PRESIDENT'S REPORT
11th Annual Report

As of December 31st, 2009, the Strathcona Credit Union has completed its 9TH full year of operation. In those 9 years we have seen our assets grow from $26,671,000 to $ 43,657,673

Looking at the financials, the Strathcona Credit Union saw assets grow by 7.7 % to ($ 3,118,582) this past year. Surplus earnings after taxes were $ 200,032 and distributed surplus earnings of $83,929 will be allocated to the different Reserves, bringing the total reserves to $ 2,857,508

It is at this point in the President's Report that I usually announce that the Board of Directors is once again recommending to the AGM that it vote to rebate as much of our surplus earnings 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. 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 on how these assets are used. So term deposits don't have the same weighting in determining this ratio as mortgages, for instance.

Last year (2008), for the first time in its history, the Strathcona Credit Union did not rebate anything. (In the preceding five years, we rebated over a million dollars back to our members). This was due to the global economic meltdown that affected all financial institutions. As I pointed out in last year's message, we made money that year, as we have done in every year of our existence and we have also always maintained the required amount in our reserves. In fact, our own, local operations did quite well, but the problem arose when we, like all other Desjardins affiliates, were forced to absorb a proportion of the losses suffered by Desjardins' investment portfolio. Rather than rebate a very small amount, the AGM voted instead to place this money in a "Special" reserve whose sole purpose is to allow us to smooth out future rebates. 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).

This past year the economic picture has been rosier and in February we were informed that we had surplus earnings of $205,869. The Board started to anticipate a return to healthy rebates. We were then informed that $174,306 out of those surplus earnings were our proportional share of the gains made by the Desjardins investment fund over the past year. Obviously the investment picture has improved for Desjardins. We also learnt that we were not permitted to return such profits as rebates, but that this money had to be put into the reserve. It seems that when the investment fund does poorly, it severely impacts on our ability to rebate and when the investment fund does well we can't use those profits to rebate. After eliminating the $174,306 we are left with $200,032 after paying $5 837 in taxes, another $38,500 to "buy" a 0.1 of capitalization ratio, that would bring us up to the magical 6.75% capitalization ratio needed before rebates are possible, $5,103 to build up the stabilization reserve (a new reserve that was initiated after the global meltdown) and a few more small amounts (like payment of interest to members holding permanent shares), we are left with the insignificant amount of $39,177 to rebate.

As an unhappy consequence of this situation, the Board will be recommending that this amount of potential rebate be transferred to the "Special Reserve" established last year, rather than distributing such a minor amount.

Until very recently, Strathcona Credit Union has been very successful at not only offering financial services at rates that are amongst the best in the marketplace, but also distributing very healthy rebates each year. In recent years this has become increasingly difficult largely due to how Desjardins defines the capitalization ratio that they use to decide what we can and cannot rebate. This ratio has been established in such a way that all surplus dollars are not equivalent. What Desjardins wants is as much profit from operations as possible. This means that spreads should be as large as possible (which translates into as little interest as possible paid on interest bearing financial instruments and charging as much as possible on loans, mortgages and lines of credit) and bank-like service charges should be the order of the day.

Desjardins argues that if we follow their approach we will be able to rebate more each year. In that, they are correct, since they have introduced constraints specifically designed to guarantee such an outcome. Our Board has always taken a very different approach. We think it is far better to give our members the best possible deal every day in every transaction. In our approach, members benefit up front and don't have to wait until year's end for a rebate. It is our belief that our rates are a prime factor in attracting and keeping members. Furthermore, if we charge more upfront and wait to rebate, we are not able to rebate all the surplus funds generated on the backs of our members. Taxes must be paid on these surplus funds, a proportion of them must be siphoned off into reserves, and even then only a proportion of the remaining amount is eligible for rebate and then only if the capitalization ratio has been met.

Looking forward, we must confront a certain reality – it is going to be increasingly difficult to maintain the best possible services and rates while at the same time distributing large annual rebates. Desjardins has effectively rigged the game so that increasing rebates comes at the expense of poorer rates and more service charges and vice versa. Future Boards will have to chart which course they think best serves our members, but I think it would be true to say that the present Board prefers to give our members the best possible deals each and every day in every transaction, even if that comes at the expense of large rebates.

One of the ways that will help us to offer great rates and potentially offer a decent rebate is by doing our very best to reduce operating expenses. This past year saw the last SCU Newsletter that will be mailed to our members. Each newsletter was costing thousands of dollars in mailing and printing costs. All future information (rates, special promotions, newsletter items, notices re office hours, holidays and AGM's, etc.) will be available on our website: http://www.strathconacu.com/. Furthermore, we are asking all members to consider giving us their email addresses so that they can receive important notices and information in a timely fashion. You can do this by simply emailing the information to us or by speaking to one of our employees. We promise to email you only concerning issues of some immediacy and importance. The web site is constantly updated, thanks to our resident webmaster, Lou Borrelli.

This past year also saw the introduction of our monthly $2.50 service charge for members becoming seniors. Up until now seniors were exempt from this charge. This was a decision that all Board members were unhappy about, but the fact is that an increasing percentage of our members are seniors and this freebie was costing us thousands of dollars a month. Even at $2.50 a month, this is the best deal in the market, considering that it provides for an unlimited number of transactions. And, at $2.50/month, the real transaction cost to the credit union is much greater. This is a highly subsidized cost that reduces our operating revenues, making it even more difficult to rebate.

We are continuing to try and streamline the operation of our offices. We want to more clearly define the tasks associated with each of our employees, making their tasks more specific and thereby making things a little easier for them in their workday, while at the same time providing a more efficient service. The most efficient use of office space is also under review.

The changes introduced this year cut costs so that we may still be able to do the impossible – namely provide the best deals along with a nice rebate, while at the same time being very careful to maintain as many of the characteristics as possible that make us a co-operative as opposed to a bank. As with all changes, there are road bumps along the way. Thanks for being patient while changes are implemented and please do not hesitate to pass on any suggestions or concerns that you might have.

As if all this were not enough, over the past year, Desjardins has introduced a major overhaul of internal operations. There have been significant changes in virtually every major technical aspect of its operations and almost all of these have impacted on the individual credit unions. The staff has had to spend much extra time adapting to the new structures and implementing new procedures.

Many people work very hard to ensure our success. I would like to thank the staff for their hard work and continuing efforts on our behalf. That is especially true for Mary Laserra for her non-stop dedication and commitment to Strathcona Credit Union. The dedicated members of both the Board of Directors and the Board of Supervision spend untold hours working on behalf of all members. I also want to thank Fernande Remillard for all of her assistance. The efforts of all these individuals are essential to our continuing success and are greatly appreciated.

David W. Oram
President