




— MERIDIAN —

ANNUAL REPORT 2018



Contents

Our Story

At Meridian, we are on a mission to change the way Canadians bank.

We are Ontario's largest credit union and the third largest in the country, helping to grow the lives of more than a quarter of a million Members. As a credit union, we are 100 per cent owned by our Members, which means we work for them. It also means we can reinvest our profits into some of the most competitive and innovative products, rates and services in the marketplace, as well as into the well-being of the communities we serve.

Our approach is straightforward – to empower Members with open and honest dialogue, sharing knowledge, promoting choice and supporting opportunity. What's more, our more than 1,900 employees are dedicated to saving each Member time, money and effort with every engagement. And by providing access to over 90 branches, 11 Business Centres, 3,700 ABMs and 24/7 online and mobile banking, we make it easy and convenient for our Members to do their banking with us. Simply put, we're here to change the way Canadians feel about banking and to help our Members achieve a better life.

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

Message from the Board Chair

Credit unions, like any business these days, are facing a brave new world. The landscape is changing rapidly. There are new ways to deliver products and services. Digitization is transforming how companies work and relate to their markets. Consumers have more choice. In such an environment, what should we look like?

It's easy to be pulled off course. However, at Meridian, the Board strives to ensure we're positioned to succeed, adapting while being rooted in some fundamentals as a co-operative bank.

Two awards we received in Fall 2018 say a lot about what's behind our performance.

One was a Platinum Level Aon Best Employer in Canada, putting us in the top 25% of those surveyed. Among the criteria used is engagement. That's a critical metric, as having an engaged workforce is a real competitive advantage.

We tell Members they can feel good about banking with us. Our employees tell us they also feel good about working for Meridian. They believe in the value we provide and the chance to make a difference. When employees feel that, they're motivated and dedicated, and provide exceptional service.

If engagement is one reason for our success, another is captured by a second honour: an Excellence in Governance Award, from the Governance Professionals of Canada. We've spent considerable time improving our governance, so that we can continue to add value as our business and the environment in which we operate transform.

Excellence in governance means acting in Members' best interests, demonstrating our stewardship to them and having a clear strategic direction that serves them well. In a changing world, you need that focus. What should we look like? Like a financial services organization that puts Members first. Around the board table, the only measure of success is improving Member experience.

That's why we're so excited to launch motusbank this spring. It's different from other digital banks.

It's digital, not impersonal. We will deliver superior interactions at motusbank. We will bring the Meridian experience to a national audience. We will take the investment we have made in our digital offerings in Ontario and bring even greater value to our Members.

The word "motus" means movement or motion. It underscores how we represent a powerful movement in financial services. That's true for motusbank and Meridian as a whole.

On behalf of the Board I thank our Members for choosing us. I also thank Bill Maurin, our management team and each of our employees for their commitment to our Members. And for dealing with them in a knowledgeable, engaged, accountable and ever-improving way.

That's at the root of our past and our continued success.

Karen Farbridge
Chair, Board of Directors

Message from the President & CEO

Companies typically talk about their clients or customers. We use the term "Members." It's not only for legal reasons, – because of how we're structured. We want our Members to feel a sense of belonging, that they're valued and that they're connected to people who truly care about their well-being.

At Meridian, that's our reason for being – to put our Members' interests first.

Routinely, we reach out to our over 350,000 Members to see how we're doing. We ask a number of questions to gauge their loyalty, and how likely they are to recommend us.

This type of survey is common in business.
The better we do on the "net promoter" measure, the more it looks like we'll grow. But the insight we glean from this tool isn't about our bottom line; it's about our Members' lives. So two of the questions we ask are: 1) whether Meridian makes a positive difference in our Members' overall financial wellness; and 2) whether Meridian is helping them achieve a better life.

We're doing well on both (and can still improve) because we always strive to provide the services, products and solutions that matter to you.

That means being innovative in our offerings, as well as in the efficiency with which we deliver them. We always want our Members to say that Meridian did it first and does it best.

That also means expanding what we do, whether adding more lines of business or going national with the full-service digital motusbank in early 2019. As Meridian evolves, it's all about being and doing something different in the marketplace. What's exciting is giving Members the right value and best interactions across all channels.

Our growth is a by-product of that relentless focus on making our Members' lives better. We have their backs, give them trusted solutions and make things easier for them. We do all this so that they can realize their goals and feel like Members – like they're at the centre of all we do.

An approach like that is why, in 2018, we grew to become the third largest credit union in Canada. Since the end of 2017, our membership base has increased by 11%. Our digital membership has gone up 61%. We had another great year, and our asset, loan and revenue growth are all outperforming many of our competitors.

We now have $20.4 billion in assets under management, a network of over 90 branches across Ontario, commercial banking services in 11 locations and an imminent national footprint.

Growth like that doesn't happen without our talented, creative and engaged Meridian employees.
They're obsessed with ensuring we deliver the finest and most meaningful experiences for Members.

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

Most importantly, I thank you, our Members, for choosing us and giving us a chance to always prove that you belong here.

Bill Maurin
President & CEO

Board & Management Team

Executive Leadership Team

Back row left to right:

Wade Stayzer – SVP & Chief Member Experience Officer

Anne Berend – SVP & Chief Employee Experience Officer

Bill Maurin – President & CEO

David Moore – SVP & Chief Marketing Officer

Leo Gautreau – SVP & Chief Risk Officer

Front row left to right:

David Baldarelli – SVP Digital Banking & Enterprise Analytics

Sunny Sodhi – SVP & Chief Strategy & Corporate Affairs Officer

Tara Daniel – SVP & Chief Financial Officer

Gary Genik – SVP & Chief Operating Officer

Board of Directors

Back row, left to right:

Larry Doran

Jeff Chesebrough

Ken Bolton

Carol Hunter

Peter Patchet

Colleen Sidford

Ted Cadsby

Front row, left to right:

Tamara Paton (Vice Chair)

Bruce West

Karen Farbridge (Chair)

Mike Valente

Corporate Governance Report

Approach to Governance at Meridian

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

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

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

Excellence in Governance Award

Meridian is honoured to be a 2018 recipient of Governance Professionals of Canada (GPC) Excellence in Governance Awards (EGAs) for the "Best Approach to Achieving Effective Board and Committee Operations".

The category recognizes best practices and innovations applied to ensure that board and committee composition processes and time are actively managed to maximize their governance and strategic oversight functions. Judges cited Meridian's close collaboration with the Board, Management and external advisors to introduce best practices in Board nomination and renewal processes, succession planning, Board/director evaluation, onboarding and continuing education, planning meetings and Board/committee interaction.

Governing Legislation and Regulation

Meridian operates within a comprehensive regulatory framework. We are established under provincial legislation: the *Credit Unions and Caisses Populaires Act, 1994* (the "Act"). Credit Unions are regulated by two primary bodies: i) the Financial Services Commission of Ontario ("FSCO"); and ii) the Deposit Insurance Corporation of Ontario ("DICO").

The Ministry of Finance is responsible for developing and establishing the legislative and regulatory framework under which credit unions must operate. FSCO is responsible for ensuring that credit unions operate in accordance with the requirements of the Act and the regulations thereunder, particularly with respect to issues involving market conduct relating to Members and the general public. DICO is responsible for overseeing compliance with solvency rules and for providing deposit insurance protection for deposits held in Ontario credit unions and caisses populaires up to prescribed limits. As part of this responsibility, DICO has the authority to issue by-laws to ensure that insured institutions operate in accordance with sound business and financial practices. In early 2015, DICO issued Guidance Notes respecting desired practices in Corporate Governance for the Board, Management, and the Audit & Finance Committee of the Board. Meridian has conducted a gap analysis against this Guidance and is pleased to report that no gaps were identified. To promote responsible governance through strength and stability, Meridian meets quarterly with DICO representatives, provides regular reporting to DICO and participates in periodic risk-based examinations. Although it is not the practice of FSCO to schedule regular meetings with Ontario credit unions, as a best practice Meridian proactively advises FSCO of matters relating to its business of which we believe the regulator should be aware.

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

- Increasing the deposit insurance limit for credit union deposits from $100,000 to $250,000;

- Allowing credit unions to enter into loan syndication agreements with the counterparts in other provinces so they can offer greater financing to Ontario individuals and businesses;

- Permitting credit unions to own insurance agents or registered insurance brokers as subsidiaries so they can diversify their investment opportunities; and

- Levelling the playing field with banks by modifying regulations in various Ontario statutes to include credit unions as permissible financial institutions.

These changes represent the first phase of what we believe is needed to modernize the Act and Meridian is actively engaged with our credit union sector partners to lobby the province to conduct a thorough modernization.

Another important step in the modernization of our regulatory framework is the consolidation of DICO and FSCO into the new Financial Services Regulatory Authority ("FSRA"), which is scheduled to become operational June 1, 2019. This new provincial agency will take over the operation of DICO and FSCO and become responsible for the regulation of all provincially regulated financial institutions.

Board Mandate

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

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

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

Board Composition and Election

In accordance with our By-laws, Meridian's Board is composed of 12 Directors, all of whom are independent. As a result of the resignation of one Director during 2018, Meridian's Board currently consists of 11 Directors and one vacancy. The process for the election of Directors is comprehensive. Each year the Board reviews the skills, knowledge and experience of the Board to determine whether any gaps exist in order to ensure the highest quality Board composition. The Board's Nominating Committee is requested by the Board to seek to fill any identified gaps as they solicit candidates for nomination from Meridian's Members. Prospective candidates receive an extensive package of information.

In recent years, DICO used this package as the basis for a sample Director Candidate Information Guide, released to the Ontario credit union system.

Meridian has a robust nomination process for the selection of Directors, under the oversight of the Board's Nominating Committee. This year, the Nominating Committee retained an external advisor, Spencer Stuart, to assist in evaluating each application and determining a short list of the top candidates to be interviewed by the Committee. Following the interviews, it is the Nominating Committee's responsibility to recommend to the Membership the best-qualified candidates to complement Meridian's existing Board members, in accordance with the criteria established by the Committee.

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

Board Diversity

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

The current 11 Directors bring to the Board table gender diversity, as well as a spectrum of education and experience, in particular significiant professional experience.

Orientation and Continuing Education

New Directors are offered a comprehensive orientation program to familiarize themselves with Meridian's governance processes and business operations. Every year a debriefing of the orientation session is conducted to capture enhancement opportunities for subsequent years.

The Governance Committee continues to evaluate this program to ensure the most effective orientation is provided to new Directors. Recently, a formal revamp of the orientation program was undertaken to ensure that a robust program will continue to be offered to new Directors. Individual Committees of the Board have also established their own orientation programs to better educate new Committee members on their responsibilities. The Board has an approved budget for ongoing Director training and development, including educational sessions for the "Board as a whole," industry-sponsored seminars and other conferences for individual Directors that are relevant to Meridian's business. The Board established a policy in late 2012 that sets an objective for the majority of Meridian's Directors to receive an external director accreditation designation.

In 2018, several Board education sessions were held to address topics considered to be particularly important in light of the evolving business of Meridian. In 2018, Meridian's Board began an education program to address the new guidelines on securitization established by DICO in September 2018.

Enhanced Orientation and Education Process

In 2018, Meridian enhanced its orientation program to include attendance by each new director at one meeting of each of the committees on which such director is not a member as well as to incorporate formal meetings with each of the Board Chair, Vice Board Chair and the CEO. The education program was also enhanced to include a new listing of educational opportunities updated and circulated quarterly to directors for consideration.

Board Evaluations

The Board is committed to effective governance and continuous improvement. Annually, the Governance Committee facilitates a Board evaluation process to assess the effectiveness of the Board. Generally, external consultants are engaged to conduct these engagements. The Board continued working closely with an external consultant in 2018 to review Meridian's governance framework in order to identify enhancements and efficiencies that would ensure such framework continues to adhere to the highest standards. Interviews of Committee members and Management support staff were conducted, leading to a comprehensive report for the Board.

In 2018, the Meridian Board monitored the recommendations resulting from its comprehensive Board evaluation process and developed action plans to ensure it strives towards a continual improvement in Board effectiveness.

Board Committees

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

Audit & Finance Committee

- Review financial statements, internal controls, accounting policies and reporting procedures;
- Review the Credit Union's financial performance relative to established metrics;
- Ensure the integrity of financial reporting;
- Oversight of internal and external audit processes;
- Oversight of capital management;
- Monitor the independence of external auditors;
- Oversight of compliance with applicable statutory and regulatory requirements;
- Oversight of compliance with established thresholds or limits required under Board policies; and
- Oversight of the reporting relationship of the Chief Audit Executive.

Governance Committee

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

Human Resources Committee

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

Nominating Committee

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

Risk Committee

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

Years of Service on the Board and Committee Membership 2018

The following are the members of the Board, their respective year of election, as well as the Committees served on in 2018:

Audit & Finance Committee

Ken Bolton (Chair)	Elected in 2015
Larry Doran	Elected in 2014
Carol Hunter	Elected in 2016
Peter Patchet	Elected in 2017
Bruce West	Elected in 2018

Governance Committee

Carol Hunter (Chair)	
Ted Cadsby	Elected in 2016
Karen Farbridge	Elected in 2015
Bruce West	

Human Resources Committee

Colleen Sidford (Chair)	Elected in 2012
Jeff Chesebrough	Elected in 2015
Karen Farbridge	
Tamara Paton	Elected in 2013

Nominating Committee

Jeff Chesebrough (Chair)	
Peter Patchet	
Colleen Sidford	
Mike Valente	Elected in 2017

Risk Committee

Larry Doran (Chair)
Ken Bolton
Ted Cadsby
Tamara Paton
Mike Valente

2018 Board Initiatives

The Board believes it is important to offer a level of transparency in its interactions with the Members. To that end, the Board provides the Members with information on its activities. The Board is pleased to advise of the following initiatives implemented in 2018:

- Continued its robust review of governance policies to ensure adherence to the highest governance and industry standards;
- Revised the Subsidiary Governance Policy to reflect the evolution of Meridian's corporate structure and business model diversification;
- Restructured its mid-year planning session into a strategic retreat with emphasis on longer-term strategic horizons;
- Enhanced the Committee Chair reports to the Board to make them more robust;
- Through the Audit & Finance Committee, enhanced oversight of Meridian's capital management framework; and
- Enhanced the Board's knowledge and expertise in the area of securitization through a new education program and the adoption of a new policy under the oversight of the Risk Committee.

Board Code of Conduct

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

In 2018, Meridian's Code of Conduct was amended to incorporate new cannabis legislation.

Director Compensation

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

In accordance with the Board's compensation policy, Director remuneration will be reasonable and competitive as compared with businesses of comparable size and complexity within the Canadian financial industry, including Canadian credit unions, that place a similar level of accountability and oversight on Directors and that require Directors to achieve a high degree of ongoing education and technical proficiency. The Director compensation philosophy aligns strategically with Meridian's long-term sustainability and business objectives.

New All-In Fee Structure

In accordance with the Board's compensation policy, a comprehensive review is undertaken every two years, with the last review completed in 2018.

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

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

Changes to Board Compensation

Applying this structure, a typical Board Member would receive total compensation of $60,000, aligned with the median of market data from the 2018 compensation review. This compares to total compensation of approximately $45,000 under the former structure. This increase is intended to cover a two-year period, with the next biennial review of Director compensation scheduled for Spring 2020.

As part of the change to the overall compensation structure, the Board also approved increases to the additional retainers for Chair roles, including:

- Board Chair role to $40,000 (from $25,000)
- Vice Chair role to $10,000 (from $5,000)
- Audit & Finance Committee Chair to $15,000 (from $10,000)
- All other Committee Chairs to $10,000 (from $5,000)

The following table represents the specific details for the all-in fee structure effective as of May 1, 2018.

Position	all-in fee[1]
Board Member	$60,000
Additional Fee for Chair Roles	
Board Chair	$40,000
Board Vice Chair	$10,000
Audit & Finance Committee Chair	$15,000
Governance Committee Chair	$10,000
Human Resources Committee Chair	$10,000
Nominating Committee Chair	$10,000
Risk Committee Chair	$10,000

(1) The all-in fee structure adopts one single fee and replaces the former fee structure consisting of a retainer plus per meeting fees for attendance at Board and Committee meetings.

In keeping with good governance practice of disclosure, the table below summarizes the total compensation (excluding expense reimbursement) received by each Director during 2018:

Director	Total Compensation[1]
Ken Bolton (Audit & Finance Committee Chair)	**$68,667**
Ted Cadsby	**$58,333**
Jeff Chesebrough (Nominating Committee Chair effective 4/18)	**$65,750**
Larry Doran (Risk Committee Chair effective 4/18)	**$64,750**
Karen Farbridge (Risk Committee Chair until 4/18; Board Chair)	**$82,917**
Carol Hunter (Nominating Committee Chair until 4/18; Governance Committee Chair effective 4/18)	**$65,517**
Ross Lamont (served as a Director until 4/18)	**$15,383**
John Murphy (served as a Board Chair and Governance Committee Chair until 4/18)	**$24,983**
Peter Patchet	**$55,833**
Tamara Paton (Board Vice Chair)	**$68,417**
Colleen Sidford (Human Resources Committee Chair)	**$63,417**
Mike Valente	**$53,833**
Bruce West (elected to serve as Director effective 4/18)	**$41,000**

(1) In 2018, Directors received compensation under the former fee structure until the new All-in Fee structure became effective on May 1, 2018.

Executive Compensation & CEO Performance Management

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

The third party review is a robust process, which involves using comparator organizations from both financial services and general business/industry. Peer group development and target positioning guide an examination of Meridian's competitive position as compared to organizations of comparable size and complexity within the Canadian financial industry. Where applicable, Meridian considers market references from broader Canadian general industry reflecting the diverse talent market that may be considered for certain executive roles at Meridian. Market compensation data from just over 90 peer organizations, identified as a representative market for executive talent, are reviewed to ensure the Committee is equipped with an understanding of market practice to make informed executive pay decisions.

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

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

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

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

Director Attendance

The Board has a policy for "Attendance by Directors" and receives annual reporting of individual attendance. While the policy reflects a 12-month rolling attendance record due to the need to capture consecutive meeting attendance, the following chart reflects Director attendance during the 2018 calendar year. It includes former and newly elected Directors whose terms ended and/or commenced concurrent with the Annual General Meeting in April 2018.
The percentages pertain to the attendance at both Board and Committee meetings held during the period January 1, 2018, to December 31, 2018. Overall, this translates to a 98% average attendance by Meridian's Directors.

12 Months of 2018							
	Board of Directors		Committee		Total		
Director	Attend	Held	Attend	Held	Attend	Held	%
Ken Bolton	7	7	12	12	19	19	100
Ted Cadsby	7	7	10	11	17	18	94
Jeff Chesebrough	7	7	12	12	19	19	100
Larry Doran	7	7	15	15	22	22	100
Karen Farbridge	6	7	10	10	16	17	94
Carol Hunter	7	7	13	13	20	20	100
Ross Lamont (until 4/18)	2	2	3	3	5	5	100
John Murphy (until 4/18)	2	2	3	3	5	5	100
Peter Patchet	6	7	11	11	17	18	94
Tamara Paton	7	7	15	15	22	22	100
Colleen Sidford	7	7	9	9	16	16	100
Mike Valente	7	7	10	10	17	17	100
Bruce West (eff. 4/18)	4	5	7	7	11	12	92

The Board continues to be very pleased with the progress that Meridian has made since inception in 2005. Many of Meridian's recent successes are highlighted in the Management Discussion & Analysis that follows. Your Board would like to thank all Members for your continued loyalty and patronage in 2018.

You may contact the Board through our Governance office by writing to:
Email: Board.ofDirectors@meridiancu.ca
Mail:
Meridian Credit Union
c/o Corporate Secretary
3280 Bloor Street West
Centre Tower, Suite 2700
Toronto, ON M8X 2X3

For further information about Meridian's Board, please visit:

www.meridiancu.ca/About-Meridian/Corporate/Governance/Board-of-Directors.aspx

Corporate Highlights

Corporate Governance Award

Meridian was honoured to be a 2018 recipient of Governance Professionals of Canada Excellence in Governance Awards for the "Best Approach to Achieving Effective Board and Committee Operations." With robust governance, continuous improvement processes and innovative best practices, Meridian continues to constantly raise the bar in order to ensure we maintain a governance framework that truly serves our Members most effectively.

Employer of Choice

Announced in November 2018, Meridian was honoured to be named as a 2019 Platinum Level Aon Best Employer in Canada for the second consecutive year. Platinum-winning companies are those in the top-scoring 25 per cent of all companies surveyed and garner national recognition.

Enhanced Online Member Experience

In 2018, Meridian achieved another first with a significant enhancement to its digital banking capabilities. Meridian improved its lending channel through the development of an industry-leading end-to-end Digital Lending Platform, which allows Meridian Members and prospects to apply for and receive mortgages and loans completely online.

motusbank

Meridian cleared a key hurdle in its path to opening its new national bank, motusbank. In November 2018, the Office of the Superintendent of Financial Institutions (OSFI) issued motusbank with Letters Patent, bringing Meridian one step closer to taking the Meridian banking experience beyond Ontario's borders and making it available to all Canadians.

motusbank™

Product and Service Innovation

Once again, Meridian has broken new ground in digital innovation as the first credit union to launch a price-matching service that's available free of charge to Members. With the creation of the new Price Drop service, Members benefit with a convenient, seamless solution to save money on retail purchases. Price Drop was launched as a pilot in December 2018.

Our Commitment to Communities

Meridian's Commitment to Communities is based on our fundamental belief in our role in empowering Member, employee and community wellbeing. We believe that by creating and promoting community programs and partnerships that engage, educate and empower Canadians, we bring to life our promise to put our Members, employees and communities first. Here are highlights of three of the programs that reflect this commitment.

Good Neighbour Program

The Good Neighbour Program is our local sponsorship program through which our team members across Ontario forge partnerships with hundreds of local charities, not-for-profit organizations and public organizations so that we can work together to meet the needs of the communities in which we live and work.

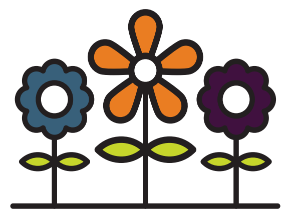
This year our

91 Branches

supported over

450

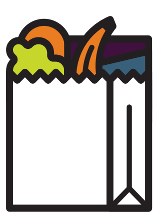
local community events, programs and initiatives across Ontario



Three Community Event Highlights this Year

HAMILTON FARMERS' MARKET

Meridian is a proud partner of the City of Hamilton's Farmers' Market. The market welcomes over 100,000 patrons and 60 community vendors, promoting local shopping. Our employees also partner with market vendors to provide advice and solutions to help them realize their entrepreneurial dreams of business ownership.



LOVEISLOVEISLOVE

This year, we sponsored LoveisLoveisLove, an arts campaign that supports progressive rights by producing and publishing empathetic LGBTQ+ content. Toronto's City Hall housed LoveisLoveisLove's art installation for the month of June in celebration of Pride Month.

COPS FOR CANCER

The Cops for Cancer Golden Horseshoe Tour is an initiative that sees law enforcement and emergency service personnel take part in a 400 kilometer cycle across the region of Niagara. All funds raised through this initiative enable critical childhood cancer research commissioned by the Canadian Cancer Society.

My Commitment to Communities

Meridian is proud to amplify the local impact of our employees across Ontario with up to $1,000 in personal donation and fundraising matching to any Canadian charity and up to $500 in volunteer rewards for any not-for-profit organization. It's through the My Commitment to Communities Program that our employees are able to engage with the causes that are near and dear to their hearts and make a difference in our shared communities.

49%

of our employees participated in 2018

>7,500

hours volunteered

450+

organizations engaged with

Grand Giving Challenge

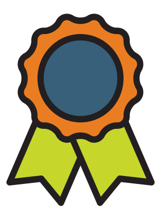
For the first time, we launched a campaign inviting our Members to share the causes that matter most to them. From health to social services, our Members responded with passion for organizations across the province. Five lucky Members were randomly selected to win a donation to the charity of their choice. Congratulations to our winners and thank you to all who submitted entries!

CHALLENGE WINNERS

Larry	**Alzheimer's Society**
Alida	**Red Cross**
Matt	**Muscular Dystrophy**
Sharon	**Simcoe Hall Settlement House**
John	**Cystic Fibrosis**

"Alzheimer's Society of Toronto has been an incredible source of care and support for me as caregiver to my wife who has advanced Alzheimer's disease. Quite frankly, if it were not for that care and support, I have no doubt that I wouldn't be here today. It's impossible for me to overstate the importance of the work they are doing."

Larry Singer
Meridian Member



The response to the Grand Giving Challenge was overwhelming, with over 1,000 submissions in the first 24 hours.

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 2018, as compared to prior years. The MD&A should be read in conjunction with the audited 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 13, 2019.

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; and Meridian's success in anticipating and managing the risks inherent in these factors. Readers are cautioned that the foregoing list is not exhaustive. Undue reliance should not be placed on forward-looking statements, as actual results may differ materially from expectations. Meridian does not undertake to update any forward-looking statements contained in this MD&A.

The Credit Union is not required to comply with Canadian Securities Administrators Staff Notice 52-306, "Non-GAAP Financial Measures". The Credit Union prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards and refers to them in this MD&A. In addition, the Credit Union uses non-GAAP financial measures within the MD&A which the Credit Union believes provides the reader with a better understanding of how management views the business. Where the Credit Union has used non-GAAP measures they have been defined within the report, as they may not be comparable to similar terms used by other organizations.

Core Business & Strategy

Corporate Overview

Meridian exists to make it simpler for Canadians to achieve a better life.

As Ontario's largest credit union, and Canada's third largest, we grow lives by delivering financial products and services to over 350,000 Members, through a network of over 90 branches, and access to commercial banking services at 11 locations, a Member Contact Centre and online services.

Our Members own Meridian. We work only for them and always put their interests first. Our employees take the time to understand the financial goals and aspirations of our Members, which then allows us to proactively offer solutions that meet their needs.

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

Our Corporate Strategy

Meridian strives to be the leader in Member-centric banking. We focus on strategies that are in the best long-term interest of our Members, not short-term corporate earnings objectives. In doing so, we grow the lives of our Members by deepening relationships with existing Members and building relationships with new Members. Our medium-term strategic objectives continue to be relevant in supporting Meridian's longer-term sustainability and our ability to deliver on what we call our value proposition. These objectives are as follows:

1. 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 will leverage existing initiatives such as digital banking, branch expansion, alternative distribution channels and partnerships, and new products and services that enable a more holistic approach to meet Member needs as we grow our Membership and the markets we serve.

2. Differentiated Member Experience

- 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 growing the lives of our Members, having their best interest at heart and always having their back.
- We will empower Members to make decisions in their best interest through transparency of our operations.

3. Social Commitment

- Our goal is to build more resilient communities while remaining true to our cooperative and corporate principles.
- Our knowledge of the communities in which we operate is a key ingredient for how we help strengthen communities.
- Meridian's heritage of empowering our Members, employees and communities is brought to life through our social commitment.

4. Diversified Business Model

- The objective of the Diversified Business Model imperative is to evolve Meridian's business model to remain relevant in the future and continue to create value for Members.
- Growth in our business model will enable us to meet more Member needs and bring our value proposition to more Canadians in an efficient and effective manner.
- Our business model will include expanding nationally, launching new lines of business and embracing changes in technology.

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 will create a highly diverse, collaborative and innovative workforce.

Key Performance Drivers

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

Voice of Member

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

- ☑ At the heart of our Voice of Member program is the Net Promoter Survey. This metric has been embraced globally by leading companies as the standard for measuring and improving customer loyalty.
- ☑ Research indicates that Net Promoter has become the loyalty metric of choice for supporting both short- and long-term financial success.

Awareness of Meridian

We regularly assess awareness of Meridian and our unique value proposition. We monitor our progress over time in the areas of awareness, differentiated Member experience and access. These factors influence our ability to deliver on our value proposition to more Canadians.

- ☑ Continued focus on our value proposition will be paramount in driving new Member growth and converting existing Members to have Meridian as their "primary" financial institution.
- ☑ Our research shows Meridian's awareness remained stable year over year. Aided awareness remained strong at 70%.
- ☑ While awareness of the brand has remained stable, we have seen more prospects converting further down the sales funnel, as purchase intent metrics have improved against 2017.

Employee Engagement

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

- ☑ Meridian has previously been recognized with the Achievers' Most Engaged Workplaces Award and as one of Canada's Most Admired Corporate Cultures.
- ☑ Meridian continues to maintain strong employee engagement, resulting in a greater ability to service the needs of our Members. This strong employee engagement resulted in Meridian receiving the Aon Platinum Level Best Employer Award in 2018, a premier engagement award in Canada. We continue to use survey results to develop action plans to further strengthen engagement, which have been implemented at both the enterprise and local levels.

Membership Growth

Growth in Membership means that Meridian is able to help more lives grow and bring our value proposition to more Canadians. Growth in our Membership base is influenced by increased awareness of Meridian and an expansion in Meridian's points of access.

- ☑ The number of total Members increased to over 28,000 in 2018, which surpasses 2017 net membership growth by 11%. In 2018, we attracted 28,657 net new members, a record.

Capital Position

A key indicator of our financial soundness and ability to exist 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, reinvest in activities that add value to our Members and help to protect Members' deposits. We continue to focus on maintaining strong capital ratios by building our capital base using high quality retained earnings, which can be used in the event of a shock or can be deployed to better meet the needs of our Members.

- ☑ Meridian's capital and risk-weighted capital ratio remained strong and continue to be well within regulatory and risk appetite ranges in 2018.

Capability to Deliver Results

Meridian's long-term sustainability hinges on our success in achieving our strategic imperatives, which are supported by multiple initiatives. We continue to strengthen our capabilities in our delivery network, organizational processes, technology, organizational structure and employees. The following 2018 successes and ongoing initiatives highlight our ability to achieve our strategic imperatives and meet current and future needs of our existing and potential Members:

Market and Membership Growth

✓ **Digital Strategy**

Our digital strategy remains focused on a robust, convenient and user-friendly Member experience that is accessible anywhere 24/7. The following capabilities were added or enhanced in 2018:

- Significant enhancements to digital lending, including the ability to deliver conditional approvals on mortgage applications within hours of submission, along with digital consent and signature capabilities.
- Increased mobile banking capabilities, including touch ID, push notifications, live chat, the ability to login with email credentials and Apple Pay.
- Launch of Price Drop, a free mobile service that automates price matching. This enables Meridian to improve our Members' well-being by helping them save time and money.
- Partnership with NestReady, an innovative online real estate search tool that offers Members a unique financial incentive. This enables Meridian to help throughout the full home-buying journey.

✓ **New Branches**

We will continue to expand our branch footprint in targeted Ontario markets. Meridian opened one branch in 2018, had another launch early January 2019, and expects to open two additional branches and two Business Banking Centres in 2019, making it easier for existing and future Members to access our services.

- One new GTA location (Sheppard Mall)
- One new location in the Ottawa area (Barrhaven)

✓ **New to Canada Benefit**

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

Differentiated Member Experience

✓ **We've Got Your Back Mortgages**

Meridian offered Members "We've Got Your Back" mortgages at a market-leading rate. A substantial number of Members achieved their financial and personal goals by taking advantage of this offer.

- Meridian has a "Friends and Family" mortgage offering, making it easier for Members to purchase a home.
- Meridian's Flex-Equity mortgage offering gives Members the flexibility to contribute more to their principle, or utilize equity they have in their home in case of emergencies or other unforeseen circumstances.

✓ **Good to Grow High Interest Savings Account**

The Good to Grow high interest savings account, launched in 2014, helps grow the lives and savings of our Members. It is a superior "no gimmick" product, offered at an interest rate higher than permanent rates available at the banks. Interest is earned on every dollar and there is no minimum monthly balance or fees. This product has generated significant interest for existing and new Members since its launch.

- Meridian offered significant rate boosts to generate additional interest while benefitting our Members, which proved very successful in 2018.

Social Commitment

✓ **Meridian's Commitment to Communities**

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

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

- **Good Neighbour Program:** Each year, our over 90 branches sponsor over 450 community events, programs and initiatives by local charities and non-profit organizations across Ontario that apply online.
- **My Commitment to Communities Employee Program:** Our leading employee community engagement program gives employees access to $1,500 per year: up to $1,000 to match donations and fundraising to any Canadian charity, and up to $500 to reward volunteer time with any non-profit organization. In 2018, 49% of our employees participated in the program, collectively contributing to over 450 organizations by donating and fundraising over $300,000 and volunteering over 7,500 hours.
- **Sean Jackson Scholarship:** We award an annual $10,000 scholarship, named in honour of our first CEO, to one graduating Ontario high school student who demonstrates academic excellence and a commitment to community involvement and innovation. Ontario-based grade 12 students are invited to apply at Meridiancu.ca/Scholarship.

Business Model Diversification

✓ **motusbank Subsidiary**

Meridian has received final approval to establish a bank subsidiary. We are anticipating a full public launch in Spring 2019. This will enable Meridian's value proposition to be delivered nationally, to a larger section of Canadians. Along with the bank subsidiary, we are always considering other businesses to join the Meridian family.

✓ **Visa Credit Card Offering**

Meridian continues to have success in our range of Visa credit cards launched in 2017 to complement our robust line of banking products. The cards include three market-leading cashback reward cards, two travel reward cards, three business reward cards and a US dollar card. In 2018, our Visa Infinite Cash Back card won second best cashback card in Canada and was voted one of the best reward credit cards in Canada.

✓ **Meridian OneCap Leasing**

Meridian's leasing subsidiary (known as Meridian OneCap) serves small- to medium-sized businesses by helping them sell and lease equipment. Meridian OneCap has fulfilled current Commercial Member needs without them having to leave the Meridian family. This allows us to diversify our service offerings and revenue streams while expanding Meridian's value proposition outside of Ontario.

Exceptional Employee Experience

✓ **Unique Employee Experience Programs**

Meridian offers unique employee experience programs that help us attract, retain and develop the best and brightest talent, such as our iMwell and iSave programs. These programs enable our employees to grow personally, professionally and financially. They promote career and self-development, mental and financial well-being, community service, diversity, rewards and recognition, performance and goal setting, and culture. It is imperative we attract and retain next generation employees, allowing us to build our overall organizational strength and capability in support of our growth plans and business goals.

- ✓ **Diversity and Inclusion**

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

- ✓ **Innovation**

Innovation at Meridian begins with a commitment to redefining the expectations of Canadians and setting a high bar with respect to these expectations. We do this by combining the credibility and stability that stem from our rich history, and augment it with the entrepreneurial spirit and innovation of a disruptor. This is evident through our launch of Price Drop, an innovative and unique digital service that proactively meets the demands of our Members. Developing our employees and their growth mindset inspires learning and an open mind, and enables innovation to occur. This way of thinking creates an environment where our employees thrive, and we achieve our goals and create a better future.

Consolidated Financial Results

2018 Financial Overview

Over the past year, the Bank of Canada had three interest rate increases, with the overnight rate closing the year at 1.75%, compared to 1.0% in 2017. These increases have started to increase loan and deposit rates, resulting in impacts to our financial margin throughout the year.

Changes to mortgage rules brought on by the Office of the Superintendent of Financial Institutions ("OSFI") had an impact on the housing market in 2018, and is expected to continue in 2019. Despite these impacts, Meridian had a very strong year for lending, positively impacting our financial margin in 2018.

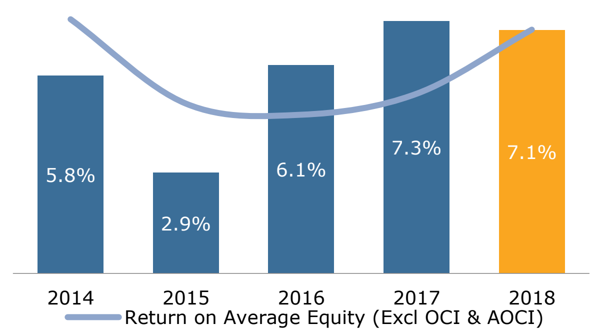
Meridian continues to invest in a mix of strategic and foundational initiatives as we continue to expand our digital capabilities, add more branches, diversify our business and enhance our supporting infrastructure. The anticipated launch of our digital bank, motusbank, in Spring 2019 will also be a significant investment for Meridian, which will become a contributing factor to our performance in future years as it continues to grow. Meridian is focused on ensuring the right balance between investments, earnings performance, funding requirements and capitalization is maintained. This will ensure Meridian has sustainable profitability, a key ingredient to support our growth and Membership base.

As part of our business model diversification strategy, Meridian Credit Union acquired Meridian OneCap (formally Roynat Lease Finance) in 2016, to form a wholly owned leasing subsidiary. In accordance with IFRS, the Audited Financial Statements have been presented on a consolidated basis.

Overall, Meridian's operating performance was strong, with significant growth in relationships with Members. Total assets grew by $2.3 billion to $17.9 billion at the end of 2018, driven largely by lending to Members, mainly mortgages and Commercial business activities. Assets under management, which include off-balance sheet Wealth management assets, increased by $2.3 billion to $20.4 billion. Wealth asset growth was hindered by a volatile market and some investment wariness throughout 2018. Our deposit portfolio grew $1.5 billion or 13% to $13.1 billion while our loan portfolio increased $1.9 billion or 14% to $14.9 billion in 2018.

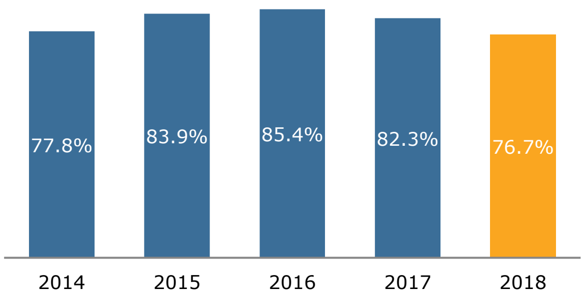
Meridian generated $85.8 million in pre-tax earnings, an increase of $27.2 million over the previous year. The increased earnings were attributable to increased relationships with Members, and an increase in the number of Members (which drives net interest and non-interest revenue). Meridian experienced a small gain in Other Comprehensive Income ("OCI") of $0.7 million, mainly the result of actuarial gains in defined benefit pension plans and related income taxes. These factors contributed to an after-tax return on equity ("ROE") of 7.1% in 2018, compared to 7.3% achieved in 2017. The prior year was higher due to a large increase in OCI ($19.4 million in 2017 vs. $0.7 million in 2018), related to changes in the fair value of cash flow hedges. ROE represents total comprehensive income as a percentage of average total equity. Removing the impacts of the OCI gains and focusing on profits attributable to day-to-day business activities would result in an ROE of 7.1% in 2018 and 5.2% in 2017.

Return on Average Equity



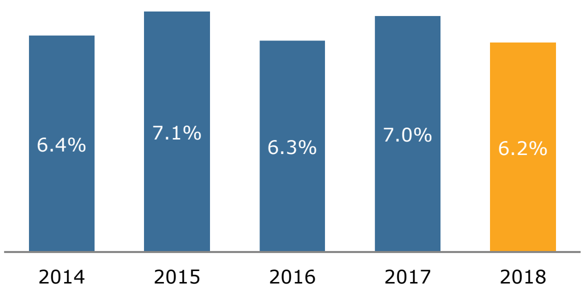
Operating margin was $37.3 million or 11% higher than the 2017 results, totalling $368.2 million in 2018. The main causes of this increase were the significant growth in relationships with Members, which resulted in higher net interest and non-interest income. Favourable revenue was slightly offset by an increase in operating expenses, largely attributable to higher costs associated with our workforce growth, which is needed to support our relationship growth and Member needs. The increases also included technology improvements, increased community and brand investment, and investments in strategic initiatives. Expenses were purposefully grown to diversify our business. We are starting to realize the benefits from our long-term strategy objectives introduced in 2015. In 2018, this included the final phase of obtaining a bank license, enabling Meridian to expand our value proposition nationally in 2019. We are investing in infrastructure, people, processes, technology, marketing, products and services, which have created short-term earnings pressures from 2014 to 2016, thus putting pressure on our ROE and efficiency ratios. ROE increased in 2017 and 2018, showing Meridian's investments will improve our long-term financial outlook and allow us to achieve sustainable growth in the years to come.

Efficiency Ratio

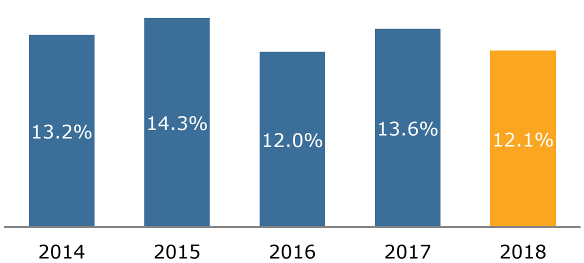


The efficiency ratio is a measure of productivity and is calculated as non-interest expense divided by operating margin, expressed as a percentage. Faster growth in revenues relative to increased expenses, previously described, resulted in a lower and better efficiency ratio of 76.7% in 2018 compared to 82.3% in 2017. The ratio improved to levels not seen since before our long-term strategy was implemented in 2015.

Capital Ratio

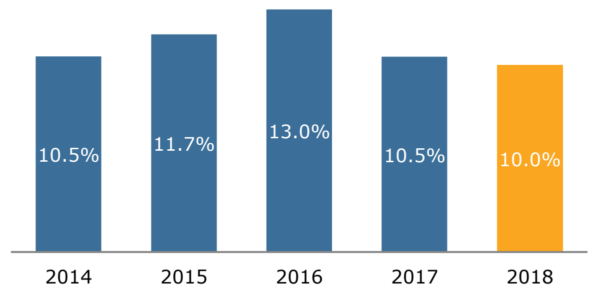


Risk Weighted Capital Ratio



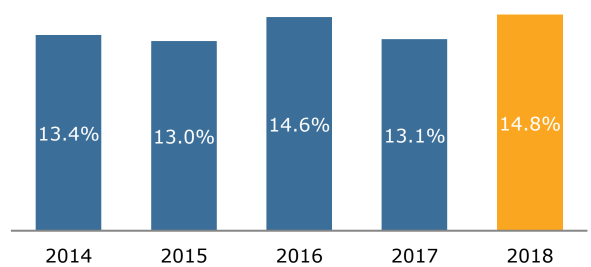
Meridian's Capital and Risk Weighted Capital ratios decreased to 6.2% and 12.1%, respectively, in 2018 due to strong Retail and Commercial Lending, along with a Capital injection into motusbank, which decreased Capital by $56.2 million. These ratios remain well above the minimum regulatory requirements of 4.0% and 8.0%, respectively, and well within our own risk appetite target ranges of 5.75%-7.25% and 11.50%-14.50%, respectively. The setting and monitoring of our risk appetite ranges are discussed in more detail in the Risk Management section.

Liquidity Ratio



Meridian's liquidity ratio decreased to 10.0% during 2018 from 10.5% a year earlier due to increased funding needs to support our strong lending growth. This ratio remains well within our risk appetite target ranges of 8.25%-15.0%.

Leverage Ratio



Meridian's leverage ratio, which is total funding coming from external sources as a percentage of total on-book assets, increased to 14.8% from 13.1% in 2017, resulting from increased external funding requirements due to strong lending growth.

The slight decreases in these ratios were a conscious decision by the business, as we are growing to support our current and future Member needs. All of the ratios remain well within our risk appetite target ranges and far exceed regulatory minimums.

2018 Financial Performance Review

CONSOLIDATED INCOME STATEMENT For the year ended December 31, 2018	2018 Consolidated	2017 Consolidated
Net Interest Income	297,306	263,043
Less: Provision for credit losses	12,892	9,277
Non-Interest income	83,814	72,525
Share of profits from investment in associates	-	(27)
Share of profits from investment in joint venture	4	4,715
Operating Margin	368,232	330,979
NON-INTEREST EXPENSES		
Salaries and employee benefits	168,892	161,896
Administration	75,150	72,172
Occupancy	18,854	17,913
Amortization of intangible assets	8,136	9,753
Depreciation	11,352	10,640
Total non-interest expenses	282,384	272,374
Pre-Tax Earnings	85,848	58,605
Income tax expense	12,280	11,227
Profits attributable to Members	$ 73,568	47,378

Total Revenue

Total revenue, which consists of interest and non-interest income before provisions for credit losses, grew $40.9 million to $381.1 million in 2018. The increase was largely driven by strong growth in relationships with Members and our OneCap leasing portfolio receivables. OneCap contributed $26.1 million to total revenue. Increased net interest income was generated from strong growth in lending to Members and partially offset by the cost of deposits and other sources used to fund lending. Increased lending and complexity drove higher Commercial lending fees, which increased $4 million from 2017. Wealth management assets also grew, but at a lower rate than expected. This was due to a volatile market, which spurred wariness to invest. Although there was some uncertainties in the market, Meridian was #1 in net sales among our Credit Union peers. This resulted in higher Wealth trailer fee revenue, increasing by $3 million from 2017, which was a significant contributor to Meridian's year-over-year increased non-interest income.

Net Interest Income

Net interest income is comprised of interest income on assets such as loans, securities and receivables, less interest expense paid on liabilities such as deposits and wholesale funding. For the year, net interest income was $297.3 million, an increase of $34.3 million or 13.0% over 2017. Interest income on assets increased $108.8 million, while interest expense on liabilities increased $74.5 million.

Net interest margin is the ratio of net interest income to average total assets, expressed as a percentage. In 2018, net interest margin was 1.77%, an increase of half a basis point from the prior year. Growth in net interest margin remains challenged by a competitive interest rate environment, and an increasingly competitive financial services sector in both Commercial and Retail portfolios. However, increasing contributions from new and diverse lines of business, such as the OneCap leasing portfolio, and the anticipated launch of motusbank should improve this ratio.

Meridian's average total assets increased $1.9 billion or 12.7% in 2018, due primarily to growth in the lending portfolio. Member loan growth increased $1.8 billion or 14.7% in 2018, while the interest revenue associated with these loans increased 23.5%. Interest revenue growth has outpaced lending growth as lower rate loans mature and have been replaced with higher yielding loans that are priced according to the current competitive financial sector.

Asset growth was funded through both external funding and exceptional deposit growth in demands and fixed terms through 2018. There was deposit growth of $1.4 billion or 12.5% over 2017. The remaining asset growth, related mostly to OneCap leasing portfolio, was supported through external sources of funding such as securitization and the use of borrowing facilities as necessary.

Net interest income is affected by fluctuations in capital markets beyond normal operating activities. As necessary, Meridian undertakes hedging activities, which may include the transacting of derivative instruments to protect Meridian and 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 item. Per accounting standards, Meridian is required to recognize the movement of these hedging relationships. In 2018, Meridian recognized losses of $4.3 million due to this activity. However, since these instrument values are $0 at maturity, there will be gains in these relationships that have yet to be realized.

Over the course of 2018, Meridian entered into receive-fixed swaps and pay-fixed swaps, intended to hedge the risk to net interest margin attributable to changing interest rates. The notional amounts of our derivatives represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in our consolidated balance sheet. The fair value of over-the-counter ("OTC") derivative contracts is recorded in our consolidated balance sheet. The interest income or expense associated with quarterly cash settlements are reflected in the profit and loss.

	Net interest income ($ millions)		Change	Average assets and liabilities ($ millions)		Change	Net interest margin (in basis points)		
	2018	2017	%	**2018**	2017	%	**2018**	2017	Change
Cash and cash equivalents	**2.5**	1.7	**47.1**	**376.1**	377.2	**(0.3)**	**66.5**	44.5	**22.0**
Investments	**16.6**	12.7	**30.7**	**1,023.0**	1,063.7	**(3.8)**	**162.3**	119.5	**42.8**
Loans	**197.8**	155.9	**26.9**	**4,100.6**	3,562.3	**15.1**	**482.4**	437.5	**44.9**
Lines of credit	**68.3**	54.0	**26.5**	**1,414.5**	1,372.8	**3.0**	**482.9**	393.5	**89.4**
Mortgages	**247.1**	205.5	**20.2**	**8,446.9**	7,240.5	**16.7**	**292.5**	283.8	**8.7**
Finance Receivables	**58.1**	51.8	**12.2**	**1,113.8**	957.9	**16.3**	**521.6**	540.5	**(18.9)**
Other assets				**289.1**	296.7	**(2.6)**			
Interest income / total assets	**590.4**	481.6	**22.6**	**16,764.0**	14,871.1	**12.7**	**352.2**	323.8	**28.3**
Demands	**70.8**	54.1	**30.9**	**6,625.5**	6,092.0	**8.8**	**106.9**	88.8	**18.1**
Fixed terms	**131.2**	99.2	**32.3**	**5,761.2**	4,918.5	**17.1**	**227.7**	201.6	**26.1**
Borrowings	**85.1**	59.3	**43.5**	**3,223.4**	2,881.5	**11.9**	**264.0**	205.8	**58.2**
Other liabilities	**6.0**	6.0	**0.0**	**104.4**	82.5	**26.5**	**574.7**	730.9	**(156.2)**
Interest expense / total liabilities	**293.1**	218.6	**34.1**	**15,714.5**	13,974.5	**12.5**	**186.5**	156.4	**30.1**
Members' equity				**1,049.5**	896.6	**17.1**			
Total liabilities and Members' equity	**293.1**	218.6	**34.1**	**16,764.0**	14,871.1	**12.7**	**174.8**	147.0	**27.8**
Total	**297.3**	263.0	**13.0**				**177.3**	176.9	**0.5**

Provision for Credit Losses

On January 1, 2018, the Credit Union adopted IFRS 9, which introduced an expected loss model that is different from the incurred loss model under previous accounting standards. Relevant exposures within the scope of the IFRS 9 impairment model for Meridian include Loans to Members, 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 Notes 3.7 and 32.1 of the Audited Financial Statements. The discussion below references provisions for credit losses ("PCL") prepared under IFRS 9 for 2018, with 2017 comparatives prepared using the previous IAS 39 standard.

The PCL was $12.9 million in 2018, compared to $9.3 million in 2017. The PCL for the Commercial loan portfolio was $0.2 million ($1.4 million recovery in 2017). A $2.4 million loss was attributable to the Retail loan portfolio ($1.7 million in 2017) and a $10.3 million loss ($9.0 million in 2017) was attributable to Finance Receivables related to OneCap. Commercial losses are composed of a relatively small number of larger and sometimes individually significant losses. Due to the specialized nature of the underlying security, it can take several years to sell properties or realize on the security. Of the $0.2 million expense on the Commercial portfolio, $2.8 million relates to provisions taken against impaired loans, driven by $5.1 million of new impairments ($1.0 million in 2017) partially offset by $2.3 million improvements due to revised security valuations on existing impairments ($4.8 million in 2017). These expenses were partially offset by $1.9 million in recoveries on previously written off accounts. A further improvement of $0.7 million resulted from re-measurements of stage 1 and 2 expected credit losses ($2.4 million collective in 2017) as models were updated to reflect more recent expectations of loss given default in the portfolio. Finance receivables losses are comprised of a larger number of small and medium-sized amounts. The Finance Receivables PCL was comprised of $9.1 million related to impaired accounts ($6.6 million specific in 2017) and $1.2 million related to accounts that are performing or have had a significant increase in credit risk since origination ($2.4 million collective in 2017). The total PCL represented 0.08% of the portfolio in 2018, which was an increase from 0.07% in 2017. The Commercial loss rate was flat for 2018 versus a small recovery in 2017. The Retail loss rate, at 0.02% of the respective portfolio, is generally consistent with the 2017 level. The finance receivable loss rate is 0.87%, which is consistent with 0.86% from 2017.

Credit Portfolio Quality

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

The gross impaired loans and finance receivables balance is $97.5 million ($39.8 million in 2017) and represents 0.61% of the total loan and finance receivable portfolio, and is mainly related to the implementation of IFRS 9. The total allowance for impaired loans and finance receivables, at $45.6 million, was $18.9 million higher than the prior year. The increase was due mainly to the implementation of IFRS 9, which resulted in a transition adjustment of $14.9 million.

The $45.6 million allowance for impaired loans and finance receivables includes $10.5 million attributable to stage 3 allowance and $35.1 million attributable to stage 1 and stage 2 allowances. The allowance for impaired loans and finance receivables, as a ratio to total loans and finance receivables, was 0.28% in 2018, of which 0.06% represented the stage 3 allowance and 0.22% was the stage 1 and stage 2 allowances.

A risk rating system is utilized to assess and monitor the risk profile of our Commercial loan portfolio. The model is based on an in-depth assessment of the borrower's risk of default, which is measured by industry, business, management and financial risk factors, along with the risk of loss given default. The risk of loss given default is based on an assessment of security composition and relative historical recovery experience. The Commercial loan portfolio, stratified by risk rating ranging from "very low" to "impaired" is reviewed monthly. Most of the portfolio continued to fall into the combined "better than average" and "average" categories. Collectively, these two ratings accounted for approximately 80.3% of the total Commercial portfolio (78.2% in 2017). In addition, a comprehensive Early Warning System allows

Asset quality coverage - loans and finance receivables

($ millions)	2018 (IFRS 9)	2017 (IAS 39)
Total Loans	16,078.9	14,072.5
Gross Impaired Loans "GIL"	97.5	39.8
Allowance for Expected Credit Losses	45.6	26.7
Provision for Credit Losses	12.9	9.3
GIL as % of total loans	0.61%	0.28%
GIL as % of Members equity	9.05%	3.90%
Allowance as % of total loans	0.28%	0.19%
PCL as % of total loans	0.08%	0.07%
Commercial loans:		
% Better than average	29.82%	14.50%
% Average	50.50%	63.70%
	80.32%	78.20%

for timely identification of accounts that require follow-up, and additional attention through the adjudication process or an increase in risk rating to Watchlist status, with the objective of correcting issues that may otherwise result in future impairment of the account.

Meridian continues to enhance credit management processes through updating advanced early warning systems that identify potential credit deterioration, a more stringent control environment, improved credit based analytics and reporting, as well as an enriched Member experience.

Non-Interest Income

Non-interest income rose by $6.4 million or 8.3% to $83.8 million in 2018. OneCap contributed $10.8 million to non-interest income. Revenue from service fees rose $1.3 million to $17.3 million. Our existing and increased Membership contributed $0.8 million, and our OneCap leasing business accounted for the remaining $0.5 million.

Mutual fund revenue accounted for $2.8 million of the increase in non-interest income, growing by 16.9% to $19.4 million. Mutual fund revenue increase is driven by the growth in Wealth balances due to sales during the year, despite a volatile market. Sales throughout the year were influenced by an increase in Meridian's Wealth management workforce.

Loan servicing fees grew by $3.9 million or 22.4% to $21.3 million driven by increased complexity and volumes of Commercial lending. During 2018, our Commercial loan portfolio grew $570 million an increase of 13.9% over 2017.

Insurance commissions grew by $0.3 million to $8.0 million on account of life insurance sales, as we encouraged Members to engage in their overall estate planning, as well as our insurance commissions on leases through OneCap. Foreign exchange income increased by $0.5 million to $5.3 million. This was influenced by the gain on Meridian's US dollar accounts, reflecting the continued strength of the US dollar versus the Canadian dollar.

Credit Card revenue grew by $0.7 million or 87.5% to $1.5 million driven by growth in the number of Meridian Visa cards our Members hold. Share of profits from investments ceased, as our St. Catharines corporate office was sold in 2017, accounting for the $4.7 million received in that year. Other non-interest income increased $1.8 million to $7.3 million driven by end of term and other miscellaneous gains from the OneCap leasing business.

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

Non-Interest Income

($ millions)	2018	2017	% Change
Service fees	17.3	16.0	8.1%
Mutual fund revenue	19.4	16.6	16.9%
Loan servicing fees	21.3	17.4	22.4%
Insurance commissions	8.0	7.7	3.9%
Foreign exchange	5.3	4.8	10.4%
Dividend Income	2.0	2.0	0.0%
Interac revenue	1.7	1.7	0.0%
Credit card revenue	1.5	0.8	87.5%
Share of Profits from Investments	0.0	4.7	-100.0%
Other	7.3	5.5	32.7%
Total	83.8	77.2	8.5%

Non-Interest Expenses

Non-interest expenses rose to $282.5 million in 2018, from $272.4 million in 2017. The 3.7% increase in expenses was mainly associated with activities that support Meridian's strategic imperatives. Higher spending was related to branch expansion, community investment, marketing to build brand awareness, investments in strategic initiatives, and start-up costs related to motusbank. The small increase is attributable to prudent cost management of our strategic initiatives.

Personnel expenses, which include all employee salaries, benefits and incentive compensation, accounted for 69% of the increase in expenses (12% decrease from 81% in 2017). Higher personnel expenses are largely attributable to incremental employees required to support our expanding network of branches, strong growth within our existing network of people and support of strategic initiatives. OneCap employees accounted for $9.8 million in personnel expenses. Additional support is provided to our existing Delivery network to ensure our Members receive a truly unique and personalized experience.

General operating expenses decreased 7.8% or $1.6 million. The decrease is driven by reduced consultant costs, as Meridian is attracting exceptional talent. Occupancy costs increased by $1.0 million to $18.9 million due to our expanded branch network. One new branch was opened in 2018 and six new branches were opened in 2017, with their first full year of occupancy costs occurring in 2018.

Marketing expense increased by $1.0 million to $11.4 million. The increase is mainly driven by digital advertising, as this was a focus in 2018. This was to let our existing and potential Members know of our unique and market-leading product offerings. Marketing expense includes our Community Investment budget, with which we invest a minimum of 4% of pre-tax earnings to develop and run digital and local programs that bring life to Meridian's longstanding Commitment to Communities. These programs build our brand by making a bold community impact while engaging and empowering our employees, Members and future Members.

Transaction services increased $0.6 million to $15.3 million due to our increased Membership base. Depreciation increased $0.7 million to $11.4 million, as the Meridian enterprise is investing in more real estate and technology to support our growing infrastructure.

Software and hardware expenses increased by $1.2 million to $8.7 million. This increase is due to our growing workforce, which require more software, hardware and associated maintenance costs to ensure we can deliver our unique and personalized experience provided consistently to our Members.

Deposit insurance increased $1.3 million to $8.3 million. This is driven by the increase in the amount of deposits that is insurable ($250k from $100k in 2017). Amortization decreased $1.7 million to $8.1 million: $0.9 million is due to 2018 being the last year of amortization of the remaining Desjardins deposits since we acquired their Ontario Credit Union portfolio in 2012, the remainder ($0.8 million) is due to the amortization of intangibles when we acquired OneCap in 2016.

Meridian's investment in strategic initiatives decreased 50.2% in 2018 to $4.6 million. The decrease is directly related to prudent cost management of motusbank and other strategic initiatives. These investments were related to projects that support Meridian's strategic imperatives and will enable us to achieve long-term sustainability. These initiatives include building two new branches (one of which was delayed until January 2019), motusbank launch costs, business banking technology enhancements, enhancement of our lending processes and technology, full redesign of our digital banking and public website, and numerous product and service design projects supporting our strategic imperative of delivering a differentiated Member experience.

Non-Interest Expense

($ millions)	2018	2017	% Change
Salaries and Benefits	168.9	161.9	4.3%
Salaries	118.6	113.4	4.6%
Benefits	28.7	27.2	5.5%
Variable Incentive	21.6	21.3	1.4%
General	18.8	20.4	-7.8%
Occupancy	18.9	17.9	5.6%
Marketing	11.4	10.4	9.6%
Transaction Services	15.3	14.7	4.1%
Depreciation	11.4	10.6	7.5%
Software and Hardware	8.7	7.5	16.0%
Deposit Insurance	8.3	7.0	18.6%
Amortization	8.1	9.8	-17.3%
Human Resources	3.2	3.3	-3.0%
Other Expenses	9.5	8.9	6.7%
Total	282.5	272.4	3.7%

Financial Conditions Review

Balance Sheet Summary

Meridian's total assets grew by 14.6% to $17.9 billion in 2018, an increase of $2.3 billion over the previous year.

Total Assets ($ billions)

The $2.3 billion increase in total assets was driven by growth in loans to Members. This growth accounts for 83% of the increase in total assets. Leasing receivables from OneCap and other investments make up the majority of the remaining increase in total assets.

Loans to Members grew by 14.4% or $1.9 billion to $14.9 billion, with Residential mortgages accounting for 63.5% of this growth and Commercial loans accounting for 31.6%.

Loans to Members ($ billions)

2017	$13.0
2018	$14.9

Residential mortgages increased by $1.2 billion, a 15.7% growth over 2017. Growth was generated across all channels, including the branch network, digital lending platform, mobile mortgage specialists and mortgage brokers. Our competitive, market-leading "We've Got Your Back" mortgage offer was a key driver to our success in growing Meridian's Retail mortgage portfolio.

Member deposits grew by 13.1% or $1.5 billion to $13.1 billion in 2018.

Member Deposits ($ billions)

2017	$11.6
2018	$13.1

Despite continued intense competition for deposits among financial institutions, Meridian still experienced great deposit growth. Growth in term deposits, both registered and unregistered, was the largest driver of deposit growth, as there was a shift in Member deposit preference from savings accounts to secure term deposits in a volatile rate environment. The product with the fastest growing demand was the Good to Grow high interest savings account, which offers Members an opportunity to grow their savings faster with a market-leading interest rate, with balances growing by $434.1 million. Tax Free Savings Accounts ("TFSAs") continued to perform well in 2018, with balances growing by $195.2 million. Term deposits saw a big increase due to some special offers (such as our 18-month 3.25% GIC), with total Term balances growth $1,342 million.

Other than deposits, Meridian's most significant change in liabilities was our mortgage securitizations, which grew by $507.5 million. The increase supported funding for Meridian's strong lending activity in 2018. Although we increased our mortgage securitization liability, less external funding was required in the latter half of 2018 due to strong organic deposit growth.

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

Wealth ($ billions)

2017	$2.4
2018	$2.5

Meridian's wealth portfolio experience slower growth than prior years in 2018. The slow growth is attributed to the volatile markets felt throughout 2018. Despite these uncertainties, Member balances rose 2.7% or $0.1 billion to $2.5 billion. This growth represents net sales of $163 million. This was offset by a decrease in market value of Members' investments of $97 million. The North American market as a whole experienced drops in value, especially in the latter part of the year.

Overall, the total Member relationships managed by Meridian, which includes lending, deposits and wealth, grew by 12.8% or $3.4 billion to $30.5 billion in 2018.

Total Relationships ($ billions)

2017	$27.1
2018	$30.5

Growth was diversified across business lines and across product categories. Lending grew the fastest, a clear indicator that Meridians market-leading offers are being taken advantage of by our Members, helping them reach their financial dreams with a unique and personalized experience.

Liquidity Review

Managing liquidity and funding risk is critical to ensure the safety and soundness of Meridian, depositor confidence and stability in earnings. Meridian's policies ensure that there are sufficient liquid assets and available funding capacity to meet financial commitments, even in times of stress. Meridian's Board policy stipulates the maintenance of a minimum liquidity ratio, which is the ratio of cash and cash equivalents to Members' deposits and borrowings, of 8.25%. As of December 31, 2018, Meridian's liquidity ratio was 9.99%, compared to 10.46% at the end of 2017, well above the minimum requirement established by the Board.

Meridian maintains a prudent and disciplined approach to managing liquidity risk. Meridian targets a 90-day survival horizon under a combined Meridian-specific and market-wide stress scenario, and maintains a minimum buffer over regulatory requirements prescribed by the Deposit Insurance Corporation of Ontario Liquidity Guidelines. Under the Liquidity Guidelines, Ontario Credit Unions are required to maintain a Liquidity Coverage Ratio (LCR), which is the ratio of net cash outflows over a 30-day period calculated using the prescribed liquidity stress scenario to high quality liquid assets held for liquidity, at a minimum of 100%. As of December 31, 2018, Meridian's Liquidity Coverage Ratio was 139%, compared to 126% at the end of 2017.

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

Securitization remains an attractive funding strategy for Meridian, as it provides stable long-term fixed rate funding at a low cost. Securitization issuances increased by 26% compared to 2017, as the funding strategy was used to diversify, extend the term and lower the cost of funding for Meridian. Diversification of external funding sources is an important aspect of Meridian's overall liquidity management strategy. Meridian continues to maintain and investigate a diverse selection of funding sources in the event that access to securitization funding is limited in the future or only available at significantly higher rates.

Capital Management

Overview

Meridian is committed to a disciplined approach to capital management and to maintaining a strong capital base to support the risks associated with 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 to maintain a prudent cushion of equity to ensure its on-going economic stability as well as finance new growth opportunities.

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

The Audit & Finance Committee, which reports into the Board of Directors, provides ultimate oversight and approval of capital management, including the Capital Management Policy and Annual Capital Plan. It 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 reviews and discussion of significant capital policies, issues and action items. The Risk Committee has strategic oversight of the Capital Management Policy while the Audit & Finance Committee monitors compliance with the policy.

Managing and Monitoring Capital

Meridian has a comprehensive risk management framework to ensure that the risks taken while conducting business activities are consistent with 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 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 Review

Meridian's regulatory capital ratios are strong and well exceed the requirements of the *Credit Unions and Caisses Populaires Act, 1994* (the "Act"), which regulates Ontario Credit Unions and underlies Board policy requirements. These ratios underscore Meridian's strength 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 adequacy ratio was 6.2% as of December 31, 2018, compared to 7.0% at the end of 2017 and in excess of the 4.0% stipulated in the Act.

Meridian's risk weighted capital adequacy ratio was 12.1% at the end of 2018, down from 13.6% at the end of 2017 and well in excess of the 8.0% stipulated in the Act.

Meridian's capital quality also exceeds regulatory minimum requirements. Provincial regulations require that at least 50% of a credit union's capital base be comprised of primary or Tier 1 capital. In order to maintain an appropriate level of conservatism, our internal capital management philosophy is to keep our Tier 1 capital as a percentage of total capital greater than 60%. As of year-end, 90.6% of Meridian's capital base consisted of Tier 1 capital, marginally decreased by 1.4% from 2017 and well in excess of internal and provincial minimums.

Internal Capital Adequacy Assessment Process

Meridian performs an Internal Capital Adequacy Assessment Process ("ICAAP") and maintains a Stress Testing program, in line with Deposit Insurance Corporation of Ontario ("DICO") 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 this appetite. The Board of Directors and all employees are responsible for ensuring that the risks to which Meridian is exposed are aligned to the Board-approved risk appetite. Meridian has established a risk appetite framework across the organization for Management and the Board of Directors to communicate, understand and assess the level of risk that they are willing to accept. A clear risk appetite enables Meridian to make better strategic and tactical decisions on a risk-reward basis with consideration for its capacity to manage associated risks.

Meridian uses Enterprise Risk Management ("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 DICO's By-Law No. 5, Standards of Sound Business and Financial Practices, and gives consideration to guidance provided by other relevant regulatory bodies and industry best practices.

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

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.

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

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

ii. 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

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

Meridian recognizes four broad types of risk: Strategic Risk, Operational Risk, Credit Risk and Financial Risk. There are numerous specific risks, many of which are beyond Meridian's direct control. Their impact can be difficult to predict and could cause our results to differ significantly from our plans, imperatives and estimates. Meridian considers it critical to regularly assess 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.

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 growing the lives of our Members.

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, AML), physical and information security risks, business continuity risk, as well as outsourcer and vendor risks. Meridian maintains an Operational Risk Management Framework that integrates the various operational risk programs. Meridian effectively balances the risk 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.

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.

2019 Outlook

In December 2018, the Conference Board of Canada estimate for growth of the Canadian economy in 2019 was pegged at 2%, with a prediction that growth in the latter part of the year is expected to slow and dip below 2% beginning in 2020. In January, the Bank of Canada's 2019 Canadian GDP growth forecast was lowered from 2.1% to 1.7%, but raised in 2020 to 2.1%, from 1.9%.

These somewhat competing forecasts underline the challenge facing policy makers in the face of global uncertainty, particularly around trade, and highlight the difficult decisions facing the Bank of Canada around interest rates. As a result, the overnight rate was not raised further in January 2019 to give the Bank time to better understand the impact of slowing global growth and uncertainty resulting from the trade conflict with China, and to see where inflation is headed. It is expected interest rates will remain "neutral" for the first half of the year and the Bank will reassess the rates in the second half.

Canadian consumer spending is expected to advance at a slower pace than in recent years. Potentially rising interest rates, moderating employment growth and easing household formations will continue to soften demand, contributing to falling levels of construction of new home builds. The Bank of Canada has also noted it is watching consumption spending and housing investment and anticipates them to be weaker than in past years as regulators keep a wary eye on high levels of household indebtedness.

In 2019, the housing market will likely continue to moderate as federal regulatory measures force consumers to examine their household debt levels, especially in light of rising interest rates. In this uncertain environment, both new home builds and existing home sales are expected to trend low as consumers stay on the sidelines.

The drop in oil prices will continue into 2019, which has a material impact on the national outlook, resulting in lower terms of trade and income. Uncertainty resulting from diplomatic disputes with China may also temper trade and foreign direct investment expectations.

Looking specifically at Ontario, our streak of hot growth is expected to moderate somewhat. Real GDP is expected to decline to 1.9% (2.2% for 2018) and the labour market is projected to slow down, but will remain solid. Strong job gains in the public sector and commercial services should position Ontario in the top three provinces in terms of job growth. The jobless rate is expected to hover at its lowest levels since the late 1980's.

Along with the rest of Canada, Ontario projects weakened household spending and residential construction. Business investment is expected to post solid growth as the new US–Mexico–Canada trade deal lowers uncertainty and businesses respond to high levels of capacity utilization.

Meridian Implications:

Meridian is well positioned to take advantage of the opportunities presented by the economic outlook. The following outlines some of the major initiatives planned for 2019:

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

- **Line of Business Diversification**: We will continue to be diligent in investigating selective acquisitions and/or builds of new business lines to join the Meridian family. Meridian will continue to leverage OneCap and seek opportunities where it enables profitable expansion into transformational business lines. The launch of our National Digital Bank (motusbank) will allow us to bring the Meridian brand, along with our unique products and services, to a much larger section of Canadians. OneCap, along with our launch of motusbank, are two large-scale strategic initiatives oriented towards diversifying our business model and bringing Meridian's value proposition to a greater number of Canadians.

- **Branch & Commercial Banking Expansion**: Meridian will continue to invest in new Retail and Commercial branches. Three branches (one launched early in January 2019) and two Business Banking Centres are planned to open in 2019. These include locations in specifically targeted areas. As these new locations grow their portfolio of Member and product balances, over time they will contribute fully to Meridian's sustainable profitability.

- **New Products**: Meridian continues to strive to bring innovative and market-leading products to our Members to address unmet needs and differentiate ourselves. In 2019, Meridian will strive to build upon our national footprint with unique product offers for motusbank. To focus on the needs of our Members, we will be constantly looking for opportunities to address these needs from a product and technology perspective.

Anticipated strong growth in relationships is expected to result in increased revenue. With interest rates on the rise, this should help grow our net interest margin. Pre-tax earnings growth will continue to help support investment in strategic initiatives and maintain a strong capital base. The continued focus on strategic investments is expected to benefit Meridian's long-term sustainability and ultimately Meridian's Members.

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, 2018

MERIDIAN CREDIT UNION LIMITED
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For the year ended December 31, 2018

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, 2018 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, 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 7, 2019

MERIDIAN CREDIT UNION LIMITED
CONSOLIDATED BALANCE SHEET
As at December 31, 2018 with comparative figures for 2017

Note	(thousands of Canadian dollars)	December 31 2018	December 31 2017
	ASSETS		
5	Cash and cash equivalents	$ 408,330	$ 343,874
6	Receivables	2,863	7,197
7	Investments in debt instruments	1,061,506	839,832
8	Loans to Members	14,900,308	13,023,478
9	Finance receivables, net	1,178,544	1,049,061
10	Derivative financial assets	23,410	41,474
11	Investments in equity instruments	74,218	68,210
12	Investment in associates	328	328
13	Investment in joint venture	-	1,536
14	Intangible assets	36,727	43,725
15	Goodwill	73,232	73,232
16	Property, plant and equipment	46,639	50,537
17	Deferred income tax assets	44,592	43,161
18	Other assets	48,558	42,901
	Total assets	$ 17,899,255	$ 15,628,546
	LIABILITIES		
19	Members' deposits	$ 13,148,717	$ 11,624,483
20	Borrowings	11	32,822
21	Payables and other liabilities	57,312	37,869
28	Current income tax payable	4,645	3,007
22	Secured borrowings	1,127,736	937,293
23	Mortgage securitization liabilities	2,428,275	1,920,761
10	Derivative financial liabilities	6,922	2,014
24	Pension and other employee obligations	47,827	49,105
25	Membership shares	350	321
	Total liabilities	16,821,795	14,607,675
	MEMBERS' EQUITY		
25	Members' capital accounts	561,507	548,694
	Contributed surplus	104,761	104,761
	Retained earnings	399,246	355,553
	Accumulated other comprehensive income	11,946	11,863
	Total equity attributable to Members	1,077,460	1,020,871
	Total liabilities and Members' equity	$ 17,899,255	$ 15,628,546

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, 2018 with comparative figures for 2017

Note	(thousands of Canadian dollars)	2018	2017
	INTEREST INCOME		
	Interest income - loans to Members	$ 513,568	$ 415,372
	Interest income - other	76,819	66,273
	Total interest income	590,387	481,645
	INTEREST EXPENSE		
	Interest expense - Members' deposits	203,700	160,530
	Interest expense - other	89,381	58,072
	Total interest expense	293,081	218,602
26	**Net interest income**	297,306	263,043
8, 9	Provision for credit losses	12,892	9,277
	Net interest income after provision for credit losses	284,414	253,766
27	Non-interest income	83,814	72,525
12	Share of losses from investment in associates	-	(27)
13	Share of profits from investment in joint venture	4	4,715
	Net interest and non-interest income	368,232	330,979
	NON-INTEREST EXPENSES		
24	Salaries and employee benefits	168,892	161,896
	Administration	75,150	72,172
	Occupancy	18,854	17,913
14	Amortization of intangible assets	8,136	9,753
16	Depreciation of property, plant and equipment	11,352	10,640
	Total non-interest expenses	282,384	272,374
	Operating earnings	85,848	58,605
28	Income tax expense	12,280	11,227
	Profits for the year attributable to Members	$ 73,568	$ 47,378

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, 2018 with comparative figures for 2017

Note	(thousands of Canadian dollars)	2018	2017
	Profits for the year attributable to Members	$ 73,568	$ 47,378
	OTHER COMPREHENSIVE INCOME		
	Items that will not be reclassified to profit or loss		
24	Actuarial gains (losses) in defined benefit pension plans	738	(232)
28	Related income taxes (expense) recovery	(137)	45
		601	(187)
	Items that may be subsequently reclassified to profit or loss		
10	Cash flow hedges – effective portion of changes in fair value	(1,125)	24,143
10	Cash flow hedges – reclassified to profit or loss	1,118	944
10, 28	Related income taxes (expense) recovery	90	(5,547)
		83	19,540
	Other comprehensive income for the year, net of income taxes	684	19,353
	Total comprehensive income for the year attributable to Members	$ 74,252	$ 66,731

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, 2018 with comparative figures for 2017

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

Note	(thousands of Canadian dollars)	Members' capital	Contributed surplus	Retained earnings	Hedging reserves	Total equity
	Balance as at January 1, 2017	$ 377,227	$ 104,761	$ 323,925	$ (7,677)	$ 798,236
25	Dividends on Members' capital accounts	-	-	(15,563)	-	(15,563)
25	Shares issued to Members net of redemptions	158,477	-	-	-	158,477
25	Shares issued as dividends	12,990	-	-	-	12,990
	Transactions with owners	171,467	-	(15,563)	-	155,904
	Profits for the year attributable to Members	-	-	47,378	-	47,378
	Other comprehensive income for the year, net of income taxes:					
24	Actuarial losses in defined benefit pension plans	-	-	(187)	-	(187)
10	Cash flow hedges – effective portion of changes in fair value	-	-	-	18,812	18,812
	Cash flow hedges – reclassified to profit or loss	-	-	-	728	728
	Total comprehensive income for the year attributable to Members	-	-	47,191	19,540	66,731
	Balance as at December 31, 2017	$ 548,694	$ 104,761	$ 355,553	$ 11,863	$ 1,020,871

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, 2018 with comparative figures for 2017

Note	(thousands of Canadian dollars)	2018	2017
	CASH FLOWS FROM OPERATING ACTIVITIES		
	Interest received	$ 621,424	$ 485,249
	Interest paid	(277,287)	(210,371)
	Fee and commission receipts	63,218	55,859
	Other income received	10,034	9,912
	Premiums paid on index-linked option contracts	(2,921)	(5,191)
8	Recoveries on loans previously written off	2,316	330
	Payments to employees and suppliers	(261,195)	(234,190)
	Proceeds on settlement of derivatives	(244)	432
	Income taxes paid	(7,165)	(33,790)
	Net cash flows from operating activities before adjustments for changes in operating assets and liabilities	148,180	68,240
	Adjustments for net changes in operating assets and liabilities:		
	Net change in loans to Members	(1,879,860)	(1,791,461)
	Purchase of leasing equipment	(632,896)	(606,118)
	Principal payments received on finance receivables	486,667	462,572
	Net change in receivables	2,497	19,633
	Net change in other assets and liabilities	539	212
	Net change in Members' deposits	1,512,903	1,328,972
	Net cash flows from (used in) operating activities	(361,970)	(517,950)
	CASH FLOWS FROM INVESTING ACTIVITIES		
	Purchase of reinvestment securities	(34,615)	(11,691)
	Payments received from National Housing Act mortgage backed securities	-	15,753
	Net change in other investments	(191,681)	29,934
12	Distributions received from investment in associates	-	11,079
13	Distributions received from investment in joint venture	1,540	4,999
14	Purchase of intangible assets	(1,138)	(1,703)
16	Purchase of property, plant and equipment	(7,496)	(11,951)
16	Proceeds on sale of property, plant and equipment	-	1,601
	Net cash flows from (used in) investing activities	(233,390)	38,021
	CASH FLOWS FROM FINANCING ACTIVITIES		
	Proceeds from securitization of mortgages	478,862	392,650
	Net change in mortgage securitization liabilities	27,302	(382,861)
	Net change in borrowings	(32,811)	21,528
	Issuance of secured notes net	191,371	135,333
	Dividends paid on Members' capital accounts	(2,611)	(1,983)
	Net cash from changes in Membership shares	29	26
	Net change in Member capital accounts	(2,326)	158,478
	Net cash flows from financing activities	659,816	323,171
	Net increase (decrease) in cash and cash equivalents	64,456	(156,758)
	Cash and cash equivalents, beginning of year	343,874	500,632
5	**Cash and cash equivalents, end of year** [1]	$ 408,330	$ 343,874

[1] Cash and cash equivalents includes restricted funds in the amount of $23,296 (2017 – 20,255).

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

1 Nature of operations

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

The Credit Union is primarily involved in the raising of funds and the application of those funds in providing financial services to Members. The activities of the Credit Union are regulated by DICO. The Credit Union has 90 branches and 11 commercial business 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 Limited ("motusbank") received Letters Patent of Incorporation from the Minister of Finance. As of December 31, 2018 motusbank was actively seeking Orders to Commence and Carry on Business from the Minister of Finance. motusbank is a wholly-owned subsidiary of the Holdco, which in turn is a wholly-owned subsidiary of the Credit Union. The activities of motusbank are regulated by the Office of the Superintendent of Financial Institutions.

2 Basis of preparation

2.1 Statement of compliance

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

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

2.2 Use of estimates and judgments

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

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

Classification of financial assets

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

Fair value of financial instruments

As described in note 32.4, where the fair value of financial assets and financial liabilities cannot be derived from active markets, the Credit Union uses valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs, such as discount rates and prepayment rates.

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

Note 32.4 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

Allowance for expected credit losses on financial assets

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

2.2 **Use of estimates and judgments (continued)**

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

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

The approach used for measuring allowances for ECL and the use of significant estimates and judgments is disclosed in more detail in note 32.1.

Impairment of non-financial assets

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

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

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

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

Recognition of securitization arrangements

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

Further details of securitization arrangements are disclosed in note 23.

Deferred income taxes

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

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

Retirement benefit obligations

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

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

2.3 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 31 contains additional information disclosed to support regulatory compliance.

3 Summary of significant accounting policies

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

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

The adoption of new accounting standards, including IFRS 9, at the start of 2018 resulted in significant changes to the Credit Union's accounting policies. As comparative period results continue to be prepared using the previous standards, where relevant, the policies outlined below reference those in place after the start of the current year, those in place before the start of the current year, and those in place in both periods.

3.1 Basis of consolidation

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

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

Investments in which the Credit Union exercises joint control are initially recognized at cost and subsequently accounted for using the equity method. The Credit Union's share of profits from investment in the joint venture is based on financial statements adjusted to conform to the accounting policies of the Credit Union. The joint venture in which the Credit Union participated operated an office building, which generated income from leasing of space for commercial use.

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 statement of comprehensive income immediately after acquisition. Costs incurred in connection with the acquisition are recognized in profit or loss as incurred.

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

Policies applicable beginning January 1, 2018 (IFRS 9)

Classification and measurement of financial assets (IFRS 9)

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.

(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 and selling, or through active trading. Factors considered by the Credit Union in determining the business model of a portfolio of financial assets include: past experience on the collection of contractual cash flows and selling within the portfolio, how the portfolio's performance is evaluated and reported to management, how the portfolio's risks are assessed and managed, and how managers of the portfolio are compensated. 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 solely payments of principal and interest ("SPPI"). In making this assessment, the Credit Union considers whether contractual cash flows are consistent with a basic lending arrangement (e.g. interest including only consideration for the time value of money, other basic lending risks, and a profit margin that is consistent with a basic lending arrangement).

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

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

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

(b) Equity instruments

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

3.4 **Financial instruments (continued)**

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

Policies applicable before January 1, 2018 (IAS 39)

Classification of financial assets (IAS 39)

There are four categories of financial assets: (i) loans and receivables, (ii) FVTPL, (iii) held to maturity, and (iv) available for sale. Management classifies each financial asset to one of these categories at the time of initial recognition. The classification depends on the purpose for which the asset was acquired. The category determines how the financial asset will be subsequently measured and whether any resulting income and expense is recognized in profit or loss or in OCI.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (other than investments where the Credit Union intends to sell in the short-term or where the Credit Union may not recover substantially all of the investment, which have been designated as available for sale). The Credit Union has designated receivables, loans to Members, finance receivables and fixed term deposits with Central 1 as loans and receivables. Financial assets classified as loans and receivables are initially measured at fair value net of loan fees and direct transaction costs and are subsequently measured at amortized cost using the effective interest method of amortization less provision for impairment.

Securities purchased under reverse repurchase agreements
The Credit Union enters into short-term purchases of securities under agreements to resell (reverse repurchase agreements) as well as short term sales of securities under agreements to repurchase (repurchase agreements) at predetermined prices and dates. Given that these transactions do not meet the derecognition criteria described in note 3.4, these agreements are treated as collateralized lending and borrowing.

Securities purchased under agreements to resell are not recognized as securities on the consolidated balance sheet and the consideration paid, including accrued interest, is recorded in securities purchased under reverse purchase agreements. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest method. These agreements are classified as loans and receivables.

(b) FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL on initial recognition. All of the Credit Union's derivative financial instruments fall into this category as well as cash and cash equivalents, except for short-term investments with less than 100 days maturity from the date of acquisition, which are classified as loans and receivables. Financial assets at FVTPL are initially recognized at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. They are subsequently measured at fair value with gains and losses recognized in profit or loss.

Cash and cash equivalents
Cash and cash equivalents comprise balances with less than 100 days maturity from the date of acquisition. Given the short-term nature, the carrying value of cash and cash equivalents, excluding short-term investments, is a reasonable approximation of fair value.

(c) Held to maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union's management has the positive intention and ability to hold to maturity.

(d) Available for sale financial assets

Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices and which are not classified as loans and receivables, FVTPL or held to maturity. These would include those non-derivative financial assets that are explicitly designated as such or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union has designated its equity investments not subject to significant influence as available for sale.

3.4 **Financial instruments (continued)**

Available for sale financial assets are initially recognized at fair value plus transaction costs. They are subsequently measured at fair value, with any resultant gain or loss recognized in OCI, except for impairment losses which are recognized in profit or loss. Investments in equity instruments that have been designated as available for sale but that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are recorded at cost. When financial instruments are derecognized, the cumulative gains and losses previously recognized in AOCI are recognized in profit or loss.

Interest income earned on available for sale debt instruments is recognized in profit or loss in other interest income. Dividends received on available for sale equity instruments are recognized in profit or loss in non-interest income in the period that they were declared.

Policies applicable in both periods (IFRS 9 and IAS 39)

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.

Classification and measurement of financial assets and financial liabilities

Derivative financial instruments:

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

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

Embedded derivatives:

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

Hedge accounting:

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

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

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

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.

3.4 **Financial instruments (continued)**

Classification and measurement of financial liabilities

In both the current and prior period, 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: Members' deposits, borrowings, payables, secured borrowings and mortgage securitization liabilities.

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

Derecognition of financial instruments

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

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

Reclassifications

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

Modification of loans

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

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

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

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

3.5 Interest income and expense

Interest-bearing financial instruments

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

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

Finance receivables

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

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

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

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

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

3.6 Fee and commission income

Policies applicable beginning January 1, 2018 (IFRS 15)

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. In the Credit Union, revenue streams impacted by the adoption standard include annual fees, interchange income and customer rewards on credit cards.

Policies applicable before January 1, 2018 (IAS 18)

Fee and commission income not directly attributable to the acquisition of financial instruments is recognized when the related service is provided and the income is contractually due. Fee and commission income is included in non-interest income on the consolidated statement of comprehensive income.

Policies applicable in both periods

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

3.7 **Impairment of financial assets**

Policies applicable beginning January 1, 2018 (IFRS 9)

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

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

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

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

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 2 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 are assessed on an individual financial asset and are measured as the amount that is required to reduce the carrying value of the impaired asset to its estimated realizable amount, which is generally the fair value of the security underlying the asset, net of expected costs of realization. Expected costs of realization are determined by discounting at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income.

3.7 **Impairment of financial assets (continued)**

Policies applicable before January 1, 2018 (IAS 39)

The Credit Union assesses at each consolidated balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(a) Financial assets carried at amortized cost
A financial asset or group of financial assets are impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event or events has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Credit Union uses to determine that there is objective evidence of an impairment include delinquency in contractual payments of principal or interest, financial difficulties experienced by the borrower, breach of loan covenants or conditions, initiation of bankruptcy proceedings or deterioration in the value of collateral.

The Credit Union completes an assessment to determine whether objective evidence of impairment exists on an individual and/or collective basis. If the Credit Union determines that objective evidence of impairment does not exist for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment is identified, are not included in the collective assessment of impairment.

The specific allowance assessed on an individual financial asset is measured as the amount that is required to reduce the carrying value of the impaired asset to its estimated realizable amount, which is generally the fair value of the security underlying the asset, net of expected costs of realization. Expected costs of realization are determined by discounting at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income.

The estimated period between when a loss occurs and its identification is determined by management to be 12 months, on average, for the purpose of collectively provisioning loans.

For the purposes of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Future cash flows within each group are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

An impairment loss on an investment carried at amortized cost is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The reversal is recognized in the consolidated statement of comprehensive income.

(b) Finance receivables
For finance receivables, an account balance is considered impaired when there is objective evidence there has been a deterioration of credit quality subsequent to initial recognition, to the extent OneCap no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. If a finance receivable is determined to be impaired, a specific allowance is recorded.

For finance receivables that are found not to be impaired, they are assessed collectively, in groups of assets with similar risk characteristics, to determine whether an allowance should be made due to loss events that have been incurred but whose effects are not yet evident. The collective assessment takes into account management's judgment, data from the lease portfolio such as levels of arrears, historical loss experience and other relevant indicators.

(c) Financial assets classified as available for sale
When objective evidence of impairment exists, which may include a decline in fair value or recoverable amount of the future cash flows below the cost that is other than temporary, an impairment loss is recorded.

All impairment losses are recognized in the consolidated statement of comprehensive income. Any decline in fair value of an available for sale financial asset recognized previously in OCI that is considered to be impaired is taken into profit or loss for the year. Impairment losses relating to an available for sale debt instrument are reversed when in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized.

3.7 **Impairment of financial assets (continued)**

Policies applicable in both periods (IFRS 9 and IAS 39)

Write offs

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

3.8 **Intangible assets**

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

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

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

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

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

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

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

3.9 **Property, plant and equipment**

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

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

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

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

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

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

3.10 Goodwill

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

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

3.11 Impairment of non-financial assets

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

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

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

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

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

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

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

3.12 Leases

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

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

3.13 Provisions

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

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

3.14 Employee benefits

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

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

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

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

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

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

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

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

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

3.15 Income taxes

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

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

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

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

3.16 Share capital

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

3.16 **Share capital (continued)**

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

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

4 Changes in accounting policies

Issued standards now effective

IFRS 9, *Financial Instruments*

The Credit Union has adopted IFRS 9 as issued by the IASB in July 2014 with a transition date of January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the consolidated financial statements. The Credit Union did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Credit Union elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in the opening retained earnings of the current period. Consequently, for note disclosures, the amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior period. Where financial statement line items have been re-named as a result of the new classification and measurement requirements of IFRS 9, prior period balances are disclosed under the re-named financial statement line items at their previous IAS 39 carrying values.

The Credit Union has also elected to continue applying the hedge accounting requirements of IAS 39 upon adoption of the other elements of IFRS 9.

The adoption of IFRS 9 has resulted in changes to the Credit Union's accounting policies for recognition, classification and measurement of financial instruments, and the impairment of financial assets. IFRS 9 also amends other standards dealing with financial instruments, such IFRS 7 Financial Instruments: Disclosures.

Set out below are disclosures outlining the impact to the Credit Union of adopting IFRS 9. Further details on specific accounting policies pertaining to IFRS 9 in the current period (as well as the IAS 39 accounting policies applied in the prior period) are described in note 3.

(a) Classification and measurement

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

	IAS 39		IFRS 9	
Financial assets	**Measurement category**	**Carrying Amount**	**Measurement category**	**Carrying Amount**
Cash and cash equivalents	FVTPL	268,494	Amortized cost	268,494
	Amortized cost (loans and receivables)	75,380	Amortized cost	75,380
Receivables	Amortized cost (loans and receivables)	7,197	Amortized cost	7,197
Investments in debt instruments	Amortized cost (loans and receivables)	828,142	Amortized cost	828,142
	Amortized cost (held to maturity)	11,690	Amortized cost	11,690
Loans to Members	Amortized cost (loans and receivables)	13,023,478	Amortized cost	13,013,227
Finance receivables	Amortized cost[1]	1,049,061	Amortized cost[1]	1,044,380
Derivative financial assets	FVTPL[2]	41,474	FVTPL[2]	41,474
Investments in equity instruments	FVTOCI (available for sale)	68,210	FVTPL	68,210

[1] Includes retail loans and dealer financing loans as well as leases measured under IAS 17 but subject to IFRS 9 impairment standards.

4 Changes in accounting policies (continued)

[2] Except for derivatives designated in cash flow hedge accounting relationships where, to the extent the hedge is effective, changes in fair value are taken to the cash flow hedging reserve through OCI. Any ineffectiveness is recognized in profit or loss.

There were no changes to the classification or measurement of financial liabilities.

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Credit Union performed a detailed analysis of its financial assets in order to segregate them by distinct business models as well as to assess the characteristics of their contractual cash flows (see note 3.4 for detailed information on new IFRS 9 requirements).

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

	Ref	IAS 39 carrying amount Dec 31,2017	Reclassifications	Remeasurements	IFRS 9 carrying amount Jan 1, 2018
Financial assets at amortized cost:					
Cash and cash equivalents					
Opening balance under IAS 39		75,380			
Addition: from FVTPL under IAS 39	(A)		268,494		
Closing balance under IFRS 9					343,874
Receivables					
Opening balance under IAS 39 and closing balance under IFRS 9		7,197			7,197
Investments in debt instruments					
Opening balance under IAS 39 and closing balance under IFRS 9		839,832			839,832
Loans to Members					
Opening balance under IAS 39		13,023,478			
Remeasurement: expected credit losses Allowance				(10,251)	
Closing balance under IFRS 9					13,013,227
Total financial assets measured at amortized cost		**13,945,887**	**268,494**	**(10,251)**	**14,204,130**
Financial assets at FVTPL:					
Cash and cash equivalents					
Opening balance under IAS 39		268,494			
Subtraction: to amortized cost under IFRS 9	(A)		(268,494)		
Closing balance under IFRS 9					-
Derivative financial assets*					
Opening balance under IAS 39 and closing balance under IFRS 9		41,474			41,474
Investments in equity instruments					
Opening balance under IAS 39		-			
Addition: from FVTOCI under IAS 39	(B)		68,210		
Closing balance under IFRS 9					68,210
Total financial assets measured at FVTPL		**309,968**	**(200,284)**		**109,684**
Financial assets at FVTOCI:					
Investments in equity instruments					
Opening balance under IAS 39		68,210			
Subtraction: to FVTPL under IFRS 9	(B)		(68,210)		
Closing balance under IFRS 9					-
Total financial assets measured at FVTOCI		**68,210**	**(68,210)**		**-**
Non-financial assets and liabilities:					
Finance receivables					
Opening balance under IAS 39		1,049,061			
Remeasurement: expected credit losses allowance				(4,681)	
Closing balance under IFRS 9					1,044,380

*Except for derivatives designated in cash flow hedging relationships with effective changes in fair value taken to the cash flow hedging reserve through OCI.

4 Changes in accounting policies (continued)

The following explains how applying the new classification requirements of IFRS 9 led to changes in the classification of certain financial assets held by the Credit Union as shown in the table above:

(A) Cash and cash equivalents

Under IAS 39, the Credit Union had classified a component of cash and cash equivalents as FVTPL. Under IFRS 9, these financial assets are managed under a business model with the purpose of collecting contractual cash flows. The cash flows on these assets also represent solely payments of principal and interest. Based on the business model and cash flow characteristics, these assets are classified as amortized cost. As a result, cash and cash equivalents in the amount of $268,494 were reclassified from FVTPL to amortized cost beginning on January 1, 2018. There was no change in the carrying amount due to this reclassification (amortized cost value is the same as fair value due to the short-term nature of the assets) nor did the reclassification have any impact on the amount recognized in profit or loss or OCI for the period.

(B) Equity investments

The Credit Union holds investments in equity instruments which were classified as available for sale under IAS 39 and measured at FVTOCI. There have not been any changes to the fair value of these assets since they were purchased. The available for sale classification was retired after the adoption of IFRS 9 under IFRS 9 and the Credit Union has not irrevocably chosen to designate these assets as FVTOCI upon adoption of the new standard; therefore equity investments in the amount of $68,210 are reclassified as FVTPL beginning January 1st, 2018. There was no change to the carrying value of the assets with this reclassification nor did the reclassification have an impact on the amount recognized in profit or loss or OCI for the year.

The following table is a comparison of impairment allowances determined in accordance with IAS 39 to the corresponding impairment allowance determined in accordance with IFRS 9 as at January 1, 2018.

	IAS 39 as at December 31, 2017				IFRS 9 as at January 1, 2018			
	Collectively assessed	Individually assessed	Total	Transition Adjustments	Stage 1	Stage 2	Stage 3	Total
Loans to members	14,042	5,650	19,692	10,251	11,171	13,122	5,650	29,943
Finance receivables	4,530	2,447	6,977	4,681	8,575	636	2,447	11,658
Total allowance for credit losses	**18,572**	**8,097**	**26,669**	**14,932**	**19,746**	**13,758**	**8,097**	**41,601**

The $14,932 increase to the allowance for credit losses resulting from the transition to IFRS 9 was partly offset by a corresponding $3,137 increase to deferred income tax assets, resulting in a net reduction to equity of $11,795.

IFRS 15, *Revenue from Contracts with Customers*:

The Credit Union has adopted IFRS 15 as issued by the IASB in May 2014 with a date of transition of January 1, 2018. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty or revenue and cash flows arising from an entity's contracts with customers. The standard excludes from its scope revenue arising from items such as financial instruments, insurance contracts and leases. The revenue streams impacted by the adoption of the standard include annual fees, interchange income and customer rewards associated with credit card products and has been assessed as minimal.

Issued standards not yet effective

IFRS 16, *Leases*:

IFRS 16, Leases was issued in January 2016 and sets out the principles for recognition, measurement, presentation and disclosure of leases for both parties to a contract. The new standard replaces the previous leases standard, IAS 17, Leases. The new standard introduces a single lessee accounting model for all leases by eliminating the distinction between operating and financing leases. IFRS 16 requires lessees to recognize right-of-use assets and lease liabilities for most leases. Lessees will also recognize depreciation expense on the right-of-use asset and interest expense on the lease liability in the statement of income. Short-term leases, which are defined as those that have a lease term of 12 months or less; and leases of low-value assets are exempt. Lessor accounting remains substantially unchanged.

Meridian has a significant number of operating leases, comprised mostly of property leases, which are currently accounted for 'off-balance sheet'. The lease payments are reflected in profit or loss as incurred.

The new standard is effective for annual periods beginning on or after January 1, 2019. Meridian is continuing to assess the impacts of this standard.

5 Cash and cash equivalents

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

	2018	2017
Cash on hand	40,947	32,545
Deposits with other financial institutions	182,871	215,694
Short-term investments	161,216	75,380
Restricted funds	23,296	20,255
Total cash and cash equivalents	408,330	343,874

Included in deposits with other financial institutions is $48,192 (2017 – $45,957) 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

	2018	2017
Commodity tax receivables	144	5,286
Other receivables	2,719	1,911
Total receivables - current	2,863	7,197

7 Investments in debt instruments

	2018	2017
Central 1 liquidity reserve deposit	1,007,098	825,695
Securities purchased under reverse repurchase agreements	-	1,281
Other investments in debt instruments	54,408	12,856
All investments in debt instruments	1,061,506	839,832

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

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

Other investments in debt instruments
The Credit Union held one (2017 – one) interest bearing deposit with one (2017 – one) Canadian financial institution and nil (2017 – one) Government of Canada bonds. These financial instruments are pledged in trust with Canada Housing Trust ("CHT") for CMB reinvestment purposes. In addition, motusbank held one (2017 – nil) Government of Canada T-Bill.

8 Loans to Members

	2018	2017
Residential mortgages	8,941,855	7,726,486
Personal loans	1,324,484	1,220,311
Commercial loans	4,666,247	4,096,373
	14,932,586	13,043,170
Allowance for impaired loans	(32,278)	(19,692)
Total net loans to Members	14,900,308	13,023,478
Current	4,768,671	4,276,284
Non-current	10,131,637	8,747,194

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 Credit Union, 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.

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

8 Loans to Members (continued)

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

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

The increase in the gross carrying value of residential mortgages over the period had an immaterial impact on the loss allowance. There was a 9% increase in the gross carrying value of personal loans over the period, generating a corresponding increase of $1,327 in the loss allowance. The write off of personal loans with a gross carrying value of $2,094 resulted in a reduction in the loss allowance by the same amount. There was a 14% increase in the gross carrying value of commercial loans over the period, generating a corresponding increase of $1,536 in the loss allowance. The write off of commercial loans with a gross carrying value of $480 resulted in a reduction in the loss allowance by the same amount.

8 Loans to Members (continued)

	Residential mortgages	Personal loans	Commercial loans	Collective allowance	Total
Year ended December 31, 2017					
Balance as at January 1, 2017	652	470	17,923	11,603	30,648
Loans written off	(28)	(1,427)	(10,061)	-	(11,516)
Recoveries on loans previously written off	39	261	30	-	330
Provision for credit losses	28	1,488	(3,725)	2,439	230
Balance as at December 31, 2017	691	792	4,167	14,042	19,692

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

	Residential mortgages	Personal loans	Commercial loans	Total
Gross impaired loans	8,539	2,438	23,700	34,677
Related security, net of expected costs	(7,848)	(1,646)	(19,533)	(29,027)
Balance as at December 31, 2017	691	792	4,167	5,650
Interest income recognized on impaired loans				2,340

The allowance for impaired loans provided for in the accounts of the Credit Union is in accordance with the DICO requirements.

Maximum exposure to credit risk

The following tables contain an analysis of the credit risk exposure of loans to Members. 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	156,504	48,843	-	205,347
A+	4,211,177	223,221	-	4,434,398
A	2,134,256	347,468	-	2,481,724
B	785,383	258,314	-	1,043,697
C	346,791	155,666	-	502,457
D	131,396	62,686	-	194,082
E	43,790	26,052	-	69,842
Defaulted	-	-	10,308	10,308
Gross carrying amount	7,809,297	1,122,250	10,308	8,941,855
Loss allowance	160	519	501	1,180
Carrying amount	7,809,137	1,121,731	9,807	8,940,675

8 Loans to Members (continued)

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

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

Loans past due but not impaired

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

	< 30 days	30-59 days	60-89 days	90 days and greater
Retail	189,513	23,116	3,554	19
Commercial	84,634	15,585	29	185
Total as at December 31, 2017	274,147	38,701	3,583	204

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.

8 Loans to Members (continued)

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.

	2018	2017
Fair value of collateral held on assets either past due >30 days or impaired	159,096	101,218

9 Finance Receivables

	2018	2017
Gross investment in finance leases	1,168,644	1,014,558
Unearned revenue	(108,623)	(90,922)
Unguaranteed residual values on finance leases	596	1,670
Net investment in finance receivables	1,060,617	925,306
Retail and dealer loans	137,878	136,179
Unamortized deferred costs and subsidies	8,472	7,856
Security deposits	(15,141)	(13,303)
Allowance for credit losses	(13,282)	(6,977)
Total finance receivables	1,178,544	1,049,061

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

Contractual maturities of finance leases and retail and dealer loans

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

	Finance leases	Retail and dealer loans	Total
0 to 12 months	52,975	15,129	68,104
1 to 3 years	343,068	39,282	382,350
3 to 5 years	468,445	71,276	539,721
Over 5 years	60,818	10,492	71,310
Balance as at December 31, 2017	925,306	136,179	1,061,485

9 Finance Receivables (continued)

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 and retail and dealer loans past due

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

	Finance leases	Retail and dealer loans	Total
< 30 days	700	301	1,001
30-59 days	1,263	64	1,327
60-89 days	683	-	683
90 days and greater	217	219	436
Past due but not impaired as at December 31, 2017	2,863	584	3,447

Allowance for credit losses

On December 31, 2018, impaired finance receivables amounted to $7,372 (2017 - $5,167). A portion of the finance receivables is expected to be recovered and $4,485 (2017 - $2,447) has been provided for in the allowance for credit losses.

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

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

9 Finance receivables (continued)

	Specific allowance	General allowance	Total allowance
Year ended December 31, 2017			
Balance as at January 1, 2017	1,781	2,103	3,884
Finance receivables written off	(6,735)	-	(6,735)
Recoveries on finance receivables previously written off	781	-	781
Provision for credit losses, net of recoveries	6,620	2,427	9,047
Balance as at December 31, 2017	2,447	4,530	6,977

Movements in Loss Allowance

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

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

Leases originated during the period increased the gross carrying value of finance receivables by 15%, with a corresponding increase of $5,360 in the loss allowance. The write off of finance receivables with a gross carrying value of $9,048 resulted in a reduction in the loss allowance by the same amount.

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	1,145,396	45,671	-	1,191,067
Default	-	-	7,428	7,428
Gross carrying amount	1,145,396	45,671	7,428	1,198,495
Loss allowance	(9,218)	(1,177)	(2,887)	(13,282)
Carrying amount at December 31, 2018	1,136,178	44,494	4,541	1,185,213

10 Derivative financial instruments

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

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

	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, 2017						
Foreign exchange derivatives:						
Forward contracts	750	325	-	1,075	57	53
Equity index-linked options:						
Purchased equity options	154,462	206,217	-	360,679	26,676	-
Interest rate derivatives:						
Designated cash flow hedges	461,250	925,000	893,594	2,279,844	14,416	1,961
Swaptions	10,000	-	-	10,000	325	-
Total derivative contracts as at December 31, 2017	626,462	1,131,542	893,594	2,651,598	41,474	2,014

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

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

Foreign exchange forward contracts
As part of its ongoing program for managing foreign currency exposure, the Credit Union enters into foreign exchange forward contracts to purchase or sell U.S. dollars. These agreements function as an economic hedge against the Credit Union's net U.S. dollar denominated liability position. The fair value of these contracts as at December 31, 2018 was $3 (2017 – $4). Of this net balance, $103 (2017 - $57) is included in derivative instrument assets and $100 (2017 - $53) is included in derivative instrument liabilities. Gains/losses on foreign exchange forward contracts are included in non-interest income.

10 Derivative financial instruments (continued)

Equity index-linked derivatives and options
The Credit Union has $320,581 (2017 - $357,077) 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 various 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 equity indices. The fair value of these options agreements amounted to $11,034 as at December 31, 2018 (2017 - $26,676). The fair value of the embedded written option in the equity index-linked term deposit products amounted to $10,900 as at December 31, 2018 (2017 – $26,313) and is included as part of Members' deposits (see note 19). Although hedge accounting is not applied, these agreements continue to be effective as economic hedges.

Interest rate swaps
As part of its interest rate risk management process, the Credit Union utilizes interest rate contracts in the form of interest rate swaps, forward interest rate swaps, floors and caps, to maintain its interest rate exposure within the preset limits defined within the Board of Directors' (the "Board") approved policy. The notional amount relating to these contracts as at December 31, 2018 is $2,186,125 (2017 - $1,396,937). In compliance with agreements for the secured borrowing facilities, OneCap utilizes interest rate swaps to manage interest rate exposure risk in connection with financing variable rate equipment contract backed notes. The notional amount of swaps relating to secured borrowing agreements at December 31, 2018 is $1,075,912 (2017 – $882,907).

Designated cash flow 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 as cash flow hedges. The Credit Union has also designated certain hedging relationships involving interest rate swaps that convert variable rate loans to fixed rate loans. Interest rate swaps that convert variable rate notes to fixed rate notes are also designated as cash flow hedges. The amount of AOCI that is expected to be reclassified to profit or loss is $15,879 (2017 – $15,982)

Interest rate swap agreements (including forward interest rate swaps) are valued by netting the credit adjustment, discounted variable and fixed cash flows. Variable cash flows are calculated using implied interest rates as determined by current Canadian Dealer Offered Rate ("CDOR") and swap interest rates, and term relationships. Fixed cash flows are calculated based on the rates stated in the agreements. These notional cash flows are discounted using the relevant points on the zero interest rate curve as derived from the month-end CDOR and swap rates. As at December 31, 2018, the fixed interest rates on the Credit Union's interest rate swaps is between 1.3% and 2.8% (2017 – 0.9% and 2.2%) and the fixed interest rate on OneCap's interest rate swaps are between 1.8% and 2.7% (2017 – 1.4%).

Bond forward contracts
As part of its interest rate risk management process, the Credit Union utilizes bond forwards to maintain its interest rate exposure on forecasted debt issuances associated with securitization activity. These hedging relationships are designated as cash flow hedges. The effective portion of realized gains (losses) on these derivatives are deferred and amortized in accordance with the effective interest rate method along with the debt originated. The amount of AOCI that is expected to be reclassified to profit or loss over the next 60 months is $144 (2017 – $(241)).

Swaptions
As part of its interest rate risk management process, the Credit Union utilizes swaptions as an economic hedge against its interest rate exposure on loan commitments. The Credit Union had no outstanding swaption positions as at December 31, 2018 (2017 – $325) that are included in derivative instrument liabilities. Gains/losses on swaptions are included in net gain/(loss) on interest rate derivative instruments as part of other interest income (see note 26).

10 Derivative financial instruments (continued)

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

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

		Carrying amount		Changes in fair value used for calculating hedge ineffectiveness
Year ended December 31, 2017	**Notional**	**Assets**	**Liabilities**	
Cash flow hedges				
Interest rate				
Interest rate swaps	2,279,844	14,416	1,961	18,548

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

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

	Carrying value of hedged item		Balance Sheet line item	Change in fair value of hedged item for ineffectiveness assessment	Cash flow hedging reserve	
Year ended December 31, 2017	Assets	Liabilities			Continuing hedges	Discontinued hedges
Cash flow hedges						
Interest rate						
Floating rate loans	261,250	-	Loans to Members	243	249	-
Floating rate deposits	-	1,135,688	Members' deposits	(15,070)	(4,662)	-
Lease securitizations	-	882,907	Secured borrowings	(4,096)	(3,773)	(7,796)
Mortgage securitizations	-	-	Mortgage securitization liabilities	-	-	241

10 Derivative financial instruments (continued)

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

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

				Amounts reclassified to P&L as:		
December 31, 2017	**Gains/(loss) recognized in OCI**	**Hedge ineffectiveness recognized in P&L**	**P&L item that includes hedge ineffectiveness**	**Hedged cash flows that will no longer occur**	**Hedged item affected P&L**	**P&L line item that includes reclassified amount**
Cash flow hedges						
Interest rate						
Floating rate loans	(242)	(1)	Interest income	-	-	Interest income
Floating rate deposits	14,875	53	Interest expense	-	-	Interest expense
Lease securitizations	9,377	(112)	Interest expense	-	(444)	Interest expense
Mortgage securitizations	1,077	(105)	Interest expense	-	(500)	Interest expense

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

	Cash flow hedge reserve
Balance as at January 1, 2018	**11,863**
Amounts recognized in other comprehensive income:	
Cash flow hedge – interest rate risk	
Effective component of changes in fair value of interest rate swaps	(586)
Effective component of changes in fair value of bond forwards	(539)
Amounts reclassified from reserves to P&L	1,118
Taxation	90
Balance as at December 31, 2018	**11,946**

	Cash flow hedge reserve
Balance as at January 1, 2017	**(7,677)**
Amounts recognized in other comprehensive income:	
Cash flow hedge – interest rate risk	
Effective component of changes in fair value of interest rate swaps	23,566
Effective component of changes in fair value of bond forwards	577
Amounts reclassified from reserves to P&L	944
Taxation	(5,547)
Balance as at December 31, 2017	**11,863**

11 Investments in equity instruments

	2018	2017
Central 1 Class A shares	6,099	47,830
Central 1 Class E shares	15,070	20,081
Central 1 Class F shares	51,249	-
Other shares or units	1,800	299
Total investments in equity instruments	74,218	68,210

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.

During the year, Central 1 restructured its share classes to more appropriately support specific lines of business. In addition to the Class A and E shares, Central 1 issued Class F shares in the year. At the time of restructuring, 42,243,447 shares were redeemed from Class A, 50,102 shares were redeemed from Class E and 47,514,550 shares were issued to Class F, resulting in a cash injection of $261. Class A and F shares also fluctuate during the year due to Central 1 share rebalancing and capital calls.

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

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

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

12 Investment in associates

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

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

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

As of December 31, 2018, the Credit Union owns 22% (2017 – 22%) of the voting shares of CUCO Co-op, maintaining the largest individual shareholding and held one of five positions on the Board. Consequently, the Credit Union maintains significant influence over the activities of CUCO Co-op. The activities of CUCO Co-op are not considered strategic to the Credit Union.

The Credit Union accounts for its investment in CUCO Co-op using the equity method. The change in the investment balance during the year is as follows:

12 Investment in associates (continued)

	2018	2017
Balance as at January 1	328	11,434
Share of comprehensive income (loss)	-	(27)
Distributions received	-	(11,079)
Balance as at December 31	328	328

The aggregate amounts relating to CUCO Co-op are as follows:

	2018	2017
Cash and cash equivalents	1,488	1,531
Other assets	-	7
Total assets	1,488	1,538
Accounts payable	-	50
Total liabilities	-	50
Net assets	1,488	1,488
Share of net assets	328	328

	2018	2017
Interest income	-	549
Gains (losses) on securities	-	(435)
Expenses	-	(238)
Comprehensive income of the associate	-	(124)
Share of comprehensive income (loss)	-	(27)

Transactions with CUCO Co-op during the period are comprised of return of capital distributions of nil (2017 - $1,084) and dividend distributions of nil (2017 - $9,995) on the Class B Shares of CUCO Co-op. They have been recorded as reductions of the investment balance.

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

13 Investment in joint venture

The Credit Union participated in Seventy-Five Corporate Park Drive Limited ("joint venture"), an incorporated real estate joint venture located in St. Catharines, ON, with a fiscal year end of December 31. The Credit Union's ownership percentage was 50%. The investment was structured as a separate legal entity and provided 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 entity was not restricted from renting to third parties. The activities of the joint venture were not considered strategic to the Credit Union. The investment met the requirements for being classified as a joint venture and was accounted for using the equity method as of December 31.

In April 2017, the joint venture sold the building on Seventy-Five Corporate Park Drive in St. Catharines, ON for a total consideration of $15,372. The joint venture was wound up in 2018.

13 Investment in joint venture (continued)

The change in the investment balance during the year is as follows:

	2018	2017
Balance as at January 1	1,536	1,820
Share of comprehensive income	4	4,715
Distributions received	(1,540)	(4,999)
Balance as at December 31	-	1,536

The aggregate amounts relating to the joint venture are as follows:

	2018	2017
Cash and cash equivalents	-	4,468
Shareholders' advances	-	4,000
Total assets	-	8,468
Current liabilities	-	1,396
Non-current liabilities	-	-
Total liabilities	-	1,396
Net assets	-	7,072
Share of net assets	-	3,536
Less: Shareholder advance	-	(2,000)
Net assets	-	1,536

	2018	2017
Revenue	33	612
Gain on Sale of Assets	-	10,034
Expenses excluding depreciation and amortization	(24)	(307)
Depreciation and amortization	-	(19)
Net earnings before income taxes	9	10,320
Income tax expense	(1)	(912)
Comprehensive income	8	9,408
Share of comprehensive income	4	4,715

The Credit Union had an operating lease with the joint venture for its offices at Seventy-Five Corporate Park Drive in St. Catharines, ON. In 2016 the Credit Union entered into a lease amending agreement with the joint venture which extended the maturity date of its operating lease from 2020 to 2026. A tenant inducement of $1,327 was received as consideration. In April 2017 the operating lease was assigned to Henley Corporate Park Drive East Inc. who purchased the building from the joint venture.

Other transactions during the year with the joint venture are comprised of rent, common area maintenance and property taxes paid to the joint venture in the amount of nil (2017 – $583).

14 Intangible assets

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

	Broker and vendor relationships	Core deposit intangible assets	Software	Other	Total
Year ended December 31, 2017					
As at January 1, 2017, net carrying value	48,873	677	2,077	158	51,785
Additions, separately acquired	-	-	1,703	-	1,703
Amortization	(7,729)	(531)	(1,469)	(24)	(9,753)
Disposals (net)	-	-	(10)	-	(10)
As at December 31, 2017, net carrying value	41,144	146	2,301	134	43,725
As at December 31, 2017					
Cost	51,300	15,195	15,499	343	82,337
Accumulated amortization	(10,156)	(15,049)	(13,198)	(209)	(38,612)
Net carrying value	41,144	146	2,301	134	43,725

15 Goodwill

	2018	2017
Balance at beginning and end of the period	73,232	73,232

Goodwill was tested for impairment during the years ended December 31, 2018 and 2017, and no impairment loss was recognized.

16 Property, plant and equipment

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

	Land	Building and improvements	Furniture and office equipment	Computer hardware and software	Leasehold improvements	Total
Year ended December 31, 2017						
As at January 1, 2017, net carrying value	2,733	8,671	11,609	7,736	19,117	49,866
Additions	-	1,147	3,084	4,707	3,012	11,950
Disposals	(396)	(234)	(5)	(4)	-	(639)
Depreciation	-	(1,128)	(3,061)	(3,580)	(2,871)	(10,640)
As at December 31, 2017, net carrying value	2,337	8,456	11,627	8,859	19,258	50,537
As at December 31, 2017						
Cost	2,337	23,071	33,022	42,275	38,730	139,435
Accumulated depreciation	-	(14,615)	(21,395)	(33,416)	(19,472)	(88,898)
Net carrying value	2,337	8,456	11,627	8,859	19,258	50,537

The Credit Union leases equipment under non-cancellable finance lease agreements. The lease terms are between five and ten years.

Computer hardware includes the following amounts where the Credit Union is a lessee under a finance lease:

	2018	2017
Cost - capitalized finance lease	2,624	2,624
Accumulated depreciation	(2,618)	(2,615)
Net carrying value	6	9

17 Deferred income taxes

	2018	2017
Deferred income tax assets		
Deferred tax assets to be recovered after more than 12 months	65,253	48,483
Deferred tax assets to be recovered within 12 months	14,918	30,422
Total deferred income tax assets	80,171	78,905
Deferred income tax liabilities		
Deferred tax liabilities to be paid after more than 12 months	25,837	27,082
Deferred tax liabilities to be paid within 12 months	9,742	8,662
Total deferred income tax liabilities	35,579	35,744
Net deferred income tax assets	44,592	43,161

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

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

		Recognized in			
	January 1, 2017	Profit or loss	OCI	Acquisition	December 31 2017
Non-capital losses available for carry-forward	13,773	(8,501)	-	-	5,272
Allowance for impaired loans	7,135	(2,179)	-	-	4,956
Finance receivables	30,710	4,678	-	-	35,388
Employee future benefits	3,670	(145)	45	-	3,570
Other accrued expenses	1,556	9	-	-	1,565
Property, plant and equipment	2,655	21,936	-	-	24,591
Intangible assets arising from acquisition	(4,069)	(21,444)	-	-	(25,513)
Deferred expenses	(2,694)	(1,150)	-	-	(3,844)
Financial instruments adjustments	(285)	159	-	-	(126)
Deferred loan fees	2,206	407	-	-	2,613
Mortgage securitization fees	(1,950)	(700)	-	-	(2,650)
Cash flow hedges	1,669	240	(5,547)	-	(3,638)
Other	525	284	-	168	977
Total	54,901	(6,406)	(5,502)	168	43,161

18 Other assets

	2018	2017
Employee discounts	21,980	20,121
Deferred securitization fees	15,330	13,588
Prepaid assets	6,079	4,374
Other	5,169	4,818
Total other assets	48,558	42,901
Current	15,720	12,733
Non-current	32,838	30,168

19 Members' deposits

	2018	2017
Demand deposits	5,932,456	5,760,104
Term deposits	4,504,196	3,506,625
Registered plans	2,712,065	2,357,754
Total Members' deposits	13,148,717	11,624,483
Current	10,582,503	9,716,601
Non-current	2,566,214	1,907,882

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

20 Borrowings

	2018	2017
Bank of Nova Scotia	-	6,306
National Bank of Canada credit facility	-	26,500
Finance lease liabilities	11	16
Total borrowings	11	32,822
Current	7	32,812
Non-current	4	10

Bank of Nova Scotia credit facility
OneCap has established a credit facility with The Bank of Nova Scotia totaling $2,000 (2017 - $10,000) 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 (2017 - $10,000) issued by the National Bank of Canada under the following facility.

As at December 31, 2018, OneCap had access to $2,000 (2017 - $7,429) of available financing from the credit facility.

National Bank of Canada credit facility
OneCap has established a credit facility with National Bank of Canada totaling $72,000 (2017 - $80,000) to finance the acquisition of assets and for operations. The credit agreement has a maturity date of October 31, 2019 and is secured by eligible equipment leases and loans.

As at December 31, 2018, OneCap had access to $72,000 (2017 - $43,500) of available financing from the credit facility.

Other credit facilities
The Credit Union has a $300,000 (2017 - $300,000) credit facility with the Canadian Imperial Bank of Commerce ("CIBC"). As at December 31, 2018, the CIBC credit facility had a nil balance (2017 - nil). The credit facility is secured by eligible mortgages insured through either Canadian Mortgage and Housing Corporation ("CMHC") or Genworth.

20 Borrowings (continued)

The Credit Union has a settlement risk line totaling $25,000 (2017 - $25,000) with the Bank of Montreal. As at December 31, 2018, the settlement line had a balance of nil (2017- nil).

The Credit Union has an overdraft line totaling $850 (2017 - $240) with Caisse Centrale Desjardins ("CCD"). As at December 31, 2018, the overdraft line had a balance of nil (2017 - 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 $290,000 and US $10,000 (2017 - $290,000 and US $10,000) on its liquidity facility for which the balance outstanding was nil as at December 31, 2018 (2017 – nil). A contingency credit facility has been established in the amount of $400,000 (2017 - $350,000).

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

Finance lease liabilities

	2018	2017
Gross finance lease liabilities - minimum lease payments		
Within 1 year	8	8
1 to 5 years	4	12
	12	20
Future finance charges on finance lease liabilities	(1)	(4)
Present value of finance lease liabilities	11	16
The present value of minimum lease payments is as follows:		
Within 1 year	7	6
1 to 5 years	4	10
Present value of finance lease liabilities	11	16

21 Payables and other liabilities

	2018	2017
Accounts payable and accrued liabilities	42,837	24,233
Deferred income	3,040	3,541
Cheques and other items in transit	11,435	10,095
Total payables and other liabilities	57,312	37,869
Current	54,818	32,931
Non-current	2,494	4,938

22 Secured borrowings

	2018	2017
Obligations related to securities sold under repurchase agreements	49,016	-
Variable rate equipment contract backed notes	1,078,720	937,293
Total Secured Borrowings	1,127,736	937,293
Current	436,198	320,361
Non-current	691,538	616,932

The Company was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2018 and 2017.

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

The carrying value of finance receivables that are pledged as collateral for the notes at December 31, 2018 is $1,162,998 (2017 – $1,011,875). In addition, OneCap has cash reserves of $23,296 (2017 – $20,255) held as collateral for the notes as disclosed in note 5.

23 Mortgage securitization liabilities

	2018	2017
Mortgage securitization liabilities	2,428,275	1,920,761
Current	293,314	220,526
Non-current	2,134,961	1,700,235

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

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

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

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

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

23 Mortgage securitization liabilities (continued)

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

As all mortgages securitized by the Credit Union are required to be fully insured prior to sale, they pose minimal to no credit risk to the Credit Union immediately before or any time after the securitization transaction. Under all schemes, the Credit Union remains exposed to interest rate and timely payment risks associated with the underlying assets. As such, the assets, liabilities, revenues and expenses have not been derecognized and the transactions are accounted for as secured financing transactions in the Credit Union's consolidated balance sheet and consolidated statement of comprehensive 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 utilizes them to meet the reinvestment needs of the CMB Program. As principal is received on mortgages securitized into the CMB Program through the securitization vehicle, it is required to be reinvested in accordance with CMB guidelines. These MBS are transferred to CHT as required to meet these reinvestment requirements.

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

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

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

	2018		2017	
	Carrying value	Fair Value	Carrying value	Fair value
Securitized mortgages sold via CMB Program (included in loans to Members)	1,707,073	1,684,459	1,863,280	1,825,283
Sold MBS to third parties	671,016	653,593	-	-
Securities purchased under reverse repurchase agreements, asset backed commercial paper, and Government of Canada bonds (included in financial investments)	46,306	46,306	12,972	12,972
Unscheduled principal payment reserve (included in cash and cash equivalents)	48,192	48,192	45,957	45,957
Principal and interest receipts to be reinvested in the following month (included in cash and cash equivalents)	18,531	18,531	48,955	48,955
Total designated assets	2,491,118	2,451,081	1,971,164	1,933,167
Mortgage securitization liabilities	(2,428,275)	(2,408,661)	(1,920,761)	(1,896,262)
Net amount	62,843	42,420	50,403	36,905

24 Pension and other employee obligations

	2018	2017
Short-term employee benefits payable	32,216	30,786
Retirement benefit obligations	15,611	18,319
Total pension and other employee obligations	47,827	49,105

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

<u>Contributory Defined Benefit Pension Plans</u>
The Credit Union has two contributory defined benefit pension plans.

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

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

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

The most recent valuation of the DB2 Plan for funding purposes was as at December 31, 2016. The next valuation is expected to be completed as at December 31, 2019. 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 Financial Services Commission of Ontario ("FSCO"). Plan valuations must be filed with both the FSCO 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.

<u>Non-contributory Supplemental Executive Retirement Plan 1</u>
This plan is a defined benefit pension plan which provides designated employees benefits in excess of the benefits payable to such employees under the DB1 Plan, under which benefits are restricted by the maximum permitted under the Income Tax Act (Canada). The benefits payable under the Supplemental Plan are based on the benefit formula under the DB1 Plan. The Credit Union has established a trust fund, pursuant to a trust agreement between the Credit Union and the trustee, for the purpose of providing security for the benefits accrued under the Supplemental Plan. A member of this plan will neither be required nor permitted to make any contribution to this plan.

<u>Supplemental Executive Retirement Plan 2</u>
This plan mirrors the structure of the Defined Contribution ("DC") Plan and contains employer pension contributions that exceed the maximum permitted under the Income Tax Act (Canada). Contributions are made on a notional basis and paid out to employees upon termination or retirement. A member of this plan will neither be required nor permitted to make any contribution to this plan.

<u>Defined Contribution Pension Plan and Group Registered Retirement Savings Plan ("RRSP")</u>
An employee who becomes a member of the DC Plan and who accrues benefits under the DC provisions is not required or permitted to make contributions to the Plan but is required, on fulfilling certain eligibility requirements, to make contributions to a group RRSP. 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.

24 Pension and other employee obligations (continued)

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 $200 per year of service upon retirement.

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

Components of the net benefit plan expense are as follows:
(a) *Service cost* is the increase in the present value of the accrued benefit obligation resulting from employee service in the current period or prior periods and from any gain or loss on settlement.
(b) *Net interest cost* is the change in the net defined benefit liability or asset that arises from the passage of time.
(c) *Remeasurements* of the net defined benefit liability include actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets excluding amounts included in net interest and changes in the effect of any asset ceilings.

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

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

	2018	2017
Consolidated balance sheet obligations for:		
Pension benefit plans	8,220	9,407
Post-employment benefits	7,391	8,912
	15,611	18,319
Consolidated re-measurement loss (gain) included in other comprehensive income for:		
Pension benefit plans	498	(48)
Post-employment benefits	(1,236)	280
	(738)	232

	2018	2017
The amounts recognized in the consolidated balance sheet are determined as follows:		
Present value of funded obligations	49,850	54,094
Fair value of plan assets	(42,610)	(45,577)
Funded plans' deficit	7,240	8,517
Present value of unfunded obligations	8,371	9,802
Liability recognized in the consolidated balance sheet	15,611	18,319

24 Pension and other employee obligations (continued)

	Defined benefit pensions		Post-employment benefits	
	2018	2017	2018	2017
The movement in the present value of the defined benefit obligation over the year is as follows:				
Defined benefit obligation, January 1	54,984	53,273	8,912	8,332
Current service cost	109	102	415	387
Past service cost	-	-	(532)	-
Interest cost	1,928	2,012	277	312
Benefits paid	(4,109)	(2,649)	(445)	(399)
Remeasurement losses (gains) due to:				
Changes in demographic assumptions	-	548	(2,276)	-
Changes in financial assumptions	(2,062)	1,779	(22)	-
Experience losses (gains)	(20)	(81)	1,062	280
Defined benefit obligation, December 31	50,830	54,984	7,391	8,912

	2018	2017
Consolidated statement of comprehensive income charged to salaries and employee benefits for:		
Defined benefit pension plans	665	725
Defined contribution pension plan	6,352	5,911
Total pension plans	7,017	6,636
Post-employment benefits	186	695
	7,203	7,331

	Defined benefit pensions		Post-employment benefits	
	2018	2017	2018	2017
The movement in the fair value of plan assets for the year is as follows:				
Fair value of plan assets, January 1	45,577	42,827	-	-
Interest income	1,604	1,616	-	-
Return on plan assets, excluding interest income	(2,580)	2,294	-	-
Employer contributions	2,338	1,709	445	399
Benefits paid	(4,099)	(2,649)	(445)	(399)
Administrative expenses	(230)	(220)	-	-
Fair value of plan assets, December 31	42,610	45,577	-	-
Net defined benefit liability	8,220	9,407	7,391	8,912

Actuarial assumptions:

	Total pension benefits		Post-employment benefits	
	2018	2017	2018	2017
The principal actuarial assumptions used were as follows:				
Discount rate	3.80%	3.60%	3.80%	3.50%
Pension growth rate	2.00%	2.00%	-	-
Long-term increase in health care costs	-	-	4.00%	4.90%

24 Pension and other employee obligations (continued)

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:

	2018	2017
Retiring at the end of the reporting period:		
Male	86.8	86.8
Female	89.3	89.3
Retiring 20 years after the end of the reporting period:		
Male	88.3	88.3
Female	90.8	90.7

The weighted average duration of the defined benefit obligation as at December 31, 2018 is 13.9 years (2017 – 13.8 years).

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

At December 31, 2018	Within 1 year	1 to 5 years	Over 5 years	Total
Defined benefit pensions	2,377	10,371	82,895	95,643
Post-employment benefits	443	1,800	17,764	20,007
Total	2,820	12,171	100,659	115,650

At December 31, 2017	Within 1 year	1 to 5 years	Over 5 years	Total
Defined benefit pensions	2,534	10,055	85,962	98,551
Post-employment benefits	445	2,705	14,655	17,805
Total	2,979	12,760	100,617	116,356

Benefit plan assets

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

	2018	%	2017	%
Equity investments	21,142	50%	18,660	41%
Fixed income investments	21,468	50%	26,917	59%
Total	42,610	100%	45,577	100%

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

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

Contributions for the upcoming fiscal year are anticipated to be approximately $1,266 (2017 - $1,910) for defined benefit pension plans, $7,663 (2017 - $6,266) for defined contribution plans and $443 (2017 - $445) for other employee benefit plans.

24 Pension and other employee obligations (continued)

Sensitivity analysis

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	
		2018	2017	2018	2017
Discount rate					
Impact of:	1% increase	(6,265)	(6,786)	(738)	(880)
	1% decrease	7,920	8,619	879	1,076
Pension growth rate					
Impact of:	1% increase	6,731	6,799	N/A	N/A
	1% decrease	(5,535)	(5,581)	N/A	N/A
Life expectancy					
Impact of:	1 year increase	1,274	1,155	155	220
	1 year decrease	(1,285)	(1,168)	(154)	(220)
Assumed overall health care cost trend rate					
Impact of:	1% increase	N/A	N/A	624	977
	1% decrease	N/A	N/A	(517)	(849)

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

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

Risks:

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

a) **Equity Risk**
The plans hold a significant proportion of equity investments, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

As the plans mature and their funded status improves, the Credit Union intends to reduce the level of investment risk by investing more in assets that better match the liabilities. However the Credit Union believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the long term strategy to manage the plans efficiently.

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

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

24 Pension and other employee obligations (continued)

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

25 Share capital

	Par value per share	2018	2017
Membership shares classified as liabilities			
Membership shares	1	350	321
As at December 31		350	321
Members' capital accounts			
"50th Anniversary" Class A shares	1	69,750	67,773
Series 96 Class A shares	1	48,676	47,029
Series 98 Class A shares	1	4,154	4,106
Series 01 Class A shares	1	63,174	61,159
Series 09 Class A shares	1	79,561	78,628
Series 15 Class A shares	1	127,934	123,767
Series 17 Class A shares	1	168,258	166,232
As at December 31		561,507	548,694

(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, 2017	297,217	67,173,399	46,563,315	3,994,573
Shares issued to Members net of redemptions	25,192	(1,828,447)	(1,199,519)	(40,479)
Shares issued as dividends	-	2,427,675	1,665,426	151,863
Issued as at December 31, 2017	322,409	67,772,627	47,029,222	4,105,957
Shares issued to Members net of redemptions	27,497	(443,030)	(33,174)	(106,719)
Shares issued as dividends	-	2,420,456	1,680,292	154,456
Issued as at December 31, 2018	349,906	69,750,053	48,676,340	4,153,694

(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, 2017	60,418,759	78,836,902	120,747,275	-
Shares issued to Members net of redemptions	(1,329,853)	(2,577,725)	(779,929)	166,926,444
Shares issued as dividends	2,070,037	2,584,989	4,090,237	-
Issued as at December 31, 2017	61,158,943	78,844,166	124,057,583	166,926,444
Shares issued to Members net of redemptions	(107,931)	(1,634,715)	-	-
Shares issued as dividends	2,123,302	2,567,704	4,167,782	2,023,940
Issued as at December 31, 2018	63,174,314	79,777,155	128,225,365	168,950,384

25 Share capital (continued)

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

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

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

The holders of the "50th Anniversary" Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 32.5.

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 2018 for the year ended December 31, 2018 amounted to $2,791 (2017 - $2,712), of which $302 (2017 - $292) will be paid in cash and have been recorded in the current year. The remaining $2,489 (2017 - $2,420) will be paid in the form of newly issued "50th Anniversary" Class A shares and will be recorded in the following fiscal year when the shares are issued.

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

The holders of series 96 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 32.5. 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.

Dividends declared and paid on the series 96 Class A shares in 2018 amounted to $1,881 (2017 - $1,846), of which $201 was paid in cash (2017 - $181) and $1,680 (2017 - $1,665) 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 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 32.5. 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 2018 for the year ended December 31, 2018 amounted to $166 (2017 - $164), of which $12 (2017 - $10) will be paid in cash and have been recorded in the current year. The remaining $154 (2017 - $154) will be paid in the form of newly issued series 98 Class A shares and will be recorded in the following fiscal year when the shares are issued.

25 Share capital (continued)

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

The holders of series 01 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 32.5. 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 2018 for the year ended December 31, 2018 amounted to $2,444 (2017 - $2,369), of which $319 was paid in cash (2017 - $299) and $2,125 (2017 - $2,070) 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 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, 2015 was set at 3.90%.

The holders of series 09 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 32.5. 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 2018 for the year ended December 31, 2018 amounted to $3,114 (2017 - $3,077), of which $502 (2017 - $509) will be paid in cash and have been recorded in the current year. The remaining $2,612 (2017 - $2,568) 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.

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

The holders of Series 15 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 32.5 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 2018 for the year ended December 31, 2018 amounted to $5,131 (2017 - $4,965), of which $813 (2017 - $797) will be paid in cash and have been recorded in the current year. The remaining $4,318 (2017 - $4,168) will be paid in the form of newly issued series 15 Class A shares and will be recorded in the following fiscal year when the shares are issued.

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

25 Share capital (continued)

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 32.5 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 2018 for the year ended December 31, 2018 amounted to $7,184 (2017 - $2,504), of which $1,391 (201 - $480) will be paid in cash and have been recorded in the current year. The remaining $5,793 (2017 - $2,024) 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 351,066 Members at December 31, 2018 (2017 – 322,409).

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.

(d) Dividends
Dividends recognized as distributions to owners during the year are as follows:

	2018	2017
"50th Anniversary" Class A shares	2,722	2,719
Series 96 Class A shares	1,881	1,846
Series 98 Class A shares	166	162
Series 01 Class A shares	2,444	2,369
Series 09 Class A shares	3,070	3,094
Series 15 Class A shares	4,981	4,893
Series 17 Class A shares	3,417	480
Balance, December 31	18,681	15,563

Dividends declared during the year that will be paid subsequent to December 31 and which Members have elected to receive by way of newly issued shares of the same series amount to $15,366 (2017 - $11,334). These dividends will be charged to retained earnings in the following year when the shares are issued as follows:

	2018	2017
"50th Anniversary" Class A shares	2,489	2,420
Series 98 Class A shares	154	154
Series 09 Class A shares	2,612	2,568
Series 15 Class A shares	4,318	4,168
Series 17 Class A shares	5,793	2,024
Balance, December 31	15,366	11,334

No dividends have been declared or paid on Membership shares for the years ended December 31, 2018 or December 31, 2017.

26 Net interest income

	2018	2017
Interest income		
Residential mortgages	243,775	201,932
Personal loans	61,494	47,704
Commercial loans	208,299	165,736
Interest income - loans to Members	513,568	415,372
Finance receivables	58,102	51,770
Cash and cash equivalents	5,612	2,757
Investments in debt instruments	13,105	11,920
Total interest income	590,387	481,819
Interest expense		
Demand deposits	63,218	52,966
Term deposits	94,820	69,844
Registered plans	45,662	37,720
Interest expense - Members' deposits	203,700	160,530
Interest on borrowings	30,775	20,130
Mortgage securitization cost of funds	51,080	37,942
Net loss on interest rate derivative instruments	7,526	174
Total interest expense	293,081	218,776

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

27 Non-interest income

	2018	2017
Loan servicing fees	21,343	17,408
Mutual fund revenue	19,421	16,570
Service fees	17,270	15,992
Insurance commissions	8,041	7,671
Foreign exchange	5,262	4,777
Leasing revenue	5,118	3,723
Dividend income	1,985	1,961
Other revenue	5,374	4,423
Total non-interest income	83,814	72,525

The 2018 dividend income amount reported above was earned on investments in equity instruments that are measured at FVTPL. There were no investments in equity instruments measured at FVTOCI in 2018.

28 Income tax expense

	2018	2017
Current income tax expense	10,620	4,821
Deferred income tax expense	1,660	6,406
Total income tax expense	12,280	11,227

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

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

	2018		2017	
	Tax provision	% of Pre-tax income	Tax provision	% of Pre-tax income
Operating earnings for the year, before tax			58,605	n/a
Income tax expense at statutory rates			15,530	26.5%
Credit union rate reduction			(4,478)	-7.6%
Deductible dividend payments			(3,035)	-5.2%
Non-deductible expense			175	0.3%
Non-taxable income			(865)	-1.5%
Adjustment of prior year provision			3,891	6.6%
Impact of future tax rates			-	0.0%
Other items			9	0.1%
Income tax expense			11,227	19.2%
Other comprehensive income for the year, before tax			24,855	n/a
Deferred income tax expense, recognized directly in other comprehensive income			5,502	22.1%

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

	2018		
	Before income taxes	Income tax expense	Net of income taxes
Net loss on cash flow hedges	(1,125)	292	(833)
Net gain on cash flow hedges transferred to net income	1,118	(201)	917
Actuarial gain in defined benefit pension plans	738	(137)	601
Other comprehensive income	731	(46)	685

	2017		
	Before income taxes	Income tax expense	Net of income taxes
Net gain on cash flow hedges	24,143	(5,331)	18,812
Net gain on cash flow hedges transferred to net income	944	(216)	728
Actuarial loss in defined benefit pension plans	(232)	45	(187)
Other comprehensive income	24,855	(5,502)	19,353

29 Related party transactions

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

(a) Associate
CUCO Co-op, as referred to in note 12, is a related party of the Credit Union.

(b) Joint venture
The joint venture referred to in note 13 is a related party of the Credit Union.

(c) 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.

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

Transactions with related parties

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

	2018	2017
Salaries, retainers, per diems and other short-term employee benefits	7,202	5,602
Post-employment benefits	162	121
Total compensation	7,364	5,723

Related party balances and transactions are detailed below:

Loans advanced to related parties

	2018	2017
Loan balance as at January 1	5,150	3,631
Change in loan balances during the year	1,543	1,519
Less: Provision for impairment	-	-
Loan balance as at December 31	6,693	5,150
Total interest revenue earned on loans	158	126

Revolving credit facilities granted to related parties

	2018	2017
Total value of facilities approved as at January 1	1,714	3,111
Increase (decrease) in limits granted	5,516	947
Total value of facilities approved at December 31	7,230	4,058
Balance outstanding	(3,306)	(2,344)
Net balance available on facilities as at December 31	3,924	1,714
Total interest revenue earned on revolving credit facilities	69	26

29 Related party transactions (continued)

Term deposits held for related parties

	2018	2017
Deposit balance as at January 1	744	676
Net change in deposits during the year	120	68
Deposit balance as at December 31	864	744
Total interest expense on term deposits	11	10

Demand deposit balances held for related parties

	2018	2017
Demand deposit balance as at December 31	1,914	3,153
Total interest expense on demand deposits	27	43

Other transactions with related parties

Sales/purchases of goods and services
Key management personnel and parties related to them provided nil (2017 - 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, 2018 related parties hold share capital valued at $1,322 (2017 - $1,647). During the year, dividends of $54 (2017 - $46) were paid on these shares.

Guarantees and commitments
Commitments on undrawn credit facilities and letters of credit in the amount of $3,924 (2017 - $1,714) have been issued to related parties.

30 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, 2018 on NHA MBS that Meridian retains ownership of, either directly or through participation in the CMB Program, are $59,815 (2017 - $57,155).

The Credit Union will be required in early 2019, 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, 2018. As at December 31, 2018 the expected amount of the cash reserve required is $40,598 (2017 - $48,192). As the obligation to fund the increased cash reserve will not take effect until 2019, no amount has been recorded in the consolidated financial statements of the Credit Union as at December 31, 2018 to reflect this commitment.

(c) Collateral
The Credit Union is required, as a participant in the CMB Program, to enter into an agreement, whereby, if required by CHT, the Credit Union will assign collateral in the event that the net position of the mirrored CHT interest rate swap is outside of a predetermined range set by CHT. The Credit Union has a nil balance of assigned collateral as at December 31, 2018 (2017 - nil).

(d) Commitments for loans to Members
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.

30 Contingent liabilities and commitments (continued)

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.

	2018	2017
Undrawn overdrafts and credit facilities	2,567,231	2,052,907
Standby and commercial letters of credit	184,100	159,865
Loans approved but not funded:		
Retail mortgages	59,464	70,170
Personal loans	1,539	4,797
Commercial loans	1,205,970	1,004,669
Total Member loan commitments as at December 31	4,018,304	3,292,408

(e) Operating lease commitments
Lessee:
The Credit Union has non-cancellable operating leases for various branches and offices as well as equipment. The terms of the leases are between three to 15 years. The leases have varying terms, escalation clauses and renewal rights. Future minimum lease payments are as follows:

	2018	2017
Within 1 year	10,262	9,468
1 to 5 years	39,758	36,311
Over 5 years	10,279	13,504
Total	60,299	59,283

Total operating lease payments made during 2018 were $9,933 (2017 - $9,109) and are included on the consolidated statement of comprehensive income within occupancy expenses.

Lessor:
The Credit Union, as the lessor, has entered into non-cancellable operating leases for premises. Future minimum lease payments due to the Credit Union are as follows:

	2018	2017
Within 1 year	304	312
1 to 5 years	819	972
Over 5 years	127	262
Total	1,250	1,546

Total operating lease payments received during 2018 were $309 (2017 - $337) and are included on the consolidated statement of comprehensive income within non-interest income.

(f) 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.

(g) Meridian's Commitment to Communities

30 Contingent liabilities and commitments (continued)

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.

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

	2018	2017
Within 1 year	2,736	425
1 to 5 years	13,555	1,825
Over 5 years	26,263	3,334
Total	42,554	5,584

Total payments made during 2018 were $588 (2017 - $425) of which $524 (2017 - $343) are included on the consolidated statement of comprehensive income within administration expenses.

31 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, 2018, the aggregate value of loans issued to restricted parties was $6,570 (2017 - $5,303). 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 $706 (2017 - $593) for annual retainer and per diem and $49 (2017 - $81) for reimbursement of travel and out-of-pocket expenses.

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

	Total salary received	Total bonuses received	Monetary value of benefits received
Bill Maurin, President & CEO	549	699	106
Gary Genik, Chief Information Officer	331	311	69
Leo Gautreau, Chief Risk Officer	315	265	65
Sunny Sodhi, Chief Legal Officer	270	255	51
David Baldarelli, SVP Digital Banking and Enterprise Analytics	277	171	52

Deposit insurance
The annual premium paid to DICO for insuring Members' deposits during the year ended December 31, 2018 was $8,310 (2017 - $7,048). The premium rates are based on relative risk to the insurance fund as measured by an overall composite risk score encompassing financial and other risk based factors.

Central 1 fees
The total fees paid to Central 1 amounted to $4,593 (2017 - $4,649) 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.

32 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.

32.1 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 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, fostering a culture of accountability, independence and balance. The responsibility for credit risk management is organization wide in scope, and is managed through an infrastructure based on:

(i) centralized approval by the Board, of the Credit Risk Management Policy including, but not limited to, the following six areas:
  a. credit risk assessment, including policies related to credit risk analysis, risk rating and risk scoring;
  b. credit risk mitigation, including credit structuring, collateral and guarantees;
  c. credit risk approval, including credit risk limits and exceptions;
  d. credit processes focusing on documentation and administration (supported by a robust loan origination system for all lines of business);

32.1 Credit risk (continued)

e. credit reviews that focus on monitoring of financial performance, covenant compliance and any sign of deteriorating performance;
f. credit portfolio management, including sectoral, geographic, and overall risk concentration limits and risk quantification;

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

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

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

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; and
(iii) employ and train, as necessary, personnel who can implement risk measurement and credit management techniques, as required by policy.

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.

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

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

The Credit Union's credit risk portfolio is diversified with the objective of spreading risk. Diversification is assessed using different measures in each portfolio. In the Retail portfolio, diversification areas include authorized loan types, forms of security and sectoral groupings and/or such other objective criteria that the Board may set from time to time. In the Small Business and Commercial loan portfolio, diversification is achieved through the establishment of credit exposure limits for specific industry sectors, individual borrowers and borrower groups (multiple borrowers grouped together based on shared security and/or the same income source). Industry rating models and detailed industry analysis are key elements of this process. Where several industry segments are affected by common risk factors, an exposure limit may be assigned to those segments in aggregate. Management regularly reviews the above parameters to ensure that acceptable diversification is maintained. The top five industry sectors represent approximately 64% (2017 - 63%) of the total Commercial loan portfolio.

Finance Receivables are diversified based on both geography (within Canada) and the asset classes being leased to obligors. Diversification within the portfolio is reviewed on a regular basis. The top five asset classes represent 75% (2017 – 63%) of the portfolio.

32.1 **Credit risk (continued)**

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

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

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

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

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

Except as noted, the carrying value of financial assets recorded in the consolidated financial statements, which is net of impairment 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 30 for further details. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained. Refer to notes 8 and 9 for a description of the nature of the security held against loans as at the consolidated balance sheet date.

Expected credit loss measurement:

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

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

32.1 **Credit risk (continued)**

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 (i.e. retail, commercial, small business, credit card and finance receivables). Within each portfolio, financial assets have been further segregated into product groupings with similar contractual features.

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

Significant increase in credit risk:

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

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 2018.

Definition of default and credit-impaired assets:

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

- The loan is 90 days past due

- The Member has filed for bankruptcy or consumer proposal in the current month or the bankruptcy is expected to result in the member not meeting the contractual terms of the loan

- The borrower has failed to meet the terms under which a loan has been granted (e.g. breach of financial covenants) and legal action has commenced

- Based on other objective evidence, the Member's internal risk rating has been set to 'Impaired' and Credit Recovery has taken over responsibility for the file

The definition of default has been applied consistently across all of the Credit Union's portfolios as well as in all aspects if the expected credit loss calculation (e.g. probability of default, exposure at default and loss given default).
Measuring ECL – Explanation of inputs, assumptions and estimation techniques:
Allowances for ECL are measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired. ECL are the discounted product of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD").

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

The EAD is based on the amounts the Credit Union expects to be owed at the time of default, over the next 12 months or the remaining lifetime. For example, on revolving facilities, the Credit Union considers the amount that is expected to be drawn upon leading up to default. On term facilities, the Credit Union considers the amount it expects to be paid down leading up to default.

The LGD represents the Credit Union's expectation of the extent of a loss 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.

32.1 **Credit risk (continued)**

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

Historical analysis of the Credit Union's portfolio shows the probability of default is spread evenly over the life of a loan. This relationship has been modelled and is used to extrapolate the 12 month PD for the credit exposure's residual expected life. The 12-month and lifetime EADs are determined based on the expected payment profile for products with similar contractual characteristics. For term products, this will reflect expected repayments owed by the borrower over the 12 month or lifetime of the product. For revolving products, this will reflect expected draw downs on the authorized limit leading up to default. Analysis of the Credit Union's historical defaults has been used to drive the EAD model.

The Credit Union has modelled LGD by grouping credit exposures by products with similar risk characteristics pertaining to security and other credit risk enhancements (e.g. collateral, insurance, etc.). Historical analysis of defaults for each product group have been used to drive the LGD model.

The Credit Union has used historical information on average time to close to model expected life on revolving credit facilities (e.g. lines of credit and credit cards). For term facilities, residual contractual maturity has been used.

Assumptions underlying the ECL calculation and modelling inputs are monitored and reviewed at least annually.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated into the ECL models:

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

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

Three forward-looking scenarios have been considered: planning, upside and downside. The planning scenario has been informed by publically-available external economic forecasts from sources such as the Conference Board of Canada and large Canadian financial institutions. Given its current geographic footprint, economic forecasts for the Province of Ontario have been used for the Credit Union's lending portfolios. Finance receivables pertain to the Credit Union's leasing subsidiary, OneCap, which has a national presence. As such, national forecasts have been used for that portfolio of assets. Up and downside scenarios have been designed in reference to current economic conditions and the planning scenario. These have been informed by analysis of the historical economic cycle but also rely on management judgment. Probability-weightings have been assigned to each scenario to calculate a probability-weighted expected credit loss allowance for each portfolio. Similar to the design of the scenarios themselves, the probability weightings applied rely on analysis of the economic cycle as well as management judgment.

Economic variable assumptions

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

32.1 **Credit risk (continued)**

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

The weightings assigned to each scenario were consistent across portfolios, with a probability of 50% applied to the planning scenario, 10% to the upside scenario and 40% applied to the downside scenario.

The most significant period-end assumptions used for the ECL estimate as at January 1st 2018 are set out below. The ranges (where relevant) capture variability between Ontario versus national economic forecasts used for the Credit Union and OneCap respectively.

		2018	2019	2020	2021	2022
Interest rates	Planning	2.1%	2.1%	2.2%	2.2%	2.3%
	Upside	2.2%	2.3%	2.4%	2.5%	2.6%
	Downside	2.1%	2.1%	2.1%	2.1%	2.1%
Unemployment	Planning	5.7 – 6.0%	5.6 – 6.0%	5.9 - 6.3%	5.8 - 6.1%	5.9 – 6.0%
	Upside	5.4 - 5.5%	5.3 - 5.4%	5.2 - 5.3%	5.1 - 5.2%	5.0 - 5.1%
	Downside	6.2 - 6.5%	6.4 - 6.6%	6.6 - 6.8%	6.8 – 7.0%	7.0 - 7.2%
Real GDP Growth	Planning	2.1 - 2.1%	1.9 - 1.7%	1.8 – 2.1%	1.7 – 2.0%	1.8 – 2.0%
	Upside	2.9 – 3.0%	2.9 – 3.0%	2.9 – 3.0%	2.9 – 3.0%	2.9 – 3.0%
	Downside	1.0 – 1.5%	0.5 – 1.0%	0.0 – 0.5%	0.5 – 1.0%	1.0 – 1.0%

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

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

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

Interest Rates:

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

Unemployment:

Moving unemployment rates across up or down by 50 basis points across all scenarios resulted in an increase of $1,200 or decrease of $1,200 respectively to the allowance.

Real GDP Growth:

Moving real GDP growth rates across up or down by 50 basis points across all scenarios resulted in a decrease of $800 or increase of $800 respectively to the allowance.

Probability Weightings:

Increasing or decreasing the probability weighting assigned to the downside scenario by ten percent versus the planning scenario resulted in an increase of $1,600 or decrease of $1,600 respectively to the allowance.

32.2 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 DICO's standards of Sound Business and Financial Practices. Overall responsibility for asset/liability management rests with the Board. As such, the Board receives regular reports on risk exposures and performance against approved limits. The Board delegates the responsibility to manage the interest rate risk on a day-to-day basis to the Asset/Liability Committee ("ALCO"), which meets no less frequently than monthly. ALCO is chaired by the CFO and includes other senior executives.

The key elements of the Credit Union's interest rate risk management framework include:

i. guidelines and limits on the structuring of the maturities, price and mix of deposits, loans, mortgages and investments and the management of asset cash flows in relation to liability cash flows;
ii. guidelines and limits on the use of derivative financial instruments to hedge against a risk of loss from interest rate changes; and
iii. requirements for comprehensive measuring, monitoring and reporting on risk position and exposure management.

Valuations of all asset and liability positions, as well as off-balance sheet exposures, are performed no less frequently than monthly. The Credit Union's objective is to establish and maintain a balance sheet and off-balance sheet structure that will protect and enhance the Credit Union's net interest income and the value of the Credit Union's capital during all phases of the interest rate cycle and varying economic conditions.

The carrying values of interest sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next reprice to market rates or mature, and are summed to show the interest rate sensitivity gap. Loans are adjusted for prepayment estimates which reflect expected repayments on other than contractual maturity dates. The prepayment rate applied to the portfolio is based on experience and current economic conditions. The average rates presented represent the weighted average effective yield based on the earlier of contractual repricing or maturity dates. Further information related to the derivative financial instruments used to manage interest rate risk is included in note 10.

32.2 Market risk (continued)

December 31, 2018	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets						
Cash and cash equivalents	237,612	160,730	-	-	9,988	408,330
Yield	*1.43%*	*2.11%*	-	-	-	*1.66%*
Investments in debt instruments	-	624,080	431,933	-	5,493	1,061,506
Yield	-	*1.74%*	*1.32%*	-	-	*1.56%*
Loans to Members	4,087,692	2,829,437	7,906,072	26,368	50,739	14,900,308
Yield	*5.14%*	*3.48%*	*3.24%*	*3.72%*	-	*3.79%*
Finance receivables	4,807	397,967	780,114	13,264	(17,608)	1,178,544
Yield	*6.64%*	*5.74%*	*5.75%*	*5.60%*	-	*5.83%*
Derivative financial assets	23,410	-	-	-	-	23,410
Yield	-	-	-	-	-	-
Investments in equity instruments	-	-	-	-	74,218	74,218
Yield	-	-	-	-	-	-
Other assets	-	-	-	-	252,939	252,939
Yield	-	-	-	-	-	-
Total assets	4,353,521	4,012,214	9,118,119	39,632	375,769	17,899,255
Liabilities and Members' equity						
Members' deposits	5,289,969	3,811,210	2,554,563	-	1,492,975	13,148,717
Yield	*1.65%*	*2.54%*	*2.47%*	-	-	*1.88%*
Borrowings	-	-	-	-	11	11
Yield	-	-	-	-	-	-
Secured borrowings	1,075,912	49,016	-	-	2,808	1,127,736
Yield	*3.19%*	*2.18%*	-	-	-	*3.14%*
Mortgage securitization liabilities	122,179	702,091	1,603,049	-	956	2,428,275
Yield	*1.22%*	*1.98%*	*1.66%*	-	-	*1.73%*
Derivative financial liabilities	6,922	-	-	-	-	6,922
Yield	-	-	-	-	-	-
Other liabilities and Members' equity	-	-	-	-	1,187,594	1,187,594
Yield	-	-	-	-	-	-
Total liabilities and Members' equity	6,494,982	4,562,317	4,157,612	-	2,684,344	17,899,255
Effect of Interest Rate Swaps						
Fixed pay swaps	2,324,037	(933,702)	(1,318,619)	(71,716)	-	-
Yield	*2.24%*	*1.83%*	*2.06%*	*2.70%*	-	-
Fixed receive swaps	(938,000)	895,000	43,000	-	-	-
Yield	*2.25%*	*2.26%*	*2.43%*	-	-	-
Total derivatives	1,386,037	(38,702)	(1,275,619)	(71,716)	-	-
Interest sensitivity position 2018	(755,424)	(588,805)	3,684,888	(32,084)	(2,308,575)	-

32.2 **Market risk (continued)**

December 31, 2017						
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets						
Cash and cash equivalents	268,494	75,332	-	-	48	343,874
Yield	*0.89%*	*1.17%*	-	-	-	*0.95%*
Investments in debt instruments	-	282,229	553,398	-	4,205	839,832
Yield	-	*1.20%*	*1.21%*	-	-	*1.20%*
Loans to Members	3,704,803	2,569,545	6,708,011	36,363	4,756	13,023,478
Yield	*3.81%*	*3.22%*	*3.08%*	*3.44%*	-	*3.31%*
Finance receivables	8,910	353,155	680,085	15,132	(8,221)	1,049,061
Yield	*5.54%*	*6.72%*	*6.67%*	*6.29%*	-	*6.73%*
Derivative financial assets	41,474	-	-	-	-	41,474
Yield	-	-	-	-	-	-
Investments in equity instruments	-	-	-	-	68,210	68,210
Yield	-	-	-	-	-	-
Other assets	-	-	-	-	262,617	262,617
Yield	-	-	-	-	-	-
Total assets	4,023,681	3,280,261	7,941,494	51,495	331,615	15,628,546
Liabilities and Members' equity						
Members' deposits	5,089,974	3,274,931	1,758,510	-	1,501,068	11,624,483
Yield	*1.20%*	*2.04%*	*1.85%*	-	-	*1.38%*
Borrowings	8,797	24,000	-	-	25	32,822
Yield	*3.33%*	*2.79%*	-	-	-	*2.93%*
Secured borrowings	935,443	-	-	-	1,850	937,293
Yield	*2.40%*	-	-	-	-	*2.40%*
Mortgage securitization liabilities	122,114	254,175	1,543,364	-	1,108	
Yield	*1.22%*	*2.11%*	*1.62%*	-	-	*1.66%*
Derivative financial liabilities	2,014	-	-	-	-	2,014
Yield	-	-	-	-	-	-
Other liabilities and Members' equity	-	-	-	-	1,111,173	1,111,173
Yield	-	-	-	-	-	-
Total liabilities and Members' equity	6,158,342	3,553,106	3,301,874	-	2,615,224	15,628,546
Effect of Interest Rate Swaps						
Fixed pay swaps	2,018,547	(483,622)	(1,516,423)	(18,502)	-	-
Yield	*1.38%*	*1.52%*	*1.65%*	*1.55%*	-	-
Fixed receive swaps	(261,250)	*261,250*	-	-	-	-
Yield	*1.40%*	*0.96%*	-	-	-	-
Total derivatives	1,757,297	(222,372)	(1,516,423)	(18,502)	-	
Interest sensitivity position 2017	(377,364)	(792,447)	3,359,048	91,836	(2,281,073)	-

32.2 Market risk (continued)

The management of interest rate risk against internal exposure limits is supplemented by monitoring the sensitivity of the Credit Union's financial assets and financial liabilities to standard interest rate shock scenarios. The key metrics used to monitor this sensitivity are Earnings at Risk ("EaR") and Economic Value of Equity at Risk ("EVaR"). EaR is defined as the change in our net interest income from a predetermined shock to interest rates measured over a 12 month period. EVaR is defined as the change in the present value of the Credit Union's asset portfolio resulting from a predetermined shock versus the change in the present value of the Credit Union's liability portfolio resulting from the same predetermined interest rate shock. The Credit Union completes various static and dynamic interest rate shock scenarios throughout the year, including a 100 basis point ("bps") rate shock. The estimated impact of a 100 bps rate shock on these metrics is presented below.

	2018	2017
EaR: 100 bps exposure	(12,484)	(8,427)
EVaR: 100 bps exposure	-2.37%	-3.75%

(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 DICO'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, 2018 and December 31, 2017, 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 DICO'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, 2018 and December 31, 2017, the Credit Union has limited investments subject to other price risk and this exposure is insignificant.

32.3 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 DICO'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:

i. limits on the sources, quality and amount of liquid assets to meet normal operational requirements, regulatory requirements and contingency funding;
ii. a methodology to achieve an acceptable yield on the operating liquidity investment portfolio within prudent risk management bounds;
iii. prudence tests of quality and diversity where investments bear credit risk;
iv. parameters to limit term extension risk;
v. implementation of deposit concentration limits in order to assist in ensuring diversification and stability of deposit funding; and
vi. requirements for adequate measuring, monitoring and reporting on risk position and exposure management.

32.3 Liquidity risk (continued)

Under DICO 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 liquidity ratio measures the Credit Union's liquid assets as a percentage of Members' deposits and specified borrowings. The Credit Union targets to maintain operating liquidity within the range of 8.25% to 15%. The low end of the range has been established in order to maintain a comfortable cushion beyond minimum operating liquidity needs, even during periods of market volatility. A cap has been placed on the range in recognition of the fact that too much excess liquidity has a negative impact on earnings. As at December 31, 2018, the Credit Union's liquidity ratio was 9.99% (2017 – 10.46%).

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 30.

	December 31, 2018						
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	277,093	131,593	-	-	-	-	408,686
Receivables	2,891	-	-	-	-	-	2,891
Current income tax receivable	4,200						4,200
Investment in debt instruments	93,266	541,516	379,611	77,356	-	1,150	1,092,899
Loans to Members	886,342	4,359,144	6,524,221	4,188,455	116,005	-	16,074,167
Finance receivables	37,370	406,903	596,088	237,756	13,184	8,388	1,299,689
Investments in equity instruments	-	-	-	-	-	74,218	74,218
Total financial assets	1,301,162	5,439,156	7,499,920	4,503,567	129,189	83,756	18,956,750
Financial liabilities							
Members' deposits	7,096,544	3,713,469	1,781,145	923,995	-	-	13,515,153
Payables and other liabilities	84,636	-	-	-	-	-	84,636
Current income tax payable	8,845	-	-	-	-	-	8,845
Secured borrowings	84,622	378,991	512,508	201,569	10,129	-	1,187,819
Mortgage securitization liabilities	40,016	701,176	1,577,703	200,849	-	-	2,519,744
Total financial liabilities	7,314,663	4,793,636	3,871,356	1,326,413	10,129	-	17,316,197
Net	(6,013,501)	645,520	3,628,564	3,177,154	119,060	83,756	1,640,553

32.3 Liquidity risk (continued)

December 31, 2017	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	332,874	11,023	-	-	-	-	343,897
Receivables	7,197	-	-	-	-	-	7,197
Investment in debt instruments	14,825	274,187	323,524	259,190	-	1,165	872,891
Loans to Members	730,238	4,299,515	5,012,454	3,819,092	49,668	-	13,910,967
Finance receivables	42,141	361,219	526,228	199,074	15,490	7,855	1,152,007
Investments in equity instruments	-	-	-	-	-	68,210	68,210
Total financial assets	1,127,275	4,945,944	5,862,206	4,277,356	65,158	77,230	16,355,169
Financial liabilities							
Members' deposits	6,957,566	2,812,541	1,537,796	441,391	-	-	11,749,294
Borrowings	32,806	-	-	-	-	-	32,806
Payables and other liabilities	62,974	-	-	-	-	-	62,974
Current income tax payable	3,007	-	-	-	-	-	3,007
Secured borrowings	31,826	306,750	455,451	170,983	11,704	-	976,714
Mortgage securitization liabilities	-	286,645	746,903	980,466	-	-	2,014,014
Total financial liabilities	7,088,179	3,405,936	2,740,150	1,592,840	11,704	-	14,838,809
Net	(5,960,904)	1,540,008	3,122,056	2,684,516	53,454	77,230	1,516,360

The table below sets out the undiscounted contractual cash flows of the Credit Union's derivative financial assets and liabilities:

December 31, 2018	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Equity index-linked options	-	3,994	5,364	1,793	-	11,151
Gross-settled forward exchange contracts:						
Outflow	-	(763)	(594)	-	-	(1,357)
Inflow	-	765	595	-	-	1,360
Interest rate swaps						
Outflow	(147)	(469)	(674)	(1,088)	(27)	(2,405)
Inflow	332	5,811	4,538	498	14	11,193
Total	185	9,338	9,229	1,203	(13)	19,942

December 31, 2017	Less than 1 month	2 to 12 months	1 to 3 Years	3 to 5 years	Over 5 years	Total
Equity index-linked options	-	11,315	13,730	1,733	-	26,778
Gross-settled forward exchange contracts:						
Outflow	-	(788)	(340)	-	-	(1,128)
Inflow	-	791	341	-	-	1,132
Interest rate swaps						
Outflow	(340)	(5,770)	(4,944)	(1,602)	-	(12,656)
Inflow	-	281	426	265	106	1,078
Total	(340)	5,829	9,213	396	106	15,204

32.3 **Liquidity risk (continued)**

Derivative financial assets and liabilities reflect interest rate swaps that will be settled on a net basis and forward exchange contracts and index-linked equity options that will be settled on a gross basis (see note 10).

The gross inflows/(outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial assets and liabilities held for risk management purposes and which are usually not closed out 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 Members' deposits in the previous table for non-derivative financial assets and liabilities.

32.4 **Fair value of financial assets and financial liabilities**

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.

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.

32.4 **Fair value of financial assets and financial liabilities (continued)**

	December 31, 2018			December 31, 2017		
	Carrying value	Fair value	Fair value difference	Carrying value	Fair value	Fair value difference
Financial assets at FVTPL:						
Cash and cash equivalents	-	-	-	267,184	267,184	-
Derivative financial assets						
Equity index-linked options	11,034	11,034	-	26,676	26,676	-
Interest rate swaps	12,274	12,274	-	14,416	14,416	-
Foreign exchange contracts	103	103	-	57	57	-
Swaptions	-	-	-	325	325	-
Investments in equity instruments	74,218	74,218	-	68,210	68,210	-
Amortized cost:						
Cash and cash equivalents	408,330	408,198	(132)	75,380	75,372	(8)
Receivables	2,863	2,863	-	7,197	7,197	-
Investments in debt instruments	1,061,506	1,048,045	(13,461)	839,832	825,380	(14,452)
Loans to Members	14,900,308	14,667,930	(232,378)	13,023,478	12,829,603	(193,875)
Finance receivables	1,178,544	1,163,360	(15,184)	1,049,061	1,054,358	5,297
Total financial assets	17,649,180	17,388,025	(261,155)	15,371,816	15,168,778	(203,038)
Financial liabilities at FVTPL:						
Derivative financial liabilities						
Interest rate swaps	6,822	6,822	-	1,961	1,961	-
Foreign exchange contracts	100	100	-	53	53	-
Other liabilities:						
Members' deposits	13,148,717	13,180,929	32,212	11,624,483	11,646,873	22,390
Borrowings	-	-	-	32,806	32,806	-
Payables and other liabilities	39,876	39,876	-	23,379	23,379	-
Secured borrowings	1,127,736	1,127,736	-	937,293	937,293	-
Mortgage securitization liabilities	2,428,275	2,408,661	(19,614)	1,920,761	1,896,262	(24,499)
Employee obligations	32,298	32,298	-	30,827	30,827	-
Membership shares	350	350	-	321	321	-
Total financial liabilities	16,784,174	16,796,772	12,598	14,571,884	14,569,775	(2,109)

Interest rate sensitivity is the main cause of changes in the fair values of the Credit Union's financial instruments. With the exception of financial assets and financial liabilities recorded at FVTPL, the carrying values of the above financial instruments are not adjusted to reflect the fair value.

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

i. The fair value of cash and cash equivalents, excluding short-term deposits with original maturities of 100 days or less, are assumed to approximate their carrying values, due to their short-term nature. The fair value of short-term deposits with original maturities of 100 days or less are based on fair market values, which are derived from valuation models and a credit valuation adjustment is applied to account for counterparty risk.

ii. With the exception of investments reported using the equity method of accounting, the fair value of investments is determined by discounting the expected future cash flows of these investments at current market rates and a credit valuation adjustment is applied to account for counterparty risk.

32.4 **Fair value of financial assets and financial liabilities (continued)**

iii. The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to carrying value. The interest rates on these loans and deposits reprice on a periodic basis with market fluctuation. Repricing of uninsured floating rate deposits incorporates a spread that accounts for the Credit Union's own credit risk. Impairment allowances, which are included in the carry value of variable rate loans, are assumed to capture changes in credit spreads.

iv. The estimated fair value of fixed rate deposits and Member entitlements is determined by discounting the expected future cash flows of these investments, deposits and borrowings at current market rates for products with similar terms and credit risks. A credit valuation adjustment is applied when determining the current market rates used to calculate the fair value of uninsured fixed rate deposits to account for counterparty and the Credit Union's own credit risk.

v. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows of these loans at current market rates for products with similar terms and credit risks. Historical prepayment experience is considered along with current market conditions in determining expected future cash flows. In determining the adjustment for credit risk, consideration is given to market conditions, the value of underlying security and other indicators of the borrower's creditworthiness.

vi. The estimated fair value of derivative instruments is determined through valuation models based on the derivative notional amounts, maturity dates and rates and a credit valuation adjustment is applied to account for counterparty and the Credit Union's own credit risk.

vii. The fair values of other liabilities are assumed to approximate their carrying values, due to their short-term nature.

Fair values are determined based on a three level fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels of the hierarchy are as follow:

i. Level 1 - Unadjusted quoted prices in active markets for identical financial assets and financial liabilities;
ii. Level 2 - Inputs other than quoted prices that are observable for the financial asset or financial liability either directly or indirectly;
iii. Level 3 - Inputs that are not based on observable market data.

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

	Fair value as at December 31, 2018		
	Level 1	Level 2	Level 3
Recurring measurements			
Financial assets			
Derivative financial assets:			
Equity index-linked options	-	11,034	-
Interest rate swaps	-	12,274	-
Foreign exchange contracts	-	103	-
Investments in equity instruments	-	74,218	-
Total financial assets	-	97,629	-
Financial liabilities			
Embedded derivatives in index-linked deposits	-	(10,900)	-
Derivative financial liabilities:			
Interest rate swaps	-	(6,822)	-
Foreign exchange contracts	-	(100)	-
Total financial liabilities	-	(17,822)	-

32.4 **Fair value of financial assets and financial liabilities (continued)**

	Fair value as at December 31, 2018		
	Level 1	**Level 2**	**Level 3**
Fair values disclosed			
Cash and cash equivalents	245,475	162,724	-
Receivables	-	2,863	-
Investments in debt instruments	-	1,048,045	-
Loans to Members	-	-	14,667,930
Finance receivables	-	-	1,163,360
Members' deposits	-	(13,170,029)	-
Borrowings	-	11	-
Secured borrowings	-	(1,127,736)	-
Mortgage securitization liabilities	-	(2,408,661)	-
Membership shares	-	(350)	-

	Fair value as at December 31, 2017		
	Level 1	**Level 2**	**Level 3**
Recurring measurements			
Financial assets			
Cash	267,184	-	-
Derivative financial assets:			
Equity index-linked options	-	26,676	-
Interest rate swaps	-	14,416	-
Foreign exchange contracts	-	57	-
Swaptions	-	325	-
Investments in equity instruments	-	48,129	-
Total financial assets	267,184	89,603	-
Financial liabilities			
Embedded derivatives in index-linked deposits	-	(26,313)	-
Derivative financial liabilities:			
Interest rate swaps	-	(1,961)	-
Foreign exchange contracts	-	(53)	-
Total financial liabilities	-	(28,327)	-

	Fair value as at December 31, 2017		
	Level 1	**Level 2**	**Level 3**
Fair values disclosed			
Cash equivalents	-	75,372	-
Investments in debt instruments	-	825,380	-
Loans to Members	-	-	12,829,603
Finance receivables	-	-	1,054,358
Members' deposits	-	(11,620,560)	-
Borrowings	-	(32,806)	-
Secured borrowings		(937,293)	-
Mortgage securitization liabilities	-	(1,896,262)	-
Membership shares	-	(321)	-

32.4 **Fair value of financial assets and financial liabilities (continued)**

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 level 1 and level 2 of the fair value hierarchy during the year.

32.5 **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:

(i) 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;
(ii) 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;
(iii) to provide a basis for confidence among Members, depositors, creditors and Regulatory agencies;
(iv) to form a solid foundation for business expansion and ongoing reinvestment in business capabilities, including technology and process automation and enhancement; and
(v) to establish a capital management policy for the entity appropriate for current legal and economic conditions, including compliance with regulatory requirements and with DICO's standards of Sound Business and Financial Practices.

The Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets and of risk weighted assets. Risk weighted assets are calculated by applying risk weighted percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent on the degree of risk inherent in the asset.

Tier 1 capital, otherwise known as core capital, is the highest quality. It is comprised of retained earnings, contributed surplus, Members' capital accounts, and Member entitlements with the exception of the series 96 Class A shares. Of the "50th Anniversary", series 98, series 01, and series 09 Class A shares that have been included within Members' capital accounts, only 90% are allowable as Tier 1 capital due to specific features of these shares. Series 15 and series 17 Class A shares are included at 100% due to a redemption restriction for 5 years from date of issuance. Tier 1 capital as at December 31, 2018 was $937,459 (2017 - $941,132).

Tier 2 capital, otherwise known as supplementary capital, contributes to the overall strength of a financial institution as a going concern, but is of a lesser quality than Tier 1 capital relative to both permanence and freedom from charges. It is comprised of the series 96 Class A shares and the 10% portion of the "50th Anniversary", series 98, series 01, and series 09 Class A shares that are not admissible as Tier 1 capital. It also includes the eligible portion of stage 1 and 2 expected credit loss allowances. Tier 2 capital as at December 31, 2018 was $96,800 (2017 - $82,237).

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 current minimum ratios per Board policy are a capital ratio of 5.25% and a risk weighted capital ratio of 10.50%. 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	Capital leverage ratio		Risk weighted capital	
		Minimum	Actual	Minimum	Actual
2018	1,034,258	4.00%	6.17%	8.00%	12.14%
2017	1,023,370	4.00%	6.99%	8.00%	13.56%

33 Reconciliation of liabilities arising from financing activities

Financing Activities

	2018	2017
Proceeds from securitization of mortgages	478,862	392,650
Net change in mortgage securitization liabilities	27,302	(382,861)
Net change in borrowings	(32,811)	21,528
Net change in secured borrowings	191,371	135,333
Net cash from changes in Membership shares	29	26
Net cash from changes in liabilities	664,753	166,676
Dividends paid on Members' capital accounts	(2,611)	(1,983)
Net change in Member capital accounts	(2,326)	158,478
Cash provided by financing activities	659,816	323,171

	January 1 2018	Cash Flows	Non-Cash Changes		December 31 2018
			Change in Accrued Interest	Amortization of Deferred Amounts	
Borrowings	32,822	(32,811)	-	-	11
Secured borrowings	937,293	191,371	(928)	-	1,127,736
Mortgage securitization liabilities	1,920,761	506,164	150	1,200	2,428,275
Membership shares	321	29	-	-	350
Total	2,891,197	664,753	(778)	1,200	3,556,372

	January 1 2017	Cash Flows	Non-Cash Changes		December 31 2017
			Change in Accrued Interest	Amortization of Deferred Amounts	
Borrowings	11,294	21,528	-	-	32,822
Secured borrowings	801,508	135,333	452	-	937,293
Mortgage securitization liabilities	1,910,113	9,789	112	747	1,920,761
Membership shares	295	26	-	-	321
Total	2,723,210	166,676	564	747	2,891,197

34 Comparative information

Certain comparative information has been revised to conform to the presentation adopted in these current year financial statements and accompanying notes.

35 Events after the reporting period

On January 10, 2019 motusbank received Orders to Commence and Carry on Business from the Minister of Finance.

MERIDIAN CREDIT UNION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018 with comparative figures for 2017

36 Authorization of consolidated financial statements

The consolidated financial statements for the year ended December 31, 2018 were approved by the Board of Directors on March 7, 2019.

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

K Farbridge ______________________________

Karen Farbridge
Chair, Board of Directors

K Bolton ______________________________

Ken Bolton
Chair, Audit & Finance Committee

Meridian Locations

Corporate Offices

Corporate Head Office
St. Catharines
75 Corporate Park Dr.
St. Catharines, ON L2S 3W3
905-988-1000

Corporate Office Toronto
3280 Bloor St. W.
Centre Tower, 7th floor
Toronto, ON M8X 2X3
416-597-4400

Contact Centre

531 Lake St.
St. Catharines, ON L2N 4H6
1-866-592-2226

Commercial Business Centres

St. Catharines
75 Corporate Park Dr.
St. Catharines, ON L2S 3W3

Cambridge - Hespeler
101 Holiday Inn Dr., Unit B4
Cambridge, ON N3C 1Z3

Hamilton - Jackson Square
2 King St. W.
Hamilton, ON L8P 1A1

Greater Toronto Area
50 Ronson Dr., Unit 155
Etobicoke, ON M9W 1B3

Grey Bruce
255 10th St.
Hanover, ON N4N 1P1

Guelph - Speedvale
200 Speedvale Ave. W.
Guelph, ON N1H 1C3

Ottawa - Kanata
473 Hazeldean Rd.
Ottawa, ON K2L 1V1

Niagara-on-the-Lake
1567 Niagara Stone Rd.
Virgil, ON L0S 1T0

Simcoe/Muskoka
592 Yonge St.
Barrie, ON L4N 4E4

Mississauga
Erin Mills & Folkway
4099 Erin Mills Parkway, Unit 7
Mississauga, ON L5L 3P9

Owen Sound
1594 16th Ave. E.
Owen Sound, ON N4K 5N3

Meridian Credit Union Branch and Satellite Locations

Ancaster
1100 Wilson St. W.
Ancaster, ON L9G 3K9

Aurora
Millwood Heights Plaza
297 Wellington St. E.
Aurora, ON L4G 6K9

Aylmer
34-36 Talbot St. W.
Aylmer, ON N5H 1J7

Barrie - Bayfield
85 Bayfield St.,
1st Floor, Suite 102
Barrie, ON L4M 3A7

Barrie - Big Bay Point
592 Yonge St.
Barrie, ON L4N 4E4

Barrie - Essa Road
410 Essa Rd., Unit A1-A
Barrie, ON L4N 9J7

Beamsville
4520 Ontario St.
Beamsville, ON L0R 1B5

Binbrook Marketplace
2537 Regional Rd. 56
Binbrook, ON L0R 1C0

Bowmanville
Darlington Satellite Holt Rd. S.
Main Security Building Lobby
Bowmanville, ON L1C 3Z8
(Bank at work branch
- no public access)

Brampton
Bramelea & Sandalwood
10545 Bramelea Rd.,
Building H, Unit 8
Brampton, ON L6R 3P4

Brampton
Chinguacousy South
65 Dusk Dr., Unit 2
Brampton, ON L6Y 5Z6

Brantford
300 King George Rd., Unit J3
Brantford, ON N3R 5L8

Burlington
Walkers & Dundas
3051 Walkers Line, Units 3 & 4
Burlington, ON L7M 0W3

Cambridge - Galt
125 Dundas St. N., Unit 1
Cambridge, ON N1R 5N6

Cambridge - Hespeler
101 Holiday Inn Dr., Unit B4
Cambridge, ON N3C 1Z3

Collingwood
171 St. Marie St.
Collingwood, ON L9Y 3K3

Courtice
1416 King St. E.
Courtice, ON L1E 3B4

Fergus
120 McQueen Blvd.
Fergus, ON N1M 3T8

Fonthill
1401 Pelham St., PO Box 860
Fonthill, ON L0S 1E0

Fort Erie
450 Garrison Rd., Unit 14
Fort Erie, ON L2A 1N0

Grimsby
Orchardview Plaza
155 Main St. E.
Grimsby, ON L3M 1P2

Guelph - Clair & Gordon
2 Clair Rd. E.
Guelph, ON N1L 0G6

Guelph - Speedvale
200 Speedvale Ave. W.
Guelph, ON N1H 1C3

Guelph - Stone Square
370 Stone Rd. W.
Guelph, ON N1G 4V9

Guelph - Wyndham Street
153 Wyndham St. N.
Guelph, ON N1H 4E9
*Closed March 2018

Hamilton - Centre on Barton
1187 Barton St. E.
Hamilton, ON L8H 2V4

Hamilton - Jackson Square
2 King St. W.
Hamilton, ON L8P 1A1

Hamilton - Rymal Road
2176 Rymal Rd. E., Unit 102
Hamilton, ON L0R 1P0

Hanover
255 10th St.
Hanover, ON N4N 1P1

Kincardine
818 Durham St.
Kincardine, ON N2Z 3B9

London - West
551 Oxford St. W., #102
London, ON N6H 0H9

Markham
Castlemore & Markham Rd.
1210 Castlemore Ave.
Markham, ON L6E 0H7

Markham
Steeles & Birchmount
4080 Steeles Ave. E.,
Units 1 & 2
Markham, ON L3R 4C3

Mississauga - Clarkson
Clarkson Crossing Plaza
970 Southdown Rd.
Mississauga, ON L5J 2Y4

Mississauga
Erin Mills & Folkway
4099 Erin Mills Parkway, Unit 7
Mississauga, ON L5L 3P9

Newmarket
70 Davis Dr., Unit 23
Newmarket, ON L3Y 2M7

Niagara Falls - Kalar & McLeod
7107 Kalar Rd.
Niagara Falls, ON L2H 3J6

Niagara Falls - Portage
4780 Portage Rd.
Niagara Falls, ON L2E 6A8

Niagara-on-the-Lake
1567 Niagara Stone Rd.
Virgil, ONS L0S 1T0

Orangeville
190 Broadway, Suite 1
Orangeville, ON L9W 1K3

Orillia
73 Mississaga St. E.
Orillia, ON L3V 1V4

Ottawa - Bank Street
99 Bank St., Suite G001
Ottawa, ON K1P 6B9

Ottawa - Clyde
1331 Clyde Ave., Unit 104
Ottawa, ON K2C 3G4

Ottawa - Kanata
473 Hazeldean Rd.
Ottawa, ON K2L 1V1

Owen Sound
1594 16th Ave. E.
Owen Sound, ON N4K 5N3

Pembroke
40 Pembroke St. W., Box 216
Pembroke, ON K8A 6X3

Penetanguishene
7 Poyntz St.
Penetanguishene, ON L9M 1M3

Pickering
1550 Kingston Rd., Unite 25
Pickering, ON L1V 1C3

Pickering Satellite
Main Security Building #P19
1675 Montgomery Park Rd.,
Pickering, ON L1V 2R5
(Bank at work branch
- no public access)

Port Colborne
43 Clarence St. W.
Port Colborne, ON L3K 3G1

Port Elgin
626 Goderich St., PO Box 730
Port Elgin, ON N0H 2C0

Richmond Hill
Yonge & Edgar
9050 Yonge St.
Richmond Hill, ON L4C 9S6

Richmond Hill - Oak Ridges
106 - 12276 Yonge St.
Richmond Hill, ON L4E 0B8

Scarborough
Kennedy Commons
1 - 37 William Kitchen Rd.
Scarborough, ON M1P 5B7

Scarborough - Morningside
797 Milner Ave., Unit 100
Toronto, ON M1B 3C3

Seaforth
49 Main St. S.
Seaforth, ON N0K 1W0

Simcoe
95 Queensway Dr. W., Unit 9
Simcoe, ON N3Y 2M8

St. Catharines
Grantham Plaza
400 Scott St.
St. Catharines, ON L2M 3W4

St. Catharines - King Street
106 King St.
St. Catharines, ON L2R 3H8

St Catharines - Lake Street
531 Lake St.
St. Catharines, ON L2N 4H6

St. Catharines
Pendale Plaza
210 Glendale Ave.
St. Catharines, ON L2T 3Y6

St. Catharines
Ridley Square
111 Fourth Ave.
St. Catharines, ON L2S 3P5

St. Marys
134 Queen St.
St. Marys, ON N4X 1A9

Stevensville
2763 Stevensville Rd.
Stevensville, ON L0S 1S0

Stoney Creek
259 Hwy 8, Unit 1
Stoney Creek, ON L8G 1E4

Toronto - Bloor & Islington
3300 Bloor St. W., Suite 120
Toronto, ON M8X 2W8

Toronto - Bloor West Village
2238 Bloor St. W.
Toronto, ON M6S 1N6

Toronto - Cabbagetown
486 Parliament St.
Toronto, ON M4X 1P2

Toronto - College & Bathurst
464 College St.
Toronto, ON M6G 1A1

Toronto - Danforth & Logan
477 Danforth Street
Toronto, ON M4K 1P1

Toronto - Davisville
690 Mt Pleasant Rd, Unit 2
Toronto, ON M4S 2N3

Toronto - Hydro Place
700 Universty Ave.,
Shopping Concourse
Toronto, ON M5G 1Z5

Toronto - King & Shaw
1029 King St. W.
Toronto, ON M6K 3M9

Toronto - Kipling
800 Kipling Ave., Unit 6
Toronto, ON M8Z 5S4

Toronto - Leaside
45 Wicksteed Ave., Unit 25
Toronto, ON M4G 4H9

Toronto - North York
Yonge Sheppard Centre
4841 Yonge Street, Unit 126
Toronto, ON M2N 5X2

Toronto - Roncesvalles
429 Roncesvalles Ave.
Toronto, ON M6R 2N3

Toronto
St. Clair Avenue East
26 St. Clair Ave. E.
Toronto, ON M4T 1L7

Toronto - Sunnybrook
Sunnybrook Health
Sciences Centre
2075 Bayview Ave.,
Room CB02
Toronto, ON M4N 3M5
(Bank at work branch
- no public access)

Toronto - The Beach
2084 Queen St. E.
Toronto, ON M4E 1E1

Toronto - Wellesley
56 Wellesley St. W., Suite 103
Toronto, ON M5S 2S3

Toronto - Wellington West
101 - 145 Wellington St. W.
Toronto, ON M5J 1H8

Vaughan - Maple
1860 Major Mackenzie Dr. W.
Vaughan, ON L6A 4R9

Vineland
3370 King St.
Vineland, ON L0R 2C0

Wainfleet
31885 Hwy #3, PO Box 165
Wainfleet, ON L0S 1V0

Walkerton
244 Durham St., Box 308
Walkerton, ON N0G 2V0

Waterloo - Beechwood
440 Erb St. W.
Waterloo, ON N2T 1H4

Welland
610 Niagara St. N.
Welland, ON L3C 1L8

Whitby
4061 Thickson Rd. N.
Whitby, ON L1R 2X3

Windsor
Roundhouse Centre, Unit 1
3056 Howard Avenue
Windsor, ON N8X 3Y9

Woodstock
396 Dundas St. W.
Woodstock, ON N4S 1B7

Meridian™