

# Second Quarter 2018 Financials



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Chief Financial Officer  
CFO

GCU is strongly committed to serving its members and certificate holders. It is my pleasure to report our mid-year financial achievements through June 30, 2018.

Our financial strength continues to grow at a measured pace with surplus reaching a new high. Despite the overall industry trend of declining life premiums and sales of fixed annuities, our earnings before realized gains (losses), remained on par with last year and met expectations.

Net Income after realized gains (losses) was \$12.6 million in 2018 compared to \$14.1 million in 2017. In 2018, we realized capital losses of \$1.2 million on sales of certain energy related securities. In 2017, we recognized capital gains of \$1.1 million resulting in a year-over-year change of (\$2.3) million. Surplus grew \$13.3 million to \$146.4 million compared to \$133.0 million at year-end 2017.

Assets grew to \$1.802 billion, an increase of \$89.7 million or 5.2% from \$1.712 billion at year end 2017. The increase is attributed to continued positive operating cash flows from life

& annuity sales, investment earnings and controlled spending.

Liabilities grew by \$76.4 million to \$1.656 billion at June 30, 2018 compared to \$1.579 billion as of December 31, 2017. This increase is due primarily to increased annuity reserves of \$75.2 million from net new deposits and an increase of \$1.3 million for securities purchased—not yet settled.

Total Income decreased \$9.2 million or 5.2% to \$166.7 million from \$175.9 million in 2017. Revenue from life and annuity premiums decreased by \$13.3 million from the prior year. This decrease is partially offset by a \$3.9 million increase in net investment income from the compounded growth in the fixed income portfolio.

Operating Expenses, before the change in reserves, decreased \$13.0 million or 14.2% for the six months of 2018 and totaled \$78.2 million compared to \$91.2 million in 2017. The decrease is primarily due to lower annuity benefits paid and exchanges of \$14 million and a reduction of \$0.8 million of commissions paid on lower sales offset by \$0.9 million increase in pension plan distributions due to retirements of certain long tenured employees earlier in the year.

The Change in Reserves increased \$3.0 million for the six

## Summary of Financial Statistics

<i>(in thousands)</i>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>Change</u>
Assets	\$1,801,951	\$1,712,285	\$89,666
Total Income	166,719	175,886	(9,167)
Total Expenses	152,795	162,757	(9,962)
Net Income (Loss)	12,595	14,073	(1,478)
Surplus (Net Worth)	146,358	133,042	13,316
Asset Valuation Reserve	19,302	18,662	640
Interest Maint. Reserve	23,224	22,870	354
Total Adjusted Capital (TAC)	\$165,660	\$151,705	\$13,955
Normal Solvency Ratio	108.8	108.4	0.4
Solv. Ratio by Total Adj. Capital	110.1	109.7	0.4

## Reconciliation of Change in Surplus

<i>(000's omitted)</i>	<u>6/30/18</u>
Surplus Previous Year (12/31/17)	\$133,042
Net Income	12,595
Change in Unrealized Gain/(Loss)	1,825
GCU Holding Company & Other	(415)
Changes in Non-Admitted Assets	(50)
Changes in Asset Valuation Reserve	(640)
Net Change in Surplus	13,316
<b>Ending Surplus</b>	<b>\$146,358</b>

months and totaled \$74.6 million compared to \$71.6 million in 2017. Reserve changes are a function of premium deposits, mortality, payment of death & annuity benefits and interest accumulation.

Financial strength and stability is a foundational pillar of GCU. Surplus now stands at \$146.4 million compared to 2017 year-end surplus of \$133.0 million. The increase of \$13.3 in surplus is primarily attributable to net income of \$12.6 million and a \$1.8 million increase in unrealized investment gains reduced by a \$0.6 million increase in the Asset Valuation Reserve and \$0.4 million loss 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 begins with Surplus of \$146.4 million and adds back the Asset Valuation Reserve of \$19.3 million and one-half the dividend liability of \$150,000 and totaled \$165.7 million as of June 30, 2018. This is an increase of \$14 million over year-end 2017. The solvency ratios based on total adjusted capital at June 30, 2018 and December 31, 2017 are 110.1% and 109.7%, respectively. These ratios reflect a strong and stable balance sheet.

Hope everyone is enjoying the warmth of summer. God bless!

Tim

### GCU INCOME STATEMENT

Six Months 2018 vs. 2017

INCOME (000's omitted)	6/30/2018	6/30/2017	Change
Life Premium	\$ 989	\$ 2,543	\$ (1,554)
Annuity Premium	108,312	114,355	(6,044)
Annuity Exchanges	9,283	15,086	(5,803)
Accident & Health	346	257	89
<b>Subtotal</b>	<b>\$118,929</b>	<b>\$ 132,241</b>	<b>\$(13,312)</b>
Net Investment Income	44,723	40,862	3,860
Amort. of Int. Maint. Resrv.	1,430	1,245	185
Commissions-Reinsurance	1,382	1,228	155
Other	255	310	(55)
<b>Total income</b>	<b>\$166,719</b>	<b>\$175,886</b>	<b>\$ (9,167)</b>
<b>EXPENSES (000's omitted)</b>			
Death Benefits-Life Ins.	\$ 1,715	\$ 1,294	\$ 421
Annuity Benefits Paid	56,319	64,486	(8,167)
Annuity Exchanges	9,283	15,086	(5,803)
Life Insurance Surr. Benefits	626	412	215
Accident & Health Benefits Pd.	294	207	87
Commissions	4,966	5,748	(782)
General Operating Expenses	3,565	3,321	244
Ins., Taxes, Licenses & Fees	161	203	(42)
Pension Plan Payouts	1,257	383	869
Int. on Contract & Dep. Accts.	38	35	3
<b>Subtotal</b>	<b>\$ 78,220</b>	<b>\$ 91,175</b>	<b>\$(12,955)</b>
Changes to Reserves	74,576	71,582	2,994
<b>Total Expenses</b>	<b>\$152,795</b>	<b>\$162,757</b>	<b>\$ (9,962)</b>
<b>Net Gain/Loss Before Refunds</b>	<b>13,923</b>	<b>13,129</b>	<b>795</b>
<b>Refunds to Members</b>	<b>138</b>	<b>133</b>	<b>5</b>
<b>Net Gain/Loss After Refunds</b>	<b>13,785</b>	<b>12,995</b>	<b>790</b>
<b>Net Realized Gains/(Losses)</b>	<b>(1,189)</b>	<b>1,078</b>	<b>(2,267)</b>
<b>Net Income</b>	<b>\$ 12,595</b>	<b>\$ 14,073</b>	<b>\$ (1,478)</b>

### GCU BALANCE SHEET

Six Months 2018 vs. 2017

ASSETS (000's omitted)	6/30/2018	12/31/2017	Diff.
Bonds	\$1,681	\$1,595	\$86
Preferred Stocks	50	50	—
Common Stocks	14	13	1
Alternative investments	20	16	4
Cash/Short Term Investments	10	11	(1)
Mortgages	2	2	—
Certificate Loans	1	1	—
Real Estate-Home Office	1	1	—
Invest. Income Due & Accrued	23	23	—
Other	1	1	—
<b>Total Assets</b>	<b>\$1,802</b>	<b>\$1,712</b>	<b>\$90</b>
<b>LIABILITIES</b>			
Life Reserve Fund	\$ 68,796	\$ 69,360	\$ (564)
Annuity Reserve Fund	1,533,093	1,457,906	75,186
Accident Health Resrv. Fnd.	149	141	8
Employee Pension Fund	6,105	6,956	(850)
Convention Reserve	279	279	0
Adv. Prem. & Fut. Ref. Resrv.	360	372	(12)
Pending Investment Trade	1,256	0	1,256
Accounts Payable	747	761	(14)
Refund Accumulations	2,282	1,935	347
Asset Valuation Resrv.-AVR	19,302	18,662	640
Int. Maint. Reserve-IMR	23,224	22,870	354
<b>Total Liabilities</b>	<b>\$1,655,593</b>	<b>\$1,579,243</b>	<b>\$76,350</b>
Surplus Fund	\$ 146,358	\$ 133,042	\$ 13,316
<b>Total Liabilities &amp; Surplus</b>	<b>\$ 1,801,951</b>	<b>\$ 1,712,285</b>	<b>\$89,666</b>
Normal Solvency	108.8%	108.4%	
Solv. Ratio Total Adj. Capital	110.1%	109.7%	