

# Second Quarter 2022 Financials



**Tim Demetres**  
Chief Financial Officer

**H**ow quickly economic events change the financial landscape. The long-standing trend of declining interest rates finally reversed course over a few short months. The Federal Reserve actively began raising interest rates to tame raging inflation brought on by excessive fiscal stimulus, continuing supply chain disruption, high energy prices, and impacts from the Russia Ukraine war. The silver lining embedded in the negative news is market investment yields have risen paving the way for GCU to increase annuity crediting rates benefiting our current and future members retirement savings and wealth accumulation. The precipitous decline in the equity markets sparked a “flight to safety” resulting in higher sales activity surpassing 2021 same period sales more than \$40 million. As a result, I am pleased to report our excellent mid-year financial highlights with net income exceeding \$15 million and surplus growing to \$220.6 million for the six months ended June 30, 2022.

Highlights of GCU’s half-year results are as follows:

Income before net capital gains (losses) totaled \$15.4 million, \$1.4 million higher than the \$14 million reported in 2021. Net realized capital gains were \$398 thousand in 2022 compared to realized gains of \$103.6 thousand in 2021. Net income after net realized gains was \$15.8 million in 2022 compared to \$14.1 million in 2021.

Total Assets increased \$130 million to \$2.544 billion at June 30th from \$2.414 billion at December 31, 2021. The increase in assets reflect the growth in invested assets from new busi-

ness sales and portfolio earnings. Responding rapidly to higher market returns, we were successful in purchasing investment grade securities at shorter durations, increased credit quality, and higher yields. We have also committed to build upon our asset allocation in alternative assets (investments in LLC’s and limited partnerships) on a risk-adjusted basis.

Liabilities grew commensurate with life and annuity sales and totaled \$2.323 billion as of June 30 compared to \$2.205 billion at year-end 2021. The \$118 million increase in total liabilities is due primarily to a \$122 million increase in life and annuity reserves, a \$4.6 million increase in unsettled security trades, reduced by a \$4.9 decrease in AVR, and a \$4.6 million decrease in the IMR from deferred investment gains/losses.

Total Income increased \$42.6 million in the first half 2022 to \$254.6 million from \$212 million in 2021. Life sales increased 25% from growth in our whole life single premium product. Annuity sales and exchanges increased \$37.7 million to \$187.5 million in 2022. Net investment income of \$59.3 million increased \$5 million from higher assets under management and income earned on bond prepayments.

Operating expenses, before the increase in reserves, totaled \$116.2 million versus \$115.8 million in 2021, an increase of \$0.4 million or 0.3%. The increase in agent commissions from higher sales were largely off-set by lower exchanges of annuity contracts. General insurance expenses were \$138 thousand higher when compared to 2021.

The increase in policyholder reserves totaled \$122.8 million compared to \$82.1 million in 2021. Reserve changes are primarily a function of premiums received, death and annuity benefits paid out, and interest accumulation. Growth in reserves primarily reflect the increase in sales of fixed index and flexible premium deferred annuities.

Surplus grew to \$220.6 million as of June 30th compared

## Summary of Financial Statistics

(000's omitted)	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>Change</u>
Total Income	\$ 254,580	\$ 212,031	\$42,549
Total Expenses	239,002	197,875	41,127
Net Income (Loss)	15,828	14,092	1,736
	<u>6/30/22</u>	<u>12/31/21</u>	<u>Change</u>
Assets	\$2,543,500	\$2,413,827	\$129,673
Asset Valuation Reserve	18,931	23,831	(4,900)
Interest Maint. Reserve	18,003	22,558	(4,555)
Surplus (Net Worth)	220,620	209,242	11,378
Total Adjusted Capital (TAC)	239,701	233,223	6,478
Solv. Ratio by Total Adj. Capital	110.4%	110.7%	-0.30%

## Change in Surplus

(000's omitted)	
Beginning Surplus	\$209,242
Net Income/(loss)	15,828
Change in Unrealized Gain/(Loss)	(8,745)
GCU Holding Company & Other	(301)
Changes in Non-Admitted Assets	(304)
Changes in Asset Valuation Reserve	4,900
Net Change in Surplus	11,378
<b>Ending Surplus</b>	<b>\$220,620</b>

to \$209.2 million at year-end 2021. The \$11.4 million increase in surplus is attributable to the additions of \$15.8 million of net income and the \$4.9 million change in AVR reduced by the change in unrealized gains (loss) of (\$8.7 million), (\$0.3 million) increase in non-admitted software development costs; and (\$0.3 million) reduction for GCU Holding Company's net loss.

Total Adjusted Capital (TAC) was \$239.7 million as of June 30, 2022. TAC starts with surplus of \$220.6 million and adds back the asset valuation reserve of \$18.9 mil-

lion 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 110.4% and 110.7%, as of June 30, 2022 and December 31, 2021, respectively. These ratios reflect the consistent measure of GCU's excellent financial strength.

Please be safe and stay healthy. Enjoy the warmth of summer!

Tim

## GCU INCOME STATEMENT

### Six Months 2022 vs. 2021

INCOME (000's omitted)	6/30/2022	6/30/2021	Change
Life Premium	\$ 5,915	\$ 4,738	\$ 1,178
Annuity Premium	180,653	140,835	39,818
Annuity Exchanges	6,819	8,930	(2,111)
Accident & Health	233	268	(35)
Sub Total	193,620	154,770	38,850
Net Investment Income	59,288	54,301	4,987
Amort. of Int. Maint. Resrv.	980	1,063	(83)
Commission-Reinsurance	496	776	(280)
Other	196	1,121	(925)
<b>Total Income</b>	<b>\$254,580</b>	<b>\$212,031</b>	<b>\$42,548</b>
<b>EXPENSES</b>			
Death Benefits	\$ 2,238	\$ 2,250	\$ (12)
Annuity Benefits Paid	90,983	91,578	(595)
Annuity Exchanges	6,819	8,930	(2,111)
Surrender Benefits	105	292	(187)
Accident & Health Benefits Pd.	210	261	(51)
Commissions	10,354	7,206	3,148
General Insurance Exp	4,932	4,795	138
Ins., Taxes, Licenses & Fees	358	314	44
Pension Expense	8	9	(1)
Int. on Contract & Dep. Accts.	155	126	28
Sub-Total	\$ 116,162	\$ 115,761	\$ 401
Increase in Reserves	122,840	82,114	40,726
<b>Total Expenses</b>	<b>\$239,002</b>	<b>\$197,875</b>	<b>\$41,127</b>
<b>Net Gain/Loss bef. Refunds</b>	<b>15,578</b>	<b>14,156</b>	<b>1,422</b>
<b>Refunds to Members</b>	<b>148</b>	<b>168</b>	<b>(20)</b>
<b>Net Gain/Loss after Refunds</b>	<b>15,430</b>	<b>13,989</b>	<b>1,441</b>
<b>Net Capital Gains (Losses)</b>	<b>398</b>	<b>104</b>	<b>295</b>
<b>Net Income/Loss</b>	<b>\$ 15,828</b>	<b>\$ 14,092</b>	<b>\$ 1,736</b>

## BALANCE SHEETS

### June 30, 2022 vs. December 31, 2021

ASSETS (000's omitted)	6/30/2022	12/31/2021	Change
Bonds	\$ 2,363,095	\$ 2,213,353	\$ 149,742
Preferred Stocks	21,563	23,125	(1,562)
Common Stocks	23,357	35,384	(12,027)
Alternative Investments	53,201	45,062	8,139
Cash/Short Term Investments	33,087	48,638	(15,551)
Mortgages	3,556	3,674	(118)
Certificate Loans	705	608	97
Derivatives	630	472	158
Real Estate	15,260	15,461	(201)
Inv. Income Due & Accrued	28,259	27,575	684
Other	787	476	311
<b>Total Assets</b>	<b>\$2,543,500</b>	<b>\$2,413,827</b>	<b>\$129,673</b>
<b>% Total Change Year to Year</b>	<b>5.4%</b>		
<b>LIABILITIES</b>			
Life Reserves	\$ 85,551	\$ 81,792	\$ 3,759
Annuity Reserves	2,182,313	2,063,504	118,809
Accident & Health Reserves	120	131	(11)
Employee Pension Liability	7,048	6,869	180
Convention Reserve	127	127	0
Adv. Prem. & Fut. Rfnd. Resrvs.	367	368	(1)
Pending Investment Trades	6,267	1,666	4,601
Accounts Payable	1,044	1,139	(95)
Refund Accumulations	3,108	2,599	509
Asset Valuation Resrv-AVR	18,931	23,831	(4,900)
Interest Maint. Reserve-IMR	18,003	22,558	(4,555)
<b>Total Liabilities</b>	<b>\$2,322,881</b>	<b>\$2,204,586</b>	<b>\$118,295</b>
Surplus Fund	220,620	209,242	11,378
<b>Total Liabilities &amp; Surplus</b>	<b>\$2,543,500</b>	<b>\$2,413,827</b>	<b>\$129,673</b>
<b>Solvency Ratio*</b>	<b>110.4%</b>	<b>110.7%</b>	

\*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.