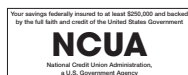


ANNUAL REPORT

2017



Federally insured by NCUA.

Board of Directors

Marie E. Rowland
Chair

Arland A. White Jr.
Vice Chair

James F. Kalkbrenner
Treasurer

Alan P. Smith
Secretary

R. Allen Brisentine
Director

Monte S. Dzurenko
Director

Tammy Lumsden
Director

Harley Parkes
Director

Melodye Valliere
Director

Financial Highlights

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	for the years ended December 31,		
	2017	2016	% Change
Members	\$ 173,530	\$ 159,796	8.6%
Assets	\$ 2,964,992	\$ 2,885,615	2.8%
Loans	\$ 2,144,695	\$ 1,861,190	15.2%
Members' savings	\$ 2,549,565	\$ 2,477,575	2.9%
Members' equity	\$ 351,607	\$ 328,911	6.9%
Net interest income	\$ 78,867	\$ 60,515	30.3%
Provision for loan losses	\$ 13,039	\$ 5,661	130.3%
Non-interest income	\$ 26,881	\$ 29,152	-7.8%
Non-interest expense	\$ 70,013	\$ 65,663	6.6%
Net income	\$ 22,696	\$ 18,343	23.7%

Report from the Board Chair

When it comes to banking, Tower knows that our members have many options. In Maryland alone, there are close to 150 different financial institutions—all vying for their time, attention and money. At Tower, we want to make our members' financial decisions easier! That is why we consistently strive to make Tower membership a value-added experience, and have purposefully built Tower as a "one-stop shop."

Looking for free checking? We want our members to come to Tower. In the market for a new car? Come to Tower. Looking to buy a home? Come to Tower. Need investment advice – trying to build a nest egg? Come to Tower.

The bottom line is Tower is, and always has been, here for our members. We continue to offer ways to help them save money, and 2017 was no exception. This year, Tower Gold Mastercard® holders earned over \$3 million in cash-back rebates. Our Debit Rewards program provided another easy way to save, with members earning over \$70,000 in cash-back rewards, simply by shopping as they usually do. Members taking advantage of Tower's HomeAdvantage® real estate program saved over \$220,000 in rebates at settlement. Tower's Car Buying Service, powered by TRUECar®, continued to be popular. Over 1,800 members used the service to buy a vehicle in 2017, with an average savings of over \$3,000. And, for the third year in a row, TRUECar named Tower "Credit Union Partner of the Year."

Not surprisingly, our members have high expectations when it comes to technology. They want the ease and convenience of managing their accounts securely wherever they go. At the end of 2017, over 77,000 members—nearly half of our membership—were Home Banking users. Over 46,000 members were enjoying the convenience of mobile banking. Over 39,000 members were managing their accounts on the go with our Mobile App.

To help in the fight against fraud, we hosted two free shred events at Tower branches this year. Both events were well-attended, and members were able to dispose of sensitive documents safely. We also continued to invest in new technologies, training, and increased security measures to help detect, prevent and manage fraud risks.

In closing, I'm proud to report that Tower once again exceeds the net worth to assets ratio required by the National Credit Union Administration, and is rated "well-capitalized"—the best rating. Our members can continue to rely on Tower as a safe, convenient and competitive member-owned cooperative for their personal financial needs.

On behalf of Tower's Board, I thank our over 173,000 members for the confidence they have placed in Tower to provide for their financial needs. If you know family members or co-workers that are not yet Tower members, I invite you to share the value of Tower with them, and encourage them to join so they too can enjoy the benefits of lifetime Tower membership.

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 various assessments to ensure policies are effective and are being properly administered, and that ongoing improvements are 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 2017 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 0.42% of total loans in 2017, a rate far below industry standards.

The Loan Review Committee received and evaluated fifty-two loan appeals from members in 2017. Twelve of those loan appeals were approved and ten loans were completed and funded and are being paid as agreed. The two remaining appeals did not complete the process to have the loan funded.

Treasurer's Report

James F. Kalkbrenner, Treasurer

As of December 31, 2017, total assets grew to \$2.965 billion, an increase of \$79 million or 2.8% over the previous year's total of \$2.886 billion. During the course of 2017, total members' loans and savings balances increased by \$284 million and \$72 million, respectively. Loans made to members in 2017 totaled \$1.001 billion, driven primarily by \$577 million in residential mortgage and home equity loans and \$372 million in auto loans.

Tower's regulatory net worth to assets ratio was 11.86% as of December 31, 2017. 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 2017, 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 rising 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, 2017.

Consolidated Statements of Financial Condition

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	as of December 31,	
	2017	2016
Assets		
Cash and cash equivalents	\$ 603,985	\$ 462,851
Investments—available for sale	124,515	471,172
Investments—held to maturity	-	645
Investments—other	202	202
Federal Home Loan Bank stock	4,971	5,245
Loans to members, net of allowance for loan losses	2,144,695	1,861,190
Accrued interest receivable	6,362	5,352
Premises and equipment, net	28,846	27,696
NCUSIF deposit	23,827	22,946
Other assets	27,589	28,316
Total assets	\$ 2,964,992	\$ 2,885,615
Liabilities and members' equity		
Liabilities		
Members' share and savings accounts	\$ 2,549,565	\$ 2,477,575
Borrowed funds	55,000	65,000
Interest payable	366	417
Accrued expenses and other liabilities	32,301	33,261
Total liabilities	2,637,232	2,576,253
Members' equity		
Regular reserves	33,371	33,371
Undivided earnings	317,110	294,414
Equity acquired in merger	1,126	1,126
Accumulated other comprehensive income	(23,847)	(19,549)
Total members' equity	327,760	309,362
Total liabilities and members' equity	\$ 2,964,992	\$ 2,885,615

Consolidated Statements of Income

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	for the years ended December 31,	
	2017	2016
Interest income		
Loans to members	\$ 77,430	\$ 59,697
Securities and interest bearing deposits	8,878	8,994
Interest income	86,308	68,691
Interest expense		
Members' share and savings accounts	5,272	4,875
Borrowed funds	2,169	3,301
Interest expense	7,441	8,176
Net interest income	78,867	60,515
Provision for loan losses	13,039	5,661
Net interest income after provision for loan losses	65,828	54,854
Non-interest income		
Other non-interest income	12,840	13,265
Fees and service charges	11,729	11,783
Gains on sale of loans, net	2,159	4,104
Gain on disposition of assets acquired in liquidation, net	153	-
Non-interest income	26,881	29,152
Non-interest expense		
Employee compensation and benefits	42,506	39,603
Office occupancy and operations	15,416	15,208
Other operating expenses	12,091	10,852
Non-interest expense	70,013	65,663
Net income	\$ 22,696	\$ 18,343



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