

Third Quarter 2022 Financials



Tim Demetres
Chief Financial Officer

I hope you have seen the exciting news in GCU being awarded an A- (excellent) financial strength rating from A.M. Best. It is an honor and privilege to achieve this level of financial recognition from both A.M. Best and KBRA, two well-known industry rating organizations. We are very grateful for the strong member loyalty and trust you have in GCU!

Since the first quarter, interest rates have risen to levels we have not seen in many years. The Federal Reserve continues to raise interest rates to tame high levels of inflation. Although the adverse effects of inflation have a drag on our resources, GCU has responded by increasing crediting rates on annuity products thus providing our members some financial relief. Sales activity remain strong with the growth in fixed indexed and deferred annuities.

Highlights of GCU's nine-month results are as follows:

I am pleased to report the financial results for the nine months ended September 30, 2022. Net income in 2022 was \$18.7 million versus \$21.8 million in 2021. Total assets and surplus increased to \$2.6 billion and \$221.4 million, respectively, as of September 30, 2022.

Income before net capital gains (losses) totaled \$18.4 million, \$3.2 million lower than the \$21.6 million reported in 2021. Net realized capital gains were \$281 thousand in 2022 compared to \$148 thousand in 2021. Net income after net realized gains was \$18.7 million in 2022 compared to \$21.8 million in 2021.

Total Assets increased \$202.6 million to \$2.616 billion at September 30th from \$2.414 billion at December 31, 2021. The increase in assets reflect the growth in invested assets from new business sales and portfolio earnings. We continue

to be successful in purchasing investment grade securities at shorter durations, increased credit quality, and at higher yields. We are also committed to building our strategic asset allocation by investing in alternative assets (investments in LLC's and limited partnerships) on a risk-adjusted basis.

Total liabilities grew commensurate with life and annuity sales and totaled \$2.395 billion as of September 30 compared to \$2.205 billion at year-end 2021. The \$190 million increase in total liabilities is due primarily to a \$193 million increase in life and annuity reserves, a \$7.8 million increase in unsettled security trades, reduced by a \$5.8 decrease in AVR, and a \$5.2 million decrease in the IMR from deferred investment gains/losses.

Total Income increased \$73.6 million in the first three quarters of 2022 to \$392.6 million from \$319 million in 2021. Life sales increased 27% from growth in our whole life single premium product. Annuity sales and exchanges increased \$70.1 million to \$294.2 million in 2022. Net investment income of \$87.0 million increased \$3.4 million from higher assets under management and income earned on bond prepayments.

Operating expenses, before the increase in reserves, totaled \$180.3 million versus \$171.4 million in 2021, an increase of \$8.9 million or 5.2%. The increase in agent commissions from higher sales were largely off-set by lower exchanges of annuity contracts. General insurance expenses were \$119 thousand higher when compared to 2021.

The increase in policyholder reserves totaled \$193.7 million compared to \$125.8 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 indexed and flexible premium deferred annuities.

Surplus grew to \$221.4 million as of September 30th

Summary of Financial Statistics

(000's omitted)	<u>9/30/2022</u>	<u>9/30/2021</u>	<u>Change</u>
Total Income	\$ 392,635	\$ 231,300	\$161,335
Total Expenses	373,991	297,162	76,829
Net Income (Loss)	18,701	21,774	(3,073)
	<u>9/30/22</u>	<u>12/31/21</u>	<u>Change</u>
Assets	\$2,616,396	\$2,413,827	\$202,569
Asset Valuation Reserve	18,033	23,831	(5,798)
Interest Maintenance Reserve	17,326	22,558	(5,232)
Surplus (Net Worth)	221,391	209,242	12,149
Total Adjusted Capital (TAC)	239,573	233,223	6,350
Solv. Ratio by Total Adj. Capital	110.1%	110.7%	-0.62%

Change in Surplus

(000's omitted)	
Beginning Surplus (12/31/2021)	\$209,242
Net Income/(loss)	18,701
Change in Unrealized Gain/(Loss)	(11,444)
GCU Holding Company & Other	(635)
Changes in Non-Admitted Assets	(273)
Changes in Asset Valuation Reserve	5,799
Net Change in Surplus	12,149
Ending Surplus (9/30/2022)	\$221,391

compared to \$209.2 million at year-end 2021. The \$12.2 million increase in surplus is attributable to the additions of \$18.7 million of net income and the \$5.8 million change in AVR reduced by the change in unrealized gains (loss) of (\$11.4 million), (\$0.3 million) increase in non-admitted software development costs; and (\$0.6 million) reduction for GCU Holding Company's net loss.

Total Adjusted Capital (TAC) was \$239.6 million as of September 30, 2022. TAC starts with surplus of \$221.4

million and adds back the asset valuation reserve of \$18.0 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 110.7%, as of September 30, 2022 and December 31, 2021, respectively. These ratios reflect the consistency of GCU's excellent financial strength.

Share in the joy of this cheerful holiday season! Please be safe and remain healthy. **Tim**

GCU INCOME STATEMENTS

Nine Months 2022 vs. 2021

INCOME (000's omitted)	9/30/2022	9/30/2021	Change
Life Premium	\$ 8,586	\$ 6,786	\$ 1,799
Annuity Premium	281,796	210,821	70,975
Annuity Exchanges	12,370	13,293	(924)
Accident & Health	347	399	(52)
Sub Total	303,099	231,300	71,799
Net Investment Income	87,062	83,629	3,432
Amort. of Int. Maint. Resrv.	1,470	1,628	(159)
Commission-Reinsurance	699	1,138	(439)
Other	306	1,335	(1,030)
Total Income	\$392,635	\$319,031	\$73,604
EXPENSES			
Death Benefits	\$ 3,171	\$ 3,013	\$ 157
Annuity Benefits Paid	139,705	133,882	5,823
Annuity Exchanges	12,370	13,293	(924)
Surrender Benefits	391	378	13
Accident & Health Benefits Pd.	309	369	(60)
Commissions	16,204	11,613	4,591
General Insurance Exp.	7,125	7,006	119
Ins., Taxes, Licenses & Fees	363	381	(19)
Pension Expense	406	1,212	(806)
Int. on Contract & Dep. Accts.	233	204	29
Sub-Total	\$180,277	\$171,352	\$ 8,924
Increase in Reserves	193,714	125,809	67,905
Total Expenses	\$373,991	\$297,162	\$76,829
Net Gain/Loss bef. Refunds	18,644	21,869	(3,225)
Refunds to Members	224	243	(19)
Net Gain/Loss after Refunds	18,420	21,626	(3,206)
Net Capital Gains (Losses)	281	148	133
Net Income/Loss	\$ 18,701	\$ 21,774	\$(3,073)

BALANCE SHEETS

August 30, 2022 vs. December 31, 2021

ASSETS (000's omitted)	9/30/2022	12/31/2021	Change
Bonds	\$ 2,440,124	\$ 2,213,353	\$ 226,771
Preferred Stocks	20,127	23,125	(2,998)
Common Stocks	24,351	35,384	(11,033)
Alternative Investments	56,532	45,062	11,469
Cash/Short Term Investments	24,014	48,638	(24,624)
Mortgages	3,767	3,674	93
Certificate Loans	572	608	(36)
Derivatives	398	472	(74)
Real Estate	15,160	15,461	(301)
Inv. Income Due & Accrued	30,509	27,575	2,933
Other	844	476	369
Total Assets	\$2,616,396	\$2,413,827	\$202,569
% Total Change Year to Year	8.4%		
LIABILITIES			
Life Reserves	\$ 87,098	\$ 81,792	\$ 5,306
Annuity Reserves	2,251,623	2,063,504	188,119
Accident & Health Reserves	118	131	(13)
Employee Pension Liability	6,744	6,869	(125)
Convention Reserve	127	127	0
Adv. Prem. & Fut. Rfnd. Resrvs.	357	368	(11)
Pending Investment Trades	9,547	1,666	7,881
Accounts Payable	1,210	1,139	71
Refund Accumulations	2,821	2,599	222
Asset Valuation Reserve-AVR	18,033	23,831	(5,799)
Interest Maint. Reserve-IMR	17,326	22,558	(5,232)
Total Liabilities	\$2,395,005	\$2,204,586	\$ 190,419
Surplus Fund	221,391	209,242	12,149
Total Liabilities & Surplus	\$ 2,616,396	\$ 2,413,827	\$202,569
Solvency Ratio*	110.1%	110.7%	

*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.