

ANNUAL REPORT 2023

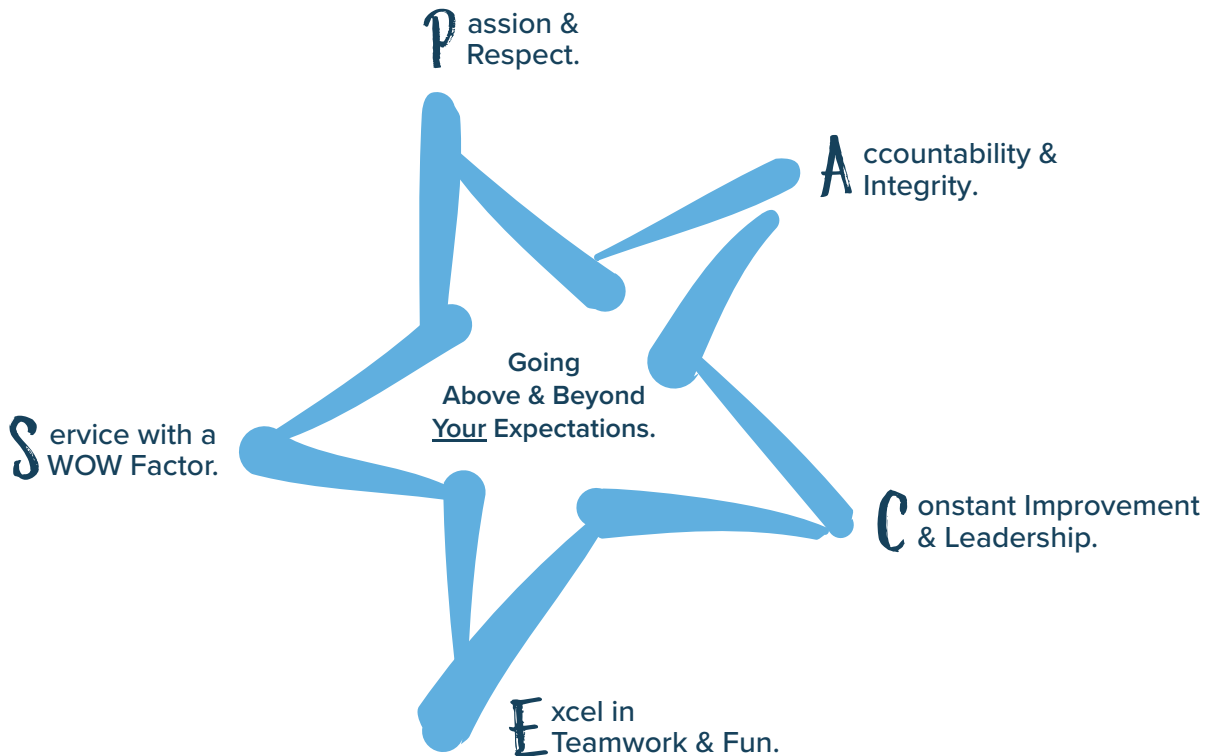


OUR MISSION STATEMENT

Going Above and Beyond your Expectations.

9 CORE VALUES

These core values of our organization form the foundation on which we perform work, conduct ourselves, and service our members.



9 SUPPORTING VALUES

Be Accessible • Courage • Culture of Warmth • Embrace Change
Empathy • Empower Others • Humble • Trust • Quality

PRESIDENT'S REPORT



We all know that credit unions are different. That's why we're here today. Credit unions like Space City CU aren't different because of the products and services we offer. No, we're pretty much a consumer bank offering savings, check-

ing, electronic banking, and loans. Then what makes us different? Our volunteer board structure, ownership structure (member owners and not bank customers), and our not-for-profit business model that returns all profit to you. That's what makes credit unions different.

Thanks to you, life has been good at Space City CU. We've been growing for a long time. Since 2011 we've grown from \$33M in assets to \$142M today. Also, membership increased from 5,272 to 12,148 in that same time frame. We've accomplished this growth organically, one member at a time, and through mergers (see website for details).

Because of our remarkable growth, and because of our excellent financial position, we felt it was the right time to go above and beyond for our members. So, in 2023, through special dividend, loan interest refund, and checking rewards, we gave back over \$1,000,000 to you, our valued members! We're very proud and happy to have accomplished not only our growth, but the ability to share that growth with you. Like I said, credit unions are different!

Shifting Financial Landscape

Since the pandemic, members have recognized and valued their trusted credit unions even more. As the financial landscape continues to shift in a post-COVID

world, Space City CU works diligently to provide the best value and experience for our members. While we've seen many improvements to the economy, challenges remain and have caused the financial industry to develop more innovative and efficient processes.

For example, we've worked to:

- Develop more online banking tools.
- Expand account options and offer new products.
- Streamline and simplify our processes wherever possible.
- Keep fees low or zero.
- Develop financial literacy resources and tools.
- Keep robust cybersecurity measures in place.
- Support advocacy and lobbying efforts on behalf of the credit union community.
- Continue our priority of outreach and involvement in our local communities.

Let's expand on these a bit.

Online Banking

After the pandemic, the move away from onsite service challenged us to create an experience that still feels personal while being easier to access and quicker to use. More and more members prefer to bank online with websites and apps that are easy to navigate, even for our less tech-savvy members. Space City CU has worked to offer user-friendly, online options with the same personal touch you've come to expect from us.

At Space City CU, we have implemented or upgraded:

- Mobile deposits
- Online bill pay

PRESIDENT’S REPORT CONTINUED

- Up-to-date account activity
- Digital lending options
- Cleared check images
- Statement access
- Fraud alerts
- Touch/face ID
- ATM stations

Financial Literacy Resources and Tools

As a member of Cornerstone League, we’ve supported the development of the award-winning Your Money Further educational website. Your Money Further won the 2022 dotCOMM Platinum Award for best financial website and is the industry’s only national consumer-facing website designed to deliver high-quality financial services content through the voice and lens of the nation’s credit union movement. It has garnered more than 23 million page views and more than 15 million consumer visits in the past year and features a robust blog, a library of helpful articles on credit union topics, a credit union locator, and a credit union matcher.

Cybersecurity

Along with the convenience that technology brings, we must be aware of the risks that also come with it, such as:

- Phishing
- Ransomware
- Password reuse
- Data theft
- Cloud security
- And more

Here at Space City CU we’ve taken steps to safeguard your assets, your data, and your privacy. In 2023 alone, we invested over \$100,000 in new money (above our regular costs) to increase data

security and upgrade software and hardware. As technology continues to evolve, so do the costs, and we’re doing everything to keep up with the latest and greatest tech to keep your data safe.

Advocacy and Lobbying Efforts

On the legislative front, we supported efforts to defeat the recent Credit Card Competition Act, and Congress’s attempts to include it as an amendment to the National Defense Authorization Act. The legislation would have created new routing mandates affecting the way financial institutions issue credit and potentially put consumers’ data privacy at risk. Contact your members of congress and the senate and let them know you oppose the CCCA.

Community Outreach

As your local, hometown credit union, we also pride ourselves on being visible and involved in our community. To that end, through our partnership with the Houston Chapter of CUs:

- We helped pack and distribute 1,000 meals in one day for Kids Meals Houston.
- We supplied the Houston Food Bank with 2,200 pounds of food.
- We read to students each week at TW Ogg Elementary

Events Sponsored and Donations (\$53,000):

- East End Chamber of Commerce Scholarship Golf Tournament
- EECOC Education Symposium
- Ineos ICAN Charity Fundraisers (Golf and Shootout)
- BISD Scholarship Awards and Education Foundation
- Cornerstone Credit Union Foundation

PRESIDENT’S REPORT CONTINUED

- Urban Harvest
- The Center for Pursuit
- Nexus Health Systems
- The Woods Project
- Space City Charities
- Hawaii Wildfires Fundraiser
- American Cancer Society

Texas-Specific Issues

In addition to nationwide trends in the financial landscape and economy, there have been localized effects felt here in Texas from issues such as:

- A polarized political landscape.
- Concerns about health care accessibility and costs.
- Continuing concerns over our power grid and infrastructure.
- Rising food, gas, and energy prices.
- A still competitive but cooling housing market.
- Climbing mortgage interest rates.

Space City CU is aware that these issues present unique challenges for our members, and we’re dedicated to listening to your suggestions and feedback and exploring the best ways to support you as you navigate these circumstances. We have been proactive in preparing for the possibility of another winter storm or extreme weather event, to ensure our members can still access their funds.

The overall picture for credit unions in Texas is encouraging. According to the Credit Union National Association’s 2023 3rd quarter report:

- Texas currently has 410 credit unions headquartered in the state, with a membership of 10,468,054—a growing but still small portion of

the state’s financial sector.

- Total assets of all credit unions in Texas are over \$155 billion.
- Texas credit unions have 2,696 branches and 40,702 employees.
- Texas credit unions made 1.9 million loans for a total amount of more than \$40 billion.

Since credit unions are not-for-profit financial cooperatives and, unlike banks, have no shareholders demanding a market return on their investment, we can pass profits on to our member depositors in the form of lower loan interest rates, higher yields on savings, and fewer/lower fees.

And of course, none of this would be possible without the participation and input of members like you!

Closing Remarks

It’s a top priority of Space City CU to meet the challenges of our current economy, political landscape, infrastructure, and environment head-on while embracing digital technologies and transforming into a modern and flexible business that serves our members and our community. We couldn’t have done it without your input and involvement!

As our member-owners, you are integral to our credit union family, and we are sincerely grateful that you’ve chosen Space City CU as your financial partner. We wish you and your family a healthy and prosperous 2024.

Thank you,

Craig Rohden, CEO

CHAIRMAN'S REPORT



Welcome to the 59th annual meeting of Space City CU. Thank you for being here. Our success depends on the involvement of our member-owners, and we appreciate each of you for demonstrating your involvement.

Annual Report Highlights

As we continue to adjust to a post-pandemic world, Space City CU continues to perform quite well in this new economic landscape, as we will see in the Annual Report for fiscal year 2023. Let's look at a few highlights:

Space City CU continues to be a well-capitalized financial institution, with a strong net worth ratio of 13.94 percent and growing. To put that in perspective, a net worth ratio above 7 percent is considered well-capitalized by our regulators.

- In total, our 12,148 members have spent more than \$4M of their savings accounts.
 - With uncertainty in the current economy, rising food costs, energy and gas costs, and climbing interest rates, this was expected. Our hope is that inflation will subside, and the Fed will cut interest rates in 2024 to ease the burden on America's households.
- You, the member-owners of this institution, have borrowed more than \$42M, which added more than 2,200 new loans in the 2023 fiscal year. Thank you for trusting Space City CU for your lending needs.
- As loan demand increased 7%, delinquencies were held in check, and were a low 0.45% of loans. This reflects the competitive rates Space City CU

is able to offer, despite the upward trend in interest rates we've seen nationally. However, one of the reasons delinquencies remained low was a rapid rate in charge offs. Rising insurance premiums, along with inflation, have made it difficult for some members to keep up with loan payments. Despite our best efforts, Space City CU had net charge offs around \$600,000, or nearly double the budget.

One of the benefits of credit union membership is the opportunity to share in the profits. Our members are always our top priority, and whenever we can, in keeping with our credit union mission, we will distribute profits back to you.

Last year, Space City CU performed so well that we generated nearly \$400K in net income in the 12 months that ended December 2023. As our CEO, Mr. Rohden mentioned, we are please to be in a great financial position. Our capital ratio was over 14%, and with the net income we generated in 2023, the board made the decision to give back nearly \$1M in special dividends, loan interest refunds, and checking reward points.

I'd like to recognize my fellow board members for their dedication to this credit union. United in leadership, we are responsible for ensuring your credit union has a capable, qualified, and transparent management team. I can say without hesitation that we do. The strength of this board's commitment to the highest standards of governance and management is integral to Space City CU's well-being, sustainability, and prosperity.

Our bylaws were amended to allow for a flexible number of directors, ranging between 7 to 13. Previously, our bylaws required 10 directors.

Closing

Now, I'd like to take a moment to express my deepest confidence in the management team of Space City CU. Along with the guidance of our esteemed board of directors, the commitment of our dedicated staff, and



the support and loyalty of our member-owners, our future is bright. The last several years have presented changes and challenges, but they also taught us that we are more than capable of facing an evolving economy and technological space in 2024. We certainly look forward to the opportunities to demonstrate our value proposition.

Thank you, ladies and gentlemen. I wish you and your families the very best this year.

Sincerely,

Buck "Mick" Lay Jr.,
Chairman of the Board

CHIEF OPERATIONS OFFICER REPORT



Space City Credit Union serves over 12,000 members in the Houston area. Our mission is to provide quality financial services that exceeds the needs and expectations of our members. In 2023, we continued on our journey of digital

transformation, implementing several new technologies that enhanced our security, efficiency, convenience, and member satisfaction. In this report, I will share with you the achievements and challenges of this journey, and how we overcame them with the help of our dedicated staff, partners, and members.

Message Pay

Message Pay is a service that allows our members to send and receive money using text messages. It is fast, easy, and secure, and does not require any app downloads or account registrations. Members can simply enroll their mobile phone number and debit card with us, and then use text commands to send and receive money from anyone, anytime, anywhere. Message Pay is integrated with our core banking system, and transactions are processed in real time.

We launched Message Pay in November 2023, and since then, we have seen a steady increase in the number of users and transactions. As of April 2024, our members have done 2,985 Message Pay transactions for over \$1.3 million. Message Pay has also helped us reduce our operational costs, as we have fewer checks, cash advances and cash to process and handle. Message Pay has also increased our member satisfaction and retention, as we have received positive feedback from our members who appreciate the convenience and simplicity of the service.

While implementing Message Pay, we were diligent about educating our staff and members about the service, ensuring the security and compliance of the service, and resolving any technical issues that arose. We conducted a comprehensive marketing campaign, providing online and in-branch tutorials, and partnering with a vendor that has extensive experience and expertise in the field.

SIEM/SOC Tool

Cybersecurity and IT is constantly evolving to try to keep pace with technological advances. In 2023 we implemented a SIEM/SOC tool that is a cloud-based solution that provides real-time visibility and protection of our network and data. It monitors and analyzes all the activity and events that occur on our network, and sends alerts of any suspicious or malicious behavior. It also provides automated responses and remediation actions, such as blocking, quarantining, or isolating the affected devices or users. The SIEM/SOC tool is powered by artificial intelligence and machine learning, and it learns from our network behavior and adapts to our specific needs and preferences.

We implemented our SIEM/SOC tool in April 2023, and since then have seen a significant improvement in our security posture and performance. Since its implementation, this tool has reviewed over 450 million events on our network, and helped keep it safe from many cyberattacks, ranging from phishing, ransomware, denial-of-service, to insider threats. The SIEM/SOC tool has also helped us comply with the regulatory and industry standards, such as NCUA, FFIEC, PCI-DSS, and GLBA.

Notifi

Notifi is a service that allows our members to receive real-time mobile app alerts and notifications about their account activity and status. It is customizable, and members can choose what types of alerts they want to receive, how often they want to receive them, and how they want to respond to them. Notifi is integrated with

our online banking and mobile app, and it enhances our member communication and engagement. Notifi has also helped us improve our member service and satisfaction, as we have received positive feedback from our members who appreciate the timely and relevant information they receive. Notifi has also helped us reduce our fraud and risk exposure, as we have alerted our members of any unauthorized or suspicious transactions or activities on their accounts.

Some of the challenges we faced in launching Notifi were ensuring the accuracy and reliability of the alerts and notifications, maintaining the privacy and security of the member data, and managing the volume and frequency of the alerts and notifications. We addressed these challenges by testing and validating the service before launching it, encrypting and anonymizing the member data, and allowing our members to customize and control their preferences and settings. We also monitored and evaluated the service regularly, and made adjustments and improvements as needed.

Password Management Tool

To manage the online log ins needed to assist our members, we have a dedicated system access team that grants user credentials to over 50 different systems. To ensure the safety of those credentials, we implemented an online password manager for all Space City employees. This tool helps create and manage strong and unique passwords for online accounts. It is secure, convenient, easy to use, and it eliminates the hassle and risk of forgetting or losing passwords. The tool generates random and complex passwords for new or existing accounts, and autofills them when needed. It also helps reduce support costs as we have fewer password reset requests and issues. We have received positive feedback from our employees who appreciate the security and convenience of the service.

In conclusion, 2023 was a year of digital growth for Space City Credit Union, as we implemented four new technologies that improved our security, efficiency, convenience, and member satisfaction. We are proud

of our achievements and grateful for our staff, partners, and members who supported us throughout this journey. In today's digital landscape and advances in artificial intelligence, we are aware of the challenges and opportunities that lie ahead. We are committed to continue innovating and enhancing our services and products to meet the evolving needs and expectations of our members. We look forward to serving you in 2024 and beyond.

Thanks,

Nikki Moore-Owens,
Chief Operations Officer

TREASURER'S REPORT



In 2023, Space City Credit Union had a total net income/ (loss) of (-\$611,671.15) after business expenses, dividends, and our loan interest refund to membership. In December 2023, a one-time bonus dividend was awarded to our membership in the amount of \$750,000. The credit union's capital to asset ratio increased from 13.83 percent to 13.94 percent.

Space City Credit Union remains financially sound and committed to offering best in class financial services to its members. For a more comprehensive snapshot of the Credit Union's financial performance, please review our consolidated Statements of Income and Financial Condition.

Regards,
Robert "Bob" Sander, Treasurer

Statement of Income		
For Period ending December 31, 2023		
	2023	2022
Income		
Loans	\$5,925,894	\$4,585,107
Investments	\$749,166	\$486,748
Other	\$2,751,032	\$2,647,905
Total Income	\$9,426,092	\$7,719,760
Non-Operating Income/Expense	\$26,947	\$910,271
(Before Dividends)	\$9,453,039	\$8,630,031
Less: Dividends	\$2,543,086	\$849,841
Less: Int. on Borrowed Funds	\$0	\$14
Expenses		
Employee Compensation & Benefits	\$3,198,777	\$2,818,013
Office Operations	\$1,645,185	\$1,345,285
Provision for Loan Losses	\$560,044	\$79,829
Operations Expense	\$2,117,618	\$1,935,049
Net Income (Loss)	(\$611,671)	\$1,601,999
Allocation of Net Income		
To Regular Reserves	\$0	\$0
To Undivided Earnings	(\$611,671)*	\$1,601,999

*Included \$1M member bonus.

Statement of Financial Condition		
For Period ending December 31, 2023		
	2023	2022
Assets		
Loans	\$107,957,828	\$100,640,150
Allowance for Loan Loss	(\$507,308)	(\$271,780)
Net Loans	\$107,450,521	\$100,368,370
Cash	\$1,028,860	\$7,315,734
Investments	\$20,708,763	\$26,016,900
Fixed Assets	\$3,522,884	\$3,635,193
Other Assets	\$9,503,615	\$10,796,804
Total Assets	\$142,214,643	\$148,133,001
Liabilities		
Notes Payable	\$0	\$0
Accounts Payable	\$752,455	\$1,292,956
Other Liabilities	\$560,917	\$659,436
Total Liabilities	\$1,313,371	\$1,952,392
Shares	\$121,577,588	\$125,960,267
Equity		
Regular Reserves	\$472,173	\$472,173
Undivided Earnings	\$6,936,762	\$7,833,420
Equity Acquired from Merger	\$11,914,749	\$11,914,749
Total Liabilities & Equity	\$142,214,643	\$148,133,001

LENDING REPORT



As a member-owned financial cooperative, we are pleased to present this overview of our lending activities and performance over the past year.

In 2023, we increased our loan balances by \$7,177,156. You, the member-owners of this institution, borrowed \$47,784,990 which added more than 2238 new loans in the 2023 fiscal year. We are thankful that you entrusted your business to Space City Credit Union. We value your membership and are grateful to help our members meet their financial commitment for important life decisions.

One of the main ways we can impact the financial soundness of our members is through prudent and cost-effective lending practices. Space City Credit Union delinquencies remain low at 0.45 percent, as compared to other Credit Unions our size with an average delinquency of 0.66 percent. This reflects the competitive rates we are able to offer and your strong commitment to honoring your financial obligations.

As we navigate the complexities of today's economic environment, Space City Credit Union remains

steadfast in our dedication to fostering financial wellness and resilience among our members. Through competitive offerings, and a member-centric approach, we strive to not only meet but exceed the expectations of our members.

For your review, below you will find a consolidated breakdown of total loans booked in 2023.

Thank you,

Paula Newkirk
Vice President of Lending & Collections

2023 Loans			
Loan Type	YTD # Loans	Amount	Percentage
New Auto	226	\$11,127,508.95	23%
Used Auto	515	\$15,389,144.85	32%
Signature	1235	\$4,759,193.98	10%
Other Secured	213	\$2,918,749.13	6%
Real Estate, HE	41	\$6,134,510.00	13%
RE MBLs >50k	-	-	0%
RE MBLs <50k	-	-	0%
Instrument	8	\$1,794,815.03	4%
Credit Card Advances	-	\$7,262,111.06	15%
Loan Advances	-	\$584,900.57	1%
Refinances	-	-\$2,185,943.53	-5%
Total	2238	\$47,784,990.04	100%

AUDIT COMMITTEE REPORT



Throughout 2023, Space City Credit Union’s Audit Committee consisted of three Credit Union members who volunteer their time to serve the membership. The Committee has the responsibility of working with the Management Team and the Board of Directors to ensure that Space City is operating in a safe and prudent manner and in the best interests of our members.

To fulfill our responsibilities, we worked with management to engage the auditing firm Doeren Mayhew, to perform both our Supervisory Committee Audit and additional internal audits.

Space City Credit Union underwent 150 hours of internal auditing. We also utilize internal staff to perform audit functions and have the benefit of Federal and State examinations. Members of the Audit Committee met with our independent auditors and are pleased to report that all findings were minimal and immediately rectified by management.

Based on our last examiners’ report, internal audit reports, and the positive results received from our independent auditors and member surveys, the Audit Committee remains confident that Space City Credit Union maintains adequate controls, complies with applicable laws and regulations, and is well managed and fiscally sound.

We appreciate the opportunity to serve the membership and encourage all members to take advantage of the many services and benefits offered by your credit union.

Sincerely,
Jack Patton, Chairperson
Rod Tejada, Committee Member
Stephen Quezada, Committee Member

YEAR IN REVIEW - 2023

We gave back nearly

\$1M

\$744,776 One-Time Bonus Dividend to member

\$150,598 Loan Interest Refunded to Members

\$75,036 In uChoose Rewards Prize Redemptions



AUDITS - 7 External, 2 Internal, 160 Internal Audit Hours



UPGRADED
ONLINE BANKING EXPERIENCE

- Sleek new design accompanied by a clean user interface



NEW PRODUCTS & SERVICES

- Message Pay
- Notifi



DORMANT ACCOUNTS
\$7,670.24 and 68 accounts

REAL ESTATE LENDING
\$6,134,510

SKIP PAYMENTS PROCESSED
1,506



SPACE CITY CHARITIES
SCHOLARSHIP PROGRAM

\$32,500 Awarded in Scholarships

\$292,350 Total Awarded Scholarship to Date



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



Jack Patton
Assistant Secretary
Board Member Since 2010



Mark Heitker
Director
Board Member Since 2006



Matt Hayslip
Director
Member Since 2008



Robert Sander
Director
Board Member Since 1980



David Bacica
Director
Board Member Since 2008



Darla Baines
Director
Board Member Since 2008



Sammye Moore
Director
Board Member Since 1997



Rod Tejada
Audit Committee
Member Since 2017



Stephen Quezada
Audit Committee
Board Member Since 2019

MANAGEMENT TEAM



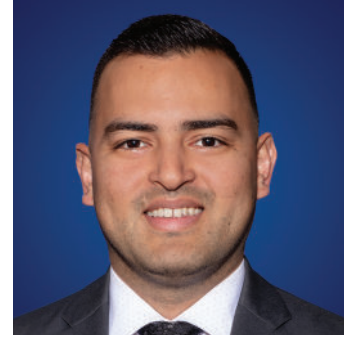
Craig Rohden
President/CEO
Team Member Since 1994



Nikki Moore
Executive Vice
President/COO
Team Member Since 2008



Paula Newkirk
VP of Lending & Collections
Team Member Since 2007



Aldo Aguilar
Business Development
Manager
Team Member Since 2007



Eddie Soto
Loan Manager
Team Member Since 2015



Michelle Williams
Vice President of
Administration
Team Member Since 2022



Tifini Abshire
Accounting Manager
Team Member Since 2018



Caprisa Queen
Branch Coordinator
Team Member Since 2023



Veronica Lopez
Clute Assistant Branch
Manager
Team Member Since 2015