

Catholic United Financial 2012 Annual Report



Harald E. Borrmann
President and Chairman

We are pleased to report another successful year for our Association in 2012. We achieved numerous milestones of growth in assets, reserves, life insurance in force and membership. Our balance sheet continues to be strong, as the protection of our members' investments with us has always been management's most pressing concern. We are proud to continue to be able to say that no member in our 135-year history has ever lost so much as a penny on their investments with us. Due to the continuing historically low interest rate environment, however, some of our financial goals were not fully realized. We will provide you with complete information on these developments later in this report.

Our assets are managed conservatively and in our members' long-term best interests. We invest primarily in bonds, and maintain a diverse portfolio in accordance with the Investment Policy set by our Board of Directors. We also have a small portfolio of commercial loans that we have had for many years. This portion of our assets is shrinking as loans are being paid off and as we see relatively few attractive new commercial loan opportunities. In addition, we decided to take aggressive action in writing down the value of two foreclosed properties on which we had made loans with our banking partners. Our philosophy in these cases is to take an aggressive posture in writing

down our carrying value of such properties so that we deal with them fully and promptly. We then look for an opportunity to sell these properties at terms advantageous to our financial position. This strategy has been successfully applied in the past and has served us well. It should continue to do so in the future.

Our total premium income in 2012 was approximately \$54 million, down slightly from the all-time record established in 2011. This was by design, as we are looking to grow our life insurance business while at the same time temper the growth of our annuity business. Our result was thus precisely in line with our premium goal.

It is also good to see that the combination of our Surplus and Asset Valuation Reserve (AVR) grew during 2012. Surplus and AVR serve as an important safety net for our members' assets and our ability to pay claims in the future. You may recall that this important financial benchmark dropped slightly in 2011, largely the result of prevailing low interest rates affecting our pension liabilities. As rates begin to rebound, that effect on our surplus will reverse. In the meantime, however, it is our goal to continue to grow our surplus until and while higher interest rates assert themselves.

The low interest environment we find ourselves in is a truly historic one; only in 1941 have 10-year interest rates been as low as the past year and, even then, they quickly recovered to more traditional levels. We have not seen any real improvement in interest rates in 2012, though it does appear as though interest rates have "bottomed out" and might be trending up ever so slightly. Last year, we told you of a new investing relationship with Wellington Management; I am

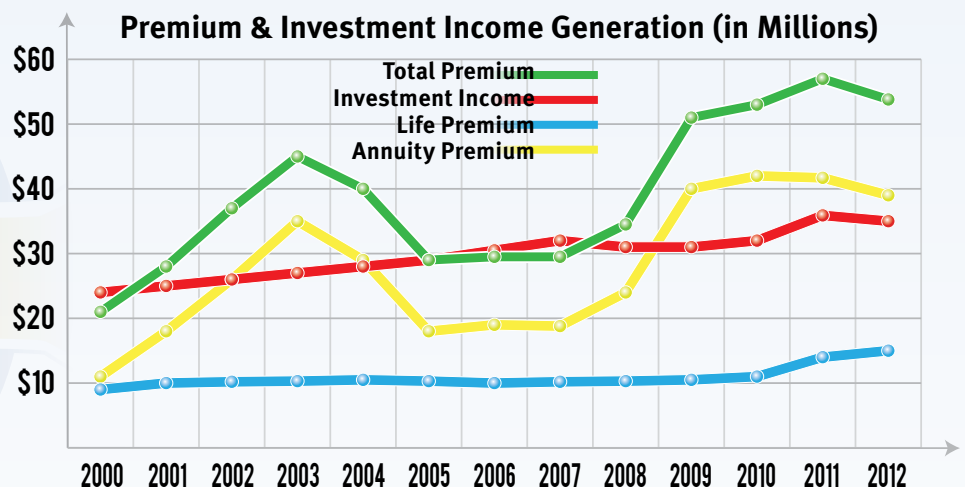
Highlights
of 2012

An increase of \$37 million in Assets, to \$773.7 million.

Nearly \$2 million growth in Adjusted Surplus.

All-time high of Life Insurance in-Force of \$2.06 Billion.

More than \$50 million in premium income.



	12/31/2011	12/21/2012
Surplus	\$26,129,055	\$26,484,782
AVR	\$1,741,668	\$3,085,862
Adjusted Surplus	\$27,870,723	\$29,570,644

pleased to report that this new relationship has been particularly helpful in dealing with the challenges of investing in today's economic climate. Our Investment team continues to do extraordinary things in a less-than-ideal environment on behalf of our members.

We also saw the full integration of the American Fraternal Union membership into Catholic United during 2012. A full system integration was in place by June, and we are pleased to report that former AFU members are now being fully serviced out of our Home Office in St. Paul. This merger was the first one for our Association, and we believe we gained strength and wisdom through this experience. We are equally pleased that, in addition to the 12,000 new members we gained from the AFU merger, we also saw modest organic growth of our Catholic United membership.

Fraternal insurance companies throughout the land are struggling to grow. In many cases, they are pleased to "only" shrink by 3-5% a year. Happily, we are in fact still growing, and 2012 marked our fourth consecutive year of member growth. There is no more telling statistic than member growth to confirm that we continue to offer financial products and fraternal benefits of interest to our members, and relevant to today's needs. A quick look at the growth in our life insurance in force attests to this fact. Another all-time high of which we should all be very proud!

Finally, it is a great pleasure to tell you that our financial commitment to our fraternal benefits continues to grow. We have added to our Fraternal Department staff, and we are supporting their pioneering work in designing new council structures that will complement our traditional model. Suffice to say, however, that we could not be more excited about, or supportive of, the developments in our Fraternal area. After all, it is the Fraternal aspect of Catholic United which makes us unique.

It would be remiss to review 2012 without mentioning the enormous contributions of Mike McGovern, who retired as the President, CEO and Chairman of the Board of Directors of Catholic United Financial this past January. His fifteen years of visionary leadership was the largest single factor in the growth of Catholic United to what has become a \$770 million organization. His wise stewardship led us through an extraordinary time of economic turmoil, a name update, a merger, the formation of our Credit Union, the establishment of our Annual Catholic Schools Raffle, the development of our Catholic United Financial Foundation and many more accomplishments. Mike, we salute you. You and your family will remain in our thoughts and prayers for a long and happy retirement.

May God continue to bless Catholic United and our members each and every day!

Fraternally,

Arnold E. Barrman

Year-End Financials for Catholic United Financial

STATEMENT OF OPERATIONS	2011	2012
Total Income	\$92,596,423	\$90,025,551
Total Claims & Expenses	\$91,201,200	\$89,865,835
Net Gain from Operations	\$1,395,223	\$159,716
Refunds to Members	\$445,814	\$450,925
Net Gain (loss) after Refunds	\$949,409	(\$291,209)
Net Realized Capital Gains (Losses)	(\$684,081)	\$132,740
Net Income	\$265,328	(\$158,469)

BALANCE SHEET	2011	2012
Total Admitted Assets	\$735,583,519	\$773,677,339
Total Liabilities	\$709,454,464	\$747,192,557
Surplus	\$26,129,055	\$26,484,782
Total Liabilities and Surplus	735,583,519	\$773,677,339

