

Second Quarter 2021 Financials



Tim Demetres
Chief Financial Officer

We are beginning to see light after experiencing the trials and tribulations brought on by the global pandemic. GCU successfully adjusted its business activities to maintain normal operations with least disruption to our members. We can withstand these challenges because of employee dedication and financial strength. GCU's surplus reached \$192 million as of June 30, 2021, a new high-water mark.

With the support of government assistance programs and the Federal Reserve, the economy has improved with lower unemployment levels and low mortgage rates. Operating in a low interest rate environment presents investment challenges particularly when market yields reach all-time lows for investment grade securities. Notwithstanding, we continue to prudently diversify our investment strategies to generate appropriate risk adjusted returns.

Highlights of the 2021 half-year results are as follows:

Income before net capital gains (losses) totaled \$14.0 million slightly higher than the \$13.8 million reported in 2020. Net realized capital gains were \$103.6 thousand in 2021 compared to realized losses of \$10.8 million in 2020 from impaired energy bonds. Net income after net realized gains (loss) was \$14.1 million in 2021 compared to \$3.1 million in 2020.

Total Assets increased \$104.8 million to \$2.306 billion at June 30 from \$2.201 billion at year-end 2020. The increase in assets reflect continued growth in invested assets from new business and excess operating cash flows. In the con-

tinued low interest rate environment, we are strategically focused on asset allocation and generating appropriate risk adjusted returns to support our life and annuity products. A key objective of this strategy is to complement our fixed income returns by modestly 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 \$2.113 billion as of June 30 compared to \$2.018 billion at year-end 2020. The \$95.1 million increase in total liabilities is due primarily to a \$86.4 million increase in life and annuity reserves, a \$7.2 million increase in AVR, and a \$1.9 million increase in the IMR from deferred investment gains.

Total Income for the first half 2021 was \$212 million compared to \$181.5 million in 2020. Life sales increased over 96% from growth in our whole life single premium and final expense products. Annuity sales and exchanges increased \$24.4 million to \$149.8 million in 2021. Net investment income of \$54.3 million increased \$3.3 million from higher assets under management.

Operating expenses, before increase in reserves, totaled \$115.8 million versus \$99.4 million in 2020, an increase of \$16.4 million or 16.5%. Largely attributable to the pandemic, GCU paid \$16 million more in annuity benefits (death claims, full and partial withdrawals). Annuity exchanges decreased \$3.7 million which was mostly offset by the \$2.5 million increase in agent commission from higher premiums. General insurance expenses were \$765 thousand higher when compared to 2020.

The increase in reserves totaled \$82.1 million compared to \$68.2 million in 2020. Reserve changes are primarily a function of premiums received, death and annuity benefits paid out, and interest accumulation.

Surplus grew to \$192.3 million as of June 30 compared

Summary of Financial Statistics

(000's omitted)	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>Change</u>
Total Income	\$212,031	\$181,471	\$30,560
Total Expenses	197,875	167,521	30,354
Net Income (Loss)	14,092	3,087	11,005
	<u>6/30/21</u>	<u>12/31/20</u>	<u>Change</u>
Assets	\$2,305,605	\$2,200,817	\$104,788
Asset Valuation Reserve	15,546	8,316	7,230
Interest Maintenance Reserve	23,030	21,124	1,906
Surplus (Net Worth)	192,309	182,648	9,661
Total Adjusted Capital (TAC)	208,006	191,114	16,892
Solv. Ratio by Total Adj. Capital	109.9%	109.5%	0.41%

Change in Surplus

(000's omitted)	
Beginning Surplus	\$182,648
Net Income/(loss)	14,092
Change in Unrealized Gain/(Loss)	4,086
GCU Holding Company & Other	(489)
Changes in Non-Admitted Assets	(798)
Changes in Asset Valuation Reserve	(7,230)
Net Change in Surplus	9,661
Ending Surplus	\$192,309

to \$182.7 million at year-end 2020. The \$9.7 million increase in surplus is attributable to the additions of net income and the change in unrealized gains of \$14.1 million and \$4.1 million, respectively, reduced by the change in AVR (\$7.2 million); (\$0.8 million) increase in non-admitted software development costs; and (\$0.5 million) reduction for GCU Holding Company's net loss.

Total Adjusted Capital (TAC) was \$208 million as of June 30, 2021. TAC starts with surplus of \$192.3 million

and adds back the asset valuation reserve of \$15.6 million and one-half the dividend liability of \$150,000. TAC is a financial strength measure closely monitored by rating agencies. The solvency ratios based on TAC were 109.9% and 109.5%, as of June 30, 2021 and December 31, 2020, respectively. These ratios reflect the consistency of GCU's excellent financial strength.

Please be safe and stay healthy. Enjoy the beauty brought by autumn's color!

Tim

GCU INCOME STATEMENT

Six Months 2021 vs. 2020

INCOME (000's omitted)	6/30/2021	6/30/2020	Change
Life Premium	\$ 4,738	\$ 2,415	\$ 2,322
Annuity Premium	140,835	112,508	28,327
Annuity Exchanges	8,930	12,837	(3,907)
Accident & Health	268	319	(51)
Sub Total	154,770	128,080	26,691
Net Investment Income	54,301	50,991	3,310
Amort. of Int. Maint. Resrv.	1,063	1,129	(66)
Commission-Reinsurance	776	980	(204)
Other	1,121	291	830
Total Income	\$212,031	\$181,471	\$30,560
EXPENSES			
Death Benefits	\$ 2,250	\$ 1,549	\$ 701
Annuity Benefits Paid	91,578	75,584	15,994
Annuity Exchanges	8,930	12,636	(3,706)
Surrender Benefits	292	216	76
Accident & Health Benefits Pd.	261	201	60
Commissions	7,206	4,721	2,485
General Insurance Exp.	4,795	4,030	765
Ins., Taxes, Licenses & Fees	314	269	45
Pension Expense	9	43	(34)
Int. on Contract & Dep. Accts.	126	110	16
Sub-Total	\$ 115,761	\$ 99,358	\$ 16,403
Increase in Reserves	82,114	68,164	13,951
Total Expenses	\$197,875	\$167,521	\$30,354
Net Gain/Loss Before Refunds	14,156	13,950	206
Refunds to Members	168	146	22
Net Gain/Loss After Refunds	13,989	13,804	184
Net Capital Gains (Losses)	104	(10,717)	10,821
Net Income/Loss	\$ 14,092	\$ 3,087	\$11,005

BALANCE SHEETS

June 30, 2021 vs. December 31, 2020

ASSETS (000's omitted)	6/30/2021	6/30/2020	Change
Bonds	\$ 2,138,887	\$2,015,625	\$123,262
Preferred Stocks	35,626	40,562	(4,936)
Common Stocks	30,873	26,707	4,166
Alternative Investments	34,730	31,950	2,780
Cash/Short Term Investments	18,418	54,663	(36,245)
Mortgages	3,133	3,449	(316)
Certificate Loans	514	574	(60)
Real Estate	15,661	481	15,180
Inv. Income Due & Accrued	26,962	26,134	828
Other	801	672	129
Total Assets	\$2,305,605	\$2,200,817	\$104,788
% Total Change Year to Year	4.8%	3.5%	
LIABILITIES			
Life Reserves	\$ 78,365	\$ 75,466	\$ 2,899
Annuity Reserves	1,984,207	1,900,707	83,500
Accident & Health Reserves	164	177	(13)
Employee Pension Liability	7,767	7,464	303
Symposium Reserve	127	127	0
Adv. Prem. & Fut. Rfnd. Resrvs.	375	356	19
Pending Investment Trades	0	1,730	(1,730)
Accounts Payable	995	961	34
Refund Accumulations	2,718	1,739	979
Asset Valuation Resrv.-AVR	15,546	8,316	7,230
Interest Maint. Reserve-IMR	23,030	21,124	1,906
Total Liabilities	\$ 2,113,295	\$2,018,167	\$ 95,128
Surplus Fund	192,309	182,648	9,661
Total Liabilities & Surplus	\$2,305,605	\$2,200,815	\$104,790
Solvency Ratio*	109.9%	109.5%	

*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.