

# GUARANTY INCOME LIFE INSURANCE COMPANY

## 2014 SUMMARY ANNUAL REPORT

### CHAIRMAN'S MESSAGE

Guaranty reported another year of successful financial results in calendar year 2014 and celebrated our **89<sup>th</sup> year** of service on January 19, 2015. We have a long and rich history of providing safe and secure products to our policy owners and producers. We are thankful for our many associates over the years who have offered our consumer oriented products, backed by high quality investments and excellent service to our policy owners.

*George A. Foster, Jr., Chairman*

### THIRD GENERATION

On August 8, 2011, Flynn Foster was named President and CEO of Guaranty Corporation, which is the parent company of Guaranty Income Life. Flynn has committed to continue the family tradition started by his grandfather and carried on by his father of offering quality products and services. He praised the hard work and dedication of Guaranty's employees, producers, and strategic partners. Following record levels of statutory net income in 2014 and 2013, and a \$5 million Surplus Note issued to Guaranty Corporation in December 2013, we are positioned for consistent and profitable growth in the future.

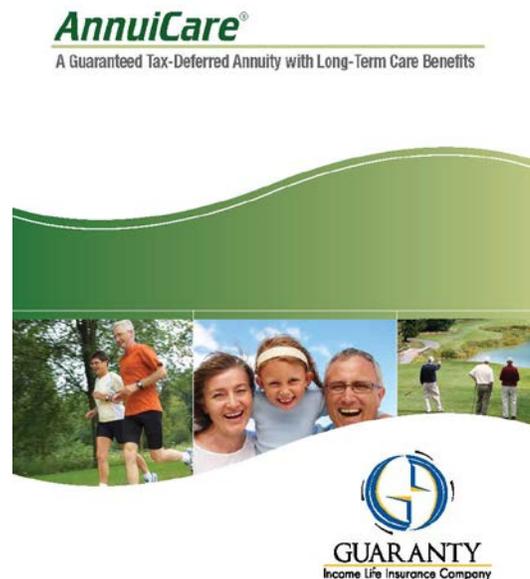
*Flynn Foster, President and CEO, Guaranty Corporation*

### PRESIDENT'S COMMENTS

Guaranty works with our Marketing Organizations to design a portfolio of products that offer unique risk protection, income payout options, and satisfaction to our policy owners. These products have attracted quality producers to Guaranty. Our signature product, Annuicare<sup>®</sup>, is an annuity/long-term care "combo" that is among the most creative in the industry. Annuicare<sup>®</sup> sales have increased in recent years as more producers and consumers find Annuicare<sup>®</sup> to be much more efficient than traditional LTC products. Annuicare<sup>®</sup> has additional advantages which allow LTC premiums to be paid from untaxed annuity distributions and the LTC benefits paid remain tax free.

We will grow by building on the family history and proud tradition of caring for our policy owners, producers, and associates. Guaranty is a nationally recognized competitor because of our innovative products, easy to use web-based tools and training, and efficient, friendly service. We will continue to deliver industry leading products to help provide security for families and the unique policies to maintain a successful retirement.

*John Lancaster, President and Chief Executive Officer*



**Annuicare<sup>®</sup>**  
A Guaranteed Tax-Deferred Annuity with Long-Term Care Benefits

**GUARANTY**  
Income Life Insurance Company

LTC-02 (12/10)

## OPERATING RESULTS

Statutory direct premium revenue increased 21% to \$35.0 million in 2014 from \$29.0 million in 2013. Sales of AnnuityCare<sup>®</sup> continued to be popular and comprised 26% of new annuity production in 2014.

Net investment income increased approximately 1% during 2014 to \$21.8 million. Investment income has grown as we have diversified our investment portfolio with expert advisors in specific areas.

Statutory net income was \$5.4 million for 2014 compared to \$5.2 million in 2013. Operating income was \$4.1 million and \$3.1 million for the years ended December 31, 2014, and 2013, respectively. Positive operating earnings were driven by improved interest spreads, continued strength in invested assets, favorable claim activity in both the life and AnnuityCare<sup>®</sup> lines, and cost management.

## FINANCIAL STRENGTH

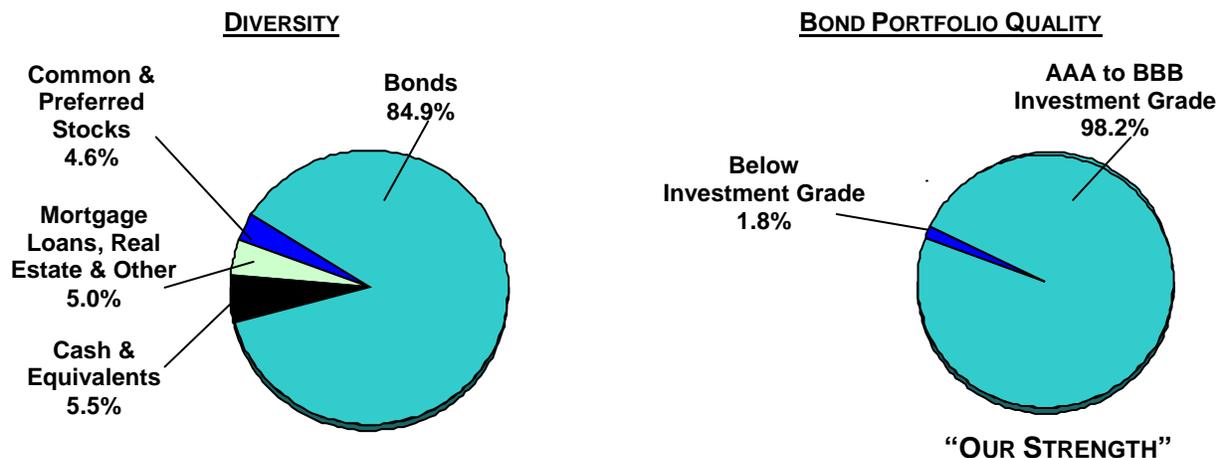
Total Capital and Surplus, including Asset Valuation Reserve, grew 11% to \$39.2 million at December 31, 2014. This record level of capital for our Company was developed from strong earnings, quality asset management, and corporate support. As a result, our Risk-Based Capital (RBC) ratio increased to 715%. This strong RBC level is well above the standards set by the National Association of Insurance Commissioners and state regulators.

## INVESTMENT RESULTS

Guaranty's investment strategy is to optimize the return on invested assets with a diversified portfolio and an emphasis on high quality bonds, utilizing a combination of internal experience and the expertise of outside managers in certain areas. Our investment philosophy is to maintain safety and security so we may provide our policy owners with a sound return on their funds. Our investment guidelines limit our exposure to any single issuer or a specific class of assets. Within this objective, we strive to generate the best returns available on a diverse, investment grade portfolio, while matching the cash flow of our product liabilities.

Guaranty maintains one of the highest quality bond portfolios in the insurance industry with 98.2% of bonds rated investment grade at December 31, 2014. Thus, non-investment grade bonds represent just 18.4% of surplus and AVR compared to an industry average estimated at 43%\* as of December 31, 2014. We maintain considerable liquidity with more than 5% of assets held in cash and short-term investments at December 31, 2014.

### 2014 INVESTMENT PORTFOLIO



**AA RATED PORTFOLIO WITH GREAT LIQUIDITY.**

\*Per A.M. Best's Review & Preview Conference Data.

**GUARANTY INCOME LIFE INSURANCE COMPANY**  
**2014 FINANCIAL RESULTS**  
**(\$ IN THOUSANDS)**

**SUMMARY OF FINANCIAL POSITION**

(STATUTORY BASIS)

YEAR ENDED DECEMBER 31:	<u>2014</u>	<u>2013</u>	<u>2012</u>
INVESTED ASSETS	\$ 475,243	\$ 472,952	\$ 470,498
OTHER ASSETS	<u>4,271</u>	<u>4,997</u>	<u>6,221</u>
<b>TOTAL ASSETS</b>	<b><u>479,514</u></b>	<b><u>477,949</u></b>	<b><u>476,720</u></b>
POLICY RESERVES	428,669	431,753	442,402
INTEREST MAINTENANCE RESERVE	7,085	7,426	7,117
OTHER LIABILITIES	<u>4,559</u>	<u>3,857</u>	<u>1,859</u>
TOTAL LIABILITIES (LESS AVR)	<u>440,313</u>	<u>443,036</u>	<u>451,378</u>
ASSET VALUATION RESERVE (AVR)	5,199	3,932	2,095
SURPLUS	<u>34,002</u>	<u>30,981</u>	<u>23,247</u>
TOTAL SURPLUS AND AVR	<u>39,201</u>	<u>34,913</u>	<u>25,342</u>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b><u>\$ 479,514</u></b>	<b><u>\$ 477,949</u></b>	<b><u>\$ 476,720</u></b>

**SUMMARY OF OPERATIONS**

(STATUTORY BASIS)

YEAR ENDED DECEMBER 31:	<u>2014</u>	<u>2013</u>	<u>2012</u>
NET PREMIUMS	\$ 32,764	\$ 26,802	\$ 22,632
NET INVESTMENT INCOME	21,869	21,793	21,660
OTHER INCOME	<u>501</u>	<u>628</u>	<u>634</u>
TOTAL REVENUE	<u>55,134</u>	<u>49,223</u>	<u>44,926</u>
POLICY BENEFITS AND RESERVES	45,067	40,606	38,263
COMMISSIONS	2,433	2,347	1,824
EXPENSES AND DIVIDENDS	<u>3,569</u>	<u>3,221</u>	<u>3,056</u>
TOTAL BENEFITS AND EXPENSES	<u>51,069</u>	<u>46,173</u>	<u>43,143</u>
OPERATING INCOME	4,066	3,050	1,783
INCOME TAX (EXPENSE) BENEFIT	(427)	315	701
NET REALIZED GAINS	<u>1,755</u>	<u>1,826</u>	<u>183</u>
<b>NET INCOME</b>	<b><u>\$ 5,394</u></b>	<b><u>\$ 5,191</u></b>	<b><u>\$ 2,667</u></b>

These Summary Financials have been extracted from the Company's audited financial statements, which are prepared on the Statutory Basis of Accounting.

Postlethwaite & Netterville, APAC, are the Company's auditors.

Guaranty Income Life Insurance Company was founded in 1926 and is a Legal Reserve Insurance Company which is required to maintain reserves equal to or greater than guaranteed surrender values. Guaranty is currently licensed in 31 states. In addition to cost-effective life insurance, long-term care, and annuity programs, Guaranty Income offers products and services to help families meet their financial needs of wealth protection and wealth creation today and in the future.