Meridian Annual Report 2020

Table of Contents

Digital Content

Click the links below to view additional resources online:

Meet our Executive Leadership Team
Meet our Board of Directors
About Us
Corporate Highlights
Commitment to Communities
Locations

Message from the Board Chair

2020 was a year of disruption, adversity and change. The health crisis and economic downturn have been and continue to be devastating. Each one of us has been impacted in our personal lives, at work and in our communities. Some of us lost family members.

How we responded, and the priorities we focused on , says a lot about how we can and must build resilience as individuals and organizations.

Meridian's Management and Board were ready to respond to a critical situation. COVID-19 was exceptional on many fronts but robust pre-planning for such an event allowed Meridian to react quickly to support our Members. When the pandemic struck, your Board immediately transitioned to virtual meetings and monitored developments closely through weekly management reports and special Board meetings.

The impact of the crisis and the uncertainty about its depth and duration led the Board to increase its existing focus on risk management.

Organizations with innovative, adaptive and collaborative cultures are better positioned to weather challenges. That is true at Meridian and includes the Board. This year, we enhanced our oversight of culture, including the introduction of a culture dashboard as well as a diversity and inclusion scorecard.

A commitment to diversity and inclusion is the right thing to do. It is also a key enabler of better performance. There is significant evidence that companies that have broad representation and welcome a range of opinions and ideas do better financially. They are also more attuned and responsive to the people they serve.

Meridian embraces the benefits of diversity in the Board room. Current Directors reflect gender and racial diversity, as well as a wide range of expertise and experience. We continue our journey to build a diverse Board to align with the makeup and needs of our communities for today and tomorrow. That is good governance, and a big part of making us stronger.

Another is planning well for the future. The Board adopted a comprehensive strategic and financial planning framework in 2020. It forms the basis of the development of a new three-year enterprise strategic plan for Meridian. In looking ahead, we are building the foundation to reach new heights of Member service as a co-operative financial institution.

We do so while remaining attentive to the unique demands created by the pandemic, including responding to the needs of our communities.

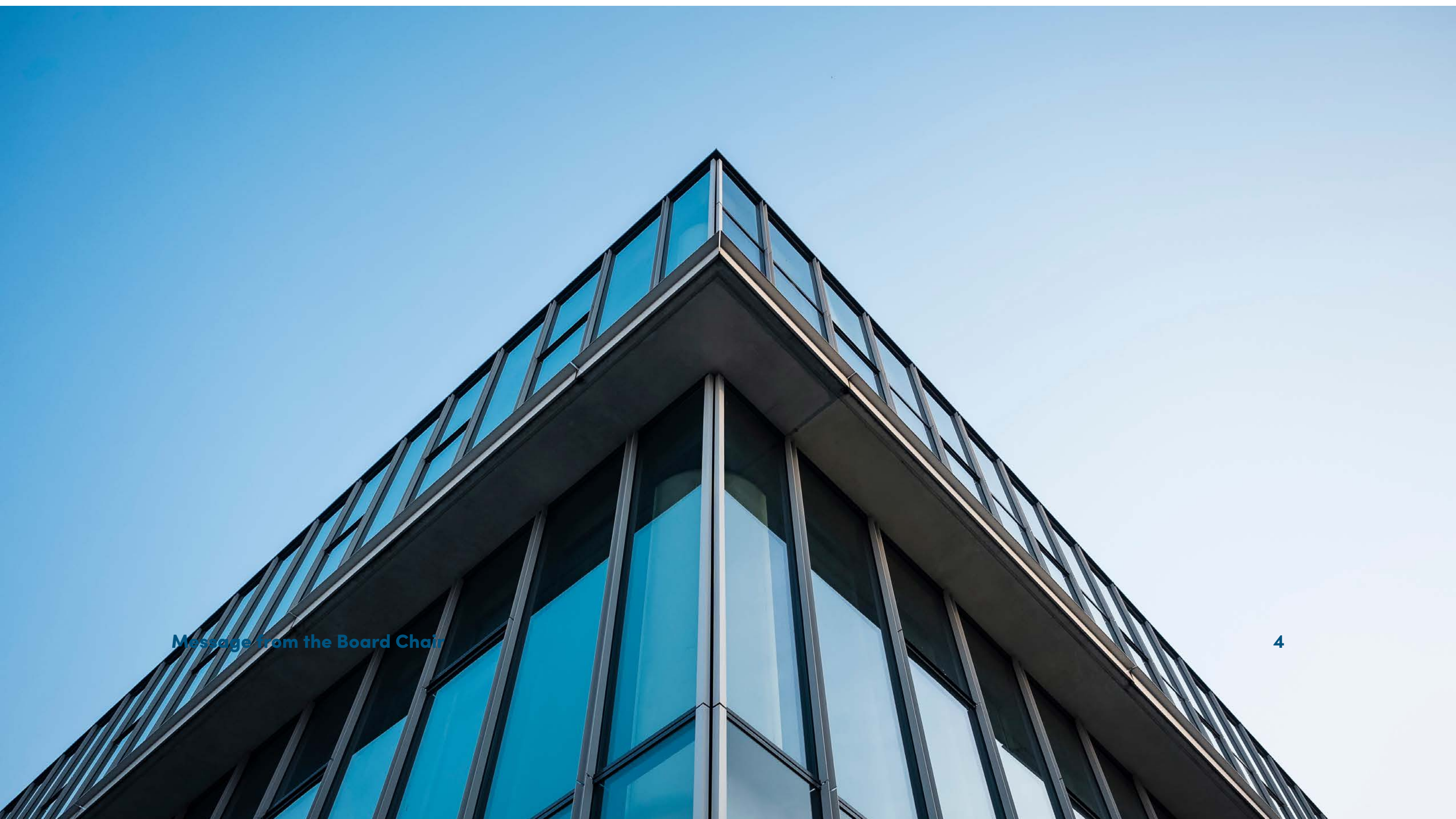
Message from the Board Chair (continued)

In September 2020, we extended our My Commitment to Communities Program to launch the Meridian Donation Match Program to support vulnerable communities across Ontario that were deeply impacted by COVID-19. Though this campaign, led by Meridian's Board of Directors, we extended our program to our Membership and matched their contributions dollar for dollar in supporting two organizations: Food4Kids Ontario and HelpAge Canada. As a collective, we were able to donate $300,000 in total to these organizations, resulting in over 115,000 meals being delivered to children and seniors in need. I thank our Board for their leadership on this campaign.

On behalf of the Board, I want to thank Bill Maurin, President & CEO, our management team, and all employees for their incredible commitment to supporting our Members. It is always on display and was even more evident during a challenging year.

I also want to thank our Members for being with us, as we are with them. By continuing to improve internally, we are better positioned to support our Members through every circumstance.

Karen Farbridge
Chair, Board of Directors
March 12, 2021



Message from the President & CEO

2020 will be remembered as the year of COVID-19. It was a challenging year and it showed us that resilience is an invaluable trait. We can never avoid challenges. What counts is how we prepare for, confront, adjust to and emerge from them.

I'm proud that throughout 2020 Meridian employees remained committed to delivering outstanding service to our Members while continually adapting to new ways of doing business. As a Member-based organization, we have had to mobilize to meet new requirements, all while still advancing core aspects of our business strategy.

Our Members, like everyone, have had to deal with an unfamiliar, disruptive and ever-changing environment. One that has had an enormous impact on home, work and financial lives.

We recognized that these aren't normal times. So, we quickly introduced new ways to help our Members with offerings like loan deferrals and skip a mortgage payment, and quickly pivoted so Members could do this online. That gave many Members one less thing to worry about. Others, who have a business, used Meridian to apply for the federal government's Canada Emergency Business Account loan program.

Providing advice and guidance to our Members, as they dealt with the various impacts of COVID, showed how we lend a helping hand when it's needed most and deliver on our greater purpose to help Canadians achieve a better life.

Serving our Members also required some reimagining of what they need and how we could provide it. For the sake of safety, we temporarily closed some branches, shifted some to advice-only locations, and began setting up virtual appointments. Like many other organizations, we saw a dramatic increase in the use of our digital channels. We created guides and offered additional support to assist Members who were new to using our online products and services.

We also quickly shifted some resources to areas of need. At our Contact Centre, call volumes suddenly increased. Many of our branch staff were trained and redeployed, in just days, to support the call centre. While we had less face-to-face interaction with many of our Members, in some ways our bonds became even stronger. That's because we discovered and solidified new ways to connect. No matter the platform or venue, what matters is the relationship with Members, and the consistency of the experience with us.

Message from the President & CEO (continued)

Amidst an eventful year, we continued to launch or enhance products. Like a first-of-its-kind Hybrid Mortgage, which combines a loan with a conventional mortgage. That creative mix makes it easier to qualify for a mortgage, so our Members can get into their dream home sooner.

To help business owners achieve their own dreams, Meridian and Thinking Capital announced a strategic partnership to expand small business lending solutions in Ontario. It allows small business owners to apply for a loan online, receive a credit decision in real time, and have funds in their account just days later. This supports both business growth and economic recovery.

Offerings like these are just some of the ways we remained focused on continually improving the Member experience. Other introductions, like a new human resources information system, bolstered the employee experience, so that we can work at our best on our Members' behalf.

Meridian's forward-thinking risk management framework ensured that we were on solid footing when the pandemic hit. Our focused and ongoing efforts on building and maintaining a strong balance sheet and liquidity also acted as a shock absorber for our Members when they needed it most.

Our efforts over the last several years in diversifying our revenue streams and loan portfolio have also positioned us well to weather current and future storms.

2020 will also be remembered for difficult but important societal conversations about racial inequality and systemic bias. I heard first-hand from many employees and Members on the topic. I acknowledge that we have work to do, but we remain committed to creating a welcoming and supportive environment for our diverse range of employees and the people that we serve in communities across the province.

On behalf of Meridian's Leadership Team, I want to thank all of our employees for going above and beyond this year, and our Members for their continued trust.

Over and above everything we were dealing with, we still moved the business forward. The year reaffirmed that Meridian is a resilient business that can manage unexpected situations and come out of them even stronger.

By remaining agile, we'll be able to make decisions, take actions and deliver solutions that serve our Members well.

I hope you and your loved ones are staying healthy and safe. Thank you for your continued trust in Meridian as we continue to navigate challenging times.

Bill Maurin

Bill Maurin
President & CEO
March 12, 2021

Corporate Governance Report

Approach to Governance at Meridian

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

Meridian's Board follows a principle-based governance philosophy with key principles that provide the foundation for our governance policies and practices, such as:

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

2020 Board Initiatives

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

The COVID-19 pandemic was a significant health and economic crisis that posed many challenges for Meridian and our Members. At the onset of the crisis, Meridian's Board quickly transitioned to virtual meetings and implemented a process to monitor developments through weekly Management reports and special Board meetings. With COVID-19 decimating the economy and the communities in which Meridian operates, and the continuing uncertainty about the depth and duration of the crisis, Meridian's Board adapted to the fluid environment by strengthening its focus on risk management through increased reporting.

2020 Board Initiatives (continued)

In 2020, Meridian's Board continued to enhance its governance practices by implementing the following initiatives:

- Enhanced oversight of Culture by monitoring Culture Risk and introducing a Culture Dashboard and a Diversity and Inclusion Scorecard covering all levels of the organization.
- Enhanced its best-in-class Director Candidate Application Package by including a voluntary diversity disclosure;
- Successfully transitioned to a virtual Annual General Meeting, including participation by telephone;
- Formalized a process to recommend Meridian Directors to serve on the Boards of Meridian's material subsidiaries;
- Enhanced Director education through a robust Director Orientation program focused on Committee oversight and Board culture, and additional internal education sessions
- Enhanced Management's reporting to Meridian's Board to support continuous oversight of Meridian's strategy, including Meridian's material subsidiaries;
- Streamlined Board and Committee performance evaluations to provide tangible action plans for further improvements, including a formalized evaluation process of Audit and Finance Committee members;
- Conducted benchmarking research to confirm that Meridian follows best practices regarding Director and Board Chair term limits;
- Enhanced Board meeting principles, including in-camera meeting guidelines;
- Adopted a comprehensive integrated strategic and financial planning framework that will form the basis of the development of a new three-year enterprise strategic plan for Meridian.
- In addition, this Corporate Governance Report has been enhanced to include additional information, such as Board diversity and Director tenure.

Excellence in Governance Awards

Meridian is honoured to have been a recipient of Governance Professionals of Canada Excellence in Governance Awards in 2018 and 2019. These awards recognize the important contribution governance professionals make in terms of best practices that build and sustain shareholder and stakeholder value.

Meridian received the Award of Excellence for Best Approach to Achieving Effective Board and Committee Operations in 2018 and 2019, recognizing Meridian's best practices and innovations to ensure that Board and Committee composition, processes and time are actively managed to maximize their governance and strategic oversight functions.

In addition, Meridian received the Award of Excellence for Best Practices in Enterprise Risk Management in 2019, recognizing Meridian's best practices in managing and/or mitigating material risks, bringing them to the Board's attention, and assisting the Board to better understand and evaluate their impact on the organization.

Governing Legislation and Regulation

Meridian operates within a comprehensive regulatory framework which is underpinned by provincial legislation, the *Credit Unions and Caisses Populaires Act, 1994* (the "Act"). Credit Unions are regulated by the Financial Services Regulatory Authority ("FSRA"), which administers regulations under the Act, as well as Rules and Guidance. FSRA oversees both market conduct and prudential regulation of all credit unions, including compliance with solvency rules, and provides deposit insurance held in Ontario credit unions and caisses populaires up to prescribed limits.

In late 2020, the Ontario provincial government introduced and passed legislation to modernize the Act. Specific provisions of the Act will come into force over the course of the next two years in order to allow FSRA time to amend its guidance, rules and regulations to meet the new legislative requirements.

Meridian actively worked with the provincial government and FSRA to modernize the Act with the objective that the new legislative framework would:

- Position credit unions as a strategic asset and partner for the province.
- Promote competition and consumer choice while maintaining risk management and consumer protection.
- Address certain competitive restrictions.
- Protect consumers and enhance the reputation of the credit union system.
- Set a tone for both the regulator and regulated entities, with an expectation that "principles-based regulation" will be implemented.
- Be "future-proofed".

The new Act addresses all these issues. It is a modernized and streamlined legislative framework that enhances the ability of credit unions to compete on a level playing field with our federally regulated bank competitors; gives adequate tools to regulators, especially FSRA, to protect consumers and the integrity of the credit union system; and is flexible enough to remove much of the regulatory burden and duplication contained in the previous Act. Most importantly, the new Act brings our regulatory framework into the modern era and includes a mandatory review of the Act every five years so that it remains current and relevant in the ever-evolving financial services sector.

In parallel with this modernization of the Act, FSRA is working with the credit union sector and other stakeholders on a comprehensive review of all "inherited" rules and guidance with a view to reducing compliance cost by 25%, while still protecting the interests of consumers and the financial integrity of the system - a goal we share. This work will continue throughout 2021 and 2022, with changes expected to regulation around capital adequacy, liquidity, governance, market conduct and business powers.

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

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

Board Mandate

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

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

During 2020, Meridian's Board updated its Mandate to expressly include the oversight of Culture and outline Committee responsibilities in this area.

Board Composition and Election

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

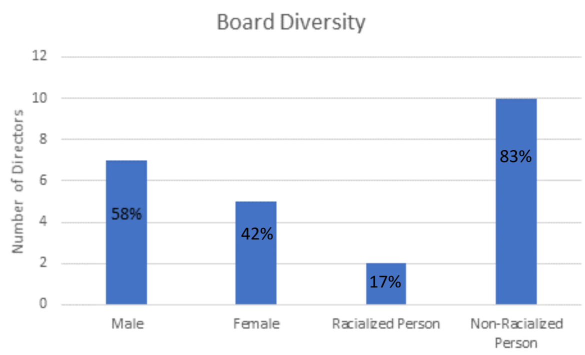
Meridian has a robust nomination process for the selection of Directors, under the oversight of the Board's Nominating Committee. The Nominating Committee retains an external advisor to assist in evaluating each application and establishing a short list of top candidates to be interviewed by the Committee.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

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

Board Diversity

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

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



Orientation and Continuing Education

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

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

In 2020, the following Board and Committee education sessions were held to address topics considered to be particularly important in light of the evolving business of Meridian.

Enhanced Orientation and Education Process

In addition to the education sessions listed **in the table**, Meridian has an enhanced orientation program to include attendance by each new Director at one meeting of each of the committees of which such Director is not a member, as well as to incorporate meetings with the Board Chair and the CEO. The education program also includes an ongoing listing of educational opportunities that is updated and circulated quarterly to Directors for consideration.

BOARD EDUCATION SESSIONS

BOARD OF DIRECTORS

- Open Banking Business Models
- Retail Lending Redesign
- Anti-Money Laundering
- Code of Ethics
- Cyber Security Training

AUDIT & FINANCE COMMITTEE

- Internal Audit Services
- Finance System Infrastructure
- Pension Audited Financial Statements

NOMINATING COMMITTEE

- Interview Skills

HUMAN RESOURCES

- Mental Health Training

RISK COMMITTEE

- Privacy Training

Board Evaluations

Meridian's Board is committed to effective governance and continuous improvement. Annually, the Governance Committee facilitates a Board evaluation process to assess the effectiveness of Meridian's Board, each Committee of the Board, as well as the Board Chair and Committee Chairs. The evaluation is conducted either through an external consultant or internally. In 2020, Meridian's Board conducted an internal evaluation. Through the results of the evaluation, Meridian's Board developed an action plan to ensure it strives towards a continual improvement in Board effectiveness, and Meridian's governance framework continues to adhere to the highest standards. The Governance Committee is responsible for monitoring the action plan and providing a progress report to Meridian's Board.

Board Committees

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

AUDIT & FINANCE COMMITTEE

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

GOVERNANCE COMMITTEE

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

RISK COMMITTEE

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

HUMAN RESOURCES COMMITTEE

- Oversee talent, corporate culture and employee conduct;
- Oversee the HR policies and programs to ensure that they are developed, implemented and adhered to by Management in support of Meridian's business strategies;
- Review and recommend Director compensation;
- Administer the review process of the CEO's performance and compensation;
- Oversee and review the compensation and talent management plan for the Executive Leadership Team;
- Oversee the employee pension plans; and
- Oversee the succession planning for the CEO and Executive Leadership Team.

NOMINATING COMMITTEE

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

Years of Service on the Board and Committee Membership in 2021

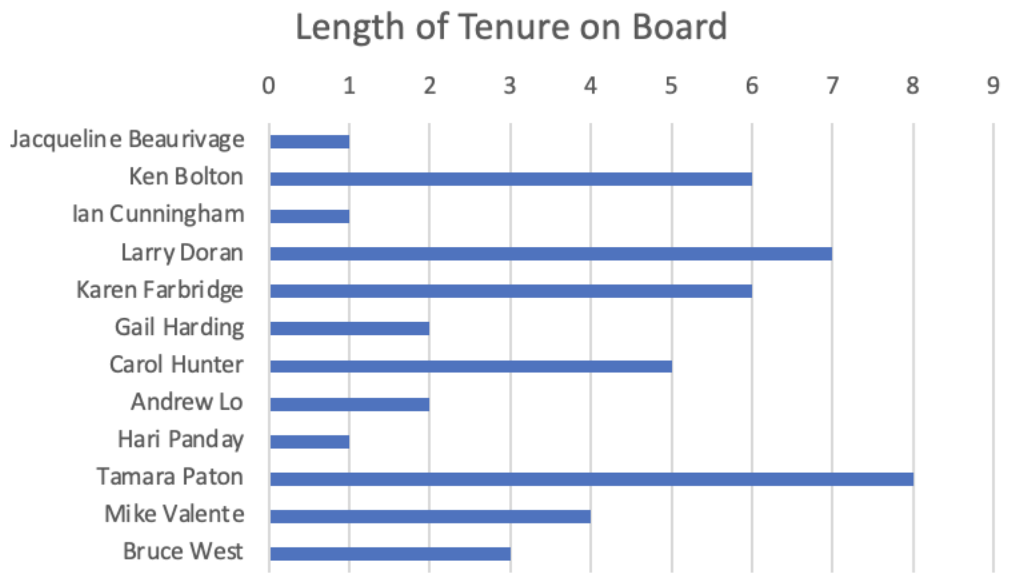
The following are the members of the Board, their respective year of election, as well as the Committees served on in 2020:

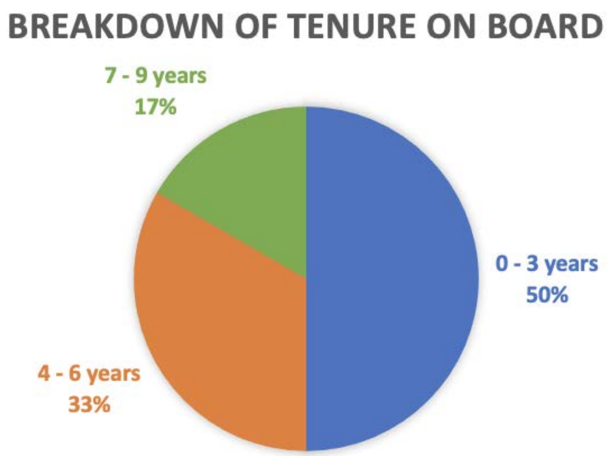
DIRECTOR	AUDIT & FINANCE	GOVERNANCE	HUMAN RESOURCES	NOMINATING	RISK
Jacqueline Beaurivage (2020*)				X	X
Ken Bolton (2015*)	X Chair				X
Ian Cunningham (2020*)	X		X		
Larry Doran (2014*)		X			X Chair
Karen Farbridge Board Chair (2015*)		X	X		
Gail Harding (2019*)	X				X
Carol Hunter (2016*)		X		X Chair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

***Indicates year the Director was elected**

Tenure on Board of Directors

The following chart visually depicts the tenure of each Director of Meridian's Board as of December 31, 2020.





Subsidiary Governance

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

Board Code of Conduct

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

Director Compensation

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

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

All-In Fee Structure

Meridian's Board uses an all-in fee structure to compensate Directors for time spent on Meridian business. This single fee is intended to recognize a Director's skills, knowledge, experience and level of responsibility. It also recognizes the time required of Directors in fulfilling their responsibilities, including but not limited to travelling, preparing for and attending meetings, attending education sessions, assembling information, and attending and participating in community activities and other credit union functions as required.

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

The following table represents the specific remuneration for Directors for 2020:

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

***The Board Vice Chair position was eliminated in May 2020.**

All-in Fee Structure (continued)

The table below summarizes the total gross compensation (excluding expense reimbursement) received by each Director during 2020:

DIRECTOR	ANNUAL FEE	CHAIR FEE	OTHER (1, 2, 3)	TOTAL
Jacqueline Beaurivage Elected to serve as Director effective 4/20	**$40,000**			**$40,000**
Ken Bolton Audit & Finance Committee Chair	**$60,000**	**$15,000**		**$75,000**
Jeff Chesebrough Elected to serve as Director until 4/20	**$20,000**			**$20,000**
Ian Cunningham Elected to serve as Director effective 4/20	**$40,000**			**$40,000**
Larry Doran Risk Committee Chair	**$60,000**	**$10,000**		**$70,000**
Karen Farbridge Board Chair	**$60,000**	**$40,000**	**$42,050[1]**	**$142,050**
Gail Harding	**$60,000**		**$800[2]**	**$60,800**
Carol Hunter Governance Committee Chair until 4/20; Nominating Committee Chair effective 4/20	**$60,000**	**$10,000**		**$70,000**
Andrew Lo	**$60,000**			**$60,000**
Hari Panday Elected to serve as Director effective 4/20	**$40,000**			**$40,000**
Peter Patchet Elected to serve as Director until 4/20; Human Resources Committee Chair until 4/20	**$20,000**	**$3,333**		**$23,333**
Tamara Paton Vice Chair until 4/20[3]; Human Resources Committee Chair effective 4/20	**$60,000**	**$10,000**	**$27,050[1]**	**$97,050**
Colleen Sidford Resigned as of 4/20; Nominating Committee Chair until 4/20	**$20,000**	**$3,333**		**$23,333**
Mike Valente	**$60,000**			**$60,000**
Bruce West Governance Committee Chair as of 4/20	**$60,000**	**$6,666**		**$66,666**

Note 1: Fee received as a Director of motusbank
Note 2: Fee received for travel spent greater than 5 hours for Board and/or Committee meetings
Note 3: The Vice Chair role was eliminated as of May 2020.

Executive Compensation & CEO Performance Management

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

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

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

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

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

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

Director Attendance

The Board has a policy for "Attendance by Directors" and receives annual reporting of individual attendance. 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 2020 calendar year. It includes former and newly elected Directors whose terms ended and/or commenced concurrent with the Annual General Meeting in April 2020.

The percentages pertain to the attendance at both Board and Committee meetings held during the period January 1, 2020, to December 31, 2020. Overall, this translates to a 99% average attendance by Meridian's Directors.

12 MONTHS OF 2020

	Board of Directors		Committee		Total		
Director	**Attend**	**Held**	**Attend**	**Held**	**Attend**	**Held**	**%**
Jacqueline Beaurivage After 4/20	5	5	6	6	11	11	100
Ken Bolton	9	9	11	11	20	20	100
Jeff Chesebrough Until 4/20	3	4	3	3	6	7	86
Ian Cunningham After 4/20	5	5	6	6	11	11	100
Larry Doran	9	9	11	11	20	20	100
Karen Farbridge	9	9	9	9	18	18	100
Gail Harding	9	9	12	12	21	21	100
Carol Hunter	9	9	8	8	17	17	100
Andrew Lo	9	9	9	9	18	18	100
Peter Patchet Until 4/20	4	4	3	3	7	7	100
Hari Panday After 4/20	5	5	6	6	11	11	100
Tamara Paton	9	9	13	13	22	22	100
Colleen Sidford Until 4/20	4	4	5	5	9	9	100
Mike Valente	9	9	7	7	16	16	100
Bruce West	9	9	11	11	20	20	100

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

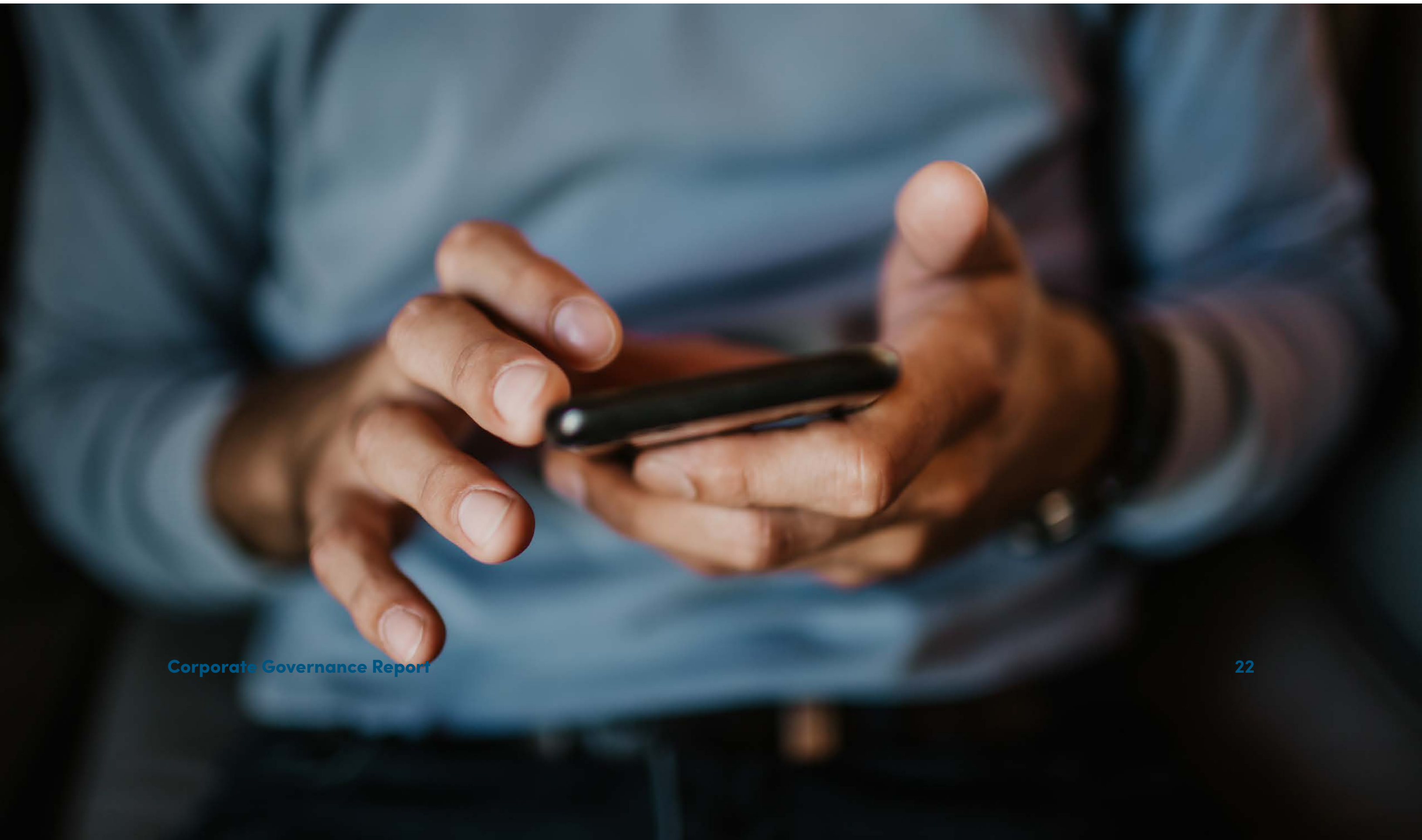
Email:
Board.ofDirectors@meridiancu.ca

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

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

Additional references:

The 2020 Director Candidate Application Guide is available at:
https://www.meridiancu.ca/About-Meridian/Corporate/Governance/Board-Elections.aspx



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 2020, as compared to prior years. The MD&A should be read in conjunction with the audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise indicated, all amounts in the MD&A are expressed in Canadian dollars. The MD&A commentary is as of March 12, 2021.

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

Cautions Relating to Statements

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

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

Core Business & Strategy

Corporate Overview

As Ontario's largest credit union, Meridian delivers financial products and services to over 387,000 Members through a network of 89 branches, and access to business banking services at 15 locations, a Member Contact Centre and online services.

We are a Member-owned financial institution that puts the wellbeing of our Members first. Our employees take the time to understand the financial goals and aspirations of our Members.

This allows us to offer solutions that meet their needs proactively.

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

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

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

Our Corporate Strategy

Meridian strives to help Canadians achieve a better life. At their core, our strategic objectives continue to be focused on differentiation, which entails taking Meridian's service excellence to higher levels, and transformation, centred on modernizing how we do things, thus making our operations simpler, more transparent and faster. Although strategies remain the same, the ongoing COVID-19 pandemic has accelerated the need for management to swiftly adjust focus where appropriate to better serve our Members throughout the pandemic and beyond. This supports Meridian's longer-term sustainability and our ability to deliver on our value proposition to Members. Our strategic objectives 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 plan to leverage digital banking, alternative distribution channels, partnerships, and new products and services that enable a more holistic approach to meet Member needs, to grow our Membership and the markets we serve.

2. 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 helping Canadians achieve a better life and always putting the wellbeing of our Members first.
- We will empower Members to make decisions in their best interest through operational transparency.

Core Business & Strategy (continued)

3. Social Commitment

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

4. Diversified Business Model

- The objective is to evolve Meridian's business model to remain relevant in the future and continue to create value for Members.
- Growth and diversification in our business model and continuous business transformation enable us to meet more Member needs and bring our value proposition to more Canadians in an efficient and effective manner.

5. Exceptional Employee Experience

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

Our COVID Pivot Program

During 2020, Meridian undertook a COVID-19 mitigation and adjustment effort initially shouldered by our Crisis Management Team and later transitioned, more strategically and tactically, into our "COVID Pivot program". Our COVID Pivot program is now an enterprise-wide set of initiatives supporting the modernizing and future-proofing of the organization. The changing Member behaviour due to the COVID-19 pandemic has highlighted the need to focus and accelerate specific strategies within the organization's business model while still delivering on Meridian's strategic imperatives. These strategies range from accelerating digital development, back office process efficiencies and corporate office space rationalization. These initiatives should help improve Member interaction with a focus on improving operational performance.

Key Performance Drivers

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

Voice of Member

Voice of Member ("VOM") is a Member Experience program that provides Meridian an opportunity to hear the opinions of our Members and measure satisfaction and loyalty. It enables us to better respond to Member needs and truly add value as we help improve their financial wellbeing. 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.

✓ In the wake of the COVID-19 pandemic, this program pivoted to put an emphasis on meeting the immediate needs of our Members as they cope with the crisis.

✓ At the heart of our VOM program is the Net Promoter Score ("NPS"). This metric has been embraced globally by leading companies as the standard for measuring and improving customer loyalty. In 2020, our Relationship survey NPS was 41.8 (only deployed in Q1 due to COVID-19). In 2020, our COVID Pivot program included putting emphasis on the more immediate Touchpoint (or Transactional) survey results. Our Touchpoint survey NPS in 2020 was 63.7.

Awareness of Meridian

We regularly assess awareness of Meridian and our unique value proposition. We monitor our progress over time across the marketing funnel and monitor items such as awareness, consideration, differentiated Member experience and access. These factors help to influence and guide us in our ability to deliver on our greater purpose, "to help Canadians achieve a better life".

✓ We remain focused on achieving our greater purpose by promoting and using our brand attributes and guiding principles in our communication to Members and prospects. These components and language build our brand pyramid and guide us in driving new Member growth from prospects and share of wallet opportunities with Members.

✓ Our research shows that Meridian's awareness in market dropped from 2019 to 2020. This can be largely attributed to reduced advertising due to the COVID-19 pandemic, which impacted our presence in the marketplace.

✓ In 2020, we were awarded Toronto Star Readers' Diamond Award for "Best Credit Union" and "Best Bank / Trust Company".

Key Performance Drivers (continued)

Employee Engagement

An engaged workforce plays a vital role in delivering an exceptional experience to our Members. Meridian's Voice of Employee Program queries key aspects of the employee experience to ensure employees are engaged in delivering on our higher purpose to help Canadians achieve a better life, and to identify areas of enterprise strength and opportunity.

In 2020, Meridian moved from Kincentric to Perception, a module in the UKG (HRIS) system, to administer our employee experience survey. The new tool allows Meridian to collect and understand employee feedback, with the unique ability to analyze open-ended text and detect emotions with natural language processing technology. In order to gain a more fulsome understanding and measurement of the entire employee experience at Meridian, an Employee Experience score has been calculated by averaging the responses to the survey questions across all metrics and will be used in place of an engagement score going forward. The Employee Experience score provides a 360-degree view of employees' interaction and experience with Meridian's culture, physical environment and technology.

✓ The Meridian Group of Companies 2020 Employee Experience score for all metrics combined is 76%. Survey results show that Meridian continues to have a favourable employee experience with employees reporting high levels of engagement and citing leadership effectiveness and corporate responsibility as key areas of strength.

✓ Meridian's participation rate continues to be strong at 95% (+1% year over year), which is consistent with historical performance. Noteworthy growth in responses to open text questions increasingly reflects a culture where feedback is provided and leaders listen, an important attribute of an adaptive culture.

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

Membership Growth

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

✓ In the Credit Union, we experienced slower growth than previous years due to the COVID-19 pandemic. The total number of Members increased by more than 9,000 in 2020, which increased our membership base to over 387,000. In the second year of motusbank, over 3,400 new relationships were onboarded to join the Meridian family.

Capital Position

A key indicator of our financial soundness is the strength of our capital base, which consists mainly of Member shares and retained earnings. A strong capital position allows us to absorb shocks stemming from economic downturns and market risk, invest in activities and ventures that add value to our Members, and protect Members' interests. We continue to focus on maintaining strong capital ratios, building our capital base through retained earnings and, in 2020, through a $125 million privately placed subordinated debenture.

✓ Meridian's capital and risk weighted capital ratio remained strong and continue to be well within regulatory and risk appetite ranges in 2020 despite the pandemic as we have positioned our Capital well to sustain external economic shocks and provide the ability for future growth.

Capability to Deliver Results

Meridian's long-term sustainability is underscored by our success in achieving our strategic imperatives, which are supported by multiple initiatives. We continue to strengthen our capabilities in our delivery network, organizational processes, technology, organizational structure and employees. The following 2020 successes and ongoing initiatives highlight our ability to achieve our strategic imperatives in the face of COVID-19, and meet current and future needs of our existing and potential Members:

Market and Membership Growth

✓ Digital Banking Strategy

Delivering value our Members can't imagine living without is what guides our digital strategy. We believe in building innovative and differentiated Member experiences such as Price Drop, the first such service offered in Canada by a financial institution, which helps Members find meaningful savings on their everyday purchases. Price Drop, our first-in-kind digital banking service, was recognized with the 2020 Canadian Credit Union Association ("CCUA") Innovation Award.

In 2020, demand for digital banking services significantly ramped up as a result of COVID-19. Members have increased their usage of digital banking since the start of the pandemic, as deposits made through e-transfer, mobile cheque deposit and ATMs have all increased by ~25% since March. Bill payments made through the mobile devices also steadily increased by ~20% over the course of the year, while bill payments made in branch declined between March and May by ~40%.

We reacted quickly to ensure we delivered our Members robust, convenient and delightful Member experiences. Here is a short sample of what we did:

- **Introduced new digital banking capabilities**
  We introduced capabilities that allowed members to skip mortgage and loan payments, set up direct deposits with the Canada Revenue Agency ("CRA") and apply for a Canada Emergency Business Account ("CEBA") loan application for business banking.

- **Enabled our Members to do more digitally**
  We enhanced our digital account opening capabilities, allowing members to renew mortgages digitally, change renewal instructions for existing GICs, submit account opening requests to wealth advisors, and added features such as the ability to rename accounts and export account data.

Capability to Deliver Results (continued)

✓ Digital Banking Strategy

- **Improved the way we work**
  We embedded design thinking and agile development principles, increased our speed to market and successfully launched a revised continuous improvement process, enabling Meridian to better support the broader enterprise more efficiently with continuous deployment of small enhancements.

In 2021, we will take on the challenge of utilizing digital to increase focus on rapid deployment of self-service and automation capabilities to increase operational efficiency across the enterprise and improve the overall wellbeing of our Members as we continue to iterate, innovate and deliver differentiated digital Member experiences. In addition, we will look to enhance our sales and service experience. 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.

✓ New to Canada Program

Launched at the end of 2018, the New to Canada program brings new Canadians unique and special offers to help them choose Meridian as their financial institution. We started to promote this program in 2019 in the markets we serve, and in 2020, we expanded the program through a partnership with the Foreign Credential Recognition Loans ("FCRL") program, which makes it easier for new immigrants to apply and qualify for a loan at Meridian.

Capability to Deliver Results (continued)

Differentiated Member Experience

✓ PSO Innovations

Meridian is constantly looking to improve and innovate our Product/ Service Offerings. 2020 saw the following initiatives take flight:

- "Flex Line Mortgage" is a combination of a mortgage and a home equity line of credit. Members can borrow up to 80% of their homes value, leveraging the equity in their home through a home equity line of credit. Members do not need to reapply for increase in limits; as they pay down their mortgage, Members can automatically access more through their line of credit.

- "Horizon Mortgage" is a product that is aimed at helping individuals with bruised credit scores to obtain a mortgage.

- "Hybrid Mortgage" is a product that combines a loan with a conventional mortgage. The product mix makes it easier to qualify for the mortgage some Members are looking for. The Hybrid Mortgage considers future borrowing potential, offering an opportunity to purchase a home now and transition to a traditional mortgage at a later date.

- Contact management strategies were deployed by Meridian to connect with Members who appeared to need support consolidating unsecured credit with existing home equity to help lower debt payments and provide some relief during COVID.

- "COVID Response Programs" helped Members during the COVID crisis with skip payments on lending products including Visa, enrolment in CRA Direct Deposit for access to Canada relief benefits for both retail and business members, online banking help, and more.

Meridian continues to strive to bring innovative and market-leading products to our Members to address unmet needs and differentiate ourselves. In 2021, Meridian will strive to build upon our national footprint with unique product and service offers for motusbank. To focus on the needs of our Members, we anticipate a constant focus on looking for opportunities to address these needs from a product and technology perspective.

Capability to Deliver Results (continued)

✓ DriveON Program

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

✓ Rate Scoop

Rate Scoop creates operational transparency when it comes to rate changes. This service gives advanced notice of upcoming rate changes. Members can opt to have a notification of rate changes sent to their email, or they can check our website, as it will have an alert during the advanced notification period.

Social Commitment

✓ Meridian's Commitment to Communities

Meridian's Commitment to Communities is based on our fundamental belief in our role in empowering Members, employees and community wellbeing.

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

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

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

Capability to Deliver Results (continued)

✓ Meridian's Commitment to Communities

- 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.

In 2020, Meridian launched "Meridian's Donation Match Program" in an effort to support vulnerable communities across Ontario that were deeply impacted by COVID-19. Through this campaign, led by Meridian's Board of Directors, we extended our My Commitment to Communities Program to our Membership and matched their contributions dollar for dollar in supporting two organizations providing relief to vulnerable populations heavily impacted by COVID-19: Food4Kids Ontario and HelpAge Canada. As a collective, we were able to donate $300,000 in total to these organizations, resulting in over 115,000 meals being delivered to children and seniors in need.

✓ Member Wellbeing

Meridian's purpose is to help Canadians achieve a better life. We are focused on improving the wellbeing of our Members. We have partnered with the Financial Health Network, a non-profit trusted resource for business leaders, policymakers, and innovators aiming to improve the financial health of their customers, employees, and communities. In 2020, based on the Financial Health Network's FinHealth Score® Toolkit, we launched a short survey that provides a snapshot of an individual's overall financial health across four key areas: saving, spending, borrowing and planning. As well, the survey offers benchmark comparisons to Ontarians and advice on how to improve scores. We publish financial health articles and advice within the "Good Sense" section of our website, as well as content with a focus on home ownership. In 2020, we focused on creating new digital content to educate our Members on the basics of credit and borrowing. This content provides education about how credit works, building credit history, credit reports and credit scores, and a glossary of common credit terms.

Capability to Deliver Results (continued)

✓ Member Wellbeing

One of the key elements of financial wellbeing is the topic of Housing Affordability. We increased our focus on this by expanding our various mortgage solutions and providing advice for current and future homeowners. These efforts included a complete revamp of our public website to profile all our various solutions across a wide spectrum of home financing, including unique mortgage solutions for custom builds, friends and family, and self-employed. In addition, we provided specific advice and tools for first-time home buyers, and buyers considering their next home or property, or renewing and refinancing an existing home.

As we look to 2021, Meridian will be taking a more holistic approach to Member Wellbeing and resiliency, building on our focus of financial wellbeing and extending our lens to account for the interdependencies that exist between financial wellness and overall wellness.

Business Model Diversification

✓ Subsidiaries & Partnerships

Meridian officially launched motusbank, our national bank subsidiary in April 2019. This is a key component of our overall strategy and enables Meridian's value proposition to be delivered to a larger number of Canadians. Although market headwinds were strong over 2020, the business continued to lay a stronger foundation for growth focused on initiatives that will expand product offerings over the mid- to long-term.

In 2021, we will continue to be diligent in investigating selective acquisitions and/or builds of new business lines to join the Meridian family. Meridian continues to leverage OneCap and seek opportunities where it enables profitable expansion into transformational business lines. OneCap, motusbank and the launch of DriveON in partnership with CU Dealer Financing are three large-scale strategic initiatives oriented towards diversifying our business model and bringing Meridian's value proposition to a greater number of Canadians.

Capability to Deliver Results (continued)

✓ Operating Efficiency

Adoption of the Lean process improvement methodology continues to gain momentum at Meridian. A number of Kaizen events were executed in 2020 aimed at improving processes for key business functions, which resulted in the elimination of manual reporting and non-value add activities. Robotic Process Automation ("RPA") was implemented for operationally intensive processes, which together with Lean improvements, continue to be key drivers in achieving operational efficiencies.

In 2021, we will continue to focus on the Customer Relationship Management ("CRM") initiative, an ambitious multi-year project that launched in 2020 which will update legacy systems, centralize Member's information and strengthen Member relationships. This will enable Meridian to deepen the relationship with current Members and help interact with potential Members.

✓ Regulatory Modernization

In late 2020, the Ontario government introduced new legislation governing the credit union sector. The *Credit Union and Caisses Populaires Act*, 2020, ***("CUCPA")*** replaces the previous CUCPA from 1994 and will significantly modernize the regulatory regime of the credit union sector. The new legislation recognizes the strategic importance of the Ontario credit union system and gives much more discretion and regulatory authority to the FSRA of Ontario. This discretion and authority will result in changes to guidance in rules around governance, capital and liquidity, market conduct and many areas of credit union operations. The specific rules are to be finalized in 2021 and 2022 before being implemented, but we anticipate more flexibility, and more cost savings from compliance cost reduction and greater discretion in how Meridian deploys capital. This should have a positive impact on our ability to grow and responsibly generate returns for our Members.

Capability to Deliver Results (continued)

✓ Regulatory Modernization

In addition, the British Columbia Financial Services Authority (formerly known as FICOM) has been focused on making changes to the structuring of the credit union liquidity reserves, held by Central 1 in a Mandatory Liquidity Pool (“MLP”), for many years due to the fact that the current structure could place the system’s statutory liquidity at risk in an extreme scenario. In January 2021, credit unions in Ontario and British Columbia will transition from holding their current portfolio of Liquidity Reserve Deposits (“LRDs”) at Central 1 to holding a direct portfolio of High-Quality Liquid Assets (“HQLA”) either in a central bankruptcy remote trust or directly on the credit union’s balance sheet. At that time, all class F shares will be liquidated at book value, which should result in no gain or loss for income statement or income tax purposes. Meridian has chosen to manage the new HQLA in-house, to be combined with cash and other liquid securities within FSRA’s updated liquidity guidance, which ensures that a credit union manages its liquidity while continuing to provide services to its Members.

✓ 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. In 2020, a D&I Scorecard was introduced, which is one of the ways Meridian has committed to meeting its goal of reflecting a diverse and inclusive culture within the organization. A dedicated cross-functional group of employees have informed the introduction of Meridian’s Employee Resource Groups ("ERGs") and have co-authored Meridian’s D&I plans for 2021. This important strategy continues to build greater awareness, openness, respect and lasting connections both within the organization and the diverse communities we serve.

Capability to Deliver Results (continued)

✓ Exceptional Employee Experience Promise

In 2019, Meridian introduced the Employee Value Proposition ("EVP"), a commitment to current and prospective employees. Fulfillment on this promise creates a productive working environment for employees and is aligned to specific Talent, Business and Member metrics that are key to a thriving business. Meridian commits to:

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

As Meridian planned for the post-COVID reality, input from employees was recognized as a necessary and valuable reference point to draw from in shaping Meridian's new workplace and employee experience. In 2020, Meridian introduced a Voice of Employee Program, a series of employee surveys designed to gather employee sentiment about key aspects of the employee experience. Employee feedback informed Meridian's "Remote Working" and "Leading Remotely" learning programs designed to support an increasingly virtual workforce, and employees were provided with financial support to optimize their home office set-up. High-touch leadership practices remain an employee-valued strength of the organization and will continue to support employee development, wellbeing and resilience as we move into 2021.

Consolidated Financial Results

2020 Financial Overview

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. In Canada, this led to business closures, travel restrictions, quarantines, and limits on public and private gatherings. These measures led to a sharp reduction in economic activity and curtailed growth. The shutdowns caused a recession and activity has been slow to recover. Regional openings of non-essential businesses started in the summer, with some economic rebound in Q3. However, a second wave of COVID-19 caused further shutdowns to be implemented at the end of 2020. Although there is optimism with the development and approval of multiple COVID-19 vaccines, uncertainty remains with vaccine production and distribution challenges and new variants and the slow recovery is expected to continue in the first half of 2021.

The Canadian government introduced various financial support programs for individuals and businesses, along with various stimulus programs, in response to the pandemic and to ensure liquidity in the market. This has increased financial institutions' liquidity positions, and provided businesses and individuals with funds to weather the impact. However, the government support and deferral programs implemented by financial institutions have made provisioning for future credit losses more difficult, as delinquency is no longer a reliable predictor of increased credit risk and therefore new factors need to be identified and modelled. As the pandemic continues to unfold, earnings may be impacted by several factors, the most significant being the length of time to return to a normal state of economic growth and unemployment. This might result in an unpredictable yield curve and volatile equity markets, impact our Members' cash flows and credit scores, change consumer behaviour in the marketplace, and continue to influence Meridian's risk appetite.

The Bank of Canada decreased the overnight rate significantly at the onset of the COVID-19 pandemic in March. After no changes in 2019, the overnight rate dropped by 50 bps three times in March to a 2020 year-end overnight rate of 0.25%, from 1.75% in 2019. It is widely expected that this rate will hold until 2023.

The above factors and the impact the pandemic has had on Meridian's earnings has prompted management to focus on mitigation strategies. These include:

Balance Sheet Protection – All Commercial sectors and Member employment sectors were reviewed to realign risk tolerances based on potential credit risk. Critical focus was put on the risk-reward equation when evaluating overall lending growth to ensure Capital is deployed in an efficient manner.

Liquidity - Focus on increasing overall liquidity and diversifying funding as a safeguard for further economic shocks. This was accomplished early in 2020 by utilizing Canada Mortgage and Housing Corporation's ("CMHC") Insured Mortgage Purchase Program ("IMPP") where mortgages that were previously uninsurable were able to be securitized, which also helped to improve capital efficiency. Liquidity increased further as Member behaviour shifted to hold higher cash and deposit balances. The duration of this change in behaviour remains unpredictable and may be a short-term event.

Expense Management - Management focused on reducing non-essential discretionary expenses, initiative and capital asset spend, along with reducing marketing and business development activities to reflect slower growth. These changes created large in-year savings to help mitigate the financial impact brought about from the pandemic; however, as most are variable costs or related to investment critical for the future, expenses are expected to revert to more normal levels in 2021.

Employee Wellbeing – Management ensured the majority of corporate staff had the capabilities to work from home, branches were temporarily closed where appropriate, and open facilities are sanitized so our workforce is able to stay safe during the pandemic. A service excellence premium was paid to front-line employees facing the public and branches were closed on Saturdays during the lockdown.

Although the pandemic deferred some investments to a later date, Meridian continues to invest in a mix of strategic and foundational initiatives as we continue to expand our digital capabilities, diversify our business and enhance our supporting infrastructure. The investments made have progressed over time. We started with heavy brick and mortar investment in 2014 with our branch and business banking centre expansion strategy; moved to diversifying our investments by purchasing a wholly owned leasing subsidiary (OneCap) and launched a National Bank, motusbank; and are now focused on improving our core technology infrastructure and digital investment to drive efficiencies within the business. These investments always have some heavy upfront costs, but we realize the benefit as we implement them.

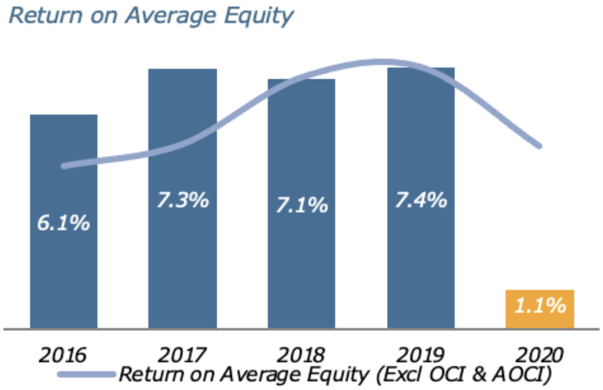
Meridian is focused on ensuring the right balance between investments, earnings performance, funding requirements and ensuring capitalization is maintained in an efficient manner. This safeguards Meridian and allows for sustainable profitability, a key ingredient to support our growth and allow our value proposition to reach as many Canadians as possible.

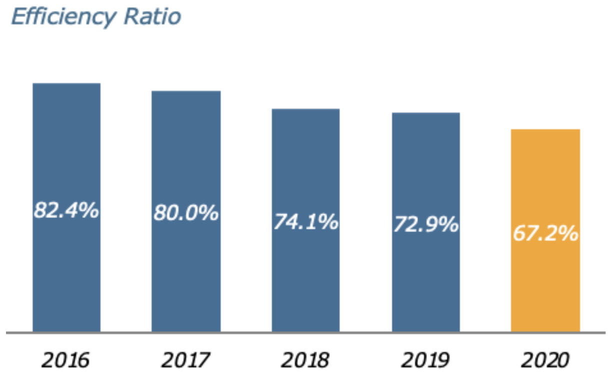
Due to the above economic factors driven by the COVID-19 pandemic, Meridian experienced slower growth compared to previous years as the economy slowed or completely halted in certain sectors. However, with the resilience of our employees and management strategies, Meridian was still able to grow in an efficient manner.

Total assets grew by $2.1 billion or 10% to $23.1 billion at the end of 2020, driven largely by liquid assets and lending to Members, mainly residential mortgages and Commercial business activities. Assets under management, which include off-balance sheet Wealth management assets, increased by $2.5 billion or 11% to $26.5 billion, with $0.4 billion of the growth coming from Wealth assets, which ended 2020 at $3.4 billion. Our deposit portfolio grew $0.9 billion or 6% to $15.8 billion, while our loan portfolio increased $0.6 billion or 3% to $17.9 billion in 2020.

Meridian generated $67.2 million in pre-tax earnings, a decrease of $26.8 million over the previous year. The decreased earnings were attributable to increased Provision for Credit Losses ("PCL") driven by the pandemic. Accounting standards ensure that expected losses are estimated and recognized upfront, producing a $53.8 million increase to the PCL over 2019. Expected losses are calculated using significant management judgment and may not materialize as estimated. Meridian experienced largely unrealized losses in Other Comprehensive Income ("OCI") of $47.5 million, as a result of the steep interest rate drops on our hedging activities. The majority of our cash flow hedges consist of pay fixed swaps which decline in value as interest rates fall. These factors contributed to an after-tax return on equity ("ROE") of 1.1% in 2020, compared to 7.4% achieved in 2019. Meridian was able to realize positive earnings despite economic pressures. ROE represents total comprehensive income as a percentage of average total equity. Removing the impact of the significant OCI loss in 2020 results in an increase in ROE to 5.2% (represented by the line below).

Consolidated Financial Results (continued)



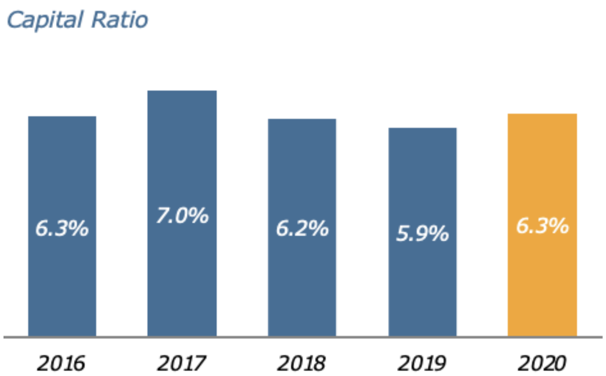


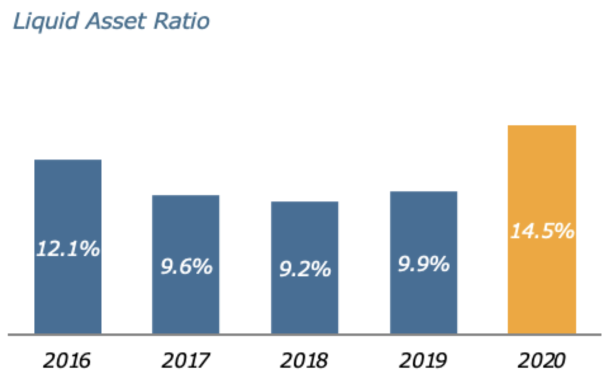
Meridian's operating margin was $356.5 million for 2020, an 11% decrease from 2019 results. The cause of this decrease is the higher PCL required due to COVID-19 expected losses. Total revenues increased $10.0 million over 2019 mainly due to growth in loans to Members. Expenses decreased $17.0 million from the previous year due to cost management strategies and some imposed savings from the pandemic, such as travel and business development. These cost savings are not expected to continue at the same levels, as Meridian will continue to invest in foundational initiatives to help drive efficiencies and capital efficient growth in the future.

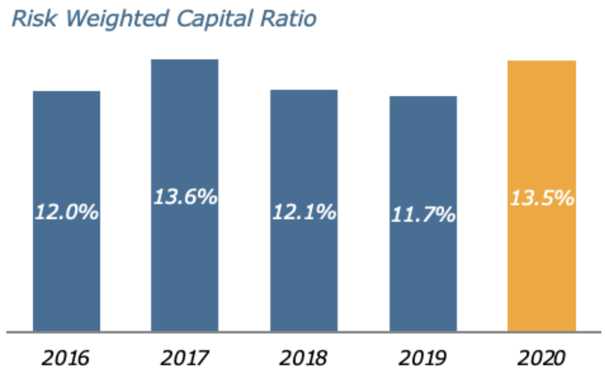
Our long-term strategic focus on investments in infrastructure, people, processes, technology, marketing, products and services created short-term earnings pressures from 2014 to 2016, putting pressure on our ROE and efficiency ratios. ROE has since increased through 2017-2019; however, there was a reduction in 2020 due to the significant increase to the PCL as a result of COVID-19. Although there were large provisions, we were still able to be profitable, demonstrating the improvement in our long-term financial outlook and allowing us to achieve sustainable growth, notwithstanding the slowdown brought about from the pandemic.

The efficiency ratio is a measure of productivity and is calculated as total non-interest expense divided by total revenues, not including loan loss provisioning. Growth in revenues relative to lower expenses, as previously noted, resulted in an improvement in the efficiency ratio to 67.2% in 2020, compared to 72.9% in 2019.

Consolidated Financial Results (continued)



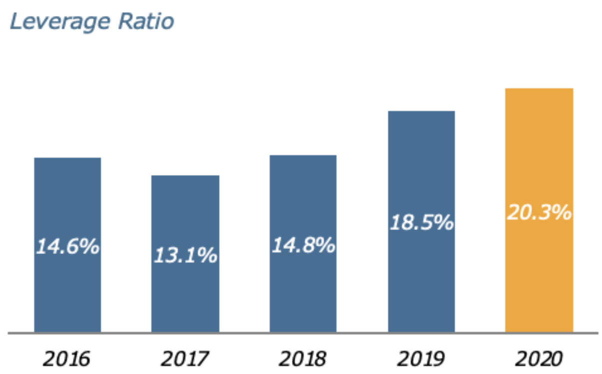




Meridian's Capital and Risk Weighted Capital ratios increased to 6.3% and 13.5%, respectively, in 2020 due to increases in Capital through a subordinated debenture, as well as slower Retail and Commercial Lending due to the pandemic.

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

Meridian's liquid asset ratio increased to 14.5% during 2020 from 9.9% a year earlier due to large increases to cash and investments. The increase in the liquidity ratio was achieved through CMHC's IMPP as previously noted, coupled with Members holding more cash, further improving our liquidity ratio. Higher liquidity was held earlier in the pandemic to mitigate against further economic shocks.



Meridian's leverage ratio, which is total funding coming from external sources as a percentage of total on-book assets, increased to 20.3% from 18.5% in 2019, resulting from increased funding due to securitization which also provided a lower cost of funding and increased capital efficiency. The increase in these ratios was a conscious decision by the business as we look to diversify funding by source, strengthen our liquidity base and lower overall cost of funding. All regulatory ratios remain well within our risk appetite target ranges and far exceed regulatory minimums.

2020 Financial Performance Review

CONSOLIDATED INCOME STATEMENT For the year ended December 31, 2020	2020 Consolidated	2019 Consolidated
Net Interest Income	342,300	326,594
Less: Provision for credit losses	73,792	19,967
Fees and Other Income	94,870	93,138
Securitization Income	3,605	-
Net gain (loss) on financial instruments	(10,527)	479
Total Non-Interest Income	87,948	93,617
Operating Margin	356,456	400,244
NON-INTEREST EXPENSES		
Salaries and employee benefits	179,063	182,325
Administration	75,157	87,043
Occupancy	9,837	10,452
Amortization of intangible assets	6,558	7,243
Depreciation	18,640	19,181
Total non-interest expenses	289,255	306,244
Pre-Tax Earnings	67,201	94,000
Income tax expense	6,820	12,508
Profits attributable to Members	$ 60,381	$ 81,492

Total Revenue

Total revenue, which consists of net interest income and non-interest income before PCL, rose $10.0 million to $430.2 million in 2020. The increase was largely driven by growth in relationships with Members in both the Credit Union and motusbank. Increased net interest income was generated from growth in residential mortgages to Members partly offset by the increase in lower yielding liquid assets held to mitigate risk due to the uncertainty during the pandemic. Non-Interest income decreased $5.7 million due to $10.5 million of losses in financial instruments driven by steep interest rate drops. The $10.5 million loss includes $11.6 million of unrealized losses and $1.1 million of realized gains. Without these losses Non-Interest income increased $4.8 million due to an investment in Multi-Unit Residential mortgages providing a $3.6 million upfront gain.

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 $342.3 million, an increase of $15.7 million or 5% over 2019. Interest income on assets increased $27.7 million, while interest expense on liabilities increased $12.0 million.

Net interest margin is the ratio of net interest income to average total assets, expressed as a percentage. In 2020, net interest margin was 1.56%, which is a decrease of 13 basis points from 2019. A combination of factors, including a steep drop in interest rates, along with a higher proportion of lower yielding liquid assets contributed to the decline. Growth in net interest margin remains challenged by a low 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 our OneCap leasing portfolio and DriveON should improve this ratio in the coming years.

Meridian's average total assets increased $2.6 billion or 13% in 2020, due primarily to growth in our liquid assets (cash and equivalents) to insure against the uncertainty from COVID-19 and ensure financial strength in case of any further economic volatility.

Average loan balance growth increased $1.5 billion or 9% in 2020, while the interest revenue associated with these loans increased 5%. Lending growth has outpaced loan revenue growth as continued competitive pressure and lower yielding liquid assets adversely impact margins.

2020 Financial Performance Review (continued)

Meridian's asset growth is funded through a mix of organic and inorganic sources. Growth in average deposit balances was $1.3 billion or 9% over 2019. The remaining asset growth was almost entirely supported through securitization.

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 instrument.

Over the course of 2020, 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 these interest rate swaps are reflected in the profit and loss.

	Net interest income ($ millions)		Change	Average assets and liabilities ($ millions)		Change	Net interest margin (in basis points)		
	2020	2019	%	2020	2019	%	2020	2019	Change
Cash and cash equivalents	6.5	7.6	(14.3)	1,094.4	492.1	122.4	59.4	154.2	(94.8)
Investments	25.8	21.4	20.7	1,767.0	1,310.3	34.9	146.0	163.1	(17.1)
Loans	249.5	250.5	(0.4)	4,960.5	4,677.9	6.0	503.0	535.5	(32.6)
Lines of credit	67.6	71.0	(4.7)	1,617.0	1,494.1	8.2	418.1	475.0	(56.9)
Mortgages	322.6	290.1	11.2	11,062.7	9,953.1	11.1	291.6	291.4	0.2
Finance Receivables	59.2	63.0	(6.0)	1,124.4	1,173.9	(4.2)	526.5	536.7	(10.2)
Other assets				380.5	328.3	15.9			
Interest income / total assets	731.2	703.5	3.9	22,006.5	19,429.7	13.3	332.3	362.1	(29.8)
Demands	41.7	79.2	(47.3)	7,494.7	6,837.4	9.6	55.6	115.8	(60.2)
Fixed terms	218.2	204.1	6.9	7,829.1	7,171.7	9.2	278.7	284.6	(5.9)
Borrowings	116.1	93.5	24.2	5,137.6	4,108.6	25.0	226.0	227.6	(1.6)
Subordinated debt	6.8	0.1	6,700.0	112.5	24.9	351.1	604.2	40.1	564.1
Other liabilities	6.1	0.0	0.0	272.7	170.5	59.9	223.7	0.0	223.7
Interest expense / total liabilities	388.9	376.9	3.2	20,846.6	18,313.1	13.8	186.6	205.8	(19.3)
Members' equity				1,159.8	1,116.6	3.9			
Total liabilities and Members' equity	388.9	376.9	3.2	22,006.5	19,429.7	13.3	176.7	194.0	(17.3)
Total	342.3	326.6	4.8				155.5	168.1	(12.5)

Provision for Credit Losses

PCL are measured in accordance with IFRS 9 Financial Instruments, using a three-stage impairment model. Relevant exposures within the scope of the IFRS 9 impairment model for Meridian include Loans, Finance Receivables, as well as off-balance sheet exposures, including loan commitments and letters of credit. For a more detailed discussion of the models used, refer to Notes 3.8 and 34.1 of the Consolidated Financial Statements.

PCL comprises write-offs, expected losses on specifically identified accounts (stage 3 expense) as well as losses expected but not yet identified (stage 1 and 2 expense). There was a significant increase in PCL for 2020 due to higher losses expected as a result of the COVID-19 pandemic and related policies resulting in restrictions on economic activity. Large-scale financial support provided by governments as well as payment relief offered by financial institutions, including Meridian and its subsidiaries, has mitigated some losses. However, it is anticipated that higher than usual losses will begin to materialize once some of these supports are removed. As such, the largest driver of PCL in 2020 was stage 1 and 2 expense for losses not yet specifically identified. Due to the number of variables involved and the high degree of uncertainty associated with each, the estimation of expected but not yet identified credit losses was an area of significant judgment in 2020. Additional criteria and metrics were overlaid onto standard credit models in order to better reflect the anticipated effects of the pandemic. This augmented approach was informed by the judgment and expertise of management with the information available at the reporting date.

The PCL was $73.8 million in 2020, compared to $20.0 million in 2019. The PCL for the Commercial loan portfolio was $47.3 million ($4.3 million in 2019). A $3.8 million PCL was attributable to the Retail loan portfolio ($6.5 million in 2019) and a $22.7 million PCL ($9.2 million in 2019) 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 $47.3 million expense on the Commercial portfolio, $16.6 million related to stage 3 expense on new or adjustments to historical impairments ($1.2 million in 2019). A further $30.7 million of Commercial expense related to stage 1 and 2 provisions for expected but not yet identified credit losses ($3.1 million in 2019). Finance receivables losses are comprised of a larger number of small and medium-sized amounts. The Finance Receivables PCL was comprised of $8.7 million related to stage 3 expense on impaired accounts ($8.9 million in 2019) and $14.0 million related to an increase in stage 1 and 2 allowance for expected but not yet identified losses ($0.3 million in 2019). Retail losses are comprised of a large number of small accounts. The Retail PCL was driven by $2.4 million in stage 3 provisions for specific losses ($3.7 million in 2019) and $1.4 million in stage 1 and 2 provisions for expected but not yet identified losses ($2.8 million in 2019). Historically, a significant driver of stage 1 and 2 expense has been growth, as PCL are required on all new loans at initial recognition. Lower growth over 2020 has in some cases offset the PCL impact of the higher risk environment.

The allowance coverage ratio, Expected Credit Losses ("ECL") as a percentage of total loans, was 0.61% in 2020, representing a 0.32% increase from 2019 (0.29%). The majority of the increase in allowance coverage came from the Commercial and Finance Receivables portfolios, which had 2020 allowance coverage ratios of 1.29% and 2.62%, respectively (2019: 0.48% and 1.29%). Commercial and Finance Receivables lending are higher credit risk areas for the Credit Union. Together they represent 35% of total loans but 88% of the total allowance for ECL.

The allowance coverage ratio on Retail lending stayed flat at 0.11%. The impact to the allowance coverage ratio of higher expected losses on unsecured retail lending was offset by a larger component of 2020 growth coming from lower risk mortgage products.

Credit Portfolio Quality

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

The gross impaired loans and finance receivables balance is $117.7 million ($86.5 million in 2019) and represents 0.62% of the total loan and finance receivable portfolio (0.47% in 2019). The total allowance for expected credit losses on loans and finance receivables, at $115.5 million, was $61.7 million higher than the prior year. The increase was due mainly to higher stage 1 and 2 allowances for expected losses due to the COVID-19 pandemic, but not yet specifically identified. The $115.5 million allowance for expected credit losses includes $87.3 million attributable to stage 1 and 2 and $30.4 million attributable to stage 3. The allowance for expected credit losses as a ratio to total loans and finance receivables was 0.61% in 2020, of which 0.15% represented the stage 3 allowance and 0.46% was the stage 1 and 2 allowances.

2020 Financial Performance Review (continued)

Asset quality coverage - loans and finance receivables

($ millions)	2020	2019
Total Loans	19,018.2	18,519.1
Gross Impaired Loans "GIL"	117.7	86.5
Allowance for Expected Credit Losses	115.5	53.8
Provision for Credit Losses	73.8	20.0
GIL as % of total loans	0.62%	0.47%
GIL as % of Members equity	10.11%	7.49%
Allowance as % of total loans	0.61%	0.29%
PCL as % of total loans	0.39%	0.11%
Commercial loans:		
% Better than average	20.55%	27.46%
% Average	42.69%	48.47%
	63.24%	75.93%

A risk rating system is used to assess and monitor the risk profile of the Commercial loan portfolio. The model is based on an in-depth assessment of the borrower's risk of default, which is measured by industry, business, management and financial risk factors, along with the risk of loss given default. The risk of loss given default is based on an assessment of security composition and relative historical recovery experience. The Commercial loan portfolio, stratified by risk rating ranging from "very low" to "impaired" is reviewed monthly. The proportion of Commercial loans rated "better than average" or "average" has declined somewhat from 2019 as a result of re-ratings incorporating additional COVID-related risks. In 2019, these categories made up 75.9% of the portfolio, but this declined to 63.2% in 2020, with "higher than average" risk now representing a larger component of the portfolio than "better than average". In addition, a comprehensive Early Warning System allows for timely identification of accounts that require follow-up and additional attention through the adjudication process or an increase in risk rating to Watchlist status, with the objective of correcting issues that may otherwise result in future impairment of the account.

Meridian continues to promote all government funding programs aimed to help Canadians navigate through the economic challenges brought by the COVID-19 pandemic. The pace of the economic recovery has been steady but slowing and uneven across various industries, with some sectors recovering more quickly than others. Meridian has provided tailored payment deferral options for various lending products to those Members most directly impacted by the COVID-related economic challenges across all lines of business, including Retail, Small Business, Commercial, Finance Receivables and Credit Cards. The vast majority of facilities that required deferrals have returned to regularly scheduled payments, with minimal subsequent delinquency arising. The credit quality of the portfolio continues to be actively monitored using a wide array of tools and techniques, with real-time insights and sound financial advice provided to Members to help them maintain their financial wellbeing.

Non-Interest Income

Total non-interest income decreased by $5.7 million or -6% to $87.9 million in 2020. OneCap contributed $13.2 million and motusbank contributed $0.3 million to non-interest income.

Total fees and other income rose by $1.7 million to $94.8 million in 2020. Mutual fund revenue accounted for $0.9 million of the increase, growing by 4% to $22.7 million. Mutual fund revenue increase is driven by the growth in Wealth balances due to strong market appreciation and sales during the year reflecting an increase in Meridian's Wealth management salesforce.

Loan servicing fees grew by $1.6 million or 7% to $24.7 million driven by Commercial lending. During 2020, our Commercial loan portfolio grew $243.2 million, an increase of 4% over 2019.

Insurance commissions fell by $2.1 million to $6.9 million due to lower life insurance sales in Meridian and decreased insurance commissions on leases through OneCap. These decreases reflect the slower lending growth experienced in 2020 due to the pandemic.

Foreign exchange income decreased by $0.9 million to $4.7 million. This was influenced by travel restrictions as a result of COVID-19 mitigation measures.

Dividend income increased $2.4 million due to an increased payment from Central 1.

Credit Card revenue grew by $0.1 million or 4% to $2.5 million driven by growth in the number of Meridian Visa cards outstanding.

Other income increased $0.2 million to $9.0 million driven by other fee-based income from the OneCap leasing business.

The $10.5 million of losses in financial instruments is from the dramatic rate fall in 2020 driven by interest rate cuts and quantitative easing undertaken by central banks. The majority of our cash flow hedges are pay fixed swaps which fall in value as interest rates fall. The derivative portfolio is positioned to protect funding costs over future years from a rising rate environment. Management utilizes hedge accounting to limit the income volatility caused by short-term movements in bond and swap yields. The $10.5 million in losses include $11.6 million in unrealized losses, slightly offset by $1.1 million in realized gains.

A new initiative was undertaken in 2020 to purchase a pool of multi-unit residential mortgages realizing an upfront gain on sale of $3.6 million in securitization income.

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

Non-Interest Income

($ millions)	2020	2019	% Change
Service fees	18.9	19.0	-0.5%
Mutual fund revenue	22.7	21.8	4.1%
Loan servicing fees	24.7	23.1	6.9%
Insurance commissions	6.9	9.0	-23.3%
Foreign exchange	4.7	5.6	-16.1%
Dividend Income	4.2	1.8	133.3%
Interac revenue	1.2	1.6	-25.0%
Credit card revenue	2.5	2.4	4.2%
Other	9.0	8.8	2.3%
Total Fees & Other Income	94.8	93.1	1.8%
Gain/(Loss) on Financial Instruments	(10.5)	0.5	-2200.0%
Securitization Income	3.6	0.0	0.0%
Total Non-Interest Income	87.9	93.6	-6.1%

Non-Interest Expenses

Non-interest expenses fell to $289.3 million in 2020, from $306.2 million in 2019. The 6% decrease in expenses was mainly associated with marketing and travel spend.

Personnel expenses, which include all employee salaries, benefits and incentive compensation, accounted for 19% of the decrease in expenses. Lower personnel expenses are driven by lower variable incentive and benefit expenses. Benefits savings resulted from closures and social distancing measures imposed to mitigate the impact of COVID-19, including the shutdown of business, reducing the employee ability to take advantage of their full suite of benefits. Variable incentive pay decreased in alignment with financial performance. Salary expenses increased $6.5 million or 5% to $136.3 million in 2020 to support our existing delivery network to ensure our Members receive a truly unique and personalized experience. Additionally, Meridian paid front-line employees a service excellence bonus premium during the COVID-19 lockdowns. However, furlough strategies were implemented to address reduced relationship growth as well as to support employees who required temporary leaves of absence due to the pandemic.

General operating expenses decreased 30% or $6.2 million. Lower travel and business development expenses due to the pandemic, drove these savings. Occupancy costs decreased by $0.7 million to $9.8 million due to lower rental and building maintenance expenses, as some branches were temporarily closed during the lockdowns.

Marketing expense decreased by $6.3 million to $7.1 million. This is driven by less direct marketing costs with less spend on marketing agencies and online, radio and other forms of marketing. Marketing expense includes our Community Investment initiatives, with which we invest to develop and run digital and local programs that bring life to Meridian's longstanding Commitment to Communities. Our commitment to the community continued and investment in these programs increased $0.3 million. These programs build our brand by making a bold community impact while engaging and empowering our employees, Members and future Members.

Transaction services increased nominally by $0.2 million to $17.5 million due to our Credit Card base and associated administrative costs. Depreciation decreased $0.6 million to $18.6 million, as some hardware costs were no longer depreciating in 2020.

Software and hardware expenses increased marginally by $0.3 million to $11.7 million. This increase is due to our growing workforce, requiring more software, hardware and associated licensing costs to ensure we can deliver our unique and personalized experience consistently to our Members.

Deposit insurance increased $1.8 million to $12.2 million. This is driven mainly by the increase in deposit balances. Amortization decreased $0.6 million to $6.6 million. This is due to decreased OneCap amortized broker and vendor relations, which have steadily decreased since we acquired OneCap in 2016.

2020 Financial Performance Review (continued)

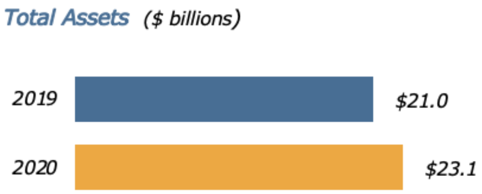
Meridian's investment in strategic initiatives decreased $1.8 million to $2.1 million. The decrease is related to management tactics to temporarily pause some initiatives during the year to help mitigate the negative impacts of the pandemic. This was only temporary and is not expected to carry on in 2021, as investments continue to support Meridian's strategic imperatives and enable us to achieve long-term sustainability. 2020 initiatives included enhancement of our lending processes and technology, a fully encompassing Human Resource system, and numerous innovative product and service designs supporting our strategic imperative of delivering a differentiated Member experience.

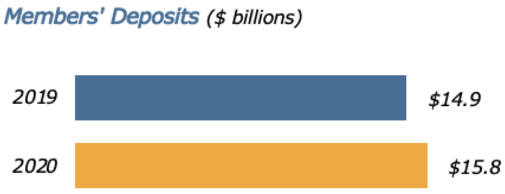
Non-Interest Expense

($ millions)	2020	2019	% Change
Salaries and Benefits	179.1	182.3	-1.8%
Salaries	136.3	129.8	5.0%
Benefits	29.8	32.5	-8.3%
Variable Incentive	12.9	20.0	-35.5%
General	14.4	20.6	-30.1%
Occupancy	9.8	10.5	-6.7%
Marketing	7.1	13.4	-47.0%
Transaction Services	17.5	17.3	1.2%
Depreciation	18.6	19.2	-3.1%
Software and Hardware	11.7	11.4	2.6%
Deposit Insurance	12.2	10.4	17.3%
Amortization	6.6	7.2	-8.3%
Human Resources	2.2	2.9	-24.1%
Other Expenses	10.1	11.0	-8.2%
Total	289.3	306.2	-5.5%

Financial Conditions Review

Balance Sheet Summary

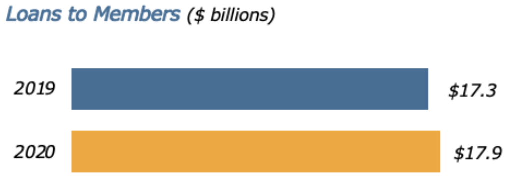




Meridian's total assets grew by 10% to $23.1 billion in 2020, an increase of $2.1 billion over the previous year.

The $2.1 billion increase in total assets was mainly driven by an increase in liquid investments. These are used to safeguard in the case of further external shocks, and ample reserves are in place. The remainder of the increase is in our loans to Members as we focused on supporting the needs of our Members throughout the turbulent times.

Loans grew by 3% or $0.6 billion to $17.9 billion. Residential mortgages accounted for 82% of this growth and Commercial loans accounted for 42%. This was offset by a 16% decrease in personal loans and an 8% increase in our ECL (reported as a reduction of assets).



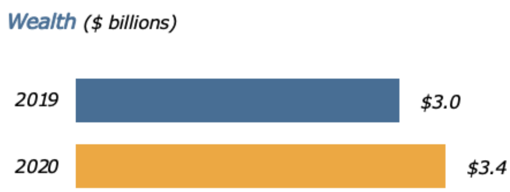
Residential mortgages increased by $0.5 billion or 5% growth over 2019. Growth was generated across all channels, including the branch network, digital lending platform, mobile mortgage specialists and mortgage brokers. In the face of uncertain times Meridian was still able to grow and continue to help our Members.

Deposits grew by 6% or $0.9 billion to $15.8 billion in 2020.

Growth in demand deposits was the driver of deposit growth. There was a shift from term to demand deposit growth as many Members are holding onto cash through uncertain times. The shift in deposit preference has helped us realize savings in our interest expense. Tax Free Savings Accounts ("TFSAs") continued to perform well in 2020, with balances growing by 8% or $112.8 million to $1.5 billion.

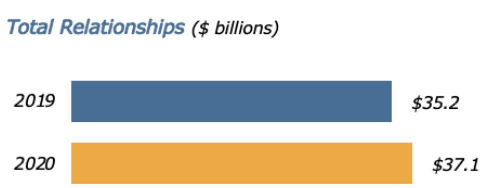
Other than deposits, Meridian's most significant change in liabilities was due to mortgage securitizations, which increased by 45% or $1.4 billion.

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



Meridian's wealth portfolio experienced strong growth in 2020 growing $0.4 billion or 14% over 2019. $227.4 million or 53% of this growth is due to net sales, an increase of $44.2 million over 2019. The is attributable to our growing sales force and increased sale penetration. $204.9 million or 47% of this growth is due to increased market value of Members' investments. There were many global uncertainties and the markets demonstrated volatility and fluctuated greatly during the year; however, 2020 saw strong growth in the North American markets by year-end.

Overall, the total Member relationships managed by Meridian, which includes lending, deposits and wealth, grew by 5% or $1.9 billion to $37.1 billion in 2020.



Notwithstanding the high level of uncertainty and challenges in 2020, Meridian was still able to grow relationships across all channels. This growth allows Meridian to extend its value proposition to a larger number of Canadians.

Liquidity Review

Managing liquidity and funding risk is critical to ensure the stability and soundness of Meridian, depositor confidence and earnings. Meridian's policies and procedures ensure Meridian holds sufficient liquid assets on the balance sheet and has contingent funding capacity to meet financial commitments in times of stress. As of December 31, 2020, Meridian's liquid asset ratio was 14.5%, compared to 9.9% at the end of 2019, well above the minimum requirement established by the Board. Meridian prudently enhanced its liquidity position throughout 2020 to mitigate potential risks arising from the ongoing COVID-19 pandemic.

Meridian maintains a sensible and disciplined approach to managing liquidity risk. Meridian targets a survival horizon, appropriately based on current economic and financial conditions, under a combined Meridian-specific and market-wide stress scenario, and maintains a minimum buffer over regulatory requirements prescribed by the FSRA Liquidity Guidelines. Under the Liquidity Guidelines, Ontario Credit Unions are required to maintain a Liquidity Coverage Ratio ("LCR"), which is the ratio of net cash outflows over a 30-day period calculated using the prescribed liquidity stress scenario to high quality liquid assets held, at a minimum of 100%. As of December 31, 2020, Meridian's Liquidity Coverage Ratio was 468%, compared to 165% at the end of 2019. Meridian monitors and reports no less frequently than monthly our regulatory liquidity metrics to FSRA.

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

Liquidity Review (continued)

Meridian regularly securitizes insured residential mortgages by participating in government sponsored securitization programs to enhance its liquidity position and diversify sources of funding. Meridian successfully took advantage of the government sponsored Insured Mortgage Purchase Program ("IMPP") to strengthen its liquidity position through securitized funding in 2020. The Credit Union's total funding raised through securitization during 2020 was $2,586 million (2019 - $1,107 million), sold either to third-party investors or to the Canada Mortgage and Housing Corporation sponsored Canada Mortgage Bond program.

Meridian OneCap Credit Corporation ("OneCap") is a wholly owned subsidiary of Meridian Credit Union ("MCU"). OneCap established Meridian OneCap Limited Partnership ("LP") to purchase equipment leases and loan assets originated by the OneCap team. The LP is a master trust, a structure designed to provide OneCap with maximum flexibility and to ensure sustainable funding to support OneCap's long-term growth.

The LP currently issues Asset Backed Notes to finance the purchase of lease assets from OneCap. OneCap maintains a one-year committed credit facility, which is funded by Class A and Class B notes. In 2020, OneCap reduced securitization balances outstanding to third-party investors by $109 million, to a year-ending balance of $954 million.

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

Capital Management

Overview

Meridian is committed to a disciplined approach to capital management and 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 ongoing economic stability as well as finance new growth opportunities.

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

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

Managing and Monitoring Capital

Meridian has a comprehensive risk management framework to ensure that the risks taken while conducting business activities are consistent with its risk appetite. In managing our capital position, close attention is paid to the cost and availability of the types of capital, desired leverage, changes in both assets and risk weighted assets, and the opportunities to profitably deploy capital. Capital 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 regulatory 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 6.3% as of December 31, 2020, compared to 5.9% at the end of 2019 and in excess of the 4.0% stipulated in the Act.

Capital Review (continued)

Meridian's risk weighted capital adequacy ratio was 13.5% at the end of 2020, up from 11.7% at the end of 2019, 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 Tier1 capital. In order to maintain an appropriate level of conservatism, our internal capital management philosophy is to keep our Tier1 capital as a percentage of total capital greater than 60%. As of year-end, 76.5% of Meridian's capital base consisted of Tier1 capital, lower compared to 2019 due to Meridian issuing $125 million in subordinated debt in the year but still well in excess of internal and provincial minimums.The subordinated debt raise provides Meridian with more safeguards to external shocks and helps to improve our Capital ratios.

Internal Capital Adequacy Assessment Process

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

Risk Management

Effective risk management is critical to the attainment of the strategic imperatives of Meridian. Meridian has built a strong overall risk culture that empowers all employees to be engaged in the identification and management of risk within its risk appetite. The Board of Directors and all employees are responsible 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 based 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 FSRA's By-Law No. 5, Standards of Sound Business and Financial Practices, and gives consideration to guidance provided by other relevant regulatory bodies and industry best practices.

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

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.

Risk Management (continued)

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

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

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

Strategic Risk

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

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

Operational Risk

Operational Risk is the risk that Meridian's processes, technology or people fail to deliver the required results. This can include responding to external events including legal or regulatory actions. Meridian has a number of programs that manage specific risks under the Operational Risk umbrella, including people-related risks, criminal risks (fraud, money laundering), physical and information security risks, 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.

2021 Outlook

The economic outlook for 2021 and beyond is highly uncertain, but the consensus among economists is for growth to return in 2021 as the pandemic comes under control with the widespread distribution of vaccines. The timing of this growth will be contingent on the roll-out of those vaccines and production and distribution delays are pushing the outlook for growth further out every day. It is currently expected growth in the first quarter of 2021 will be negative and if vaccines are further delayed, growth may also be negative in Q2, but expectations are that by Q3 and Q4, pent-up demand will drive the economy.

In Canada, the low interest rate environment is the main driver of growth and the Bank of Canada has signalled that they expect to hold the overnight rate steady at 0.25% until 2023. Consensus expectation among economists and observers of the Bank of Canada is that pent-up consumer demand will propel economic growth as vaccinations are distributed locally and globally. This upside risk is balanced by potential future waves of the pandemic, as new variants that have recently appeared could be more resistant to the immunizations.

Taken all together, the Conference Board of Canada forecasts growth of 5.3% in 2021 and 3.5% in 2022. This follows a contraction of the economy in 2020 of 5.3%. Looking specifically at the Ontario economy, the economy contracted 6.5% in 2020, but is projected to grow 4.9% in 2021 and 3.5% in 2022.

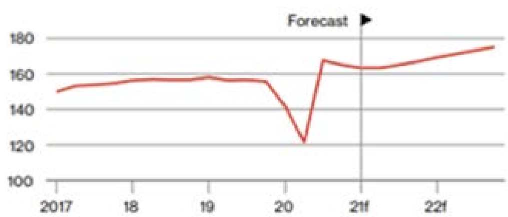
The post-pandemic recovery will also be inconsistent across different sectors of the economy. Many industries will not recover until well into 2021 or beyond, when the risks from the coronavirus will have dissipated and borders will have re-opened.

According to the Conference Board of Canada, aggregate household savings went from $18 billion in 2019 to over $200 billion by the end of 2020. Projections suggest that household savings will remain at $113 billion in 2021 and only begin to taper off to pre-pandemic levels after 2023 (presuming savings habits don't permanently change). As these savings are spent on goods and services, a consumer-driven stimulus to the economy could overheat certain sectors.

Chart 8

Pent-up demand drove strong rebound in household spending

(real household spending on durable goods, 2012 $ billions)

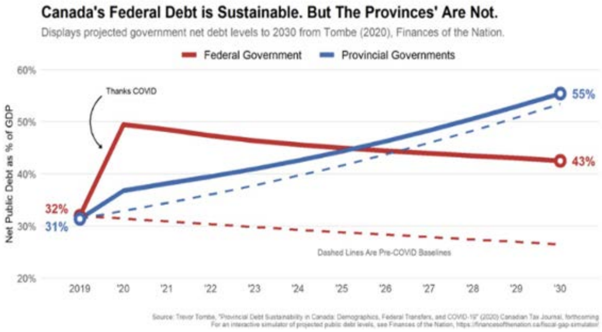


f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Housing starts rose to 237,000 units in the third quarter of 2020, the highest since 2007. The Conference Board predicts a modest pull-back from these levels in 2021 with 210,700 units started this year and a similar number for 2022. Canada's average existing house price rose by almost 18% in the third quarter of 2020, following a 5% drop in the first few months of the pandemic. Projections for 2021 are for an increase, and then a slight pull-back in housing prices in 2022.

2021 Outlook (continued)



Pre-pandemic, immigration to Canada was expected to be in the range of 350,000–360,000 new immigrants and permanent residents. The Government of Canada has increased these targets for the next few years to 401,000 in 2021, 411,000 in 2022 and 421,000 in 2023. This will add 1.2 million newcomers to Canada in the next three years (equivalent to 1% of the Canadian population) and be a major fuel for the economy, especially if targets for highly skilled immigrants are met. In early 2021, some of these ambitious targets are hard to meet because of international travel restrictions but, presuming those restrictions ease by Q2 of this year, immigration will become a key driver of the economy for the coming few years.

Meridian anticipates growth in relationships, albeit hampered slightly from the pandemic, to result in increased revenues. Pre-tax earnings growth continues to help support investment in strategic initiatives and maintain a strong capital base.

As motusbank continues to mature, it is expected to continue to extend Meridian's value proposition through increased membership and relationship growth on a national level. Increasing volumes allows this start-up business to scale in order to build a sustainable revenue base that leverages Meridian's infrastructure, which ultimately supports Meridian's strategic growth. A continued focus on structural cost optimization will help increase earnings, efficiencies and, in turn, our ability to reinvest back into the business to help bring our value proposition to more Canadians.

Meridian is strategically positioning the balance sheet in 2021 by holding high levels of liquid assets which will be constantly reviewed to see if they can be deployed in an efficient manner. The increase in liquidity protects Meridian's balance sheet from potential further market events while optimizing new funding sources as we capitalize on Meridian's position in the Canadian financial system.

Capital is essential to allow Meridian to continue to invest strategically to support Members' future needs. Management is committed to implementing strategies to maintain capital levels that are financially sound and will employ long-term strategies to further strengthen Meridian's capital base.

Consolidated Financial Statements of

MERIDIAN CREDIT UNION LIMITED

Year ended December 31, 2020

MERIDIAN CREDIT UNION LIMITED
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

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, 2020 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, 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 10, 2021

MERIDIAN CREDIT UNION LIMITED
CONSOLIDATED BALANCE SHEET
As at December 31, 2020 with comparative figures for 2019

(thousands of Canadian dollars)	Note	December 31 2020	December 31 2019
ASSETS			
Cash and cash equivalents	5	$ 1,612,807	$ 575,906
Receivables	6	8,681	6,882
Current income tax receivable		3,354	3,088
Investments in debt instruments	7	1,935,044	1,400,098
Investments in equity instruments	8	114,268	84,517
Loans	9	17,930,439	17,349,909
Finance receivables, net	10	1,079,610	1,169,165
Derivative financial assets	11	14,950	32,012
Intangible assets	12	26,422	31,749
Goodwill	13	73,232	73,232
Property, plant and equipment	14	35,449	43,694
Deferred income tax assets	16	67,557	48,707
Right-of-use assets	15	67,025	82,033
Other assets	17	83,949	59,122
Total assets		$ 23,052,787	$ 20,960,114
LIABILITIES			
Deposits	18	$ 15,778,023	$ 14,869,498
Borrowings	19	300,279	300,444
Lease liabilities	15	72,715	85,594
Payables and other liabilities	20	160,487	73,664
Current income tax payable		99	6,381
Secured borrowings	21	955,380	1,359,020
Mortgage securitization liabilities	22	4,358,412	3,001,663
Derivative financial liabilities	11	48,634	10,063
Pension and other employee obligations	23	39,233	48,580
Membership shares	25	388	376
Subordinated debt	24	175,200	49,895
Total liabilities		21,888,850	19,805,178
MEMBERS' EQUITY			
Members' capital accounts	25	599,494	579,566
Contributed surplus		104,761	104,761
Retained earnings		492,687	456,781
Accumulated other comprehensive income		(33,005)	13,828
Total equity attributable to Members		1,163,937	1,154,936
Total liabilities and Members' equity		$ 23,052,787	$ 20,960,114

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, 2020 with comparative figures for 2019

(thousands of Canadian dollars)	Note	2020	2019
INTEREST INCOME			
Interest income - loans		$ 639,658	$ 611,537
Interest income - other		91,545	91,976
Total interest income		731,203	703,513
INTEREST EXPENSE			
Interest expense - deposits		266,001	283,329
Interest expense - other		122,902	93,590
Total interest expense		388,903	376,919
Net interest income	**26**	342,300	326,594
Provision for credit losses	**9, 10**	73,792	19,967
Net interest income after provision for credit losses		268,508	306,627
Fees and other income	**27**	94,870	93,138
Securitization income	**28**	3,605	-
Net gain (loss) on financial instruments	**29**	(10,527)	479
Net interest and non-interest income		356,456	400,244
NON-INTEREST EXPENSES			
Salaries and employee benefits	**23**	179,063	182,325
Administration		75,157	87,043
Occupancy		9,837	10,452
Amortization of intangible assets	**12**	6,558	7,243
Depreciation of property, plant and equipment	**14**	10,304	11,132
Depreciation, right-of-use assets	**15**	8,336	8,049
Total non-interest expenses		289,255	306,244
Operating earnings		67,201	94,000
Income tax expense	**30**	6,820	12,508
Profits for the year attributable to Members		$ 60,381	$ 81,492

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, 2020 with comparative figures for 2019

(thousands of Canadian dollars)	Note		2020		2019
Profits for the year attributable to Members		$	60,381	$	81,492
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified to profit or loss					
Actuarial losses in defined benefit pension plans	**23**		(816)		(1,251)
Unrealized gains on equity instruments designated as FVTOCI			435		-
Related income tax recovery	**30**		53		232
			(328)		(1,019)
Items that may be subsequently reclassified to profit or loss					
Cash flow hedges - effective portion of changes in fair value	**11**		(58,476)		4,772
Cash flow hedges - reclassified to profit or loss	**11**		(1,193)		(2,983)
Unrealized gains on debt instruments designated as FVTOCI			46		-
Related income tax recovery	**11, 30**		12,450		93
			(47,173)		1,882
Other comprehensive income (loss) for the year, net of income taxes			(47,501)		863
Total comprehensive income for the year attributable to Members		$	12,880	$	82,355

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, 2020 with comparative figures for 2019

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

(thousands of Canadian dollars)	Note	Members' capital	Contributed surplus	Retained earnings	Fair value reserve	Hedging reserves	Total equity
Balance as at January 1, 2019		$ 561,507	$ 104,761	$ 399,246	$ -	$ 11,946	$ 1,077,460
Dividends on Members' capital accounts	25	-	-	(22,938)	-	-	(22,938)
Shares issued to Members net of redemptions	25	(1,245)	-	-	-	-	(1,245)
Shares issued as dividends	25	19,304	-	-	-	-	19,304
Transactions with owners		18,059	-	(22,938)	-	-	(4,879)
Profits for the year attributable to Members		-	-	81,492	-	-	81,492
Other comprehensive income for the year, net of income taxes:							
Actuarial losses in defined benefit pension plans	23	-	-	(1,019)	-	-	(1,019)
Cash flow hedges - effective portion of changes in fair value		-	-	-	-	5,020	5,020
Cash flow hedges - reclassified to profit or loss	11	-	-	-	-	(3,138)	(3,138)
Total comprehensive income for the year attributable to Members		-	-	80,473	-	1,882	82,355
Balance as at December 31, 2019		$ 579,566	$ 104,761	$ 456,781	$ -	$ 13,828	$ 1,154,936

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, 2020 with comparative figures for 2019

(thousands of Canadian dollars)	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		$ 737,977	$ 717,587
Interest paid		(403,944)	(345,329)
Fee and commission receipts		65,815	70,118
Other income received		12,965	12,401
Premiums paid on index-linked option contracts		(2,106)	(2,806)
Recoveries on loans previously written off	9	564	373
Payments to employees and suppliers		(197,000)	(275,419)
Proceeds on settlement of derivatives		(14,953)	10,011
Income taxes paid		(19,641)	(17,648)
Net cash flows from operating activities before adjustments for changes in operating assets and liabilities		179,677	169,288
Adjustments for net changes in operating assets and liabilities:			
Net change in loans		(616,972)	(2,449,738)
Purchase of leasing equipment		(430,177)	(525,375)
Principal payments received on finance receivables		498,647	528,553
Net change in receivables		(937)	(2,635)
Net change in other assets and liabilities		(35,840)	(17,790)
Net change in deposits		929,781	1,680,577
Net cash flows from (used in) operating activities		524,179	(617,120)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net change in other investments		(438,388)	(395,861)
Dividend income		4,171	-
Purchase of intangible assets	12	(1,231)	(2,265)
Net change in right of use assets	15	1,135	(87,032)
Purchase of property, plant and equipment	14	(2,459)	(10,321)
Proceeds on sale of property, plant and equipment	14	210	44
Net cash flows used in investing activities		(436,562)	(495,435)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from securitization of mortgages		2,589,989	1,074,274
Net change in mortgage securitization liabilities		(1,352,282)	(454,670)
Net change in borrowings		(273)	300,887
Net change in subordinated debt		125,249	50,038
Net change in leases liabilities		(7,520)	82,890
Issuance of secured notes, net		(402,221)	231,488
Dividends paid on Members' capital accounts		(3,670)	(3,558)
Net cash from changes in Membership shares		12	26
Net change in Member capital accounts		-	(1,244)
Net cash flows from financing activities		949,284	1,280,131
Net increase in cash and cash equivalents		1,036,901	167,576
Cash and cash equivalents, beginning of year		575,906	408,330
Cash and cash equivalents, end of year [1]	5	$ 1,612,807	$ 575,906

[1] Cash and cash equivalents includes restricted funds in the amount of $28,193 (2019 – $22,985).

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

1 Nature of operations

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

The Credit Union is primarily involved in the raising of funds and the application of those funds in providing financial services to Members. The activities of the Credit Union are regulated by FSRA. The Credit Union has 89 branches and 15 business-banking centres across Ontario.

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

2 Basis of presentation

2.1 Statement of compliance

The consolidated financial statements of the Credit Union have been prepared in accordance with International Financial Reporting Standards ("IFRS") and legislation for Ontario's Credit Unions and Caisses Populaires. There were no modifications required by FSRA or OSFI to the preparation of the consolidated financial statements.

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

2.2 Use of estimates and judgments

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

Impact of COVID-19:

COVID-19 was declared a pandemic by the World Health Organization in March of 2020. Policies put in place by governments worldwide to contain the spread, including federal and provincial governments in Canada, resulted in a significant reduction in economic activity. These policies included the closure of non-essential businesses as well as restrictions on both international and domestic travel. In some cases, restrictions were lifted over the course of the year, allowing the resumption of some economic activity. However, certain sectors have seen sustained negative impacts, while others have seen restrictions reimposed as cases rose again towards the end of the year. The overall economy continues to operate below pre-pandemic levels across the jurisdictions in which Meridian and its subsidiaries operate. Although vaccines approved towards the end of the year provide an exit strategy from current restrictions, there is still uncertainty over the timing of large-scale immunization. As a result, the Credit Union continues to operate in an uncertain economic environment.

To assist Members and customers in dealing with the impact of COVID-19 related economic restrictions, the Credit Union and its subsidiaries have offered various types of payment relief. In some cases, the payment relief offered has resulted in accounting adjustments for loan modifications. Details on the types of payment relief offered as well as the impact of loan modifications are discussed in more detail in note 9 and note 10 for loan and finance receivable portfolios respectively. In addition to payment relief offered by the Credit Union and its subsidiaries, governments have also put in place new financial supports for individuals and businesses, some of which have been facilitated by financial institutions, including Meridian. The extent to which Meridian has participated in COVID-related government programs is discussed in more detail in note 9.

COVID-19 and the related economic uncertainty have also increased the level of judgment applied in several accounting estimates. Refer to details on the most significant new assumptions and judgments related to the estimation of allowances for expected credit losses later in this note as well as in note 34.1. Further information on estimates and assumptions used for the purposes of assessing goodwill impairment can be found in note 13.

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

2 Basis of presentation (continued)

2.2 Use of estimates and judgments (continued)

Classification of financial assets

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

Fair value of financial instruments

As described in note 34.4, 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 34.4 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments.

Allowance for expected credit losses on financial assets

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

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

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

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

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

The approach used for measuring allowances for ECL and the use of significant estimates and judgments is disclosed in more detail in note 34.1.

Impairment of non-financial assets

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

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

2 Basis of presentation (continued)

2.2 Use of estimates and judgments (continued)

Impairment of non-financial assets (continued)

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

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

Further details on impairment of intangible assets are disclosed in note 3.12 and note 12.

Recognition and derecognition of securitization arrangements

As part of its program of liquidity, capital and interest rate risk management, the Credit Union enters into arrangements to fund growth by entering into mortgage securitization arrangements. As a result of these transactions and depending on the nature of the arrangement, the Credit Union may be subject to the recognition of the funds received as secured borrowings and the continued recognition of the securitized assets. Conversely, other securitization arrangements may meet the criteria for derecognition. Judgment is required in determining the requirements for continued recognition or derecognition of financial assets under such arrangements.

Further details of securitization arrangements are disclosed in note 22.

Deferred income taxes

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

Further details on deferred income taxes are included in note 3.16 and note 16.

Retirement benefit obligations

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

Note 23 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.

Valuation of right-of-use assets and lease liabilities

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

Further details on leased assets and liabilities are included in note 3.13 and note 15.

2 Basis of presentation (continued)

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 33 contains additional information disclosed to support regulatory compliance.

3 Summary of significant accounting policies

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

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

3.1 Basis of consolidation

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

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

3.2 Business combinations

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

3.3 Foreign currency translation

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

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

3.4 Financial instruments

Classification and measurement of financial assets

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

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

3 Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

(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. For example, the Credit Union's business model for residential mortgages is to collect the associated contractual cash flows.

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

Amortized cost:
Where a debt instrument is managed in a business model where returns are generated through the collection of contractual cash flows which represent SPPI, it is measured at amortized cost. Debt instruments carried at amortized cost are recorded at fair value at initial recognition less an allowance for ECL. Interest income is recognized using the effective interest rate method and is recorded in total interest income. Impairment losses are recognized in profit or loss at each balance sheet date in accordance with the three-stage impairment model outlined in note 3.8. Upon derecognition of financial assets 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, loans and some investments in debt instruments as amortized cost.

FVTPL:
Where a debt instrument is managed in a business model that is held for trading or its cash flows do not represent SPPI, it is 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 interest recognized using the effective interest rate method or the re-measurement of ECL, both of which are recognized in profit or loss. Impairment losses are recognized in profit or loss in accordance with the three-stage impairment model outlined in note 3.8. Upon derecognition of debt instruments carried at FVTOCI, cumulative fair value movements recognized in OCI are recycled to profit or loss. The Credit Union has a portfolio of debt instruments which are measured at FVTOCI.

(b) Equity instruments

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

Equity instruments are classified as FVTPL unless they are not held for trading purposes and an irrevocable election is made at inception to designate the asset as FVTOCI. The Credit Union has investments in preferred shares which it has elected to designate as FVTOCI.

3 Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

Classification and measurement of financial assets and financial liabilities

Derivative financial instruments:
Derivative financial instruments are contracts, such as options, swaps, and forward contracts, where the value of the contract is derived from the price of an underlying variable. The most common underlying variables include stocks, bonds, commodities, currencies, interest rates and market rates. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices as well as to meet the requirements to participate in the Canada Mortgage Bond Program ("CMB Program") for securitization as discussed in note 22. 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 net gains (loss) on financial instruments, unless the derivative is designated as a hedging instrument. For designated hedging instruments, the recognition of the gain or loss will depend on the hedge accounting rules described below. Gains or losses on derivative financial instruments are based on changes in fair value determined by reference to active market transactions or using a valuation technique where no active market exists.

Embedded derivatives:
Certain derivatives embedded in other financial liabilities, such as the embedded option in an index-linked term deposit product, are treated as separate derivative financial instruments when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not 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 in net gains (loss) on financial instruments. Amounts accumulated in OCI are reclassified to profit or loss in the periods when the hedged item affects profit or loss and are recorded within net interest income. The Credit Union utilizes cash flow hedges primarily to convert floating rate assets and liabilities to fixed rate.

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

In a fair value hedge, the full change in the fair value of derivatives is recognized in profit or loss. Where derivatives are designated and qualify as fair value hedges, the carrying value of the hedged item is adjusted to reflect its change in fair value since the inception of the hedge relationship. The full amount of the fair value adjustment is also taken to profit or loss to offset fair value changes on the derivative. Any difference between the change in fair value of the derivatives and fair value adjustments on the hedged items are recognized within net gains (loss) on financial instruments.

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

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

3 Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

Classification and measurement of financial liabilities

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

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

Derecognition of financial instruments

Financial assets are derecognized when contractual rights to the cash flows from the asset have expired, or when substantially all of the risks and rewards of ownership are transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of ownership, it assesses whether it has retained control over the transferred asset. Control is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If the Credit Union retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. When a financial asset is derecognized, a gain or loss is recognized in net income for an amount equal to the difference between the carrying value of the asset and the value of the consideration received, including any new assets and / or liabilities recognized.

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

Reclassifications

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

Modification of financial assets measured at amortized cost

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

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

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

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

3 Summary of significant accounting policies (continued)

3.5 Interest income and expense

Interest-bearing financial instruments

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

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

Finance receivables

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

Direct financing leases, which are contracts under terms that provide for the transfer of substantially all the benefits and risks of the equipment ownership to customers, are 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 Dividend income

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

3.7 Fee and commission income

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

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

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

3 Summary of significant accounting policies (continued)

3.8 Impairment of financial assets

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

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

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

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

The Credit Union's measurement of ECL also reflects:

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

Note 34.1 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 3 with interest income recognized using the effective interest rate on the financial asset's amortized cost carrying amount (i.e. net of the loss allowance). In determining whether a default event has occurred, the Credit Union considers evidence such as delinquency, bankruptcy, breach of covenants, or other evidence as determined by management.

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

Write offs

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

3 Summary of significant accounting policies (continued)

3.9 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately include computer software, other than software which is considered to be an integral part of property classified as property, plant and equipment which is included in computer hardware and software, as well as design plans which will be used in the future construction or renovation of branch locations or 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 broker and vendor relationships.

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

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

Intangible assets are subject to impairment review as described in note 3.12.

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

3.10 Property, plant and equipment

Recognition and measurement

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

Depreciation

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

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

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

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

Assets are subject to impairment review as described under note 3.12.

3.11 Goodwill

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

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

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

3 Summary of significant accounting policies (continued)

3.12 Impairment of non-financial assets

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

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

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

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

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

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

Key assumptions used in the estimation of the recoverable amount include discount rates and growth rates used to extrapolate cash flow projections. The values assigned to the key assumptions represent management's assessment of future trends in the industry and have been based on historical data from both external and internal sources. The cash flow projections include specific estimates for five years and a terminal growth rate thereafter. Given that key assumptions are based on estimates, uncertainty exists with respect to the recoverable amount valuation. Details of the goodwill impairment analysis are included under note 13.

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

3.13 Leases

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

Meridian as Lessee:

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.13 Leases (continued)

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

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

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

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

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

Meridian as Lessor:

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

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

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

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

3.14 Provisions

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

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

3.15 Employee benefits

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

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

3 Summary of significant accounting policies (continued)

3.15 Employee benefits (continued)

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.

3.16 Income taxes

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

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

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

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

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

3.17 Share capital

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

3 Summary of significant accounting policies (continued)

3.17 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

Interest Rate Benchmark Reform:

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

The Credit Union designates interest rate swaps linked to CDOR in cash flow hedge accounting relationships. It is not anticipated that CDOR will cease to be published within the remaining maturity of the Credit Union's interest rate swaps. Therefore, the amendments do not currently apply to its hedge designations. The Credit Union will continue to monitor the evolution of IBOR reform in the Canadian context to determine if the amendments will become applicable at future reporting dates.

Conceptual Framework for Financial Reporting:

In March 2018, the IASB issued the revised Conceptual Framework for Financial Reporting, which provides a set of concepts to assist the IASB in developing standards and to help preparers consistently apply accounting policies where specific accounting standards do not exist. The framework is not an accounting standard and does not override the requirements that exist in other IFRS standards. The Revised Conceptual Framework describes that financial information must be relevant and faithfully represented to be useful, provides revised definitions and recognition criteria for assets and liabilities, and confirms that different measurement bases are useful and permitted. The Revised Conceptual Framework became effective for annual periods beginning on or after January 1, 2020.

COVID-19 Related Rent Concessions Amendment:

On May 28, 2020 the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way they would if they were not lease modifications. This amendment did not have an impact on any of the Credit Union's leases.

Issued standards not yet effective

Interest Rate Benchmark Reform:

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

- If qualifying criteria are met, hedging relationships that are directly impacted by the reform would be able to continue hedge accounting upon transition to the alternative benchmark.
- For modifications to financial instruments resulting from the reform which are transacted on an economically equivalent basis, entities are allowed to reflect the benchmark change prospectively in the effective interest rate rather than as an immediate gain or loss.

4 Changes in accounting policies (continued)

Issued standards not yet effective (continued)

The Phase 2 amendments will become effective for the Credit Union on January 1, 2021. It is not anticipated that CDOR will cease to be published within the remaining maturity of the Credit Union's interest rate swaps, and as such these amendments are not expected to have a significant impact on the Credit Union for the foreseeable future. The Credit Union will continue to monitor the evolution of IBOR reform in the Canadian context to determine if the amendments will become applicable at future reporting dates.

5 Cash and cash equivalents

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

	2020	2019
Cash on hand	38,712	35,474
Deposits with other financial institutions	626,669	367,433
Short-term investments	919,233	150,014
Restricted funds	28,193	22,985
Total cash and cash equivalents	1,612,807	575,906

Included in deposits with other financial institutions is $54,067 (2019 – $40,598) 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

	2020	2019
Commodity tax receivables	682	163
Other receivables	7,999	6,719
Total receivables - current	8,681	6,882

7 Investments in debt instruments

	2020	2019
Amortized cost:		
Central 1 liquidity reserve deposit	445,414	1,173,337
Securities purchased under reverse repurchase agreements	33,030	24,525
Other investments in debt instruments	1,210,534	202,236
Fair value through OCI:		
Debt securities	246,066	-
All investments in debt instruments	1,935,044	1,400,098

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. For 2020 the total $1,336,082 in liquidity reserve deposits includes those above and $890,668 with less than 100 days to maturity presented in cash and cash equivalents.

7 Investments in debt instruments (continued)

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.

Debt securities

In 2020, the Credit Union began acquiring a portfolio of debt securities with a business model intended to include both collecting contractual cash flows and selling. The cash flow characteristics of these debt instruments are SPPI. As such the portfolio is measured as FVTOCI.

Motus Bank has an existing portfolio of debt securities which continue to be measured at amortized cost.

Other investments in debt instruments

The Credit Union held three (2019 – nil) interest bearing deposits with one (2019 – nil) Canadian financial institution for Canada Housing Trust ("CHT") pledge. These financial instruments are pledged in trust with CHT for CMB reinvestment purposes.

The Credit Union held fifty-five (2019 – fourteen) interest bearing deposits with eleven (2019 – two) Canadian financial institutions. In addition, motusbank held nil (2019 – two) Government of Canada T-Bills, three (2019 – three) Government bonds, nil (2019 – three) Corporate bonds with nil (2019 – three) Canadian corporations, and four (2019 – ten) interest bearing deposits with three (2019 – seven) Canadian financial institutions.

8 Investments in equity instruments

	2020	2019
Fair value through profit or loss:		
Central 1 Class A shares	7,003	6,452
Central 1 Class E shares	15,070	15,070
Central 1 Class F shares	61,286	58,857
Real estate investments	7,250	4,000
Other shares or units	139	138
Fair value through other comprehensive income:		
Investment in preferred shares	23,520	-
Total investments in equity instruments	114,268	84,517

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

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

Central 1 Class E shares are carried at fair value. There is no secondary market for Class E shares, and as such, fair value is considered to be equivalent to cost.

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

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

8 Investments in equity instruments (continued)

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

9 Loans

	2020	2019
Residential mortgages	11,008,984	10,532,464
Personal loans	1,286,797	1,377,644
Commercial loans	5,721,660	5,478,507
	18,017,441	17,388,615
Allowance for impaired loans	(87,002)	(38,706)
Total net loans	17,930,439	17,349,909
Current	4,252,672	5,351,499
Non-current	13,677,767	11,998,410

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

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

The Canada Emergency Business Account (“CEBA”) – Under this program, Canadian financial institutions facilitate interest-free loans of up to $60,000 to eligible small business Members as a source of liquidity for immediate operating costs. The loans are funded entirely by the Government of Canada, with the Credit Union retaining no credit risk. As such, these loans are not recognized on the Credit Union’s consolidated balance sheet.

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

EDC Business Credit Availability Program (“BCAP”) - Under this program, Export Development Canada (“EDC”) provides guarantees of up to $6.25 million on loans advanced by the Credit Union to businesses, allowing them to access working capital to cover operational costs as a result of the COVID-19 pandemic.

9 Loans (continued)

Movements in Loss Allowance

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

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

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

9 Loans (continued)

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

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

9 Loans (continued)

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

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

9 Loans (continued)

Although all loans are originated in stage 1 (except those originated as credit impaired), to the extent that loans were originated in the year and were subsequently moved to another stage, they will show on the new originations line in the stage in which they ended the year. To the extent that COVID-19 related adjustments to ECL as described in note 34.1 were calculated at product level, they have been presented in the main body of the tables above and not on the other qualitative adjustments line.

There was a 5% increase in the gross carrying value of residential mortgages over the period (2019 - 18% increase); however, this did not generate an increase in the loss allowance (2019 - $4). There was a 7% decrease in the gross carrying value of personal loans over the period (2019 - 4% increase); however, new originations contributed $757 ECL in excess of the impact of loans derecognized (2019 - $1,226 increase). The write off of personal loans with a gross carrying value of $3,019 resulted in a reduction in the loss allowance by the same amount (2019 - $3,271 reduction). There was a 4% increase in the gross carrying value of commercial loans over the period (2019 - 17% increase). This generated an increase in the allowance of $4,296 (2019 - not significant). The write off of commercial loans with a gross carrying value of $305 resulted in a reduction in the loss allowance by the same amount (2019 - $1,418 reduction).

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

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

9 Loans (continued)

Maximum exposure to credit risk

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

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

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

9 Loans (continued)

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

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

9 Loans (continued)

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

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

9 Loans (continued)

Loans past due but not impaired

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

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

Collateral

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

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

	2020	2019
Fair value of collateral held on assets either past due >30 days or impaired	185,667	162,387

10 Finance receivables

	2020	2019
Gross investment in finance leases	1,103,210	1,162,944
Unearned revenue	(95,227)	(106,977)
Unguaranteed residual values on finance leases	683	712
Net investment in finance receivables	1,008,666	1,056,679
Retail and dealer loans	108,531	134,650
Unamortized deferred costs and subsidies	6,430	7,922
Security deposits	(15,491)	(15,041)
Allowance for credit losses	(28,526)	(15,045)
Total finance receivables	1,079,610	1,169,165

10 Finance receivables (continued)

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

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

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

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

Finance leases and retail and dealer loans past due

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

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

As at December 31, 2020 the value of finance receivables for customers who participated in COVID-19 abatement programs is $159,088. Of the amount, $154,460 relates to customers who have made payments as agreed under the program and are classified as current. A total of $4,554 relates to customers who have missed a scheduled payment and are included in the past due amounts above, and $74 relates to accounts that are now impaired.

10 Finance receivables (continued)

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

Allowance for credit losses

On December 31, 2020, impaired finance receivables amounted to $8,934 (2019 - $10,496). A portion of the finance receivables is expected to be recovered and $5,072 (2019 - $6,118) 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, 2020			
Balance as at January 1, 2020	4,378	10,667	15,045
Finance receivables written off	(10,403)	-	(10,403)
Recoveries on finance receivables previously written off	1,144	-	1,144
Provision for credit losses, net of recoveries	8,743	13,997	22,740
Balance as at December 31, 2020	3,862	24,664	28,526

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

10 Finance receivables (continued)

Movements in Loss Allowance

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

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

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

Although all finance receivables are originated in stage 1 (except those originated as credit impaired), to the extent that finance receivables were originated in the year and were subsequently moved to another stage, they will show on the new originations line in the stage in which they ended the year. To the extent that COVID-19 related adjustments to ECL as described in note 34.1 were calculated at product level, they have been presented in the main body of the tables above and not on the other qualitative adjustments line.

The gross carrying value of finance receivables decreased by 1% during the year. The loss allowance increased by $13,481 or 90%. Many accounts experienced an increase in credit risk during the year due to the economic impact of COVID-19. This resulted in movements of these finance receivables being measured at 12-month ECL to lifetime ECL. The write-off of finance receivables with a gross carrying value of $10,403 generated a reduction in the loss allowance by the same amount. Further details on the measurement of ECL is included in note 34.1.

10 Finance receivables (continued)

Maximum exposure to credit risk

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

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

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

11 Derivative financial instruments

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

	Maturities of derivatives (notional amount)				Fair value	
	Within 1 year	1 to 5 years	More than 5 years	Total	Derivative instrument assets	Derivative instrument liabilities
Year ended December 31, 2020						
Foreign exchange derivatives:						
Forward contracts	835	-	-	835	33	(28)
Equity index-linked options:						
Purchased equity options	53,370	121,384	-	174,754	13,860	-
Interest rate derivatives:						
Designated cash flow hedges	407,000	648,091	806,083	1,861,174	1,002	(34,649)
Economic hedges	-	504,009	4,100	508,109	55	(13,957)
Total derivative contracts as at December 31, 2020	461,205	1,273,484	810,183	2,544,872	14,950	(48,634)

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

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 counterparties the Credit Union has determined to be creditworthy.

Foreign exchange forward contracts
As part of its ongoing program for managing foreign currency exposure, the Credit Union enters into foreign exchange forward contracts to purchase or sell U.S. dollars. These agreements function as an economic hedge against the Credit Union's net U.S. dollar denominated liability position. Gains/losses on foreign exchange forward contracts are included in non-interest income.

11 Derivative financial instruments (continued)

Equity index-linked derivatives and options
The Credit Union has $171,324 (2019 - $232,222) of commodity and equity index-linked term deposit products outstanding to its Members. These term deposits have maturities of up to five years and pay interest to the depositors, at the end of the term, based on the performance of various market indices. The Credit Union has purchased index-linked options agreements with certain counterparties to offset the exposure to the indices associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term the Credit Union receives from the counterparties payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

The purpose of the options agreements is to provide an economic hedge against market fluctuations. These options agreements have fair values that vary based on changes in commodity and equity indices. The fair value of these options agreements amounted to $13,860 as at December 31, 2020 (2019 - $20,039). The fair value of the embedded written option in the equity index-linked term deposit products amounted to $13,500 as at December 31, 2020 (2019 – $19,704) and is included as part of Members' deposits (see note 18). Although hedge accounting is not applied, these agreements continue to be effective as economic hedges.

Interest rate swaps
As part of its interest rate risk management process, the Credit Union and motusbank utilize interest rate contracts in the form of interest rate swaps to maintain their interest rate exposure within the preset limits defined within the Board of Directors' (the "Board") approved policy. In compliance with agreements for the secured borrowing facilities, OneCap utilizes interest rate swaps to manage interest rate exposure risk in connection with financing variable rate equipment contract backed notes.

Designated cash flow or fair value hedges are interest rate swap agreements which qualify as hedging relationships for accounting purposes under IAS 39, Financial Instruments: Recognition and Measurement. All other interest rate swaps agreements are considered economic hedges. The Credit Union has designated certain hedging relationships involving interest rate swaps that convert variable rate deposits to fixed rate deposits or variable rate loans to fixed rate loans as cash flow hedges. The Credit Union has also designated certain hedging relationships involving interest rate swaps that convert variable rate loans to fixed rate loans. Interest rate swaps that convert variable rate notes to fixed rate notes are also designated as cash flow hedges.

Previously, the Credit Union also designated certain hedging relationships involving interest rate swaps to convert fixed rate loans into variable rate loans as fair value hedges. All previous fair value hedge relationships have now been discontinued. The remaining hedge accounting adjustments recognized relating to fair value hedges are $(1,039) (2019 – $(2,838)).

Interest rate swap agreements (including forward interest rate swaps) are valued by netting the credit adjustment, discounted variable and fixed cash flows. Variable cash flows are calculated using implied interest rates as determined by current Canadian Dealer Offered Rate ("CDOR") or Canadian Dollar Overnight Indexed Swap ("CAD OIS") rates, and term relationships. Fixed cash flows are calculated based on the rates stated in the agreements. These 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, 2020, the fixed interest rates on the Credit Union's interest rate swaps is between 0.7% and 2.9% (2019 – 1.4% and 2.9%) and the fixed interest rate on OneCap's interest rate swaps is between 0.7% and 2.7% (2019 – 1.6% and 2.7%); and the fixed interest rate on motusbank's interest rate swaps is between 0.2% and 0.9%.

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 forecast debt issuances associated with securitization activity. These hedging relationships are designated as cash flow hedges. The effective portion of realized gains (losses) on these derivatives are deferred and amortized in accordance with the effective interest rate method along with the debt originated.

11 Derivative financial instruments (continued)

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

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

Year ended December 31, 2019	Change in fair value of the hedged item for ineffectiveness measurement	Change in fair value of the hedging instrument for ineffectiveness measurement	Hedge ineffectiveness gain (loss)	Hedging gain (loss) recognized in OCI (before tax)	Amount reclassified from AOCI to net income (pre-tax basis)	Effect on OCI (before tax)
Cash flow hedges						
Interest rate risk						
Loans	1,459	(1,474)	(15)	(1,459)	-	(1,459)
Deposits	4,005	(4,058)	(53)	(4,005)	-	(4,005)
Borrowings	(7,272)	7,905	633	7,272	-	7,272
Mortgage securitization liabilities	(4,664)	4,998	334	4,664	450	5,114
Secured borrowings	1,996	(3,358)	(1,362)	(1,996)	(3,433)	(5,429)
Subordinated liabilities	(296)	296	-	296	-	296
Total cash flow hedges	(4,772)	4,309	(463)	4,772	(2,983)	1,789

11 Derivative financial instruments (continued)

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

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

Year ended December 31, 2019	Opening AOCI	Other comprehensive income (loss)	Closing AOCI	AOCI on designated hedges	AOCI on de-designated hedges
Cash flow hedges					
Interest rate risk					
Loans	375	(1,459)	(1,084)	(1,084)	-
Deposits	4,536	(4,005)	531	531	-
Borrowings	-	7,272	7,272	7,272	-
Mortgage securitization liabilities	(144)	5,114	4,970	-	4,970
Secured borrowings	10,967	(5,429)	5,538	1,042	4,496
Subordinated liabilities	-	296	296	296	-
Total cash flow hedges	15,734	1,789	17,523	8,057	9,466

11 Derivative financial instruments (continued)

December 31, 2019	Change in value of hedged item for ineffectiveness measurement	Change in fair value of the hedging instrument for ineffectiveness measurement	Hedge ineffectiveness gain / (loss)	Carrying amounts for hedged items	Accumulated amount of fair value hedge adjustments on hedged items
Fair value hedges					
Interest rate risk					
Loans	(3,629)	2,038	(1,590)	-	
Total fair value hedges	(3,629)	2,038	(1,590)	-	

12 Intangible assets

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

	Broker and vendor relationships	Software	Other	Total
Year ended December 31, 2019				
As at January 1, 2019, net carrying value	34,251	1,972	504	36,727
Additions	-	1,689	576	2,265
Amortization	(5,953)	(1,093)	(197)	(7,243)
As at December 31, 2019, net carrying value	28,298	2,568	883	31,749
As at December 31, 2019				
Cost	51,300	17,931	1,312	70,543
Accumulated amortization	(23,002)	(15,363)	(429)	(38,794)
Net carrying value	28,298	2,568	883	31,749

1Core deposit intangible assets removed from chart as net book value was zero in both 2020 and 2019.

13 Goodwill

	2020	2019
Balance at the beginning and end of the period	73,232	73,232

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

13 Goodwill (continued)

Annual goodwill impairment testing is performed at September 30. Management has assessed OneCap for impairment triggers at December 31, 2020 and noted that no events have taken place subsequent to the last impairment test that indicate that impairment has occurred.

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

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

Impairment analysis for 2020

The impacts of COVID-19 have resulted in a high level of economic uncertainty which makes it difficult to forecast future cash flows. As a result, for 2020 impairment testing, management has prepared financial forecasts under four scenarios, and weighted these scenarios based on expected probability of occurrence. These scenarios and the respective weightings are as follows:

- Optimistic (10%) - assumes government relief programs are successful in stimulating economic growth, and that OneCap fully recovers, with business growing to pre-COVID forecast levels, by 2024. Although plausible given government response to date, a lower weighting has been applied to this scenario given the high level of optimism.
- Projected longer-term growth (55%) – assumes there is no recurrence of the extreme economic downturn that was experienced during the early stages of the pandemic; assumes that the business takes actions to reposition itself in the market; higher growth rates for 2022 through 2023 to incorporate recovery to pre-COVID market share and yields. This scenario reflects management's best estimates of future results from which 2021 budgets are based, and as such, has been weighted more heavily than other scenarios.
- Moderate longer-term growth (30%) – assumes current run-rate business as the base, and projects moderate growth beginning in 2021. There is an expectation that there will be strong competition in the market, putting pressure on yields. This scenario is considered achievable, but somewhat conservative. As such, its weighting is lower than projected longer-term growth.
- Adverse (5%) – assumes COVID-19 impacts continue and that the market remains flat in 2021 and 2022, with growth not being until 2023 onwards. Given the early signs of economic recovery, and the level of government support to individuals and businesses, management anticipates that the market will begin to rebound in the near future. As such, this scenario has been assigned a low probability.

The recoverable amount was then determined by taking the weighted average of VIU of the four scenarios.

As noted above, the discount rate incorporates a risk premium reflecting both equity premiums in the general market as well as entity specific risk. Significant judgment is used to determine the discount rate. Analysis indicates that an appropriate discount rate would be in the range of 7.3% to 12.6%. The mid-point of this range was used for the impairment test.

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

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

13 Goodwill (continued)

The recoverable amount of the CGU was $183,069 which exceeded the carrying amount of $173,920 by $9,150. As such, no impairment has been recorded. The recoverable amount used for 2019 impairment testing, as discussed below, was $232,237. The decline year-over-year is due to the impact that the economic downturn, due to the COVID-19 pandemic, has had on the cash flows of business.

Sensitivity analysis

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

	Change to carrying value	Excess / (impairment)
Net cash flows		
Decrease in 10% in monthly net cash flows	$ (18,037)	$ (9,157)
Increase of 4% in monthly net cash flows	7,323	16,473
Terminal growth rate		
Decrease of 0.5%	(10,650)	(1,500)
Increase of 0.5%	12,050	21,200
Discount rate (1)		
Decrease by 2.7% to 7.3%	118,975	128,125
Increase by 2.6% to 12.6%	(55,268)	(46,118)
Increase by 1.0% to 11.0%	(25,290)	(16,140)
Scenario weighting		
-10% Optimistic, -5% Projected longer-term growth , +15% Moderate longer-term growth	(10,725)	(1,575)
-10% Optimistic, +10% Moderate longer-term growth	(7,772)	1,378
-10% Projected longer-term growth , +10% Moderate longer-term growth	$ (5,906)	$ 3,244

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

Impairment analysis for 2019

Key assumptions and the resulting recoverable amount for the 2019 impairment test were as follows:

	Undiscounted forecasted cash flows for October 1, 2019 to September 30, 2024				
	Operating cash flows	Capital investment	Terminal growth rate	Discount rate	Value in use
Five-year forecast	$ 123,201	$ (74,768)	2 %	10 %	$ 232,237

The recoverable amount of the CGU was $232,237 which exceeded the carrying amount of $185,380 by $46,857.

14 Property, plant and equipment

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

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

15 Leased assets and liabilities

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

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

	2020	**2019**
Lease liabilities		
Current	7,851	7,279
Non-current	64,864	78,315
Total lease liabilities	72,715	85,594

Payments associated with short-term leases during 2020 were $36 (2019 - $147) and were included within non-interest expenses.

Lessor:

	2020	**2019**
Lease receivable		
Current	384	154
Non-current	2,128	1,231
Total lease receivable	2,512	1,385

15 Leased assets and liabilities (continued)

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

	2020	2019
Within 1 year	30	41
2 years	32	21
3 years	32	8
4 years	28	6
5 years	26	2
Over 5 years	116	-
Total	264	78

Total operating lease payments received during 2020 were $52 (2019 - $53) and are included on the consolidated income statement within non-interest income.

16 Deferred income taxes

	2020	2019
Deferred income tax assets		
Deferred tax assets	93,362	79,880
Deferred tax liabilities	25,805	31,173
Net deferred income tax assets	67,557	48,707

1 Amounts for 2019 have been restated. Deferred tab asset in the amount of $19,100 for property, plant and equipment were netted against deferred tax liabilities assets arising from acquisition. These amounts related to tax treatment of cumulative eligible capital from intangible assets recorded at the time of acquisition.

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

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

16 Deferred income taxes (continued)

	January 1, 2019	Recognized in Profit or loss	Recognized in OCI	December 31, 2019
Non-capital losses available for carry-forward	154	2,190	-	2,344
Allowance for impaired loans and leases	8,479	1,762	-	10,241
Employee future benefits	3,059	(95)	232	3,196
Other accrued expenses	1,798	27	-	1,825
Property, plant and equipment	2,646	203	-	2,849
Intangible assets arising from acquisition	(3,273)	137	-	(3,136)
Right-of-use assets	-	(15,650)	-	(15,650)
Deferred expenses	(4,968)	(117)	-	(5,085)
Finance receivables	36,949	(564)	-	36,385
Financial instruments adjustments	829	1,524	-	2,353
Deferred loan fees	2,615	442	-	3,057
Mortgage securitization fees	(2,836)	(560)	-	(3,396)
Right of use lease obligation	-	16,056	-	16,056
Cash flow hedges	(2,414)	(390)	93	(2,711)
Other	1,554	(1,175)	-	379
Total	44,592	3,790	325	48,707

1 Amounts as at January 1, 2019 have been restated to net property, plant and equipment and intangible assets arising from acquisition in the amount of $20,378. These amounts related to tax treatment of cumulative eligible capital from intangible assets recorded at the time of acquisition.

17 Other assets

	2020	2019
Employee discounts	23,149	22,523
Deferred securitization fees	27,275	18,357
Prepaid assets	15,678	12,590
Securitization receivables	12,610	-
Other	5,237	5,652
Total other assets	83,949	59,122
Current	30,472	14,406
Non-current	53,477	44,716

18 Deposits

	2020	2019
Demand deposits	7,093,376	6,151,595
Term deposits	5,285,367	5,448,934
Registered plans	3,399,280	3,268,969
Total deposits	15,778,023	14,869,498
Current	12,301,438	11,758,702
Non-current	3,476,585	3,110,796

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

19 Borrowings

	2020	2019
Borrowings	300,279	300,444
Current	335	444
Non-current	299,944	300,000

Canadian Imperial Bank of Canada facility

The Credit Union has a $150,000 (2019 - $300,000) revolving secured credit facility with the Canadian Imperial Bank of Commerce ("CIBC"). As at December 31, 2020, the credit facility had a $nil balance (2019 - $nil). The credit facility is secured by eligible mortgages insured through either Canadian Mortgage and Housing Corporation ("CMHC") or Genworth.

The Credit Union has a $300,000 (2019 - $300,000) secured term facility with CIBC. As at December 31, 2020, the credit facility had a $300,000 balance (2019 - $300,000). The secured term facility is secured by mortgages not eligible for securitization.

Bank of Nova Scotia credit facility

OneCap has established a credit facility with The Bank of Nova Scotia totaling $2,000 (2019 - $2,000) to be used for working capital purposes. The agreement is a revolver facility. The operating line of credit is secured by a standby letter of credit in the amount of $2,000 (2019 - $2,000) issued by the National Bank of Canada under the following facility. As at December 31, 2020, the credit facility has a balance of $nil (2019 - $nil).

National Bank of Canada credit facility

OneCap has established a credit facility with National Bank of Canada totaling $42,000 (2019 - $72,000) to finance the acquisition of assets and for operations. The credit agreement has a maturity date of October 31, 2021 and is secured by eligible equipment leases and loans. As at December 31, 2020, the credit facility has a balance of $nil (2019 - $nil).

Federation des Caisses Desjardins du Quebec

The Credit Union has established a secured credit facility with Federation des Caisses Desjardins du Quebec ("Desjardins") totaling $150,000 (2019 - $150,000). As at December 31, 2020, the credit facility has a balance of $nil (2019 - $nil). The credit facility is secured by eligible insured residential mortgages.

Other credit facilities

The Credit Union has a settlement risk line totaling $25,000 (2019 - $25,000) with the Bank of Montreal. As at December 31, 2020, the settlement line had a balance of $nil (2019 - $nil).

Motus Bank has a settlement risk line totaling $100 (2019 - $100) with the Bank of Montreal. As at December 31, 2020, the settlement line had a balance of $nil (2019 - $nil).

The Credit Union has an overdraft line totaling $850 (2019 - $850) with Caisse Centrale Desjardins ("CCD"). As at December 31, 2020, the overdraft line had a balance of $nil (2019 - $nil).

Motus Bank had an overdraft line totaling $20 (2019 - $nil) with Royal Bank of Canada. As at December 31, 2020, the overdraft line had a balance of $nil (2019 - $nil).

Motus Bank had an overdraft line totaling $20 (2019 - $20) with Caisse Centrale Desjardins ("CCD"). As at December 31, 2020, the overdraft line had a balance of $nil (2019 - $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 $130,000 and US $10,000 (2019 - $150,000 and US $10,000) on its liquidity facility for which the balance outstanding was $nil at December 31, 2020 (2019 – $nil). A contingency credit facility is established in the amount of $420,000 (2019 - $400,000).

Motus Bank established a credit facility with Central 1 which is composed of liquidity and contingency facilities. Motus Bank can borrow up to $44,500 and US $500 (2019 - $39,500 and US $500) on it's liquidity facility for which the balance outstanding was $nil at December 31, 2020 (2019 - $nil). A contingency credit facility has been established in the amount of $5,000 (2019 - $5,000) for which the balance outstanding was $nil (2019 - $nil) as at December 31, 2020.

19 Borrowings (continued)

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

20 Payables and other liabilities

	2020	2019
Accounts payable and accrued liabilities	147,013	63,098
Deferred income	577	392
Cheques and other items in transit	12,897	10,174
Total payables and other liabilities	160,487	73,664
Current	160,341	73,447
Non-current	146	217

21 Secured borrowings

	2020	2019
Obligations related to securities sold under repurchase agreements	-	294,817
Variable rate equipment contract backed notes	955,380	1,064,203
Total secured borrowings	955,380	1,359,020
Current	367,732	660,220
Non-current	587,648	698,800

The Credit Union was in compliance with all financial and reporting covenants with all of its lenders at December 31, 2020 and 2019.

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, 2021 (2019 - October 31, 2020). 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, 2020 is $1,031,082 (2019 - $1,147,392). In addition, OneCap has cash reserves of $28,193 (2019 - $22,985) held as collateral for the notes as disclosed in note 5.

22 Mortgage securitization liabilities

	2020	2019
Mortgage securitization liabilities	4,358,412	3,001,663
Current	888,196	427,701
Non-current	3,470,216	2,573,962

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.

22 Mortgage securitization liabilities (continued)

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

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

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

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

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

Outside the CMB program, the Credit Union also sells MBS directly to investors. In 2020, this also included sales of MBS to CMHC as part of the Insured Mortgage Purchase Program ("IMPP"), which was an emergency measure put in place to provide financial institutions with additional access to funding in light of COVID-19.

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

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

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

22 Mortgage securitization liabilities (continued)

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

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Securitized mortgages sold via CMB Program	2,295,384	2,210,381	1,979,146	1,945,157
Sold MBS to third parties	1,750,864	1,689,860	852,086	826,984
Securities purchased under reverse repurchase agreements, asset backed commercial paper, and Government of Canada bonds (included in financial investments)	287,936	287,936	169,219	169,219
Unscheduled principal payment reserve (included in cash and cash equivalents)	54,067	54,067	40,598	40,598
Purchased MBS held in trust per CMB reinvestment guidelines	2,965	2,615	-	-
Principal and interest receipts to be reinvested in the following month (included in cash and cash equivalents)	40,582	40,582	15,708	15,708
Total designated assets	4,431,798	4,285,441	3,056,757	2,997,666
Mortgage securitization liabilities	(4,358,412)	(4,367,015)	(3,001,663)	(2,950,337)
Net amount	73,386	(81,574)	55,094	47,329

23 Pension and other employee obligations

	2020	2019
Short-term employee benefits payable	23,953	33,147
Retirement benefit obligations	15,280	15,433
Total pension and other employee obligations	39,233	48,580

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

Contributory Defined Benefit Pension Plans

The Credit Union has two contributory defined benefit pension plans.

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

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

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

23 Pension and other employee obligations (continued)

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

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

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

Non-contributory Defined Benefit Supplemental Executive Retirement Plan 1

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

Supplemental Employee Retirement Plan 2

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

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

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

Post-Employment Benefits

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

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

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

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

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.

23 Pension and other employee obligations (continued)

(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.

	2020	2019
Consolidated balance sheet obligations for:		
Pension benefit plans	5,961	7,165
Post-employment benefits	9,319	8,268
	15,280	15,433
The amounts recognized in the consolidated balance sheet are determined as follows:		
Present value of funded obligations	57,026	54,025
Fair value of plan assets	(52,299)	(47,973)
Funded plans' deficit	4,727	6,052
Present value of unfunded obligations	10,553	9,381
Liability recognized in the consolidated balance sheet	15,280	15,433
Consolidated income statement charged to salaries and employee benefits for:		
Defined benefit pension plans	616	637
Defined contribution pension plan	7,000	6,660
Total pension plans	7,616	7,297
Post-employment benefits	705	669
	8,321	7,966
Consolidated re-measurement loss (gain) included in other comprehensive income for:		
Pension benefit plans	(87)	(632)
Post-employment benefits	(729)	(619)
	(816)	(1,251)

23 Pension and other employee obligations (continued)

	Defined benefit pensions		Post-employment benefits	
	2020	2019	2020	2019
The movement in the present value of the defined benefit obligation over the year is as follows:				
Defined benefit obligation, January 1	55,138	50,830	8,268	7,391
Current service cost	111	106	456	396
Interest cost	1,657	1,877	229	305
Benefits paid	(3,015)	(2,662)	(363)	(443)
Remeasurement (loss) due to:				
Changes in financial assumptions	4,348	6,212	729	619
Experience losses (gains)	21	(1,225)	-	-
Defined benefit obligation, December 31	58,260	55,138	9,319	8,268

	Defined benefit pensions		Post-employment benefits	
	2020	2019	2020	2019
The movement in the fair value of plan assets for the year is as follows:				
Fair value of plan assets, January 1	47,973	42,610	-	-
Interest income	1,467	1,576	-	-
Return on plan assets, excluding interest income	4,282	4,355	-	-
Employer contributions	1,860	2,288	364	443
Benefits paid	(2,975)	(2,626)	(364)	(443)
Administrative expenses	(308)	(230)	-	-
Fair value of plan assets, December 31	52,299	47,973	-	-
Net defined benefit liability	5,961	7,165	9,319	8,268

Actuarial assumptions

	Total pension benefits		Post-employment benefits	
	2020	2019	2020	2019
The principal actuarial assumptions used were as follows:				
Discount rate	2.60%	3.10%	2.50%	3.10%
Pension growth rate	2.00%	2.00%	-	-
Long-term increase in health care costs	-	-	4.00%	4.00%

23 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:

	2020	2019
Retiring at the end of the reporting period:		
Male	87.1	86.9
Female	89.7	89.6
Retiring 20 years after the end of the reporting period:		
Male	88.5	88.4
Female	91.1	91.0

The weighted average duration of the defined benefit obligation as at December 31, 2020 is 15.1 years (2019 – 13.9 years).

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

	Within 1 year	1 to 5 years	Over 5 years	Total
As at December 31, 2020				
Defined benefit pensions	2,796	11,156	73,550	87,502
Post-employment benefits	436	2,070	22,991	25,497
Total	3,232	13,226	96,541	112,999
As at December 31, 2019				
Defined benefit pensions	2,700	11,029	75,422	89,151
Post-employment benefits	430	1,906	23,169	25,505
Total	3,130	12,935	98,591	114,656

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:

	2020	%	2019	%
Equity investments	26,716	51 %	24,316	51 %
Fixed income investments	25,584	49 %	23,657	49 %
Total	52,300	100 %	47,973	100 %

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

The current 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 $6,706 (2019 - $1,966) for defined benefit pension plans, $8,484 (2019 - $7,628) for defined contribution plans and $436 (2019 - $430) for other employee benefit plans.

23 Pension and other employee obligations (continued)

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

			Accrued benefit obligation	
	Defined benefit pensions		Post-employment benefits	
	2020	2019	2020	2019
Discount rate				
Impact of: 1% increase	(7,322)	(6,780)	(1,096)	(854)
1% decrease	9,279	8,572	1,328	1,025
Pension growth rate				
Impact of: 1% increase	7,862	6,817	-	-
1% decrease	(6,440)	(5,605)	-	-
Life expectancy				
Impact of: 1% increase	1,592	1,480	208	178
1% decrease	(1,599)	(1,479)	(205)	(176)
Health care cost trend				
Impact of: 1% increase	-	-	988	674
1% decrease	-	-	(825)	(574)

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.

23 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.

24 Subordinated debt

During 2019, the Credit Union issued $50,000 principal amount of subordinated debt with term to maturity of 10 years, redeemable after 5 years. This facility carries a floating rate, which at December 31, 2020 was 3.97% (2019 - 5.49%) per annum, payable in interest only payments quarterly.

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

25 Share capital

	Par value per share	2020	2019
Membership shares classified as liabilities			
Membership shares	1	388	376
As at December 31	-	388	376
"50th Anniversary" Class A shares	1	74,664	72,081
Series 96 Class A shares	1	52,203	50,417
Series 98 Class A shares	1	4,461	4,308
Series 01 Class A shares	1	67,645	65,372
Series 09 Class A shares	1	83,743	81,087
Series 15 Class A shares	1	136,684	132,252
Series 17 Class A shares	1	180,094	174,049
As at December 31	-	599,494	579,566

(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, 2019	349,906	69,750,053	48,676,340	4,153,694
Shares issued to Members net of redemptions	26,317	(158,784)	-	-
Shares issued as dividends	-	2,489,325	1,740,237	154,147
Issued as at December 31, 2019	376,223	72,080,594	50,416,577	4,307,841
Shares issued to Members net of redemptions	11,610	-	-	-
Shares issued as dividends	-	2,583,267	1,786,911	153,432
Issued as at December 31, 2020	387,833	74,663,861	52,203,488	4,461,273

25 Share capital (continued)

(number of shares)	Series 01 Class A shares	Series 09 Class A shares	Series 15 Class A shares	Series 17 Class A shares
Issued as at January 1, 2019	63,174,314	79,777,155	128,225,365	168,950,384
Shares issued to Members net of redemptions	-	(1,085,661)	-	-
Shares issued as dividends	2,197,615	2,612,229	4,318,016	5,792,572
Issued as at December 31, 2019	65,371,929	81,303,723	132,543,381	174,742,956
Shares issued to Members net of redemptions	-	-	-	-
Shares issued as dividends	2,273,275	2,655,821	4,431,497	6,043,001
Issued as at December 31, 2020	67,645,204	83,959,544	136,974,878	180,785,957

(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 34.5.

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 2020 for the year ended December 31, 2020 amounted to $2,988 (2019 - $2,884), of which $322 (2019 - $301) will be paid in cash and have been recorded in the current year. The remaining $2,666 (2019 - $2,583) 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 34.5. Any declaration of dividends for the series 96 Class A shares is made by the Board in the third quarter of the fiscal year and the dividends, if and when declared, are payable annually on September 26. These shares are redeemable at the sole and absolute discretion of the Credit Union's Board of Directors. Based on these redemption characteristics, these shares have been recorded within Members' equity as Members' capital accounts.

25 Share capital (continued)

Dividends declared and paid on the series 96 Class A shares in 2020 amounted to $2,018 (2019 - $1,948), of which $231 was paid in cash (2019 - $208) and $1,787 (2019 - $1,740) was paid in the form of newly issued series 96 Class A shares. The full amount of the series 96 dividend was recorded in the current fiscal year.

Series 98 Class A shares

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

The holders of series 98 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 34.5. 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 2020 for the year ended December 31, 2020 amounted to $179 (2019 - $172), of which $22 (2019 - $19) will be paid in cash and have been recorded in the current year. The remaining $157 (2019 - $153) will be paid in the form of newly issued series 98 Class A shares and will be recorded in the following fiscal year when the shares are issued.

Series 01 Class A shares

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

The holders of series 01 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 34.5. 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 2020 for the year ended December 31, 2020 amounted to $2,616 (2019 - $2,528), of which $343 was paid in cash (2019 - $331) and $2,273 (2019 - $2,197) was paid in the form of newly issued series 01 Class A shares. The full amount of the series 01 dividend was recorded in the current fiscal year.

Series 09 Class A shares

The series 09 Class A shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate adjusted every five years. The new dividend rate for each five-year period will be set by the Board in its absolute discretion at a rate not less than a rate that exceeds by 125 basis points the yield on the monthly series of the Government of Canada five-year bonds as published by the Bank of Canada Review. The dividend rate for the five-year period beginning on January 1, 2020 was set at 4.00%.

The holders of series 09 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 34.5. 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 2020 for the year ended December 31, 2020 amounted to $3,360 (2019 - $3,173), of which $515 (2019 - $517) will be paid in cash and have been recorded in the current year. The remaining $2,845 (2019 - $2,656) will be paid in the form of newly issued series 09 Class A shares and will be recorded in the following fiscal year when the shares are issued.

25 Share capital (continued)

Series 15 Class A shares

Series 15 Class A shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate adjusted every five years. The new dividend rate for each five-year period will be set by the Board in its absolute discretion at a rate not less than a rate that exceeds by 125 basis points the yield on the monthly series of the Government of Canada five-year bonds as published by the Bank of Canada. The dividend rate for the five-year period ending December 31, 2024 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 34.5 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 2020 for the year ended December 31, 2020 amounted to $5,481 (2019 - $5,304), of which $863 (2019 - $872) will be paid in cash and have been recorded in the current year. The remaining $4,618 (2019 - $4,431) will be paid in the form of newly issued series 15 Class A shares and will be recorded in the following fiscal year when the shares are issued.

Series 17 Class A shares

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

The holders of Series 17 Class A shares are entitled to receive dividends, if and when declared by the Board, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in note 34.5 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 2020 for the year ended December 31, 2020 amounted to $7,687 (2019 - $7,430), of which $1,580 (2019 - $1,387) will be paid in cash and have been recorded in the current year. The remaining $6,107 (2019 - $6,043) 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 387,815 Members at December 31, 2020 (2019 – 378,402).

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

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

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

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

25 Share capital (continued)

(d) Dividends

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

	2020	2019
"50th Anniversary" Class A shares	2,906	2,790
Series 96 Class A shares	2,018	1,948
Series 98 Class A shares	175	173
Series 01 Class A shares	2,616	2,528
Series 09 Class A shares	3,172	3,129
Series 15 Class A shares	5,295	5,190
Series 17 Class A shares	7,625	7,180
Balance, December 31	23,807	22,938

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 $16,393 (2019 - $15,866). These dividends will be charged to retained earnings in the following year when the shares are issued as follows:

	2020	2019
"50th Anniversary" Class A shares	2,666	2,583
Series 98 Class A shares	157	153
Series 09 Class A shares	2,845	2,656
Series 15 Class A shares	4,618	4,431
Series 17 Class A shares	6,107	6,043
Balance, December 31	16,393	15,866

No dividends have been declared or paid on Membership shares for the years ended December 31, 2020 or December 31, 2019.

26 Net interest income

	2020	2019
Interest income		
Residential mortgages	322,628	290,053
Personal loans	67,557	70,969
Commercial loans	249,473	250,515
Interest income - loans	639,658	611,537
Finance receivables	59,208	63,014
Cash and cash equivalents	6,490	7,589
Investment in debt instruments	25,847	21,373
Total interest income	731,203	703,513
Interest expense		
Demand deposits	42,268	69,072
Term deposits	150,172	142,268
Registered plans	73,561	71,989
Interest expense - deposits	266,001	283,329
Interest on borrowings and subordinated debt	36,509	29,262
Mortgage securitization cost of funds	83,900	61,783
Interest on finance leases	2,493	2,545
Total interest expense	388,903	376,919

1 The presentation of profit or loss relating to ineffectiveness on designated hedge relationships and mark to market on nonhedge accounted derivatives was changed in 2020, with both now being presented in net gain (loss) on financial instruments. 2019 comparatives have been restated resulting in a decrease of $479 to net interest income and a corresponding increase to net gain (loss) on financial instruments.

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

27 Fees and other income

	2020	2019
Loan servicing fees	24,672	23,135
Mutual fund revenue	22,691	21,802
Service fees	18,870	19,035
Insurance commissions	6,928	8,966
Foreign exchange	4,746	5,583
Leasing revenue	6,488	6,467
Dividend income	4,171	1,801
Other revenue	6,304	6,349
Total fees and other income	94,870	93,138

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

28 Securitization income

	2020	2019
Net gain on sale of mortgages (net of realized hedging impact)	3,605	-
Total securitization income	3,605	-

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

29 Net gain (loss) on financial instruments

	2020	2019
Unrealized and realized gain or loss on derivatives	(8,290)	2,532
Hedge ineffectiveness	(1,076)	(2,053)
Unrealized gain or loss on loan modifications	(1,161)	-
Net gain (loss) on financial instruments	(10,527)	479

30 Income tax expense

	2020	2019
Current income tax expense	13,167	16,298
Future income tax recovery	(6,347)	(3,790)
Total income tax expense	6,820	12,508

Note 16 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:

	2020		2019	
	Tax provision	% of Pre-tax income	Tax provision	% of Pre-tax income
Operating earnings for the year, before tax	67,201	n/a	94,000	n/a
Income tax expense at statutory rates	17,807	26.5 %	24,910	26.5 %
Credit union rate reduction	(7,111)	(10.60)%	(8,033)	(8.5)%
Deductible dividend payments	(4,332)	(6.4)%	(4,244)	(4.5)%
Non-deductible expense	66	0.1 %	186	0.2 %
Non-taxable income	(71)	(0.1)%	(1)	- %
Adjustment of prior year provision	-	- %	(13)	- %
Impact of future tax rates	187	0.3 %	-	- %
Other items	274	0.3 %	(297)	(0.4)%
Income tax expense	6,820	10.1 %	12,508	13.3 %
Other comprehensive income for the year, before tax	(60,004)	n/a	538	n/a
Income tax expense, recognized directly in other comprehensive income	(12,503)	20.8 %	(325)	(60.4)%

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

30 Income tax expense (continued)

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

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

31 Related party transactions

The Credit Union's related parties include its subsidiaries, 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) Post-employment benefit plans

The defined benefit plans referred to in note 23 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 23. The Credit Union has not entered into other transactions with the defined benefit plans, neither has it any outstanding balances at the reporting dates.

(b) Key management personnel

Key management personnel include all members of the Board, officers of the Credit Union and members of the Executive Leadership Team as of December 31.

Transactions with related parties

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

	2020	2019
Salaries, retainers, per diems and other short-term employee benefits	5,581	6,643
Post-employment benefits	198	180
Total compensation	5,779	6,823

31 Related party transactions (continued)

Related party balances and transactions are detailed below:

Loans advanced to related parties

	2020	2019
Loan balance as at January 1	6,028	6,693
Change in loan balances during the year	(1,506)	(665)
Loan balance as at December 31	4,522	6,028
Total interest revenue earned on loans	139	171

Revolving credit facilities granted to related parties

	2020	2019
Total value of facilities approved as at January 1	2,153	3,924
Increase in limits granted	3,274	394
Total value of facilities approved at December 31	5,427	4,318
Balance outstanding	(2,184)	(2,165)
Net balance available on facilities as at December 31	3,243	2,153
Total interest revenue earned on revolving credit facilities	42	46

Term deposits held for related parties

	2020	2019
Deposit balance as at January 1	1,190	864
Net change in deposits during the period	(221)	326
Deposit balance as at December 31	969	1,190
Total interest expense on term deposits	30	27

Demand deposit balances held for related parties

	2020	2019
Deposit balance as at January 1	1,643	1,914
Net change in deposits during the year	1,079	(271)
Demand deposit balance as at December 31	2,722	1,643
Total interest expense on demand deposits	14	20

Other transactions with related parties

Sales/purchases of goods and services

Key management personnel and parties related to them provided $nil (2019 - $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.

31 Related party transactions (continued)

Other transactions with related parties (continued)

Shares and dividends

As at December 31, 2020 related parties hold share capital valued at $326 (2019 - $1,217). During the year, dividends of $49 (2019 - $54) were paid on these shares.

Guarantees and commitments

Commitments on undrawn credit facilities and letters of credit in the amount of $3,243 (2019 - $2,154) have been issued to related parties.

32 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, 2020 on NHA MBS that Meridian retains ownership of, either directly or through participation in the CMB Program, are $192,849 (2019 - $83,867).

The Credit Union is required as an Issuer of NHA MBS, to fund an additional unscheduled prepayment cash reserve, calculated based on the outstanding principal balance of all outstanding NHA MBS as at December 31, 2020. As at December 31, 2020 the expected amount of the cash reserve required is $70,558 (2019 - $54,067). As the obligation to fund the increased cash reserve will not take effect until 2021, no amount has been recorded in the consolidated financial statements of the Credit Union as at December 31, 2020 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 $8,121 balance of assigned collateral as at December 31, 2020 (2019 - $nil).

(d) Commitments for loans

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

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

32 Contingent liabilities and commitments (continued)

	2020	2019
Undrawn overdrafts and credit facilities	2,961,313	2,809,079
Standby and commercial letters of credit	197,331	218,647
Loans approved but not funded:		
Retail mortgages	45,568	50,290
Personal loans	964	1,196
Commercial loans	1,648,716	1,519,547
Total loan commitments as at December 31	4,853,892	4,598,759

(e) Guarantees

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

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

(f) Meridian's Commitment to Communities

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

Meridian Hall and Meridian Arts Centre

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

Meridian Community Centre

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

Meridian Theatres @ Centrepointe

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

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

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

32 Contingent liabilities and commitments (continued)

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:

	2020	2019
Within 1 year	1,662	2,735
1 to 5 years	12,991	13,541
Over 5 years	20,820	23,541
Total	35,473	39,817

Total payments made during 2020 were $1,225 (2019 - $2,735) of which $1,377 (2019 - $1,229) are included on the consolidated income statement within administration expenses.

(g) Equity investments

In 2019, the Credit Union made an initial equity investment of $2,500, representing a 25% stake, in the V!VA West Rouge Limited Partnership to build and operate a 270 unit residential retirement home in Scarborough, Ontario. Meridian provided an additional $250 equity finance over 2020 and has committed to provide an additional $4,000 over the next two years for the purposes of completing the development of the property. To the extent that the General Partner is unable to arrange outside funds to meet the requirements of the business of the Partnership, the Credit Union may also be required to provide additional debt finance in proportion to its equity stake. The related investment is recognized on the consolidated balance sheet in investments in equity instruments, details of which can be found in note 8.

33 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, 2020, the aggregate value of loans issued to restricted parties was $5,996 (2019 - $6,854). 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 $942 (2019 - $965) for annual retainer and per diem and $25 (2019 - $80) for reimbursement of travel and out-of-pocket expenses.

33 Regulatory information (continued)

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	589	521	101
Gary Genik, SVP & Chief Operating Officer	360	344	71
Leo Gautreau, SVP & Chief Risk Officer	323	282	70
Sunny Sodhi, SVP & Chief Strategy and Corporate Affairs Officer	299	258	63
Tara Daniel, SVP & Chief Financial Officer	291	175	63

Deposit insurance

The annual premium paid to FSRA and CDIC for insuring deposits during the year ended December 31, 2020 was $12,221 (2019 - $10,370). The premium rates are based on relative risk to the insurance fund as measured by an overall composite risk score encompassing financial and other risk based factors.

Central 1 fees

The total fees paid to Central 1 amounted to $3,726 (2019 - $4,287) 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.

34 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.

34.1 Credit risk

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

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

(i) approval by the Board, of the Credit Risk Management Policy including, but not limited to, the following six areas:

a. credit risk assessment, including policies related to credit risk analysis, monitoring risk rating and scoring;
b. credit risk mitigation, including credit structuring, collateral and guarantees;
c. credit risk approval, including credit risk limits and exceptions;
d. credit processes focusing on documentation and administration (supported by robust loan origination system for all lines of business);
e. credit reviews and ongoing portfolio monitoring, focusing on monitoring of financial performance, covenant compliance and any sign of deteriorating performance;
f. credit portfolio management, including sectoral, geographic, and overall risk concentration limits, risk quantification and trending;

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

34 Financial risk management (continued)

34.1 Credit risk (continued)

(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 large exposures;
b. the development and implementation of credit risk models and policies for establishing borrower and security risk ratings to quantify and monitor the level of risk and facilitate management of Commercial credit business;
c. approval of the scoring techniques and standards used in extending, monitoring and reporting of mortgages, personal loans and lines of credit as well as business related credit products; and
d. implementation of an ongoing monitoring process of the key risk parameters used in our credit risk models.

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

Management has the responsibility to:

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

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

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

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

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

The Credit Union's credit risk portfolio is diversified with the objective of spreading risk. Diversification is assessed using different measures in each portfolio. In the Retail portfolio, diversification areas include authorized loan types, forms of security, geography concentrations, and sectoral groupings and/or such other objective criteria that the Board may set from time to time. In the Small Business and Commercial loan portfolio, diversification is achieved through 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 73.5% (2019 - 66%) of the total Commercial loan portfolio.

Finance Receivables are diversified based on both geography (within Canada) and the asset classes being leased to obligors. Diversification within the portfolio is reviewed on a regular basis. The top five asset classes represent 73% (2019 – 75%) of the portfolio.

34 Financial risk management (continued)

34.1 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 and/or are currently borrowing from. The benchmark is measured monthly to ensure that the risk of the portfolio is managed on an ongoing basis. The risk ratings of the portfolio range from A+, which represents very low risk, to E, which represents the highest risk.

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

Meridian's Credit Card portfolio entered its fourth year of operations, and third 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 been updated to reflect new risks associated with the COVID-19 pandemic. Credit risk policies, processes and methodologies governing the acquired Finance Receivables portfolio largely align to those of the Credit Union.

Except as noted, the carrying value of financial assets recorded in the consolidated financial statements, which is net of expected credit losses, represents the Credit Union's maximum exposure to credit risk. The Credit Union is also exposed to credit risk through transactions, which are not recognized in the consolidated balance sheet, such as granting financial guarantees and extending loan commitments. Refer to note 32 for further details. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained. Refer to notes 9 and 10 for a description of the nature of the security held against loans as at the consolidated balance sheet date.

Meridian continues to promote the government funding programs aimed to help Members and customers navigate through the economic challenges brought by the COVID-19 pandemic. The pace of the economic recovery has been steady, but slowing and uneven across various industries, with some sectors recovering more quickly than others. Meridian has provided tailored payment deferral options for various lending products to those Members most directly impacted by the COVID-related economic challenges across all lines of business, including Retail, Small Business, Commercial, Finance Receivables and Credit Cards. The most significant type of payment relief offered in the Credit Union and motusbank was an expansion to existing skip-a-payment features. Members could request to skip interest and principal payments in two-month periods to a maximum of six months. Upon resumption, payments are applied to outstanding interest first before being applied to the principal balance. Commercial Members of the Credit Union could also request to move to interest-only payments in three-month periods to a maximum of six months. OneCap offered two types of payment relief. The first being an abatement program, whereby customers could request to have their payments reduced by 75% for a three-month period, with the reduced payments being added to the remaining amortization of the lease plus interest. Following the expiry of the abatement program, OneCap offered customers a second program, whereby the full payment could be deferred. The period of this deferral program was determined on a case-by-case basis depending on financial need, with deferred payments being added to the end of the lease's term. The vast majority of facilities that required deferrals have returned to regularly scheduled payments, with minimal subsequent delinquency arising. The credit quality of the portfolio continues to be actively monitored using a wide array of tools and techniques, with real-time insights and sound financial advice provided to Members to help them maintain their financial well-being.

34 Financial risk management (continued)

34.1 Credit risk (continued)

Expected credit loss measurement:

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

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

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

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

Significant increase in credit risk:

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

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

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

- The industry or employment of the borrower has been determined to be in the highest category of exposure to COVID-19 related risks
- The borrower has been approved for two or more periods of COVID-19 related payment relief and it has been less than 90 days since payments recommenced
- The industry or employment of the borrower has been determined to be in the medium or highest category of exposure to COVID-19 related risks in addition to having been approved for one or more two-month periods of COVID-19 related payment relief (and it has been less than 90 days since payments recommenced).

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

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

The Credit Union has not applied the low credit risk exemption for any financial instruments in the year ended December 2019 or 2020.

34 Financial risk management (continued)

34.1 Credit risk (continued)

Definition of default and credit-impaired assets:

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

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

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

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

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

Probability of default:

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

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

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

Exposure at default:

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

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

Loss given default:

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

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

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

Forward-looking information incorporated into the ECL models:

34 Financial risk management (continued)

34.1 Credit risk (continued)

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

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

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

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

34 Financial risk management (continued)

34.1 Credit risk (continued)

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at December 31, 2020 are set out below. The ranges (where relevant) capture variability between Ontario versus national economic forecasts used for portfolios depending on their geographic footprint.

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

The weightings assigned to each scenario were as follows:

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

34 Financial risk management (continued)

34.1 Credit risk (continued)

The most significant period-end assumptions used for the ECL estimate as at December 31, 2019 are set out below. The ranges (where relevant) capture variability between Ontario versus national economic forecasts used for the Credit Union and OneCap respectively.

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

For 2019, the weightings assigned to each scenario were as follows:

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

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

Given the sensitivity of allowances for ECL to estimates of future economic conditions the multiple forward-looking scenarios and probability assigned to each, an analysis has been undertaken to understand the impact of alternative scenarios and weightings. For 2020, the sensitivities were as follows:

Interest Rates:

Moving interest rates across up or down by 50 basis points across all scenarios resulted in a decrease of $1,076 or increase of $1,076 respectively to the allowance (2019 - $825).

Unemployment:

Moving unemployment rates across up or down by 50 basis points across all scenarios resulted in an increase of $1,597 or decrease of $1,566 respectively to the allowance (2019 - $1,365).

Real GDP Growth:

Moving real GDP growth rates across up or down by 50 basis points across all scenarios resulted in an increase of $1,071 or decrease of $1,069 respectively to the allowance (2019 - $875).

Probability Weightings:

Increasing or decreasing the probability weighting assigned to the 75th percentile downside scenario by ten percent versus the baseline scenario resulted in an increase of $2,025 or decrease of $1,986 respectively to the allowance (2019 - $1,430). Applying 100% weight to the 96th percentile scenario would result in an increase to the allowance of $25,167. Conversely, applying 100% weight to the 4th percentile scenario would result in a decrease to the allowance of $19,133.

34 Financial risk management (continued)

34.1 Credit risk (continued)

COVID-19 related overlays:

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

34.2 Market risk

(a) Interest rate risk

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when it enters into banking transactions with its Members, namely deposit taking and lending. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is repriced when interest rates change, when there is cash flow from final maturity, normal amortization, or when Members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively Members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. Overall responsibility for asset/liability management rests with the Board. As such, the Board receives regular reports on risk exposures and performance against approved limits. The Board delegates the responsibility to manage the interest rate risk on a day-to-day basis to the Asset/Liability Committee ("ALCO"), which meets no less frequently than monthly. ALCO is chaired by the CFO and includes other senior executives.

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

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

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

The carrying values of interest sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next reprice to market rates or mature, and are summed to show the interest rate sensitivity gap. Amounts relating to non-interest sensitive assets and liabilities are also disclosed for the purpose of tying back to the total carrying value of each line item. Loans are adjusted for prepayment estimates which reflect expected repayments on other than contractual maturity dates. The prepayment rate applied to the portfolio is based on experience and current economic conditions. The average rates presented represent the weighted average effective yield based on the earlier of contractual repricing or maturity dates. Further information related to the derivative financial instruments used to manage interest rate risk is included in note 11.

34 Financial risk management (continued)

34.2 Market risk (continued)

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

34 Financial risk management (continued)

34.2 Market risk (continued)

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

34 Financial risk management (continued)

	December 31, 2019					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Assets						
Cash and cash equivalents	423,860	150,000	-	-	2,046	575,906
Yield	1.85 %	1.76 %	-	-	-	1.82 %
Receivables	-	154	697	534	5,497	6,882
Yield	-	3.20 %	3.23 %	3.32 %	-	0.66 %
Investments in debt instruments	-	1,059,889	335,358	-	4,851	1,400,098
Yield	-	1.73 %	1.44 %	-	-	1.66 %
Loans	4,295,961	3,351,715	9,631,577	37,380	33,276	17,349,909
Yield	5.13 %	3.42 %	3.21 %	3.75 %	-	3.72 %
Finance receivables	9,118	403,926	760,122	9,905	(13,906)	1,169,165
Yield	6.49 %	5.87 %	5.86 %	5.79 %	-	5.94 %
Derivative financial assets	32,012	-	-	-	-	32,012
Yield	-	-	-	-	-	-
Investments in equity instruments	-	-	-	-	84,517	84,517
Yield	-	-	-	-	-	-
Other assets	-	-	-	-	341,625	341,625
Yield	-	-	-	-	-	-
Total assets	4,760,951	4,965,684	10,727,754	47,819	457,906	20,960,114
Liabilities and Members' equity						
Deposits	5,509,457	4,707,847	3,099,426	5	1,552,763	14,869,498
Yield	1.49 %	2.65 %	2.83 %	2.85 %	-	1.98 %
Borrowings	300,000	-	-	-	444	300,444
Yield	2.81 %	-	-	-	-	2.81 %
Lease liabilities	-	7,279	32,292	46,023	-	85,594
Yield	-	2.88 %	3.13 %	3.06 %	-	3.07 %
Secured borrowings	1,061,612	294,783	-	-	2,625	1,359,020
Yield	2.93 %	2.08 %	-	-	-	2.74 %
Mortgage securitization liabilities	122,243	657,558	2,239,992	-	(18,130)	3,001,663
Yield	2.46 %	1.77 %	1.86 %	-	-	1.88 %
Derivative financial liabilities	10,063	-	-	-	-	10,063
Yield	-	-	-	-	-	-
Subordinated Debt	50,000	-	-	-	(105)	49,895
Yield	5.49 %	-	-	-	-	5.49 %
Other liabilities and Members' equity	-	-	-	-	1,283,937	1,283,937
Yield	-	-	-	-	-	-
Total liabilities and Members' equity	7,053,375	5,667,467	5,371,710	46,028	2,821,534	20,960,114

34 Financial risk management (continued)

	December 31, 2019					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Fixed pay swaps	2,029,379	(364,470)	(1,611,301)	(53,608)	-	-
Yield	2.03 %	1.95 %	1.94 %	1.92 %	-	-
Fixed receive swaps	(1,350,000)	1,193,000	157,000	-	-	-
Yield	1.89 %	1.88 %	1.91 %	-	-	-
Total derivatives	679,379	828,530	(1,454,301)	(53,608)	-	-
Interest sensitivity position	(1,613,045)	126,747	3,901,743	(51,817)	(2,363,628)	-

The management of interest rate risk against internal exposure limits is supplemented by monitoring the sensitivity of the Credit Union's financial assets and financial liabilities to standard interest rate shock scenarios. The key metrics used to monitor this sensitivity are Earnings at Risk ("EaR") and Economic Value of Equity at Risk ("EVaR"). EaR is defined as the change in our net interest income from a predetermined shock to interest rates measured over a 12 month period. EVaR is defined as the change in the present value of the Credit Union's asset portfolio resulting from a predetermined shock versus the change in the present value of the Credit Union's liability portfolio resulting from the same predetermined interest rate shock. The Credit Union completes various static and dynamic interest rate shock scenarios throughout the year, including a 100 basis point ("bps") rate shock. With the Bank of Canada decreasing its overnight rate to 0.25%, MCU's shock down 100bps scenario has been limited with floors as to keep key rates above 0%. The estimated impact of a 100 bps rate shock on these metrics is presented below.

	2020	2019
EaR: 100 bps exposure	(6,591)	(1,756)
EVaR: 100 bps exposure	3.02%	(4.36%)

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Credit Union is exposed to foreign currency risk as a result of its Members' activities in foreign currency denominated deposits and cash transactions. The Credit Union's foreign currency risk is subject to formal risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits are designed to ensure, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and variances from approved limits. The aforementioned activities that expose the Credit Union to foreign currency risk are measured, monitored and controlled daily to minimize the adverse impact of sudden changes in foreign currency values with respect to the Canadian dollar. U.S. dollar denominated liabilities are hedged through a combination of U.S. dollar investments and forward rate agreements to buy U.S. dollars and net exposure as measured on a daily basis is limited to 1% of prior year ending Members' equity. The Credit Union uses forward foreign currency derivative financial instruments to neutralize its exposure to foreign exchange contracts with Members. As at December 31, 2020 and December 31, 2019, the Credit Union's exposure to a 10% change in the foreign currency exchange rate, which is reasonably possible, is insignificant.

(c) Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The Credit Union is exposed to other price risk in its own investment portfolio. The Credit Union adheres to the principles of quality and risk diversification in its investment practices. The Credit Union's other price risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits assist in ensuring, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. As at December 31, 2020 and December 31, 2019, the Credit Union has limited investments subject to other price risk and this exposure is insignificant.

34 Financial risk management (continued)

34.3 Liquidity risk

Liquidity risk arises in the course of managing the Credit Union's financial assets and financial liabilities. It is the risk that the Credit Union is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund its consolidated balance sheet under both normal and stressed market environments. The Credit Union's liquidity risk is subject to formal risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits assist in ensuring, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. ALCO provides management oversight of liquidity risk through its monthly meetings.

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

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

Under FSRA regulations, the Credit Union will establish and maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs, including depositor withdrawals and all other obligations as they come due. The liquid asset ratio measures the Credit Union's liquid assets as a percentage of total assets and is used by the Credit Union to monitor its liquidity position, in addition to Liquidity Coverage Ratio and Net Cumulative Cash Flows metrics. In normal circumstances, the Credit Union targets to maintain a liquid asset ratio within the range of 9.00% to 13%. Through the onset of the pandemic MCU has increased its liquid asset ratio and maintained operating in the range of 14%-17% through the end of 2020. As at December 31, 2020, the Credit Union's liquid asset ratio was 14.50% (2019 – 9.92%).

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 32.

34 Financial risk management (continued)

34.3 Liquidity risk (continued)

	December 31, 2020						
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	1,606,533	6,299	-	-	-	-	1,612,832
Receivables	6,178	440	929	784	471	-	8,802
Current income tax asset	3,354	-	-	-	-	-	3,354
Investments in debt instruments	218,068	1,563,310	151,781	21,453	-	1,191	1,955,803
Investments in equity instruments	64	870	120	-	-	113,834	114,888
Loans	986,632	5,935,374	7,033,085	4,916,182	186,731	-	19,058,004
Finance receivables	37,392	396,334	560,831	170,815	9,121	8,474	1,182,967
Other assets	131	1,325	2,994	2,843	5,801	-	13,094
Total financial assets	2,858,352	7,903,952	7,749,740	5,112,077	202,124	123,499	23,949,744
Financial liabilities							
Deposits	8,459,636	4,104,106	3,110,335	311,818	-	-	15,985,895
Borrowings	335	3,596	7,860	300,795	-	-	312,586
Payables and other liabilities	148,807	366	785	751	1,589	-	152,298
Current income tax payable	99	-	-	-	-	-	99
Secured borrowings	33,124	345,427	455,037	138,481	6,235	-	978,304
Mortgage securitization liability	55,233	1,494,600	1,636,942	1,326,744	-	-	4,513,519
Subordinated debt	-	7,733	15,461	137,598	58,403	-	219,195
Finance lease liabilities	819	8,966	19,536	18,831	35,304	-	83,456
Employee obligations	23,954	-	-	-	-	-	23,954
Total financial liabilities	8,722,007	5,964,794	5,245,956	2,235,018	101,531	-	22,269,306
Net	(5,863,655)	1,939,158	2,503,784	2,877,059	100,593	123,499	1,680,438

34 Financial risk management (continued)

34.3 Liquidity risk (continued)

	December 31, 2019						
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and cash equivalents	575,915	-	-	-	-	-	575,915
Receivables	5,584	180	406	406	580	-	7,156
Current income tax asset	3,088	-	-	-	-	-	3,088
Investments in debt instruments	55,846	1,028,942	353,135	-	-	1,173	1,439,096
Investments in equity instruments	-	-	-	-	-	84,517	84,517
Loans	909,212	4,915,254	7,732,546	4,922,629	167,592	-	18,647,233
Finance receivables	46,752	412,137	601,401	209,281	9,920	7,922	1,287,413
Total financial assets	1,596,397	6,356,513	8,687,488	5,132,316	178,092	93,612	22,044,418
Financial liabilities							
Deposits	7,245,749	4,634,544	2,464,550	805,426	6	-	15,150,275
Borrowings	718	8,015	17,512	310,120	-	-	336,365
Payables and other liabilities	115,795	-	-	-	-	-	115,795
Current income tax payable	2,848	-	-	-	-	-	2,848
Secured borrowings	331,163	380,079	515,491	178,638	6,086	-	1,411,457
Mortgage securitization liability	22,591	740,175	1,716,952	664,350	-	-	3,144,068
Subordinated debt	235	2,549	5,569	5,569	64,135	-	78,057
Finance lease liabilities	818	9,030	20,120	19,943	50,758	-	100,669
Total financial liabilities	7,719,917	5,774,392	4,740,194	1,984,046	120,985	-	20,339,534
Net	(6,123,520)	582,121	3,947,294	3,148,270	57,107	93,612	1,704,884

34 Financial risk management (continued)

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

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

	December 31, 2019					
	Less than 1 month	**2 to 12 months**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Equity index-linked options	-	8,596	8,769	2,745	-	20,110
Gross-settled foreign exchange forward contracts						
Outflow	-	(826)	(788)	-	-	(1,614)
Inflow	730	830	793	-	-	2,353
Interest rate swaps						
Outflow	-	(2,227)	(130)	(351)	(235)	(2,943)
Inflow	-	1,329	2,135	2,814	144	6,422
Total	730	7,702	10,779	5,208	(91)	24,328

Derivative financial assets and liabilities reflect interest rate swaps that will be settled on a net basis and foreign exchange forward contracts and index-linked equity options that will be settled on a gross basis (see note 11).

The gross inflows/(outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial assets and liabilities held for risk management purposes and which are infrequently terminated before contractual maturity. The future cash flows on derivative instruments may differ from the amount in the above table as interest rates, exchange rate and equity market indices change. Cash outflows relating to the embedded written option in equity index-linked deposits are included with deposits in the previous table for non-derivative financial assets and liabilities.

34.4 Fair value

The following table represents the fair values of the Credit Union's financial assets and financial liabilities for each classification of financial instruments. The fair values for short-term financial assets and financial liabilities approximate carrying value. These include accrued interest receivable, accounts payable, accrued liabilities and accrued interest payable. The fair values disclosed do not include the value of liabilities that are not considered financial instruments.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of the Credit Union's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

34 Financial risk management (continued)

34.4 Fair value (continued)

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	December 31, 2020			December 31, 2019		
	Carrying value	Fair value	Fair value differences	Carrying value	Fair value	Fair value difference
Financial assets at FVTPL:						
Derivative instruments						
Equity index-linked options	13,860	13,860	-	20,039	20,039	-
Interest rate swaps assets	1,057	1,057	-	11,964	11,964	-
Foreign exchange contracts assets	33	33	-	9	9	-
Investments in equity instruments	90,748	90,748	-	84,517	84,517	-
Financial assets at FVTOCI:						
Investments in debt instruments	246,066	246,066	-	-	-	-
Investments in equity instruments	23,520	23,520	-	-	-	-
Amortized cost:						
Cash and cash equivalents	1,612,807	1,612,792	(15)	575,907	575,879	(28)
Receivables	8,681	8,681	-	6,882	6,882	-
Investments in debt instruments	1,688,978	1,673,610	(15,368)	1,400,098	1,385,991	(14,107)
Loans	17,930,439	17,981,104	50,665	17,349,909	17,139,741	(210,168)
Finance receivables	1,079,610	1,178,838	99,228	1,169,165	1,169,499	334
Other assets	12,610	12,614	4	-	-	-
Total financial assets	22,708,409	22,842,923	134,514	20,618,490	20,394,521	(223,969)
Financial liabilities at FVTPL:						
Derivative instruments						
Interest rate swaps	48,606	48,606	-	10,063	10,063	-
Foreign exchange contracts	28	28	-	-	-	-
Other liabilities:						
Deposits	15,778,023	15,895,326	117,303	14,869,498	14,929,528	60,030
Borrowings	300,279	300,279	-	300,444	300,444	-
Payables and other liabilities	151,927	151,928	1	57,497	57,497	-
Secured borrowings	955,380	955,380	-	1,359,020	1,359,020	-
Mortgage securitization liabilities	4,358,412	4,367,015	8,603	3,001,663	2,950,337	(51,326)
Subordinated debt	175,200	177,915	2,715	49,895	50,143	248
Employee obligations	23,953	23,953	-	33,212	33,212	-
Membership shares	388	388	-	376	376	-
Total financial liabilities	21,792,196	21,920,818	128,622	19,681,668	19,690,620	8,952

34 Financial risk management (continued)

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

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

i. The fair value of cash and cash equivalents, excluding short-term deposits with original maturities of 100 days or less, are assumed to approximate their carrying values, due to their short-term nature. The fair value of short-term deposits with original maturities of 100 days or less are based on fair market values, which are derived from valuation models and a credit valuation adjustment is applied to account for counterparty risk.
ii. The fair value of investments in debt instruments is determined either by discounting the expected future cash flows using on these investments at current market rates and applying a credit valuation adjustment for counterparty risk, or by taking the fair values provided in investor statements
iii. The fair value of equity investments is determined using discounted cash flow models or by referencing market prices for publicly listed instruments.
iv. The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to carrying value. The interest rates on these loans and deposits reprice on a periodic basis with market fluctuation. Repricing of uninsured floating rate deposits incorporates a spread that accounts for the Credit Union's own credit risk. Impairment allowances, which are included in the carry value of variable rate loans, are assumed to capture changes in credit spreads.
v. The fair value of other assets are assumed to approximate their carrying values when short-term in nature. In some instances, other valuation techniques may be applied.
vi. The estimated fair value of fixed rate deposits and Member entitlements is determined by discounting the expected future cash flows of these investments, deposits and borrowings at current market rates for products with similar terms and credit risks. A credit valuation adjustment is applied when determining the current market rates used to calculate the fair value of uninsured fixed rate deposits to account for counterparty and the Credit Union's own credit risk.
vii. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows of these loans at current market rates for products with similar terms and credit risks. Historical prepayment experience is considered along with current market conditions in determining expected future cash flows. In determining the adjustment for credit risk, consideration is given to market conditions, the value of underlying security and other indicators of the borrower's creditworthiness.
viii. The estimated fair value of derivative instruments is determined through valuation models based on the derivative notional amounts, maturity dates and rates and a credit valuation adjustment is applied to account for counterparty and the Credit Union's own credit risk.
ix. The fair values of payables and other liabilities are assumed to approximate their carrying values when short-term in nature. In some instances, other valuation techniques may be applied.

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

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

34 Financial risk management (continued)

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

	Fair value as at December 31, 2020		
	Level 1	Level 2	Level 3
Recurring measurements			
Financial assets			
Derivative financial assets:			
Equity index-linked options	-	13,860	-
Interest rate swaps	-	1,057	-
Foreign exchange contracts	-	33	-
Investments in debt instruments	-	246,066	-
Investments in equity instruments	23,520	83,498	7,250
Total financial assets	23,520	344,514	7,250
Financial liabilities			
Embedded derivatives in index-linked deposits	-	(13,500)	-
Derivative financial liabilities:			
Interest rate swaps	-	(48,606)	-
Foreign exchange contracts	-	(28)	-
Total financial liabilities	-	(62,134)	-
Fair values disclosed			
Cash and cash equivalents	693,575	919,217	-
Receivables	-	8,681	-
Investments in debt instruments	-	1,673,610	-
Loans	-	-	17,981,104
Finance receivables	-	-	1,178,838
Other assets	-	12,614	-
Deposits	-	(15,881,826)	-
Borrowings	-	(300,279)	-
Payables and other liabilities	-	(151,928)	-
Secured borrowings	-	(955,380)	-
Mortgage securitization liabilities	-	(4,367,015)	-
Subordinated debt	-	(177,915)	-
Employee obligations	-	(23,953)	-
Membership shares	-	(388)	-

34 Financial risk management (continued)

	Fair value as at December 31, 2019		
	Level 1	**Level 2**	**Level 3**
Recurring measurements			
Financial assets			
Derivative financial assets:			
Equity index-linked options	-	20,039	-
Interest rate swaps assets	-	11,964	-
Foreign exchange contracts assets	-	9	-
Investments in equity instruments	-	84,517	-
Total financial assets	-	116,529	-
Financial liabilities			
Embedded derivatives in index-linked	-	(19,704)	-
Derivative financial liabilities:			
Interest rate swaps liabilities	-	10,063	-
Total financial liabilities	-	(9,641)	-
Fair values disclosed			
Cash and cash equivalents	425,893	149,986	-
Receivables	-	6,882	-
Investments in debt instruments	-	1,385,991	-
Loans	-	-	17,422,994
Finance receivables	-	-	1,169,499
Deposits	-	(14,909,825)	-
Borrowings	-	(300,444)	-
Payables and other liabilities	-	(57,497)	-
Secured borrowings	-	(1,359,020)	-
Mortgage securitization liabilities	-	(2,950,337)	-
Subordinated debt	-	(50,143)	-
Employee obligations	-	(33,212)	-
Membership shares	-	(376)	-

The fair values of cash and cash equivalents, receivables, payables and other liabilities and employee obligations approximate their carrying values due to their short-term nature.

There have been no transfers between levels of the fair value hierarchy during the year.

34.5 Capital management

The Credit Union maintains policies and procedures relative to capital management so as to ensure the capital levels are sufficient to cover risks inherent in the business.

The Credit Union's objectives when managing capital are:

- to ensure that the quantity, quality and composition of capital needed reflects the inherent risks of the entity and to support the current and planned operations and portfolio growth;
- to provide a safety net for the variety of risks to which the entity is exposed in the conduct of its business and to overcome the losses from unexpected difficulties either in earnings or in asset values;
- to provide a basis for confidence among Members, depositors, creditors and Regulatory agencies;
- to form a solid foundation for business expansion and ongoing reinvestment in business capabilities, including technology and process automation and enhancement; and

34 Financial risk management (continued)

34.5 Capital management (continued)

- to establish a capital management policy for the entity appropriate for current legal and economic conditions, including compliance with regulatory requirements and with FSRA's standards of Sound Business and Financial Practices.

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

Tier 1 capital, otherwise known as core capital, is the highest quality. It is comprised of retained earnings, contributed surplus, Members' capital accounts, and Member entitlements with the exception of the series 96 Class A shares. Of the "50th Anniversary", series 98, series 01, series 09, and series 15. Class A shares that have been included within Members' capital accounts, only 90% are allowable as Tier 1 capital due to specific features of these shares. Series 17 Class A shares are included at 100% due to a redemption restriction for 5 years from date of issuance. Tier 1 capital as at December 31, 2020 was $1,062,589 (2019 - $1,016,336).

Tier 2 capital, otherwise known as supplementary capital, contributes to the overall strength of a financial institution as a going concern, but is of a lesser quality than Tier 1 capital relative to both permanence and freedom from charges. It is comprised of the series 96 Class A shares and the 10% portion of the "50th Anniversary", series 98, series 01, series 09 and series 15 Class A shares that are not admissible as Tier 1 capital. It also includes the subordinated debt and the eligible portion of stage 1 and 2 expected credit loss allowances. Tier 2 capital as at December 31, 2020 was $326,104 (2019 - $154,289).

The Act requires credit unions to maintain a minimum capital ratio of 4% and a risk weighted capital ratio of 8%. The Credit Union has a stated policy that it will maintain at all times capital equal to the minimum required by the Act plus a prudent cushion. The Credit Union's internal policy also dictates that the ratio of Tier 1 capital to total capital will be a minimum of 60%. These internal limits are increased by the Board in tandem with significant increasing risk detected in the economic environment of the Credit Union. The Credit Union is in compliance with the Act as indicated by the table below:

	Regulatory	Capital leverage ratio		Risk weighted capital	
	capital	Minimum	Actual	Minimum	Actual
2020	1,388,693	4.00 %	6.35 %	8.00 %	13.52 %
2019	1,170,625	4.00 %	5.94 %	8.00 %	11.74 %

Motus Bank manages capital in accordance with the guidelines established by OSFI, based on standards issued by the Bank for International Settlements' Basel Committee on Banking Supervision ("BCBS"). OSFI's Capital Adequacy Requirements ("CAR") Guideline details how Basel III rules apply to Canadian banks. Regulatory capital is calculated as a percentage of total risk weighted assets. Risk weighted assets are calculated by applying risk weighted percentages, as prescribed by the CAR guideline, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent on the degree of risk inherent in the asset.

OSFI has mandated that all OSFI-regulated financial institutions meet target Capital Ratios: those being a CET1 ratio of 7.0%, a Tier 1 Capital Ratio of 8.5% and a total Capital Ratio of 10.5%. Motus Bank has a stated policy that it will maintain at all times capital equal to the minimum required by the Act plus a prudent cushion. Motus Bank does not currently hold any Additional Tier 1 capital. Motus Bank is in compliance with its regulatory requirements.

Canadian banks are required to report on OSFI's Leverage Ratio which is based on Basel III guidelines. OSFI has established minimum Leverage Ratio targets on a confidential and institution-by-institution basis.

35 Reconciliation of liabilities arising from financing activities

	2020	2019
Proceeds from securitization of mortgages	2,589,989	1,074,274
Net change in mortgage securitization liabilities	(1,352,282)	(454,670)
Net change in borrowings	(273)	300,887
Net change in secured borrowings	(402,221)	231,488
Net change in subordinated debt	125,249	50,038
Net change in leases liabilities	(7,520)	82,890
Net cash from changes in Membership shares	12	26
Net cash from changes in liabilities	952,954	1,284,933
Dividends paid on Members' capital accounts	(3,670)	(3,558)
Net change in Member capital accounts	-	(1,244)
Cash provided by financing activities	949,284	1,280,131

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

	January 1, 2019	Cash Flow	Non-Cash Changes		December 31, 2019
			Changes in Accrued Interest	Amortization of Deferred Amounts	
Borrowings	11	300,433	-	-	300,444
Secured borrowings	1,127,736	231,488	(204)	-	1,359,020
Mortgage securitization liabilities	2,428,275	619,604	219	(46,435)	3,001,663
Membership shares	350	26	-	-	376
Total	3,556,372	1,151,551	15	(46,435)	4,661,503

36 Comparative information

Certain comparative information has been revised to conform to the presentation adopted in these current year financial statements and accompanying notes. Included in this change is the presentation of profit or loss relating to ineffectiveness on designated hedge relationships and mark to market on non-hedge accounted derivatives was changed in 2020, with both now being presented in net gain (loss) on financial instruments. 2019 comparatives have been restated resulting in a decrease of $479 to net interest income and a corresponding increase to net gain (loss) on financial instruments.

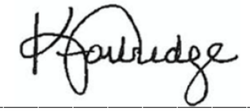
37 Events after the reporting period

On January 4 2021, the segregation of the mandatory liquidity pool maintained by Central 1 Credit Union was finalized, as per Central 1's requirements. The deposits held in the mandatory liquidity pool by the Credit Union of $1,334,191 were settled in exchange for a portfolio of debt instruments which qualify as high-quality liquid assets ("HQLA"). The Credit Union received an amount of HQLA whose fair value was equal to the fair value of the deposits held immediately before the transition date. The new portfolio of securities is measured at FVTOCI. As a result of this transfer, there was an income statement impact of $3,265 gain to the Credit Union recorded in 2021. Subsequently, Central 1 Class F shares of $61,286 were redeemed at par in cash to the Credit Union.

38 Authorization of consolidated financial statements

The consolidated financial statements for the year ended December 31, 2020 were approved by the Board of Directors on March 10, 2021.

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



Karen Farbridge
Chair, Board of Directors

Ken Bolton
Chair, Audit & Finance Committee