

2014 Annual Report

Corporate Governance Report

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Corporate Governance Report

Governing Legislation and Regulation

Meridian operates within a comprehensive regulatory framework. We are established under provincial legislation, the Credit Union & Caisses Populaires Act, 1994. (the “Act”). Primarily credit unions are regulated by two 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. 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.

The Act was scheduled for review in 2014. Meridian participated on an Ontario credit union system working group to organize a submission to the Ontario government in respect of the Act review setting out suggested amendments. Additionally, Meridian developed its own submission to the Government wherein we encouraged amendments to the legislative framework that will facilitate the continued growth of Ontario credit unions and provide options to expand our business model in order to further sustainable growth.

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 continuation of our Members’ trust.

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 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 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 including 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.

Board Mandate

The Board of Directors protects and enhances Meridian's assets and is responsible for ensuring Meridian has clear strategic direction. Their 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.

Board Composition and Election

In accordance with our Bylaws, Meridian's Board is composed of 12 Directors, all of whom are independent Directors. 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 if 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 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 to 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 difference 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, Meridian considers diversity of thought, experience and backgrounds equally important.

The current 12 Directors bring to the Board table the following backgrounds and qualifications:

Bachelor of Commerce; Two Chartered Accountants (CPA, CA's); LL.B Law Degree; Honours BA French Language and Literature; Certified Independent Director Designations; Honours BA (Economics Major); BA Economics; CMA; MA in Leadership; MBAs; Professional Engineering Degree; Bachelor of Science; MSc (Mathematics and Computer Science); Certified Human Resources Professional; Various entrepreneurial endeavours; MBA (Wharton School of Business); Two Chartered Financial Analysts; Bachelor of Mathematics; MBA (Finance & Marketing); Hon. BA Political Science; Fellow of ICB; Large Corporate Business environments and considerable work experience within the co-operative sector.

Orientation and Continuing Education

New Directors are provided a comprehensive orientation to familiarize them with Meridian's business operations and Governance processes. Every year we conduct a formal de-briefing of the orientation session so as to capture enhancement opportunities for subsequent years. The Governance Committee continues to evaluate this program to ensure the most effective orientation is provided to new Directors. Individual Committees have also established their own orientation programs to better educate new Committee members in their responsibilities. The Board 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 2014, seven Directors hold either the Institute of Corporate Directors ("ICD") or Director's College designation, while one more is currently registered and part way through the ICD program. Based on these efforts the objective set by the Board has been accomplished. During 2014 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 2014, a unique approach to the Board's evaluation was undertaken. The focus was to engage the Board in considering what a Progressive Leadership Board would mean to

Meridian, and concurrently working through a group effectiveness exercise intended to allow Directors to capitalize on individual strengths to enhance overall group effectiveness. A third component was to assess the effectiveness of the Board during the extended absence of the former CEO. Learnings from these respective components have been utilized in developing further Governance policies.

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;
- Ensuring integrity of financial reporting;
- Oversight of internal and external audit processes;
- Monitor the independence of external auditors;
- Overseeing compliance with Regulations, and monitoring compliance with all Board policies; and
- Oversight of the reporting relationship of the Chief Audit Executive.

Governance Committee

- Maintaining a healthy governance culture and overseeing all Governance policies;
- Assessing 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;
- Assessment of the adequacy of the candidate pool to ensure it fulfills any identified gaps;
- Oversee 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

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

Human Resources Committee

- Overseeing the HR policies and programs, ensuring that they are developed, implemented and adhered to by Management in support of the business strategies of the Credit Union;
- Reviewing and recommending Director compensation;
- Administering the process for reviewing the CEO's performance and compensation; and
- Oversight of the employee pension plans.

2014 Board Initiatives

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

The Board is proud of the following initiatives implemented in 2014:

- Conducting a comprehensive search for a new CEO, and finalizing such appointment in the second quarter;
- Conducted a unique and comprehensive Board evaluation that encompassed a variety of components aimed at enhancing the Board's effectiveness;
- Based on the results of this work, the Board has established a plan for developing these findings to continue to enhance the Board's evolution;
- Conducted a planning session mid-year that provided direction to Management to explore growth strategies aimed at achieving a bold 10 year strategic vision;
- Completed the third 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;
- In conjunction with the Board Chair, used the results of the above to establish updated individual Director plans including specific objectives for their own development and specific actions plans;
- Conducted a three year review of all Board Governance Policies; and
- Continued participation in dialogue among Board Chairs of the 15 largest Credit Unions in Canada.

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 to recommend 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. 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 proportional to a consistent peer group of Canadian financial services institutions of like size and complexity. As a result Meridian has established a compensation philosophy which states that the total compensation of Meridian's Directors will be reflective of the range between the 50th and 75th percentile of target organizations surveyed through relevant third-party and/or custom compensation survey sources that are most recently available.

Listed below are the Retainers paid to Meridian's Directors in 2014.

Meridian Director Retainers	
Board Chair	\$40,000
Audit & Finance Committee Chair	\$27,000
Vice Chair and Other Committee Chairs	\$22,000
Director	\$17,000

Meridian also recognizes that there may be extraordinary circumstances (i.e. significant additional time required to be spent on a matter) that justifies 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 re-imbursment) received by individual Directors during 2014:

Total Compensation of Individual Meridian Directors	
Director	Total Compensation
Don Ariss (Board Chair; Governance Committee Chair)	\$56,900
Patricia Callon (effective 4/14 – 12/14)	\$16,816
Alan Caslin (until 4/14)	\$8,117
Larry Doran (effective 4/14)	\$18,583
Mark Kraemer	\$41,533
Ross Lamont	\$38,050
John Murphy (Human Resources Committee Chair; Vice Chair, effective 5/13)	\$43,400
Richard Owen (Audit & Finance Committee Chair)	\$37,850
Tamara Paton	\$27,350
Colleen Sidford (Risk Committee Chair)	\$32,850
Kevin Thompson	\$36,917
Karl Wettstein	\$30,150
Phoebe Wright	\$28,100
Helen Young (until 4/14)	\$8,317

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 the strategy and policy of Executive compensation. A third party executive compensation firm is engaged by the Committee to assist them in this work. The

Board determines the form and amount of CEO compensation based on recommendations from the Human Resources 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 short-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 attendance during the fiscal year. It includes former and newly elected Directors whose terms ended and/or commenced concurrent with

the Annual General Meeting in April 2014. The attendance records of our respective Directors are noted below. The percentages pertain to the attendance at both Board and Committee meetings held during the period January 1, 2014 to December 31, 2014. Overall this translates to a 98.95% average attendance by Meridian’s Directors.

Board of Directors Meeting Attendance (2014 Fiscal Year)							
Director	Board of Directors		Committee		Total		%
	Attend	Held	Attend	Held	Attend	Held	
Ariss, Don	8	8	10	10	18	18	100.0
Callon, Patricia	5	5	3	3	8	8	100.0
Caslin, Alan	3	3	2	2	5	5	100.0
Doran, Larry	4	5	6	6	10	11	90.9
Kraemer, Mark	8	8	9	9	17	17	100.0
Lamont, Ross	8	8	9	9	17	17	100.0
Murphy, John	8	8	10	10	18	18	100.0
Owen, Richard	8	8	8	8	16	16	100.0
Paton, Tamara	8	8	9	9	17	17	100.0
Sidford, Colleen	8	8	10	10	18	18	100.0
Thompson, Kevin	8	8	13	13	21	21	100.0
Wettstein, Karl	8	8	8	8	16	16	100.0
Wright, Phoebe	8	8	9	10	17	18	94.4
Young, Helen	3	3	2	2	5	5	100.0

The Board continues to be very pleased with the progress that Meridian has made since its 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 2014.

Contacting the Board

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

E-mail: BoardofDirectors@meridiancu.ca

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

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



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