020	3,862	24,664	28,526

10 Finance receivables (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 on finance receivables:

Finance receivables	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2021	6,664	18,000	3,862	28,526
Transfers:				
Transfer from Stage 1 to Stage 2	(439)	705	-	266
Transfer from Stage 1 to Stage 3	(19)	-	649	630
Transfer from Stage 2 to Stage 1	1,208	(10,545)	-	(9,337)
Transfer from Stage 2 to Stage 3	-	(272)	2,634	2,362
Transfer from Stage 3 to Stage 2	-	108	(999)	(891)
New originations	3,173	817	564	4,554
Finance receivables paid out	(457)	(2,320)	(752)	(3,529)
Changes within each Stage	(3,512)	(2,030)	19	(5,523)
Macro-economic adjustments	837	3,940	-	4,777
Write-offs	-	-	(3,795)	(3,795)
Balance as at December 31, 2021	7,455	8,403	2,182	18,040

Finance receivables	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2020	9,233	1,434	4,378	15,045
Transfers:				
Transfer from Stage 1 to Stage 2	(4,849)	13,146	-	8,297
Transfer from Stage 1 to Stage 3	(170)	-	7,502	7,332
Transfer from Stage 2 to Stage 1	14	(47)	-	(33)
Transfer from Stage 2 to Stage 3	-	(88)	1,723	1,635
Transfer from Stage 3 to Stage 2	-	9	(463)	(454)
Transfer from Stage 3 to Stage 1	-	-	(1)	(1)
New originations	3,184	6,564	317	10,065
Finance receivables paid out	(633)	(83)	(250)	(966)
Changes within each Stage	(127)	(159)	1,059	773
Macro-economic adjustments	12	(2,776)	-	(2,764)
Write-offs	-	-	(10,403)	(10,403)
Balance as at December 31, 2020	6,664	18,000	3,862	28,526

Although all finance receivables are originated in stage 1 (except those originated as credit impaired), to the extent that finance receivables were originated in the year and were subsequently moved to another stage, they will show on the new originations line in the stage in which they ended the year. To the extent that COVID-19 related adjustments to ECL as described in note 35.1 were calculated at product level, they have been presented in the main body of the tables above and not on the other qualitative adjustments line.

The gross carrying value of finance receivables increased by 1% during the year (2020 - 1% decrease). The loss allowance decreased by $10,487 (2020 - $13,481 increase) or 37% (2020 - 90%). The write-off of finance receivables with a gross carrying value of $3,795 (2020 - $10,403) generated a reduction in the loss allowance by the same amount. Further details on the measurement of ECL are included in note 35.1.

10 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	1,052,221	176,124	-	1,228,345
Default	-	-	3,323	3,323
Gross carrying amount	1,052,221	176,124	3,323	1,231,668
Loss allowance	(7,455)	(8,403)	(2,182)	(18,040)
Carrying amount at December 31, 2021	1,044,766	167,721	1,141	1,213,628

	Finance receivables			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	456,998	651,170	-	1,108,168
Default	-	-	9,029	9,029
Gross carrying amount	456,998	651,170	9,029	1,117,197
Loss allowance	(6,664)	(18,000)	(3,862)	(28,526)
Carrying amount at December 31, 2020	450,334	633,170	5,167	1,088,671

11 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, 2021						
Foreign exchange derivatives:						
Forward contracts	607	-	-	607	2	(1)
Equity index-linked options:						
Purchased equity options	65,104	138,654	-	203,758	31,011	-
Interest rate derivatives:						
Designated cash flow hedges	125,000	811,722	450,542	1,387,264	8,062	(5,755)
Economic hedges	-	302,900	4,100	307,000	8,583	(6)
Total derivative contracts as at December 31, 2021	190,711	1,253,276	454,642	1,898,629	47,658	(5,762)

	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, 2020						
Foreign exchange derivatives:						
Forward contracts	835	-	-	835	33	(28)
Equity index-linked options:						
Purchased equity options	53,370	121,384	-	174,754	13,860	-
Interest rate derivatives:						
Designated cash flow hedges	407,000	648,091	806,083	1,861,174	1,002	(34,649)
Economic hedges	-	504,009	4,100	508,109	55	(13,957)
Total derivative contracts as at December 31, 2020	461,205	1,273,484	810,183	2,544,872	14,950	(48,634)

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 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 counterparties 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. Gains/losses on foreign exchange forward contracts are included in non-interest income.

11 Derivative financial instruments (continued)

Equity index-linked derivatives and options
The Credit Union has $203,758 (2020 - $171,324) 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 $31,010 as at December 31, 2021 (2020 - $13,860). The fair value of the embedded written option in the equity index-linked term deposit products amounted to $30,360 as at December 31, 2021 (2020 – $13,500) 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 and motusbank utilize interest rate swaps to maintain interest rate exposure within the preset limits defined by the Board of Directors' (the "Board") approved policy. 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.

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.

Previously, the Credit Union also designated certain hedging relationships involving interest rate swaps to convert fixed rate loans into variable rate loans as fair value hedges. All previous fair value hedge relationships have now been discontinued. The remaining hedge accounting adjustments recognized relating to fair value hedges are $(306) (2020 – $(1,039)).

Interest rate swap agreements (including forward interest rate swaps) are valued by netting discounted variable and fixed cash flows with a credit adjustment. Variable cash flows are calculated using implied interest rates as determined by current Canadian Dealer Offered Rate ("CDOR") or Canadian Dollar Overnight Indexed Swap ("CAD OIS") rates, and term relationships. Fixed cash flows are calculated based on the rates stated in the agreements. These 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, 2021, the fixed interest rates on the Credit Union's interest rate swaps is between 0.6% and 2.8% (2020 – 0.7% and 2.9%). The fixed interest rate on OneCap's interest rate swaps is between 0.7% and 2.7% (2020 – 0.7% and 2.7%). The fixed interest rate on motusbank's interest rate swaps is between 0.7% and 0.9% (2020 - 0.2% and 0.9%).

Bond forward contracts
As part of its interest rate risk management process, the Credit Union and OneCap utilize bond forwards to maintain their interest rate exposure on forecast 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.

11 Derivative financial instruments (continued)

The following tables present the effects of derivatives in hedging relationships on the consolidated statements of income and the consolidated statements of comprehensive income:

Year ended December 31, 2021	Change in fair value of the hedged item for ineffectiveness measurement	Change in fair value of the hedging instrument for ineffectiveness measurement	Hedge ineffectiveness gain (loss)	Hedging gain (loss) recognized in OCI (before tax)	Amount reclassified from AOCI to net income (pre-tax basis)	Effect on OCI (before tax)
Cash flow hedges						
Interest rate risk						
Loans	1,238	(1,286)	(48)	(1,238)	(30)	(1,268)
Deposits	(6,070)	6,079	9	6,070	-	6,070
Borrowings	(10,621)	10,819	198	10,621	-	10,621
Mortgage securitization liabilities	(2,368)	2,554	186	2,368	1,893	4,261
Secured borrowings	(16,194)	16,323	129	16,194	(1,198)	14,996
Subordinated liabilities	(2,055)	2,573	518	2,055	637	2,692
Total cash flow hedges	(36,070)	37,062	992	36,070	1,302	37,372

Year ended December 31, 2020	Change in fair value of the hedged item for ineffectiveness measurement	Change in fair value of the hedging instrument for ineffectiveness measurement	Hedge ineffectiveness gain (loss)	Hedging gain (loss) recognized in OCI (before tax)	Amount reclassified from AOCI to net income (pre-tax basis)	Effect on OCI (before tax)
Cash flow hedges						
Interest rate risk						
Loans	(2,421)	2,468	47	2,421	(23)	2,398
Deposits	5,695	(5,733)	(38)	(5,695)	-	(5,695)
Borrowings	15,947	(16,579)	(632)	(15,947)	-	(15,947)
Mortgage securitization liabilities	17,267	(17,267)	-	(17,267)	1,213	(16,054)
Secured borrowings	15,753	(16,206)	(453)	(15,753)	(2,901)	(18,654)
Subordinated liabilities	6,235	(6,235)	-	(6,235)	518	(5,717)
Total cash flow hedges	58,476	(59,552)	(1,076)	(58,476)	(1,193)	(59,669)

11 Derivative financial instruments (continued)

The following tables provides a reconciliation of AOCI related to cash flow hedges (before tax):

Year ended December 31, 2021	Opening AOCI	Other comprehensive income (loss)	Closing AOCI	AOCI on designated hedges	AOCI on de-designated hedges
Cash flow hedges					
Interest rate risk					
Loans	1,314	(1,268)	46	41	5
Deposits	(5,164)	6,070	906	906	-
Borrowings	(8,675)	10,621	1,946	1,947	-
Mortgage securitization liabilities	(11,084)	4,261	(6,823)	-	(6,824)
Secured borrowings	(13,116)	14,996	1,880	1,864	15
Subordinated liabilities	(5,421)	2,692	(2,729)	(286)	(2,443)
Total cash flow hedges	(42,146)	37,372	(4,774)	4,472	(9,247)

Year ended December 31, 2020	Opening AOCI	Other comprehensive income (loss)	Closing AOCI	AOCI on designated hedges	AOCI on de-designated hedges
Cash flow hedges					
Interest rate risk					
Loans	(1,084)	2,398	1,314	967	347
Deposits	531	(5,695)	(5,164)	(5,164)	-
Borrowings	7,272	(15,947)	(8,675)	(8,675)	-
Mortgage securitization liabilities	4,970	(16,054)	(11,084)	-	(11,084)
Secured borrowings	5,538	(18,654)	(13,116)	(14,427)	1,311
Subordinated liabilities	296	(5,717)	(5,421)	(2,341)	(3,080)
Total cash flow hedges	17,523	(59,669)	(42,146)	(29,640)	(12,506)

12 Investment in joint venture

The Credit Union participates in DriveON, a joint venture incorporated in Ontario with a fiscal year ending December 31. DriveON provides automobile dealer finance in the Province of Ontario. The Credit Union's ownership is 50%. The investment is structured as a separate legal entity and provides the Credit Union and the other party to the arrangement with the rights to the net assets of the limited company under the arrangement. The activities of the joint venture are not considered strategic to the Credit Union. The investment meets the requirements for being classified as a joint venture and is accounted for using the equity method as of December 31.

13 Intangible assets

	Broker and vendor relationships	Software	Other	Total
Year ended December 31, 2021				
As at January 1, 2021, net carrying value	23,285	2,551	586	26,422
Additions	-	2,739	-	2,739
Amortization	(4,058)	(1,208)	(298)	(5,564)
As at December 31, 2021, net carrying value	19,227	4,082	288	23,597
As at December 31, 2021				
Cost	51,300	21,788	1,312	74,400
Accumulated amortization	(32,073)	(17,706)	(1,024)	(50,803)
Net carrying value	19,227	4,082	288	23,597

	Broker and vendor relationships	Software	Other	Total
Year ended December 31, 2020				
As at January 1, 2020, net carrying value	28,298	2,568	883	31,749
Additions	-	1,250	-	1,250
Amortization	(5,013)	(1,248)	(297)	(6,558)
Disposals	-	(19)	-	(19)
As at December 31, 2020, net carrying value	23,285	2,551	586	26,422
As at December 31, 2020				
Cost	51,300	19,158	1,312	71,770
Accumulated amortization	(28,015)	(16,607)	(726)	(45,348)
Net carrying value	23,285	2,551	586	26,422

14 Goodwill

	2021	2020
Balance at the beginning and end of the period	73,232	73,232

Goodwill arose in OneCap when the business was acquired. There have been no fundamental changes to the core business since acquisition, and as such, the business as a whole is regarded as the CGU for impairment testing purposes.

Annual goodwill impairment testing is performed at September 30. Management has assessed OneCap for impairment triggers at December 31, 2021 and noted that no events have taken place subsequent to the last impairment test that indicate that impairment has occurred.

The recoverable amount of the CGU has been determined based on a discounted value in use ("VIU") calculation which uses cash flow projections based on financial forecasts approved by the Board of Directors covering a five-year period. Financial forecasts incorporate actual historical performance updated to reflect current market trends and strategic decisions and goals as set by management. The discount rate is based on the rate of 10-year government bonds, adjusted for a risk premium to reflect both the increased risk of investing in equities in general and the systematic risk of the specific CGU.

Cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate. The terminal growth rate was determined based on management's estimate of the long-term compound annual growth in cash flows, consistent with the assumptions that a market participant would make.

Impairment analysis for 2021

Although the impacts of COVID-19 have resulted in a high level of economic uncertainty which makes it difficult to forecast future cash flows, the OneCap business has seen steady and positive growth over 2021. As a result, for 2021 impairment testing, management has prepared financial forecasts under two scenarios, and weighted these scenarios based on expected probability of occurrence. These scenarios and the respective weightings are as follows:

- Plan (65%) - After a strong recovery in 2021 with origination volumes increasing by 50% over 2020 levels, the plan scenario reflects more normalized annual growth rates, averaging 6% in each of the next five years. It assumes continued economic recovery with no recurrence of extreme pandemic measures. This scenario reflects management's best estimate of future results from which 2022 incentive programs will be based, and as such, has been weighted more heavily than the downside scenario.
- Downside (35%) – Assumes slower growth rates than reflected in the Target Scenario, averaging 3% annually. It also incorporates higher loss rates over the Plan period, allowing for a potential delay in realization of the negative impacts of COVID 19 for some customers as government support programs run off. Given the strong growth experienced in 2021, this scenario is considered very conservative and therefore has been assigned a lower weighting.

The number of scenarios used in the analysis was decreased to two (2020 – four) due to greater certainty over financial projections as the impact of COVID-19 has tapered. The recoverable amount was then determined by taking the weighted average of VIU of the two scenarios.

As noted above, the discount rate incorporates a risk premium reflecting both equity premiums in the general market as well as entity specific risk. Significant judgment is used to determine the discount rate. Analysis indicates that an appropriate discount rate would be in the range of 7.8% to 12.8%. The mid-point of this range was used for the impairment test.

Key assumptions and the resulting VIU for each scenario are as follows:

	Undiscounted forecast cash flows for October 1, 2021 to September 30, 2026				
	Operating cash flows	Capital investment	Terminal growth rate	Discount rate	Value in use
Plan	143,100	(114,200)	2 %	10.3 %	226,493
Downside	137,762	(108,006)	2 %	10.3 %	202,158

14 Goodwill (continued)

The recoverable amount of the CGU was $217,976 which exceeded the carrying amount of $192,714 by $25,261. As such, no impairment has been recorded. The recoverable amount used for 2020 impairment testing, as discussed below, was $183,069. The increase year-over-year is due to a strong recovery in 2021 and a return to normalized annual growth rates and origination volumes.

Sensitivity analysis

The estimation of VIU involves significant judgment in the determination of inputs to the discounted cash flow model and is most sensitive to changes in future cash flows, discount rates and terminal growth rates applied to cash flows beyond the forecast period. The sensitivity of the VIU to key inputs and assumptions used was tested by recalculating the recoverable amount using reasonably possible changes to those parameters. Additionally, the weighted average VIU is sensitive to changes in scenario weightings. Management has conducted an analysis of the sensitivity of the impairment test to reasonably plausible changes in the key assumptions used to determine the recoverable amount for the CGU. The following table summarizes the impact that these changes in these key assumptions have on the recoverable amount and the excess of recoverable amount over carrying value or the resulting impairment.

	Change to carrying value	Excess / (impairment)
Net cash flows		
Decrease in 10% in monthly net cash flows	(22,167)	3,095
Increase of 4% in monthly net cash flows	21,346	46,608
Terminal growth rate		
Decrease of 0.5%	(3,733)	21,529
Increase of 0.5%	4,122	29,383
Discount rate (1)		
Decrease by 2.5% to 7.8%	116,777	142,038
Increase by 2.5% to 12.8%	(60,712)	(35,450)
Increase by 1.0% to 11.3%	(28,459)	(3,198)
Scenario weighting		
-10% Plan, +10% Downside	(2,434)	22,828
+10% Plan, -10% Downside	2,434	27,695

(1) Sensitivity to the upper and lower limits of the discount rate range assumptions were tested, as well as sensitivity to a 1% increase in the discount rate.

Impairment analysis for 2020

Key assumptions and the resulting recoverable amount for the 2020 impairment test were as follows:

	Undiscounted forecast cash flows for October 1, 2020 to September 30, 2025				
	Operating cash flows	Capital investment	Terminal growth rate	Discount rate	Value in use
Optimistic Scenario	140,170	(121,138)	2 %	10 %	221,718
Projected Longer Term Growth Scenario	131,455	(114,142)	2 %	10 %	203,059
Moderate Longer Term Growth Scenario	112,024	(96,025)	2 %	10 %	143,996
Adverse scenario	95,710	(75,237)	2 %	10 %	120,324

The recoverable amount of the CGU as of September 30, 2020 was $183,069, which exceeded the carrying amount of $173,920 by $9,150.

15 Property, plant and equipment

	Land	Building and improvements	Furniture and office equipment	Computer hardware and software	Leasehold improvements	Total
Year ended December 31, 2021						
As at January 1, 2021, net carrying value	2,337	6,701	7,943	5,037	13,431	35,449
Additions	-	330	1,455	1,655	684	4,124
Disposals	-	-	(9)	(4)	(1)	(14)
Depreciation	-	(924)	(2,508)	(2,839)	(2,535)	(8,806)
As at December 31, 2021, net carrying value	2,337	6,107	6,881	3,849	11,579	30,753
As at December 31, 2021						
Cost	2,337	24,720	37,388	46,094	40,544	151,083
Accumulated depreciation	-	(18,613)	(30,507)	(42,245)	(28,965)	(120,330)
Net carrying value	2,337	6,107	6,881	3,849	11,579	30,753

	Land	Building and improvements	Furniture and office equipment	Computer hardware and software	Leasehold improvements	Total
Year ended December 31, 2020						
As at January 1, 2020, net carrying value	2,337	7,433	11,132	7,111	15,681	43,694
Additions	-	322	641	1,216	457	2,636
Disposals	-	-	(511)	(38)	(28)	(577)
Depreciation	-	(1,054)	(3,319)	(3,252)	(2,679)	(10,304)
As at December 31, 2020, net carrying value	2,337	6,701	7,943	5,037	13,431	35,449
As at December 31, 2020						
Cost	2,337	24,397	37,020	45,433	39,890	149,077
Accumulated depreciation	-	(17,696)	(29,077)	(40,396)	(26,459)	(113,628)
Net carrying value	2,337	6,701	7,943	5,037	13,431	35,449

16 Deferred income taxes

	2021	2020
Deferred income tax		
Deferred tax assets	79,407	93,362
Deferred tax liabilities	26,215	25,805
Net deferred income tax assets	53,192	67,557

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

		Recognized in		
	January 1, 2021	Profit or loss	OCI	December 31, 2021
Non-capital losses available for carry-forward	3,560	1,710	-	5,270
Allowance for impaired loans and leases	19,999	(4,726)	-	15,273
Employee future benefits	2,989	(757)	(252)	1,980
Other accrued expenses	1,945	131	-	2,076
Property, plant and equipment	2,342	129	-	2,471
Intangible assets arising from acquisition	(3,100)	(128)	-	(3,228)
Right-of-use assets	(12,731)	840	-	(11,891)
Deferred expenses	(4,874)	2,377	-	(2,497)
Finance receivables	36,497	(1,318)	-	35,179
Financial instruments adjustments	658	(3,614)	-	(2,956)
Deferred loan fees	2,686	295	-	2,981
Mortgage securitization fees	(4,964)	181	-	(4,783)
Right of use lease obligation	13,314	(723)	-	12,591
Cash flow hedges	9,236	(372)	(8,138)	726
Total	67,557	(5,975)	(8,390)	53,192

16 Deferred income taxes (continued)

		Recognized in		
	January 1, 2020	Profit or loss	OCI	December 31, 2020
Non-capital losses available for carry-forward	2,344	1,216	-	3,560
Allowance for impaired loans and leases	10,241	9,758	-	19,999
Employee future benefits	3,196	(355)	148	2,989
Other accrued expenses	1,825	120	-	1,945
Property, plant and equipment	2,849	(507)	-	2,342
Intangible assets arising from acquisition	(3,136)	36	-	(3,100)
Right-of-use assets	(15,650)	2,919	-	(12,731)
Deferred expenses	(5,085)	211	-	(4,874)
Finance receivables	36,385	112	-	36,497
Financial instruments adjustments	2,353	(1,695)	-	658
Deferred loan fees	3,057	(371)	-	2,686
Mortgage securitization fees	(3,396)	(1,568)	-	(4,964)
Right of use lease obligation	16,056	(2,742)	-	13,314
Cash flow hedges	(2,711)	(511)	12,458	9,236
Other	379	(379)	-	-
Total	48,707	6,244	12,606	67,557

17 Leased assets and liabilities

Leased assets	Property	Equipment	Total
Year ended December 31, 2021			
As at January 1, 2021, net carrying value	67,025	-	67,025
Additions	3,726	-	3,726
Amortization	(8,100)	-	(8,100)
As at December 31, 2021, net carrying value	62,651	-	62,651
As at December 31, 2021			
Cost	86,561	38	86,599
Accumulated amortization	(23,910)	(38)	(23,948)
Net carrying value	62,651	-	62,651

Leased assets	Property	Equipment	Total
Year ended December 31, 2020			
As at January 1, 2020, net carrying value	82,031	2	82,033
Remeasurements	(6,672)	-	(6,672)
Amortization	(8,334)	(2)	(8,336)
As at December 31, 2020, net carrying value	67,025	-	67,025
As at December 31, 2020			
Cost	83,548	38	83,586
Accumulated amortization	(16,523)	(38)	(16,561)
Net carrying value	67,025	-	67,025

17 Leased assets and liabilities (continued)

	2021	2020
Lease liabilities		
Current	8,031	7,851
Non-current	60,565	64,864
Total lease liabilities	68,596	72,715

Payments associated with short-term leases during 2021 were $21 (2020 - $36) and were included within non-interest expenses.

Lessor:

	2021	2020
Lease receivable		
Current	625	384
Non-current	2,793	2,128
Total lease receivable	3,418	2,512

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 are as follows:

	2021	2020
Within 1 year	84	30
2 years	84	32
3 years	80	32
4 years	70	28
5 years	50	26
Over 5 years	90	116
Total	458	264

Total operating lease payments received during 2021 were $55 (2020 - $52) and are included on the consolidated income statement within non-interest income.

18 Other assets

	2021	2020
Employee discounts	25,090	23,149
Deferred securitization fees	26,282	27,275
Prepaid assets	8,883	15,678
Securitization receivables	12,010	12,610
Other	4,836	5,237
Total other assets	77,101	83,949
Current	47,622	30,472
Non-current	29,479	53,477

19 Deposits

	2021	2020
Demand deposits	8,158,516	7,093,376
Term deposits	5,423,169	5,285,367
Registered plans	3,314,492	3,399,280
Total deposits	16,896,177	15,778,023
Current	13,985,517	12,301,438
Non-current	2,910,660	3,476,585

Term deposits include equity index-linked deposits and the embedded derivatives as described in note 11.

20 Borrowings

	2021	2020
Borrowings	300,287	300,279
Current	328	335
Non-current	299,959	299,944

The Credit Union was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2021 and 2020.

Canadian Imperial Bank of Canada facility

The Credit Union has a $150,000 (2020 - $150,000) revolving secured credit facility with the Canadian Imperial Bank of Commerce (“CIBC”). As at December 31, 2021, the credit facility had a $nil balance (2020 - $nil). The credit facility is secured by eligible mortgages insured through either Canadian Mortgage and Housing Corporation (“CMHC”) or Sagen (formerly Genworth).

The Credit Union has a $300,000 (2020 - $300,000) secured term facility with CIBC. As at December 31, 2021, the credit facility had a $300,000 balance (2020 - $300,000). The secured term 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 (2020 - $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 (2020 - $2,000) issued by Meridian Credit Union. As at December 31, 2021, the credit facility has a balance of $nil (2020 - $nil).

National Bank of Canada credit facility

OneCap has established a credit facility with National Bank of Canada totaling $40,000 (2020 - $42,000) to finance the acquisition of assets and for operations. The credit agreement has a maturity date of October 31, 2022 and is secured by eligible equipment leases and loans. As at December 31, 2021, the credit facility has a balance of $nil (2020 - $nil).

Federation des Caisses Desjardins du Quebec

The Credit Union has established a secured credit facility with Federation des Caisses Desjardins du Quebec (“Desjardins”) totaling $250,000 (2020 - $150,000). As at December 31, 2021, the credit facility has a balance of $nil (2020 - $nil). The credit facility is secured by eligible insured residential mortgages.

Other credit facilities

The Credit Union has a settlement risk line totaling $25,000 (2020 - $25,000) with the Bank of Montreal. As at December 31, 2021, the settlement line had a balance of $nil (2020 - $nil).

Motusbank has a settlement risk line totaling $100 (2020 - $100) with the Bank of Montreal. As at December 31, 2021, the settlement line had a balance of $nil (2020 - $nil).

20 Borrowings (continued)

The Credit Union has an overdraft line totaling $850 (2020 - $850) with Caisse Centrale Desjardins ("CCD"). As at December 31, 2021, the overdraft line had a balance of $nil (2020 - $nil).

Motusbank had an overdraft line totaling $20 (2020 - $20) with Royal Bank of Canada. As at December 31, 2021, the overdraft line had a balance of $nil (2020 - $nil).

Motusbank had an overdraft line totaling $20 (2020 - $20) with CCD. As at December 31, 2021, the overdraft line had a balance of $nil (2020 - $nil).

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 $268,000 and US $10,000 (2020 - $130,000 and US $10,000) on its liquidity facility for which the balance outstanding was $nil at December 31, 2021 (2020 – $nil). A contingency credit facility is established in the amount of $422,000 (2020 - $420,000).

Motusbank established a credit facility with Central 1 which is composed of liquidity and contingency facilities. Motusbank can borrow up to $44,500 and US $500 (2020 - $44,500 and US $500) on its liquidity facility for which the balance outstanding was $nil at December 31, 2021 (2020 - $nil). A contingency credit facility has been established in the amount of $5,000 (2020 - $5,000) for which the balance outstanding was $nil (2020 - $nil) as at December 31, 2021.

Assets have been pledged as security for the credit facility with Central 1 by an assignment of book debts and a general security arrangement subject to adjustment for mortgage collateral pledged against bank borrowings. The Credit Union provides a financial guarantee for motusbank to maintain its own Central 1 credit facility, for obligations up to a maximum of $50,000.

21 Payables and other liabilities

	2021	2020
Accounts payable and accrued liabilities	129,784	147,013
Deferred income	306	577
Cheques and other items in transit	12,823	12,897
Total payables and other liabilities	142,913	160,487
Current	142,569	160,341
Non-current	344	146

22 Secured borrowings

	2021	2020
Obligations related to securities sold under repurchase agreements	465,526	-
Variable rate equipment contract backed notes	862,202	955,380
Fixed rate equipment contract backed notes	195,572	-
Total secured borrowings	1,523,300	955,380
Current	845,196	367,732
Non-current	678,104	587,648

The Credit Union was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2021 and 2020.

In accordance with a Master Sales Agreement, the Company sells lease contracts to Meridian OneCap Limited Partnership ("the Partnership"), which is a bankruptcy remote limited partnership in which the Company has an interest and is included in these consolidated financial statements. Through the Partnership, the Company then enters into securitized borrowing arrangements with investors. Meridian Credit Union acts as Support Party to these arrangements. For further details on transactions with the Partnership, refer to note 23.

22 Secured borrowings (continued)

Variable rate equipment contract backed notes (Series 2016-1):

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, 2022 (2020 - October 31, 2021). 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, 2021 is $929,941 (2020 - $1,031,082). In addition, OneCap has cash reserves of $22,672 (2020 - $28,193) held as collateral for the notes as disclosed in note 5.

Fixed rate equipment contract backed notes (Series 2021-1):

In accordance with a Note Purchase Agreement, OneCap sells fixed rate equipment contract backed notes to investors. The notes are collateralized by a specific portfolio of loan and lease contracts secured by equipment ("Portfolio of Assets") originated in Canada. No recourse provisions exist that allow the holders of notes issued or loans advanced in such securitization transactions to put those notes or loans back to the Company or the Support Party and neither the Company or the Support Party guarantees any notes issued or loans advanced in such securitization transactions and therefore the company's exposure under such programs is limited. The principal and interest on the fixed rate notes are paid on a monthly basis from collections on the Portfolio of Assets. The Note Purchase Agreement has a commitment expiration date of March 3, 2024. The stated maturity of the notes is seven 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 pay in full.

The carrying value of finance receivables that are pledged as collateral for the notes at December 31, 2021 is $213,345 (2020 - $nil). In addition, the company has cash reserves of $4,346 (2020 - $nil) held as collateral for the notes as disclosed in note 5.

23 Mortgage securitization liabilities

	2021	2020
Mortgage securitization liabilities	3,572,125	4,358,412
Current	335,987	888,196
Non-current	3,236,138	3,470,216

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 does not derecognized the asset and instead records 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 terms of the CMB program require CHT to ultimately receive the return on a CMB bond which has a fixed principal balance. As the NHA MBS created by the Credit Union to sell into the CMB program have amortizing principal balances in line with principal repayments on the underlying mortgages, the Credit Union is required to provide eligible replacement assets to CHT to top up the aggregate principal balance on the account. The Credit Union engages a third-party financial institution to facilitate this replacement process with CHT using two broad structures.

23 Mortgage securitization liabilities (continued)

In the first, the Credit Union engages Central 1 to enter into a total return swap with CHT in which Central 1 pays CHT the return on a CMB in return for receiving the return on the NHA MBS. In turn, the terms of the total return swap are mirrored exactly between Central 1 and the Credit Union, resulting in the Credit Union ultimately paying CHT the interest due to investors on the CMB.

In the second, the Credit Union engages National Bank or Central 1 to enter into a total return swap with CHT in which they pay CHT the return on a CMB in return for receiving the return on the NHA MBS. Unlike the previous structure, the total return swap is not mirrored between the third-party financial institution and the Credit Union, meaning that the financial institution manages the replacement asset requirements with CHT on the Credit Union's behalf. The financial institution is compensated for this service through the pricing on the NHA MBS. Accordingly, the Credit Union's liability under this arrangement is the NHA MBS.

All mortgages securitized by the Credit Union are fully insured prior to sale. As such, they pose minimal to no credit risk to the Credit Union immediately before or any time after the securitization transaction. The Credit Union remains exposed to prepayment risk on securitized mortgages that are open to prepayment. As such, it has not transferred materially all of the risks and rewards of the assets and continues to recognize them on its balance sheet along with a securitization liability. Interest income and expense is recognized on each respectively using the effective interest rate method.

The Credit Union also securitizes some mortgages that are closed to prepayment. Where these are also securitized using the structure which outsources replacement asset requirements to a third party, reinvestment risk is transferred. As such, it has been determined that on such securitization structures, materially all the risks and rewards on the assets have been transferred. Therefore, the assets are derecognized and no liability is recognized. A gain on sale is recorded upon the derecognition of the assets, which is calculated by comparing the fair value of the assets at the point of sale versus the consideration received. An asset relating to the Credit Union's retained interest in the securitized mortgages is recognized at fair value and is subsequently measured at amortized cost. The Credit Union's retained interest in securitized mortgages is presented in Other Assets, with the associated income recognized in interest income.

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 use them to meet the reinvestment needs of the CMB program described above. 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.

23 Mortgage securitization liabilities (continued)

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, but not derecognized, as well as the carrying and fair values of the corresponding mortgage securitization liabilities:

	2021		2020	
	Carrying value	Fair value	Carrying value	Fair value
Securitized mortgages sold via CMB Program	1,582,981	1,508,716	2,295,384	2,210,381
Sold MBS to third parties	1,889,065	1,773,193	1,750,864	1,689,860
Securities purchased under reverse repurchase agreements, asset backed commercial paper, and Government of Canada bonds (included in financial investments)	129,978	129,978	287,936	287,936
Unscheduled principal payment reserve (included in cash and cash equivalents)	70,559	70,559	54,067	54,067
Purchased MBS held in trust per CMB reinvestment guidelines	-	-	2,965	2,615
Principal and interest receipts to be reinvested in the following month (included in cash and cash equivalents)	-	-	40,582	40,582
Total designated assets	3,672,583	3,482,446	4,431,798	4,285,441
Mortgage securitization liabilities	(3,572,125)	(3,575,177)	(4,358,412)	(4,367,015)
Net amount	100,458	(92,731)	73,386	(81,574)

24 Pension and other employee obligations

	2021	2020
Short-term employee benefits payable	43,319	23,953
Retirement benefit obligations	9,127	15,280
Total pension and other employee obligations	52,446	39,233

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. As at October 31, 2021, the Credit Union declared a wind-up of the DB1 plan. Details of the DB1 plan wind-up are separately described below.

The most recent valuation of the DB1 Plan for funding purposes was as at December 31, 2018 with the next one to be completed as at October 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. As at October 31, 2021, the Credit Union declared a wind-up of the DB2 plan. Details of the DB2 plan wind-up are separately described below.

24 Pension and other employee obligations (continued)

The most recent valuation of the DB2 Plan for funding purposes was as at December 31, 2018 with the next one to be completed as at October 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.

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 Defined Benefit Supplemental Executive Retirement Plan 1

This plan is a defined benefit retirement 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 Employee Retirement Plan 2

This plan mirrors the structure of the Defined Contribution ("DC") Plan and contains employer pension contributions to all DC Plan members who exceed the maximum permitted under the Income Tax Act (Canada). Plan members accrue contributions and investment returns on a notional basis 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. As described below, the DC plan is impacted by the decision to wind-up the DB1 Plan.

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.

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.

Plan Wind-ups

Effective October 31, 2021 the Credit Union decided to wind-up the DB1 and DB2 Plans. Prior to October 31, 2021 the DC Plan and the DB1 Plan existed as separate components within the same registered pension plan. Since the DB component is being wound up, a new defined contribution pension plan ("New DC Plan") was established effective October 31, 2021.

24 Pension and other employee obligations (continued)

Written notice of the planned wind-ups has been given to FSRA and to Plan members, pensioners and other persons entitled to benefits under the DB1, DB2 and DC plans. An application will be filed with FSRA in early 2022 to approve the transfer of the DC plan assets held within the combined registered pension plan into the New DC Plan.

The Plan Sponsor is responsible for filing a wind-up report with the Chief Executive Officer of FSRA no later than April 30, 2022. The approval of the wind-up report will constitute approval of the wind-up.

All non-retired members under the DB1 and DB2 Plans will be sent an information package in mid-2022 providing options for payment of the benefits they have earned. Members will be able to select a lump-sum transfer to a locked-in retirement arrangement or a monthly pension. Upon receipt of the regulatory approval of the wind-ups and subject to the full funding of the Plans, the monthly pension payments for non-retired members who elected the pension option and current pensioners will be secured through an annuity contract with a Canadian insurance company and the lump sum payments will be made for all non-retired members who elected the transfer option.

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.

24 Pension and other employee obligations (continued)

	2021	2020
Consolidated balance sheet obligations for:		
Pension benefit plans	1,338	5,961
Post-employment benefits	7,789	9,319
	9,127	15,280
The amounts recognized in the consolidated balance sheet are determined as follows:		
Present value of funded obligations	58,345	57,026
Fair value of plan assets	(59,092)	(52,299)
Funded plans' (surplus) deficit	(747)	4,727
Present value of unfunded obligations	9,127	10,553
Net liability recognized in the consolidated balance sheet	8,380	15,280
Consolidated income statement charged to salaries and employee benefits for:		
Defined benefit pension plans	560	616
Defined contribution pension plan	7,157	7,000
Total pension plans	7,717	7,616
Post-employment benefits	754	705
	8,471	8,321
Amounts included in other comprehensive income:		
Re-measurement gain (loss):		
Pension benefit plans	6,631	(87)
Post-employment benefits	1,885	(729)
	8,516	(816)
Asset ceiling adjustment:		
Pension benefit plans	(7,132)	-
	1,384	(816)

	Defined benefit pensions		Post-employment benefits	
	2021	2020	2021	2020
The movement in the present value of the defined benefit obligation over the year is as follows:				
Defined benefit obligation, January 1	58,260	55,138	9,319	8,268
Current service cost	169	111	526	456
Interest cost	1,467	1,657	228	229
Benefits paid	(2,039)	(3,015)	(398)	(363)
Remeasurement (loss) due to:				
Changes in demographic assumptions	(468)	-	(1,297)	-
Changes in financial assumptions	(4,881)	4,348	(408)	729
Experience losses (gains)	42	21	(181)	-
Defined benefit obligation, December 31	52,550	58,260	7,789	9,319

24 Pension and other employee obligations (continued)

	Defined benefit pensions		Post-employment benefits	
	2021	**2020**	**2021**	**2020**
The movement in the fair value of plan assets for the year is as follows:				
Fair value of plan assets, January 1	52,299	47,973	-	-
Interest income	1,394	1,467	-	-
Return on plan assets, excluding interest income	1,324	4,282	-	-
Employer contributions	6,407	1,860	398	364
Benefits paid	(2,025)	(2,975)	(398)	(364)
Administrative expenses	(307)	(308)	-	-
Fair value of plan assets, December 31	59,092	52,299	-	-
Net defined benefit liability (asset) prior to asset ceiling adjustment	(6,542)	5,961	7,789	9,319
Asset ceiling adjustment	7,132	-	-	-
Net defined benefit liability	590	5,961	7,789	9,319

The net defined liability of $590 is comprised of net assets of $747 in respect of the DB1 and DB2 Plans and net liabilities of $1,338 in respect of the Supplemental Retirement Plans. The net asset amounts are included in other assets in the consolidated balance sheet.

Under the provisions of IAS 19, net defined benefit assets are restricted to the lower of the plan surplus and the asset ceiling, which is defined as the present value of any future economic benefits. In the case of the DB1 and DB2 plans, economic benefits have been identified as the ability to offset future administrative expenses relating to the plans against a portion of the surplus. The remainder of the surplus has been recorded in OCI as an asset ceiling adjustment.

Actuarial assumptions

	Total pension benefits		Post-employment benefits	
	2021	**2020**	**2021**	**2020**
The principal actuarial assumptions used were as follows:				
Discount rate	3.20%	2.60%	3.00%	2.50%
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:

	2021	**2020**
Long-term increase in health care costs		
Life expectancy assumptions	87.1	87.1
Retiring at the end of the reporting period:	89.8	89.7
Retiring 20 years after the end of the reporting period:		
Male	88.6	88.5
Female	91.2	91.1

24 Pension and other employee obligations (continued)

The weighted average duration of the defined benefit obligation as at December 31, 2021 is 13.1 years (2020 – 15.1 years).

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
As at December 31, 2021				
Weighted average duration	2,468	11,056	70,530	84,054
Post-employment benefits	470	2,103	17,582	20,155
Total	2,938	13,159	88,112	104,209
As at December 31, 2020				
Weighted average duration	2,796	11,156	73,550	87,502
Post-employment benefits	436	2,070	22,991	25,497
Total	3,232	13,226	96,541	112,999

Benefit plan assets

The allocation of the DB1 and DB2 plan assets by investment category is as follows:

	2021	%	2020	%
Equity investments	-	- %	26,716	51 %
Fixed income investments	59,092	100 %	25,584	49 %
Total	59,092	100 %	52,300	100 %

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

Contributions for the upcoming fiscal year are anticipated to be approximately $1,259 (2020 - $6,706) for defined benefit pension plans, $8,484 (2020 - $8,484) for defined contribution plans and $469 (2020 - $436) 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	
	2021	2020	2021	2020
Discount rate				
Impact of: 1% increase	(6,117)	(7,322)	(788)	(1,096)
1% decrease	7,670	9,279	943	1,328
Pension growth rate				
Impact of: 1% increase	7,077	7,862	-	-
1% decrease	(5,826)	(6,440)	-	-
Life expectancy				
Impact of: 1% increase	1,398	1,592	172	208
1% decrease	(1,409)	(1,599)	(170)	(205)
Health care cost trend				
Impact of: 1% increase	-	-	719	988
1% decrease	-	-	(612)	(825)

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
Effective March 30, 2021 the 2 DB plans adopted a new Statement of Investment Policies and Procedures ("SIPP"). As required under this SIPP, the plans moved from a mix of equity and fixed income investments to 100% fixed income investments.

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.

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 Share capital

	Par value per share	2021	2020
Membership shares classified as liabilities			
Membership shares	1	378	388
As at December 31		378	388
"50th Anniversary" Class A shares	1	77,328	74,664
Series 96 Class A shares	1	54,048	52,203
Series 98 Class A shares	1	4,618	4,461
Series 01 Class A shares	1	69,991	67,645
Series 09 Class A shares	1	86,588	83,743
Series 15 Class A shares	1	141,302	136,684
Series 17 Class A shares	1	186,200	180,094
As at December 31	-	620,075	599,494

(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, 2020	376,223	72,080,594	50,416,577	4,307,841
Shares issued to Members net of redemptions	11,610	-	-	-
Shares issued as dividends	-	2,583,267	1,786,911	153,432
Issued as at December 31, 2020	387,833	74,663,861	52,203,488	4,461,273
Shares redeemed by members	(10,145)	-	-	-
Shares issued as dividends	-	2,664,275	1,844,977	157,143
Issued as at December 31, 2021	377,688	77,328,136	54,048,465	4,618,416

25 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, 2020	65,371,929	81,303,723	132,543,381	174,742,956
Shares issued as dividends	2,273,275	2,655,821	4,431,497	6,043,001
Issued as at December 31, 2020	67,645,204	83,959,544	136,974,878	180,785,957
Shares redeemed by members	-	-	-	-
Shares issued as dividends	2,345,391	2,845,134	4,617,892	6,106,788
Issued as at December 31, 2021	69,990,595	86,804,678	141,592,770	186,892,745

(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, 2021 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 35.5.

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 2021 for the year ended December 31, 2021 amounted to $3,095 (2020 - $2,988), of which $347 (2020 - $322) will be paid in cash and have been recorded in the current year. The remaining $2,748 (2020 - $2,666) 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 on September 27, 2021 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 35.5. 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.

25 Share capital (continued)

Dividends declared and paid on the series 96 Class A shares in 2021 amounted to $2,089 (2020 - $2,018), of which $244 was paid in cash (2020 - $231) and $1,845 (2020 - $1,787) 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 on January 1, 2021 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 35.5. 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 2021 for the year ended December 31, 2021 amounted to $185 (2020 - $179), of which $17 (2020 - $22) will be paid in cash and have been recorded in the current year. The remaining $168 (2020 - $157) 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, 2021 was set at 4.45%.

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 35.5. 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 2021 for the year ended December 31, 2021 amounted to $2,707 (2020 - $2,616), of which $361 was paid in cash (2020 - $343) and $2,346 (2020 - $2,273) 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, 2020 was set at 4.00%.

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 35.5. 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 2021 for the year ended December 31, 2021 amounted to $3,474 (2020 - $3,360), of which $502 (2020 - $515) will be paid in cash and have been recorded in the current year. The remaining $2,972 (2020 - $2,845) 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.

25 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 beginning on January 1, 2020 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 35.5 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 2021 for the year ended December 31, 2021 amounted to $5,666 (2020 - $5,481), of which $872 (2020 - $863) will be paid in cash and have been recorded in the current year. The remaining $4,794 (2020 - $4,618) 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 beginning on January 1, 2022 was set at 4.45%.

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 35.5 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 2021 for the year ended December 31, 2021 amounted to $7,945 (2020 - $7,687), of which $1,425 (2020 - $1,580) will be paid in cash and have been recorded in the current year. The remaining $6,520 (2020 - $6,107) 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 379,026 Members at December 31, 2021 (2020 – 387,815).

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.

25 Share capital (continued)

(d) Dividends

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

	2021	2020
"50th Anniversary" Class A shares	3,013	2,906
Series 96 Class A shares	2,089	2,018
Series 98 Class A shares	175	175
Series 01 Class A shares	2,707	2,616
Series 09 Class A shares	3,347	3,172
Series 15 Class A shares	5,491	5,295
Series 17 Class A shares	7,532	7,625
Balance, December 31	24,354	23,807

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 $17,202 (2020 - $16,393). These dividends will be charged to retained earnings in the following year when the shares are issued as follows:

	2021	2020
"50th Anniversary" Class A shares	2,748	2,666
Series 98 Class A shares	168	157
Series 09 Class A shares	2,972	2,845
Series 15 Class A shares	4,794	4,618
Series 17 Class A shares	6,520	6,107
Balance, December 31	17,202	16,393

No dividends have been declared or paid on Membership shares for the years ended December 31, 2021 or December 31, 2020.

26 Subordinated debt

During 2019, the Credit Union issued $50,000 principal amount of subordinated debt with term to maturity of 10 years, redeemable after 5 years. This facility carries a floating rate, which at December 31, 2021 was 3.94% (2020 - 3.97%) per annum, payable in interest only payments quarterly.

During 2020, the Credit Union issued $125,000 principal amount of subordinated debt with term to maturity of 10 years, redeemable after 5 years. The interest rate on the facility is fixed at issue date for 5 years, thereafter if not redeemed, a floating rate at the 3-month Bankers' Acceptance Rate plus 3.14% to 3.16% is applicable. As at December 31, 2021 the rate was 3.90% to 4.87% (2020 - 3.90% to 4.87%) per annum, payable in interest only payments quarterly.

27 Net interest income

	2021	2020
Interest income		
Residential mortgages	330,143	322,628
Personal loans	50,304	67,557
Commercial loans [1]	269,995	268,670
Interest income - loans	650,442	658,855
Finance receivables	60,044	59,208
Cash and cash equivalents	4,089	6,490
Investment in debt instruments	12,467	25,847
Total interest income	727,042	750,400
Interest expense		
Demand deposits	31,152	42,268
Term deposits	101,002	150,172
Registered plans	53,658	73,561
Interest expense - deposits	185,812	266,001
Interest on borrowings and subordinated debt	39,702	36,509
Mortgage securitization cost of funds	79,522	83,900
Interest on finance leases	1,963	2,493
Total interest expense	306,999	388,903

1 In 2021 certain fees that are directly attributable to commercial loans were reclassified from fees and other income to interest income on commercial loans. The 2020 comparatives were also updated and resulted in $19,197 being reclassified from loan servicing fees to interest income.

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

28 Fees and other income

	2021	2020
Loan servicing fees[1]	8,553	5,475
Mutual fund revenue	28,671	22,691
Service fees	19,411	18,870
Insurance commissions	7,037	6,928
Foreign exchange	4,975	4,746
Leasing revenue	6,835	6,488
Dividend income	3,389	4,171
Other revenue	8,748	6,304
Total fees and other income	87,619	75,673

1 In 2021 certain fees that are directly attributable to commercial loans were reclassified from loan servicing fees to interest income on commercial loans. The 2020 comparatives were also updated and resulted in $19,197 being reclassified from other income to interest income.

2. The dividend income amount reported above was earned on investments in equity instruments that are measured at FVTPL and FVTOCI.

29 Securitization income

	2021	2020
Net gain on sale of mortgages (net of derivatives fair value change)	462	3,605
Total securitization income	462	3,605

The hedging activities included in the table above economically hedge interest rate risk on mortgages held for sale. The derivatives, which are bond forwards, are not designated in hedge accounting relationships. The gains or losses on the derivatives are mainly offset by the fair value change in the mortgages held for sale.

30 Net gain (loss) on financial instruments

	2021	2020
Unrealized and realized gain or loss on derivatives	10,884	(8,290)
Hedge ineffectiveness	992	(1,076)
Gain or loss on loan modifications	-	(1,161)
Realized gain or loss on debt instruments	3,300	-
Net gain (loss) on financial instruments	15,176	(10,527)

31 Income tax expense

	2021	2020
Current income tax expense	26,332	13,167
Future income tax expense (recovery)	7,241	(6,347)
Total income tax expense	33,573	6,820

Note 16 provides information on the Credit Union’s deferred income tax assets and liabilities, including amounts recognized directly in OCI.

31 Income tax expense (continued)

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:

	2021		2020	
	Tax provision	% of Pre-tax income	Tax provision	% of Pre-tax income
Operating earnings for the year, before tax	218,420	n/a	67,201	n/a
Income tax expense at statutory rates	57,857	26.5 %	17,807	26.5 %
Credit union rate reduction	(16,671)	(7.6)%	(7,111)	(10.6)%
Deductible dividend payments	(4,579)	(2.1)%	(4,332)	(6.4)%
Non-deductible expense	63	- %	66	0.1 %
Non-taxable income	(268)	(0.1)%	(71)	(0.1)%
Adjustment of prior year provision	(2,983)	(1.4)%	-	- %
Impact of future tax rates	-	- %	187	0.3 %
Other items	154	0.1 %	274	0.3 %
Income tax expense	33,573	15.4 %	6,820	10.1 %
Other comprehensive income for the year, before tax	31,836	n/a	(60,004)	n/a
Income tax expense, recognized directly in other comprehensive income	7,124	22.4 %	(12,503)	20.8 %

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

	2021		
	Before income taxes	Income tax expense	Net of income taxes
Net loss on cash flow hedges	36,070	(8,002)	28,068
Net loss on cash flow hedges transferred to net income	1,302	(136)	1,166
Actuarial loss in defined benefit pension plans	1,384	(252)	1,132
Unrealized gains on FVOCI financial assets	(6,920)	1,266	(5,654)
Other comprehensive income for the year ended December 31, 2021	31,836	(7,124)	24,712

	2020		
	Before income taxes	Income tax expense	Net of income taxes
Net gain on cash flow hedges	(58,476)	11,999	(46,477)
Net loss on cash flow hedges transferred to net income	(1,193)	459	(734)
Actuarial loss in defined benefit pension plans	(816)	148	(668)
Unrealized gains on FVOCI financial assets	481	(103)	378
Other comprehensive income for the year ended December 31, 2020	(60,004)	12,503	(47,501)

32 Related party transactions

The Credit Union's related parties include its subsidiaries, 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) Joint Venture

The joint venture is 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 of the Credit Union.

Transactions with related parties

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

	2021	2020
Salaries, retainers, per diems and other short-term employee benefits	6,990	5,581
Termination benefits	3,410	-
Post-employment benefits	192	198
Total compensation	10,592	5,779

Related party balances and transactions are detailed below:

Loans advanced to related parties

	2021	2020
Loan balance as at January 1	4,522	6,028
Change in loan balances during the year	2,193	(1,506)
Loan balance as at December 31	6,715	4,522
Total interest revenue earned on loans	180	139

Revolving credit facilities granted to related parties

	2021	2020
Total value of facilities approved as at January 1	3,243	2,153
Increase in limits granted	2,716	3,274
Total value of facilities approved at December 31	5,959	5,427
Balance outstanding	(2,694)	(2,184)
Net balance available on facilities as at December 31	3,265	3,243
Total interest revenue earned on revolving credit facilities	37	42

32 Related party transactions (continued)

Term deposits held for related parties

	2021	**2020**
Deposit balance as at January 1	969	1,190
Net change in deposits during the period	(482)	(221)
Deposit balance as at December 31	487	969
Total interest expense on term deposits	8	30

Demand deposit balances held for related parties

	2021	**2020**
Deposit balance as at January 1	2,722	1,643
Net change in deposits during the year	17,646	1,079
Demand deposit balance as at December 31	20,368	2,722
Total interest expense on demand deposits	137	14

Other transactions with related parties

Sales/purchases of goods and services

Key management personnel and parties related to them provided $nil (2020 - $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, 2021 related parties hold share capital valued at $113 (2020 - $326). During the year, dividends of $13 (2020 - $49) were paid on these shares.

Guarantees and commitments

Commitments on undrawn credit facilities and letters of credit in the amount of $3,265 (2020 - $3,243) have been issued to related parties.

33 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, 2021 on NHA MBS that Meridian retains ownership of, either directly or through participation in the CMB Program, are $100,997 (2020 - $192,849).

The Credit Union is required 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, 2021. As at December 31, 2021 the expected amount of the cash reserve required is $116,385 (2020 - $70,558). As the obligation to fund the increased cash reserve will not take effect until 2022, no amount has been recorded in the consolidated financial statements of the Credit Union as at December 31, 2021 to reflect this commitment.

33 Contingent liabilities and commitments (continued)

(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 $2,228 balance of assigned collateral as at December 31, 2021 (2020 - $8,121).

(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.

	2021	2020
Undrawn overdrafts and credit facilities	3,207,804	2,961,313
Standby and commercial letters of credit	216,029	197,331
Loans approved but not funded:		
Retail mortgages	66,696	45,568
Personal loans	1,966	964
Commercial loans	1,830,216	1,648,716
Total loan commitments as at December 31	5,322,711	4,853,892

(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.

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.

The Credit Union provided a guarantee on behalf of motusbank on October 4th, 2021 to unconditionally and irrevocably guarantee on a continuing basis to each of Canada Mortgage and Housing Corporation and Canada Housing Trust the prompt and complete payment and performance, when due, to a maximum of $200,000 CAD plus interest in the event motusbank is unable to meet its obligations. Although the guarantee is in place, motusbank did not enter into any mortgage securitization arrangements in the year.

33 Contingent liabilities and commitments (continued)

(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.

33 Contingent liabilities and commitments (continued)

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

	2021	2020
Within 1 year	2,129	1,662
1 to 5 years	13,684	12,991
Over 5 years	18,098	20,820
Total	33,911	35,473

Total payments made during 2021 were $1,481 (2020 - $1,225) of which $1,864 (2020 - $1,377) are included on the consolidated income statement within administration expenses.

(g) Equity investments

The Credit Union made equity investments in four Limited Partnerships focused on real estate development, and two Limited partnerships focused on strategic private equity investments. Meridian has invested $14,330 and has committed to invest another $19,786 within the next 6 years. To the extent that the General Partners are unable to arrange outside funds to meet the requirements of the business of the Partnerships, the Credit Union may also be required to provide additional debt finance in proportion to its equity stake, pay any unfunded portion of its committed amount after the expected commitment period, or return any distributions from the partnerships received to date (No such distributions have yet been received). The related investments are recognized on the consolidated balance sheet in investments in equity instruments, details of which can be found in note 8.

34 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, 2021, the aggregate value of loans issued to restricted parties was $7,945 (2020 - $5,996). 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 $1,212 (2020 - $942) for annual retainer and per diem and $25 (2020 - $25) 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, former President & CEO	595	615	139
Gary Genik, Interim CEO, SVP & Chief Operating Officer	493	227	70
Tara Daniel, SVP & Chief Financial Officer	306	182	68
Sunny Sodhi, SVP & Chief Strategy and Corporate Affairs Officer	294	166	65
David Moore, Chief Marketing & Digital Officer; COO motusbank	300	150	65

34 Regulatory information (continued)

Deposit insurance

The annual premium paid to FSRA and CDIC for insuring deposits during the year ended December 31, 2021 was $12,511 (2020 - $12,221). 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 $3,753 (2020 - $3,726) 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.

35 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.

35.1 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) 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, monitoring risk rating and 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 robust loan origination system for all lines of business);
e. credit reviews and ongoing portfolio monitoring, focusing on monitoring financial performance, covenant compliance and any other signs of deteriorating performance;
f. credit portfolio management, including sectoral, geographic, and overall risk concentration limits, risk quantification and trending;

(ii) approval by the Vice Presidents of 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, Commercial and Credit Card 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 large exposures;
b. the development and implementation of credit risk models and policies for establishing borrower and security 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.

35 Financial risk management (continued)

35.1 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 regulators

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, geography concentrations, 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 establishing 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 67.0% (2020 - 73.5%) 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 73% (2020 – 73%) 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 and/or are currently borrowing from. 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 industry-specific 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.

35 Financial risk management (continued)

35.1 Credit risk (continued)

Key performance indicators for Meridian's Credit Card portfolio are 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 been updated to reflect new risks associated with the COVID-19 pandemic. 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 33 for further details. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained. Refer to notes 9 and 10 for a description of the nature of the security held against loans as at the consolidated balance sheet date.

Meridian continues to promote the government funding programs aimed to help Members and customers navigate through the economic challenges brought by the COVID-19 pandemic. The economy has continued to recover over the course of 2021, however risks associated to emerging variants and to the tapering of temporary government support remain. In addition, certain sectors continue to face challenges due to persisting changes in consumer behaviour. Over the course of 2020, Meridian and its subsidiaries offered various types of payment relief to Members impacted by COVID-19 and associated economic restrictions. These programs have wound down over 2021, with the vast majority of Members returning to regularly scheduled payments. Meridian continues to support government programs providing financial assistance to Members, including the new programs such as the Highly Affected Sectors Credit Availability Program ("HASCAP") implemented in 2021. The credit quality of the portfolio continues to be actively monitored using a wide array of tools and techniques, with real-time insights and sound financial advice provided to Members to help them maintain their financial well-being.

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:

35 Financial risk management (continued)

35.1 Credit risk (continued)

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

In light of the COVID-19 pandemic, the Credit Union has considered additional information in determining if there has been a SICR. In addition to those outlined above, a SICR is also deemed to have occurred if any of the following criteria are met:

- The employment or industry of the borrower has been determined to be in the highest category of exposure to COVID-19 related risks
- The borrower has been approved for payment relief and it has been less than 90 days since payments recommenced
- The borrower has been been approved for COVID-19 related payment relief and the borrower was between one and 29 days delinquent at the reporting date
- The borrower continues to participate in certain government programs designed to support businesses impacted by COVID-19 and one of the other criteria outlined above has also been met
- For finance receivables, the industry of the borrower has been determined to be in the second highest level of exposure to COVID-19 risks and the borrower was approved for COVID-19 payment relief program in 2020.

The assessment of borrowers' industry or employment exposure to COVID-19 related risks is based on the best judgment of the Credit Union's Credit Management team at the reporting date.

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 2020 or 2021.

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 of 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).

35 Financial risk management (continued)

35.1 Credit risk (continued)

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.

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.

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. This overlay is part of the standard procedures for ECL modelling and has 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.

Six forward-looking scenarios have been considered:
i. Baseline
ii. 4th percentile upside scenario
iii. 10th percentile upside scenario
iv. 75th percentile downside scenario
v. 90th percentile downside scenario
vi. 96th percentile downside scenario

35 Financial risk management (continued)

35.1 Credit risk (continued)

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. Due to risks associated with the Omicron COVID-19 variant that emerged after the last Moody's Canada Macroeconomic Outlook was released, the 75th percentile downside scenario has been weighted as the most likely scenario in the models. The other scenarios have been re-weighted in accordance with this change. Interest rate scenarios are based on expectations of ten-year Government of Canada bond yields.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at December 31, 2021 are set out below. The ranges (where relevant) capture variability between Ontario versus national economic forecasts used for portfolios depending on their geographic footprint.

		2021	2022	2023	2024	2025	2026
Real GDP Growth	Baseline	3.6-4.3%	3.4-3.5%	2.7-3.0%	2.4-2.5%	2.2%	2.0%
	4th percentile upside	3.6-4.3%	12.2-12.3%	3.3-3.7%	2.5%	1.4-1.5%	1.5-1.6%
	10th percentile upside	3.6-4.3%	7.6-7.8%	2.7-3.0%	2.3-2.4%	2.0%	1.8-1.9%
	75th percentile downside	3.6-4.3%	(0.5)-0.3%	2.7-2.9%	3.4-3.5%	2.6-2.7%	2.3-2.4%
	90th percentile downside	3.6-4.3%	(5.2)%	3.6-3.7%	4.3-4.5%	3.1-3.2%	2.6%
	96th percentile downside	3.6-4.3%	(12.8)-(12.2)%	3.0-3.2%	5.1%	4.4%	3.2%
Unemployment	Baseline	7.5-8.1%	6.1-6.5%	6.0-6.1%	6.1%	6.1-6.2%	6.1-6.3%
	4th percentile upside	7.5-8.1%	4.6-4.8%	3.3-3.6%	4.1-4.4%	4.8-4.9%	5.2-5.4%
	10th percentile upside	7.5-8.1%	5.3-5.5%	4.6-4.7%	5.0-5.1%	5.4-5.5%	5.6-5.8%
	75th percentile downside	7.5-8.1%	7.0-7.4%	7.0-7.2%	6.7%	6.3-6.5%	6.1-6.4%
	90th percentile downside	7.5-8.1%	8.3-8.9%	9.3-9.6%	8.2-8.3%	7.2-7.5%	6.6-7.0%
	96th percentile downside	7.5-8.1%	9.7-10.0%	11.4-11.7%	10.2%	8.6-8.9%	7.6-7.9%
Interest Rates	Baseline	1.4%	2.2%	2.7%	3.2%	3.6%	3.9%
	4th percentile upside	1.4%	2.8%	3.5%	3.9%	4.1%	4.1%
	10th percentile upside	1.4%	2.4%	3.3%	3.7%	3.9%	4.0%
	75th percentile downside	1.4%	1.8%	2.2%	2.7%	3.1%	3.4%
	90th percentile downside	1.4%	1.7%	1.9%	2.4%	2.6%	2.9%
	96th percentile downside	1.4%	1.6%	1.6%	1.9%	2.1%	2.6%

The weightings assigned to each scenario were as follows:

Baseline:	10%
4th percentile upside:	0%
10th percentile upside:	7%
75th percentile downside:	46%
90th percentile downside:	20%
96th percentile downside:	17%

35 Financial risk management (continued)

35.1 Credit risk (continued)

The most significant period-end assumptions used for the ECL estimate as at December 31, 2020 are set out below. The ranges (where relevant) capture variability between Ontario versus national economic forecasts used for the Credit Union and OneCap respectively.

		2020	2021	2022	2023	2024	2025
Real GDP	Baseline	(6.0)-(5.2)%	3.4-3.8%	4.5-4.6%	3.4-3.5%	2.5-2.6%	2.2-2.2%
Growth	4th percentile upside	(6.0)-(5.2)%	9.1-9.6%	6.8-6.9%	3.3-3.4%	2.7-2.7%	2.4-2.4%
	10th percentile upside	(6.0)-(5.2)%	6.9-7.4%	5.2-5.3%	2.9-2.9%	2.6-2.6%	2.3-2.3%
	75th percentile downside	(6.0)-(5.2)%	1.6-1.9%	2.8-3.0%	3.7-3.7%	2.7-2.7%	2.1-2.1%
	90th percentile downside	(6.0)-(5.2)%	(3.2)-(3.0)%	2.6-2.8%	5.9-6.0%	3.3-3.4%	2.8-2.9%
	96th percentile downside	(6.0)-(5.2)%	(10.0)-(9.8)%	1.9-2.2%	5.8-5.9%	5.3-5.4%	4.1-4.2%
Unemployment	Baseline	9.4-9.5%	8.3-8.4%	7.1-7.4%	6.3-6.8%	6.2-6.6%	6.2-6.6%
	4th percentile upside	9.4-9.5%	7.1-7.1%	5.2-5.5%	4.5-5.0%	4.7-5.1%	5.2-5.6%
	10th percentile upside	9.4-9.5%	7.5-7.5%	6.2-6.4%	5.6-6.1%	5.9-6.3%	6.0-6.4%
	75th percentile downside	9.4-9.5%	8.8-8.9%	8.2-8.4%	7.3-7.8%	6.8-7.2%	6.5-6.9%
	90th percentile downside	9.4-9.5%	10.8-11.0%	10.4-10.5%	8.9-9.3%	7.7-8.2%	7.1-7.5%
	96th percentile downside	9.4-9.5%	11.9-12.1%	12.5-12.5%	11.2-11.6%	10.0-10.5%	9.0-9.5%
Interest Rates	Baseline	0.8%	1.1%	1.9%	2.6%	3.2%	3.7%
	4th percentile upside	0.8%	1.7%	2.6%	3.1%	3.6%	4.1%
	10th percentile upside	0.8%	1.2%	2.3%	2.9%	3.4%	3.9%
	75th percentile downside	0.8%	0.6%	1.1%	2.4%	3.2%	3.7%
	90th percentile downside	0.8%	0.5%	0.6%	1.2%	1.8%	2.7%
	96th percentile downside	0.8%	0.4%	0.3%	0.7%	1.1%	1.9%

For 2020, the weightings assigned to each scenario were as follows:

Baseline:	46%
4th percentile upside:	7%
10th percentile upside:	10%
75th percentile downside:	20%
90th percentile downside:	10%
96th percentile downside:	7%

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 taken 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 the multiple forward-looking scenarios and probability assigned to each, an analysis has been undertaken to understand the impact of alternative scenarios and weightings. For 2021, the sensitivities were as follows:

Interest Rates:

Moving interest rates up or down by 50 basis points across all scenarios resulted in an increase of $769 or decrease of $765 respectively to the allowance (2020 - $1,076).

35 Financial risk management (continued)

35.1 Credit risk (continued)

Unemployment:

Moving unemployment rates up or down by 50 basis points across all scenarios resulted in an increase of $1,523 or decrease of $1,519 respectively to the allowance (2020 - $1,597 increase or $1,566 decrease).

Real GDP Growth:

Moving real GDP growth rates up or down by 50 basis points across all scenarios resulted in an decrease of $909 or increase of $911 respectively to the allowance (2020 - $1,071 increase or $1,069 decrease).

Probability Weightings:

Increasing or decreasing the probability weighting assigned to the 75th percentile downside scenario by ten percent versus the baseline scenario resulted in an increase of $549 or decrease of $549 respectively to the allowance (2020 - $2,025 increase or $1,986 decrease). Applying 100% weight to the 96th percentile scenario would result in an increase to the allowance of $12,458 (2020 - $25,167). Conversely, applying 100% weight to the 4th percentile scenario would result in a decrease to the allowance of $15,966 (2020 - $19,133).

COVID-19 related overlays:

In light of the COVID-19 pandemic, the Credit Union has applied additional adjustments to account for the lagging nature and other deficiencies identified in internal and external credit risk metrics. These include the impact of payment relief and government supports put in place during the pandemic, which are likely to mask the detection of increased credit risk on some loans, as well the impact of dramatic swings in economic input variables, which have in some cases produced unreasonable results. To address these, ECLs have been stressed by looking at a combination of factors, including industry of employment and its exposure to COVID-19 related risks the extent to which customers have been approved for COVID-19 related payment relief, and the extent to which Members have participated in certain government programs. Other adjustments have been taken to moderate the impact of dramatic swings in economic input variables or their lagging impact on credit losses. Judgment has been required in the development and application of these overlays in consultation with the Credit Risk management team.

35.2 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.

35 Financial risk management (continued)

35.2 Market risk (continued)

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 11.

35 Financial risk management (continued)

35.2 Market risk (continued)

	December 31, 2021					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Assets						
Cash and cash equivalents	1,493,134	9,890	-	-	5,389	1,508,413
Yield	0.39 %	0.25 %	-	-	-	0.39 %
Receivables	-	501	1,418	209	13,230	15,358
Yield	-	2.12 %	3.22 %	3.37 %	-	0.41 %
Investments in debt instruments	-	695,954	828,755	16,212	6,989	1,547,910
Yield	-	0.72 %	1.23 %	0.32 %	-	0.98 %
Investments in equity instruments	-	24,509	131	-	36,705	61,345
Yield	-	-	-	-	-	-
Loans	4,463,652	4,887,925	10,014,736	25,309	23,124	19,414,746
Yield	3.56 %	3.11 %	2.80 %	3.58 %	-	3.06 %
Finance receivables	6,907	430,256	773,737	14,509	(22,155)	1,203,254
Yield	5.26 %	5.51 %	5.49 %	5.10 %	-	5.59 %
Derivative financial assets	47,658	-	-	-	-	47,658
Yield	-	-	-	-	-	-
Other assets	-	1,506	6,105	4,398	308,910	320,919
Yield	-	0.67 %	0.64 %	0.97 %	-	0.04 %
Total assets	6,011,351	6,050,541	11,624,882	60,637	372,192	24,119,603
Liabilities and Members' equity						
Deposits	6,725,296	4,769,843	2,883,997	7,365	2,509,676	16,896,177
Yield	0.47 %	1.62 %	1.94 %	2.49 %	-	0.97 %
Borrowings	300,000	-	-	-	287	300,287
Yield	1.30 %	-	-	-	-	1.30 %
Lease liabilities	-	8,030	32,036	28,530	-	68,596
Yield	-	2.74 %	2.80 %	2.81 %	-	2.80 %
Secured borrowings	861,139	519,222	138,223	3,608	1,108	1,523,300
Yield	1.30 %	0.49 %	2.47 %	1.87 %	-	1.13 %
Mortgage securitization liabilities	7,235	889,931	2,705,238	-	(30,279)	3,572,125
Yield	2.04 %	1.56 %	1.36 %	-	-	1.42 %
Derivative financial liabilities	5,762	-	-	-	-	5,762
Yield	-	-	-	-	-	-
Subordinated Debt	50,000	-	125,000	-	367	175,367
Yield	4.02 %	-	4.60 %	-	-	4.42 %
Other liabilities and Members' equity	-	404	1,552	1,282	1,574,751	1,577,989
Yield	-	1.03 %	1.03 %	1.06 %	-	-
Total liabilities and Members' equity	7,949,432	6,187,430	5,886,046	40,785	4,055,910	24,119,603

35 Financial risk management (continued)

35.2 Market risk (continued)

	December 31, 2021					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Fixed pay swaps	1,660,576	(425,428)	(1,223,997)	(11,151)	-	-
Yield	0.46 %	1.46 %	1.25 %	1.51 %	-	-
Fixed receive swaps	(7,000)	-	7,000	-	-	-
Yield	0.50 %	-	1.69 %	-	-	-
Total derivatives	1,653,576	(425,428)	(1,216,997)	(11,151)	-	-
Interest sensitivity position	(284,505)	(562,317)	4,521,839	8,701	(3,683,718)	-

35 Financial risk management (continued)

	December 31, 2020					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Assets						
Cash and cash equivalents	687,521	919,220	-	-	6,066	1,612,807
Yield	0.44 %	0.20 %	-	-	-	0.30 %
Receivables	-	384	1,766	362	6,169	8,681
Yield	-	1.86 %	2.16 %	3.33 %	-	0.66 %
Investments in debt instruments	-	1,762,438	164,134	-	8,472	1,935,044
Yield	-	0.75 %	1.34 %	-	-	0.80 %
Investments in equity investments	-	13,377	10,143	-	90,748	114,268
Yield	-	-	-	-	-	-
Loans	4,348,814	4,147,393	9,378,114	31,004	25,114	17,930,439
Yield	3.77 %	3.22 %	3.12 %	3.55 %	-	3.29 %
Finance receivables	6,380	392,704	691,201	9,129	(19,804)	1,079,610
Yield	5.42 %	5.78 %	5.77 %	5.50 %	-	5.86 %
Derivative financial assets	14,950	-	-	-	-	14,950
Yield	-	-	-	-	-	-
Other assets	-	1,433	5,501	5,675	344,379	356,988
Yield	-	0.65 %	0.60 %	0.99 %	-	0.04 %
Total assets	5,057,665	7,236,949	10,250,859	46,170	461,144	23,052,787
Liabilities and Members' equity						
Deposits	6,021,006	4,376,483	3,286,401	-	2,094,133	15,778,023
Yield	0.46 %	2.12 %	2.44 %	-	-	1.27 %
Borrowings	300,000	-	-	-	279	300,279
Yield	1.32 %	-	-	-	-	1.32 %
Lease liabilities	-	7,852	32,794	32,069	-	72,715
Yield	-	2.93 %	2.89 %	2.92 %	-	2.91 %
Secured borrowings	954,174	-	-	-	1,206	955,380
Yield	1.49 %	-	-	-	-	1.48 %
Mortgage securitization liabilities	137,948	1,360,312	2,884,252	-	(24,100)	4,358,412
Yield	2.41 %	1.46 %	1.50 %	-	-	1.52 %
Derivative financial liabilities	48,634	-	-	-	-	48,634
Yield	-	-	-	-	-	-
Subordinated Debt	50,000	-	125,000	-	200	175,200
Yield	3.99 %	-	4.60 %	-	-	4.42 %
Other liabilities and Members' equity	-	376	1,444	1,494	1,360,830	1,364,144
Yield	-	0.74 %	1.05 %	2.82 %	-	- %
Total liabilities and Members' equity	7,511,762	5,745,023	6,329,891	33,563	3,432,548	23,052,787

35 Financial risk management (continued)

	December 31, 2020					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Fixed pay swaps	2,205,283	(592,649)	(1,562,272)	(50,362)	-	-
Yield	0.47 %	1.76 %	1.39 %	2.37 %	-	-
Fixed receive swaps	(164,000)	157,000	7,000	-	-	-
Yield	1.91 %	1.92 %	1.69 %	-	-	-
Total derivatives	2,041,283	(435,649)	(1,555,272)	(50,362)	-	-
Interest sensitivity position	(412,814)	1,056,277	2,365,696	(37,755)	(2,971,404)	-

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. With the Bank of Canada decreasing its overnight rate to 0.25%, MCU's shock down 100bps scenario has been limited with floors as to keep key rates above 0%. The estimated impact of a 100 bps rate shock on these metrics is presented below.

	2021	2020
EaR: 100 bps exposure	2,158	(6,591)
EVaR: 100 bps exposure	(4.26)%	3.02%

(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, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, the Credit Union has limited investments subject to other price risk and this exposure is insignificant.

35 Financial risk management (continued)

35.3 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; and
- 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 9% to 13%. As at December 31, 2021, the Credit Union's liquid asset ratio was 12.06% (2020 – 14.50%).

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 33.

35 Financial risk management (continued)

35.3 Liquidity risk (continued)

	December 31, 2021						
	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	1,508,413	-	-	-	-	-	1,508,413
Receivables	13,267	419	944	453	316	-	15,399
Current income tax asset	-	-	-	-	-	-	-
Investments in debt instruments	28,079	673,063	532,705	331,878	16,213	1,191	1,583,129
Investments in equity instruments	149	458	9	-	-	61,345	61,961
Loans	1,461,986	6,419,019	7,853,143	4,983,951	62,634	-	20,780,733
Finance receivables	40,399	432,996	597,140	221,960	14,345	9,704	1,316,544
Other assets	137	1,513	3,126	2,960	4,820	-	12,556
Total financial assets	3,052,430	7,527,468	8,987,067	5,541,202	98,328	72,240	25,278,735
Financial liabilities							
Deposits	9,528,766	4,530,693	2,581,916	397,668	8,926	-	17,047,969
Borrowings	331	3,569	304,689	-	-	-	308,589
Payables and other liabilities	141,518	399	840	797	1,307	-	144,861
Current income tax payable	12,529	-	-	-	-	-	12,529
Secured borrowings	503,840	352,341	494,091	187,801	10,737	-	1,548,810
Mortgage securitization liability	59,976	877,063	1,592,431	1,183,324	-	-	3,712,794
Subordinated debt	1,011	6,730	15,453	131,225	56,742	-	211,161
Finance lease liabilities	811	8,988	19,620	17,172	30,771	-	77,362
Employee obligations	41,608	-	-	-	-	-	41,608
Total financial liabilities	10,290,390	5,779,783	5,009,040	1,917,987	108,483	-	23,105,683
Net	(7,237,960)	1,747,685	3,978,027	3,623,215	(10,155)	72,240	2,173,052

35 Financial risk management (continued)

35.3 Liquidity risk (continued)

	December 31, 2020						
	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	1,606,533	6,299	-	-	-	-	1,612,832
Receivables	6,178	440	929	784	471	-	8,802
Current income tax asset	3,354	-	-	-	-	-	3,354
Investments in debt instruments	218,068	1,563,310	151,781	21,453	-	1,191	1,955,803
Investments in equity instruments	64	870	120	-	-	113,834	114,888
Loans	986,632	5,935,374	7,033,085	4,916,182	186,731	-	19,058,004
Finance receivables	37,392	396,334	560,831	170,815	9,121	8,474	1,182,967
Other assets	131	1,325	2,994	2,843	5,801	-	13,094
Total financial assets	2,858,352	7,903,952	7,749,740	5,112,077	202,124	123,499	23,949,744
Financial liabilities							
Deposits	8,459,636	4,104,106	3,110,335	311,818	-	-	15,985,895
Borrowings	335	3,596	7,860	300,795	-	-	312,586
Payables and other liabilities	148,807	366	785	751	1,589	-	152,298
Current income tax payable	99	-	-	-	-	-	99
Secured borrowings	33,124	345,427	455,037	138,481	6,235	-	978,304
Mortgage securitization liability	55,233	1,494,600	1,636,942	1,326,744	-	-	4,513,519
Subordinated debt	-	7,733	15,461	137,598	58,403	-	219,195
Finance lease liabilities	819	8,966	19,536	18,831	35,304	-	83,456
Employee obligations	23,954	-	-	-	-	-	23,954
Total financial **liabilities**	8,722,007	5,964,794	5,245,956	2,235,018	101,531	-	22,269,306
Net	(5,863,655)	1,939,158	2,503,784	2,877,059	100,593	123,499	1,680,438

35 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, 2021					
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Equity index-linked options	-	11,612	17,594	1,859	-	31,065
Gross-settled foreign exchange forward contracts						
Outflow	-	(481)	-	-	-	(481)
Inflow	-	483	-	-	-	483
Interest rate swaps						
Outflow	(1,440)	(7,492)	(10,461)	(2,170)	(732)	(22,295)
Inflow	8	1,323	6,094	1,344	35	8,804
Total	(1,432)	5,445	13,227	1,033	(697)	17,576

	December 31, 2020					
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Equity index-linked options	-	4,629	8,307	958	-	13,894
Gross-settled foreign exchange forward contracts						
Outflow	-	(863)	-	-	-	(863)
Inflow	365	868	-	-	-	1,233
Interest rate swaps						
Outflow	(1,912)	(23,202)	(25,279)	(6,471)	(733)	(57,597)
Inflow	189	620	299	442	28	1,578
Total	(1,358)	(17,948)	(16,673)	(5,071)	(705)	(41,755)

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 11).

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.

35.4 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.

35 Financial risk management (continued)

35.4 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, 2021			December 31, 2020		
	Carrying value	Fair value	Fair value differences	Carrying value	Fair value	Fair value difference
Financial assets at FVTPL:						
Derivative instruments						
Equity index-linked options	31,011	31,011	-	13,860	13,860	-
Interest rate swaps assets	16,637	16,637	-	1,057	1,057	-
Bond forwards	8	8	-	-	-	-
Foreign exchange contracts	2	2	-	33	33	-
Investments in equity instruments	36,705	36,705	-	90,748	90,748	-
Financial assets at FVTOCI:						
Investments in debt instruments	1,082,152	1,082,152	-	246,066	246,066	-
Investments in equity instruments	24,640	24,640	-	23,520	23,520	-
Amortized cost:						
Cash and cash equivalents	1,508,413	1,508,413	-	1,612,807	1,612,792	(15)
Receivables	15,358	15,358	-	8,681	8,681	-
Investments in debt instruments	465,758	460,447	(5,311)	1,688,978	1,673,610	(15,368)
Loans	19,414,746	19,353,222	(61,524)	17,930,439	17,981,104	50,665
Finance receivables[1]	1,203,254	1,198,655	(4,599)	1,079,610	1,073,667	(5,943)
Other assets	12,010	11,902	(108)	12,610	12,614	4
Total financial assets	23,810,694	23,739,152	(71,542)	22,708,409	22,737,752	29,343
Financial liabilities at FVTPL:						
Derivative instruments						
Interest rate swaps	5,761	5,761	-	48,606	48,606	-
Foreign exchange contracts	1	1	-	28	28	-
Other liabilities:						
Deposits	16,896,177	16,920,474	24,297	15,778,023	15,895,326	117,303
Borrowings	300,287	300,287	-	300,279	300,279	-
Payables and other liabilities	142,700	142,671	(29)	151,927	151,928	1
Secured borrowings	1,523,300	1,521,774	(1,526)	955,380	955,380	-
Mortgage securitization liabilities	3,572,125	3,575,177	3,052	4,358,412	4,367,015	8,603
Subordinated debt	175,367	174,570	(797)	175,200	177,915	2,715
Employee obligations	43,295	43,295	-	23,953	23,953	-
Membership shares	378	378	-	388	388	-
Total financial liabilities	22,659,391	22,684,388	24,997	21,792,196	21,920,818	128,622

35 Financial risk management (continued)

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 and FVTOCI, the carrying values of the above financial instruments are not adjusted to reflect the fair value.

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. The fair value of investments in debt instruments is determined either by discounting the expected future cash flows on these investments at current market rates and applying a credit valuation adjustment for counterparty risk, or by taking the fair values provided in investor statements
iii. The fair value of equity investments is determined using discounted cash flow models, by referencing market prices for publicly listed instruments, or by taking the fair values provided in investor statements.
iv. 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 carrying value of variable rate loans, are assumed to capture changes in credit spreads.
v. The fair value of other assets are assumed to approximate their carrying values when short-term in nature. In some instances, other valuation techniques may be applied.
vi. 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.
vii. 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.
viii. 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.
ix. The fair values of payables and other liabilities are assumed to approximate their carrying values when short-term in nature. In some instances, other valuation techniques may be applied.

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.

35 Financial risk management (continued)

The following table illustrates the classification of the Credit Union's financial instruments within the fair value hierarchy.

	Fair value as at December 31, 2021		
	Level 1	Level 2	Level 3
Recurring measurements			
Financial assets			
Derivative financial assets:			
Equity index-linked options	-	31,011	-
Interest rate swaps	-	16,637	-
Bond forwards	-	8	-
Foreign exchange contracts	-	2	-
Investments in debt instruments	-	1,082,152	-
Investments in equity instruments	24,640	22,376	14,329
Total financial assets	24,640	1,152,186	14,329
Financial liabilities			
Embedded derivatives in index-linked deposits	-	(30,360)	-
Derivative financial liabilities:			
Interest rate swaps	-	(5,761)	-
Foreign exchange contracts	-	(1)	-
Total financial liabilities	-	(36,122)	-
Fair values disclosed			
Cash and cash equivalents	1,498,523	9,890	-
Receivables	-	15,358	-
Investments in debt instruments	-	460,447	-
Loans	-	-	19,353,222
Finance receivables	-	-	1,198,655
Other assets	-	11,902	-
Deposits	-	(16,890,114)	-
Borrowings	-	(300,287)	-
Payables and other liabilities	-	(142,671)	-
Secured borrowings	-	(1,521,774)	-
Mortgage securitization liabilities	-	(3,575,177)	-
Subordinated debt	-	(174,570)	-
Employee obligations	-	(43,295)	-
Membership shares	-	(378)	-

35 Financial risk management (continued)

	Fair value as at December 31, 2020		
	Level 1	Level 2	Level 3
Recurring measurements			
Financial assets			
Derivative financial assets:			
Equity index-linked options	-	13,860	-
Interest rate swaps	-	1,057	-
Foreign exchange contracts	-	33	-
Investments in debt instruments	-	246,066	-
Investments in equity instruments	23,520	83,498	7,250
Total financial assets	23,520	344,514	7,250
Financial liabilities			
Embedded derivatives in index-linked deposits	-	(13,500)	-
Derivative financial liabilities:			
Interest rate swaps	-	(48,606)	-
Foreign exchange contracts	-	(28)	-
Total financial liabilities	-	(62,134)	-
Fair values disclosed			
Cash and cash equivalents	693,575	919,217	-
Receivables	-	8,681	-
Investments in debt instruments	-	1,673,610	-
Loans	-	-	17,981,104
Finance receivables [1]	-	-	1,073,667
Other assets	-	12,614	-
Deposits	-	(15,881,826)	-
Borrowings	-	(300,279)	-
Payables and other liabilities	-	(151,928)	-
Secured borrowings	-	(955,380)	-
Mortgage securitization liabilities	-	(4,367,015)	-
Subordinated debt	-	(177,915)	-
Employee obligations	-	(23,953)	-
Membership shares	-	(388)	-

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.

1 The prior year amount for fair value of finance receivables has been restated using a corrected discount rate. This results in a decrease in the fair value from $1,178,838, as previously presented, to $1,073,667.

35 Financial risk management (continued)

35.5 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; and
- 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, series 09, and series 15. 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 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, 2021 was $1,248,216 (2020 - $1,062,589).

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, series 09 and series 15 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, 2021 was $317,882 (2020 - $326,104).

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
2021	1,566,098	4.00 %	6.88 %	8.00 %	13.60 %
2020	1,388,693	4.00 %	6.35 %	8.00 %	13.52 %

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 as at December 31, 2021 and 2020.

35 Financial risk management (continued)

35.5 Capital management (continued)

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.

36 Reconciliation of liabilities arising from financing activities

	2021	2020
Proceeds from securitization of mortgages	1,298,269	2,589,989
Net change in mortgage securitization liabilities	(2,085,630)	(1,352,282)
Net change in borrowings	1	(273)
Issuance of secured notes, net	568,018	(402,221)
Net change in subordinated debt	160	125,249
Payments related to lease obligations	(7,872)	(7,520)
Net cash from changes in Membership shares	(10)	12
Net cash (used in) from changes in liabilities	(227,064)	952,954
Dividends paid on Members' capital accounts	(7,010)	(3,670)
Cash (used in) provided by financing activities	(234,074)	949,284

	January 1, 2021	Cash Flow	Non-Cash Changes		December 31, 2021
			Changes in Accrued Interest	Amortization of Deferred Amounts	
Borrowings	300,279	1	7	-	300,287
Secured borrowings	955,380	568,018	(98)	-	1,523,300
Mortgage securitization liabilities	4,358,412	(787,361)	362	712	3,572,125
Membership shares	388	(10)	-	-	378
Total	5,614,459	(219,352)	271	712	5,396,090

	January 1, 2020	Cash Flow	Non-Cash Changes		December 31, 2020
			Changes in Accrued Interest	Amortization of Deferred Amounts	
Borrowings	300,444	(273)	108	-	300,279
Secured borrowings	1,359,020	(402,221)	(1,419)	-	955,380
Mortgage securitization liabilities	3,001,663	1,237,707	266	118,776	4,358,412
Membership shares	376	12	-	-	388
Total	4,661,503	835,225	(1,045)	118,776	5,614,459

37 Authorization of consolidated financial statements

The consolidated financial statements for the year ended December 31, 2021 were approved by the Board of Directors on March 10, 2022.

Amendments to the consolidated financial statements subsequent to issuance are not permitted without Board approval.

Karen Farbridge
Chair, Board of Directors

Bruce West
Chair, Audit & Finance Committee