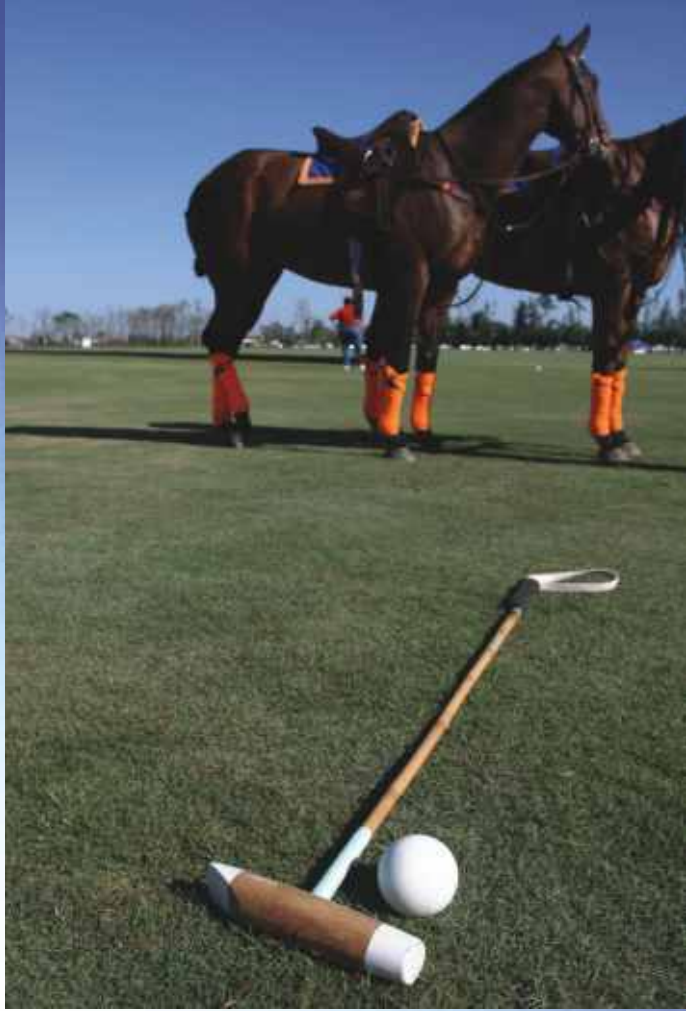




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## Board of Directors

	Titles	Term Expires
Terry Ryan	Chair	2010
Gerry Robin	Vice Chair	2009
Lorne Culley	Director	2011
Deborah Baker	Director	2011
Peter Rebellati	Director	2009
Mel Greif	Director	2011
Joe Posivy	Director	2009
Jim Tindall	Director	2009
Pauline Wainwright	Secretary	2010
Claude Duchesneau	Director	2010
Wendy Mitchell	Director	2010
William Dolly	Director	2009
Neil Williamson	Director	2011
James Williams	Director	2010

## Executive Staff

Larry Smith	President & Chief Executive Officer
Kim Colacicco	Corporate Secretary
Mary Benincasa	Chief Operating Officer
Phillip Smith	Chief Financial Officer
Dan Coldwell	Vice President Business Development

## 2008 Annual General Meeting Agenda

January 28, 2009

### Call to Order

Confirmation of Quorum

### Minutes of Previous Meeting

Approve minutes of meeting held  
January 23, 2008

### Reports

Board of Directors  
President & Chief Executive Officer  
Credit Officer  
Audit Committee  
Auditor & Financial Reports

### New Business

Election of Directors  
Approval of Directors Remuneration budget  
subject to bylaw 4.17  
Appointment of Auditors

### Other Business

### Adjournment

## Mission Statement

To make a difference in people's lives. We build mutually supportive relationships to create wealth, enhance quality of life and serve the needs of the community.

Minutes of the Annual Meeting held on the 23rd day of January 2008 in Vaughan, Ontario.

A quorum of 188 members was established. Terry Ryan, Board Chair, called the meeting to order at 7:45 p.m. with the following Directors present:

Terry Ryan, Gerry Robin, Claude Duchesneau, Lorne Culley, Peter Rebellati, Jim Tindall, Wendy Mitchell, Pauline Wainwright, Deborah Baker, Joe Posivy, Mel Greif, Neil Williamson, William Dolly, Jim Williams

Guests in attendance included:

Bruce Vickers - Deloitte & Touche LLP  
Doug Hunt - Deloitte & Touche LLP  
Ernie Eves

Moved by Lolly Gillen, seconded by Terry Chapman that the minutes of the Annual Meeting held on January 24, 2007 be approved as printed in the Annual Report. *Carried.*

Moved by Dan Coldwell, seconded by Terry Chapman that the Report of the Board of Directors be approved as printed in the Annual Report. *Carried.*

Moved by Suzanne Hyde, seconded by Bob Black that the Report of the President & CEO be approved as printed in the Annual Report. *Carried.*

Moved by Lorne Culley, seconded by Rene Laffree that the Report of the Audit Committee be approved as printed in the Annual Report. *Carried.*

Moved by Dan Coldwell, seconded by Suzanne Hyde that the Report of the Credit Officer be approved as printed in the Annual Report. *Carried.*

Moved by Mary Benincasa, seconded by Mike Smith that the Auditors' Report and the Financial Reports for the year ended September 30, 2007 be approved as printed in the Annual Report. *Carried.*

## New Business

### By-law Amendment

Moved by Terry Chapman, seconded by Mary Benincasa that the amendment to by-law 4.01, 4.03, 4.03.1 be approved as printed. *Carried.*

### CUCO Membership Withdrawal

Moved by Rene Laffree, seconded by Bob Black that the resolution ratifying authorization to withdraw from CUCO membership be approved as printed. *Carried.*

### Election of Directors

Pursuant to Article 7 of the General By-laws of the Credit Union nominations were received and reviewed by the Nominating Committee. Five positions were open with four of the positions being for a three year term and the remaining position being for a one year term.

The nominees were:

Lorne Culley	Deborah Baker	Mel Greif
Neil Williamson	Peter Rebellati	Robert Black

Each candidate was given two minutes to address the membership. 188 ballots were cast including one spoilt ballot. The following candidates were elected to the Board of Directors:

Lorne Culley	Deborah Baker	Mel Greif
Neil Williamson	Peter Rebellati	

Lorne Culley, Deborah Baker and Neil Williamson were the candidates who received the most votes and as such, will fill director positions for a three year term. Mel Greif and Peter Rebellati tied with the same number of votes. Mel Greif won a coin toss to fill the final three year term and Peter Rebellati will fill the one year term.

Moved by Andrea O'Neill, seconded by Terry Chapman that the ballots be destroyed. *Carried.*

## Guest Speaker

Mr. Ernie Eves addressed the membership with thanks for PACE's continued support of the Justin Eves Foundation, helping make it possible for the foundation to provide financial assistance and support to youth with learning disabilities and helping them achieve their dream of attending college and university programs.

## Directors' Remuneration Budget

Moved by Rene Laffree, seconded by Lori Wilson Summers that the total budgeted remuneration and expenses to be paid to directors for the fiscal period ending September 30, 2008 in the amount of \$100,000 be approved. *Carried.*

## Appointment of Auditor


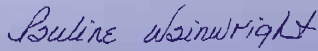
Moved by Phillip Smith, seconded by Terry Chapman that Deloitte & Touche LLP be appointed as external auditors for the fiscal year ending September 30, 2008. *Carried.*

## Other Business

Presentations were made to the recipients of the PACE 2006-2007 bursary and appreciation awards.

## Adjournment

Moved by Suzanne Hyde that the meeting be adjourned at 9:35 p.m.

	February 27, 2008
Chair	Date
	February 27, 2008
Secretary	Date

Welcome to the Annual General Meeting of PACE Credit Union.

Your PACE Credit Union is a financial co-operative serving thousands of members across the GTA providing a full range of financial services.

On behalf of my fellow Director's I am pleased to present our yearly report to the membership.

To begin, I would like to take this opportunity to acknowledge a long serving member of your Board of Directors who will not be seeking re-election this evening.

Joe Posivy has served as a credit union Director for over 50 years.

Joe has played a key role in the growth and success of PACE over half century tenure as a director.

Joe was instrumental in the start up of the IBM Accounting Machine Employees Credit Union at the IBM plant in Don Mills, Ontario and was one of its earliest Directors. This Credit Union started out as a limited savings and loan credit union but under Joe's direction and guidance it grew to become a full service financial institution offering members a full range of services and products. Today, many of the products we take for granted were pioneered by credit unions directed by folks like Joe.

He was there when credit unions introduced daily interest savings, chequing accounts, mortgages, RRSPs, and ABM services.

As a director and chair of the newly named IBM Employees Credit Union he helped guide the Credit Union through a period of sustained growth and prosperity.

In the early 1990's Joe was one of the first directors to recognize the need for credit unions to change their operational approach from closed bond organizations and participated in the various merger discussions that lead to the present day PACE Credit Union.

I am sure all members will join me in thanking Joe for his many years of contribution to the credit union movement and wish him all the best in his retirement.

On the financial front, this past year has again been a successful year for our Credit Union as we achieved all our major financial objectives. Of the \$23.4 million in overall revenue (from loan interest, investments and other income), we were able to return \$8.7million to the members in the form of deposit interest on our various member accounts as well as \$370,488 to our investment shareholders. With an increase of our asset base of over \$10.5 million and an increase of \$339 thousand on our capital base your Credit Union is well positioned to continue to serve all your future financial needs.



Terry Ryan,  
Chair



Gerry Robin,  
Vice Chair



Lorne Culley,  
Director



Deborah Baker,  
Director



Peter Rebellati,  
Director



Mel Greif,  
Director



Joe Posivy,  
Director

The Board, as well as management and staff, are well aware of the significant challenges the Canadian economy will face in the next year or two, as well as the impact it will have on our members. We believe the increasing number of commercial and personal bankruptcies will create challenges in the months to come.

I want to assure all members that your Credit Union has prepared for these difficult times with prudent loan policies, reasonable collateral requirements and appropriate reserves. Member deposits are well protected by the Deposit Insurance Corporation of Ontario.

Over the years we have encouraged members to consider a range of term investment deposit products as part of their overall portfolio. The latest downturn in the stock market has highlighted the importance of a balanced investment approach as we prepare for the cost of our children's education, home purchases and retirement.

As part of this approach I am pleased to advise you that your Credit Union offers a wide range of products under the Tax Free Savings Account introduced by the government on January 1 of this year. Please speak to your branch representatives about this new and exciting investment opportunity.

As an update to the Credit Union's membership in Credit Union Central of Ontario, the Board decided after much deliberation to support the proposed merger of the Ontario Central with the British Columbia Central. This new entity known as Central 1 will provide increased financial services and leadership to the Canadian credit union movement. We believe this is the first step on a journey to make credit unions a national rather than a provincial orientated movement. As part of this merger our Credit Union was required to increase our share deposit investment, as well as purchase our proportionate share of certain investments that were held by Credit Union Central of Ontario. These investments are reflected in the financial statements reported to you this year.

Let me close by thanking my fellow Board members for their support during my past years as the Board chair. And, let me – on behalf of the directors and the membership – express our appreciation and thanks to our President & CEO, Larry Smith and his dedicated hardworking staff on a very successful year. And from the Board, to our members, thank you for your continued support of PACE and the credit union system in Ontario.



Terry Ryan – Board Chairman



Jim Tindall,  
Director



Pauline Wainwright,  
Secretary



Claude Duchesneau,  
Director



Wendy Mitchell,  
Director



William Dolly,  
Director



Neil Williamson,  
Director



James Williams,  
Director

2008, to say the least, will most certainly be remembered as one of the most volatile of financial years on record.

Stock Markets tumbled world wide with many equities hitting record lows in a very short period of time.

Interest rates reached lows not seen in over 50 years.

Canada ushered in 2009 facing it's first recession in 17 years, with rate cuts expected to break the 1958 low of 1.12%.

Bankruptcy filings were up 10% over those posted in 2007 not including the impending effect of job losses. That said, the number of filings could well increase by more than 25% by the end of 2009.

While PACE had no direct investment in asset backed commercial paper, losses were incurred as a result of certain investments made by Credit Union Central of Ontario which directly affected our balance sheet at PACE.

None of that news is good news for any financial institution.

Credit unions in Canada are no exception and are certainly not immune to global economic storms.

As such, your Management and Board at PACE are bracing for a "bumpy" 2009 and will make operational and other adjustments as dictated by the varying economic conditions.

What won't change is your Credit Union's continued focus on its community involvement, its commitment to financial soundness, service excellence, convenience and co-operative values.

2008 had many positive highlights, many of which were helped along by last years amalgamation with North York Community Credit Union Limited.

The new directors and staff members quickly became an integral part of the PACE team.

It continues to be a pleasure for me to work closely with our Board of Directors, management and staff.

The result is yet another successful year for the members of PACE.

### Financial Results

Here are some of the financial highlights from the past year:

Assets grew by \$10.5 million to a total of just under \$372 million or an overall increase of approximately 3%.

On Balance Sheet Personal Loans and Mortgages to members decreased by some \$5.2 million to \$170 million (\$175 million in 2007) with off balance sheet programs through our affiliate Concentra Trust increasing \$3.5 million bringing personal and mortgage loan totals to close to \$206 million (\$208 million in 2007).

Commercial Loans to members increased by \$18.7 million to a total of \$118.7 million (\$100 million in 2007).

The Board approved dividend payments to members holding Class A and B shares in the amount of \$370,488 (\$693,464 in 2007).

Overall interest paid to members totaled \$9.1 million (\$8.8 million in 2007)

Total capital, retained earnings and contributed surplus increased to \$29 million, that being just over 8.7% of members' deposits as of September 30, 2008.

Net Income (after tax provisions) for the year was \$405,836.

### Community Involvement

While our commitment to ensure that our members receive the best that the market can offer for financial, insurance, trust and investment services, we, at PACE also believe in the power of contributing to the community. PACE was recognized for its contributions to the community in many different areas and with the help of our members and staff we were able to raise money and awareness for a number of worthy causes through events such as:

**PACE Savings & Credit Union Canadian Squash Classic** – for the fourth consecutive year PACE sponsored the Canadian Men's Professional Squash Classic that brought top squash players from around the world to the Toronto International Centre. Proceeds of the corporate challenges from this event have contributed over \$60,000 to The Prostate Cancer Foundation of Canada.

**PACE Polo For Heart** – as the lead sponsor of this event, PACE was onsite to show support to a spectacular affair drawing almost 10,000 spectators and raising over **\$205,000** in support of the Heart & Stroke Foundation of Ontario. Polo has generated contributions nearing \$4.2 million to date.

PACE sponsored and/or participated in a number of other community events including,

**Big Brothers Big Sisters of Peel** – is a program which provides life altering mentorship to some 1250 Children in Peel Region. This program increases the social skills and problem solving abilities of vulnerable and shy children typically in the age ranges from 6 to 18. PACE contributions of **\$5,000** went directly to the School Mentoring Program.

**PACE Educational Bursaries** – totaling **\$25,000** were awarded to 28 recipients representing young people from all of the communities served by PACE branch operations. Applicants for this years program showed remarkable combinations of academic achievement and contributions to their communities.

**Justin Eves Foundation and Friends of the Justin Eves Foundation** – **\$30,000**. The Justin Eves Foundation provides funding for students who suffer from Dyslexia and who require special instruction to correct their language, spelling and reading disabilities.

**1<sup>st</sup> Annual PACE Charity Golf Classic** – which raised **\$22,000** for the Heart and Stroke Foundation.

## Special Thanks

Management continues to explore and invest in new ways to deal with the fast paced evolution of financial services and the related delivery channels which facilitate and enable each and every member to transact all of their business with their Credit Union.

The new “Aurora” service centre on Yonge Street, in Aurora is now open to all members.

In 2008, PACE added 27 new school properties to its School Board programs and agreed to underwrite the cost of the Toronto District School Board photographic archive preservation.

Future plans also include a significant expansion of our “mobile” member services in the Collingwood, Midhurst, Barrie and Central Toronto areas.

Management is currently reviewing a proposal for a future amalgamation.

Our success this year could not have been accomplished without the dedication and commitment of our PACE staff, management and Board of Directors. Their continued effort ensures that PACE remains your financial institution of choice.

A special thanks to our members for their continued support and for putting the Power of PACE to work for you, your families and friends.



Larry Smith,  
President &  
Chief Executive Officer

At PACE Credit Union, our members' borrowing needs are handled by our expert lending staff that provide professional advice for a variety of lending products.

Our total loan portfolio increased by 5% or by \$13.5 million for the year.

With rates still at record lows, we were able to assist members by reducing their monthly payments, while utilizing their home equity to repay higher interest rate loans and credit cards. These low interest rates also stimulated the first time home buyer and here at PACE we take great pride in watching our member's dreams come true. With the advice of our professional advisors, members are investing this interest rate saving in deposit programs with PACE to begin accumulating net worth.

PACE is committed to investing in our local communities by reviewing the borrowing requirements of our commercial members. With the ability to make decisions locally, our Commercial Team of professionals are able to respond to members' requests in a very timely manner while offering them a more personalized environment.

Our PACE Auto Centre sales team is committed to providing outstanding service to our members. They present a complete tailored alternative for vehicle purchase, financing and leasing.

Our members' financial wellness is our top priority and we achieve this through the expertise of our lenders.

In accordance with the regulations and pursuant to subsection 120(2) and as prescribed by Ontario Regulation 76/95 made under the Credit Union and Caisses Populaires Act 1994, the following is included for the information of the membership:



## TOTAL LOAN ACTIVITY October 1, 2007 – September 30, 2008 (Amounts in thousands of dollars)

	Number	Amount
Personal Loans	916	\$ 15,211
Personal Mortgages	108	\$ 23,728
Personal Line of Credits	421	\$ 25,532
Commercial Loans	47	\$ 34,266
Total Applications Approved	1,492	\$ 98,737
Total Applications Not Approved	81	\$ 0
Total Applications	1,573	\$ 98,737
Loans in Arrears in excess of 90 days	205	\$ 8,732
Allowance for Doubtful Loans (including non specific)		\$ 2,477

The total loan activity that was approved and funded for the period October 1, 2007 to September 30, 2008 is as follows:

In total, we approved 1,492 loan applications for a total advance of \$98.7 million.

81 Loan applications were not approved.

For the same period, we have 205 loans that are in arrears in excess of 90 days. The total loan amount outstanding is \$8.7 million and an allowance of \$2.5 million has been made, which includes a non specific general provision of \$211,000.

Respectfully submitted,

Mary Benincasa  
Chief Operating Officer

Pursuant to Section 125 of the Credit Unions and Caisses Populaires Act, 1994 (the "Act") and Article 5.04 of the by-laws, the Board of Directors established an Audit Committee. Elected members of the Committee include directors; Claude Duchesneau, Deborah Baker, Jim Tindall, Wendy Mitchell, Neil Williamson and myself, Lorne Culley, Chairman.

The Committee has adopted a mandate which covers all of the duties, which are specified to be performed by audit committees in the regulations to the Act.

In addition, the Audit Committee contracted the services of an internal auditor to assist us in fulfilling those duties.

The Committee, which meets at least quarterly, held five meetings throughout the year.

The agenda of those meetings is arranged so that the following duties will be performed and appropriate action taken as a result thereof:

Serve as the principal communication link between the external auditors and the Board of Directors and, in particular, review the terms of engagement and scope of the audit and review the Credit Union's annual financial statements prior to Board approval for issuance to the members.

Obtain a reasonable understanding of the key elements of internal controls that are important to safeguarding the assets of the Credit Union, ensuring the accuracy of financial reports and ensuring compliance with policies and procedures and regulations.

Serve as the Board's liaison with the internal auditor and review the internal audit mandate, workplan and reports.

Review the policies, procedures and controls, which relate to legislative compliance, with a particular focus on requirements for liquidity, capital adequacy and interest rate risk management.

The Committee receives full co-operation and support from management to enable it to play an effective role in improving the quality of financial reporting to the members and enhancing the overall control structure of the Credit Union.

There are no significant recommendations made by the Audit Committee that have not been either implemented or are in the process of being implemented. In addition, there are no matters which the Audit Committee believes should be reported to the membership, nor are there any further matters which are required to be disclosed pursuant to the Act or the Regulations thereto.



Respectfully submitted,

Lorne Culley,  
Chairman, Audit Committee

Regardless of the economic conditions in Ontario, our Credit Union continues to have tremendous growth opportunities within our own membership. Studies show that 7 of 10 members use financial services elsewhere – mostly at banks. An emphasis will be placed on obtaining a greater wallet share of our existing members through focused direct mail offerings supported by exemplary member service.

Branch consolidations affecting 7 of our locations will be completed early in this fiscal year. This will be helpful in allowing us to focus on growth at these locations.

Opportunities for growth in the community exist in our highly visible new locations in Aurora and Markham. Improving the Hamilton location with upgrades to staff there and at Matheson leave us optimistic that targets will be met at these two branches.

Our Behavioral Competencies Program is gaining traction and is expected to pay dividends in terms of growth as we move into the program's second year. The Results Orientation component of the program has been used by senior management as a useful tool to motivate, measure and reward our branch manager's as they work towards meeting their growth objectives.

We are well positioned in our market place to meet our lending targets in both the personal and commercial portfolios. The challenge for us will be attracting reasonably priced deposits. Our Interac On-Line for the schools will play a significant role in attracting these deposits.

Our aging membership issue is addressed by the development of our own iCount and iCount Student program. This unique program is aimed at attracting members 24 and under through discounted service charges, borrowing and share subsidy.



Respectfully submitted,

Dan Coldwell  
Vice President,  
Business Development

Management is responsible for the preparation, presentation and consistency of financial information, including the financial statements and other commentary contained in the Annual Report. The financial statements and accompanying notes, prepared in accordance with the requirements of the Credit Unions and Caisses Populaires Act, 1994 and generally accepted accounting principles, are considered by the Board and management to be fairly presented. In preparing the financial statements, management has exercised judgment in the selection of significant accounting policies and the determination of reasonable estimates, which are reflected therein.

Management has developed and maintains the necessary systems of internal controls to provide reasonable assurance that the transactions are authorized and assets are safeguarded. The controls are also designed to provide reasonable assurance that relevant and reliable financial information is produced. The Board meets monthly to oversee management's performance and to discharge its other legal obligations as set out in the Credit Unions and Caisses Populaires Act, 1994. The Board has appointed an Audit Committee, comprised of six Directors, which reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors.

The Credit Union engages an internal auditor to supplement and test the efficiency and effectiveness of the internal controls, which are in place. The internal auditor reports his findings periodically to the Audit Committee.

The Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario each conduct a periodic examination and enquiry into the affairs of the Credit Union to ensure compliance with the Credit Union's By-laws and the provisions of the Credit Unions and Caisses Populaires Act, 1994 under which the Credit Union is chartered and regulated.

The independent external auditors, Deloitte & Touche LLP, are appointed to conduct an examination of our financial statements in accordance with generally accepted auditing standards and to report thereon. Their report appears following this report. The external auditors have unrestricted access to the accounting records of the Credit Union and they meet periodically with management, the Audit Committee and the Board of Directors to discuss internal controls, financial reporting and other matters which come to their attention in the course of conducting their audit.



Larry Smith,  
President & Chief Executive Officer



Kim Colacicco,  
Corporate Secretary

## AUDITORS' REPORT

### To the Members of PACE Savings & Credit Union Limited

We have audited the balance sheet of PACE Savings & Credit Union Limited as at September 30, 2008 and the statements of income and comprehensive income, contributed surplus, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at September 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Licensed Public Accountants  
St. Catharines, Ontario

November 5, 2008, except as to Note 13(b)  
which is as of November 26, 2008

**BALANCE SHEET** as at September 30, 2008

	2008	2007
	\$	\$
<b>Assets</b>		
Cash and cash equivalents (Note 3)	<b>5,389,662</b>	15,700,186
Currency held in third-party ABMs (Note 4)	<b>7,000,263</b>	9,179,180
Investments (Note 5)	<b>58,459,518</b>	49,823,984
Loans to members (Notes 6 and 7)	<b>286,186,341</b>	272,627,461
Capital assets (Note 8)	<b>7,381,467</b>	6,813,196
Other assets (Note 9)	<b>7,331,992</b>	7,077,644
	<b>371,749,243</b>	361,221,651
<b>Liabilities</b>		
Members' deposits (Note 11)	<b>332,188,932</b>	322,317,239
Other liabilities (Note 12)	<b>10,567,552</b>	10,369,054
Liabilities qualifying as regulatory capital (Note 13)	<b>16,369,725</b>	16,318,160
	<b>359,126,209</b>	349,004,453
<b>Members' equity</b>		
Contributed surplus	<b>3,544,262</b>	3,544,262
Retained earnings	<b>9,078,772</b>	8,672,936
	<b>12,623,034</b>	12,217,198
	<b>371,749,243</b>	361,221,651

Approved by the Board



Director



Director

# STATEMENT OF INCOME AND COMPREHENSIVE INCOME year ended September 30, 2008

	2008	2007
	\$	\$
<b>Revenue</b>		
Interest on loans		
Mortgage	6,876,332	6,834,375
Personal	3,507,381	3,460,792
Commercial	7,681,843	6,851,988
Investment income	2,484,958	1,709,662
Other income	2,879,074	3,257,340
	<b>23,429,588</b>	22,114,157
<b>Financial expenses</b>		
Interest on members' deposits		
Personal chequing accounts	361,046	157,399
Savings accounts	92,800	84,596
Term deposits	4,605,341	4,320,284
Registered retirement savings plans	2,253,091	2,057,088
Registered retirement income funds	1,412,578	1,388,087
Interest on borrowings	2,368	90,110
Dividend on Class A Profit Shares	95,951	165,358
Dividend on Class B Investment Shares	274,537	528,106
	<b>9,097,712</b>	8,791,028
<b>Financial margin</b>	<b>14,331,876</b>	13,323,129
<b>Operating expenses</b>		
Administrative	6,187,181	5,531,974
Amortization of capital assets	906,393	934,067
Amortization of intangible assets	301,596	150,800
Deposit insurance premium	294,674	278,064
Provision for impaired loans	840,000	925,000
Recovery of investment (Note 5)	(141,235)	(669,912)
Salaries and benefits	5,457,431	4,843,226
	<b>13,846,040</b>	11,993,219
<b>Income before income taxes</b>	<b>485,836</b>	1,329,910
<b>Provision for income taxes (Note 15)</b>		
Current	95,000	139,763
Future	(15,000)	153,000
	<b>80,000</b>	292,763
<b>Net income</b>	<b>405,836</b>	1,037,147
Other comprehensive income	-	-
<b>Comprehensive income</b>	<b>405,836</b>	1,037,147

	2008	2007
	\$	\$
<b>Contributed surplus</b>		
Balance, beginning of year	3,544,262	-
Fair value of net assets acquired	-	3,544,262
Contributed surplus, end of year	<b>3,544,262</b>	3,544,262

	2008	2007
	\$	\$
<b>Retained earnings</b>		
Balance, beginning of year	8,672,936	7,635,789
Net income for the year	405,836	1,037,147
Retained earnings, end of year	<b>9,078,772</b>	8,672,936

# STATEMENT OF CASH FLOWS year ended September 30, 2008

	2008	2007
	\$	\$
<b>Operating activities</b>		
Net income	405,836	1,037,147
Adjustments to determine net cash flows		
Amortization of intangibles and fair value adjustments	273,456	136,734
Provision for impaired loans	840,000	925,000
Amortization of capital assets	906,393	934,067
Future income tax (recovery) expense	(15,000)	153,000
Gain on sale of property acquired by foreclosure and held for resale	(92,379)	-
Class A Profit Shares issued, share dividend	350,956	681,470
Class B Investment Shares, Series 97 issued, share dividend	15,050	29,416
Net change in accrued interest receivable and payable	(353,800)	312,967
Net changes in other assets and liabilities	11,354	2,315,263
	<b>2,341,866</b>	6,525,064
<b>Investing activities</b>		
Loans to members	(14,350,592)	18,208,920
Currency held in third-party ABMs	2,178,917	(492,841)
Proceeds on sale of property acquired by foreclosure and held for resale	860,889	-
Investments	(9,404,044)	(16,845,183)
Cash and cash equivalents acquired in business combination	-	12,665,985
Proceeds on disposal of capital assets	27,390	-
Purchase of capital assets	(1,502,054)	(410,284)
	<b>(22,189,494)</b>	13,126,597
<b>Financing activities</b>		
Members' deposits	9,851,545	(299,423)
Term loan payable	-	(5,000,000)
Class B Investment Shares, Series 95 redeemed	(80,590)	(49,735)
Class B Investment Shares, Series 97 redeemed	(10,330)	(26,873)
Class B Investment Shares, Series 03 redeemed	(9,947)	(37,700)
Class A Profit Shares redeemed	(67,578)	(62,054)
Membership shares	(145,996)	(208,639)
	<b>9,537,104</b>	(5,684,424)
Net change in cash and cash equivalents	<b>(10,310,524)</b>	13,967,237
Cash and cash equivalents, beginning of year	15,700,186	1,732,949
<b>Cash and cash equivalents, end of year</b>	<b>5,389,662</b>	15,700,186
Supplementary information		
Cash income taxes paid	169,105	172,949
Cash interest paid	8,926,653	8,791,028

## 1. Changes in accounting policies

On October 1, 2007 the Credit Union adopted the following recommendations of Canadian Institute of Chartered Accountants (CICA) Handbook:

- Section 3862, *Financial instruments – Disclosures*. This Section requires the disclosure of information about: a) the significance of financial instruments for the Credit Union's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the Credit Union is exposed during the year and as at the balance sheet date, and how the Credit Union manages those risks. The required disclosures are in notes 2, 6 and 23.
- Section 3863, *Financial instruments – Presentation*. This Section is unchanged from the presentation requirements included in Section 3861.
- Section 1535, *Capital Disclosures*. This section requires the disclosure of information about the Credit Union's objectives, policies and processes for managing capital. The required disclosures are in note 14.

## 2. Significant accounting policies

PACE Savings & Credit Union was formed on April 1, 2003 as a result of the amalgamation of Greater Toronto Area (GTA) Savings & Credit Union Limited and the former PACE Savings & Credit Union Limited.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and reflect the accounting policies set out below.

*The Credit Unions and Caisses Populaires Act, 1994 (the "Act")*

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

### Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments. Settlement date accounting is used.

#### Classification

Cash and cash equivalents	Held for trading
Currency held in third party ABMs	Held for trading
Investments:	
Banker acceptances	Held for trading
Discount and term deposits	Held for trading
Bonds – Long term	Held to maturity
ABCP – LP	Available-for-sale
Debt securities	Available-for-sale
Equity securities	Available-for-sale
Cental 1 shares	Loans and receivables
CUCO shares	Loans and receivables
Liquidity reserve deposit	Loans and receivables
Loans to members	Loans and receivables

#### Other Assets:

Accounts receivable  
Funds held in trust account  
Members' deposits  
Other liabilities  
Derivative instruments  
Liabilities qualifying for regulatory capital

Loans and receivables  
Held for trading  
Other liabilities  
Other liabilities  
Held for trading  
Other liabilities

#### Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Financial instruments designated as held for trading cannot be transferred into or out of this category after inspection. Financial Services Commission of Ontario ("FSCO") has imposed certain restrictions, which must be met, in order to use the fair value designation. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in income on investments.

#### Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method.

#### Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Except as mentioned below, available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to other income.

Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost.

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method.

#### Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

#### Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

#### Transaction costs

Transaction costs related to financial assets and liabilities are expensed as incurred. Loan commitment fees are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument.

*Cash and cash equivalents*

Cash and cash equivalents include cash.

*Loans to members*

Loans to members are accounted for at amortized cost using the effective interest method.

A loan is classified as impaired when a specific allowance has been established or a write-off taken or when, in the opinion of management, there is reasonable doubt as to the ultimate collectability of principal or interest. A loan is also classified as impaired when interest or principal is contractually 90 days past due, unless the loan is fully secured and in the process of collection. Fully secured loans are classified as impaired after a delinquency period of 180 days. Once a loan is classified as impaired all previously accrued interest is reversed and charged against current income, except for loans which are fully secured.

Loans are generally returned to accrual status when all delinquent principal and interest payments are brought current and the timely collection of both principal and interest is reasonably assured.

*Allowance for impaired loans*

The allowance for impaired loans is maintained in an amount considered adequate to absorb estimated credit-related losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a significant change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of specific and general allowances, each of which is reviewed on a regular basis.

The allowance is increased by provisions for impaired loans which are charged to earnings and reduced by write-offs net of recoveries.

Specific allowances are determined on an item-by-item basis and reflect the associated estimated credit loss. The specific allowance is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount, which is generally the fair value of any security underlying the loan, net of expected costs of realization.

The general allowance is established to absorb any potential credit losses and is determined through analysis of economic developments and current portfolio trends for credit losses and cannot be determined on a loan by loan basis. When losses can be attributable to individual loan facilities, specific allowances are recorded.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

*Capital assets*

Capital assets are stated at acquisition cost. Amortization is calculated at the following annual rates:

Buildings	4% declining-balance
Computer equipment	20% straight-line
Furniture and equipment	10% straight-line
Leasehold improvements	term of lease, straight-line

When capital assets are sold or otherwise disposed of, the related costs and accumulated amortization are removed from the respective accounts and any gain or loss is reflected in the statement of income and comprehensive income. Expenditures of a repair or maintenance nature are charged to the statement of income and comprehensive income as incurred.

*Impairment of long-lived assets*

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

*Intangible assets*

Intangible assets are accounted for at cost. Amortization is based on their estimated useful life using the straight-line method and the following periods:

Core deposits	10 years
Member relationships	10 years

*Derivative instruments*

Derivative instruments held for trading that are not eligible for hedge accounting are recognized on the balance sheet at their fair value, with changes in fair value recognized in other income.

**Embedded derivatives**

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of embedded derivatives are the same as those of a free standing derivative; and the combined instrument or contract is not measured at fair value, with the changes in fair value recognized in interest and other expenses, net. These embedded derivatives are measured at fair value, with changes therein recognized in interest and other expenses, net. As at September 30, 2008, the Credit Union has no outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

#### Revenue recognition

Interest on loans is recognized on an accrual basis except when interest is ninety days past due or earlier when, in the opinion of management, there is doubt as to the collectability of principal or interest.

#### Foreign currency

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at the annual average rate. Translation adjustments are recorded in earnings.

#### Income taxes

The liability method is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using enacted and substantively enacted tax rates and laws that will be in effect when the differences are expected to be reversed. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

#### Use of estimates

The preparation of the Credit Union's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates. Significant estimates included in the financial statements consist of valuation of the ABCP investment (note 5); the allowance for impaired loans (note 7); current and future income tax provisions (note 15); and the fair value of the loans to members and members' deposits as at September 30, 2008 (note 22).

### 3. Cash and cash equivalents

The Credit Union has available lines of credit with Central 1 Credit Union ("Central") in the amounts of \$8,000,000 Cdn and \$250,000 USD, a capital market account in the amount of \$250,000 Cdn, a contingent term loan with Central in the amount of \$23,460,000 Cdn and a term loan in the amount of \$5,000,000 Cdn to cover shortfalls in cash resources. These lines of credit and term loan were unutilized as at September 30, 2008.

Lastly, the Credit Union has a letter of credit with Central in the amount of \$2,040,000, which is unutilized as at September 30, 2008.

These lines of credit, term loan and letter of credit are secured by an assignment of book debts and a general security agreement covering all assets of the Credit Union.

### 4. Currency held in third-party ABMs

The Credit Union has entered into agreements with various third-party service organizations to provide currency for ABMs ("automated banking machines") owned by the third parties. As compensation, the Credit Union receives a fee calculated primarily by reference to the aggregate funding provided and a prescribed interest rate. Repayments of the amounts placed into the ABMs occur through the electronic clearing process and the Credit Union retains control over and legal title to such funds until repayment is made. Income generated by the ABMs for the year ended September 30, 2008 amounted to \$602,763 (2007 - \$671,387) and is included in other income in the statement of income and comprehensive income.

### 5. Investments

	<b>2008</b>		2007
	<b>Market value</b>	Carrying value	Carrying value
	<b>\$</b>	\$	\$
<i>Held for trading</i>			
Central 1 Credit Union - term deposits	<b>23,655,185</b>	23,655,185	18,824,291
<i>Available for sale<sup>(1)</sup></i>			
Asset-backed commercial paper - LP	<b>2,476,541</b>	2,476,541	-
Central 1 Credit Union - Class A shares	<b>1</b>	1	-
Credit Union Central of Ontario - shares	<b>3,167,771</b>	3,167,771	1,834,227
The Co-operators Group Limited			
Term certificate	<b>150,000</b>	150,000	150,000
Corporate bonds	<b>10,800</b>	10,800	10,800
Concentra Financial	<b>8,077</b>	8,077	8,077
Credential Securities	<b>5,000</b>	5,000	5,000
<i>Held to maturity</i>			
National Bank - Bonds	<b>2,614,554</b>	2,723,115	2,728,494
<i>Loans and receivables</i>			
Central 1 Credit Union			
Liquidity reserve deposit	<b>26,704,863</b>	25,847,932	25,380,356
<i>Other investments</i>			
Property acquired by foreclosure and held for resale	<b>415,096</b>	415,096	882,739
	<b>59,207,888</b>	58,459,518	49,823,984

(1) No market value exists for these investments as they are not actively traded in the market

#### *Asset-backed Commercial Paper Limited Partnership and Central 1 Credit Union Merger*

At a special general meeting held May 31, 2008, members of Credit Union Central of Ontario Limited ("CUCO") approved a resolution to facilitate the merger of CUCO and Credit Union Central of British Columbia ("CUCBC") to form a new national financial services entity named Central 1 Credit Union ("Central").

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

The ABCP LP is governed by a Board of Directors that was elected by Ontario member credit unions and each limited partner will record its proportionate share of net income or loss in the ABCP LP as determined by Canadian generally accepted accounting principles and subject to an annual external audit. As at September 30, 2008 the Credit Union has \$2,476,541 invested in ABCP LP in units.

The valuation for each credit union's share of the ABCP was provided to them before closing. The Credit Union classified the investment as available for sale as no quoted market price is available in the active market and therefore continues to hold the investment at cost.

Due to current market uncertainties, the Credit Union will continue to monitor the investment on a go forward basis. Possible changes that could have a material impact on the future value of the ABCP include the following: (i) current economic conditions; and (ii) future developments related to the liquidity of the ABCP market.

#### *Central 1 Credit Union - liquidity reserve deposit*

As a condition of maintaining membership in Central in good standing, the Credit Union is required to maintain on deposit in Central an amount equal to 7% of the total assets. The Liquidity Reserve Deposit is updated each calendar quarter based on reported assets. At maturity these deposits are reinvested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in the Credit Union's assets or upon withdrawal of membership from Central.

#### *Central 1 Credit Union – Class A shares*

As a condition of maintaining membership in Central, the Credit Union is required to maintain an investment in shares of the Central in an amount equal to one Class A share.

No market exists for shares of the Central. The book value of the shares approximates the fair value as there is no quoted market price.

#### *Credit Union Central of Ontario ("CUCO") – shares*

As a condition of maintaining membership in CUCO, the Credit Union is required to maintain an investment in shares of the CUCO in an amount equal to 0.60% of the Credit Union's total assets as at December 31<sup>st</sup> each year.

Shares in CUCO also include capital calls as approved by the Board of Directors of CUCO. During the year CUCO invoked capital calls of 30 basis points of total assets amounting to \$976,604 over and above the minimum requirement.

No market exists for shares of the CUCO except that they may be surrendered on withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a CUCO by-law providing for the redemption of its share capital. The book value of the shares approximates the fair value as there is no quoted market price.

#### *Property acquired by foreclosures*

Property acquired by foreclosure and held for resale is stated at the lower of the recorded investment in the foreclosed loan or the estimated net proceeds from the sale of the assets. Such investments are intended to be sold as soon as practicable. Revenues and costs related to the investment are booked as an adjustment to the carrying value of the investment.

#### *CU-Connection Limited shares*

The Credit Union was a part owner (25% interest) with a group of Credit Unions in CU-Connection Limited. The company provided on-line electronic funds transaction services, including access to Interac and other ABM networks in Canada and in the United States. In fiscal 2006, the investment was written down to \$nil. In 2007, Cu-Connection Limited became insolvent and the Credit Union no longer has an interest in the Company. The Credit Union recovered further losses associated with this investment of \$141,235 in the current year.

## 6. Loans to members

	2008 \$	2007 \$
Mortgage	<b>123,932,213</b>	121,784,470
Personal	<b>46,060,648</b>	53,399,023
Commercial	<b>118,670,072</b>	99,957,085
	<b>288,662,933</b>	275,140,578
Less allowance for impaired loans (Note 7)	<b>2,476,592</b>	2,513,117
	<b>286,186,341</b>	272,627,461

The loan classifications set out above are as defined in the Regulations to the Act.

Mortgage loans are repayable in monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of thirty years.

Commercial loans and personal loans, including line of credit loans, are repayable to the Credit Union in monthly blended principal and interest instalments over a maximum term of five years, except for line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice.

The Credit Union has authorized additional credit loans, which are unutilized at September 30, 2008, for a sum of \$60,155,207 (2007 - \$64,918,800).

As at September 30, 2008, the Credit Union was committed to the issuance of commercial loans to members in the aggregate amount of approximately \$8,070,000.

At September 30, 2008, the Credit Union was administering, for a fee, on behalf of Concentra Financial ("Concentra"), members' mortgage loans aggregating \$36,260,317 (2007 - \$32,764,618) including mortgage loans transferred to Concentra in the current year of \$3,495,692. As these mortgage loans do not belong to the Credit Union, they are not included in these financial statements.

#### 7. Allowance for impaired loans

The activity in the allowance for impaired loans is summarized as follows:

	2008				2007
	Personal	Mortgage	Commercial	Total	Total
	\$	\$	\$	\$	\$
Balance, beginning of period	1,307,696	-	1,205,421	2,513,117	2,324,725
Collection of loans previously written-off	50,983	-	-	50,983	183,539
Loans written-off as uncollectible	(178,221)	-	(749,287)	(927,508)	(920,147)
Provision for impaired loans	114,011	-	725,989	840,000	925,000
Balance, end of period	1,294,469	-	1,182,123	2,476,592	2,513,117
Aggregate impaired loans, end of period	1,303,573	3,610,127	3,817,810	8,731,510	4,171,750

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

#### 8. Capital assets

	2008			2007
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	1,976,841	-	1,976,841	1,447,641
Buildings	3,760,395	664,033	3,096,362	2,978,029
Computer equipment	4,284,009	3,243,873	1,040,136	1,335,116
Furniture and equipment	921,519	425,304	496,215	459,419
Leasehold improvements	1,376,573	604,660	771,913	592,991
	12,319,337	4,937,870	7,381,467	6,813,196

#### 9. Other assets

	2008	2007
	\$	\$
Accrued interest	1,166,350	1,011,979
Accounts receivable	949,149	437,162
Prepaid expenses	262,147	202,153
Funds held in trust account	2,390,742	2,561,150
Intangible assets (Note 10)	2,563,604	2,865,200
	7,331,992	7,077,644

#### *Funds held in trust account*

These funds are held in trust pursuant to the terms of employment contracts entered into by the Credit Union to provide for certain benefits for seven members of senior management. The obligation is being accrued over the estimated average remaining service life ("EARSL") of these seven employees (see note 12). As at September 30, 2008, the remaining minimum obligation to be accrued is approximately \$1,118,378 (2007 - \$1,278,146) and the EARSL is seven years.

#### 10. Intangible assets

	2008			2007
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Core deposits	2,824,000	423,596	2,400,404	2,682,800
Customer relationships	192,000	28,800	163,200	182,400
	3,016,000	452,396	2,563,604	2,865,200

## 11. Members' deposits

	2008	2007
	\$	\$
Personal chequing accounts	95,250,120	83,020,320
Savings accounts	22,442,668	25,313,157
Term deposits	115,980,326	114,071,084
Registered retirement savings plans	63,752,835	62,147,451
Registered retirement income funds	34,762,983	37,765,227
	<b>332,188,932</b>	<b>322,317,239</b>

*Term deposits*

Term deposits for periods of one to five years generally may not be withdrawn, prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Withdrawal privileges on all deposit accounts are subject to the overriding right of the Board of Directors to impose a waiting period.

*Registered retirement plans*

Concentra Trust is the trustee for the registered retirement plans offered to members. Under an agreement with the Concentra Trust, 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 the parties designated by them, by the Credit Union, on behalf of Concentra Trust.

## 12. Other liabilities

	2008	2007
	\$	\$
Accrued interest on members' deposits	7,339,266	7,538,695
Accounts payable and accrued liabilities	1,627,274	1,209,115
Future income taxes (Note 15)	331,890	346,890
Accrued employment contract benefits (Note 9)	1,269,122	1,274,354
	<b>10,567,552</b>	<b>10,369,054</b>

## 13. Liabilities qualifying as regulatory capital

	2008	2007
	\$	\$
Class B Investment Shares, Series 95	1,334,300	1,414,890
Class B Investment Shares, Series 97	516,721	512,001
Class B Investment Shares, Series 03	7,165,853	7,175,800
Class A Profit Shares	3,549,331	3,265,953
Membership shares	3,803,520	3,949,516
	<b>16,369,725</b>	<b>16,318,160</b>

## (a) Authorized share capital

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

- (i) an unlimited number of Class B, Series 95 non-cumulative, non-voting, non-participating special shares ("Class B Investment Shares, Series 95"), issuable in series, with an issue price of \$1 each;
- (ii) an unlimited number of Class B, Series 97 non-cumulative, non-voting, non-participating special shares ("Class B Investment Shares, Series 97"), issuable in series, with an issue price of \$1 each;
- (iii) an unlimited number of Class B, Series 03 non-cumulative, non-voting, non-participating special shares ("Class B Investment Shares, Series 03"), issuable in series, with an issue price of \$1 each; and
- (iv) an unlimited number of Class A non-cumulative, non-voting, non-participating special shares ("Class A Profit Shares") with an issue price of \$1 each.

In addition to these two classes of shares, the Credit Union is authorized to issue an unlimited number of membership shares, subject to its by-laws which prescribe a maximum of 35 membership shares to be owned by each member, with an issue price of \$5 each.

Membership shares rank junior to Class A Profit Shares and to Class B Investment Shares for priority in the declaration and payment of dividends and in the event of the liquidation, dissolution or winding-up of the Credit Union. In addition, Class A Profit Shares rank junior to the Class B Investment Shares. All classes of shares are redeemable at the amounts paid thereon, plus declared and unpaid dividends, under various conditions and in accordance with the terms set out in the articles of the Credit Union, and subject to certain restrictions which are set out in governing legislation.

*Class B investment shares, Series 95*

Class B Investment Shares, Series 95 may be redeemed in any fiscal year, after the first five years subsequent to issuance, to the extent of 10% of the total Class B Investment Shares, Series 95 outstanding at the end of the previous fiscal year, or after the death of the shareholder.

*Class B investment shares, Series 97*

Class B Investment Shares, Series 97 may be redeemed in any fiscal year, to the extent of 10% of the total Class B Investment Shares, Series 97 outstanding at the end of the previous fiscal year.

*Class B investment shares, Series 03*

Class B Investment Shares, Series 03 may be redeemed in any fiscal year, after the first five years subsequent to issuance, to the extent of 10% of the total Class B Investment Shares, Series 03 outstanding at the end of the previous fiscal year, or after the death of the shareholder, or if expelled from membership.

*Class A profit shares*

The Class A Profit Shares are redeemable at the issue price at any time on or after the date on which the shareholder reaches the age of 65 years, or upon termination of membership, or after the death of the shareholder. Redemptions in any fiscal year may not exceed 10% of the total Class A Profit Shares outstanding at the beginning of that fiscal year.

*Membership shares*

As a condition of membership, each member under eighteen years of age must hold at least two shares, while all other members must hold 35 shares.

As at September 30, 2008, there were 27,054 (2007 – 28,993) members and 769,515 (2007 – 789,903) membership shares outstanding. Shares may be withdrawn on demand, subject to the Credit Union meeting capital adequacy requirements and the discretion of the Board of Directors, who may require notice.

*(b) Dividends*

Dividends on shares may be declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory requirements of the Act as described in note 14.

The Board of Directors declared a dividend equivalent to 3.00% on November 26, 2008:

- (i) the principal amount of each of the Series 95 Class B Investment Shares and the Series 03 Class B Investment Shares, payable to the shareholders of record as at September 30, 2008, in the form of Class A Profit Shares;
- (ii) the principal amount of the Series 97 Class B Investment Shares, payable to the shareholders of record as at September 30, 2008, in the form of Series 97 Class B Investment Shares; and
- (iii) the principal amount of Class A Profit Shares, payable to the shareholders of record as at September 30, 2008, in the form of Class A Profit Shares.

**14. Capital adequacy***Capital management*

The Board approves annually the capital management policy and the annual business plan. This policy outlines the Credit Union's overall objectives and guidelines to ensure that the Credit Union has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of the Credit Union and to support the current and future operating plans.

In accordance with the requirements of the Act and accompanying Regulations, Credit Unions are required to maintain sufficient capital to meet two tests.

**Leverage test**

Regulatory capital, comprising membership shares, any other class of qualifying capital that may be issued and retained earnings, must amount to at least 4.25% of total assets.

**Risk-weighted assets test**

Regulatory capital must amount to at least 8% of risk-weighted assets. The risk weighting of assets is specified in the Regulations to the Act.

At September 30, 2008, the Credit Union met regulatory capital requirements based on capital of \$26,640,097.

	2008	2007
Leverage ratio:	7.22%	7.34%
Risk-weighted assets ratio:	12.30%	13.05%

### 15. Income taxes

The provision for income taxes reported for the year ended September 30, 2008 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	2008	2007
Statutory income tax rate	17.03%	18.62%
	2008	2007
	\$	\$
Expected provision of income taxes	82,738	247,629
Non-taxable and non-deductible items	10,411	17,072
Other	(13,149)	28,062
Reported income tax provision	80,000	292,763

Temporary differences which give rise to the following future income tax liability as at September 30, 2008 are as follows:

	2008	2007
	\$	\$
Future income tax assets (liabilities):		
Allowance for impaired loans	40,864	117,398
Capital assets	(158,747)	(181,383)
Intangible assets	(422,994)	(530,421)
Accrued employment contract benefits	209,405	237,218
Other	(418)	10,298
Future income tax liabilities, net	(331,890)	(346,890)

### 16. IBM Employees Charitable Foundation

The Credit Union administers and holds funds in trust for the IBM Employees Charitable Foundation. As these do not belong to the Credit Union, they are not included in these financial statements.

### 17. Related party transactions

As at September 30, 2008, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and their related parties totalled \$11,689,289 (2007 - \$10,882,631). There was no allowance for impaired loans required in respect of these loans as at September 30, 2008 and 2007.

### 18. Commitments

The Credit Union is committed to the following minimum annual payments for its leased premises:

	\$
2009	434,425
2010	402,919
2011	369,860
2012	362,354
2013	362,364
2014 and thereafter	783,536
	2,715,458

### 19. Contingencies

During the normal course of business, there are various claims and proceedings which have been or may be instituted against the Credit Union. Management believes the disposition of the matters that are pending or asserted is not expected to have a material adverse effect on the financial position or the results of operations of the Credit Union.

### 20. Other information

The total fees paid to Central for the year ended September 30, 2008 amounted to \$259,821 (2007 - \$216,945). These fees were primarily related to banking functions, educational training courses and consulting fees.

Outstanding letters of credit at September 30, 2008 amounted to \$1,591,072 (2007 - \$2,345,740).

### 21. Pension plan

The Credit Union maintains a defined contribution pension plan. The total cost of \$250,625 (2007 - \$224,088) recognized in the statement of income and comprehensive income represents cash contributions made by the Credit Union to the plan.

### 22. Fair value of financial instruments

#### Fair value

The amounts set out below represent the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets that are not considered financial instruments, such as prepaids, capital assets, intangible assets, future income taxes payable and accrued employment contract benefits.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

	2007			
	Fair value	Book value	Fair value over (under) book value	Fair value over (under) book value
	\$	\$	\$	\$
<b>Assets</b>				
Cash and cash equivalents	5,389,662	5,389,662	-	-
Currency held in third-party ABMs	7,000,263	7,000,263	-	-
Investments	59,207,888	58,459,518	748,370	(1,261,503)
Loans to members	284,020,898	286,186,341	(2,165,443)	(2,268,922)
Other assets	4,506,241	4,506,241	-	-
<b>Liabilities</b>				
Members' deposits	334,756,336	332,188,932	2,567,404	1,259,451
Other liabilities	8,966,540	8,966,540	-	-
Liabilities qualifying as regulatory capital	16,369,725	16,369,725	-	-

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

- (i) The fair values of cash and cash equivalents, currency held in third-party ABMs, certain other assets and certain other liabilities are assumed to approximate their carrying values, due to their short-term nature.
- (ii) The fair value of investments is based on quoted market values where available (see note 5).
- (iii) The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rates on these loans and deposits reprice to market on a periodic basis.

- (iv) The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposits and capital accounts at current market rates for products with similar terms and credit risks.

### 23. Nature and extent of risks arising from financial instruments

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how the Credit Union manages its exposure to these risks.

#### *Credit risk*

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its financial obligations.

The Board of Directors of the Credit Union oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

The Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union implement a prudent and effective granting process to assess the borrower's ability to repay.

The Credit Union mitigates this credit risk by obtaining quality collateral. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union are, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

#### *Liquidity risk*

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors ("Board") is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, the Credit Union's compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

Additional details are outlined in the Credit Union's internal policy manual.

#### *Market risk*

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

Senior management is responsible for managing market risk in accordance with the Credit Union's internal policy. Senior management reports monthly to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by the Credit Union. All exceptions noted are to be reported to the Board.

The Board is responsible for monitoring significant variances and to ensure that corrective measures are implemented.

#### *(i) Interest rate risk*

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets. 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.

The table below summarizes amounts by maturity dates and effective interest rates for the following on-balance sheet financial instruments:

	Variable Rate	Less than one year	One to five years	Non-rate Sensitive	Total	Effective Interest Rate
(in thousands of dollars)						
	\$	\$	\$	\$	\$	
Cash and cash equivalents	4,607	-	-	783	5,390	0.39%
Currency held in third-party ABMs	7,000	-	-	-	7,000	7.75%
Investments	-	32,317	20,059	6,084	58,460	3.13%
Loans to members	123,081	79,880	83,195	30	286,186	6.36%
Members' deposits	83,079	123,230	75,518	50,362	332,189	2.54%
Liabilities qualifying as regulatory capital	-	1,220	11,346	3,804	16,370	2.29%

#### *(ii) Foreign currency exchange risk*

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings when balances of its foreign currency liabilities are not matched with the balances of its foreign currency assets. 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.

Net foreign exchange gains of \$256,060 (2007 - \$201,868) have been included in other income on the statement of income and comprehensive income for the year ended September 30, 2008.

## 24. Comparative figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.





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