Third Quarter Financial Results from Our Chief Financial Officer

It is my pleasure to report on the strong financial achievements of the GCU as of September 30, 2016. Highlights of the third quarter are as follows:

Tim Demetres
Chief Financial Officer

- The financial results for the third quarter continue our journey in growing balance sheet strength. Through increased annuity sales, expense and reserve management, Net Income increased 14.9% to $18.2 million compared to a Net Income of $15.8 million for the first nine months in 2015.
- Total Assets grew 11.4% to $1.5 billion, an increase of $154.7 million from year end 2015 that totaled $1.35 billion. The increase in assets is primarily attributable to strong cash flows from annuity premiums and strong investment earnings.
- Liabilities totaled $1.404 billion for the third quarter of 2016 compared to $1.264 billion as of December 31, 2015. This increase of $140 million is due primarily to higher annuity reserves of $129.4 million from increased sales and $5.8 million payable for securities purchased not yet settled. Slight increases in other liabilities account for the additional increases in the liabilities.
- Total Income increased $30.2 million or 14.4% for the nine months of 2016 to $240.4 million compared to $210.2 million in 2015. The increase is primarily due to strong annuity sales increasing by $27 million and net investment income by $2.9 million from our growing fixed income portfolio.
- Operating expenses before the change in reserves decreased $9.1 million or 8.9% for the first nine months of 2016 and totaled $93.5 million compared to $102.6 million in 2015. The decrease is primarily due to lower annuity paid benefits of $11.3 million offset by $1.8 million higher commissions paid to producers.
- The change in Reserves for Life and Annuities for the nine months totaled $128.7 million compared to $91.6 milion in 2015. Reserves are established on new premiums and the emergence of claims. Life and annuity premiums increased by $26.3 million, and life and annuity claim reserves increased by $37.1 million during 2016.
- Surplus stands at $105.7 million compared to 2015 year-end surplus of $90.7 million. The $15 million increase in surplus for the nine months ended September 30, 2016 is primarily attributable to net income of $18.2 million for the period reduced by a $2.8 million increase in the Asset Valuation Reserve and the change in net unrealized losses of $0.4 million.
- Safety Funds that include Surplus of $105.7 million, Interest Maintenance Reserves of $17.7 million, and Asset Valuation Reserves of $16.0 million totaled $139.4 million for the third quarter of 2016. This is an increase of $18.7 million thus far for 2016. In addition, the solvency ratios for the nine months of 2016 are 107.5 and 110.2 that include Special Reserves, Asset Valuation Reserves (AVR) and Interest Maintenance Reserves (IMR). These ratios reflect a strong and stable balance sheet.

As fall slowly wanes into winter it brings joy and delight knowing Christmas is soon to arrive. Let us give thanks and may your Christmas season be merry. Merry Christmas and Happy New Year!

Tim

Summary of Financial Statistics

(000's omitted)	9/30/16	9/30/15	Change
Assets	$1,509,610	$1,307,335	$202,275
Total Income	240,400	236,448	3,952
Total Operating Exp.	222,217	220,622	1,595
Net Income (Loss)	18,183	15,826	2,357
Surplus (Net Worth)	105,678	85,918	19,760
Asset Valuation Reserve	16,003	11,842	4,161
Interest Maint. Reserve	17,730	15,422	2,308
Surplus & Spec. Rsrvs.	139,411	113,182	26,229
Normal Solvency Ratio	107.5%	107.0%	0.50%
Solv. Incl. Spec. Rsrvs	110.2%	109.2%	0.89%

Income Statement - Nine Months 2016 vs. 2015

(000's omitted)	9/30/16	9/30/15	Change
Income			
Life Premium	$ 1,508	$ 2,116	$ (608)
Annuity Premium	178,417	151,472	26,945
Med. Supp. Prem. (net)	180	5	175
Sub Total	$180,105	$153,593	$26,512
Net Investment Income	57,123	54,194	2,929
Other	3,172	2,434	738
Total Income	$240,400	$210,221	$30,179
Expenses			
Death Benefits	$ 2,011	$ 1,648	$ 363
Annuity Benefits Paid	77,892	89,217	(11,325)
Surrender Benefits	946	1,362	(416)
Acc.+Health Benefits (net)	102	—	102
Commissions	6,426	4,665	1,761
General Insurance Exp.	5,707	5,578	129
Pension Benefits Paid	262	93	169
Other	159	49	110
Sub-Total	$ 93,505	$102,612	$(9,107)
Reserves-Life & Anu.	128,666	91,605	37,061
Total Expenses	$222,171	$194,217	$ 27,954
Net Gain/Loss bef. Rfnd.	18,229	16,004	2,225
Refunds to Members	(194)	(191)	(3)
Net Gain/Loss aft. Rfnd.	18,035	15,813	2,222
Net Cap. Gains (Loss)	148	13	135
Net Income/Loss	$ 18,183	$15,826	$ 2,357

Note: The GCU quarterly report is unaudited but consistent with proper accounting procedure.

Note: Small dollar differences in these reports are due to rounding.

Balance Sheets
September 30, 2016 vs. 2015

(000's omitted)	9/30/16	9/30/15	12/31/15
Assets			
Bonds	$1,398,320	$1,236,038	1,268,001
Preferred Stocks	37,685	23,681	21,413
Common Stocks	11,954	12,235	12,314
Cash//Short Term Inv.	36,662	13,941	30,815
Mortgages	1,572	1,136	1,120
Real Estate			
Beaver Home Office	611	412	401
Certificate Loans	593	656	659
Inv. Inc. Due & Accr.	21,203	19,027	19,501
Other	1,010	209	703
Total Assets	$1,509,610	$1,307,335	$1,354,927
Liabilities			
Life Reserve Fund	$ 64,830	$ 64,117	$ 64,800
Anu. Reserve Fund	1,288,801	1,120,664	1,159,426
Acc.+Health Rsrv. Fnd.	85	—	16
Emp. Pension Fund	6,999	6,508	6,549
Convention Reserve	154	381	406
Adv. Prem.+Fut. Ref. Rsrvs	330	335	341
Payable for Securities	5,758	—	—
Accounts Payable	527	239	425
Refund Accumulations	1,822	1,369	1,378
Overfunded Pension	893	540	893
Sub-Total Liabilities	$1,370,199	$1,194,153	$1,234,234
Asset Value Rsrv.-AVR	16,003	11,842	13,218
Int. Maint. Rsrv.-IMR	17,730	15,422	16,735
Total Liabilities	$1,403,932	$1,221,417	$1,264,187
Surplus Fund	105,678	85,918	90,740
Total Liab. + Surplus	$1,509,610	$1,307,335	$1,354,927

Reconciliation of Change in Surplus

(000's omitted)	9/30/16
Surplus Previous Year 12/31/15	$90,738
Net Income	18,183
Change in Unrealized Gain/(Loss)	171
GCU Holding Company & Other	(630)
Changes in Non-Admitted Assets	1
Changes in Asset Valuation Reserve	(2,785)
Net Change in Surplus	14,940
Ending Surplus 09/30/16	$105,678