

Earning Trust

TOWER FEDERAL CREDIT UNION
2010 ANNUAL REPORT





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Martin M. Breland
President & CEO

George M. Cumberledge
Chairman

Leadership Report

For 58 years, through good times and bad, Tower has worked diligently to earn the trust of our members. In 2010, a record 121,046 of you trusted Tower with your money—including 6,851 new members—and 64 new businesses and organizations now offer the benefits of Tower membership.

Feedback from members is a welcome barometer of your satisfaction. But we measure your confidence in us primarily by member savings, which grew to \$1.78 billion in 2010, a gain of 8.0%. We also measure by assets, up 8.9% to \$2.24 billion. Such growth is not just a metric of trust. It is also an indicator of Tower's financial health and stability.

An important measurement of a credit union's safety and soundness is the *net worth to assets ratio*. Our ratio at 10.8% is over 50% higher than the 7% level the National Credit Union Administration (NCUA) classifies as "well capitalized". Through the National Credit Union Share Insurance Fund (NCUSIF), the federal government insures your deposits up to \$250,000, a solid foundation of security.

Trust is the bond of human relationships. We strive to earn yours by staying true to Tower's mission, values, and principles of prudent lending and sound money management; finding new ways to continually improve our services; responding to your financial needs at every stage of life; being honest, transparent, and straightforward in all of our dealings with you; and using our profits to keep rates fair, fees low, performance high, and deposits safe.

Being the difference we want to make.

The year ended with a sixth consecutive quarter of growth in the national Gross Domestic Product and the impressive rebound of the equity markets. Yet the aftershocks of the Great Recession continued: 157 banks failed, even more than in 2009 or 2008; and 28 federal credit unions failed. Tower's financial strength stands in stark contrast, and the Tower difference is like night and day. The choices we make every day do make a difference in the lives of our members.

New loan demand dips and climbs.

Since 2007, despite the collapse of housing construction, the real estate market in particular and the economy in general, Tower continued to make loans at high levels. Unlike many banks, we had plenty of money to lend in 2010. Record low rates and competitive terms encouraged 12,738 of our members to trust Tower for new loans last year.



For two years, low interest rates and government incentives helped bolster the nation's real estate market. First-time homebuyers received tax credits up to \$8,000, and long-term homeowners \$6,500 for the purchase of a home. Both credits expired on April 30, 2010. At a time when banks and mortgage companies had decreased their lending, Tower reached a record level of \$725 million real estate loans in 2009. In 2010, total real estate volume—mortgages, home equity loans and lines of credit—equaled \$531 million.

This is the best credit union I have ever worked with. I wish I would have found Tower sooner!

- Eric P., RE/MAX Advantage Realty

Of that total, \$438 million were mortgage loans. In May and June, when we ran a promotion—taking \$300 off closing costs and fees—combined with favorable interest rates, we wrote \$94 million in mortgages. Lower rates also led to an exceptionally strong finish in the last four months of the year. Tower continued its number-one ranking for mortgages among area credit unions, leading many major banks.

Despite declining home values in our service area, Tower's low rates for home equity loans and lines of credit resulted in \$93 million in total volume for the year.

Once again, Tower Title Services was a popular choice among members going to mortgage loan settlement. Good value, one-stop convenience, and simplified procedures smoothed the way to 1,576 settlements last year. Of those, 1,505 were made by Tower's Real Estate Lending advisors. Among Maryland members choosing Tower for their first mortgage, 96% also chose Tower Title Services for settlement. Our performance won the Highest Closure award in the Washington Metropolitan area from CU Realty Services, a nationwide real estate service exclusively for credit unions.

U.S. auto sales were down in 2010; only about 11.5 million new cars and trucks were sold nationwide. Tower responded with some of our lowest-ever auto loan rates, and members borrowed a total of \$81 million for new and used vehicles, with lending volume ticking up in November and December.

Not humanly possible to be better! Tower Title Services worked with me through all the steps and got me to settlement quickly.

- Jason P.
Tower member since 1997

Tower's MasterCard® continues to set the industry standard for honest practices, modest fees, easy-to-understand disclosures, and the same low rate for over a decade. In 2010, we granted \$11 million in MasterCard credit lines to members. One in five members carries Tower's Gold MasterCard and, collectively, they earned \$2.8 million in cash rebates on purchases last year, an average of \$122 per member.

Other consumer loans accounted for an additional \$20 million in member borrowing.

Deposit balances up 8%; Share, Club, and checking account balances up 10.9%.

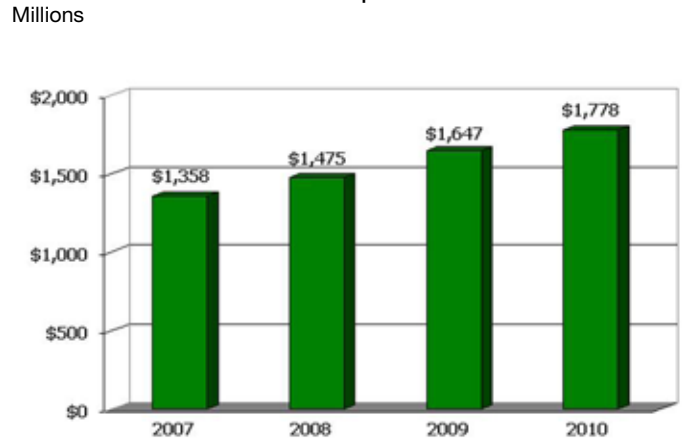
Your deposits are the backbone of your credit union. The more you save, the more we can lend. Loan interest translates into better rates on both savings and loans and lower fees all around. In 2010, total savings balances grew by over \$132 million to a total of \$1.78 billion, an 8.0% gain over 2009. As trust grows, deposits grow, and everybody wins.

Over 12,370 members opened more than 17,850 Prime Share, Club, and checking accounts, helping to raise the total balances on these accounts to \$1.10 billion. This is a healthy increase of 10.9% over 2009.

Over 52,360 members now carry our debit card, a 4% increase over 2009, swiping it 12 million times for no-fee transactions worth over \$49 million dollars.

To encourage our members to adopt sound financial practices, we continued to offer financial incentives. Our Super Savers Sweepstakes, which won a statewide award for Best Marketing Campaign among credit unions, re-launched April 1, giving members the chance to win cash prizes by saving in a Club account or receiving a qualified direct deposit. Over 4,300 members joined in by receiving direct deposit. Direct deposit is not only convenient for you; it also keeps our costs down.

Tower's Deposit Balances



New tech services expand online banking.

Nearly half of Tower members take advantage of technology to manage their finances. As 2010 ended, Home Banking users totaled nearly 54,300, an increase of more than 3,400. Over 65% of Home Banking members were registered for eStatements. And nearly 20,800 members paid their bills online, an increase of nearly 1,600.



Last year, we gave you three new ways to use technology for monitoring and managing your financial transactions. Text Banking was an immediate hit with cell phone users—about 2,300 members signed up the first week in July, with over 5,200 users by the end of the year. We added another cell service—Mobile ATM Locator—so you can find the nearest branch or ATM fast and easy. And we added FinanceWorks™ to Home Banking. Powered by Quicken®, this online record keeper lets

you manage all of your financial accounts in one place, through one login at *towerfcu.org*. A month after the March launch, over 4,000 members signed on and the year ended with nearly 9,300 FinanceWorks™ users.

New branches, new Web site, even the newsletter is new.

With member convenience a high priority, Tower opened two new branches in 2010, bringing the total to 16. A full-service Annapolis branch opened mid-August, followed in December with the same state-of-the-art service at the new National Business Park branch in Annapolis Junction.



I can't recommend any areas of improvement. You even opened a branch for us [members] in Annapolis. Keep up the good work!

-Doug C.
Tower member
since 1974

Beginning with the July issue, *TowerLine* premiered a new look. Bold, colorful, inviting to read and with more features. In December, we launched a redesigned Web site. The new site features a clean, crisp, contemporary style. Its intelligent arrangement makes information about Tower products and services easy to find; quick links speed up navigation so you can find what you need faster; a Tips & Calculators section assists you with mortgage and retirement calculators, financial planning tools, and much more. Home Banking login and popular rates are found on almost every page. The Web site content and new design were based primarily on member feedback gathered through online surveys and focus groups.

Tower Financial Services: Helping you plan for the future.

As of the end of the year, 2,738 Tower members were made aware of Tower Financial Services' financial planning and investment management services.

To help educate members about financial matters, Tower Financial Services offered seminars throughout the year on estate planning, financial planning, long-term care, stocks and mutual funds, retirement planning, Social Security, 401(k) plans and IRAs. Tower Financial Services teamed up with Tower's Real Estate Lending professionals to host a seminar helping members prepare for purchasing a home. All seminars were free and open to Tower members.

We are pleased to offer access to Certified Financial Planner™ professionals and financial consultants on staff to help members plan for their future. Tower Financial Services offers free, no-obligation consultations for members over the phone, by e-mail, at their place of business, or in a branch.

Securities and financial planning offered through LPL Financial, a Registered Investment Advisor, Member FINRA/SIPC. Insurance products offered through LPL Financial or its licensed affiliates. Tower Federal Credit Union and Tower Financial Services are not registered broker dealers nor affiliated with LPL Financial.

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

Being the change you want to see.

Our charitable work continues with passion and enthusiasm. Since 1997, Tower has raised over \$250,000 for the Johns Hopkins Children's Center. In 2010, we held a variety of fundraisers, large and small, and collected about \$50,000. We kicked off in February with the employee and member-driven Have a Heart campaign that netted nearly \$25,000. In June, our 28th Annual Tower Classic Golf Tournament raised another \$25,000. Tower's 16th annual food and toy drive provided meals and toys for residents of Sarah's House, a local shelter. Last year Tower employees also rehabilitated homes for the elderly and disabled, walked in Heart Walk 2010 and participated in the Susan G. Komen Race for the Cure.



As a Tower member for over 25 years, I've been very happy with the services that Tower provides and most impressed with the great people. I am always pleased with their services and I have frequently recommended membership to my staff and associates.

*-David G.
Director, L-3
Communications
Tower member
since 1985*

Earning your trust by living our values.

It has been two and a half years since the subprime mortgage crisis rattled the country's economic foundations. In Tower's 58-year history, we have never seen anything as destructive. Yet, because we never originated subprime mortgages nor engaged in risky financial practices, your money was always safe. And your credit union was always rock-solid.

The economy's shocks have put our principles and values to the test. It reaffirmed the wisdom of creating value for you and delivering it through service excellence, price, honesty, convenience, variety, safety, confidentiality, and timeliness. It renewed our commitment to giving you the financial tools you need for each stage of life. It reminded us that all institutions are based on a trust that must be earned every day.

Because of your trust in us, 2010 was a good year for Tower. We hope we can help make 2011 a good year for you.

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 consolidated 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; Pamela J. Douglas; Albert S. Kaye; and Joseph D. Reid.

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 1280, Laurel, MD 20725-1280.

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 .68% in 2010, a rate far below industry standards.

The Tower Loan Review Committee processed 92 member appeals in 2010, of which 15 appeals were approved. Of the 15 loans approved, seven were funded and six 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 2010, total assets for Tower grew to \$2.24 billion, an increase of \$182 million or 8.9% over the previous year's total of \$2.06 billion. During the course of 2010, total members' savings increased by \$131 million; while total loans decreased by \$53 million. Much of the deposit growth can be attributed to ongoing uncertain economic conditions that existed throughout 2010. 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 2010 was \$643 million, \$438 million of which was residential mortgage loans. During the same period, Tower sold \$284 million of residential mortgage loans as part of its interest-rate risk management strategy. 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 10.8% as of December 31, 2010. 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 the ability to compete successfully in a challenging financial environment. At the same time, it allows us to continue to develop and implement new delivery systems, expand and improve our product and service offerings, as well as 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 2010, 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 actions 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 2010, 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,		
	2010	2009	% Change
Members	121,046	119,169	1.6%
Assets	\$ 2,238,279	\$ 2,055,888	8.9%
Members' savings	\$ 1,778,351	\$ 1,646,918	8.0%
Loans	\$ 1,412,153	\$ 1,464,765	-3.6%
Members' equity	\$ 233,317	\$ 220,234	5.9%
Net interest income	\$ 51,313	\$ 51,942	-1.2%
Other fees & charges	\$ 19,132	\$ 17,742	7.8%
Net gain on sale of assets	\$ 8,062	\$ 7,435	8.4%
Operating expenses	\$ 56,924	\$ 51,138	11.3%
NCUSIF/CCUSF premium assessment*	\$ 4,406	\$ 2,414	82.5%
Net income	\$ 13,827	\$ 26,132	-47.1%

*NCUA special premium assessments for the National Credit Union Share Insurance Fund (NCUSIF) and Corporate Credit Union Stabilization Fund (CCUSF) were classified as operating expenses in 2010. The initial assessment for the CCUSF in 2009 was classified as an impairment of the NCUSIF deposit.

Consolidated Statements of Financial Condition

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	as of December 31,	
	2010	2009
Assets		
Cash and cash equivalents	\$ 234,274	\$ 248,654
Deposits in other financial institutions	1,349	1,350
Securities—available for sale	511,076	265,580
Loans to members, net of allowance for loan losses	1,412,153	1,464,765
Accrued interest receivable	4,912	5,323
Property and equipment, net	27,065	26,987
Federal Home Loan Bank stock	12,311	11,321
NCUSIF deposit	17,234	16,093
Other assets	17,905	15,815
Total assets	\$2,238,279	\$ 2,055,888
Liabilities and members' equity		
Liabilities		
Members' share and savings accounts	\$1,778,351	\$ 1,646,918
Borrowed funds	199,000	177,000
Interest payable	1,491	1,530
Accrued expenses and other liabilities	26,120	10,206
Total liabilities	2,004,962	1,835,654
Commitments and contingent liabilities	-	-
Members' equity		
Regular reserves	33,371	33,371
Undivided earnings	208,068	194,241
Accumulated other comprehensive income	(8,122)	(7,378)
Total members' equity	233,317	220,234
Total liabilities and members' equity	\$2,238,279	\$ 2,055,888

The condensed financial statements presented herein do not constitute a complete set. The complete set, including the statements of changes in members' equity and cash flows and notes to the financial statements, is available in the Credit Union office.

Consolidated Statements of Income

Tower Federal Credit Union and Subsidiary

(Dollars in thousands)

	for the years ended December 31,	
	2010	2009
Interest income		
Loans	\$ 72,051	\$ 76,261
Securities and interest bearing deposits	6,391	6,573
Total interest income	78,442	82,834
Interest expense		
Members' share and savings accounts	18,804	23,737
Borrowed funds	8,325	7,155
Total interest expense	27,129	30,892
Net interest income	51,313	51,942
Provision for loan losses	7,756	6,123
Net interest income after provision for loan losses	43,557	45,819
Non-interest income		
Service charges and fees	16,275	14,097
Other non-interest income	2,857	3,645
Net gain on sale of assets	8,062	7,435
Total non-interest income	27,194	25,177
Non-interest expense		
Employee compensation and benefits	31,340	30,767
Office occupancy and operations	14,797	14,229
Other operating expenses	10,787	6,142
Total non-interest expense	56,924	51,138
Net income before NCUSIF and corporate credit union costs	13,827	19,858
NCUSIF share insurance premium		2,414
Passback recovery income CCUSF	-	(9,186)
Impairment of equity deposits at corporate credit union	-	498
Total NCUSIF and corporate credit union stabilization costs	-	(6,274)
Net income	\$ 13,827	\$ 26,132

The condensed financial statements presented herein do not constitute a complete set. The complete set, including the statements of changes in members' equity and cash flows and notes to the financial statements, is available in the Credit Union office.

Report of Independent Auditors

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, 2010 and 2009, and the related consolidated statements of income, members' equity (not presented herein), and cash flows (not presented herein) for the years then ended; and in our report dated March 29, 2011, we expressed an unqualified opinion on those financial statements. 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 audits.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is presented fairly, in all material respects, in relation to the financial statements from which it has been derived. However, the reader of these condensed financial statements should note that this presentation does not constitute a complete set of financial statements as required to be presented in conformity with U.S generally accepted accounting principles.

LarsonAllen LLP

LarsonAllen LLP
Arlington, Virginia
March 29, 2011

LarsonAllen[®]
LLP
CPAs, Consultants & Advisors

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

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Vice Chairman

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Secretary

Charles C. Nossick

Treasurer

Monte S. Dzurenko

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David J. Hanko

Director

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Director

Stephen D. Whisler

Director

Arland A. White Jr.

Director

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President & CEO

Richard L. Brake

Senior Vice President

Member Services

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Vice President

Finance

Cynthia C. Scott

Vice President

Marketing

Sean P. Zimmermann

Vice President

Operations & Technology