



GCU

**December 31, 2019
Financial Report**



Tim Demetres
Chief Financial Officer

2019 Financial Results

Sustained Growth—Strong and Stable Capitalization

At the time of writing this 2019 annual financial report, all of us are experiencing the impact from the Coronavirus (COVID-19) in one form or another. Rest assured, GCU remains financially secure and operating effectively during this difficult period. GCU continues to generate strong financial results and 2019 was no exception. We are working hard to improve our member experience by investing in new technologies to improve administrative and financial systems. We also added experienced talent to the team to meet the needs of our growing member base. Total assets grew in excess of \$2 billion and net income was \$27.7 million. Member surplus also increased by \$8.5 million to \$162.7 million, a new high.

Highlights of 2019

Income before net capital gains (losses) grew to \$31.7 million in 2019 compared to \$25.6 million in 2018 primarily from additional investment income earned on increased assets under management and bond calls and prepayments. Net realized capital losses were \$4.0 million in 2019 compared to \$3.4 million in 2018. We sold bonds of an energy company that had not sufficiently recovered since 2016 from the effects of low energy prices and excess capacity. Net income after net realized losses was \$27.7 million in 2019 compared to \$22.2 million in 2018. GCU has remained profitable in every year since the 2008 financial crisis. Our goal is to insure GCU has the financial strength, safety and security to meet member obligations well into the future!

Total Assets crossed the \$2 billion milestone in 2019 ending the year at \$2.052 billion, an increase of \$161.5 million or 8.5% from the prior year which totaled \$1.891 billion. The increase in assets is primarily attributed to investing operating cash flows in investment grade bonds and strategically into alternative assets. Investment risk is reduced through asset diversification. Bond quality also improved with over 96% of fixed income securities being investment grade quality.

Liabilities grew commensurate with sales volume and totaled \$1.890 billion

at year-end 2019 compared to \$1.737 billion in 2018. The \$153.0 million increase in total liabilities is due primarily to: a \$162.3 million increase in life and annuity reserves; offset by a \$7.4 million decrease in pending investment trades.

Total Income for 2019 was \$348.2 million compared to \$336.2 million in 2018. The \$12.0 million increase is primarily attributable to an \$11.1 million increase in net investment income. Life and annuity premiums grew slightly above the 2018 levels.

Operating expenses, before increase in reserves, totaled \$179.3 million in 2019 versus \$160.1 million in 2018 representing an increase of \$19.3 million or 12.0%. In 2019, we paid out \$21.5 million more in annuity benefits and exchanges offset by \$2.1 million reduction in pension expense. General insurance expenses increased \$347,477 or 5%. In 2019, salaries and wages increased from the addition of experienced hires in sales and life underwriting capacities.

The increase in reserves for 2019 totaled \$136.9 million compared to \$150.2 million in 2018. Reserve changes are primarily a function of premiums received, death & annuity benefits paid out, and interest accumulation.

Surplus grew to \$162.7 million in 2019 compared to \$154.3 million in 2018. The

\$8.5 million increase in surplus is attributable to net income of \$27.7 million, reduced by a \$1.7 million charge for an increase in non-admitted assets stemming from the change in the funded status of the pension plan and charging off deferred software development costs. Surplus also decreased \$1.2 million for the GCU Holding Company's net loss, and a \$17.1 million charge for a prior period adjustment to increase annuity reserves for potential contract annuitizations. Starting in 2017, GCU embarked on a significant capital improvement program to renew Seven Oaks Country Club. Major improvements were made to the clubhouse, dining and meeting room facilities, as well as the golf course.

Total Adjusted Capital (TAC) at December 31, 2019 is \$181.6 million. TAC starts with surplus of \$162.7 million and adds back the asset valuation reserve of \$18.7 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 2019 and 2018 are 109.7% and 110.1%, respectively. These ratios reflect a strong and stable balance sheet.

Wishing everyone a Happy and Healthy Easter!

Tim

GCU Balance Sheet Comparison

AS OF DECEMBER 31,

Assets (000's omitted)	2019	2018	Difference
Bonds	\$1,925,665	\$1,762,020	\$163,645
Preferred Stocks	40,625	49,821	(9,196)
Common Stocks	16,093	13,990	2,103
Cash//Short Term Investments	17,624	18,882	(1,258)
Mortgages	4,129	4,770	(641)
Certificate Loans	573	648	(75)
Real Estate	480	490	(10)
Investment Income Due & Accrued	25,359	23,960	1,399
Alternative Investments	20,776	15,908	4,868
Other	1,010	355	655
Total Assets	\$2,052,334	\$1,890,844	\$161,490
Percentage Total Change Year to Year	8.5%	10.4%	
Liabilities			
Life Reserves	\$71,515	\$70,023	\$1,492
Annuity Reserves	1,766,905	1,606,084	160,821
Accident & Health Reserves	191	200	(9)
Employee Pension Liability	6,839	6,311	528
Symposium Reserve	279	279	—
Advance Premium & Future Refund Reserves	373	367	6
Pending Investment Trades	—	7,415	(7,415)
Accounts Payable	995	985	10
Refund Accumulations	2,209	3,018	(809)
Asset Valuation Reserve-AVR	18,747	19,311	(564)
Interest Maintenance Reserve-IMR	21,539	22,583	(1,044)
Total Liabilities	\$1,889,592	\$1,736,575	\$153,017
Surplus Fund	162,742	154,269	8,473
Total Liabilities & Surplus	\$2,052,334	\$1,890,844	\$161,490
Normal Solvency	108.6%	108.9%	
Solvency Ratio*	109.7%	110.1%	

*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	2019	2018	Difference
Life Premium	\$ 3,384,659	\$ 2,164,709	\$ 1,219,950
Annuity Premium	218,557,608	217,093,679	1,463,928
Annuity Exchanges	17,135,558	18,265,566	(1,130,009)
Accident & Health	713,468	685,135	28,333
Sub Total	239,791,292	238,209,089	1,582,203
Net Investment Income	102,391,310	91,282,601	11,108,709
Amortization of Interest Maintenance Reserve	2,798,896	3,195,329	(396,433)
Commission allowance for reinsurance	2,540,477	2,790,927	(250,450)
Other	654,130	688,861	(34,731)
Total Income	\$348,176,105	\$336,166,806	\$12,009,299
Expenses			
Death Benefits	\$2,170,935	\$2,111,258	\$59,677
Annuity Benefits Paid	140,941,156	118,378,327	22,562,829
Annuity Exchanges	17,135,558	18,265,566	(1,130,008)
Surrender Benefits	852,689	834,452	18,237
Accident & Health Benefits Paid	659,986	698,255	(38,269)
Commissions	9,794,876	10,437,710	(642,834)
General Insurance Exp	7,498,267	7,150,790	347,477
Insurance, Taxes, Licenses and Fees	487,403	347,926	139,477
Pension Expense (Credit)	(334,341)	1,759,285	(2,093,626)
Interest on contract and deposit type accounts	108,013	74,264	33,749
Sub-Total	\$179,314,542	\$160,057,834	\$19,256,708
Increase in Reserves	136,899,492	150,240,992	(13,341,500)
Total Expenses	\$316,214,034	\$310,298,827	\$5,915,207
Net Gain/Loss from Operations before Refunds	31,962,071	25,867,979	6,094,092
Refunds to Members	276,334	271,796	4,538
Net Gain/Loss from Operations after Refunds	31,685,737	25,596,183	6,089,554
Net Capital Gains (Losses)	(3,972,941)	(3,413,447)	(559,494)
Net Income/Loss	\$27,712,796	\$22,182,736	\$5,530,060

Financial Report

Four Year Comparative Summary

YEAR ENDED DECEMBER 31,

	2019	2018	2017	2016
Assets	\$ 2.05 Bil	\$ 1.89 Bil	\$ 1.71 Bil	\$ 1.550 Bil
Total Income	348 Mil	336 Mil	342 Mil	346.0 Mil
Total Operating Expense	316.2 Mil	310.3 Mil	313.2 Mil	322.1 Mil
Reserve Change - Life and Annuities	137.0 Mil	150.2 Mil	134.8 Mil	168.0 Mil
Income from Operations	31.7 Mil	25.6 Mil	28.7 Mil	23.9 Mil
Refunds to Members	(276,334)	(271,796)	(261,841)	(257,398)
Capital Gains (Losses)	(3,972,941)	(3,413,447)	(2,747,753)	(3,069,730)
Net Income	27,712,796	22,182,736	25,707,763	20,636,081
Reserve - Interest Maintenance	21,539,184	22,582,928	22,869,833	18,058,704
Reserve - Asset Valuation	18,746,796	19,311,098	18,662,238	17,556,902
Surplus (Net Worth)	\$162,741,529	\$154,269,000	\$133,042,421	\$108,531,974

GCU Surplus Comparison

YEAR ENDED DECEMBER 31,

	2019	2018	Difference
Beginning Surplus	\$154,269,000	\$ 133,042,421	\$21,226,579
Net Income	27,712,796	22,182,736	5,530,060
Change in Unrealized Gain/(Loss)	180,192	380,996	(200,804)
GCU Holding Company	(1,173,154)	(1,190,056)	16,902
Changes in Non-Admitted Assets	(1,729,098)	501,762	(2,230,859)
Prior Period Adjustment	(17,082,509)	-	(17,082,509)
Changes in Asset Valuation Reserve	564,302	(648,859)	1,213,161
Net Change in Surplus	8,472,530	21,226,579	(12,754,049)
Ending Surplus	\$162,741,529	\$154,269,000	\$ 8,472,530

General Insurance Expenses

YEAR ENDED DECEMBER 31,

	2019	2018*	Difference
Rent	\$ 78,600	\$ 78,600	\$ —
Salaries & Wages	3,324,095	2,921,374	402,721
Employee Benefits	518,690	867,845	(349,155)
Legal Fees & Expenses	128,996	79,813	49,183
Medical Examination Fees	30,289	33,887	(3,598)
Fees-CPA, Actuarial and banking	609,166	688,652	(79,486)
Claims Investigation & Settlement Expense	22,590	35,561	(12,971)
Board Meeting Expenses/Travel	199,733	186,327	13,406
Advertising	675	6,280	(5,605)
Postage & Phone	166,947	184,180	(17,233)
Printing & Stationary	110,858	108,639	2,219
Cost or Depreciation of Furniture/Equip.	31,896	—	31,896
Rental of Equipment	19,941	173,932	(153,991)
Books and Periodicals	2,313	4,015	(1,702)
EDP Equipment and Expense	287,023	—	287,023
Insurance Fees	102,474	71,245	31,229
Sundry General Expenses	186,124	127,715	58,409
Official Publication	47,154	48,497	(1,343)
Fraternal Activities	1,347,411	1,111,772	235,639
Data Processing Supplies/Exp.	177,534	75,487	102,047
Marketing Consultant Fees and Exp.	105,758	79,889	25,869
Uncollectible account write-off	-	267,080	(267,080)
Total	\$7,498,267	\$7,150,790	\$ 347,477

* Certain amounts have been restated to conform with the 2019 presentation.

GCU Subsidiary Operations - Year 2019*

	GCU Holding & Subsidiaries	GCU Holding Co.	GCU Real Estate Co.	Seven Oaks Country Club	GCU Agency Inc.
Equity, beginning of year	\$10,283,371	\$ 213,736	\$1,866,207	\$ 8,146,526	\$56,902
Net Income (Loss)	(1,173,154)	(45,305)	(42,166)	(1,086,070)	387
Capital Contribution (Distribution)	2,643,376	—	(450,000)	2,643,376	—
Other**	58,127	58,127	—	—	—
Equity, end of year	\$11,361,720	\$226,558	\$1,374,041	\$9,703,832	\$57,289

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

**True-up adjustment based on the final 2018 audited financial statement.