# **PRESIDENT'S REPORT**
# **10$^{Th}$ Annual Report**

As of December 31st, 2008, the Strathcona Credit Union has completed its 8$^{th}$ full year of operation. In those 8 years we have seen our assets grow from $26,671,000 to $ 40,539,092.

Looking at the financials, the Strathcona Credit Union saw assets grow by 1.92% ( $764,392) this past year. Surplus earnings after taxes were
$(80,374) and undistributed surplus earnings of $196,549 will be allocated to the General Reserve, bringing the total reserves to $2,540,872.

It is at this point in the President's Report that I usually announce my pleasure that the Board of Directors is once again recommending to the AGM that it vote to rebate as much as we are permitted. That amount is never the full amount of the operating surplus. Each year we are required to contribute a certain percentage of the operating surplus to the General Reserve and any portion of the operating surplus in excess of that amount may be rebated by the AGM.

Whether we are permitted to rebate in a given year depends on something called the "capitalization ratio". This is a complicated calculation that depends not only on the amount of our assets but how these assets are used. So term deposits don't have the same weighting in determining this ratio as mortgages, for instance. The magical number we need to be able to rebate this year is 6.76%. Even with the best efforts, we did not reach this value for the past year and so we would not normally be able to rebate anything and any surplus would have to be transferred to our General Reserve. Money in our General Reserve can only be used for specific purposes and using it to distribute rebates is not one of them. It turns out, however, for reasons outlined below, that most other credit unions did not achieve their capitalization ratios for this year either and therefore were also not entitled to rebate.

As a consequence, we were informed at the very last moment that Desjardins was eliminating the need for Credit Unions to reach their customary capitalization ratios in order to be able to rebate. What this means to our credit union is that we could in fact distribute $ 39,500 as patronage allocation this year. Rebates, especially the large ones that we have been so successful at generating over many years (i.e. over the last 5 years we have rebated back to our members in excess of 1million dollars) can be a substantial thank you to our members for doing business with us. There have been years that mortgage holders received rebates in the thousands of dollars, effectively reducing their real mortgage costs, while having already benefited from some of the lowest rates in the marketplace when they first negotiated their mortgage. Such rebates are also considered a great incentive to attract new members.

Given the rather puny size of the rebate we could return to our members this year (and the correspondingly small amount a typical member would receive), the Executive of the Board of Directors is recommending to the AGM that we do not rebate anything this year. Normally any such recommendation would come from the entire Board of Directors but this information was not available to us at our last Board meeting held only three weeks ago and so there has not been enough time to discuss it with the full Board. On behalf of Desjardins – my apologies. However, we are not suggesting that this money be transferred over to the General Reserve, where we effectively lose all control over its future us. It turns out this money can be placed in a "Special" reserve whose sole purpose is to allow us to smooth out future rebates. Again the very existence of this Special fund has just been made known to us. In good years we could add a little to this reserve (thus slightly reducing the amount of the rebate we distribute that year) and in years with smaller surpluses we could withdraw funds from this reserve to add to the moneys we have available to rebate to augment that year's rebate. In so doing we should be able to reduce any significant fluctuations in our year by year rebates.

I would like to repeat and emphasize, that even given the nature of the global economic crisis that has affected all financial institutions this past year, the Strathcona Credit Union would have had a successful year generating a surplus of $ 477,000 before taxes, if the subsidiary gains were the same as 2007. We have made money this year as we have done every year in our history. We also have maintained the required (by Desjardins) amounts in our reserves. This may not be so apparent later when the financial report is presented. Everyone must remember that we are affiliated with Desjardins, the sixth largest bank in Canada (after the big five). Like all financial institutions, Desjardins invests some of its money, owning majority shares in some companies, while also investing in a lot of other companies and also engaging in other forms of investments and financial transactions. When I state it invests its money, what I really mean is that it invests our money (money that every financial organization under the Desjardins umbrella is required to contribute each year to the Desjardins investment portfolio).

Desjardins' investment portfolio has not had a good year - not surprising considering the virtual meltdown in the global financial markets. In good times Desjardins' investment successes are partially reflected in our financial statements and in bad times their losses also trickle down to our financials as they have done this past year. Thus even though our own credit union has had a satisfactory year, when the Desjardins losses are factored in, the picture looks gloomy.

Even this situation, however, must be examined taking perspective into consideration. The absolute value of the numbers does not demonstrate the complete picture.

The Canadian banking system, as well as Desjardins Group, is based on solid foundations and has held up very well in the financial storm. Desjardins has some **5.8 million members**, **42,000 employees** and assets of **$152 billion, making it the sixth largest financial institution in the country.** Furthermore, although the caisse network, Desjardins business units and our insurance subsidiaries, as well as Caisse Centrale Desjardins, **continue to post very good operating results**, Desjardins Group's overall surplus earnings were negatively impacted in 2008 by specific exceptional one-time items related to asset-backed commercial paper (ABCP) and the sharp decline of financial markets in recent months. The total overall direct and indirect impact of the ABCP situation and some guaranteed-capital structured products totals **$831 million** after taxes. *Moreover, some investment activities carried out by its subsidiaries were affected by adverse financial market performance.* In spite of this, Desjardins' operating activities are constantly growing and enable it to remain a leader in its industry in Québec. **Excluding** the specific items related to ABCP and the financial crisis, as well as the related losses incurred by Desjardins Group to protect member and client savings, **surplus earnings** before member dividends would have been comparable to those achieved in 2007, i.e. around **$1.2 billion.** In spite of the difficulties this year, Desjardins and its caisses still distributed **$80 million** in the form of donations, scholarships and sponsorships to the community.

Desjardins continues to enjoy the ***highest credit ratings in the entire Canadian financial sector*** and is supported by a capital base approaching $10 billion, with assets of $152 billion, making it the largest financial institution in Québec, **with one of the highest capitalization rates in the Canadian banking industry**

Desjardins caisses even have an additional insurance policy, through their $600 million *Fonds de sécurité* (security fund). This fund is in fact a kind of insurance to protect the caisses' future and of course deposits are insured for up to $100,000 per person by the Quebec equivalent of the CDIC, namely, the *Autorité des Marchés Financiers.*

Desjardins Group remains a solid and productive financial institution that has always shown foresight, used prudent management and has always met the challenges it has faced over the course of its history. Its one main objective has always been to protect the interests of Desjardins members while ensuring the long-term continuity of the financial cooperative for the benefit of future generations.

While the future is hard to predict and future surpluses cannot be guaranteed, our own history of generating surpluses and subsequent rebates (patronage allocation) to our membership is laudable indeed and would certainly indicate that we will undoubtedly be in a position to rebate in the very near future.. Our surpluses and rebates have been achieved, while at the same time maintaining a policy of almost no service charges. We have maintained this service charge policy in spite of strong pressures by Desjardins to implement across-the-board service charges and we are committed to maintaining this present policy.

Three years ago the Board established a marketing committee whose mandate was to implement various strategies with the aim of increasing our membership. We initially focused on visits to various schools in and around the Montreal area. Our aim was primarily to increase our exposure in these institutions and to make ourselves known to the increasing number of new young teachers and staff.

Last year the marketing committee broadened its horizons. Its main efforts were focused on the Teachers' Convention held annually at the Palais des Congrès and at other organized activities such as activities put on by various nurses' groups.

This year, while maintaining and refining our approaches to teacher and nursing groups, the committee has made recommendations to the Board as to how we can best attract new members and offer the very best of services and rates, while making the most efficient use of our assets.

We are also in the process of conducting an efficiency study whereby we hope to more clearly define the tasks associated with each of our employees, making their jobs a little more concentrated and thereby making things a little easier for them in their workday, while at the same time providing a means of servicing our members more efficiently. The Board, along with our management team, is also working on a new detailed business plan that will help us to focus on our goals over the next few years.

As I have mentioned many times before, each and every one of us has an important role to play in our future development. In the end the most effective way of enticing new members is on a one to one basis. This is where we each, as individuals, have a critical role to play. Take every opportunity to talk to potential members about the many virtues of becoming a member of our Credit union. There is virtually no reason for members not to do all of their banking with us. We offer all of the protection and services that any large bank does, but we do it much better, offering better rates, almost no service charges and service that lets each and every member know that we are there for them, that we value their patronage and consider it our pleasure to help them with their financial needs.

There have also been a number of personnel changes on the various Boards, as well as in the offices. Fernand Jacques has stepped down from his position as Chairperson on the Board of Supervision. Fernand served on this Board for many many years. He never failed to advance our interests when dealing with Desjardins representatives, much to their dismay. I would like to thank him for his many contributions to our Credit Union and wish him well. In our downtown office, Johanne Bigras and Francine St. Jean have joined our staff. We welcome them aboard.

Each year the activity level at our offices and by our Board of Directors seems to increase. Part of that is due to our growth, about which, of course, we should not be unhappy. Many people work very hard to ensure our success. Clearly our staff plays a pivotal role in this area. We owe them many thanks. We especially owe a debt of gratitude to Mary for her non-stop dedication and commitment to making the Strathcona Credit Union one of the best. The work of members of both of our boards (Board of Directors and Board of Supervision) often goes largely unnoticed. I can assure you that the work they do individually and collectively is vital to our success. I would like to thank each and every one of them. I would also like to thank the Marketing Committee for all of their hard work. Our future growth depends largely on their efforts.

***David W. Oram***
**President**