TALKA CREDIT UNION LIMITED

FINANCIAL STATEMENTS

For the year ended December 31, 2021

Millards
Chartered Professional Accountants

TALKA CREDIT UNION LIMITED

For the year ended December 31, 2021

INDEX

Millards
Chartered Professional Accountants

P.O. Box 367, 96 Nelson Street
Brantford, Ontario N3T 5N3
Telephone: (519) 759-3511
Facsimile: (519) 759-7961

INDEPENDENT AUDITORS' REPORT

To the Members of Talka Credit Union Limited

Opinion
We have audited the financial statements of Talka Credit Union Limited (the 'Entity'), which comprise the statement of financial position as at December 31, 2021, and the statements of comprehensive income and changes in members' equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter
The financial statements of the Entity for the year ended December 31, 2020 were audited by another auditor who expressed an unqualified opinion on those financial statements on March 10, 2021.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Millard, Rouse & Rosebrugh LLP

February 17, 2022
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

TALKA CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION

As at December 31	2021	2020
ASSETS		
Cash and cash equivalents	1,007,550	8,482,488
Investments (Note 5)	38,341,358	36,286,405
Loans to members (Note 6)	168,460,705	143,394,403
Other assets	101,707	225,007
Property, plant and equipment (Note 8)	131,423	133,160
Intangible assets (Note 8)	80,365	73,083
Deferred income taxes (Note 16)	118,858	119,654
	208,241,966	188,714,200
LIABILITIES		
Members' deposits (Note 9)	195,566,929	176,917,997
Accounts payable and accrued liabilities	285,388	200,860
Income taxes payable	15,796	4,322
Members' share capital (Note 10)	394,511	408,851
	196,262,624	177,532,030
MEMBERS' EQUITY		
Retained earnings	11,979,342	11,182,170
	208,241,966	188,714,200

Approved on behalf of the Board

DocuSigned by: Marijus Gudinskas
B70FC7180C984A1...
Director

DocuSigned by: Karolina Zanon
D88D1375E26947B...
Director

See accompanying notes

TALKA CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN MEMBERS' EQUITY

For the year ended December 31	2021	2020
Investment Revenue (Note 12)	6,303,453	6,059,579
Interest Expense		
Interest Expense (Note 13)	3,403,535	3,485,654
Distribution to members (Note 10)	351,607	282,224
	3,755,142	3,767,878
Interest Margin	2,548,311	2,291,701
Provision for loan losses (Note 7)	26,587	47,621
Net Financial income after provision for loan losses	2,521,724	2,244,080
Other income (Note 14)	217,991	199,572
Income Before Operating Expenses	2,739,715	2,443,652
Operating Expenses		
Salaries and benefits	885,154	777,737
Depreciation	38,974	43,516
Other administrative expenses (Note 15)	860,444	747,242
	1,784,572	1,568,495
Income Before Income Taxes	955,143	875,157
Income taxes - current (Note 16)	157,175	143,043
- deferred (Note 16)	796	(12,118)
Net Income and Comprehensive Income	797,172	744,232
Retained earnings, beginning of year	11,182,170	10,437,938
Retained earnings, end of year	11,979,342	11,182,170

TALKA CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

For the year ended December 31	2021	2020
Cash Flows From Operating Activities		
Net Income	797,172	744,232
Adjustments for:		
Interest revenue	(6,303,453)	(6,059,579)
Interest expense	3,755,142	3,767,878
Interest received on member loans	5,444,849	4,926,257
Interest received on investments	938,794	929,609
Interest paid on member deposits	(3,905,619)	(3,622,666)
Distribution to members	-	-
Depreciation	38,974	43,516
Provision for loan losses	26,587	47,621
Deferred income taxes	796	(12,118)
Income tax provision	157,175	143,043
Income taxes (paid) recovered	(145,701)	(135,364)
Net change in non-cash working capital balances related to operations	207,828	(57,986)
	1,012,544	714,443
Cash Flows From Financing Activities		
Member deposits and share capital	18,785,069	33,214,328
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(44,573)	(48,970)
Loans and mortgages to members	(25,147,178)	(16,444,158)
Investments	(2,080,855)	(11,844,130)
	(27,272,606)	(28,337,258)
Net Decrease in Cash and Cash Equivalents	(7,474,993)	5,591,513
Opening Cash and Cash Equivalents	8,482,488	2,890,975
Closing Cash and Cash Equivalents	1,007,495	8,482,488

1. NATURE OF OPERATIONS

Reporting Entity

Talka Credit Union Limited (the "credit union") is a financial institution incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of Central 1 Credit Union ("Central 1") and the prescribed level of deposits are insured by the Financial Services Regulatory Authority of Ontario ("FSRA"). The Credit Union provides financial products and services to members throughout Ontario. The Credit Union's registered office and principal place of business is located at 830 Main Street East, Hamilton, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 17, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial assets and derivative financial instruments measured at fair value.

The credit union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the credit union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand and deposits with banks. Cash and bank accounts are classified as measured at fair value through profit or loss.

Debt Instruments

Debt instruments are initially measured at fair value plus transaction costs, and are subsequently measured at amortized cost.

Equity Instruments

Equity instruments are measured at fair value through profit or loss.

Derivatives

Derivative financial instruments are recorded at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair value of derivative instruments are recorded in net income with the exception of derivative instruments that are designated as effective cash flow hedges, which are recorded in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Loans to Members

All loans to members are financial assets with fixed or determinable payments that are not quoted in an active market. Member loans are initially measured at fair value, net of loan origination fees. Loans are subsequently measured at amortized cost using the effective interest rate method, less any impairment. An allowance for doubtful loans is deducted from the total of the loans on the statement of financial position.

Property, Plant and Equipment and Depreciation

Property, plant and equipment assets are stated at cost. Depreciation is provided for in the accounts as follows:

Building	5-8% declining balance
Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance

Intangible Assets

Intangible assets consist of computer software, rights for the use of software, and costs incurred to acquire those rights. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment (losses). Depreciation is provided using the declining basis at an annual rate of 30%.

Accounts Payable

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently are carried at amortized cost using the effective interest rate method.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable income will be available to allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes (Cont'd)

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Member Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

Members' Shares

Members' shares issued by the credit union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Revenue Recognition

Interest on loans and investments is recognized as earned at the end of each month and when ultimate collection is reasonably assured. Interest is calculated using the effective interest rate method. Other income consists of commission income, service charges, and rent. Other income is recognized when the transaction generating the commission or service charge occurs. Rental income is earned at the end of each month of the rental contract.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of available for sale financial assets are treated as a separate component of the change in fair value and recognized in net income.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction.

Impairment of non-financial assets

The credit union reviews the carrying amounts of all tangible assets to determine whether there is an indication of impairment. When tangible assets are determined to be impaired, an impairment loss is recorded in the current period income. If an asset is subsequently determined to be no longer impaired, an impairment reversal is recorded in the current period. Impairment reversals cannot increase the carrying amount of an asset in excess of the carrying amount that would have been determined had no impairment loss been recognized in prior years.

3. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOTE YET EFFECTIVE

Certain new standards, amendments and interpretations have been published that are mandatory for the credit union's accounting periods beginning on or after January 1, 2022 that the credit union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the credit union are:

(i) IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors was amended in February 2021. These amendments clarify that accounting estimates require use of measurement techniques and inputs to develop an estimate. A change in an accounting estimate due to changes in inputs or assumptions is recorded in the current period unless it results from the correction of prior period errors. This amendment is effective for periods beginning on or after January 1, 2023. The credit union does not anticipate a significant impact to the financial statements as a result of this amendment.

(ii) IAS 37 Provisions, Contingent Liabilities and Contingent Assets was amended in May 2020. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. This amendment is effective for annual periods beginning on or after January 1, 2022. The credit union does not anticipate a significant impact to the financial statements as a result of this amendment.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The credit union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair Value of Financial Instruments
The credit union determines the fair value of financial instruments that are not quoted in an active market using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

Loan Loss Provision
In accordance with IFRS 9, the credit union uses an expected credit loss model to determine a loss allowance for its loan and mortgage portfolio. Under this model the credit union estimates the probability of default of a loan, and the expected loss given default. The credit union recognizes the expected losses over the next 12 months for loans that have not had significant deterioration in credit quality, and recognizes lifetime expected credit losses when there has been significant increases in credit risk since initial recognition.

5. INVESTMENTS

	2021	2020
Debt Instruments		
Central 1 mandatory liquidity deposits	-	11,141,329
Fixed income securities	37,821,968	24,107,540
Accrued interest	222,962	248,864
Total Debt Instruments	38,044,930	35,497,733
Equity Instruments		
Central 1 Credit Union - Class A	58,057	51,675
Central 1 Credit Union - Class E	217,700	217,700
Central 1 Credit Union - Class F	-	498,626
Concentra Trust - shares	20,671	20,671
Total Equity Instruments	296,428	788,672
	38,341,358	36,286,405

Debt instruments consist of a pool of High Quality Liquid Assets (HQLA) to comply with regulatory liquidity guidance and Board policies that establish minimum levels of operating liquidity. HQLA securities consist of Level 1 government guaranteed debt instruments with no limits, Level 2A corporate bonds with a minimum rating of AA- limited to 40% and Level 2B corporate bonds with a minimum DBRS rating of BBB- limited to 15%. At year end, the credit union complies with regulatory requirements and Board policies.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

Central 1 Class A and F shares are subject to an annual rebalancing mechanism and are redeemable at the option of Central 1. There is no separately quoted market value for these shares, however fair value is determined to be equivalent to the par value. Class F shares were redeemed during the year by Central 1.

Central 1 Class E shares are redeemable at $100 per share. There is no separately quoted market value for these shares. The fair value is determined to equal the redemption value.

6. LOANS TO MEMBERS

	2021	2020
Personal loans	3,545,618	2,918,996
Residential mortgages	115,783,975	95,231,037
Commercial loans	41,055,558	35,017,555
Syndicated mortgages	8,625,496	10,704,313
Accrued interest	234,014	288,302
	169,244,661	144,160,203
Less: allowance for impaired loans (Note 7)	783,956	765,800
Total Loans Receivable	168,460,705	143,394,403

Personal loans consist of term loans and lines of credit that are not real estate secured and, as such, have various repayment terms. Personal loans have fixed or variable interest rates and a maximum term of 5 years with an average rate of 4.16% at December 31, 2021 (4.15% in 2020).

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with blended payments of principal and interest. Residential mortgages have fixed or variable interest rates with an average rate of 3.01% at December 31, 2021 (3.32% in 2020).

Commercial loans and Syndicated mortgages consist of commercial loans and mortgages to individuals, partnerships and corporations and have various repayment terms. They are secured by various types of collateral including mortgages on real property, general security agreements, and personal guarantees. These loans have fixed or variable interest rates with an average rate of 3.86% at December 31, 2021 (4.36% in 2020).

The principal collateral and other credit enhancements the credit union holds as security for loans include: (i) insurance, mortgages over residential lots and parties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. In some cases, the Credit Union's claim to security may subordinate to another creditor. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2021	2020
Unsecured or partially secured loans	1,631,540	1,050,713
Fully secured loans	1,914,078	1,868,283
Residential mortgages	111,436,627	93,415,262
Insured residential mortgages	4,347,348	1,815,775
Loans secured by commercial property	49,681,054	45,721,868
	169,010,647	143,871,901

6. LOANS TO MEMBERS (Cont'd)

Concentration of Risk

The credit union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments.

At December 31, 2021 there are 25 groups of members (2020 -28) each with total loans exceeding 10% of member equity. The combined total balance outstanding is $45,648,386 (2020 - $47,700,431).

	2021	**2020**
Residential mortgages		
First mortgages	6,419,701	6,381,062
Meritlines of credit	9,311,978	9,237,685
Personal non-mortgage loans		
Personal loans	-	5,080
Lines of credit	1,699,838	1,699,906
Commercial loans	21,976,447	23,445,118
Syndicated mortgages	6,240,422	6,931,580
	45,648,386	47,700,431

7. ALLOWANCE FOR IMPAIRED LOANS

The following table shows a reconciliation of the opening and closing balances of the loan allowance based on expected credit losses:

	Stage 1 Provision	Stage 2 Provision	Stage 3 Provision	Total
Balance at January 1, 2020	599,600	300	197,100	797,000
Transfer from Stage 1	(64,550)	64,550	-	-
Transfer from Stage 3	80,279	-	(80,279)	-
Provision charged to net income	47,621	-	-	47,621
	662,950	64,850	116,821	844,621
Loans written off	-	-	(78,821)	(78,821)
Balance at December 31, 2020	662,950	64,850	38,000	765,800
Balance at January 1, 2021	662,950	64,850	38,000	765,800
Recoveries of loans previously written off	-	-	21	21
Provision charged to net income	51,907	(64,251)	38,931	26,587
	714,857	599	76,952	792,408
Loans written off	-	-	(8,452)	(8,452)
Balance at December 31, 2021	714,857	599	68,500	783,956

The allowance for impaired loans is broken down as follows:

	Allowance for Impaired Loans		Aggregate Impaired Loans	
	2021	2020	2021	2020
Personal loans	55,300	8,400	55,728	8,452
Non-specified loans	715,456	727,800	-	-
Residential mortgages	13,200	29,600	2,303,423	2,313,299
Commercial loans	-	-	-	402,204
	783,956	765,800	2,359,151	2,723,955

7. ALLOWANCE FOR IMPAIRED LOANS (Cont'd)

Loans past due but not impaired
A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year end that are past due but not classified as impaired because they are less than 90 days past due.

2021	1-29 days	30-59 days	60-89 days	Total
Personal loans	43,794	27,842	6,224	77,860
Residential mortgages	1,148,394	555,746	-	1,704,140
Commercial and Syndicated	853,656	199,902	-	1,053,558
	2,002,050	783,490	6,224	2,835,558

2020	1-29 days	30-59 days	60-89 days	Total
Personal loans	128,999	19,554	42,326	190,879
Residential mortgages	2,424,306	868,761	730,384	4,023,451
Commercial mortgages	1,102,292	-	-	1,102,292
	3,655,597	888,315	772,710	5,316,622

Key Assumptions in Determining the Allowance for Impaired Loans Stage 1 and 2 Provision

All loans have a probability of default. The credit union uses historical loss ratios of loans with similar characteristics to estimate the probability and severity of loss on origination of new loans issued. At each reporting date, the credit union considers evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. The methodology and assumptions used for estimating cash flows are reviewed regularly by the credit union to reduce any differences between loss estimates and actual loss experience.

For loans that have not increased in credit risk since origination, the credit union allows for 12 month expected credit losses (Stage 1 provision). For loans that have experienced significant increase in credit risk since origination, the credit union allows for lifetime expected credit losses (Stage 2 provision). Loans are considered to have significantly increased credit risk when payments are 30 days past due. Loans that are 90 days past due are specifically identified as impaired (Stage 3 provision) and are evaluated individually for collateral and expected loss provision.

8.

PROPERTY, PLANT AND EQUIPMENT	Land	Building	Furniture and fixtures	Computer equipment	Total	Intangibles
Cost						
Balance at January 1, 2020	14,583	245,178	150,003	169,571	579,335	174,041
Additions	-	23,250	-	13,290	36,540	12,430
Balance at December 31, 2020	14,583	268,428	150,003	182,861	615,875	186,471
Additions	-	8,475	-	7,905	16,380	28,194
Disposals	-	(2,235)	-	-	(2,235)	-
Balance at December 31, 2021	14,583	274,668	150,003	190,766	630,020	214,665
Accumulated Depreciation						
Balance at January 1, 2020	-	203,609	134,514	126,187	464,310	88,277
Depreciation expense	-	2,357	2,829	13,219	18,405	25,111
Balance at December 31, 2020	-	205,966	137,343	139,406	482,715	113,388
Depreciation expense	-	3,332	2,312	12,418	18,062	20,912
Disposals	-	(2,180)	-	-	(2,180)	-
Balance at December 31, 2021	-	207,118	139,655	151,824	498,597	134,300
Net book value						
December 31, 2020	14,583	62,462	12,660	43,455	133,160	73,083
December 31, 2021	14,583	67,550	10,348	38,942	131,423	80,365

9. MEMBERS' DEPOSITS

	2021	2020
Demand accounts	60,846,094	47,700,183
Term deposits	84,954,192	84,107,629
Tax free savings accounts	16,802,919	14,039,385
Registered retirement savings plans	15,806,215	15,289,806
Registered retirement income funds	15,703,279	14,176,287
Accrued interest	1,454,230	1,604,707
	195,566,929	176,917,997

Demand accounts include chequing and savings accounts and are due on demand.

Term deposits have fixed rates of interest for terms up to five years, or pay a return based on market indexes. Interest can be paid monthly, annually, or upon maturity. At December 31, 2021, the average interest rate on term deposits was 2.04% (2.38% in 2020).

Registered retirement savings plan accounts can be fixed or variable rate, or pay a return based on market indexes. Fixed rate deposits have similar terms and rates as the term deposits described above.

Registered retirement income fund accounts can be fixed or variable rate with terms similar to those of registered retirement savings plan accounts described above. Members may make withdrawals from RRIFs on a monthly or annual basis according to individual needs and statutory requirements.

Tax free savings accounts can be fixed or variable rate with terms and conditions similar to those of the registered retirement savings plan accounts described above.

Registered plans

Concentra Trust and Central 1 Trust Company act as trustees of various registered plans offered to the members. Under the agreements with the trust companies, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or their designates by the Credit Union on behalf of the trustee.

Concentration of Risk

The credit union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments. As at December 31, 2021, 3 members had deposits in excess of 1% of total member deposits. As at December 31, 2020, 4 members had deposits in excess of 1% of total member deposits. These deposits are broken down as follows:

	2021	2020
Chequing and savings	5,544,092	6,193,304
Term deposits	3,705,575	3,702,575
Registered savings plans	534,569	422,558
Registered retirement income funds	182,803	192,411
	9,967,039	10,510,848

10. MEMBERS' SHARE CAPITAL

	2021	2020
Membership Shares	45,840	42,760
Patronage Shares	348,671	366,091
	394,511	408,851

The credit union is authorized to issue an unlimited number of member and patronage shares.

Share capital is comprised of permanent shares and patronage shares. Permanent shares represent the amount of shares that members are required to maintain as a condition of membership. Each member is required to own a minimum of four membership shares with an issue price of $5 each. As at December 31, 2021, the credit union had 9,168 permanent shares outstanding (2020 - 8,552). Membership shares are all classified as a liability.

Patronage shares are non-voting shares and represent patronage dividends paid to members. Shares are redeemable on withdrawal from membership and are subject to the Credit Union meeting certain capital adequacy requirements.

Dividends on membership may be declared by the Board of Directors, subject to the availability of sufficient earnings to meet regulatory capital requirements of the Act as described in Note 11 of the financial statements. Membership shares are redeemable on withdrawal of membership and are subject to the Credit Union meeting capital adequacy requirements.

Distribution to members

	2021	2020
Loan rebates	117,288	94,134
Bonus interest on member deposits	234,319	188,090
	351,607	282,224

11. CAPITAL MANAGEMENT

The credit union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover the risks inherent in the business. The credit union considers its capital to comprise cash resources, membership shares, undivided earnings, reserves, and the general allowance against doubtful loans.

The credit unions and Caisses Populaires Act, 1994 requires that the credit union maintain regulatory capital of 4% of total assets and 8% of a risk weighted equivalent value.

The credit union has an internal policy that requires a minimum limit for regulatory capital of 6% of total assets and 10% of a risk weighted equivalent value. The risk weighted equivalent value is calculated by applying risk weight percentages as prescribed by the Act to various assets, operational and interest rate risk criteria.

Regulatory capital	**2021**	**2020**
Tier 1 Capital		
Membership shares	394,511	408,851
Retained earnings	11,979,342	11,182,170
Tier 2 Capital		
Stage 1 and stage 2 provision for impaired loans	715,456	727,800
	13,089,309	12,318,821
Percentage of total assets	6.29%	6.53%
Risk weighted equivalent value	114,081,722	92,902,104
Percentage of risk weighted assets	11.47%	13.26%

The Act also requires that the credit union maintain prudent levels of liquidity sufficient to meet its cash flow needs. Assets held for liquidity purposes include:

	2021	**2020**
Cash and deposits with Central 1	1,006,474	20,976,052
Deposits with other financial institutions	1,076	6,935
Fixed income securities	17,210,913	5,093,330
	18,218,463	26,076,317
% of member deposits and borrowings	9.39 %	14.87 %

12. INTEREST REVENUE	2021	2020
Personal loans	135,884	119,181
Residential mortgages	3,264,446	3,139,785
Commercial mortgages	1,990,231	1,899,146
Investments	912,892	901,467
	6,303,453	6,059,579

13. INTEREST EXPENSE	2021	2020
Demand chequing and saving accounts	468,629	313,667
Term deposits	1,872,548	2,076,602
Registered savings plans	372,872	405,710
Registered retirement income funds	352,447	349,950
Tax free savings accounts	337,039	339,725
	3,403,535	3,485,654

14. OTHER OPERATING INCOME	2021	2020
Charges and fees	178,348	157,569
Rental income	12,800	12,500
Foreign exchange gains	12,021	15,675
Other	14,822	13,828
	217,991	199,572

15. OTHER ADMINISTRATIVE EXPENSES

	2021	2020
Member security	216,750	178,778
Data processing	144,169	111,515
Repairs and maintenance	16,742	15,066
Professional fees	122,601	104,070
Office and general	89,647	103,105
Advertising	81,386	73,064
Service charges	57,137	54,416
Board and committee honoraria	54,600	49,750
Insurance	17,400	14,202
Telephone	9,830	11,711
Property taxes	10,000	9,833
Utilities	9,719	8,377
Registered plan fees	8,370	7,780
Postage	22,093	5,575
	860,444	747,242

16. INCOME TAX

The current income tax provision was calculated as follows:	2021	2020
Income per statement before income taxes	955,143	875,157
Depreciation in excess of capital cost allowance	(9,080)	(9,540)
Adjust reserves for tax purposes	4,706	49,326
Other adjustments	(1,108)	825
Taxable income	949,661	915,768
Tax at prescribed rate of 26.50% (2020 - 26.50%)	251,660	242,679
Small business deduction	(94,485)	(115,281)
Current tax provision	157,175	143,043

TALKA CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

16. INCOME TAX (Cont'd)

Deferred Tax Expense	2021	2020
Origination and reversal of temporary differences	(796)	12,118
	(796)	12,118

The movement in deferred tax liabilities and assets are:

2021	Opening Balance	Recognized in Net Income	Closing Balance
Property, plant and equipment	(23,325)	(1,653)	(24,978)
Allowance for impaired loans	133,151	(1,691)	131,460
Accrued liabilities	9,828	2,548	12,376
	119,654	(796)	118,858

2020	Opening Balance	Recognized in Net Income	Closing Balance
Property, plant and equipment	(21,900)	(1,425)	(23,325)
Allowance for impaired loans	134,600	(1,449)	133,151
Accrued liabilities	(5,164)	14,992	9,828
	107,536	12,118	119,654

Expected settlement of deferred tax liabilities and assets are:	2021	2020
Settled within 12 months	(23,211)	(23,325)
Settled after more than 12 months	142,069	142,979
	118,858	119,654

17. RELATED PARTY TRANSACTIONS

The credit union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the credit union, including directors and management.

Compensation	**2021**	**2020**
Salaries and other short-term employee benefits	473,163	431,469
Total pension and other post-employment benefits	28,720	21,573
Medical and insurance benefits	46,800	67,001
	548,683	520,043

Loans to Key Management Personnel and Directors	**2021**	**2020**
Aggregate value of loans and mortgages advanced	2,331,000	1,704,986
Interest received on loans advanced	64,014	8,112
Total value of lines of credit advanced	3,727,037	4,524,068
Interest received on lines of credit advanced	115,828	40,055
Unused value of lines of credit	1,377,263	1,044,698

The credit union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit.

Deposits from Key Management Personnel and Directors	**2021**	**2020**
Aggregate value of term and savings deposits	4,125,210	4,113,820
Total interest paid on term and savings deposits	62,300	38,803

The credit union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

Included in board and committee expenses are honoraria totaling $54,600 (2020 - $49,750).

The Act requires the disclosure of remuneration paid to the five highest paid officers and/or employees whose total remuneration for the year exceeds $150,000. There was one employee of the Credit Union which would require disclosure: Chief Executive Officer, Ron Smith, with a salary of $165,452 and benefits of $23,588.

18. FINANCIAL INSTRUMENTS

The following table represents the carrying amount by classification.

	2021	2020
Financial assets at fair value through profit or loss		
Cash	1,007,550	8,482,488
Equity Investments	296,428	788,672
	1,303,978	9,271,160
Financial assets at amortized cost		
Debt Investments	38,044,930	35,497,733
Loans	168,460,705	143,394,403
	206,505,635	178,892,136
Financial liabilities at amortized cost		
Member deposits	195,566,929	176,917,997
Member share capital	394,511	408,851
Accounts payable	285,388	200,860
	196,246,828	177,527,708

The amounts set out below represent the fair values of the credit union's financial instruments where fair value differs from carrying cost. Assets that are not considered financial instruments, such as property, plant and equipment, prepaid expenses and income taxes recoverable, are excluded.

Fair value of variable rate loans and member deposits are assumed to equal the book value as the interest rates on these loans and deposits reprice to market on a periodic basis.

Fair value of fixed rate investments, fixed rate loans, and fixed rate member deposits is determined by discounting the expected future cash flows of these investments, loans, and deposits at current market rates for products with similar terms and credit risks. Contractual cash flows are assumed to represent expected cash flows.

2021	Fair value	Book value	Fair value over (under) book value
Assets			
Investments	38,044,930	38,044,930	-
Loans and mortgages	168,814,750	168,460,705	354,045
Liabilities			
Member deposits	193,597,905	195,566,929	(1,969,024)

18. FINANCIAL INSTRUMENTS (Cont'd)

2020	Fair value	Book value	Fair value over (under) book value
Assets			
Investments	35,497,733	35,497,733	-
Loans and mortgages	143,917,897	143,394,403	523,494
Liabilities			
Member deposits	175,613,540	176,917,997	(1,304,457)

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1
Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

Level 2
Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3
Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

2021	Level 1	Level 2	Level 3	Total
Cash and bank	1,007,550	-	-	1,007,550
Central 1 Credit Union - Class A, E	-	275,757	-	275,757
Other investments	-	20,671	-	20,671
Total fair value investments	1,007,550	296,428	-	1,303,978

2020	Level 1	Level 2	Level 3	Total
Cash and bank	8,482,488	-	-	8,482,488
Central 1 Credit Union - Class A, E, F	-	768,001	-	768,001
Other investments	-	20,671	-	20,671
Total fair value investments	8,482,488	788,672	-	9,271,160

19. RISK MANAGEMENT

The Board of Directors has overall responsibility for the determination of the credit union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the credit union's finance function. The Board of Directors receives monthly reports from the credit union's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk
The credit union is exposed to the risk of loss related to loans and mortgages receivable. The credit union invests in loans as its primary source of revenue. Credit is granted through consideration of the member's character, credit history, capacity for debt, and value of collateral available to secure the loan. The risk of credit loss is mitigated by requiring tangible security on loans in excess of $25,000. Mortgages are secured by real property. Term loans and lines of credit are secured by other assets equivalent to the approved balance on the loan.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans monthly.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity Risk
Liquidity risk consists of the risk that the credit union is unable to generate sufficient cash to meet commitments as they come due. The credit union maintains a liquidity reserve as described in Note 5. The credit union is also required by statute to maintain a prescribed amount of liquid assets to mitigate liquidity risk. Liquidity requirements based on expected maturity of member deposits, and the corresponding maturity of investments in loans, are described in the chart under interest rate risk below. The credit union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Currency Risk
Currency risk relates to the credit union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The credit union's foreign exchange risk is related to deposits and investments denominated in United States dollars. It is the policy of the credit union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets. Foreign currency changes are continually monitored for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

19. RISK MANAGEMENT (Cont'd)

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The credit union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The credit union is required to establish policies and procedures to limit its exposure to interest rate risk. It is the policy of the credit union to keep exposure to interest rate fluctuations within limits set by the Board of Directors and by the Act. Measurement and management of exposure of interest rate sensitivity is done through a combination of income simulation and maturity gap analysis. The credit union's interest rate risk results from the fact that the maturity or repricing dates for interest rate sensitive assets differs from that for the interest rate sensitive liabilities.

The credit union is exposed to interest rate price risk as a result of fixed rate financial instruments. The credit union is exposed to interest rate cash flow risk as a result of its variable rate financial instruments.

Fixed rate financial instruments maturity dates substantially coincide with interest adjustment dates.

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union's analysis of risk due to changes in interest rates determined that an increase in interest rates of 0.25% could result in an increase to net income of $58,000 (2020 - $102,000) while a decrease in interest rates of 0.25% could result in an increase to net income of $33,000 (2020 - $24,000).

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

The tables below identify the maturity dates of interest rate sensitive financial instruments (in thousands of dollars).

2021	Variable / on demand	Less than one year	One to five years	Non-rate sensitive	Total	Effective interest rate
Assets						
Cash and cash equivalents	661,127	-	-	346,423	1,007,550	1.00
Other assets				456,976	456,976	
Investments	296,428.00	6,027,682	31,794,286.30	-	38,118,396	2.96
Loans	38,779,426	44,442,664	85,004,601	-	168,226,691	3.28
	39,736,981	50,470,346	116,798,887	803,399	207,809,613	
Liabilities						
Member deposits	62,512,509	71,664,176	59,936,014	-	194,112,699	1.70
Member shares				394,511	394,511	
Accounts payable and other liabilities	-	-	-	1,739,620	1,739,620	
	62,512,509	71,664,176	59,936,014	2,134,131	195,852,319	

19. RISK MANAGEMENT (Cont'd)

2020	Variable / on demand	Less than one year	One to five years	Non-rate sensitive	Total	Effective interest rate
Assets						
Cash and cash equivalents	8,161,358	-	-	321,130	8,482,488	0.36
Other assets				737,028	737,028	
Investments	788,672	5,593,596	29,655,273	-	36,037,541	2.46
Loans	47,341,949	43,009,499	52,754,653	-	143,106,101	3.66
	56,291,979	48,603,095	82,409,926	1,058,158	188,363,158	
Liabilities						
Member deposits	48,016,663	62,831,118	64,268,966	196,542	175,313,289	1.95
Member shares				408,851	408,851	
Accounts payable and other liabilities	-	-	-	1,805,570	1,805,570	
	48,016,663	62,831,118	64,268,966	2,410,963	177,527,710	

20. COMMITMENTS

The Credit Union has available credit facility with Central 1 Credit Union of CAD $2,000,000 and USD $150,000. Security given is a general security agreement covering all assets of the credit union. At December 31, 2021, the credit facility was unutilized.

Mortgages
Outstanding commitments for future advances on mortgages are $9,579,575 (2020 - $12,089,899).

Letters of Credit
Letters of credit available to members are $261,223 (2020 - $Nil).

Credit Lines
Unused lines of credit available to members are $27,404,345 (2020 - $20,050,111).

Contract Commitments
The Credit Union entered into an agreement with Smart Solution, expiring in 2027. Payments under the Smart Solutions agreement are dependent on the usage of services. Future minimum payments per annum, as calculated as at December 31, 2021, are approximately $50,688.

21. COVID-19 PANDEMIC

During the year and subsequent to year-end, the outbreak of a novel strain of coronavirus has resulted in the global declaration of a pandemic. Measures in place to combat the health threat of the virus have caused material disruption to businesses globally resulting in an economic slowdown. The duration and impact of the outbreak is unknown at this time, as are the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of the measures nor their impact on the future financial results and condition of the credit union. The credit union has offered payment deferrals on member loans, and implemented in-branch protocols to limit the spread of the virus. The credit union has made adjustments to loan loss provision estimates (Note 7) to allow for additional expected credit losses.

22. COMPARATIVE FIGURES

Certain of the prior year's figures, provided for purposes of comparison, have been reclassified to conform with the current year's presentation.