

Citadel Federal Credit Union
Annual Report 2015





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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

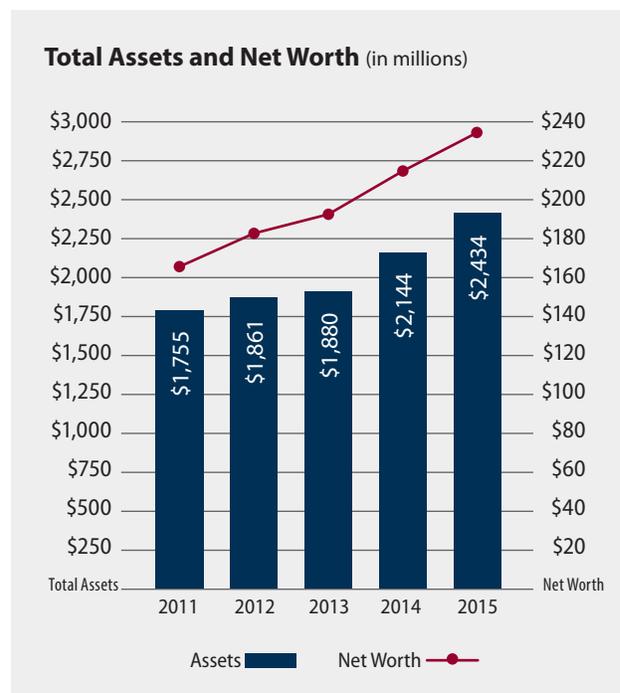
For 79 years, Citadel has steadily grown and has offered stability to our community, members and employees. Our solid plans have given us the ability to execute on our strategy year after year, and allow us to remain loyal to our members. We continue to expand our reach into new territories because we know that our products and services are what customers seek and desire.

We finished 2015 with Net Income of more than \$20 million and a Return on Assets of 0.89%.

Our capital exceeds \$235 million, reflecting a Net Worth Ratio of 9.67%.

With total assets of more than \$2.43 billion, there is no doubt Citadel is doing things right. During 2015, we opened 79,981 new products for our existing and new members. There are now 134,959 households banking with Citadel. In addition, our Wealth Management Division added \$65 million in assets under management in 2015, bringing the total to \$550 million.

In 2015, the banking industry was riddled with mergers and acquisition activity, and the trend is steadily growing. Many consumers are finding that they had become depositors at a new bank overnight. Now, in a continuing quest for growth, some of those acquiring banks — many of which have headquarters hundreds or thousands of miles away — are looking to merge or to buy other banks.



The merger and acquisition activities of our competitors offer us a terrific opportunity to capitalize on their shortcomings by showcasing our pillars of strength and noting to customers that we are here and we are here to stay.

While some things stay the same, others are changing. Today, advances in banking technologies are a driving factor of convenience, and at Citadel, we are keeping in step with this ever-changing environment. In 2015 we replaced our core operating system with the most advanced, streamlined system available. Our new systems have laid the foundation to allow us to continue to add new technologies, enhancing our offerings to our members while ensuring that they receive the best value and highest level of Citadel Class Service.

The growth of electronic delivery channels, such as Online and Mobile Banking, has been dramatic. Just shy of 115,000 members are now enrolled, up from 100,000 at this time last year. With new technologies comes the need to secure those technologies. In 2015 we began issuing to our members new credit and debit cards that contain the latest in anti-fraud technology—the EMV chip.

While many members enjoy the modern-day convenience of new technologies such as mobile banking and one-touch payments, when they want to visit with a live person, we are making certain we are there for them too.

As we enter 2016, we have already laid the foundation for what our future will hold. We continue to look at the investments we have made in Bucks, Delaware, and Montgomery counties, and in Lancaster. Currently 30% of Chester County residents have an account with Citadel. We have an amazing opportunity in front of us to capture the same market share in these other counties as well.

In 2015 we opened our newest branch, and first in Bucks County, in Warminster, and in 2016 we opened a new branch in Manheim Township in Lancaster County. With three new Montgomery County branches—Limerick, Harleysville and Lansdale—slated to open later this year, we are dotting the landscape in the upper Montgomery/Lower Bucks County area and are excited to introduce area residents to the benefits of banking with Citadel.

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.

With our geographic expansion has come the need to extend our reach to customers in these areas by way of marketing and advertising initiatives. In 2015 we increased our social media presence with regular advertising on Facebook. This has led to brand exposure to those who otherwise might not know Citadel. In addition, we have launched three new television commercials that are being shown in the Philadelphia-area marketplace. The ads position Citadel — the fortress and protector — and its broad line of products and services to help in every stage of life. The ads close with, “You Deserve a Citadel.” It is a phrase that we wholeheartedly believe in and one that we are continually delivering to all of our customers.

Citadel is strong and is growing and gaining market share in counties where we previously had little presence. With double digit asset growth, a strong balance sheet, and solid earnings, we are allowed the unique opportunity to reinvest in our company by introducing more convenience, new branches, cutting edge technologies, and terrific rates. It is what currently, and always will, set us apart from our competitors.

We are a 79 year old ‘citadel’ that represents strength and stability. We are excited to share with members our past, and even more eager to show new customers who we are and why they, too, deserve a Citadel.



Jeff March
President and CEO



Lawrence L. Tankeloff
Chairman of the Board

Our Heritage

Citadel is a \$2.43 billion financial institution but its success did not happen overnight. In fact, our humble beginnings took shape nearly 80 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.

The banking industry is riddled with mergers and acquisition activity, and the trend is steadily growing. What has remained constant since 1937 is Citadel.

For 79 years, Citadel has steadily grown and has offered stability to our community, members and employees. We have had a solid plan in place year after year and continually execute on our strategy. We have remained loyal to our members and have been slowly stretching our reach into new territories because we know that we offer great products and services that customers will not find elsewhere.

Today, Citadel boasts nearly 135,000 households and more than 400 partner businesses, organizations, and companies. Our continued success is attributed to our 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 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 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 gave hundreds of hours of their time to our partner organizations. In addition to sharing their time and talent, in 2015 Citadel employees personally contributed financially to a variety of causes in the communities where our employees and members live and work.

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, making a lasting impact on those who we serve.

One important community initiative is the Citadel Heart of Learning Award, which recognizes excellence in the classroom by honoring teachers who go above and beyond the call of duty to meet the needs of their students. Since 2001, we have honored 205 teachers and awarded 42 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 would not 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 have once again recently proven that we are 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 2015 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
Joseph A. Petsko, Secretary
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

Michael Pagano
Philip A. Priolo, III
Jessica Schuler

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 2016 and beyond. To help us get there, we have identified four main goals:

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

We will drive growth in these markets by increasing our presence and brand awareness. We will define and implement strategies to grow loans, deposits, and our Wealth Management assets. This does not mean that we will abandon Chester County, but we will focus our efforts on building our business in the newest markets.

Create the Best Possible Digital Experience for Members and Potential Members

We will create and execute strategies to deliver a great digital experience to our members. We will

gather user feedback and strive to find the right balance of giving people what they want, while making smart decisions that provide us the best path towards growth.

Enhance Member Value

We will strive to win on price all of the time, but not at any cost. To help us reach this goal, we will increase efficiency, decrease costs, and look at our pricing models. We will personalize the member experience with the use of data analytics, and employ the expertise and consultative knowledge of our talented staff.

Continually Improve Upon Being a High Performing Organization

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 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 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, Sungard, Urban Outfitters, 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

Consumers are searching for products, services, and companies that can simplify their lives, and at Citadel, we are making sure we are offering them the very best in value and convenience.

We continually seek ways to 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.

We will create and execute strategies to deliver a great digital experience to our members by gathering user feedback and strive to find the right balance of giving people what they want, while making smart decisions that provide us the best path towards growth.

We will continue to enhance member value by personalizing the member experience with the use of data analytics, and employ the expertise and consultative knowledge of our talented staff.

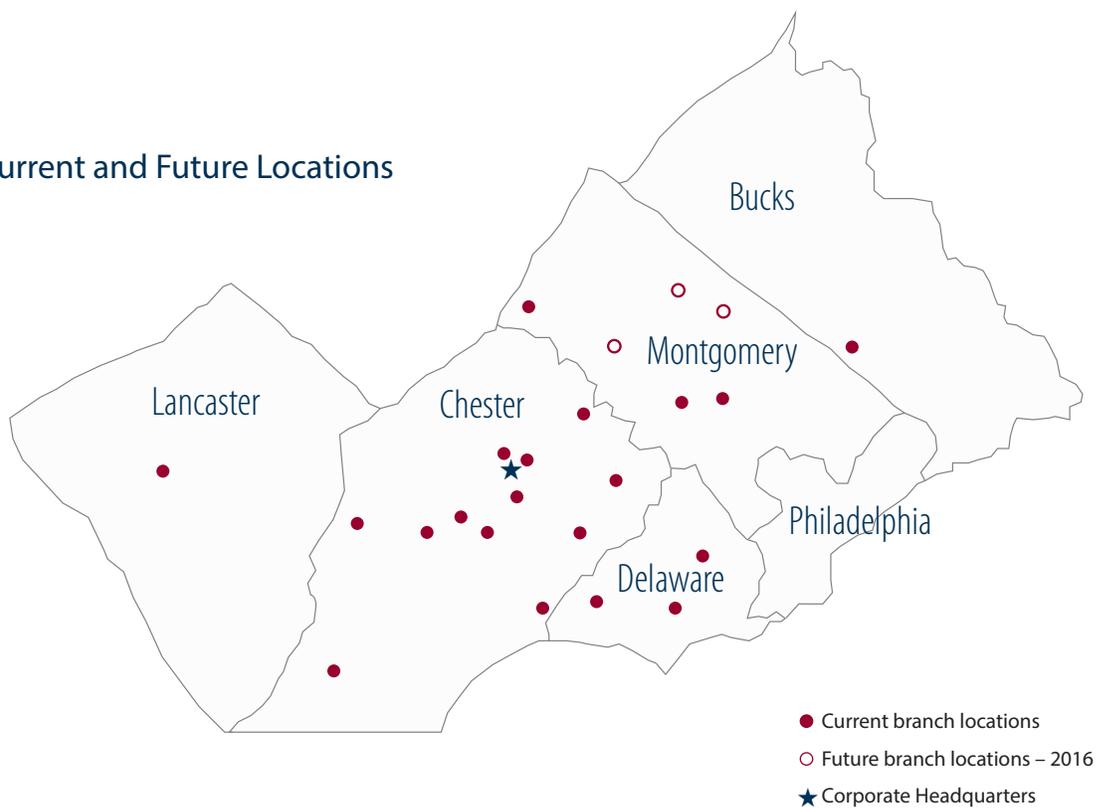
When it comes to security, we are making sure we are keeping our customers' data safe and secure. Each Citadel member with a Citadel credit or debit card now has in hand a card that contains EMV chip technology, the latest in card security.

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 are 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.

Current and Future Locations



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.

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		2015	2014
Assets			
Loans			
Auto	\$	749,267,190	\$ 676,638,393
Unsecured		149,211,363	141,105,127
Real Estate		1,185,044,852	955,974,615
Business Real Estate		77,702,836	91,524,430
Other		5,898,939	4,975,810
Total Loans	\$	2,167,125,180	\$ 1,870,218,375
Allowance for Loan Losses		(9,248,695)	(8,410,043)
Net Loans		2,157,876,485	1,861,808,332
Agency Bonds		23,686,265	22,266,088
CMOs		46,289,886	58,682,061
Mortgage Backed Securities		22,501,007	33,869,865
Other Investments		10,986,874	9,832,886
Cash and Cash Equivalents		50,130,166	47,887,573
Fixed Assets		65,889,307	60,655,787
NCUSIF		17,270,721	15,383,915
Other Assets		38,999,311	33,493,171
Total Assets	\$	2,433,630,022	\$ 2,143,879,678
Liabilities and Equity			
Deposits			
Savings	\$	282,146,877	\$ 255,403,326
Checking		311,138,829	266,604,690
Money Market Accounts		504,507,726	485,971,388
Certificates		915,679,018	741,516,080
Total Member Deposits	\$	2,013,472,450	\$ 1,749,495,484
Accounts Payable		9,009,231	3,266,297
Borrowed Funds Payable		175,000,000	175,000,000
Dividends Payable		1,325	8,563
Equity		236,147,016	216,109,334
Total Liabilities/Equity	\$	2,433,630,022	\$ 2,143,879,678

Statement of Income	2015	2014
Operating Income		
Loan Interest Income	\$ 82,736,717	\$ 69,250,377
Investment Income	3,033,987	3,812,061
Total Interest Income	85,770,704	73,062,438
Dividend Expense	15,154,528	11,575,454
Borrowed Funds Expense	2,702,823	1,908,312
Total Interest Expense	17,857,351	13,483,766
Net Interest Income	\$ 67,913,353	\$ 59,578,672
Provision for Loan Losses	7,339,000	3,929,000
Net Interest Income After Provision for Loan Losses	\$ 60,574,353	\$ 55,649,672
Other Operating Income	30,581,822	28,030,664
Net Operating Income	\$ 91,156,175	\$ 83,680,336
Operating Expenses		
Employee Compensation & Benefits	\$ 34,832,972	\$ 32,216,289
Marketing	4,945,635	4,720,293
General Office Occupancy & Expenses	13,768,884	11,541,068
Loan Servicing Expenses	6,058,628	5,349,934
Professional and Outside Services	11,086,141	9,506,863
Misc. Operating Expenses	862,255	809,213
Total Operating Expenses	\$ 71,554,515	\$ 64,143,660
Non-Operating Gains / Losses	746,398	1,831,214
Net Income	\$ 20,348,058	\$ 21,367,890

Statement of Cash Flow	2015		2014	
Cash Flow From Operating Activities				
Net income	\$	20,348,057	\$	21,367,890
Adjustments to reconcile net income to net cash from operating activities				
Depreciation and amortization		4,359,665		3,937,740
Amortization of investment premiums, net		980,666		2,882,090
Gain on sale of investments		(406,112)		(890,882)
Excess of provision for possible loan losses over net loans charged off		838,652		(1,127,483)
Change in assets and liabilities				
Increase in assets:				
Prepaid expense and other assets		(6,791,991)		(4,835,108)
Increase in liabilities				
Accounts payable and accrued expense		5,735,185		1,063,003
Net Cash Provided By Operating Activities	\$	\$25,064,122	\$	22,397,250
Cash Flows From Investing Activities				
Proceeds from maturity, call, and sale of investments	\$	23,629,367	\$	109,633,402
Purchase of investment securities		(10,194,388)		(31,175,249)
Principal received on mortgage backed securities		8,020,948		21,000,234
Net increase in loans		(296,906,804)		(311,782,645)
(Increase) decrease in NCUSIF deposit		(1,886,806)		268,465
Expenditures for property and equipment, net		(9,593,185)		(10,909,984)
Net Cash Used In Investment Activities	\$	(286,930,868)	\$	(222,965,775)
Cash Flows From Financing Activities				
Net increase in borrowed funds	\$	-	\$	116,000,000
Net increase in deposit accounts		264,109,339		121,791,603
Net Cash Provided By Financing Activities	\$	264,109,339	\$	237,791,603
Net Increase in Cash and Cash Equivalents	\$	2,242,593	\$	37,223,078
Cash and Cash Equivalents at Beginning of Year	\$	47,887,573	\$	10,664,495
Cash and Cash Equivalents at End of Year	\$	50,130,166	\$	47,887,573

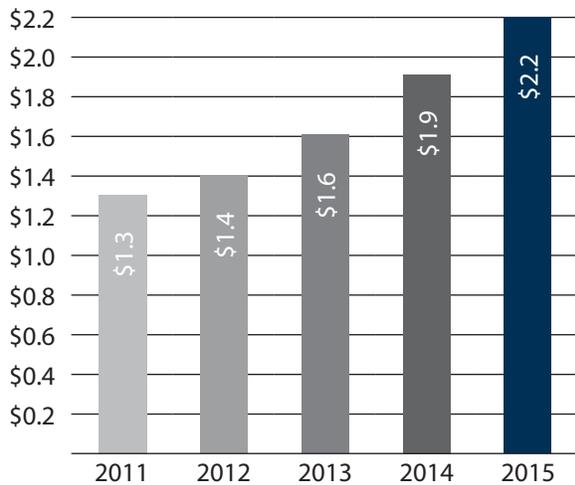
Composition of Loans



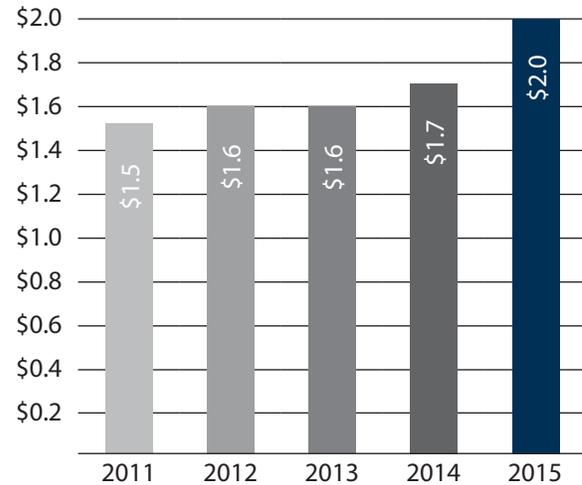
Composition of Deposits



Total Loans (in billions)



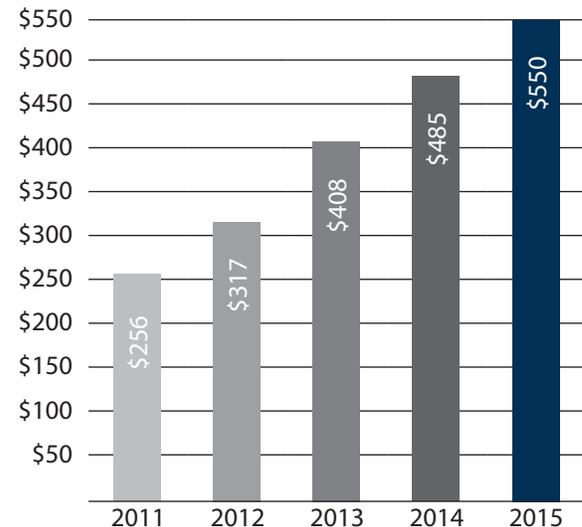
Total Deposits (in billions)



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.

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