

ANNUAL REPORT

Meridian Credit Union 2006 Financial Statements



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 auditors' 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



David Adams
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, 2006 and the consolidated statements of earnings, retained earnings 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Hamilton, Ontario
February 8, 2007

Consolidated Balance Sheet

December 31, 2006, with comparative figures for 2005

(thousands of dollars)	2006	2005
ASSETS		
Cash resources	\$ 92,592	\$ 70,308
Investments (note 3)	248,571	229,002
Loans to members (note 4)	3,444,268	3,125,815
Premises and equipment (notes 6, 8)	31,865	29,831
Other assets (note 7)	31,617	36,997
Total assets	\$ 3,848,913	\$ 3,491,953
LIABILITIES		
Members' deposits (note 9)	\$ 3,241,600	\$ 3,013,171
Loan payable (note 10)	309,000	200,000
Other liabilities	51,200	44,162
Member entitlements: (note 12)		
Membership shares	5,082	4,441
Investment shares	68,098	65,009
Total liabilities	\$ 3,674,980	\$ 3,326,783
Members' capital accounts (note 12)	\$ 44,038	\$ 41,240
Contributed surplus (note 2)	\$ 45,920	\$ 45,920
Retained earnings	\$ 83,975	\$ 78,010
Total members' equity	\$ 173,933	\$ 165,170
Total liabilities and members' equity	\$ 3,848,913	\$ 3,491,953

Commitments (notes 10, 17)

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

Consolidated Statement of Earnings

For the year ended December 31, 2006, with comparative figures for 2005

(thousands of dollars)	2006	2005
INTEREST INCOME		
Members' loans	\$ 197,189	\$ 143,776
Cash resources and investments	9,462	8,969
Total interest income (note 22)	\$ 206,651	\$ 152,745
INTEREST EXPENSE		
Members' deposits	\$ 90,685	\$ 66,559
Borrowings	10,056	4,083
Dividends on member entitlements (note 12)	4,094	2,951
Total interest expense (note 22)	\$ 104,835	\$ 73,593
Net interest income	\$ 101,816	\$ 79,152
Provision for credit losses (note 4)	5,219	4,861
Net interest income after provision for credit losses	\$ 96,597	\$ 74,291
NON-INTEREST INCOME (note 23)	\$ 32,362	\$ 28,953
NON-INTEREST EXPENSES		
Salaries and employee benefits	\$ 69,600	\$ 51,643
Administration	39,929	31,779
Occupancy	8,952	7,252
Total operating expenses	\$ 118,481	\$ 90,674
Net earnings before income taxes	\$ 10,478	\$ 12,570
Provision for incomes taxes (note 20)	2,024	2,470
Net earnings for the year	\$ 8,454	\$ 10,100

See accompanying notes to the consolidated financial statements

Consolidated Statement of Contributed Surplus and Retained Earnings

For the year ended December 31, 2006, with comparative figures for 2005

(thousands of dollars)	2006	2005
CONTRIBUTED SURPLUS		
Balance, beginning of year	\$ 45,920	\$ 1,044
Fair value of net assets acquired (note 2)	-	44,876
Balance, end of year	\$ 45,920	\$ 45,920
RETAINED EARNINGS		
Balance, beginning of year	\$ 78,010	\$ 70,237
Net earnings for the year	8,454	10,100
Dividends on members' capital accounts (note 12)	(3,058)	(2,847)
Income tax savings on dividends	569	520
Retained earnings, end of year	\$ 83,975	\$ 78,010

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows

December 31, 2006, with comparative figures for 2005

(thousands of dollars)	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for the year	\$ 8,454	\$ 10,100
Items not affecting cash resources:		
Provision for credit losses	5,219	4,861
Depreciation of premises and equipment	5,768	4,583
Amortization of intangibles and fair value adjustments	2,592	1,218
Share dividends on member entitlements	3,707	3,543
Changes in non-cash operating working capital		
Net change in other assets	172	(2,346)
Net change in other liabilities	7,038	(5,003)
Cash flows from operating activities	\$ 32,950	\$ 16,956
CASH FLOWS USED IN INVESTING ACTIVITIES		
Net increase in loans	\$ (641,774)	\$ (423,268)
Cash resources acquired in business combination	-	9,348
Net increase in investments	(19,569)	(4,315)
Net purchase of capital assets	(7,803)	(6,104)
Cash flows used in investing activities	\$ (669,146)	\$ (424,339)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits by members	\$ 233,261	\$ 190,220
Mortgage securitizations (note 5)	315,344	152,231
Net increase in loan payable	109,000	87,000
Dividends paid on members' capital accounts	(260)	(243)
Income tax savings on dividends	569	520
Net change in member entitlement shares	566	(3,923)
Net change in member capital accounts	-	(36)
Cash flows from financing activities	\$ 658,480	\$ 425,769
Net increase in cash resources	22,284	18,386
Cash resources, beginning of year	70,308	51,922
Cash resources, end of year	\$ 92,592	\$ 70,308

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

Meridian Credit Union Limited is incorporated under the Credit Unions and Caisse Populaires Act, (the "Act") and is a member of the Deposit Insurance Corporation of Ontario and of Credit Union Central of Ontario. The Credit Union has 43 branches and 8 commercial business centers 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.

(c) Cash resources

Cash resources include cash on hand, current accounts and short term deposits with other financial institutions with original maturities of 100 days or less.

(d) Investments

Investments in treasury bills and discount notes are stated at cost plus accrued interest. Bonds are stated at amortized cost plus accrued interest. Shares are stated at cost. Discounts or premiums on the purchase of investments are deferred and amortized over the remaining term. If the value of an investment held in the investment account has an impairment that is other than temporary, the carrying value is appropriately reduced to the lower of cost or market. Dividend and interest income on all securities is included in "Interest Income" in the statement of earnings. Gains and losses on the sale of investments are reflected in non-interest income on disposition.

(e) Loans to members

Loans are recorded at the unpaid principal plus accrued interest, less an allowance established to provide against probable losses on ultimate realization of the loan portfolio. 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,

1. Significant Accounting Policies (continued):

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.

Allowance for loan losses

The allowance for impaired loans 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 economic conditions. The allowance for impaired loans is deducted from the related asset category.

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.

(f) Mortgage securitizations

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 Credit Union Central of Ontario (CUCO). 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.

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 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.

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.

(g) 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:

1. Significant Accounting Policies (continued):

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

(h) 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.

(i) 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.

(j) 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.

The derivative contracts entered into by the Credit Union are accounted for using hedge accounting, whereby the net income or loss on the derivative contract is recognized in income over the term of the contract, following the accrual basis of accounting. These amounts are recorded within investment revenue on the statement of earnings.

A derivative qualifies for hedge accounting if the hedging relationship is designated and formally documented at inception, outlining the particular risk management objective and strategy for the hedging relationship, the specific asset, liability or cash flow being hedged, as well as how effectiveness is assessed. Hedging relationships, between the hedged and hedging items, are designated as either a fair value hedge or a cash flow hedge. The process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. Effectiveness is assessed by determining whether derivatives used in hedging relationships are highly effective in offsetting changes in fair values or cash flows attributable to the risk being hedged both at inception and over the term of the hedging relationships. Derivatives that do not qualify for hedge accounting are reported as assets or liabilities at their fair value, with changes in fair value recorded in non-interest income.

1. Significant Accounting Policies (continued):

Interest rate swaps, floors, and caps are used by the Credit Union to manage the interest rate exposure from specific assets, liabilities, and firm commitments or anticipated transactions. Instruments that qualify for hedge accounting are recorded on the accrual basis. Interest income and interest expense is recognized, over the term of the hedging relationship, as an adjustment to the yield of the item being hedged. Realized and unrealized gains and losses associated with derivatives which have been terminated or cease to be effective prior to maturity, are deferred and recognized in income in the period in which the underlying hedged item is recognized. In the event that a hedged item is sold or matures prior to the termination of the related derivative, any realized or unrealized gain or loss on the derivative is recognized in other income. Subsequent changes in fair values of derivatives found to be ineffective are recorded in non-interest income.

The Credit Union hedges the underlying risk of deposit products linked to changes in the stock exchange index by entering into a financial contract whereby the counterparties are obligated to fund all future payments to members in return for the payment of a fixed amount by the credit union. Interest expense is recognized over the term of the hedging relationship as an adjustment to the yield of the deposit product(s).

(k) 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.

(l) 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 consequences 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.

(m) Employee benefit plans

The Credit Union sponsors a variety of retirement, medical and dental benefit plans. 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 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

1. Significant Accounting Policies (continued):

remaining service period for active employees covered by the registered pension plan and supplementary plan is 22 years and 16 years respectively. The average remaining service period of the active employees covered by the other two retirement benefit plans is 19 years and 15 years.

2. Business Combination

On April 1, 2005 Niagara Credit Union completed an amalgamation with HEPCOE Credit Union and continued under the name "Meridian Credit Union Limited". There was no cash consideration exchanged in this transaction. The transaction was accounted for in accordance with the prescribed requirements for business combinations. Under these requirements, Niagara Credit Union was identified as the purchaser for accounting purposes and as such, the purchase method of accounting was used. The statement of earnings includes the operations of the former HEPCOE Credit Union since the date of amalgamation. As of the date of the amalgamation, the new entity became Meridian Credit Union Limited.

Also included in contributed surplus is \$1,044,000 relating to an amalgamation between Niagara Credit Union and Guelph and Wellington Credit Union, which took effect May 1, 2004. This amalgamation was accounted for in the same manner as outlined above.

Under the purchase method of accounting, the net assets of the acquired enterprise are recorded at fair value. The fair value of the assets and liabilities acquired were determined with reference to current market interest rates for similar financial instruments, and valuation techniques that follow generally accepted accounting principles for intangibles such as core deposits and wealth management assets. The fair value of net assets acquired is recorded as Contributed Surplus in the Balance Sheet. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed:

	Fair Value
(thousands of dollars)	2005
Cash resources and investments	132,427
Loans to members	1,223,991
Premises and equipment	6,782
Other assets	10,419
Core deposit intangibles	16,072
Wealth management intangibles	2,438
Total assets	1,392,129
Members' deposits	1,205,838
Membership financial instruments	63,350
Other liabilities	78,065
Members' capital accounts	-
Total liabilities	1,347,253
Fair value of net assets acquired	44,876

3. Investments

(thousands of dollars)	2006		2005	
	Carrying Value	Market Value	Carrying Value	Market Value
Credit Union Central of Ontario	222,239	221,340	203,451	201,943
Liquidity reserve deposit				
Treasury bills and discount notes	-	-	2,880	2,871
Shares in Credit Union Central of Ontario	20,952	20,952	18,929	18,929
Other shares	5,380	5,380	3,742	3,742
Total investments	248,571	247,672	229,002	227,485

Credit Union Central of Ontario liquidity reserve deposit

The Credit Union is a member of Credit Union Central of Ontario ("Central"). As a condition of maintaining membership in Central in good standing, the Credit Union is required to maintain on deposit an amount equal to 7% of its members' deposits and capital accounts as at the preceding calendar year-end, updated in February of each year. The deposits bear interest at varying rates, dependent upon the term of the investment.

3. Investments (continued):

Overall liquidity requirements are dictated by the Deposit Insurance Corporation of Ontario, which requires that all Credit Unions maintain an overall liquidity position of no less than 8%. Liquidity is determined as the ratio of cash resources and investments, to the sum of members' deposits. As at December 31, 2006, the Credit Union's liquidity ratio was 8.77% (2005 - 8.52%).

Credit Union Central of Ontario shares

As a condition of maintaining membership in Central, the Credit Union is required to maintain an investment in shares of Central equal to 0.60% of its assets as of the preceding calendar year end, updated in February of each year. No market exists for these shares, however they may be surrendered upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Central by-law providing for the redemption of its share capital.

4. Loans to Members

(thousands of dollars)	2006	2005
Loans to members include:		
Residential mortgages	1,328,496	1,315,994
Personal loans	733,804	697,413
Commercial loans	1,278,389	985,849
Institutional loans	698	1,845
Agricultural loans	94,291	90,657
Unincorporated association loans	635	724
Syndicated loans	19,140	41,245
Accrued interest	6,612	5,319
	3,462,065	3,139,046
Allowance for doubtful loans	(17,797)	(13,231)
Balance, December 31	3,444,268	3,125,815

Residential mortgage loans are repayable in monthly blended principal and interest installments over a maximum term of ten years based on a maximum amortization period of 25 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.

Allowance for impaired loans:

(thousands of dollars)	Residential Mortgages	Personal Loans	Commercial Loans	General Allowance	2006	2005
Balance, beginning of year	8	333	936	11,954	13,231	8,887
Loans written off	-	(414)	(434)	-	(848)	(706)
Recoveries on loans previously written off	4	156	35	-	195	189
Provision for (recovery of) credit losses	(1)	509	(22)	4,733	5,219	4,861
Balance, December 31	11	584	515	16,687	17,797	13,231

As stated in Note 2, 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 writedown for potential impairment.

As at December 31, 2006, the total amount of loans identified as impaired was \$17,560,090 (2005 - \$18,748,901) and the related security was \$16,449,257 (2005 - \$17,471,479). The net amount, net of related security was \$1,110,833 (2005 - \$1,277,422).

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 the Deposit Insurance Corporation of Ontario governing such allowances.

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. 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, 2006 was \$452,746,139 (2005 - \$225,461,317).

The total amount of retained interests, including both retained rights to cash reserves and retained rights to future excess spread as at December 31, 2006 was \$6,876,140 (2005 - \$5,911,219).

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.

	2006	2005
Weighted average life (in years)	3.9	3.8
Prepayment rate (average annual %)	16%	17%
Expected credit losses (% of portfolio)	.05%	.05%
Excess spread	.35%	1.33%
Residual cash flows discounted at	5.04%	4.95%

The following table summarizes the Credit Union's securitization activity for the year ending December 31, 2006:

(thousands of dollars)	2006	2005
Principal value of mortgages sold	315,344	152,231
Net cash proceeds received	313,338	151,470
Retained rights to cash reserves	2,006	761
Retained rights to future excess spread	2,432	4,345
Pre-tax gain on sale	762	3,498

Sensitivity of key assumptions to adverse changes

The carrying value of the retained interests for the securitization activity for the year ending December 31, 2006 is \$2,431,776 (2005 - \$4,345,283). The fair value of the retained interest is primarily impacted by the prepayment rate assumption used in measuring the retained interest. An increase in the prepayment rate would cause a reduction in the fair value of the retained interest, while a decrease would in turn lead to an increase in the fair value of the retained interest. The Credit Union derives the prepayment rate assumption based upon actual historical experience, adjusted for any changes in the interest rate environment.

6. Premises and Equipment

(thousands of dollars)	Cost	Accumulated Depreciation	2006	2005
Land	3,187	-	3,187	3,190
Buildings and improvements	17,542	5,987	11,555	12,024
Furniture and office equipment	13,731	9,888	3,843	3,868
Computer hardware and software	28,768	21,662	7,106	5,554
Leasehold improvements	11,873	5,699	6,174	5,195
Balance, December 31	75,101	43,236	31,865	29,831

The amount of depreciation charged to income for the year was \$5,768,410 (2005 - \$4,582,971). Included in premises and equipment for the year are capital assets in the amount of \$548,124 (2005 - \$2,018,104) which have not been depreciated as they have not been placed in service at year end.

7. Other Assets

(thousands of dollars)	2006	2005
Unamortized fair value of core deposits	10,957	15,063
Unamortized securitized mortgage receivable (Note 5)	6,876	5,911
Prepaid and other assets	4,185	4,341
Unamortized premium on derivative contracts (Note 14)	3,244	5,206
Future income taxes (Note 20)	2,280	913
Unamortized fair value of acquired wealth management assets	2,204	2,546
Unamortized mortgage acquisition costs	1,017	1,124
Unamortized fair value of derivatives	633	1,392
Unamortized merger costs	221	501
Balance, December 31	31,617	36,997

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)	2006	2005
Revenue	752	748
Expenses	403	405
Earnings from joint venture	349	343

Joint venture expenses include depreciation in the amount of \$72,592 (2005 - \$72,322). Rent, common area maintenance, property taxes and utilities paid to the joint venture amounted to \$1,197,158 for 2006 (2005 - \$1,203,298).

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)	2006	2005
Real estate held for investment purposes	3,270	3,250
Accumulated depreciation	(1,086)	(1,015)
Balance, December 31	2,184	2,235

9. Members' Deposits

(thousands of dollars)	2006	2005
Demand deposits	1,317,776	1,229,454
Term deposits	978,152	853,450
Registered retirement savings plans	623,622	621,317
Registered retirement income funds	283,467	274,271
Accrued interest on members' deposits	38,583	34,679
Balance, December 31	3,241,600	3,013,171

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.

The Credit Union has established credit and contingency loan facilities for \$417,000,000 at Central and \$10,000,000 at a Canadian Chartered Bank. At December 31, 2006, the Central credit facility had a balance of \$309,000,000 (2005 - \$200,000,000) bearing interest at an average annual rate of 4.41% and the bank credit facility had letters of credit outstanding in the amount of \$1,446,620 (2005 - \$1,689,640).

Assets have been pledged as security for \$417,000,000 (2005 - \$470,000,000) in authorized credit facilities at Credit Union Central of Ontario by an assignment of book debts and a general security agreement. As security for the credit facility at a Canadian Chartered Bank, a US Dollar Bankers' Acceptance for \$2,987,586 (2005 - \$2,411,950) is being held.

The Credit Union has established an overdraft line of \$240,000 (2005 - Nil) with Caisse Centrales Desjardins pursuant to the terms of a settlement agreement. At December 31, 2006, the overdraft line had no balance outstanding.

11. Employee Benefits

The Credit Union sponsors a number of employee benefit plans for its employees, including the following: a contributory defined benefit registered pension plan, a contributory defined contribution pension plan, a group RRSP savings plan, a non-contributory supplementary defined benefit plan, and non-contributory medical and dental benefits plan.

The following tables present the estimated changes in the financial position of the defined benefit pension and medical and dental benefit plans.

(thousands of dollars)	Pension Plans	Unfunded Benefit Plans
Accrued Benefit Obligation		
Balance, beginning of year	26,163	2,731
Current service cost	2,072	236
Interest cost	1,294	136
Employee contributions	425	-
Benefits paid	(1,160)	(27)
Actuarial loss (gain)	6	(1)
Balance, December 31	28,800	3,075

(thousands of dollars)	Pension Plans	Unfunded Benefit Plans
Plan Assets		
Fair value, beginning of year	20,250	-
Actual return on plan assets	1,804	-
Employer contributions	1,762	27
Employee contributions	425	-
Benefits paid	(1,160)	(27)
Fair value, December 31	23,081	-

(thousands of dollars)	Pension Plans	Unfunded Benefit Plans
Funded status		
Plan deficit	5,719	3,075
Unamortized net losses	(2,968)	(311)
Contribution received after measurement date	(175)	-
Accrued benefit liability, December 31	2,576	2,764

The accrued benefit liability for the defined benefit pension plans and the unfunded benefit plans are included in other liabilities. Also included in other liabilities is \$1,227,048 (2005 - \$1,145,200) with respect to obligations under the non-contributory medical and dental benefits plan.

11. Employee Benefits (continued):

The significant actuarial assumptions adopted in measuring the Credit Union's accrued benefit obligations are as follows (weighted average assumptions as of December 31, 2006):

	Pension Plans	Unfunded Benefit Plans
Discount rate	5.00%	5.00%
Expected long-term rate of return on plan assets	7.25%	-
Rate of compensation increase	3.25%	-

For measurement purposes, a 9.5% annual rate of increase in the per capita cost of covered medical benefits was assumed for 2006, decreasing by .5% per year until the rate of increase reaches 5%. A 4.5% annual increase in the per capita cost of covered dental benefits was assumed for 2006.

The Credit Union's net benefit plan expense for the defined benefit pension and medical and dental benefit plans is as follows:

(thousands of dollars)	Pension Plans	Unfunded Benefit Plans
Current service cost	2,072	236
Interest cost	1,294	136
Expected return on plan assets	(1,505)	-
Amortization of actuarial loss (gain)	85	(1)
Net benefit plan expense, December 31	1,946	371

In addition to the defined benefit plans, the salaries and employee benefits expense on the statement of earnings also includes group RRSP savings plan expense of \$1,060,459 (2005 - \$890,977).

The impact of a 1% increase in medical and dental cost trends would increase the accrued benefit obligation by \$463,000 and increase the 2006 cost by \$63,000. A 1% decrease in medical and dental cost trends would decrease the accrued benefit obligation by \$374,000 and decrease the 2006 cost by \$51,000.

An external investment advisor manages investments held by the pension plan. The major asset categories at December 31, 2006 are as follows: Canadian bonds and deposits - 25.54%, Canadian mortgages - 9.36%, Canadian equities - 44.85%, and US and other international equities - 20.25%. The pension plans do not hold any securities issued by the Credit Union.

The most recent actuarial valuation of the pension and unfunded benefit plans was as of December 31, 2004. The next actuarial valuation is expected to be completed as of December 31, 2007. The most recent valuation of the non-contributory medical and dental benefits plan was as of January 1, 2004.

12. Share Capital

(thousands of dollars)	2006	2005
Shares with member entitlements		
29,145,224 Class A series 96 (2005 - 27,656,290)	29,585	28,261
38,393,059 Class A series 01 (2005 - 36,239,728)	38,513	36,748
1,016,357 Membership (2005 - 888,349)	5,082	4,441
Balance, December 31	73,180	69,450

(thousands of dollars)	2006	2005
Members' capital accounts		
41,687,194 Class A "50th Anniversary" (2005 - 38,970,248)	41,687	38,970
2,350,373 Class A series 98 (2005 - 2,269,808)	2,351	2,270
Balance, December 31	44,038	41,240

12. Share Capital (continued):

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 shares

Series 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 13. Dividends for the Series 96 Class A shares are cumulative and payable annually on the anniversary date.

Dividends declared and paid to shareholders of Series 96 Class A shares in 2006 amounted to \$1,658,581 (2005 - \$1,569,538), of which \$1,562,441 (2005 - \$1,511,464) 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, with the corresponding dividend expense 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 13.

Dividends declared and paid to shareholders of Series 98 Class A shares in 2006 amounted to \$136,074 (2005 - \$112,609) of which \$134,362 (2005 - \$108,454) 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

12. Share Capital (continued):

described in Note 13. 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 2006 amounted to \$2,442,176 (2005 - \$2,310,383) of which \$2,144,950 (2005 - \$2,031,993) 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, with the corresponding dividend expense 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 13. 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 2006 amounted to \$2,921,623 (2005 - \$2,734,479) of which \$2,663,149 (2005 - \$2,495,237) 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.

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 209,077 members at December 31, 2006 (2005 - 186,542).

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.

d) Dividends on member entitlements

(thousands of dollars)	2006	2005
Class A series 96 investment shares	1,672	1,202
Class A series 01 investment shares	2,422	1,749
Total dividends on member entitlements, December 31	4,094	2,951

e) Dividends on members' capital accounts

(thousands of dollars)	2006	2005
Class A 50th Anniversary investment shares	2,922	2,734
Class A series 98 investment shares	136	113
Dividends charged to retained earnings, December 31	3,058	2,847

12. Share Capital (continued):

f) Dividends declared

Effective January 1, 2007, the Credit Union declared dividends for the year ended December 31, 2006. Accordingly, these dividends have not been reflected in these financial statements. Dividends of \$3,058,000 relating to the 2005 fiscal year declared on January 1, 2006 were charged to retained earnings in 2006.

(thousands of dollars)	2006	2005
Class A series 98 investment shares	139	136
Class A 50th Anniversary investment shares	2,502	2,922
Balance, December 31	2,641	3,058

13. Capital Adequacy

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. The prescribed risk weights are dependent upon the degree of risk inherent in the asset. Capital that is eligible to be included in this calculation is comprised of member entitlements, members' capital accounts, contributed surplus, and retained earnings. Of the Series 96 Class A shares that have been included within member entitlements, only 90% are allowable as regulatory capital due to specific features of these shares. Total regulatory capital as at December 31, 2006 is \$241,359,117 (2005 - \$230,354,972). 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	Minimum	Actual
2006	241,359,117	5.0%	6.29%	8.0%	10.12%	
2005	230,354,972	5.0%	6.63%	8.0%	11.00%	

14. Derivative Financial Instruments

The table that follows 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	
Forward receive fixed interest swaps	-	150,000	150,000	(264)
Receive fixed interest swaps	300,000	-	300,000	(402)
Index-linked call options	21,386	50,078	71,464	37,768
Total derivative contracts	321,386	200,078	521,464	37,102

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 affect 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, 2006, the Credit Union had 8 interest rate swaps outstanding with a total notional value of \$300,000,000 and maturing between September 2007 and December 2007, inclusive. Under the terms of these agreements, the

14. Derivative Financial Instruments (continued):

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. Depending upon the individual swap contract, this rate is repriced either monthly or quarterly. The Credit Union is currently receiving fixed rates on these swaps ranging from 4.05% to 4.25% and is paying variable rates as at December 31, 2006 ranging from 4.33% to 4.35%.

As at December 31, 2006, the Credit Union had 3 forward interest rate swaps with a total notional value of \$150,000,000 and maturing between January 2008 and March 2008, inclusive. Under the terms of these agreements, 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. Depending upon the individual swap contract, this rate is re-priced either monthly or quarterly. The Credit Union will receive fixed rates on these swaps ranging from 4.01% to 4.17%.

Interest rate swaps have a fair value that varies based on the particular contract and changes in interest rates. At December 31, 2006 the fair value of these agreements was (\$666,040) (2005 - (\$33,375)). No interest rate swaps were terminated during the year. Income on interest rate swap transactions is included in interest income and amounted to (\$281,369) (2005 - \$1,723,152). At December 31, 2006, all of these agreements qualified as effective hedge transactions.

Equity-linked deposits

The Credit Union has \$70,858,058 (2005 - \$81,725,804) 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 on the face value of these term deposit products. 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. The fair value of these contracts amounted to \$37,768,418 at December 31, 2006 (2005 - \$30,141,973). At December 31, 2006, all of these agreements qualified as effective hedge transactions.

At December 31, 2006, the Credit Union had unamortized premiums of \$3,243,887 (2005 - \$5,205,627) relating to payments made under its agreements. These amounts are being amortized on a straight line basis over the term of the contracts to which they relate, which are five years.

No agreements were terminated during the year.

Hedge effectiveness testing

The Credit Union formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Balance Sheet or to specific firm commitments or forecasted transactions. The Credit Union also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. All hedges have been tested and are deemed effective.

15. Financial Instruments

The following table represents the fair values of the Credit Union's on and off-balance sheet fixed rate financial instruments. The fair values disclosed do not include the value of assets that are not considered financial instruments, such as premises and equipment, other assets, and other liabilities.

15. Financial Instruments (continued):

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)	2006			2005		
	Book Value	Fair Value	Fair Value Difference	Book Value	Fair Value	Fair Value Difference
Cash resources	92,592	92,556	(36)	70,308	70,231	(77)
Investments	248,571	247,672	(899)	229,002	227,485	(1,517)
Loans to members	3,444,268	3,430,625	(13,643)	3,125,815	3,137,502	11,687
Total assets	3,785,431	3,770,853	(14,578)	3,425,125	3,435,218	10,093
Members' deposits	3,241,600	3,249,186	7,586	3,013,171	3,022,518	9,347
Borrowings	309,000	309,468	468	200,000	200,260	260
Members' entitlements	73,180	73,180	-	69,450	70,289	839
Total liabilities	3,623,780	3,631,834	8,054	3,282,621	3,293,067	10,446

Interest rate sensitivity is the main cause of changes in the fair values of the Credit Union's financial instruments. The book values are not adjusted to reflect the fair value, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

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

- The fair value of cash resources are assumed to approximate their carrying values, due to their short-term nature.
- The fair value of investments is assumed to be equal to the estimated market value of securities provided in note 3.
- 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 reprice to market on a periodic basis.
- 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.

16. Interest Rate Sensitivity Position

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. 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.

16. Interest Rate Sensitivity Position (continued):

(thousands of dollars)	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non Interest Sensitive	Total
Assets						
Cash resources	36,348	56,244	-	-	-	92,592
Yield	-	5.05%	-	-	-	-
Investments and other	-	82,140	141,026	-	25,405	248,571
Yield	-	3.16%	3.86%	-	-	-
Loans to members	1,564,952	543,689	1,303,567	27,127	4,933	3,444,268
Yield	6.92%	5.73%	5.57%	5.44%	-	-
Total assets	1,601,300	682,073	1,444,593	27,127	30,338	3,785,431
Liabilities						
Members' deposits	1,034,447	913,647	887,191	55	406,260	3,241,600
Yield	2.49%	3.88%	3.75%	3.13%	-	-
Other	-	309,000	-	-	-	309,000
Yield	-	4.66%	-	-	-	-
Members' entitlements	-	-	68,098	-	5,082	73,180
Yield	-	-	5.84%	-	-	-
Total liabilities	1,034,447	1,222,647	955,289	55	411,342	3,623,780
Derivatives	(450,000)	300,000	150,000	-	-	-
Interest sensitivity position 2006	(116,853)	(240,574)	639,304	27,072	(381,004)	-
Interest sensitivity position 2005	303,189	(12,801)	199,543	11,639	(359,066)	-

17. 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.

17. Commitments (continued):

(thousands of dollars)	2006	2005
Documentary and commercial letters of credit	57,343	48,700
Commitments to extend credit:		
Mortgages	31,869	47,426
Loans	5,071	2,665
Commercial	58,540	60,613
Balance, December 31	152,823	159,404

In addition, the Credit Union had advanced \$879,208,206 (2005 - \$799,029,236) against approved lines of credit of \$1,857,396,063 (2005 - \$1,619,310,431) leaving a potential to advance additional loans of \$978,187,857 (2005 - \$820,281,195).

Lease commitments

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

(thousands of dollars)	
2007	2,680
2008	2,410
2009	2,219
2010	1,789
2011	850
thereafter to 2020	3,169
	13,117

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.

18. 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 Central's Mortgage Pool Purchase and Securitization Program, indemnified Central for all costs and expenses incurred by Central 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.

19. 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, 2006, the aggregate value of loans issued to restricted parties was \$50,770,341 (2005 - \$41,884,796). These loans have been advanced on the same terms and conditions as have been accorded to all members of the Credit Union. There was no allowance for doubtful loans required in respect of these loans.

Directors received \$337,518 (2005 - \$327,675) for annual retainer and per-diem fees and \$53,539 (2005 - \$58,303) for reimbursement of travel and out of pocket expenses.

20. 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)	2006	2005
Current income tax expense	3,104	2,124
Future income tax expense	(1,080)	346
Balance, December 31	2,024	2,470

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)	2006		2005	
	Tax Provision	% of Pre-Tax Income	Tax Provision	% of Pre-Tax Income
Combined federal and provincial income taxes	3,783	36.1%	4,539	36.1%
Credit Union rate reduction	(1,834)	(17.5)%	(2,200)	(17.5)%
Part I.3 tax on financial institutions	-	-	59	0.5%
Recovery of Ontario corporate minimum tax	(236)	(2.3)%	-	-
Non-deductible expenses	90	0.9%	55	0.4%
Non-taxable income	(132)	(1.3)%	(13)	(0.1)%
Temporary differences subject to future tax rates	329	3.1%	-	-
Other items	24	0.3%	30	0.2%
Provision for income taxes	2,024	19.3%	2,470	19.6%

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)	2006	2005
Future income tax assets		
Allowance for impairment of loans	2,266	1,227
Accrued employee future benefits	1,268	1,540
Capital assets	3	30
Other accrued expenses	385	586
	3,922	3,383
Future income tax liabilities		
Fair value adjustments	1,009	1,277
Deferred expenses	492	569
Mortgage securitization	141	624
Net future income taxes (Note 7)	2,280	913

21. Additional Information

Deposit insurance

The annual premium paid to the Deposit Insurance Corporation of Ontario for insuring members deposits during the year ended December 31, 2006 was \$2,376,051 (2005 - \$1,950,391). 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.

Credit Union Central fees

The total fees paid to the Credit Union Central of Ontario amounted to \$2,437,092 (2005 - \$1,824,506). 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 \$1,098,727 (2005 - \$2,531,689).

21. Additional Information (continued):

The change in cash flows from investing activities includes interest received in the amount of \$203,932,437 (2005 - \$151,225,266).

The change in cash flows from financing activities includes interest paid in the amount of \$100,609,756 (2005 - \$74,795,985).

22. Net Interest Income

The components of net interest income are as follows:

(thousands of dollars)	2006	2005
Interest income		
Residential mortgages	58,358	50,363
Personal loans	46,458	31,389
Commercial loans	92,373	62,024
Interest income from loans to members	197,189	143,776
Investment income	9,462	8,969
Total interest income	206,651	152,745
Interest expense		
Demand deposits	28,612	16,563
Term deposits	33,033	26,483
Registered retirement savings plans	21,482	16,450
Registered retirement income plans	7,558	7,063
Interest on members' deposits	90,685	66,559
Interest on borrowings	10,056	4,083
Dividends on member entitlements	4,094	2,951
Total interest expense	104,835	73,593

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

23. Non-Interest Income

(thousands of dollars)	2006	2005
Service charges	10,100	8,969
Insurance commissions	7,002	4,410
Loan and commitment fees	4,330	3,478
Mutual fund revenue	2,741	1,961
Foreign exchange	2,590	2,195
Interac revenue	2,364	2,430
Securitization income	1,980	4,541
Other	747	406
Credit card revenue	508	563
Total	32,362	28,953

Board and Management

Board of Directors

Kevin Sherwood - Chair
Don Ariss
Mark Basciano
Bruno Bellissimo
Judy Brisson
Alan Caslin
Bill Falk
Henry Koop

Erv Krause - Vice Chair
John D. Kwekkeboom
Donna Lailey
Brian McAteer
Bob Pesant
Kevin Thompson
Karl Wettstein
Helen Young

Audit Committee

Don Ariss - Chair
Bruno Bellissimo
John Kwekkeboom
Bob Pesant
Kevin Thompson
Helen Young

Governance Committee (* Denotes Nominating Committee)

Kevin Sherwood - Chair*
Don Ariss*
Bill Falk*
Erv Krause*
Brian McAteer
Bob Pesant*

Credit and Investment Committee

Bill Falk - Chair
Mark Basciano
Henry Koop
Erv Krause
Kevin Thompson
Karl Wettstein

Owners' Engagement Committee

Brian McAteer - Chair
Judy Brisson
Alan Caslin
Bob Hague
Sean Jackson
Donna Lailey
Karl Wettstein
Tom Wise

Executive Leadership Team and Officers

Sean Jackson, President & CEO
David Adams, Treasurer and Chief Financial Officer
Laima Cers, Chief Marketing Officer
Stephen Gesner, Chief Information Officer
Bob Hague, Chief Member Services Officer
Tom Wise, Chief People Officer
Sheryl Wherry, Corporate Secretary

Meridian Branches

Aurora Branch
297 Wellington Street East
Aurora, Ontario L4G 6K9

Barrie Branch
18 Collier Street
Barrie, Ontario L4M 1G6

Beamsville Branch
4520 Ontario Street
Beamsville, Ontario L0R 1B5

Clarkson Branch
970 Southdown Road
Mississauga, Ontario L5J 2Y4

Collingwood Branch
171 Ste. Marie Street
Collingwood, Ontario L9Y 3K3

Darlington Branch
320 Holt Road South RR#2
Bowmanville, Ontario L1C 3K3

Darlington Satellite Office
Holt Road South RR#2
Bowmanville, Ontario L1C 3Z8

Drummond & Dunn Branch
Southway Plaza, 6175 Dunn Street
Niagara Falls, Ontario L2G 2P4

Ellesmere Branch
1501 Ellesmere Road
Scarborough, Ontario M1P 4T6

Fergus Branch
120 McQueen Blvd
Fergus, Ontario N1M 3T8

Fonthill Branch
1401 Pelham Street
Fonthill, Ontario L0S 1E0

Fort Erie Branch
450 Garrison Road, Unit 14
Fort Erie, Ontario L2A 1N2

Grantham Branch
400 Scott Street
St. Catharines, Ontario L2M 3W4

Grimsby Branch
155 Main Street East
Grimsby, Ontario L3M 1P2

Hanover Branch
255 10th Street
Hanover, Ontario N4N 1P1

Hydro Place Branch
700 University Avenue, Shopping Concourse
Toronto, Ontario M5G 1Z5

Kincardine Branch
818 Durham Street
Kincardine, Ontario N2Z 3B9

Kipling Branch
800 Kipling Avenue
Toronto, Ontario M8Z 5S4

Lake Street Branch
531 Lake Street
St. Catharines, Ontario L2N 4H6

Morningside Branch
797 Milner Avenue
Scarborough, Ontario M1B 3C3

Nanticoke Branch
34 Haldimand Road 55
Nanticoke, Ontario N0A 1L0

Niagara-on-the-Lake Branch
1567 Niagara Stone Road
Virgil, Ontario L0S 1T0

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

Orillia Branch
73 Mississaga Street East
Orillia, Ontario L3V 1V4

Owen Sound Branch
1594 16th Avenue East
Owen Sound, Ontario N4K 5N3

Pendale Branch
210 Glendale Avenue
St. Catharines, Ontario L2T 3Y6

Penetanguishene Branch
7 Poyntz Street
Penetanguishene, Ontario L9M 1M3

Pickering Branch
1550 Kingston Road Unit 25
Pickering, Ontario L1V 1C3

Pickering Satellite Office
1675 Montgomery Park Road
Pickering, Ontario L1V 2R5

Port Colborne Branch
43 Clarence Street West
Port Colborne, Ontario L3K 3G1

Port Elgin Branch
626 Goderich Street
Port Elgin, Ontario N0H 2C0

Portage & Morrison Branch
4780 Portage Road
Niagara Falls, Ontario L2E 6A8

Richmond Hill Branch
9050 Yonge Street
Richmond Hill, Ontario L4C 9S6

Ridley Branch
111 Fourth Avenue
St. Catharines, Ontario L2S 3P5

Speedvale Branch
200 Speedvale Avenue West
Guelph, Ontario N1H 1C3

Stevensville Branch
2763 Stevensville Road
Stevensville, Ontario L0S 1S0

Stone Square Branch
370 Stone Road West
Guelph, Ontario N1G 4V9

TeleOntario Branch
777 Bay Street, 25th Floor
Toronto, Ontario M5G 2C8
Toll Free: 1.800.665.8747

Trinity Square Branch
483 Bay Street, Suite 160S
Toronto, Ontario M5G 2E1

Vineland Branch
3370 King Street
Vineland, Ontario L0R 2C0

Wainfleet Branch
18M80, Highway #3
Wainfleet, Ontario L0S 1V0

Wasaga Beach Branch
707 River Road West
Wasaga Beach, Ontario L9Z 1N7

Welland Branch
610 Niagara Street North
Welland, Ontario L3C 1L8

Whitby Branch
4061 Thickson Road North
Whitby, Ontario L1R 2X3

Commercial Business Centres

Greater Toronto Area Business Centre
1501 Ellesmere Road
Scarborough, Ontario M1P 4T6

Grey Bruce Business Centre
255 10th Street
Hanover, Ontario N4N 1P1

1594 16th Avenue East
Owen Sound, Ontario N4K 5N3

Guelph Business Centre
200 Speedvale Avenue West
Guelph, Ontario N1H 1C3

Niagara-on-the-Lake Business Centre
1567 Niagara Stone Road
Virgil, Ontario L0S 1T0

Niagara Falls Business Centre
4780 Portage Road at Morrison
Niagara Falls, Ontario L2E 6A8

Simcoe Business Centre
135 Bayfield Street, Suite 201
Barrie, Ontario L4M 3B3

St. Catharines Business Centre
75 Corporate Park Drive
St. Catharines, Ontario L2S 3W3

Welland Business Centre
610 Niagara Street North
Welland, Ontario L3C 1L8

