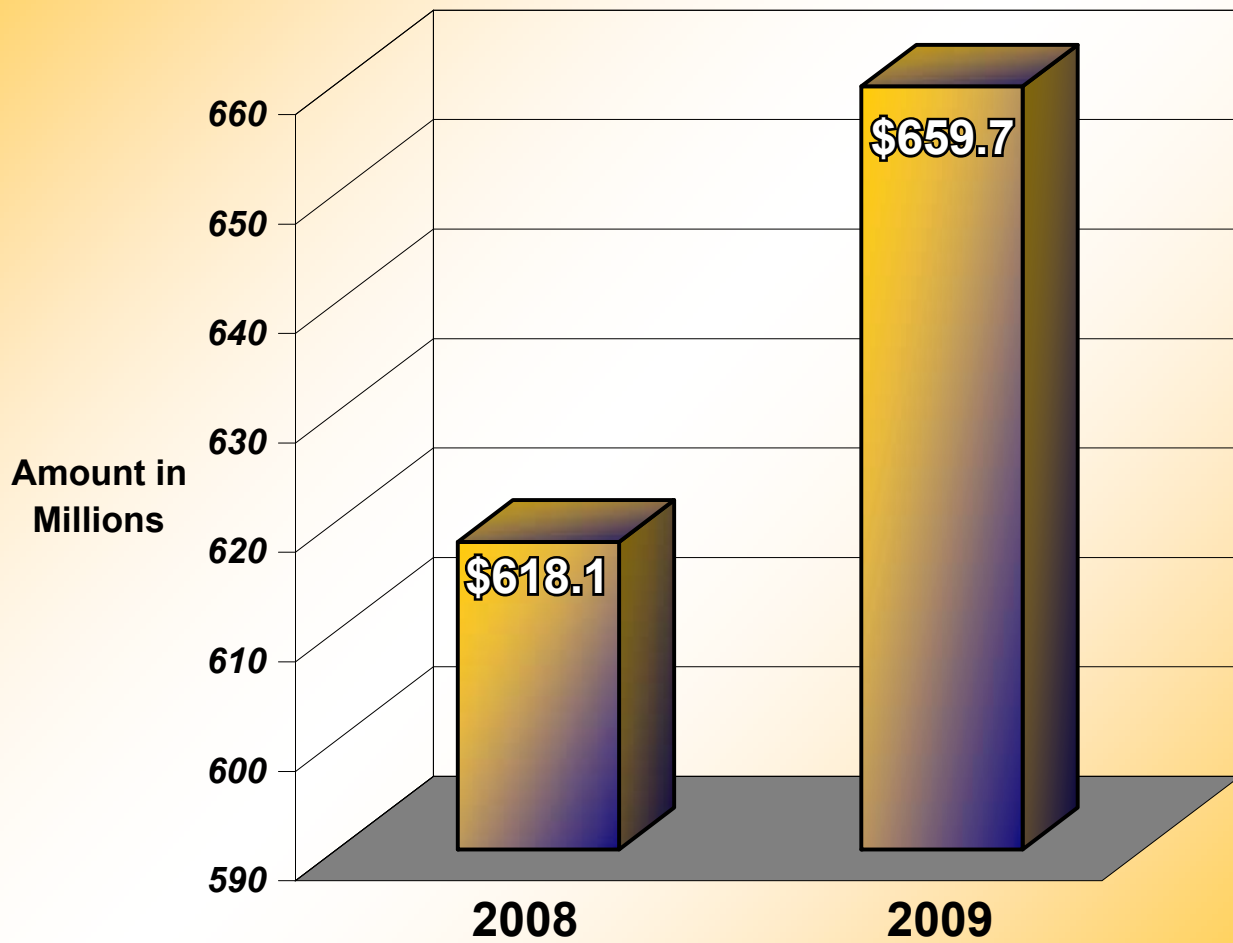




**2009 Annual
Financial Report**

GCU Assets 2008 vs. 2009



ANNUAL FINANCIAL REPORT

DECEMBER 31, 2009



Judith A. Gula
National
Secretary-Treasurer

Presented for your review are the strong GCU financial results for the 2009 Annual Report. Included is a comparative report of the balance sheet, income statement, comparative summary, and changes in surplus for the fiscal years 2008 and 2009. We also present a report of the GCU Holding Company and its subsidiaries.

The year 2009 has been one of many challenges; difficult decisions were made by our Administration and Board of Directors to increase our surplus and profits. Implementing these various changes, we are very pleased to report a net profit of \$4.8 million that was generated after dividends and net capital gains/losses for the year 2009 and an increase in safety funds of \$15 million.

Assets for the 2009 fiscal year totaled \$659.7 million reflecting a \$41.4 million or 6.7% increase. The majority of assets consist of bonds totaling \$549 million with 92.5% of the bond portfolio of the investment grade quality as rated by NAIC (National Association of Insurance Commissioners). The average quality is A with duration (risk) 6.5. The average years to maturity are 13.44. The portfolio is made up primarily of

investment grade corporate bonds and government agencies. With the assistance of our investment managers we reduced the GCU preferred and common stock exposure with minimum losses and increased the bond portfolio with quality investment grade bonds with excellent coupons and yields. Investment Income Due and Accrued totals \$8 million reflecting an increase of \$1.6 million over 2008 total of \$6.4 million.

Liabilities for 2009 totaled \$641.5 million compared to \$611.8 million in 2008. Major increases include life and annuity reserves and Asset Valuation Reserves (AVR) account totaling \$29.7 million. The 2009 Asset Valuation Reserves (AVR) increased by \$5.8 million, a required funding in accordance with statutory regulation that assists in protecting our investment portfolio against possible future impairments.

The 2009 solvency ratios are 102.8% and 104.6% which includes our Asset Valuation Reserves (AVR) and Investment Maintenance Reserves (IMR). The ratio increased in 2009 by 1.8% and 2.3% respectively over the 2008 solvency ratio of 101% and 102.3%. The 2009 ratios reflect a stable and sound balance sheet position.

Safety funds that include Surplus, our Asset Valuation Reserves (AVR) and Interest Maintenance Reserves (IMR) for 2009 total \$28.9 million, reflecting a \$15 million increase over the 2008 safety funds of \$13.9 million. The positive impacts to surplus included the following: Net Income of \$4.8 million, Change in Unrealized Gains of \$5.9 million due to gains in market value of our common stock portfolio and the lien adjustment of \$11.9 million. Negative impacts upon surplus included the funding of (AVR) Asset Valuation Reserves of \$5.8 million due to statutory requirements as previously noted, changes in Reserve Valuation Basis showing an adjustment of \$3.2 million to comply with Actuarial Guideline #33 required by the Pennsylvania Insurance Department, and losses of \$1.4 million in the GCU Holding Company and others.

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FINANCIAL REPORT FOR THE YEAR 2009 TWO YEAR COMPARATIVE SUMMARY

	Year Ended December 31	
	2009	2008
Assets	\$659.7 Mil	\$618.1 Mil
Total Income	120.5 Mil	114.6 Mil
Total Operating Expense	115.5 Mil	114.4 Mil
Reserves Change - Life and Annuities	23.6 Mil	52.2 Mil
Income from Operations	5.1 Mil	260,125
Refunds to Members	(204,178)	(199,719)
Capital Gains (Losses)	(76,042)	(5,401,940)
Net Income (Loss)	4,801,232	(5,341,534)
Reserve - Interest Maintenance	4,764,718	7,429,859
Reserve - Asset Valuation	5,928,984	127,080
Surplus (Net Worth)	\$18,167,491	\$6,410,034

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GCU BALANCE SHEET COMPARISON

	Year Ended December 31	
	2009	2008
Assets		
Cash/Short Term Investments.....	\$10,739,147	\$25,408,491
Bonds	549,038,563	489,021,504
Preferred Stocks	48,046,372	63,507,713
Common Stocks.....	23,710,835	23,945,794
Mortgages.....	3,841,091	4,372,160
Certificate Loans	593,618	625,505
Real Estate		
Beaver Home Office.....	737,789	793,795
Chapel.....	—	667,420
Other	14,943,898	3,459,972
Investment Income Due & Accrued	<u>8,023,571</u>	<u>6,380,262</u>
Total Assets	<u>\$659,674,884</u>	<u>\$618,182,616</u>
Percentage Total Change Year to Year	6.7%	4.5%
Liabilities		
Life Reserve Fund	\$50,403,000	\$49,664,185
Annuity Reserve Fund	573,608,873	547,666,900
Refund Accumulations.....	973,330	948,099
Employee Pension Fund	4,079,589	4,622,587
Convention Reserve	160,000	60,000
Advance Premium & Future Refund Reserves	238,557	246,615
Asset Valuation Reserve-AVR	5,928,984	127,080
Interest Maintenance Reserve-IMR	4,764,718	7,429,859
Accounts Payable	62,455	156,240
Other	<u>1,287,886</u>	<u>851,017</u>
Total Liabilities.....	\$641,507,392	\$611,772,582
Surplus Fund	<u>18,167,492</u>	<u>6,410,034</u>
Total Liabilities & Surplus	<u>\$659,674,884</u>	<u>\$618,182,616</u>
Normal Solvency.....	102.8%	101.0%
New Solvency Ratio*	104.6%	102.3%

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

GCU SURPLUS COMPARISON

	Year Ended December 31	
	2009	2008
Surplus Previous Year 12/31/08	\$6,410,034	\$26,556,457
Net Income/(loss)	4,804,234	(5,341,534)
Change in Unrealized Gain/(Loss).....	5,908,498	(17,949,853)
GCU Holding Company & Other.....	10,000,231	(1,103,923)
Changes in Non-Admitted Assets	(2,602)	207,495
Changes in Reserves.....	(3,151,000)	(2,200,000)
Changes in Asset Valuation Reserve	(5,801,904)	6,241,392
Net Change in Surplus.....	11,757,457	(20,146,423)
Ending 12/31/09 Surplus	\$18,167,491	\$6,410,034

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	2009	2008
Life Premium	\$1,692,234	\$1,705,476
Annuity Premium	69,553,131	77,831,888
Annuity Exchanges	<u>12,154,249</u>	<u>3,540,012</u>
Sub Total	83,399,614	83,077,376
Net Investment Income.....	36,413,977	30,531,122
Other (See Detail Report)	<u>776,507</u>	<u>1,034,578</u>
Total Income	\$120,590,098	\$114,643,076
Expenses		
Death Benefits	\$2,081,912	\$1,519,819
Annuity Benefits Paid.....	69,830,278	49,803,323
Annuity Exchanges	12,154,249	3,540,012
Surrender Benefits.....	769,432	523,399
Commissions.....	1,770,848	1,755,047
General Insurance Exp.....	3,935,444	4,759,189
Insurance, Taxes, License & Fees.....	273,453	168,611
Pension Benefits Paid	1,067,382	—
Other	<u>56,646</u>	<u>56,551</u>
Sub-Total	<u>\$ 91,939,644</u>	<u>\$ 62,125,951</u>
Reserves	<u>23,566,000</u>	<u>52,257,000</u>
Total Expenses	<u>\$115,505,644</u>	<u>\$114,382,951</u>
Net Gain/Loss from Operations before Refunds	<u>5,084,454</u>	<u>260,125</u>
Refunds to Members	204,178	199,719
Net Gain/Loss from Operations after Refunds.....	4,880,276	60,406
Net Capital Gains (Losses)	<u>(76,042)</u>	<u>(5,401,940)</u>
Net Income/Loss	<u>\$ 4,804,234</u>	<u>(\$ 5,341,534)</u>

Gross Income for 2009 (excluding conversions) totaled \$108.5 million compared to the 2008 gross income (excluding conversions) total of \$111.1 million. Although annuity sales decreased by \$8.3 million in 2009, we exceeded the 2009 Business Plan of \$3 million in monthly annuity sales with an average over \$5 million in actual deposits per month. Life insurance premium sales decreased slightly in 2009, however with our new pre-needs program in place and the expected implementation of a new jumbo term policy in 2010 sales should increase.

Net investment income for 2009 total \$36.4 million compared to \$30.5 million in 2009. The increase of \$5.9 million is due to a positive cash flow allowing the GCU to take advantage of the bond market, providing our portfolio with excellent coupons and increased yields.

Total operating expenses for 2009 (excluding conversions of \$12.1 million) were \$79.8 million as compared to \$58.6 million (excluding conversions of \$3.5 million) in 2008, an increase of \$21.2 million. The primary reason for this increase was due to annuity benefits paid out. In addition due to the burden of the recession, many of our members decided to

diversify their investments. Death benefits also increased in 2009 in the amount of \$562,093. General insurance expense for 2009 totaled \$3.9 million compared to \$4.8 million in 2008, a decrease of \$823,745. As previously noted, action was taken to reduce expenses which included a decrease in fraternal benefits as lodge and district subsidies and the matching funds program were reduced, our official publication showed a reduction of \$48,030 as a new program requested members choose to receive their semi-monthly magazine by mail or on-line, reflecting a reduction in postage expense of \$34,933.

Although fraternal expenses have decreased by \$239,891, the GCU's commitment to our various fraternal programs continues. We support churches and communities with our matching funds programs that provide assistance to those organizations and individuals who are most certainly in need. We support our scholarship programs, recreational and athletic programs, tournaments, art contest, lodge and district programs, and our Family Fun Day. We are constantly searching to improve our programs and to also provide new

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GENERAL INSURANCE EXPENSE

Year Ended December 31

	2009	2008
Salaries & Wages.....	\$1,635,120	\$1,617,829
Employee Benefits.....	159,426	154,922
Legal Fees & Expenses	4,507	1,955
Fees-CPS, Actuarial.....	189,120	167,544
Board Meeting Expenses/Travel	53,996	58,976
Postage & Phone.....	162,560	197,493
Printing & Stationary.....	94,341	80,922
Rental of Equipment	19,132	37,025
Insurance Fees	71,276	42,065
Official Publication	55,691	103,721
Fraternal Activities.....	759,021	998,912
Future Convention Reserves.....	100,000	219,259
Employee Pension Expense	282,926	328,733
Other	348,328	749,833
Total	\$3,935,444	\$4,759,189

programs and assistance to all of our members. Not only do we give financial support, but our members work tirelessly offering many hours of service to the less fortunate. We congratulate all of our members for their efforts.

As Congress continues to review non-profits as a source for additional tax revenues, all fraternal must continue to provide financial assistance and volunteer opportunities to counter-act the potential of fraternal losing their tax exempt status.

General Insurance-Other shows a decrease of \$401,505 in 2009 which includes the following: Depreciation EDP equipment and software of \$182,932, Miscellaneous Losses for Service Providers Fees, \$94,731 Aggregate Write-Ins (Data Processing Supplies Expense), \$107,642.

Net changes in life and annuity reserves for 2009 were \$23.6 million and \$52.3 million in 2008, a decrease in 2009 of \$28.7 million, a decrease in 2009 annuity sales of \$8.3 million, and an increase in annuity premiums paid out of \$20 million, were the primary reasons for the decrease in reserves.

Net gains before refunds and capital losses totaled \$5.1 million compared to net gains in 2008 of \$260,125. This

2009 increase is attributed to a strong total gross income specifically net investment income less slight increased total expenditures. Net income for 2009 totaled \$4.8 million after a small decrease of capital losses of \$76,042, generated from sale of common stock.

2008 Net Loss totaled \$5.3 million after the reduction of net capital losses of \$5.4 million that included the permanent write-down of Lehman Brothers totaling \$1.5 million, the write-off of Lehman Brothers and FNMA Preferred Stocks totaling \$3 million, losses from sale of stock totaling \$930,519 and the realized gains on short term bonds and cash equivalents totaling \$33,835.

The 2009 Net Income of \$4.8 million compared to the 2008 Net Loss (\$5.3 million) reflects a positive change of \$10.1 million.

GCU Holding Company, Inc. and its subsidiaries realized a net loss of \$1.4 million in 2009 compared to a 2008 net loss of \$1.2 million. The GCU Real Estate Company, Inc. recorded a net loss of \$172,337 in 2009. The loss is primarily due to interest cost or carrying costs associated with the loans to

CONTINUED ON NEXT PAGE

GCU SUBSIDIARY OPERATIONS - YEAR 2009

	GCU Holding & Subsidiaries	GCU Holding Co.	GCU Real Estate Co.	Seven Oaks Country Club	GCU Agency Inc.
Beginning Net Worth 1/1/09	5,442,006	22,578	105,763	5,265,703	47,962
Profit or (Loss) for Year.....	(1,365,009)	(24,550)	(172,337)	(1,170,424)	2,302
Capital Infusion.....	1,665,250	—	850,000	815,250	—
Transfer of St. Nicholas Chapel.....	643,349	643,349	—	—	—
12/31/09 Net Worth	6,385,596	641,377	783,426	4,910,529	50,264

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the development project and taxes paid on the undeveloped land. 2009 was a very difficult year for the housing market; however the GCU experienced one sale of a single family lot and has three contingent sales on our records which we hope to close in 2010 as the market improves. Prudential Preferred Realty remains as our broker. They continue to work diligently with the GCU with new ideas, a strong marketing plan, and positive goals that will increase sales in 2010 of our Seven Oaks Real Estate Development.

Seven Oaks generated a net loss after depreciation of \$1.2 million in 2009 compared to the net loss of \$879,487 in 2008. Membership declined in 2009 due to troubled economic times. In addition banquets, weddings and social events functions decreased in 2009. New banquet services, menus and beverage packages have been introduced resulting in increases in banquet, wedding and social functions for 2010. Capital improvements have also been made to the clubhouse facility in 2010 that will have a positive impact upon increasing membership.

The GCU Agency generated a small profit of \$2,302 in 2009

from commissions received on the sale of the third party long term care and jumbo term coverage. We will be selling our new GCU 20 and 30 term life coverage in 2010 when final state approval will be received.

Assets of the GCU Holding Company, Inc. increased due to the St. Nicholas Chapel, originally placed on the books and records of the GCU, being transferred in 2009 to the Holding Company, a subsidiary of the GCU.

Great progress has been made in 2009, many difficult decisions have been made during the past year, but we have not completed our task. We must continue to grow stronger and make wise and informative decisions to strengthen our GCU. Recovery takes time and we must be patient as our goal is to build our profits, assets and surplus.

Our thanks to you, our members, for your patience, trust and belief in the GCU during these difficult times.

Please do not hesitate to contact me with your questions or comments.

GCU Privacy Policy

Please review the GCU Privacy Policy below. We do not plan on changing; however, if the need arises to change this policy, you, as our valued member, will be sent appropriate options.

GCU PRIVACY POLICY

We appreciate your Membership with the GCU. The GCU is a Fraternal Benefit Society that has always been and will be committed to protecting the privacy of your personal financial and medical information. This will continue to be a matter of top priority for us.

The GCU Privacy Policy is as follows:

We will not:

- ◆ disclose personal, non-public information about you to anyone, except as permitted or required by law.
- ◆ disclose personal medical information about you except as permitted by law or as you may authorize.
- ◆ sell lists of our members to any vendor of goods or services.

We will:

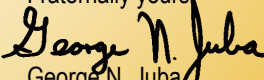
- ◆ restrict access to non-public personal information about you to those employees who need to know that information to provide products to you.
- ◆ maintain physical, electronic and procedural safeguards that comply with the federal standards to guard your non-public personal information.

We collect non-public personal information about you from the following sources:

- ◆ Information we receive from you on applications or other forms.
- ◆ Information from medical tests requested by us or from your medical services providers (medical information collection applicable to some life and health insurance policies, not annuities).
- ◆ Information about your transactions with us (such as premium payments, loans, claims, etc.).
- ◆ Information we receive from consumer reporting agencies.

Our continued goal is to maintain complete, accurate and up-to-date records. You may contact us at the address or telephone number shown on page 2, to access, as provided by law, information included in your file. We will promptly correct any error in our information. To protect your privacy, you will need to identify yourself by providing your name, date of birth and Social Security Number.

Fraternally yours,


George N. Juba
National President