

“well-capitalized” credit union.

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 Credit Union. At American Heritage, we pledge to continue to work to provide products that meet your needs as “*We Offer You The Right Financial Solutions Because You’re Family.*”

Respectfully submitted,

Bruce K. Foulke, Treasurer, President

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 86 Audits and Reviews during the fiscal year ending September 30, 2016. The credit union is also periodically examined by our regulator, the National Credit Union Administration (NCUA), which completed one annual review during fiscal year 2016. 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, 2016. 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 Credit Union during fiscal year 2016 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 2016.

Respectfully Submitted,

Frank Di Domizio, Chairman
Kenneth Wong and Anthony Kuczykowski

NOMINATING COMMITTEE REPORT

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

Clara Glenn - 3 Year Term, 2017-2020
Jennifer Hannigan – 3 Year Term, 2017-2020
John Fafara – 3 Year Term, 2017-2020

Juan Lopez – 1 Year Term, 2017-2018

Respectfully submitted,
Gary Weyhmuller, Chairperson
James Brownlow, II Clara Glenn

LOAN REVIEW/DELINQUENCY COMMITTEE REPORT

For the calendar year 2016, the Loan Review Committee and the Loan Officers approved 18,684 loan applications for \$443.8 million in automobile, credit card, recreation vehicles, lines of credit, home equity lines of credit and loans, and student loans, as compared to 14,623 and \$344.3 million, respectively, in 2015.

Much of the growth in balances was due to originating large balance home equity loans in 2016 as compared to 2015. In addition, 138 commercial and 760 mortgage loan applications for \$80.1 million and \$142.9 million, respectively, were also approved. Overall, the loan portfolio grew by \$143.1 million, or 15.1%, to \$1.091 billion at December 31, 2016.

In terms of delinquencies, at year end 2016, we had 874 delinquent loans totaling \$10.1 million, or 0.91% of total loans, as compared to 951 delinquent loans totaling \$9.8 million, or 1.04% of total loans, at year end 2015. The net decrease in the number of delinquent loans of 77 consisted primarily of personal loans. The net increase in the dollars of delinquent loans of \$0.2 million was primarily due to an increase in delinquent non-federally guaranteed student loans of \$0.4 million. In 2016, there were approximately \$5.0 million of loans charged off and \$0.5 million of loan recoveries, whereas in 2015, there were approximately \$4.5 million of loans charged off and \$0.5 million of loan recoveries. The increase in charge offs was due to personal loans that increased \$365,000. The allowance for loan losses at December 31, 2016 and 2015 of \$6.8 million and \$5.8 million, respectively, were 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 Credit Union loan officers 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
Cecilia B. Grady
Scott McKim, Chief Lending Officer

AGENDA

Call to Order
Pledge of Allegiance to the Flag
Introductions
2016 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
Jennifer Hannigan, Secretary
James Brownlow II
Frank Di Domizio
John Fafara
Clara Glenn
Juan Lopez

SUPERVISORY COMMITTEE

Frank Di Domizio, Chairperson
Anthony Kuczykowski
Kenneth Wong

LOAN REVIEW/DELINQUENCY COMMITTEE

Clara Glenn, Chairperson
Cecilia B. Grady
Scott McKim

2016 ANNUAL REPORT

April 18, 2017



**WE OFFER YOU THE
RIGHT FINANCIAL SOLUTIONS
BECAUSE YOU’RE FAMILY.**

Federally insured
by NCUA



CHAIRPERSON'S REPORT

Welcome to American Heritage Credit Union's 68th Annual Meeting. We have enjoyed another year of remarkable growth and expansion of services, and have experienced high increases in both membership and assets while keeping our commitment to improve service to our members. We now have 152,983 members and serve the employees of over 800 sponsor companies.

In 2016, we rolled out our new logo for American Heritage Credit Union, upgraded the design of our website to be more user friendly and created educational videos of our products and services for our members. We issued EMV chip debit cards to our members to provide better security and prevent fraudulent transactions. We released a new feature on our mobile banking application - Fast Balances and the Last Five Transactions, converted to a new bill payer program and implemented Clarifi, a credit counseling service. We offered our members a new home equity line of credit with a fixed rate for their convenience.

We opened three new branches in 2016 to better serve the needs of our members: Naval Support Activity (NSA) branch, PECO branch and the new location of our Trevoise branch in Feasterville, Pennsylvania.

We launched a new title abstract business, Member Settlement Solutions, that works hand-in-hand with our CUSOs, First Heritage Mortgage Services and Better Homes of American Heritage Federal Realty.

We added 31 new sponsor companies this year and 13,718 new members joined the credit union in 2016. We attribute our strong growth to the opening of our new branches to the efforts of our Business Development team. We merged with Metropolitan Service FCU, Rector FCU, and First African Baptist Church FCU and gained 2,800 new members. The Board of Directors approved a merger with Tri-Ag FCU located in Newtown Square, Pennsylvania.

American Heritage Credit Union is the 6th largest credit union in the Commonwealth of Pennsylvania and moved up four places to become the 123rd largest credit union in the nation. We can also be proud that in 2016 we received a Five-Star ("The Best Possible") rating from Bauer Financial.

For the tenth consecutive year, American Heritage Credit Union was a finalist in the Philadelphia Business Journal's "Best Places to Work" contest and for the seventh consecutive year received a "Healthy Workplace Award" from the Philadelphia Business Journal and United Healthcare. We won the first-place Dora Maxwell Social Responsibility Community Service Award on the state level and second place on the national level. American Heritage was awarded the Bucks County Commissioner's Award for all the work we have done with the Veteran's Discount Program. Our Green Team was named a Gold Level Winner through Greater Valley Forge Transportation and the Sustainable Awards program for developing programs and initiatives that help reduce congestion and improve air quality through travel demand management.

Giving back to the community is just one of the things that make American Heritage different from other financial institutions. That commitment to the communities we serve continued in 2016, during which the Books for Kids program raised over

\$8,000 and our Adopt-A-Family program raised close to \$14,000 through donations from our employees and members to brighten the holidays for needy families. 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 \$1,300,000 through the Foundation to support the music therapy program at The Children's Hospital of Philadelphia (CHOP)—and \$140,000 of that total came in 2016.

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 \$4,300.

Our CEO spearheaded a committee for the Democratic National Convention and raised \$300,000 to build a Health & Wellness Garden at CHOP. Our employees joined other credit unions to plant trees and build vegetable beds for the community.

We continue to offer financial literacy programs in high schools, as well as financial management seminars for members and non-members at our sponsor companies and at our Carriage House branch Community Room. Our Community Room hosted 269 meetings in 2016. In addition, twenty 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 our commitment to community. If you attended Pennridge Community Day, Quakertown Community Day, New Britain's July 4th Parade, Fox Chase Paws for Cause or Trunk or Treat at Limerick and Quakertown, and any one of a number of other community celebrations, you probably saw us there, staffing an information table or sponsoring an event.

Our Grand Illumination event was a tremendous success with more than 12,000 people in attendance. We requested everyone bring one canned good with them and we collected 615 pounds of food from the event, which was added to the 1,625 pounds of food donated to our Third Annual Food Drive for a total of 2,240 pounds of food. We hosted two events at the Ronald McDonald House and donated \$2,540 from the purchase of striped socks/shirts for "Show Your Stripes Day".

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 Credit Union. Most of all I want to thank our members who have made American Heritage 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 2016 we grew assets \$204.7 million, or 12.5%, to \$1.849 billion from \$1.644 billion in 2015. It was another spectacular year for American Heritage Credit Union and its majority-owned subsidiaries, First Heritage Financial LLC providing mortgage loans and Better Homes of American Heritage Federal Realty LLC providing real estate broker services. Our success can be attributed to strong membership growth of 11,380 members representing an 8.0% increase over 2015, our members' trust in our services, and the dedication of our Board of Directors, management and staff.

The growth in assets of \$204.7 million was primarily from share growth of \$122.2 million, or 10.0%, to \$1.347 billion and secondarily to additional borrowings of \$65.0 million to \$305.0 million. Within shares, most members put their money in highly liquid investments, such as regular shares that grew by \$47.8 million, or 12.9%; share drafts that grew by \$24.5 million, or 13.9%, and money market accounts that grew by \$9.2 million, or 4.3%. During 2016, we continued to offer attractive 47 and 59 month bump-rate certificates which paid over 2%. Such rates attracted \$9.2 million and \$38.8 million in net new 47 month and 59 month bump-rate certificates balances, respectively.

In addition to offering rates that enabled members to invest in longer term certificates, we also borrowed an additional \$65.0 million of long-term debt to offset the interest rate risk of holding our long-term mortgage portfolio. There is now \$305.0 million of borrowings with a weighted average cost of 1.84% matched against \$287.0 million of mortgage loans earning a weighted average rate of 3.70%.

The loan portfolio grew by \$143.1 million, or 15.1%, to \$1.091 billion. Most of the loan growth came from automobile loans that grew by \$43.1 million, or 39.0%, to \$153.8 million; first mortgage loan portfolio that grew by \$40.5 million, or 16.4%, commercial loans that grew by \$38.9 million, or 19.6%, to \$237.4 million; real-estate secured home equity loans that grew by \$17.1 million, or 8.1%, to \$228.3 million; and all other loans that grew by \$3.4 million, or 1.9%. In addition to the growth of loans on the balance sheet, we also sold \$58.2 million of first mortgage loans. In the relatively low current interest rate environment, we were and are concerned about positioning the balance sheet for further rate increases by the Federal Reserve Bank, which increased the overnight rate 25 basis points in 2015 and another 25 basis points in 2016 to 75 basis points at the beginning of 2017.

During 2016, American Heritage Credit Union recorded total income of \$91.0 million derived from interest on loans of \$51.1 million, interest on investments of \$9.7 million, and other operating income of \$30.2 million, while total expenses were \$64.6 million and total dividend and interest expense was \$13.3 million as the overall cost of funds as a percent of average assets decreased to 0.76% in 2016 from 0.72% in 2015. As a result, net income for the year was \$13.0 million, representing a return on average assets of 0.75% as compared to 0.71% for our peers. Due to net income and a merger, net worth grew to \$163.8 million compared to last year's \$150.4 million, an 8.9% increase. The net worth ratio was 8.86%, well above the minimum 7.00% ratio necessary to be classified as a

BALANCE SHEET

December 31, 2016
(Unaudited)

Assets	
Loans to Members	\$1,090,955,676
Allowance for Loan Losses	(6,844,844)
Cash in Bank and on Hand	150,288,804
Investments	521,975,874
Other Assets	92,155,759
Total Assets	<u>\$1,848,531,269</u>
Liabilities and Equity	
Share of Members	\$1,347,155,660
Borrowings	305,000,000
Other Liabilities	38,547,076
Total Liabilities	<u>1,690,702,736</u>
Net Worth	163,788,835
Valuation Reserve	(5,960,302)
Total Equity	<u>157,828,533</u>
Total Liabilities and Equity	<u>\$1,848,531,269</u>

INCOME STATEMENT

For the year ended December 31, 2016
(Unaudited)

Interest on Loans	\$51,123,454
Interest on Investments	9,679,282
Other Operating Income	30,236,997
Total Income	<u>91,039,733</u>
Compensation and Benefits	30,893,218
Provision	4,535,000
Other Expenses	29,219,417
Total Expense	<u>64,647,635</u>
Dividend Expense	8,500,469
Interest Expense	4,843,280
Dividend and Interest Expense	<u>13,343,749</u>
Net Income	<u>\$13,048,349</u>
Return on Average Assets	0.75%