

ANNUAL REPORT 2018

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PRESIDENT'S REPORT



I want to say at the outset that the foundation of our unique cooperative business model, "One member, one vote," empowers every single one of you, as member-owners, to have a voice in your financial institution. When you

participate in your credit union's voting process, you're contributing to its future growth and potential, year after year. So, I want to thank you for being here at our 54th Annual Meeting.

With regard to the state of our industry, I am pleased to say that credit unions across the country are doing extremely well. Texas has 461 credit unions with more than 8.8 million members and total current assets of \$79 billion. These figures reflect a robust and healthy credit union system, of which Space City Credit Union is a part of.

One of the biggest ongoing issues we faced in 2018 was data breaches because merchants across the country continue to be vulnerable. A report from cyber security firm Shape Security showed that almost 90 percent of the log-in attempts made on online retailers' websites are hackers using stolen data. Ninety percent! Many of these breaches were caused by flaws in the retailers' payment systems that hackers found a way to take advantage of.

The good news is that your financial institution suffered no data breaches, and I want to assure you that we have taken appropriate steps to ensure that your data remains secure. We are also committed to

remaining vigilant to cyber threats, so the issue of data breaches is something we will engage with our lawmakers about in 2019, along with our trade associations, Cornerstone Credit Union League and Credit Union National Association.

As you can see in the Annual Report, Space City Credit Union performed well in fiscal year 2017-2018. Some of the highlights of that report include:

- Space City Credit Union merged with Houston Musicians Federal Credit Union in May of 2018 resulting in the addition of one physical branch two new staff members, and approximately 700 new members.
- As our credit union membership grows, so do our assets, which is one of the primary indicators of how well our members are receiving the products and services we offer. Our current assets are \$83,293,679.34 an increase over 2017 of 5.79 percent. Membership increased 9.89 percent in 2018 and now stands at 8,813.
- I'm very pleased to announce that again this year Space City Credit Union is a well-capitalized financial institution, with a strong net worth ratio of 10.31 percent. To put that in perspective, a net worth position above 7 percent is considered well capitalized by our regulators.
- In total, our total membership savings has increased 4.9 million dollars. When we see people putting money away for the future, we hope our efforts to enhance the financial literacy of our members have contributed to this increase.



PRESIDENT'S REPORT

Though the credit union needs to make a profit to keep the doors open, our sole interests are in our stakeholders' interests, and whenever we can, in keeping with our credit union mission, we will distribute profits back to you. Last year, Space City Credit Union performed well and as a result, we were able to pay out special year-end interest refund to our members for the third year in a row. The total amount of the interest refund given to our members was \$31,000 and was distributed on December 31, 2018. We also provided checking account rewards to all of our members in the amount of \$30,000. This is just one way our members can enjoy the benefits of belonging to a credit union where profits are returned to our member-owners.

As many of you know, Buddy Holcombe who served on the board for 48 years is no longer with us. Buddy passed on May 4, 2018. Buddy was full of life and happiest when helping others. In 2016 we established a scholarship in his name to honor his outstanding work and commitment to our Credit Union. His wisdom and kind heart will be missed and we pledge to continue to work diligently to continually better our Credit Union in his honor.

As we move into 2019, my commitment to you today is that Space City Credit Union will continue to grow responsibly while listening and responding to your needs. We will explore innovative product and service solutions to enhance your financial life, and we'll develop our staff and board so they can confidently and wisely serve your interests.

Thank you,
Craig Rohden, President/CEO

CHIEF OPERATIONS OFFICER REPORT



With the continued success of Space City Credit Union we're able to offer beneficial savings and wealth-building tools and other financial products and services that enhance your life, improve our delivery

channels, and expand our community outreach.

To demonstrate our commitment to that ideal we are implementing the following products and services to benefit you and your families:

- Internet service speed was upgraded at all Space City branches to increase the up time of the systems we need to best serve you. All branches now also have internet redundancy to lessen the likelihood we will be without internet connectivity.
- We enhanced our lending workflow to better serve you. We added loan processors to provide outbound callbacks to you before funding your loan to confirm all loan details with you.
- We enhanced Debit Card Fraud Alert System with the addition of a Risk Analyst. The Risk Analyst's primary function is to watch over our Credit Union's debit card portfolio to help keep all cards secure. They identify fraud trends and put electronic rules in place for transactions to help safeguard against suspicious transaction attempts. We also now offer the functionality for you to receive text message alerts for certain suspicious transactions.

- Space City Credit Union underwent a credit card conversion and we switched data processors. This switch was done to enhance our Credit Card platform and provide a better and more robust service to our membership.
- We introduced jumbo rates for certificates of deposit to help keep all tiers of our rates nationally competitive.

I'd like to recognize our committed directors for their responsible stewardship of our principles, philosophy, and mission; our outstanding leaders for their insightful strategic planning and organization; our dedicated employees for embracing our values and goals and for delivering best-in-class service; and our loyal members who appreciate the many ways their credit union is a partner in their financial wealth. Because of the work we've all done together, this credit union is thriving.

Our member-owners are integral to our credit union family, and we are sincerely grateful that you've chosen Space City Credit Union as your financial partner. We look forward enthusiastically to a great 2019.

Nikki Moore, COO

CHAIRMAN'S REPORT



We are all stakeholders here, each of us invested in the health and wellbeing of this great financial institution. So, I want to thank you for being here, and I applaud you for being truly connected member-owners.

I want to first recognize my fellow board members for their leadership, dedication, and passion for this credit union. The strength of their commitment is key to our long-term sustainability and prosperity. And to our members, I'm greatly humbled by the trust you've placed in us. As a united body of leadership, we are responsible for ensuring that we have a competent, qualified, and trustworthy management team, and I can say unequivocally that we do. As a financial cooperative, we understand that we can most effectively serve you and strengthen that movement by engaging in the vast network of organizations and service groups available.

Due to our cooperative business model we're able to return profits to our members in the form of competitive rates, new products, enhanced services, and additional points of service to make it easier for you to reach your financial objectives. Our highest and best purpose in serving you includes some of the following objectives:

- We are committed to serving our community where we can make the greatest impact. Helping with financial literacy and account management for our members who are most vulnerable, such as young adults, retirees, and our elderly, are some of the ways we can do that.

- We are committed to being a knowledge center that allows our members to receive expert advice and insights about budgeting, buying, retiring, and saving.
- We are committed to offering more and better resources that ensure our members are using the safest, most secure, and most convenient technology available.
- We are committed to helping you finance your life activities, such as education, home ownership, college tuition, and transportation in a responsible way.

In closing, I'd like to express my deepest confidence in the executive leadership at Space City Credit Union, the wisdom and guidance of our esteemed board of directors, the commitment of our dedicated staff, and the support and loyalty of our member-owners. We look optimistically into the future because Space City Credit Union is well positioned to face any challenge and seize any opportunity that presents itself in 2019.

Sincerely,
Mick Lay, Chairman

TREASURER'S REPORT



In 2018, Space City Credit Union earned \$260,967.94 in net income after business expenses, dividends and our loan interest refund to membership. The Credit Union's capital to asset ratio remains solid at 10.31%, and we look forward to another good financial year for the Credit Union

I want to express my gratitude for your trust and your continued membership, and I wish you and your families the very best in 2019. Thank you for your membership.

Regards,
Jerry Garcia, Treasurer

Statement of Income		
For Period Ending December 31, 2018		
	2018	2017
Income		
Loans	\$3,609,276	\$3,262,432
Investments	\$54,386	\$56,133
Other	\$1,807,214	\$1,656,843
Total Income	\$5,470,876	\$4,975,408
Non-Operating Income/Expense	\$16,426	\$11,996
Income Before Dividends	\$5,487,302	\$4,987,404
Less: Dividends	\$600,415	\$488,529
Less: Int on Borrowed Funds	\$49	\$10,034
Expenses		
Employee Compensation	\$2,121,546	\$1,746,355
Office Operations	\$925,428	\$895,467
Provision for Loan Losses	\$319,517	\$342,169
Operating Expenses	\$1,259,379	\$721,788
Net Income	\$260,968	\$783,062
Allocation of Net Income		
To Regular Reserves	\$0	\$0
To Undivided Earnings	\$260,968	\$783,062

Statement of Financial Condition		
For Period Ending December 31, 2018		
	2018	2017
Assets		
Loans	\$66,343,379	\$63,331,582
Allowance for Loan Loss	(\$351,376)	(\$312,478)
Net Loans	\$65,992,003	\$63,019,104
Cash	\$1,790,307	\$2,362,460
Investments	\$5,216,438	\$4,208,887
Fixed Assets	\$5,376,234	\$4,444,670
Other Assets	\$4,918,697	\$4,702,320
Total Assets	\$83,293,679	\$78,737,441
Liabilities		
Notes Payable		
Accounts Payable	\$343,143	\$1,474,398
Other Liabilities	\$248,317	\$390,955
Total Liabilities	\$591,460	\$1,865,353
Savings Equity		
Shares	\$74,114,446	\$69,206,367
Regular Reserves	\$629,443	\$472,173
Undivided Earnings	\$5,961,835	\$5,197,053
Equity Acquired from Merger	\$1,996,495	\$1,996,495
Total Liabilities & Equity	\$83,293,679	\$78,737,441

CREDIT COMMITTEE REPORT



The Credit Committee is appointed by the Board of Directors to regularly review current Credit Union loan policies, ensure the safety and soundness of loan underwriting, and meet the credit needs of the membership.

Space City Credit Union remains a healthy and sound financial cooperative. We are committed to making financial decisions to balance the cost of bringing the latest technology to our membership while remaining competitive with our interest rate and fee structure. Our team strives to positively impact the financial lives of our members through interest payouts, free financial education programs, payment deferral assistance during natural disasters, and working with members that face challenges in their many phases of life.

One of the main ways we can impact the financial soundness of our members is through prudent and cost-effective lending practices. In 2018, the member-owners of this institution borrowed more than 34 million dollars, which added approximately 1,400 new loans. These healthy lending numbers reflect the continued optimism and trust in Space City Credit Union.

As loan demand has increased 8.20 percent from 2017 to 2018. Delinquencies remain low at 0.72 percent, as compared to other Credit Unions our size with an average delinquency of 0.91 percent. This is a reflection of two things: the competitive rates we're able to offer

and your strong commitment to honoring your financial obligations.

It's a testament to our strength as a financial institution that so many of you are turning to your credit union for your loan needs. We are pleased to announce that we will begin offering Home Equity loans to our membership early in 2019 to expand our portfolio of services to further serve you.

The Credit Committee remains committed to ensuring Space City Credit Union continues to employ practical lending techniques that are affordable, competitive, and follow our pre-established lending guidelines to ensure long term financial stability for both the membership and the Credit Union. We appreciate your membership and continued support. Below you will find a consolidated statement for your review.

Thank you,
Steve Hines
Chairman, Credit Committee

2018 LOANS

Loan Type	YTD # Loans	Amount	Percentage
New Auto	242	\$ 10,137,979.19	29%
Used Auto	461	\$ 11,287,749.48	33%
Signature	501	\$ 2,151,710.77	6%
Other Secured	177	\$ 2,707,382.80	8%
Real Estate, HE	6	\$ 167,324.31	0%
MasterCard Advances	-	\$ 5,096,350.19	15%
Loan Add	-	\$ 631,361.22	2%
Refinances	-	\$ 2,266,457.34	7%
Total	1387	\$ 34,446,315.30	100%

AUDIT COMMITTEE REPORT



The Audit Committee is appointed by the Board of Directors to ensure a comprehensive annual audit of Space City Credit Union's books and affairs is conducted in accordance with established principles and commission rules. This committee also submits a summary report of the audit to Space City Credit Union's members at the annual meeting.

Each year the Credit Union goes an internal audit done by a firm that the Credit Union hires, as well as an exam (every 12-18 months) done by our state regulator. In 2018, the audit committee retained the services of Doeren Mayhew to perform internal auditing procedures to verify compliance with state and national regulations; verify adherence to the Credit Union's policies and procedures; and review controls over operations for adequate security. The Committee reviews these reports as well as management's responses and

then addresses any issues in its monthly meetings. In addition, an annual independent audit is completed by the Texas Credit Union Department.

The findings indicate that Space City Credit Union is in good health, both financially and operationally. The committee welcomes all comments and suggestions from our members.

Sincerely,

Jack Patton, Matt Hayslip, Rod Tejada



SPACE CITY CHARITIES

Space City Charities is a 501 (c)(3) non-profit organization that was established in 2013 by Space City Credit Union. The operations of Space City Charities are run by Space City Credit Union staff.

The mission of Space City Charities is to help others achieve their dreams through financial literacy and furthering their education. The primary method we use to achieve this goal is by providing scholarships to deserving students in and around the Houston area.

The main source of funding for these scholarships is the Annual Wolf Scholarship Golf Classic's sponsorships, players, and donations. The Annual Wolf Scholarship Golf Classic was established in 2009 to honor Verna Wolf who served on the board of Space City Credit Union for 40 years (1965 – 2005). Mrs. Wolf passed in 2016, and this golf tournament continues to honor her dedication to the credit union movement and the philosophy of "people helping people."

Space City Charities gave away its first scholarship in 2011, and since then has given away over \$142,350 to students eager to further their education. We seek to provide financial assistance to students, encourage academic excellence, and to recognize achievements both in and out of school. Each year the charities staff works hard to fund raise and increase awareness of both scholarship availability and charity activities. It is only through these activities that we are able to continue to give back to students seeking to further their education.

The 2017 tournament had over 100 golfers and will allow Space City Charities to give away \$37,500 in scholarships in 2018. The scholarship recipients can be found below:

2018 Scholarship Recipients

Tiana Nelson	\$2,500 Space City Charities Scholarship
Tony Nguyen	\$2,500 Space City Charities Scholarship
Xavier Rios	\$2,500 Space City Charities Scholarship
Reggie Huerta	\$2,500 Space City Charities Scholarship
Peyton Ringer	\$2,500 Space City Charities Scholarship
Abigail Tovar	\$2,500 Space City Charities Scholarship
Victoria Myers	\$2,500 Space City Charities Scholarship
Destanie Dawn Speers	\$2,500 Space City Charities Scholarship
Alexis Arevalo	\$2,500 Space City Charities Scholarship
Fariha Aahmed	\$2,500 Space City Charities Scholarship
Alyssa Villanueva	\$2,500 Space City Charities Scholarship
Ian Ringer	\$2,500 Space City Charities Scholarship
Kinsley Gross	\$2,500 Space City Charities Scholarship
Matthew M.	\$2,500 B.C. "Buddy" Holcombe Scholarship
Michael K..	\$2,500 Verna Wolf Scholarship
Total Scholarships 2018 Awarded	
\$37,500	

For more information on Space City Charities, please visit www.SpaceCityCharities.org.

BOARD OF DIRECTORS



Mick Lay
Chairman
Board Member Since 1975



Steve Hines
Vice Chairman
Board Member Since 1985



Judy Langford
Secretary
Board Member Since 1982



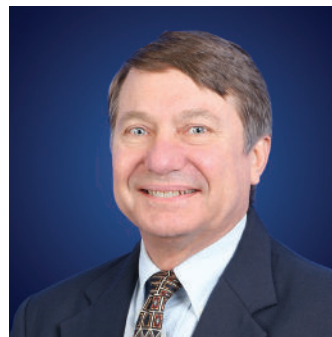
Jerry Garcia
Treasurer
Board Member Since 1979



Jack Patton
Assistant Secretary
Board Member Since 2010



Matt Hayslip
Audit Committee
Member Since 2008



Mark Heitker
Director
Board Member Since 2006



Bryon Hodges
Director
Board Member Since 2008



Craig Rohden
President/CEO since 1994
Board Member since 2001



Robert Sander
Director
Board Member Since 1980



Rod Tejada
Audit Committee
Member Since 2017

MANAGEMENT TEAM



Jorge Amaya
AVP of Member Services
Team Member Since 2017



Vince Chitolie
Accounting Manager
Team Member Since 2019



Vicki Fernandez
Teller Supervisor
Team Member Since 2017



Nicole Frausto
La Porte Branch Manager
Team Member Since 2009



Bob McGrew
Enid Branch Manager
Team Member Since 1980



Nikki Moore
Chief Operations Officer
Team Member Since 2008



Paula Newkirk
VP of Lending & Collections
Team Member Since 2007



Kristi Strange
Operations Manager
Team Member Since 2012

IN MEMORIAM OF B.C. “BUDDY” HOLCOMBE



**Space City Credit Union Director
1970 - 2018**

After serving his country as a reservist for seven years in the US Marine Corp, Buddy spent the remainder of his professional career with Stewart & Stevenson, working his way up to Marketing Director and eventually retiring after 43 years. Buddy was very active in his community, he had been a Master Mason since 1969, served as Vice President of the Lake Conroe Fire Department for 16 years, was on the Staff Parish Relations Committee at the Montgomery United Methodist Church, and faithfully served 48 years on the Board of Directors of Space City Credit Union before his passing on May 4, 2018.

“Buddy was on the committee that hired me in 1994 and was a great role model and mentor to me for the past 24 years. The credit union has seen tremendous growth and expansion under his leadership and we all owe Buddy a debt of gratitude. He was a big believer in the board setting policy and allowing the staff to run the day to day operations of the credit union. He was calm, generous, and always brought wit and wisdom

to the meetings. Buddy always put the members best interest ahead of everything else.” said Craig Rohden, President/CEO of Space City Credit Union.

If you would like to make a donation in Buddy’s honor, you may do so by visiting SpaceCityCharities.org. All funds donated will go towards providing scholarships to students. To donate via check, please make checks payable to Space City Charities – 3101 Harrisburg Blvd, Houston, Tx 77003.