

**TALKA CREDIT UNION LIMITED**

**FINANCIAL STATEMENTS**

**For the year ended December 31, 2022**

# TALKA CREDIT UNION LIMITED

For the year ended December 31, 2022

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## **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, 2022, 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, 2022, 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.

#### **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.

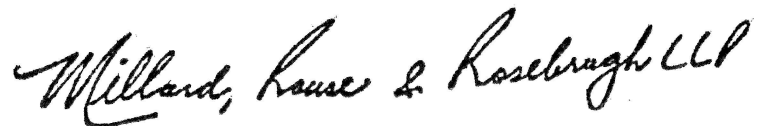
Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## **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.



February 22, 2023  
Brantford, Ontario

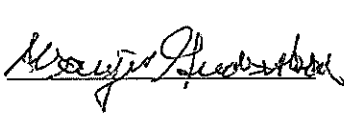
CHARTERED PROFESSIONAL ACCOUNTANTS  
Licensed Public Accountants

# TALKA CREDIT UNION LIMITED

## STATEMENT OF FINANCIAL POSITION

As at December 31	2022	2021
<b>ASSETS</b>		
Cash and cash equivalents	937,663	1,007,550
Investments (Note 5)	22,438,348	38,341,358
Loans to members (Note 6)	195,219,980	168,460,705
Other assets	178,264	101,707
Income taxes recoverable	37,821	-
Property, plant and equipment (Note 8)	136,160	131,423
Intangible assets (Note 8)	117,707	80,365
Deferred income taxes (Note 17)	118,552	118,858
	219,184,495	208,241,966
<b>LIABILITIES</b>		
Demand loans (Note 9)	9,500,000	-
Members' deposits (Note 10)	196,449,513	195,566,929
Accounts payable and accrued liabilities	348,554	285,388
Income taxes payable	-	15,796
Members' share capital (Note 11)	382,306	394,511
	206,680,373	196,262,624
<b>MEMBERS' EQUITY</b>		
Retained earnings	12,504,122	11,979,342
	219,184,495	208,241,966

Approved by:



# TALKA CREDIT UNION LIMITED

## STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN MEMBERS' EQUITY

For the year ended December 31	2022	2021
<b>Interest Revenue</b> (Note 13)	6,546,307	6,303,453
<b>Interest Expense</b>		
Interest Expense (Note 14)	3,769,742	3,403,535
Distribution to members (Note 11)	323,507	351,607
	4,093,249	3,755,142
<b>Interest Margin</b>	2,453,058	2,548,311
<b>Provision for loan losses</b> (Note 7)	52,370	26,587
<b>Net Financial income after provision for loan losses</b>	2,400,688	2,521,724
Other income (Note 15)	198,043	217,991
<b>Income Before Operating Expenses</b>	2,598,731	2,739,715
<b>Operating Expenses</b>		
Salaries and benefits	847,855	885,154
Depreciation	45,769	38,974
Other administrative expenses (Note 16)	935,738	860,444
Interest on operating loan and bank overdraft	143,031	-
	1,972,393	1,784,572
<b>Income Before Income Taxes</b>	626,338	955,143
Income taxes - current (Note 17)	101,252	157,175
- deferred (Note 17)	306	796
<b>Net Income and Comprehensive Income</b>	524,780	797,172
Retained earnings, beginning of year	11,979,342	11,182,170
Retained earnings, end of year	12,504,122	11,979,342

See accompanying notes

# TALKA CREDIT UNION LIMITED

## STATEMENT OF CASH FLOWS

<b>For the year ended December 31</b>	<b>2022</b>	<b>2021</b>
<b>Cash Flows From Operating Activities</b>		
Net Income	524,780	797,172
Adjustments for:		
Interest revenue	(6,546,307)	(6,303,453)
Interest expense	4,093,249	3,755,142
Interest received on member loans	6,248,678	5,444,849
Interest received on investments	265,660	938,794
Interest paid on member deposits	(3,769,888)	(3,905,619)
Depreciation	45,769	38,974
Provision for loan losses	52,370	26,587
Deferred income taxes	306	796
Income tax provision	101,252	157,175
Income taxes (paid) recovered	(154,869)	(145,701)
Net change in non-cash working capital balances related to operations	(13,391)	207,828
	847,609	1,012,544
<b>Cash Flows From Financing Activities</b>		
Demand loans	9,500,000	-
Member deposits and share capital	547,018	18,785,069
	10,047,018	18,785,069
<b>Cash Flows From Investing Activities</b>		
Purchase of property, plant and equipment	(87,848)	(44,518)
Loans and mortgages to members	(26,663,712)	(25,147,178)
Investments	15,787,046	(2,080,855)
	(10,964,514)	(27,272,551)
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(69,887)</b>	<b>(7,474,938)</b>
<b>Opening Cash and Cash Equivalents</b>	<b>1,007,550</b>	<b>8,482,488</b>
<b>Closing Cash and Cash Equivalents</b>	<b>937,663</b>	<b>1,007,550</b>

See accompanying notes

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

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### 1. NATURE OF OPERATIONS

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#### **Reporting Entity**

Talka Credit Union Limited (the "credit union") is a financial institution incorporated under the Credit Unions and Caisses Populaires Act, 2020 ("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"). Member 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 22, 2023.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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#### **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.



**TALKA CREDIT UNION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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

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**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.

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

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

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#### **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.

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

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### 3. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

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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, 2023 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.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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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.

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

5. INVESTMENTS	2022	2021
<b>Debt Instruments</b>		
Fixed income securities	21,957,493	37,821,968
Accrued interest	106,998	222,962
Total Debt Instruments	22,064,491	38,044,930
<b>Equity Instruments</b>		
Central 1 Credit Union - Class A	60,841	58,057
Central 1 Credit Union - Class E	217,700	217,700
Concentra Trust - shares	95,316	20,671
Total Equity Instruments	373,857	296,428
	22,438,348	38,341,358

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.

Equity instruments include shares in Central 1 which are required as a condition of membership. These shares 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 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.

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.

Concentra Trust shares are in the process of being redeemed as a result of the acquisition of Concentra Trust by Equitable Bank. The increase in 2022 represents an increase in the stated capital value of these shares.

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

6. LOANS TO MEMBERS	2022	2021
Personal loans	2,109,628	3,545,618
Residential mortgages	144,548,669	115,783,975
Commercial loans	39,930,722	41,055,558
Syndicated mortgages	9,055,282	8,625,496
Accrued interest	381,947	234,014
	196,026,248	169,244,661
Less: allowance for impaired loans (Note 7)	806,268	783,956
Total Loans Receivable	195,219,980	168,460,705

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 6.07% at December 31, 2022 (4.16% in 2021).

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 3.61% at December 31, 2022 (3.01% in 2021).

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 4.81% at December 31, 2022 (3.86% in 2021).

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 be 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:

	2022	2021
Unsecured or partially secured loans	1,502,071	1,631,540
Fully secured loans	607,557	1,914,078
Residential mortgages	141,400,991	111,436,627
Insured residential mortgages	3,147,678	4,347,348
Loans secured by commercial property	48,986,004	49,681,054
	195,644,301	169,010,647

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

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### 6. LOANS TO MEMBERS (Cont'd)

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#### 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, 2022 there are 26 groups of members (2021 -25) each with total loans exceeding 10% of member equity. The combined total balance outstanding is \$46,901,864 (2021 - \$45,648,386).

	2022	2021
Residential mortgages		
First mortgages	14,285,408	6,419,701
Meritlines of credit	6,852,910	9,311,978
Personal non-mortgage loans		
Lines of credit	400,926	1,699,838
Commercial loans	20,048,283	21,976,447
Syndicated mortgages	5,314,337	6,240,422
	<hr/> 46,901,864	<hr/> 45,648,386

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# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 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, 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
Balance at January 1, 2022	714,857	599	68,500	783,956
Recoveries of loans previously written off	-	-	-	-
Provision charged to net income	40,864	401	11,105	52,370
	755,721	1,000	79,605	836,326
Loans written off	-	-	(30,058)	(30,058)
Balance at December 31, 2022	755,721	1,000	49,547	806,268

The allowance for impaired loans is broken down as follows:

	Allowance for Impaired Loans		Aggregate Impaired Loans	
	2022	2021	2022	2021
Personal loans	45,997	55,300	45,997	55,728
Non-specified loans	755,721	715,456	-	-
Residential mortgages	4,550	13,200	1,563,707	2,303,423
	806,268	783,956	1,609,704	2,359,151

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 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.

2022	1-29 days	30-59 days	60-89 days	Total
Personal loans	4,582	-	24,484	29,066
Residential mortgages	1,998,208	159,207	396,416	2,553,831
	2,002,790	159,207	420,900	2,582,897

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 mortgages	853,656	199,902	-	1,053,558
	2,045,844	783,490	6,224	2,835,558

#### 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.



# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

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<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>Land</b>	<b>Building</b>	<b>Furniture and fixtures</b>	<b>Computer equipment</b>	<b>Total</b>	<b>Intangibles</b>
<b>Cost</b>						
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
Additions	-	-	-	22,559	22,559	65,288
Balance at December 31, 2022	14,583	274,668	150,003	213,325	652,579	279,953
<b>Accumulated Depreciation</b>						
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
Depreciation expense	-	3,301	1,890	12,631	17,822	27,946
Balance at December 31, 2022	-	210,419	141,545	164,455	516,419	162,246
<b>Net book value</b>						
December 31, 2021	14,583	67,550	10,348	38,942	131,423	80,365
December 31, 2022	14,583	64,249	8,458	48,870	136,160	117,707

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 9. DEMAND LOANS

The Credit Union has available a credit facility with Central 1 Credit Union of CAD \$8,500,000 and USD \$150,000. Security given is a general security agreement covering all assets of the credit union. At December 31, 2022, \$1,500,000 CAD and \$150,000 USD was unutilized.

The Credit Union has available a credit facility with Concentra Bank of \$2,000,000 CAD. Security given is a pledge over \$2,000,000 in deposits held with Concentra Bank. Interest on the line is CDOR plus 0.65%. At December 31, 2022 the credit facility was fully utilized.

10. MEMBERS' DEPOSITS	2022	2021
Demand accounts	51,260,971	60,846,094
Term deposits	93,868,052	84,954,192
Tax free savings accounts	18,626,113	16,802,919
Registered retirement savings plans	14,803,816	15,806,215
Registered retirement income funds	16,112,970	15,703,279
Accrued interest	1,777,591	1,454,230
	196,449,513	195,566,929

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, 2022, the average interest rate on term deposits was 3.19% (2.04% in 2021).

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 acts as trustee 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.

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

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### 10. MEMBERS' DEPOSITS (Cont'd)

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#### 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, 2022, 2 members had deposits in excess of 1% of total member deposits. As at December 31, 2021, 3 members had deposits in excess of 1% of total member deposits. These deposits are broken down as follows:

	2022	2021
Chequing and savings	2,347,245	5,544,092
Term deposits	3,752,575	3,705,575
Registered savings plans	574,252	534,569
Registered retirement income funds	169,312	182,803
	<hr/> 6,843,384	<hr/> 9,967,039

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# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

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11. MEMBERS' SHARE CAPITAL	2022	2021
Membership Shares	46,520	45,840
Patronage Shares	335,786	348,671
	<hr/> 382,306	<hr/> 394,511

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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, 2022, the credit union had 9,304 permanent shares outstanding (2021 - 9,168). 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 12 of the financial statements. Membership shares are redeemable on withdrawal of membership, subject to the Credit Union meeting capital adequacy requirements.

### Distribution to members

	2022	2021
Loan rebates	132,540	117,288
Bonus interest on member deposits	190,967	234,319
	<hr/> 323,507	<hr/> 351,607

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# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 12. 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, 2020, and the Financial Services Regulatory Authority of Ontario ("FSRAO"), establish minimum capital ratios that must be maintained by the credit union, including a minimum tier 1 capital ratio of 6.5%, minimum total capital ratio of at least 8%, minimum capital conservation buffer ratio of 2.5%, a minimum total supervisory capital ratio of 10.5%, and a minimum leverage ratio of 3%.

The credit union has an internal policy that requires a minimum limit for regulatory capital of 5% of total assets and 10.5% of a risk weighted equivalent value. The risk weighted equivalent value is calculated by applying risk weight percentages as prescribed by FSRAO to various assets, operational and interest rate risk criteria. The credit union has internal policies that require a Tier 1 capital ratio of 8% and total capital ratio of 8.5% along with a total supervisory capital ratio of 11.5%.

<b>Regulatory capital</b>	<b>2022</b>	<b>2021</b>
<b>Tier 1 Capital</b>		
Membership shares	382,306	394,511
Retained earnings	12,504,122	11,979,342
<b>Tier 2 Capital</b>		
Stage 1 and stage 2 provision for impaired loans	756,721	715,456
	<b>13,643,149</b>	<b>13,089,309</b>
Percentage of total assets	5.88%	5.94%
Risk weighted equivalent value	112,686,248	114,081,722
Tier 1 capital ratio	11.55%	10.55%
Total supervisory capital ratio	12.11%	11.47%
Leverage ratio	6.22%	6.29%

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 12. CAPITAL MANAGEMENT (Cont'd)

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:

	2022	2021
Cash and deposits with Central 1	3,391,647	3,646,274
Deposits with other financial institutions	18,306	1,076
Fixed income securities	17,485,203	16,395,532
	20,895,156	20,042,882
% of member deposits and borrowings	10.23 %	10.33 %

### 13. INTEREST REVENUE

	2022	2021
Personal loans	146,085	135,884
Residential mortgages	4,262,953	3,264,446
Commercial mortgages	1,987,573	1,990,231
Investments	149,696	912,892
	6,546,307	6,303,453

### 14. INTEREST EXPENSE

	2022	2021
Demand chequing and saving accounts	669,465	468,629
Term deposits	1,989,292	1,872,548
Registered savings plans	346,761	372,872
Registered retirement income funds	364,178	352,447
Tax free savings accounts	400,046	337,039
	3,769,742	3,403,535

### 15. OTHER OPERATING INCOME

	2022	2021
Charges and fees	97,575	178,348
Rental income	13,200	12,800
Foreign exchange gains	29,868	12,021
Other	57,400	14,822
	198,043	217,991

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

<b>16. OTHER ADMINISTRATIVE EXPENSES</b>	<b>2022</b>	<b>2021</b>
Member security	259,621	216,750
Data processing	160,657	144,169
Repairs and maintenance	18,870	16,742
Professional fees	99,223	122,601
Office and general	87,060	89,647
Advertising	97,777	81,386
Service charges	64,482	57,137
Board and committee honoraria	67,850	54,600
Insurance	13,724	17,400
Telephone	10,556	9,830
Property taxes	9,691	10,000
Utilities	11,045	9,719
Registered plan fees	15,352	8,370
Postage	19,830	22,093
	<b>935,738</b>	<b>860,444</b>

## 17. INCOME TAX

The current income tax provision was calculated as follows:	<b>2022</b>	<b>2021</b>
Income per statement before income taxes	626,338	955,143
Depreciation in excess of capital cost allowance	(41,051)	(9,080)
Adjust reserves for tax purposes	39,370	4,706
Other adjustments	3,798	(1,108)
Taxable income	<b>628,455</b>	<b>949,661</b>
Tax at prescribed rate of 26.50% (2021 - 26.50%)	166,541	251,660
Small business deduction	(65,289)	(94,485)
Current tax provision	<b>101,252</b>	<b>157,175</b>

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 17. INCOME TAX (Cont'd)

Deferred Tax Expense	2022	2021
Origination and reversal of temporary differences	(306)	(796)
	(306)	(796)

The movement in deferred tax liabilities and assets are:

2022	Opening Balance	Recognized in Net Income	Closing Balance
Property, plant and equipment	(24,978)	(7,471)	(32,449)
Allowance for impaired loans	131,460	7,165	138,625
Accrued liabilities	12,376	-	12,376
	118,858	(306)	118,552

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

Expected settlement of deferred tax liabilities and assets are:	2022	2021
Settled within 12 months	148,827	(23,211)
Settled after more than 12 months	(30,275)	142,069
	118,552	118,858



# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 18. 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.

<b>Compensation</b>	<b>2022</b>	<b>2021</b>
Salaries and other short-term employee benefits	502,561	473,163
Total pension and other post-employment benefits	25,128	28,720
Medical and insurance benefits	54,966	46,800
	582,655	548,683

<b>Loans to Key Management Personnel and Directors</b>	<b>2022</b>	<b>2021</b>
Aggregate value of loans and mortgages advanced	3,304,312	2,331,000
Interest received on loans advanced	71,185	64,014
Total value of lines of credit advanced	1,467,642	3,727,037
Interest received on lines of credit advanced	11,860	115,828
Unused value of lines of credit	3,731,609	1,377,263

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.

<b>Deposits from Key Management Personnel and Directors</b>	<b>2022</b>	<b>2021</b>
Aggregate value of term and savings deposits	2,433,191	4,125,210
Total interest paid on term and savings deposits	40,921	62,300

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 \$67,850 (2021 - \$54,600).

The Act requires the disclosure of remuneration paid to the five highest paid officers and/or employees whose total remuneration for the year exceeds \$175,000. There was one employee of the Credit Union which would require disclosure: Chief Executive Officer, Ron Smith, with a salary of \$171,554 and benefits of \$21,333.

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 19. FINANCIAL INSTRUMENTS

The following table represents the carrying amount by classification.

	2022	2021
<b>Financial assets at fair value through profit or loss</b>		
Cash	937,663	1,007,550
Equity Investments	373,857	296,428
	<u>1,311,520</u>	<u>1,303,978</u>
<b>Financial assets at amortized cost</b>		
Debt Investments	22,064,491	38,044,930
Loans	195,219,980	168,460,705
	<u>217,284,471</u>	<u>206,505,635</u>
<b>Financial liabilities at fair value through profit or loss</b>		
Credit facility	9,500,000	-
<b>Financial liabilities at amortized cost</b>		
Member deposits	196,449,513	195,566,929
Member share capital	382,306	394,511
Accounts payable	348,554	285,388
	<u>197,180,373</u>	<u>196,246,828</u>

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.

2022	Fair value	Book value	Fair value over (under) book value
<b>Assets</b>			
Investments	20,470,951	22,064,491	(1,593,540)
Loans and mortgages	190,347,372	195,219,980	(4,872,608)
<b>Liabilities</b>			
Member deposits	193,468,345	196,449,513	(2,981,168)

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 19. FINANCIAL INSTRUMENTS (Cont'd)

2021	Fair value	Book value	Fair value over (under) book value
<b>Assets</b>			
Investments	37,440,515	38,044,930	(604,415)
Loans and mortgages	168,841,750	168,460,705	381,045
<b>Liabilities</b>			
Member deposits	193,597,905	195,566,929	(1,969,024)

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.

2022	Level 1	Level 2	Level 3	Total
Cash and bank	937,663	-	-	937,663
Central 1 Credit Union - Class A, E	-	278,541	-	278,541
Other investments	-	95,316	-	95,316
Credit facility	9,500,000	-	-	9,500,000
Total fair value investments	(8,562,337)	373,857	-	(8,188,480)

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

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

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### 20. RISK MANAGEMENT

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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.

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 20. 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 \$40,000 (2021 - \$58,000) while a decrease in interest rates of 0.25% could result in an decrease to net income of \$40,000 (2021 - \$33,000).

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.

2022	Variable / on demand	Less than one year	One to five years	Non-rate sensitive	Total	Effective interest rate
<b>Assets</b>						
Cash and cash equivalents	249,522	-	-	688,141	937,663	4.40
Other assets				488,946	488,946	
Investments	373,857.00	2,369,878	18,104,939	1,482,676	22,331,350	2.70
Loans	38,328,978	52,373,571	104,135,484	-	194,838,033	3.94
	<u>38,952,357</u>	<u>54,743,449</u>	<u>122,240,423</u>	<u>2,659,763</u>	<u>218,595,992</u>	
<b>Liabilities</b>						
Member deposits	53,312,625	73,966,169	67,393,128	-	194,671,922	2.68
Member shares				382,306	382,306	
Credit facility	9,500,000	-	-	-	9,500,000	4.73
Accounts payable and other liabilities	-	-	-	2,126,145	2,126,145	
	<u>62,812,625</u>	<u>73,966,169</u>	<u>67,393,128</u>	<u>2,508,451</u>	<u>206,680,373</u>	

# TALKA CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

### 20. RISK MANAGEMENT (Cont'd)

2021	Variable / on demand	Less than one year	One to five years	Non-rate sensitive	Total	Effective interest rate
<b>Assets</b>						
Cash and cash equivalents	661,127	-	-	346,423	1,007,550	1.00
Other assets				456,976	456,976	
Investments	296,428	6,027,682	31,794,286	-	38,118,396	2.96
Loans	38,779,426	44,442,664	85,004,601	-	168,226,691	3.28
	<u>39,736,981</u>	<u>50,470,346</u>	<u>116,798,887</u>	<u>803,399</u>	<u>207,809,613</u>	
<b>Liabilities</b>						
Member deposits	62,512,509	71,664,176	59,936,014	-	194,112,699	1.95
Member shares				394,511	394,511	
Credit facility						
Accounts payable and other liabilities	-	-	-	1,739,620	1,739,620	
	<u>62,512,509</u>	<u>71,664,176</u>	<u>59,936,014</u>	<u>2,134,131</u>	<u>196,246,830</u>	

### 21. COMMITMENTS

#### Mortgages

Outstanding commitments for future advances on mortgages are \$300,000 (2021 - \$9,579,575).

#### Letters of Credit

Letters of credit available to members are \$Nil (2021 - \$261,223).

#### Credit Lines

Unused lines of credit available to members are \$31,114,983 (2021 - \$27,404,345).

#### 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, 2022, are approximately \$50,688.