



GCU

December 31, 2020 Financial Report





Tim Demetres
Chief Financial Officer

2020 Financial Results

Meeting the Challenges of a Year to Remember

The year 2020 was certainly one to remember—as it undoubtedly affected us all. GCU navigated the uncertainties brought on by the COVID-19 pandemic to sustain our financial security and effectively meet the challenges that laid ahead. We transitioned our employees to a work-from-home environment transparently serving our members and agents. We also continued to invest in administrative operating systems with the objective of moving to a digital environment. These efforts are designed to improve member experience by making it easier to do business. Total assets grew to \$2.2 billion and net income was \$12.8 million after recognizing realized losses of \$16.9 million. Notwithstanding, surplus increased \$20 million to \$182.7 million, adding to our financial strength and flexibility.

Highlights of 2020

Total life and annuity premium income increased \$6.2 million to \$246 million compared to \$240 million in 2019. Income before net capital gains (losses) totaled \$30.0 million in 2020 compared to \$32 million in 2019. Due to low energy prices and depressed demand, a situation that was exacerbated by COVID-19, we wrote down the value of three energy bonds and disposed energy related bonds at a loss. As a result, net realized capital losses were \$16.9 million in 2020 compared to \$3.9 million in 2019. Notwithstanding, surplus was largely preserved by a release of the asset valuation reserve (AVR). GCU has been profitable every year since the 2008 financial crisis. Our goal is to insure GCU has the financial strength, safety and security to provide for future growth and meet member obligations well into the future!

Total Assets grew to \$2.2 billion in 2020 at year end, an increase of \$148.5 million or 7.2% over the prior year which totaled \$2.052 billion. The increase stems from growing our invested assets attributed to investing excess cash flows from operations. We mitigate overall investment risk by following an asset diversification strategy and managing credit quality. Approximately 96% of our fixed income securities are investment grade quality, BBB rated and above.

Liabilities grew commensurate with sales volume and totaled \$2.018 billion

at year-end compared to \$1.890 billion in 2019. The \$128 million increase in total liabilities is due primarily to the \$137.8 million increase in life and annuity reserves and a \$1.7 million increase in the liability for pending investment trades decreased by the net release in AVR of \$10.4 million.

Total Income for 2020 was \$354.9 million compared to \$348.2 million in 2019. The \$6.7 million increase is primarily attributable to the increase in life and annuity premiums.

Operating expenses, before increase in reserves, totaled \$190 million in 2020 versus \$179.3 million in 2019. The \$10.7 million increase is due to \$6.4 higher annuity benefits paid to members and \$3.8 million in annuity exchanges. General insurance expenses increased \$765,152 or 10.2%. In 2020, salaries and wages along with employee benefits increased from new hires to support growing life insurance sales. We saw savings in many expense categories due to the impact of COVID-19. We also increased our Fraternal activities spending channeling additional funding to various relief programs. Data processing and system application costs increased as we continue to invest and migrate to digital technologies for the future.

The increase in reserves in 2020 totaled \$134.9 million compared to \$136.9 million in 2019. Reserve changes are primarily a function of premiums re-

ceived, death and annuity benefits paid out, and interest accumulation.

Surplus grew to \$182.6 million in 2020 compared to \$162.7 million in 2019. The \$19.9 million increase in surplus is the result adding \$12.8 million of net income, a \$10.4 million positive change in AVR, reduced by a \$2.0 million charge for the increase in non-admitted assets stemming from the funded status of the pension plan and charging off capitalized software development costs and a \$600,000 change for unrealized losses on investments. Surplus was also decreased by \$727,000 for the GCU Holding Company's net loss after capital contributions of \$890,580. GCU continued renovation of the Seven Oaks Country Club in 2020. Improvements were made to the pro shop, clubhouse, dining and meeting room facilities, as well as the golf course.

Total Adjusted Capital (TAC) at December 31, 2020 is \$191.1 million. TAC starts with surplus of \$182.6 million and adds back the asset valuation reserve of \$8.3 million and one-half the dividend liability of \$150,000. TAC is used as a financial strength measure by rating agencies. The solvency ratio based on TAC for years 2020 & 2019 was 109.5% & 109.7%, respectively. These ratios reflect a strong and stable balance sheet.

I hope everyone had a Happy & Healthy Easter! Tim

GCU Balance Sheet Comparison

AS OF DECEMBER 31,

Assets (000's omitted)	2020	2019	Difference
Bonds	\$2,015,625	\$ 1,925,665	\$ 89,960
Preferred Stocks	40,562	40,625	(63)
Common Stocks	26,707	16,093	10,614
Cash//Short Term Investments	54,663	17,624	37,039
Mortgages	3,449	4,129	(680)
Certificate Loans	574	573	1
Real Estate	471	480	(9)
Investment Income Due & Accrued	26,134	25,359	775
Alternative Investments	31,950	20,776	11,174
Other	682	1,010	(328)
Total Assets	\$2,200,816	\$2,052,334	\$148,482
Percentage Total Change Year to Year	7.2%	10.4%	
Liabilities			
Life Reserves	\$ 75,154	\$ 71,515	\$ 3,639
Annuity Reserves	1,901,020	1,766,905	134,115
Accident & Health Reserves	177	191	(14)
Employee Pension Liability	7,464	6,839	625
Symposium Reserve	127	279	(152)
Advance Premium & Future Refund Reserves	356	373	(17)
Pending Investment Trades	1,730	—	1,730
Accounts Payable	961	995	(34)
Refund Accumulations	1,739	2,209	(470)
Asset Valuation Reserve-AVR	8,316	18,747	(10,431)
Interest Maintenance Reserve-IMR	21,124	21,539	(415)
Total Liabilities	\$2,018,169	\$1,889,592	\$128,577
Surplus Fund	182,648	162,742	19,906
Total Liabilities & Surplus	\$2,200,816	\$2,052,334	\$148,482
Normal Solvency	109.1%	108.6%	
Solvency Ratio*	109.5%	109.7%	

*Adds AVR and one half dividend liability to surplus
Financial information is unaudited and is presented on the statutory basis of accounting.

GCU Income Statement Comparison

YEAR ENDED DECEMBER 31,

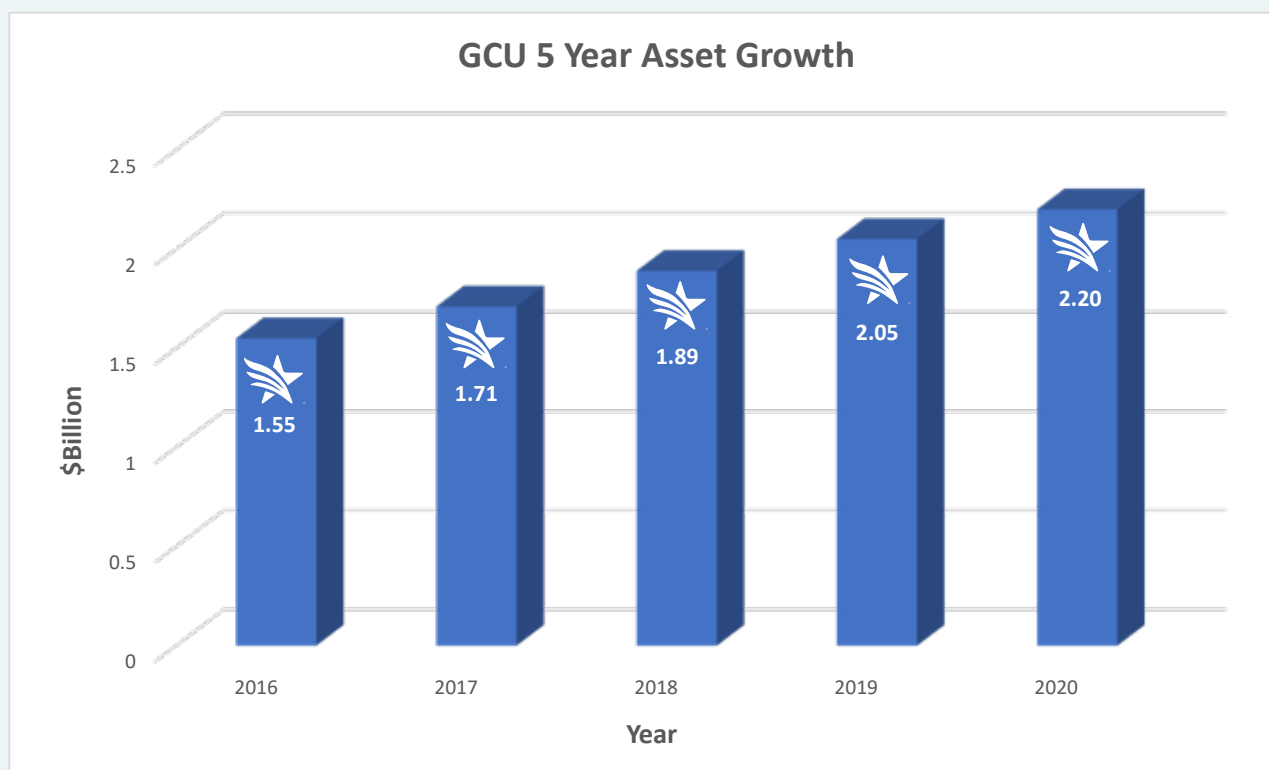
Income	2020	2019	Difference
Life Premium	\$ 5,553,183	\$ 3,384,659	\$ 2,168,525
Annuity Premium	218,822,916	218,557,608	265,308
Annuity Exchanges	20,929,792	17,135,558	3,794,234
Accident & Health	649,738	713,468	(63,730)
Sub Total	245,955,629	239,791,292	6,164,337
Net Investment Income	103,363,483	102,391,310	972,173
Amortization of Interest Maintenance Reserve	2,937,810	2,798,896	138,914
Commission Allowance for Reinsurance	1,872,452	2,540,477	(668,025)
Other	768,825	654,130	114,695
Total Income	\$354,898,200	\$348,176,105	\$6,722,095
Expenses			
Death Benefits	\$ 2,643,372	\$ 2,170,935	\$ 472,437
Annuity Benefits Paid	147,337,631	140,941,156	6,396,475
Annuity Exchanges	20,929,792	17,135,558	3,794,234
Surrender Benefits	496,783	852,689	(355,906)
Accident & Health Benefits Paid	514,576	659,986	(145,410)
Commissions	9,005,767	9,794,876	(789,109)
General Insurance Exp	8,263,419	7,498,267	765,152
Insurance, Taxes, Licenses and Fees	482,935	487,403	(4,468)
Pension Expense (Credit)	98,507	(334,341)	432,848
Interest on Contract and Deposit Accounts	235,295	108,013	127,282
Sub-Total	\$ 190,008,076	\$ 179,314,542	\$ 10,693,534
Increase in Reserves	134,942,153	136,899,492	(1,957,339)
Total Expenses	\$324,950,229	\$316,214,034	\$ 8,736,195
Net Gain/Loss from Operations before Refunds	29,947,972	31,962,071	(2,014,100)
Refunds to Members	278,922	276,334	2,588
Net Gain/Loss from Operations after Refunds	29,669,050	31,685,737	(2,016,688)
Net Capital Gains (Losses)	(16,851,138)	(3,972,941)	(12,878,197)
Net Income/Loss	\$ 12,817,911	\$ 27,712,796	\$(14,894,885)

Financial Report

Four Year Comparative Summary

YEAR ENDED DECEMBER 31,

	2020	2019	2018	2017
Assets	\$ 2.20 Bil	\$ 2.05 Bil	\$ 1.89 Bil	\$ 1.71 Bil
Total Income	354 Mil	348 Mil	336 Mil	342 Mil
Total Operating Expense	325.0 Mil	316.2 Mil	310.3 Mil	313.2 Mil
Reserve Change - Life and Annuities	134.9 Mil	137.0 Mil	150.2 Mil	134.8 Mil
Income from Operations	29.7 Mil	31.7 Mil	25.6 Mil	28.7 Mil
Refunds to Members	(278,922)	(276,334)	(276,334)	(261,841)
Capital Gains (Losses)	(16,851,138)	(3,972,941)	(3,972,941)	(2,747,753)
Net Income (Loss)	12,817,911	27,712,796	27,712,796	25,707,763
Reserve - Interest Maintenance	21,124,000	21,539,184	22,582,928	22,869,833
Reserve - Asset Valuation	8,316,048	18,746,796	19,311,098	18,662,238
Surplus (Net Worth)	\$182,647,594	\$162,741,529	\$154,269,000	\$133,042,421



General Insurance Expenses

YEAR ENDED DECEMBER 31,

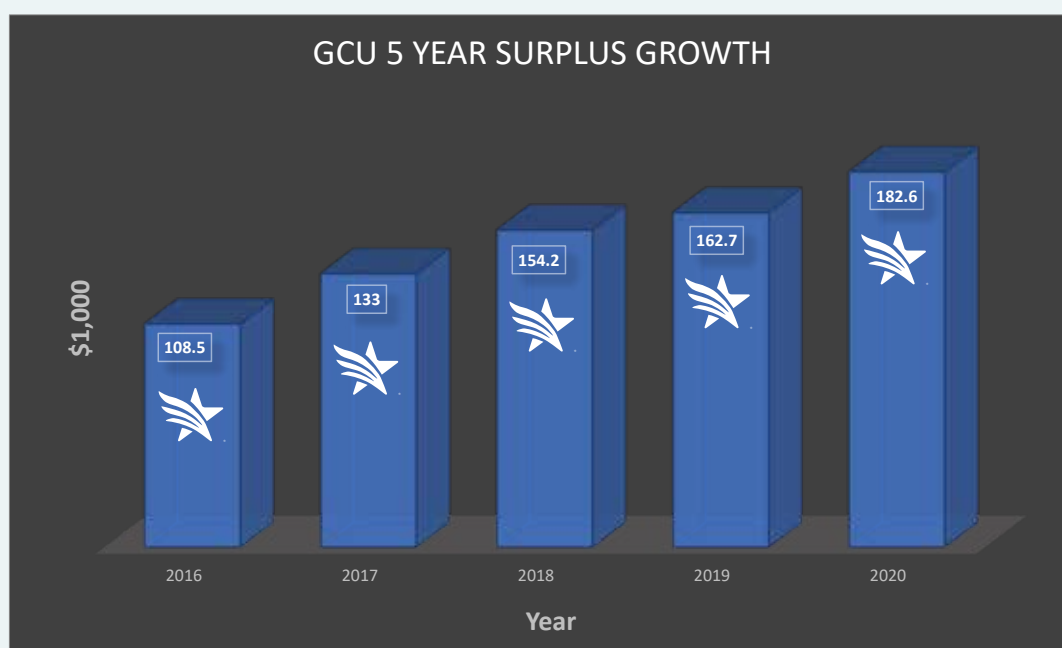
	2020	2019*	Difference
Rent	\$ 94,000	\$ 94,000	\$ —
Salaries & Wages	3,790,423	3,649,095	141,328
Employee Benefits	855,837	518,690	337,147
Legal Fees & Expenses	54,936	151,586	(96,650)
Medical Examination Fees	115,355	30,289	85,066
Fees-CPA, Actuarial and banking	476,374	587,638	(111,264)
Board Meeting Expenses/Travel	93,579	199,733	(106,154)
Advertising	415	675	(260)
Postage & Phone	178,905	191,442	(12,537)
Printing & Stationary	93,998	110,858	(16,860)
Cost or Depreciation of Furniture & Equipment	—	31,896	(31,896)
Rental of Equipment	24,787	19,941	4,846
Books and Periodicals	2,306	2,313	(7)
Bureau and Association Dues	26,476	39,274	(12,798)
Cost or Depreciation of Furniture & Equipment	442,364	287,023	155,341
Insurance Fees	93,144	102,474	(9,330)
Sundry General Expenses	134,223	254,806	(120,583)
Official Publication	46,607	47,154	(547)
Fraternal Activities	1,156,671	896,088	260,583
Data Processing Supplies/Expenses	538,437	177,534	360,903
Marketing Consultant Fees and Expenses	44,582	105,758	(61,176)
Total	\$8,263,419	\$7,498,268	\$ 765,151

*Certain amounts have been restated to conform with the 2020 presentation.

GCU Surplus Comparison

YEAR ENDED DECEMBER 31,

	2020	2019	Difference
Beginning Surplus	\$ 162,741,529	\$154,269,000	\$ 8,472,530
Net Income	12,817,911	27,712,796	(14,894,885)
Change in Unrealized Gain/(Loss)	(599,963)	180,192	(780,155)
GCU Holding Company	(727,000)	(1,173,154)	446,154
Changes in Non-Admitted Assets	(2,015,631)	(1,729,098)	(286,533)
Prior Period Adjustment	-	(17,082,509)	17,082,509
Changes in Asset Valuation Reserve	10,430,748	564,302	9,866,446
Net Change in Surplus	19,906,065	8,472,530	11,433,535
Ending Surplus	\$182,647,594	\$162,741,529	\$19,906,065



GCU Subsidiary Operations - Year 2020*

	GCU Holding & Subsidiaries	GCU Holding Co.	GCU Real Estate Co.	Seven Oaks Country Club	GCU Agency Inc.
Equity , Beginning of Year	\$ 11,361,720	\$226,558	\$ 1,374,041	\$ 9,703,832	\$ 57,289
Net Income (Loss)	(1,317,707)	(47,052)	(79,514)	(1,192,191)	1,050
Capital Contribution (Distribution)	890,580	—	—	890,580	—
Other	(17,329)	(17,329)	—	—	—
Equity, End of Year	\$10,917,264	\$ 162,177	\$1,294,527	\$9,402,221	\$58,339

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