2017 ANNUAL REPORT

Management's Discussion & Analysis

Meridian™

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 2017, as compared to prior years. The MD&A should be read in conjunction with the audited financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise indicated all amounts in the MD&A are expressed in Canadian dollars. The MD&A commentary is as of March 6, 2018.

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.

Caution Regarding Forward-Looking Statements

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

Core Business & Strategy

Corporate Overview

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

As Ontario's largest credit union, we grow lives by delivering financial products and services to over 300,000 Members, through a network of 90 branches, and access to commercial banking services at 11 locations, a Member Contact Centre, and online services.

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

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

Our Corporate Strategy

Meridian strives to be the leader in Member-centric banking. We focus on strategies that are in the best long-term interest of our Members, not short-term corporate earnings objectives. In so doing, we grow the lives of our Members by deepening relationships with existing Members and building relationships with new Members. In 2017, our strategic imperatives continued to support Meridian's longer-term sustainability and our ability to deliver on what we call Our Value Proposition. These imperatives were as follows:

1. 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.
- We will leverage existing initiatives such as digital banking enhancements, branch expansion, strategic alliances, and new products and services, while identifying new strategies to ensure a more holistic approach to how we grow our Membership.

2. Building Community

- We are focused on our Members, their families, and the communities in which they live.
- Our goal is to foster stronger and more resilient communities while remaining true to our cooperative principles.
- Our knowledge of the communities in which we operate is a key ingredient for how we help strengthen communities.

3. Business Model Diversification

- Our goal is to identify options to evolve our business model to support planned growth and diversify revenue streams in an efficient, cost-effective and sustainable manner.
- This supports our aspirations to add value to our Members by building a financially successful and secure business.

4. Deliver a Differentiated Member Experience

- Our goal is to deliver a Member experience that is second to none.
- This experience is delivered daily through interactions with Members.
- Our employees deliver a consistent and meaningful sales and service experience.
- Our products and services demonstrate Our Value Proposition, which is focused on growing the lives of our Members, having their best interests at heart and always having their backs.

5. Ownership Culture

- Our goal is to create a differentiated ownership experience for our employees.
- This is supported by programs which help employees grow their lives personally, professionally and financially.
- By empowering employees, we aim to establish a company-wide risk awareness culture.

We continue to review our strategic imperatives to ensure they support Our Value Proposition. Going forward we have refined our five strategic imperatives as follows: Market & Membership Growth, Differentiated Member Experience, Social Commitment, Diversified Business Model, and Exceptional Employee Experience.

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 strive to be successful by listening to what our Members say, ensuring that the marketplace is aware of Meridian's value proposition and ensuring that our employees are fully engaged.

Voice of Member

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

- ☑ Research indicates that Meridian's overall Voice of Member score continues to significantly surpass benchmark performance of the Big 5 banks. It also exceeds that of the Credit Union collective.
- ☑ Relationships per Member continued to grow, as more Members consider Meridian to be their primary financial institution.

Awareness of Meridian

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

- ☑ Continued focus on Meridian and what makes us unique will be paramount in driving new Members, and converting existing Members to "primary" status.
- ☑ Our research shows Meridian's unaided awareness increased from 3% to 6%.
- ☑ Continued focus on Our Value Proposition will be paramount in driving new Member growth, and converting existing Members to have Meridian be their "primary" financial institution.

Employee Engagement

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

- ☑ Meridian has won the Achiever's Most Engaged Workplaces Award and has been named one of Canada's Most Admired Corporate Cultures for 2017!
- ☑ Meridian continues to receive high employee engagement scores, resulting in a greater ability to service the needs of our Members. We had a 74% engagement score, and Meridian's results exceeded the benchmarks for the credit union and financial services industries in the provider database. This has resulted in Meridian receiving the Aon Platinum Level Best Employer Award, which is a premier engagement award in Canada. We continue to use survey results to develop action plans, which will be implemented at both the enterprise and local levels.

Membership Growth

Growth in Membership means that Meridian is able to help more lives grow, as over time we will have an opportunity to deepen our relationships with Members. Growth in our Membership base is influenced by increased awareness of Meridian and an expansion in Meridian's points of access.

- ☑ The number of total members increased nearly 25,000 in 2017, which surpasses 2016 net membership growth by over 27%. In 2017, we attracted 24,796 net new members, a record.

Capital Position

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

- ☑ Meridian's capital and risk weighted capital ratio remained strong and well within regulatory limits in 2017.
- ☑ Meridian issued $167 million of Class A investment shares in 2017. This is to help build our capital to better meet the needs of our Members.

Capability to Deliver Results

Meridian's long-term sustainability hinges on our success in achieving our strategic imperatives, which are supported by multiple initiatives. We continue to strengthen our capabilities in our delivery network, organizational processes, technology, organizational structure and employees. The following 2017 successes and current initiatives highlight our ability to achieve our strategic imperatives and meet current and future needs of Members:

Differentiated Member Experience

✓ **Digital Strategy**

Our digital strategy remains focused on a robust, convenient and user-friendly Member experience. The following capabilities were added in 2017:

- Ability to open unsecured lending products and mortgages online
- Ability to transact on mortgages digitally
- Re-design of our Online Banking platform to create a more user-friendly, convenient way for Members to access their funds
- Significant enhancements in our Member Online Onboarding
- Live chat feature added to Online Banking
- Ability for joint accounts to be opened online
- Re-design of e-Transfer capabilities

✓ **Commercial Lending Platform**

New technology, iLend, has been introduced in both Commercial and Small Business Channels that will enhance the Member experience into the future. The iLend loan origination system has presented efficiencies that enable employees to spend more time building relationships and focusing on value-added services with business Members.

Business Model Diversification

✓ **Meridian Bank**

Meridian's application to obtain a bank license will enable Meridian's value proposition to be delivered nationally, to a larger cross section of Canadians. The application process is in Phase 2 and the project to build operational infrastructure is on track for a successful launch in 2019. Along with the bank, we are always considering other businesses to join the Meridian family.

✓ **Visa Credit Card Offering**

Meridian successfully launched a range of Visa Credit Cards to complement our robust line of banking products. The launch included three market leading cashback reward cards, two travel reward cards, three business reward cards, and a US dollar card.

Membership Growth

✓ **New Branches**

We will continue to expand our branch footprint in targeted Ontario markets. Meridian opened six new branches in 2017, relocated one location in Barrie, and consolidated two branches in Owen Sound, making it easier for existing and future Members to access our services.

- Five new GTA locations (Davisville, Steeles & Birchmount, Erin Mills & Folkway, Danforth & Logan, and Chinguacousy South Brampton)
- One new location in the Kitchener/Waterloo region

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

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

- ✓ **We've Got Your Back Mortgages**

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

- Meridian launched a "Friends and Family" mortgage offering in 2017, making it easier for Members to purchase a home.

Building Community

- ✓ **Meridian's Commitment to Communities**

Meridian delivered on four goals to demonstrate our commitment to communities:

- **Improve financial literacy** – Meridian developed and delivered community programs for new and aspiring entrepreneurs with regional, provincial and national partners, including local programs with OwnersWanted.ca, and Action Entrepreneurship. For youth, Meridian jointly developed and launched SavetheCamp.ca mobile game for grades 7 – 10, which peaked as one of the top 4 Educational Games on the App Store in Canada, and FunnyMoneyInc.com educational comedy tour for grades 11 – 12, which has engaged approximately 80,000 students. To support families with saving for education and accessing government grants, we expanded our partnership with SmartSAVER.org, which has turned to RESP applications referred by the Toronto and Niagara District School Boards.
- **Invest in our communities** – Meridian's Commitment to Communities has contributed over $376,000 and 5,600 hours of volunteer work to over 250 Canadian charities and non-profits. Meridian's Good Neighbour Program has sponsored 284 local community events. Meridian also invests through the Co-operative Young Leaders Program and the Sean Jackson scholarship award.
- **Engage our employees** – Meridian offers a best-in-class employee giving program - My Commitment to Communities – matching personal volunteering, donations and fundraising to local causes of their choice. Employee engagement in this program has increased, highlighting that Meridian employees are more engaged with their communities.
- **Support a strong co-operative sector** – Meridian collaborates with the co-operative and credit union sectors to raise awareness and understanding of the advantages of co-operative leadership among youth and business owners.

Ownership Culture

- ✓ **Unique People Programs**

Meridian offers unique people programs that enable our employees to grow their lives personally, professionally and financially. These programs promote career and self-development; health; emotional, mental and financial well-being; community service; diversity; rewards and recognition; performance and goal setting; and culture. It is imperative we attract and retain next generation employees, allowing us to build our overall organizational strength and capability in support of our performance goals.

- ✓ **Diversity and Inclusion**

Diversity and Inclusion ("D&I") are a key focus for Meridian, as we believe an inclusive culture and diverse workforce can drive innovation, create trusted partnerships with our Members and community, and contribute to the overall success and growth of the business. We are committed to being inclusive in how we work with our Members and our colleagues; and in our ongoing efforts to attract, motivate and retain a diverse workforce. Earlier this year, Meridian launched the Diversity and Inclusion Leadership Advisory Council. This council works together to build Meridian's diversity and inclusion strategy and develop tactics to support this important focus.

- ✓ **Innovation**

At the heart of Meridian's capability to deliver results is innovation-fueled growth. This will require Meridian leaders and employees to embrace new ways of thinking and behaving, and do it in a way that remains true to our core values.

Consolidated Financial Results

2017 Financial Overview

Over the past year, the Bank of Canada had two interest rate increases with the overnight rate at 1% at the close of the year, compared to 0.5% in 2016. This move has started to increase loan rates, while deposit rates stayed flat in the market, resulting in an increased financial margin through the second half of the year.

Recent changes to mortgage rules has had an impact on the housing market in 2017, which is expected to continue in 2018. Some relief has been recognized and is expected to continue as the prime rate is forecasted to steadily increase and financial margin compression dissipates.

Meridian continues to invest in a mix of strategic and foundational initiatives, which will continue over the next five years, as we continue to expand our digital capabilities, add more branches, diversify our business and enhance our supporting infrastructure. The anticipated launch of the bank in 2019 will also be a significant investment for Meridian, which will become a contributing factor to our performance in the future years as it continues to grow.

The investments we made in our strategic and foundational initiatives in recent years put downward pressure on our key ratios. However, this trend has reversed as the benefits arising from our investments begin to deliver. Meridian is focused on ensuring the right balance between investments, earnings performance, funding requirements and capital are maintained.

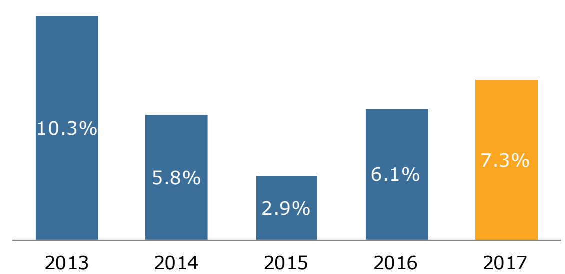
As part of our business model diversification strategy, Meridian Credit Union acquired Meridian OneCap in 2016, to form a wholly owned leasing subsidiary. In accordance with IFRS, the Audited Financial Statements have been presented on a consolidated basis.

Overall, Meridian's operating performance was strong with significant growth in relationships with Members. Total assets grew by $1.7 billion to $15.6 billion at the end of 2017, driven largely by lending to Members for mortgages and Commercial business activities. Assets under management, which include off-balance sheet Wealth management assets, increased by $2.1 billion to $18.1 billion. Wealth asset growth continued to be exceptional in 2017. Our deposit portfolio grew $1.3 billion or 13% to $11.6 billion, while our loan portfolio increased $1.8 billion or 16% to $13.0 billion in 2017.

Meridian continued to operate profitably in 2017, despite significant investment in initiatives to support our long-term sustainability.

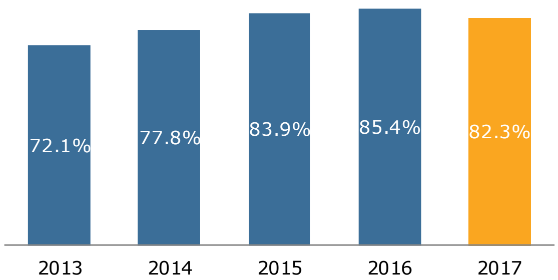
Meridian generated $58.6 million in pre-tax earnings, an increase of $17.6 million over the previous year. The increased earnings were attributable to increased relationships with Members; an increase in the number of Members, which drives Financial Margin and Non-Interest Revenue; exceptional loan loss expense and related recoveries; as well as the sale of Meridian's St. Catharines Corporate Office. Meridian experienced a gain in Other Comprehensive Income ("OCI") of $19.4 million, mainly the result of changes in the fair value of cash flow hedges, which is subject to volatility in interest rates. These factors contributed to an after-tax return on equity ("ROE") of 7.3% in 2017 compared to 6.1% achieved in 2016. ROE represents total comprehensive income as a percentage of average total equity. Removing the impact of the OCI gain, focusing on profits attributable to Members would result in an ROE of 5.2% in 2017 and 4.7% in 2016.

Return on Average Equity



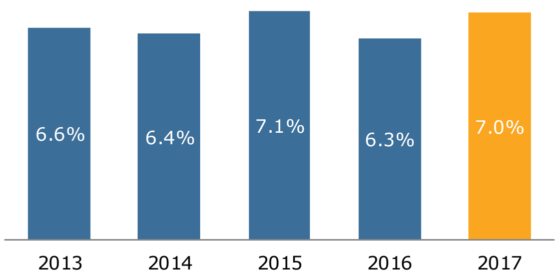
Operating margin was $50.7 million or 18% higher than the 2016 results, totalling $331.0 million in 2017. The main drivers of this increase were the significant growth in relationships with Members, which resulted in higher net interest and non-interest income as well as some significant recoveries on previous loan impairments. Favourable revenue was slightly offset by an increase in operating expenses, largely attributable to higher costs associated with our workforce growth, our first full year of OneCap's operating expenses, branch expansion, increased community investment, and investments in strategic initiatives. In 2017, this included the second phase of obtaining a bank license, enabling Meridian to expand nationally. We are investing in infrastructure, people, processes, technology, marketing, and products and services, which created short-term earnings pressures in 2016 and 2017, thus putting pressure on our ROE and efficiency ratios. ROE increased in 2017, showing Meridian's investments will improve our long-term financial outlook and allow us to achieve sustainable growth in the years to come.

Efficiency Ratio

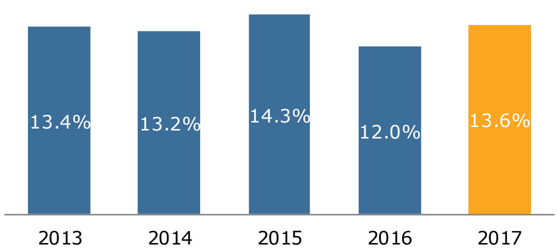


The efficiency ratio is a measure of productivity and is calculated as non-interest expense divided by operating margin, expressed as a percentage. Faster growth in revenues relative to increased expenses, previously described, resulted in a lower efficiency ratio of 82.3% in 2017 compared to 85.4% in 2016.

Capital Ratio

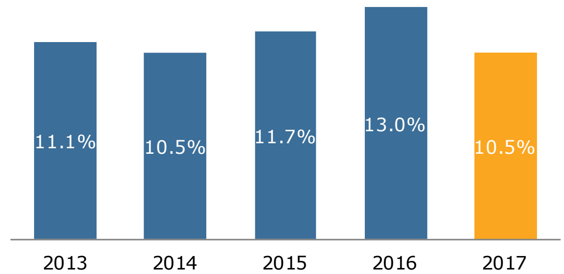


Risk Weighted Capital Ratio



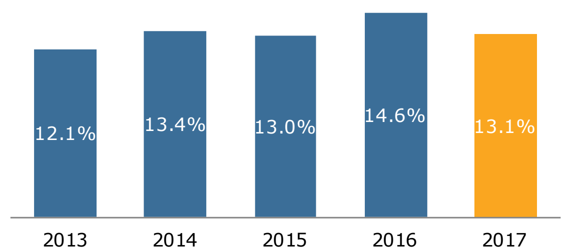
Meridian's Capital and Risk Weighted Capital ratios increased to 7.0% and 13.6%, respectively, in 2017 due to our earnings and share issuance, which increased Capital by $167 million. These ratios remain well above the minimum regulatory requirements of 4.0% and 8.0%, respectively.

Liquidity Ratio



Meridian's liquidity ratio decreased to 10.5% during 2017 from 13.0% a year earlier due to increased lending growth. This ratio remains well above the minimum operating target of 8.25%.

Leverage Ratio



Meridian's leverage ratio declined to 13.1% from 14.6% in 2016, resulting from decreased external funding requirements due to strong deposit growth.

2017 Financial Performance Review

CONSOLIDATED INCOME STATEMENT For the year ended December 31, 2017	2017	2016
Net Interest Income	263,043	226,366
Less: Provision for credit losses	9,277	10,204
Non-Interest income	72,525	63,590
Share of profits from investment in associates	(27)	252
Share of profits from investment in joint venture	4,715	240
Operating Margin	330,979	280,244
NON-INTEREST EXPENSES		
Salaries and employee benefits	161,896	135,084
Administration	72,172	73,090
Occupancy	17,913	17,060
Amortization of intangible assets	9,753	5,367
Depreciation	10,640	8,656
Total non-interest expenses	272,374	239,257
Pre-Tax Earnings	58,605	40,987
Income tax expense	11,227	4,601
Profits attributable to Members	$ 47,378	36,386

Total Revenue

Total revenue, which consists of net interest and non-interest income before provisions for credit losses, grew $49.8 million to $340.3 million in 2017. The increase was largely driven by strong growth in relationships with Members, and our OneCap leasing portfolio receivables. Increased net interest income was generated from growth in lending to Members and partly offset by the cost of deposits and other sources used to fund lending. Wealth management assets also grew significantly, influenced by Members' preferences to invest in products yielding a higher return in a low interest rate environment. This resulted in higher trailer fee revenue, which was a significant contributor to Meridian's year-over-year increased non-interest income.

Net Interest Income

Net interest income is comprised of interest income on assets such as loans, securities and receivables, less interest expense paid on liabilities such as deposits and wholesale funding. For the year, net interest income was $263.0 million, an increase of $36.6 million or 16.2% over 2016. Interest income on assets increased $65.3 million or 15.7% while interest expense on liabilities increased $28.7 million or 15.1%.

Net interest margin is the ratio of net interest income to average total assets, expressed as a percentage. In 2017, net interest margin was 1.77%, down less than half a basis point from the prior year. Growth in net interest margin remains challenged by a low interest rate environment, although improving, and an increasingly competitive financial services sector in both Commercial and Retail portfolios. However, increasing contributions from new lines of business such as the OneCap leasing portfolio and a bank subsidiary should improve this ratio.

Meridian's average total assets increased $2.1 billion or 16.5% in 2017, due primarily to Member loan growth. Member loan growth increased $1.6 billion or 15.0% in 2017, while the interest revenue associated with these loans increased 12.6%. Loan growth has continued to outpace revenue growth, as high-yielding loans continue to mature and have been replaced with loans that are priced according to the current competitive financial sector.

Asset growth was mainly funded through exceptional deposit growth in demands and fixed terms through 2017. Deposit growth increased $1.4 billion or 13.0%. The remaining asset growth, related mostly to OneCap, was supported through external sources of funding such as securitization and the use of borrowing facilities as necessary.

Net interest income is affected by fluctuations in capital markets beyond normal operating activities. As necessary, Meridian undertakes hedging activities, which may include the transacting of derivative instruments to protect Meridian and its Members from changes in external market conditions. These hedging activities, in turn, generate their own net interest income or loss, countering the impact on the underlying item.

Over the course of 2017, Meridian entered into receive fixed swaps with a total notional amount of $250 million and pay fixed swaps with a notional amount of $425 million, intended to hedge the risk to net interest margin attributable to changing interest rates. The notional amounts of our derivatives represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in our consolidated balance sheet. The fair value of over-the-counter ("OTC") derivative contracts is recorded in our consolidated balance sheet. The interest income or expense associated with quarterly cash settlements are reflected in the profit and loss.

	Net interest income ($ millions)		Change	Average assets and liabilities ($ millions)		Change	Net interest margin (in basis points)		
	2017	2016	%	2017	2016	%	2017	2016	Change
Cash and cash equivalents	1.7	1.6	7.0	377.2	293.3	28.6	44.5	53.5	(9.0)
Investments	12.7	12.1	5.5	1,063.7	1,057.9	0.5	119.5	113.9	5.6
Loans	155.9	132.0	18.1	3,562.3	2,990.5	19.1	437.5	441.4	(3.9)
Lines of credit	54.0	49.8	8.5	1,372.8	1,296.9	5.9	393.5	384.0	9.5
Mortgages	205.5	187.0	9.9	7,240.5	6,296.1	15.0	283.8	297.0	(13.1)
Finance Receivables	51.8	33.9	52.8	957.9	608.5	57.4	540.5	556.9	(16.5)
Other assets				296.7	227.0	30.7			
Interest income / total assets	481.6	416.3	15.7	14,871.1	12,770.2	16.5	323.8	326.0	(2.2)
Demands	54.1	45.2	19.6	6,092.0	5,173.0	17.8	88.8	87.4	1.4
Fixed terms	99.2	89.1	11.3	4,918.5	4,364.2	12.7	201.6	204.1	(2.5)
Borrowings	59.3	49.0	21.0	2,881.5	2,373.0	21.4	205.8	206.6	(0.8)
Other liabilities	6.0	6.6	(8.6)	82.5	84.0	(1.8)	730.9	785.7	(54.8)
Interest expense / total liabilities	218.6	189.9	15.1	13,974.5	11,994.2	16.5	156.4	158.3	(1.9)
Members' equity				896.6	776.0	15.5			
Total liabilities and Members' equity	218.6	189.9	15.1	14,871.1	12,770.2	16.5	147.0	148.7	(1.7)
Total	263.0	226.4	16.2				176.8	177.3	(0.4)

Provision for Credit Losses

The provision for credit losses ("PCL") was $9.3 million in 2017, compared to $10.2 million in 2016. The PCL for the Commercial loan portfolio was a net recovery of ($1.4) million ($1.3 million loss in 2016). A $1.7 million loss was attributable to the Retail and Small Business loan portfolios ($1.6 million in 2016,) and a $9.0 million loss ($7.3 million in 2016) was attributable to Finance Receivables related to the OneCap business. 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. In 2017 the Commercial PCL included adjustments related to several significant impairments dating back to 2010. Of the $1.4 million recovery on the Commercial portfolio, $4.8 million resulted from adjustments to security valuations on pre-2017 impairments, offset by $1.0 million related to new Commercial impairments ($2.2 million in 2016) and $2.4 million increase to the Commercial collective allowance. Finance receivables losses are comprised of a larger number of small- and medium-sized amounts. The Finance Receivables PCL was comprised of $6.6 million ($5.2 million in 2016) related to individual losses and $2.4 million ($2.1 million in 2016) increase to the collective allowance. Generally, there is a period of time between when a loss event occurs and when management is able to identify the specific accounts that are impacted. The collective allowance estimates incurred losses in the existing credit portfolio that cannot yet be identified on an individual loan basis. This is based on historical average loss rates. The total PCL represented 0.07% of the total loan portfolio in 2017, which was a decrease from 0.08% in 2016. The Commercial PCL was a net recovery for 2017 and reflects a reduction from 0.13% in 2016. The Retail PCL, at 0.03% of the respective portfolio, is generally consistent with the 2016 level. The annualized finance receivable PCL is 0.86%, which is a reduction of 0.49% from 2016. Though the finance receivable portfolio is considered higher risk than the Credit Union's mortgage and loan portfolios, the loss rate for the year incorporated buildup of collective provisions on new business since acquisition. It is expected that the PCL rate will decline over time as these factors stabilize.

Credit Portfolio Quality

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

The gross impaired loans and finance receivables balance is $39.8 million ($74.2 million in 2016) and represents 0.28% of the total loan and finance receivable portfolio. The total allowance for impaired loans and finance receivables, at $26.7 million, was $7.8 million lower than the prior year. The decrease was due mainly to the resolution of several large pre-2017 Commercial impairments causing a decline of $11.4 million in the Commercial portfolio allowance, offset by an increase of $3.0 million related to the finance receivable portfolio.

The $26.7 million allowance for impaired loans and finance receivables includes $8.1 million attributable to specific impairments and $18.6 million attributable to collective allowances. The allowance for impaired loans and finance receivables, as a ratio to total loans and finance receivables, was 0.19% in 2017, of which 0.06% represented the specific allowance and 0.13% was the collective allowance. The specific allowance decreased as a percentage of total loans by 0.11% from 2016. This was largely the result of growth in total loans and pay down, and a write-off of some existing Commercial impairments.

Asset quality coverage - loans and finance receivables

($ millions)	2017	2016
Total Loans, December 31	14,072.5	12,150.8
Gross Impaired Loans ("GIL")	39.8	74.2
Allowance for Impaired Loans	26.7	34.5
Provision for Credit Losses	9.3	10.2
GIL as % of total loans	0.28%	0.61%
GIL as % of Members equity	3.89%	9.30%
Allowance as % of total loans	0.19%	0.28%
PCL as % of total loans	0.07%	0.08%
Commercial loans:		
% Better than average	14.50%	19.50%
% Average	63.70%	61.80%
	78.20%	81.30%

A risk rating system is utilized to assess and monitor the risk profile of our Commercial loan portfolio. The model is based on an in-depth assessment of the borrower's risk of default, which is measured by industry, business, management and financial risk factors, along with the risk of loss given default. The risk of loss given default is based on an assessment of security composition and relative historical recovery experience. The Commercial loan portfolio, stratified by risk rating ranging from "very low" to "impaired" is reviewed monthly. Most of the portfolio continued to fall into the combined "better than average" and "average" categories. Collectively, these two ratings accounted for approximately 78.2% of the total Commercial portfolio (81.3% in 2016). 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 enhance credit management processes through updating advanced early warning systems that identify potential credit deterioration, a more stringent control environment, improved credit based analytics and reporting, as well as an enriched Member experience.

Non-Interest Income

Non-interest income rose by $13.1 million or 20.5% to $77.2 million in 2017. OneCap contributed $2.3 million to the increase in non-interest income. Revenue from service fees rose $1.3 million to $16.0 million. Our OneCap leasing business contributed $1.0 million, and existing and increased Membership accounted for the remaining $0.3 million. Mutual fund revenue accounted for $2.7 million of the increase in non-interest income, growing by 19.0% to $16.6 million. Mutual fund revenue is driven by the significant growth in wealth balances due to exceptional sales during the year, and a strong market experienced in 2017. Sales were influenced by an increase in Meridian's overall Wealth management workforce and a growing affinity by Members for wealth products that are capable of yielding higher returns, given the low interest rate environment.

Loan servicing fees grew by $4.0 million to $17.4 million driven by increased Commercial lending volumes. During 2017, our Commercial loan portfolio grew $407 million. Additionally, Commercial Members continue to renew their loans prior to maturity, taking advantage of the low interest rate environment.

Insurance commissions grew by $0.5 million to $7.7 million due to life insurance sales, as we encouraged Members to engage in their overall estate planning; as well as our insurance commissions in OneCap. Foreign exchange income increased by $0.3 million to $4.8 million. This was influenced by the gain on Meridian's US dollar accounts held with Central 1, reflecting the continued strength of the US dollar versus the Canadian dollar. Dividend income represents income from shares, predominately held with Central 1. We received dividends of $2.0 million in 2017, which is an increase of $0.5 million from 2016.

Other non-interest income increased $0.5 million to $5.7 million driven by end of term and other miscellaneous gains from the OneCap leasing business.

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

Non-Interest Income

($ millions)	2017	2016	% Change
Service fees	16.0	14.7	9.1%
Mutual fund revenue	16.6	13.9	19.0%
Loan servicing fees	17.4	13.4	29.5%
Insurance commissions	7.7	7.2	7.1%
Foreign exchange	4.8	4.5	7.0%
Dividend Income	2.0	1.5	32.6%
Interac revenue	1.7	1.9	-8.0%
Credit card revenue	0.8	1.3	-37.5%
Share of Profits from Investments	4.7	0.5	853.5%
Other	5.7	5.2	7.8%
Total	77.2	64.1	20.5%

Non-Interest Expenses

Non-interest expenses rose to $272.4 million in 2017 from $239.3 million in 2016. The 13.8% increase in expenses was mainly associated with activities that support Meridian's strategic imperatives. Higher spending was related to branch expansion, community investment, marketing to build brand awareness, investments in strategic initiatives, our first full year of OneCap, and application costs related to the bank.

Personnel expenses, which include all employee salaries, benefits and incentive compensation, accounted for 81% of the increase in expenses. Higher personnel expenses are largely attributable to incremental employees required to support our expanded network of branches, to strong growth within our existing network of people, and to support strategic initiatives. Additional support was provided to our existing Delivery network to ensure Members could truly be provided a differentiated experience and that relationships could be deepened.

General operating expenses decreased 21.4% or $5.5 million, the decrease is driven by the acquisition costs that happened in 2016 related to OneCap.

Occupancy costs increased by $0.9 million to $17.9

million, due to our expanded branch network, which includes six new Meridian locations.

Marketing expense decreased by $2.3 million to $10.4 million. The decrease is mainly driven by traditional television and digital advertising slowing down, as this was a focus in 2016. Marketing expense includes our Community Investment budget, with which we invest a minimum of 4% of pre-tax earnings to develop and run digital and local programs that bring to life Meridian's longstanding Commitment to Communities. These programs build our brand by making a bold community impact while engaging and empowering our employees, Members and future Members.

Meridian's investment in strategic initiatives decreased 50.3% in 2017 to $8.8 million. The decrease is directly related to the one-time purchase costs related to OneCap that occurred in 2016. These investments were related to projects that support Meridian's strategic imperatives and will enable us to achieve long-term sustainability. These initiatives include building six new branches, ongoing costs related to the OneCap acquisition and our bank application, business banking technology enhancements, enhancement of our lending processes and technology, full redesign of our digital banking and public website, and numerous product and service design

projects supporting our strategic imperative of delivering a differentiated Member experience.

Non-Interest Expense

($ millions)	2017	2016	% Change
Salaries and Benefits	161.9	135.1	19.8%
Salaries	113.4	96.9	17.1%
Benefits	27.2	25.1	8.4%
Variable Incentive	21.3	13.1	62.3%
General	20.4	25.9	-21.4%
Occupancy	17.9	17.1	5.0%
Marketing	10.4	12.7	-18.7%
Transaction Services	14.7	11.6	26.9%
Depreciation	10.6	8.7	22.9%
Software and Hardware	7.5	6.1	23.3%
Deposit Insurance	7.0	5.5	28.3%
Amortization	9.8	5.4	81.7%
Human Resources	3.3	2.7	24.0%
Other Expenses	8.9	8.5	5.3%
Total	272.4	239.3	13.8%

Financial Conditions Review

Balance Sheet Summary

Meridian's total assets grew by 12.3% to $15.6 billion in 2017, an increase of $1.7 billion over the previous year.

Total Assets ($ billions)

Of the $1.7 billion increase in total assets, the increase was driven by growth in loans to Members and in receivables from the newly acquired OneCap leasing portfolio in 2016. This is slightly offset by cash, as it was used earlier in the year to fund strong lending growth.

Loans to Members ($ billions)

Loans to Members grew by 16.0% or $1.8 billion to $13.0 billion, with Retail mortgages accounting for 59.2% of this growth and Commercial loans accounting for 30.6%.

Retail mortgages increased by $1.1 billion, 17% above the growth realized in 2016. Growth was generated across all channels including the branch network, digital lending platform, mobile mortgage specialists and mortgage brokers. The competitive "We've Got Your Back" mortgage offer was a key driver to our success in growing Meridian's Retail mortgage portfolio.

Members' Deposits ($ billions)

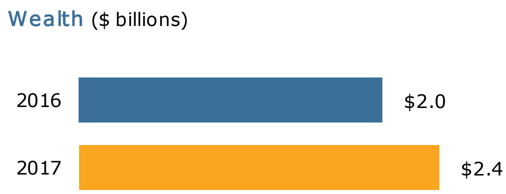
Member deposits grew by 13.0% or $1.3 billion to $11.6 billion in 2017.

Despite continued intense competition for deposits among financial institutions and an increase in Member preference for potentially higher yielding mutual fund products, Meridian still experienced great deposit growth. The fastest growing deposit product was the Good to Grow high interest savings account, which offers

Members an opportunity to grow their savings faster with a market competitive interest rate. The Business Advantage Plus was the account of choice for business Members to grow their deposits. Tax Free Savings Accounts ("TFSAs") continued to perform well in 2017, with balances growing by $122.0 million, while growth in term deposits was restrained due to the low interest rate environment and a continual shift in Member deposit preference from fixed terms to high interest savings accounts.

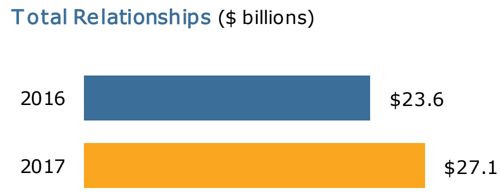
Other than deposits, Meridian's most significant change in liabilities was secured borrowings, which grew by $135.8 million. The increase supported funding for Meridian's OneCap investment. Although we increased our secured borrowings, less external funding was required than in 2016 due to strong organic deposit growth.

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



Meridian's wealth portfolio continued to experience significant growth in 2017. Member balances rose 18.7% or $0.4 billion to $2.4 billion. This strong growth represents net sales of $265.6 million along with appreciation in the market value of Members' investments of $116.8 million, despite market volatility halfway through the year.

Overall, the total Member relationships managed by Meridian, which includes lending, deposits and wealth, grew by 14.9% to $27.1 billion in 2017.



Growth was diversified across business lines and across product categories. Wealth grew the fastest, a clear indicator that Members are focused on retirement and overall financial planning, seeking to maximize their return with the help of Meridian's Advisors.

Liquidity Review

Managing liquidity and funding risk is critical to ensure the safety and soundness of Meridian, depositor confidence and stability in earnings. Meridian's policies ensure that there are sufficient liquid assets and available funding capacity to meet financial commitments, even in times of stress. Meridian's Board policy stipulates the maintenance of a minimum liquidity ratio, which is the ratio of cash and cash equivalents to Members' deposits and borrowings, of 8.25%. As of December 31, 2017, Meridian's liquidity ratio was 10.46% compared to 13.00% at the end of 2016, well above the minimum requirement established by the Board.

Meridian maintains a prudent and disciplined approach to managing liquidity risk. Meridian targets a 90-day survival horizon under a combined Meridian-specific and market-wide stress scenario, and maintains a minimum buffer over regulatory requirements prescribed by the Deposit Insurance Corporation of Ontario ("DICO") 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 calculated using the prescribed liquidity stress scenario to high quality liquid assets held for liquidity, at a minimum of 100%. As of December 31, 2017, Meridian's Liquidity Coverage Ratio was 126%.

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

Securitization remains an attractive funding strategy for Meridian, as it provides stable long-term funding at a low cost. Meridian mortgage securitization issuances decreased by 45% compared to the prior year as a result of the Department of Finance announcing and implementing more stringent eligibility requirements for mortgage insurance. Diversification of external funding sources is an important aspect of Meridian's overall liquidity management strategy. Meridian continues to maintain and investigate a diversity of funding sources in the event that securitization funding may not be available in the future or may only be available at significantly higher rates.

Capital Management

Overview

Meridian is committed to a disciplined approach to capital management and 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 Board of Directors and its Risk Committee provide ultimate oversight and approval of capital management, including the Capital Management Policy and Annual 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 & Finance Committee monitors compliance with the policy.

Managing and Monitoring Capital

Meridian has a comprehensive risk management framework to ensure that the risks taken while conducting business activities are consistent with its risk appetite. In managing our capital position, close attention is paid to the cost and availability of the types of capital, desired leverage, changes in both assets and risk weighted assets, and the opportunities to profitably deploy capital.

Capital levels are monitored monthly and compared to forecasted levels for both capital and risk-weighted capital. Our monitoring and forecasting procedures track the expected growth rate in assets relative to earnings to determine if additional share capital is required. These projections also take full account of any future impact of changes in accounting standards. A detailed discussion of capital management is provided in the notes to the audited consolidated financial statements.

Capital Review

Meridian's regulatory capital ratios are strong and well exceed the requirements of the *Credit Unions and Caisses Populaires Act, 1994* (the "Act") that regulates Ontario Credit Unions and underlies Board policy requirements. These ratios underscore Meridian's strength and, long-term stability and commitment to a disciplined approach to capital management that balances the interests and requirements of Members and regulators.

Meridian's capital adequacy ratio was 7.0% as of December 31, 2017, compared to 6.3% at the end of 2016 and in excess of the 4.0% stipulated in the Act.

Meridian's risk weighted capital adequacy ratio was 13.6% at the end of 2017, up from 12.0% at the end of 2016, and well in excess of the 8.0% stipulated in the Act.

Meridian's capital quality also exceeds regulatory minimum requirements. Provincial regulations require that at least 50% of a credit union's capital base be comprised of primary or Tier 1 capital. In order to maintain an appropriate level of conservatism, our internal capital management philosophy is to keep our Tier 1 capital as a percentage of total capital greater than 60%. As of year-end, 92.0% of Meridian's capital base consisted of Tier 1 capital, an increase of 1.7% from 2016 and well in excess of internal and provincial minimums.

Internal Capital Adequacy Assessment Process

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

Risk Management

Effective risk management is critical to the attainment of the strategic imperatives of Meridian. 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 Deposit Insurance Corporation of Ontario ("DICO") 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 and its subsidiaries maintain an ERM framework to identify, assess, respond to and monitor risk, including:

i. Technology and tools that facilitate the efficient and convenient execution of its ERM processes;

ii. A risk register of the risks to which Meridian is exposed;

iii. Processes to identify, assess and monitor its risks;

iv. Processes to respond to risk exposures in excess of the Board-approved risk appetite; and

v. A risk culture embodying the philosophy that risk management is the responsibility of everyone at Meridian, including the Board of Directors, management and all employees.

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

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

ii. Risk oversight functions form the Second Line of Defence, facilitating the first line to effectively manage risk and providing independent, effective challenge to first line risk management actions; and

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

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

Strategic Risk

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

Operational Risk

Operational Risk is the risk that Meridian's processes, technology or people fail to deliver the required results. This can include responding to external events including legal or regulatory actions. Meridian has a number of programs which manage specific risks under the Operational Risk umbrella including people-related risks, criminal risks (Fraud, AML), physical and information security risks, business continuity risk, as well as outsourcer and vendor risks. Meridian maintains an Operational Risk Management Framework that integrates the various operational risk programs. Meridian effectively balances the risk it accepts in its day-to-day operations while striving to enable business solutions that create Member value.

Credit Risk

Credit Risk is the risk of financial loss when a borrowing Member fails to meet their contractual obligations. Credit risk can be exacerbated by broad impacts to markets in which Meridian's business is concentrated. Meridian's lending philosophy is established by the Board of Directors through the Credit Risk Management Policy. The Credit Risk Management Policy provides direction to management relative to operational credit policies, lending authorities, assessment and limits of specific and aggregate credit risk, individual and industry sector concentration limits, as well as monitoring and reporting requirements. Meridian will extend credit to Members and businesses of strong character with a demonstrated willingness and ability to repay. A detailed discussion of the management of credit risk is provided in the audited consolidated financial statements.

Financial Risk

Financial Risk is the risk that Meridian is unable to secure adequate, timely, and reasonably priced funding or that key factors in financial markets change resulting in financial impacts to Meridian. These risks include changes to interest rates and foreign exchange rates, risks that Meridian's pension is not adequately funded, and Funding and Liquidity Risks. Liquid assets are a critical element of Meridian's ongoing operations, both to manage short-term cash flows in normal operations and to fund the lending growth laid out in Meridian's financial plans. Meridian's strategy includes planned levels of both deposits and diverse external funding sources. Meridian updates funding requirement levels daily to ensure both funding diversification and adequate contingency lines. Meridian manages interest rate, liquidity and funding risks in line with its risk appetite and in support of its profitability objectives. A detailed discussion of the management of funding and liquidity risk is provided in the audited consolidated financial statements.

2018 Outlook

Economic prospects in Canada have increased, driven by consumer spending, and a pickup in machinery and equipment investments, but is expected to decrease in 2018 as consumer spending slows, and a potential decline in residential investment is anticipated. The Bank of Canada is winding down monetary stimulus injected in the economy over the last few years and, as such, interest rates are anticipated to gradually rise as the economy grows. These increases will be highly dependent on the results of economic data, and it is anticipated that policy makers will pace the rate increases accordingly to allow highly leveraged households to adjust to increases in debt costs.

In contrast to Canada, Ontario's outlook appears promising for 2018, as Ontario is expected to outpace most other provinces. Consumer spending will continue to support the economy, along with a boost in public sector infrastructure investment, while residential investments level off. A healthy labour market will support continued growth in household consumption. Job creation has been steady in 2017, and Ontario is expected to create 130,000 jobs over the next two years, which will support wage increases and boost household disposable income. The phased increase in Ontario's minimum wage, which will start in 2018, will boost the income of low-wage workers but may weigh on employment growth.

The housing market has cooled, as provincial and federal government policy measures introduced in 2017 are having their desired effect on the market. This trend is expected to continue in 2018, especially with mortgage rates on the rise. In 2018, borrowers will be subject to a stress test against their ability to pay their mortgage if rates were as high as the Bank of Canada five-year posted rate. These new policies have slowed new builds as development companies are waiting to see how they will fully affect the market. New home builds and existing home sales are expected to continue to trend low.

Meridian Implications:

Meridian is well positioned to take advantage of the opportunities presented by the economic outlook for Ontario. The following outlines some of the major initiatives, which are planned for 2018:

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

- **Line of Business Diversification**: We will continue to be diligent in investigating selective acquisitions and/or builds of new business lines to join the Meridian family. Meridian will leverage OneCap to seek opportunities where it enables profitable expansion into transformational business lines. OneCap, along with our pending launch of the bank, are two large-scale strategic initiatives oriented towards diversifying our business model and bringing Meridian's value proposition to a greater number of Canadians.

- **Branch & Commercial Banking Expansion**: Meridian will continue to invest in new Retail branches. These will include locations in specifically targeted areas. As these new locations grow their portfolio of Members and product balances, they will start to contribute to Meridian's profitability.

- **New Products**: Meridian continues to strive to bring innovative and market-leading products to our Members to address unmet needs and differentiate us from our competition. In 2018, Meridian will continue to build on the next phases of digital lending, offering a range of options to suit our Members' personal and business needs. To focus on the needs of our Members we will be constantly looking for opportunities to address these needs from a product and technology perspective.

Anticipated strong growth in relationships is expected to result in increased revenue, which will help grow net interest margin, especially with interest rates now on the rise. Pre-tax earnings growth will help to support investment in strategic initiatives and maintain a strong capital base. The continued focus on strategic investments is expected to benefit Meridian's long-term sustainability and ultimately Meridian's Members; however, there will be downward pressure on earnings in the short-term.

Effective January 1, 2018, the Credit Union will implement the new International Financial Reporting Standard 9 - Financial Instruments ("IFRS 9"). Among other changes relating to the classification and measurement of financial assets and liabilities and hedging, the standard requires that the Credit Union calculate credit losses in its portfolio on an expected basis rather than an incurred basis as is currently required. It is expected that the changes will result in an increase in allowance for impaired loans and earlier recognition of impairment losses within the consolidated income statement. The current estimated impact to the Credit Union's consolidated balance sheet on January 1, 2018, the date of initial application, is an increase to allowance for credit losses and a reduction to retained earnings in the range of $10-15 million, net of tax. There is no restatement of comparative period financial information required. We will continue to review and refine certain components of our impairment process throughout 2018.

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.