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

LOAD 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
Giving back to the community is just one of the things that make demand management help reduce congestion and improve air quality through the Travel Program. Our Green Team was named a Gold Level Winner for all the work we have done with the Veteran’s Discount. Heritage was awarded the Bucks County Commissioner’s Award on the state level and second place on the national level. American Maxwell Social Responsibility Community Service Award on a “Healthy Workplace Award” from the Philadelphia Business Journal. We were a finalist in the Philadelphia Business Journal’s “Best Places to Work” and “Best Places to Work in the Philadelphia region”. We launched a new title abstract business, Member Settlement Services, that works hand-in-hand with our CUISOs, First Heritage Mortgage Solutions 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 this 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 African Heritage Federal with FCR 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 2015, we joined the Finest 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 Credit Union was awarded the Bucks County Commissioner’s Award for the work we have done in support of the American Veterans’ 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 been a member and assets while after a 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 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 growth of share accounts of $122.2 million, or 10.0%, to $1,347 million and secondarily to additional borrowings of $65.0 million to $305.0 million. Within shares, most members put their money in liquidly investments, such as regular share accounts that grew by $47.8 million, or 12.9% and share drafts that grew by $24.5 million, or 21.4%, 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 4% and $38.1 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 floating-rate debt with a weighted average 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 $1,091.0 million. 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 $39.9 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 $1.1 million, or 1.9%. In addition to the growth on the loan balances 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 $51.5 million, net 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 a result, net income as a percentage 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 8.6%, well above the minimum 7.0% ratio necessary to be classified as a