



GCU

**2008 Annual
Financial Report**

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2008



Judith A. Gula
National
Secretary-Treasurer

Presented for your review is the 2008 Annual Report which includes a two year comparative report of the balance sheet, income statement, comparative summary and changes in surplus for the fiscal years 2007 and 2008. We also present a report of the GCU Holding Company and Subsidiaries. We are in the midst of a critical financial environment that has challenged each one of us as well as the whole global economy. During these difficult times the GCU remains strong weathering the storm of this recession.

Assets for 2008 fiscal year totaled \$618.2 million reflecting a \$26.9 million or 4.5% increase. The majority of the assets consists of bonds totaling \$489 million with 95% of the bond portfolio of the investment grade quality as rated by NAIC (National Association of Insurance Commissioners). The average quality of the GCU's portfolio is AA with duration (risk) 4.46. The average years to maturity are 12.91. The bond portfolio is made up primarily of US Treasuries, Government Agencies and investment grade corporate bonds.

As of December 31, 2008 the Allocation of all GCU Assets consists of Cash (internally managed) 0.04%, Equity (internally managed) 0.02%, Equity 3.2%, Preferred (internally managed)

0.01%, Fixed Income 92.5%, Convertibles 3.6%. Other assets of \$3.4 million consists of loan, principal and accrued interest to the GCU Real Estate Company Inc. for the development costs of the single family and carriage home development project, prepaid expenses, and uncollected premiums.

Our solvency ratios are 101% and 102.3% including IMR (Interest Maintenance Reserves) and AVR (Asset Valuation Reserves). Although it has declined it still reflects a stable balance sheet position during these declining economic times.

Total income for 2008 of \$111.1 million (excluding annuity exchange income of \$3.5) reflects a \$41.8 million increase compared to the 2007 total income of \$69.3 million (excluding annuity exchange of \$23.3).

Annuity Premiums totaled \$77.8 million which is a \$40 million increase over 2007's total of \$37.7. Our Five Year Advantage, One-Plus Four Option Annuity and all other GCU products offer competitive interest rates in this turbulent market. Also, the GCU provides a secure environment of a fixed rate compared to the current volatile stock market situation. Our gross annual average monthly annuity sales during this year average \$6 million as our products remain very popular.

Life Premiums totaled \$1.7 million a decrease of \$200,000 from the 2007 that totaled \$1.9 million. A new sales campaign did begin during the last quarter of 2008 and we hope to see results early in 2009. In addition we will be marketing a new jumbo term product in 2009 when final approval from the states where we are licensed to sell has been received.

Net investment income totals \$30.5 million in 2008 increasing by \$1.8 million over the 2007 total of \$28.7. The bond portfolio average coupon has increased to 6.22% with the average quality remaining at AA. Due to our increased annuity sales and positive cash flow we are able to take advantage of the bond market and their current yields.

Other income totals \$1.0 million remaining consistent to

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FINANCIAL REPORT FOR THE YEAR 2008 THREE YEAR COMPARATIVE SUMMARY

Year Ended December 31

	2008	2007
Assets	618.1 Mil	591.3 Mil
Total Income	114.6 Mil	92.6 Mil
Total Operating Expense.....	114.4 Mil	94.2 Mil
Reserver Change - Life and Annuities	52.2 Mil	18.4 Mil
Income from Operations.....	260,125	(1,511,135)
Refunds to Members	(199,719)	(390,170)
Capital Gains (Losses)	(5,401,940)	3,178,371
Net Income (Loss)	(5,341,534)	1,277,065
Reserve - Interest Maintenance.....	7,429,859	8,078,556
Reserve - Asset Valuation.....	127,080	6,368,472
Surplus (Net Worth)	6,410,034	26,556,457

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GCU BALANCE SHEET COMPARISON

	Year Ended December 31	
	2008	2007
Assets		
Cash/Short Term Investments	\$25,408,491	\$23,004,337
Bonds	489,021,504	490,112,199
Preferred Stocks	63,507,713	27,352,841
Common Stocks	23,945,794	34,932,608
Mortgages	4,372,160	4,145,127
Certificate Loans	625,505	621,106
Real Estate		
Beaver Home Office	793,795	849,801
Chapel	667,420	715,562
Other	3,459,972	3,224,271
Investment Income Due & Accrued	<u>6,380,262</u>	<u>6,337,232</u>
Total Assets	<u>\$618,182,616</u>	<u>\$591,295,084</u>
Percentage Total Change Year to Year	4.5%	2.9%
Liabilities		
Life Reserve Fund	\$49,664,185	\$48,817,000
Annuity Reserve Fund	547,666,900	494,304,582
Refund Accumulations	948,099	918,747
Employee Pension Fund	4,622,587	4,373,047
Convention Reserve	60,000	360,000
Advance Premium & Future Refund Reserves	246,615	446,457
Asset Valuation Reserve-AVR	127,080	6,368,472
Interest Maintenance Reserve-IMR	7,429,859	8,087,556
Accounts Payable	156,240	298,342
Other	<u>851,017</u>	<u>764,424</u>
Total Liabilities	\$611,772,582	\$564,738,627
Surplus Fund	<u>6,410,034</u>	<u>26,556,457</u>
Total Liabilities & Surplus	<u>\$618,182,616</u>	<u>\$591,295,084</u>
Net Income Return on Surplus	0.0%	4.8%
Normal Solvency	101.0%	104.7%
New Solvency Ratio*	102.3%	107.5%

*Adds IMR & AVR to surplus because it's future profits.

GCU SURPLUS COMPARISON

	Year Ended December 31	
	2008	2007
Suplus Previous Year 12/31/07	\$26,556,457	\$29,058,244
Net Income/(loss)	(5,341,534)	1,277,065
Change in Unrealized Gain/(Loss)	(17,949,853)	(1,047,685)
GCU Holding Company & Other	(1,103,923)	(1,347,052)
Changes in Non-Admitted Assets	207,495	159,799
Changes in Asset Valuation Reserve	6,241,392	(1,543,914)
Net Change in Surplus	<u>(20,146,423)</u>	<u>(2,501,787)</u>
Ending 12/31/08 Surplus	<u>\$ 6,410,034</u>	<u>\$26,556,457</u>

Please Note: Any small dollar differences throughout this report are due to rounding.

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GCU INCOME STATEMENT COMPARISON

Year Ended December 31

INCOME	2008	2007
Life Premium	\$1,705,476	\$1,907,061
Annuity Premium	77,831,888	37,704,382
Annuity Exchanges	<u>3,540,012</u>	<u>23,251,752</u>
Sub Total	83,077,376	62,863,195
Net Investment Income.....	30,531,122	28,735,249
Other (See Detail Report)	<u>1,034,578</u>	<u>1,048,694</u>
Total Income	\$114,643,076	\$92,647,138
Expenses		
Death Benefits	\$1,519,819	\$1,507,905
Matured Endowments.....	—	\$2,333
Annuity Benefits Paid.....	49,803,323	43,689,989
Annuity Exchanges	3,540,012	23,251,752
Surrender Benefits.....	523,399	566,701
Commissions.....	1,755,047	1,530,866
General Insurance Exp.....	4,759,189	4,878,470
Insurance, Taxes, License & Fees.....	168,611	168,700
Other	<u>56,551</u>	<u>121,558</u>
Sub-Total	<u>\$62,125,951</u>	<u>\$75,718,274</u>
Reserves	<u>52,257,000</u>	<u>18,440,000</u>
Total Expenses	<u>\$114,382,951</u>	<u>\$94,158,274</u>
Net Gain/Loss from Operations before Refunds	<u>260,125</u>	<u>(1,511,136)</u>
Refunds to Members	199,719	390,170
Net Gain/Loss from Operations after Refunds.....	60,406	(1,901,306)
Net Capital Gains (Losses)	<u>(5,401,940)</u>	<u>3,178,371</u>
Net Income/Loss	<u>\$ (5,341,534)</u>	<u>\$ 1,277,065</u>

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2007. Other income consists primarily of \$677,778 released from our Interest Maintenance Reserve which is the current and previous year's capital gains on the sale of bonds, \$356,800 for miscellaneous income generated primarily from interest income on the loan to GCU Real Estate Co., Inc. and a refund of sales tax from the Commonwealth of Pennsylvania.

Total operating expenses in 2008 totaled \$58.6 million excluding annuity exchange expense of \$3.5 million as compared to \$52.5 million excluding annuity exchange expense of \$23.3 million in 2007, an increase of \$6.1 million. The primary reason for this increase was due to an increase of \$6.1 million in annuity benefits paid. Increases in death benefits of \$11,994 and commissions of \$224,181 were offset by decreases in surrender benefits of \$43,302, general insurance expenses of \$119,281 and other expenses of \$65,007.

General insurance expense decreased by \$119,281 primarily due to a reduction in our funding of employee pension expense. In 2007 according to pension rules we were required to fund our pension account at 110%. In 2008 we began the year with an adequate funding therefore required contributions were decreased.

Fraternal expense that totaled almost \$1 million represents

the GCU's unceasing commitment to our various fraternal programs. We provide programs such as matching funds that give assistance to our Byzantine Catholic Churches, community organizations and individuals who most certainly need our help. We support our scholarship programs, recreational and athletic programs and tournaments, art contest, lodge and district programs and Family Fun Days. We not only provide these events with financial support, but with so many volunteer hours from our GCU members. We congratulate all those who work so tireless and diligently to help their fellow brothers and sisters. We are so thankful for all of your efforts.

Net changes in life and annuity reserves for 2008 were \$52.5 million and \$18.4 million in 2007 and increase in 2008 of \$33.9 million. 2008 Annuity Premium sales totaling \$77.8 million an increase of \$40.1 million over 2007 was the primarily reason for the increase in reserves for 2008. Also, the 2006 Loyalty Dividend Program final distribution of \$799,600 paid in July 2008 increased the value of the participants' annuities thus increasing reserves.

Net Gains before refunds and capital losses totaled \$260,125 compared to Net Losses in 2007 of (\$1.5) million. This increase is

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GENERAL INSURANCE EXPENSE

Year Ended December 31

	2008	2007
Salaries & Wages.....	\$1,617,829	\$1,664,082
Employee Benefits.....	154,922	173,085
Legal Fees & Expenses	1,955	1,232
Fees-CPS, Actuarial.....	167,544	113,376
Board Meeting Expenses/Travel	58,976	51,531
Postage & Phone.....	197,493	200,110
Printing & Stationary.....	80,922	75,988
Rental of Equipment	37,025	32,274
Insurance Fees	42,065	60,497
Official Publication	103,721	80,299
Fraternal Activities.....	998,912	1,054,222
Future Convention Reserves.....	219,259	120,000
Employee Pension Expense	328,733	504,000
Other.....	749,833	747,774
Total	\$4,759,189	\$4,878,470

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attributed to reduction of operating cost and increase in income. Net losses after refunds and capital losses totaled (\$5.3) million. Total dividends paid in 2008 totaled \$199,719. Net Capital Losses for 2008 totaled (\$5.3) million due to the following: A permanent write down of Lehman Brother Bonds totaling \$1.5 million, the write off of Lehman Brothers and FNMA Preferred Stocks totaling \$3 million, losses from the sale of stock totaling \$930,519 and the realized gains on short term bonds and cash equivalents totaling \$33,835. Our equity managers continue to suspend trading within our equity portfolio due to current volatility.

Surplus for the year end 2008 totals \$6.4 million a net change of (\$20.6) million. The negative impacts upon surplus included the following: Changes in unrealized losses of \$17.9 million due to mark to market adjustments (because of their default status) of (\$4.0) of Lehman Brothers Bonds, (\$353,875) of Washington Mutual Bond, (\$935,773) of Triad Guarantee Bond, and (\$1.4) million of Citimortgage Bond. A (\$9.8) million decrease in market value of common stocks, a (\$1.4) million decrease in market value of surplus debentures had an additional negative impact on the surplus. We are confident that over a period of time the market value of the common stock and surplus debentures will increase thus having a

positive impact on our surplus resulting in unrealized gains. A net loss of (\$5.3) million has also reduced 2008 surplus. The favorable impacts were Changes in Non Admitting Assets of \$207,495 and Changes in Asset Valuation Reserve of \$6.2 million.

GCU Holding Company, Inc. and its subsidiaries realized a Net Loss of \$1.1 million in 2008 compared to a Net Loss of \$1.4 million in 2007. The GCU Real Estate Company, Inc. recorded a net loss of \$258,648. The loss is primarily due to interest cost or carrying costs associated with the loan to the development project and taxes paid on the undeveloped land. Three sales were experienced in 2008, two carriage homes and one single family home lot. The absorption rates (sales) experienced in 2008 did not sustain the carrying costs of the development. \$232,996 of interest income was realized between the GCU and GCU Real Estate Company, Inc. from the development loans issued by the GCU to finance the project. The GCU recently contracted with Prudential Preferred Realty as our broker. This group is extremely knowledgeable of the Beaver area and has presented a marketing plan and positive goals to increase sales in 2009 of the Seven Oak Real Estate Development.

Seven Oaks Country Club generated a net loss after depreciation

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GCU SUBSIDIARY OPERATIONS - YEAR 2008

	GCU Holding & Subsidiaries	GCU Holding co.	GCU Real Estate Co.	Seven Oaks Country Club	GCU Agency Inc.
Beginning Net Worth 1/108	\$ 5,625,269	\$24,543	\$ 364,413	\$5,191,972	\$44,341
Profit or (Loss) for Year.....	989,400	(1,964)	(258,648)	(879,487)	3,620
Capital Infusion.....	—	—	—	989,400	—
Net Loss 2008 Subsidiary Co.	(1,136,479)	—	—	—	—
12/31/08 Net Worth	\$ 5,478,190	\$22,579	\$ 105,765	\$5,301,885	\$47,961

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of \$879,487 in 2008 compared to the net loss of \$1.1 million in 2007. Increased membership is the key to a successful Seven Oaks Country Club. At the end of 2008 a new program was implemented allowing Benefit Members and Associate Members of the GCU increased privileges to Seven Oaks recreation and dining facilities. The privileges are provided under the GCU corporate membership. Cards are now issued to GCU Benefit and Associate members allowing unlimited privileges for recreation that includes golfing, and dining with restrictions. Reservations for tee times and dining should be made directly with Seven Oaks Country Club and not the GCU Home Office. The goal is to increase green and carts fees

as well as food and beverage income.

The GCU agency generated a net profit of \$3,620 in 2008 from the commissions received on the sale of third party long term care and jumbo term coverage. We are waiting for final approval from various states to sell our new GCU 20 and 30 year level term life insurance plan that had been previously offered via a third party.

We have been advised to "Stay the Course" during these most turbulent financial times. This is our goal at the GCU. We have "tightened out belts" and reduced our budgets going line by line to eliminate excess. We accept and meet the challenges that are presented to us daily. We are determined to weather this storm. Hopefully the end is near and recovery is on its way for everyone.

Interest Rates Effective April 1, 2009

New Annuity Accounts. The interest rates for all new GCU Annuity accounts effective April 1, 2009 are as follows. New One-Plus-Four Annuity will earn 4.0%APY; Triple Advantage accounts will earn 4.50% APY; 5-Year Advantage accounts will earn 4.80%APY and Flex-10 accounts will earn 5.10%APY. New accounts established with \$10,000 or more will receive a .15%APY first year bonus.

Existing Annuity Accounts. Existing annuities will earn interest at the following rates. Regular Flexible Accounts

will earn 3.35%APY. (Note: Annuities with 4% guaranteed rate will continue to earn 4%APY rate.) Flex-5 accounts will earn 4.45%APY and Flex-10 accounts will earn 4.60%APY.

GCU Option "A" Annuities. Annual interest rates on Settlement Option "A" (interest only, minimum deposit \$5000) annuities is 3.10%APY.

Annuity Settlements and Security Life. Annuity settlements will include interest at 4.25% APY. Security Life plans (our universal life product) will earn 4.50%APY.



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For more information please email:

gcuwebresponse@gcuusa.com

In the Subject Line type: Request for Access

**In your email include the following:
Full Name & Birth Date**

**We will then respond back with
the Access Instructions.**