GCU

Entity: Operating Company			
Affirmed	**Type**	**Rating**	**Outlook**
GCU	IFSR	A-	Stable

Methodology

Insurer & Insurance Holding Company Global Rating Methodology

ESG Global Rating Methodology

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Rating Summary:

The rating reflects GCU's continued favorable growth trends in surplus and overall capital base that remain underpinned by its demonstrated, consistent trends of profitability. The company's balance sheet and membership base continue to grow against the headwinds of a challenging interest rate and investment environment. GCU continues to successfully demonstrate its ability to adjust crediting rates and maintain relatively healthy spreads through Q3 2022. Maturation of the company's corporate governance, investment management, and enterprise risk management processes continue and are consistent with its rating level. The company remains focused on controlled, strategic growth of its suite of products, particularly its fairly new fixed indexed annuity product. Writings of whole life and final expense product continue to increase year over year as well.

Since year-end 2011, GCU's reported surplus has achieved a compound annual growth rate of 21.2%, and total assets currently exceed $2.4 billion. Favorably, the company maintains a low operating expense profile, which is well below peer averages.

Balancing these credit strengths is GCU's noteworthy exposure to spread compression within its legacy annuity block due to high minimum guaranteed crediting rates. Although manageable, the company's investment portfolio has notable exposure to reinvestment and credit risk; however, a rising rate environment provides a more favorable setting to replicate GCU's historical trend of robust returns. GCU's business mix ultimately remains concentrated as reserves are almost entirely interest sensitive. While increased life sales is a strategic focus, material expansion of its geographic reach and diversification of business mix will more likely occur over the medium to long term.

Outlook

The Stable Outlook reflects KBRA's expectation that GCU will continue to preserve its current capitalization through continued operating profitability, grow its life and annuity businesses in a controlled manner, maintain sound investment portfolio credit quality, avoid potential for significant spread compression through active management of crediting rates, retain key members of its management team, and continue to successfully manage its fixed indexed annuity hedging program.

Key Credit Considerations	+/−
Continued Growth Capital Base and Profitability Strong capitalization growth and highly favorable trends in total adjusted capital (TAC). YE2021 TAC was $233 million, a 22% increase since YE2020, a 54% increase over the past five years, and a 400% increase over the past 10 years. Through 3Q 2022, surplus is up nearly 6% from YE2021. Risk based capital (RBC) company action level (CAL) has settled in the 350-400% range. With the exception of 2020, net gains from operations have grown steadily over time and have averaged a strong $29.6 million over the past five years.	+
Expanding Membership Well-established fraternal with approximately 50,900 members (YE2021 47,600), representing a 19% increase from 2012. Management believes distribution strategies, attractive rates and commissions, and excellent customer service continue to drive membership. As most fraternals are experiencing membership declines, GCU's membership trends remain favorable relative to peers.	+
Strategic Diversification Efforts Explicitly targeting a diversification of its business, GCU plans to grow its life insurance portfolio, optimize distribution, and target new geographies and demographics. Life premiums through October 2022 totaled $8.7 million compared to $6.8 million a year earlier. Life premiums remain approximately 3% of total premium writings.	+

Profitability Headwinds Related to Interest Rates Starting to Turn While the interest rate environment changed dramatically during 2022, the lower-for-longer interest rate environment that persisted for many years gave rise to challenges to profitability related to interest sensitive liabilities. The annuity block is susceptible to spread compression (as of 3Q 2022, 55% of annuity reserves are held in products with a guaranteed rate of 3.0% or higher) and disintermediation (73% of annuity reserves have no or minimal surrender charge). However, GCU's consistently above-average investment yield (5.0% or higher across the 2015-2021 period) and generally high-credit quality invested asset portfolio are mitigants. Further, the launch of its fixed indexed annuity product may provide some insulation from a changing interest rate environment.	−/+
Exposure to Reinvestment Risk Remains but Declining Notable exposure to reinvestment risk given product portfolio and required yield to meet guaranteed rates in the annuity block. However, the rising interest rate environment has partially mitigated this risk and target spreads are still being achieved as the Society continues to actively manage its credited rates across product offerings and refines asset reallocations to maximize yield.	−/+
Lack of Business Diversification Business mix is highly concentrated as reserves are almost entirely interest-sensitive (between 94% and 96% as measured at YE 2017-2021).	−

Rating Sensitivities	
▪ Sustained growth in earnings ▪ Continued favorable capital trends ▪ Materially improved reserve mix driven by growth in life sales ▪ Continued and controlled execution of geographic expansion efforts	+
▪ Material change in risk profile ▪ Substantial decline in earnings ▪ Investment losses that materially erode capital ▪ Lack of credited rates discipline ▪ Execution risks that unfavorably impact capital or earnings ▪ Departure of key members of the management team	−

Recent Developments

- GCU had a soft launch of its fixed indexed annuity (FIA) product in October 2021, which complements its deferred fixed rate annuity product. Management completed a full roll out of the product in March 2022.
- GCU filled out key leadership positions by adding a new sales leader, technology leader, and social media analyst.
- GCU is implementing a new life & annuity end to end technology platform to build capability and capacity as well as significantly mitigate risks by simplifying GCU's business and IT environment.
- GCU eliminated its lodges at YE2022 and is replacing them with a regional "Constellation" network in an effort to be community based. After conducting research, GCU has decided to form 22 constellations in strategic locations.

Insurance Entity Financials

GCU						
(in thousands)	**3Q 2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Total Assets	$2,616,396	$2,413,827	$2,200,816	$2,052,334	$1,890,845	$1,712,285
Capital & Surplus (C&S)	$ 221,391	$ 209,242	$ 182,648	$ 162,742	$ 154,269	$ 133,042
Asset Valuation Reserve (AVR)	$ 18,033	$ 23,831	$ 8,316	$ 18,747	$ 19,311	$ 18,662
Total Adjusted Capital (TAC)	NA	$ 233,228	$ 191,114	$ 181,638	$ 173,707	$ 151,855
Change in TAC	*NA*	*22%*	*5.2%*	*4.6%*	*14.4%*	*20.3%*
C&S to Liabilities	9.2%	9.5%	9.1%	8.6%	8.9%	8.4%
Surplus Notes/TAC	NA	0.0%	0.0%	0.0%	0.0%	0.0%
NAIC RBC (CAL)	NA	353%	355%	363%	379%	390%
BIG Bonds to TAC	NA	32.7%	41.2%	37.3%	56.8%	74.1%
Dividends to Stockholders	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Capital Contributions	$ -	$ -	$ -	$ -	$ -	$ -
Net Gain From Operations	$ 18,420	$ 32,840	$ 29,669	$ 31,686	$ 25,596	$ 28,456
Net Income	$ 18,701	$ 33,021	$ 12,818	$ 27,713	$ 22,183	$ 25,708
Net Investment Yield	4.8%	5.3%	5.0%	5.4%	5.3%	5.4%
Net Return on Avg Admitted Assets w/o Sep Accounts	0.7%	1.4%	0.60%	1.41%	1.23%	1.58%
1 Yr. Oper ROAC&S	11.7%	16.8%	17.2%	20.0%	17.8%	23.6%
% Interest Sensitive Reserves	NA	96.4%	94.6%	96.3%	95.9%	95.5%
% Annuities w/no surrender charge	NA	62.8%	69.6%	64.1%	61.8%	61.1%
Current Liquidity	104.8%	105.3%	105.9%	105.9%	106.3%	105.7%
General Insurance Expenses/Total Revenue	NA	2.1%	2.0%	1.9%	1.9%	1.4%

Source: Statutory Financials

Stress Testing

As GCU's liability profile is almost entirely interest-sensitive and its investment portfolio is generally conservative, KBRA believes the company's most significant exposure is to changes in interest rates.

KBRA reviewed GCU's year-end 2021 asset adequacy analysis. GCU's appointed actuary, Allen Bailey, utilized seven deterministic interest scenarios as well as four sensitivity tests: (1) a 10% increase in expenses; (2) a 10% decrease in lapses; (3) a 10% increase in lapses; and (4) a 10% increase in mortality. In aggregate and by product line, all scenarios and sensitivities projected a positive present value of 40th year ending value of surplus based on both book value and market value. Only the NY2 (increasing) interest rate scenario resulted in the interim book value deficient surplus. Consequently, an additional asset adequacy reserve of $61 million was established. Including the additional asset adequacy reserve in the cash flow testing model results in positive interim book values of surplus in all projection years under all of the interest rate scenarios tested. Results were generally consistent from a year prior.

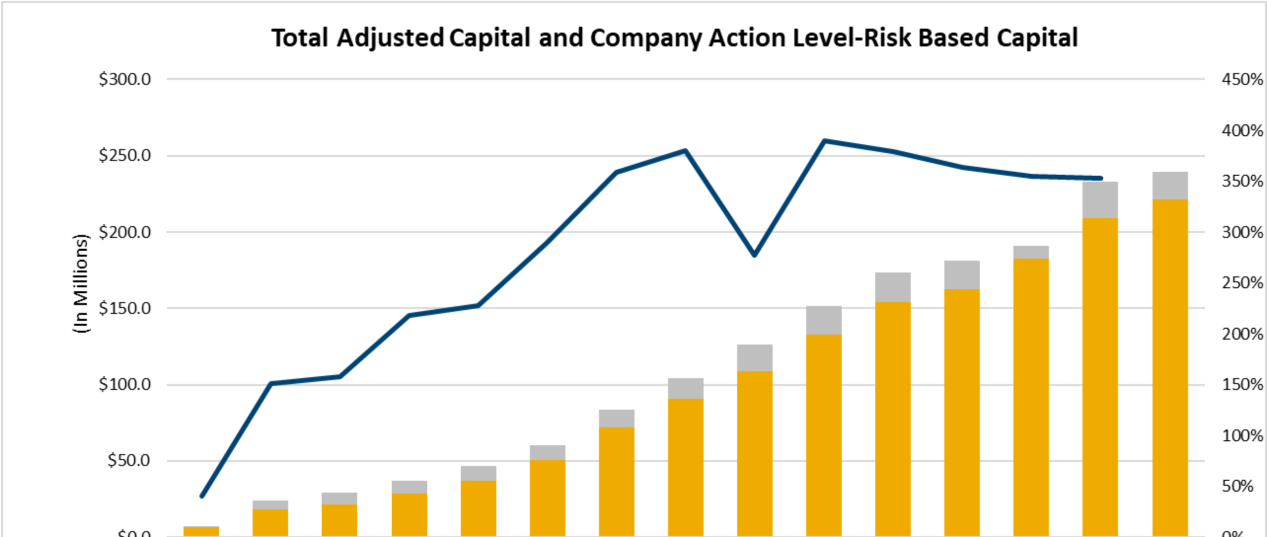
The analytical team also performed an asset credit stress test on GCU's fixed income portfolio. The results were consistent with GCU's current IFSR.

Balance Sheet Management

Quality of Capital/Underwriting Leverage

Since 2009, GCU has exhibited exceptionally strong and consistent growth in total adjusted capital and operating results have been favorable. GCU has been able to successfully leverage new distribution platforms, revitalize products, and add new products to drive growth in annuity sales. The sizeable income generation exhibited in recent years continues to foster substantial surplus and balance sheet growth. KBRA further notes that GCU continues to maintain a conservative asset makeup on its balance sheet with no financial leverage.

GCU currently holds a sound level of risk adjusted capital (RBC CAL 353% as of YE 2021) but somewhat below similarly rated fraternal peers. Nevertheless, GCU's current level of risk-based capital remains adequate, in KBRA's opinion.



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q3 2022
AVR	$0.1	$5.9	$7.7	$8.4	$9.5	$9.9	$11.7	$13.2	$17.6	$18.7	$19.3	$18.7	$8.3	$23.8	$18.0
Surplus	$6.4	$18.2	$21.5	$28.4	$37.2	$50.5	$71.8	$90.7	$108.5	$133.0	$154.3	$162.7	$182.7	$209.2	$221.4
CAL RBC	40%	151%	158%	218%	228%	290%	358%	380%	277%	390%	379%	363%	355%	353%	

Source: Statutory Financials

Asset Quality and Investment Risk

GCU currently has three investment advisors who manage its investment portfolio: Northern Trust (approximately 43% of invested assets as of YE2021), PNC (31%), and Prosperity Capital Advisors (24%), with all managers operating under the same guidelines. GCU's investment guidelines are reviewed annually.

GCU maintains a conservative portfolio with a focus which remains on fixed income securities. The investment portfolio, consisting primarily of investment grade corporate bonds, increased to $2.4 billion at 3Q 2022. Bonds comprise 93% of GCU's assets, with an average maturity of over 20 years and an option adjusted duration of 10.5 years compared to 11.8 years at YE2021. The portfolio quality remains high with an overall credit rating of BBB+. Book yield remains over 5.0%. There were no impairments recognized in 2021 and only one small impairment in 2022. As of June 2022, GCU had six securities (four issuers) on its watch list for a total book value of $8.5 million – unrealized losses in these positions ranged from 22% to 35%.

Bond Portfolio Quality						
(In Thousands)	**2020 BV**	**%**	**2021 BV**	**%**	**Q3 2022 BV**	**%**
NAIC 1	$ 493,476	24.2%	$ 509,976	22.8%	$ 616,758	25.3%
NAIC 2	$ 1,463,376	71.9%	$ 1,650,118	73.8%	$ 1,734,653	71.1%
NAIC 3	$ 65,800	3.2%	$ 62,221	2.8%	$ 57,645	2.4%
NAIC 4	$ 11,961	0.6%	$ 13,985	0.6%	$ 28,678	1.2%
NAIC 5	$ -	0.0%	$ -	0.0%	$ 2,355	0.1%
NAIC 6	$ 1,013	0.0%	$ 52	0.0%	$ 33	0.0%
NAICs 3-6	$ 78,773	3.9%	$ 76,258	3.4%	$ 88,712	3.6%
Total Bonds	**$ 2,035,625**	**100%**	**$ 2,236,352**	**100%**	**$ 2,440,124**	**100%**
BIGs/TAC	**41.2%**		**32.7%**		**NA**	

Source: Statutory Financials

The below investment grade (BIG) portion of the fixed income portfolio has fallen considerably and fairly consistently from historical levels – 32.7% of total adjusted capital as of year-end 2021 compared to a peak of nearly 161% in 2016. Public corporates are GCU's largest allocation and are diversified by sector. The most significant concentrations are in financials (22.2% of total bond holdings), consumer-noncyclical (18.7%), communications (10.9%), energy (9.5%), and basic materials (7.8%). Bonds, bond funds, and preferred stock sector weightings were largely unchanged from YE2020 to YE2021.

Bond Portfolio Maturity		
(In Thousands)	**Q3 2022 BV**	**%**
Less than 1 Year	$ 9,638	0.4%
1 to 5 Years	$ 132,650	5.4%
6 to 10 Years	$ 303,728	12.4%
11 to 20 Years	$ 854,123	35.0%
Over 20 Years	$ 1,119,963	45.9%
No Maturity Date	$ 20,022	0.8%
Total Bonds	**$ 2,440,124**	**100%**

Source: Statutory Financials

Common stocks comprise approximately 0.9% of invested assets; however, $13.5 million or 38% of the common stock holdings are investments in affiliates.

Total Invested Assets		
(BV In Thousands)	2021	%
Bonds	$ 2,213,353	92.8%
Other Invested Assets	$ 45,062	1.9%
Unaffiliated Common Stock	$ 21,894	0.9%
Affiliated Common Stock	$ 13,490	0.6%
Preferred Stock	$ 23,125	1.0%
Cash & Cash Equiv.	$ 48,638	2.0%
Other Assets	$ 1,080	0.0%
Real Estate	$ 15,461	0.6%
Mortgage Loans	$ 3,674	0.2%
Total Invested Assets	**$ 2,385,776**	**100.0%**

Source: Statutory Financials

GCU also has a small alternative/Schedule BA allocation (2.2% of invested assets) with notable investments in several real estate-based LP funds. Inclusive of unfunded commitments, management expects that allocations to its alternative investment strategy will not increase past approximately $70 million.

GCU has consistently outperformed peers in net investment income due to its growing invested asset base as well as an above-average pre-tax investment yield. Despite the depressed interest rate environment in recent years, net investment yield on the portfolio has been in the range of 5-5.5% but should increase given the rising interest rate environment.

Financial Flexibility and Access to Capital

GCU has solid financial flexibility given its recent profitability and revenue generation. GCU's operating performance and internal capital generation allows for financial flexibility in funding its own growth initiatives in addition to current expenses. Currently, GCU maintains no debt and all financial obligations are supported by operations. Investment income is primarily reinvested.

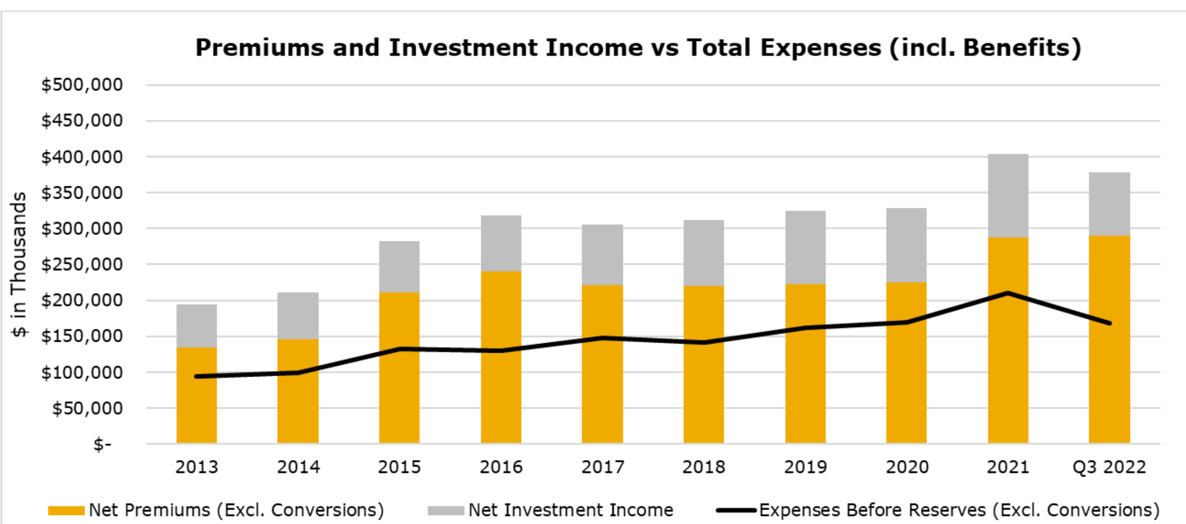
GCU is a member of the Federal Home Loan Bank of Pittsburgh (FHLBP), which provides the Society with access to a secured asset-based borrowing capacity for funding agreements and backup liquidity. The company has a maximum borrowing capacity of approximately $23 million. As of 3Q 2022, GCU has borrowed $17 million via a funding agreement to enhance earnings. The Board approved limit for borrowings is $22 million.

Liquidity and Asset/Liability Management

GCU's liability structure is heavily weighted (95%) towards annuity reserves. GCU, like many fraternals, benefits from low lapses/withdrawals due to strong member affinity relationships. However, KBRA believes that disintermediation risk is heightened as interest rates rise. KBRA notes that 73% (76% in 2021) of GCU's annuity contracts have surrender charges of 5% or less and 46% have no surrender charges. This particular concern is somewhat mitigated due to many of these contracts having guaranteed minimum interest crediting rates of 3.0% or higher (58.5% of fund value of annuities at YE2021, down 4.3% from prior year). The top 50 annuity contracts totaled $61 million in fund value reserves at YE2021.

The life insurance block, largely whole life, provides a steady source of earnings for the company. While a small component of GCU's portfolio relative to annuities, it is a highly creditworthy product built on the cash value of the account. Additionally, GCU's lapse ratio has historically remained low; however, the ratio rose moderately to 8.7% during 2021 as a result of the final expense product, which is an annual product.

The company's premium revenue stream (excluding conversions) – $291 million through Q3 2022, and net investment income of $87 million – continue to compare favorably to current benefits paid. GCU does not currently have a formal ALM strategy though investment durations are matched to meet the needs of insurance products and operational expenses. The company is looking to implement a formalized strategy across the next couple years.



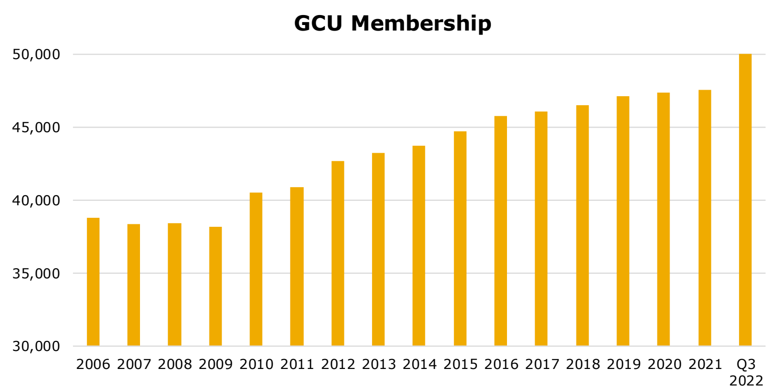
Source: Statutory Financials and Company

Operating Fundamentals

Drivers of Profitability

In order to sustain its current level of profitability – above 16% return on capital – GCU will need to continue monitoring its crediting rate strategy on its annuity programs to maintain target spreads and remain responsive in both up and down rate environments. Paired with continued success in its annuity book, including the launch of its indexed annuity product, successful growth of the Society's life insurance portfolio should provide further stability to its operating results. GCU's targeted spreads remain in the 150-200 basis points range.

KBRA notes that GCU's membership has been on a modest upward trajectory since 2009. Management acknowledges that it had historically employed a strategy to sell annuities at credited rates above the commercial market. Recently, GCU has shifted towards focusing on distribution; for example, the FIA expansion provides another outlet for distribution. Nevertheless, GCU has been successful in growing membership within the products it is actively marketing, and this trend stands in contrast to the declining membership trends of many other fraternals.



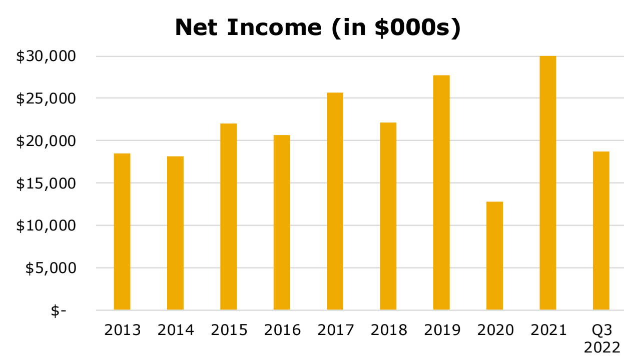
Source: Company

GCU is committed to growing its life sales. In addition, over the past two years, GCU has invested heavily in an Oracle/Equisoft policy administration system to support new products. The system is expected to provide capacity for future growth, provide superior customer service, and serve as a platform to report and track essential metrics. The upgrade is currently on track and is part of GCU's ongoing efforts to implement a new end to end administrative platform.

Consistency of Profitability

GCU has successfully grown its net gain from operations over time, with $32.8 million in 2021 and $18.4 million as of Q3 2022. The company has been able to maintain top line growth by expanding its membership base along with additional product offerings.

Net income at year-end 2021 was $33 million, which represented a 158% increase from 2020. This increase was primarily attributable to approximately $16.9 million of realized losses in 2020 due to the OTTI expense related to certain energy bonds. Through Q3 2022, net income was $18.7 million, which significantly lagged YE 2021 results.

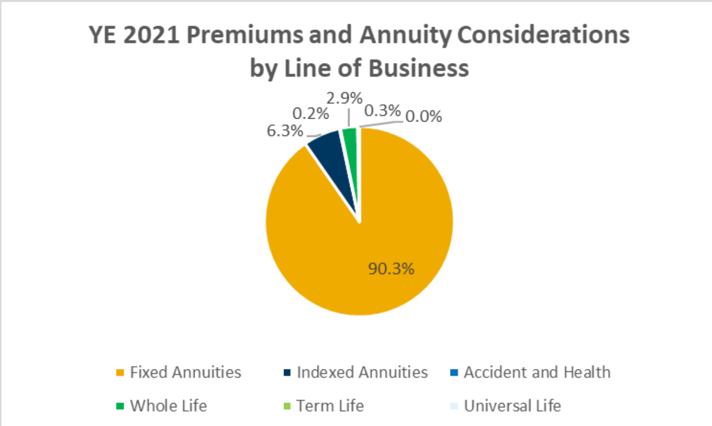


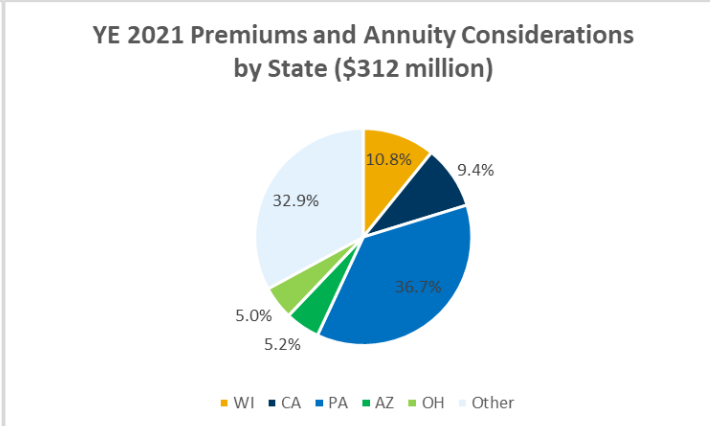
Source: Statutory Financials

Earnings Diversification: Product/Geography

The majority of GCU's business is written in the mid-Atlantic and mid-western regions of the United States. GCU's top three states (PA, WI, and CA) account for approximately 57% direct premiums written, ranging from 55% to 62% since 2012. GCU is currently licensed in 31 states. GCU is in the process of expanding its geographic footprint in the South – specifically, along the East coast and in the Sunbelt region. FIAs are driving growth in the Texas and Phoenix regions, while life and FIA products are driving growth in Florida.

In addition, the vast majority of the Society's earnings have been driven by its annuity business throughout its history – approximately 97% annuities and 3% life at YE 2021. The vast majority of the life business is whole life, followed by a small amount of term and universal life . GCU introduced a fixed indexed annuity product in 2021. Indexed annuities were approximately 6% of total premiums and annuity considerations during 2021 and were almost 7% of the total annuity business in 2021.





Source: Statutory Financials

Exposure to Event Risk

Given its sound capitalization, conservative investments, and growing membership, KBRA believes GCU is well-positioned to withstand an economic downturn. Nevertheless, as noted previously, GCU's balance sheet profile exposes the enterprise to significant interest rate movements. GCU does not sell variable products and, as a fraternal, benefits from the affinity relationship of its member policyholders. Credited rates are generally higher than commercial carriers; hence, GCU is not as likely to experience a "run-on-the-bank" scenario. KBRA notes that a significant portion of annuities are outside of surrender though minimum rate guarantees continue to serve as a mitigant during periods of falling rates.

Company Profile and Risk Management

Management Profile and Strategy

GCU's management expertise is concentrated within several key persons who collectively have extensive experience in the company's products, operations, and historical events. In the past, KBRA has noted that GCU would benefit from a deeper bench of senior and mid-level managers to supplement and support the current team. Several hires in recent years have rounded out its management team. Management remains disciplined and committed to controlled growth of its suite of products. GCU continues to leverage technology across its platform.

GCU's mission is to invest in creating strong, stable products that make its members and their family's futures more secure. The products GCU offers bring high returns and peace of mind to their members. Furthermore, the Society is less motivated by profit than commercial carriers while it focuses on protecting the assets of families and working with people of faith.

Management is trying to diversify its membership base in an attempt to be more community based, as opposed to a solely Catholic faith-based fraternal. Included in this effort is a revamping of its community/membership activities as well as initiatives to encourage more younger member participation.

Market Position

GCU has low market penetration in even its largest territories, and commercial carriers are seeking to broaden sales through a variety of strategies, such as product innovation, strategic relationships, cross-selling, worksite strategies, and disintermediation of agents. In response, GCU has contracted with new distribution platforms and taken steps to revitalize its brand image. In addition, GCU is one of the ten largest fraternals by net admitted assets.

Distribution

GCU distributes its products through independent marketing organizations (IMO), managing general agencies (MGA), and select field marketing organizations (FMO). This strategy was implemented in 2013 to maximize the efforts of a small home office sales team and give higher value to the GCU contractual relationship. This distribution strategy has greatly increased GCU's access to target growth states through its working relationships with experienced, producing agents. GCU continues to add agents and IMOs.

GCU has recently been focusing on distribution management initiatives such as gaining stronger commitment from its top producers, capitalizing on opportunities to diversify and recruit distribution from a regional and national perspective, as well as redefining and implementing agent productivity measures. To avoid overconcentration, GCU has a 20% premium limit from a single distribution source of its life and annuities business.

Newer agents have financial planner backgrounds and sell both life and annuity products.

GCU is also expanding its agent presence in North Carolina and Georgia.

Risk Management

GCU established a formal enterprise risk management (ERM) program in 2017, which is detailed in its ERM Policy and incorporates an annual risk appetite statement. Since that time, GCU has developed, and implemented, a comprehensive risk and control framework, including the key financial reporting controls for GCU and its subsidiaries.

GCU's Board of Directors and Risk Committee Board representatives are ultimately responsible for the approval and establishment of the ERM policies for the Society, including reviewing and approving the reports from the Enterprise Risk Committee (ERC). The Risk Committee is comprised of five members of the Board of Directors and representatives from the executive management team. Members of the Risk Committee are appointed by the Chairman of the Board of Directors and serve for a four-year period.

The ERC is delegated by the Risk Committee to oversee risk management activities, manage day-to-day risk decision-making, review and assess risk management reports from all areas of GCU, and approve appropriate risk management procedures and measurement methodologies. The Chief Financial Officer (CFO) serves as the Chief Risk Officer and is responsible for the management and supervision of the ERC and implementation of the ERM Policy. GCU implemented a derivative use plan in early 2021 to manage its FIA hedging program. The CFO also serves as the derivative use officer, as appointed via the Board of Directors.

Reinsurance Utilization

GCU's life product reinsurance program has remained largely unchanged. GCU has relationships with two insurers: Optimum Re Insurance Company and Aetna Life Insurance Company, respectively, provide reinsurance to the various life and Medicare supplement policies offered by the Society. The reinsurance coverages in place do not have any third-party guarantees. All treaties are solely between GCU and the reinsurers.

ESG Management

KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. KBRA does not deploy ESG scores, but instead analyzes ESG factors through the lens of how company management plans for and manages relevant ESG risks and opportunities. More information on KBRA's approach to ESG can be found here. KBRA believes stakeholder perspectives and emerging disclosure requirements will remain prominent components of (re)insurer approaches to ESG.

Environmental Factors

GCU does not have any specific governance policies around climate risks or ESG related investments. GCU's ESG efforts include a continuous dialogue and exercising a wholistic approach. The Society has reduced the carbon footprint of its data center due to the movement of data systems and storage to cloud-based systems. While ESG initiatives or mandates are not formally incorporated within the company's investment policy statements at this time, GCU does have some "Green Leaf" investments. GCU does not monitor its Scope 1 or 2 GHG emissions.

Social Factors

As a faith-based fraternal financial services organization, GCU's members are its key stakeholders. The company remains committed to its fraternal mission of providing financial security to its members and giving back to its communities. The Society provides financial support to the parishes where its members are part of congregations.

Governance Factors

GCU is in the process of a technology upgrade program where it will, among other things, replace firewalls, routers, and switches, implement a maintenance program, and develop an IT employee education program. GCU recently added a head of cybersecurity, who has prior experience in the area. GCU maintains a cyber liability policy.

External Considerations

Since GCU is the top company in the structure and the subsidiaries are strategic and risk-neutral, there are no external considerations for this rating.

Transfer Risk

As GCU is domiciled in the United States (AAA/Stable), only writes business in the United States and only has USD denominated securities in its asset portfolio, there is no currency transfer risk.