

2015 ANNUAL REPORT

Corporate
Governance
Report

Corporate Governance Report

Approach to Governance at Meridian

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

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

- Fulfilling its legal and fiduciary obligations and ensuring it is adhering at all times to applicable law;
- Acting in the best interests of Meridian and the totality of its Membership;
- Continually educating the Membership on the role of the Board and other key governance issues,

including efforts to ensure that Members can effectively exercise their rights and obligations in respect of the election process;

- Ensuring the Credit Union has the means, capability and willingness to put into practice effective measures to direct itself prudently;
- Ensuring effective stewardship of business operations and management of risk, particularly through an effective enterprise-wide risk management framework;
- Reflecting the Credit Union's commitment to integrity, open communication, teamwork, and continuous improvement; and
- Continually assessing its effectiveness in fulfilling these responsibilities.

Governing Legislation and Regulation

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

The Ministry of Finance is responsible for developing and establishing the legislative and regulatory framework under which credit unions must operate. FSCO is responsible for ensuring that credit unions operate in accordance with the requirements of the Act and the regulations thereunder, particularly with respect to issues involving market conduct relating to Members and the general public. DICO is responsible for overseeing compliance with solvency rules and for providing deposit insurance protection for deposits held in Ontario credit unions and caisses populaires up to prescribed limits. As part of this responsibility, DICO has the authority to issue by-laws to ensure that insured institutions operate in

accordance with sound business and financial practices. In early 2015, DICO issued Guidance Notes respecting desired practices in Corporate Governance for the Board, Management and the Audit & Finance Committee of the Board. Meridian has conducted a gap analysis against this Guidance and is pleased to report that no gaps were identified. To promote responsible governance through strength and stability, Meridian meets quarterly with DICO representatives, provides regular reporting to DICO and participates in periodic risk-based examinations. Although it is not the practice of FSCO to schedule regular meetings with Ontario credit unions, as a best practice Meridian proactively advises FSCO of matters relating to its business which we believe the regulator should be aware.

A review of the Act commenced in 2014. During the past two years, Meridian was very actively engaged in contributing to this review, which culminated recently in the Minister of Finance proposing certain recommended changes to the Act.

Board Mandate

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

In accordance with its mandate, the Board proactively contributes to the development of, and ultimately approves, the long-term vision of Meridian. Establishing this vision is an important responsibility of the Board, as it is the basis upon which the strategy of Meridian is created and serves as our aspirational guidepost for the future. During 2015, the Board approved a revision to Meridian's longer-term vision statements, central to which is our goal to be known as the financial services partner that attracts and retains Members because of a differentiated Member experience.

Board Composition and Election

In accordance with our By-laws, Meridian's Board is composed of 12 Directors, all of whom are independent. The process for the election of Directors is comprehensive. Each year the Board reviews the skills, knowledge and experience of the Board in order to determine whether any gaps exist, to ensure the highest quality Board composition. The Board's Nominating Committee is requested by the Board to seek to fill any identified gaps as they solicit candidates for nomination from Meridian's Members. Prospective candidates receive an extensive package of information. In recent years DICO used this package as the basis for a sample Director Candidate Information Guide, released to the Ontario

credit union system. All eligible candidates are placed in nomination. The Nominating Committee interviews all candidates and evaluates them against a set of criteria defined by the Board in advance. The Nominating Committee then recommends to our Members those candidates who are considered best qualified to serve Meridian to fill the number of vacancies. Nominees who are not recommended are eligible to remain on the ballot for election. Our Members can vote for the election of Directors by casting a ballot electronically via the Internet or in person at any of our Branches. Meridian's Directors are elected for three-year terms and represent a broad range of skills, experiences and backgrounds.

Board Diversity

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

considerations are, Meridian considers diversity of thought, experience and background equally important.

The current 12 Directors bring to the Board table a spectrum of education and experience, in particular significant professional experience. Below are some of the specific areas:

Chartered Accountants (CPAs, CAs); Certified Independent Director Designations; BA Economics; MA in Leadership; Honours Degrees in Business & Economics; MBAs; Certified Human Resources Professional; various entrepreneurial endeavours and Chartered Financial Analysts.

Orientation and Continuing Education

New Directors are expected to attend a comprehensive two-day orientation program to familiarize themselves with Meridian's Governance processes and business operations. Every year we conduct a formal de-briefing 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. This past year a formal revamp of the Orientation program was undertaken to ensure that a robust program will continue to be offered to new Directors. Individual Committees of the Board have also established their own orientation programs to better educate new Committee members in their responsibilities. The Board has an approved budget for ongoing Director training and development, including educational sessions for the Board as a whole, industry-sponsored seminars and other

conferences for individual Directors that are relevant to Meridian's business. The Board established a policy in late 2012 that sets an objective for the majority of Meridian's Directors to receive an external director accreditation designation. We are pleased to note that at the end of 2015, ten Directors held either the Institute of Corporate Directors or Director's College designation, while one more Director is currently registered and in the final phase of the Directors College program. Based on these efforts, the objective set by the Board has been accomplished. During 2015, a number of information/educational sessions were arranged through both our Risk and Audit & Finance Committees, that all Board members were invited to attend. These sessions have mostly been conducted by Management of the Credit Union and have been well attended by Directors.

Board Evaluations

The Board is committed to effective governance and continuous improvement. Annually, the Governance Committee facilitates a Board evaluation process to assess the effectiveness of Board activities. Generally, external consultants are engaged to conduct these engagements. In 2015, the focus was placed on the effectiveness of each of the Board's

Committees. Interviews of Committee members and Management support staff were conducted by the consultant, leading to a comprehensive report for each Committee as well as a consolidated report to the Board. Areas for improvement have been documented and are tracked for each Committee for continued focus.

Board Committees

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

Audit & Finance Committee

- Review of financial statements, internal controls, accounting policies and reporting procedures;
- Review the Credit Union's financial performance relative to established metrics;
- Ensure the integrity of financial reporting;
- Oversight of internal and external audit processes;
- Monitor the independence of external auditors;
- Oversight of compliance with applicable regulations, and monitoring compliance with all Board policies; and
- Oversight of the reporting relationship of the Chief Audit Executive.

Governance Committee

- Maintain a healthy governance culture and oversight of all Governance policies;
- Assess the effectiveness of the Board, its Committees and Committee Chairs;
- Oversight of the Board's annual planning process; and
- Oversight of the development plans for Directors.

Nominating Committee

- Oversight of the nomination, assessment and recommendation of candidates for the Board;
- Assess the adequacy of the candidate pool to ensure it addresses any identified gaps;
- Oversight of the Director election process;
- Accountable for the general content, objectives and guidelines of Meridian's annual report; and
- Oversight of the activities associated with the Annual General Meeting and any Special Members' Meetings.

Risk Committee

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

Human Resources Committee

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

Years of Service on the Board and Committee Membership 2015

The following are the members of the Board, their respective year of election as well as the Committees served on in 2015:

Audit & Finance Committee

Chair	Richard Owen	Elected in 2010
	Ken Bolton	Elected in 2015
	Jeff Chesebrough	Elected in 2015
	Mark Kraemer	Elected in 2007
	Tamara Paton	Elected in 2013

Governance Committee

Chair	John Murphy	Elected in 2010
	Don Ariss	Elected in 2005
	Karen Farbridge	Elected in 2015
	Ross Lamont	Elected in 2012
	Phoebe Wright	Elected in 2013

Human Resources Committee

Chair	Don Ariss	
	Larry Doran	Elected in 2014
	Karen Farbridge	
	John Murphy	
	Phoebe Wright	

Nominating Committee

Chair	Don Ariss	
	Ken Bolton	
	Larry Doran	
	Colleen Sidford	Elected in 2012

Risk Committee

Chair	Tamara Paton	
	Jeff Chesebrough	
	Mark Kraemer	
	Ross Lamont	
	Colleen Sidford	

2015 Board Initiatives

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

The Board is pleased to advise of the following initiatives implemented in 2015:

- Conducted a comprehensive Board evaluation that focused on the effectiveness of the respective Board Committees, including subsequent reporting to the full Board;
- Based on the results of this work, each Committee established objectives to continue to enhance its effectiveness;
- Conducted a mid-year planning session that provided direction to Management to further enhance and expand a bold 10-year strategic vision;
- Completed the fourth iteration of individual Director self-assessments against the nine competencies required under the DICO Guidance Note, as well as four additional competencies developed by Meridian, and undertook a comprehensive validation of those results;
- Led by the Board Chair, used the results of the above to establish updated individual Director plans, including specific objectives for their own development and specific action plans;
- Continued to participate in dialogue among board chairs of the 15 largest credit unions in Canada;
- In conjunction with external advisors, developed a long-term incentive program for its Executive Leadership Team; and
- Reviewed and revised the employee compensation philosophy to ensure it adequately reflects the strategic objectives that the Credit Union has adopted.

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. As stated in the Board's policies, a comprehensive review is undertaken every two years in this regard. The last comprehensive bi-annual review was conducted in the early part of 2014, with implementation effective January 1, 2014. A further review will be undertaken in early 2016. Meridian recognizes the importance of attracting and retaining a high quality and dedicated Board of Directors, and therefore offers a level of remuneration that both reflects our co-operative heritage and makes us competitive in the marketplace. Director remuneration will be

commensurate with a consistent peer group of Canadian financial services institutions of similar size and complexity. As a result, Meridian has established a compensation philosophy which states that the total compensation of its Directors will be reflective of the range between the 50th and 75th percentile of target organizations surveyed through the most recently available relevant third party and/or custom compensation survey sources. In conjunction with the review of Director compensation to be undertaken in early 2016, the Board will be reviewing its Director compensation philosophy to ensure it aligns strategically with the revised employee compensation philosophy.

Listed below are the retainers paid to Meridian's Directors in 2015.

Meridian Director Retainers	
Board Chair	\$40,000
Audit & Finance Committee Chair	\$27,000
Vice Chair and Other Committee Chairs	\$22,000
Director	\$17,000
Additional if Vice Chair or Director Chairs more than one Committee	\$ 5,000

Meridian also recognizes that there may be extraordinary circumstances (i.e. significant additional time required to be spent on a matter), that justify an additional payment be made to a Director.

In keeping with good governance practice of disclosure, the table below summarizes the total compensation (excluding expense reimbursement) received by each Director during 2015:

Director	Total Compensation
Don Ariss (<i>Board Chair & Gov Committee Chair until 4/15; HR Committee and Nominating Committee Chair – eff. 5/15</i>)	\$43,083
Ken Bolton (<i>eff. 4/15</i>)	\$18,383
Jeff Chesebrough (<i>eff. 4/15</i>)	\$19,083
Larry Doran	\$30,550
Karen Farbridge (<i>eff. 4/15</i>)	\$18,583
Mark Kraemer	\$39,517
Ross Lamont	\$32,050
John Murphy (<i>HR Committee Chair and Vice-Chair until 4/15; Board Chair & Gov Committee Chair eff. 5/15</i>)	\$48,867
Richard Owen (<i>A&F Committee Chair</i>)	\$39,300
Tamara Paton (<i>Risk Committee Chair eff. 4/15</i>)	\$31,083
Colleen Sidford (<i>Risk Committee Chair until 4/15; Vice Chair eff. 5/15</i>)	\$32,750
Kevin Thompson (<i>until 4/15</i>)	\$ 8,117
Karl Wettstein (<i>until 4/15</i>)	\$ 7,617
Phoebe Wright	\$30,300

Executive Compensation & CEO Performance Management

Meridian's Human Resource 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 the strategy and policy of Executive compensation. A third party executive compensation firm is engaged by the Committee to assist it in this work. The Board

determines the form and amount of CEO compensation based on recommendations from the Committee. The Committee is also responsible for developing performance objectives for the CEO, and evaluating performance against those objectives. Emphasis is placed on the appropriate balance to incent achievement of both short and long term objectives while ensuring longer-term success.

Director Attendance

The Board has a policy for “Attendance by Directors” and receives semi-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 2015 calendar year. It includes former and

newly elected Directors whose terms ended and/or commenced concurrent with the Annual General Meeting in April 2015. The percentages pertain to the attendance at both Board and Committee meetings held during the period January 1, 2015 to December 31, 2015. Overall, this translates to a 95.9% average attendance by Meridian’s Directors.

12 Months of 2015							
Director	Board of Directors		Committee		Total		%
	Attend	Held	Attend	Held	Attend	Held	
Ariss, Don	7	9	11	11	18	20	90.0
Bolton, Ken	6	7	5	5	11	12	91.7
Chesebrough, Jeff	7	7	5	6	12	13	92.3
Doran, Larry	9	9	9	9	18	18	100.0
Farbridge, Karen	6	7	5	5	11	12	91.7
Kraemer, Mark	9	9	9	10	18	19	94.7
Lamont, Ross	9	9	8	9	17	18	94.4
Murphy, John	9	9	9	9	18	18	100.0
Owen, Richard	8	9	7	7	15	16	93.8
Paton, Tamara	9	9	9	9	18	18	100.0
Sidford, Colleen	8	9	8	8	16	17	94.1
Thompson, Kevin	2	2	3	3	5	5	100.0
Wettstein, Karl	2	2	1	1	3	3	100.0
Wright, Phoebe	9	9	9	9	18	18	100.0

The Board continues to be very pleased with the progress that Meridian has made since inception in 2005. Many of Meridian’s recent successes are highlighted in the Management Discussion & Analysis that follows.

Your Board would like to thank all of our Members for your continued loyalty and patronage in 2015.

Contacting the Board

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

E-mail: Board.ofDirectors@meridiancu.ca

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

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