Catholic United Financial 2011 *Annual Report*

We are pleased to present for your review the 2011 Financial Report for Catholic United Financial. This report represents our combined results after our merger with the American Fraternal Union (AFU) on October 1, 2011. As a result of the merger, as well as the continuing growth of Catholic United's direct business, the Association achieved all-time highs in several categories:

Results for your Association in 2011

- **Assets — $735.6 million**
- **Policy Reserves — $699.4 million**
- **Premiums — $56.4 million**
- **Insurance In Force — $2.025 billion**
- **Fraternal Expenditures — $2.1 million**

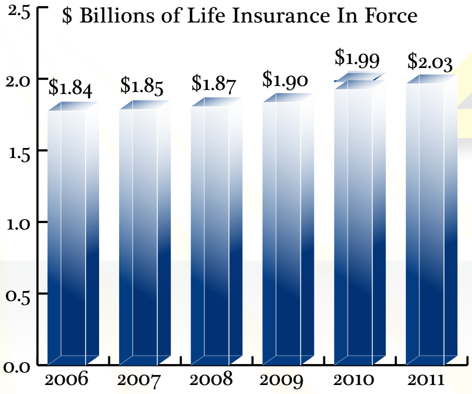
In many ways, growing our assets represents one of our Association's more important tasks. As you can see, our assets grew nicely. Even if you factor out the increase due to the merger, the asset base grew meaningfully; this continues a decades-long trend and is a very real sign of our growth and strength. Unlike many commercial insurance companies that, like us, invest primarily in bonds, we did not need to impair (i.e., "write down") the value of any of our bonds in 2011. Similarly, we did not have to foreclose on any mortgages during 2011. The combination of these two actions that we didn't have to take is a good sign of the conservative values and underlying strength of our investments. We purchase assets for the long term, and do not look for opportunistic, short-term gains. Simply put, when we invest our members' funds, we do so cognizant of our tremendous responsibility for their long-term security.

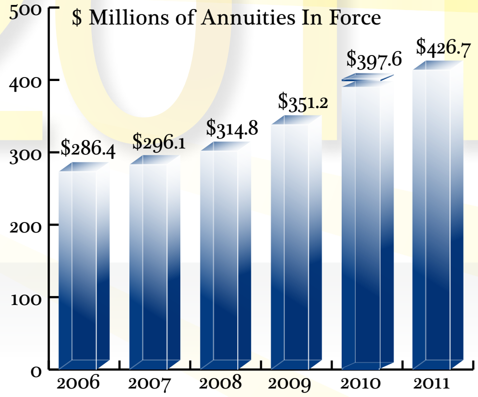
One tool we have added to our investment arsenal is a new relationship with Wellington Management; we are working with Wellington, along with several other Catholic fraternal insurers, because they help provide us with additional guidance, support and resources to manage our investments as prudently as possible. Management feels this relationship will only enhance the great results we have been able to obtain over the years.

Equally important is our life insurance in force. For the last several years, we have been able to report increases in our insurance in force. This metric is the single best way for us to measure how our policies are perceived by our members. When someone is not pleased with the performance of their policies, they will not keep them in force. Happily, the growth of our insurance in force continues at a steady rate and is now an all-time record. We are at more than $2.0 billion including AFU, and just under $2.0 billion on a stand-alone basis. This is you – our member – telling us that you like our life insurance products.

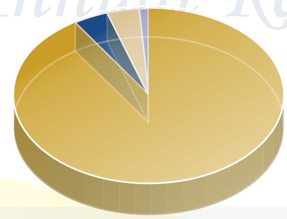
Did we make money running our Association last year? The answer is "Yes!" We posted a Net Operating Gain from Operations of $1.4 million in 2011. This allows us to continue to invest in our fraternal programs and expand the reach of our Association. One statistic of which we are particularly proud is that we were able to spend more than $2.0 million on our fraternal programs, the first year we have ever exceeded this threshold.

One area where we did not perform as we would have preferred was growth of surplus. This is almost entirely due to the provisions we were required to make for our future pension obligations. Catholic United has long had in place a pension plan for its employees, and we are required to post a liability for this future obligation. Due to the present low interest rate environment, the number we are required to establish has increased; this caused a reduction in our surplus as of December 31, 2011. While this is not something we are pleased about, we also understand that as interest rates begin to climb back to normal levels, this adjustment to our surplus will reverse and the surplus will be restored. Both Management and your Board of Directors recognize that fluctuations in our surplus due to fluctuations in our pension liability must be put into proper perspective. Although our charge to surplus for





Liabilities And Surplus
$735,583,519



91%	Reserves
4%	Surplus
4%	Supplementary Contracts
1%	Other Liabilities

this change in our pension liability was approximately $3.4 million, we fully expect that this is a temporary situation. In the meantime, we remain committed to continue to grow our surplus through gains from our insurance operations. That is the single most important component of long-term surplus growth.

We are a member-owned and member-directed organization. Growing our membership remains our most important goal. Therefore, we are pleased to report another year in which our membership increased. We finished the year with 74,436 members, up from 74,097 last year. While most fraternals are reporting drops in membership, we continue to buck this trend. We believe this is due to many factors: a professional and enthusiastic sales force, a strong home office, relevant fraternal programs and benefits, increased marketing, excellent insurance products, a strong financial base, and our great history and reputation. But maybe the most important factor is you – our member. It is often through word of mouth that new members hear about us. It may sound simple, but if we take proper care of our members, you will take proper care of our Association. That's a partnership that can't be beat!

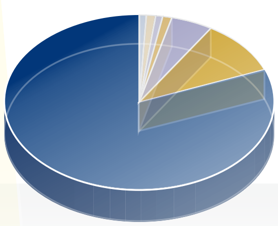
The past two years have been a period of extraordinary change for Catholic United. Our name update, the AFU merger, the Wellington investment relationship, the physical plant improvements, increased funding for the Catholic Schools Raffle and for the Foundation's Disaster Relief program along with the stresses of the financial crisis all affected our results. We are pleased that this period of change has produced operating profits along the way. However, we now expect to produce even higher levels of profitability that we can turn into a higher level of fraternal benefits. Our conservative approach to investments as well as our conservative approach to underwriting and reserving both serve to protect our members and our surplus. There are no plans to change our time-tested approaches in these areas.

Management is bullish on our future and believes that our Association has actually never been stronger or better suited to continue its growth and leadership within the fraternal community. The merger has been a challenge, yet one which the Association's employees responded to with enthusiasm and teamwork.

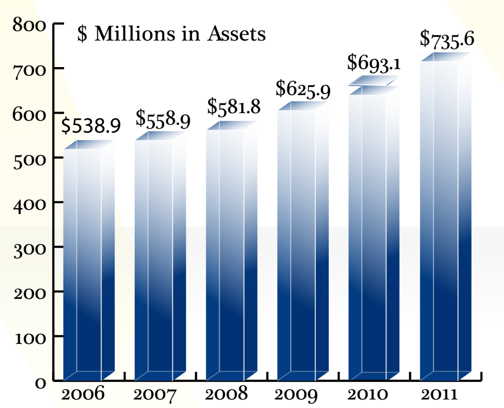
We expect good results in 2012 and beyond. The necessary ingredients are in place. Management and employees are working together to take full advantage of our competitive advantages. We thank the Board of Directors for their continued support of our efforts. Most of all, we thank you for your unwavering commitment.

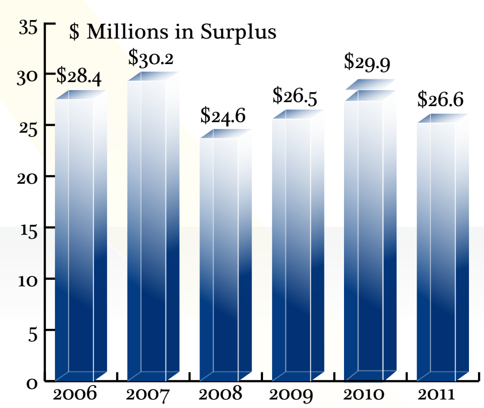
May God bless our members and their families.

Assets — $735,583,519



88%	Bonds
6%	Mortgage Loans
2%	Cash/Short-Term Investments
1%	Mutual Funds
1%	Policy Loans
1%	Investment Income Due/Accrued
1%	Other Assets





****A note on the bar graphs*: Years 2009 and prior reflect Catholic United Financial only; 2010 reflects Catholic United totals and the proportional addition of American Fraternal Union financials; 2011 reflects combined AFU and Catholic United Financial totals.