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Chief Financial Officer  
CFO

# 2016 A Milestone Financial Year

GCU's 2016 year-end results mark another milestone, setting the stage for our 125th anniversary year. Both net income and surplus reached new highs thanks to our membership growth.

## Highlights of 2016

Net Income before net capital gains (losses) totaled \$23.7 million in 2016 compared to \$22.0 million in 2015, resulting in an increase of \$1.7 million. Largely due to lower energy prices and reduced demand, we impaired certain bond holdings resulting in realized capital losses of \$1.4 million. We also recognized capital losses on several common stocks that were devalued following the 2008 financial crisis. After net gains/(losses), net income for 2016 was \$20.6 million compared to \$22.1 million in 2015. Since the inception of our Society, the past four years have been the most profitable ever reported!

Assets totaled \$1.55 billion, an increase of \$195.0 million or 14.4% from the prior year which totaled \$1.355 billion. This too, is history in the making! The increase in assets can be attributed to continued positive cash flow due to outstanding premium income and strong earnings from investments.

Liabilities totaled \$1.441 billion for 2016 compared to \$1.264 billion as of December 31, 2015. This increase of \$177 million is due primarily to increased annuity reserves of \$167.6 million reflecting in-

creased sales of annuities as well as increases in the Asset Valuation Reserve (AVR) of \$4.34 million and Interest Maintenance Reserve (IMR) of \$1.32 million.

Total Income for 2016 totaled \$346.1 million compared to \$318.2 million in 2015. This \$27.5 million increase is primarily attributable to an increase in annuity premiums of \$30.2 million, an increase in net investment income of \$5.8 million, and a reduction in annuity conversions of \$8.5 million.

Operating expenses for 2016 before reserves totaled \$154.1 million. Operating expenses for the same period in 2015 totaled \$164.9 million representing a decrease of \$10.8 million. This decrease in operating expenses is due primarily to a decrease in death and annuity benefits of \$14.2 million reduced by increased commissions paid on higher annuity sales of \$2.6 million.

The increase in Reserves for Life and Annuities for 2016 totaled \$168.1 million compared to \$131.0 million in 2015. Reserves are established as a function of premium and claims. Annuity premiums exceeded \$237 million increasing by \$30.2 million

over 2015 and total claims were relatively consistent with the prior year.

Surplus stands at \$108.53 million compared to 2015 year-end surplus of \$90.74 million. This increase in our surplus of \$17.79 million is primarily attributable to net income of \$20.6 million for the year, the change in net unrealized gains of \$1.5 million reduced by a \$4.3 million increase in the Asset Valuation Reserve.

Safety Funds that includes Surplus of \$108.5 million, Interest Maintenance Reserves of \$18.1 million, and Asset Valuation Reserves of \$17.6 million totaled \$144.2 million as of December 31, 2016. This is an increase of \$18.7 million for 2016. In addition, the solvency ratios for the year 2016 are 107.5 and 110.3 that includes Special Reserves, Asset Valuation Reserves (AVR) and Interest Maintenance Reserves (IMR). These ratios are consistent with those of 2015 and reflect a strong and stable balance sheet.

Spring is in the air. I'd like to wish everyone a happy Easter season!

**Since the inception of our Society, the past four years have been the most profitable ever reported!**

## GCU Balance Sheet Comparison

	YEAR ENDED DECEMBER 31		
<b>Assets</b> (000's omitted)	<b>2016</b>	<b>2015</b>	<b>Difference</b>
Bonds	\$ 1,442,352	\$ 1,268,001	\$ 174,351
Preferred Stocks	44,259	21,413	22,846
Common Stocks	11,797	12,314	(517)
Cash/Short Term Investments	26,262	30,815	(4,553)
Mortgages	1,552	1,120	432
Certificate Loans	626	659	(33)
Real Estate			
Beaver Home Office	591	401	190
Investment Income Due & Accrued	21,432	19,501	1,931
Other	1,090	703	387
<b>Total Assets</b>	<b>\$ 1,549,961</b>	<b>\$ 1,354,927</b>	<b>\$ 195,034</b>
<b>Percentage Total Change Year to Year</b>	<b>14.4</b>	<b>13.2</b>	
<b>Liabilities</b>			
Life Reserve Fund	\$ 65,678	\$ 64,806	\$ 872
Annuity Reserve Fund	1,327,009	1,159,428	167,581
Accident & Health Reserve Fund	134	9	125
Employee Pension Fund	7,068	6,548	520
Convention Reserve	179	406	(227)
Advance Premium & Future Refund Reserves	345	341	4
Pending Investment Trades	1,799	0	1,799
Accounts Payable	650	375	275
Refund Accumulations	1,803	1,378	425
Overfunded Pension	1,148	893	255
Asset Valuation Reserve-AVR	17,557	13,217	4,340
Interest Maintenance Reserve-IMR	18,059	16,736	1,323
Other	0	50	(50)
<b>Total Liabilities</b>	<b>\$ 1,441,429</b>	<b>\$ 1,264,187</b>	<b>\$ 177,242</b>
<b>Surplus Fund</b>	<b>108,532</b>	<b>90,740</b>	<b>17,792</b>
<b>Total Liabilities &amp; Surplus</b>	<b>\$ 1,549,961</b>	<b>\$ 1,354,927</b>	<b>\$ 195,034</b>
<b>Normal Solvency Ratio</b>	<b>107.5</b>	<b>107.2</b>	
<b>New Solvency Ratio*</b>	<b>110.3</b>	<b>109.8</b>	

\*Adds IMR & AVR to surplus.

Financial information is unaudited and is presented on the statutory basis of accounting.

## GCU Income Statement Comparison

<b>Income</b> <i>(000's omitted)</i>	<b>YEAR ENDED DECEMBER 31</b>		
	<b>2016</b>	<b>2015</b>	<b>Difference</b>
Life Premium	\$ 2,132,421	\$ 3,185,204	\$ (1,052,783)
Annuity Premium	237,624,471	207,465,883	30,158,588
Annuity Exchanges	23,650,231	32,134,235	(8,484,004)
Accident & Health	293,997	20,211	273,786
Sub Total	263,701,120	242,805,533	20,895,587
Net Investment Income	77,563,952	71,778,773	5,785,179
Amortization of Interest Maintenance Reserve	2,725,275	2,726,856	(1,581)
Commission allowance for reinsurance	1,324,077	112,478	1,211,599
Other	809,563	784,109	25,454
<b>Total Income</b>	<b>\$346,123,987</b>	<b>\$318,207,749</b>	<b>\$27,916,238</b>
 <b>Expenses</b>			
Death Benefits	\$ 2,457,341	\$ 2,336,035	\$ 121,306
Annuity Benefits Paid	109,652,193	115,345,220	(5,693,027)
Annuity Exchanges	23,650,231	32,134,235	(8,484,004)
Surrender Benefits	823,475	1,242,015	(418,540)
Accident & Health Benefits Paid	226,384	12,034	214,350
Commissions	9,256,484	6,689,711	2,566,773
General Insurance Expense	7,198,319	6,397,100	801,219
Insurance, Taxes, Licenses and Fees	502,808	438,903	63,905
Pension Benefits Paid	274,678	272,721	1,957
Interest on contract and deposit type accounts	68,642	66,623	2,019
Sub-Total	\$ 154,110,555	\$ 164,934,597	(\$ 10,824,042)
Increase in Reserves	168,050,223	130,976,957	37,073,266
<b>Total Expenses</b>	<b>\$322,160,778</b>	<b>\$295,911,554</b>	<b>\$26,249,224</b>
<b>Net Gain from Operations before Refunds</b>	<b>23,963,209</b>	<b>22,296,195</b>	<b>1,667,014</b>
<b>Refunds to Members</b>	<b>257,398</b>	<b>256,199</b>	<b>1,199</b>
<b>Net Gain from Operations after Refunds</b>	<b>23,705,811</b>	<b>22,039,996</b>	<b>1,665,815</b>
<b>Net Capital Gains (Losses)</b>	<b>(3,069,730)</b>	<b>21,926</b>	<b>(3,091,656)</b>
<b>Net Income</b>	<b>\$ 20,636,081</b>	<b>\$ 22,061,922</b>	<b>\$ (1,425,841)</b>

## Financial Report Four Year Comparative Summary

	YEAR ENDED DECEMBER 31			
	2016	2015	2014	2013
Assets	1.550 Bil	1.355 Bil	1.197 Bil	1.080 Bil
Total Income	346.0 Mil	318.0 Mil	235.0 Mil	215.2 Mil
Total Operating Expense	322.1 Mil	295.8 Mil	215.4 Mil	196.7 Mil
Reserve Change - Life and Annuities	168.0 Mil	131.0 Mil	97.0 Mil	84.2 Mil
Income from Operations	23.9 Mil	22.3 Mil	19.6 Mil	18.5 Mil
Refunds to Members	(257,398)	(256,199)	(341,293)	(220,268)
Capital Gains (Losses)	(3,069,730)	21,926	(1,076,551)	230,595
Net Income	20,636,081	22,063,543	18,166,287	18,521,243
Reserve - Interest Maintenance	18,058,704	16,735,318	16,113,913	14,129,373
Reserve - Asset Valuation	17,556,902	13,217,553	11,663,823	9,942,522
<b>Surplus (Net Worth)</b>	<b>108,531,974</b>	<b>90,739,736</b>	<b>71,825,430</b>	<b>50,492,229</b>

## GCU Surplus Comparison

	YEAR ENDED DECEMBER 31		
	2016	2015	Difference
Beginning Surplus	\$ 90,739,736	\$ 71,825,430	\$ 18,914,306
Net Income/(Loss)	20,636,081	22,063,543	(1,427,462)
Change in Unrealized Gain/(Loss)	2,715,950	(393,429)	3,109,379
GCU Holding Company & Other	(878,563)	(849,210)	(29,353)
Changes in Non-Admitted Assets	(341,881)	(352,869)	10,988
Changes in Asset Valuation Reserve	(4,339,349)	(1,553,729)	(2,785,620)
Net Change in Surplus	17,792,238	18,914,306	(1,122,068)
<b>Ending Surplus</b>	<b>\$ 108,531,974</b>	<b>\$ 90,739,736</b>	<b>\$ 17,792,238</b>

## General Insurance Expenses

	YEAR ENDED DECEMBER 31		
	2016	2015	Difference
Rent	\$ 94,000	\$ 94,000	\$ 0
Salaries & Wages	2,882,898	2,517,013	365,885
Employee Benefits	411,499	386,666	24,833
Employee Pension Expense	400,000	400,000	0
Legal Fees & Expenses	5,448	2,100	3,348
Settlement/Medical Examination Fees	69,176	32,624	36,552
Fees-CPS, Actuarial and banking	528,051	449,759	78,292
Board Meeting Expenses/Travel	179,829	105,117	74,712
Advertising	4,391	15,875	(11,484)
Postage & Phone	223,903	203,553	20,350
Printing & Stationary	144,027	114,108	29,919
Depreciation of Furniture/Equipment	89,686	93,220	(3,534)
Rental of Equipment	168,448	145,827	22,621
Books and Periodicals	2,893	1,885	1,008
Bureau and Association Dues	107,723	72,997	34,726
Insurance Fees	68,942	106,606	(37,664)
Sundry General Expenses	160,570	149,243	11,327
Official Publication	54,541	51,438	3,103
Future Convention Reserves	113,350	101,751	11,599
Field Expense Allowance	88,015	54,710	33,305
Fraternal Activities	710,053	792,220	(82,167)
Data Processing Supplies/Expenses	350,823	396,454	(45,631)
Marketing Consultant Fees and Expenses	340,053	109,934	230,119
<b>Total</b>	<b>\$ 7,198,319</b>	<b>\$ 6,397,100</b>	<b>\$ 801,219</b>

# FINANCIALS

## GCU Subsidiary Operations - Year 2016\*

	<b>GCU Holding &amp; Subsidiaries</b>	<b>GCU Holding Co.</b>	<b>GCU Real Estate Co.</b>	<b>Seven Oaks Country Club</b>	<b>GCU Agency Inc.</b>
Beginning Net Worth	\$ 7,726,530	\$ 348,415	\$2,385,088	\$ 4,938,130	\$ 54,897
Prior Period Adjustment	(26,080)			(\$26,080)	
Profit or (Loss) for Year	(852,483)	(44,069)	(38,847)	(770,200)	633
Capital Paid In	655,000	0	0	655,000	0
<b>Year-end Net Worth</b>	<b>\$7,502,967</b>	<b>\$304,346</b>	<b>\$2,346,241</b>	<b>\$4,796,850</b>	<b>\$55,530</b>

\*Financial information is unaudited and is presented in accordance with generally accepted accounting principles.