



BOARD OF DIRECTORS

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FINANCIAL HIGHLIGHTS

Tower Federal Credit Union and Subsidiary

for the years ended December 31,

	2020	2019	% Change
Members	196,743	191,654	2.7%
Assets	\$ 3,712,462	\$ 3,255,247	14.0%
Members' savings	\$ 3,240,874	\$ 2,810,665	15.3%
Loans	\$ 2,639,416	\$ 2,456,496	7.4%
Members' equity	\$ 460,809	\$ 434,132	6.1%
Net interest income	\$ 98,674	\$ 108,073	-8.7%
Provision for loan losses	\$ 9,158	\$ 11,046	-17.1%
Non-interest income	\$ 29,999	\$ 28,632	4.8%
Non-interest expense	\$ 92,838	\$ 81,321	14.2%
Net income	\$ 26,677	\$ 44,338	-39.8%

(Dollars in thousands)

CONSOLIDATED STATEMENTS OF INCOME

Tower Federal Credit Union and Subsidiary

for the years ended December 31,

	2020	2019
Interest income		
Interest on loans receivable	\$ 105,355	\$ 116,277
Interest on Investments	4,328	11,907
Interest income	109,683	128,184
Interest expense		
Dividends on members' share and savings accounts	11,009	20,111
Interest expense	11,009	20,111
Net interest income	98,674	108,073
Provision for loan losses	9,158	11,046
Net interest income after provision for loan losses	89,516	97,027
Non-interest income		
Service charges	12,194	14,372
Card Income	7,362	8,137
Gains on sale of loans	4,088	823
Investment management fees	2,894	2,555
Income from TFCUFS	2,103	1,384
Miscellaneous income	1,358	1,314
Gains on disposition of assets acquired in liquidation, net	-	47
Non-interest income	29,999	28,632
Non-interest expense		
Employee compensation and benefits	57,595	50,663
Office occupancy and operations	18,681	17,530
Other operating expenses	16,562	13,128
Non-interest expense	92,838	81,321
Net income	\$ 26,677	\$ 44,338

(Dollars in thousands)

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

Tower Federal Credit Union and Subsidiary

as of December 31,

	2020	2019
Assets		
Cash and cash equivalents	\$ 747,353	\$ 648,042
Investments—available for sale	214,958	55,795
Investments—other	202	202
Federal Home Loan Bank stock	2,930	2,738
Loans to members, net of allowance for loan losses	2,639,416	2,456,496
Accrued interest receivable	7,644	8,190
Premises and equipment, net	35,356	32,275
NCUSIF deposit	29,426	26,609
Other assets	35,177	24,900
Total assets	\$ 3,712,462	\$ 3,255,247
Liabilities and members' equity		
Liabilities		
Members' share and savings accounts	\$ 3,240,874	\$ 2,810,665
Interest payable	242	389
Accrued expenses and other liabilities	51,597	43,612
Total liabilities	3,292,713	2,854,666
Members' equity		
Regular reserves	33,371	33,371
Undivided earnings	426,312	399,635
Equity acquired in merger	1,126	1,126
Accumulated other comprehensive income	(41,060)	(33,551)
Total members' equity	419,749	400,581
Total liabilities and members' equity	\$ 3,712,462	\$ 3,255,247

(Dollars in thousands)

Message from the Board Chair

2020 was a year like no other. On behalf of Tower's Board of Directors, we are grateful for the trust you as a member-owner of Tower placed in us, despite the turbulence of a global pandemic. We especially appreciate your patience and support as we continue to navigate these trying times. To any of you who may have lost loved ones during the pandemic, we offer our heartfelt sympathies and also to those who have contracted COVID-19 or are recovering. Tower, like all other businesses, took extraordinary precautions last year to protect our employees and members, and we will continue to do so.

Although the fallout of COVID-19 on the financial environment was extremely challenging, Tower experienced positive financial results in 2020 and we continued to provide excellent member value. We ended the year with over \$3.7 billion in assets and continue to exceed that which is required by the National Credit Union Administration to be rated "well-capitalized" —the best rating. We remain committed to the standards of strong safety and soundness.

While 2020 definitely had its low points, there were bright spots as well. In July, Tower was named a Best-in-State Credit Union by *Forbes*, honoring the top 3.5% of credit unions nationwide. Tower was one of only five Maryland credit unions to receive this honor. In August, we were named "Credit Union Partner of the Year" by Frost Financial Services (for the fifth year in a row!), due to the success of the Tower Car Buying Service, powered by TrueCar.

Tower was also designated, for a second year in a row, a "great workplace" by the independent analysts at Great Place to Work®. Tower earned this credential based on extensive ratings provided by our employees in anonymous surveys. I would like to extend a huge thank you to all of Tower's employees for their leadership, compassion, dedication, flexibility and commitment to Tower. Even in the midst of a pandemic, our employees never missed a beat and we were able to remain 100% operational and available during a time when our members needed us most. We helped thousands of our members facing financial hardship due to COVID-19.

We were also there to meet the call for help in our community. To protect those working on the frontlines,

we donated hundreds of N95 masks to our local hospital and fire department. We helped restock depleted food bank shelves, provided funds for home repairs of elderly and disabled residents in Howard County and helped the Hospice of the Chesapeake purchase personal protective equipment (PPE) for their staff and volunteers.



Even in the midst of a pandemic, our employees never missed a beat and we were able to remain 100% operational and available during a time when our members needed us most.



In October, we moved our Annapolis Branch to a new expanded location with easier access and Interactive Teller Machines (ITMs). Video banking technology provides safe, secure transactions, encourages social distancing and reduces face-to-face interactions. Also in October, we again partnered with the National Cyber Security Alliance as a Champion for National Cybersecurity Awareness Month. The security of our members' accounts and the fight against fraud continues to be a top priority for Tower.

I would like to also say "thank you" to all of Tower's volunteers for their selfless service. This includes our volunteer Board of Directors, as well as the members of the Supervisory and Loan Review Committees that support the Board. Volunteerism is a critical part of the foundation of credit unions.

In closing, I ask for your continued patience as we remain on this journey together. Please continue to take the necessary precautions to keep yourself and others safe as we deal with COVID-19. If you need assistance, please contact us. Tower is *your* credit union, and we are here for *you*.

Arland A. White, Jr.
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 2020 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

SHAWN CRIBB, 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 0.24% of total loans in 2020, a rate far below industry standards.

The Loan Review Committee received and evaluated thirty-two loan appeals from members in 2020. Zero of those loan appeals were approved and zero loans were completed. The zero remaining appeal did not complete the process to have the loan funded. There were no overturned appeals.

Treasurer's Report

JAMES F. KALKBRENNER, TREASURER

As of December 31, 2020, total assets grew to \$3.712 billion, an increase of \$457 million or 14.0% over the previous year's total of \$3.255 billion. During the course of 2020, total members' loans and savings balances increased by \$183 million and \$430 million, respectively. Loans made to members in 2020 totaled \$1.274 billion, driven primarily by \$1.010 billion in residential mortgage and home equity loans and \$173 million in auto loans.

Tower's regulatory net worth to assets ratio was 12.41% as of December 31, 2020. 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 2020, market interest rates decreased for both short- and long-term maturities. Tower's management continues to assess the level of interest-rate risk and take appropriate actions to mitigate that risk for all foreseeable interest rate environments.

In order to monitor the financial performance of the credit union, Tower's Board of Directors evaluates current year actual results versus prior year actual results on a monthly and year-to-date basis. Driven by the economic and financial fallout of the COVID-19 pandemic, our net income for the year ending December 31, 2020, was below the net income for the year ended December 31, 2019.

TOTAL ASSETS GREW TO

\$3.712

BILLION

AN INCREASE OF

\$457

MILLION

AN INCREASE OF

14.0%

over the previous year's
total of \$3.255 billion

