



Uxbridge



Stouffville



Markham



Administration



Steeles



North York



Consumers



Brampton



Matheson



Burlington



Hamilton




PACE

SAVINGS & CREDIT UNION LTD

2007 ANNUAL REPORT

PACE and Community





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Vision

To create value for members as an innovative, growing and responsive credit union.

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.

Board of Directors	Title	Term Expires
Terry Ryan	Chair	2010
Gerry Robin	Vice Chair	2009
Lorne Culley	Director	2008
Deborah Baker	Director	2008
Peter Rebellati	Director	2008
Mel Greif	Director	2008
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	2008
James Williams	Director	2010
Executive Staff		
Larry Smith	President & Chief Executive Officer	
Kim Colacicco	Chief Financial Officer	
Mary Benincasa	Vice President Administration & Human Resources	
Elizabeth Bruce	Vice President Operations	
Rene Laffree	Vice President Credit	
Dan Coldwell	Vice President Business Development	

2007 Annual General Meeting Agenda

January 23, 2008

Call to Order

Confirmation of Quorum

Minutes of Previous Meeting

Approve minutes of meeting held January 24, 2007

Reports

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

New Business

By-Law Amendment - 4.01, 4.03, 4.03.1
 Resolution – CUCO Membership Withdrawal
 Election of Directors
 Approval of Directors Remuneration budget
 subject to bylaw 4.17
 Appointment of Auditors

Other Business

Adjournment

Minutes of the 4th Annual Meeting held on the 24th day of January 2007 at Vaughan, Ontario.

The meeting was called to order by Terry Ryan at 7:45 p.m. with the following Directors present:

T. Ryan, G. Robin, C. Duchesneau, P. Wainwright, L. Culley, B. Bushell, L. Cahill, J. Tindall, D. Baker, J. Posivy, M. Greif Regrets: W. Mitchell

Guests: Bruce Vickers - Deloitte & Touche
Doug Hunt - Deloitte & Touche
Richard Dale – DICO
Rocco Rossi – Heart and Stroke Foundation
John Blanchard – Prostate Research Foundation

A quorum of 210 members was established.

Moved by R. Laffree, seconded by T. Chapman that the minutes of the 3rd Annual Meeting held on January 25, 2006 be approved as printed in the Annual Report.
Carried.

Moved by B. Black, seconded by R. Ryk that the Report of the Board of Directors be approved as printed in the Annual Report.
Carried.

Moved by R. Basque, seconded by M. Morgan that the Report of the President & CEO be approved as printed in the Annual Report.
Carried.

Moved by L. Culley, seconded by A. Mathias that the Report of the Audit Committee be approved as printed in the Annual Report.
Carried.

Moved by G. Robin, seconded by M. Benincasa that the Auditors' Report and the Financial Reports for the year ended September 30, 2006 be approved as printed in the Annual Report.
Carried.

Moved by S. Hyde, seconded by D. Busato that the Report of the Credit Officer be approved as printed in the Annual Report.
Carried.

New Business

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. The nominees were:

Lorne Culley Deborah Baker Mel Greif Leo Cahill

As there were four positions available and four nominees the following Directors were elected by acclamation.

Lorne Culley Deborah Baker Mel Greif Leo Cahill

Directors' Remuneration Budget

Moved by R. Ryk, seconded by R. Basque that the total budgeted remuneration to be paid to directors for the fiscal period ending September 30, 2007 in the amount of \$75,000.00 be approved.
Carried.

Appointment of Auditor

Moved by R. Honig, seconded by M. Benincasa that Deloitte and Touche be appointed as external auditor for the fiscal year ending September 30, 2007.
Carried.

Other Business

Appreciation award recipients were introduced and presented with their award.

Door prizes donated by members and service partners were distributed.

Adjournment

Moved by Marie Semenuk that the meeting be adjourned at 8:55 p.m.

Chair  Date March 1, 2007

Secretary  Date March 1, 2007

Welcome to the Annual General Meeting of the PACE Credit Union.

PACE is a full service financial co-operative serving thousands of members across the GTA.

On behalf of your elected representatives, I am pleased to present the report of the Board of Directors.

First, I would like to welcome three new members to our Board.

These gentlemen have joined the PACE Board as a result of our recent merger with the North York Community Credit Union.

Please join me in welcoming Bill Dolly, Neil Williamson and Jim Williams.

They bring a wealth of credit union experience to PACE.

All of the standing members of the PACE Board continue as Directors under our new charter.

I would also like to welcome the many new members from North York who are now members of the PACE family. We promise continued high levels of Credit Union service; service as good or better than we know you have received in the past.

In addition to your existing North York branch location you will be able to do all of your banking at any of the PACE branch locations and service centres in Ontario.

Any and all on-line services will continue to be available as before.

North York Community Credit Union provided extensive financial services to schools and school boards in Toronto and York Region. Your Board and Management plans to maintain and further expand such services over the next few years.

On a sadder note, during the past year the Board reluctantly accepted the resignation of two long serving Directors.

Leo Cahill, originally from the CANGECO Credit Union, (Canadian General Electric) has retired after nearly 51 years of dedicated service to the Credit Union movement. While his wise counsel and direction will be missed by his fellow directors, he has promised to continue to provide assistance and advice to our senior members; a job he has been doing for many years.

Also retiring is Barry Bushell who joined us from the Uxbridge Community Credit Union. Barry played a key role in the successful development of the Uxbridge Credit Union and in the several

mergers that resulted in today's PACE Credit Union.

On behalf of the Board and members I want to extend our appreciation to Leo and Barry for their many years of dedicated service.

Moving to our financial results, as many of you already know, this has been perhaps the most successful year for our Credit Union.

At this AGM you will be asked to endorse two important recommendations from the Board of Directors.

The first proposal is to reduce the size of our Board from 15 to 12 members.

Our board has grown to 15 as a result of several mergers.

Your Directors believe that 12 members can more than adequately provide the proper level of governance and accountability needed by our membership.

We will continue to ensure that our diverse membership has a representative Board.

The second motion before you tonight deals with our membership in Credit Union Central of Ontario.

PACE has been a member of this group for many years.

However, the terms and conditions outlined in the merger agreement between Ontario and the British Columbia Central are not acceptable to our Board in the current form.

The PACE Board can find no evidence that certain terms in the agreement are in the best interest of the members of PACE and have therefore, instructed management not to execute the membership agreements of Central 1 in their current form.

As such the Board is looking into various alternatives to our membership in the Ontario Central and has given Central notice of our intent to withdraw our membership.

We require membership approval to proceed with this matter.

We have requested this approval before and the members and shareholders previously approved a resolution authorizing the Board to make this decision on behalf of its members as the Board deemed appropriate.

Because of our membership growth and amalgamations, we feel it is appropriate to review the situation with our new members to ensure and renew that authorization.

We respectfully ask for your support again in this matter.

Let me close by thanking my fellow Board members for their support during the past years as I served as the Board Chair.

On behalf of the directors and the membership I'd like to express our appreciation and thanks to our President & CEO, Larry Smith and his dedicated hardworking staff for yet another very successful year.

Upon the conclusion of a recent risk review by our Deposit Insurance Corporation, it was noted that "PACE was the most comprehensive highest rated of any review they have ever done." Well-earned praise, indeed.

Thank you for your on-going support as we look forward to another great year at our Credit Union.



Terry Ryan
Chairman
PACE Credit Union Board of Directors



Terry Ryan, Chairman



Jim Tindall, Director



Claude Duchesneau, Director



Deborah Baker, Director



Wendy Mitchell, Director



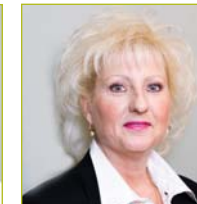
Mel Greif, Director



Peter Rebellati, Director



Neil Williamson, Director



Pauline Wainwright, Secretary



Joe Posivy, Director



Bill Dolly, Director



Jim Williams, Director



Gerry Robin, Vice Chair



Lorne Culley, Director

2007 concluded with your Credit Union's continued focus on its community involvement, its commitment to financial soundness, service excellence, convenience and co-operative values.

2007 had many highlights including PACE'S amalgamation with North York Community Credit Union Limited.

I'm proud to welcome our new directors and staff members to the PACE team.

North York Community Credit Union joined the PACE family midway through 2007 bringing with them significant assets in the form of human resource capital, leasing expertise and 3 new directors with many years of experience.

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

PACE's auto leasing division now provides financing services in excess of \$10.8 million to 407 members through its "Big Deal" and "Found, Financed and Delivered" program instituted in 2005.

PACE Power Cards continue to be a very successful addition to the array of PACE products. During the fiscal year 2007, member rewards totaling \$243,000 were paid.

Power Cards permit the unrestricted purchase of goods and services at any facility which accepts INTERAC® Debit Cards & may be redeemed at any ABM for cash or redeemed for certificates at participating merchant locations.

The result is yet another very successful year for the members of PACE, perhaps our best year ever.

Financial Results

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

Assets grew by \$63.2 million to a total of just over \$361 million or an overall increase of 21%.

On Balance Sheet Personal Loans and Mortgages to members increased by some \$21.8 million to \$175 million with off balance sheet programs, through our affiliate Concentra Financial, increasing to \$32.8 million bringing personal and mortgage loan totals to close to \$208 million.

Commercial Loans to members increased by \$3.2 million to a total of \$99.9 million.

The Board approved dividend payments to members holding Class A and B shares in the amount of \$693,464 (\$593,400 in '06)

Overall interest paid to members totaled \$8.8 million (\$6.9 million in '06)

Total capital, retained earnings and contributed surplus increased to \$28.5 million, that being just under 9% of deposits as of September 30, 2007 representing an overall increase of close to \$5.6 million or nearly 25% (\$22.8 million '06)

Net Income (after tax provisions) for the period was \$1,037,147.

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:

The PACE Savings & Credit Union Canadian Squash

Classic – PACE sponsored this world PSA (Professional Squash Association) prestigious event for the 4th consecutive year. The official tournament charity,



the Prostate Cancer Research Foundation of Canada utilized the similarity in initials to once again successfully promote P.S.A. (Prostate-Specific Antigen) testing and awareness to thousands of spectators nightly at the Toronto International Centre plus raise over **\$50,000** for cancer research. This year was the 1st time in the world, squash was televised in high definition while shown nationally on TSN. PACE as title sponsor received terrific media coverage in all major and local newspapers helping make PACE a household name. In conjunction with this event, the 4th Annual PACE Junior Jamboree promoting physical activity to young children, afforded 60 young beginners the opportunity to play with world-class squash players with the goal of inspiring them to stay active, be fit and play sports.

PACE Polo For Heart – as the lead sponsor of this event, PACE was onsite to show and support a spectacular affair drawing almost 10,000 spectators and raising over **\$207,000** in support of the Heart & Stroke Foundation of Ontario with a total of over \$4 million to date.

The Super Cities Walk for MS – once again PACE joined thousands of participants in this great event that raised over **\$66,000** in sponsorships to help Canadians living with multiple sclerosis.

Wealth Management Services

The Wealth Management division of PACE was created in April of 2003. Wealth Management services at PACE are available to all members, FREE of service charges or fees. 764 members representing nearly \$25 million in investments now earn premium returns as a result of our in house expertise in the money market sector.

I'd like to take this opportunity to thank Stephen Smith and his staff for bringing a high level of confidence and personal service to the PACE Wealth Management Centre.

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.

In the fourth quarter the expanded PACE Board and Management held an indepth 2 day planning session out of which came a revised vision for our Credit Union and a long term strategic plan which will see the expansion of PACE member service centres throughout the

GTA and other areas of the Province.

Our plan also includes a significant expansion of the services PACE provides the school systems in the GTA region.

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

Over the past year PACE allowed its commercial loan portfolio to age resulting in modest growth of 3.3%

Sustained personal loan and mortgage initiatives together with the recent merger with North York Community Credit Union produced a substantial 30.8% increase in personal loans and 8% in mortgage product.

The PACE Auto Centre received added attention which contributed considerably to the growth in the personal loan and car lease portfolio.

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, 2006 - September 30, 2007

(Amounts in thousands of dollars)

	Number	Amount
Personal loans	926	11,821
Personal Mortgages	112	25,130
Personal Line of Credit	373	25,961
Commercial Loans	43	35,039
Total Applications Approved	1,454	97,951
Total Applications Not Approved	129	0
Total Applications	1,583	97,951
Loans in Arrears in excess of 90 days	180	4,173
Allowance for Doubtful Loans (including non specific)		2,513

Respectfully submitted

Mary Benincasa
 Vice President
 Administration & Human Resources

Pursuant to Section 125 of the Credit Unions and Caisses Populaires Act, 1994 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



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, 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
Chief Executive Officer



Kim Colacicco
Chief Financial Officer

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, 2007 and the statements of income and comprehensive income, contributed surplus, retained earnings and of 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

"DELOITTE & TOUCHE LLP"
Chartered Accountants
Licensed Public Accountants

October 29, 2007, except as to Note 14(b)
which is as of November 28, 2007

	2007	2006
Assets		
Cash and cash equivalents (Note 4)	\$ 15,700,186	\$ 1,732,949
Currency held in third-party ABMs (Note 5)	9,179,180	8,686,339
Investments (Note 6)	49,823,984	28,616,481
Loans to members (Notes 7 and 8)	272,627,461	247,789,338
Capital assets (Note 9)	6,813,196	7,149,360
Other assets (Note 10)	7,077,644	4,005,459
	\$ 361,221,651	\$ 297,979,926
Liabilities		
Members' deposits (Note 12)	\$ 322,317,239	\$ 261,597,784
Term loan payable	-	5,000,000
Other liabilities (Note 13)	10,369,054	8,490,330
Liabilities qualifying as regulatory capital (Note 14)	16,318,160	15,256,023
	\$ 349,004,453	\$ 290,344,137
Members' equity		
Contributed surplus	\$ 3,544,262	\$ -
Retained earnings	8,672,936	7,635,789
	\$ 12,217,198	\$ 7,635,789
	\$ 361,221,651	\$ 297,979,926

Approved by the Board



Terry Ryan
Director



Pauline Wainwright
Director

	2007	2006
Revenue		
Interest on loans		
Mortgage	\$ 6,834,375	\$ 5,698,686
Personal	3,460,792	2,975,081
Commercial	6,851,988	6,575,954
Investment income	1,709,662	1,001,304
Other income (Note 5)	3,257,340	2,795,422
	\$ 22,114,157	\$ 19,046,447
Financial expenses		
Interest on members' deposits		
Personal chequing accounts	\$ 157,399	\$ 77,604
Savings accounts	84,596	67,505
Term deposits	4,320,284	3,049,900
Registered retirement savings plans	2,057,088	1,745,981
Registered retirement income funds	1,388,087	1,264,593
Interest on borrowings	90,110	144,293
Dividend on Class A Profit Shares	165,358	112,449
Dividend on Class B Investment Shares	528,106	481,014
	\$ 8,791,028	\$ 6,943,339
Financial margin	\$ 13,323,129	\$ 12,103,108
Operating expenses		
Administrative	\$ 5,531,974	\$ 4,781,753
Amortization of capital assets	934,067	875,238
Amortization of intangible assets	150,800	-
Deposit insurance premium	278,064	234,338
Provision for impaired loans	925,000	770,000
(Recovery) writedown of investment (Note 6)	(669,912)	537,936
Salaries and benefits	4,843,226	4,574,631
	\$ 11,993,219	\$ 11,773,896
Income before income taxes	\$ 1,329,910	\$ 329,212
Provision for income taxes (Note 16)		
Current	139,763	132,000
Future	153,000	-
	\$ 292,763	\$ 132,000
Net income	\$ 1,037,147	\$ 197,212
Other comprehensive income	-	-
Comprehensive income	\$ 1,037,147	\$ 197,212

CONTRIBUTED SURPLUS

Balance, beginning of year
Fair value of net assets acquired (Note 3)

CONTRIBUTED SURPLUS, END OF YEAR

RETAINED EARNINGS

Balance, beginning of year
Net income for the year

RETAINED EARNINGS, END OF YEAR

	2007		2006	
	\$	-	\$	-
		3,544,262		-
	\$	3,544,262	\$	-
	\$	7,635,789	\$	7,438,577
		1,037,147		197,212
	\$	8,672,936	\$	7,635,789

STATEMENT OF CASH FLOWS AS AT SEPTEMBER 30, 2007

	2007	2006
Operating activities		
Net income	\$ 1,037,147	\$ 197,212
Adjustments to determine net cash flows		
Amortization of intangibles and fair value adjustments	136,734	-
Provision for impaired loans	925,000	770,000
Amortization of capital assets	934,067	875,238
Amortization of loan portfolio discount	-	(102,098)
Future income tax expense	153,000	-
Write down of investment	-	537,936
Class A Profit Shares issued, share dividend	165,358	109,286
Class B Investment Shares, Series 97 issued, share dividend	545,528	481,014
Net change in accrued interest receivable and payable	312,967	204,871
Net changes in other assets and liabilities	2,315,263	350,244
	\$ 6,525,064	\$ 3,423,703
Investing activities		
Loans to members	\$ 18,208,920	\$ (12,213,381)
Currency held in third-party ABMs	(492,841)	(2,714,153)
Investments	(16,845,183)	1,156,651
Cash and cash equivalents acquired in business combination	12,665,985	-
Purchase of capital assets	(410,284)	(207,916)
	\$ 13,126,597	\$ (13,978,799)
Financing activities		
Members' deposits	\$ (299,423)	\$ 3,053,750
Term loan payable	(5,000,000)	5,000,000
Class B Investment Shares, Series 95 redeemed	(49,735)	(102,690)
Class B Investment Shares, Series 97 redeemed	(26,873)	(35,387)
Class B Investment Shares, Series 03 redeemed	(37,700)	(11,700)
Class A Profit Shares redeemed	(62,054)	(150,821)
Membership shares	(208,639)	(105,421)
	\$ (5,684,424)	\$ 7,647,731
Net change in cash and cash equivalents	\$ 13,967,237	\$ (2,907,365)
Cash and cash equivalents, beginning of year	1,732,949	4,640,314
Cash and cash equivalents, end of year	\$ 15,700,186	\$ 1,732,949
Supplementary information		
Cash income taxes paid	\$ 172,949	\$ 361,136
Cash interest paid	8,791,028	6,943,340

1. Changes in accounting policies

Financial instruments

Effective October 1, 2006 the Credit Union adopted the following recommendations of the CICA Handbook:

- a) Section 3855, *Financial Instruments – Recognition and Measurement*. This Section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Under the new standard, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets or liabilities held for trading, financial assets available-for-sale and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.
- b) Section 1530, *Comprehensive Income*. This Section describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in Members' equity, which results from transactions and other events and circumstances from non-member sources. These transactions and events include unrealized gains and losses resulting from changes in fair value of investments classified as available-for-sale.
- c) Section 3865, *Hedges*. These recommendations expand the guidelines outlined in Accounting Guideline 13 ("AcG-13"), *Hedging Relationships*. This Section describes when and how hedge accounting can be applied, as well as disclosure requirements. Hedge accounting enables the recording of gains, losses, revenue and expenses from the derivative financial instruments in the same period as for those related to the hedged item. The Credit Union did not designate any of its financial instruments for accounting purposes as hedges.
- d) Section 3861, *Financial instruments – Disclosure and Presentation*. This Section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.
- e) Section 3251, *Equity*. This Section establishes standards for the presentation of equity and changes in equity during the reporting period.

Derivatives

At September 30, 2006 the Credit Union had indexed-linked and equity-linked term deposits to its members. These term deposits have maturities of three and five years and pay interest to the depositors, at the end of the respective terms, based on the performance of the S&P/TSE 60 Index or a composite index of G7 countries. The Credit Union entered into equity linked option agreements with Credit Union Central of Ontario ("Central") to manage the exposure to the indices associated with these products. These equity linked option agreements were designated as cash flow hedges and not recorded in the financial statements. As of October 1, 2006, these equity linked option agreements are no longer eligible for hedge accounting and management recorded the mark to market of these equity linked option agreements in the financial statements in accordance with the new accounting standards on financial instruments.

The Credit Union uses current market quotations to estimate the fair value of all derivatives.

Management has elected to review contracts entered into after October 1, 2002 for embedded derivatives as permitted within Section 3855 of the financial instruments standards.

Impact upon adoption of Sections 1530, 3251, 3855, 3861 and 3865

These new standards were applied retroactively as of October 1, 2006 without restatement of prior year's figures.

For financial asset and financial liability account classifications made by the Credit Union, effective October 1, 2006, see Note 2.

There were no transition adjustments attributable to the remeasurement of financial assets and financial liabilities at fair value which would have been recognized in opening retained earnings or opening accumulated other comprehensive income ("AOCI") as at October 1, 2006 as the adjustments were not considered significant to these financial statements.

2. Significant accounting policies

PACE Savings & Credit Union Limited 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. On April 1, 2007, PACE Savings & Credit Union Limited completed an amalgamation with North York Community Credit Union Limited and continued under the name "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
Debt securities	Available-for-sale
Equity securities	Available-for-sale
CUCO shares	Loans and receivables
Liquidity reserve	Loans and receivables
Loans to members	Loans and receivables
Other Assets:	
Accounts receivable	Loans and receivables
Funds held in trust account	Held for trading
Members' deposits	Other liabilities
Other liabilities	Other liabilities
Derivative instruments	Held for trading
Liabilities qualifying for regulatory capital	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. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Credit Union elects to designate on initial

recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held for trading assets. The Credit Union has not designated any non-derivative financial liabilities as held for trading.

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 collectibility 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

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, 2006 and September 30, 2007, the Credit Union does not have any 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 collectibility 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 of tax allocation 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 allowance for impaired loans; see note 8.

3. Business combination

On April 1, 2007, PACE Savings & Credit Union Limited completed an amalgamation with North York Community Credit Union Limited and continued under the name "PACE Savings & Credit Union Limited". There was no cash consideration exchanged in this transaction. The transaction was accounted for in accordance with the prescribed requirements for business combinations. Under these requirements, PACE Savings & Credit Union Limited was identified as the purchaser for accounting purposes and as such, the purchase method of accounting was used. The statement of income and comprehensive income includes the operations of the former North York Community Credit Union Limited since the date of amalgamation.

Under the purchase method of accounting, the net assets of the acquired credit union are recorded at fair value. The fair value of the assets and liabilities acquired were determined with reference to current market interest rates for similar financial instruments, and valuation techniques that follow generally accepted accounting principles for intangibles such as core deposits and member relationships. The fair value of net assets acquired is recorded as contributed surplus in the balance sheet. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed:

	\$
Cash and cash equivalents	12,665,985
Investments	4,362,319
Loans to members	43,947,904
Capital assets	187,620
Other assets	2,415,588
Core deposit intangibles	2,824,000
Member relationships intangibles	1,920,000
<u>Total assets</u>	<u>66,595,416</u>

Members' deposits	61,008,804
Other liabilities	1,306,097
Members' share accounts	736,253
<u>Total liabilities</u>	<u>63,051,154</u>
<u>Fair value of net assets acquired</u>	<u>3,544,262</u>

4. Cash and cash equivalents

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

The Credit Union has available lines of credit with Central in the amounts of \$5,868,000 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 \$25,591,912 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, 2007.

Lastly, the Credit Union has letters of credit with Central in the amount of \$2,040,000, which are unutilized as at September 30, 2007.

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.

5. 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, 2007 amounted to \$671,387 (2006 - \$356,546) and is included in other income in the statement of income and comprehensive income.

6. Investments

	2007		2006
	Market Value	Carrying Value	Carrying Value
	\$	\$	\$
<i>Held for trading</i>			
Credit Union Central of Ontario Term deposits	18,824,291	18,824,291	4,100,000
<i>Available for sale</i>			
Credit Union Central of Ontario Shares	1,834,227	1,834,227	1,735,228
The Co-operators Group Limited Term certificate	150,000	150,000	150,000
Corporate bonds	10,800	10,800	10,800
Concentra Financial	8,077	8,077	8,077
Credential Securities	5,000	5,000	5,000
<i>Held to maturity</i>			
National Bank - Bonds	2,573,043	2,728,494	-
<i>Loans and receivables</i>			
Credit Union Central of Ontario Liquidity reserve deposit	24,274,304	25,380,356	20,244,337
<i>Other investments</i>			
DCR Strategies Inc.	-	-	1,500,000
Property acquired by foreclosure and held for resale	882,739	882,739	863,039
	48,562,481	49,823,984	28,616,481

Credit Union Central of Ontario - 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 as at the preceding calendar year end, updated in February of each year. The deposits bear interest at variable rates.

Credit Union Central of Ontario - shares

As a condition of maintaining membership in Central, the Credit Union is required to maintain an investment in shares of Central equal to 0.6% of total assets as at the preceding calendar year end, updated in February of each year.

No market exists for shares of Central 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 Central 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. During the year, CU-Connection Limited became insolvent and the Credit Union no longer has an interest in the Company. The Credit Union recovered the losses associated with this investment of \$669,912, of which \$131,976 related to losses which were previously written off by North York Community Credit Union Limited.

7. Loans to members

	2007	2006
	\$	\$
Mortgage	121,784,470	112,529,507
Personal	53,361,377	40,806,277
Commercial	99,994,731	96,778,279
	275,140,578	250,114,063
Less allowance for impaired loans (Note 8)	2,513,117	2,324,725
	272,627,461	247,789,338

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 twenty-five years.

At September 30, 2007, the Credit Union was administering, for a fee, on behalf of Concentra Financial ("Concentra"), members' mortgage loans aggregating \$32,764,618 (2006 - \$17,564,322) including mortgage loans transferred to Concentra in the current year of \$15,200,296. As these mortgage loans do not belong to the Credit Union, they are not included in these financial statements.

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.

As at September 30, 2007, the Credit Union was committed to the issuance of commercial loans to members in the aggregate amount of approximately \$5,875,000.

8. Allowance for impaired loans

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

	2007			2006	
	Personal	Mortgage	Commercial	Total	Total
	\$	\$	\$	\$	\$
Balance, beginning of period	1,326,994	-	997,731	2,324,725	1,945,547
Collection of loans previously written-off	183,363	-	176	183,539	78,825
Loans written-off as uncollectible	(443,463)	-	(476,684)	(920,147)	(469,647)
Provision for impaired loans	240,802	-	684,198	925,000	770,000
Balance, end of period	1,307,696	-	1,205,421	2,513,117	2,324,725
Aggregate impaired loans, end of period	1,142,098	709,813	2,319,839	4,171,750	3,358,816

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 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.

9. Capital assets

	2007		2006	
	Accumulated Cost	Net Book Value	Accumulated Cost	Net Book Value
Land	1,447,641	-	1,447,641	1,447,641
Buildings	3,518,094	540,065	2,978,029	3,102,114
Computer equipment	3,992,658	2,657,542	1,335,116	1,534,961
Furniture and equipment	827,217	367,798	459,419	441,362
Leasehold improvements	1,097,212	504,221	592,991	623,282
	10,882,822	4,069,626	6,813,196	7,149,360

10. Other assets

	2007	2006
	\$	\$
Accrued interest	1,011,979	718,885
Accounts receivable and prepaid expenses	639,315	1,059,964
Future income taxes (Note 16)	-	236,610
Funds held in trust account	2,561,150	1,990,000
Intangible assets (Note 11)	2,865,200	-
	7,077,644	4,005,459

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 nine members of senior management. The obligation is being accrued over the estimated average remaining service life ("EARSL") of these nine employees (see Note 13). As at September 30, 2007, the remaining minimum obligation to be accrued is approximately \$1,278,146 (2006 - \$907,449) and the EARSL is eight years.

11. Intangible assets

	2007		2006	
	Accumulated Cost	Net Book Value	Accumulated Cost	Net Book Value
Core deposits	2,824,000	141,200	2,682,800	-
Customer relationships	192,000	9,600	182,400	-
	3,016,000	150,800	2,865,200	-

12. Members' deposits

	2007	2006
	\$	\$
Personal chequing accounts	83,020,320	47,042,547
Savings accounts	25,313,157	25,282,684
Term deposits	114,071,084	99,179,293
Registered retirement savings plans	62,147,451	54,588,865
Registered retirement income funds	37,765,227	35,504,395
	322,317,239	261,597,784

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.

13. Other liabilities

	2007	2006
	\$	\$
Accrued interest on members' deposits	7,538,695	6,932,634
Accounts payable and accrued liabilities	1,209,115	475,147
Future income taxes payable (Note 16)	346,890	-
Accrued employment contract benefits (Note 10)	1,274,354	1,082,549
	10,369,054	8,490,330

14. Liabilities qualifying as regulatory capital

	2007	2006
	\$	\$
Class B Investment Shares, Series 95	1,414,890	1,464,625
Class B Investment Shares, Series 97	512,001	509,458
Class B Investment Shares, Series 03	7,175,800	7,213,500
Class A Profit Shares	3,265,953	2,646,538
Membership shares	3,949,516	3,421,902
	16,318,160	15,256,023

(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, 2007, there were 28,993 (2006 – 21,198) members and 789,903 (2006 – 684,380) 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 15.

The Board of Directors declared a dividend equivalent to 3.00% on March 7, 2007 and 3% on November 28, 2007:

- (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 on March 31, 2007 and as at September 30, 2007, 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 on March 31, 2007 and as at September 30, 2007, 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 on March 31, 2007 and as at September 30, 2007, in the form of Class A Profit Shares.

15. Capital adequacy

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 4.5% 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, 2007, the Credit Union met regulatory capital requirements based on capital of \$26,300,644.

	2007	2006
Leverage ratio:	7.34%	7.65%
Risk-weighted assets ratio:	13.05%	12.09%

16. Income taxes

The provision for income taxes reported for the year ended September 30, 2007 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	2007	2006
Statutory income tax rate	18.62%	18.62%
	2007	2006
Expected provision of income taxes	\$ 247,629	\$ 61,299
Non-taxable and non-deductible items	17,072	63,592
Other	28,062	7,109
Reported income tax provision	292,763	132,000

Temporary differences which give rise to the following future income tax assets as at September 30, 2007 are as follows:

	2007	2006
	\$	\$
Future income tax assets:		
Allowance for impaired loans	117,398	100,423
Capital assets	(181,383)	(135,731)
Intangible assets	(530,421)	-
Accrued employment contract benefits	237,218	216,052
Other	10,298	55,866
Future income tax (liability) asset, net	(346,890)	236,610

17. 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.

18. Related party transactions

As at September 30, 2007, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and their related parties totalled \$10,882,631 (2006 - \$6,591,162). There was no allowance for impaired loans required in respect of these loans as at September 30, 2007 and 2006.

19. Commitments

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

	\$
2008	682,725
2009	329,916
2010	279,804
2011	288,752
2012	288,752
2013 and thereafter	734,900
	<hr/>
	2,604,849

20. 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.

21. Other information

The total fees paid to Central for the year ended September 30, 2007 amounted to \$216,945 (2006 - \$249,377). These fees were primarily related to banking functions, educational training courses and consulting fees.

Outstanding letters of credit at September 30, 2007 amounted to \$2,345,740 (2006 - \$2,288,691).

22. Pension plan

The Credit Union maintains a defined contribution pension plan. The total cost of \$224,088 (2006 - \$235,184) recognized in the statement of income and comprehensive income represents cash contributions made by the Credit Union to the plan.

23. 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 capital assets.

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		2006
	Fair value	Book value	Fair value
	\$	\$	over (under)
			book value
			\$
Assets			
Cash and cash equivalents	15,700,186	15,700,186	-
Currency held in third-party ABMs	9,179,180	9,179,180	-
Investments	48,562,481	49,823,984	(1,261,503)
Loans to members	270,358,539	272,627,461	(2,268,922)
Other assets	7,077,644	7,077,644	-
Liabilities			
Members' deposits	323,576,690	322,317,239	1,259,451
Other liabilities	10,369,054	10,369,054	-
Liabilities qualifying as regulatory capital	16,318,160	16,318,160	-

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 6).
- (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.

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
Cash and cash equivalents	15,212	-	-	489	15,700	3.25%
Currency held in third-party ABMs	9,179	-	-	-	9,179	8.06%
Investments	-	30,001	17,083	2,741	49,824	4.22%
Loans to members	98,832	72,466	101,291	38	272,627	6.62%
Members' deposits	79,269	125,791	72,523	44,734	322,317	2.66%
Liabilities qualifying as regulator capital	-	484	11,884	3,950	16,318	2.26%

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 \$201,868 (2006 - \$207,339) have been included in other income on the statement of income and comprehensive income.

2007 Appreciation Award Recipient

Our silver lining is our staff and board members

Congratulations on over 25 years of service and commitment

Betty Anne Flynn

2006-2007 PACE Bursary Recipients

Lacey Atley – Attending Fanshawe College in London, ON, studying Fashion Merchandising

Zoe Brownsell – Attending the University of Guelph studying a Bachelor of Commerce

Sean Geddes – Attending the University of Guelph studying Veterinary Medicine

Catherine Ha – Attending the University of Guelph studying Veterinary Medicine

Jacqueline Miklovich – Attending the University of Toronto studying Civil Engineering

Andrea Ng – Attending the University of Waterloo and majoring in Chemistry and Biology

Melissa Watson-George – Attending George Brown College in Toronto and studying Child and Youth Services

PACE and Community



Brampton Branch/ATM

10 Peel Centre Drive
Brampton, ON L6T 4B9
Tel.: 905.791.3877
Fax.: 905.791.7974
Mon. to Fri. 9:30am to 4:00pm



Burlington Branch

676 Appleby Line
Burlington, ON L7L 5Y1
Tel.: 905.333.8913
Fax.: 905.333.8914
Mon., Tue., Wed., Fri. 9:30am to 4:00pm
Thu. 9:30am to 6:00pm



Consumers Branch/ATM

505 Consumers Road
North York, ON M2J 4V8
Tel.: 416.493.0314
Fax.: 416.493.1715
Mon. to Fri. 9:30am to 4:00pm



Hamilton Branch

55 Bay Street North
Hamilton, ON L8R 3P7
Tel.: 905.523.9086
Fax.: 905.523.8923
Mon. to Fri. 9:30am to 4:00pm



Markham Branch/ATM

411 Manhattan Drive
Markham, ON L3P 7P4
Tel.: 905.477.4311
Fax.: 905.477.5922
Mon. to Fri. 9:30am to 4:00pm



Matheson Branch/ATM

550 Matheson Boulevard
Mississauga, ON L5R 4B8
Tel.: 905.566.7223
Fax.: 905.566.8737
Mon., Tue., Wed., Fri. 9:30am to 4:00pm
Thu. 9:30am to 5:30pm
Sat.: 10:00am to 2:00pm



North York Branch/ATM

5799 Yonge Street. Suite 202
North York, ON M2M 3Y3
Tel.: 416.223.7556
Fax.: 416.223.0601
Mon., Tue., Wed., Fri. 9:30am to 4:00pm
Thu. 9:30am to 6:00pm



**PACE Credit Union
Automotive Centre**

8111 Jane Street
Vaughan, ON L4K 4L7
Tel.: 905.738.1318
Fax.: 905.738.2030



Steeles Branch/ATM

3600 Steeles Avenue East
Markham, ON L3R 9Z7
Tel.: 905.474.1885
Fax.: 905.474.9926
Mon., Wed., Fri. 10:00am to 3:00pm



Stouffville Branch/ATM

6245 Main Street
Stouffville, ON L4A 8A1
Tel.: 905.640.2811
Fax.: 905.640.7713
Mon. to Wed. 9:30am to 4:00pm
Thu. to Fri. 9:30am to 7:00pm
Sat. 9:00am to 1:00pm



Uxbridge Branch/ATM

99 Brock Street West
Uxbridge, ON L9P 1P5
Tel.: 905.852.3388
Fax.: 905.852.5108
Mon. to Wed. 10:00am to 4:00pm
Thu. to Fri. 10:00am to 6:00pm
Sat. 9:00am to 12:30pm



PACE Administration

8111 Jane Street
Vaughan, ON L4K 4L7
Tel.: 905.738.8900
Fax.: 905.738.8283
Fax.: 905.738.8265

Other PACE ATM Locations

7750 Hurontario Street
(Hwy. 10 & Ray Lawson Blvd.)
Police Headquarters

8200 Warden Avenue
(Warden Ave. & Hwy. 7)
Badge access required

2810 Matheson Boulevard
(Matheson Blvd. & Explorer Dr.)
In CUCO Building

393 Millen Road
(Millen Rd. & Seamen Ave.)
Hamilton Postal

PACE Online Banking
www.pacecu.com

PACE Telephone Banking
1.888.640.1117

The Power of PACE is passion for its members and their communities.