MERIDIAN CREDIT UNION LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2023

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is presented to enable readers to assess material changes in the financial condition and results of operations of Meridian Credit Union Limited ("Meridian" or the "Credit Union") for the year ended December 31, 2023, as compared to the prior year. In addition, this MD&A provides a discussion on our capital position and risk management processes. This MD&A should be read in conjunction with the audited Consolidated Financial Statements and Notes for the year ended December 31, 2023, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). This MD&A is as of March 13, 2024.

Unless otherwise indicated, all amounts in this MD&A are expressed in thousands of Canadian dollars.

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CAUTIONS RELATING to 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 and include the housing and commercial real estate market; changes in interest rates and currency values; legislative or regulatory developments; changes in accounting standards or policies; industry developments and changes in the competitive environment; 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. Meridian does not undertake to update any forward-looking statements except as required by law.

NON-GAAP MEASURES

Meridian is not required to comply with the Canadian Securities Administrators National Instrument 51-102 Continuous Disclosure Obligations and related Staff Notices. Meridian prepares its Consolidated Financial Statements in accordance with IFRS Accounting Standards, which are generally accepted accounting principles (“GAAP”), and refers to them in this MD&A. In addition, Meridian uses non-GAAP financial measures and ratios within the MD&A, which Meridian believes provides the reader with a better understanding of how management views the Credit Union. Where Meridian has used non-GAAP measures, they have been defined within the report, as they may not be comparable to similar terms used by other organizations.

RECONCILIATION OF NON-GAAP MEASURES

The tables below provide a reconciliation of non-GAAP financial measures to their comparative financial measure in the audited financial statements of the Credit Union for the same period.

Return on Equity

The following table reconciles Members' Equity as reported in the consolidated financial statements to Average Total Equity and Average Membership Share Equity used to calculate Return on Equity.

Average Total Equity	2023	2022
Total Members' Equity	**$ 1,721,816**	$ 1,539,885
Less:		
Accumulated other comprehensive income (loss)	**(4,674)**	(13,168)
	$ 1,726,490	$ 1,553,053
Impact of averaging month-end balances	**$ (86,719)**	$ (83,847)
Average total equity	**$ 1,639,772**	$ 1,469,207

Average Membership Share Equity	2023	2022
Total Members' Equity	**$ 1,721,816**	$ 1,539,885
Less:		
Investment shares	**765,436**	637,867
Accumulated other comprehensive income (loss)	**(4,674)**	(13,168)
	$ 961,054	$ 915,186
Impact of averaging month-end balances	**$ (22,934)**	$ (74,951)
Average membership share equity	**$ 938,120**	$ 840,236

Included in non-GAAP measures are Return on Total Equity and Return on Membership Share Equity, which excludes accumulated other comprehensive income (loss), and which Meridian believes provide an enhanced understanding of how we view our financial performance.

Return on Total Equity is defined as net income as a percentage of average total equity, which includes investment share equity.

RETURN ON TOTAL EQUITY

	2023	2022
Net income, as reported	$ 81,501	$ 182,578
Average total equity	1,639,772	1,469,207
Return on total equity	5.0%	12.4%

Return on membership share equity is defined as net income attributable to membership shares as a percentage of average membership share equity. This ratio excludes the capital attributable to investment shares.

RETURN ON MEMBERSHIP SHARE EQUITY

	2023	2022
Net income attributable to membership shares, as reported	$ 47,417	$ 155,293
Average total membership share equity	938,120	840,236
Return on membership share equity	5.1%	18.5%

BUSINESS and ORGANIZATIONAL OVERVIEW

Corporate Structure

Meridian Credit Union Limited is incorporated in Canada under the Credit Unions and Caisses Populaires Act (the "Act"), and its activities are regulated by the Financial Services Regulatory Authority of Ontario ("FSRA"). The Credit Union is a member of Central 1 Credit Union ("Central 1"). The Credit Union is headquartered at 75 Corporate Park Drive in St. Catharines, Ontario.

The Credit Union is primarily involved in the raising of funds and the application of those funds in providing financial services to Members. The Credit Union has 89 branches and 15 business-banking centres across Ontario.

Meridian OneCap Credit Corp. ("OneCap") is a wholly owned subsidiary that is primarily involved in lease financing that operates throughout Canada. Motus Bank ("motusbank") is a wholly-owned subsidiary of Meridian Holdco Limited ("Holdco"), which in turn is a wholly-owned subsidiary of the Credit Union. Motusbank is primarily involved in the raising of funds and the application of those funds in providing financial services to customers. Its business is primarily conducted using an online platform. The activities of motusbank are regulated by the Office of the Superintendent of Financial Institutions ("OSFI").

Business Overview

<u>Retail Banking</u>

Meridian provides a broad range of personal and business financial products and services to its Members, including:

- Canadian and US dollar savings and chequing accounts;
- Canadian and US dollar registered and non-registered demand and term deposit products. Term deposits range from 30 day to 5 years in maturity. Registered products include Registered Retirement Savings Plans ("RRSP"), Tax-Free Savings Accounts ("TFSA") and First Home Savings Accounts ("FHSA"), and
- Lending products including residential mortgages, personal loans, credit cards, and lines of credit.

Business/Commercial Banking

Meridian provides financial products and services to meet the investment and cash management needs of its business Members. Products and services include commercial loans to various business entities, agricultural loans, institutional loans, syndicated loans and equipment financing. A number of cash management solutions are also offered through Meridian, such as online banking platforms for commercial businesses and small businesses, automated funds transfers to provide Members with pre-authorized payments or electronic payroll, and wire transfers to give Members the ability to send and manage payments in any major currency worldwide. Dedicated cash management specialists are available to help implement structured cash management protocols and products with Members. Meridian also offers merchant services and payroll processing services to its business Members through various partnerships.

Meridian is permitted to offer the various Retail and Commercial loans noted, up to limits defined in its lending policies, which are required by regulation to meet a "prudent person" standard. The Board of Directors ("Board") has approved, and management follows, its lending policies in all areas to minimize the risk of loan losses. A variety of loan-related group insurance products are also available to Members for all types of loans.

Wealth Management

Through an arrangement with Aviso Wealth, Meridian offers various types of investment and insurance vehicles on multiple platforms including Credential Asset Management Inc. (mutual fund dealer), Credential Qtrade Securities (full-service investment dealer), Qtrade Direct Investing (on-line investment platform), Qtrade Guided Portfolios (robo-advice service) and Credential Financial Strategies Inc. (insurance services).

Registered investment options include registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), tax-free savings account ("TFSAs"), registered education savings plans ("RESPs") and first-time home savings accounts ("FHSA"). With the exception of RESPs, all registered investments are administered, held and trusteed by Meridian as applicable. RESPs are administered and trusteed by Concentra Trust, a wholly owned subsidiary of Concentra Bank.

Equipment Financing

OneCap enables Meridian to diversify its business both by product offering and geographically, by providing equipment lease and loan financing solutions and valueadded services to the small- and mid-market equipment finance market. Products offered include a variety of loans and leases, as well as floorplan financing. Through its national accounts group, broker network and regional sales force, strong relationships are built with manufacturers, distributors and local dealers of commercial equipment to whom OneCap provides financing programs to help facilitate their sales.

Motus Bank

Motusbank is a Canadian Schedule I bank whose business is primarily conducted using an online platform. Motus offers chequing and savings accounts, term deposits, residential mortgages and personal loans and lines of credit.

Corporate Strategy

During 2023, Meridian launched its new strategy, "Meridian for Good". Under the new strategy Meridian believes it has a plan for sustainable growth across the enterprise. This strategic direction helps define how Meridian pursues its purpose of helping its Members achieve their best life and achieve its vision of being recognized as an inclusive, transparent, and people focused financial partner. To support the execution of the new strategy, Meridian has identified four strategic priorities: 1) Integrate our purpose into everything we do, 2) Grow business banking through industry expansion, 3) Deliver fair value to Retail Members, and 4) Incubate financial planning options for all Members.

Environmental, Social and Governance Strategy

To review Meridian's approach to Environment, Social and Governance ("ESG") refer to Meridian's website for the 2023 ESG report. Included in the report is the Credit Union's ESG Commitment and Climate Commitment, originally published in the 2021 ESG Report. This report covers data from the calendar year 2023, including a narrative on work launched or completed during 2023. Meridian creates financial solutions that support the transition to a green and sustainable economy and is committed to building a healthier environment by improving our environmental impact in the communities where we work and live.

Corporate Governance

The responsibility of Meridian's Board is to act in good faith and in the best interests of the Credit Union. In considering what is in the best interests of the Credit Union, the Board looks to the interests of all stakeholders, including Members/owners, employees, creditors, governments and the environment.

The Board endeavours to protect and enhance Meridian's assets and ensure that Meridian has a clear strategic direction and strong culture. It is further responsible for overseeing Management to satisfy itself that Meridian's operations are managed in a sound and prudent manner, thereby assuring Members that all statutory and regulatory requirements are met. In accordance with Meridian's By-laws, the Board is currently comprised of 12 Directors, all of whom are independent and represent a broad range of skills, experience, and backgrounds. The Board has delegated the oversight for monitoring adherence to its policies to five Committees:

- Audit and Finance Committee
- Governance Committee
- Risk Committee
- Human Resources Committee
- Nomination Committee

Some of the Board's key accountabilities include oversight of business operations, capital and risk management, monitoring financial performance and ensuring that Meridian has the resources, capability and culture to direct itself on an enterprise-wide basis. Additional discussion on Board oversight is included in the Capital and Risk Management sections of this report. Further details on Board governance can be found in the Corporate Governance Report in Meridian's Annual Report.

CONSOLIDATED FINANCIAL RESULTS

Financial Highlights

FINANCIAL HIGHLIGHTS - 5 YEAR SUMMARY

($ thousands, except ratios)	2023	2022	2021	2020	2019
Results from Operations					
Total revenue	$ 509,907	$ 574,588	$ 523,393	$ 430,248	$ 420,211
Provision for (recovery of) credit losses	30,876	(2,867)	(19,847)	73,792	19,967
Non-interest expenses	388,814	353,047	324,820	289,255	306,244
Income before income taxes	90,217	224,408	218,420	67,201	94,000
Income taxes	8,716	41,830	33,573	6,820	12,508
Net income	81,501	182,578	184,847	60,381	81,492
Investment share dividends	34,084	27,285	24,354	23,807	22,938
Net income attributable to Membership shares	47,417	155,293	160,493	36,574	58,554
Performance Measures					
Return on total equity	5.0%	12.4%	14.3%	5.2%	7.4%
Return on Membership share equity	5.1%	18.5%	23.6%	10.4%	15.3%
Net interest margin	1.55%	1.79%	1.78%	1.64%	1.77%
Efficiency ratio	76.3%	61.4%	62.1%	67.2%	72.9%
Credit Quality					
Gross impaired loans as % of total loans	0.94%	0.37%	0.48%	0.62%	0.47%
Allowance for credit losses as % of total loans	0.42%	0.34%	0.42%	0.61%	0.29%
Provision for credit losses as % of total loans	0.13%	-0.01%	-0.10%	0.39%	0.11%
Financial Position					
Loans, net of allowance	$ 23,739,326	$22,469,108	$20,618,000	$19,010,049	$18,519,074
Total assets	27,543,687	26,155,667	24,119,603	23,052,787	20,960,114
Deposits	19,662,503	18,526,220	16,896,177	15,778,023	14,869,498
Securitization liabilities	5,404,035	5,356,987	5,095,425	5,313,792	4,360,683
Assets under management (1)	4,413,426	3,891,009	4,178,271	3,408,569	2,981,076
Equity					
Investment share equity	$ 765,825	$ 638,249	$ 620,453	$ 599,882	$ 579,942
Membership share equity	955,991	901,636	749,648	564,443	575,370
Total equity	1,721,816	1,539,885	1,370,101	1,164,325	1,155,312
Regulatory Capital Ratios					
Tier 1 capital ratio (2)	11.1%	9.5%	10.9%	NA	NA
Total supervisory capital ratio	13.3%	12.1%	13.6%	13.5%	11.7%
Leverage ratio	6.7%	6.3%	6.9%	6.3%	5.9%

(1) Assets under management includes Wealth assets that are off-balance sheet.

(2) Tier 1 capital ratio calculation was revised by FSRA in 2021.

- Loans grew by $1.3 billion over 2022, driven mainly by growth in Residential mortgages, Commercial loans, and equipment financing.
- Deposits increased by $1.1 billion compared to prior year mainly due to growth in personal deposits.
- Total Revenue declined by $64.7 million over 2022, largely a result of compressed interest margins in the higher interest rate environment.
- The Efficiency ratio increased year over year due to higher operating costs and investment spending on systems and operations.
- Meridian's Provision for Credit Losses ("PCL") increased $33.7 million from a recovery of $2.9 million in 2022, driven by the impacts of the current slower economic and higher interest rate environment.
- Tier 1 and Total Supervisory Capital ratios improved over last year with the new $161 million Series 2023 Investment Share offering completed in late 2023.

Fiscal 2023 Financial Performance Overview

After years of record low interest rates, the Bank of Canada ("BOC") began raising rates in 2022 and continued in 2023 with a further 100 basis point rate increase. The overnight rate now stands at 5.00% and the BOC noted in late 2023 that it decided to hold the policy rate at current levels: however, they are prepared to raise the policy rate further if needed.

The impact of the higher interest rates increased the cost of borrowing for homes, motor vehicles and other consumables. This led to decreased housing affordability, a weakened housing market and impacted overall economic growth. The economic outlook is uncertain, with varying opinions of economists as to whether a recession is forecast for 2024. The general consensus is that economic activity will be modest through 2024 as interest rate increases work their way through the economy and impact household spending and business investment.

The BOC's main goal in increasing interest rates is to restore price stability for Canadians. The tightening of monitory policy began to have the anticipated effect and inflation has fallen from a peak of 8.1% in the summer of 2022 to just under 4% in late-2023. While the inflation rate has decreased it remained elevated and above the BOC's 1-3% longer term target range.

The higher interest rate environment also led to changes in consumer behavior as term deposit interest rates increased. There was an industry-wide shift in deposit preference, shifting from demand and high interest savings accounts to term deposits, which resulted in increased interest expense for the Credit Union. As well, with the rising rates, mortgage prepayment activity significantly slowed from previous levels, resulting in lower prepayment fee income.

Meridian's 2023 financial performance was impacted by the external factors noted above including rising interest rates, changes in consumer behaviour and economic conditions. These factors resulted in margin compression and higher loan losses versus recoveries incurred in the prior year. In addition, Meridian experienced higher personnel costs and increased operating expenses as we invested in our new "Meridian for Good" strategy.

Total assets grew by $1.4 billion or 5.3% to $27.5 billion at the end of 2023, driven largely by growth in residential mortgages, Commercial lending and equipment financing. Off-balance sheet Wealth Management assets increased by $0.5 billion to $4.4 billion due mainly to market appreciation and net sales growth. Meridian's deposit portfolio grew by $1.1 billion or 6.1% to $19.7 billion, while our loan portfolio, net of allowance increased by $1.3 billion or 5.7% to $23.7 billion in 2023.

Meridian generated $82 million in net income in 2023, a decrease of $101 million over 2022, in which we saw significant earnings largely as a result of the lower interest rate environment and loan loss recoveries. The lower earnings in 2023 were mainly due to higher operating expenses and lower net interest and non-interest income. Provisions for credit losses ("PCL") in 2023 were $30.9 million compared to recoveries experienced in 2022.

The return on membership share equity declined from 18.5% in 2022 to 5.1% in 2023 mainly due to lower net income.

Meridian's total revenue decreased $64.7 million over 2022 mainly due to compression in net interest margins, lower prepayment income and reduced net gains on financial instruments. Total revenue was $509.9 million for 2023, an 11.3% decrease from 2022 results. The primary cause of this decrease was a shift in demand deposits to higher interest term deposits driving higher deposit costs and increased inorganic funding costs. In addition, PCL ended 2023 in a more normalized expense position versus recoveries last year. Non-interest expenses increased $35.8 million from the previous year. The increase was mainly seen in salaries and benefits and largely as a result of annual merit increases, the full-year impact of living wage increases, a new compensation structure for the Wealth Management team, and additional staffing to support our investment in the new "Meridian for Good" strategy. Increased expenses were also seen in deposit insurance, core systems software and initiatives for financial systems transformation and customer relationship management.

Capital

Meridian's Tier 1 Capital Ratio and Total Supervisory Capital Ratio increased to 11.1% and 13.3%, respectively, at December 31, 2023 versus 9.5% and 12.1%, respectively, at December 31, 2022, due largely to the issuance of $161 million of Series 23 Class A Investment Shares and the increase in retained earnings. These ratios remain well above the minimum regulatory requirements of 9% and 10.5%, respectively, and within our own risk appetite target ranges. The setting and monitoring of our risk appetite ranges are discussed in more detail in the Risk Management section. The Leverage Ratio increased to 6.7% at December 31, 2023 (6.3% in 2022), consistent with the issuance of the Series 23 shares and the rate is well above the regulatory minimum of 3.0%.

All regulatory ratios remain well within our risk appetite target ranges and exceeded regulatory minimums.

A key indicator of financial soundness is the strength of our capital base, which consists mainly of Member capital accounts and retained earnings. A strong capital position allows us to absorb shocks stemming from economic downturns and market risk, invest in activities and ventures that add value to our Members, and protect Members' interests. Meridian issued $161 million of additional investment shares in 2023 to further strengthen its capital base. We continue to focus on maintaining sound capital ratios and building our capital base through retained earnings growth.

Liquidity

Meridian's non-consolidated liquid asset ratio was 15.3% as at December 31, 2023 versus 13.1% as at December 31, 2022, reflecting a decision to build liquidity given the uncertain economic environment.

Fiscal 2023 Financial Performance Review

For the year ended December 31, 2023 with comparative figures for 2022 ($ thousands)	2023	2022	Change from 2022	
NET INTEREST INCOME	**$ 415,251**	$ 450,639	$ (35,388)	-7.9%
NON-INTEREST INCOME				
Fee and other income	**93,326**	92,832	494	0.5%
Net gain on financial instruments	**1,330**	31,117	(29,787)	-95.7%
TOTAL REVENUE	**509,907**	574,588	(64,681)	-11.3%
Provision for (recovery of) credit losses	**30,876**	(2,867)	33,742	-1177%
	479,031	577,455	(98,423)	-17.0%
NON-INTEREST EXPENSES	**388,814**	353,047	35,767	10.1%
Income before income taxes	**90,217**	224,408	(134,191)	-59.8%
Income taxes	**8,716**	41,830	(33,114)	-79.2%
NET INCOME	**81,501**	182,578	(101,077)	-55.4%
Investment share dividends	**34,084**	27,285	6,799	24.9%
NET INCOME ATTRIBUTABLE TO MEMBERSHIP SHARES	**$ 47,417**	$ 155,293	$(107,876)	-69.5%

Total Revenue

Total revenue, which comprises net interest income and non-interest income before PCL, declined $64.7 million to $509.9 million in 2023.

Net Interest Income

Net interest income includes interest income on assets such as loans, securities and equipment financing less interest expense paid on liabilities such as deposits and wholesale funding. For the year, net interest income was $415.3 million, a decrease of $35.4 million or 8% over 2022. Interest income on assets increased $374.6 million, while interest expense on liabilities increased $410.0 million.

NET INTEREST INCOME

($ thousands)	2023				2022			
	Average Balance	Mix	Interest	Interest Rate	Average Balance	Mix	Interest	Interest Rate
Cash and interest-bearing deposits	$ 1,252,802	4.7%	$ 42,271	3.37%	$ 1,511,109	6.0%	$ 23,080	1.53%
Debt securities	2,041,644	7.6%	71,132	3.48%	1,625,141	6.5%	28,502	1.75%
Residential mortgages	12,832,499	47.8%	426,459	3.32%	12,256,571	48.8%	340,572	2.78%
Personal loans	1,406,398	5.2%	104,824	7.45%	1,295,602	5.2%	69,000	5.33%
Commercial mortgages and loans	7,243,478	27.0%	509,802	7.04%	6,625,112	26.4%	351,100	5.30%
Equipment financing	1,621,842	6.0%	101,700	6.27%	1,366,270	5.4%	69,300	5.07%
Other assets	451,017	1.7%	4	0.00%	457,524	1.8%	–	0.00%
Total assets / interest income	26,849,679	100.0%	1,256,192	4.68%	25,137,328	100.0%	881,554	3.51%
Demand deposits	7,718,945	28.7%	135,033	1.75%	8,198,970	32.6%	87,829	1.07%
Term deposits	7,635,585	28.4%	355,540	4.66%	6,101,974	24.3%	147,014	2.41%
Registered plans	3,739,832	13.9%	144,498	3.86%	3,410,254	13.6%	66,732	1.96%
Securitization liabilities	5,380,511	20.0%	168,495	3.13%	5,226,206	20.8%	104,881	2.01%
Funding facilities and subordinated debt	477,088	1.8%	35,386	7.42%	476,280	1.9%	22,331	4.69%
Other liabilities	266,866	1.0%	1,988	0.75%	268,651	1.1%	2,128	0.79%
Total liabilities / interest expense	25,218,828	93.9%	840,941	3.33%	23,682,335	94.2%	430,915	1.82%
Members' equity	1,630,851	6.1%	–	0.00%	1,454,994	5.8%	–	0.00%
Total liabilities and Members' equity	26,849,679	100.0%	840,941	3.13%	25,137,328	100.0%	430,915	1.71%
Total assets / net interest income	$ 26,849,679		$ 415,251	1.55%	$ 25,137,328		$ 450,639	1.79%

Net interest margin is the ratio of net interest income to average total assets, expressed as a percentage. In 2023, net interest margin was 1.55%, which was a decrease of 24 basis points from 2022. The prime rate increases of 75 basis points in the first half of the year drove Members to shift deposits from demand to fixed terms. Spread compression was experienced as deposit yields doubled and outpaced lending income. Continued growth from our revenue diversification strategy, including equipment financing, partially offset the net interest income challenges.

Meridian's average total assets increased $1.7 billion or 6.8% in 2023, through strong loan growth in mortgages, business loans and equipment financing.

Average loan balance growth increased $1.6 billion or 7.2% in 2023, and the interest revenue associated with these loans grew by 37.7%. Both the Retail and Commercial business lines contributed to lending and loan revenue growth in 2023.

Meridian's asset growth was funded by a combination of core funds, driven by the high interest savings account ("HISA") Boost offering and inorganic funding through brokers. Growth in average deposit balances was $1.4 billion or 7.8% in 2023.

Non-Interest Income

NON-INTEREST INCOME

($ thousands)	**2023**	2022	Change from 2022	
Wealth management revenue	**$ 30,692**	$ 29,824	$ 868	2.9%
Account service fees	**21,626**	20,166	1,460	7.2%
Loan and lease servicing fees	**17,962**	16,273	1,689	10.4%
Foreign exchange	**9,042**	7,546	1,496	19.8%
Credit card services	**5,370**	6,844	(1,474)	-21.5%
Insurance commissions	**3,894**	6,382	(2,487)	-39.0%
Other	**4,739**	5,797	(1,057)	-18.2%
Total fee & other income	**93,326**	92,832	494	0.5%
Realized gain on financial instruments	**21,130**	4,436	16,694	376.3%
Unrealized gain/(loss) on financial instruments	**(19,800)**	26,681	(46,481)	-174.2%
Net gain on financial instruments	**1,330**	31,117	(29,787)	-95.7%
Total non-interest income	**$ 94,656**	$ 123,949	$ (29,293)	-23.6%

Total non-interest income decreased by $29.3 million or 23.6% to $94.7 million in 2023. The decrease was primarily a result of a $29.8 million net decrease in gain on financial instruments.

Total fee and other income of $93.3 million in 2023 was relatively flat year over year.

Growth during the year was experienced in three main categories. Loan and lease servicing fees, which grew by $1.7 million to $18.0 million, was driven by portfolio growth and improved sales programs. Account service fees grew by $1.5 million to $21.6 million as a refresh to service charge packages was completed in year. Foreign exchange income growth of $1.5 million to $9.0 million was the third area of growth for the year.

Insurance commissions decreased by $2.5 million to $3.9 million with the windup and transition to a new insurance provider. Credit card services declined by $1.5 million or 21.5% to $5.4 million as 2022 included a one-time reduction to the Rewards liability after migrating our existing portfolio to a new processor.

Wealth management revenue increased $0.9 million year-over-year or 2.9% to $30.7 million due in part to both market appreciation and net sales growth.

Most of the non-interest income decline was a result of a decrease in net gains on financial instruments of $29.8 million versus 2022. Net gains on financial instruments relate primarily to fair valuation adjustments on derivative instruments where hedge accounting is not achieved and will fluctuate with changes in interest rates. In 2022, there were significant increases in interest rates which benefitted the Credit Union's non-hedge accounted derivative position. In 2022, there was also a $14.1 million one-time gain relating to the discontinuation of hedge accounting on certain interest rate swaps for equipment financing which resulted in a transfer from other comprehensive income to profit or loss. Derivatives are used to hedge the Credit Union's net interest income, and although they are considered effective economic hedges, some do not qualify for hedge accounting treatment. This can create a mismatch between the economic impact of the derivative and when it affects reported earnings.

Non-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 instrument.

Non-Interest Expenses and Efficiency Ratio

NON-INTEREST EXPENSES

($ thousands)	2023	2022	Change from 2022	
Salaries and employee benefits	**$242,887**	$ 214,972	$ 27,915	13.0%
Administration	**31,255**	31,760	(504)	-1.6%
Technology	**21,738**	18,205	3,533	19.4%
Transaction services	**20,602**	17,184	3,418	19.9%
Occupancy	**10,024**	9,158	866	9.5%
Deposit insurance	**15,264**	13,203	2,061	15.6%
Marketing	**9,745**	11,047	(1,302)	-11.8%
Depreciation	**16,860**	16,495	365	2.2%
Amortization	**4,510**	4,733	(223)	-4.7%
Community and social impact	**4,485**	3,455	1,030	29.8%
Other expenses	**11,444**	12,835	(1,392)	-10.8%
Total non-interest expenses	**$388,814**	$ 353,047	$ 35,767	10.1%
Efficiency Ratio	**76.3%**	61.4%		-14.9%

Non-interest expenses increased to $388.8 million in 2023, from $353.0 million in 2022. The 10.1% increase in expenses was mainly due to higher salaries and benefits, technology spending on software, and transaction services.

Salaries and employee benefits expenses, which include incentive compensation, accounted for approximately 78% of the increase in expenses. Higher personnel expenses were driven by a combination of our strategic investment in becoming a Living Wage Employer, investment in our "Meridian for Good" strategy, a legacy pension windup expense, a new compensation structure for our Wealth Management teams and more vacant positions being filled than 2022. Higher performance-based sales commissions associated with equipment financing growth and annual merit increases also contributed to the increase in salary expense.

Technology expenses increased by $3.5 million to $21.7 million. This increase is due to our growing workforce, strategic investment in new technology and conversion to a cloud-based strategy, requiring additional software, hardware and associated licensing costs to ensure we can deliver our unique and personalized experience consistently to our Members.

Transaction services increased by $3.4 million to $20.6 million due to higher clearing costs, ABM and credit card expenses.

Marketing expenses decreased by $1.3 million to $9.7 million in 2023. We invested in a few new initiatives in 2023: the launch of the "Meridian for Good" strategy and Meridian's first ESG report which included recognition of the "Good" being done in communities.

Meridian has continued its longstanding commitment to the communities we serve through our Community and Social Impact initiatives. This year saw increased focus on investing back into our Member communities, with $4.5 million in funding, a 29.8% increase in community investment. The total investment in programs and sponsorship does not reflect additional contributions in the form of "in kind" services. These programs build our brand by making a bold community impact while engaging and empowering our employees, current and future Members.

Deposit insurance increased $2.1 million to $15.3 million reflecting an 8.7% increase in insured deposit balances and 9.3% increase in insurance rates.

Meridian's investment in strategic initiatives was $8.9 million in 2023. The focus of 2023 initiatives were mainly on business transformation and digitization and included the continued development of an enterprise customer relationship management system, enhancement of our lending processes and technology, and numerous innovative product and service designs that enable a differentiated Member experience. In addition, new internal finance systems were implemented to support the enterprise. These expenses are reported across various expense categories.

Efficiency Ratio

The efficiency ratio is a measure of productivity and is calculated as total non-interest expense divided by total revenues, not including loan loss provisioning. A lower efficiency ratio is typically considered more favorable.

With a decline in revenues and increased operating expenses, the efficiency ratio deteriorated from 61.4% in 2022 to 76.3% in 2023.

Fiscal 2023 Financial Condition Review

Select Balance Sheet Information

Select Balance Sheet Information ($ thousands)	2023	2022	Change from 2022	
Cash and deposits	$ 36,470	$ 76,562	$ (40,092)	-52.4%
Debt securities	2,380,917	1,702,370	678,547	39.9%
Loans, net of allowance	23,739,326	22,469,108	1,270,218	5.7%
Total assets	27,543,687	26,155,667	1,388,020	5.3%
Deposits	19,662,503	18,526,220	1,136,283	6.1%
Securitization liabilities	5,404,035	5,356,987	47,047	0.9%
Funding facilities	301,580	301,325	255	0.1%
Assets under management	4,413,426	3,891,009	522,417	13.4%

Total Cash and Debt Securities

($ thousands)	2023	2022	Change from 2022	
Cash and deposits				
Cash on hand	$ 19,185	$ 39,739	$ (20,554)	-51.7%
Restricted funds	17,285	36,823	(19,538)	-53.1%
	36,470	76,562	(40,092)	-52.4%
Demand deposits with financial institutions	955,327	1,437,245	(481,918)	-33.5%
	991,797	1,513,807	(522,010)	-34.5%
Debt securities				
Government issued or guaranteed securities	1,595,341	1,244,154	351,187	28.2%
Non-government securities	185,838	264,307	(78,469)	-29.7%
Term deposits with other financial institutions	102,150	190,150	(88,000)	-46.3%
Reverse repurchase agreements	492,527	-	492,527	0.0%
Other debt securities	1,000	1,000	-	0.0%
Accrued interest	4,061	2,759	1,302	47.2%
	2,380,917	1,702,370	678,547	39.9%
Total cash and debt securities	$ 3,372,714	$ 3,216,177	$ 156,537	4.9%

Loans, Net of Allowance

($ thousands)	2023	Mix	2022	Mix	Change from 2022	
Personal						
Residential mortgages	$ 13,229,238	55.7%	$ 12,435,761	55.3%	$ 793,477	6.4%
Personal loans	1,440,051	6.1%	1,372,745	6.1%	67,306	4.9%
	14,669,289	61.8%	13,808,506	61.5%	860,783	6.2%
Commercial						
Commercial mortgages	6,522,149	27.5%	6,470,371	28.8%	51,778	0.8%
Commercial loans	833,489	3.5%	660,947	2.9%	172,543	26.1%
Equipment financing	1,714,399	7.2%	1,529,285	6.8%	185,114	12.1%
	9,070,037	38.2%	8,660,602	38.5%	409,435	4.7%
Total loans, net of allowance	$ 23,739,326	100.0%	$ 22,469,108	100.0%	$ 1,270,218	5.7%

Personal Mortgages and Loans

($ thousands)	2023	Mix	2022	Mix	Change from 2022	
Residential mortgages						
Insured	$ 4,965,723	33.8%	$ 4,498,577	32.6%	$ 467,146	10.4%
Uninsured	7,719,265	52.6%	7,342,793	53.1%	376,472	5.1%
Alternative - A mortgages	545,200	3.7%	594,964	4.3%	(49,764)	-8.4%
Total Residential mortgages	13,230,187	90.1%	12,436,334	90.0%	793,853	6.4%
Personal loans	1,450,730	9.9%	1,384,108	10.0%	66,622	4.8%
Total personal mortgages and loans (1)	$ 14,680,917	100.0%	$ 13,820,442	100.0%	$ 860,475	6.2%

(1) Total personal mortgages and loans exclude allowance for credit losses.

The geographical distribution of residential mortgages and loans in the Greater Toronto Area ("GTA") is 34.7% versus 65.3% outside of the GTA.

Commercial Mortgages and Loans

($ thousands)	2023	Mix	2022	Mix	Change from 2022	
Commercial Mortgages						
Income producing real estate	$ 3,938,421	53.1%	$ 4,043,791	56.3%	$ (105,370)	-2.6%
Land, development and construction	2,216,624	29.9%	2,078,528	28.9%	138,096	6.6%
Other	420,161	5.7%	391,692	5.5%	28,469	7.3%
	6,575,206	88.7%	6,514,011	90.7%	61,195	0.9%
Commercial Loans	839,925	11.3%	668,622	9.3%	171,304	25.6%
Total commerical and small business exposure (1)	$ 7,415,131	100.0%	$ 7,182,632	100.0%	$ 232,499	3.2%

(1) Total commercial and small business exposure exclude allowance for credit losses.

Commercial Mortgages by Industry Sector:

($ thousands)	2023	Mix	2022	Mix	Change from 2022	
Income Producing Real Estate						
Residential	**$ 1,404,798**	**18.9%**	$ 1,452,254	20.2%	$ (47,456)	-3.3%
Hospitality	**1,030,550**	**13.9%**	1,050,473	14.6%	(19,923)	-1.9%
Office/Commercial/Retail	**858,431**	**11.6%**	998,149	13.9%	(139,717)	-14.0%
Industrial/Storage	**644,641**	**8.7%**	542,915	7.6%	101,726	18.7%
Total income producing real estate [1]	**$ 3,938,421**	**53.1%**	$ 4,043,791	56.3%	$ (105,370)	-2.6%
Land, Development and Construction						
Construction	**$ 1,265,638**	**17.1%**	$ 1,296,231	18.0%	$ (30,593)	-2.4%
Land and development	**950,985**	**12.8%**	782,297	10.9%	168,689	21.6%
Total land, development and construction [1]	**$ 2,216,624**	**29.9%**	$ 2,078,528	28.9%	$ 138,096	6.6%
Residential	**$ 1,701,213**	**22.9%**	$ 1,466,427	20.4%	$ 234,785	16.0%
Non-residential	**515,411**	**7.0%**	612,101	8.5%	(96,690)	-15.8%
Total land, development and construction [1]	**$ 2,216,624**	**29.9%**	$ 2,078,528	28.9%	$ 138,096	6.6%

[1] Loan values exclude allowance for credit losses.

Geographic Distribution

The Commercial mortgages and loans portfolio is distributed 35.1% in the GTA and 64.9% outside of the GTA – primarily in Ontario.

Equipment Financing:

($ thousands)	2023	Mix	2022	Mix	Change from 2022	
Transportation	**$ 665,696**	**38.2%**	$ 589,244	38.2%	$ 76,452	13.0%
Construction/material handling	**598,136**	**34.3%**	544,828	35.3%	53,308	9.8%
Industrial	**125,759**	**7.2%**	110,769	7.2%	14,990	13.5%
Office equipment	**91,828**	**5.3%**	86,145	5.6%	5,683	6.6%
Other	**261,349**	**15.0%**	212,452	13.8%	48,897	23.0%
Total equipment financing [1]	**$ 1,742,768**	**100.0%**	$ 1,543,438	100.0%	$ 199,330	12.9%

[1] Total equipment financing exclude allowance for credit losses.

Geographic Distribution

The equipment financing portfolio provides additional geographical diversification for the Credit Union with equipment financing in various provinces as follows: Ontario: 33.8%, Quebec: 26.8%, Alberta: 15.3%, British Columbia: 11.9%, Other: 12.2%

Loans to Members grew by 5.7% or $1.3 billion to $23.7 billion. Residential mortgages account for 55.7% of the total portfolio, net of allowance and grew by 6.4% to $13.2 billion with insured mortgages growing faster than uninsured. Insured mortgages comprise 37.5% of our residential mortgages' portfolio. Commercial mortgages and loans account for 31.0% of total loans, net of allowance and grew by 3.2% to $7.4 billion. Loan growth was seen in the land subdivision and development, real estate – self storage and consumer loans and residential mortgages sectors as well as further loan diversification through syndications. The largest sector declines were seen in real estate – student housing declined by 28.1%, real estate – office/commercial loans declined 16.5% and agriculture loans declined by 16.9% compared to 2022, reflecting Meridian's focus on diversifying loan funding and risk.

Meridian is not subject to OSFI Guideline B-20 Residential Mortgage Underwriting Practices and Procedures. Meridian generally follows the guideline, both as a pragmatic approach that provides stability and prudent lending guidance, but also to allow for the securitization or pledging of mortgages for alternative funding facilities. Approximately 72% of all new residential mortgage originations in 2023 were Guideline B-20 compliant.

Meridian does originate non-B20 compliant conventional uninsured residential mortgages where it has sufficient additional collateral, generally in the form of a lower loan to value ratio. Meridian also invests in Alternative A ("Alt-A") residential mortgages originated and administered by large, specialized third party mortgage lenders.

Provision for Credit Losses

PCL is measured in accordance with IFRS 9, using a three-stage impairment model. Relevant exposures within the scope of the IFRS 9 impairment model for Meridian include Retail and Commercial mortgages and loans, equipment financing, as well as off-balance sheet exposures, including loan commitments and letters of credit. For a more detailed discussion of the models used, refer to Note 3.7 and 27.1 of the Consolidated Financial Statements.

PCL consists of write-offs, expected losses on specifically identified accounts (stage 3 expense) as well as losses expected but not yet identified on performing accounts (stage 1 and 2 expense).

Meridian's PCL was $30.9 million in 2023, a $33.7 million increase compared to the prior year's PCL recovery of $2.9 million. PCL on impaired loans increased $21.3 million to $25.6 million in 2023 compared to $4.3 million in the prior year as a result of increased specific losses in the commercial and equipment finance portfolios. PCL on impaired loans as a percentage of total loans increased from 0.02% to 0.11% in 2023.

PCL Highlights

($ thousands)	2023	2022	Change from 2022	
Total Loans	**$ 23,838,816**	$ 22,546,512	$ 1,292,304	5.7%
Allowance for Expected Credit Losses	**99,490**	77,404	22,086	28.5%
Allowance as % of total loans	**0.42%**	0.34%	0.07%	21.6%
Provision for Credit Losses	**30,876**	(2,867)	33,743	1176.9%
PCL as % of total loans	**0.13%**	-0.01%	0.14%	1118.5%

PCL on performing loans was $5.2 million in 2023, a $12.4 million increase compared to a $7.2 million release of provision in 2022. The increase was primarily related to increased allowance within the equipment financing portfolio driven by the effect of the current economic slowdown and increased interest rates.

Expected credit loss allowance ("ECL") is maintained at a level considered appropriate to absorb both identified and unidentified credit losses. Total ECL as of December 31, 2023 was $99.5 million, an increase of $22.1 million compared to $77.4 million in 2022. ECL has increased year-over-year due to the unfavourable macroeconomic environment, higher interest rates and overall portfolio growth.

Credit Portfolio Quality

Loan and Equipment Finance expected credit loss provisioning is determined in accordance with established policy. Management reviews the Loan and Equipment Finance allowance position and impairment levels at least quarterly. 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 include management's best estimate of losses based on the currently available information. The PCL is reflected in the Consolidated Income Statement in the current year. The table below reflects the change in gross impaired loans in 2023 and 2022.

Change in Gross Impaired Loans

($ thousands)	2022	New impaired loans	Reductions, paydowns, or return to performing	Write-offs	2023
Residential mortgages	**$ 5,432**	**$ 55,599**	**$ (34,661)**	**$ –**	**$ 26,370**
Personal loans	**2,298**	**5,613**	**(3,201)**	**(2,704)**	**2,006**
Commercial mortgages and loans	**72,681**	**197,990**	**(88,718)**	**(680)**	**181,273**
Equipment financing	**2,299**	**23,414**	**(6,070)**	**(6,603)**	**13,040**
	$ 82,710	**$ 282,616**	**$ (132,650)**	**$ (9,987)**	**$ 222,689**

	2021	New impaired loans	Reductions, paydowns, or return to performing	Write-offs	2022
Residential mortgages	$ 5,212	$ 20,983	$ (18,003)	$ (2,760)	$ 5,432
Personal loans	2,854	5,293	(3,570)	(2,279)	2,298
Commercial mortgages and loans	87,169	38,004	(51,961)	(531)	72,681
Equipment financing	3,323	8,683	(5,813)	(3,894)	2,299
	$ 98,558	$ 72,963	$ (79,347)	$ (9,464)	$ 82,710

Credit Quality	**2023**	**2022**	**Change from 2022**
Provision for credit losses on total loans as a % of average loans	**0.13%**	-0.01%	0.14%
Provision for credit losses on impaired loans as a % of average loans	**0.11%**	0.02%	0.09%

The gross impaired loans balance is $222.7 million ($82.7 million in 2022) and represents 0.94% of total loans (0.37% in 2022). The increase in gross impaired loans in 2023 was caused mainly by increased Commercial impairments.

All Loans - Arrears	**2023**				
($ thousands)	**Outstanding**	**30-90 days Not Impaired**	**%**	**Over 90 days +Impaired**	**%**
Personal					
Residential mortgages	$ 13,230,187	$ 34,226	0.26%	$ 26,370	0.20%
Personal loans	1,450,730	5,827	0.40%	$ 2,006	0.14%
	14,680,917	40,053	0.27%	28,376	0.19%
Commercial					
Commercial Mortgages	6,575,206	2,820	0.04%	180,043	2.74%
Commercial Loans	839,925	565	0.07%	1,230	0.15%
Equipment financing	1,742,768	18,997	1.09%	13,040	0.75%
	9,157,899	22,382	0.24%	194,313	2.12%
Total loans - arrears (1)	**$23,838,816**	**$ 62,435**	**0.26%**	**$ 222,689**	**0.93%**

	2022				
	Outstanding	30-90 days Not Impaired	%	Over 90 days +Impaired	%
Personal					
Residential mortgages	$ 12,436,334	$ 20,392	0.16%	$ 5,432	0.04%
Personal loans	1,384,108	6,119	0.44%	$ 2,298	0.17%
	13,820,442	26,511	0.19%	7,730	0.06%
Commercial					
Commercial Mortgages	6,514,011	-	0.00%	69,210	1.06%
Commercial Loans	668,622	123	0.02%	3,471	0.52%
Equipment financing	1,543,438	4,325	0.28%	2,299	0.15%
	8,726,070	4,448	0.05%	74,980	0.86%
Total loans - arrears (1)	$ 22,546,512	$ 30,959	0.14%	$ 82,710	0.37%

(1) Total loan - arrears outstanding balance exclude allowance for credit losses.

The total allowance for expected credit losses on loans and equipment financing stands at $99.5 million ($77.4 million in 2022). The increase was driven by higher allowances across all stages. Stage 1 and 2 allowances increased to $69.0 million ($63.7 million in 2022); this reflects the impact of higher interest rates on the current economic environment. The stage 3 allowance increased to $30.5 million ($13.7 million in 2022) due to higher Commercial and Equipment financing impairments. Delinquent amounts over 90 days were $4.8 million at the end of 2023.

Credit Risk Management

A risk rating system is used to assess and monitor the risk profile of the 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. The proportion of Commercial loans in “higher than average risk” has improved year over year largely due to the proactive management of Watchlist accounts. A comprehensive Early Warning System in place 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.

The credit quality of the portfolio continues to be actively monitored using a wide array of tools and techniques, with real-time insights and sound financial advice provided to Members to help them maintain their financial well-being.

Deposits

Deposits grew by 6% or $1.1 billion to $19.7 billion in 2023, primarily driven by term deposits due to the higher interest rate environment and attractive longer-term rates.

Deposits	2023				2022			
($ thousands)	Demand	Term	Total	% of Total	Demand	Term	Total	% of Total
Personal	$ 5,214,305	$ 9,311,037	$ 14,525,342	73.9%	$ 5,935,813	$ 7,295,417	$ 13,231,231	71.4%
Commercial [1]	2,723,079	2,267,732	4,990,811	25.4%	3,149,702	1,950,144	5,099,846	27.5%
Core Member deposits	7,937,384	11,578,769	19,516,153	99.3%	9,085,515	9,245,562	18,331,076	98.9%
Institutional [2]	20,846	125,504	146,350	0.7%	25,851	169,293	195,143	1.1%
Total Deposits	$ 7,958,230	$ 11,704,273	$ 19,662,503	100.0%	$ 9,111,366	$ 9,414,854	$ 18,526,220	100.0%
% of Total	40.5%	59.5%	100.0%		49.2%	50.8%	100.0%	

(1) Commercial includes: commercial and business banking Members

(2) Institutional includes: MUSH (municipalities, universities, schools and hospitals) and Deposit agents

Core Member deposits totaled $19.5 billion of total deposits as of December 31, 2023, comprised of demand deposits of $7.9 billion (December 31, 2022 – $9.1 billion) and term deposits of $11.6 billion (December 31, 2022 – $9.2 billion). Term deposits increased to 59.5% of total deposits at December 31, 2023 from 50.8% at December 31, 2022, as Member preference shifted from demand deposits into higher yielding fixed rate term deposits throughout 2023’s elevated interest rate environment.

Deposits Insured vs Uninsured

($ thousands)	2023	Mix	2022	Mix	Change from 2022	
Insured	$ 13,515,417	68.7%	$ 12,294,653	66.4%	$ 1,220,764	9.9%
Uninsured	6,147,086	31.3%	6,231,567	33.6%	(84,480)	-1.4%
Total Deposits	$ 19,662,503	100.0%	$ 18,526,220	100.0%	$ 1,136,283	6.1%

Insured deposits grew by 9.9% or $1.2 billion in 2023, representing 68.7% of total deposits versus 66.4% in 2022.

Funding and Securitization

	2023		2022		Change from 2022	
($ thousands)	Balance	% of Total	Balance	% of Total	$	%
Residential mortgage securitization						
Mortgage backed securities	$ 3,525,481	65.2%	$ 3,618,798	67.6%	$ (93,317)	-2.6%
Asset-backed commercial paper	479,549	8.9%	472,199	8.8%	7,350	1.6%
Equipment financing	1,399,005	25.9%	1,265,990	23.6%	133,015	10.5%
	5,404,035	94.7%	5,356,987	94.7%	47,048	0.9%
Funding facilities	301,580	5.3%	301,325	5.3%	255	0.1%
Total securitization and other funding	$5,705,615	100.0%	$ 5,658,312	100.0%	$ 47,303	0.8%

Meridian regularly securitizes residential mortgages by participating in both government sponsored and private securitization programs to enhance its liquidity position and diversify sources of funding. Meridian also maintains a term funding facility which matures in 2024. Meridian expects that the term funding facility will either be renewed, or alternate funding sources will be established in 2024.

Investment Shares

($ thousands)	2023		2022	
Balance, beginning of year	$ 637,867		$ 620,075	
Issued	161,213		-	
Converted	(35,616)		-	
Issued, net [1]	125,597		-	
Redeemed, net [2]	(25,872)		(4,433)	
Dividend Reinvested	27,844		22,225	
Balance, end of year	765,436		637,867	
Dividends				
Paid in Cash	6,240	18.3%	5,060	18.5%
Paid in Shares	27,844	81.7%	22,225	81.5%
	34,084	100.0%	27,285	100.0%
Redeemed, net [2]	$ 25,872	4.1%	$ 4,433	0.7%

[1] Issued, net: Certain earlier series of investment shares were eligible to be converted into Series 23 shares and such conversions have been netted against the gross issue.
[2] Redemptions - net of units converted into new Series 23 and transfers between members.

Meridian issued $161 million of new Class A Series 23 Investment Shares in 2023 to strengthen its Tier 1 Capital base.

Redemptions increased in 2023 as interest rates increased and holders of lower yielding shares converted them to the new Series 23 shares or redeemed out and reinvested through transfers or higher yielding GIC's.

Assets Under Management

Wealth Management provides financial advisory services to Members. Assets under management consist largely of mutual fund assets held by Members.

Assets under management increased by $0.5 billion or 13.4% to $4.4 billion in 2023 compared to the previous year. Financial markets in both Canada and the US were generally strong throughout the year, resulting in market value appreciation of $0.4 billion. Wealth Management also generated positive net sales, adding $0.1 billion to assets under management.

LIQUIDITY MANAGEMENT

Liquid Assets

Liquid assets are comprised of cash, deposits, securities sold under repurchase agreements, marketable debt securities, and securitized mortgages not yet sold. Liquid Assets totaled $4.0 billion on December 31, 2023 (December 31, 2022 – $3.2 billion).

Liquid Assets

($ thousands)	2023	2022	Change from 2022
Cash and demand deposits			
Cash on hand	**$ 19,185**	$ 39,739	$ (20,554)
Demand deposits with financial institutions	**955,327**	1,437,245	(481,918)
	974,512	1,476,984	(502,472)
Marketable securities			
Government issued and other securities	**1,760,136**	1,508,461	251,675
Reverse repurchase agreements	**492,192**	–	492,192
	2,252,328	1,508,461	743,867
Meridian NHA mortgage-backed securities[1]	**766,192**	217,565	548,627
Total liquid assets	**$ 3,993,032**	$ 3,203,010	$ 790,022

[1] Securitized mortgages that were not transferred to third parties and are included in residential mortgages on the balance sheet.

Credit Facilities

In addition to its liquid assets, Meridian has access to additional sources of liquidity through various credit facilities, as noted below:

Credit Facilities	2023		2022	
($ thousands)	**Authorized**	**Drawn**	Authorized	Drawn
Revolving lines of credit				
Secured	**$ 475,000**	**$ –**	$ 440,000	$ –
Unsecured	**359,395**	**–**	359,722	–
	834,395	**–**	799,722	–
Contingent credit facilities				
Unsecured	**422,000**	**134,978**	422,000	262,223
Total credit and contingency facilities	**$ 1,256,395**	**$ 134,978**	$ 1,221,722	$ 262,223

As of December 31, 2023, Meridian Credit Union's liquid asset ratio – defined as total unencumbered liquid assets as a percentage of total assets on a non-consolidated basis – was 15.3%, compared to 13.1% at the end of 2022, well above the minimum requirement established by the Board and purposefully enhanced given the uncertain economic environment.

During times of high levels of liquidity and cash balances, Meridian enters into reverse repurchase agreements as a short-term investment strategy to reduce risk-weighted assets and optimize capital levels.

CAPITAL MANAGEMENT

Regulatory Capital and Capital Adequacy Ratios

Meridian is well capitalized, with regulatory ratios exceeding the recently introduced requirements of FSRA Rule 2021-002 Capital Adequacy Requirements for Credit Unions and Caisses Populaires under the Credit Union and Caisses Populaires Act, 2020 (the "Act"), which regulates Ontario Credit Unions and underlies Board policy requirements.

Capital Structure and Regulatory Ratios at Year End

($ thousands)	2023	2022	Change from 2022	
Regulatory Capital				
Tier 1 Capital	**$ 1,574,186**	$ 1,330,208	$ 243,978	18.3%
Total Capital	**1,885,256**	1,680,576	204,680	12.2%
Capital Ratios				
Tier 1 Capital Ratio	**11.1 %**	9.5 %	160 bp	
Total Supervisory Capital Ratio	**13.3 %**	12.1 %	120 bp	
Leverage Ratio	**6.7 %**	6.3 %	40 bp	

bp- basis point

As of December 31, 2023, Meridian's Tier 1 Capital Ratio (T1CR) and Total Supervisory Capital Ratio (TSCR) were 11.1% and 13.3%, respectively, compared to T1CR of 9.5% and TSCR of 12.1% at the end of 2022. The increase is attributed to the issuance of $161 million Series 23 Class A Investment Shares in 2023. The capital metrics are well in excess of the T1CR 6.5% and TSCR 8.0% minimum requirements, as well as the additional 2.5% capital conservation buffer stipulated in the Act.

Meridian's Leverage Ratio was 6.7% at the end of 2023, compared to 6.3% at end of 2022. This is well in excess of the 3.0% minimum requirement.

Meridian's capital position is generated primarily from retained earnings. Meridian actively monitors and manages its capital position, including optimizing the mix of lending and other risk weighted assets. Meridian is committed to a disciplined approach to capital management that balances the interests and requirements of Members and regulators.

Internal Capital Adequacy Assessment Process

Meridian performs an ICAAP and maintains a Stress Testing program, in line with FSRA 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 ("ERM") function.

RISK MANAGEMENT

Effective risk management is critical to the attainment of the strategic imperatives of Meridian. Meridian has built a strong overall risk culture that empowers all employees to be engaged in the identification and management of risk within its risk appetite. The Board and all employees are responsible to ensure 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 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 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 the FSRA Sound Business and Financial Practices Rule, and considers guidance provided by other relevant regulatory bodies and industry best practices. Meridian maintains an ERM framework to identify, assess, respond to, and monitor risk, including the following:

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, 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's subsidiaries maintain similar ERM frameworks, appropriate to their size and complexity, and provide ongoing reporting to inform Meridian's broader ERM processes. Meridian recognizes five broad types of risk: Strategic Risk, Operational Risk, Regulatory Risk, Credit Risk and Interest Rate and Market 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 results to differ significantly from 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. Specific plans to mitigate top and emerging risks are prepared, monitored and adjusted as required.

Meridian has in place a full complement of risk management programs, policies, standard operating procedures and internal controls that are designed to mitigate risks to acceptable levels. Appropriate consideration has been given to all relevant risks, and controls are consistently applied, implemented and adhered to throughout the organization. Meridian invokes risk management programs and appropriately adapts its risk appetite and existing controls to mitigate the potential risk impacts related to operational changes.

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 that provide 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 improving the financial well-being of our Members.

Climate change risk is a strategic consideration given the potential long-term exposure of Meridian to the physical and transitional risks associated with ongoing climate change. Management has developed and provided to the Board analysis identifying the exposure and potential impacts of climate change, including direct impacts to Meridian, impacts on our Members and implications to the organization's strategic plans. Robust ERM processes and a proactive risk aware culture help ensure that trends in climate-related risks are identified and prioritized as appropriate on an ongoing basis.

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 threats. Meridian has several programs that manage specific risks under the Operational Risk umbrella, including people related risks, criminal risks (fraud), physical and information security risks (cyber risk), business continuity risk, as well as risks associated with external vendors providing services. 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.

Regulatory Risk

Regulatory Risk is the risk that Meridian fails to comply with applicable regulations, laws and market codes of conduct. Meridian maintains robust programs in the areas of regulatory compliance management, anti-money laundering and anti-terrorist financing, and privacy to manage compliance and minimize overall regulatory risk. Meridian will not, under any circumstances, intentionally or knowingly violate any law, statute or regulation.

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 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 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.

Interest Rate and Market Risk

These risks include changes to interest rates and foreign exchange rates 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.

Liquidity and Funding Risk

Liquidity and funding risk is the risk that Meridian is unable to secure adequate, timely and reasonably priced funding.

Managing liquidity and funding risk is critical to ensuring the stability and soundness of Meridian. Meridian's policies and procedures ensure the Credit Union holds sufficient liquid assets and contingent funding capacity to meet financial commitments in times of stress. Prudent diversification and stability of funding is established through concentration limits, managing aggregate exposures by type and term of funding source.

Meridian's funding strategy follows a sustainable growth approach in that the funding of organic lending growth is primarily accomplished through organic deposit growth and securitization. Meridian maintains a large and stable base of deposits that, along with our strong capital base, supports the maintenance of a sound liquidity position. Meridian continues to maintain and investigate new funding sources in the event that access to specific programs is limited in the future or only available at significantly higher rates. Diversification of external funding sources is an important aspect of Meridian's overall risk management strategy with is achieved through the brokered deposit network, credit and contingency funding facilities and term funding facilities.

On an annual basis, Meridian develops a comprehensive funding plan in alignment with the annual business plan which is approved by the Board. Quarterly forecasts to Plan are performed and a Contingent Funding Plan (CFP) is developed to stipulate required actions and accountabilities in the event of stressed liquidity/funding conditions.

Meridian conducts regular liquidity stress tests, based on current economic and financial conditions, under a combined Meridian-specific and market-wide stress scenario, maintaining a minimum buffer over regulatory requirements prescribed by the FSRA Liquidity Guidelines. Meridian monitors and reports regulatory liquidity metrics to FSRA monthly.

Capital Risk

Overview

Meridian is committed to a disciplined approach to capital management and maintaining its capital base to support its business activities and mitigate the associated risks. A sound capital position contributes to the safety for our Members, promotes confidence in attracting new Members, and allows Meridian to explore 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 ongoing economic stability and provide the opportunity to finance new growth.

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 regulatory and policy guidelines related to capital management and associated reporting mechanisms.

The Risk Committee, which reports into the Board, monitors compliance with the Capital Management Policy and oversees the target risk-based capital requirement determined by the Internal Capital Adequacy Assessment Process ("ICAAP"). It regularly reviews Meridian's capital position and key capital management activities.

The Audit and Finance Committee provides oversight to capital management including the Capital Management Policy, the Annual Capital Plan and the Three-Year Capital Plan.

The Executive Leadership Team provides senior management oversight of the capital management process, including review and discussion of significant capital policies, practices and action items. At the operational level, the Treasury team is responsible for the overall management of capital including planning, forecasting and execution of the Capital Plan.

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 Planning is an important element of the credit union's financial planning process and in the establishment of strategic objectives and is developed in accordance with the Capital Management Policy. Each year, a Capital Plan and a Three-Year Outlook are developed as part of the Financial Plan, which establishes targets for coming years and business plans to achieve those targets. Capital levels are monitored monthly and compared to forecast levels for both capital and risk weighted capital.

Meridian's monitoring and forecasting procedures track the expected growth in retained earnings relative to the growth in risk weighted assets. This longer-term forecasting allows Meridian to consider the need to seek additional external capital. These projections also take into account the future impact of expected changes in accounting and regulatory standards. A detailed discussion of capital management is provided in the notes to the audited consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURES

Internal Controls over Financial Reporting (ICFR) are developed and maintained to provide reasonable assurance that Meridian's consolidated financial statements are prepared in accordance with IFRS Accounting Standards and to ensure the reliability of financial reporting and the safeguarding of Meridian's financial resources.

Due to its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis. Meridian continues to assess and adopt best practices in financial reporting and corporate governance. Meridian has developed processes to evaluate the design and operating effectiveness of its ICFR and is focused on continually enhancing its ICFR framework.

CRITICAL ACCOUNTING ESTIMATES

Meridian's material accounting policies are presented in Note 3 to the consolidated financial statements. In preparing the consolidated financial statements according to IFRS Accounting Standards, Meridian uses certain critical accounting estimates and Management may exercise judgment in the process of applying Meridian's accounting policies. Certain changes in assumptions may have a significant impact on the consolidated financial statements in the period in which the assumptions are modified. The principal areas which require significant accounting estimates or a higher degree of judgment or complexity are noted below and detailed further in the consolidated financial statements.

- Fair value of financial instruments
- Allowance for expected credit losses on financial assets
- Impairment of non-financial assets
- Recognition and derecognition of securitization arrangements
- Deferred taxes
- Valuation of right-of-use assets and lease liabilities
- Recognition of interests in subsidiaries, associates and joint arrangements

2024 OUTLOOK

Economic Outlook

The economic outlook for Canada and Ontario in 2024 is anticipated to be weak in the first half of the year while the second half is expected to improve as the BoC reduces policy rates. For the BoC policy rates, the “last mile” of reducing inflation from the 3.0% area in early 2024 toward 2.0% is the toughest part given price (especially shelter) and wage pressures.

Even with projected BoC policy rate cuts from mid-2024 onward, the lagged impact of previous rate hikes remains a major headwind. Lower fixed-rate mortgage costs spurred a rebound in existing housing sales and prices in late 2023 and early 2024. Improved buyer confidence plus projected BoC rate declines auger well for the housing market overall by the spring 2024, including projected improving new home sales by mid-year. Ongoing unprecedented population growth continues to support house prices and will continue to put pressure on rents. Lending conditions remain tight for businesses and economic uncertainty are leading to a reduction in business investment and expansion.

Business Outlook

In 2023 and into early 2024, Canadian financial institutions faced challenging times, filled with headwinds such as higher central bank interest rates, high inflation, slowing of demand, and cautious consumer and business sentiments. Looking forward to 2024, Meridian will continue to focus on our members, commitment to communities, profitable growth, efficiency, and diligent expense management. We remain bold in our ambition and are putting our strategy in action despite the environment around us as we believe this is in the best interest of our members. In addition, Meridian maintains a sensible and disciplined approach to managing liquidity risk and capital. Holding high levels of liquid assets protects Meridian’s balance sheet from potential market events and our long-term capital strategies will further strengthen our capital base and allow Meridian to continue to invest strategically to support Members’ future needs.