

Fr. Nasta, President Arendt, Executive Officers and Members of the Board of Directors,

I am pleased to present my report on the state of the FCSU's finances and treasury operations for the year ended December 31, 2023.

Highlights

- Total assets increased by 1.8% to \$578,950,327 (2022 - \$568,716,615)
- Cash on hand was \$30,232,085 (2022 - \$27,510,198)
- Insurance and annuities sold was \$86,814,655 (2022 - \$54,622,568), up 58.9%
- Net investment income increased by 11.5% to \$26,274,799 (2022 - \$23,556,485)
- Net income for the year was \$4,810,143 (2022 - \$3,923,119), up 22.6%
- Surplus increased by almost 10.4% to \$53,424,728 (2022 – up 4% to \$48,374,546), highest in Society's history
- Solvency Ratio was 110.2% (2022 – 109.6%)
- Risk Based Capital (RBC) was 739.52 (2022 – 859.19)
- Reserves for life contracts increased by almost 1.2% to \$486,521,400 (2022 - \$480,814,261)
- Average investment quality was approximately 6.65 (2022 - 6.83) on the NAIC 20 scale and approximately 1.43 (2022 - 1.45) on the NAIC 6 scale (both of them the lower the better).

The FCSU experienced greater annuity and insurance premium income this year. It was a profitable year, despite higher interest rates and an inflationary global economy. We increased surplus by \$5,050,182 to the highest level in Society history. The level of surplus growth is consistent with the higher investment income and the modest reserve increase, which was offset by the greater member benefits. Adequate surplus remains an important factor in the Society's growth. Surplus is necessary in order to support new business production.

Being the Treasurer means much more than just watching money. What follows below is a brief discussion of some things that I thought would interest you.

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 increased by over \$5 million as follows:

	2023 (\$)	2022 (\$)
Surplus	53,424,728	48,374,546
Asset Valuation Reserve (AVR)	4,925,917	4,272,163
Interest Maintenance Reserve (IMR)	472,129	818,116
Total	58,822,774	53,464,825
Increase	5,183,530	2,940,656

IMR and AVR are liability reserves (or buffers if you will) to provide for changes in interest rates and asset valuations. 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, will fluctuate from year to year.

IMR works by accumulating both gains and losses resulting from changes in interest rates in a separate reserve account. Keeping that money separate makes it easier to track as no funds are commingled. Then any gains or losses can be 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.

If we included these items in our calculations of Solvency Ratios, the ratios would then be 111.3% (2022 – 110.4%). The member safety solvency increased along with the Surplus increase, because of the increase in the AVR, despite the IMR decrease. The AVR increase resulted from the large increase in bonds and mortgage loans, plus the NAIC introduced bond rating factors based on rating agency classification of bonds.

Operating Segments

If we look at where our net income comes from, this can be broken down as follows:

	2023 (\$)	2022 (\$)
Life insurance (after payment of dividends)	1,872,618	502,349
Annuities	3,967,598	3,974,012
Fraternal expenses and other items	(1,110,340)	(1,003,323)
Other gains realized	80,267	450,111
	4,810,143	3,923,119

We continue to show operating profits from our life insurance and annuity products which are more than sufficient to sustain fraternal expenses and other gains/losses. I will leave the discussion concerning net income, sales and other like matters for the President and Executive Secretary to discuss in their respective reports.

Risk Based Capital (RBC)

Calculations of RBC are required by both the state and the NAIC. RBC is calculated by applying assigned risk factors to asset, premium, claim, expense and reserve items. Our RBC for 2023 was calculated to be 739.52 (2022 – 859.19). Ohio recently enacted legislation that requires insurers to maintain an RBC level above 300 or face regulatory consequences. We are safely above that threshold.

Summary Cash Flows

	Year Ended December 31	
	2023	2022
Operations:		
Net premiums collected, net investment income and other income	\$ 113,834,765	\$ 78,896,242
Benefit and loss related payments, commissions paid, expenses paid, dividends paid to policyholders	(103,110,819)	(40,560,909)
	10,723,946	38,335,333
Investments:		
Net investments sold, matured or repaid	33,483,763	61,689,136
Net investments acquired	(41,513,325)	(87,711,289)
Decrease in contract loans and premium notes	(36,307)	(1,628)
	(8,065,869)	(26,023,781)
Financings and other sources:		
Net deposits on deposit-type funds and other liabilities	(704,103)	18,144
Other cash provided (used)	767,913	(765,121)
	63,810	(746,977)
Net change in cash and cash equivalents during the year	2,721,887	11,564,575
Cash and cash equivalents, beginning of the year	27,510,198	15,945,623
Cash and cash equivalents, end of the year	\$ 30,232,085	\$ 27,510,198

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.

Investment Philosophies

The 2023 year continued to present challenges for most of us, both in the investment markets and the way we live. High 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 currently at the point where certain metrics remain stubborn, even as the unemployment rate remains low. 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.

The FCSU holds 98.8% of its bonds in investment graded bonds (NAIC rating classes 1 and 2). FCSU's bond portfolio reflects a strong quality portfolio that will be consistent with the fraternal average, but our net investment rate of return at 4.76% will be lower than some other fraternal. We prefer to stick with investment quality bonds and will accept a lower acceptable rate of return to get it as opposed to trying to earning 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 and are subject to capital losses. 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 default risk and historically have had very low rates of default.

Looking at our bond portfolio, we own bonds with qualities as follows:

NAIC Rating	Moody's Scale Approx.	Quality Description	2023	2022
Class 1	Aaa, Aa1, Aa2, Aa3 A1, A2, A3	Highest	54.8%	56.4%
Class 2	Baa1, Baa2, Baa3	High	44.0%	41.6%
Class 3	Ba1, Ba2, Ba3	Medium	1.0%	1.9%
Class 4	B1, B2, B3	Low	0%	0%
Class 5	Caa, Ca, C	Lower	0.2%	0.1%
Class 6	D	In or Near Default	0%	0%

At the end of 2023 using the above scale, our bond portfolio had an approximate average quality rating of 1.43; the lower this number is, the better.

Our average bond maturities are as follows:

Years	2023	2022
< 1	3.3%	56.4%
1 – 5	30.0%	41.6%
6 – 10	15.5%	1.9%
11 – 20	33.5%	0%
20 +	17.7%	0.1%
Average	12 years	12 years

In 2022 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.

Our weighted duration to maturity is 12 years (the fraternal average is 13 years). The average maturity partially results because we own a quantity of CMO (Collateralized Mortgage Obligation) Bonds. As you can see, some of these bonds have long maturity dates, but will actually pay off earlier due to calls, redemptions and refinancings. The result is actual average duration will be shorter.

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.

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 and dividends) and purchases and rollovers of investments. We do our best to try to match our investment maturities with our investment policies and expected policy maturities and payouts. With that in mind, our trailing reinvestment (all investments, not only bonds) as at December 8, 2023 was as follows:

Past Number of Days	Book Value	Yield	Modified Duration	Effective Duration	Number of Investments
360	\$ 45,071,776	7.29%	3.3 years	3.2 years	40
180	19,662,347	7.41%	4.3 years	4.0 years	20
90	10,525,400	7.31%	5.2 years	5.1 years	12

As we all know, interest rates have been rather low for the past few years and have risen significantly during 2022 and 2023. 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 common and preferred stock. All the FCSU's investments are in 100% compliance with the policy. Because of rising interest rates, net investment income increased and should continue to increase in the near future as maturing and new investments will be reinvested at higher rates while keeping within our margin of safety, meaning we don't have to chase yield by investing in lower grade opportunities.

We have therefore been able to reinvest our cash at higher rates. 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 1 and 2), anything lower is 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 own particular business circumstances and we reevaluate them at that time.

The FCSU's portfolio as at December 31, 2023 had a book yield of approximately 5.07% (4.92% at the end of 2022), which is climbing as older lower yielding investments mature and are reinvested at newer higher rates of return. The FCSU achieved a 2023 average gross product margin of 1.10% (2022 - 1.38%). 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 (currently 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 we may wish to invest in (for example: energy, utilities, commercial and residential real estate, health care, retail, etc.) as well as economic conditions at large (for example: interest rates, inflation, unemployment, economic growth, etc.).

FCSU compared to other Fraternal Insurers

In a study comparing 41 other fraternal insurers ranging in size from \$41 million to \$4.2 billion with data taken from financial statements filed via NAIC posts for 2022 fiscal year ends (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 (as at FYE 2022 unless otherwise noted):

Metric	FCSU Value	Remarks
Asset growth year over year	7.1%	Average was 0.1% increase
Return on assets	0.31%	Average was 0.01% decrease
RBC ratio	850%	Average was 767%
Return on capital (1 year)	3.7%	Average was 0.6%, -2.7% ex. reinsurance inflation
Return on capital (3 years)	4.7%	Average was 2.3%
Return on capital (since 2009) (*)	12.7%	Average was 5.4%
Insurance expense as % of assets	0.65%	Nationally profitable average was <1.13%
Return on bonds	4.87%	Average was 4.62%
Bond portfolio yield	4.79%	Average was 4.47%
Fixed income portfolio yield	5.00%	Average was 4.54%
Reinvestment yield	5.30%	Average was 4.92%
Fixed income reinvestment yield	6.05%	Average was 5.09%
NAIC 2-6 holdings (% of portfolio)	43.6%	Average was 46.3%

* Since Financial Crisis

Other Responsibilities and Activities

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.

I have attended all Executive and Board Meetings of the FCSU in person or via teleconferencing during the year as necessary. I have continued to get out and about and meeting many of you. In the past year, I have attended the fun day at Knoebels Amusement Resort in Elysburg PA, participated in the International Bowling Tournament in Cleveland OH, the International Golf Tournament in Youngstown OH and attended District 3's Stedry Vecer Vilija annual Christmas celebration in Greensburg PA.

In addition, I attended an investment symposium presented by our asset manager which allowed me to meet and introduce myself to other fraternal as well as seminars on enterprise risk management as it relates to insurers and new and proposed regulation.

I also continue to be active in my home Branch 785 and District 19 activities, acting as the District's Fraternal Activities Director, Financial Secretary and Treasurer. 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 our local golf tournament.

It is an honor for me to help lead 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 have been started 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. Best wishes to everyone in the year to come.

Respectfully and fraternally yours,

John V. Tokarsky
National Treasurer