

2008 Annual Report



Meridian™
CREDIT UNION

where real people build lives™

Corporate Governance Report

Meridian's Board of Directors is committed to the highest standards of Corporate Governance in order to demonstrate our stewardship to Members, employees and the communities we serve.

Board Mandate:

The Board of Directors protects and enhances Meridian's assets in the best interests of our Members and Stakeholders. The Board sets Meridian's strategic direction, establishes policies, oversees Management and ensures compliance with all regulatory and statutory requirements. Every Director is responsible for exercising independent judgment with honesty and integrity.

Board Composition and Election:

In accordance with our Bylaws, the size of Meridian's Board has reduced from 18 Directors at our inception in 2005 to 14 Directors in 2008. The process for the election of Directors is comprehensive. The Nominating Committee solicits candidates for nomination from Meridian's Members. Prospective candidates receive an extensive package of information. 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 which are considered best qualified to serve Meridian. 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.

Orientation and Continuing Education:

New Directors are provided a comprehensive orientation to familiarize them with Meridian's business operations and Governance processes. The Board has approved a 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.

Board Committees:

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

Audit Committee:

- Review of financial statements, internal controls, accounting policies and reporting procedures;
- Ensuring integrity of financial reporting;
- Oversight of internal and external audit processes;
- Overseeing management of significant operational risk and enterprise wide risk; and
- Oversight of the employee pension plans.

Governance Committee:

- Maintaining a healthy governance culture and overseeing all Governance policies;
- Assessing the effectiveness of the Board, its Committees and Committee Chairs;
- Reviewing and recommending Director compensation;
- Administering the process for reviewing the CEO's performance and compensation; and
- Oversight of the Board's annual planning process.

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.

Credit & Investment Committee:

- Ensuring policy oversight of credit, investment and asset/liability risks for acceptable levels and compliance with regulations; and
- Reviewing and approving individual connected and restricted party credit applications.

2008 Board Initiatives:

The Board is proud of the following initiatives implemented in 2008:

- Undertook a comprehensive scenario planning process to be sure that Meridian was well prepared to weather various economic conditions;
- Conducted a Peer assessment process;
- Reviewed and approved an Ethics 1st policy that resulted in the implementation of a confidential employee “whistle blower” hotline;
- Established two new Board policies covering Leaves of Absence and Attendance by Directors; and
- Undertaking a leadership role in promoting dialogue among Board Chairs of the 15 largest Credit Unions in Canada.

The Board is very pleased with the progress that Meridian has made in the four years since we were formed. 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 2008.

Management Discussion & Analysis

The turbulence in the capital markets over the past 18 months, coupled with a deepening global economic recession and volatile interest rates, has given rise to a variety of challenges for all financial institutions in 2008. Despite these challenges, Meridian has generated strong earnings results and has maintained and enhanced what was already a well capitalized balance sheet. While our financial performance has been strong, these external influences have created a variety of variances in our financial results for the year. Management's discussion and analysis of the results for 2008 will focus on providing greater insight into the drivers of these variances, and greater overall clarity on normalized operating earnings. In this environment, risk management practices are paramount and, as such, we are providing an overview of the key risks that Meridian faces and guidance with respect to how we manage and mitigate those risks.

Operational Overview

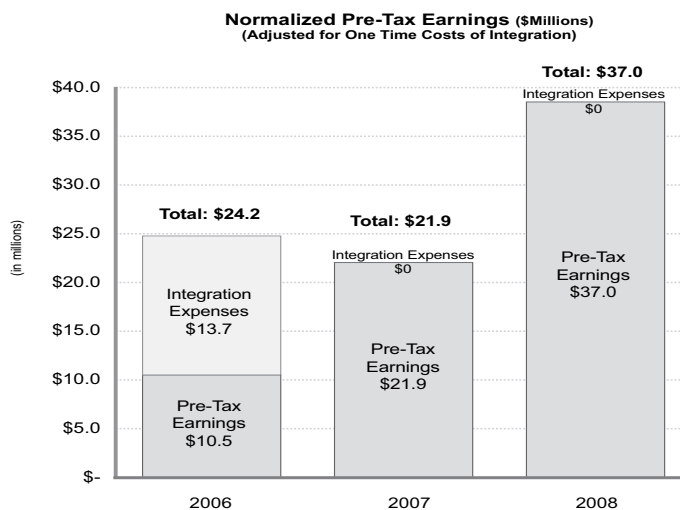
In a year that was characterized by tremendous economic upheaval and unprecedented turmoil in the financial marketplace, Meridian continued to thrive as the largest credit union in Ontario. With nearly \$4.5 billion in assets on balance sheet, and \$5.6 billion in assets under management, Meridian provides a range of credit and investment products and financial advice to our 218,000 retail and commercial Members, through a network of 44 branches and 8 commercial business centres across Ontario.

Our vision of reinventing neighbourhood banking continues to guide our strategic and operational plans. We are pleased that we have been able to add a significant number of new successes to our impressive list of accomplishments over the past four years. While not an exhaustive list, the following represents some of our more noteworthy achievements for 2008:

- Ongoing enhancement of our distribution network, including the opening of a new branch location in Ancaster, with plans for a new location in our Guelph market.
- A significant investment was made to refresh the entire ABM network with state of the art ABMs that are enabled with chip card technology, which will maximize the security of Member transactions.
- Strategic investments continue to be made in developing the capabilities of Meridian staff. Meridian was recognized for these accomplishments through the receipt of Maclean's Top 100 Employers Award in 2008.
- In 2008, Meridian focused its efforts on strengthening the security and performance of our technology infrastructure, in an effort to provide better and more reliable service to our Members. As part of this effort, Meridian has moved its Data Centre to a Tier 1 service provider with state of the art facilities, which has improved both its day to day service reliability and provides for robust and tested Disaster Recovery facilities, processes and capabilities.
- Meridian was also a recipient of a national award for our ongoing Member satisfaction metrics and measurement practice.

With these successes and others, it is no surprise that we have seen our Member loyalty and satisfaction scores hit new highs in 2008, far surpassing benchmarks established for the Financial Services industry.

Net earnings for 2008 were \$30.4 million, an increase of \$12.6 million year over year. Earnings during 2006 were significantly impacted by our merger related integration costs, but have been normalized in the following chart to allow for easier comparison - these normalized earnings exclude the impact of the one-time costs related to operational, banking system and product integration. The accompanying table provides an overview of the trend in our normalized pre-tax earnings from 2006 through to 2008.

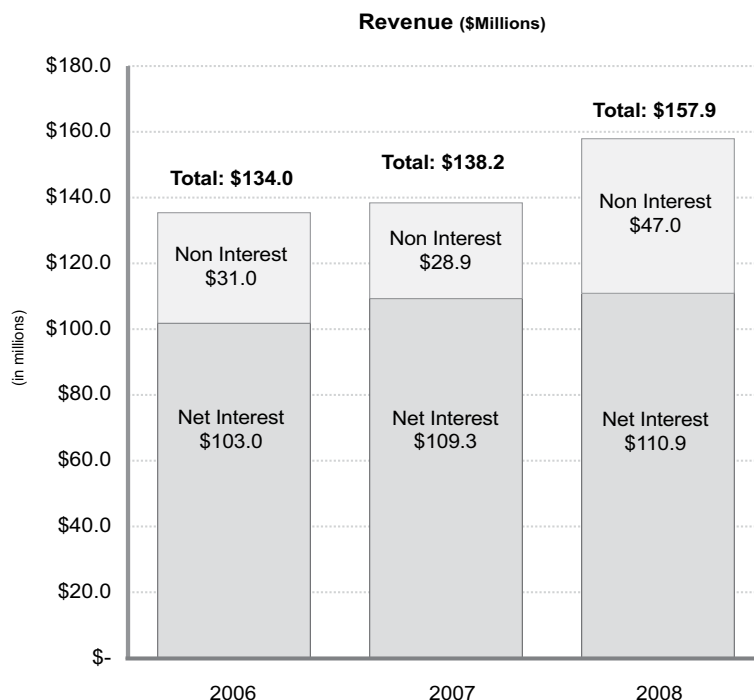


Our 2008 pre-tax earnings of \$37.0 million reflect an increase of \$15.1 million relative to Meridian's 2007 results, despite ongoing pressures on net interest income margins. The two primary drivers of the earnings increase are gains in the market value of our interest rate hedging instruments and a substantial increase in securitization income, both of which are discussed in greater detail within the Net Interest Income and Non Interest Income sections, respectively.

Total on balance sheet asset growth reached \$390 million or 9.5%, increasing total assets to \$4.5 billion in 2008. Adding in mortgage securitizations and wealth management, which are not reflected on the balance sheet, total assets owned and managed by Meridian increased by \$399 million, or 8.3%, to \$5.6 billion. While lower than historic growth rates, 2008 resulted in commendable growth, despite a difficult economic environment. Partially offsetting this asset growth was depreciation in the market value of our mutual fund portfolio. This portfolio declined in value by 18.1%, ending the year at \$456 million.

Members' equity grew to \$222.1 million, an increase of \$30.8 million over the prior year, primarily due to the net earnings generated in 2008.

Financial Performance Review

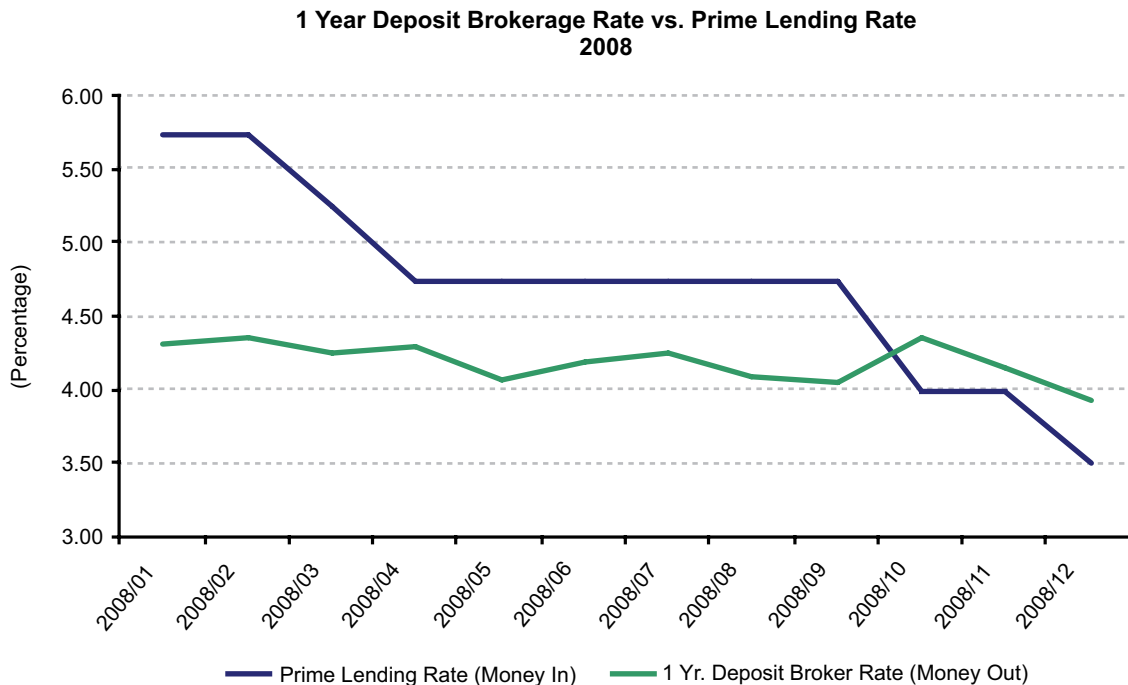


Net Interest Income

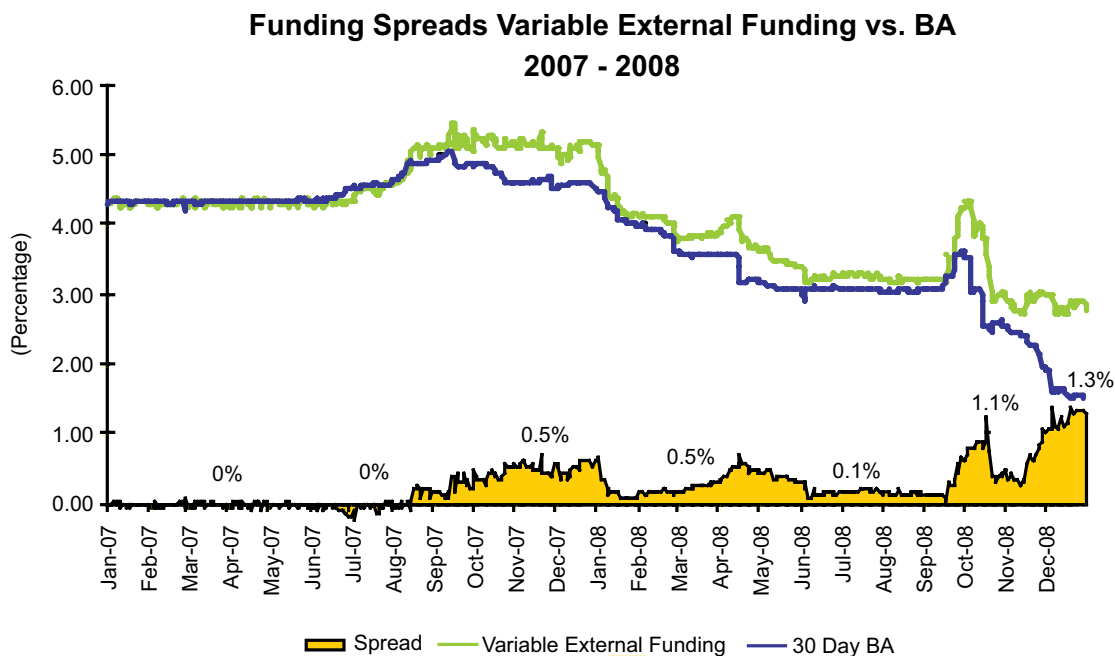
Net interest income represents the difference, or spread, between the interest income generated on our loan and investment portfolios and the interest expense we incur on our deposit base, external borrowings, and investment shares. Net interest income increased by \$1.6 million, or 1.5%, to \$110.9 million in 2008. Declining interest rates throughout the year put continued pressure on overall net interest income, as reductions in interest revenue on our variable rate lending portfolio were not matched with reduced costs of borrowing. This pressure, however, was partially mitigated by resultant increases in the market value of our interest rate swap portfolio, which generated total realized and unrealized net gains of \$15.2 million. This gain also helped to mitigate a write down in Meridian's investment in Credit Union Central of Ontario ("CUCO"), as well as an unrealized loss in the valuation of units held in ABCP (2008) Limited Partnership. Additional details on these latter two items are provided later in this report, under the section titled Investment in Affiliates. Normalizing for unrealized and realized gains and losses, our net interest income decreased by \$5.8 million in 2008 - despite growth in on balance sheet assets of 9.5%. The decline in net interest income, in turn, has generated significant compression in Meridian's net interest income margin, representing the ratio of net interest income to average assets in the year, which fell from 2.75% in 2007, to 2.56% in 2008.

Lower net interest income margin was experienced across the entire financial services industry in 2008, as the international banking system experienced significant funding challenges due to the credit crisis. In the past, financial institutions such as Meridian have had a variety of options available to generate incremental funding - these options, however, were severely constrained in the past year and, in some cases, became non-existent. The catalyst for the financial crisis was the collapse of the US housing market, fuelled by the default of sub-prime mortgages. As a result, mortgage backed securities, which traditionally provided financial institutions with significant funding, could not be sold, with the exception of Federal Government guaranteed securities. Limited options for generating incremental funding led to intense competition for traditional deposits and resulted in a significant increase in overall funding costs. Financial Institutions throughout the country began to offer interest rates on deposits which, in the past, would have been considered high in a declining interest rate environment. With much of Meridian's lending portfolio largely linked to the prime lending rate, Meridian, like others in the industry experienced margin compression, when the prime lending rate continued to fall throughout 2008. To help illustrate this phenomenon, a series of tables have been provided below outlining the deterioration in spreads Meridian has had to incur in 2008, relative to 2007.

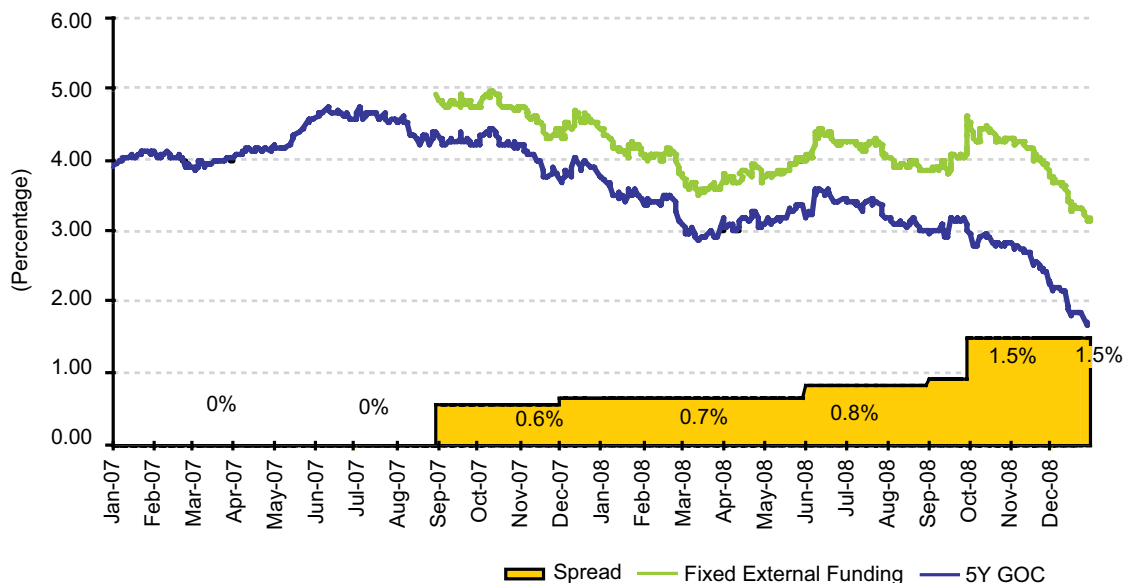
As can be seen in the first chart, our cost to attract deposits through our brokerage channel has increased, relative to the prime rate of interest over the past 12 months. Traditionally we would enjoy a reduced cost of borrowing as the prime rate declines – this is important as our variable rate lending portfolio returns interest income that is correlated with the prevailing prime interest rate. This past year, we have experienced declines in the income tied to the prime rate, but have had to continue to pay high interest expense in order to attract adequate funding.



The following two charts illustrate the change in our cost to borrow external funds, which represents those funds generated through the securitization of mortgage assets. Traditionally the cost to securitize assets has held strong correlation with two key rates - the BA/Swap curve (variable rate) and the Government of Canada bond curve (fixed rate). As can be seen, the spread over the key rate, which represents our cost premium, has been extremely volatile over the last year, and has increased dramatically over time. The increased spread represents incremental cost to Meridian, relative to what would have been paid for the same funding prior to the sub-prime fuelled financial market issues.



Funding Spreads Fixed External Funding vs. 5Y GOC 2007 - 2008



The table that follows summarizes the year over year changes in our product portfolio mix and yields. This table reflects the following trends:

- A significant increase in higher yielding term deposit balances while demand deposit balances declined.
- An improvement in retail mortgage yields, as the ability to package these assets in securitization vehicles was restricted in 2008.
- A decreased reliance upon wholesale borrowings with a greater reliance on deposit generation.

(thousands of dollars)	2008				2007			
	Average Balance	Mix	Interest	Interest Rate	Average Balance	Mix	Interest	Interest Rate
Cash resources & Investments	\$ 389,968	9.0%	13,323	3.42%	\$ 334,554	8.4%	10,724	3.13%
LOANS:								
Residential Mortgages	\$ 1,417,279	32.8%	75,368	5.32%	\$ 1,366,683	34.3%	70,765	5.18%
Retail Loans & Lines of Credit	\$ 767,054	17.7%	42,861	5.59%	\$ 731,378	18.4%	50,270	6.87%
Commercial Loans	\$ 1,682,312	38.9%	106,771	6.35%	\$ 1,497,378	37.6%	105,431	7.04%
Total Loans	\$ 3,866,645	89.4%	225,000	5.82%	\$ 3,595,439	90.2%	226,466	6.30%
Other Assets	\$ 68,740	1.6%	-	-	\$ 55,079	1.4%	-	-
TOTAL	\$ 4,325,353	100%	238,323	5.51%	\$ 3,985,073	100%	237,190	5.95%
DEPOSITS:								
Demand	\$ 1,426,300	33.0%	28,255	1.98%	\$ 1,373,523	34.5%	32,848	2.39%
Term	\$ 2,299,855	53.2%	93,352	4.06%	\$ 1,951,324	49.0%	74,445	3.82%
Total Deposits	\$ 3,726,155	86.1%	121,607	3.26%	\$ 3,324,846	83.4%	107,293	3.23%
Borrowings	\$ 230,947	5.3%	8,726	3.78%	\$ 332,923	8.4%	16,342	4.91%
Series 96 Shares	\$ 31,086	0.7%	1,797	5.78%	\$ 29,522	0.7%	1,709	5.79%
Series 01 Shares	\$ 40,716	0.9%	2,433	5.98%	\$ 38,724	1.0%	2,315	5.98%
Total Financial Liabilities	\$ 4,028,904	93.1%	134,564	3.34%	\$ 3,726,015	93.5%	127,659	3.43%
Other Liabilities	\$ 78,976	1.8%	-	-	\$ 70,129	1.8%	-	-
Series 98 Shares	\$ 2,691	0.1%	-	-	\$ 2,538	0.1%	-	-
Series 50 Shares	\$ 46,361	1.1%	-	-	\$ 43,875	1.1%	-	-
Retained Earnings	\$ 168,421	3.9%	-	-	\$ 142,516	3.6%	-	-
TOTAL	\$ 4,325,353	100.0%	134,564	3.11%	\$ 3,985,073	100.0%	127,659	3.20%
Unrealized and realized gain(loss) on investments			\$ 7,122				\$ (248)	
Net Interest Income			\$ 110,881	2.56%			\$ 109,531	2.75%

Investment in Affiliates

Meridian is a member of Central 1 - whose primary function is to maintain a liquidity pool, for use by its member credit unions. This liquidity arrangement means that a credit union member's deposits are backed by a larger organization and by the combined strength of a network of more than 600 affiliated credit unions in Canada.

Central 1 is the product of a merger between CUCO and Credit Union Central of British Columbia. Central 1 was officially formed on July 1st, 2008. Prior to July, Meridian was a member of CUCO.

Immediately prior to the merger, CUCO sold substantially all of its assets to Central 1 in exchange for Class A and Class E shares, which have been distributed among member credit unions – Meridian holds approximately 10.8 million shares. On June 30, 2008 CUCO had a retained deficit of \$25.3 million. After considering the estimated impact of the subsequent gain on sale of assets as a result of the merger, the Credit Union wrote down the value of CUCO shares by \$1.8 million to represent its proportionate share of the deficit.

Also, as a pre-condition of the merger to form Central 1, CUCO was required to divest itself of investments in certain third party asset-backed commercial paper ("ABCP"). In order to comply, a limited partnership ("LP") was created and subsequently purchased the ABCP. Member credit unions were required to hold a proportionate share in the LP, equal to their investment in CUCO. As a result, Meridian was required to purchase units in the Partnership with a fair value of \$29.4 million, which has subsequently been adjusted downward by \$6.7 million in order to reflect the current market value of the assets underlying the investment.

Non-Interest Income

Non-interest income increased by 62.8% to \$47.0 million in 2008, which equates to a return on average assets of 1.09%, compared with .73% in 2007. The increase is fully attributable to securitization income. Current accounting standards result in up front revenue being recognized when mortgages are sold. In addition, Meridian is required to value its retained interest in a mortgage securitization based on interest rates in effect at our financial reporting date. When interest rates drop - as they have been since 2007 - the carrying value of our retained interests increases, which results in a beneficial financial impact in securitization income. Overall, securitization income increased by \$19.1 million from a loss position in 2007 of \$2.5 million. Of this amount, \$8.9 million was due to the impact that falling interest rates have had upon the carrying value of securitization retained interests. This compares with a loss of \$4.8 million in 2007, which was driven by increased interest rates during that period.

The distribution of our non-interest income sources is depicted in the accompanying chart.

(in thousands of dollars)	2008		2007	
	Income	Mix	Income	Mix
Securitization Income	\$ 16,585	35.2%	\$ (2,513)	(8.7%)
Service Charges	\$ 10,067	21.4%	\$ 9,980	34.6%
Insurance Commissions	\$ 5,387	11.5%	\$ 5,450	18.9%
Loan and Commitment Fees	\$ 5,268	11.2%	\$ 5,840	20.2%
Foreign Exchange	\$ 3,490	7.4%	\$ 3,338	11.6%
Mutual Fund Revenue	\$ 2,997	6.4%	\$ 3,462	12.0%
Interac Revenue	\$ 1,651	3.5%	\$ 1,772	6.1%
Credit Card Revenue	\$ 729	1.6%	\$ 702	2.4%
Other	\$ 854	1.8%	\$ 850	2.9%
TOTAL	\$ 47,028	100.0%	\$ 28,881	100.0%

A number of revenue sources declined in 2008 relative to 2007, offsetting some of the increase experienced in securitization income. These sources included loan and commitment fees, mutual fund revenue, Interac revenue and insurance commissions. Collectively, these items declined by over 7% or \$1.2 million, which represents 33% of total non-interest income. Despite continued success in commercial loan growth, loan fees declined relative to 2007. This, however, was due entirely to a favourable one time adjustment in 2007 of \$0.9 million, which resulted from a change in an estimate related to loan fee deferral and amortization periods. Adjusting for this one time aberration, loan fees increased by 6% or \$0.4 million in 2008.

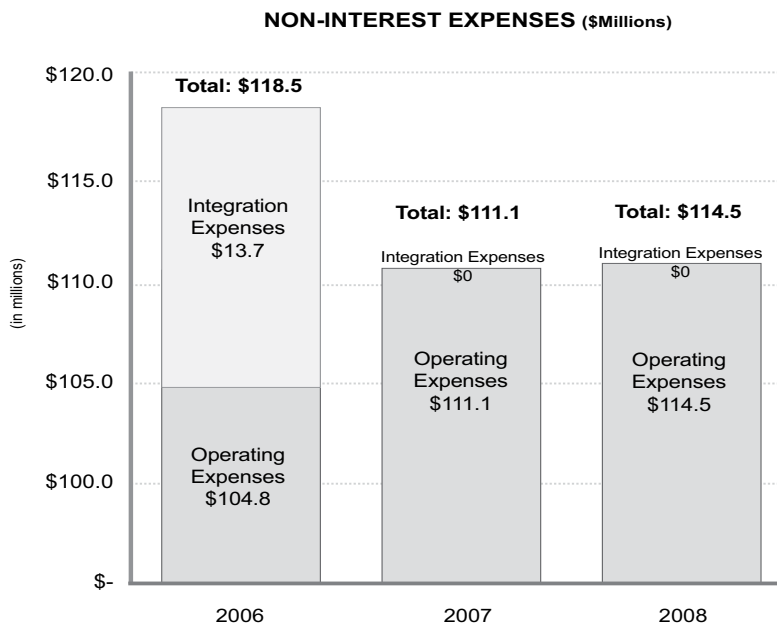
Capital market conditions, coupled with a weakened Ontario housing market, drove both mutual fund revenue and insurance commissions below 2007 levels. ABM transaction revenues declined by 7% or \$0.121 million to \$1.7 million due to the increased usage of The EXCHANGE® Network, which allows members of other financial institutions that belong to The EXCHANGE® Network to use Meridian's ABM network without incurring the service charge we would have otherwise levied. Likewise, Meridian's Members have the benefit of using the ABMs of the other member financial institutions within The EXCHANGE® Network without incurring the typi-

cal service charges. Effectively, through The EXCHANGE® Network, we have absorbed an expense traditionally born by our Members as part of our on going effort to reiterate our commitment to our Membership, and to superior Member service.

Service charge income remained relatively stable year over year, increasing by 1%, roughly in line with annual membership growth. Continued volatility in the Canadian to U.S. dollar exchange rate drove a larger number of foreign currency transactions, which helped to fuel the 5% growth in foreign exchange income experienced in 2008. Credit card revenue experienced a moderate increase year over year, increasing by 4%, in line with credit card sales growth.

Non-Interest Expenses

Non-interest expenses increased slightly by 3.1% or \$3.4 million to \$114.5 million in 2008. Excluding the net loss on the disposal of assets, operating expenses remained relatively flat year over year with a modest increase of approximately \$0.400 million over 2007. This increase, it should be noted, includes a one time charge of \$1.4 million for severance costs related to restructuring, which occurred in November 2008. Our favourable expense performance reflects a continued focus on creating operational efficiencies, which are gained through both the elimination of redundant or unnecessary activity, and from a number of expense management initiatives which have been implemented to keep our operational expenses in line with our revenue growth.



Loan Portfolio

Growth in total loans on and off balance sheet was 8.9% in 2008. Excluding the net run off in off balance sheet securitized mortgages, this growth rate rises to 9.4%. Residential mortgage loans are securitized through both the Smart Trust program and the Canada Mortgage Bond program. Loan growth continued to be strong in commercial lending but was partially offset by slowed residential mortgage growth, which was a direct result of the weakening housing market.

Meridian's commercial portfolio grew by \$283 million, or 19.7%, to \$1.72 billion. We continue to improve the geographic and industry diversification within our commercial book and we have maintained our conservative lending policies with a strong focus on underlying security. As a percentage of on balance sheet loans, commercial loans increased from 39.3% to 42.7% in 2008.

Allowance for Credit Losses

Loan provisioning is determined each year in accordance with an established policy which is reviewed and approved annually by the Credit and Investment Committee of the Board. Management reviews the loan allowance position at least quarterly with a focus on updated forecasts for watch accounts, impairment levels and expected net credit losses. Provisioning is adjusted where necessary to ensure compliance with our policy and to take account of expected economic and industry trends.

The total allowance for credit losses increased by \$3.5 million over the prior year, as the result of a \$2 million increase in net loan write offs coupled with a \$1.3 million lift in provision for future credit losses, which is reflective of growth in the value of impaired

loans at year end. The total loan allowance as a ratio to total loans increased from .607% to .638% in 2008. Additional statistics are provided in the accompanying table on asset quality coverage.

Asset Quality Coverage

As at December 31

	2008	2007
(thousands of dollars)		
Total Loans	4,000,523	3,625,372
Provision for credit losses (PCL)	6,424	5,151
Net loan write offs	2,942	924
Total allowance for credit losses	25,506	22,024
Net impaired loans	9,341	3,723
Members' equity	222,096	191,332
PCL as % of total loans	0.161%	0.142%
Net loan write-offs as \$ of total loans	0.074%	0.025%
Net impaired as % of total loans	0.233%	0.103%
Net impaired as % of Members' equity	4.206%	1.946%
Total allowance as % of net impaired loans	273.054%	591.566%
Total allowance as % of total loans	0.638%	0.607%

A risk rating grid is utilized to assess and monitor the risk profile of our commercial loan portfolio. The basic elements of the risk rating grid are security and cash flow coverage, with subjective assessment values for quality of management, environmental concerns and other intangibles. There are six categories for productive loans, with a seventh, "impaired" for loans that have been identified as likely to incur a loss of principal to Meridian. Risk ratings range from "Very Low" to "Impaired", with four intermediate rating assessments within that range.

The majority of the portfolio is categorized in the "Acceptable" or "Satisfactory" categories, which effectively represents the mid point in our risk rating grid. Collectively, these two ratings account for approximately 85.2% of the total commercial portfolio, and have remained relatively flat year over year from 85.5% as at December 31st 2007.

Overall, Management continues to consider the risk mix to fairly represent Meridian's commercial loan risk tolerance. The portfolio remains stable and is improving with 95% of the portfolio rated "Acceptable or better".

The overall quality of the retail mortgage and loan portfolios remains high. Payment Arrears are as follows, as measured by the percentage of the portfolio that is over 90 days delinquent:

Residential Mortgages:	2007 avg. = 0.10%	2008 avg. = 0.37%
Retail Loans/LOC's:	2007 avg. = 0.07%	2008 avg. = 0.13%

Industry Average for Residential Mortgages = 0.31% Canada / 0.34% Ontario (Canadian Bankers Association, as of November/08)

Deposit Portfolio

Despite the increased level of competition for scarce sources of funding, Meridian grew its deposit base by 12.3% in 2008, reflecting a concerted effort to increase our organic deposit generation capability. Through a combination of aggressive term deposit pricing, promotional efforts and management focus, deposit growth outpaced loan growth for the first time in Meridian history. Organic deposit generation is a core focus of our strategic plan going forward, with a particular focus on increasing commercial deposit raising capabilities. With heightened market competition for term deposits, deposit dollars did migrate from demand deposit accounts to higher priced fixed rate terms, causing an overall increase in the average cost of organic funding.

Risk Management

Enterprise Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Audit Committee and charged them with the responsibility for, among other things, the development and monitoring of risk management policies. The Committee reports regularly to the Board on its activities.

The Credit Union has adopted an Enterprise Risk Management (“ERM”) framework to enable identification, evaluation, and mitigation of risks in a manner that is appropriate to the Credit Union’s risk tolerance profile and the business environment. Organizationally, the Executive management team is committed to ERM and an implementation plan has been developed to continue to evolve and expand these practices over time.

Credit Risk

Our lending philosophy is established by Board policy. The following is an excerpt from the Credit Risk Management Board policy, which captures the essence of this philosophy:

- a) Meridian Credit Union’s philosophy on granting credit is based on the understanding that it is a fundamental responsibility to consider, first and foremost, the safety of the institution and its depositors while being mindful that to provide Members with effective borrowing services is a core business.
- b) Funds will be loaned, where applicable, to Members for any worthwhile purpose. Loans typically will be based on the demonstrated ability and willingness of the borrower to repay on schedule and, the security of personal and other forms of property taken to safeguard the loan.

In the commercial lending area, we seek to differentiate ourselves from the large financial institutions by trying to better understand the business of our Members. We assess both the short term financial results and balance sheet ratios and the true long term viability, and value, of the business. Wherever possible, we have empowered the local staff in our Member communities to make lending decisions.

All commercial loans are assessed a risk rating at the time of the approval. The rating assigned is based foremost on cash flow and security, and secondarily on subjective areas such as the strength of the company management. These risk ratings are monitored and adjusted as applicable throughout the term of the loan.

Interest Rate Risk

Interest rate risk arises from the fact that assets, liabilities and off-balance sheet instruments mature or re-price at various dates. As interest rates change, net interest income can be negatively impacted based on the distribution of these maturity and re-pricing dates. We assess our level of interest rate risk on a monthly basis through the use of a sophisticated income simulation model. Through this model, we run various scenarios based upon expected interest rate levels and we manage our risk tolerance levels based upon a 1% shock to those rates. The process and procedures surrounding this are governed by a defined policy which is approved by the Board of Directors annually. Details surrounding our interest rate risk sensitivity are outlined in note 16 to the audited consolidated financial statements.

Liquidity Risk

Liquidity levels are prescribed by the Act. As a member of a liquidity pool, we must maintain 8% of our assets in liquid investments. Our liquidity management philosophy is to keep our liquidity level between 8.25% and 12% and to ensure that we have adequate diversity of external funding sources and significant contingency borrowing lines available. Meridian’s external funding sources consist of a line of credit through Central 1 and two securitization vehicles. We update our funding requirement levels monthly based upon our forecasted growth rates and balance the use of these funding sources so as to ensure both funding diversification and adequate contingency lines. Of our authorized line of credit facility with Central 1 of \$636 million, we had \$173 million outstanding as of December 31, 2008, leaving a contingency line available of \$463 million. Within that limit, early warning limits exist which require report and action plans from the Asset/Liability Management Committee and reporting through to the Audit Committee and Board of Directors.

Foreign Exchange Risk

Foreign exchange risk is the risk of loss that could result from changes to foreign currency rates. Any assets or liabilities denominated in foreign currencies have foreign exchange risk. All of our foreign exchange risk comes from U.S. dollar (USD) transactions. This includes chequing account and term deposit balances which our Members hold with us, as well as foreign exchange forward rate agreements. Our Board policy requires that we keep our net foreign exchange risk to \$.75 million on a daily basis. U.S. dollar denominated liabilities are hedged through a combination of U.S. dollar investments and forward rate agreements to buy U.S. dollars. All forward rate agreements to buy or sell U.S. dollars with our Members are fully hedged.

Capital Management

Capital levels are monitored monthly based upon our forecasted financial position, on both a capital leverage and risk weighted basis. On both measures, current capital levels are well in excess of regulatory minimums. Capital requirements through the current year were met entirely through retained earnings growth. Our monitoring and forecasting procedures track the expected growth rate in risk weighted assets relative to earnings to determine if additional share capital is required. Meridian’s capital quality also exceeds regulatory minimum requirements. Provincial regulations require that at least 50% of a credit union’s capital base be comprised of primary or Tier 1 capital. As of year-end, 83.5% of Meridian’s capital base consisted of Tier 1 capital.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements and all of the information in this annual report are the responsibility of management and have been approved by the Board of Directors. All financial and operating data included in this annual report are consistent with the financial statements.

A system of internal controls has been designed by Meridian Credit Union to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that the books and records reflect the transactions of Meridian Credit Union.

Meridian Credit Union's Board of Directors is responsible for ensuring Management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee, appointed by the Board. The Committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly adhering to its responsibilities. The Audit Committee also reviews the annual report, the financial analysis, and the external auditor's report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the members.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and have been audited by KPMG LLP Chartered Accountants.



Sean Jackson
President & Chief Executive Officer



Bill Maurin
Chief Financial Officer

AUDITORS' REPORT

To the Members of Meridian Credit Union Limited,

We have audited the consolidated balance sheet of Meridian Credit Union Limited as at December 31, 2008 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP" with a horizontal line underneath.

KPMG LLP
Chartered Accountants, Licensed Public Accountants

Hamilton, Ontario
February 13, 2009

MERIDIAN CREDIT UNION LIMITED
Consolidated Balance Sheet

December 31, 2008, with comparative figures for 2007

(thousands of dollars)	2008	2007
Assets		
Cash resources	\$ 16,130	\$ 54,577
Investments (note 3)	386,478	321,062
Loans to members (note 4)	4,000,523	3,625,372
Derivative instrument assets (notes 2, 15)	18,228	31,267
Premises and equipment (notes 6, 8)	27,693	33,560
Other assets (note 7)	30,014	23,183
Total Assets	\$ 4,479,066	\$ 4,089,021
Liabilities		
Members' deposits (note 9)	\$ 3,946,280	\$ 3,513,111
Loan payable (note 10)	173,000	216,300
Other liabilities (note 11)	42,726	57,563
Derivative instrument liabilities (notes 2, 15)	13,944	33,693
Members' entitlements: (note 13)		
Membership shares	5,335	5,189
Investment shares	75,685	71,833
Total Liabilities	\$ 4,256,970	\$ 3,897,689
Members' capital accounts (note 13)	\$ 49,103	\$ 46,467
Contributed surplus	\$ 45,920	\$ 45,920
Retained earnings	\$ 127,073	\$ 98,945
Accumulated other comprehensive income	\$ -	\$ -
Total members' equity	\$ 222,096	\$ 191,332
Total liabilities and members' equity	\$ 4,479,066	\$ 4,089,021

Commitments (notes 10, 18)
See accompanying notes to the consolidated financial statements

Signed on behalf of the Board:



Kevin Sherwood
Chair, Board of Directors



Don Ariss
Chair, Audit Committee

MERIDIAN CREDIT UNION LIMITED
Consolidated Statement of Earnings

For the year ended December 31, 2008, with comparative figures for 2007

(thousands of dollars)	2008	2007
INTEREST INCOME		
Members' loans	\$ 225,000	\$ 226,466
Cash resources and investments (notes 3, 15)	20,445	10,476
Total interest income (note 23)	\$ 245,445	\$ 236,942
INTEREST EXPENSE		
Members' deposits	\$ 121,607	\$ 107,293
Borrowings	8,726	16,342
Dividends on member entitlements (note 13)	4,231	4,024
Total interest expense (note 23)	\$ 134,564	\$ 127,659
Net interest income	\$ 110,881	\$ 109,283
Provision for credit losses (note 4)	6,424	5,151
Net interest income after provision for credit losses	\$ 104,457	\$ 104,132
NON-INTEREST INCOME (note 24)	\$ 47,028	\$ 28,881
Net interest and non-interest income	\$ 151,485	\$ 133,013
NON-INTEREST EXPENSES		
Salaries and employee benefits	\$ 65,464	\$ 64,855
Administration	39,638	37,456
Occupancy	9,432	8,822
Total operating expenses	\$ 114,534	\$ 111,133
Net earnings before income taxes	\$ 36,951	\$ 21,880
Provision for income taxes (note 21)	6,518	4,081
Net earnings for the year	\$ 30,433	\$ 17,799

See accompanying notes to the consolidated financial statements

MERIDIAN CREDIT UNION LIMITED**Consolidated Statements of Retained Earnings, Accumulated Other Comprehensive Income and Comprehensive Income**

December 31, 2008, with comparative figures for 2007

(thousands of dollars)	2008	2007
RETAINED EARNINGS		
Balance, beginning of year	\$ 98,945	\$ 83,975
Transition adjustment - financial instruments	-	(680)
Net earnings for the year	30,433	17,799
Dividends on members' capital accounts (note 13)	(2,833)	(2,641)
Income tax savings on dividends	528	492
Retained earnings, end of year	\$ 127,073	\$ 98,945

(thousands of dollars)	2008	2007
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	\$ -	\$ -
Transition adjustment - financial instruments	-	(228)
Reclassification to earnings of realized losses on derivatives designated as cash flow hedges	-	228
Balance, end of year	\$ -	\$ -

(thousands of dollars)	2008	2007
COMPREHENSIVE INCOME		
Net earnings for the year	\$ 30,433	\$ 17,799
Other comprehensive income, net of taxes		
Reclassification to earnings of realized losses on derivatives designated as cash flow hedges	-	228
Other comprehensive income	\$ -	\$ 228
Total comprehensive income	\$ 30,433	\$ 18,027

See accompanying notes to the consolidated financial statements

MERIDIAN CREDIT UNION LIMITED
Consolidated Statement of Cash Flows

December 31, 2008, with comparative figures for 2007

(thousands of dollars)	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for the year	\$ 30,433	\$ 17,799
Items not affecting cash resources:		
Provision for credit losses	6,424	5,151
Depreciation of premises and equipment	6,747	5,992
Amortization of intangibles and fair value adjustments	3,855	7,318
Share dividends on member entitlements	3,820	3,632
Changes in non-cash operating working capital:		
Net change in other assets	(10,622)	3,768
Net change in other liabilities	(14,837)	6,363
Net change in derivative financial instruments	(6,710)	2,313
Cash flows from operating activities	\$ 19,110	\$ 52,336
CASH FLOWS USED IN INVESTING ACTIVITIES		
Net increase in loans	\$ (585,589)	\$ (593,515)
Net increase in investments	(65,416)	(72,491)
Net purchase of capital assets	(880)	(7,687)
Cash flows used in investing activities	\$ (651,885)	\$ (673,693)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits by members	\$ 433,491	\$ 273,202
Mortgage securitizations (note 5)	203,628	402,350
Net decrease in loan payable	(43,300)	(92,700)
Dividends paid on members' capital accounts	(194)	(212)
Income tax savings on dividends	528	492
Net change in member entitlement shares	178	210
Net change in member capital accounts	(3)	-
Cash flows from financing activities	\$ 594,328	\$ 583,342
Net decrease in cash resources	(38,447)	(38,015)
Cash resources, beginning of year	54,577	92,592
Cash resources, end of year	\$ 16,130	\$ 54,577

See accompanying notes to the consolidated financial statements

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

Meridian Credit Union Limited (the "Credit Union") is incorporated under the Credit Unions and Caisse Populaires Act, (the "Act") and is a member of the Deposit Insurance Corporation of Ontario ("DICO") and of Central 1 Credit Union ("Central 1"). The Credit Union has 44 branches and 8 commercial business centres across Ontario.

1. Significant Accounting Policies

(a) Basis of presentation

The financial statements of the Credit Union have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and legislation for Ontario's Credit Unions and Caisse Populaires. The significant accounting policies used in the preparation of these financial statements conform to Canadian GAAP.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

Regulations to the Act specify that certain items are required to be disclosed in the financial statements that are presented at annual meetings of members. This information has been integrated into the basic financial statements and notes and it is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

(b) Basis of consolidation

The financial results of wholly owned subsidiaries of the Credit Union are included within these consolidated financial statements. All intercompany balances and transactions have been eliminated upon consolidation.

Investments in which the Credit Union exercises joint control are accounted for using the proportionate consolidation method, whereby the Credit Union's share of the assets, liabilities, revenue and expenses of the joint venture are included in the consolidated financial statements. The joint venture which the Credit Union participates in operates an office building which generates income from the leasing of space for commercial use.

(c) Financial instruments – recognition and measurement

Financial assets and liabilities, including derivatives, are recognized on the consolidated balance sheet of the Credit Union at the time that the Credit Union becomes a party to the contractual provisions of the instrument. The Credit Union recognizes financial instruments at the trade date.

All financial assets and liabilities are to be measured at fair value upon initial recognition, except for certain related party transactions. Subsequent measurement is dependent upon the financial instrument's classification.

There have been no reclassifications or derecognition of financial assets during the year.

(d) Effective interest method

Interest income and expense are recognized in the Consolidated Statement of Earnings using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes transaction costs and discounts or premiums that are an integral part of the effective interest rate.

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

1. Significant Accounting Policies (continued):

(e) Cash resources

Cash resources comprise balances with less than 100 days' to maturity from the date of acquisition, including cash on hand, current accounts, short term deposits with other financial institutions and cheques and other items in transit. Cash resources have been designated as Held for Trading, except for short term deposits with less than 100 days' to maturity from the date of acquisition which are designated as Loans and Receivables, and are measured at fair value with all changes in fair value being recognized in interest income. Given their short term nature, the book value of cash resources, excluding short term deposits, is a reasonable approximation of fair value. Interest earned on these instruments is included in interest income and transaction costs are expensed as incurred.

(f) Financial instruments – non-derivative financial instruments

Non-derivative financial instruments comprise cash resources, investments, loans to members, retained interests in securitized mortgages, members' deposits, loan payable, other liabilities and member entitlements.

Assets – Held for Trading

Financial assets designated as Held for Trading are those that an entity designates on initial recognition as instruments that it will measure at fair value through the Consolidated Statement of Earnings within interest income. There are regulatory restrictions imposed by DICO on the use of this designation including that retail loan instruments are precluded from being designated and that the fair value designated financial instruments are managed on a fair value basis. The Credit Union has designated cash resources as Held For Trading, except for short term deposits with less than 100 days' to maturity from the date of acquisition. All transaction costs are expensed as incurred. Dividends and interest earned on these instruments are included in interest income.

Assets – Available for Sale

Available for sale financial assets are those non-derivative financial assets that are explicitly designated as such, or, which by virtue of not being designated as Loans and Receivables, Held for Trading, or Held to Maturity, are designated as Available for Sale as a default classification. The Credit Union has designated the retained interests related to future excess spread resulting from mortgage securitizations, as well as its investment in equity instruments, as Available for Sale. These instruments are presented at fair value as part of Other Assets and Investments, respectively, on the Consolidated Balance Sheet. Unrealized gains and losses are being recognized in Other Comprehensive Income. Transaction costs are capitalized and then amortized over the life of the instrument using the effective interest method. Investments in equity instruments classified as Available for Sale which do not have a quoted market price in an active market are measured at cost.

Assets – Loans and Receivables

The Credit Union has designated loans to members, fixed term deposits with Central 1 and the retained interests related to cash reserves resulting from mortgage securitizations as Loans and Receivables. Financial assets classified as Loans and Receivables continue to be accounted for at amortized cost using the effective interest method of amortization. Transaction costs are capitalized and then amortized over the life of the instrument using the effective interest method.

Liabilities – Other Liabilities

The Credit Union has designated all liabilities with the exception of derivatives as Other Liabilities. Financial liabilities designated as Other Liabilities are recorded at amortized cost. Interest incurred on these liabilities is included in interest expense. Most transaction costs related to Other Liabilities are expensed as incurred other than certain homogeneous portfolios where the policy is to capitalize and then amortize over the life of the instrument using the effective interest method.

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

1. Significant Accounting Policies (continued):

(g) Financial instruments - derivative financial instruments

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are recorded on the Consolidated Balance Sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are closely related to the host contracts. Changes in the fair value of those derivative instruments are recognized in net earnings for the year. The Credit Union does not apply hedge accounting on its derivative portfolio.

(h) Loans to members

Loans are initially measured at fair value net of direct transaction costs and revenues and are subsequently re-measured at their amortized cost (net of an allowance for loan losses) using the effective interest method. Loans considered uncollectible are written off.

Loan interest

Interest income from loans is recorded on the accrual method, except where a loan is impaired. A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans where interest or principal is contractually 90 days past due, are automatically recognized as impaired, unless management determines that the loan is fully secured and in the process of collection. Fully secured loans are classified as impaired after a delinquency period of 180 days. Once a loan is classified as impaired, all previously accrued interest is reversed and charged against current income, except for loans fully secured. Interest received on an impaired loan is recognized in earnings only if there is no doubt as to the collectibility of the carrying value of the loan; otherwise, the interest received is credited to the principal.

Loan fees

Loan fees are deferred and recorded as income over the terms of the underlying loans using the effective interest method.

Allowance for loan losses

An allowance account is used to reduce the carrying amount of impaired loans and is maintained in an amount considered adequate to absorb estimated credit-related losses. The allowance for impaired loans reflects management's best estimate of the losses existing in the lending portfolio and their judgment about current and future economic conditions. The allowance for impaired loans is deducted from the related asset category. When a loan is deemed to be uncollectible, the amount charged to the allowance account is reduced and charged directly against the impaired loan.

The allowance for impaired loans consists of specific allowances and a general allowance, each of which is reviewed on a regular basis. The specific allowance is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount, which is generally the fair value of the security underlying the loan, net of expected costs of realization. The general allowance is established to absorb probable credit losses on the aggregate exposures in each business line, for which losses are not yet specifically identified on an item-by-item basis. The general allowance is determined through analysis of economic developments, past performance, current portfolio trends, the level of allowance already in place, and management's judgment.

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

1. Significant Accounting Policies (continued):

(i) Impairment

Financial assets (other than loans and receivables) are assessed at each reporting date to determine whether objective evidence exists that may indicate impairment. Objective evidence includes observable data that is based on one or more events as specified within CICA Handbook Section 3855. When objective evidence exists and the decline in fair value or recoverable amount of future cash flows below the cost or amortized cost of the asset is other than temporary, an impairment loss is recorded. All impairment losses are recognized in the statement of earnings. Any decline in fair value of an available-for-sale financial asset recognized previously in other comprehensive income that is considered to be other than temporary is transferred to the statement of earnings.

Refer to Note 1(h) for the accounting policy on impairment of loans to members.

(j) Mortgage securitizations

The Credit Union currently securitizes mortgages through two securitization vehicles. These transactions are accounted for as sales and the related loans are removed from the balance sheet when control over the loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange.

Under the first securitization vehicle, the Credit Union periodically sells mortgage loans to an independent special purpose trust, which in turn issues securities to investors. This program is coordinated through Central 1.

Under the second securitization vehicle, the Credit Union sells mortgage loan receivables to Central 1 who in turn packages these mortgages into pools of mortgage backed securities. These are then issued by Central 1 to investors through the Canada Housing Trust ("CHT").

The fair value of loans sold and the resulting retained interests are determined using pricing models based on key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved. The Credit Union typically retains interests in the transferred loans, such as excess interest spread, servicing rights and cash reserve accounts. Revenue from servicing the loans is recorded as the services are provided. Beginning January 1, 2007, these have been designated as Available-for-Sale and are measured at fair value. The fair value of the retained interests is estimated using the same present value methodology described above for gains or losses on securitization. The carrying value of retained interests are reviewed annually for impairment and adjusted as required.

Gains or losses on these transactions are reported as non-interest income on the statement of earnings.

The amount of these gains or losses are based on the present value of expected future cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, credit losses and discount rates.

(k) Premises and equipment

Land is carried at cost. Buildings and improvements, furniture and office equipment, computer hardware and software, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and improvements	10-40 years
Furniture and office equipment	5-10 years
Computer hardware and software	3-5 years
Leasehold improvements	lease term to a maximum of 10 years

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

1. Significant Accounting Policies (continued):

(l) Intangible assets

When the Credit Union enters into a business combination, any intangible assets acquired through amalgamation are recorded at their fair value as determined at that time.

Intangible assets with a limited life are amortized to income over the period during which the assets are anticipated to provide economic benefit, generally not exceeding 10 years. Intangible assets are written down to fair value when the undiscounted cash flows are not expected to allow for the recovery of the carrying value. Intangible assets are included in Other Assets on the balance sheet.

(m) Member shares

Shares are classified as liabilities or as members' equity, according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union Board of Directors, the shares are classified as equity.

Distributions to members

Dividends on shares classified as liabilities are charged to earnings, while dividends on shares classified as equity are charged to retained earnings on the date at which the distributions are declared payable by the Credit Union's Board of Directors.

(n) Foreign exchange

Monetary assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in non-interest income for the year.

(o) Income taxes

The Credit Union follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax benefit or cost attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on future tax assets and liabilities of a change in income tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Future tax assets and liabilities are included on the balance sheet either in Other Assets or Other Liabilities, as applicable.

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

1. Significant Accounting Policies (continued):

(p) Employee benefit plans

The Credit Union sponsors a variety of retirement, medical and dental benefit plans. A description of each of these plans is included in Note 12. These plans are valued using December 31 as the measurement date, and the Credit Union has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of discount rates, expected plan investment performance, salary escalation, retirement ages of employees, and expected health care costs.
- The defined benefit pension plan includes an annual indexation of the lesser of 4% or the increase in the previous calendar year's Consumer Price Index.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period for active employees covered by the contributory defined benefit pension plan, non-contributory supplemental executive retirement plan and non-pension post retirement benefit plans are 12 years, 11 years and 18 years, respectively.

2. Change in accounting policies

On January 1, 2008, the Credit Union adopted three new CICA accounting standards. These include Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation.

Sections 3862 and 3863 revise the previous Section 3861 standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides guidance on the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. Refer to Note 16 – Financial Risk Management.

Section 1535 establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what an entity regards as capital are required. Refer to Note 14 – Capital Management.

Future accounting changes

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board announced that GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Credit unions are specifically scoped into the definition of a publicly accountable enterprise. As such, the Credit Union will be required to prepare the December 31, 2011 financial statements including comparative information in compliance with IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Credit Union is currently in the process of assessing the differences between current accounting policies and those provided by IFRS, as well as the alternatives available on adoption. The assessment will include the potential impact of the conversion on accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures, financial reporting, and business activities.

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

3. Investments

(thousands of dollars)	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Central 1 Liquidity reserve deposit	319,984	329,058	281,992	282,574
Discount note	4,872	4,843	-	-
Shares in Credit Union Central of Ontario	23,654	23,654	30,791	30,791
Central 1 Class A shares	10,820	10,820	-	-
Other shares	6,170	6,170	8,279	8,279
Investment in ABCP (2008) Limited Partnership	20,978	20,978	-	-
Total investments	386,478	395,523	321,062	321,644

At a special general meeting held May 31, 2008, members of Credit Union Central of Ontario ("CUCO") approved a resolution to facilitate the merger of CUCO and Credit Union Central of British Columbia ("CUCBC") to form a new national financial services entity named Central 1 Credit Union ("Central 1"). On July 1, 2008 CUCO and CUCBC merged to form Central 1. Accordingly, the liquidity reserve deposits and a portion of the investment in shares formerly held in CUCO are now held in Central 1.

Central 1 Liquidity reserve deposit

The Credit Union is a member of Central 1. As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit an amount equal to 7% of its assets as at each calendar quarter end. The deposits bear interest at varying rates, dependent upon the term of the investment, and have been designated as Loans and Receivables.

Discount note

The Credit Union held one discount note with Central 1 with a maturity more than 100 days' from the date of acquisition. This investment is designated as Loans and Receivables.

Shares in Credit Union Central of Ontario and Central 1

As a condition of maintaining membership in Central 1, the Credit Union is required to maintain an investment in shares of Central 1 equal to 0.80% of its assets as of the preceding calendar year end, updated in February of each year. During the year, prior to the merger, this requirement was increased to 0.90% representing additional shares in the amount of \$4,088,857. They may be surrendered upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Central 1 by-law providing for the redemption of its share capital.

These shares have been designated as Available for Sale, but are carried at cost as there is no quoted market price in an active market. No resale market exists for these shares as they are issued only by virtue of membership in Central 1. The Credit Union has no intention of withdrawing from membership in Central 1.

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

3. Investments (continued):

On July 1, 2008, the date of the merger, CUCO sold substantially all of its assets to Central 1 in exchange for Class A and Class E shares. The final number of shares is subject to future price adjustments. CUCO distributed 1 Class A share to the Credit Union at that time and subsequently distributed 10,819,635 Class A shares on December 31, 2008. The balance of the Central 1 shares and remaining cash will be distributed subsequent to December 31, 2008. On June 30, 2008 CUCO had a retained deficit of \$25.3 million. After considering the estimated impact of the subsequent gain on sale of assets as a result of the merger, the Credit Union wrote down the value of the CUCO shares by \$1,847,468, representing its proportionate share of the deficit.

Other shares

The Credit Union maintains other instruments which are non-interest bearing. These shares have been designated as Available for Sale, but are carried at cost as there is no quoted market price in an active market. The Credit Union has no intention at present to dispose of these shares.

Investment in ABCP (2008) Limited Partnership

As a pre-condition of the merger to form Central 1, CUCO was required to divest itself of investments in certain third party asset-backed commercial paper ("ABCP"). The resolution approved the creation of a limited partnership (the "Partnership") to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. As a result, on July 1, 2008, immediately prior to the merger of CUCO and CUCBC, the excluded ABCP with a total par value of \$186,916,000 was acquired by the Partnership at its estimated fair value of \$133,564,000 including accrued interest, net of expenses, and other assets. As there is no liquid market in these ABCP investments, the fair values used to determine the acquisition price were provided by Edenbrook Hill Capital Ltd., a firm engaged by CUCO to provide an independent valuation of these assets underlying the ABCP investments.

Members of CUCO were required to purchase units in the Partnership based on their proportionate share ownership in CUCO prior to the date of the merger. As a result, the Credit Union was required to purchase units in the Partnership with a total fair value of \$29,382,743 on the acquisition date. As the Credit Union's investment in the Partnership is subject to significant influence by the Credit Union, it is accounted for using the equity method of accounting. A net loss of \$6,204,801 (2007 – Nil) has been recorded within Interest Income as a result of employing the equity method of accounting. Included in this net loss is a gain of \$109,883 realized on the redemption of the underlying assets of one of the investments held within the portfolio. The Partnership has designated the ABCP investments as Held for Trading. Accordingly, the value of the ABCP investments has been adjusted to the current market value. The write-down of \$6,689,605 included in the net loss above is based on audited valuation results. As there is still no liquid market in these investments, third party valuations on the assets underlying the ABCP investments were performed using information from the Pan Canadian Investor Committee and Ernst & Young. In forecasting the future cash flows of the underlying investments, certain assumptions were made as to the timing and amount of cash flows expected to be received as well as market yield expectations on those instruments. Due to the judgment used in the determination of the various assumptions, the market value determined will not necessarily be comparable among financial institutions. The calculation of the estimated market value is based on market conditions as at December 30, 2008 and may not be reflective of future market values.

MERIDIAN CREDIT UNION LIMITED
Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

4. Loans to Members

(thousands of dollars)	2008	2007
Loans to members include:		
Residential mortgages	1,397,190	1,337,414
Personal loans	795,356	751,454
Commercial loans	1,718,203	1,434,938
Institutional loans	42	440
Agricultural loans	94,136	102,610
Unincorporated association loans	682	719
Syndicated loans	12,953	12,929
Accrued interest	7,467	6,892
Allowance for doubtful loans	4,026,029 (25,506)	3,647,396 (22,024)
Balance, December 31	4,000,523	3,625,372

Residential mortgage loans are repayable in monthly blended principal and interest installments over a maximum term of 10 years based on a maximum amortization period of 35 years. Open mortgages may be paid off at any time without notice or penalty and closed mortgages may be paid off at the discretion of the Credit Union, but are subject to penalty. Commercial loans and personal loans, including line of credit loans, are generally repayable in monthly blended principal and interest installments over a maximum amortization period of 25 years, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans to members have been designated as Loans and Receivables.

Allowance for impaired loans:

(thousands of dollars)	Residential Mortgages	Personal Loans	Commercial Loans	General Allowance	2008	2007
Balance, beginning of year	162	996	2,565	18,301	22,024	17,797
Loans written off	(173)	(1,181)	(1,701)	-	(3,055)	(1,135)
Recoveries on loans previously written off	-	106	7	-	113	211
Provision for credit losses	394	1,208	6,958	(2,136)	6,424	5,151
Balance, December 31	383	1,129	7,829	16,165	25,506	22,024

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

4. Loans to Members (continued):**Allowance for impaired loans:**

(thousands of dollars)	Residential Mortgages	Personal Loans	Commercial Loans	2008	2007
Total gross amount of loans identified as impaired	12,815	1,761	36,312	50,888	15,117
Related security	12,432	632	28,483	41,547	11,394
Balance, December 31	383	1,129	7,829	9,341	3,723

On April 1, 2005, the Credit Union purchased all of the member loans of HEPCOE Credit Union. Immediately prior to the transaction, the loans that were acquired had specific and general reserves of \$9,882,331 allocated against that portfolio. For purchase accounting purposes, these loans were acquired at net realizable value equal to their net book value, and then adjusted solely for interest rate differences to arrive at the fair value amount. The acquired loans that continue to be recorded on the books of the Credit Union are thus recorded at a net value that includes an embedded write-down for potential impairment.

Total interest income recognized on impaired loans during 2008 was \$1,017,610 (2007 – \$128,444). Of the \$3,054,931 (2007 - \$1,134,935) of loans written off during the period, \$11,067 (2007 – n/a) relates to loans that were restructured during the period.

The allowance for impaired loans provided for in the accounts of the Credit Union is in accordance, in all material respects, with the by-law of DICO governing such allowances.

Loans past due but not impaired:

(thousands of dollars)	As at December 31, 2008			
	<30 days	30-59 days	60-89 days	90 days and greater
Retail	62,743	14,498	5,010	-
Commercial	26,963	4,291	585	83
Total	89,706	18,789	5,595	83

Collateral

There are documented policies and procedures in place for the valuation of financial and non-financial collateral. The fair valuation exercise of non-financial collateral is performed if there has been a significant change in the terms and conditions of the loan and/or the loan is considered impaired. For impaired loans, an assessment of the collateral is taken into consideration when estimating the net realizable amount of the loan.

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

4. Loans to Members (continued):

The amount and type of collateral and other credit enhancements required depend upon the Credit Union's assessment of counterparty credit quality and repayment capacity. Non-financial collateral is primarily used in connection with both commercial and retail loan exposure. Credit Union wide standards for collateral valuation, frequency of recalculation of the collateral requirement, documentation, registration and perfection procedures and monitoring are in effect. Non-financial collateral taken by the Credit Union includes vehicles, residential real estate, real estate under development, commercial real estate and business assets, such as accounts receivable, inventory and fixed assets. The main types of financial collateral taken by the Credit Union include cash and negotiable securities issued by governments and investment grade issuers, and Assignment of Life Insurance. Guarantees are also taken to reduce credit exposure risk.

The fair value of collateral held with respect to assets that are either past due greater than 30 days or impaired is \$99,831,268.

The carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated is \$5,578,786.

The following table illustrates the credit quality of financial assets that are neither past due nor impaired:

Analysis of Credit Exposures by Portfolio

(As at December 31, 2008)

Retail		Commercial	
Rating	% of Portfolio	Rating	% of Portfolio
Unrated	31.4%	Unrated	1.1%
A+	22.9%	Very Low	2.4%
A	24.6%	Low	6.5%
B	10.0%	Satisfactory	47.3%
C	6.4%	Acceptable	37.9%
D	3.1%	Watch List	4.8%
E	1.6%		

Refer to Note 16 – Financial Risk Management – Credit Risk for a detailed explanation of the risk rating process of both portfolios.

5. Mortgage Securitizations

As part of its program of liquidity, capital, and interest rate risk management, the Credit Union enters into arrangements to fund loan growth by selling residential mortgages to unrelated third parties.

As part of these mortgage receivable transfers, the Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities. The Credit Union's retained interest in the mortgages sold consists of two elements. The first is the Credit Union's right to future cash flows arising from any excess of the mortgage cash flows over and above the contractual return due to the mortgage pool investors. The second component of the retained interest is the credit enhancement provided to the third parties in the form of cash collateral accounts, where applicable. The Credit Union's retained interests are subject to credit, prepayment, and interest rate risks on the securitized mortgages.

The third parties, as holders of the securitized mortgages, have recourse only to a cash collateral account and cash flow from the securitized mortgages. The investors and the third parties have no recourse to the Credit Union's other assets.

The total amount of securitized mortgages under administration as at December 31, 2008 was \$702,693,349 (2007 - \$693,737,345).

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

5. Mortgage Securitizations (continued):

The total amount of retained interests, including both retained rights to cash reserves and retained rights to future excess spread as at December 31, 2008 was \$18,443,876 (2007 - \$5,144,889). The component of retained interests related to future excess spread are designated as Available for Sale, while the cash reserve component is designated as Loans and Receivables.

The retained interests related to mortgage pools sold in the current year were measured using the key assumptions outlined in the table below. These assumptions are set as at the date of the securitization.

	2008	2007
Weighted average life (in years)	3.1	2.8
Prepayment rate (average annual %)	7.7%	8.0%
Expected credit losses (% of portfolio)	-	0.05%
Excess spread	1.55%	0.55%
Residual cash flows discounted at	5.48%	5.26%

The following table summarizes the Credit Union's securitization activity for the year ending December 31, 2008:

(thousands of dollars)	2008	2007
Principal value of mortgages sold	203,628	402,350
Net cash proceeds received	202,344	398,450
Retained rights to cash reserves	394	3,702
Retained rights to future excess spread	8,685	6,034
Pre-tax gain on sale	5,878	3,012

Sensitivity of key assumptions to adverse changes

At year end, the key economic assumptions and the sensitivity of the current fair value of retained interests related to excess spread receivables of two different adverse changes in those assumptions are as follows:

Prepayment rate

Impact of a 5% increase in prepayment rate (annual %)	(\$1,013,811)
Impact of a 10% increase in prepayment rate (annual %)	(\$1,845,976)

Excess spread

Impact of a 0.5% point adverse change	\$1,949,900
Impact of a 1% point adverse change	\$3,899,799

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a variation of assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

5. Mortgage Securitizations (continued):

may not be linear. Also, the effect of a variation in a particular assumption on the fair value of retained interests is calculated without changing any other assumption; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

The fair value of the retained interests as at December 31, 2008 is \$16,413,598 (2007 - \$2,884,192).

The contractual return due to mortgage pool investors has decreased significantly since the inception of a number of the mortgage pools due to changes in external market conditions and the variance between the actual prepayment rates of the pools and the initial estimated prepayment rates. These decreases have created an increase in the value of future excess spread receivable. As at December 31, 2008, the carrying value of retained interests relating to excess spread receivables have increased by \$4,169,965 since the pools' inception (2007 - (\$ 4,800,839)).

6. Premises and Equipment

(thousands of dollars)	Cost	Accumulated Depreciation	2008	2007
Land	3,187	-	3,187	3,187
Buildings and improvements	18,717	7,665	11,052	11,077
Furniture and office equipment	13,755	10,654	3,101	3,316
Computer hardware and software	27,953	22,805	4,788	9,996
Leasehold improvements	13,560	7,995	5,565	5,984
Balance, December 31	76,812	49,119	27,693	33,560

The amount of depreciation charged to income for the year was \$6,746,934 (2007 - \$5,992,209). Included in premises and equipment for the year are capital assets in the amount of \$16,039 (2007 - \$3,070,813) which have not been depreciated as they have not been placed in service at year end.

7. Other Assets

(thousands of dollars)	2008	2007
Unamortized retained rights to future excess spread from securitized mortgages (note 5)	18,444	5,145
Prepaid and other assets	4,963	4,597
Unamortized fair value of core deposits	3,649	7,131
Unamortized fair value of acquired wealth management assets	1,569	1,878
Future income taxes (note 21)	960	3,592
Unamortized mortgage acquisition costs	398	752
Unamortized merger costs	31	88
Balance, December 31	30,014	23,183

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

7. Other Assets (continued):

With the exception of the Unamortized retained rights to future excess spread from securitized mortgages which is designated as Available for Sale and measured at fair value, all other components of Other Assets are carried at amortized cost as they do not meet the definition of financial assets under Section 3855.

8. Joint Venture

The Credit Union participates in a real estate joint venture. The Credit Union's portion of the revenue and expenses from the venture has been included in investment income as follows:

(thousands of dollars)	2008	2007
Revenue	748	755
Expenses	425	392
Earnings from joint venture	323	363

Joint venture expenses include depreciation in the amount of \$74,532 (2007 - \$73,698). Rent, common area maintenance, property taxes and utilities paid to the joint venture amounted to \$1,308,934 for 2008 (2007 - \$1,206,915).

Real estate investments are stated at cost. Costs include initial acquisition costs and certain other costs incurred prior to substantial occupancy. Real estate held under the joint venture included in the capital assets of the Credit Union is as follows:

(thousands of dollars)	2008	2007
Real estate held for investment purposes	3,271	3,271
Accumulated depreciation	(1,227)	(1,156)
Balance, December 31	2,044	2,115

9. Members' Deposits

(thousands of dollars)	2008	2007
Demand deposits	1,337,845	1,211,554
Term deposits	1,551,036	1,324,806
Registered retirement savings plans	742,661	657,385
Registered retirement income funds	273,685	276,226
Accrued interest on members' deposits	41,053	43,140
Balance, December 31	3,946,280	3,513,111

Members' deposits are designated as Other Liabilities and are carried at amortized cost using the effective interest rate method.

MERIDIAN CREDIT UNION LIMITED
Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

10. External Borrowings

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis. Refer to Note 16 – Financial Risk Management for further details on the Credit Union’s exposure and management of liquidity risk.

The Credit Union has established credit and contingency loan facilities for \$636,000,000 at Central 1. The credit facility at a Canadian Chartered Bank was cancelled during the year. At December 31, 2008, the Central 1 credit facility had a balance of \$173,000,000 (2007 – \$216,300,000) bearing interest at an average annual rate of 3.88% and the bank credit facility had no letters of credit outstanding (2007 - \$1,206,500). Outstanding borrowings with Central 1 have been designated as Other Liabilities.

Assets have been pledged as security for \$636,000,000 (2007 - \$592,000,000) in authorized credit facilities at Central 1 by an assignment of book debts and a general security agreement. Security for the credit facility at a Canadian Chartered Bank was cancelled in 2008 (2007 - \$2,706,671).

The Credit Union has established an overdraft line of \$240,000 (2007 – \$240,000) with Caisse Centrales Desjardins pursuant to the terms of a settlement agreement. At December 31, 2008, the overdraft line had no balance outstanding.

11. Other Liabilities

(thousands of dollars)	2008	2007
Mortgage securitization liabilities	19,601	18,909
Accrued payroll expenses	6,879	11,115
Employee benefit plans (note 12)	6,453	6,215
Other, including accounts payable and accrued liabilities	4,964	7,584
Deferred income	4,305	3,161
Cheques and other items in transit	1,504	9,208
Accrued interest payable	202	380
Current income taxes payable	(1,182)	991
Balance, December 31	42,726	57,563

Mortgage securitization liabilities, accrued payroll expenses, accounts payable, accrued liabilities and current income taxes payable have all been designated as Other Liabilities.

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

12. Pension and Other Employee Benefit Plans

The Credit Union provides a number of pension and other employee benefits to its current and retired employees. These plans include the following:

Contributory Defined Benefit Pension Plan

This plan provides retirement income and related benefits for eligible employees based on length of credited service and the eligible employee's average earnings using the employee's highest 60 consecutive months of earnings while an employee. A member of the Plan is required to contribute. The Credit Union is responsible for contributing to the fund such amounts as are required in accordance with, and within the time limits specified in applicable pension laws.

The Plan is closed to new members effective January 1, 2005. The most recent actuarial valuation of this plan for funding purposes was as of June 30, 2007. The next actuarial valuation is expected to be completed as of June 30, 2010.

Non-contributory Supplemental Executive Retirement Plan

This plan provides designated employees with benefits in excess of the benefits payable to such employees under the Defined Benefit Pension Plan, which benefits are restricted by the maximum permitted under the Income tax Act (Canada). The benefits payable under the Supplemental Plan is based on the benefit formula under the Defined Benefit Pension Plan. The Credit Union has established a trust fund pursuant to a trust agreement between the company and the trustee, for the purpose of providing security for the benefits accrued under the Supplemental Plan. A member of this plan shall neither be required or permitted to make any contribution to this plan.

Defined Contribution Pension Plan and Group Registered Retirement Savings Plan

An employee who becomes a member of the Defined Contribution ("DC") Plan and who accrues benefits under the DC provisions is not required or permitted to make contributions to the Plan but is required, upon fulfilling certain eligibility requirements, to make contributions to a Group RRSP. The Credit Union shall contribute each plan year or portion thereof, in respect of a member who is accruing continuous service in Canada, a percentage of the member's earnings based upon the member's completed years of continuous service.

Non-pension Post Retirement Benefit Plans

The Credit Union also provides certain health and dental care benefits for eligible retired employees.

For financial reporting purposes, the Credit Union measures the benefit obligations and pension plan assets as at December 31 each year.

Components of the change in the benefit liabilities and pension and other future benefit plan expense are as follows:

Current Service Cost is the increase in the present value of the accrued benefit obligation resulting from employee service in the current period.

Interest Cost is the increase in the present value of the accrued benefit obligation resulting from the passage of time.

Actuarial gains or losses are changes in the value of the accrued benefit obligation and the plan assets resulting from experience that is different from that assumed or changes in an actuarial assumption.

Expected return on plan assets represents the long-term rate of return on plan assets applied to the fair value of plan assets.

A **Curtailement** is an event that results in a significant reduction of the expected years of future service of active employees or the elimination, for a significant number of active employees, of the right to earn defined benefits for some, or all, of their future services.

MERIDIAN CREDIT UNION LIMITED
Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

12. Pension and Other Employee Benefit Plans (continued):

The following tables present the estimated changes in the financial position of the defined benefit pension and other employee benefit plans:

	Pension Benefit Plans		Other Employee Benefit Plans	
(thousands of dollars)	2008	2007	2008	2007
Accrued Benefit Obligation				
Balance, beginning of year	27,989	28,800	3,606	3,529
Current service cost	1,032	1,495	244	253
Interest cost	1,450	1,413	195	174
Employee contributions	326	403	-	-
Benefits paid	(2,072)	(2,160)	(100)	(85)
Actuarial gain	(6,662)	(1,731)	(534)	(266)
Curtailment gain	-	(231)	-	-
Balance, December 31	22,063	27,989	3,411	3,605
Plan Assets				
Fair value, beginning of year	23,954	23,081	-	-
Actual (loss) return on plan assets	(4,537)	885	-	-
Employer contributions	824	1,745	100	85
Employee contributions	326	403	-	-
Benefits paid	(2,072)	(2,160)	(100)	(85)
Fair value, December 31	18,495	23,954	-	-
Funded status				
Plan deficit	(3,568)	(4,035)	(3,411)	(3,605)
Unamortized net losses (gains)	1,762	2,147	(1,236)	(722)
Accrued benefit liability, December 31	(1,806)	(1,888)	(4,647)	(4,327)

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

12. Pension and Other Employee Benefit Plans (continued):

	Pension Benefit Plans		Other Employee Benefit Plans	
	2008	2007	2008	2007
(thousands of dollars)				
Amounts recognized in the Consolidated Balance Sheet consist of				
Other liabilities	(1,806)	(1,888)	(4,647)	(4,327)
Accrued benefit liability, December 31	(1,806)	(1,888)	(4,647)	(4,327)

The significant actuarial assumptions adopted in measuring the Credit Union's accrued benefit obligation are as follows (weighted average assumptions as of December 31):

	Pension Benefit Plans		Other Employee Benefit Plans	
	2008	2007	2008	2007
(thousands of dollars)				
Discount rate	6.75%	5.25%	6.50%	5.50%
Expected long-term rate of return on plan assets	6.50%	7.25%	-	-
Rate of compensation increase	3.50%	3.25%	-	-

For measurement purposes, a 9.5% annual rate of increase in the per capita cost of covered medical benefits was assumed for 2008, decreasing by 0.5% per year until the rate of increase reaches 4.5%. A 4.0% annual increase in the per capita cost of covered dental benefits was assumed for 2008.

The weighted average assumptions used to calculate benefit plan expense are similar to those above, with the exception of the Discount rate. The Discount rate used to calculate benefit plan expense for Pension benefit plans is 5.25% (2007 – 5.00%). The Discount rate used to calculate benefit plan expense for Other employee benefit plans is 5.50% (2007 – 5.00%).

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

12. Pension and Other Employee Benefit Plans (continued):**Pension and other employee benefit expenses**

The following table presents the composition of the Credit Union's net benefit plan expense for the pension and other employee benefit plans:

(thousands of dollars)	2008	2007
Current service cost	1,276	1,748
Interest cost	1,645	1,587
Expected return on plan assets	(1,740)	(1,698)
Amortization of actuarial (gain) loss	(20)	(48)
Curtailement gain	-	(231)
Defined benefit pension expense	1,161	1,358
Defined contribution pension expense	1,755	1,590
Net benefit plan expense, December 31	2,916	2,948

Benefit plan assets

The defined benefit pension plan's policy is to invest in a diversified portfolio of investments to minimize concentration of credit risk. The plan assets are primarily composed of equity and fixed income investments. The following table presents the allocation of the plan assets by investment category:

	Target	Actual	
	2008	2008	2007
Equity investments	60%	59%	65%
Fixed income investments	40%	41%	35%
Total	100%	100%	100%

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

12. Pension and Other Employee Benefit Plans (continued):**Sensitivity Analysis**

The following table outlines the key weighted-average economic assumptions used in measuring the accrued benefit obligation and related expenses:

	Pension Benefit Plans		Other Employee Benefit Plans	
	Accrued Benefit Obligation	Pension Expense	Accrued Benefit Obligation	Pension Expense
(thousands of dollars)				
Discount rate (%)	6.75%	5.25%	6.50%	5.50%
Impact of: 1% increase (\$)	(4,301)	(397)	(462)	(35)
1% decrease (\$)	5,232	762	534	39
Expected long-term rate of return on plan assets (%)	N/A	7.25%	N/A	N/A
Impact of: 1% increase (\$)	N/A	(185)	N/A	N/A
1% decrease (\$)	N/A	185	N/A	N/A
Rate of compensation increase (%)	3.50%	3.25%	N/A	N/A
Impact of: 1% increase (\$)	1,644	382	N/A	N/A
1% decrease (\$)	(1,528)	(244)	N/A	N/A
Assumed overall health care cost trend rate	N/A	N/A	(1)	(1)
Impact of: 1% increase (\$)	N/A	N/A	423	63
1% decrease (\$)	N/A	N/A	(355)	(53)

(1) Medical benefit costs are assumed to increase by 9.5% for 2008, decreasing by 0.5% per year until the rate of increase reaches 4.5%. Dental benefit costs are assumed to increase by 4.0% for 2008

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

12. Pension and Other Employee Benefit Plans (continued):**Cash Flows**

Total cash contributions made by the Credit Union for the pension and other employee benefit plans consist of:

(thousands of dollars)	Pension Benefit Plans		Other Employee Benefit Plans	
	2008	2007	2008	2007
Contributions to defined benefit plans	810	1,722	-	-
Contributions to defined contribution plans	1,755	1,590	-	-
Contributions to beneficiaries of unfunded plans	14	23	100	85
Total	2,579	3,335	100	85

The contributions for 2009 are anticipated to be approximately \$1,829,000 for defined pension benefit plans, \$1,856,000 for defined contribution plans and \$127,000 for other employee benefit plans.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid either by the Credit Union or from the pension funds:

(thousands of dollars)	Pension Benefit Plans	Other Employee Benefit Plans
2009	2,112	127
2010	477	152
2011	569	184
2012	656	205
2013	742	232

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

13. Share Capital

(thousands of dollars)	2008	2007
Shares with member entitlements		
32,496,545 Class A series 96 (2007 – 30,816,778)	32,988	31,284
42,563,856 Class A series 01 (2007 – 40,422,905)	42,697	40,549
1,067,050 Membership (2007 – 1,037,777)	5,335	5,189
Balance, December 31	81,020	77,022

(thousands of dollars)	2008	2007
Members' capital accounts		
46,408,939 Class A "50th Anniversary" (2007 - 43,925,819)	46,409	43,926
2,693,766 Class A series 98 (2007 – 2,540,944)	2,694	2,541
Balance, December 31	49,103	46,467

a) Authorized share capital

The authorized share capital of the Credit Union consists of the following:

- (i) an unlimited number of Class A special shares, issuable in series ("Class A shares"),
- (ii) an unlimited number of Class B special shares, issuable in series ("Class B shares"), and
- (iii) an unlimited number of membership shares.

Membership shares rank junior to Class A shares and to Class B shares for priority in the payment of dividends and in the event of the liquidation, dissolution or winding-up of the Credit Union. In addition, Class B shares rank junior to the Class A shares. There are no Class B shares outstanding.

b) Class A sharesSeries 96 Class A shares

The Series 96 Class A shares are cumulative, non-voting, non-participating shares with a dividend rate adjusted every five years. The new dividend rate for each five year period will be set by the Board of Directors in their absolute discretion at a rate not less than 1% above the chartered bank average five year GIC rate published by the Bank of Canada Review. The dividend rate for the five year period beginning September 27, 2006 was set at 5.75%.

The holders of Series 96 Class A shares are entitled to receive dividends, as and when declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in Note 14. Dividends for the Series 96 Class A shares are cumulative and payable annually on the anniversary date.

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

13. Share Capital (continued):

Dividends declared and paid to shareholders of Series 96 Class A shares in 2008 amounted to \$1,772,732 (2007 - \$1,682,617), of which \$1,679,021 (2007 - \$1,598,077) was paid in the form of Series 96 Class A shares. Based upon the redemption features of these shares, they have been recorded as member entitlements within the liability portion of the balance sheet, and have been designated as financial liabilities. The corresponding dividend expense is captured in the Consolidated Statement of Earnings.

Series 98 Class A shares

The Series 98 Class A shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate of the average of the month-end five year GIC rates for the period, plus 1%. The holders of Series 98 Class A shares are entitled to receive dividends, as and when declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in Note 14.

Dividends declared and paid to shareholders of Series 98 Class A shares in 2008 amounted to \$154,882 (2007 - \$140,875) of which \$152,822 (2007 - \$138,848) was paid in the form of Series 98 Class A shares. These shares are redeemable at the sole and absolute discretion of the Credit Union's Board of Directors. Based upon these redemption characteristics, these shares have been recorded within members' equity as members' capital accounts.

Series 01 Class A shares

The Series 01 Class A shares are non-cumulative, non-voting, non-participating shares with a dividend rate adjusted every five years. The new dividend rate for each five year period will be set by the Board of Directors in their absolute discretion at a rate not less than 1% above the chartered bank average five year GIC rate published by the Bank of Canada Review. The dividend rate for the five year period beginning December 12, 2006 was set at 6.00%.

The holders of Series 01 Class A shares are entitled to receive dividends, as and when declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in Note 14. Dividends for the Series 01 Class A shares are non-cumulative and payable annually on the anniversary date, if and when declared.

Dividends declared and paid to shareholders of Series 01 Class A shares in 2008 amounted to \$2,426,684 (2007 - \$2,308,242) of which \$2,140,951 (2007 - \$2,033,783) was paid in the form of Series 01 Class A shares. Based upon the redemption features of these shares, they have been recorded as member entitlements within the liability portion of the balance sheet, and have been designated as financial liabilities. The corresponding dividend expense is captured in the Consolidated Statement of Earnings.

"50th Anniversary" Class A shares

The "50th Anniversary" Class A shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate adjusted every five years. The new dividend rate for each five year period will be set by the Board of Directors in their absolute discretion at a rate not less than the chartered bank average five year GIC rate published by the Bank of Canada Review. The dividend rate for the five year period beginning January 1, 2006 was set at 6.0%.

The holders of the "50th Anniversary" Class A shares are entitled to receive dividends, as and when declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory capital requirements of the Act described in Note 14. Dividends for the "50th Anniversary" Class A shares are non-cumulative and payable annually on January 1, if and when declared.

Dividends declared and paid to shareholders of "50th Anniversary" Class A shares in 2008 amounted to \$2,678,389 (2007 - \$2,500,147) of which \$2,485,629 (2007 - \$2,290,348) was paid in the form of "50th Anniversary" Class A shares.

These shares are redeemable at the sole and absolute discretion of the Credit Union's Board of Directors. Based upon these redemption characteristics, these shares have been recorded within members' equity as members' capital accounts.

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Year ended December 31, 2008, with comparative figures for 2007

13. Share Capital (continued):**c) Membership shares**

Par value of one membership share of the Credit Union is \$5. Members under the age of 18 must hold two shares; those 18 and older must hold five shares. There were 218,144 members at December 31, 2008 (2007 – 213,618).

These shares are redeemable at their issue price only when the member withdraws from membership in the Credit Union subject to:

- (i) The Credit Union meeting capital adequacy requirements, and
- (ii) The discretion of the Board of Directors who may require notice.

Based upon the redemption features of these shares, they have been recorded as member entitlements within the liability portion of the balance sheet, and have been designated as Other Liabilities.

d) Dividends on member entitlements

(thousands of dollars)	2008	2007
Class A series 96 investment shares	1,797	1,709
Class A series 01 investment shares	2,434	2,315
Total dividends on member entitlements, December 31	4,231	4,024

e) Dividends on members' capital accounts

(thousands of dollars)	2008	2007
Class A "50th Anniversary" investment shares	2,678	2,502
Class A series 98 investment shares	155	139
Dividends charged to retained earnings, December 31	2,833	2,641

f) Dividends declared

Effective January 1, 2009, the Credit Union declared dividends for the year ended December 31, 2008. Accordingly, these dividends have not been reflected in these financial statements. Dividends of \$2,833,271 relating to the 2007 fiscal year declared on January 1, 2008 were charged to retained earnings in 2008.

(thousands of dollars)	2008	2007
Class A "50th Anniversary" investment shares	2,783	2,678
Class A series 98 investment shares	162	155
Balance, December 31	2,945	2,833

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

14. Capital Management

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover risks inherent in the business.

The entity's objectives when managing capital are:

- (i) To ensure that the quantity, quality and composition of capital needed reflects the inherent risks of the entity and to support the current and planned operations and portfolio growth.
- (ii) To provide a safety net for the variety of risks to which the entity is exposed in the conduct of its business and to overcome the losses from unexpected difficulties either in earnings or in asset values.
- (iii) To provide a basis for confidence among members, depositors, creditors and Regulatory agencies.
- (iv) To form a solid foundation for business expansion and ongoing reinvestment in business capabilities, including technology and process automation and enhancement.
- (v) To establish a capital management policy for the entity appropriate for current legal and economic conditions, including compliance with regulatory requirements and with DICO's Standards of Sound Business and Financial Practices.

The Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets, and of risk-weighted assets. Risk-weighted assets are calculated by applying risk weight percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent upon the degree of risk inherent in the asset.

Tier 1 capital, otherwise known as core capital, is the highest quality. It is comprised of retained earnings, contributed surplus, members' capital accounts, and member entitlements with the exception of the Series 96 Class A shares. Of the "50th Anniversary", Series 98 and Series 01 Class A shares that have been included within member entitlements and members' capital accounts, only 90% are allowable as Tier 1 capital due to specific features of these shares.

Tier 2 capital, otherwise known as supplementary capital, contributes to the overall strength of a financial institution as a going concern, but is of a lesser quality than Tier 1 capital relative to both permanence and freedom from charges. It is comprised of the Series 96 Class A shares and the 10% portion of the "50th Anniversary", Series 98 and Series 01 Class A shares that are not admissible as Tier 1 capital. It also includes the eligible portion of the total general allowance for credit losses less the balance of the future tax asset and various adjustments related to the merger of HEP COE Credit Union and Niagara Credit Union.

The Act requires credit unions to maintain a capital ratio of 4.25% and a risk-weighted capital ratio of 8%. The Credit Union has a stated policy that it will maintain at all times capital equal to the minimum required by the Act plus a prudent cushion. The current minimum ratios per Board policy are a capital ratio of 6% and a risk-weighted capital ratio of 9%. The Credit Union's internal policy also dictates that the ratio of Tier 1 capital to total capital will be a minimum of 60%. These internal limits are increased by the Board in tandem with significant increasing risk detected in the economic environment of the Credit Union. The Credit Union is in compliance with the Act as indicated by the table below:

	Regulatory Capital	Capital Leverage		Risk Weighted	
		Minimum	Actual	Minimum	Actual
2008	312,477,481	4.25%	6.98%	8.0%	10.58%
2007	273,460,805	4.5%	6.71%	8.0%	10.51%

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Year ended December 31, 2008, with comparative figures for 2007

15. Derivative Financial Instruments

The table below provides an overview of the Credit Union's derivative portfolio.

(thousands of dollars)	Maturities of Derivatives (Notional Amounts)			Fair Value	
	Within 1 year	1 to 5 years	Total	Derivative Instrument Assets	Derivative Instrument Liabilities
	Interest rate swaps:				
Receive fixed	50,000	100,000	150,000	2,783	-
Pay fixed	14,993	-	14,993	-	(123)
	64,993	100,000	164,993	2,783	(123)
Foreign exchange forward contracts	33,046	3,574	36,620	2,561	(999)
Index-linked options	16,259	54,033	70,292	12,884	(12,822)
Total derivative contracts	114,298	157,607	271,905	18,228	(13,944)

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposure. Notional amounts are not exchanged.

The Credit Union has off-balance sheet credit risk which arises from the possibility that a counterparty to an interest rate contract could default on their obligation to the Credit Union. However, credit risk associated with interest rate contracts is normally a small fraction of the notional principal amount of the contract. Interest rate contracts expose the Credit Union to loss only if changes in market rates cause a material unfavourable effect on a counterparty's position, which could then lead to the counterparty defaulting on its payment. The Credit Union only enters into interest rate contracts with a counterparty that the Credit Union has determined to be creditworthy.

Interest rate swaps

As part of its interest rate risk management process, the Credit Union utilizes interest rate contracts in the form of interest rate swaps, floors, and caps, to maintain its interest rate exposure within the preset limits defined within the Board approved policy.

As at December 31, 2008, the Credit Union had one fixed receive interest rate swap outstanding with a total notional value of \$50,000,000 and maturing September 2009. Under the terms of this agreement, the counterparty to the swap is obligated to pay the Credit Union a fixed rate and the Credit Union is obligated to pay the counterparty a variable rate, with both payments based upon the notional value of the underlying swap. The variable rate paid by the Credit Union is equivalent to the one month bankers' acceptance rate and is repriced monthly. The Credit Union is currently receiving a fixed rate on this swap of 2.69% and is paying a variable rate as at December 31, 2008 of 1.67%.

As at December 31, 2008, the Credit Union had two forward interest rate swaps with a total notional value of \$100,000,000 and maturing January 2010. Subsequent to the commencement date of January 2, 2009, under the terms of the agreement, the counterparty to the swap is obligated to pay the Credit Union a fixed rate and the Credit Union is obligated to pay the counterparty a variable rate, with both payments based upon the notional value of the underlying swap. The variable rate to be paid by the Credit Union is equivalent to the one month bankers' acceptance rate. This rate will be repriced monthly. The Credit Union will receive fixed rates on this swap of 3.00% to 3.09%

As at December 31, 2008, the Credit Union had one fixed pay amortizing interest rate swap outstanding with a total notional value of \$14,992,757 and maturing July 2009. Under the terms of this agreement, the counterparty to the swap is

MERIDIAN CREDIT UNION LIMITED

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Year ended December 31, 2008, with comparative figures for 2007

15. Derivative Financial Instruments (continued):

obligated to pay the Credit Union a variable rate and the Credit Union is obligated to pay the counterparty a fixed rate, with both payments based upon the notional value of the underlying swap. The variable rate is repriced monthly by the counterparty to the swap. The Credit Union is currently paying a fixed rate of 3.52% and is receiving a variable rate as at December 31, 2008 of 1.64%.

Interest rate swaps are carried on the balance sheet at fair value. Interest rate swaps have a fair value that varies based on the particular contract and changes in interest rates. Fair values have been provided by an independent third party. At December 31, 2008 the net fair value of these agreements was \$2,659,582 (2007 – (\$1,213,930)). Of this balance, \$2,782,567 is included in derivative instrument assets and \$122,985 is included in derivative instrument liabilities. Realized gains of \$11,299,440 (2007 – Nil) are included in interest income as a result of the early termination of two interest rate swaps during the year. Income on interest rate swap transactions is included in interest income and amounted to \$843,923 (2007 – (\$2,029,733)).

Cross currency interest rate swaps

During 2007 the Credit Union entered into a cross currency interest rate swap to hedge a US dollar denominated deposit liability and to swap the LIBOR (London Interbank Offering Rate) based interest rate of the deposit liability for a CDOR (Canadian Deposit Offering Rate) based interest rate. The cross currency swap matured as of July 1, 2008.

Foreign exchange forward contracts

As part of its ongoing program of managing foreign currency exposure, the Credit Union enters into forward rate agreements to purchase US dollars. These agreements function as a hedge against the Credit Union's net US dollar denominated liability position. Fair values have been provided by an independent third party. The net fair value of these contracts as at December 31, 2008 was \$1,561,638 (2007 – (\$148,269)). Of this balance, \$2,560,732 is included in derivative instrument assets and \$999,094 is included in derivative instrument liabilities.

Index-linked deposits

The Credit Union has \$70,146,338 (2007 - \$53,097,762) of index-linked and equity-linked term deposit products outstanding to its members. These term deposits have maturities of five years and pay interest to the depositors, at the end of the term, based on the performance of various market indices. The Credit Union has entered into equity-linked purchase option agreements with various counterparties to offset the exposure to the indices associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the equity-linked purchase option contract. At the end of the term the Credit Union receives, from the counterparties, payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

The purpose of these agreements is to provide a hedge against market fluctuations. These agreements have fair values that vary based on the particular contract and changes in interest rates. Fair values have been provided by an independent third party. The fair value of these contracts amounted to \$12,884,415 at December 31, 2008 (2007 - \$30,599,590). The fair value of the embedded written option in these contracts amounted to (\$12,822,164) at December 31, 2008 (2007 – (\$30,399,145)). Although these agreements do not qualify for hedge accounting they do continue to be effective as economic hedges.

At December 31, 2008, the Credit Union had unamortized premiums of \$7,677,515 (2007 - \$2,383,607) relating to payments made under its agreements. These unamortized amounts are recorded as a contra to the deposit liability. Over the life of the underlying deposit, this contra amount is amortized on an effective yield basis over the term of the contracts to which they relate, which are five years.

No agreements were terminated during the year.

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16. Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Audit Committee and charged them with the responsibility for, among other things, the development and monitoring of risk management policies. The Committee reports regularly to the Board on its activities.

Credit Risk

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Credit risk is one of the most significant and pervasive risks in the business of a credit union. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective is to create a methodological approach to our credit risk assessment in order to better understand, select and manage our exposures to deliver stable ongoing earnings. The strategy is to ensure central oversight of credit risk, fostering a culture of accountability, independence and balance. The responsibility for credit risk management is organization-wide in scope, and is managed through an infrastructure based upon:

- (i) Centralized approval by the Credit & Investment Committee of the Board, of all credit risk policies reflecting the following six categories:
 - a. Credit risk assessment includes policies related to credit risk analysis, risk rating and risk scoring;
 - b. Credit risk mitigation includes credit structuring, collateral and guarantees;
 - c. Credit risk approval includes credit risk limits and exceptions;
 - d. Credit documentation focuses on documentation and administration;
 - e. Credit review focuses on monitoring for financial performance, covenant compliance and any sign of deterioration;
 - f. Credit portfolio management includes sectoral, geographic, and overall risk concentration limits and risk quantification;
- (ii) Centralized approval by the Vice President of Risk Management of the discretionary limits of lending officers throughout the Credit Union;
- (iii) Credit adjudication subject to compliance with established policies, exposure guidelines and discretionary limits, as well as adherence to established standards of credit assessment. Credit approvals are escalated to the Chief Financial Officer (CFO), Chief Executive Officer (CEO) and ultimately to the Credit & Investment Committee of the Board, dependent upon credit exposure level and restricted party transactions;
- (iv) Credit department oversight of the following:
 - a. The establishment of guidelines to monitor and limit concentrations in the portfolios in accordance with Board approved policies governing industry risk and group exposures;
 - b. The development and implementation of credit risk models and policies for establishing borrower risk ratings to quantify and monitor the level of risk and facilitate management of commercial credit business;
 - c. Approval of the scoring techniques and standards used in extending, monitoring and reporting of personal credit business;
 - d. Implementation of an ongoing monitoring process of the key risk parameters used in our credit risk models.

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Year ended December 31, 2008, with comparative figures for 2007

16. Financial Risk Management (continued):

The Board has delegated to the CEO the authority to establish a lending hierarchy. As such, a procedure for the delegation of lending authority has been developed and is in active use. The Credit Union employs persons who are competent and qualified to manage its credit granting activities. Staff may be designated individual authorities based on experience and background. Designated staff whose primary job accountabilities are to manage the quality and risk of the Credit Union's portfolio, are granted the authority to use judgement and discretion consistent with policy, in discharging their duties.

Management has the responsibility to:

- (i) Systematically identify, quantify, control and report on existing and potential credit risks and environmental risks in the loan portfolio;
- (ii) Prudently manage the exposure to default and loss arising from those risks;
- (iii) Employ and train, as necessary, personnel who can implement risk measurement and credit management techniques as required by policy.

Adequate measuring, monitoring and reporting on risk position and exposure is maintained and compliance and audit responsibilities are in place and adhered to. The Credit & Investment Committee of the Board receives regular summary measurements of the credit portfolio.

The Credit Union's credit risk portfolio is classified as "retail" and "commercial/agricultural", and a different risk measurement process is employed for each portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. A two dimensional rating system is used for both retail and commercial credit exposures.

Credit exposure is assessed along these two dimensions: probability of default (POD), which is an estimate of the probability that an obligor with a certain borrower risk rating will default within a one year time horizon, and loss given default (LGD), which represents the portion of exposure at default expected to be lost when an obligor defaults.

Management has designed and implemented a prudent and efficient loan granting process that addresses appropriate security documentation, its registration, the need and use of credit bureau reports and other searches, situations where co-signors or guarantors may be or shall be required, the use of wage assignments and use of accredited appraisers, lawyers and other professionals.

The Credit Union's credit risk portfolio is diversified with the objective of spreading risk. Diversification is assessed using different measures in each portfolio. In the retail portfolio, diversification areas include authorized loan types, forms of security and sectoral groupings and/or such other objective criteria that the Board may set from time to time. In the commercial loan portfolio, diversification is achieved through the establishment of credit exposure limits for specific industry sectors, individual borrowers and borrower groups (where the Credit Union determines credit risk overlaps, multiple borrowers based on shared security and/or the same income source). Industry rating models and detailed industry analysis are a key element of this process. Where several industry segments are affected by common risk factors, an exposure limit may be assigned to those segments in aggregate. We regularly review the above parameters to ensure that acceptable diversification is maintained. The top five industry sectors represent approximately 61% of the total commercial loan portfolio.

Credit scoring is the primary risk rating system for assessing retail exposure risk. Retail exposure is managed on a pooled basis, where each pool consists of exposures that possess similar homogeneous characteristics. The retail credit segment is composed of a large number of members, and includes residential mortgages, as well as secured and unsecured loans and lines of credit. Requests for retail credit are processed using automated credit and behavioural decisioning tools. Standard evaluation criteria may include, but are not limited to: Gross debt service ratio (GDSR), total debt service ratio (TDSR), loan to value ratio (LTV), and debt service ratio (DSR). Within this framework, underwriters in branches and corporate office operate within designated approval limits. Retail exposures are assessed on a pooled basis and measured against an internal benchmark of acceptable risk penetration levels within each pool. Internal benchmarks are established using the "Equifax

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16. Financial Risk Management (continued):

Beacon score". Equifax is a global service provider of this credit score, which is a mathematical model used to predict how likely a person is to repay a loan. The score is based on information contained in an individual's credit report. This information is obtained from credit lenders from which the consumers have borrowed in the past. The benchmark is measured monthly to ensure that the risk of the portfolio is managed on an ongoing basis. The risk ratings of the portfolio range from A+, which represents very low risk, to E, which represents the highest risk.

The commercial credit risk rating model is premised on the borrower's debt servicing ability along with a measurement of the credit union debt leverage against the borrower's net security position, both measured against respective risk weighted grids, which compute to an overall combined borrower risk rating. The commercial loan portfolio stratified by risk rating is reviewed monthly.

The Credit Union's credit risk policies, processes and methodologies have not changed materially from the prior year with the exception of enhanced industry analysis and amendments to the basis for concentration measurement.

Except as noted, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Credit Union's maximum exposure to credit risk without taking into account the value of any collateral obtained. The Credit Union is also exposed to credit risk through transactions which are not recognized in the balance sheet, such as granting financial guarantees and extending loan commitments. Refer to Notes 18 and 19 for further details. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained. Refer to Note 4 for a description of the nature of the security held against loans as at the balance sheet date.

Interest Rate Risk

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when we enter into banking transactions with our members, namely deposit taking and lending. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is repriced when interest rates change, when there is cash flow from final maturity, normal amortization, or when members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. Overall responsibility for asset/liability management rests with the Board. As such, the Board receives regular reports on risk exposures and performance against approved limits. The Board delegates the responsibility to manage the interest rate risk on a day-to-day basis to the Asset/Liability Committee ("ALCO") which meets no less frequently than monthly. ALCO is chaired by the Chief Financial Officer and includes other senior executives.

The key elements of the entity's interest rate risk management framework include:

- (i) Guidelines and limits on the structuring of the maturities, price and mix of deposits, loans, mortgages and investments and the management of asset cash flows in relation to liability cash flows;
- (ii) Guidelines and limits on the use of derivative products to hedge against a risk of loss from interest rate changes;
- (iii) Requirements for comprehensive measuring, monitoring and reporting on risk position and exposure management.

Valuations of all asset and liability positions, as well as off-balance sheet exposures, are performed no less frequently than monthly. The Credit Union's objective is to establish and maintain a balance sheet and off-balance sheet structure that

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Year ended December 31, 2008, with comparative figures for 2007

16. Financial Risk Management (continued):

will protect and enhance the Credit Union's net interest income and the value of the Credit Union's capital during all phases of the interest rate cycle and varying economic conditions.

The carrying amounts of interest sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next re-price to market rates or mature, and are summed to show the interest rate sensitivity gap. Loans are adjusted for prepayment estimates which reflect expected repayments on other than contractual maturity dates. The prepayment rate applied to the portfolio is based on experience and current economic conditions. The average rates presented represent the weighted average effective yield based on the earlier of re-pricing or maturity dates. Further information related to the derivative financial instruments used to manage interest rate risk is included in Note 15.

(thousands of dollars)	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non Interest Sensitive	Total
Assets						
Cash resources	6,326	9,804	-	-	-	16,130
Yield	-	3.16%	-	-	-	-
Investments and other	-	46,361	278,601	-	61,516	386,478
Yield	-	2.03%	3.53%	-	-	-
Loans to members	2,012,795	732,571	1,243,364	6,690	5,103	4,000,523
Yield	4.65%	5.83%	5.87%	5.76%	-	-
Total assets	2,019,121	788,736	1,521,965	6,690	66,619	4,403,131
Liabilities						
Members' deposits	1,071,705	1,349,494	1,136,384	54	388,643	3,946,280
Yield	1.56%	3.94%	4.05%	2.85%	-	-
Other	-	173,000	-	-	-	173,000
Yield	-	2.37%	-	-	-	-
Members' entitlements	-	-	75,685	-	5,335	81,020
Yield	-	-	5.89%	-	-	-
Total liabilities	1,071,705	1,522,494	1,212,069	54	393,978	4,200,300
Derivatives	(150,000)	50,000	100,000	-	-	-
Interest sensitivity position 2008	797,416	(683,758)	409,896	6,636	(327,359)	
Interest sensitivity position 2007	207,380	(38,209)	380,484	27,359	(382,436)	

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16. Financial Risk Management (continued):

The management of interest rate risk against internal exposure limits is supplemented by monitoring the sensitivity of the Credit Union's financial assets and liabilities to standard interest rate shock scenarios. The key metrics used to monitor this sensitivity are Earnings at Risk ("EaR") and Economic Value of Equity at Risk ("EVEaR"). EaR is defined as the change in our net interest income from a 100 basis point ("bps") shock to interest rates. EVEaR is defined as the difference in the change in the present value of our asset portfolio and the change in the present value of our liability portfolio, including off-balance sheet instruments, resulting from a 100 bps interest rate shock. These exposures are measured over a twelve month period. An analysis of these two metrics is presented below. These metrics have been calculated incorporating growth assumptions for loan and deposit balances, prepayment assumptions on loan balances as detailed above and forecasted changes in the yield curve.

(thousands of dollars)	2008	2007
EaR: 100 bps exposure	(2,722)	(3,314)
EVEaR: 100 bps exposure	(1.8%)	(2.4%)

Liquidity Risk

Liquidity risk arises in the course of managing our assets and liabilities. It is the risk that the entity is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund our balance sheet under both normal and stressed market environments. The entity's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. ALCO provides management oversight of liquidity risk through its monthly meetings.

The key elements of the entity's liquidity risk management framework include:

- (i) Limits on the sources, quality and amount of liquid assets to meet normal operational requirements, regulatory requirements and contingency funding;
- (ii) Methodology to achieve an acceptable yield on the operating liquidity investment portfolio within prudent risk management bounds;
- (iii) Prudence tests of quality and diversity where investments bear credit risk;
- (iv) Parameters to limit term extension risk;
- (v) Implementation of deposit concentration limits in order to ensure diversification and stability of deposit funding;
- (vi) Requirements for adequate measuring, monitoring and reporting on risk position and exposure management.

Under the Regulations, the Credit Union must maintain a regulatory minimum of 8% of gross liquid assets (cash resources and investments) to the sum of members' deposits. The Credit Union targets to maintain operating liquidity within the range of 8.25% to 12%. The low end of the range has been established in order to maintain a comfortable cushion beyond the statutory minimum requirements in order to meet cash needs, even during periods of market volatility. A cap has been placed on the range in recognition of the fact that too much excess liquidity has a negative impact on earnings. As at December 31, 2008 the Credit Union's liquidity ratio was 8.23% (2007 – 8.91%).

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16. Financial Risk Management (continued):

The table below sets out the period in which the Credit Union's monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. These cash flows are not discounted and include both the contractual cash flows pertaining to the entity's balance sheet assets and liabilities and the future contractual cash flows that they will generate. In the case of loans, the table reflects adjustments to the contractual cash flows for prepayment estimates which reflect expected repayments on other than contractual maturity dates. The prepayment rate applied to the portfolio is based on experience and current economic conditions. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies as set out in Note 18.

(thousands of dollars)	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not Specified	Total
Assets							
Cash resources	16,130	-	-	-	-	-	16,130
Investments	4,257	135,277	186,653	-	-	60,291	386,478
Loans to members	1,377,187	1,022,757	1,097,205	499,842	17,350	26,533	4,040,874
Derivative assets	171	1,761	8	-	-	-	1,940
Total assets	1,397,745	1,159,795	1,283,866	499,842	17,350	86,824	4,445,422
Liabilities							
Members' deposits	1,526,468	1,245,678	855,517	280,867	54	37,655	3,946,239
Loan payable	150,000	23,000	-	-	-	-	173,000
Total liabilities	1,676,468	1,268,678	855,517	280,867	54	37,655	4,119,239

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The entity is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from US dollar transactions. The entity's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and variance from approved limits. The aforementioned activities that expose the entity to foreign currency risk are measured, monitored and controlled daily to minimize the adverse impact of sudden changes in foreign currency values with respect to the Canadian dollar. US dollar denominated liabilities are hedged through a combination of US dollar investments and forward rate agreements to buy US dollars and net exposure is limited to \$0.75 million on a daily basis. The entity uses forward foreign currency derivatives to neutralize its exposure to forward exchange contracts with members. As at December 31, 2008 the entity's exposure to a 10% reasonably possible change in the foreign exchange rate is insignificant.

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The Credit Union is exposed to other price risk in its own investment portfolio. The Credit Union adheres to the principles of quality and risk diversification in its investment practices. The entity's other price risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. As at December 31, 2008 the entity has limited investments subject to other price risk and this exposure is insignificant.

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

17. Financial Instruments

The following table represents the fair values of the Credit Union's financial instruments for each classification of financial instrument. The fair values for financial instruments which are short-term are equal to book value. These include cash resources, accrued interest receivable, accounts payable, accrued liabilities and accrued interest payable. The fair values disclosed do not include the value of assets that are not considered financial instruments, such as Premises and Equipment, and certain Other Assets and Other Liabilities.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of the Credit Union's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

(thousands of dollars)	2008			2007		
	Book Value	Fair Value	Fair Value Difference	Book Value	Fair Value	Fair Value Difference
Designated as HFT ¹ :						
Cash resources	16,130	16,130	-	54,577	54,841	264
Classified as HFT ¹ :						
Derivative instruments	18,228	18,228	-	31,267	31,267	-
Available for sale:						
Investments	34,817	34,817	-	31,045	31,045	-
Other Assets	18,444	18,444	-	5,145	5,145	-
Loans and receivables						
Investments	329,894	344,062	14,168	289,227	289,809	582
Loans to members	4,000,523	4,008,144	7,621	3,625,372	3,590,472	(34,900)
Total assets	4,418,036	4,439,825	21,789	4,036,633	4,002,579	(34,054)
Other liabilities:						
Members' deposits	3,946,280	4,006,948	60,668	3,513,111	3,525,447	12,336
Borrowings	173,000	173,257	257	216,300	216,694	394
Members' entitlements	81,020	85,484	4,464	77,022	79,475	2,453
Other liabilities	30,262	30,262	-	38,599	38,599	-
Classified as HFT ¹ :						
Derivative instruments	13,944	13,944	-	33,693	33,693	-
Total liabilities	4,244,506	4,309,895	65,389	3,878,725	3,893,908	15,183

¹Held for Trading ("HFT")

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

17. Financial Instruments (continued):

Interest rate sensitivity is the main cause of changes in the fair values of the Credit Union's financial instruments. With the exception of derivative instruments, the book values of the above financial instruments are not adjusted to reflect the fair value, as it is the Credit Union's intention to realize their value over time.

The following methods and assumptions were used to estimate the fair value of financial instruments:

- a. The fair value of cash resources, excluding short term deposits with original maturities of 100 days or less, are assumed to approximate their carrying values, due to their short-term nature. The fair value of short term deposits with original maturities of 100 days or less are based on market values which are derived from valuation models.
- b. The fair value of investments is determined by discounting the expected future cash flows of these investments at current market rates.
- c. The fair value of the retained securitization interests related to rights to future excess spread is determined by discounting the related expected future cash flows at current market mortgage rates.
- d. The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis.
- e. The estimated fair value of fixed rate loans, fixed rate deposits and member entitlements is determined by discounting the expected future cash flows of these investments, loans, deposits and borrowings at current market rates for products with similar terms and credit risks.
- f. The estimated fair value of derivative instruments is determined through valuation models based on the derivative notional amounts, maturity dates and rates.
- g. The fair value of other liabilities are assumed to approximate their carrying values, due to their short-term nature.

18. Commitments

Credit commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members.

Such commitments, which are not included in the Balance Sheet, include documentary and commercial letters of credit, which require the Credit Union to honour drafts presented by third parties upon completion of specific activities; and commitments to extend credit, which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to certain conditions. These credit arrangements are subject to the Credit Union's normal credit standards, financial controls and monitoring procedures and collateral may be obtained where appropriate. The contract amounts for these commitments set out in the table below represent the maximum credit risk exposure to the Credit Union should the contracts be fully drawn, the counterparty default and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements.

(thousands of dollars)	2008	2007
Standby and commercial letters of credit	80,578	65,219
Commitments to extend credit:		
Mortgages	23,260	28,937
Loans	2,623	2,280
Commercial	215,298	82,110
Balance, December 31	321,759	178,546

MERIDIAN CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2008, with comparative figures for 2007

18. Commitments (continued):

In addition, the Credit Union had advanced \$1,056,270,145 (2007 – \$953,225,501) against approved lines of credit of \$2,130,253,267 (2007 – \$1,977,366,987) leaving a potential to advance additional loans of \$1,073,983,122 (2007 – \$1,024,111,486).

Lease commitments

The Credit Union is subject to the following premises, automobile and equipment lease commitments:

(thousands of dollars)

2009	3,200
2010	2,938
2011	1,856
2012	1,545
2013	1,383
thereafter to 2021	6,168
	17,090

Legal proceedings

During the normal course of business, the Credit Union enters into legal proceedings primarily relating to the recovery of delinquent loans. As a result, various counterclaims or proceedings have been or may be instituted against the Credit Union. The disposition of the matters that are pending or asserted is not expected by management to have a material effect on the financial position of the Credit Union or on its results of operations.

19. Guarantees

In the normal course of business, the Credit Union enters into agreements that may contain features which meet the definition of a guarantee as defined by CICA Accounting Guideline 14, Disclosure of Guarantees. The maximum potential amount of future payments represents the amounts that could be lost to the Credit Union under guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

The Credit Union has, as a participant in the Central 1 Mortgage Pool Purchase and Securitization Program, indemnified Central 1 for all costs and expenses incurred by Central 1 in respect of Meridian's participation. The indemnification is considered by management to be in the normal course of business. The amounts that may become payable in future years are not determinable at this time. Management considers that the costs, if any, are not material.

The Credit Union offers MasterCard and its services through a contract with Credit Union Electronic Transaction Services and Unified Network Payment Solutions. Where MasterCard credit limits must be fully secured by the Credit Union, a guarantee of 100% of the approved credit limit for the life of the account, plus up to 90 days interest will be made by the Credit Union. The Credit Union will in turn hold at least an equivalent amount of the credit limit approved for the MasterCard from the cardholder through an assignment of funds on deposit or a pledge of term deposits. These guarantees are considered by management to be in the normal course of business. The maximum potential amounts of future payments the Credit Union could be required to make under the guarantee before any amounts that may possibly be recovered are not determinable at this time. An estimate of the maximum potential amount cannot be estimated as the cardholder balances fluctuate depending on use. Management considers that the costs are not material as the assignment or pledge of funds is expected to cover any cardholder balances in default.

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

20. Restricted Party Transactions

The Credit Union employs the definition of Restricted Party contained in the Act and regulations. A Restricted Party includes a person who is, or has been within the preceding twelve months, a director, officer, or auditor of the Credit Union, any corporation in which the person owns more than 10% of the voting shares, his or her spouse, their dependent relatives who live in the same household as the person, and any corporation controlled by such spouse or dependent relative.

As at December 31, 2008, the aggregate value of loans issued to restricted parties was \$37,996,899 (2007 – \$40,695,336). With the exception of officers who are employees and also Restricted Parties of the Credit Union, these loans have been advanced on the same terms and conditions as have been accorded to all members of the Credit Union. The Credit Union's employee benefit program includes a Financial Services program whereby full-time and part-time employees are eligible to receive discounted interest rates on mortgages, personal loans and lines of credit. There was no allowance for doubtful loans required in respect of these loans.

Directors received \$277,388 (2007 - \$316,210) for annual retainer and per-diem fees and \$34,861 (2007 - \$47,436) for reimbursement of travel and out of pocket expenses.

21. Income Taxes

The provision for income taxes is included in Other Liabilities. Components of the provision for income taxes are as follows:

(thousands of dollars)	2008	2007
Current income tax expense	3,374	4,586
Future income tax expense (recovery)	3,144	(505)
Balance, December 31	6,518	4,081

The total provision for income taxes in the Statement of Earnings is at a rate which differs from the combined federal and provincial statutory income tax rates as outlined below:

(thousands of dollars)	2008		2007	
	Tax Provision	% of Pre-Tax Income	Tax Provision	% of Pre-Tax Income
Combined federal and provincial income taxes	12,933	35.0%	7,981	36.1%
Credit Union rate reduction	(6,836)	(18.5)%	(3,869)	(17.5)%
Non-deductible expenses	56	0.2%	74	0.3%
Non-taxable income	(39)	(0.1)%	(166)	(0.8)%
Temporary differences subject to future tax rates	45	0.1%	(32)	(0.1)%
Other items	359	0.9%	93	0.5%
Provision for income taxes	6,518	17.6%	4,081	18.5%

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

21. Income Taxes (continued):

The effects of temporary differences, which give rise to the net future income tax assets reported in other assets, are as follows:

(thousands of dollars)	2008	2007
Future income tax assets		
Allowance for impairment of loans	2,727	2,888
Mortgage securitization	-	514
Accrued employee future benefits	1,052	1,128
Other accrued expenses	562	619
Capital assets	139	-
Financial instruments adjustments	-	400
	4,480	5,549
Future income tax liabilities		
Fair value adjustments	793	1,301
Deferred expenses	486	467
Mortgage securitization	1,534	-
Capital assets	-	189
Financial instruments adjustments	707	-
Net future income taxes (note 7)	960	3,592

22. Additional Information**Deposit insurance**

The annual premium paid to DICO for insuring members deposits during the year ended December 31, 2008 was \$2,607,606 (2007 - \$2,504,485). The premium rates are based on relative risk to the insurance fund as measured by an overall composite risk score encompassing financial and other risk based factors.

Central 1 fees

The total fees paid to Central 1 amounted to \$2,921,314 (2007 - \$2,840,620). These fees were primarily in respect of membership dues, banking and clearing, and other services.

Statement of cash flows

The change in cash flows from operating activities includes net taxes paid in the amount of \$5,434,968 (2007 - \$4,274,978).

The change in cash flows from investing activities includes interest received in the amount of \$251,497,614 (2007 - \$235,387,572).

The change in cash flows from financing activities includes interest paid in the amount of \$136,829,552 (2007 - \$123,246,105).

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

23. Net Interest Income

The components of net interest income are as follows:

(thousands of dollars)	2008	2007
Interest income		
Residential mortgages	75,368	70,765
Personal loans	42,861	50,270
Commercial loans	106,771	105,431
Interest income from loans to members	225,000	226,466
Investment income	17,197	10,476
Realized gain/(loss) on derivative instrument assets and liabilities (note 15)	11,300	-
Net unrealized gain/(loss) on investment subject to significant influence (note 3)	(6,205)	-
Unrealized impairment loss on CUCO shares (note 3)	(1,847)	-
Total interest income	245,445	236,942
Interest expense		
Demand deposits	25,507	30,109
Term deposits	59,664	45,220
Registered retirement savings plans	26,037	22,079
Registered retirement income plans	10,399	9,885
Interest on members' deposits	121,607	107,293
Interest on borrowings	8,726	16,342
Dividends on member entitlements	4,231	4,024
Total interest expense	134,564	127,659

Interest income on Institutional loans, Agricultural loans, Unincorporated association loans and Syndicated loans is included in interest on Commercial loans.

MERIDIAN CREDIT UNION LIMITED**Notes to the Consolidated Financial Statements**

Year ended December 31, 2008, with comparative figures for 2007

24. Non-Interest Income

(thousands of dollars)	2008	2007
Securitization income	16,585	(2,513)
Service charges	10,067	9,980
Insurance commissions	5,387	5,450
Loan and commitment fees	5,268	5,840
Foreign exchange	3,490	3,338
Mutual fund revenue	2,997	3,462
Interac revenue	1,651	1,772
Other	854	850
Credit card revenue	729	702
Total	47,028	28,881

25. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Executive Leadership Team and Officers

Sean Jackson - President and CEO
Laima Cers - Chief Marketing Officer
Bob Hague - Chief Member Services Officer
Bill Maurin - Chief Financial Officer

Mike Somerville - Chief Information Officer
Tom Wise - Chief of Staff
Sheryl Wherry - Corporate Secretary

Board of Directors (as at Dec 31st, 2008)

Don Ariss
Judy Brisson
Alan Caslin
Bill Falk
Henry Koop
Mark Kraemer
Erv Krause - Vice Chair

Dr. Andy Panko
Bob Pesant
Kevin Sherwood - Board Chair
Kevin Thompson
Karl Wettstein
Helen Young

Audit

Don Ariss - Chair
Andy Panko
Kevin Thompson
Helen Young

Governance

Kevin Sherwood - Chair
Erv Krause
Bob Pesant
Karl Wettstein

Credit & Investment

Alan Caslin - Chair
Judy Brisson
Bill Falk
Henry Koop

Nominating

Mark Kraemer - Chair
Don Ariss
Kevin Sherwood
Helen Young

Meridian Locations



44 Conveniently located branches
8 Commercial Business Centres

Branches

Ancaster Branch
 1100 Wilson Avenue
 Ancaster ON L9G 3K9

Aurora Branch
 297 Wellington St E
 Aurora ON L4G 6K9

Barrie Branch
 18 Collier St
 Barrie ON L4M 1G6

Beamsville Branch
 4520 Ontario St
 Beamsville ON L0R 1B5

Clarkson Branch
 970 Southdown Rd
 Mississauga ON L5J 2Y4

Collingwood Branch
 171 St Marie St
 Collingwood ON L9Y 3K3

Darlington Branch
 320 Holt Rd S, RR 2
 Bowmanville ON L1C 3K3

Drummond & Dunn Branch
 Southway Plaza, 6175 Dunn St
 Niagara Falls ON L2G 2P4

Ellesmere Branch
 1501 Ellesmere Rd
 Scarborough ON M1P 4T6

Fergus Branch
 120 McQueen Blvd
 Fergus ON N1M 3T8

Fonthill Branch
 1401 Pelham St
 Fonthill ON L0S 1E0

Fort Erie Branch
 450 Garrison Rd, Unit 14
 Fort Erie ON L2A 1N2

Grantham Plaza Branch
 Grantham Plaza, 400 Scott St
 St. Catharines ON L2M 3W4

Grimsby Branch
 155 Main St E, (Orchardview Plaza)
 Grimsby ON L3M 1P2

Hanover Branch
 255 10th St
 Hanover ON N4N 1P1

Hydro Place Branch
 700 University Ave, Shopping Concourse
 Toronto ON M5G 1Z5

Kalar & McLeod Branch
 7107 Kalar Rd
 Niagara Falls ON L2H 3J6

Kincardine Branch
 818 Durham St
 Kincardine ON N2Z 3B9

Kipling Branch
 800 Kipling Ave
 Toronto ON M8Z 5S4

Lake Street Branch
 531 Lake St
 St. Catharines ON L2N 4H6

Morningside Branch
 797 Milner Ave
 Scarborough ON M1B 3C3

Nanticoke Branch
 34 Haldimand Rd 55
 Nanticoke ON N0A 1L0

Corporate Offices

Corporate Head Office - St. Catharines
 75 Corporate Park Dr
 St. Catharines ON L2S 3W3

Corporate Office - Toronto
 777 Bay St, College Park, 26th Floor
 Toronto ON M5G 2C8

Commercial Business Centres

Greater Toronto Area
 797 Milner Avenue
 Scarborough ON M1B 3C3

Niagara Falls
 4780 Portage Rd
 Niagara Falls ON L2E 6A8

Grey Bruce
 255 10th St
 Hanover ON N4N 1P1

Simcoe
 135 Bayfield St, Suite 201
 Barrie ON L4M 3B3

Guelph/Wellington
 200 Speedvale Ave W
 Guelph ON N1H 1C3

St. Catharines
 75 Corporate Park Dr
 St. Catharines ON L2S 3W3

Niagara-on-the-Lake
 1567 Niagara Stone Rd
 Virgil ON L0S 1T0

Welland
 610 Niagara St N
 Welland ON L3C 1L8

Niagara-on-the-Lake Branch
 1567 Niagara Stone Rd
 Virgil ON L0S 1T0

Ridley Plaza Branch
 111 Fourth Ave, Ridley Square Plaza
 St. Catharines ON L2S 3P5

Orangeville Branch
 190 Broadway, Suite 1
 Orangeville ON L9W 1K3

Speedvale Branch
 200 Speedvale Ave W
 Guelph ON N1H 1C3

Orillia Branch
 73 Mississaga St E
 Orillia ON L3V 1V4

Stevensville Branch
 2763 Stevensville Rd
 Stevensville ON L0S 1S0

Owen Sound Branch
 1594 16th Ave E
 Owen Sound ON N4K 5N3

Stone Square Branch
 370 Stone Rd W
 Guelph ON N1G 4V9

Pendale Plaza Branch
 Pendale Plaza, 210 Glendale Ave
 St. Catharines ON L2T 3Y6

TeleOntario Branch
 777 Bay St, 25th Floor
 Toronto ON M5G 2C8

Penetanguishene Branch
 7 Poyntz St
 Penetanguishene ON L9M 1M3

Trinity Square Branch
 483 Bay St, Suite 160s
 Toronto ON M5G 2E1

Pickering Branch
 1550 Kingston Rd, Unit 25
 Pickering ON L1V 1C3

Vineland Branch
 3370 King St
 Vineland ON L0R 2C0

Port Colborne Branch
 43 Clarence St W
 Port Colborne ON L3K 3G1

Wainfleet Branch
 18m80 Hwy #3, PO Box 165
 Wainfleet ON L0S 1V0

Port Elgin Branch
 626 Goderich St, PO Box 730
 Port Elgin ON N0H 2C0

Wasaga Beach Branch
 707 River Rd W, Unit 1
 Wasaga Beach ON L9Z 1N7

Portage Branch
 4780 Portage Rd
 Niagara Falls ON L2E 6A8

Welland Branch
 610 Niagara St N
 Welland ON L3C 1L8

Richmond Hill Branch
 9050 Yonge St
 Richmond Hill ON L4C 9S6

Whitby Branch
 4061 Thicksn Rd N
 Whitby ON L1R 2X3