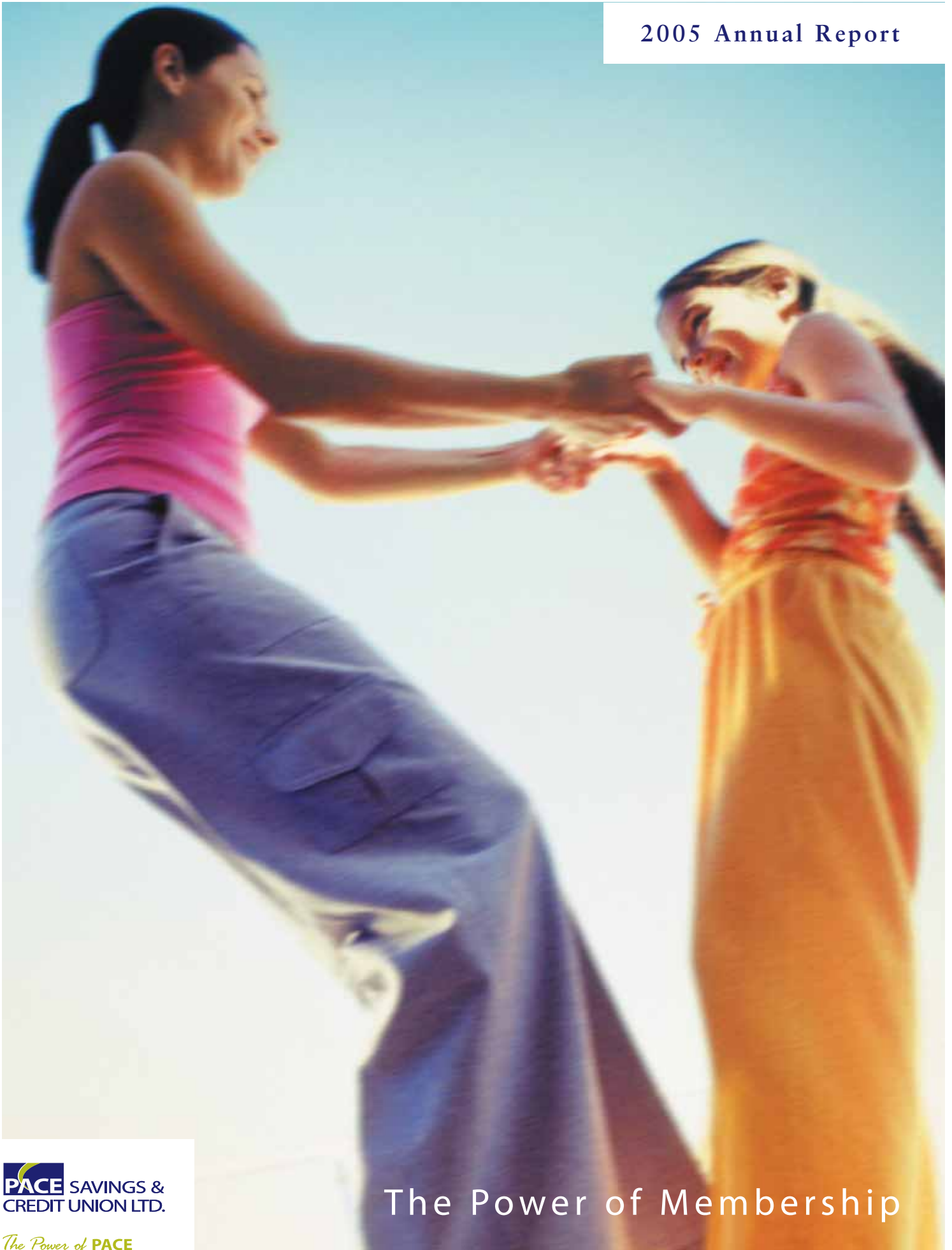


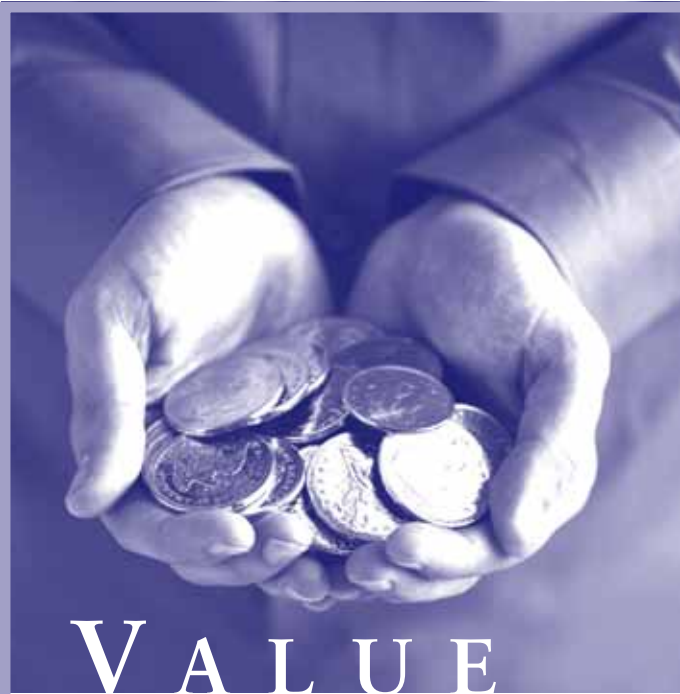
2005 Annual Report



PACE SAVINGS &
CREDIT UNION LTD.

The Power of PACE

The Power of Membership



VALUE

We put the power of PACE to work for you. Bringing you more competitive products at some of the lowest rates around.

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Board of Directors

Title	Term	Expires
Terry Ryan	Chair	2006
Gerry Robin	Vice Chair	2008
Lorne Culley	Director	2007
Deborah Baker	Director	2007
Leo Cahill	Director	2007
Mel Grief	Director	2007
Joe Posivy	Director	2008
Jim Tindall	Director	2008
Pauline Wainwright	Secretary	2006
Claude Duchesneau	Director	2006
Barry Bushell	Director	2006
Wendy Mitchell	Director	2006

Executive Staff

Larry Smith

Chief Executive Officer

Barry Seyffert

President

Kim Colacicco

Chief Financial Officer

Mary Benincasa

Vice President, Administration & Human Resources

Elizabeth Bruce

Vice President, Operations

Terry Chapman

Vice President, Special Projects

Rene Laffree

Vice President, Credit

2005 Annual General Meeting Agenda

January 25, 2006

Call to Order

Confirmation of Quorum

Minutes of the 2004 Annual General Meeting

Reports

Board of Directors

Chief Executive Officer and President

Audit Committee

Auditor & Financial Reports

Credit Officer

New Business

Election of Directors

Approval of Directors Remuneration budget
subject to bylaw 4.17

Appointment of Auditors

Other Business

Adjournment

MISSION STATEMENT

“To deliver innovative cost-effective financial services consistent with Credit Union and cooperative principals.”

Minutes of the 2004 Annual General Meeting

Minutes of the 2nd Annual Meeting held on the 26th day of January 2005 at Paradise Banquet and Convention Centre, 7601 Jane Street, Vaughan, Ontario.

The meeting was called to order by Terry Ryan at 6:45 p.m. with the following Directors present:

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

Regrets: None

Guests:

Don Newell – Deloitte & Touche
David Johnstone – Deloitte & Touche
Noel Finucane – Financial Services Commission of Ontario
Mike Dalglish – CUIS Life Insurance
Bernie Mullings – Formerly of Credit Union Central

A quorum of 92 members was established.

Moved by Phillip Smith, seconded by Mary Benincasa that the agenda be approved as printed in the Annual Report.
Carried.

Moved by Rita Basque, seconded by Kathy Phillips that the minutes of the 1st Annual Meeting Held on January 21, 2004 be approved as printed in the Annual Report.
Carried.

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

Moved by Barry Seyffert, seconded by Claude Duchesneau that the Report of the Chief Executive Officer and the President be approved as printed in the Annual Report.
Carried.

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

Moved by Rene Laffree, seconded by Lorne Culley that the Auditors' Report and the Financial Reports for the year ended September 30, 2004 be approved as printed in the Annual Report.
Carried.

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

New Business

Election of Directors

Mike Dalglish of CUMIS Life Insurance conducted the elections on behalf of the Board 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:

Bruce Croft, Jim Tindall, Gerry Robin, Joe Posivy, Peter Rebellati

The following Directors were elected for a three-year term:

Bruce Croft, Jim Tindall, Gerry Robin, Joe Posivy

Moved by Terry Chapman, seconded by Gerry Robin to release the scrutineers, and destroy the ballots.

Carried.

The Chair thanked Peter Rebellati for his service on the board of directors.

Directors' Renumeration Budget

Moved by Phillip Smith, seconded by Rene Laffree that the total budgeted remuneration to be paid to directors for the fiscal period ending September 30, 2005 in the amount of \$75,000 be approved.
Carried.

Appointment of Auditor moved by Claude Duchesneau, seconded by Terry Chapman that Deloitte and Touche be appointed as external auditor for the fiscal year ending September 30, 2005.
Carried.

Other Business

None

Adjournment

Moved by Donna Busato, seconded by Wendy Jacksie that the meeting be adjourned at 7:55 p.m.


Chair

March 30, 2005
Date


Secretary

March 30, 2005
Date

Report of the Board of Directors

Oh behalf of your Board of Directors I would like to welcome all members to the third Annual meeting of PACE Savings and Credit Union. I would also like to extend a special welcome to the staff and members of the Medical & Dental Credit Union who joined the PACE family in June of last year. For many years, we've had the pleasure of welcoming new Credit Union groups to the PACE family. I think it is fair to say that with the blockbuster Credit Union mergers of this past year and given the continued good health of the Credit Union system in the Province of Ontario, we can expect a significant reduction in the number of future amalgamations. Your PACE Board will continue to review opportunities of mutual interest with Credit Unions, but your Board does not expect any significant growth or activity in this area over the next few years.

As you can see in the audited financial reports, it has been another banner year for PACE, with steady, conservative growth and a solid dividend track record. PACE has developed into a full service financial cooperative with a complete range of financial products and related services for an increasingly diverse membership. From the Head Start Savings program for our youngest members to our competitive RRIF products for our retired members, PACE offers everything you need for personal financial management through all stages of your financial life cycle. Members deposits of \$163.2 million in regular deposit accounts, \$59.4 million in RRSP accounts and \$35.9 million in RRIF funds supported loans and mortgages to other members totaling nearly \$250 millions. We were able to pay out to our members over \$6.2 million in interest on their deposits including over \$343 thousand to members with Credit Union investment shares. These are excellent results and the Board wishes to express our appreciation to the membership for entrusting their financial business and assets to our Credit Union.

As a financial co-operative I am pleased that we have been able to support various charitable programs in our local communities while helping members with a full range of wealth management products and small business loans. We should remember that the small business owner is the greatest generator of employment opportunities in Canada and we are pleased to be able to contribute to the financing of these initiatives.

The Directors of your Credit Union are elected by you to serve the members and work with management to build a strong Credit Union. Should you wish to speak to a Board member, your local Branch manager will refer you to a director familiar with your area of membership. Long time director, Bruce Croft, former Chair of Maple Leaf Credit Union resigned from the Board of Directors this past year due to increasing demands of a new job position. He will be missed by his fellow Directors. The remaining two years of his term will be filled at tonight's elections. The terms of office of four other Board members have also ended such that we will need to fill four vacancies this evening.

The new Board will face many challenges in the upcoming months.

In addition to monitoring day-to-day business operations, the Board is also considering future financial products and services to increase the value proposition of current membership as well as attracting new members.

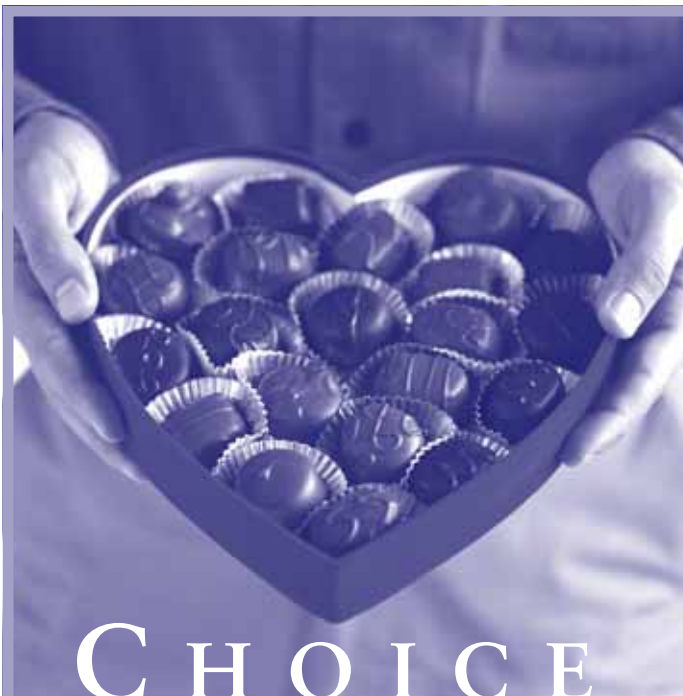
Ontario Credit Union members are some of the greatest users of debit card transactions in the world and we are currently investigating ways of making debit card usage even more rewarding to the membership. Watch for details in the months to come.

We are indeed fortunate to have our CEO, Larry Smith, our President Barry Seyffert and our hard working staff, all of whom are dedicated to meeting the competitive challenges of an ever evolving financial services marketplace, but who also continue to provide a high level of service to our members. On behalf of the members and Directors I want to thank them for another great year.

I am looking forward, along with my fellow Directors, to working with them on the continued success of our Credit Union.



Terry Ryan,
Chairman of the Board



CHOICE

All the services you'd expect from a major financial institution, plus we give you more. More unique products like PACE POWER CARD, PACE Auto Sales & Leasing Centre, FREE Financial Planning and one central number for all your banking needs.

Report of the President & Chief Executive Officer

2005 has concluded with your Credit Union's continued focus on its community involvement, its commitment to financial soundness, service excellence, convenience and co-operative values.

2005 also marked the second year of operations for the amalgamated PACE Savings & Credit Union.

It is indeed a pleasure for both of us to work closely with our Board of Directors, Management and Staff. Throughout 2005 we enjoyed assisting our Directors in setting the vision and strategic direction of our Credit Union and leading our Management Team and Staff in the implementation process.

Last year saw PACE welcome the membership of the Medical Dental Credit Union, which brought the "Power of PACE" family of products and services to their members.

PACE's auto leasing division now services in excess of 400 members through its "Big Deal" and "Found, Financed and Delivered" program in 2005.

Look for added rewards through the use of your PACE Power Card. In early 2006, each dollar spent will earn 3 bonus points on your PACE Power Card. Points earned can be used, as CASH, for the unrestricted purchase of goods and services at any facility which accepts Interac Debit Cards or redeemed at any ABM for cash.

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

Financial Results

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

- Assets grew by \$8.9 million to a total of just under \$290 million.
- Personal Loans and Mortgages to members increased by some \$8.3 million totaling \$156. million.
- Commercial Loans to members increased by \$18.8 million to a total of \$81.8 million.
- Dividends paid to members holding Class A and B shares totaled \$343,400.

- Overall interest rate paid to members totaled \$6,251,748.
- Interest rebates (to be paid in 2006) totaling \$220,000, have been approved by the Directors.
- Total Capital and Retained earnings increased to approximately \$22.5 million or just under 8% of deposits as of September 30, 2005.

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 and were recognized for our support by receiving the **Corporate Special Achievement Award** from Squash Ontario for our contribution and continued support to the sport of squash. Not only was PACE recognized for its contribution, but 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** – for the second consecutive year PACE sponsored the Canadian Squash Classic that brought top squash players from around the world to BCE Place in Toronto with proceeds of the corporate challenges being donated to The Prostate Cancer Foundation of Canada. The occasion, which was filmed for national television coverage on TSN, was a great success drawing hundreds of spectators and media.
- **Polo For Heart** – as a proud sponsor of this event, PACE was onsite to show support to a spectacular affair drawing almost 10,000 spectators and raising over \$3.5 million in support of the Heart & Stroke Foundation of Ontario.
- **The Super Cities Walk for MS** – this year PACE joined thousands of participants in this great event that raised over \$4,000 in sponsorships to help Canadians living with multiple sclerosis.
- **Ride for Diabetes Research** – PACE staff joined Credit Union Central of Ontario in an hour-long ride that contributed over \$1 million to the Juvenile Diabetes Research Foundation.

- **PACE Staff Members** raised in excess of \$6,000 for the victims of the Southeast Asian Tsunami.

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. Over 600 members representing nearly \$20 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.

Our success this year could not have been accomplished without the dedication and commitment of our PACE staff, as PACE becomes your financial institution of choice.

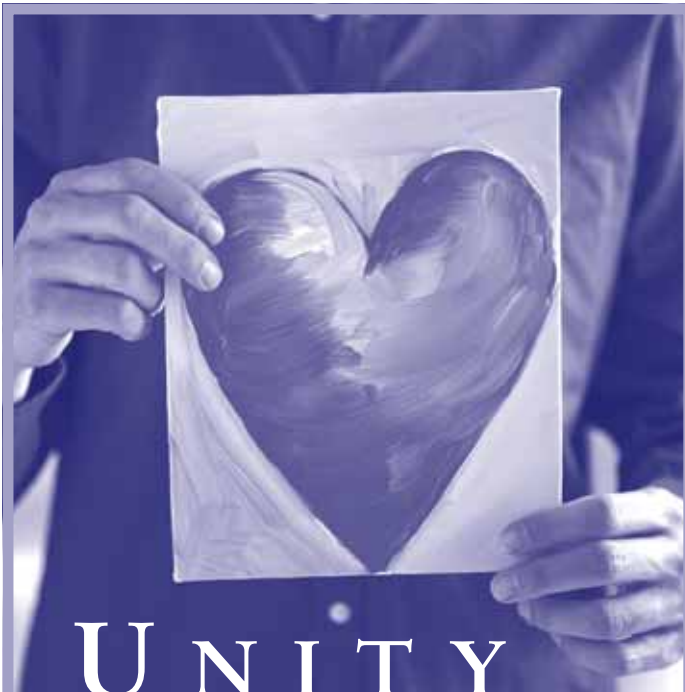
A special thank you to our members for their continued support and for putting the Power of PACE to work for you, your families and friends.



Larry Smith,
Chief Executive Officer



Barry Seyffert,
President



UNITY

Be a part of a financial institution that believes in the power of contributing to the community it serves and making a difference in the lives of others.

Report of the Credit Officer

At PACE Savings & Credit Union, we offer our members tailored advice, a fast approval process and power rates with all of our credit products.

Personal Lending Opportunities

PACE continues to develop and offer flexible loan products and unique services for our membership. The innovative "PACE Power Drive" introduced in November 2004, is an exclusive program that offers a one stop shopping experience to our members through our PACE Auto Sales & Leasing Centre. Members benefit from low rates, fast approvals, an exclusive vehicle locator service, customized financing options, expert advice and free vehicle delivery.

Commercial Lending Opportunities

At PACE we continue to focus our efforts on members who are business owners, entrepreneurs and professionals. We continue to develop a full range of new lending options tailored to our members needs.

Regulatory Statistics

Pursuant to subsection 120(2) and as prescribed by Ontario Regulation 76/95 made under the Credit Unions and Caisses Populaires Act, 1994, the following is included for the information of the membership. During the fiscal year ended September 30, 2005, the credit department processed 2,424 applications. We advanced \$31,175,201 in Personal Loans and Lines of Credit, \$33,305,282 in Personal Mortgages and Equity Lines of Credit, and \$34,841,105 in Commercial Loans for a total advance of \$99,321,588. Of those applications 296 (12%) were declined. The aggregate value of all loans outstanding and classified as commercial, personal, and residential mortgage which were more than 90 days in arrears as of September 30, 2005, totaled \$5,273,544.00. Management has determined that an amount of \$1,945,547.00 on such loans may be uncollectible and maintains an allowance for doubtful loans reserve totaling this amount.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "R. Laffree".

Rene Laffree,
Vice President, Credit

Report of the Audit Committee

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, Mel Greif, Wendy Mitchell 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 six 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

SUPPORT

Enjoy personalized service and special attention for your financial needs at a caring financial institution that puts your first.

Management's Responsibility for Financial Information

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 five 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, 2005 and the statements of earnings and 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, 2005 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
Toronto, Ontario

October 28, 2005, except as to Note 11
which is as of November 30, 2005

Balance Sheet

September 30, 2005

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash resources (Note 2)	\$ 4,640,314	\$ 6,166,336
Currency held in third-party ABMs (Note 3)	5,972,186	14,253,405
Investments (Note 4)	30,311,068	38,793,795
Loans to members (Notes 5 and 6)	236,243,859	209,428,644
Capital assets (Note 7)	7,816,682	7,506,484
Other assets (Note 8)	4,817,400	4,696,203
	<u>\$ 289,801,509</u>	<u>\$ 280,844,867</u>
LIABILITIES		
Members' deposits (Note 9)	\$ 258,544,034	\$ 249,426,123
Other liabilities (Note 10)	8,747,155	9,623,676
Liabilities qualifying as regulatory capital (Note 11)	15,071,743	14,943,221
Total liabilities	<u>282,362,392</u>	<u>273,993,020</u>
MEMBERS' EQUITY		
Retained earnings	<u>7,438,577</u>	<u>6,851,847</u>
	<u>\$ 289,801,509</u>	<u>\$ 280,844,867</u>

APPROVED BY THE BOARD

 _____ Director

 _____ Director

Statement of Earnings and Retained Earnings

Year ended September 30, 2005

	2005	2004
REVENUE		
Interest on loans		
Mortgage	\$ 5,492,869	\$ 5,541,517
Personal	3,210,473	3,514,607
Commercial	4,867,632	3,774,388
Investment income	892,950	1,336,201
Other income (Note 3)	3,305,731	3,553,637
	<u>17,769,655</u>	<u>17,720,350</u>
FINANCIAL EXPENSES		
Interest on members' deposits		
Personal chequing accounts	50,998	41,565
Savings accounts	64,415	71,831
Term deposits	2,601,093	2,580,299
Registered retirement savings plans	1,777,181	1,988,118
Registered retirement income funds	1,402,016	1,492,845
Interest on borrowings	12,581	-
Dividend on Class A Profit Shares	57,341	52,496
Dividend on Class B Investment Shares	286,123	281,547
	<u>6,251,748</u>	<u>6,508,701</u>
FINANCIAL MARGIN	<u>11,517,907</u>	<u>11,211,649</u>
OPERATING EXPENSES		
Administrative	4,789,758	4,724,693
Amortization of capital assets	827,586	762,396
Deposit insurance premium	239,003	221,993
Provision for impaired loans	400,000	300,000
Salaries and benefits	4,617,788	4,689,918
	<u>10,874,135</u>	<u>10,699,000</u>
EARNINGS BEFORE INTEREST REBATE AND INCOME TAXES	<u>643,772</u>	512,649
INTEREST REBATE	-	220,000
EARNINGS BEFORE INCOME TAXES	<u>643,772</u>	<u>292,649</u>
INCOME TAX PROVISION (RECOVERY) (Note 13)		
Current	231,346	26,896
Future	(174,304)	25,694
	<u>57,042</u>	<u>52,590</u>
NET EARNINGS	<u>586,730</u>	240,059
RETAINED EARNINGS, BEGINNING OF YEAR	6,851,847	6,611,788
RETAINED EARNINGS, END OF YEAR	<u>\$ 7,438,577</u>	<u>\$ 6,851,847</u>

Statement of Cashflows

Year ended September 30, 2005

	2005	2004
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net earnings (loss)	\$ 586,730	\$ 240,059
Adjustments to determine net cash flows		
Provision for impaired loans	400,000	300,000
Amortization of capital assets	827,586	762,396
Amortization of loan portfolio discount	(374,064)	(407,952)
Future income tax (recovery) expense	(174,304)	25,694
Gain on sale of marketable securities	-	(92,000)
Gain on sale of property acquired by foreclosure and held for sale	(53,311)	-
Class A Profit Shares issued, share dividend	321,116	319,355
Class B Investment Shares, Series 97 issued, shared dividend	15,129	14,688
Net change in accrued interest receivable and payable	(175,826)	671,779
Net changes in other items and accruals	(647,759)	84,746
	<u>725,297</u>	<u>1,918,765</u>
INVESTING		
Loans to members	(25,385,602)	(17,230,728)
Currency held in third-party ABMs	8,281,219	545,324
Proceeds on sale of marketable securities	-	521,000
Proceeds on sale of property acquired by foreclosure and held for resale	168,311	-
Investments	8,601,916	16,626,556
Purchase of capital assets	(1,121,671)	(889,630)
Acquisition of Federal Employees (Hamilton) Credit Union Limited	-	3,395,924
Acquisition of The Medical Dental Financial, Savings Credit Union Limited	1,794,334	-
	<u>(7,661,493)</u>	<u>2,968,446</u>
FINANCING		
Members' deposits	5,622,697	(2,511,542)
Redemption of subordinated debt	-	(2,000)
Class B Investment Shares, Series 95 redeemed	(102,770)	(176,660)
Class B Investment Shares, Series 03 redeemed	-	(24,700)
Class A Profit Shares redeemed	(157,851)	(112,721)
Membership shares	48,098	(114,375)
	<u>5,410,174</u>	<u>(2,941,998)</u>
NET CASH INFLOW (OUTFLOW)	(1,526,022)	1,945,213
CASH RESOURCES, BEGINNING OF YEAR	6,166,336	4,221,123
CASH RESOURCES, END OF YEAR	\$ 4,640,314	\$ 6,166,336
SUPPLEMENTARY INFORMATION		
Cash income taxes paid	\$ 59,829	\$ 86,211
Cash interest paid	\$ 6,170,839	\$ 5,859,587

Notes to the Financial Statements

September 30, 2005

1. 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

In accordance with the recommendations of the Canadian Institute of Chartered Accountants, the credit union's Class A Profit Shares, Class B Investment Shares and Membership Shares are presented in the balance sheet as financial liabilities. These liabilities qualify as capital for regulatory purposes, notwithstanding their financial statement classification. Dividends on all classes of shares are classified as financial expenses in the statement of earnings and retained earnings.

Investments

Investments in Credit Union Central of Ontario ("Central"), fixed term securities, co-operative organizations and DCR Strategies Inc. ("DCR") are stated at cost unless there is a decline in value which is considered to be other than temporary, in which case the investment would be written down to estimated realizable value. The credit union accounts for investments in which it exercises significant influence by the equity method.

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.

Gains and losses arising on the sale of investments are included in investment income on the statement of earnings and retained earnings.

Loans to members

Loans to members are stated at cost which includes amounts advanced and applicable charges, less repayments. Interest is accounted for on the accrual basis for all loans other than impaired loans.

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.

Notes to the Financial Statements

September 30, 2005

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Derivative instruments

Effective October 1, 2004, the credit union adopted Accounting Guideline 13, a new accounting guideline for hedging relationships. This guideline establishes certain qualifying conditions for the use of hedge accounting which are more rigorous and detailed than prior accounting standards.

From time to time, the credit union enters into equity index-linked options to reduce its exposure to market risks. The credit union's policy is not to enter into derivative financial instruments for trading or speculative purposes.

When derivative financial instruments are used to manage market risk exposures, the credit union determines whether hedge accounting can be applied. When hedge accounting can be applied, a hedging relationship is designated between the hedging item, being the derivative financial instrument, and the hedged item, being a risk exposure related to a specifically identified asset or group of assets or a specifically identified liability or group of liabilities. At the inception of the hedging relationship and on an on-going basis, the credit union formally assesses and documents whether the hedging derivative financial instruments are highly effective in offsetting the changes in fair values or cash flows of hedged assets or liabilities.

Hedge accounting is discontinued when either the hedging item or hedged item ceases to exist, as well as the hedging relationship ceases to be effective. Derivative financial instruments that do not qualify for hedge accounting are recorded at their fair value in other assets or other liabilities on the balance sheet and the realized and unrealized gains or losses in respect of such instruments are recognized in other income. The fair value of derivative financial instruments that are not part of a hedging relationship are generally reported on a gross basis in other assets or other liabilities, except where the credit union has both a legal right and intent to net settle these amounts simultaneously in which case they are presented on a net basis on the balance sheet.

Equity index options are used to reduce the exposure to stock market fluctuations in the returns associated with Index-Linked and Equity-Linked Term Deposit products issued to members. The credit union accounts for options that are part of a hedging relationship on a settlement basis. The premiums paid for these options are deferred in prepaid expenses and amortized to interest expense on members' deposits over the life of the options.

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.

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 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.

Notes to the Financial Statements

September 30, 2005

2. CASH RESOURCES

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 and contingent term loans with Central in the amount of Cdn. \$17,990,000 and U.S. \$1,010,000, to cover shortfalls in cash resources. These lines of credit are secured by an assignment of book debts and a general security agreement covering all assets of the credit union. These lines of credit were unutilized as at September 30, 2005.

3. 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, 2005 amounted to \$770,929 (2004 - \$1,251,451) and is included in other income in the statement of earnings and retained earnings.

4. INVESTMENTS

	2005	2004
Central		
Term deposits	\$ 3,800,000	\$ 11,350,000
Liquidity reserve deposit	19,073,085	18,586,643
Shares	1,761,507	1,635,000
Co-operative Trust Company of Canada	8,077	8,177
Credential Securities	5,000	5,000
The Co-operators Group Limited term certificate	150,000	150,000
CU-Connection Limited	537,936	252,280
Government bonds	575,000	3,546,085
Corporate bonds	10,800	10,800
DCR Strategies Inc.	800,000	-
Property acquired by foreclosure and held for resale	3,589,663	3,249,810
Carrying value	\$ 30,311,068	\$ 38,793,795
Market value	\$ 30,327,215	\$ 38,814,878

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 credit union's own membership shares and deposits 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.

DCR Strategies Inc. ("DCR")

The credit union has a non-interest bearing advance to DCR for a three year term. The amount is secured by a general security agreement and is convertible into common shares of DCR by the credit union anytime during the term. The credit union is committed to advancing an additional \$700,000 under the same terms.

CU-Connection Limited shares

The credit union is a part owner (25% interest; 2004 - 13% interest) with a group of credit unions in CU-Connection Limited. The company provides on-line electronic funds transaction services, including access to Interac and other ABM networks in Canada and in the United States.

Notes to the Financial Statements

September 30, 2005

5. LOANS TO MEMBERS

	2005	2004
Mortgage	\$ 113,061,801	\$ 105,170,611
Personal	43,317,951	43,002,615
Commercial	81,809,654	63,019,781
	<u>238,189,406</u>	<u>211,193,007</u>
Less allowance for impaired loans (Note 6)	1,945,547	1,764,363
	<u>\$ 236,243,859</u>	<u>\$ 209,428,644</u>

Included in mortgage loans is a discount of \$102,098 (2004 - \$476,162) representing the difference between net tangible assets acquired and liabilities assumed from the acquisition of credit unions in prior years. The discount is being amortized on a straight-line basis over the average term of the loan portfolios acquired which is estimated to be three years. Amortization of the discount for the year ended September 30, 2005 amounted to \$374,064 (2004 - \$407,592) and is included in mortgage interest income on the statement of earnings and retained earnings.

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 installments over a maximum term of five years based on a maximum amortization period of twenty-five years.

As at September 30, 2005, the credit union was committed to the issuance of commercial loans to members in the aggregate amount of \$1,681,378.

At September 30, 2005, the credit union was administering, for a fee, on behalf of Co-operative Trust Company of Canada ("Co-operative Trust"), members' mortgage loans aggregating \$12,791,413 (2004 - \$11,548,364) including mortgage loans transferred to Co-operative Trust in the current year of \$2,567,528. 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 installments 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.

6. ALLOWANCE FOR IMPAIRED LOANS

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

	2005				2004
	Personal	Mortgage	Commercial	Total	Total
Balance, beginning of period	\$ 1,300,490	\$ -	\$ 463,873	\$ 1,764,363	\$ 1,226,038
Collection of loans previously written off	100,829	-	375	101,204	89,941
Loans written-off as uncollectible	(310,081)	-	(9,939)	(320,020)	(280,511)
Recorded on acquisition of credit union	-	-	-	-	428,895
Provision for impaired loans	419,341	-	(19,341)	400,000	300,000
Balance, end of period	<u>\$ 1,510,579</u>	<u>\$ -</u>	<u>\$ 434,968</u>	<u>\$ 1,945,547</u>	<u>\$ 1,764,363</u>
Aggregate impaired loans, end of period	<u>\$ 1,512,573</u>	<u>\$ 987,089</u>	<u>\$ 2,773,882</u>	<u>\$ 5,273,544</u>	<u>\$ 3,289,863</u>

Notes to the Financial Statements

September 30, 2005

6. ALLOWANCE FOR IMPAIRED LOANS (continued)

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.

7. CAPITAL ASSETS

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 1,447,641	\$ -	\$ 1,447,641	\$ 1,447,641
Buildings	3,500,833	287,086	3,213,747	3,198,013
Computer equipment	3,289,065	1,440,436	1,848,629	2,028,202
Furniture and equipment	677,342	224,952	452,390	457,829
Leasehold improvements	1,162,120	307,845	854,275	374,799
	\$ 10,077,001	\$ 2,260,319	\$ 7,816,682	\$ 7,506,484

8. OTHER ASSETS

	2005	2004
Accrued interest	\$ 715,502	\$ 608,004
Accounts receivable and prepaid expenses	1,500,288	1,908,393
Future income taxes	236,610	62,306
Funds held in trust account	2,365,000	2,117,500
	\$ 4,817,400	\$ 4,696,203

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 10). As at September 30, 2005, the remaining minimum obligation to be accrued is approximately \$1,231,262 (2004 - \$1,050,363) and the EARSL is four years.

9. MEMBERS' DEPOSITS

	2005	2004
Personal chequing accounts	\$ 47,179,558	\$ 42,367,439
Savings accounts	27,282,259	27,988,935
Term deposits	88,697,437	80,331,927
Registered retirement savings plans	59,428,210	62,587,789
Registered retirement income funds	35,956,570	36,150,033
	\$ 258,544,034	\$ 249,426,123

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.

Notes to the Financial Statements

September 30, 2005

9. MEMBERS' DEPOSITS (continued)

Index-linked term deposits

As at September 30, 2005, the credit union had \$1,347,408 (2004 - \$2,254,238) of index-linked and equity-linked term deposit products 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 has entered into equity linked option hedge agreements with Central to manage the exposure to the indices associated with these products. The credit union pays Central a fixed premium at the inception of each agreement that is deferred in prepaid expenses and amortized to interest expense on members' deposits over the life of the options. At the end of each agreement, Central pays to the credit union an amount equal to the amount that will be paid to the depositors based on the performance of these indices.

The purpose of these agreements is to provide a hedge against market fluctuations. These agreements have fair values that vary based on the particular contract and changes in market indices. The current replacement cost of these contracts, which had a notional amount of \$1,349,096 (2004 - \$2,257,126), amounted to \$146,180 (2004 - \$335,145) as at September 30, 2005.

As at September 30, 2005, the credit union has unamortized premiums of \$22,324 (2004 - \$68,103) relating to payments made under these agreements. These amounts are being amortized on a straight-line basis over the term of the contracts to which they relate, which are from three to five years.

No agreements were terminated during the year.

Registered retirement plans

Co-operative Trust is the trustee for the registered retirement plans offered to members. Under an agreement with the Co-operative 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 Co-operative Trust.

10. OTHER LIABILITIES

	<u>2005</u>	<u>2004</u>
Accrued interest on members' deposits	\$ 6,724,380	\$ 6,792,708
Accounts payable and accrued liabilities	889,037	1,763,831
Accrued employment contract benefits (Note 8)	1,133,738	1,067,137
	<u>\$ 8,747,155</u>	<u>\$ 9,623,676</u>

11. LIABILITIES QUALIFYING AS REGULATORY CAPITAL

	<u>2005</u>	<u>2004</u>
Class B Investment Shares, Series 95	1,567,315	1,607,085
Class B Investment Shares, Series 97	519,433	504,304
Class B Investment Shares, Series 03	7,225,200	7,225,200
Class A Profit Shares	2,232,472	2,069,207
Membership shares	3,527,323	3,474,425
	<u>\$ 15,071,743</u>	<u>\$ 14,943,221</u>

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.

Notes to the Financial Statements

September 30, 2005

11. LIABILITIES QUALIFYING AS REGULATORY CAPITAL (continued)

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, 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, or after the death of the shareholder.

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.

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, except that every member who was a member of the former Greater Toronto Area (GTA) Savings & Credit Union on April 1, 2003 shall acquire 35 shares on or before December 31, 2005.

As at September 30, 2005, there were 21,947 (2004 – 22,609) members and 705,465 (2004 – 694,885) 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.

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 12.

On November 30, 2005, the Board of Directors declared a dividend equivalent to 3% on:

- (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 September 30, 2005, 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 September 30, 2005 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 September 30, 2005, in the form of Class A Profit Shares.

Notes to the Financial Statements

September 30, 2005

12. 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 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, 2005, the credit union met regulatory capital requirements based on capital of \$22,510,320.

Leverage ratio: **7.76%**

Risk-weighted assets ratio: **12.58%**

13. INCOME TAXES

The provision for income taxes reported for the year ended September 30, 2005 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	<u>2005</u>	<u>2004</u>
Statutory income tax rate	18.62%	18.62%
Expected provision of income taxes	\$ 115,454	\$ 54,191
Non-taxable and non-deductible items	6,906	(5,727)
Other	(65,318)	3,826
Reported income tax provision (recovery)	<u>\$ 57,042</u>	<u>\$ 52,290</u>

Temporary differences which give rise to the following future income tax assets as at September 30, 2005 are as follows:

	<u>2005</u>	<u>2004</u>
Future income tax assets:		
Allowance for impaired loans	\$ 134,499	\$ 73,262
Capital assets	(149,955)	(205,709)
Accrued employment contract benefits	252,066	194,753
Future income tax asset, net	<u>\$ 236,610</u>	<u>\$ 62,306</u>

14. 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.

15. RELATED PARTY TRANSACTIONS

As at September 30, 2005, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and their related parties totalled \$5,720,088 (2004 - \$5,223,447). There was no allowance for impaired loans required in respect of these loans as at September 30, 2005 and 2004.

16. COMMITMENTS

The credit union is committed to the following minimum annual payments for its leased premises:

2006	\$ 407,416
2007	280,449
2008	272,346
2009	272,346
2010	278,582
<u>2011 and thereafter</u>	<u>1,321,854</u>
	\$ 2,832,993

Notes to the Financial Statements

September 30, 2005

17. 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.

18. OTHER INFORMATION

The total fees paid to Central for the year ended September 30, 2005 amounted to \$221,450 (2004 - \$237,592). These fees were primarily related to banking functions, educational training courses and consulting fees.

Outstanding letters of credit at September 30, 2005 amounted to \$813,645 (2004 - \$821,645).

19. PENSION PLAN

The credit union maintains a defined contribution pension plan. The total cost of \$221,754 (2004 - \$207,983) recognized in the statement of earnings and retained earnings represents cash contributions made by the credit union to the plan.

20. 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.

	2005		2004	
	Fair Value	Book Value	Fair Value over (under) book value	Fair Value over (under) book value
Assets				
Cash resources	\$ 4,640,314	\$ 4,640,314	\$ -	\$ -
Currency held in third-party ABMs	5,972,186	5,972,186	-	-
Investments	30,327,215	30,311,068	16,147	21,083
Loans to members	236,967,125	238,189,406	(1,222,281)	(676,625)
Other Assets	4,580,790	4,580,790	-	-
Liabilities				
Members' deposits	262,950,146	258,544,034	4,406,112	4,275,122
Other liabilities	8,747,155	8,747,155	-	-
Liabilities qualifying as regulatory capital	15,071,743	15,071,743	-	-

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

- (i) The fair values of cash resources, 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 4).
- (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.

Notes to the Financial Statements

September 30, 2005

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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 resources	\$ 3,264	\$ -	\$ -	\$ 1,376	\$ 4,640	0.54%
Currency held in third-party ABMs	5,972	-	-	-	5,972	6.72%
Investments	-	23,498	100	6,713	30,311	2.08%
Loans to members	75,599	78,234	84,302	54	238,189	5.81%
Members' deposits	69,567	91,416	78,842	18,719	258,544	2.22%
Liabilities qualifying as regulatory capital	15,072	-	-	-	15,072	2.28%

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 \$112,933 (2004 - \$138,731) have been included in other income on the statement of earnings and retained earnings for the year ended September 30, 2005.

21. ACQUISITION OF CREDIT UNION

During the year, the credit union acquired the assets, liabilities and operations of The Medical Dental Financial, Savings & Credit Union Limited effective May 31, 2005. The fair value of the assets acquired and liabilities assumed were as follows

Cash resources	\$ 1,794,334
Investments	234,189
Loans to members	1,455,549
Capital assets	16,113
Other assets	10,168
Members' deposits	3,495,214
Other liabilities	10,339
Membership shares	4,800

The financial statements reflect the combined operations of the acquired credit union from the effective date of acquisition.

Branch Locations

Vaughan (Administration)

8111 Jane Street, Unit 1
Vaughan, ON
L4K 4L7
Tel. 905.738.8900
Fax. 905.738.8283
Fax. 905.738.8265

Brampton

10 Peel Centre Drive
Brampton, ON
L6T 4B9
Tel. 905.791.3877
Fax. 905.791.7974

Burlington

676 Appleby Line, Unit E109
Burlington, ON
L7L 5Y1
Tel. 905.333.8913
Fax. 905.333.8914

Celestica

844 Don Mills Road
Don Mills, ON
M3C 1V7
Tel. 416.448.5611
Fax. 416.448.4727

Consumers Road

505 Consumers Road, Unit 101
North York, ON
M2J 4V8
Tel. 416.493.0314
Fax. 416.493.1715

Hamilton

55 Bay Street North
Hamilton, ON
L8R 3P7
Tel. 905.523.9086
Fax. 905.523.8923

Markham

411 Manhattan Drive, Unit 1
Markham, ON
L3P 7P4
Tel. 905.477.4311
Fax. 905.477.5922

Matheson

550 Matheson Boulevard
Mississauga, ON
L5R 4B8
Tel. 905.566.7223
Fax. 905.566.8737

Medical Dental

1133 Sheppard Avenue East
Unit 166
North York, ON
M2J 1V1
Tel. 905.493.5505
Fax. 905.493.5015

Steeles

3600 Steeles Avenue East
Markham, ON
L3R 9Z7
Tel. 905.474.1885
Fax. 905.474.9926

Stouffville

6245 Main Street, P.O. Box 1019
Stouffville, ON
L4A 8A1
Tel. 905.640.2811
Fax. 905.640.7713

Uxbridge

99 Brock Street West
P.O. Box 490
Uxbridge, ON
L9P 1P5
Tel. 905.852.3388
Fax. 905.852.5108

Additional ATM Locations

1150 Eglinton Avenue (Don Mills Rd. & Eglinton Ave.)

Badge access required

8200 Warden Avenue (Warden Ave. & Highway 7)

Badge access required

105 Moatfield Avenue (Don Mills Rd. & York Mills Rd.)

2810 Matheson Boulevard (Matheson Blvd. & Explorer Dr.)

In CUCO Building

7750 Hurontario Street (Highway 10 & Ray Lawson Blvd.)

6500 Mississauga Road North (Kilimat Rd. & Mississauga Rd.)

In lunchroom

1121 Walkers Line (Mainway & Walkers Line)

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

Hamilton Postal Outlet