

Citadel Federal Credit Union
Annual Report 2013





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Glenn S. Soltis, Chairman of the Board and Jeff March, Citadel President and CEO

A Message from our President and Chairman

We are pleased to report the progress that Citadel made in 2013, building on our strong foundation to deliver excellent operating results. We finished the year with Net Income of more than \$11 million, and a Return on Assets of 0.68%. Our total assets are now nearly \$1.9 billion. Our Net Worth exceeds \$193 million, reflecting a Net Worth Ratio of 10.30%, well above the National Credit Union Administration's target for a well capitalized credit union. Another indicator of Citadel's financial stability is the high quality of our assets. At the end of 2013, loan balances delinquent for more than 60 days fell to .56% of total balances, significantly lower than the industry benchmark of 1.00%.

We continued to win new customers in 2013, through a combination of Citadel Class Service, superior products and better value. There are now 121,000 households banking with Citadel, an increase of 4% over last year. During 2013, we opened 70,000 new products for our existing and new members, and we continued to see strong sales

in several categories. In addition, our Investment division's assets under management surpassed \$400 million, a 29% growth over 2012.

As we look at business today, it is clear that we are operating in a changing world. Today, technology is one of the driving factors of convenience. Technology adds value, and at Citadel, we are keeping in step with this ever-changing environment.

The growth of electronic delivery channels, such as Online Banking, has been dramatic. More than 86,000 members are enrolled in Online Banking. As an extension of that, our Mobile Banking platform, with more than 16,000 users enrolled, enables customers to download the Citadel Mobile Banking app and perform a full range of banking services safely and securely. In addition, our "WebChat" service provides convenience with real-time support. It is in this channel that we are able to assist customers with their banking needs and also identify additional products and services that are beneficial to the customers and prospective customers alike.

While many members enjoy the modern-day convenience of technology, when they want to visit with a live person, we are making certain we are there for them too.

When we received our Community Charter in 2009, we set forth a strategic plan for geographic expansion into the greater Philadelphia area, and we are proud to say we are achieving this goal.

In 2013, we opened our East Norriton branch; our first in Montgomery County, and our 15th overall. We are excited to introduce area residents to our newest branch, and to the benefits of banking with Citadel.

By the end of 2014, we expect to open four additional branches: two in Montgomery County—Audubon and Pottstown; one in Glen Mills, Delaware County; and our first Bucks County branch in Warminster. By the end of this year, more than a half million households will be within five miles of a Citadel branch office.

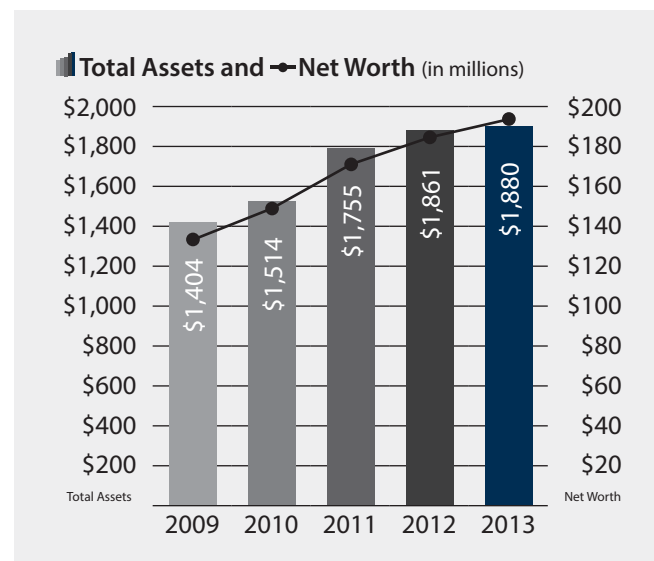
Our expansion is further testament to our customers that we are committed to providing the very best value both in terms of low cost banking and the convenience of having Citadel branches where

customers live and work. And we do this with Citadel Class Service always in focus. In fact, financial consulting firm Callahan & Associates has ranked Citadel 15th out of 209 credit unions with more than \$1 billion in assets who provide the best value in banking.

Our strategy is simple but compelling: Our vision extends beyond our bottom line to the people and communities that drive our success. At Citadel, it is all about our members. That is our foundation for continued success in 2014 and beyond.

Jeff March
President and CEO

Glenn S. Soltis
Chairman of the Board



Our Heritage

Citadel was established in 1937 as the credit union for Lukens Steel. The employees of this steel mill helped to build the infrastructure of our country—providing materials used in the construction of such iconic American symbols as the Golden Gate Bridge and the World Trade Towers.

Today, Citadel boasts 121,000 households and more than 400 partner businesses, organizations, and companies. Our continued success is attributed to the ideals of striving to provide the best banking products and the highest quality service to our customers, their families and our communities.

We're here for our members. From buying a first home, saving for college, accumulating wealth during working years, and to disbursement into retirement, Citadel offers the products and services to help members save, borrow and plan for the future.

Originating from a small employee credit union, we are now a great and stable financial institution. Even as we grow and prosper, we value our role as a credit union, focusing on our local communities and holding on to our rich history.

Our Commitment to Community

As a community-based financial institution, Citadel takes the philosophy of “people helping people” to heart. We respond to the needs of our community and work hard to provide support to area organizations. Citadel not only helps the community with monetary support, we do much more than that.

We encourage our employees to give their time and talent during the year to assist community organizations with whom Citadel partners, or non-profits of their choice. Through Citadel’s volunteer program, our employees generously volunteered hundreds of hours to our partner organizations. In addition to sharing their time and talent, in 2013, Citadel employees personally contributed more than \$41,000 to the United Way of Chester County in response to its annual campaign.

Another important community initiative is the Citadel Heart of Learning Award. In partnership with the Chester County Intermediate Unit, over the past 13 years, we have honored 180 teachers and awarded 36 winners in the Chester County area with the Citadel Heart of Learning Award.

We work hard to do our part to support and show our commitment to strengthen our communities in every way possible, including being an effective donor to allow our local charities to provide help where it is most needed.

The Best Value for All Your Banking Needs

At Citadel, we offer the products and services to fit our members’ needs, along with friendly, personalized service that makes us who we truly are and leads us to success.

Banking Products

Our banking products include checking, savings, money market, certificates and individual retirement accounts. Coupled with Citadel’s Online Banking, Mobile Banking and all the banking-on-the-go services, Citadel offers a complete banking package.

Loan Products

Citadel has a full range of loan products. Our loan products include Citadel MasterCard®, personal loans and lines, mortgages, auto loans and home equity loans and lines. For businesses seeking lending, we also offer a variety of products. Whether it’s finding financing for commercial property, equipment or working capital, Citadel can help.

Investment Services*

The Investment Team at Citadel is consistently recognized as a high performer within our industry, ranking in the top ten percent nationally. Our Registered Investment Representatives provide personalized service and recommendations on wealth management, retirement planning, asset management, and more.

Insurance Services**

The Citadel Agency offers a complete array of insurance, including homeowners insurance, auto insurance, renters insurance, and life insurance. Citadel can help you find the right insurance policy at the right price.



Jeff March and Citadel's Board of Directors (not pictured Philippe W. Ouellette, Jr. and Ravi S. Ganti)

Supervisory Committee Report

Citadel's Supervisory Committee is composed of volunteer members who oversee the function of Citadel's professional audit staff and ensure that Citadel's financial strength is fairly represented.

The diversity of the committee members and their wide variety of backgrounds create a large knowledge pool. This sharing of knowledge and experience is quite valuable as it increases their ability to examine the functions of Citadel in a highly productive manner. The committee oversees the internal and external auditors who make sure Citadel is sound and functioning within the guidelines and policies set forth by all governing bodies.

The 2013 annual audit was completed by the accounting firm of Reinsel Kuntz Leshner, LLP, and reviewed by federal examiners as required by regulation. The results verified that Citadel has proven to be well managed and ready to meet the challenges of the future through its strong financial performance. The National Credit Union Administration (NCUA) reports that Citadel is in good financial order and in compliance with federal regulations.

Board of Directors

Glenn S. Soltis, Chairperson
 Lawrence L. Tankeloff, Vice Chairperson
 Joseph A. Petsko, Secretary
 Joseph R. Glace, Treasurer
 Ravi S. Ganti, Member
 Michael S. Givler, Member
 Claudia Hellebush, Member
 Philippe W. Ouellette, Jr., Member
 Gary P. Rabik, Member

Supervisory Committee

Grant V. Hoffman, Chairperson
 Samantha Howland, Secretary
 Jessica Schuler

Your Partner

Citadel is proud to partner with more than 400 companies and organizations from across Southeastern Pennsylvania, providing valuable benefits and Citadel Class Service to employees and management alike, through Citadel's Workplace Advantage program.

Our partners range from small organizations to major companies whose employees turn to us for expert advice and superior financial products that meet their unique needs. Companies can join Citadel's Workplace Advantage program at no cost and are able to provide their employees access to all the advantages of banking with Citadel.

Citadel's Workplace Advantage partners include such companies as A. Duie Pyle, Aqua America, ArcelorMittal Steel, Bentley Systems, Brandywine Hospital, Chester County Intermediate Unit, Chester County Hospital, CTDI, Immaculata University, Janssen Biotech Inc., SAP, Siemens, Sikorsky Global Helicopters, Sungard, Transamerica, Weston Solutions, and World Travel.

With every partnership, Citadel's dedicated team coordinates comprehensive marketing and promotional activities, makes site visits, presents ongoing financial planning seminars for employees, and so much more.

Our Service Pledge

At Citadel, we've created our own customer service philosophy. Citadel Class Service is our pledge that defines our standard for service excellence and reinforces our ongoing efforts to achieve the highest level of customer satisfaction.

We promise to deliver superior banking products by providing Citadel Class Service. Our passion goes beyond merely meeting your banking needs. With every interaction we want to exceed your expectations, making you a highly satisfied customer.

As part of our pledge, we follow four Pillars. The Pillars detail the most important elements of our customer service pledge.

Accuracy: To always produce high quality work, given any opportunity.

Convenience: To make life easier for our customers.

Respect: To appreciate our customers, colleagues and our organization.

Value: To continuously work to build and better our customer relationships.

Serving our customers is what we do best.

While we offer financial services, our real business is saving our members time and helping them achieve their dreams. We understand. We relate.

After fulfilling the fiscal requirements of running a financially sound company—such as maintaining the proper capital to protect every investment made by our customers—Citadel reinvests a significant amount of earnings back into the business, ensuring that we can provide even greater value in the products and services we offer.

The combination of our new technologies, warm and caring personal service delivery, and superb products and services with great rates and low fees, makes Citadel the best banking choice for our current members and prospective customers. It's just one way we can demonstrate Citadel Class Service.

This is how Citadel is different.

Looking Forward

As we reflect on our activities over the past year, we also look ahead to what the future will bring.

We are excited to branch out into new markets.

We expect to open four additional branches in 2014 alone: Two in Montgomery County—Audubon and Pottstown; one in Glen Mills, Delaware County, and our first branch in Bucks County in Warminster.

We are excited to bring Citadel Class Service to members of the surrounding communities.

We will continue to explore opportunities to expand our geographic reach and evaluate potential new locations. As we enlarge our reach, we are able to serve more and more customers and communicate our story about the many benefits and value of banking with Citadel.

As we grow and expand, we are committed to finding ways to be more efficient internally to better serve our customers. We will continue to focus on internal processes and finding the best ways to utilize technology. This goes hand-in-hand with how we will serve customers in a non-branch office setting. The way we deliver services electronically will become more and more important in the near future.

Citadel is one of the largest financial institutions headquartered in this region, but we hold true to our local and historical roots. We care about our customers and about our communities, because without them, we wouldn't be where we are today.

Financial Information

Statement of Financial Condition	2013	2012
Assets		
Loans		
Auto	\$ 625,020,752	\$ 590,825,982
Unsecured	129,254,698	120,251,252
Real Estate	704,508,254	586,604,186
Business Loans	95,169,340	98,850,682
Other	4,482,686	4,579,932
Total Loans	\$ 1,558,435,730	\$ 1,401,112,034
Allowance for Loan Losses	(9,537,527)	(10,033,723)
Net Loans	1,548,898,203	1,391,078,311
Agency Bonds	14,231,838	-
CMOs	91,040,754	139,329,915
Mortgage Backed Securities	107,758,239	142,241,388
Other Investments	6,534,538	5,030,251
Cash and Cash Equivalents	10,664,495	81,615,703
Fixed Assets	53,683,544	55,351,780
NCUSIF	15,652,380	15,249,849
Other Assets	31,950,020	31,048,606
Total Assets	\$ 1,880,414,011	\$ 1,860,945,803
Liabilities and Equity		
Deposits		
Savings	\$ 226,474,603	\$ 199,574,249
Checking	236,836,885	215,021,495
Money Market Accounts	482,409,818	466,287,494
Certificates	681,976,202	754,810,509
Total Member Deposits	\$ 1,627,697,508	\$ 1,635,693,747
Accounts Payable	2,205,203	7,651,211
Borrowed Funds Payable	59,000,000	30,000,000
Dividends Payable	6,634	7,533
Equity	191,504,666	187,593,312
Total Liabilities/Equity	\$ 1,880,414,011	\$ 1,860,945,803

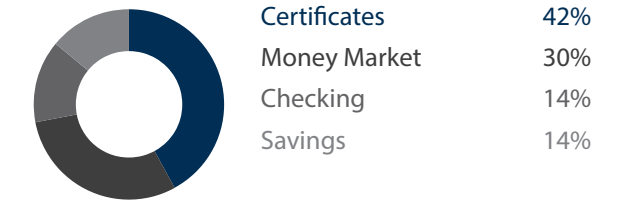
Statement of Income	2013	2012
Operating Income		
Loan Interest Income	\$ 59,680,308	\$ 61,444,889
Investment Income	3,487,263	6,354,769
Total interest Income	63,167,571	67,799,657
Dividend Expense	13,265,592	16,545,968
Borrowed Funds Expense	849,705	834,989
Total Interest Expense	14,115,296	17,380,957
Net Interest Income	\$ 49,052,274	\$ 50,418,700
Provision for Loan Losses	6,057,562	4,808,776
Net Interest Income After Provision for Loan Losses	\$ 42,994,712	\$ 45,609,924
Other Operating Income	25,036,586	23,457,341
Net Operating Income	\$ 68,031,299	\$ 69,067,266
Operating Expenses		
Employee Compensation & Benefits	\$ 28,871,374	\$ 27,306,973
Marketing	4,454,475	4,301,442
General Office Occupancy & Expenses	11,462,708	10,645,023
Loan Servicing Expenses	4,756,013	3,595,656
Professional and Outside Services	8,505,417	7,527,893
Misc. Operating Expenses	797,837	901,042
Total Operating Expenses	\$ 58,847,824	\$ 54,278,028
Non-Operating Gains / Losses	3,510,204	4,051,916
NCUSIF	(1,252,190)	(1,448,736)
Net Income	\$ 11,441,489	\$ 17,392,417

Statement of Cash Flow	2013	2012
Cash Flow From Operating Activities		
Net income	\$ 11,441,489	\$ 17,392,417
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	3,594,194	3,463,437
Amortization of investment premiums, net	9,463,239	8,812,503
Gain on sale of investments	(1,786,134)	-
Excess of provision for possible loan losses over net loans charged off	(496,196)	(2,807,853)
Change in assets and liabilities		
(Increase) decrease in assets:		
Accrued interest receivable	(157,258)	547,511
Prepaid expense and other assets	(744,156)	(3,304,701)
Increase (decrease) in liabilities		
Accounts payable and accrued expense	(5,446,907)	(3,767,773)
Net Cash Provided By Operating Activities	\$ 15,868,271	\$ 20,335,541
Cash Flows From Investing Activities		
Proceeds from maturity, call, and sale of investments	\$ 102,905,537	\$ 45,301,955
Purchase of investment securities	(144,290,937)	(154,527,665)
Principle received on mortgage backed securities	93,214,345	85,575,775
Net increase in loans	(157,323,696)	(83,193,443)
Increase in NCUSIF deposit	(402,531)	(1,797,257)
Expenditures for property and equipment, net	(1,925,958)	(3,450,400)
Net Cash Used In Investment Activities	\$ (107,823,240)	\$ (112,091,035)
Cash Flows From Financing Activities		
Net increase in borrowed funds	\$ 29,000,000	\$ -
Net increase in deposit accounts	(7,996,239)	87,284,147
Net Cash Provided By Financing Activities	\$ 21,003,761	\$ 87,284,147
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (70,951,208)	\$ (4,471,347)
Cash and Cash Equivalents at Beginning of Year	\$ 81,615,703	\$ 86,087,050
Cash and Cash Equivalents at End of Year	\$ 10,664,495	\$ 81,615,703

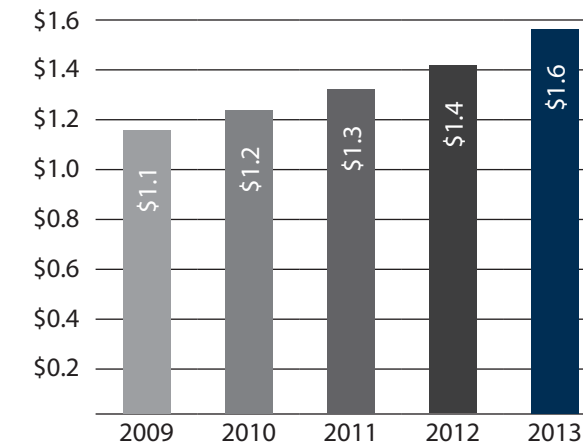
Composition of Loans



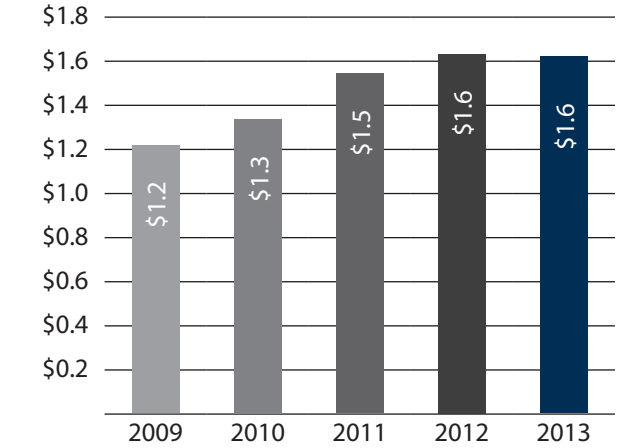
Composition of Deposits



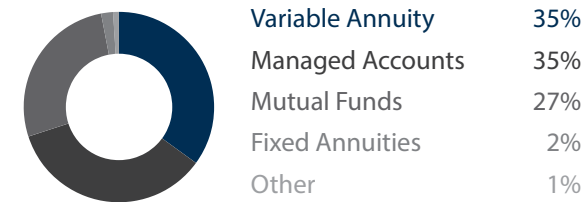
Total Loans (in billions)



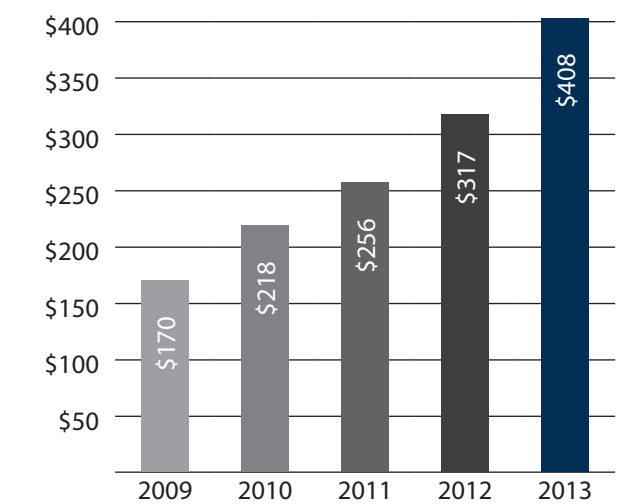
Total Deposits (in billions)



Composition of Assets Under Management



Assets Under Management (in millions)





For more information on the services that Citadel offers, stop by our nearest branch office, call us at (800) 666-0191 to speak with one of our customer service representatives or email us at info@CitadelBanking.com

Visit Citadel online at CitadelBanking.com

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