

Third Quarter 2018 Financials



Tim Demetres
Chief Financial Officer
CFO

GCU is fully committed to serving its members and certificate holders. It is my pleasure to report our financial highlights and achievements for the nine months ended September 30, 2018.

With continued member support and understanding what GCU's life insurance protection affords our loved ones during times of need as well as looking to the future for wealth and retirement planning, our financial strength continues to grow at a measured pace with surplus reaching a new high. Although life insurance and fixed annuity sales have trended lower this year, our earnings before realized gains (losses) remain on par with last year and met expectations. Net Income after realized gains (losses) for the nine months ended September 30th was \$17.2 million in 2018 compared to \$17.0 million in 2017. We had realized capital losses of \$1.9 million in 2018 and \$2.6 million in 2017. These actions were taken to mitigate exposure in certain energy related investments. Surplus grew \$16.1 million to \$149.1 million compared to \$133.0 million at year-end 2017.

Assets grew to \$1.852 billion, an increase of \$139.9 million or 8.2% from \$1.712 billion at year end 2017. The increase is attributed to positive operating cash flows from life and annuity sales, investment earnings and controlled spending.

Liabilities grew by \$123.8 million to \$1.703 billion at September 30, 2018 compared to \$1.579 billion as of December 31, 2017. This increase is due primarily to increased annuity reserves of \$111.5 million from net new deposits

and an increase of \$8.3 million for securities purchased not yet settled. The interest maintenance reserve, representing deferred investment gains and future investment income, increased \$1.5 million to \$24.3 million. The asset valuation reserve, representing a cushion for future investment credit losses, also grew by \$2.4 million to \$21.0 million.

Total Income decreased \$18.1 million or 6.9% to \$244.7 million from \$262.7 million in 2017. Revenue from life and annuity premiums decreased by \$23.4 million from the prior year. This decrease is partially offset by a \$4.7 million increase in net investment income from growth in invested assets.

Operating expenses, before the change in reserves, decreased \$23.1 million or 16.9% for the nine months of 2018 and totaled \$113.4 million compared to \$136.5 million in 2017. The decrease is primarily due to lower annuity benefits paid and exchanges of \$23.8 million and a reduction of \$1.3 million in commissions paid on lower sales offset by \$0.6 million increase in general operating expenses and \$0.9 million in pension distributions due to retirements earlier in the year.

The Change in Reserves increased \$5.5 million for the nine months and totaled \$112.0 million compared to \$106.5 million in 2017. Reserve changes are a function of premium deposits, mortality, payment of death and annuity benefits, and interest accumulation.

Financial strength and stability is the foundational pillar that enables GCU to fulfill its member promises well into the future. Surplus now stands at \$149.1 million compared

Summary of Financial Statistics

(000's omitted)	9/30/2018	9/30/2017	Change
Assets	\$1,852,168	\$1,712,285	\$139,883
Total Income	244,676	262,742	(18,065)
Total Expenses	225,359	242,986	(17,628)
Net Income (Loss)	17,191	17,003	188
Surplus (Net Worth)	149,092	133,042	16,050
Asset Valuation Reserve	21,037	18,662	2,375
Interest Maint. Reserve	24,345	22,870	1,476
Total Adjusted Capital (TAC) \$	170,129	\$ 151,705	\$ 18,424
Normal Solvency Ratio	108.8	108.4	0.3
Solv. Ratio by Total Adj. Capital	110.1	109.7	0.4

Reconciliation of Change in Surplus

(000's omitted)	9/30/18
Surplus Previous Year (12/31)	\$133,042
Net Income	17,191
Change in Unrealized Gain/(Loss)	1,826
GCU Holding Company & Other	(832)
Changes in Non-Admitted Assets	240
Changes in Asset Valuation Reserve	(2,375)
Net Change in Surplus	16,050
Ending Surplus	\$149,092

to 2017 year-end surplus of \$133.0 million. The increase of \$16.1 in surplus is primarily attributable to net income of \$17.2 million and a \$1.8 million increase in unrealized investment gains reduced by a \$2.4 million increase in the Asset Valuation Reserve and \$0.8 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

\$149.1 million and adds back the Asset Valuation Reserve of \$21.0 million and one-half the dividend liability of \$150,000 and totaled \$170.1 million as of September 30, 2018. This is an increase of \$18.4 million over year-end 2017. The solvency ratios based on total adjusted capital at September 30, 2018 and December 31, 2017 are 110.1% and 109.7%, respectively. These ratios reflect a strong and stable balance sheet.

The most joyous time of the year is back, Merry Christmas!
Tim

GCU INCOME STATEMENT Nine Months 2018 vs. 2017

INCOME (000's omitted)	9/30/2018	9/30/2017	Change
Life Premium	\$ 1,413	\$ 4,452	\$ (3,039)
Annuity Premium	157,807	167,601	(9,794)
Annuity Exchanges	12,938	23,515	(10,578)
Accident & Health	510	407	103
Subtotal	172,668	195,976	(23,308)
Net investment income	\$ 67,116	\$ 62,431	\$ 4,685
Amort. of Int. Maint. Resrv.	2,396	2,030	366
Commissions-Reinsurance	2,076	1,879	197
Other	420	425	(5)
Total income	\$244,676	\$262,742	\$(18,065)
EXPENSES (000's omitted)			
Death Benefits-Life Ins.	\$ 1,963	\$ 1,761	\$ 202
Annuity Benefits Paid	82,820	96,026	(13,206)
Annuity Exchanges	12,938	23,515	(10,578)
Life Insurance Surr. Benefits	731	621	110
Accident & Health Benefits Pd.	450	321	129
Commissions	7,451	8,702	(1,251)
General Operating Expenses	5,409	4,839	570
Ins., Taxes, Licences & Fees	243	280	(37)
Pension plan payouts	1,339	404	935
Int. on Contract & Dep. Accts.	57	52	5
Subtotal	\$ 113,400	\$ 136,521	\$ (23,121)
Changes to Reserves	111,958	106,465	5,493
Total Expenses	\$225,359	\$242,986	\$(17,628)
Net Gain/Loss Before Refunds	19,318	19,755	(438)
Refunds to Members	203	197	6
Net Gain/Loss After Refunds	19,115	19,558	(443)
Net Realized Gains/(Losses)	(1,924)	(2,555)	631
Net Income	\$ 17,191	\$ 17,003	\$ 188

GCU BALANCE SHEET September 2018 vs. 2017

ASSETS (000's omitted)	9/30/2018	12/31/2017	Diff.
Bonds	\$1,720,114	\$1,595,058	\$125,055
Preferred Stocks	49,803	50,146	(342)
Common Stocks	14,355	12,375	1,981
Alternative Investments	19,615	15,985	3,629
Cash and Short Term	19,134	11,318	7,816
Mortgages	2,427	2,489	(62)
Certificate Loans	618	642	(24)
Real Estate-Home Office	493	527	(34)
Invest. Income Due & Accrued	24,755	22,787	1,968
Other	854	959	(104)
Total Assets	\$1,852,168	\$1,712,285	\$139,883
LIABILITIES			
Life Reserve Fund	\$ 69,121	\$ 69,360	\$ (239)
Annuity Reserve Fund	1,569,371	1,457,906	111,465
Accident Health Resrv. Fund	162	141	20
Employee Pension Fund	6,204	6,956	(752)
Convention Reserve	279	279	0
Adv. Prem. & Fut. Ref. Resrv.	363	372	(10)
Pending Investment Trade	8,282	0	8,282
Accounts Payable	611	761	(150)
Refund Accumulations	3,302	1,935	1,367
Asset Valuation Resrv.-AVR	21,037	18,662	2,375
Int. Maint. Reserve-IMR	24,345	22,870	1,476
Total Liabilities	\$1,703,076	\$1,579,243	\$123,833
Surplus Fund	\$ 149,092	\$ 133,042	\$ 16,050
Total Liabilities & Surplus	\$ 1,852,168	\$ 1,712,285	\$ 139,883
Normal Solvency	108.8%	108.4%	
Solv. Ratio Total Adj. Capital	110.1%	109.7%	

Financial information is unaudited and presented on the statutory basis of accounting. Totals may vary slightly due to rounding.