

First Quarter 2018 Financials



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Chief Financial Officer
CFO

GCU is strongly committed to serving its members and certificate holders. As we are quickly approaching the mid-way point of 2018, it is my pleasure to report our first quarter financial achievements. Highlights of the first quarter which ended on March 31, 2018 are as follows:

Our financial strength continues to grow to new highs. Despite experiencing the recent industry trend of decreasing life and annuity premiums, our first quarter earnings remained on par with last year and met expectations. Net Income for the first quarter of 2018 was \$6.1 million compared to \$6.6 million in 2017. Realized capital losses in 2018 from investment trading activity were \$.4 million compared to net realized capital gains of \$.5 million in 2017. Surplus grew to \$138.6 million compared to \$133.0 million at year-end 2017.

Assets totaled \$1.755 billion, an increase of \$43.0 million or 2.5% from year end 2017 that totaled \$1.712 billion. This increase can be attributed to continued positive cash flow from life & annuity sales and reinvestment of investment earnings.

Liabilities grew by \$37 million to \$1.616 billion at March 31, 2018 compared to \$1.579 billion as of December 31, 2017. This increase is due primarily to higher annuity reserves of \$34.7 million from new annuity deposits less payouts and an increase of \$2.5 million liability for securities purchased not yet settled.

Total Income decreased \$10.8 million or 11.8% to \$80.6 million from \$91.4 million in 2017. Revenue from life and annuity premiums decreased by \$12.4 million from the prior year. This decrease is partially offset by a \$1.7 million increase in net investment income from the growth in the fixed income portfolio.

Operating expenses, before the change in reserves, decreased \$3.9 million or 8.8% for the first three months of 2018 and totaled \$40.9 million compared to \$44.8 million in 2017. The decrease is primarily due to lower annuity benefits paid of \$5.1 million reduced by \$1.1 million in higher pension plan payouts due to retirements of certain long tenured employees.

The Changes in Reserves for the three months totaled \$33.1 million compared to \$40.5 million in 2016. Reserves are a function of premium deposits, payment of death and annuity benefits, and interest accumulation.

Financial strength and stability is a foundational pillar of GCU. Surplus now stands at \$138.6 million compared to 2017 year-end surplus of \$133.0 million. The \$5.6 million increase in surplus for the three months ended March 31, 2018 is primarily attributable to net income of \$6.1 million reduced by a \$0.3 million increase in the Asset Valuation Reserve and the decrease of \$0.2 million in the investment in GCU Holding and Subsidiaries.

Total surplus is the amount we set aside for unexpected losses from operations and financial protection against business volatility. Total Adjusted Capital includes Surplus of \$138.6 million and adds back the Asset Valuation Reserve of \$19.0 million and one-half the dividend liability of \$150,000 and totaled \$157.7 million as of March 31, 2018. This is an increase of \$5.8 million over year-end 2017. The solvency ratio based on total adjusted capital at March 31, 2018 and December 31, 2017 are 109.9% and 109.7%, respectively. These ratios reflect a strong and stable balance sheet.

Summer is upon us, enjoy!

Tim

Summary of Financial Statistics

(000's omitted)	3/31/18	3/31/17	Change
Assets	\$1,754,886	\$1,712,285	\$42,600
Total Income	80,590	91,411	(10,821)
Total Expenses	73,987	85,288	(11,300)
Net Income (Loss)	6,114	6,555	(441)
Surplus (Net Worth)	138,585	133,042	5,542
Asset Valuation Reserve	18,952	18,662	290
Interest Maintenance Reserve	22,899	22,870	29
Total Adjusted Capital (TAC)	\$157,687	\$151,855	\$5,832
Normal Solvency Ratio	108.6	108.4	0.15
Solv. Ratio by Total Adj. Capital	109.9	109.7	0.14

Reconciliation of Change in Surplus

(000's omitted)	3/31/18
Surplus Previous Year (12/31/17)	\$133,042
Net Income	6,114
Change in Unrealized Gain/(Loss)	9
GCU Holding Company & Other	(233)
Changes in Non-Admitted Assets	(58)
Changes in Asset Valuation Reserve	(290)
Net Change in Surplus	5,542
Ending Surplus 03/31/18	\$138,585

GCU INCOME STATEMENT

Three Months 2018 vs. 2017

INCOME (000's omitted)	3/31/2018	3/31/2017	Change
Life premium	\$ 403	\$ 2,057	\$ (1,653)
Annuity premium	52,523	63,233	(10,710)
Annuity premium exchanges	4,075	4,484	(409)
Accident & Health	176	142	33
Subtotal	57,177	69,915	(12,738)
Net investment income	21,885	20,184	1,701
Amort. of Int. Maint. Resrv.	728	586	142
Commissions-Reinsurance	689	599	90
Other	112	128	(16)
Total income	\$80,590	\$91,411	\$(10,821)
EXPENSES			
Death Benefits - Life Ins.	\$ 1,085	\$ 509	\$ 575
Annuity Benefits Paid	29,619	34,687	(5,068)
Annuity Exchanges	4,075	4,484	(409)
Life Insurance Surr. Benefits	266	188	78
Accident & Health Benefits Pd.	152	113	39
Commissions	2,451	2,924	(474)
General Operating Expenses	1,940	1,670	270
Ins., Taxes, Licenses & Fees	112	136	(24)
Pension Plan Payouts	1,174	83	1,091
Int. on Contract & Dep. Accts.	19	18	1
Subtotal	\$40,891	\$44,813	\$(3,921)
Changes to Reserves	33,096	40,475	(7,379)
Total Expenses	\$73,987	\$85,288	\$(11,300)
Net Gain/Loss Before Refunds	6,603	6,124	479
Refunds to Members	65	63	2
Net Gain/Loss After Refunds	6,538	6,061	477
Net Realized Gains/(Losses)	(424)	494	(918)
Net Income	\$6,114	\$6,555	\$(441)

BALANCE SHEETS

March 31, 2018 vs. December 31, 2017

ASSETS (000's omitted)	3/31/2018	12/31/2017	Change
Bonds	\$1,631,133	\$1,595,058	\$36,075
Preferred Stocks	51,383	50,146	1,237
Common Stocks	12,501	12,375	126
Alternative investments	17,730	15,985	1,745
Cash/Short Term Investments	13,861	11,318	2,543
Mortgages	2,378	2,489	(111)
Certificate Loans	603	642	(39)
Real Estate			
Beaver Home Office	509	527	(18)
Inv. Income Due & Accrued	23,788	22,787	1,001
Other	999	958	42
Total Assets	\$1,754,886	\$1,712,285	\$42,600
<i>Percentage Total Change Period to Period—2.5%</i>			
LIABILITIES			
Life Reserve Fund	\$ 68,648	\$ 69,360	\$ (712)
Annuity Reserve Fund	1,492,607	1,457,906	34,700
Accident & Health Reserve	148	141	6
Employee Pension Fund	5,951	6,956	(1,005)
Convention Reserve	279	279	0
Adv. Prem. & Fut. Ref. Resrv.	371	372	(1)
Pending Investment Trade	2,507	0	2,507
Accounts Payable	757	761	(4)
Refund Accumulations	3,183	1,935	1,247
Asset Valuation Reserve - AVR	18,952	18,662	290
Interest Maint. Reserve - IMR	22,899	22,870	29
Total Liabilities	\$ 1,616,301	\$1,579,243	\$ 37,058
Surplus Fund	\$ 138,585	\$ 133,042	\$ 5,542
Total Liabilities & Surplus	\$1,754,886	\$1,712,285	\$42,600
Normal Solvency	108.6%	108.4%	
Solv. Ratio Total Adj. Capital*	109.9%	109.7%	

*Adds AVR + 1/2 of dividend liability to surplus.

Financial information is unaudited and presented on the statutory basis of accounting.

Totals may vary slightly due to rounding.