



SOUTH CAROLINA
FEDERAL
CREDIT UNION™

LIFESIMPLIFIED™

2019 ANNUAL REPORT

Insured by NCUA



CHAIRMAN'S REPORT

As we embark on 2020 and a bold new year, I find it is important to give a nod to our heritage and governing philosophies. As a not-for-profit cooperative, South Carolina Federal Credit Union is overseen by a volunteer Board of Directors that establishes and reviews policies and procedures of the organization. It is my privilege to serve as Chairman this year, with this esteemed board, to help guide our credit union and best serve its membership.

This annual report and subsequent meeting are required by the National Credit Union Administration (NCUA) and our by-laws, but also offer us a fantastic opportunity to reflect on all of our accomplishments of the past year and look forward to what achievements 2020 will bring.

2019 was another robust year of accolades, with local publications and reader submitted feedback, awarding, us with a number of esteemed honors:

- *The Post & Courier* named us 2019 Charleston's Choice Winner for Best Financial Institution.
- *Charleston City Paper* named us Best of Charleston Winner – Best Financial Institution and Best Mortgage Company.
- *Moultrie News* Readers' Choice named Southampton's Leigh Anne Cone the Best Banker in Mt. Pleasant.
- *Lowcountry Parent* named us Best Financial Institution.
- *Charleston Living Magazine* named us Best Credit Union.

These distinctions are both appreciated and well deserved. I believe each employee of the credit union contributes to its success, and these recognitions highlight the work of many hands across our footprint.

The impact on our membership and dedication to success is not attainable unless employees love what they do. The credit union leadership works hard to ensure employees have the tools they need to succeed. This is evident by the following outstanding awards from 2019:

- Seventh time Best Places to Work in South Carolina – sixth place ranking in the state
- Fourth time Best Credit Union to Work for in the US – #2 overall

- First time Glassdoor Top CEO award for Scott Woods
- Second time Glassdoor Best Places to Work – 47th in the small/medium business category
- American Heart Association Workplace Health Achievement Award
- American Training and Development Excellence Award for Career Coaching

In an effort to maintain both a productive workforce and satisfied membership, we regularly solicit feedback to identify things we are doing well and opportunities for growth. The credit union uses a measurement system called Net Promoter Score® (NPS), which is a management tool used to gauge our members' satisfaction and loyalty. The following are some notable 2019 NPS accomplishments:

- South Carolina Federal's NPS exceeds all average industry scores and surpasses banking industry scores.
- Member experience scores are higher than the credit union industry benchmark.
- The level of service provided in our contact center and financial centers is best in class, yielding better scores than 75% of credit unions in the nation.

It is my pleasure as Chairman to congratulate the South Carolina Federal team on a job well done in 2019. The passion employees bring to their jobs every day flows to our members, business partners and peers. Thank you to my fellow board members, supervisory committee members, volunteer advisors and senior leadership for another year of sound governance.

RICHARD I. BUCKNER

Chairman, Board of Directors

PRESIDENT'S REPORT

The theme for 2019 was one of growth! It was an exciting year as South Carolina Federal Credit Union continued to extend its reach and fulfill our goal of providing enhanced financial services across our state. It is humbling to think that our leadership and membership have brought us not only to our 84th year as a trusted financial institution and pillar of the communities in which we serve, but enabled us to continue to thrive and flourish.

In 2019, we were able to offer the South Carolina Federal Life SimplifiedSM experience through these new efforts:

- **Spartanburg** – In April, we added Spartan Federal Credit Union to our field of membership, bringing South Carolina Federal to the upstate. The Greenville/Spartanburg market is a strong addition to our portfolio and a leader in the state's economic success.
- **Lexington** – Through purchasing and renovating an existing financial center in this community, we were able to increase our foothold in the Columbia market. This new location on Sunset Boulevard has been a welcomed addition to our three existing financial centers in the area.
- **Florence** – We continued to refine our presence and the Out of the Blue strategy in Florence with an exciting merger with Health Facilities Federal Credit Union, which was fully integrated in March of 2020.
- **Horry County** – Through strategic planning and a continued goal to serve underserved populations, we were able to expand our field of membership to Horry County. The credit union is currently developing the future plans and strategy to best serve potential new members in this market.

This growth was achieved through great intention and with the cooperative principle of people helping people in mind. Through an increase in membership and access to financial services, we are able to drive down the cost for all and increase our ability to lend at healthy and competitive rates throughout our markets.

As the CEO of this thriving organization, I recognize that this success is not possible without the highest quality of employees. I am continually delighted to witness our teams go above and beyond for our members. It may be something as simple as an

extra phone call to ensure the member has all the tools they need to make a wise financial decision or providing financial literacy classes in grade schools for the youngest members of our communities. These efforts, though minor or momentary on their own, make a big impact, which is evidenced by the many awards the Chairman mentioned.

The numbers support the service level of excellence in 2019, as we surpassed our goals for loan growth, checking accounts, credit cards and utilization of our insurance products. Additionally, our Bank at Work team brought on 37 new company relationships across the state and SCF Solutions™, LLC, our Credit Union Service Organization (CUSO), helped members meet retirement goals, provided a variety of insurance coverage options, and rolled out health insurance offered through The IHC Group.

As security remains a top priority for all of us, we further invested in our information technology protection through encryption and card readers at ATMs, employee security training and financial center security system upgrades. We fully renovated our East Cooper financial center in Mt. Pleasant to better serve the members of that area, which has experienced massive growth in the last decade.

We introduced DOMOTO to you in our 2018 annual report, and it has truly been a year of DOing MOre TOgether. As a corporate marketing initiative, the campaign launched on television, radio, billboard and online marketing mediums, but the spirit was embodied by our financial centers, support teams, leadership and membership. Our award winning mortgage lending, strong community involvement efforts, financial literacy outreach, best employer status and top notch contact center member support brought DOMOTO to life.

In 2020, we look forward to another strong year, propelling this organization to unseen levels while providing our same trusted and exceptional member experience. Thank you for all you do!

SCOTT WOODS, CPA

President and Chief Executive Officer

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, 2019.

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 2019 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 2019 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, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 144,668,538	\$ 157,477,245
Loans held for sale	—	2,986,950
Loans to members, net of allowance for loan losses	1,462,774,711	1,430,454,687
Federal Home Loan Bank (FHLB) stock	8,482,100	10,907,900
Accrued interest receivable	3,464,554	3,299,645
Credit union owned life insurance (COLI)	42,463,474	41,271,811
Split-dollar life insurance (SDLI)	49,171,661	40,066,412
Prepaid and other assets	19,777,575	17,389,247
Property and equipment	81,638,270	78,021,020
Goodwill	5,993,107	6,776,919
National Credit Union Share Insurance Fund (NCUSIF) deposit	13,106,748	12,596,554
TOTAL ASSETS	\$ 1,831,540,738	\$ 1,801,248,390

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LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' shares and savings accounts	\$ 1,436,011,536	\$ 1,357,224,166
Borrowed funds	161,073,661	221,046,875
Accrued expenses and other liabilities	21,838,652	25,061,313
Total liabilities	<u>1,618,923,849</u>	<u>1,603,332,354</u>
Members' Equity:		
Regular reserve	16,159,488	16,159,488
Undivided earnings	193,678,319	181,756,548
Equity acquired through merger	2,779,082	—
Total members' equity	<u>212,616,889</u>	<u>197,916,036</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 1,831,540,738	\$ 1,801,248,390

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2019 and 2018

	2019	2018
INTEREST INCOME		
Loans to members	\$ 62,448,911	\$ 56,653,753
Investments	3,224,426	2,376,801
Total interest income	65,673,337	59,030,554
INTEREST EXPENSE		
Members' shares and savings accounts	5,177,890	2,805,481
Borrowed funds	4,395,505	3,978,865
Total interest expense	9,573,395	6,784,346
Net interest income	56,099,942	52,246,208
Provision for loan losses	2,480,000	3,505,000
Net interest income after provision for loan losses	53,619,942	48,741,208
NON-INTEREST INCOME		
Fees and service charges	18,293,576	17,628,271
Interchange income	13,395,201	12,390,628
Other income	3,758,854	4,110,230
Insurance income	2,571,298	2,293,920
COLI and SDLI income	2,133,522	2,023,545
Gain on sale of mortgage loans	997,385	474,760
Total non-interest income	41,149,836	38,921,354
NON-INTEREST EXPENSE		
Compensation and benefits	44,913,397	40,588,347
Office operations	20,866,168	18,598,385
Office occupancy	6,001,453	5,445,935
Other expense	3,744,642	3,286,948
Professional and outside services	2,917,122	3,400,866
Advertising costs	2,250,412	1,656,491
Loan servicing	2,154,813	1,991,340
Total non-interest expense	82,848,007	74,968,312
NET INCOME	\$ 11,921,771	\$ 12,694,250

ANNUAL MEETING MINUTES

MONDAY, APRIL 22, 2019
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:

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

VOLUNTEER ADVISORS:

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

MANAGEMENT:

Scott Woods, CPA, President/CEO
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 2019 ANNUAL MEMBERSHIP MEETING

South Carolina Federal Credit Union held its 83rd Annual Membership Meeting on April 22, 2019, 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 Colonel Kelvin Brown, followed by the invocation led by Brigadier General Emory Mace (Ret.). Attendees were then 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 2019 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 23, 2018. COL Brown moved for approval of the minutes, and Mr. Cathey 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 2018 year-end figures with the membership:

- **Dividends Paid to Members** – South Carolina Federal paid \$2.8 million in dividends to members in 2018, compared to \$2.0 million in 2017. This was a 38% increase, which resulted from higher rates and deposit balances.
- **Deposit and Loan Growth** – Deposits increased by 7.2%, while Loans increased by 10.3%.
- **Asset Growth** – Assets are all tangible property or rights such as loans, investments, cash and receivables owned by the credit union. Assets increased by 9.3%, or \$153 million, and ended 2018 with \$1.8 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 0.27% at year-end 2017 to 0.26% at year-end 2018.
- **Net Worth** – Also known as members' equity, Net Worth represents accumulated earnings of the credit union that are set aside to guarantee the safety and security of member deposits. Net Worth is measured as a percent of total assets. Net Worth decreased from 11.24% at year-end 2017 to 10.98% at year-end 2018. 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 CAPT Flynn for the **Supervisory Committee Report**. CAPT Flynn referred to page 3 of the 2018 Annual Report for the formal Supervisory Committee Report. As stated in the 2018 Annual Report, the Committee engaged the services of Doeren Mayhew CPAs and Advisors to perform the 2018 Financial Statement Audit for the credit union. The committee reviewed the audit and confirmed that the auditors issued an unmodified opinion of the credit union's 2018 financial statements. Based on the committee's review of the 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 intuitional 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 CAPT Flynn 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 2019 credit union scholarship winners for traditional college/university (with scholarships totaling \$30,500) and the credit union technical college scholarship winners (with scholarships totaling \$19,500). 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 \$87,000 to the external charities, and the credit union matched the first \$50,000 of those pledges. In addition, employees pledged over \$18,000 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 2018, two positions on the Board were open for renewal. An announcement was placed in the January, February, March and April 2019 issues of our *In Balance* 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 Richard I. Buckner and J. Ralph Cathey, each to serve on the Board of Directors for a three-year term to expire in April 2022. Therefore, in accordance with Article 5, Section 1 of the Credit Union bylaws, **Richard I. Buckner** and **J. Ralph Cathey** 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.

Mr. Woods reflected on 2018 being a full, comprehensive and accomplished year for South Carolina Federal Credit Union. We are in our 83rd year as a trusted financial institution and pillar of the communities in which we serve. However, we look very different in 2019 than we did in 1936.

We saw 2018 as a year that exemplified these shifts and the growth associated with progress. In 2018, we added Florence, South Carolina into our field of membership, complete with the activation of three new financial centers to enhance our portfolio.

ANNUAL MEETING MINUTES (continued)

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 our commitment to being not only a good financial institution, but a valuable member of the community.

Our 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, working in tandem with SCF Solutions, our credit union’s service organization. Under this prototype, we are able to provide comprehensive services to include not only financial services and loans for personal and business needs, but also benefits, insurance and investment solutions. 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 associated change is visible in our footprint and tangible in our presence. 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 online banking stations in financial centers, employed member and joint member 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.

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 enter new markets and undertake new goals in 2019, we look forward to doing more together to simplify finances, provide guidance for investments, partner to make our communities better and work to align the building blocks of life. We look forward to DOMOTO. Following his report, Mr. Woods responded to a question from a member about e-forms used by the credit union, which allow members to sign documentation electronically.

Mr. Woods turned the floor back to Ms. Whited to provide the Chairman’s Report. On behalf of the board of directors, supervisory committee members and volunteer advisors of the credit union, all of whom volunteer their time, experience and insights, Ms. Whited stated it is both a great privilege and responsibility to serve the membership for the success of this credit union and future of our industry. Reflecting on the accomplishments of the past year, Ms. Whited shared some of the accolades received through votes from our membership and community:

- *The Post and Courier* 2018 Charleston’s Choice Winner and Finalist for Best Bank/Credit Union (winner) and Best Mortgage Company (finalist)
- *Charleston City Paper’s* 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
- *Summerville Journal Scene’s Readers’ Choice Award* – Best Financial Institution

We regularly seek input from our members, in the form of Net Promoter Scores (NPS), regarding their experience as they bank with South Carolina Federal. Member feedback is a valuable measure with which we can gauge service models, update processes and keep the pulse on member needs. We are proud to share that South Carolina Federal’s NPS are above the average for all industries, including top performers, such as

ANNUAL MEETING MINUTES (continued)

department stores and healthcare. Within the financial space, our NPS far surpass banks and are higher than the credit union benchmark. Scores on member interactions are among the best in the industry and call center interactions are best in class. In 2018, South Carolina Federal Credit Union also received the following designations:

- Sixth time Best Places to Work in South Carolina (third place ranking in the state)
- Third time Best Credit Union to Work for in the US (#1 in our asset size and #2 overall)
- 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 Award

Ms. Whited said these designations are very impressive and much deserved nods to the continued effort and passion of the South Carolina Federal team. She congratulated the leadership and employees of South Carolina Federal Credit Union on a productive year and stated she looks forward to our continued dedication to the members we assist and essential products and services we provide. She then thanked her fellow board members, the management of South Carolina Federal, hard-working and dedicated staff and diverse membership.

There being no further business to discuss, Ms. Whited requested a motion to adjourn the meeting. Mr. Shaver moved that the meeting be adjourned, and Mr. Bolchoz seconded. Ms. Whited asked all in favor to say “aye.” All board members said “aye,” and with that, the meeting was declared adjourned at 2:33 p.m.

Respectfully submitted,

RICHARD I. BUCKNER

Secretary, Board of Directors

MARY L. WHITED, CPA

Chairman, Board of Directors

LEADERSHIP

BOARD OF DIRECTORS

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

SUPERVISORY COMMITTEE

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

VOLUNTEER ADVISORS

Robert E. Bendetti, Jr., CPA
LTC Robert Spafford, CCUB



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P.O. Box 190012, N. Charleston, SC 29419-9012
843-797-8300 (Charleston) 800-845-0432 (Nationwide)

scfederal.org