

Citadel Federal Credit Union
Annual Report 2016





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Lawrence L. Tankeloff, Chairman of the Board, and Jeff March, Citadel President and CEO

A Message from our President and our Chairman

We are pleased to announce that 2016 was another great year for Citadel, our members, our employees, and the communities we serve.

For 80 years Citadel has demonstrated steady growth, providing us with the opportunities to serve an ever-increasing number of members throughout Bucks, Chester, Delaware, Lancaster, Montgomery, and Philadelphia Counties. We provide outstanding banking and investment products and services to more than 200,000 individuals through our expanded branch network and digital channels. We are grateful for our loyal members, and we will continue to reinvest in creating a better member experience.

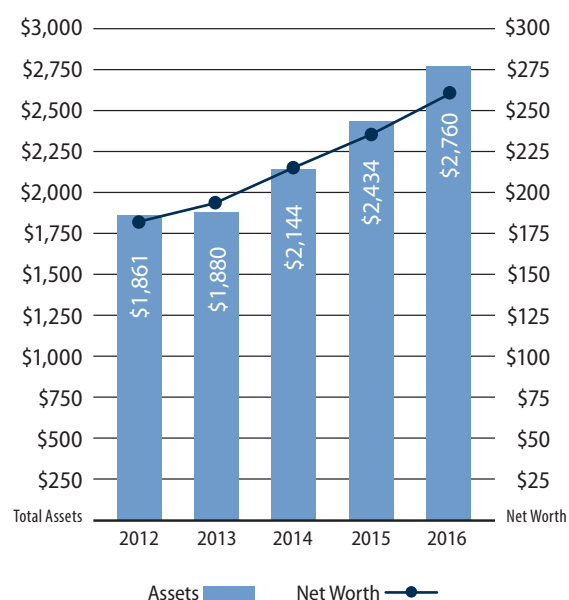
At the end of 2016, our assets were greater than \$2.7 billion, a 13% increase for the year. As we posted significant growth during this period, we also were able to maintain a very strong capital position. Our Net Worth increased to over \$259 million, resulting in a Net Worth Ratio of 9.41%, well above the National Credit Union Administration's target for a well capitalized credit union. Contributing to the increase in Net Worth was Net Income of \$24.3 million, an increase of nearly 20% over 2015. Our Return on Assets for 2016 was .94%.

During the year, we proudly served families in 144,565 households, an increase of 7%. We also

continued to expand our Wealth Management Division to help more members plan for their retirement and future. Our Wealth Management team added \$87 million in assets under management, bringing the total at year end to \$638 million, an increase of 16% for the year.

In addition to our strong financial performance, we passed other milestones in 2016. We opened a total of four new branches in Lancaster, Limerick, Harleysville, and Lansdale. Citadel now has 22 branches to serve the needs of current and prospective members. Our newest branch offices offer the latest in banking

Total Assets and Net Worth (in millions)



technologies designed to make banking as efficient as possible. One of these technologies is our Citadel Express Banking machine, which frees up our staff to spend additional time speaking with members to better understand their long-term needs.

Today, advances in banking technologies are a driving factor of convenience, and certain functionalities are expected by consumers. Citadel is committed to keeping pace with developing technology and the enhanced digital environment. We are investing in our digital channels to ensure members' information is safe and secure, and to create an overall better member experience. In 2016, we implemented enhancements to Online and Mobile banking, making these applications faster and easier to use. Our members now are presented with a consistent experience whether they access

their accounts through desktop, tablets, or mobile devices. The enhancements also provided for the customization of how members manage their accounts. In addition, to make it easier for members to transact on the go, we launched digital wallets for Android, Apple, and Samsung devices.

Keeping our members' data safe continued to be a focal point in 2016, as debit and credit card data breaches continued to occur at several large merchants across the country. We took steps to protect our members by introducing EMV Chip Technology on all credit and debit cards. We mass reissued new EMV Chip cards to all members with debit cards, and included new card numbers to provide further protection. Protecting our members and their accounts continues to be at the forefront of what we do.



Citadel understands the need to provide the latest digital capabilities to give our members the most convenient and user-friendly experience. We have grown electronic delivery channels in the past year by encouraging more members to use our mobile app, new digital wallets, and enroll in Online and Mobile Banking. Today, almost 68% of our members are enrolled in Online and Mobile Banking.

In 2017, we will make significant strides in enhancing our suite of digital products and capabilities through launching a new, redesigned CitadelBanking.com. Our new website will feature a fresh look-and-feel along with enhanced features. Members will be able to find the nearest branch or ATM based on their current location, they'll have new product compare tools, and we will introduce interactive calculators and financial literacy content to help them make informed decisions.

We continue to focus on the significant investments we made in expanding our presence in Bucks, Delaware, Lancaster, and Montgomery Counties. Our goal is to match the performance we have achieved in Chester County, where today 30% of the households have a relationship with us. Obtaining similar market share in our newest markets will provide a steady stream of business to fuel our future growth and enable us to provide improved service and benefits to our members.

Citadel's continued growth is a testament to our commitment to provide our members the best value: low rates on loans, and consistently higher rates on savings products. Citadel has been able to maintain its strength and gain new market share, all while remaining true to its mission of providing Citadel Class Service and the best products and services for our members.

Based on our 2016 results, Citadel was named number one out of all credit unions in the entire nation for providing value to members by Callahan and Associates. Callahan's "Return of the Member" score measures how well an institution provides beneficial financial products and services to its members. We have extreme pride in this recognition, as it is something we strive to achieve every day, and we hope to always be number one. Today, we are the 68th largest credit union in the country based on assets. We're in an exciting position to expand, and also offer enhanced tools, services, and products to better meet members' needs.

2017 marks our 80th year anniversary as an organization. Not many banks or credit unions in the greater Philadelphia region have the same longevity as Citadel. Our history represents strength, stability, growth, and consistency. We've been around for 80 years, and we're looking forward to 80 more.

The image shows two handwritten signatures in blue ink. The signature on the left is "Jeff March" and the signature on the right is "Lay Talbot".

A History of Stability

Citadel is a \$2.7 billion financial institution, the 68th largest credit union in the United States, and one of the largest locally owned and managed financial institutions in the Greater Philadelphia area. Over the past 80 years, Citadel has steadily grown but remained consistent.

Our humble beginnings took shape in 1937 on the grounds of the Lukens Steel plant in Coatesville, Pennsylvania. At a time when banks were closing and the country was suffering from the Great Depression, we grew. As we provided financial support for the employees of Lukens Steel and their families, the employees of the steel mill were busy building the infrastructure of our country. Materials from Lukens Steel were used in the construction of iconic American symbols such as the Golden Gate Bridge and the World Trade Towers.

Originating from a small employee credit union, we have now transformed into a significant and large financial institution. We have remained true to our heritage by building and maintaining a strong presence in the Chester County area, and we have now expanded into other territories. Year after year, we have had a solid plan and continually execute on our strategy to allow us to grow.

Unlike many institutions in the banking industry, Citadel has not changed in our 80 year history. Since 1937, Citadel has remained a constant in the lives of our members, employees, and those in the communities we serve. In an industry riddled with mergers and acquisitions, Citadel continues to grow and succeed by operating in the best interest of our members.

Today, Citadel provides financial products to more than 200,000 customers and partners with more than 400 businesses, organizations, and companies. What sets Citadel apart from other financial institutions is that we provide only the highest quality customer service. We are committed to serving as a consultant for our members, to help them select financial products that add value and meet the needs of their family. From buying a first home, saving for college, accumulating wealth during working years, to disbursing retirement funds, Citadel offers the products and services to help members save, borrow, and plan for the future.

With Citadel, growth will never mean sacrificing quality or customer service. Even as we grow and prosper, we continue to advocate for our members and our community, and remain true to our rich history.

Community Involvement

Citadel isn't just a business located in the community. Our members and employees live and work here, too. For that reason, we are inspired to give back. 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 local organizations.

Community involvement is part of the culture at Citadel. Not only do we provide financial support to community groups, we also encourage our employees to give their time and talent during the year. Everyone at Citadel is enthusiastic about getting involved in community events and dedicates their time. In fact, in 2016 alone, Citadel employees served more than 450 hours' worth of community service. In addition, employees personally contributed financially to a variety of causes.

One important community initiative is the Citadel Heart of Learning Award, which recognizes excellence in the classroom by honoring Chester County teachers who go above and beyond the call of duty to meet the needs of their students. Since 2001, we have recognized thousands of teachers in the region and awarded 42 winners.

In 2016, Citadel was recognized for its dedication to community with two different community service



awards. We were recognized with community service awards from both the United Way and by the Western Chester County Chamber of Commerce. Both awards recognized Citadel's dedication, volunteerism, and demonstrated leadership in the community.

As we have expanded as a company, we have also expanded our corporate giving and have increased support to different organizations. Today, we work with non-profit and community organizations across our 5 counties. As we continue to grow in new markets, we will seek additional opportunities, making a lasting impact on those who we serve.

Citadel is one of the largest financial institutions headquartered in this region, but we hold true to being a local community-based organization. We will continue to support our communities because they represent our members and employees.



Jeff March and Citadel's Board of Directors

Supervisory Committee Report

We work in a highly regulated industry; there are volumes of rules, policies, and guidelines that govern our business. 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.

With the diverse backgrounds of the committee members, Citadel benefits from a vast pool of knowledge. The degree of experience is extremely valuable as it increases the committee's ability to examine the functions of Citadel in a highly productive manner. The committee oversees the internal and external auditors who ensure Citadel is sound and functioning within the guidelines and policies set forth by all governing bodies.

Our five guiding principles, and what we strive to deliver with every member interaction, are **Accuracy, Convenience, Respect, Security** and **Value**. When it comes to accuracy, we have once again recently proven that we're doing things right.

The 2016 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

Lawrence L. Tankeloff, Chairperson

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Joseph R. Glace, Treasurer

Ravi S. Ganti, Member

Claudia Hellebush, Member

Philippe W. Ouellette, Jr., Member

Joseph A. Petsko, Member

Glenn S. Soltis, Member

Supervisory Committee

Michael Pagano, Chairperson

Jessica Schuler, Secretary

Madhav Gopal

Brian O'Neill

Philip A. Priolo, III

Strategic Goals

For 2017 and beyond, we have identified four Strategic Goals that will serve as the foundation for our continued growth.

Grow Market Share in Bucks, Delaware, Lancaster and Montgomery Counties.

We have already made significant progress in establishing ourselves in these counties and opening products for an impressive number of households. For these newest markets, we will continue to define and implement strategies to grow loans, deposits, and Wealth Management assets. We will continue to grow market share by increasing our presence and brand awareness. At the same time, we will maintain our strong presence in Chester County.

Create the Best Possible Digital Experience for Members and Potential Members.

In 2017, we will launch our new website, which will enhance how members and potential members interact with us digitally. The website will feature new tools and content for users to easily find what they're looking for and make informed decisions about our products. With the new website and other strategies, we will continue to deliver the best digital

experience to our members. Today, we gather user feedback to help us consider updates to our digital products. We will continue to incorporate user feedback appropriately, while making decisions that align with our growth plan.

Enhance Member Value

Enhancing member value continues to be our goal. We will increase efficiency, decrease costs, and explore bundle pricing models. We will also continue to personalize the member experience in a variety of ways. With our new website, we will have advanced personalization capabilities. In addition, we will implement ways to show our members how much they've saved by banking with Citadel.

Continually Improve upon Being a High Performing Organization

Citadel has been named a "Top Performing Credit Union" by SNL Financial and has a five star rating with Bauer Financial. We take pride in what we have accomplished in our 80 years, and we will continue to build on our success as we expand. Our plans will put us on the path to provide even more households with Citadel products and services.

Providing Value

Through our Workplace Advantage program, Citadel is proud to partner with more than 400 companies, businesses, and organizations throughout Southeastern Pennsylvania. With these partnerships we are able to provide valuable financial products and Citadel Class Service to employees and management alike.

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 program services more than 400 companies in Southeastern Pennsylvania including A. Duie Pyle, Aegon Transamerica, Aqua America, ArcelorMittal Steel, Audubon YMCA, Bentley Systems, Brandywine Hospital, Boiron, Brother's Inc., Chester County Intermediate Unit, Chester County Hospital, Community Interaction, CTDI, Immaculata University, Janssen Biotech Inc., Johnson Matthey, Pay Chex,



Philadelphia Premium Outlets, SAP, Sikorsky Global Helicopters, Urban Outfitters, Weston Solutions, and World Travel.

With every Workplace Advantage partnership, Citadel's dedicated team visits employees on-site, presents ongoing financial planning seminars, coordinates comprehensive marketing and promotional activities, and much more.

Looking Forward

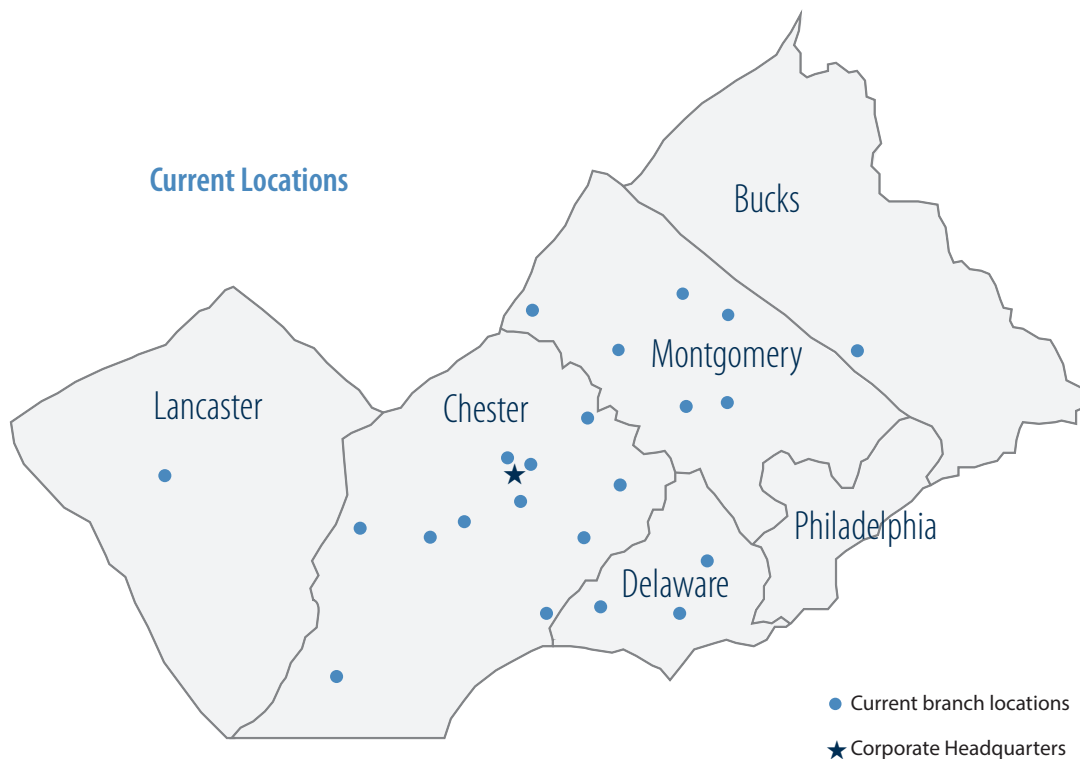
At Citadel, we're excited about the future. We're expanding and increasing our presence and brand awareness. We're growing at a stable, but impressive rate. In the past three years, Citadel has grown \$880 million in assets, a 47% growth. We have grown in asset size more than any credit union in Pennsylvania.

Our goal is to provide our members with products and services that simplify their lives and add financial value. We will continue to give members a digital experience that is simple, helpful, and welcoming. We will continue to gather member feedback to

listen and make changes that will enhance their banking experience.

When it comes to security, we are making sure we are keeping our customers' data safe and secure. In 2016, we reissued new EMV Chip cards to all customers with debit cards, and included new card numbers to provide further protection.

We have increased our social media presence significantly; we have targeted posts based on demographics and personal interests, and increased our advertising initiatives on Facebook.



We will continue to engage members and potential members through social media. In addition, we will continue to personalize messages and use data to show members how much value Citadel provides.

As we expand, we are able to communicate the many benefits and value of banking with Citadel to more families. We are excited to bring Citadel Class Service to surrounding communities. As we grow, we will continue to explore opportunities to expand our geographic reach, and evaluate potential new locations.

Citadel is in a strong, stable position to grow.

As a company, we have grown in asset size and in turn we have been able to offer more to our members. We are also in a position to provide our strong product offerings to even more families in new communities. When people walk into a Citadel branch, they are welcomed and serviced with a smile. We will continue to offer Citadel Class Service, focus on providing only the best rates, personalize our members' experience, and make banking with us convenient.



Our Service Pledge—Citadel Class Service

Today we are the 68th largest credit union in the nation, and one of the largest locally owned and managed financial institutions in the Greater Philadelphia area.

Citadel proudly offers lower rates on loan products, consistently higher rates on savings products, and award-winning services from our Investment and Wealth Management division. With all of that considered, what sets Citadel apart is our dedication to customer service. For many banks, customer service is a new focus, but for Citadel, it's been our focus since the beginning.

Serving our customers is what we do best. "Citadel Class Service" is our pledge to provide the utmost excellence in service, and reinforces our ongoing efforts to achieve the highest level of customer satisfaction. Our pledge is displayed on the walls of every floor at our Corporate Headquarters.

"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.
 - **Security:** To protect the finances and data of our customers and our organization.
 - **Value:** To continuously work to build and better our customer relationships.
-

After fulfilling the fiscal requirements of running a financially sound company, 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.

Whether it's the welcoming feel of our branches, the warm and helpful demeanor of our representatives, or the ease of our digital offerings, our goal is to make every experience with Citadel one that will leave members feeling good and looking forward to the next.

Financial Information

Statement of Financial Condition	2016	2015
Assets		
Loans		
Auto	\$ 864,746,764	\$ 749,267,190
Unsecured	177,747,417	149,211,363
Real Estate	1,394,961,609	1,185,044,852
Business Real Estate	84,936,650	77,702,836
Other	7,699,480	5,898,939
Total Loans	\$ 2,530,091,920	\$ 2,167,125,180
Allowance for Loan Losses	(10,699,477)	(9,248,695)
Net Loans	2,519,392,443	2,157,876,485
Agency Bonds	23,681,619	23,686,265
CMOs	23,710,608	46,289,886
Mortgage Backed Securities	30,222,794	22,501,007
Other Investments	12,986,309	10,986,874
Cash and Cash Equivalents	13,529,850	50,130,166
Fixed Assets	70,736,948	65,889,307
NCUSIF	20,613,647	17,270,721
Other Assets	44,729,511	38,999,311
Total Assets	\$ 2,759,603,729	\$ 2,433,630,022

Liabilities and Equity

Deposits

Savings	\$ 322,268,114	\$ 282,146,877
Checking	355,715,585	311,138,829
Money Market Accounts	561,262,059	504,507,726
Certificates	1,054,675,761	915,679,018
Total Member Deposits	\$ 2,293,921,519	\$ 2,013,472,450

Accounts Payable	12,710,236	9,009,231
Borrowed Funds Payable	192,310,000	175,000,000
Dividends Payable	1,159	1,325
Equity	260,660,815	236,147,016
Total Liabilities/Equity	\$ 2,759,603,729	\$ 2,433,630,022

Statement of Income	2016	2015
Operating Income		
Loan Interest Income	\$ 94,692,371	\$ 82,736,717
Investment Income	2,630,229	3,033,987
Total Interest Income	97,322,600	85,770,704
Dividend Expense	19,353,111	15,154,528
Borrowed Funds Expense	2,953,350	2,702,823
Total Interest Expense	22,306,461	17,857,351
Net Interest Income	\$ 75,016,139	\$ 67,913,353
Provision for Loan Losses	10,734,500	7,339,000
Net Interest Income After Provision for Loan Losses	\$ 64,281,639	\$ 60,574,353
Other Operating Income	32,026,889	30,581,822
Net Operating Income	\$ 96,308,528	\$ 91,156,175
Operating Expenses		
Employee Compensation & Benefits	\$ 37,421,508	\$ 34,832,972
Marketing	5,500,221	4,945,635
General Office Occupancy & Expenses	15,287,493	13,768,884
Loan Servicing Expenses	6,197,245	6,058,628
Professional and Outside Services	11,695,738	11,086,141
Misc. Operating Expenses	747,575	862,255
Total Operating Expenses	\$ 76,849,780	\$ 71,554,516
Non-Operating Gains / Losses	4,881,870	746,398
Net Income	\$ 24,340,618	\$ 20,348,057

Statement of Cash Flow	2016	2015
Cash Flow From Operating Activities		
Net income	\$ 24,340,618	\$ 20,348,057
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	4,886,688	4,359,665
Amortization of investment premiums, net	947,577	980,666
Gain on sale of investments	(395,023)	(406,112)
Excess of provision for possible loan losses over net loans charged off	1,450,782	838,652
Change in assets and liabilities		
Increase in assets:		
Prepaid expense and other assets	(7,984,917)	(6,791,991)
Increase in liabilities:		
Accounts payable and accrued expense	3,701,367	5,735,185
Net Cash Provided By Operating Activities	\$ 26,947,092	\$ 25,064,122
Cash Flows From Investing Activities		
Proceeds from maturity, call, and sale of investments	\$ 20,816,251	\$ 23,629,367
Purchase of investment securities	(10,717,813)	(10,194,388)
Principal received on mortgage backed securities	4,384,327	8,020,948
Net increase in loans	(362,966,740)	(296,906,804)
Increase in NCUSIF deposit	(3,342,926)	(1,886,806)
Expenditures for property and equipment, net	(9,734,329)	(9,593,185)
Net Cash Used In Investment Activities	\$ (361,561,230)	\$ (286,930,868)
Cash Flows From Financing Activities		
Net increase in borrowed funds	\$ 17,310,000	\$ -
Net increase in deposit accounts	280,703,822	264,109,339
Net Cash Provided By Financing Activities	\$ 298,013,822	\$ 264,109,339
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (36,600,316)	\$ 2,242,593
Cash and Cash Equivalents at Beginning of Year	\$ 50,130,166	\$ 47,887,573
Cash and Cash Equivalents at End of Year	\$ 13,529,850	\$ 50,130,166

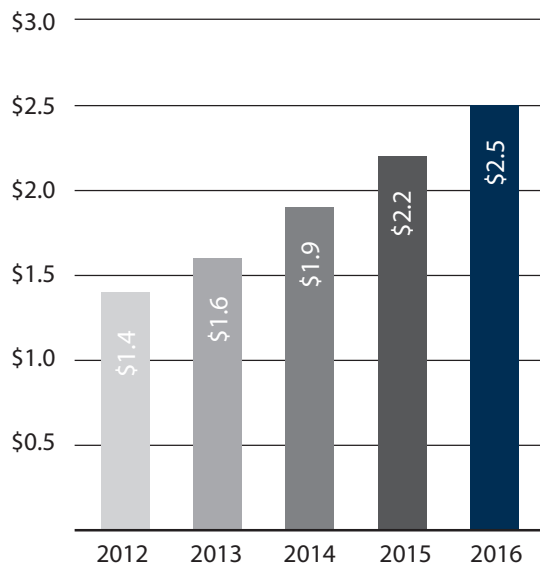
Composition of Loans



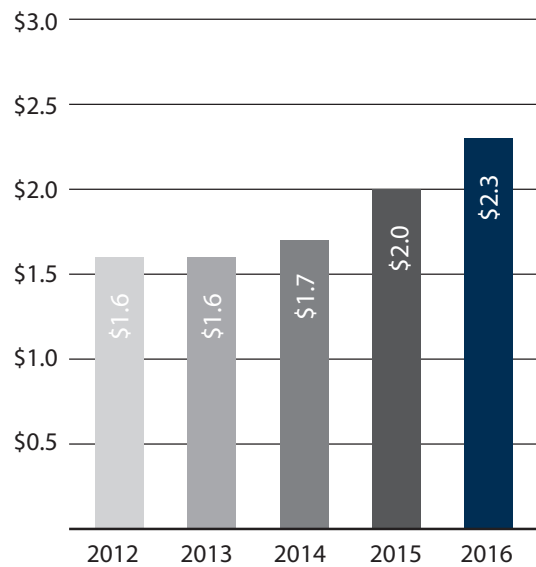
Composition of Deposits



Total Loans (in billions)



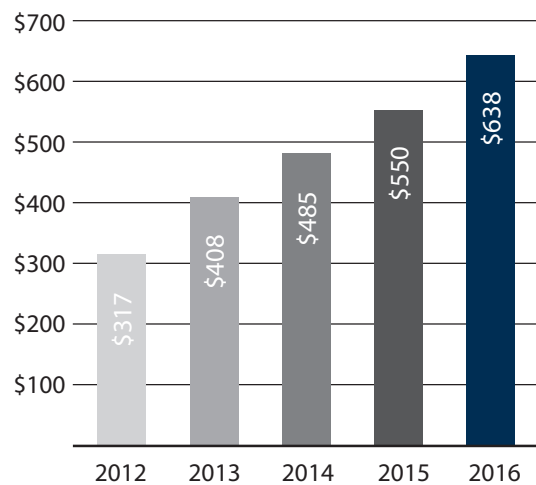
Total Deposits (in billions)



Composition of Assets Under Management



Assets Under Management (in millions)



“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.”



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

*Non-deposit investment products and services are offered through CUSO Financial Services, L.P. ("CFS"), a registered broker-dealer (Member FINRA/SIPC) and SEC Registered Investment Advisor. Products offered through CFS: are not NCUA/NCUSIF or otherwise federally insured, are not guarantees or obligations of the credit union, and may involve investment risk including possible loss of principal. Investment Representatives are registered through CFS. Citadel has contracted with CFS to make non-deposit investment products and services available to credit union members.

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South Coatesville | Springfield | Thorndale | Warminster | West Chester | West Norriton



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