

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

To the Members of Summerland & District Credit Union

Opinion

The summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at December 31, 2023, and the summary consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, are derived from the audited consolidated financial statements of Summerland & District Credit Union (the "Credit Union") for the year ended December 31, 2023.

In our opinion, the accompanying summary consolidated financial statements are a fair summary of the audited consolidated financial statements in accordance with Article 128 of the Financial Institutions Act of British Columbia.

Summary Consolidated Financial Statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the Credit Union's audited consolidated financial statements and the auditor's report thereon.

The Audited Consolidated Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated March 4, 2024.

Management's Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of the summary consolidated financial statements in accordance with Article 128 of the Financial Institutions Act of British Columbia.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are a fair summary of the audited consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, *Engagements to Report on Summary Financial Statements*.

Kelowna, Canada
March 5, 2024

MNP LLP

Chartered Professional Accountants

Members may obtain a free copy of the full consolidated financial statements from the Credit Union

SUMMERLAND & DISTRICT CREDIT UNION Summary Consolidated Statement of Changes In Members' Equity

For the year ended December 31, 2023

	2023	2022
Balance beginning of year	29,131,431	27,290,051
Total Comprehensive income	2,711,566	1,865,414
Distributions to members	(4,103)	(6,261)
Change in member shares, net	700	(17,072)
Foreign exchange adjusted	463	(701)
Balance, end of year	31,840,057	29,131,431

SUMMERLAND & DISTRICT CREDIT UNION Summary Consolidated Statement of Financial Position

As at December 31, 2023

	2023	2022
Assets		
Cash and cash equivalents	7,378,921	16,568,440
Receivables and other assets	190,807	237,659
Investments	47,584,828	38,078,605
Member loans receivable	327,571,639	312,921,821
Income taxes recoverable	101,296	-
Property and equipment	3,150,956	3,291,815
Intangible assets	327,676	306,095
Investment in associate	-	3,285,207
Investment properties	364,885	364,885
	386,671,008	375,108,527
Liabilities		
Member deposits	352,567,762	343,323,054
Payables and other liabilities	2,027,175	1,943,543
Income taxes payable	-	158,043
Deferred tax liability	144,362	462,999
Member shares	91,652	89,458
	354,830,951	345,977,097
Members' equity		
Member shares	156,843	156,143
Retained earnings	32,103,862	29,888,769
Accumulated other comprehensive loss	(420,648)	(913,482)
	31,840,057	29,131,430
	386,671,008	375,108,527

Approved on behalf of the Board

Christine Petkau

Christine Petkau,
Audit & Risk Management Committee

Lorrie Forde

Lorrie Forde,
Board Chair

SUMMERLAND & DISTRICT CREDIT UNION Summary Consolidated Statement of Comprehensive Income

For the year ended December 31, 2023

	2023	2022
Interest income		
Member loans	12,498,620	10,187,563
Investments	2,055,918	860,156
	14,554,538	11,047,719
Interest expense		
Member deposits	7,559,367	3,252,312
Net interest income	6,955,171	7,795,407
Recovery of credit losses	(11,169)	(10,441)
Net interest income after recovery of credit losses	6,966,340	7,805,848
Other income	2,313,596	1,554,299
Operating expenses		
Salary and employee benefits	3,590,117	3,845,811
General and administrative	1,798,692	1,983,478
Occupancy and equipment	514,564	475,416
Distributions to members	107,305	108,496
Donations	1,000,000	-
Net income, before taxes	2,269,258	2,946,946
Provision for (recovery of) income taxes		
Current	368,700	675,272
Deferred	(318,637)	5,355
	50,063	680,627
Net income	2,219,195	2,266,319
Other comprehensive income (loss)		
Items that will be reclassified subsequently to profit or loss	492,371	(400,905)
Total comprehensive income	2,711,566	1,865,414

Summary Consolidated Statement of Cash Flows

For the year ended December 31, 2023

	2023	2022
Cash generated (used) from		
Operating activities	1,283,784	2,244,092
Investing activities	(19,605,363)	(11,744,363)
Financing activities	9,132,060	(8,806,468)
Net change in cash and equivalents	(9,189,519)	(18,306,739)
Cash and equivalents, beginning of year	16,568,440	34,875,179
Cash and equivalents, end of year	7,378,921	16,568,440

AGM & Directors' Election Update

We are pleased to announce that the following incumbent directors were elected by acclamation, each to a three-year term: **Connie Denesiuk**, and **Terri Eriksen**. Our new directors were also elected by acclamation. **Dallas Bradner** will serve a three-year term, and **Michelle Miller** will serve a two-year term.

The Board is made up of people who have been elected from our membership, and who share an interest in setting policies that guide the direction of the Credit Union. The Board represents the real owners of the Credit Union – the members – and is charged with the responsibility of overseeing the Credit Union's affairs so that its financial position is maintained and protected.

Current Board of Directors

Lorrie Forde ~ Board Chair • Connie Denesiuk ~ Vice-Chair

Sandy Berry Terri Eriksen Michelle Miller
Dallas Bradner Abhishek Lekhi Christine Petkau
Bev Skinner

Notice of the 80th Annual General Meeting

This year's AGM will be held virtually online on:

Thursday, May 2, 2024

Meeting starts at 4:45pm sharp

Zoom waiting room opens at 4:30pm

To register to attend the virtual AGM please contact Kirby Favreau via email at kfavreau@sdcu.com or call her direct line at 250-494-6052 and she will help set up your authorization.

Annual General Meeting Agenda

1. Call to Order
2. Ascertainment of Quorum
3. Appointment of Recording Secretary
4. Adopt Agenda
5. Minutes of the 2023 Annual General Meeting
6. Business Arising out of Minutes
7. Report to Membership including Financial Results
8. Auditor's Report
9. Approval of the Auditor's Report
10. Appointment of the Auditor
11. Results of the Election
12. Unfinished Business
13. New Business
14. Good and Welfare
15. Adjournment



ANNUAL REPORT 2023



SUMMERLAND & DISTRICT CREDIT UNION ANNUAL REPORT TO THE MEMBERSHIP

LEAVING A LASTING LEGACY



At Summerland Credit Union, we believe in the power of community. Our dedication to the well-being and prosperity of Summerland and its surrounding areas is deeply rooted in our organizational values.

The credit union once again continued to be a key supporter of local initiatives that provide a positive impact to the community. Included this year, was a significant donation of \$1 million to the Community Foundation of the South Okanagan Similkameen (CFSOS).

This donation coincides with our 80th anniversary and is earmarked for the Summerland Credit Union Legacy Fund, an ongoing endowment fund that supports a variety of local community projects and programs.

We Enrich Lives!

2023 Member Patronage Rewards

10% Bonus on Deposit Interest	10% Rebate on Service Charges	5% Loan Interest Rebates
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On behalf of the board of directors and management, we are pleased to present the Annual Report to our members for the fiscal year ending December 31, 2023.

Social, environmental, and economic challenges continued to occupy the past year's headlines with ongoing conflicts in Ukraine and the Middle East, a significant surge in wildfires across the country and weather-related impacts to our fruit industry coupled with the stresses created by rising housing, food, and energy costs. The unsettled environment led to persistent inflationary pressures and in response, the Bank of Canada in its efforts to combat inflation, increased the prime lending rate an additional ¾% in 2023 to 5% overall. These increases followed the rapid 4% rate increase that occurred in 2022 from the historical low of ¼% during the height of the pandemic. While rate increases are great news for depositors it has had a significant impact on the cost of borrowing for borrowers.

The good news is that it appears that we will likely avoid a recession and there is a growing expectation the Bank of Canada will begin easing rates sometime in 2024. Although we do not expect to see the same low rates we experienced during the pandemic, we are hopeful that we will move to a balanced and more equitable rate environment that will benefit both depositors and borrowers and help spur economic growth and a return to prosperity.

Activities

As part of this annual report, you will find a Notice of Special Resolutions of upcoming proposed changes to our credit union's name, constitution and rules. Throughout 2023 we worked extensively with a legal firm that specializes in this type of work for British Columbia Credit Unions. Regarding the constitution and rules, the majority of changes are to modernize the language and incorporate common credit union practices in both the constitution and rules ensuring compliance with legislation and regulations. These changes will be presented to the membership for a vote at the upcoming AGM on May 2, 2024.

This past year we concluded the digitization of all files and made changes to internal processes to enhance service delivery. With the optimization of these processes, we are able to reduce wait times and adopted the usage of virtual signature capture to allow members the ability to conduct certain aspects of their business with us, from the comfort of their home. Our focus will continue to be on ways to reduce friction through the use of technology to elevate the member experience.

We also expanded our remote work policy to allow more employees the option to work in a hybrid work environment, by providing the opportunity to work both in the office and remotely. Summerland & District Credit Union supports flexible work options whenever possible and practical to do so without compromising the efficiency, security and effectiveness of the credit union's business operations and employee safety. We not only see this as the future of work but expect that it will become a prerequisite to attracting top talent.

In a continued effort to simplify our operations, focus on our core and invest in our collective future, we exited the vehicle and property insurance business by concluding the sale of our shares in Kootenay Insurance Services (KIS) to the existing partners of KIS. The transaction included the sale of McBain Insurance Agency. This initiative followed the transition to a partnership between Summerland Financial Services and Interior Savings Credit Union in 2022. In October we welcomed Chamberlain Property Group to the former Summerland Financial Services location on Victoria Road.

Moving on to 2023 financial results, we budgeted conservatively for minimal growth in 2023 as overall demand was expected to slow as a result of the continued inflationary environment and threat of recession. On the income statement we budgeted for a lower financial margin as expectations for a dramatic rise in deposit costs was expected to outpace any gains on loan and investment yields. Loan growth was flat for the first quarter of the year and then began to rise month-over-month and by year-end exceeded expectations. This combined with an enhanced focus on operating costs helped to deliver stronger than anticipated results.

Financial Results

On the Consolidated Statement of Financial Position, Assets increased by \$11,562,481 or 3.1% from 2022 results to \$386,671,008. Changes to key asset categories included Cash and Cash Equivalents decreasing by \$9,189,519 or 55.5% to \$7,378,921 as a result of strong loan demand and growth. Investments grew by \$9,506,223 or 25% to \$47,584,828 and Loans increased by \$14,649,818 or 4.7% to \$327,571,639. Investment in Associate reduced to \$0 from \$3,285,207 as a result of the sale of the credit union's shares in Kootenay Insurance Services.

On the liability side of the balance sheet the key material change was in Member Deposits which increased by \$9,244,708 or 2.7% to \$352,567,762.

Members' equity increased by \$2,708,626 or 9.3% to \$31,840,057 after paying patronage rebates and dividends of \$111,408.

On the Consolidated Statement of Earnings and Comprehensive Income, earnings before income taxes were \$2,269,258, down \$677,688 or 29.9% from the previous year. Operating margin decreased by \$80,211 over the previous year.

The major factors influencing the change in income for 2023 included the sale of the credit union's shares in Kootenay Insurance Services (KIS) leading to a one-time extraordinary gain of \$850,479 which is included in Operating Margin results. As mentioned in the preamble, Financial Margin was impacted this past year with depositing members taking advantage of the rising rate environment resulting in a significant flow of deposit funds moving out of low or no cost demand products such as chequing and saving accounts, into higher yielding deposit products such as term deposits and tax free savings. Although interest income improved year over year by \$3,376,839, deposit costs rose by \$4,347,055 over the same period resulting in a net decrease in Operating

Margin of \$970,216 excluding the extraordinary gain on the sale of KIS shares.

On the expense side, Salaries and Benefit costs dropped by \$255,694 and Other Operating and Administrative expenses dropped by \$161,259 both influencing the positive reduction in operating expenses of \$401,332.

Also, worth noting is the \$1,000,000 contribution the credit union made to the Community Foundation of the South Okanagan Similkameen in December 2023 which resulted in a reduction in earnings before taxes when compared to 2022 results.

As we look to the future, there is a growing consensus that our economy will avoid a recession but economic growth will remain slow for at least the first two quarters. For the credit union we anticipate continued compression of our financial margin in 2024 which will further reduce operating profitability. We also anticipate continued slow growth as consumer spending remains soft in response to the inflationary environment. During this slower than normal period we will continue to focus on driving efficiencies through strategic technological investments as we carry out year two of our five year strategic plan.

Over the past 20 years the credit union has built up a strong level of capital that will provide resilience through these downturns and we will continue to look for opportunities on both the revenue and expense side to preserve our strong position and strengthen our organization.

Accountability and Disclosure

This report contains highlights and condensed information to provide readers with a snapshot of the previous year's activities. We value engagement and transparency and have more detailed information available online at www.sdccu.com or in-branch. The additional detailed reporting

includes the credit union's Governance Disclosure Document, Financial Statements, the Credit Union Rules, Online Policies and our Profit Report. The information is updated every year in May and will be available following the Annual General Meeting.

Conclusion

Our gratitude goes out to our board of directors for their oversight, dedication and counsel during 2023. We are also grateful for our team of dedicated employees who continually demonstrate that Summerland & District Credit Union is a financial institution that cares deeply about people and our community.

Our ongoing success relies on how well we serve you, our members. With your trust we will continue to build on our mission of enriching people's lives. Thank you for your support this past year and we look forward to delivering products, services and trusted advice that you require in your own financial journey.

Lorrie Forde, Board Chair

Kelly Marshall, President/CEO