

SUPERVISORY COMMITTEE REPORT

Your Supervisory Committee is appointed by the Board of Directors in accordance with the Federal Credit Union Act and ensures that your credit union conducts its operations and activities in a safe and sound manner. The Committee, as the members' representative and official auditor, has the responsibility to review and evaluate the overall financial operations and performance of your credit union, including that of its management staff, to ensure that all the regulations, procedures, and policies that govern this institution are properly followed.

The Committee is assisted in carrying out its responsibilities by our Internal Auditors, who performed and/or directed a total of 66 Audits, Reviews and Risk Assessments during the fiscal year ended September 30, 2013. The credit union is also periodically examined by our regulator, the National Credit Union Administration (NCUA), which completed one annual review during fiscal year 2013. The NCUA review did not indicate any significant findings and our own internal audits confirm that internal controls are in place and effective.

In conformance with NCUA regulations, the Committee contracted the Certified Public Accounting firm of Reinsel Kuntz Leshner LLP to conduct an independent external audit of the credit union's financial statements as of September 30, 2013. The independent auditor found that American Heritage FCU's financial statements present fairly its financial position in conformity with Generally Accepted Accounting Principles.

As a result of the aforementioned reviews and audits, it is the pleasant duty of the Supervisory Committee to report to you that the affairs of the American Heritage Federal Credit Union during fiscal year 2013 have been conducted in a most satisfactory manner and in accordance with prescribed standards and accounting practices, and were found to be current, accurate, complete, and in balance.

The sound policies and practices of the board of directors contributed to the continuing growth and improvement of services, which has been evident over the past year.

We wish to commend the President/CEO and his staff for their efficient, attentive, and courteous service to our members. The cooperation and assistance they have provided this committee is appreciated. We look forward to another year of service to our members, and assure you that you can expect the same high standard of service that you received in 2013.

Respectfully Submitted,

Susan V. Barrios, Chairperson
Kenneth Wong, Dorian Smith

NOMINATING COMMITTEE REPORT

The Nominating Committee of American Heritage Federal Credit Union respectfully submits the names of the following candidates to serve on the Board of Directors:

Clara Glenn – 3 Year Term, 2014-2017
Jennifer Hannigan – 3 Year Term, 2014-2017

Respectfully submitted,

Gary Weyhmuller, Chairperson
Frank Di Domizio, Jim Brownlow II

LOAN REVIEW/DELINQUENCY COMMITTEE REPORT

The Loan Review Committee respectfully submits its annual report to our members for the lending activities of American Heritage Federal Credit Union.

For the calendar year 2013, the Loan Review Committee and the Loan Officers approved 13,476 loan applications for \$157.6 million in automobile, credit card, recreation vehicles, lines of credit, home equity lines of credit and loans, and student loans. In addition, 901 residential mortgage and 133 commercial loan and mortgage applications for \$154.1 million and \$42.5 million, respectively, were also approved. The complete team effort, from the branch network to the Contact Center to the information systems team, enabled us to serve more members in person, via telephone and online while balancing the safety of their accounts. In the end, we were able to grow the loan portfolio by \$18.1 million, or 2.2%, to \$829.1 million at December 31, 2013.

In terms of delinquencies, at year end 2013, we had 722 delinquent loans totaling \$11.0 million, or 1.34% of total loans, as compared to 594 delinquent loans totaling \$11.6 million, or 1.44% of total loans, at year end 2012. The net increase in the number of delinquent loans of 128 consisted primarily of an increase of 91 student loans and 55 credit card loans which were partially offset by a decrease of 20 automobile loans. The net decrease in the dollars of delinquent loans of \$0.6 million was due to a reduction of \$0.8 million in home equity loans, and \$0.7 million in consumer mortgage loans, which were partially offset by increases of \$0.4 million in credit card loans, \$0.3 million in guaranteed government private student loans, and \$0.2 million of commercial mortgage loans. In both 2013 and 2012, there were approximately \$4.5 million of loans charged off and \$0.3 million of loan recoveries. The allowance for loan losses at December 31, 2013 and 2012 of \$6.0 million and \$5.5 million, respectively, was adequately funded based on management's minimum and maximum estimated loss ranges as calculated in accordance with generally accepted accounting principles.

The Loan Review/Delinquency Committee would like to express its thanks to the American Heritage Federal Credit Union loan officers, office staff, Branch Sales, Mortgage Department, Business Development and Asset Recovery teams for providing us with vital information and assistance that enabled us to make fair and just decisions on member applications for credit and modifications. We hope you will continue to take advantage of the services that your credit union offers and we pledge to service your needs in the same progressive manner and friendly atmosphere to which you have become accustomed to over the years.

Respectfully Submitted,

Clara Glenn, Chairperson
Susan Barrios, Cecilia B. Grady, Paul Fox

AGENDA

Call to Order
Pledge of Allegiance to the Flag
Introductions
2013 Annual Meeting Minutes
Chairperson's Report
President/Treasurer's Report
Loan Review/Delinquency Committee Report
Supervisory Committee Report
Nominating Committee Report
Election Results
Unfinished Business
New Business
Adjournment

BOARD OF DIRECTORS

Cecilia B. Grady, Chairperson
Gary Weyhmuller, Vice-Chairman
Bruce K. Foulke, Treasurer
Susan V. Barrios, Secretary
James Brownlow II
Frank Di Domizio
Clara Glenn
Jennifer Hannigan
John Tracy

SUPERVISORY COMMITTEE

Susan V. Barrios, Chairperson
Kenneth Wong
Dorian Smith

LOAN REVIEW/DELINQUENCY COMMITTEE

Clara Glenn, Chairperson
Susan V. Barrios
Cecilia B. Grady
Paul Fox

2013 ANNUAL REPORT

April 15, 2014



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by the NCUA



CHAIRPERSON'S REPORT

Welcome to American Heritage Federal Credit Union's 65th Annual Meeting. We have enjoyed another year of remarkable growth and expansion of services, saved our members nearly \$20 million with loan refinancing and have experienced high increases in both membership and assets while keeping our commitment to improve service to our members. We now have 128,175 members and serve the employees of over 800 sponsor companies.

In 2013, we once again utilized our Personal Automated Teller (PAT®) technology to open new branches at the Fox Street ShopRite (in the Hunting Park area of Philadelphia) and in Limerick and Quakertown. In all of our new branches, we are utilizing the latest technology to serve our members more efficiently than ever. Our Personal Automated Teller (PAT®) machines offer face-to-face teller service remotely via video and we are delighted to report that our members have embraced this convenience with great enthusiasm. PAT® transactions for 2013 reached 104,436 versus 72,360 in 2012--an increase of 44.3%. In 2011, just two short years ago, our PAT transactions totaled just 16,747 for the year!

We added 26 new sponsor companies this year and 18,886 new members joined the credit union in 2013. We attribute our strong growth to the opening of our new branches, the efforts of our Business Development team, and our television, radio and newspaper advertising campaign.

American Heritage Federal Credit Union is the 6th largest credit union in the Commonwealth of Pennsylvania and moved up five places to become the 136th largest credit union in the nation. We can also be proud that in 2013 we received a Five-Star ("The Best Possible") rating from Bauer Financial. For the seventh consecutive year, American Heritage Federal Credit Union was a finalist in the Philadelphia Business Journal's "Best Places to Work" contest and for the fourth consecutive year received a "Healthy Workplace Award" from the Philadelphia Business Journal and United Healthcare. Our Green Team helped us reduce paper use, raise ecological awareness among local fifth and sixth graders, participate in "Adopt-A-Highway" clean-up programs, and facilitate the establishment of beautiful--and award-winning--community gardens at several of our branch locations.

At our Rhawn Street branch, we installed new LED signage for more exposure for marketing and name recognition and kept our promise to the Fox Chase community by taking down an unsightly billboard erected by the previous owners of the property.

Giving back to the community is just one of the things that makes American Heritage different from other financial institutions. That commitment to the communities we serve continued in 2013, as we donated 4,315 books to local hospitals and Boys' and Girls' Clubs through the Books for Kids program and raised over \$7,000 to brighten the holidays for needy families through our Adopt-A-Family program. Of course, American Heritage's Kids-N-Hope Foundation continues to be a primary focus of our community involvement efforts. Since its formation in 1996, we have raised over \$960,000 through the Foundation to support the music therapy program at Children's Hospital of

Philadelphia—and \$100,000 of that total came in 2013.

American Heritage has also adopted the Busia Compassionate Care orphanage in Kenya, which provides a home for children who have lost their parents to AIDS. Our Busia Committee, run entirely by our employees, conducted a number of fundraisers which this year raised over \$4,350. These dedicated employees also conducted drives to bring in much needed first-aid and school supplies for the orphanage's children.

We continue to offer financial literacy programs in high schools, financial management seminars for members and non-members at our sponsor companies and at our Carriage House branch Community Room and free tax preparation to low-income wage earners at our Hunting Park and Bridge Street branches. In addition, twenty-five college-bound students were awarded \$1,000 scholarships. Finally, as part of a strategic initiative to be more involved in the communities around our branch areas, American Heritage supported events and initiatives that demonstrate that our commitment to community is real. If you attended Lansdale Day, Horsham Day, Perkasio SpringFest, the Hunting Park Family Fun & Fitness Day and any one of a number of other community celebrations, you probably saw us there, staffing an information table or sponsoring an event.

I wish to express my appreciation to the President/CEO, his management team, and the staff for all of their hard work and dedication to the credit union and the membership. I cannot say enough about the work of our Board of Directors which is wholly comprised of volunteers. The total emphasis of our Board is service to the membership while keeping the credit union financially strong. Special thanks to our Supervisory, Loan Review, and Delinquency Committees for all of their time and dedication. I also want to thank our sponsor companies for their belief in and support of American Heritage Federal Credit Union. Most of all I want to thank our members who have made American Heritage Federal Credit Union the financial success that it is today.

Respectfully submitted,
Cecilia B. Grady, Chairperson

PRESIDENT/TREASURER'S REPORT

I am proud to report that in 2013 we grew assets to \$1.365 billion from \$1.277 billion in 2012. It was another spectacular year for American Heritage Federal Credit Union and its majority-owned subsidiaries, First Heritage Financial LLC providing mortgage loans and American First Abstract LLC providing abstract services. Our success can be attributed to strong membership growth, our members' trust in our services, and the dedication of our Board of Directors, management and staff. Membership grew by 4,300 members representing a 3.50% increase over 2012.

The growth in assets of \$88.4 million, or 6.9%, was primarily from share growth of \$78.8 million, or 8.2%, to \$1.042 billion and additional borrowings of \$10.0 million to \$180.0 million. Within shares, most members put their money in highly liquid investments, such as regular shares that grew by \$33.7 million, or 13.3%; money market accounts that grew by \$18.1 million, or 2.2%; and share drafts that grew by \$10.8 million, or 9.6%. However, there were members that increased their earnings

by investing in longer term shares. There was \$36.0 million, net, of 12 and 24 month certificates that rolled over into the 60 month certificate category, and new funds enabling the 60 month certificate to grow by \$43.5 million, or 62.1%. Overall, certificates grew by \$10.4 million, or 3.4%, and IRAs grew by \$5.8 million, or 5.4%.

In addition to offering rates that enabled members to invest in longer term certificates, we also borrowed an additional \$10.0 million of long-term debt to offset the interest rate risk of holding our long-term mortgage portfolio. We now have \$180.0 million of borrowings against \$283.2 million of mortgage loans.

The loan portfolio grew by \$18.1 million, or 2.2%, to \$829.1 million. Most of the loan growth came from real-estate secured commercial loans that grew by \$26.9 million to \$146.4 million; credit card loans that grew by \$10.3 million, or 10.9%; unsecured/other loans that grew by \$8.2 million, or 17.4%; and home equity loans that grew by \$0.7 million, or 0.5%. However, the first mortgage loan portfolio declined \$26.1 million, or 8.44%, due to selling most originations and some inventory to the secondary market, and automobile loans declined \$2.3 million, or 3.19%. The second half of the year also experienced a slowdown in mortgage originations as rates increased and the number of refinances declined. First Heritage Financial, LLC originated 1,176 loans for \$173 million in the first half of the year and 751 loans for \$109 million in the second half of the year, as compared to 3,010 loans for \$453 million in 2012.

As a result of member activity and management actions, American Heritage Federal Credit Union recorded net income for the year of \$12.0 million, enabling net worth to grow to \$126.9 million compared to last year's \$114.9 million, a 10.5% increase. The net worth ratio also increased to 9.29% from 8.99% and was well above the minimum 7.00% ratio necessary to be classified as a "well-capitalized" credit union. The net income of \$12.0 million represented a return on average assets of 0.91% as compared to 0.85% for our peers.

Total income was \$74.4 million. Revenues were derived from interest on loans of \$43.3 million, or 2.6% more than the prior year reflecting the loan volume of 2.2% noted above, interest on investments of \$5.0 million, or 12.9% more than the prior year, and other operating income of \$26.1 million, or 22.9% less than the prior year due to the reduction in mortgage loan volume. Expenses totaled \$51.4 million, an increase of \$0.8 million or 1.5%, while our total dividend and interest expense decreased by \$1.0 million, coming in at \$11.0 million as the overall cost of funds declined to 0.83% in 2013 from 0.99% in 2012.

Net income of \$12.0 million includes a Corporate CU Stabilization expense assessed to all credit unions by our regulator, NCUA, to support the losses from five failed corporate credit unions from 2009. Our portion of the fee was \$0.8 million. Excluding such fee, net income was \$12.8 million and return on average assets was 0.97%.

I extend a special thanks to the Board of Directors, management and staff for their support, dedication and vision. I also wish to express sincere appreciation to the members who place not only their money, but also their confidence

in American Heritage Federal Credit Union. At American Heritage, we pledge to continue to work to provide products that meet your needs and help provide our members with a better financial future. "We're Better."

Respectfully submitted,
Bruce K. Foulke, Treasurer, President

BALANCE SHEET December 31, 2013 (Unaudited)

Assets	
Loans to Members	\$829,054,363
Allowance for Loan Losses	(6,012,656)
Cash in Bank and on Hand	123,733,488
Investments	342,560,684
Other Assets	<u>76,120,859</u>
Total Assets	<u>\$1,365,456,738</u>
Liabilities and Equity	
Savings	\$1,042,230,711
Borrowings	180,000,000
Other Liabilities	<u>25,611,381</u>
Total Liabilities	<u>1,247,842,092</u>
Net Worth	126,902,936
Valuation Reserve	<u>(9,288,290)</u>
Total Equity	<u>117,614,646</u>
Total Liabilities and Equity	<u>\$1,365,456,738</u>

INCOME STATEMENT For the year ended December 31, 2013 (Unaudited)

Interest on Loans	\$43,300,357
Interest on Investments	5,053,327
Other Operating Income	<u>26,093,708</u>
Total Income	<u>74,447,392</u>
Compensation and Benefits	22,835,198
Corp CU Stabilization	778,101
Provision	4,800,000
Other Expenses	<u>23,017,127</u>
Total Expense	<u>51,430,426</u>
Dividend Expense	6,752,817
Interest Expense	<u>4,238,377</u>
Dividend and Interest Expense	<u>10,991,194</u>
Net Income	<u>\$12,025,772</u>