

# 2010 Investment Shareholders Update



## Dear Member,

I hope your year is going well. As the economy continues to improve, the light at the end of the recession's tunnel seems to be getting a bit closer.

While growth might seem moderate, compared to many European countries and our neighbours to the south, Canada's economy is solid. In fact, we have become a model for other economies to follow. That's because Canadians like you understand the importance of saving and having the foresight to plan ahead, especially during periods of growth.

Speaking of saving, there is no time like the present to review your finances and see how they are performing. When you have a good understanding of your savings, it becomes easier to make day to day spending decisions and achieve your long term financial goals.

Because Meridian is your financial partner, we have your best interests in mind. Now is the time to reach out to you, our Member Shareholders, and offer you an update.

This update will provide all the information you need to make sense of the economy. It will also fill you in on Meridian's financial health and the tremendous community support we enjoy through our Good Neighbour Program.

Please take a few moments to review the update. I hope you will find the information helpful. I wish you and your family all the best for the coming year. May health and happiness be yours!

Sincerely,

Sean Jackson  
President and CEO

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where real people build lives™

# 2010 Investment Shareholders Update

## Financial Performance

For the 6 months ending June 30, 2010

Despite the sluggish economic recovery in the first half of 2010, Meridian continues to generate strong earnings and solid growth. This testifies to both the strength of our balance sheet and the value we provide our growing membership base – now well over 200,000 retail and commercial Members. A number of initiatives have been implemented which contribute to these achievements thus far this year, including the following:

- The opening of two new branch locations – Clair Road East in Guelph, and King Street East in Courtice
- Launch of a new high interest Online Savings Account
- Significant investment in training and tools to improve the effectiveness of our branch teams
- Highly competitive retail mortgage pricing
- Our ongoing commitment to providing our Members superior personalized service has resulted in further improvements to Member loyalty scores by 1.3%.

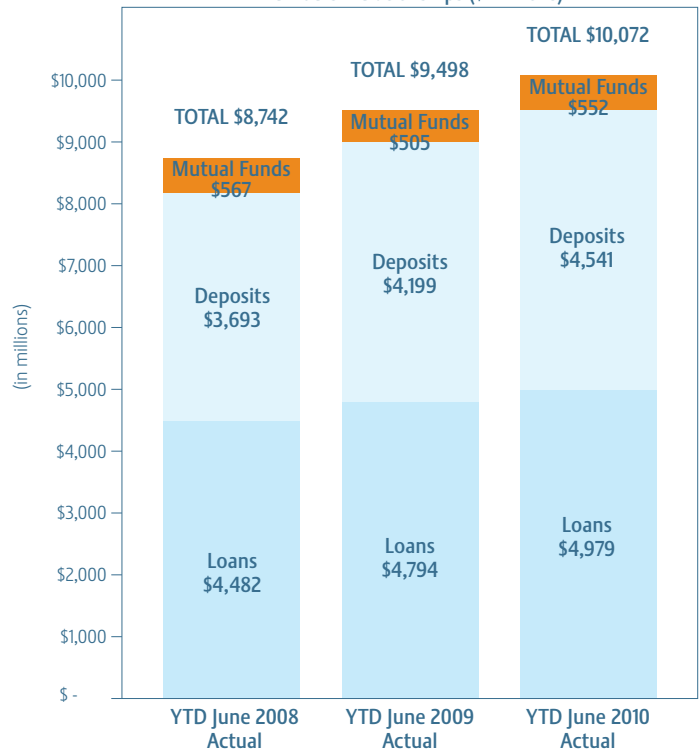
### Members' Relationships

The growth in our relationships – that is, in the combined balance of Member loans, deposits and mutual funds – is a key indicator of Meridian's overall performance. Members' relationships totaled \$10 billion at June 30, 2010, reflecting annualized growth of 5.5% or \$268 million since December 2009. For the first half of the year, loan growth was \$148 million or 3.1%, which was driven primarily by strength in residential mortgage sales. Deposits have grown by 2.5% or \$112 million thus far in 2010, with continued success in, first, acquiring commercial deposits throughout the first two quarters of 2010 and, second, in modest increases in retail deposit holdings. With respect to mutual fund balances, the portfolio has grown by \$8 million or 1.4%, with over \$50 million in mutual fund sales to new and existing Members.

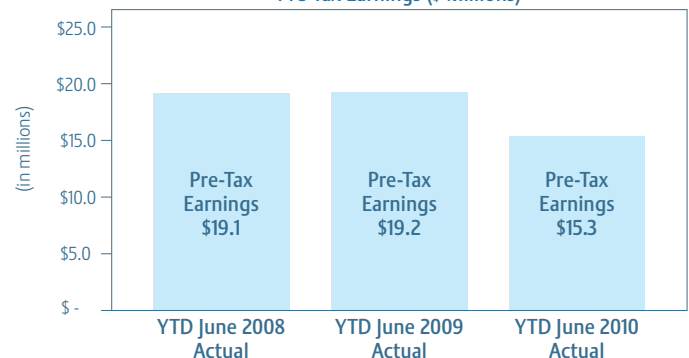
### Pre-Tax Earnings

At \$15.3 million this year to date, Meridian's pre-tax earnings are \$4 million below the highs reached during the same period in 2009. Operating revenue has declined by \$7 million or 9.3% over the prior year comparative, while operating expenses have actually declined by \$2 million or 3.6%, this year to date. This decline in revenue is due in large part to the amortization of accounting gains incurred in previous years on the sale of mortgage backed securitization pools. In addition, prior year results include significant gains from these securitizations, whereas to date, in 2010, our funding requirements have been lower. Resultantly, we have not sold mortgage backed securities. As absence of these gains on sale causes a decline in revenue, we have incurred a \$13 million decline in securitization revenue in comparison to the prior year. This, though, has been somewhat offset by an increase of \$2 million in net interest income and \$4 million in non-interest income. When we look through the impact of the complexities of securitization accounting, actual cash flow revenue has increased by 18% year over year. Continued focus on sustainable cost management has generated long-term

Members' Relationships (\$ Millions)



Pre-Tax Earnings (\$ Millions)



# 2010 Investment Shareholders Update

## Financial Performance (continued)

savings in a variety of Meridian operations, thus enabling Meridian to further invest in business in the coming months. Also, while it appears that retail loan impairments have peaked, due to the lagging impacts of the economic recovery, many of our commercial Members are still finding conditions challenging. This means further increases in loan impairment expenses are expected this year.

## Maintaining Balance Sheet Strength

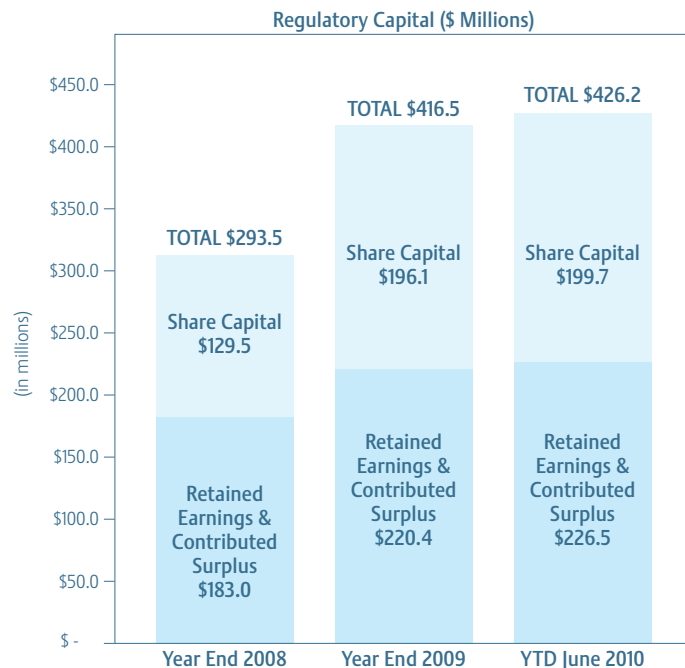
The prudent approach Meridian undertook to strengthen its balance sheet the year prior to the global financial meltdown remains appropriate in these early stages of economic recovery. This approach includes an ongoing effort to reduce our reliance on both wholesale borrowings and off balance sheet funding sources, resulting in a \$271 million decline in funding requirements from these sources in the first half of 2010. Meridian also continues to focus on improving both geographic and industry diversification within our commercial portfolio, as well as on maintaining a healthy overall balance between our commercial and retail lending activities. Meridian's regulatory capital – that is, the equity that has been built up in the organization through the combination of earnings growth and investment share issues – grew by \$10 million since the end of 2009 and is \$97 million higher than the balance at the same time last year. Much of the increase thus far in 2010 is derived from achieved earnings, as outlined in our pre-tax earnings commentary above. The Class A Series 09 offering that closed late 2009 accounted for \$60 million of the \$97 million of the growth from the same time last year. As of June 30th, Meridian's risk-weighted capital ratio is 13.14% – well above the regulatory minimum of 8%.

Over the last six months the outlook for the global and domestic economy has improved to the extent that Canada now appears to be on the road to a sustainable, albeit slow, economic recovery. This is likely to bring about gradual improvement in demand for

## Economic Update

Exactly one year ago, all portrayals of 2010 became synonymous with words such as, recovery, growth and employment. Unlike most counterpart nations, Canada was fortunate to have a solid fiscal backing and stability within our banking sector. While everything around us was faltering, the foundation of our economy remained intact.

As we entered 2010, our national growth rate was expected to quickly recover from the 2.5% contraction we experienced in 2009. Although Canadian projections were marginally on pace with those



commercial and retail credit, as well as to cause continued upward pressure on funding sources and subsequent costs. While Meridian is optimistic about the medium term outlook for the Ontario economy as a whole, there are still some risks from international volatility. This could substantially affect the shape of the recovery, and, ultimately, Meridian's financial performance. Clearly, there is still some uncertainty about the speed of economic recovery – for Canada and the globe – as well as about the performance of our major trading partners, most notably the United States. As such, Meridian will remain focused on maintaining the strength of our balance sheet and on prudently managing both our asset growth and long-term cost structure.

of our peers, emerging nations were considered to be the real leaders in global economic recovery. With a solid structure in place, Canada instilled a focused fiscal and monetary stimulus, catapulting the Canadian economy to a 6.1% expansion rate in the first quarter – leading the pack amongst G7 nations. As signs were pointing to improving conditions, the pace of job creation began to rise, and by July we had added 403,000 jobs, which nearly compensated for losses related to the crisis. Soon fears of inflation began to subside, and focus switched to deflation. As the Bank of Canada focused on

# 2010 Investment Shareholders Update

## Economic Update (continued)

methods to maintain a 2% inflation rate, our stringent monetary policy was halted. Domestic spending patterns were strong, and the excess supply insured that Canadian consumers would continue to drive business. As a result, interest rates began to rise; the latest estimates show two more increases in 2010, which could potentially result in a prime rate of 3.25%.

At this point, Canada has fared well at remaining domestically sustainable. While this provides a level of comfort, we are still faced with three challenges. First, until economic vitality returns, we are likely to continue managing \$56 billion in fiscal debt related to stimulus spending. Although this may also curb future government spending, it limits potential stimulus in case of adverse shocks. The remaining two challenges are uneven growth within the United States and the sovereign debt crisis impacting the Euro zone. While Americans continue to pay down their debt and unemployment remains in the 10% range, trading capabilities will likely be restricted. If this limits our exports, it could strain Canadian growth. Additionally, troubles in Europe leave little capacity for import agreements with the traditionally strong U.K, France, and Germany. Due to these uncertainties, Canadian growth for 2010 is expected to flatten at 3.5% before declining to 2.9% in 2011.

As with all recoveries, we are experiencing variability on a provincial level. Beginning in the west, British Columbia has been gaining momentum with positive impacts in the forestry, mining, and energy sectors. These changes have led to increased consumer confidence, which is driving the housing market. A recent CMHC study determined that B.C will see a 42% increase in housing starts over 2009. They also expect this strong growth to continue right through to 2013. Next door, Alberta is expected to receive \$2.2 billion in resource investment by year end. As a result, the provincial growth rate will likely surpass the national average and reach 4.1%. As we approach the central and eastern provinces, growth moderates. Manitoba, Quebec, New Brunswick, and Nova Scotia, which are all facing improved resource and mining sectors, will experience between 2.3% and 3.8% growth throughout the remainder of the year.

In our own province, growth thus far has been traveling at a reasonable pace; more importantly, it has been quite steady. As expected, the service sector has led the job recovery, while manufacturing continues to gain strength. Due to recent chromium and gold discoveries in Northern Ontario, more focus has been placed on the resource sector, and we expect to see added vigor in the province's recovery. Since January, 99,500 jobs have been created; 6,000 more than all the jobs created in 2008. These gains have quickly made up for 62% of all job losses in 2009. With expected investment in the auto sector, job creation will continue to diversify through the remainder of 2010. The unemployment rate, which presently resides at 8.5%, has declined by 0.6% since December 2009. Economic indicators such as housing starts and manufacturing sales are also proving to be quite healthy. By May,

sales of manufactured goods had risen to 22.5% over last year. With plenty of capacity to grow within this sector, we expect to see slow but stable growth over the coming year. With low interest rates among the catalysts, housing starts also continue to build on the solid growth of 2009. To date, there have been 31,000 starts or 60% of the annual starts in 2009. Overall, Ontario has a good hold on recovery. Though growth will likely begin to slow, all signs continue to show positive performance throughout 2011. Ontario's growth rate is expected to remain on pace with the national average of 3.5%.

The Canadian dollar can be viewed as the "younger brother" to the U.S dollar for it travels closely inline with the latter's changes. With growing stability within our market, and with troubles still looming south of the border and in Europe, we can expect to see increased volume trading in the near future. Coupled with the anticipated interest rate increases later this year, our dollar is expected to approach parity by year end.

As our summer comes to an end, it's a great time to reflect upon the challenges faced over the past few years. At this point we have not yet weathered all troubles, and issues continue to arise daily. Uncertainty in the US and European recovery will certainly impede our growth in the coming months, and potentially into the new year. Therefore, the Bank of Canada's precautions to ensure our infrastructure remains solid will likely provide the necessary support in case of adverse shocks from the global economy. Thus far, the pace of our growth provides sufficient hope that we're heading in the right direction. Although the speed of change will likely slow, sustained stability will be the deciding factor in our economic health throughout 2010 and into 2011.

# 2010 Investment Shareholders Update

## Corporate Update

### Meridian is financially strong – and we're growing

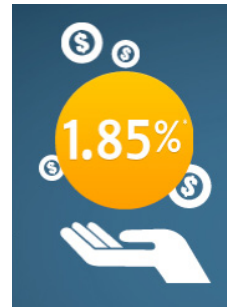
Meridian's financial results to date remain strong and we continue to grow. We recently expanded in the Guelph community, opening a third branch. We also relocated our Darlington branch to a new location in Courtice. Now we can provide even more personalized service to our Members in these communities.

On August 1, 2010, we grew even more when Sunnybrook Credit Union officially partnered with Meridian. This expands the range of the financial planning and services available to Sunnybrook's 1,200 Members and broadens our presence in Toronto.



### Providing you with value – Our Online Savings Account

We all have the best intentions when it comes to saving and achieving our long term financial goals. This year Meridian launched a new Online Savings Account, making it both beneficial and easy for you to save. This account's high interest rate will lead the market – plus, building your savings will seem almost effortless. To learn how you can start saving now, visit us at [www.meridiancu.ca](http://www.meridiancu.ca)



### Two years in a row: Canada's Top 100 Employers

For a second consecutive year, Meridian was honoured with being named a Top 100 Employer.



### Our Corporate Social Responsibility program

This year we re-launched the Good Neighbour Program, Meridian's award-winning initiative dedicated to exercising corporate social responsibility in the communities we serve. Since its establishment in 2006, the Good Neighbour Program has enabled us to sponsor more than 1,500 worthwhile organizations and events in Meridian communities.



Meridian does much more than sponsor events in order to help make our communities strong, vibrant and inclusive. We also donate thousands of volunteer hours and provide in-kind services. After hundreds of discussions with our Members, employees and community residents, we decided we could do more to build our communities and so are including an expanded number of economic, social and environmental activities under the Good Neighbour umbrella.



To learn more about our commitment to social responsibility and our community activities, please visit our website's Community Page, at [www.meridiancu.ca](http://www.meridiancu.ca).

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