

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

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

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 of which we believe the regulator should be aware.

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

Board Mandate

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

Board 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 to determine whether any gaps exist in order to ensure the highest quality Board composition. The Board's Nominating Committee is requested by the Board to seek to fill any identified gaps as they solicit candidates for nomination from Meridian's Members. Prospective candidates receive an extensive package of information.

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

Board Diversity

Meridian's Board has adopted a Statement of Intent, which states that Meridian recognizes and embraces the benefits of diversity in Board members. The Board demonstrates a diversity of thought that aligns with the needs of the demographic composition of the communities we serve today and in the future. A truly diverse Board includes and makes good use of differences in the skills, regional and industry experience, background, race, gender, ethnicity, indigenous status and other attributes of Directors. Meridian considers diversity

Board proactively contributes to the development of, and ultimately approves, the long-term vision of Meridian. Establishing this vision is an important responsibility of the Board, as it is the basis upon which the strategy of Meridian is developed and serves as our aspirational guidepost for the future. During 2017, the Board confirmed 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.

All eligible candidates are placed in nomination. The Nominating Committee interviews all eligible 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 at any of our Branches. Meridian's Directors are elected for three-year terms and represent a broad range of skills, experiences and backgrounds.

of thought, experience and background equally important. The best qualified candidates will be recommended for election to the Board, taking into account broad diversity differences required to represent our Membership of today and tomorrow. The current 12 Directors bring to the Board table gender 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. Every year we conduct a formal 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. Recently, a formal revamp of the orientation program was undertaken to ensure that a robust program will continue to be offered to new Directors. Individual Committees of the Board have also established their own orientation programs to better educate new Committee members on their responsibilities. The Board has an approved budget for ongoing Director training and development, including educational sessions for the Board as a whole, industry-sponsored seminars and other

Board Evaluations

The Board is committed to effective governance and continuous improvement. Annually, the Governance Committee facilitates a Board evaluation process to assess the effectiveness of the Board. Generally, external consultants are engaged to conduct these engagements. Starting in 2016, and continuing in 2017, a bold initiative commenced, led by the Board working closely with an external consultant, to review Meridian's governance framework in order to identify enhancements and efficiencies that would ensure such framework continues to adhere to the highest standards. Interviews of Committee members and Management support staff were conducted, leading to a comprehensive report for the Board.

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 2017, 10 Directors held either the Institute of Corporate Directors or Director's College designation. Based on these efforts, the objective set by the Board has been accomplished.

In 2017, several Board education sessions were held to address topics considered to be particularly important or novel in light of the evolving business of Meridian.

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 statutory and regulatory requirements, 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.

Human Resources Committee

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

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.

Years of Service on the Board and Committee Membership 2017

The following are the members of the Board, their respective year of election, as well as the Committees served on in 2017:

Audit & Finance Committee

Chair	Ken Bolton	Elected in 2015
	Ted Cadsby	Elected in 2016
	Karen Farbridge	Elected in 2015
	Carol Hunter	Elected in 2016
	Peter Patchet	Elected in 2017

Governance Committee

Chair	John Murphy	Elected in 2010
	Ken Bolton	
	Ted Cadsby	
	Ross Lamont	Elected in 2012
	Colleen Sidford	Elected in 2012

Human Resources Committee

Chair	Collen Sidford	
	Larry Doran	Elected in 2014
	John Murphy	
	Peter Patchet	
	Tamara Paton	Elected in 2013

Nominating Committee

Chair	Carol Hunter	
	Jeff Chesebrough	Elected in 2015
	Larry Doran	
	Tamara Paton	

Risk Committee

Chair	Karen Farbridge	
	Jeff Chesebrough	
	Ross Lamont	
	Tamara Paton	
	Mike Valente	Elected in 2017

2017 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 2017:

- Conducted a comprehensive Board evaluation that focused on the overall effectiveness and efficiency of the governance framework;
- Conducted a mid-year planning session that provided direction to Management to further enhance and expand a bold 10-year strategic vision;
- Completed the sixth iteration of individual Director self-assessments against the nine competencies required under the DICO Guidance Notes, 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;
- Undertook a robust review of Governance Policies to continue to adhere to the highest standards; and
- Completed a review of Meridian's By-laws for consideration and approval by Members at the 2017 Annual General Meeting.

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 compensation policy, a comprehensive review is undertaken every two years in this regard. The last comprehensive bi-annual review was conducted in 2016, with implementation effective January 1, 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.

In accordance with an established compensation policy, Director remuneration will be reasonable and competitive as compared to organizations that place a similar level of importance on the role of Directors, and that require Directors to achieve a high degree of ongoing education and technical proficiency. The Director compensation philosophy aligns strategically with Meridian's employee compensation philosophy.

Listed below are the retainers paid to Meridian's Directors in 2017.

Meridian Director Retainers	
Board Chair	\$50,000
Board Vice Chair	\$30,000
Director	\$25,000
Audit & Finance Committee Chair	\$10,000
Other Committee Chair	\$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 2017:

Director	Total Compensation
Don Ariss (served as Director until 4/17)	\$18,583
Ken Bolton (Audit & Finance Committee Chair)	\$55,500
Ted Cadsby	\$42,250
Jeff Chesebrough	\$41,750
Larry Doran (Human Resources Committee Chair until 4/17)	\$44,917
Karen Farbridge (Risk Committee Chair effective 4/17)	\$47,583
Carol Hunter (Nominating Committee Chair effective 4/17)	\$48,833
Ross Lamont	\$43,900
John Murphy (Board Chair and Governance Committee Chair)	\$78,600
Richard Owen (served as Director until 4/17)	\$13,833
Peter Patchet (elected to serve as Director effective 4/17)	\$28,917
Tamara Paton (Board Vice Chair; Nominating Committee Chair until 4/17)	\$55,042
Colleen Sidford (Risk Committee Chair until 4/17; Human Resources Committee Chair effective 4/17)	\$48,750
Mike Valente (elected to serve as Director effective 4/17)	\$27,917

Executive Compensation & CEO Performance Management

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

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

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

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 2017 calendar year. It includes former and newly elected Directors whose terms ended and/or commenced concurrent with the Annual

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

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

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

General Meeting in April 2017. The percentages pertain to the attendance at both Board and Committee meetings held during the period January 1, 2017, to December 31, 2017. Overall, this translates to a 99% average attendance by Meridian's Directors.

12 Months of 2017

Director	Board of Directors		Committee		Total		%
	Attend	Held	Attend	Held	Attend	Held	
Ariss, Don (until 4/17)	3	3	7	7	10	10	100
Bolton, Ken	7	7	12	12	19	19	100
Cadsby, Ted	7	7	10	10	17	17	100
Chesebrough, Jeff	7	7	9	9	16	16	100
Doran, Larry	7	7	11	11	18	18	100
Farbridge, Karen	7	7	12	12	19	19	100
Hunter, Carol	7	7	12	12	19	19	100
Lamont, Ross	7	7	9	11	16	18	89
Murphy, John	7	7	9	9	16	16	100
Owen, Richard (until 4/17)	3	3	3	3	6	6	100
Patchet, Peter (eff. 4/17)	4	4	8	8	12	12	100
Paton, Tamara	7	7	13	13	20	20	100
Sidford, Colleen	6	7	16	16	22	23	96
Valente, Mike (eff. 4/17)	4	4	5	5	9	9	100

The Board continues to be very pleased with the progress that Meridian has made since inception in 2005. Many of Meridian's recent successes are highlighted in the Management Discussion & Analysis that follows. Your Board would like to thank all Members for your continued loyalty and patronage in 2017.

Contacting the Board

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

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Mail:

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

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