

2018 ANNUAL REPORT

66 YEARS OF SERVICE AND GROWTH

Our savings liability insured by at least \$250,000 and backed by the full faith and credit of the United States Government
NCUA
National Credit Union Administration
a U.S. Government Agency

 Tower Federal
Credit Union

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Director

Financial Highlights

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

		for the years ended December 31,	
	2018	2017	% Change
Members	\$ 186,642	\$ 173,530	7.6%
Assets	\$ 3,039,367	\$ 2,964,992	2.5%
Loans	\$ 2,428,929	\$ 2,144,695	13.3%
Members' savings	\$ 2,640,533	\$ 2,549,565	3.6%
Members' equity	\$ 391,046	\$ 351,607	11.2%
Net interest income	\$ 95,905	\$ 79,037	21.3%
Provision for loan losses	\$ 11,051	\$ 13,039	-15.2%
Non-interest income	\$ 30,397	\$ 26,711	13.8%
Non-interest expense	\$ 75,812	\$ 70,013	8.3%
Net income	\$ 39,439	\$ 22,696	73.8%

Report from the Board Chair

2018 was an exceptional year for Tower. For starters, we received several prominent awards and recognitions that I'm particularly proud of. The Howard County Chamber of Commerce named Tower "Large Business of the Year" in its annual Award for Chamber Excellence (ACE) Awards, and Forbes named Tower one of its "Best in State" Credit Unions. We were recognized as "Credit Union Partner of the Year" by Frost Financial Services, due to the continued success of the Tower Car Buying Service, powered by TrueCar®. CU Realty Services, LLC, inducted Tower in to its exclusive "Two Million Dollar Club," which recognizes credit unions that have paid out \$2 million or more to members buying or selling a home through the HomeAdvantage® program. Tower is one of only a handful of credit unions in this club, and I am very proud of this award because it means we are not only providing a top-notch real estate service, but we also are putting money back in our members' pockets!

In the fall, we moved our Millersville branch to a more convenient location in the I-97 Business Park to better serve our members. The new, larger branch offers the same friendly staff and is equipped with a drive-thru, 24-hour, full-service, envelope-free ATM, safety deposit boxes, tech bar and more.

Security of our members' accounts and the fight against fraud were once again a top priority in 2018. Tower's Board of Directors and Senior Management team continue to work diligently to ensure Tower has top-of-the-line security measures in place to protect our members' accounts. We are ever-vigilant and continually invest in new technologies, staff training and increased security measures to help detect, prevent and manage fraud risks.

In April, to help our members guard against fraud and identity theft, we hosted a free Shred Day event at our Laurel Headquarters. Members were able to dispose of sensitive documents safely and securely. We held a second successful shred event at the new Millersville branch Grand Opening Celebration in November.

Tower's Board of Directors is constantly looking at the balance between what/how we give back to our members and what is necessary to ensure that modern, convenient and secure systems are in place given ever-stringent regulatory regimens and scrutiny. Since our founding in 1953, Tower's Reason for Being has never wavered: We exist to enhance the financial well-being of our members. We will continue to focus on what is in the best interest of our members and to make safety and soundness a priority.

Tower's 2018 year-end financials are included in this report. I am happy to say that we are in an excellent financial position. Tower is well-positioned to continue to give back to our members and provide for upcoming system and technology upgrades.

In closing, I'm proud to report that Tower once again far exceeds the net worth to assets ratio required by the National Credit Union Administration to earn the NCUA's top "well-capitalized" rating. Our over 186,000 members around the globe can continue to rely on Tower as a safe, convenient and competitive member-owned cooperative for their personal financial needs.

Marie E. Rowland

Board of Directors, Chair

Supervisory Committee Report

Jason R. Bailey, Chair

The Supervisory Committee has two main purposes: to ensure that management's financial reporting is in accordance with generally accepted accounting principles; and that its practices and procedures safeguard members' assets. These goals are met, in part, by ensuring that Tower's management properly administers policies established by the Board of Directors, and maintains effective procedures to comply with laws and regulations, to minimize the risk of fraud, and to avoid conflicts of interest.

The Supervisory Committee, through Tower's internal audit staff and consultants, performs assessments of business processes, using a risk-based approach, to ensure policies are effective and properly administered, and that ongoing improvements are being implemented to safeguard assets. The Committee engaged the services of the certified public accounting firm Nearman, Maynard, Vallez, CPAs, P.A, to perform the required audit of Tower's 2018 financial statements. The National Credit Union Administration (NCUA), the regulatory agency for all federally-chartered credit unions, performs periodic examinations.

I am pleased to report that, as a result of the various assessments, external audit, and our NCUA examination, Tower continues to be financially sound and has sufficient risk management controls.

The Supervisory Committee also serves as an ombudsman for members, responding confidentially to concerns, questions or complaints that have not otherwise been satisfactorily resolved. If any member has such a concern they should write to: Tower Federal Credit Union, Attn: Chairman, Supervisory Committee, P.O. Box 1280, Laurel, MD 20725-1280.

Loan Review Committee Report

Pankaj R. Belani, Chair

The Loan Review Committee, made up of five volunteers appointed by the Board of Directors, reviews loan appeals on a regular basis. Only credit unions offer the opportunity to appeal prior loan decisions by written request to a committee.

Tower's Loan Review Committee uses a process that allows Tower members a simple and streamlined way to present their loan review requests to the committee. Tower recognizes that a credit union's best investment is a loan to a member. The character and capacity of the member to repay a loan are carefully considered in order to protect members' assets. Tower members have consistently proven to be good credit risks. This is evidenced by a net charge-off rate of just 0.43% of total loans in 2018, a rate far below industry standards.

The Loan Review Committee received and evaluated fifty-three loan appeals from members in 2018. Seven of those loan appeals were approved and six loans were completed. The one remaining appeal did not complete the process to have the loan funded.

Treasurer's Report

James F. Kalkbrenner, Treasurer

As of December 31, 2018, total assets grew to **\$3.039** billion, an increase of **\$74** million or **2.5%** over the previous year's total of **\$2.965** billion. During the course of 2018, total members' loans and savings balances increased by **\$284** million and **\$91** million, respectively. Loans made to members in 2018 totaled **\$1.054** billion, driven primarily by **\$573** million in residential mortgage and home equity loans and **\$481** million in auto loans.

Tower's regulatory net worth to assets ratio was **12.87%** as of December 31, 2018. This ratio significantly exceeds the 7% level required by NCUA regulations to be considered well capitalized. Tower's strong capital base provides the ability for us to compete successfully in a highly-competitive environment, thereby allowing us to expand and improve our product and service offerings, make needed investments in systems and information security, take advantage of future business opportunities and promote the safety and soundness of Tower. These ongoing efforts enable us to respond quickly to members' changing financial needs and to maintain the level of excellent service and information security they have come to expect.

Throughout 2018, market interest rates increased for both short- and long-term maturities; however, market rates were still low on a historical basis. Tower's management continues to assess the level of interest-rate risk and take appropriate actions to mitigate that risk in this rate environment.

In order to monitor the financial performance of the credit union, Tower's Board of Directors evaluates actual results versus budget on a monthly and year-to-date basis. We are pleased to report that our actual results exceeded budget for the year ending December 31, 2018.

Consolidated Statements of Financial Condition

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	as of December 31,	
	2018	2017
Assets		
Cash and cash equivalents	\$ 494,028	\$ 603,985
Investments—available for sale	23,101	124,515
Investments—other	202	202
Federal Home Loan Bank stock	2,669	4,971
Loans to members, net of allowance for loan losses	2,428,929	2,144,695
Accrued interest receivable	7,852	6,362
Premises and equipment, net	30,666	28,846
NCUSIF deposit	24,493	23,827
Other assets	27,427	27,589
Total assets	\$ 3,039,367	\$ 2,964,992
Liabilities and members' equity		
Liabilities		
Members' share and savings accounts	\$ 2,640,533	\$ 2,549,565
Borrowed funds	0	55,000
Interest payable	171	366
Accrued expenses and other liabilities	33,176	32,301
Total liabilities	2,673,880	2,637,232
Members' equity		
Regular reserves	33,371	33,371
Undivided earnings	356,549	317,110
Equity acquired in merger	1,126	1,126
Accumulated other comprehensive income	(25,559)	(23,847)
Total members' equity	365,487	327,760
Total liabilities and members' equity	\$ 3,039,367	\$ 2,964,992

Consolidated Statements of Income

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	for the years ended December 31,	
	2018	2017
Interest income		
Loans to members	\$ 99,239	\$ 77,600
Securities and interest bearing deposits	10,426	8,878
Interest income	109,665	86,478
Interest expense		
Members' share and savings accounts	12,460	5,272
Borrowed funds	1,300	2,169
Interest expense	13,760	7,441
Net interest income	95,905	79,037
Provision for loan losses	11,051	13,039
Net interest income after provision for loan losses	84,854	65,998
Non-interest income		
Other non-interest income	15,709	12,840
Fees and service charges	13,528	11,559
Gains on sale of loans, net	1,153	2,159
Gain on disposition of assets acquired in liquidation, net	7	153
Non-interest income	30,397	26,711
Non-interest expense		
Employee compensation and benefits	46,644	42,506
Office occupancy and operations	16,157	15,416
Other operating expenses	13,011	12,091
Non-interest expense	75,812	70,013
Net income	\$ 39,439	\$ 22,696



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