



SOUTH CAROLINA
FEDERAL
CREDIT UNION™

LIFESIMPLIFIED™

2018 ANNUAL REPORT

Insured by NCUA



CHAIRMAN'S REPORT

Serving as chairman of the board for South Carolina Federal Credit Union is both a great privilege and responsibility. I and each of the board of directors and advisory board members you see today are volunteers. We bring our experience and insights to this group because we are invested in the success of this credit union and the future of our industry.

The annual meeting is a much anticipated chance to celebrate the hard work of the credit union staff and their strong support of our membership. We reflect on the accomplishments of the past year and project to the goals on the horizon.

2018 was certainly a year worth noting. Thank you to our membership and the community for voting South Carolina Federal:

- *The Post & Courier* 2018 Charleston's Choice Best Bank/ Credit Union (winner) and Best Mortgage Company (finalist)
- *Charleston City Paper* Best Financial Institution and Best Mortgage Company
- *Charleston Living Magazine* Best of the Best Winner – Best Credit Union
- *Lowcountry Parent Mom's Choice Award* – #1 Best Bank/ Credit Union
- *Moultrie News* Readers' Choice – Best Bank/Credit Union
- *The Berkeley Independent* and *The Gazette* Readers' Choice Awards – Best Financial Institution
- *The Summerville Journal Scene* Readers' Choice Award – Best Financial Institution

These honors are much appreciated and the distinctions coveted, but we also look at these accolades as the result of something greater. Most of these awards stem from the nomination and votes of our membership. It is the service provided by the teams in all of our locations and the leadership of the organization that foster an environment for this success to breed. This is why we are equally proud of our 2018 designations as:

- Sixth time Best Places to Work in South Carolina – Third place ranking in the state¹
- Third time Best Credit Union to Work for in the US – #1 in our asset size; #2 overall²
- Glassdoor Best Places to Work – 11th place (out of 50 in the small/medium company category)
- Finalist for SC Branded Awards – Health Initiative of the Year and Community Diversity Award³

We regularly seek input from our members concerning their experience as they bank with South Carolina Federal. Member feedback is a valuable gift with which we can update programs, processes and facilities. We are proud to know that members say they would cheerfully recommend us to friends and family members.

- South Carolina Federal Net Promoter Scores are above the average for all industries, including top performing industries such as department stores and healthcare.⁴
- South Carolina Federal Member Experience Scores far surpass the banking industry.⁴
- South Carolina Federal Member Experience Scores are higher than the credit union industry benchmark.⁴
- South Carolina Federal member interaction scores are among the best in the industry. Call Center interactions are among the very best-in-class.⁴

These are very impressive, and much deserved, nods to the continued effort and passion of the South Carolina Federal team. It is my pleasure as chairman to congratulate you on a productive year, and I look forward to our continued dedication to the members we assist and essential products and services we provide. Thank you to my fellow board members, the volunteer advisors, the management of South Carolina Federal, our hard working and dedicated staff and our diverse membership.

MARY WHITED, CPA

Chairman, Board of Directors

¹Source: BestPlacesToWorkSC.com presented by South Carolina State Chamber of Commerce and SC Biz News.

²Source: Credit Union Journal.

³Source: South Carolina Chamber of Commerce.

⁴Source: Member Loyalty Group, January 2019.

PRESIDENT'S REPORT

Each year's annual report provides an opportunity to reflect on the last 365 days as both a full, comprehensive and accomplished year and a moment in time in the history of our credit union. South Carolina Federal Credit Union is in its 83rd year as a trusted financial institution and pillar of the communities in which we serve. We do, however, look very different in 2019 than we did in 1936.

We saw last year as one that exemplified these shifts and the growth associated with progress. In 2018, we added SC Telco – Florence, South Carolina into our field of membership, increasing our financial presence in the Florence market as well as our member presence. We appeared Out of the Blue to introduce acquired and potential members to the credit union difference. We surprised and delighted with pop up events, member perks and philanthropic opportunities to show, rather than say, our commitment to being not only a good financial institution, but a valuable member of the community.

This entry strategy and the overall growth into a new market was done with great intention and a goal to benefit the whole of our membership. In the spirit of the cooperative model, people helping people, an increase in membership drives down the cost for all and increases our ability to loan at healthy and competitive rates.

It also allows us to truly utilize our One Company model. Under this, we are able to provide comprehensive service to include not only financial services and loans for personal and business needs, but also benefits, insurance and investment solutions through our credit union service organization¹. We expanded these services in 2018 to include virtual care, identity protection, high net worth insurance options and the quote-and-apply life insurance service.

This growth, and the change associated, is visible in our footprint and tangible in our presence. It has garnered us many accolades including, as the chairman noted, recognition as both a best place to bank and work.

However, as a financial institution, numbers are our language and this year added to our vocabulary. In the last four years, we have handled over 202 million Life SimplifiedSM transactions, made over \$2 billion in loans, and saved members over \$17 million in fees and loan interest. 2018 alone saw over \$550 million in loan production.

We have also invested in the security of our institutions and membership. We implemented EMV technology at all of our ATMs, upgraded home banking stations in financial centers, employed member and joint owner text verification through our contact center and enhanced our phishing protocol to reduce outside threats to the organization.

While the interior is secure, we also took steps to improve our exterior aesthetics. We converted our new McLeod financial center in Florence, SC to brand standard, completed minor renovations of two Columbia facilities and began a full renovation of our East Cooper financial center.

We have achieved truly great things as a team this year. It is impressive to see the many diverse functions, departments and financial centers of the credit union work daily to achieve the success we celebrate today.

This spirit comes to fruition in a concept we rolled out in 2018 in our Columbia market: DOMOTO (DOing MORe TOgether). As we begin a new year, enter new markets and undertake new goals, we look forward to doing more together to simplify finances, provide guidance for investments², improve our communities and work to align the building blocks of life. We look forward to DOMOTO.

SCOTT WOODS, CPA

President and Chief Executive Officer

¹Benefits and insurance services are offered by SCF Solutions™, a wholly owned subsidiary of South Carolina Federal Credit Union, and are not insured by the NCUA nor guaranteed by South Carolina Federal Credit Union.

²Non-deposit investment products and services are offered through CUSO Financial Services, L.P. ("CFS"), a registered broker-dealer (Member FINRA/SIPC) and SEC Registered Investment Advisor. Products offered through CFS: **are not NCUA/NCUSIF or otherwise federally insured, are not guarantees or obligations of the credit union, and may involve investment risk including possible loss of principal.** Investment Representatives are registered through CFS. The Credit Union has contracted with CFS to make non-deposit investment products and services available to credit union members.

SUPERVISORY COMMITTEE REPORT

On behalf of the South Carolina Federal Credit Union Supervisory Committee, I am pleased to present the annual audit report for the year ended December 31, 2018.

By law, credit unions are required to have a Supervisory Committee, which is responsible for the oversight of all financial activities of the Credit Union, including the assessment of management practices required to safeguard South Carolina Federal's assets. At South Carolina Federal Credit Union five volunteers, appointed by the credit union board, serve to meet the goals and objectives of the Committee.

Specifically, the Committee must determine the sufficiency of the following:

1. Policies and procedures required to safeguard against errors and omissions and to avoid conflicts of interest
2. The proper execution of policies, plans and procedures by credit union management
3. Internal controls necessary to ensure the financial soundness and stability of the credit union
4. Financial reports and accounting data prepared in a timely manner which properly reflect operations and results

The Committee utilizes the services of both internal and external audit personnel. The Committee regularly meets with the credit union's Audit Services Department to ensure that the department is performing appropriate operational, compliance and financial audits.

Additionally, the Committee meets with independent (external) auditors and federal regulatory examiners to review findings and recommendations, which provide reasonable assurances for adequate safeguarding of credit union assets.

In accordance with NCUA regulations, an independent audit is conducted annually of the credit union's financial reporting. The Committee engaged the services of Doeren Mayhew CPAs and Advisors, to perform the 2018 Financial Statement Audit. The Committee has reviewed the audit and is pleased to report that the auditors have issued an unmodified opinion of the credit union's 2018 financial statements.

Based upon the Committee's review of internal and independent external audits, reports of examinations by regulators, and the Committee's own observations, the Committee has concluded that South Carolina Federal Credit Union has institutional practices and policies in place which are sufficient to ensure that the membership's assets are safeguarded by the credit union.

The volunteer members of the Supervisory Committee are grateful for the opportunity to serve the members of South Carolina Federal Credit Union. We will continue to perform our duties to maintain the trust and confidence which the members have placed in us.

R. PATRICK FLYNN, ESQ.
Chairman, Supervisory Committee

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

As of December 31, 2018 and 2017

| | 2018 | 2017 |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 157,477,245 | \$ 140,189,389 |
| Interest bearing deposits | — | 14,000,000 |
| FHLB stock | 10,907,900 | 8,612,500 |
| Loans held for sale | 2,986,950 | 2,193,900 |
| Loans to members, net of allowance for loan losses | 1,430,454,687 | 1,296,646,333 |
| Accrued interest receivable | 3,299,645 | 2,959,006 |
| Credit union owned life insurance (COLI) | 41,271,811 | 40,099,921 |
| Split-dollar life insurance (SDLI) | 40,066,412 | 36,524,907 |
| Prepaid and other assets | 17,389,247 | 17,498,282 |
| Property and equipment | 78,021,020 | 72,038,393 |
| Goodwill | 6,776,919 | 4,794,064 |
| NCUSIF deposit | 12,596,554 | 12,194,149 |
| TOTAL ASSETS | \$ 1,801,248,390 | \$ 1,647,750,844 |

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| | | |
|--|-------------------------|-------------------------|
| LIABILITIES AND MEMBERS' EQUITY | | |
| Liabilities: | | |
| Members' shares and savings accounts | \$ 1,357,224,166 | \$ 1,265,682,166 |
| Borrowings | 221,046,875 | 168,127,232 |
| Accrued expenses and other liabilities | 25,061,313 | 28,719,660 |
| Total liabilities | <u>1,603,332,354</u> | <u>1,462,529,058</u> |
| Members' Equity: | | |
| Regular reserve | 16,159,488 | 16,159,488 |
| Undivided earnings | 181,756,548 | 169,062,298 |
| Total members' equity | <u>197,916,036</u> | <u>185,221,786</u> |
| TOTAL LIABILITIES AND MEMBERS' EQUITY | \$ 1,801,248,390 | \$ 1,647,750,844 |

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|----------------------|----------------------|
| INTEREST INCOME | | |
| Loans to members | \$ 56,653,753 | \$ 51,248,495 |
| Investments | 2,376,801 | 1,480,453 |
| Total interest income | 59,030,554 | 52,728,948 |
| INTEREST EXPENSE | | |
| Members' shares and savings accounts | 2,805,481 | 2,036,498 |
| Borrowings | 3,978,865 | 3,226,456 |
| Total interest expense | 6,784,346 | 5,262,954 |
| Net interest income | 52,246,208 | 47,465,994 |
| Provision for loan losses | 3,505,000 | 1,000,000 |
| Net interest income after provision for loan losses | 48,741,208 | 46,465,994 |
| NON-INTEREST INCOME | | |
| Fees and service charges | 17,628,271 | 17,866,493 |
| Interchange income | 12,390,628 | 11,568,794 |
| Other income | 4,110,230 | 2,498,562 |
| Insurance income | 2,293,920 | 2,202,709 |
| COLI and SDLI income | 2,023,545 | 1,964,458 |
| Gain on sale of mortgage loans | 474,760 | 642,491 |
| Total non-interest income | 38,921,354 | 36,743,507 |
| NON-INTEREST EXPENSE | | |
| Compensation and benefits | 40,588,347 | 36,941,977 |
| Office operations | 18,598,385 | 16,048,805 |
| Office occupancy | 5,445,935 | 5,218,397 |
| Other expense | 3,286,948 | 4,152,001 |
| Professional and outside services | 3,400,866 | 3,396,147 |
| Loan servicing | 1,991,340 | 2,040,782 |
| Advertising costs | 1,656,491 | 1,849,603 |
| Total non-interest expense | 74,968,312 | 69,647,712 |
| NET INCOME | \$ 12,694,250 | \$ 13,561,789 |

ANNUAL MEETING MINUTES

MONDAY, APRIL 23, 2018
2:00 P.M.

ATTENDEES

BOARD OF DIRECTORS:

Mary L. Whited, CPA, Chairman
George H. Shaver, Vice Chairman
Richard I. Buckner, Secretary
J. Ralph Cathey, Treasurer
COL Kelvin L. Brown, Member
BG J. Emory Mace (Ret.), Member
Joseph E. Bolchoz, Jr., Member

SUPERVISORY COMMITTEE:

Joseph S. Daning, Chairman
CAPT R. Patrick Flynn, Esq., Vice Chairman
Matthew Alexander, Secretary
Michelle P. Kelley, Esq., Member
Joseph E. Bolchoz, Jr., Board Liaison

VOLUNTEER ADVISORS:

Rodney E. Druschel, CPA
Robert E. Bendetti, Jr., CPA
LTC Robert Spafford (absent)

MANAGEMENT:

Scott Woods, CPA, President/CEO
Dr. Troy Hall, CSO
Joe Grech, CPA, CFO, Finance
Beth Jaskiewicz, SVP, Marketing
Brad Williams, CTO, Information Technology
Margaret Miller, SVP, Audit Services
Leslie Norris, SVP, HR and Development
John Tant, Consulting SVP, Lending Services
Trey Gantt, SVP, Lending Services
Bonnie Ciuffo, President, SCF Solutions™, LLC

TRANSCRIBING:

Natalie Geiger, Executive Administrator to the CEO

SOUTH CAROLINA FEDERAL CREDIT UNION 2018 ANNUAL MEMBERSHIP MEETING

South Carolina Federal Credit Union held its 82nd Annual Membership Meeting on April 23, 2018, in its operations center, 6265 Rivers Avenue, North Charleston, South Carolina. Ms. Mary L. Whited, Board Chairman, called the meeting to order at 2:00 p.m. She asked everyone to rise for the Pledge of Allegiance led by COL Kelvin Brown, followed by the invocation led by Brigadier General Emory Mace (Ret.).

The audience was asked to be seated for the business portion of the meeting. Ms. Whited asked if a quorum of the membership was present. Mr. Buckner confirmed a quorum was present, and with that, Ms. Whited declared the 2018 Annual Membership Meeting officially in session. Ms. Whited introduced herself as the Chairman and subsequently introduced all members of the Board of Directors, Supervisory Committee, Volunteer Advisors (excluding LTC Spafford, who was absent) and the President and CEO.

Ms. Whited requested a motion to approve the minutes of the annual membership meeting held April 24, 2017. Mr. Bolchoz moved for approval of the minutes, and Mr. Shaver seconded. Ms. Whited asked all in favor to say “aye.” All board members said “aye,” and with that, the minutes were declared approved.

At this time, Ms. Whited invited Mr. Cathey to the podium to provide the **Treasurer’s Report** and share the 2017 year-end figures with the membership:

- **Dividends Paid to Members:** South Carolina Federal paid \$2.0 million in dividends to members in 2017, compared to \$1.8 million in 2016. This was an 11% increase, which resulted from higher rates and deposit balances.
- **Deposit and Loan Growth:** Deposits increased by 4.3%, while Loans increased by 5.7%.
- **Asset Growth:** Assets are all tangible property or rights such as loans, investments, cash and receivables owned by the credit union. Assets increased by 5.7% (\$88.6 million) and ended 2017 with \$1.65 billion in assets.

ANNUAL MEETING MINUTES (continued)

- **Delinquency:** This represents the percentage of borrowers who are late paying back their loans. Our delinquency decreased from .44% at year-end 2016 to .27% in 2017.
- **Net Worth:** Also known as members' equity, Net Worth represents accumulated earnings of the credit union set aside to guarantee the safety and security of member deposits. Net Worth is measured as a percent of total assets. Net Worth increased from 11.00% at year-end 2016 to 11.24% at year-end 2017. This is a very strong number, which is well within federal regulations and within the capital plan established by the board to ensure the safety of member deposits.

This concluded the Treasurer's Report.

Ms. Whited thanked Mr. Cathey for the Treasurer's Report and turned the floor over to Mr. Daning for the **Supervisory Committee Report**. Mr. Daning referred everyone to the last page on the inside of the 2017 Annual Report for the formal Supervisory Committee Report. As stated in the 2017 Annual Report, the Committee engaged the services of Doeren Mayhew CPAs and Advisors to perform the 2017 Financial Statement Audit for the credit union. The committee reviewed the audit and is pleased to report that the auditors issued an unmodified opinion of the credit union's 2017 financial statements. Based on the committee's review of internal and independent external audits, reports of examinations by regulators, and the committee's own observations, the committee concluded that South Carolina Federal Credit Union has institutional practices and policies in place sufficient to ensure the membership's assets are safeguarded by the credit union. This concluded the report of the Supervisory Committee, at which time the floor was turned back over to the board chairman.

Ms. Whited thanked Mr. Daning for his report and asked if there was any unfinished business, but there was none. Ms. Whited asked if there was any new business, and at this time, she returned the floor to Mr. Woods to recognize our scholarship winners. He named and congratulated each of the 2018 credit union scholarship winners for traditional college/university (with scholarships totaling \$30,500); the credit union technical

school scholarship winners (with scholarships totaling \$12,000); and the 2018 Bank at Work scholarship winners for traditional college/university (with scholarships totaling \$7,500). Mr. Woods extended sincere appreciation to scholarship judges, Joseph Daning, Anne Shaver and Dr. Anne Mace. He also recognized the South Carolina Federal Credit Union Foundation and the charities it supports. Employees pledged over \$78,000 to the external charities, and the credit union matched the first \$50,000 of those pledges. In addition, employees pledged over \$22,000 to support the credit union's Employee Relief Fund. At this time, Mr. Woods turned the floor back over to the board chairman.

Ms. Whited asked if there was any additional new business. Hearing none, she turned the floor over to BG Mace for the **Nominating Committee Report** and election results. At the end of 2017, two positions on the Board were open for renewal. An announcement was placed in the January, February and March 2018 issues of our *InBalance* member newsletter; however, no nominations were received from the membership. Based on the individuals' qualifications, their commitment to service to South Carolina Federal Credit Union, and in accordance with Article 6, Section 3 of the Credit Union bylaws, the Nominating Committee recommended Mary L. Whited and Kelvin L. Brown, each to serve on the Board of Directors for a three-year term to expire in April 2021. Therefore, in accordance with Article 5, Section 1 of the Credit Union bylaws, **Mary L. Whited** and **Kelvin L. Brown** were elected by acclamation to the Board of Directors of South Carolina Federal. This concluded the report, and the floor was turned back over to the board chairman.

Ms. Whited thanked BG Mace and the members of the Nominating Committee, then reintroduced President and CEO Scott Woods for the President's Report.

Like many financial institutions, in the wake of the financial downturn, South Carolina Federal worked on developing from within. We evolved our talent and retention programs, invested in our brand identity, enhanced technology offerings and managed a strong and secure loan portfolio.

ANNUAL MEETING MINUTES (continued)

In 2017, however, we put into motion our strategic plans to grow. In February 2017, we received approval to serve individuals and small businesses in Florence and Myrtle Beach, as well as existing members in seven counties of the Pee Dee area. Our integration of Florence DuPont Employees Federal Credit Union was also an important entry to this part of our state and has resulted in \$3 million in loans provided to members in this community.

Closer to our headquarters, we pioneered the South Carolina Federal Solution Center on Daniel Island. This by appointment-only facility provides concierge service for more complex needs, such as mortgage, insurance, investment or business services.

In October 2017, we were granted an expansion of our field of membership to include multiple common bonds. This allows us to qualify individuals for membership by family relationships, employers, geographic areas, and member associations.

Our Bank at Work program, which provides on-site financial education, loan application services and specialized services to employers and associations, grew to include 27 new member companies. Additionally, during the year, the program provided over 800 consultations at area companies.

These shifts to our service model necessitated shifts to our business processes. In 2017, we converted business account holders to an online business-banking platform and implemented a new commercial loan portfolio management software. These provide ease and convenience for our business members' every day and significant account needs. We completed installation and deployment of the Velocity loan origination system, allowing a streamlined process of decisioning and integrated digital signatures for our over \$140 million in loans throughout the course of 2017.

We extended the hours of operation in our Contact Center and increased monitoring and responsiveness via our range of social channels, provided heightened connectivity and expedited solutions. We also expanded our footprint, which allowed for greater visibility and engagement within the communities we

serve. We reinvested over \$400,000 toward financial education, community and civic advancement and our South Carolina Federal Credit Union Foundation. In every market we serve, we invest to be a part of the fabric of that community. We know our members, their needs, challenges and dreams.

The credit union's employees are dedicated to providing exceptional member service and unwavering Life SimplifiedSM experiences. At South Carolina Federal, we provide convenient and trusted expertise to allow our members to spend more time living their passions.

Mr. Woods turned the floor back to Ms. Whited to provide the Chairman's Report. Ms. Whited thanked Mr. Woods for his report and provided the Chairman's Report as documented within the 2017 Annual Report. Following her report, Ms. Whited extended her sincere appreciation to the members in attendance, as well as the dedicated volunteer leaders and employees. She also extended her gratitude to the membership of South Carolina Federal for contributing to the success of the credit union.

There being no further business to discuss, Ms. Whited requested a motion to adjourn the meeting. COL Brown moved that the meeting be adjourned, and Mr. Buckner seconded. Ms. Whited asked all in favor to say "aye." All board members said "aye," and with that, the meeting was declared adjourned at 2:29 p.m.

Respectfully submitted,

RICHARD I. BUCKNER
Secretary, Board of Directors

MARY L. WHITED, CPA
Chairman, Board of Directors



LEADERSHIP

BOARD OF DIRECTORS

Mary L. Whited, CPA, Chairman

George H. Shaver, Vice Chairman

Richard I. Buckner, Secretary

J. Ralph Cathey, Treasurer

Joseph E. Bolchoz, Jr., CCUV, Member

COL Kelvin L. Brown, Member

BG J. Emory Mace (Ret.), Member

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