

Citadel Federal Credit Union
Annual Report 2014





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

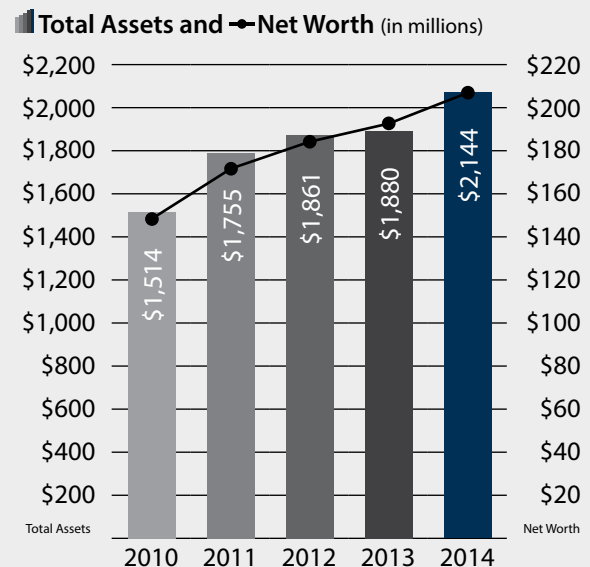
A Message from our President and Chairman

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.

Citadel has entered 2015 with a sharp focus on boosting operational excellence by building on our already strong foundation to deliver excellent operating results. We finished 2014 with Net Income of more than \$21 million, and a Return on Assets of 1.06%. Our capital exceeds \$215 million, reflecting a Net Worth Ratio of 10%, well above the National Credit Union Administration's target for a well capitalized credit union.

With total assets of more than \$2.14 billion, there's no doubt Citadel is doing things right. During 2014, we opened 80,184 new products for our existing and new members. There are now 129,154 households banking with Citadel, an increase of 6.2% over last year. Our Wealth Management Division also had an additional \$484 million in assets under management in 2014.

As a not-for-profit organization, we are proud to be able to reinvest the proceeds of our financial success into our business, thus ensuring that we provide our members with the best banking services that they want and need.



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, and at Citadel we are keeping in step with this ever-changing environment.

No trend has impacted the financial services industry as much or as quickly as the drive-to-digital. With the rapid expansion and ownership of smartphones and tablet devices, today's consumer wants to be able to research, purchase and manage their financial services on demand safely and securely, using their device in virtually any location. While we do not expect at any time in the near future to trade in our street addresses solely for an IP address, we are adapting to the needs of our members and the industry as a whole.

The growth of electronic delivery channels, such as Online Banking, has been dramatic. Just shy of 100,000 members are now enrolled, up from 86,000 at this time last year. Our Mobile Banking platform continues to gain traction. A new feature that was launched in 2014 is Citadel Mobile Deposit, which allows members to take a photograph of their checks and deposit them into their checking or savings

account. Our "WebChat" service continues to provide convenience with real-time support, and offers us another way to offer additional products and services that are beneficial to our members.

We have also changed our branch model to meet the rapidly evolving member needs for real time access and simplicity of banking interactions, further adding to the convenience for which we are so well known.

In 2014 we introduced a 'smart-sizing' branch design to maximize space efficiencies in our new offices.

We have also introduced Citadel Express Banking, a new technological service to automate transactions, allowing our staff to provide a more consultative approach to meeting the needs of our members and provide even more convenience in the way that we interact with our members. We are also in the middle of a processing system enhancement which will ensure a streamlined approach to servicing current and future members with the latest technological upgrades available.

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.

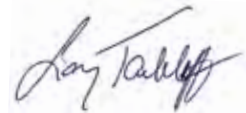
In 2014 we opened an unprecedented three new branches: two in Montgomery County and one in Delaware County, bringing our total to 18. Our first branch office in Bucks County will open this spring in Warminster, and we have our sights set on several new locations dotting the landscape in the northern Montgomery and southern Bucks County area. We are excited to introduce area residents to our newest branch and to the benefits of banking with Citadel. In fact, 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 members 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 members live and work. And we do this with Citadel Class Service always in focus.

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 2015 and beyond.



Jeff March
President and CEO



Lawrence L. Tankeloff
Chairman of the Board

Our Heritage

Citadel is a \$2.14 billion financial institution but its success didn't happen overnight. In fact, our humble beginnings took shape 78 years ago on the grounds of the Lukens Steel plant in Coatesville. 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.

It took us more than 60 years—from 1937 to 1999—to reach \$500 million in assets. And now every 3-5 years since then we've grown \$500 million for that time period, to reach where we are currently: more than \$2 billion and growing. When we look at the asset size back in 1999, we were on par with other area credit unions and banks, some of whom were founded a full 50 years before Citadel. Since then, our assets have grown steadily while our competitors have grown at a much slower rate. In fact, most of our local competitors currently have assets well below the \$1 billion mark.

Today, Citadel boasts more than 129,000 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 are here for our members. From buying a first home, saving for college, accumulating wealth during working years, and to disbursement in 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 continue to advocate for our members and our community, and hold 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 that Citadel partners with, or non-profits of their choice. Through Citadel’s volunteer program, our employees generously donated hundreds of hours to our partner organizations. In addition to sharing their time and talent, in 2014, Citadel employees personally contributed financially to a variety of causes in the communities in the Greater Philadelphia area.

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. As we continue to grow in new markets, we will seek additional opportunities to make a lasting impact on those who we serve.

One important community initiative is the Citadel Heart of Learning Award. Over the past 14 years, we have honored 195 teachers and awarded 39 winners with the Citadel Heart of Learning Award.

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.



Jeff March and Citadel's Board of Directors

Supervisory Committee Report

Accuracy. Convenience. Value. Respect.

They are our four guiding principles and what we strive to deliver with each and every member interaction.

When it comes to accuracy, we've once again recently proven that we're doing things right.

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.

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 2014 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

Michael S. Givler, Vice Chairperson

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Joseph R. Glace, Treasurer

Ravi S. Ganti, Member

Claudia Hellebush, Member

Philippe W. Ouellette, Jr., Member

Gary P. Rabik, Member

Glenn S. Soltis, Member

Supervisory Committee

Grant V. Hoffman, Jr., Chairperson

Jessica Schuler, Secretary

Michael Pagano

Strategic Goals

At Citadel, we offer the products and services-- including deposit, loan, investment, and insurance products — to fit our members' needs, along with friendly, personalized service that makes us who we truly are and leads us to success.

We have laid the foundation to meet our Strategic Goals and have plans to grow in 2015 and beyond.

To help us get there, we've identified four main goals:

Strengthen Citadel Class Service

We are continuing with our forward momentum because our employees have demonstrated that they are hungry for success and want to grow.

We will provide our customers with the latest in security and technological solutions to meet all of their banking needs.

Ensure, strong, sound financial performance

We will continue to focus on profitable growth in our core business areas including our attractive deposit rates, Wealth Management business, auto lending, mortgages, and credit card offerings. We believe this will contribute to an improved customer experience and overall profitability.

Enhance delivery channel options and internal efficiencies:

By upgrading and enhancing our systems, we will be creating efficiencies. It also paves the way for executing on a digital delivery plan that provides our members with multiple banking options and a great experience across all touch points.

Achieve sound asset and household growth

In addition to our strong digital assets, we will continue to expand in the Greater Philadelphia Area by opening retail offices in new markets. We are laying the foundation for opening our doors to new members who will benefit from Citadel's unique products and service offerings.

Providing Value

Citadel is proud to partner with companies and organizations by 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 program services more than 400 companies in the Greater Philadelphia

area including A. Duie Pyle, Aqua America, ArcelorMittal Steel, Audubon YMCA, Bentley Systems, Brandywine Hospital, Brother's Electric, Chester County Intermediate Unit, Chester County Hospital, Community Interaction, CTDI, Immaculata University, Janssen Biotech Inc., Johnson Matthey, Pay Chex, SAP, 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.

Looking Forward

At a time when everything around us seems to be becoming more complex, consumers are searching for products, services, and companies that can simplify their lives. But it's important to recognize that simplifying an interaction with customers does not mean that the underlying product or service is simple. Instead, the key is to rethink as opposed to append and look for ways to eliminate steps, paperwork and processes that are overly complex.

This year will be an evolutionary year as growth in contactless payments contributes to the banking industry's role in the payments network. We will seek innovative ways to leverage customer spending data for specialized promotions and services, and look for new ways to be top of wallet and differentiate the customer experience. One way is with the introduction of Apple Pay, and we expect even more payment solutions to be developed this year and in the near future.

This past year was about being data-driven.

To improve the customer experience, big data will become more of a game changer for Citadel

in 2015. We will use our analytics to assess customer interactions across channels to identify needs and take actions to improve customer experience and increase satisfaction. No matter what the channel, we can create an environment that fosters constant connectivity between us and our members, which will allow for deeper relationships, bigger share of wallet, and increasing confidence from our members. It is this Citadel Class Service that is part of our legacy.

As the data and analytics function evolves, Citadel will be shifting toward a proactive stance to initiate a streamlined process for our core systems which will allow us to increase efficiencies and to continue to grow.

To retain deposits, we will be ramping up our customer relationship programs by continuing to offer a consultative approach through our new branch models. We believe this will increase our cross-selling efforts and invest in product lines that attract stable deposits.

High-profile data breaches of 2014 made cyber security an even hotter topic in banking, especially when it comes to payments.

We accelerated our adoption of EMV chip technology for Citadel credit cards, which protects card data by encrypting it. EMV technology offers greater security than the vulnerable magnetic stripe and is already widely used outside the United States.

With a growing focus on the analysis of consumer behavior, many financial institutions are expanding their social-media presence and targeting potential customers with more personalized messages.

We're fully engaging both members and potential members with our social media streams and are continuing to seek new ways to attract new customers.

As we grow, 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. We are excited to bring Citadel Class Service to members of the surrounding communities.

Citadel is stronger than ever. We continue to grow and flourish. We have a strong balance sheet and are generating solid earnings that allow us to reinvest in our company by way of offering more convenience to our members with new branches, cutting edge technologies, and unsurpassed rates and service.

Our Service Pledge—Citadel Class Service

Today we are one of the largest, locally owned and managed financial institutions in the Greater Philadelphia area. This is not only because of our great rates, lower fees, exceptional products and services, including those from our Investment and Wealth Management division, but also because of our superior level of service and attention to our customers. 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.

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.

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.

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 is just one way we can demonstrate Citadel Class Service.

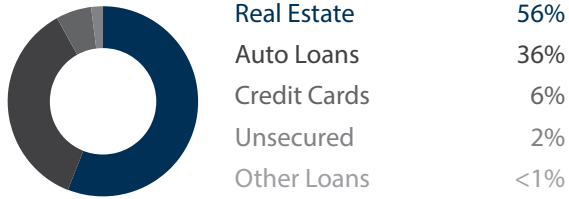
Financial Information

Statement of Financial Condition	2014	2013
Assets		
Loans		
Auto	\$ 676,638,393	\$ 625,020,752
Unsecured	141,105,127	129,254,698
Real Estate	955,974,615	704,508,254
Business Loans	91,524,430	95,169,340
Other	4,975,810	4,482,686
Total Loans	\$ 1,870,218,375	\$ 1,558,435,730
Allowance for Loan Losses	(8,410,043)	(9,537,527)
Net Loans	1,861,808,332	1,548,898,203
Agency Bonds	22,266,088	14,231,838
CMOs	58,682,061	91,040,754
Mortgage Backed Securities	33,869,865	107,758,239
Other Investments	9,832,886	6,534,538
Cash and Cash Equivalents	47,887,573	10,664,495
Fixed Assets	60,655,787	53,683,544
NCUSIF	15,383,915	15,652,380
Other Assets	33,493,171	31,950,020
Total Assets	\$ 2,143,879,678	\$ 1,880,414,011
Liabilities and Equity		
Deposits		
Savings	\$ 255,403,326	\$ 226,474,603
Checking	266,604,690	236,836,885
Money Market Accounts	485,971,388	482,409,818
Certificates	741,516,080	681,976,202
Total Member Deposits	\$ 1,749,495,484	\$ 1,627,697,508
Accounts Payable	3,266,297	2,205,203
Borrowed Funds Payable	175,000,000	59,000,000
Dividends Payable	8,563	6,634
Equity	216,109,334	191,504,666
Total Liabilities/Equity	\$ 2,143,879,678	\$ 1,880,414,011

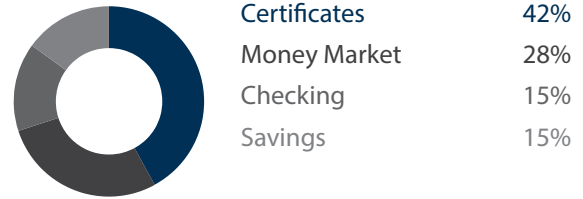
Statement of Income	2014		2013	
Operating Income				
Loan Interest Income	\$	69,250,377	\$	59,680,308
Investment Income		3,812,061		3,487,263
Total Interest Income		73,062,438		63,167,571
Dividend Expense		11,575,454		13,265,592
Borrowed Funds Expense		1,908,312		849,705
Total Interest Expense		13,483,766		14,115,296
Net Interest Income	\$	59,578,672	\$	49,052,274
Provision for Loan Losses		3,929,000		6,057,562
Net Interest Income After Provision for Loan Losses	\$	55,649,672	\$	42,994,712
Other Operating Income		28,030,664		25,036,586
Net Operating Income	\$	83,680,336	\$	68,031,299
Operating Expenses				
Employee Compensation & Benefits	\$	32,216,289	\$	28,871,374
Marketing		4,720,293		4,454,475
General Office Occupancy & Expenses		11,541,068		11,462,708
Loan Servicing Expenses		5,349,934		4,756,013
Professional and Outside Services		9,506,863		8,505,417
Misc. Operating Expenses		809,213		797,837
Total Operating Expenses	\$	64,143,660	\$	58,847,824
Non-Operating Gains / Losses		1,831,214		3,510,204
NCUSIF		-		(1,252,190)
Net Income	\$	21,367,890	\$	11,441,489

Statement of Cash Flow	2014	2013
Cash Flow From Operating Activities		
Net income	\$ 21,367,890	\$ 11,441,489
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	3,937,740	3,594,194
Amortization of investment premiums, net	2,882,090	9,463,239
Gain on sale of investments	(890,882)	(1,786,134)
Excess of provision for possible loan losses over net loans charged off	(1,127,483)	(496,196)
Change in assets and liabilities		
Increase in assets:		
Prepaid expense and other assets	(4,835,108)	(901,414)
Increase (decrease) in liabilities		
Accounts payable and accrued expense	1,063,003	(5,446,907)
Net Cash Provided By Operating Activities	\$ 22,397,250	\$ 15,868,271
Cash Flows From Investing Activities		
Proceeds from maturity, call, and sale of investments	\$ 109,633,402	\$ 102,905,537
Purchase of investment securities	(31,175,249)	(144,290,937)
Principal received on mortgage backed securities	21,000,234	93,214,345
Net increase in loans	(311,782,645)	(157,323,696)
(Increase) decrease in NCUSIF deposit	268,465	(402,531)
Expenditures for property and equipment, net	(10,909,984)	(1,925,958)
Net Cash Used In Investment Activities	\$ (222,965,775)	\$ (107,823,240)
Cash Flows From Financing Activities		
Net increase in borrowed funds	\$ 116,000,000	\$ 29,000,000
Net increase (decrease) in deposit accounts	121,791,603	(7,996,239)
Net Cash Provided By Financing Activities	\$ 237,791,603	\$ 21,003,761
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 37,223,078	\$ (70,951,208)
Cash and Cash Equivalents at Beginning of Year	\$ 10,664,495	\$ 81,615,703
Cash and Cash Equivalents at End of Year	\$ 47,887,573	\$ 10,664,495

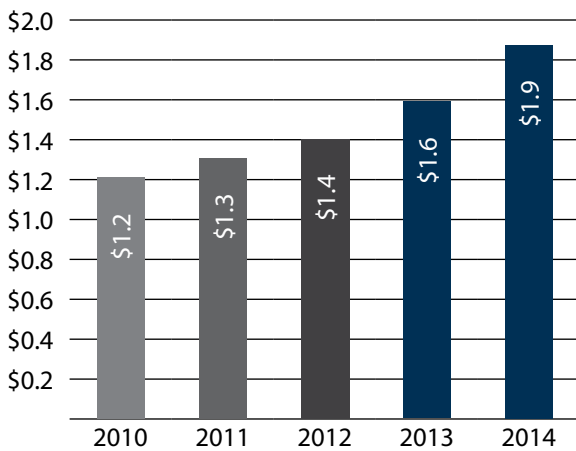
Composition of Loans



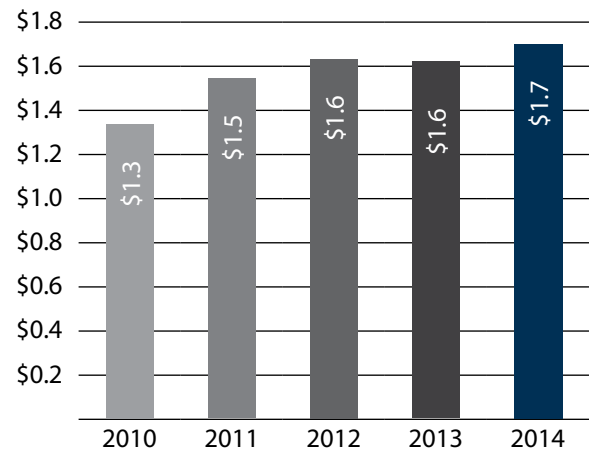
Composition of Deposits



Total Loans (in billions)



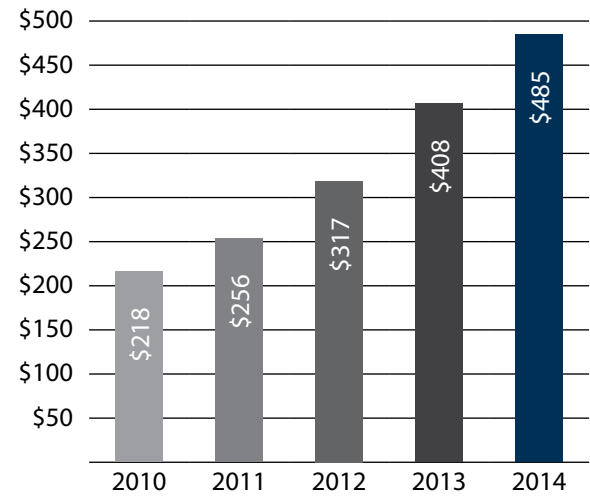
Total Deposits (in billions)



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

*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.

**INSURANCE PRODUCTS: Are not deposits of, guaranteed by or insured by Citadel, the NCUA or any Federal Government Agency, are obligations of the issuing insurance company, which is not affiliated with Citadel. Insurance products are offered through the Citadel Agency, LLC a licensed insurance agency affiliated with Citadel. The Citadel Agency, LLC will receive compensation if you choose to purchase coverage through this program. A decision to purchase insurance coverage will not affect the cost or availability of any loan product or service offered by Citadel.

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