

ANNUAL REPORT

BOARD OF DIRECTORS

Arland A. White Jr. | *Chair*

R. Allen Brisentine | *Vice Chair*

James F. Kalkbrenner | *Treasurer*

Ross Brinson | *Secretary*

Pankaj R. Belani | *Director*

Scott K. Brown | *Director*

Monte S. Dzurenko | *Director*

Tammy Lumsden | *Director*

Marcus S. Parker | *Director*

Harley E. Parkes | *Director*

Tom Woods | *Director*

FINANCIAL HIGHLIGHTS

Tower Federal Credit Union and Subsidiary

for the years ended December 31,

	2021	2020	% Change
Members	203,562	196,743	3.5%
Assets	\$ 4,068,592	\$ 3,712,462	9.6%
Members' savings	\$ 3,574,368	\$ 3,240,874	10.3%
Loans	\$ 2,681,035	\$ 2,639,416	1.6%
Members' equity	\$ 489,962	\$ 460,809	6.3%
Net interest income	\$ 99,384	\$ 98,674	0.7%
Provision for loan losses	\$ 4,025	\$ 9,158	-56.0%
Non-interest income	\$ 31,018	\$ 29,999	3.4%
Non-interest expense	\$ 97,224	\$ 92,838	4.7%
Net income	\$ 29,153	\$ 26,677	-9.3%

(Dollars in thousands)

CONSOLIDATED STATEMENTS OF INCOME

Tower Federal Credit Union and Subsidiary

for the years ended December 31,

	2021	2020
Interest income		
Interest on loans receivable	\$ 101,333	\$ 105,355
Interest on Investments	4,239	4,328
Interest income	105,572	109,683
Interest expense		
Dividends on members' share and savings accounts	6,188	11,009
Interest expense	6,188	11,009
Net interest income	99,384	98,674
Provision for loan losses	4,025	9,158
Net interest income after provision for loan losses	95,359	89,516
Non-interest income		
Service charges	12,750	12,194
Card Income	8,538	7,362
Investment management fees	3,832	2,894
Gains on sale of loans	2,678	4,088
Income from TFCUFS	1,745	2,103
Miscellaneous income	1,475	1,358
Non-interest income	31,018	29,999
Non-interest expense		
Employee compensation and benefits	60,797	57,595
Office occupancy and operations	20,662	18,681
Other operating expenses	15,765	16,562
Non-interest expense	97,224	92,838
Net income	\$ 29,153	\$ 26,677

(Dollars in thousands)

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

Tower Federal Credit Union and Subsidiary

as of December 31,

	2021	2020
Assets		
Cash and cash equivalents	\$ 789,697	\$ 747,353
Investments—available for sale	478,001	214,958
Investments—held to maturity	2,903	0
Investments—other	202	202
Federal Home Loan Bank stock	1,856	2,930
Loans to members, net of allowance for loan losses	2,681,035	2,639,416
Accrued interest receivable	7,019	7,644
Premises and equipment, net	37,896	35,356
NCUSIF deposit	32,773	29,426
Other assets	37,210	35,177
Total assets	\$ 4,068,592	\$ 3,712,462
Liabilities and members' equity		
Liabilities		
Members' share and savings accounts	\$ 3,574,368	\$ 3,240,874
Interest payable	143	242
Accrued expenses and other liabilities	45,693	51,597
Total liabilities	3,620,204	3,292,713
Members' equity		
Regular reserves	33,371	33,371
Undivided earnings	455,465	426,312
Equity acquired in merger	1,126	1,126
Accumulated other comprehensive income	(41,574)	(41,060)
Total members' equity	448,388	419,749
Total liabilities and members' equity	\$ 4,068,592	\$ 3,712,462

(Dollars in thousands)

Message from the Board Chair

Although the fallout of COVID-19 on the financial environment continued to present challenges in 2021, Tower experienced positive financial results last year and we continued to provide excellent member value despite the impact of the global health crisis. We ended the year with over \$4 billion in assets and we proudly serve more than 200,000 members around the globe. We remained committed to providing outstanding service for our members, while adhering to our high standards of safety and soundness.

2021 was a tough year, but it had its bright spots as well. In February, we launched Pennies for Change, a new program that allows members to support the TowerCares Foundation with every swipe of their Tower debit or credit card. In July, Tower was named Maryland's #1 Best-in-State Credit Union by the prestigious Forbes Magazine, honoring the top credit unions nationwide. This recognition is especially meaningful given the tumultuous events brought about by COVID-19 and is largely due to Tower's outstanding team of employees who provided superior member service even during a worldwide pandemic.

I'm equally proud to say that Tower was also designated, for a fourth year in a row, a "great workplace" by the independent analysts at Great Place to Work®. Tower earned this credential based on ratings provided by our employees in anonymous surveys. Even in the midst of the pandemic, Tower's team went above and beyond to be there for our members, and for each other.

With fraud on the rise, we remained vigilant, adhering to the highest levels of fraud detection and prevention. Account security is a top priority for Tower's Board and Senior Management. We continued to invest in new banking technologies and upgrades, and training for staff to recognize and combat fraud.

In October, we again partnered with the National Cyber Security Alliance as a Champion for National Cybersecurity Awareness Month to help raise awareness and educate consumers about fraud. We also installed an Interactive Teller Machine (ITM) at our Clarksville branch in the fall. Video banking technology provides more secure transactions, encourages social distancing and reduces face-to-face interactions. We plan to roll out additional ITMs at branches in 2022.

Good-byes are always bittersweet and last year, two of our volunteer Board members retired from Tower's Board of Directors after over two decades of service: Alan P. Smith (former Board Secretary) and Marie Rowland (former Board Chair). I sincerely thank both Alan and Marie for their dedication and many years of volunteer service.



2021 was a tough year, but it had its bright spots as well. In February, we launched Pennies for Change, a new program that allows members to support the TowerCares Foundation with every swipe of their Tower debit or credit card.



As a result of these retirements, the Board appointed two new Board members to fulfill the remainder of their terms. We welcomed Marcus Parker, who will fulfill Alan's remaining term through May 2022, and Scott Brown, who will fulfill Marie's remaining term through May 2023. Board member Ross Brinson stepped up to take over Alan's position as Board Secretary. Thank you to all for your expertise and willingness to volunteer on the Board.

As a member-owner, Tower is your credit union and our mission of supporting you and your family's financial needs has never wavered. Thank you for the trust you have placed in us, for your patience and support during the pandemic, and for giving Tower the opportunity and privilege of being your financial services provider.

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 2021 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 M. 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 0.10% of total loans in 2021, a rate far below industry standards.

The Loan Review Committee received and evaluated forty-one loan appeals from members in 2021. One of those loan appeals was approved and one loan was completed. The forty remaining appeals did not complete the process to have the loan funded. There were zero overturned appeals.

Treasurer's Report

JAMES F. KALKBRENNER, TREASURER

As of December 31, 2021, total assets grew to \$4.069 billion, an increase of \$357 million or 9.6% over the previous year's total of \$3.712 billion. During the course of 2021, total members' loans and savings balances increased by \$42 million and \$334 million, respectively. Loans made to members in 2021 totaled \$1.248 billion, driven primarily by \$823 million in residential mortgage and home equity loans and \$365 million in auto loans.

Tower's regulatory net worth to assets ratio was 12.0% as of December 31, 2021. 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 2021, market interest rates remained low for both short-term 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 recovery from the financial and economic fallout of the COVID-19 pandemic, our net income for the year ending December 31, 2021, was above the net income for the year ended December 31, 2020.

TOTAL ASSETS GREW TO

\$4.069

BILLION

AN INCREASE OF

\$357

MILLION

AN INCREASE OF

9.6%

over the previous year's
total of \$3.712 billion

