

Catholic United Financial

2014 Annual Report

By Michael Ahles
Senior Vice President and Secretary/Treasurer

Catholic United Financial continued to scale some record-setting peaks in 2014, with growth in key financial metrics. We faced some outside challenges that we believed were behind us. We made money. And we continued to protect the legacy of our exceptional Association.

I'm proud to report that we once again attained all-time highs in the following categories:

- **Assets - \$834 million**
- **Policy Reserves - \$793 million**
- **Life Insurance In Force - \$2.13 billion**
- **Life Insurance Premium - \$16.3 million**
- **Investment Income - \$37.5 million**



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Catholic United
Financial[®]



Harald Borrman
President



Michael Ahles
Senior Vice President
and Secretary/
Treasurer

Assets

Total assets continued their multi-year trend and increased over the prior year by \$28 million to reach a record \$834 million at the end of 2014. Bonds still comprise the vast majority of our invested assets (\$752 million or 91.3%) and continue to be of high quality as only \$7.8 million (1%) are considered non-investment grade securities. The percentage of bond holdings was reduced during 2014 given our strategy to increase commercial mortgage loans which in turn adds diversity to the overall portfolio.

During 2014, our mortgage loan portfolio increased by \$12 million to a balance of \$35 million given participation in a new commercial mortgage loan program with Advantus Capital Management. Our equity portfolio holdings were unchanged during the year and total \$9

million at year-end, which is just over 1% of our invested assets. The S&P 500 and Dow Jones Industrial Average indexes gained 11.4% and 7.5%, respectively, during 2014 and this U.S. market return allowed us to realize equity gains of \$150,000 during the year. A small gain was also realized in 2014 from the sale of the former home office building of the American Fraternal Union.

As with prior years, our portfolio is managed in accordance with the Investment Policy set and monitored by our Board of Directors. Overall, I am pleased to report that no impairments were recorded in 2014 and our investment portfolios remain in excellent overall condition.

The steady asset growth of our Association is due to the continued commitment of three groups:

- Our legacy Members, whose commitment is shown by their loyalty in paying their premiums.
- New Members, who are committed to the protection received from their new life insurance and annuity products.
- Our employees, whose commitment to managing and

monitoring our investments will ensure our Members' security in meeting their long-term needs.

This dedication has sustained our 137-year record that no Member has ever lost money on their investment with our Association, and I expect that will continue for years to come.

Liabilities & Surplus

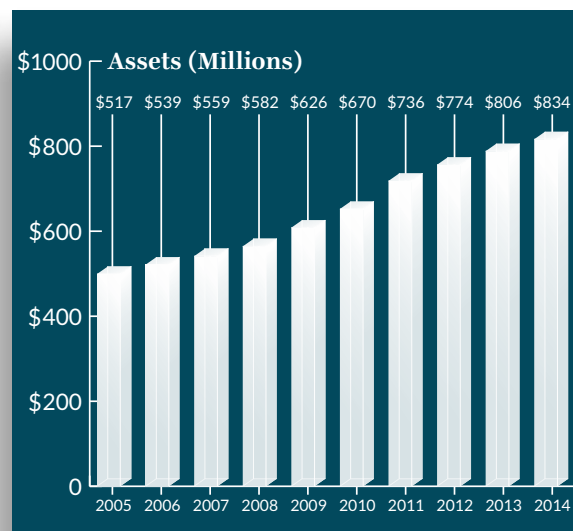
Policy reserves rose by \$27 million during 2014 reaching a new record of \$793 million at year end; this growth is fueled by sales of new annuity and life insurance policies. However, even though our assets and policy reserves continued to grow, total surplus declined by \$1.3 million to \$32.1 million at year end.

Total Surplus is a combination of Surplus and the Asset Valuation Reserve (AVR), both of which serve as an important "safety net" for our Members' investments and ability to pay future benefits and claims. The AVR increased \$0.7 million given the increase in commercial mortgage loan holdings noted previously. However, Surplus decreased \$2.0 million during 2014 given a required increase in the Association's employee pension plan liability due to two factors:

- The U.S. Department of Labor decreased the discount rate used to calculate pension liabilities.
- The Society of Actuaries released new mortality tables which reflect an increase in the life expectancy of Americans, resulting in increased pension plan liabilities.

The resulting impact of these new requirements completely reversed the favorable surplus increase we recorded during 2013. The good news is that we believe this setback is now behind us as the prevailing low interest rates

of the past few years are expected to increase beginning in 2015. If so, this rebound should enable a decrease in the pension plan liability with a corresponding increase in surplus in the years ahead.



Income

Total income is comprised of premiums received and investment income, and exceeded \$86 million in 2014. The Association's premium totaled \$48 million in 2014; a nice 3% increase from the prior year. Annuity sales of more than \$31 million fueled the majority of this increase plus our plan to boost life insurance sales continued to be successful. Life premium rose 1% surpassing \$16 million for the second consecutive year and achieving a new record. The continued increase in single premium whole life sales coupled with a record fourteen newly recruited sales representatives during 2014 drove our life insurance in force to yet another all-time high of \$2.13 billion.

The steady increase in our life insurance and annuity business over the past decade is truly an impressive feat and demonstrates that our products, member benefits, and impact in our Catholic and overall community continue to be attractive to both new and legacy Members. This affirms our fraternal difference.

The investment income earned on the Association's investments grew \$1.0 million to total \$37.5 million during 2014. This growth is due to the increase in assets mentioned previously; however, it is mitigated by the decline in the Association's investment portfolio yield. The steady decline in yield began in 2007 as the prevailing low interest rate environment requires us to reinvest the proceeds of maturing bonds at a much lower yield. During 2014, this normal reinvestment activity reduced the portfolio yield to 4.72%, a decrease from 4.84% in the prior year. Although interest rates were thought to have "bottomed out" and then rebounded during 2013, they regressed during 2014 given high investor demand for U.S. Treasury debt as most advanced economies around the world struggle to grow. This is evidence that a sustained recovery in rates and our Association's portfolio yield will take a few years.

Claims, Expenses & Profit

The Association's claims and expenses increased \$2 million during 2014 due primarily to higher death claim and surrender activity, which more than offset a \$397,000 decline in insurance operating costs. Fraternal program expenses during 2014 were the same as the prior year at \$2.1 million, reflecting our continued commitment to invest in our Catholic community and expand the reach of our Association. Overall, net income rose to \$784,055 during 2014, more than double the prior year result, given improved profit from the Association's operations.

Total Surplus	12/31/2013	12/31/2014
<i>Surplus</i>	\$28,371,487	\$26,373,187
<i>Asset Valuation Reserve</i>	\$5,004,442	\$5,722,893
Total Surplus	\$33,375,929	\$32,096,080

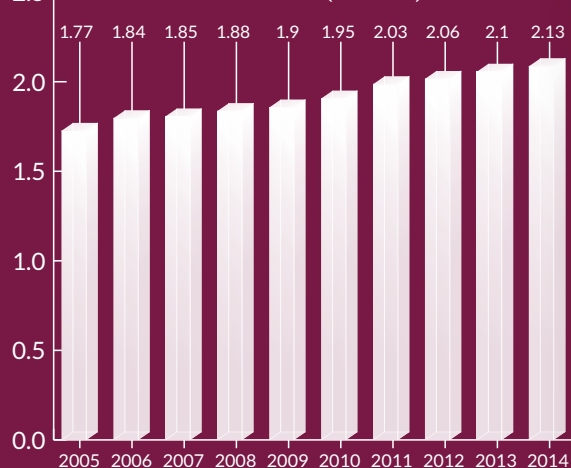
Summary

As a Member-owned, Member-directed organization, growing our membership remains our most important objective. Membership totaled 82,298 at year end but declined for the second consecutive year as our 1,838 new members in 2014 did not exceed the number who departed. The decrease of 1% is primarily due to the steady loss of former American Fraternal Union Members since they joined the Association in 2011. While the decline is small, it is not acceptable, thus growing our membership will continue to be our Association's top priority.

All in all, 2014 brought some financial challenges given the impact of new pension requirements and the continued headwind from low interest rates. But in spite of these trials, we created a year with continuing records and improved income for our organization.

May God bless our Association and our valued Members.

2.5 Life Insurance In Force (Billions)



Year-End Financials for Catholic United Financial

STATEMENT OF OPERATIONS	2013	2014
Total Income	\$83,624,029	\$86,050,889
Total Claims & Expenses	\$83,588,934	\$85,642,080
Net Gain from Operations	\$35,095	\$408,809
Refunds to Members	\$454,254	\$340,243
Net Gain (Loss) after Refunds	(\$419,159)	\$68,566
Net Realized Capital Gains (Losses)	\$797,914	\$715,489
Net Income (Loss)	\$378,755	\$784,055

BALANCE SHEET

Total Assets	\$806,180,777	\$833,711,435
Total Liabilities	\$777,809,290	\$807,338,248
Surplus	\$28,371,487	\$26,373,187
Total Liabilities and Surplus	\$806,180,777	\$833,711,435



All people pictured in this report are real members of Catholic United Financial. For more information about our finances or for a copy of the Annual Report issue of *Our Catholic Journey*, contact Catholic United Financial at 651-490-0170.

Pieces of Pie

There is one part of our finances that we would especially like to feature. Catholic United Financial is a fraternal benefit society, which means we give back to the community that we serve. Take a look at our official publication, *Our Catholic Journey*, and you'll be impressed by examples of all the good we do. But from a financial sense, we see only once a year how much we contribute to those activities.

At right, you'll see a chart depicting where our fraternal dollars are being spent. As you can see, we've put more than a million dollars into our communities in the past year, which is a representative sum for every year.

The most compelling part of this graph, however, is what *isn't* shown. Many Catholic United fraternal programs treat the direct donation amount (the sums listed here) as seed money, rather than the donation itself. What that means is that each of these dollars is multiplied many times over when it comes to actual effect.

The most powerful example is our Raffle. The Annual Catholic Schools Raffle cost Catholic United \$116,865 in 2014. That seems like an impressive amount, and many might wonder, "why not just donate that amount directly to the school, and skip the raffle part?"

The answer is obvious if you recall the amount the Raffle raised in 2014. The \$116,000 went toward printing 300,000 tickets, tens of thousands of flyers, hundreds of posters and display items; it went toward dozens of enticing prizes; it paid for the shipping of kits to, and tickets from, the 87 schools that participated across the three-state region. As a result of that investment, that "gamble," the participating schools were able to raise \$1,023,695. That's almost *ten times* the amount we spent on the raffle! And that's why many of our programs, including Matching Funds, Ministree, all of our Youth programs, and our benevolent programs rely on Catholic United to provide the foundation for the energy and innovation of our members and their councils to go out and multiply.

2014 Fraternal Expenses: \$1,118,263

