



GCU

**December 31, 2018
Financial Report**



Tim Demetres
Chief Financial Officer

GCU Enjoys Excellent 2018 Financial Results

The year 2018 was excellent financially for GCU. Net income was \$22.2 million and surplus increased \$21.2 million to \$154.3 million reaching a new high thanks to our increasing membership, controlled expense growth and management stewardship.

Highlights of 2018

Net Income before net capital gains (losses) totaled \$25.9 million in 2018 compared to \$28.7 million in 2017. We continue to impair non-performing energy related bonds as this sector has been slow to recover from low prices and excess capacity. Net realized capital losses were \$3.4 million in 2018 compared to \$2.7 million in 2017. Net income after net realized losses was \$22.2 million in 2018 compared to \$25.7 million in 2017. GCU has been profitable every year since the financial crisis in 2008. Our goal is to insure GCU has the financial strength and safety and security to meet our member obligations well into the future!

Total Assets of \$1.891 billion, increased \$178.6 million or 10.4% from the prior year which totaled \$1.712 billion. The increase in assets is primarily attributed to investing positive net operating cash flows in investment grade fixed income securities.

Liabilities totaled \$1.737 billion for 2018 compared to \$1.579 billion as of December 31, 2017. The \$157.3 million

increase is due primarily to: \$148.8 million increase in life and annuity reserves; and a \$7.4 million increase in pending investment trades in course of settlement.

Total Income for 2018 was \$336.2 million compared to \$341.9 million in 2017. The \$5.7 million decrease is primarily attributable to \$10.6 million in lower annuity sales and exchanges, \$2.9 million decrease in life premiums, reduced by a \$7.0 million increase in net investment income, and \$0.8 million increase in other income.

Operating expenses before increase in reserves totaled \$160.1 million in 2018. Operating expenses for the same period in 2017 totaled \$178.4 million representing a year over year decrease of \$18.3 million. This decrease is due primarily to lower annuity benefits and exchanges of \$19.8 million, \$1.0 million decrease in agent commissions on lower sales offset by \$2.3 million increase in general insurance expenses and pension costs.

Reserves for Life and Annuities in

2018 totaled \$150.2 million compared to \$134.8 million in 2017. Reserve changes are a function of premium deposits, death and annuity benefits, and interest accumulation.

Surplus grew to \$154.3 million in 2018 compared to \$133.0 million in 2017. The \$21.2 million increase in our surplus is attributable to net income of \$22.2 million, a \$0.4 million increase from net unrealized gains, a \$0.5 million positive change in reducing non-admitted assets, reduced by a \$0.7 million increase in the Asset Valuation Reserve and \$1.2 million reduction from lower net equity in subsidiaries.

Total Adjusted Capital includes Surplus of \$154.3 million and adds back the Asset Valuation Reserve of \$19.3 and one-half the dividend liability of \$150,000 totaled \$173.7 million as of December 31, 2018. This is an increase of \$21.9 million over 2017. The solvency ratio based on total adjusted capital for years 2018 and 2017 are 110.1% and 109.7%, respectively. These ratios reflect a strong and stable balance sheet.

April showers bring May flowers. I wish everyone a Happy Easter!

Tim

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GCU Balance Sheet Comparison

AS OF DECEMBER 31,

Assets (000's omitted)	2018	2017	Difference
Bonds	\$1,762,020	\$1,595,058	\$166,962
Preferred Stocks	49,821	50,146	\$(325)
Common Stocks	13,990	12,375	\$1,615
Cash/Short Term Investments	18,882	11,318	\$7,564
Mortgages	4,770	2,489	\$2,281
Certificate Loans	648	642	\$6
Real Estate			
Beaver Home Office	490	527	(37)
Investment Income Due & Accrued	23,960	22,787	1,173
Alternative Investments	15,908	15,985	(77)
Other	355	959	(604)
Total Assets	\$1,890,844	\$1,712,286	\$178,558
Percentage Total Change Year to Year	10.4%	10.5%	
Liabilities			
Life Reserves	\$ 70,023	\$ 69,360	\$ 662
Annuity Reserves	1,606,084	1,457,906	148,178
Accident & Health Reserves	200	141	59
Employee Pension Liability	6,311	6,956	(644)
Convention Reserve	279	279	0
Advance Premium & Future Refund Reserves	367	372	(5)
Pending Investment Trades	7,415	—	7,415
Accounts Payable	985	762	223
Refund Accumulations	3,018	1,935	1,083
Asset Valuation Reserve-AVR	19,311	18,662	649
Interest Maintenance Reserve-IMR	22,583	22,870	(287)
Total Liabilities	\$1,736,575	\$1,579,244	\$157,331
Surplus Fund	154,269	133,042	21,227
Total Liabilities & Surplus	\$1,890,844	\$1,712,286	\$178,558
Normal Solvency	108.9%	108.4%	
Solvency Ratio*	110.1%	109.7%	

*Adds AVR and one half dividend liability to surplus
Financial information is unaudited and is presented on the statutory basis of accounting.

GCU Income Statement Comparison

YEAR ENDED DECEMBER 31,

Income	2018	2017	Difference
Life Premium	\$ 2,164,709	\$ 5,035,377	(\$2,870,669)
Annuity Premium	217,093,679	215,189,406	1,904,273
Annuity Exchanges	18,265,566	30,791,991	(12,526,424)
Accident & Health	685,135	596,998	88,137
Sub Total	238,209,089	251,613,772	(13,404,684)
Net Investment Income	91,282,601	84,242,334	7,040,267
Amortization of Interest Maintenance Reserve	3,195,329	2,914,364	280,965
Commission allowance for reinsurance	2,790,927	2,578,324	212,603
Other	688,861	548,347	140,514
Total Income	\$336,166,805	\$341,897,141	(\$5,730,336)
Expenses			
Death Benefits	\$ 2,111,258	\$ 2,493,491	(\$382,232)
Annuity Benefits Paid	118,378,327	125,643,693	(7,265,366)
Annuity Exchanges	18,265,566	30,791,991	(12,526,425)
Surrender Benefits	834,452	844,574	(10,122)
Accident & Health Benefits Paid	698,255	472,991	225,264
Commissions	10,437,710	11,402,457	(964,747)
General Insurance Exp	7,150,790	6,128,598	1,022,192
Insurance, Taxes, Licenses and Fees	347,926	14,984	332,942
Pension Expense	1,759,285	500,261	1,259,024
Interest on contract and deposit type accounts	74,264	69,876	4,388
Sub-Total	\$160,057,834	\$178,362,916	-\$18,305,081
Change in Reserves	150,240,992	134,816,868	15,424,124
Total Expenses	\$310,298,827	\$313,179,784	(\$2,880,957)
Net Gain/Loss from Operations before Refunds	25,867,979	28,717,357	(2,849,379)
Refunds to Members	271,796	261,841	9,955
Net Gain/Loss from Operations after Refunds	25,596,183	28,455,516	(2,859,333)
Net Capital Gains (Losses)	(3,413,447)	(2,747,753)	(665,694)
Net Income/Loss	\$22,182,736	\$25,707,763	\$(3,525,028)

Financial Report

Four Year Comparative Summary

YEAR ENDED DECEMBER 31,

	2018	2017	2016	2015
Assets	\$ 1.89 Bil	\$ 1.71 Bil	\$ 1.550 Bil	\$ 1.355 Bil
Total Income	336 Mil	342 Mil	346.0 Mil	318.0 Mil
Total Operating Expense	310.3 Mil	313.2 Mil	322.1 Mil	295.8 Mil
Reserve Change - Life and Annuities	150.2 Mil	134.8 Mil	168.0 Mil	131.0 Mil
Income from Operations	25.9 Mil	28.7 Mil	23.9 Mil	22.3 Mil
Refunds to Members	(271,796)	(261,841)	(257,398)	(256,199)
Capital Gains (Losses)	(3,413,447)	(2,747,753)	-3,069,730	21,926
Net Income (Loss)	22,182,736	25,707,763	20,636,081	22,063,543
Reserve - Interest Maintenance	22,582,928	22,869,833	18,058,704	16,735,318
Reserve - Asset Valuation	19,311,098	18,662,238	17,556,902	13,217,553
Surplus (Net Worth)	\$154,269,000	\$133,042,421	\$108,531,974	\$90,739,736

GCU Surplus Comparison

YEAR ENDED DECEMBER 31,

	2018	2017	Difference
Beginning Surplus	\$ 133,042,421	\$ 108,531,974	\$ 24,510,447
Net Income/(loss)	22,182,736	25,707,763	(3,525,028)
Change in Unrealized Gain/(Loss)	380,996	570,958	(189,962)
GCU Holding Company & Other	(1,190,056)	(1,299,846)	109,790
Changes in Non-Admitted Assets	501,762	636,909	(135,147)
Changes in Asset Valuation Reserve	(648,859)	(1,105,337)	456,478
Net Change in Surplus	21,226,579	24,510,447	(3,283,869)
Ending Surplus	\$154,269,000	\$133,042,421	\$21,226,579

General Insurance Expenses

YEAR ENDED DECEMBER 31,

	2018	2017	Difference
Rent	\$ 94,000	\$ 94,000	\$ —
Salaries & Wages	3,221,374	2,466,354	755,020
Employee Benefits	871,545	521,728	349,817
Legal Fees & Expenses	115,374	73,041	42,333
Medical Examination Fees	33,887	6,377	27,510
Fees-CPA, Actuarial and banking	618,000	564,733	53,267
Board Meeting Expenses/Travel	186,327	208,842	(22,515)
Advertising	6,280	3,035	3,245
Postage & Phone	213,530	189,335	24,195
Printing & Stationary	108,639	108,831	(192)
Miscellaneous Equipment	173,932	168,431	5,501
Books and Periodicals	4,015	1,999	2,016
Bureau and Association Dues	36,996	62,644	(25,648)
Insurance Fees	71,245	52,979	18,266
Sundry General Expenses	513,944	168,277	345,667
Official Publication	48,497	46,540	1,957
Future Convention Reserves	29,581	102,118	(72,537)
Field Expense Allowance	-	92,457	(92,457)
Fraternal Activities	648,248	826,238	(177,990)
Data Processing Supplies/Exp.	75,487	118,748	(43,261)
Marketing Consultant Fees and Exp.	79,889	251,891	(172,002)
Total	\$7,150,790	\$6,128,598	\$1,022,192

GCU Subsidiary Operations - Year 2018*

	GCU Holding & Subsidiaries	GCU Holding Co.	GCU Real Estate Co.	Seven Oaks Country Club	GCU Agency Inc.
Equity , Beginning of Year	\$ 8,068,121	\$259,041	\$ 1,936,540	\$ 5,816,301	\$ 56,239
Profit or (Loss) for Year	(1,097,382)	(45,305)	(70,333)	(982,409)	665
Capital Contribution	3,312,634	0	0	3,312,634	0
Equity, End of Year	\$10,283,373	\$213,736	\$1,866,207	\$8,146,526	\$56,904

*Financial information is unaudited and is presented in accordance with generally accepted accounting principles.

Attention Residents of California, Connecticut, Florida & New Jersey

A third party, to receive a copy of any notice of insurance lapse that we send, may be designated by a person who:

- is located in or a resident of the state of California, Connecticut, Florida or New Jersey;
- is insured by a life or annuity certificate, contract or policy that we have issued; and
- is age 62 or older (California & Connecticut-all ages).

A third party may be designated by: completion of the information requested in the Third Party Designation below; and, return of the Third party Designation to us by certified mail, return receipt requested. The designation will be effective upon our receipt of the information.

Designation of a third party does not constitute the acceptance of any liability for the services provided to the person by the third party or by us.

The third party designation may be terminated by: the third party by written notice to both the person and to us; or, the person by written notice to us.

THIRD PARTY DESIGNATION

Certificate/Contract/Policy Number: _____ Date: _____

Third Party Notice, Designee: _____
(Print Name)

Address: _____

I accept designation as a third party.

Signature: _____

Signature, Insured/Owner: _____

GCU 5400 Tuscarawas Road Beaver, PA 15009