REPORT OF THE NATIONAL TREASURER
FOR THE YEAR ENDED DECEMBER 31, 2025

Reverend Nasta, President Arendt, Executive Secretary Collins, National Officers, Board of Directors and Members of the FCSU,

I am pleased to present my report on the state of the FCSU's finances and treasury operations for the year ended December 31, 2025.

Overview

- Total assets increased to $599,328,981 [2024 - $587,455,963]
- Cash on hand was $29,900,846 [2024 - $28,308,938]
- Insurance and annuities sold was $35,683,839 [2024 - $38,660,760]
- Net investment income increased to $26,581,192 [2024 - $26,223,885]
- Net (loss) income for the year was $(8,029,034) [2024 - $357,391]
- Surplus at the end of the year was $48,836,152 [2024 - $54,418,491]
- Solvency Ratio was 108.9% [2024 – 110.2%]
- Risk Based Capital Ratio (RBC) was 720.47% [2024 – 656.89%]
- Reserves for life contracts increased to $524,888,998 [2024 - $501,785,847]
- Average investment quality at December 31, 2026 was approximately 6.56 [2024 – 6.70] on the NAIC* 20 scale and approximately 1.49 [2024 – 1.45] on the NAIC* 6 scale (the lower the better for each of them).

  * National Association of Insurance Commissioners

The FCSU experienced slightly lower annuity and insurance premium income this year due to a tougher sales environment, higher interest rates and an inflationary global economy.

In response to recent regulatory changes introduced by the National Association of Insurance Commissioners (NAIC), we have adjusted the reserve allocations in our 2025 financial statements for certain annuity products. These changes required us to hold a higher percentage in reserves to maintain compliance and ensure continued financial stability. Consequently, we have strategically reallocated funds from our surplus accounts. This proactive approach reinforces our commitment to sound financial management and long-term security for our members and policyholders. The FCSU maintains adequate surplus which is necessary for future growth and to support the production of new business.

This additional reserve requirement plus a write down of approximately $2 million in the carrying value of certain investments (due to factors not within our control) were the main factors that resulted in a net loss of $8,029,034 for the year ended December 31, 2025. We remain financially strong. Even with the net loss, the FCSU maintains a strong foundation to support fraternal benefits, member dividends, and future growth. Our focus remains on managing risk and optimizing financial performance for long-term success.

Over the past year, markets continued to be impacted by decreasing interest rates, inflationary pressures, geopolitical tensions, global trade disruptions and overall slower economic growth. These events continue to pose challenges for us. The FCSU is significantly influenced by economic conditions in the United States, particularly interest rates which impact our investment portfolio and annuity crediting rates. The U.S. Federal Reserve maintained a moderately restrictive monetary policy for 2025, lowering the federal funds rate from target ranges of 4.50-4.75% to 3.75-4.00% in a balance to try to combat inflation while trying to stimulate the economy. Essentially, the U.S. Fed reduced interest rates by 75 basis points (or 0.75%) during the year. Economic factors are stabilizing; we have avoided having a recession during 2025 and we are hopeful that we will avoid having a recession during 2026.

The interest rate cuts had an effect on the FCSU. Lower interest rates directly impact annuity credit rates. As the Fed reduces rates, yields eventually decline in our portfolio of bonds and other interest-bearing investments. Like most insurers, the FCSU invests heavily in bonds and other types of fixed income securities such as asset-backed and mortgage-backed securities.

Member Safety Funds

If we consider your Member Safety Funds calculation, which consists of surplus funds plus reserves that have no liabilities against them, these were as follows:

	2025 ($)	**2024 ($)**
Surplus	48,836,152	54,418,491
Asset Valuation Reserve (AVR)	4,455,512	5,569,065
Interest Maintenance Reserve (IMR)	-	370,171
Total	53,291,664	60,357,727
(Decrease) Increase from prior year	(7,066,063)	1,534,853

IMR and AVR are liability reserves (or buffers if you will) to provide for changes in interest rates and asset valuations and are calculated in accordance with statutory accounting requirements. These reserves are required by state regulators, are non-cash items and are added to or amortized accordingly. AVR is calculated through consideration of rating factors of the FCSU's bond holdings, common stocks, mortgages, real estate and other investments. As such, these values will fluctuate from year to year. AVR decreased during the year, primarily due to realized capital losses.

IMR works by accumulating both gains and losses resulting from changes in interest rates in a separate reserve account. Keeping that amount separate makes it easier to track as no funds are commingled. Then any gains or losses are amortized into income over the estimated remaining life of an investment (i.e. bonds or treasury notes with fixed repayment terms). The hope is that in ideal scenarios, the losses are offset by the gains so that little to no adjustments to net investment income values are needed.

Our Solvency Ratio at the end of the year was 108.9% (2024 – 110.2%). If we included AVR and IMR in our calculations of Solvency Ratio, the ratios would then be 109.7% (2024 – 111.3%). The member safety solvency decreased along with the Surplus decrease, because of the decrease in the AVR and IMR. The AVR decrease resulted from the increase in bonds and mortgage loans, plus the NAIC stipulates bond rating factors based on rating agency classifications and comparable risk.

Risk Based Capital (RBC)

Calculations of RBC are required by both the State of Ohio and the NAIC. RBC is calculated by applying assigned risk factors to asset, premium, claim, expense and reserve items. Our RBC for 2025 was calculated to be 720.47 (2024 – 656.89). The State of Ohio requires insurers to maintain an RBC level above 300 or face regulatory consequences. We are safely above that threshold.

Summary Cash Flows

A summary of the FCSU's cash flows for the years ended December 31, 2025 and 2024 is as follows:

	Years ended December 31	
	2025 ($)	**2024 ($)**
Cash provided by (used in):		
Operations		
Net premiums collected, net investment income and other Income	63,003,774	66,207,807
Benefit and loss related payments, commissions paid, expenses paid and dividends paid to policyholders	(45,556,566)	(49,717,009)
	17,447,208	16,488,798
Investments		
Net investments sold, matured or repaid	95,691,606	58,199,290
Net investments acquired	(107,464,502)	(67,970,330)
Decrease in contract loans and premium notes	(14,983)	(47,818)
	(11,787,879)	(9,818,858)
Financings and other sources		
Net deposits on deposit-type funds and other liabilities	(4,502,320)	(8,811,201)
Other cash provided	434,906	218,114
	(4,067,404)	(8,593,087)
Net increase (decrease) in cash and cash equivalents during the year	1,591,916	(1,923,147)
Cash and cash equivalents, beginning of the year	28,308,938	30,232,085
Cash and cash equivalents, end of the year	29,900,847	28,308,938

Cash generated from operations was up 5.8% to $17,447,208. Included in that number are the effects of an overall decrease in life and annuity premium income plus approximately $26.5 million in investment income. I will leave a further discussion of this topic to the President and Executive Secretary in their reports.

During 2025, we put the cash flow from operations to work by increasing net investments by $11.787,879 (2024 – $9,818,858).

Cash and cash equivalents include demand deposits, money market funds and certificates of deposit with maturities generally of 90 days or less. We maintain cash balances in various amounts to pay estimated and expected claims, redemptions and operating expenses. Excess cash is kept in interest bearing accounts until it is placed into appropriate investments. The FCSU places its investments in highly rated financial institutions and limits the amount of credit exposure to any one entity.

Investments and Investment Philosophies

The 2025 year continued to present challenges for most of us, both in the investment markets and the way we live. The level of inflation continued to make life more difficult. Interest rates had risen to attempt to rein in inflation, with some measure of success, however the country is at the point where certain metrics remain stubborn, even as the unemployment rate was generally declining. Inflation affects the FCSU by increasing our costs, however, we have budgeted for that and do not foresee that to be a problem for us in the short term.

As at December 31, 2025, 97.6% of the FCSU's bonds were investment grade (NAIC rating classes 1 and 2). FCSU's bond portfolio reflects a strong quality portfolio that is consistent with the fraternal average; our net investment rate of return for 2025 was 5.08% (2024 - 5.15%). We prefer to stick with investment quality bonds and will accept a lower acceptable rate of return as opposed to trying to earn higher rates of return that would come with substantially higher risk. While the FCSU can invest in common stock, we generally do not due to their inherent risks, that common stocks do not carry a set or guaranteed rate of return, are subject to capital losses and may or may not pay dividends. Needless to say, while everything in our lives has risks, we do not prefer to take needless risks with money that absolutely has to be there when it's needed by you. We keep a close eye on market risk and default risk and historically have had very low rates of default.

As at December 31, 2025 and 2024, we owned bonds with qualities as follows:

NAIC Rating	Moody's Scale Approx.	Quality Description	2025	2024
Class 1	Aaa, Aa1, Aa2, Aa3, A1, A2, A3	Highest	54.5%	51.6%
Class 2	Baa1, Baa2, Baa3	High	43.1%	45.8%
Class 3	Ba1, Ba2, Ba3	Medium	1.8%	1.5%
Class 4	B1, B2, B3	Low	0.1%	1.0%
Class 5	Caa, Ca, C	Lower	0.5%	0.1%
Class 6	D	In or Near Default	-	-

At the end of 2025 using the above scale, our bond portfolio had an approximate average quality rating of 1.49; the lower this number is, the better.

As at December 31, 2025 and 2024, our average bond maturities were as follows:

Years	2025	2024
< 1	13.2%	6.6%
1 – 5	20.0%	29.6%
6 – 10	15.9%	19.0%
11 – 20	40.4%	34.3%
20 +	10.6%	10.5%
Average	5.3 years	5.2 years

In prior years, as interest rates were rising, we favored shorter term investments. When we felt that interest rates were starting to plateau, we started to favor longer terms to lock in higher rates of return. This strategy should hopefully pay off in future years as lower yielding investments roll off the books and the proceeds are reinvested at higher rates of return.

Our weighted duration to maturity at December 31, 2025 was 5.3 years (2024 - 5.2 years). The average maturity partially results because we own a quantity of CMO (Collateralized Mortgage Obligation) Bonds. Some of our bonds have long maturity dates but may pay off earlier due to calls, redemptions and refinancings. The result is actual average duration will be shorter than it initially appears.

While many of our bond investments are currently tied up for longer terms, our other non-bond investments tend to have shorter times to maturity. The FCSU's investment philosophy is to hold investments until maturity as opposed to active daily buying and selling. This allows us to lock in rates of return, irrespective of what the markets do. All investments are carried at book value unless an investment's circumstances require a revaluation.

The FCSU generates both positive and negative cash flows, through sales and redemptions of products, insurance payouts, maturities and redemptions of investments, investment income (interest, dividends and capital gains/losses) and purchases and rollovers of investments. We do our best to try to match our investment maturities with expected policy maturities and payouts in accordance with our investment policies. With that in mind, our trailing reinvestment statistics (all investments, not only bonds) as at January 12, 2026 were as follows:

Past Number of Days	Book Value ($)	Yield	Modified Duration (1)	Effective Duration (2)	Number of Investments
360	101,383,789	6.06%	4.7 years	5.2 years	85
180	64,772,582	5.88%	4.6 years	5.3 years	49
90	30,145,111	5.96%	3.7 years	3.8 years	21

(1) Years to maturity
(2) Years to maturity including call optionality

As we all know, interest rates have risen significantly during 2022 and 2023 and have declined during 2024 and 2025. That can be seen in the gradual decline in our yields. The FCSU's investment policy is to invest mainly in interest and income bearing investments (meaning bonds, notes, asset and mortgage-backed securities and other loans) as opposed to "playing the stock market". All the FCSU's investments are in 100% compliance with the policy.

Because of the interest rate environment, net investment income increased and should continue to increase in near future as maturing and new investments will be reinvested at higher rates while keeping within our margin of safety, meaning that we are in the fortunate position of not having to chase yield by investing in lower grade opportunities (and therefore at higher risk).

Most of our investments are in the $1-3 million range with maturities ranging from 2 to 40 years. We generally look for investments with grades in the A's to high B's (NAIC grades 1 and 2), anything rated Ba and lower (NAIC grade 3+) are generally out of the question. This policy allows for a respectable comparative yield with lower risk. Any investments that have been reduced to NAIC grades 3, 4 and 5 have happened due to their unique business circumstances and we re-evaluate them at that time.

The FCSU's portfolio as at December 31, 2025 had a book yield of approximately 5.08% (December 31, 2024 - 5.15%), declining slightly due to the decline of interest rates. The FCSU achieved a 2025 average gross product margin (a measure of profitability) of 0.80% (2024 - 0.79%). This margin allows the Society to maintain its current rates it pays on its annuities. Average gross product margin is the portfolio earning rate less the rates it pays out on its annuities and other products. And that margin allowed us to increase the rates we pay on new annuities to remain competitive in the market.

The FCSU's Executive Board and its Board of Directors are faced with constant reinvestment activity and having to make the decisions that move the FCSU forward and in the right direction. To assist with this, the FCSU has contracted with a professional asset manager (AQS Asset Management of Austin, Texas) to handle and assist in evaluating new investments and sales and redemptions in its investment portfolio. AQS Asset Management specializes in managing portfolios for fraternal insurance companies like ours. The FCSU's Executive, Board and I greatly appreciate their assistance and wise counsel in assisting us to make informed investment decisions.

We also keep a close eye of the merits, qualities and trends of other asset classes that are available to invest in (for example: energy, utilities, commercial office, residential office real estate, health care, retail, etc.) while keeping an eye on economic conditions at large (for example: interest rates, inflation, unemployment, economic growth, etc.).

FCSU compared to other Fraternal Insurers

In a study comparing 39 other fraternal insurers ranging in size from approximately $100 million to $5 billion in assets with data taken from financial statements filed with the NAIC for 2024 fiscal year ends (“FYE”) (the latest year that figures are currently available), the FCSU compares very favorably. These standard metrics and ratios tend to allow comparisons to other insurers to illustrate management quality and ability. Some highlights (again, all as at December 31, 2024):

Metric	FCSU Value	Remarks
Bond portfolio yield	4.79%	Average was 4.52%
Bond portfolio yield with IMR effects	4.86%	Average was 4.62%
Bond and mortgage portfolio yield	5.08%	
Insurance expense as % of assets	0.76%	National averages - Added surplus <1.20% - Lost surplus >2.13%
NAIC 2-6 holdings (% of portfolio)	48.4%	Average was 44.5%
RBC ratio	657%	Average was 767%
Return on assets	0.17%	Average was 0.00%
Return on capital (1 year)	1.9%	Average was -4.5% (decrease)
Return on capital (3 years)	5.3%	Average was -3.4% (decrease)
Return on capital (5 years)	5.2%	Average was -0.3% (decrease)
Return on capital (since 2009) (*)	13.7%	Average was 5.3%

* Since Financial Crisis

Corporate Governance, Other Responsibilities, Fraternal Activities and Attendances

Part of my duties also include the oversight of the Society’s fixed assets and corporate governance. I have made and continue to make inquiries as to the state of the Society’s financial systems, cash management, controls, record keeping, compliance, risk management and strategic planning. I have found all of those to be more than satisfactory. I have also enquired as to adequate insurances and records being kept for the Society’s fixed assets, which I also found to be satisfactory.

All reports from our auditor and our actuary for the year are clean and without reservation.

In 2025, I attended an investment symposium presented by our asset manager which allowed me to meet and introduce myself to management of other fraternals as well as attending seminars on Enterprise Risk Management as it relates to insurers, assorted insurance topics, economic topics and new and proposed regulation.

Speaking of Enterprise Risk Management, our program continues to evolve over time. Operational risks are identified, assessed and vetted through a multi-disciplinary Enterprise Risk Management Committee. We identify and bring certain operational and strategic risks to each quarterly board meeting or appropriate committee for assessment, risk analysis and development of mitigation strategies.

I have attended all Executive and Board Meetings of the FSCU in person or via teleconferencing during the year as necessary. I have continued to get out and about to meet many of you. In the past year, I have attended our national picnic at Wiegand Lake Park in Novelty, Ohio; participated in the International Bowling Tournament in Kent, Ohio; the International Golf Tournament in Charleston, West Virginia and attended District 3's Vilija annual Christmas celebration in Greensburg, Pennsylvania.

I also continue to be active in my home Branch 785 and District 19 activities; I also acted as the District's Fraternal Activities Director, Financial Secretary and Treasurer for many years which continues today. I am a member of the Branch's local bowling league and have participated in the International Bowling and Golf Tournaments for many years, including organizing my Branch's local golf tournament.

It is an honor for me to help lead and be involved in this great fraternal of ours. Thank you to you, the members who placed your trust in me as your National Treasurer. When I ran for this office at our 2022 Quadrennial Convention, I did so together with a slate of seasoned candidates in a total team approach.

We continue to do that. Projects are ongoing with the intention to improve the Society and your membership in it. Some of you have seen some changes already and you will see changes and announcements in the months to come.

Any questions on our treasury activities or my report can be directed to me through the Home Office and I will answer as best I can. I look forward to meeting with you at this year's Quadrennial Convention, thank you for your support and extend my best wishes to everyone in the year to come.

Respectfully and fraternally yours,
John V. Tokarsky
National Treasurer

March, 2026