

Second Quarter 2020 Financials



Tim Demetres
Chief Financial Officer

GCU is committed to serving our members during these uncertain times brought on by the Coronavirus (COVID-19). We are firmly positioned to withstand the impact of the pandemic because of our dedicated employees and our financial strength. The economy is improving with unemployment levels dropping, mortgage rates are low for home buyers, and equity & bond valuations are increasing to pre COVID-19 levels. While certain industries continue to struggle, we are prudently managing our investments and will impair those securities unlikely to recover in value, particularly energy sector holdings. By doing so, we put these exposures behind us.

Highlights of the 2020 half-year results are as follows:

Income before net capital gains (losses) totaled \$13.8 million slightly under the \$14 million reported in 2019. Net realized capital losses were \$10.7 million in 2020 compared to \$3.7 million in 2019. We impaired three energy bonds that filed for bankruptcy protection due to low demand and low energy prices, a situation that was exacerbated by COVID-19. As a result, net income after net realized losses was \$3.1 million in 2020 compared to \$10.2 million in 2019. Notwithstanding the impact realized losses had on net income, surplus was largely protected by a release of the asset valuation reserve (AVR). The AVR is a liability built-up over time and used to soften the negative impact to surplus from deteriorating credit losses. Our goal is to insure GCU maintains its financial strength to meet member obligations well into the future!

Total Assets increased \$72.8 million to \$2.125 billion at June 30th from year-end 2019. The increase in assets reflects continued growth in invested assets from excess operating cash flows. We are strategically focused on asset allocation and generating risk adjusted returns to support our life and annuity products. A key component of this strategy is to complement our fixed income holdings by increasing exposure to public equities and alternative assets (investments in LLC's and limited partnerships).

Liabilities grew commensurate with life and annuity sales and totaled \$1.955 billion at June 30 compared to \$1.890 billion at year-end 2019. The \$65.5 million increase in total liabilities is due primarily to a \$72.5 million increase in life and annuity reserves off-set by a \$7.9 million decrease in AVR.

Total Income for the first half 2020 was \$181.5 million compared to \$181.6 million in 2019. Life sales have increased 33% over prior year and continued growth is expected in the second half from the introduction of GCU's final expense life insurance product.

Operating expenses, before increase in reserves, totaled \$99.4 million versus \$84.3 million in 2019 representing an increase of \$15.1 million or 17.9%. In support of our members during the pandemic, GCU paid \$11.3 million more in annuity benefits (death claims, full and partial withdrawals), as well as exchanged certain annuity contracts to new contracts totaling \$4.3 million. General insurance expenses were flat compared to 2019.

The increase in reserves totaled \$68.2 million compared to \$83.3 million in 2019. Reserve changes are primarily a function of premiums received, death and annuity benefits paid out, and interest accumulation.

Surplus grew to \$170.1 million at June 30th compared to \$162.7 million at year-end. The \$7.3 million increase in surplus is attributable to the additions of net income and

Summary of Financial Statistics

(000's omitted)	6/30/2020	6/30/2019	Change
Total Income	\$181,471	\$181,633	\$(162)
Total Expenses	167,521	167,523	(2)
Net Income (Loss)	3,087	10,231	(7,144)
	6/30/2020	12/31/2019	Change
Assets	\$2,125,169	\$2,052,335	\$72,834
Asset Valuation Reserve	10,816	18,747	(7,931)
Interest Maintenance Reserve	21,858	21,539	319
Surplus (Net Worth)	170,061	162,742	7,319
Total Adjusted Capital (TAC)	181,026	181,639	(613)
Solv. Ratio by Total Adj. Capital	109.3%	109.7%	(0.4%)

Change in Surplus

(000's omitted)	
Beginning Surplus	\$162,742
Net Income/(loss)	3,087
Change in Unrealized Gain/(Loss)	(1,704)
GCU Holding Company & Other	(727)
Changes in Non-Admitted Assets	(1,268)
Changes in Asset Valuation Reserve	7,931
Net Change in Surplus	7,319
Ending Surplus	\$170,061

the change in AVR of \$3.1 million and \$7.9 million, respectively, off-set by decreases in unrealized gains/losses (\$1.7 million); a (\$1.3 million) charge for an increase in non-admitted assets software development costs and a (\$0.7 million) reduction for GCU Holding Company's net loss .

Total Adjusted Capital (TAC) at June 30, 2020 is \$181.0 million. TAC starts with surplus of \$170.1 million and adds back the asset valuation reserve of \$10.8 million and one-

half the dividend liability of \$150,000. TAC is used as a financial strength measure by rating agencies. The solvency ratios based on TAC at June 30, 2020 and 2019 are 109.3% and 109.7%, respectively. These ratios reflect the continued financial strength of GCU.

Please be safe and stay healthy. Enjoy the autumn colors!

Tim

GCU INCOME STATEMENT

Six Months 2020 vs. 2019

INCOME (000's omitted)	6/30/2020	6/30/2019	Change
Life Premium	\$ 2,416	\$ 1,810	\$ 606
Annuity Premium	112,508	118,484	(5,976)
Annuity Exchanges	12,837	8,515	4,322
Accident & Health	319	363	(44)
Sub Total	128,080	129,172	(1,092)
Net Investment Income	50,991	49,366	1,625
Amort. of Int. Maint. Resrv.	1,129	1,419	(290)
Commission-Reinsurance	980	1,311	(331)
Other	291	365	(74)
Total Income	\$181,471	\$181,633	\$ (162)
EXPENSES			
Death Benefits	\$ 1,549	\$ 1,151	\$ 398
Annuity Benefits Paid	75,383	64,129	11,254
Annuity Exchanges	12,837	8,515	4,322
Surrender Benefits	216	467	(251)
Accident & Health Benefits Pd.	201	339	(138)
Commissions	4,721	5,309	(588)
General Insurance Exp	4,030	3,996	34
Ins., Taxes, Licenses & Fees	268	265	3
Pension Expense	43	52	(9)
Int. on Contract & Dep. Accts.	110	37	73
Sub-Total	\$ 99,358	\$ 84,260	\$15,098
Increase in Reserves	68,163	83,263	(15,100)
Total Expenses	\$167,521	\$167,523	\$ (2)
Net Gain/Loss Before Refunds	13,950	14,110	(160)
Refunds to Members	146	140	6
Net Gain/Loss After Refunds	13,804	13,970	(166)
Net Capital Gains (Losses)	(10,717)	(3,739)	(6,978)
Net Income/Loss	\$ 3,087	\$ 10,231	\$ (7,144)

BALANCE SHEETS

June 30, 2020 vs. December 31, 2019

ASSETS (000's omitted)	6/30/2020	12/31/2019	Change
Bonds	\$1,975,748	\$1,922,664	\$53,084
Preferred Stocks	40,568	40,625	(57)
Common Stocks	24,712	16,093	8,619
Alternative Investments	27,166	20,776	6,390
Cash/Short Term Investments	25,252	17,624	7,628
Mortgages	4,311	4,129	182
Certificate Loans	580	573	7
Real Estate - home office	475	480	(5)
Inv. Income Due & Accrued	25,716	25,359	357
Other	640	4,011	(3,371)
Total Assets	\$2,125,169	\$2,052,334	\$72,835
Percentage Total Change Year to Year			3.5%
LIABILITIES			
Life Reserves	\$ 73,171	\$ 71,515	\$ 1,656
Annuity Reserves	1,837,779	1,766,905	70,874
Accident & Health Reserves	166	191	(24)
Employee Pension Liability	7,059	6,839	220
Symposium Reserve	262	279	(17)
Adv. Prem. & Fut. Rfnd. Resrvs.	358	373	(15)
Accounts Payable	1,481	996	485
Refund Accumulations	2,158	2,209	(51)
Asset Valuation Resrv.-AVR	10,816	18,747	(7,931)
Interest Maint. Reserve-IMR	21,858	21,539	319
Total Liabilities	\$1,955,108	\$1,889,592	\$65,516
Surplus Fund	170,061	162,742	7,319
Total Liabilities & Surplus	\$2,125,169	\$2,052,334	\$72,835
Solvency Ratio*	109.3%	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.