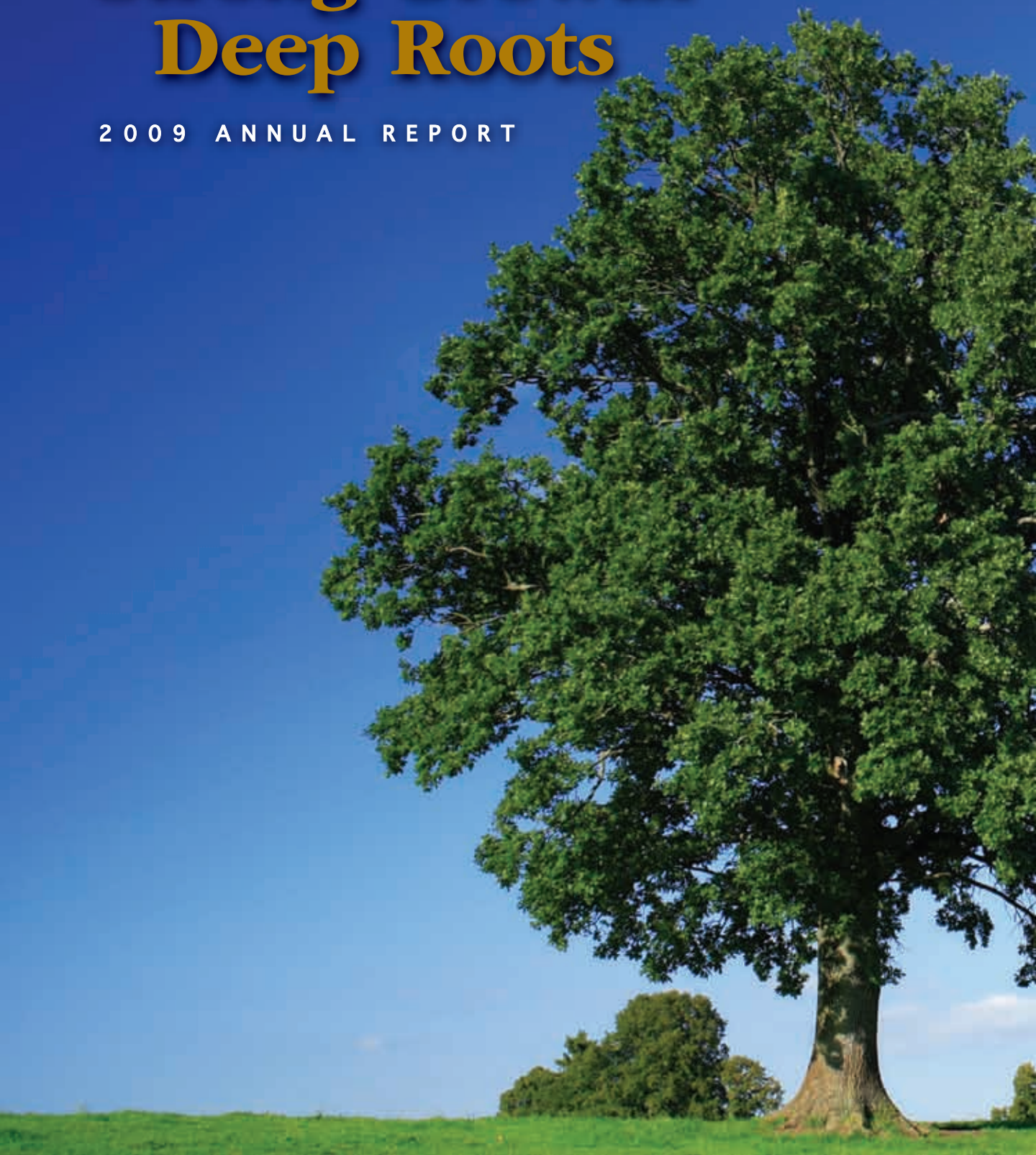


TOWER FEDERAL CREDIT UNION

Strong Growth Deep Roots

2009 ANNUAL REPORT



Leadership Report	2-6
Supervisory Committee Report	7
Loan Review Committee Report	7
Treasurer’s Report	8
Financial Highlights	9
Consolidated Statements	10-11
Report of Independent Public Accountants	12



Martin M. Breland
President & CEO

George M. Cumberlandge
Chairman

Leadership Report

Despite the economic storm our country suffered in 2009, Tower not only weathered the worst but flourished. Once again our members witnessed the principles of sound money management put into practice. Result: strong growth built on a solid, stable, well-capitalized system of support.

We grew to new heights in assets, topping over \$2 billion, keeping Tower one of the 50 largest credit unions among the 8,200 nationwide and the largest federal credit union in Maryland. New loan demand, mortgage lending, settlement services, member savings, Home Banking services, new member enrollment—all enjoyed healthy growth in 2009.

What sustains our organization is remaining true to our credit union mission, values, and principles. The only reason we exist is to provide the best possible financial services to you, in good times and bad—services our 460 employees keep improving. So we can keep our rates fair, fees low, performance high, and deposits safe.

Because the dangers leading to the Great Recession were years in the making, it's important to draw a sharp distinction between the conservative way management runs your credit union and the high-risk practices of the big banks. Excessive deregulation of the banking industry in the 1990s, the bankers' subsequent tolerance of subprime mortgage risk, and their speculation in bundled subprime mortgages all seeded the clouds for the perfect storm of 2008-2009, which washed away about 150 financial institutions.

Unlike the big banks, we've never made a single subprime mortgage, yet our real estate lending has been booming. We've had plenty of money to lend even though we maintained a strong net-worth-to-assets ratio (about 11%). And unlike the big banks, we've never taken a dime in bailouts.

Tower's efforts at financial industry reform, particularly through consumer credit education, helped spur passage of the federal Credit CARD Act of 2009. The Act regulates many of the worst abuses and deceptions practiced by the banks and companies who issue credit cards. We fully support it.



In 2009, as always, every dollar of your Tower deposits was absolutely safe and secure, backed by the federal government, which insures all federal credit union deposits up to \$250,000. Not surprisingly, members used more of our services. And new members discovered who they can trust with their money.

1953

Tower founded by 7 members
Starting assets: \$35
Year-end membership: 978

Strong growth based on broad, deep strengths.



At Tower, risky behavior is not rewarded. We play by the rules and don't try to bend them to enrich ourselves. Prudent management, well-trained and motivated people, and best practices all contribute to our financial strength. If that sounds a bit boring, that's fine with us. We don't use your money to make life exciting. Your deposits become the loans your friends and neighbors and co-workers use to help them buy homes and cars and send their kids and grandkids to college. Operating efficiently helps us keep your deposit rates attractive and loan rates affordable—even better than the average credit union.

1985

Home mortgages offered
Assets: \$266 million

Growth is one measure of financial strength, and assets are a key measure of growth. We finished 2009 with \$2.06 billion in assets, a healthy 11% gain over 2008's \$1.85 billion. Another barometer of growth is membership. Last year 7,585 new

members joined Tower, and 68 additional organizations began offering the rewards of credit union services to their employees and members. You're now one of over 119,000 Tower members.

New loans climb dramatically, mortgage demand soars.

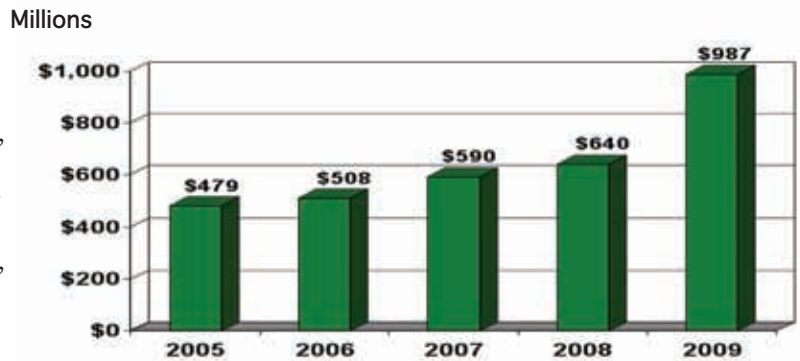
While the national economic news was a gloomy repetition of tight credit at the banks, the reverse was true at Tower. We had plenty of money to lend in 2009. In all, we granted 16,611 new loans totaling nearly \$1 billion, a jump of nearly \$350 million over the previous year. That's an increase of 54%. Locally, we infused over \$800 million into Maryland's economy in mortgages and consumer loans.

By keeping our costs low and adhering to strict lending guidelines, we could continue offering you low rates and competitive terms. Despite the slump in new housing construction, flattened real estate prices, and high unemployment, our mortgage loan volume soared 80% to an unprecedented \$725 million. We made more mortgage loans than at anytime in our 57-year history, ranking sixth in the Baltimore area, ahead of all other credit unions and many major banks. Our total real estate lending—mortgages, home equity loans and lines of credit—grew by 67% to \$831 million.

Our real estate lending received national recognition. Tower won the Best Overall Performer award for "outstanding performance and customer service" in a competition among 1,600 credit unions, organized by Prime Alliance, a leading mortgage solutions firm.

Our Tower Title Services grew more popular than ever as members responded to the combination of good value and one-stop convenience. Last year 2,436 members used our settlement services after securing a mortgage loan from Tower. Of Maryland members, over 96% settled their mortgage through Tower Title Services.

Tower's Lending Volume



Tower lending includes mortgage, home equity, auto, credit card and other loans.

National auto sales were mired in a slump last year, punctuated by the bankruptcies of two major U.S. automakers. Yet Tower ran counter to trends and recorded an 8% gain in loans. Drawn by our reasonable rates and sensible terms, Tower members borrowed \$120 million for new and used vehicles. To help more members buy cars as the economy recovers, we're adopting greater flexibility in financing. For example, giving you the choice of shorter terms with lower rates.



**Laurel headquarters
& branch opens
Assets: \$501 million**

1991

We believe Tower's MasterCard® is one of the most honest cards in the financial industry. We keep our rates fair and disclosures simple; we spell out all conditions clearly. Fees are few and modest. In fact, nothing in the new Credit CARD Act required us to change anything we've been doing. We were already in compliance. In 2009, we granted \$14 million on MasterCard lines of credit. Tower Gold MasterCard users earned \$2.6 million in rebates on purchases.

Other consumer loans, primarily unsecured and education loans, accounted for an additional \$23 million in member borrowing.

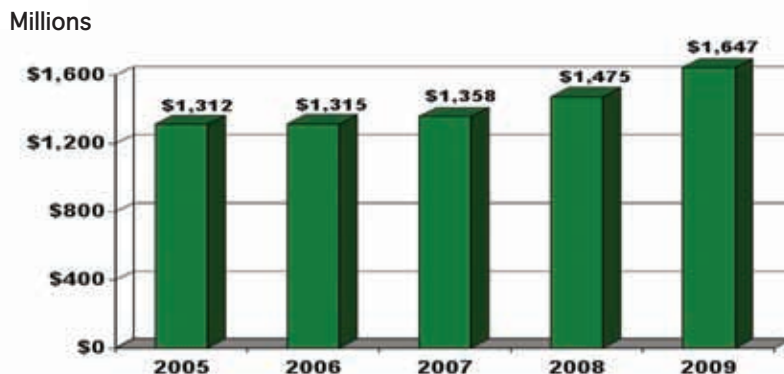
You're saving more each year.

Tower members have long been above-average savers. That tendency has accelerated in recent years. Look at the steady advance of average savings per member: \$11,532 in 2007, \$12,632 in 2008, and \$13,820 in 2009.

Total savings balances grew by \$172 million, an 11.6% gain over 2008. Nearly 12,000 members opened more than 17,000 Prime Share, Club, and checking accounts. By year's end, balances in these accounts had grown 14%, or \$121 million. These figures are even more impressive considering America's great wealth vanishing act, which culminated in the stock market bottom of March 2009. From its October 2007 peak, the S&P 500 average had dropped an astonishing 58%. After suffering big losses in their stock portfolios and mutual funds, many Americans turned to safer investments.

Saving your money at Tower isn't just good for you as an individual. It makes your credit union stronger, because the more you can save, the more we can lend. And that's healthy for the entire Tower community.

Tower's Deposit Balances



Online banking: more services for more members.

For over 10 years, Tower online services have been safe, fast, and convenient ways for you to monitor and manage your financial transactions from the comfort of your home or office.

Tower Home Banking is your personal access to what is now universal: the near-instant electronic transmission of digital financial data. Its security, speed, ease-of-use, and capabilities improve each year. No wonder the number of Tower members tapping in to the power of Home Banking keeps growing. By the end of 2009, an additional 4,150 members were using it, over 50,800 members in all. That's 43% of our total membership.

Use of specific services also increased: over 32,000 members are now registered for eStatements (up 19%), and more than 19,000 members now pay their bills online (up 15%).

Three new ways to serve you.

In October we opened our third full-service branch in Howard County. You'll find it in Clarksville at the River Hill Village Center. It features the latest banking technology, such as interactive teller stations, a 24-hour ATM, even a self-service coin counter. We now have 14 Tower branches serving our members in Anne Arundel, Baltimore, Prince George's, and Howard counties. We plan more in the future to serve our existing members and encourage new members to join.

1998

Signs up 100,000th member
Assets: \$772 million

In November the new upgrades to Tower Talk 24 made it easier to access your accounts by phone and speed up the most popular requests, such as transferring funds and getting account balances. Branch hours and locations, current rates on loans and savings, and payment calculators are at your fingertips in seconds.

Charting a path to your financial future got even easier in 2009 when Tower Financial Services went online. Whether you're saving for a new home, college, or retirement—or looking to grow your investment portfolio or plan your estate—it starts with a plan. And a plan now can begin with a visit to Financial Planning on Tower's Web site at towerfcu.org. You can examine sample financial plans, survey investment options, and work with online planning tools. Or schedule a complimentary consultation with a CERTIFIED FINANCIAL PLANNER™ professional.*

In ways large and small, we keep giving.

Giving back to the community seems to be part of our DNA. Every year, as an organization and as employees, we find a dozen ways to make a difference with our support of various local and national charitable organizations. Here are a few highlights from 2009.

2002

Home Banking attracts
25,000 users
Assets: \$1 billion

**Securities, financial planning, and insurance products offered through LPL Financial and affiliates, a Registered Investment Advisor, Member FINRA/SIPC. Tower Federal Credit Union and Tower Financial Services are not registered broker/dealers and are not affiliated with LPL Financial.*

Not NCUA Insured | No Credit Union Guarantee | May Lose Value

In June we hosted our 27th Tower Classic Golf Tournament. It was our most successful one to date. Among the 92 golfers and 33 sponsors, the event raised \$15,000. CO-OP Financial Services contributed an additional \$10,000 for a total donation of \$25,000. Since 1998, the Tower Classic has raised \$120,000 for the Johns Hopkins Children's Center in Baltimore, Md.

Charity is also near to the hearts of our members. Once again around Valentine's Day, thousands of you participated in our Have-A-Heart campaign, raising over \$24,000 for the Johns Hopkins Children's Center. At Tower branches, and the Member Service Center, a member's name or the name of a loved one was written on a colorful paper heart and put on display for a donation. Since 2000, you've donated over \$140,000 to the Have-A-Heart campaign.

Tower employees are always coming up with new and creative ways to raise money for worthy causes. Every year, Tower's Team for the Cure participates in Race for the Cure in Washington, D.C. The team also holds events like car washes, food sales and raffles throughout the year to raise additional money. Since 2002, Tower's Team for the Cure has raised over \$30,000 for the Susan G. Komen Foundation for the Cure® and the American Cancer Society.

The value we add, the values we live by.

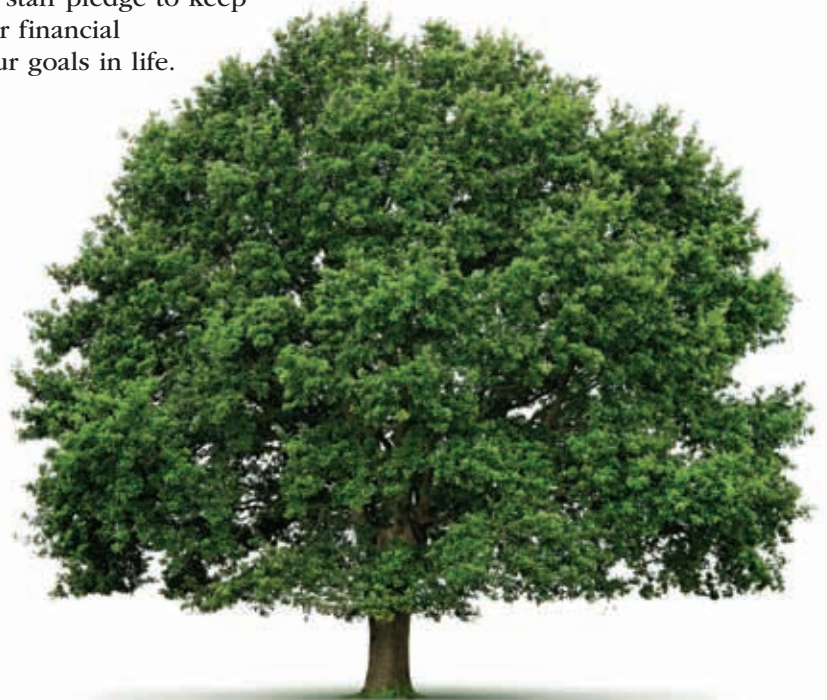
For 57 years, our strong growth has come from being rooted in service to our members. Helping you manage your financial life is why we get up every morning. You own this credit union. Everyone who has an account here has a piece of Tower. That's why our financial strength becomes yours.

As your life changes, we try to anticipate which improved products and services will match what you need at each stage. Whether the storms crash or the sun shines, you'll find us committed to creating value for you and delivering it in service, price, honesty, convenience, variety, safety, confidentiality, and timeliness.

A tall order. Thank you for your continued confidence that we can deliver it. We are confident that our credit union is headed in the right direction and will continue to prosper in the days to come. After 57 years, we're more convinced than ever of the enduring value of sound financial practices. Our management and our staff pledge to keep giving you the tools to enhance your financial well-being and help you achieve your goals in life.

2009

Grants \$1 billion in loans
Membership: 119,000
Branches: 14
Assets: \$2 billion



Supervisory Committee Report

Gregory V. Miklusak, Chairman

The Supervisory Committee has two main goals: to ensure that management's financial reporting is sound and accurate; and that its practices and procedures safeguard members' assets. These goals are met, in part, by making certain that Tower's management properly administers plans and policies as set by the Board of Directors; and establishes and maintains effective policies, procedures, and controls that safeguard against fraud and conflicts of interest. The Supervisory Committee, through Tower's external auditors, consultants, and internal audit staff, also performs various assessments to ensure the security of members' records.

An annual audit of Tower's financial statements is conducted by LarsonAllen LLP. The results can be found in this Annual Report. Periodic examinations are made by the National Credit Union Administration (NCUA), the regulatory agency for all federally-chartered credit unions. I am pleased to report that the most recent examination again confirms that Tower continues to be financially sound and has appropriate risk management control procedures.

The Supervisory Committee is comprised of volunteer credit union members who are appointed by the Board of Directors. Members of the Supervisory Committee are Gregory V. Miklusak, Chairman; Brian A. Romberger; Camille B. Smith; Joseph D. Reid; and Deidre Matthew.

They are supported by Tower's Director of Internal Audit, John Mohler, and the internal audit staff.

The Supervisory Committee also serves as an ombudsman for members, responding confidentially to concerns, questions or complaints that have not otherwise been satisfactorily resolved. Write to:
Tower Federal Credit Union, Attn: Chairman,
Supervisory Committee, P.O. Box 5440,
Laurel, MD 20726-5440.

Loan Review Committee Report

Pankaj R. Belani, Chairman

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 an effective communications 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 and that the primary security is always the borrowing member. The character and capacity of the member to repay a loan are carefully considered in order to protect the assets of the credit union. Tower members have consistently proven to be good credit risks. This is evidenced by an average delinquency rate of just .41% in 2009, a rate far below industry standards.

The Tower Loan Review Committee processed 97 member appeals in 2009, of which seven appeals were approved. Of the seven loans approved, five were funded and all five of those loans are being paid as agreed.

Members of the Loan Review Committee are Pankaj R. Belani, Chairman; Janice Bauer; Gene Okonski; and Gina B. Roy.

Treasurer's Report

Charles C. Nossick, Treasurer

As of December 2009, total assets for Tower grew to \$2.06 billion, an increase of \$204 million or 11% over the previous year's total of \$1.85 billion. During the course of 2009, total members' savings increased by \$172 million; while total loans decreased by \$9 million. Much of the deposit growth can be attributed to ongoing uncertain economic conditions that existed throughout 2009. Many Tower members chose to resolve that uncertainty by returning their excess funds to the safe haven provided by the credit union. Total loan production for 2009 was \$987 million, \$725 million of which was residential mortgage loans. During the same period, Tower sold \$538 million of residential mortgage loans to manage interest-rate risk faced by the credit union. As has always been our promise, Tower continues to be the servicer for all sold loans.

Tower's regulatory net worth to assets ratio was 11.1% as of December 31, 2009. This ratio significantly exceeds the 7% level required by NCUA regulations to be considered well capitalized. Tower's strong capital base provides the credit union with the flexibility to compete successfully in a challenging financial environment. At the same time, it allows us to continue to develop and implement new delivery systems, enhance our products and services, and open new branches. These ongoing efforts enable us to respond quickly to members' changing financial needs and to maintain the level of excellent service that members expect.

Throughout 2009, market interest rates remained low for both short-term and long-term maturities. The low-rate environment presents a significant challenge in managing interest-rate risk for financial institutions. Tower's management continues to assess the level of interest-rate risk and undertake appropriate action to mitigate that risk in this challenging financial environment.

In order to monitor the financial performance of the credit union, Tower's Board of Directors evaluates actual versus expected results on both a long-term and short-term basis. Budget expectations for the current year are compared to short-term goals. For long-term goals, we measure actual results against the strategic objectives as outlined in Tower's Five-Year Business Plan. In 2009, as in previous years, we are pleased to report that our credit union met, or exceeded, its financial goals.

Financial Highlights

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	for the years ended December 31,		
	2009	2008	% Change
Members	119,169	116,774	2.1%
Assets	\$ 2,055,888	\$ 1,851,773	11.0%
Members' savings	\$ 1,646,918	\$ 1,475,086	11.6%
Loans	\$ 1,464,765	\$ 1,473,921	-0.6%
Members' equity	\$ 220,234	\$ 192,061	14.7%
Net interest income	\$ 51,942	\$ 46,554	11.6%
Other fees & charges	\$ 17,742	\$ 14,401	23.2%
Operating expenses	\$ 51,138	\$ 46,193	10.7%
Net income	\$ 26,132	\$ 3,841	580.3%

Consolidated Statements of Financial Condition

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	as of December 31,	
	2009	2008
Assets		
Cash and cash equivalents	\$ 248,654	\$ 123,856
Deposits in other financial institutions	1,350	1,691
Securities—available for sale	265,580	195,044
Loans to members, net of allowance for loan losses	1,464,765	1,473,921
Accrued interest receivable	5,323	5,709
Property and equipment, net	26,987	25,087
Federal Home Loan Bank stock	11,321	10,308
NCUSIF deposit	16,093	4,400
Other assets	15,815	11,757
Total assets	\$2,055,888	\$ 1,851,773
Liabilities and members' equity		
Liabilities		
Members' share and savings accounts	\$1,646,918	\$ 1,475,086
Borrowed funds	177,000	162,000
Interest payable	1,530	1,635
Accrued expenses and other liabilities	10,206	20,991
Total liabilities	1,835,654	1,659,712
Commitments and contingent liabilities	-	-
Members' equity		
Regular reserves	33,371	33,371
Undivided earnings	194,241	168,109
Accumulated other comprehensive income	(7,378)	(9,419)
Total members' equity	220,234	192,061
Total liabilities and members' equity	\$2,055,888	\$ 1,851,773

These financial statements do not constitute a complete set. The complete set, including the statements of cash flow, changes in members' equity, and notes to the financial statements, is available at the credit union office.

Consolidated Statements of Income

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	for the years ended December 31,	
	2009	2008
Interest income		
Loans to members	\$ 76,261	\$ 76,623
Securities and interest bearing deposits	6,573	9,534
Total interest income	82,834	86,157
Interest expense		
Members' share and savings accounts	23,737	33,946
Borrowed funds	7,155	5,657
Total interest expense	30,892	39,603
Net interest income	51,942	46,554
Provision for loan losses	6,123	2,738
Net interest income after provision for loan losses	45,819	43,816
Non-interest income		
Service charges and fees	14,097	12,078
Other non-interest income	3,645	2,323
Net gain on sales of assets	7,435	1,003
Total non-interest income	25,177	15,404
Non-interest expense		
Employee compensation and benefits	30,767	26,834
Office occupancy and operations	14,229	12,959
Other operating expenses	6,142	6,400
Total non-interest expense	51,138	46,193
Net income before NCUSIF costs	19,858	13,027
NCUSIF and corporate credit union stabilization costs		
NCUSIF impairment loss	-	9,186
NCUSIF premium assessment	2,414	-
NCUSIF pass-back recovery income	(9,186)	-
Corporate credit union equity deposit impairment	498	-
Total NCUSIF and corporate credit union stabilization costs	(6,274)	9,186
Net income	\$ 26,132	\$ 3,841

These financial statements do not constitute a complete set. The complete set, including the statements of cash flow, changes in members' equity, and notes to the financial statements, is available at the credit union office.

Report of Independent Public Accountants

To the Supervisory Committee and Board of Directors of Tower Federal Credit Union

We have audited the accompanying consolidated statements of financial condition of Tower Federal Credit Union and Subsidiary as of December 31, 2009 and 2008, and the related consolidated statements of income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tower Federal Credit Union and Subsidiary as of December 31, 2009 and 2008, and the results of their operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

LarsonAllen LLP

LarsonAllen LLP
Arlington, Virginia
March 24, 2010



Audited Financial Statements

For copies of the audited financial statements, please write Tower Federal Credit Union at 7901 Sandy Spring Road, Laurel, MD 20707-3589 or call 301-497-7000 or 800-787-8328.

Board of Directors

George M. Cumberledge
Chairman

Marie E. Rowland
Vice Chairman

Alan P. Smith
Secretary

Charles C. Nossick
Treasurer

Monte S. Dzurenko
Director

David J. Hanko
Director

James F. Kalkbrenner
Director

Melodye H. Valliere
Director

Stephen D. Whisler
Director

Arland A. White Jr.
Director

Senior Management

Martin M. Breland
President & CEO

Richard L. Brake
Senior Vice President
Member Services

Allen W. Bach
Vice President
Finance

Cynthia C. Scott
Vice President
Marketing

Sean P. Zimmermann
Vice President
Operations & Technology