

# GBU's Financial Conditions of 2009



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The financial turmoils from 2008 continued into 2009 and that should not surprise anyone. Major corporations such as General Motors Corporation, Chrysler Corporation and CIT Group, Inc. to name a few filed for bankruptcy protection, while other well-known companies are struggling to satisfy their financial obligations. Corporate America no longer believes that it is responsible to repay loans, whether secured or unsecured. What a sorry state of affairs we are in today. If this trend of renegotiating, restructuring, or filing for bankruptcy continues, it will drive investors out of the capital markets. Not only are the corporate markets unstable, but individuals are now feeling the pain. With unemployment near ten percent (10%) and mortgage foreclosures growing daily, the financial future for many are bleak. The "get rich" schemes of the past are not working today. Financial institutions are no longer trusting your word, but are now asking for more written verification of earnings and requiring excess collateral to secure the loan.

These events and others will cause the economic recovery to be very slow and significant improvements will not occur until the latter part of 2011 or the early part of 2012. This projected recovery is dependent upon a stable financial market with no major surprises in the near foreseeable future in the commercial real estate market. This may be too much to ask for, since the last two years have been anything but stable.

Even with all of these financial turmoils, GBU performed exceptionally well in 2009. GBU has built a solid financial foundation that has protected us in the past, safeguarded our assets in the present, and will protect us in the future.

Several years ago, GBU adopted an investment philosophy which maximizes the rate of return on investments while minimizing the investment risks. GBU has and will continue this investment philosophy which restricts the types of investments purchased. GBU has no significant exposure in equities,

Assets	Years Ended December 31,		Net Change +/-	
	2009	2008	Amount	%
Bonds	\$576,060,863	\$470,290,196	\$105,770,667	102.02%
Preferred Stocks	3,533,560	3,796,534	(262,974)	(0.25)
Common Stocks	772,861	458,316	314,545	0.30
Mortgage Loans	1,011,921	1,193,519	(181,598)	(0.18)
Real Estate	470,191	500,986	(30,795)	(0.03)
Certificate Loans	857,027	943,573	(86,546)	(0.08)
Cash	2,924,735	7,529,820	(4,605,085)	(4.44)
Other Invested Assets	7,335,520	6,532,190	803,330	0.77
Investment Income Due	9,579,082	7,618,561	1,960,521	1.89
Other Assets	4,509	4,944	(435)	~
<b>Total Assets</b>	<b>\$602,550,269</b>	<b>\$498,868,639</b>	<b>\$103,681,630</b>	<b>100.00%</b>

collateralized debt obligations, mortgage-backed securities and other high-risk fixed income securities. These guidelines require us to diversify our investment portfolio. I can assure you that GBU's financial performance for 2009 was well known in advance. The financial road to success is well marked at GBU and the protection of the assets entrusted to us continues to be our number one priority.

Now that I have provided some of my thoughts on the financial conditions of the economy and GBU, I believe that it is now appropriate to compare GBU's admitted assets for the year ended December 31, 2009 and 2008.

Assets increased from \$498,868,639 as of December 31, 2008, to \$602,550,269 as of December 31, 2009; a net increase of \$103,681,630 or at an annual growth rate of 20.8%. The entire increase in assets was invested in fixed income securities (bonds) of which 91.3% had an investment rating of "A" or better and the other 8.7% had an investment rating of "BBB" with the vast majority invested in senior secured fixed income securities of public utility companies. Secondly, GBU continued its investment policy of diversification by increasing the number of different issues from 770 as of December 31, 2008, to 855 as of December 31, 2009.

As of December 31, 2009, 96.85% of GBU's fixed income securities had an investment rating of "BBB" or better compared to 98.83% as of December 31, 2008. I can assure you that this small decrease of 1.98% in investments with a rating of "BBB" or better did not result from the fact that GBU purchased non-investment-grade fixed income securities. This decrease resulted from rating downgrades issued by the various rating agencies in 2009. In the latter

## Exhibit I

Rating Classes	12/31/09		12/31/08		Net Change +/-	
	Amount	%	Amount	%	Amount	%
Class 1 (A or better)	\$456,379,772	79.22%	\$400,409,151	85.14%	\$55,970,621	52.92%
Class 2 (BBB or better)	101,535,374	17.63	64,395,064	13.69	37,140,310	35.11
Classes 3-6 (CCC or better)	18,145,717	3.15	5,485,981	1.17	12,659,736	11.97
<b>Total</b>	<b>\$576,060,863</b>	<b>100.00%</b>	<b>\$470,290,196</b>	<b>100.00%</b>	<b>\$105,770,667</b>	<b>100.00%</b>

# GBU's Financial Conditions of 2009 *(Continued.)*

part of 2008 and the early part of 2009, the rating agencies for fixed income securities were criticized for their poor rating standards. In turn, the rating agencies upgraded their rating standards and reviewed all outstanding issues for several industries including industrial, financial, public utilities, and mortgage-backed securities to name a few. With GBU having in excess of 800 different issues, a few were downgraded in 2009. After each downgrade, GBU reviews the overall credit worthiness of the issue to determine whether or not to retain our holdings. In some cases, it was decided to hold our current position and in others, we disposed of a portion or all of the holdings. GBU will continue to monitor its investment holdings on a current basis using this criteria.

Exhibit II compares the types of fixed income securities owned by GBU as of December 31, 2009, and 2008. The decrease in our investment in U.S. Government Agencies resulted from the fact that GBU is no longer purchasing fixed income securities from either Federal Home Loan Mortgage Corporation (FHLMC) or Federal National Mortgage Association (FNMA) due to their dependency upon the federal government to support their financial operations. GBU did increase its exposure in State and Political Subdivision of U.S. (commonly known as Build America Bonds). These bonds are supported by the federal government as 35% of the interest payment is reimbursed by the federal government to the state or political subdivision. Lastly, GBU continued to increase its investments in industrial-fixed income securities, especially in the utility and manufacturing areas. Today I feel very comfortable with GBU's fixed income portfolio as to the safety of the principal and the future revenue stream of investment income.

## Exhibit II

Fixed Income Securities	12/31/09		12/31/08	
	Amount	%	Amount	%
U.S. Gov't. Agencies	\$25,342,921	4.40%	\$146,977,894	31.25%
States and Political Subdivisions of U.S.	82,431,668	14.31	3,339,992	0.71
Mortgage Back Securities	257,487	0.04	287,095	0.06
Industrial and Misc.	468,028,787	81.25	319,685,215	67.98
<b>Total Fixed Income Securities</b>	<b>\$576,060,863</b>	<b>100.00%</b>	<b>\$470,290,196</b>	<b>100.00%</b>

With the tremendous growth in assets, what affect—if any—did it have on GBU's liabilities and unassigned surplus? A comparison of the liabilities and unassigned surplus as of December 31, 2009, and 2008 are as follows.

Liabilities and Unassigned Surplus	Years Ended December 31,		Net Change +/-	
	2009	2008	Amount	%
Aggregate Reserve for:				
Annuity Contracts	\$517,966,000	\$420,064,000	\$97,902,000	94.43%
Life Contracts	38,798,000	38,565,000	233,000	0.22
Deposit-Type Contracts	3,443,295	2,966,804	476,491	0.46
Policyholder's Claims and Refunds Payable	630,000	670,000	(40,000)	(0.04)
Amounts Held As Trustee	3,791,299	2,837,094	954,205	0.92
Other Liabilities	923,910	882,305	41,605	0.04
Interest Maintenance Reserve	4,115,524	3,911,616	203,908	0.20
Asset Valuation Reserve	1,877,000	1,296,641	580,359	0.56
<b>Total Liabilities</b>	<b>571,545,028</b>	<b>471,193,460</b>	<b>100,351,568</b>	<b>96.79</b>
<b>Unassigned Surplus</b>	<b>31,005,241</b>	<b>27,675,179</b>	<b>3,330,062</b>	<b>3.21</b>
<b>Total Liabilities and Unassigned Surplus</b>	<b>\$602,550,269</b>	<b>\$498,868,639</b>	<b>\$103,681,630</b>	<b>100.00%</b>

Aggregate reserve for annuity contracts increased from \$420,064,000 as of December 31, 2008, to \$517,966,000 as of December 31, 2009; a net increase of \$97,902,000. GBU's aggregate reserve for annuity contracts is established on a full-fund reserve method. What this means is that GBU establishes reserves on a dollar-for-dollar basis. In laymen terms, this means GBU establishes a liability equal to the assets that our membership have entrusted with us. To really be honest with you, GBU has implemented a practice of establishing annuity reserves in excess of the actual assets entrusted to us. This means additional protection to you and assures you that GBU's financial obligations to you will be fulfilled in the future. As a note of interest, GBU is one of the only fraternal or commercial insurance entities that has adopted this conservative reserving method. GBU's aggregate reserve of annuity contracts exceeds the required minimum reserve for annuity contracts established by the Pennsylvania Insurance Department by more than \$14,000,000. With financial protection like that, it pays to be a GBU member. In addition, the Interest Maintenance Reserve (\$4,115,524) and Asset Valuation Reserve (\$1,877,000) provide additional assurance that your assets entrusted with us are well protected.

Lastly, unassigned surplus increased from \$27,675,179 as of December 31, 2008, to \$31,005,241 as of December 31, 2009; a net increase of \$3,330,062. This growth in unassigned surplus offers further protection to the membership and their assets. As of December 31, 2009, GBU's solvency ratio (including the IMR, AVR and Unassigned Surplus) was 106.54. This means that GBU has financial assets of \$106.54 for every \$100.00 of liabilities.

Having built a solid financial foundation, GBU's operating performance is predetermined. That is, GBU will operate in a profitable mode and profits will grow in the years to come. However, GBU cannot project the capital losses that the economic turmoil of 2008 and 2009 caused. In both

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# GBU's Financial Conditions of 2009 *(Continued.)*

years, GBU incurred capital losses decreasing from \$6.7 million in 2008 to \$2.4 million in 2009. It is anticipated that capital losses will occur again in 2010. Even with capital losses, GBU reported net earnings in excess of \$2.1 million for 2009. Total revenue increased from \$92,278,548 as of December 31, 2008, to \$153,498,962 as of December 31, 2009. The vast majority of the increase in revenue resulted from the significant increase in annuity considerations (from \$59,304,535 in 2008 to \$117,770,309 in 2009). This increase in annuity considerations is a reflection of today's investment market. After suffering sizeable losses of their retirement savings for the last two years, investors are more concerned with the safety of their principal. We all know that GBU's annuities offer safety of principal and a very fair return when compared to other investments. GBU's net investment income continues to grow with the increase in assets. In this low interest rate environment, the net yield on invested assets decreased from 6.45% in 2008 to 6.41% in 2009. To achieve this net yield of 6.41% in 2009, I can assure you that GBU did not sacrifice the quality of fixed income securities purchased. GBU continues to select fixed income securities that protect the principal and has high credit worthiness.

<b>Operating Expenditures</b>	<b>2009</b>	<b>2008</b>	<b>Net Change (+/-)</b>
Salaries	\$1,429,939	\$1,379,960	\$49,979
Employee Fringe Benefits Program	1,054,242	1,084,216	(29,974)
EDP—Eqpt. and Software	176,567	169,801	6,766
Actuarial Expenses	98,614	91,836	6,778
Operating Expenses-Other	738,706	736,563	2,143
Fraternal Expenses-Other	370,882	392,219	(21,337)
<b>Total General Expenses &amp; Taxes</b>	<b>\$3,868,950</b>	<b>\$3,854,595</b>	<b>\$14,355</b>

Total membership benefits increased from \$82,246,518 for 2008 to \$141,795,322 in 2009; a net increase of \$59,548,804. The entire increase was included in the reserve for annuity contracts. Remember, GBU reserves all annuity considerations on a dollar-for-dollar basis. Commissions increased from \$1,501,578 in 2008 to \$3,345,875 for 2009. The increase was caused by the influx of annuity business derived in

<b>Performance Record</b>	<b>Years Ended December 31,</b>		<b>Net Change (+/-)</b>
	<b>2009</b>	<b>2008</b>	
<b>REVENUE</b>			
Life Premium	\$ 1,542,821	\$ 2,872,080	(\$1,329,259)
Annuity Considerations	117,770,309	59,304,535	58,465,774
Net Investment Income	34,185,832	30,101,933	4,083,899
<b>Total Revenues</b>	<b>153,498,962</b>	<b>92,278,548</b>	<b>61,220,414</b>
<b>EXPENDITURES</b>			
<b>Membership Benefits:</b>			
Death Benefits	1,419,307	1,424,639	(5,332)
Matured Endowments	68,652	37,485	31,167
Annuity Benefits	40,855,888	39,847,767	1,008,121
Cash Surrenders	739,960	651,789	88,171
Increase Life Reserves	233,000	1,598,000	(1,365,000)
Increase Annuity Reserves	97,902,000	38,217,000	59,685,000
Other Member Benefits	282,602	179,142	103,460
Refunds to Members	293,913	290,696	3,217
<b>Total Membership Benefits</b>	<b>141,795,322</b>	<b>82,246,518</b>	<b>59,548,804</b>
Commissions	3,345,875	1,501,578	1,844,297
General Expenses and Taxes	3,868,950	3,854,595	14,355
<b>Total Expenditures</b>	<b>149,010,147</b>	<b>87,602,691</b>	<b>61,407,456</b>
<b>Net Gain from Operations before Realized Capital Gains (Losses)</b>	<b>4,488,815</b>	<b>4,675,857</b>	<b>(187,042)</b>
<b>Net Realized Capital Gains (Losses)</b>	<b>(2,385,089)</b>	<b>(6,429,514)</b>	<b>4,044,425</b>
<b>Net Income (Loss)</b>	<b>\$2,103,726</b>	<b>(\$1,753,657)</b>	<b>\$3,857,383</b>

2009. General expenses were controlled and closely monitored which resulted in only a slight increase in operating expenses in 2009. GBU's net gain from operations before realized capital losses was \$4,488,815 for the year 2009, versus \$4,675,857 for the year 2008. This net gain from operations is the third largest in the 118-year history of GBU. As I stated previously, GBU's operating performance is predetermined and will continue to perform in this positive fashion for years to come.

This solid financial foundation and the future of GBU would not be possible without our dedicated members, producers and employees. Because of all of you, the future for GBU shines brighter each day.