

2013 Annual Report

Corporate Governance Report

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Corporate Governance Report

Governing Legislation and Regulation

Meridian operates within a comprehensive regulatory framework, and is established under provincial legislation, The Credit Union and Caisses Populaires Act, 1994. Primarily, credit unions are regulated by two bodies, the Financial Services Commission of Ontario (FSCO), and the Deposit Insurance Corporation of Ontario (DICO).

The Ministry of Finance develops and establishes the legislative and regulatory framework under which credit unions must operate. FSCO ensures that credit unions operate in accordance with the requirements of the act and regulations, particularly with respect to issues involving market conduct relating to Members

and the general public. DICO oversees compliance with solvency rules, and provides deposit insurance protection, up to prescribed limits, for deposits held in Ontario credit unions and caisses populaires. As part of this responsibility, DICO has the authority to issue bylaws to ensure that insured institutions operate in accordance with sound business and financial practices. Meridian meets quarterly with DICO representatives, provides regular reporting to DICO, and participates in periodic, risk-based examinations to promote responsible governance through strength and stability.

Approach to Governance at Meridian

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

Meridian operates under a principles-based governance philosophy with policies and procedures built on the following key responsibilities:

- Fulfill legal and fiduciary obligations, ensuring adherence at all times to statutory and regulatory requirements.
- Act in the best interests of Meridian and the totality of the Membership.

- Continually educate Members on the role of the Board of Directors and other key governance issues, ensuring Members can effectively exercise their rights and obligations in the election process.
- Ensure the credit union has the means, capability, and willingness to direct itself prudently.
- Ensure effective stewardship of business operations and management of risk, including an effective enterprise-wide, risk management framework.
- Reflect Meridian's commitment to integrity, open communication, teamwork, and continuous improvement.
- Continually assess the effectiveness of applying these responsibilities.

Board Mandate

The Board of Directors protects and enhances Meridian's assets in the best interests of our Members and stakeholders. To assure Members and stakeholders that all regulatory and statutory requirements are met, the Board of Directors ensures that Meridian has clear, strategic direction,

that objectives are aligned in the best interests of Meridian's Members and stakeholders, and that Meridian's operations are managed in a sound and prudent manner. Meridian Directors exercise independent judgment with honesty and integrity.

Board Composition and Election

In compliance with our bylaws, Meridian's Board of Directors is composed of 12 independent Directors, nominated from the Membership, and elected for three-year terms by our Members. Each year, to maintain the highest quality Board composition, which represents a broad range of skills, experiences, and backgrounds, the Board reviews the skills, knowledge, and experience of the Directors. If any gaps exist, the Board's Nominating Committee addresses these gaps when soliciting candidates.

The election process is comprehensive. All prospective candidates receive an extensive

package of information, which DICO recently used as the basis for a sample Director Candidate Information Guide, as released to the Ontario credit union system. All eligible candidates are then placed in nomination. The Nominating Committee interviews all candidates and evaluates them against a set of criteria pre-defined by the Board. The Nominating Committee then recommends candidates considered best qualified to serve Meridian. Nominees who are not recommended are still eligible to remain on the ballot for election. Members vote to elect Directors by casting ballots over the internet, or in person at any of our branches.

Board Diversity

Meridian's Board of Directors recently adopted a statement of intent that recognizes and embraces the benefits of diversity among Directors. A truly diverse Board of Directors will include, and make good use of, differences in skills, regional and industry experience, background, race, gender, and other attributes. Meridian considers diversity of thought, experience, and background equally important. Recommendations for candidates will be based on qualifications and the broad diversity required to represent the Members of today and tomorrow.

The diversity of the 2013 Board of Directors includes various entrepreneurial backgrounds, professional experience in large corporate business environments, and considerable experience within

the co-operative sector. The current Board also has the benefit of various professional certifications and accreditations, including Chartered Financial Analyst, Chartered Professional Accountant, Certified Management Accountant, Certified Human Resources Professional, and Certified Independent Director. Additionally, our current Directors hold various degrees, including Bachelors of Commerce, Science (Business Management and Economics; Mathematics), Law, Arts (Economics); Honours Bachelors of Arts (Political Science; Economics); and Masters of Business Administration (Wharton School of Business; Finance and Marketing), Management Operations, Leadership, Mathematics and Computer Science.

Orientation and Continuing Education

New Directors are provided a comprehensive orientation to become familiar with Meridian's business operations and governance processes. Every year a formal de-briefing of the orientation session is conducted to capture enhancement opportunities for subsequent years. The Governance Committee

continues to evaluate this program to ensure the most effective orientation is provided to new Directors. Individual committees have also established their own orientation programs to better educate new committee members in their responsibilities.

The Board of Directors has an approved budget for ongoing training and development, including industry-sponsored seminars and other conferences relevant to Meridian's business, for individual Directors, as well as educational sessions for the Board as a whole. As part of the regular Board meeting cycle in 2013, Board Members participated in several information/education sessions, including:

- Board Diversity
- Brand Equity Research Findings
- Regulatory Overview
- Governance Focused Enquiry

Board Evaluations

The Board of Directors is committed to effective governance and continuous improvement. The Governance Committee facilitates an annual evaluation process to assess the effectiveness of Board activities. Generally, external consultants conduct these evaluations. In 2013, evaluations were conducted via telephone interviews with individual

- How "Delivery" Delivers to our Members
- Emerging Trends in Payments Technology, conducted by Meridian's external auditors

In late 2012, the Board established a policy objective to accredit the majority of Meridian's Directors with external Director designations. We are pleased to note that as of the end of 2013, three Directors hold designations from either the Institute of Corporate Directors (ICD) or Director's College (C.Dir). Additionally, two Directors are currently registered and partway through the ICD program, and two more have been authorized to take the ICD program in 2014. The Board will meet its objective once these remaining designations have been achieved.

Directors, and concluded through facilitated discussion with the full Board to bring clarity to the outcomes. Actions to enhance governance practices, and opportunities for Board development, are based on recommendations arising from this process. The Governance Committee monitors progress against these actions.

Board Committees

The Board has delegated five committees to oversee the monitoring of policy adherence.

These committees, and their specific, primary responsibilities are outlined below:

Audit & Finance Committee

- Review financial statements, internal controls, accounting policies, and reporting procedures
- Review the credit union's financial performance relative to established metrics
- Ensure integrity of financial reporting
- Oversee internal and external audit processes
- Monitor the independence of external auditors
- Oversee and monitor compliance with regulations and all Board policies
- Oversee the reporting relationship of the Chief Audit Executive

Governance Committee

- Maintain a healthy governance culture, and oversee all governance policies
- Assess the effectiveness of the Board, its committees, and committee chairs
- Oversee the Board's annual planning process
- Oversee the development plans for Directors

Human Resources Committee

- Oversee HR policies and programs, ensuring that they are developed, implemented, and adhered to by management in support of the business strategies of the credit union
- Review and recommend compensation for Directors
- Review CEO performance and compensation
- Oversee employee pension plans

Nominating Committee

- Oversee the nomination, assessment, and recommendation of Board candidates
- Assess the candidate pool to ensure it addresses any identified gaps
- Oversee the election process
- Account for the general content, objectives, and guidelines of Meridian's annual report
- Oversee the activities associated with the Annual General Meeting and any special Members meetings

Risk Committee

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

2013 Board Initiatives

The Board believes it is important to offer a level of transparency to the Members. To that end, the Board provides Members with information on its activities.

The Board is proud of the initiatives implemented in 2013:

- Comprehensive evaluation of the Board involving individual Director interviews, peer assessment, and a fully facilitated session to discuss findings
- Establishment of a plan for developing the findings of the comprehensive Board evaluation, to continue to enhance the Board's evolution

- Second iteration of individual Director self-assessments against all nine competencies required under the DICO Guidance Note, plus four additional competencies developed by Meridian
- Comprehensive validation of the second iteration results
- Update of individual Director plans, including specific objectives for their own development, as well as specific actions plans, established in conjunction with the Board Chair
- Implementation of revised mandates for both the Risk Committee and the Audit & Finance Committee, focusing considerable attention on

specific education as a result of these revised mandates (effective May 2013)

- Continuation of Meridian's leadership role in promoting communication among Board Chairs of the 15 largest credit unions in Canada

Board Code of Conduct:

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

Director Compensation

Meridian strives to compensate its Directors in reasonable relationship to comparable organizations that place a similar level of importance on the role of Directors. Compensation for Meridian's Directors is recommended by the Human Resources Committee, in accordance with Meridian's compensation philosophy for Directors. This philosophy states that total compensation should be aimed closely toward the 75th percentile of comparable organizations. Information on compensation rates is provided by a third-party survey of large, Canadian credit unions and co-operatives.

A comprehensive review of compensation is undertaken every two years, in accordance with Board policy. At the time of this report, the last comprehensive bi-annual review was conducted in the latter part of 2011, with implementation effective January 1, 2012. Additionally, an off-cycle mini-review was conducted in 2013 and reflected no amendments required. The next comprehensive review is scheduled for early 2014.

The following table lists the retainers paid to Meridian's Directors in 2013.

Meridian Director Retainers (2013)	
Board Chair	\$35,000
Audit & Finance Committee Chair	\$25,000
Vice Chair and Other Committee Chairs	\$20,000
Director	\$15,000

Meridian also recognizes that additional payments to Directors may be justified under extraordinary circumstances, such as requirements for significant amounts of additional time spent on Board matters.

In keeping with the good governance practice of disclosure, the following table summarizes the total compensation, excluding expense reimbursement, received by individual Directors in 2013.

Total Compensation of Individual Meridian Directors (2013)	
Director	Total Compensation
Don Ariss (Board Chair; Governance Committee Chair)	\$56,950
Jim Barr	\$7,000
Alan Caslin	\$21,750
Gary Cerantola	\$5,900
Mark Kraemer	\$31,400
Ross Lamont	\$35,300
John Murphy (Human Resources Committee Chair; Vice Chair, effective 5/13)	\$32,450
Richard Owen (Audit & Finance Committee Chair)	\$34,750
Tamara Paton	\$17,000
Colleen Sidford (Risk Committee Chair, effective 5/13)	\$29,033
Kevin Thompson (Nominating Committee Chair; Vice Chair until 4/13)	\$41,000
Karl Wettstein (Credit & Investment Committee Chair until 4/13)	\$30,917
Phoebe Wright	\$18,250
Helen Young	\$27,250

Executive Compensation & CEO Performance Management

The Board of Directors determines the form and amount of CEO compensation based on recommendations from the Human Resources Committee. The Human Resources Committee ensures that compensation practices relating to the Executive Leadership team are consistent with the strategy and policy of executive compensation. A third-party executive compensation firm assists the Committee in this work.

The Human Resources Committee is also responsible for developing CEO performance objectives, and evaluating performance against those objectives.

Emphasis is placed on maintaining the appropriate balance to encourage achievement of short-term objectives while ensuring longer-term success.

Director Attendance

The Board of Directors has an attendance policy for Directors, and receives semi-annual reporting on individual attendance. While the policy reflects a 12-month rolling attendance record, given the need to capture consecutive meeting attendance, the following chart reflects attendance during the 2013 fiscal year. It includes both former and newly elected

Directors whose terms ended and/or commenced concurrent with the Annual General Meeting in April 2013. The percentages pertain to attendance at both Board and Committee meetings held during the period January 1, 2013 to December 31, 2013. Overall, this indicates an 88.16% average attendance by Meridian's Directors.

Board of Directors Meeting Attendance (2013 Fiscal Year)							
Director	Board of Directors		Committee		Total		%
	Attend	Held	Attend	Held	Attend	Held	
Ariss, Don	12	12	11	11	23	23	100.0
Barr, Jim	3	4	2	2	5	6	83.3
Caslin, Alan	9	12	3	5	12	17	70.6
Cerantola, Gary	0	4	1	2	1	6	16.7
Kraemer, Mark	12	12	9	9	21	21	100.0
Lamont, Ross	11	12	9	9	20	21	95.2
Murphy, John	12	12	8	8	20	20	100.0
Owen, Richard	10	12	10	12	20	24	83.3
Paton, Tamara	8	8	6	6	14	14	100.0
Sidford, Colleen	11	12	11	11	22	23	95.7
Thompson, Kevin	12	12	13	13	25	25	100.0
Wettstein, Karl	12	12	12	12	24	24	100.0
Wright, Phoebe	8	8	7	7	15	15	100.0
Young, Helen	11	12	6	7	17	19	89.5

The Board of Directors continues to be very pleased with the progress Meridian has made over the past nine years. Many of Meridian's recent successes are highlighted in the Management's Discussion and Analysis that follows.

We thank you, the Members, for your continued loyalty and patronage in 2013.

Contacting the Board

Members or other parties may communicate with the Board of Directors through our governance office by writing to:

E-mail: Board.ofDirectors@meridiancu.ca

Mail: Attention:
Corporate Secretary
Meridian Credit Union Limited
75 Corporate Park Drive
St. Catharines, ON L2S 3W3

For further information about Meridian's Board of Directors, visit: www.meridiancu.ca/meridian/about/Pages/default.aspx



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