

# Third Quarter 2021 Financials



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Chief Financial Officer

**A**s the close of 2021 fast approaches, excitement abounds with the introduction of Aquila X, GCU's fixed indexed annuity product. A suitable alternative to our fixed deferred annuity for wealth accumulation and retirement planning. This product provides the protection of a fixed annuity with an opportunity to participate in equity-based returns. GCU continues to grow reaching \$2.4 billion in assets and \$198.7 million in surplus as of September 30, 2021, a new high-water mark.

Highlights of the year-to-date third quarter results are as follows:

Income before net capital gains (losses) totaled \$21.6 million compared to \$21.1 million reported in 2020. Net realized capital gains were \$148 thousand in 2021 compared to a realized loss of \$18 million in 2020 from impaired energy bonds. Net income after net realized gains (loss) was \$21.8 million in 2021 compared to \$3.1 million in 2020.

Total Assets increased \$171.8 million to \$2.373 billion at September 30<sup>th</sup> from \$2.201 billion at year-end 2020. The increase in assets reflects continued growth in invested assets from new business activity and positive cash flows. Due to the sustained low interest rate environment, we have been 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 \$2.174 billion as of September 30 compared to \$2.018 billion at year-end 2020. The \$155.8 million increase in total liabilities is due primarily to a \$130.4 million increase in life and annuity reserves, \$12.7 million increase in unsettled investment trades, a \$10.2 million increase in AVR, and a \$1.7 million increase in the IMR from deferred investment gains.

Total Income through the third quarter of 2021 was \$319 million compared to \$273.5 million in 2020. Life sales increased 75% from growth in our whole life single premium and final expense products. Annuity sales and exchanges increased \$35.6 million to \$224.1 million in 2021. Net investment income of \$83.6 million increased \$6.3 million from higher assets under management and make-whole premiums received on bond call and tender offers.

Operating expenses, before increase in reserves, totaled \$171.4 million versus \$142.8 million in 2020, an increase of \$28.6 million or 20%. Largely attributable to meeting the needs of our members, GCU paid \$26 million more in annuity benefits (death claims, full and partial withdrawals). Annuity exchanges decreased \$4.6 million. Commissions paid for the production of new business increased \$4.8 million commensurate with higher life and annuity sales. General insurance expenses were \$561 thousand higher in 2021 when compared to 2020. Pension expenses increased \$1.1 million due to employee attrition and pension distributions. The higher pension expenses were mostly offset by a decrease in the pension fund liability.

The increase in reserves totaled \$125.8 million compared to \$109.5 million in 2020. Reserve changes are primarily a function of premiums received, death and annuity benefits paid out, and interest accumulation.

Surplus grew to \$198.7 million as of September 30<sup>th</sup>

## Summary of Financial Statistics

<i>(000's omitted)</i>	<b>9/30/21</b>	<b>9/30/20</b>	<b>Change</b>
Total Income	\$319,031	\$273,527	\$45,504
Total Expenses	297,162	252,236	44,926
Income Bef. Real. Gains (Losses)	21,626	21,080	546
Net Income (Loss)	21,774	3,079	18,695
	<b>9/30/21</b>	<b>9/30/20</b>	<b>Change</b>
Assets	\$2,372,640	\$2,200,816	\$171,824
Surplus (Net Worth)	198,709	182,648	16,061
Asset Valuation Reserve	18,465	8,316	10,149
Interest Maintenance Reserve	22,803	21,124	1,679
Total Adjusted Capital (TAC)	217,324	191,114	26,210
Solv. Ratio by Total Adj. Capital	110.1	109.5	0.6

## Change in Surplus

*(000's omitted)*

Beginning Surplus - December 31, 2020	\$182,648
Net Income	21,774
Change in Unrealized Gain/(Loss)	6,487
GCU Holding Company	(701)
Changes in Non-Admitted Assets	(1,350)
Changes in Asset Valuation Reserve	(10,149)
Net Change in Surplus	16,061
<b>Ending Surplus - Current Period</b>	<b>\$198,709</b>

compared to \$182.7 million at year-end 2020. The \$16 million increase in surplus is attributable to the additions of net income and the change in unrealized gains of \$21.8 million and \$6.5 million, respectively, reduced by the change in AVR (\$10.2 million); (\$1.4 million) increase in non-admitted software development costs; and (\$0.7 million) reduction for GCU Holding Company's net loss.

Total Adjusted Capital (TAC) was \$217.3 million as of September 30, 2021. TAC starts with surplus of \$198.7

million and adds back the asset valuation reserve of \$18.5 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 110.1% and 109.5%, as of September 30, 2021 and December 31, 2020, respectively. These ratios reflect the consistency of GCU's excellent financial strength.

Please be safe and have a Merry Christmas and happy holiday season! Tim

## GCU INCOME STATEMENT

### Nine Months 2021 vs. 2020

INCOME (000's omitted)	9/30/21	9/30/20	Change
Life Premium	\$ 6,786	\$ 3,881	\$ 2,905
Annuity Premium	210,821	170,376	40,445
Annuity Exchanges	13,293	18,175	(4,882)
Accident & Health	399	503	(104)
Subtotal	231,300	192,935	38,365
Net investment income	83,629	77,346	6,283
Amort. of Int. Maint. Resrv.	1,628	1,399	230
Commissions-Reinsurance	1,138	1,426	(288)
Other	1,335	421	914
<b>Total income</b>	<b>\$319,031</b>	<b>\$273,527</b>	<b>\$45,504</b>
<b>EXPENSES</b>			
Death Benefits Life	\$ 3,013	\$ 2,194	\$ 820
Annuity Benefits Paid	133,882	107,933	25,949
Annuity Exchanges	13,293	17,925	(4,632)
Surrender Benefits	378	430	(51)
Accident/Health Benefits Pd.	369	384	(15)
Commissions	11,613	6,788	4,825
General Insurance Expenses	7,006	6,445	561
Ins., Taxes, Licenses & Fees	381	421	(40)
Pension Expense	1,212	95	1,117
Int. on Contract & Dep. Accts.	204	173	31
Subtotal	171,352	142,787	28,565
Changes to Reserves	125,809	109,448	16,361
<b>Total Expenses</b>	<b>\$297,162</b>	<b>\$252,236</b>	<b>\$44,926</b>
<b>Net Gain/Loss Before Refunds</b>	<b>21,869</b>	<b>21,291</b>	<b>578</b>
<b>Refunds to Members</b>	<b>243</b>	<b>211</b>	<b>32</b>
<b>Net Gain/Loss After Refunds</b>	<b>21,626</b>	<b>21,080</b>	<b>546</b>
<b>Net Realized Gains/(Losses)</b>	<b>148</b>	<b>\$(18,000)</b>	<b>18,148</b>
<b>Net Income/Loss</b>	<b>\$ 21,774</b>	<b>\$ 3,079</b>	<b>\$18,695</b>

## BALANCE SHEETS

### September 30, 2021 vs. December 31, 2020

ASSETS (000's omitted)	9/30/21	12/31/20	Change
Bonds	\$2,191,446	\$2,015,625	\$175,821
Preferred Stocks	31,875	40,562	(8,687)
Common Stocks	31,957	26,707	5,250
Alternative investments	38,166	31,950	6,216
Cash/Short Term Invest.	30,058	54,663	(24,605)
Mortgages	3,823	3,449	374
Certificate Loans	514	574	(60)
Real Estate	15,561	481	15,080
Inv. Income Due & Accrued	28,412	26,134	2,277
Other	828	672	155
<b>Total Assets</b>	<b>\$2,372,640</b>	<b>\$2,200,816</b>	<b>\$171,823</b>

**Percentage Total Change Year to Year 7.8%**

## LIABILITIES

Life Reserve Fund	\$ 79,737	\$ 75,466	\$ 4,271
Annuity Reserve Fund	2,026,850	1,900,707	126,143
Accident Health Reserves	143	177	(35)
Employee Pension Fund	6,758	7,464	(705)
Symposium Reserve	127	127	—
Adv. Prem. & Fut. Ref. Resrvs.	369	356	13
Pending Investment Trade	14,426	1,730	12,696
Accounts Payable	1,081	961	119
Refund Accumulations	3,172	1,739	1,432
Asset Valuation Resrv.-AVR	18,465	8,316	10,149
Interest Maint. Resrv.-IMR	22,803	21,124	1,679
<b>Total Liabilities</b>	<b>\$ 2,173,930</b>	<b>\$ 2,018,168</b>	<b>\$155,762</b>
Surplus Fund	198,709	182,648	16,062
<b>Total Liabilities &amp; Surplus</b>	<b>\$2,372,639</b>	<b>\$2,200,816</b>	<b>\$171,823</b>

**Solvency Ratio by TAC 110.1% 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.*