GCU

Operating Companies			
Action: 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 despite a depressed interest rate environment for much of the last decade as well as unfavorable trends in the fraternal industry. GCU has historically successfully demonstrated its ability to adjust crediting rates and maintain relatively healthy spreads. While spreads have compressed more recently, financial results remain favorable. The company remains focused on controlled, strategic growth of its suite of products, particularly its fixed indexed annuity product. Writings of whole life and final expense product continue to increase year over year as well.

Since year-end 2013, GCU's reported surplus has achieved a compound annual growth rate of 16.5% and assets currently total approximately $2.7 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 moderately high minimum guaranteed crediting rates, particularly given the current rate environment, increased disintermediation risk, and an increasingly competitive landscape. Although manageable, the company's investment portfolio has notable exposure to reinvestment and credit risk; however, the higher interest 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 at a minimum maintain its risk-adjusted capitalization through continued operating profitability, grow its life and annuity businesses, maintain its sound investment portfolio credit quality, avoid prolonged significant spread compression through active management of crediting rates, retain key members of its management team, and continue successful management of its fixed indexed annuity hedging program.

Key Credit Considerations	+/−
Continued Growth In Capital Base and Profitability Strong capitalization growth and highly favorable trends in total adjusted capital (TAC). YE2022 TAC was $239 million, a 2.3% increase from a year earlier, a 37% increase over the past five years, and a 294% increase over the past 10 years. Through Q3 2023, surplus is largely unchanged from YE2022. While YE2022 risk-based capital (RBC) company action level (CAL) fell to 322% and has declined steadily since YE2017, this metric has historically been in the 350-400% range and is expected to return to that range in the near- to medium-term. Net gains from operations have historically been strong, growing steadily over time and settling around $30 million from 2019-2021, with $20.7 million during 2022.	+
Long Term Trend of Expanding Membership Well-established fraternal with approximately 50,300 members at Q3 2023, representing a 15% increase from 2014. 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 September 2023 totaled	+

$7.2 million compared to $8.6 million a year earlier. Life premiums remain approximately 3% of total premium writings.	
Profitability Headwinds Related to Interest Rates Have Somewhat Eased Though Exposure to Elevated Disintermediation Risk Remains While the interest rate environment changed dramatically over the last two years, the lower-for-longer interest rate environment that persisted for many years gave rise to challenges to profitability related to interest sensitive liabilities. In addition, higher interest rates pose challenges through disintermediation risk, resulting in annuity outflows. Recently, cash outflows significantly exceeded historical averages as a result of increased demand for full and/or partial annuity surrenders. The annuity block is susceptible to spread compression (as of Q3 2023, 59.2% of annuity reserves are held in products with a guaranteed rate of 3.0% or higher) and disintermediation (57% of annuity reserves have no or minimal surrender charge as of Q3 2023, below YE2022 and YE2021). However, while 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, net investment income has dipped in recent quarters. Consequently, average earned spread through Q3 2023 was significantly lower than during 2022 and 2021. 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. Despite the rising interest rate environment partially mitigating this risk, target spreads are no longer being achieved due to a decline in overall investment yields. As the Society continues to actively manage its credited rates across product offerings and refines asset reallocations to maximize yield, investment yields are expected to return to normal levels in the medium-term.	**-/+**
Lack of Business Diversification Business mix is highly concentrated as reserves are almost entirely interest-sensitive (between 94% and 96% as measured at YE 2018-2022).	**-**

Rating Sensitivities	
▪ Sustained growth in earnings ▪ Continued favorable capital trends, as well as a significant increase in risk-adjusted capitalization ▪ Materially improved reserve mix driven by growth in life sales ▪ Continued and controlled execution of geographic expansion efforts	**+**
▪ Material adverse change in risk profile ▪ Substantial decline in earnings ▪ Investment losses that materially erode capital ▪ Sustained lack of credited rates discipline ▪ Execution risks that unfavorably impact capital or earnings ▪ Departure of key members of the management team	**-**

Recent Developments

Recent Developments

- While GCU remained disciplined with crediting rates, as interest rates rose, bank products became more attractive. As rates came down, observed outflows decreased. While outflows did dampen balance sheet growth across 2023, GCU opportunistically repositioned its balance sheet as annuity premiums were invested in higher quality assets. Efforts included the successful shortening duration risk, increasing credit quality, limiting the impact on surplus from realized losses, and improving net investment yield.
- Primarily driven by the earned rate and inflationary environment, top and bottom line financial results (and margins) generally underperformed expectations. However, financial results remain strong, as surplus and TAC continue to strengthen. Net investment yield on the portfolio has historically been in the range of 5-5.5%, with the exception of 2022 when it was 4.8%, but should increase given the rising interest rate environment. The recent dip in net investment yield was driven by the timing of maturing investments and is expected to increase in the coming years. With the decrease in investment yield, average earned spread through Q3 2023 fell below GCU's targeted range relative to full year 2022 and full year 2021.
- GCU continues to expand its distribution reach in the Southeast and Sunbelt. GCU has a new agreement with Equis Financial of Integrity Marketing to access an additional 1,000+ agents. In addition, the Society continues to upgrade its policy administration system.
- Management is in the process of exploring reinsurance partnership(s) as it continues to grow its indexed annuity business.

Insurance Entity Financials

GCU						
(in thousands)	3Q 2023	2022	2021	2020	2019	2018
Total Assets	$2,694,345	$2,641,748	$2,413,827	$2,200,816	$2,052,334	$1,890,845
Capital & Surplus (C&S)	$ 220,178	$ 219,484	$ 209,242	$ 182,648	$ 162,742	$ 154,269
Asset Valuation Reserve (AVR)	$ 23,895	$ 18,876	$ 23,831	$ 8,316	$ 18,747	$ 19,311
Total Adjusted Capital (TAC)	NA	$ 238,515	$ 233,228	$ 191,114	$ 181,638	$ 173,707
Change in TAC	*NA*	*2.3%*	*22.0%*	*5.2%*	*4.6%*	*14.4%*
C&S to Liabilities	8.9%	9.1%	9.5%	9.1%	8.6%	8.9%
Surplus Notes/TAC	NA	0.0%	0.0%	0.0%	0.0%	0.0%
NAIC RBC (CAL)	NA	322%	353%	355%	363%	379%
BIG Bonds to TAC	NA	39.1%	32.7%	41.2%	37.3%	56.8%
Dividends to Stockholders	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Capital Contributions	$ -	$ -	$ -	$ -	$ -	$ -
Net Gain From Operations	$ 8,050	$ 20,686	$ 32,840	$ 29,669	$ 31,686	$ 25,596
Net Income	$ 7,386	$ 18,128	$ 33,021	$ 12,818	$ 27,713	$ 22,183
Net Investment Yield	4.6%	4.8%	5.3%	5.0%	5.4%	5.3%
Net Return on Avg Admitted Assets w/o Sep Accounts	0.4%	0.7%	1.4%	0.60%	1.41%	1.23%
1 Yr. Oper ROAC&S	4.9%	9.7%	16.8%	17.2%	20.0%	17.8%
% Interest Sensitive Reserves	NA	96.4%	96.4%	94.6%	96.3%	95.9%
% Annuities w/no surrender charge	NA	71.5%	62.8%	69.6%	64.1%	61.8%
Current Liquidity	104.2%	104.7%	105.3%	105.9%	105.9%	106.3%
General Insurance Expenses/Total Revenue	NA	2.6%	2.9%	2.8%	2.7%	2.6%

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.

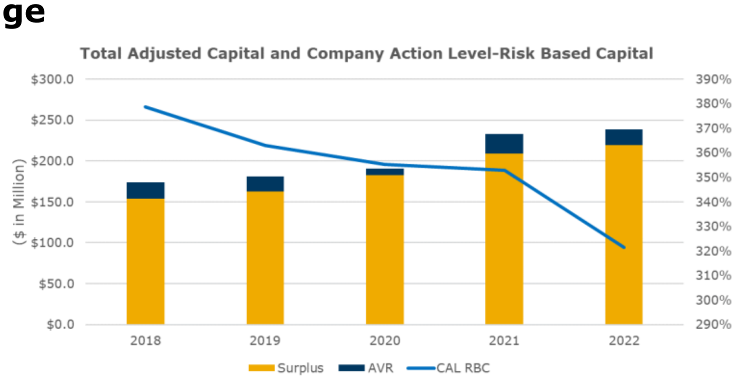
GCU's appointed actuary utilized seven deterministic interest scenarios and additional Modern Deterministic Scenarios for a cumulative 23 deterministic scenarios, as well as additional sensitivity tests. In aggregate and by product line, all scenarios and sensitivities projected a positive present value of 40th year ending value of surplus based on both book value and market value. Only the NY5 (decreasing interest rate scenario) and NY7 (pop-down 3% interest rate scenario) scenarios resulted in the interim book value deficient surplus compared to just the NY2 the prior year. Consequently, no additional reserves were established.

KBRA 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. As of year-end 2022, the Society's surplus had grown at a 10-year compound annual growth rate of 16.5%. KBRA further notes that GCU continues to maintain a conservative asset makeup on its balance sheet with no financial leverage.



Source: Statutory Financials

GCU currently holds an adequate level of risk-adjusted capital (RBC CAL 322% as of YE 2022) which is below similarly rated fraternal peers. Nevertheless, GCU's current level of risk-based capital remains adequate, in KBRA's opinion.

Asset Quality and Investment Risk

GCU currently has three investment advisors who manage its investment portfolio: Northern Trust (approximately 45% of total AUM as of November 30, 2023), PNC (30%), and Prosperity Capital Advisors (23%), 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, remained largely unchanged at $2.7 billion at Q3 2023. Bonds comprise 93% of GCU's assets, with the most common maturity length of over 20 years and an option adjusted duration of 9.1 years at end-Q3 2023 compared to 10.5 years at YE2022. The portfolio quality remains sound with an overall credit rating of BBB+. While book yield remains strong, it has dipped below the Society's 5.0% threshold since the beginning of 2022. As of November 2023, GCU identified no new securities to be deemed OTTI. However, there were six positions from four issuers on the Watch List. There were no impairments recognized in 2021 and only one small impairment in 2022. As of November 2023, GCU's watch list had a fair value of $10.1 million and unrealized losses in these positions totaled $4.4 million.

Bond Portfolio Quality						
Class	2021	%	2022	%	3Q23	%
NAIC 1	$ 509,976	22.8%	$ 673,670	27.2%	$ 750,770	30.4%
NAIC 2	$ 1,650,118	73.8%	$ 1,706,070	69.0%	$ 1,666,526	67.4%
NAIC 3	$ 62,221	2.8%	$ 62,430	2.5%	$ 43,882	1.8%
NAIC 4	$ 13,985	0.6%	$ 29,573	1.2%	$ 36,067	1.5%
NAIC 5	$ -	0.0%	$ 1,017	0.0%	$ 516	0.0%
NAIC 6	$ 52	0.0%	$ 171	0.0%	$ 361	0.0%
NAICs 3-6	$ 76,258	3.4%	$ 93,192	3.8%	$ 80,827	3.3%
Total	**$ 2,236,352**	**100%**	**$ 2,472,932**	**100%**	**$ 2,498,122**	**101%**

Source: Statutory Financials

Despite an increase during 2022, the below investment grade (BIG) portion of the fixed income portfolio has fallen considerably and fairly consistently from historical levels – 39.1% of total adjusted capital as of YE2022 (32.7% at YE2021) 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 (19.2% of total corporate bond holdings), health care (11.7%), communication services (9.9%), consumer staples (8.3%), and industrials (8.2%). Bonds, bond funds, and preferred stock sector weightings were largely unchanged from prior years.

Bond Portfolio Maturity		
(In Thousands)	Q3 2023 BV	%
Less than 1 Year	$ 13,655	0.5%
1 to 5 Years	$ 243,986	9.8%
6 to 10 Years	$ 308,222	12.3%
11 to 20 Years	$ 891,266	35.7%
Over 20 Years	$ 1,020,628	40.9%
No Maturity Date	$ 20,365	0.8%
Total Bonds	**$ 2,498,122**	**100%**

Source: Company

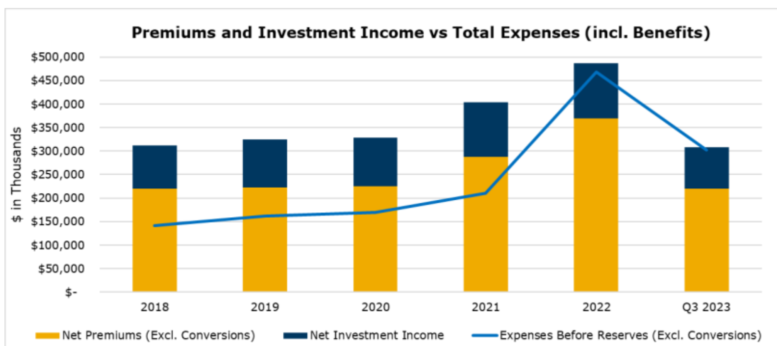
Common stocks comprise approximately 0.2% of invested assets; however, at YE2022, $22.4 million ($13.5 million a year prior) or 80% (38% a year prior) of the common stock holdings are investments in affiliates. In addition, unaffiliated common stock investments decreased during the period.

GCU also has a small alternative/Schedule BA allocation (2.1% 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.

Total Invested Assets						
Asset Class	2021	%	2022	%	3Q23	%
Bonds	$ 2,213,353	92.8%	$ 2,472,932	94.7%	$ 2,498,122	93.9%
Other Invested Assets	$ 45,062	1.9%	$ 55,912	2.1%	$ 63,713	2.4%
Unaffiliated Common Stock	$ 21,894	0.9%	$ 5,540	0.2%	$ 4,865	0.2%
Affiliated Common Stock	$ 13,490	0.6%	$ 22,445	0.9%	$ 25,643	1.0%
Preferred Stock	$ 23,125	1.0%	$ 18,626	0.7%	$ 16,616	0.6%
Cash & Cash Equiv.	$ 48,638	2.0%	$ 15,575	0.6%	$ 31,152	1.2%
Other Assets	$ 1,080	0.0%	$ 1,871	0.1%	$ 1,933	0.1%
Real Estate	$ 15,461	0.6%	$ 15,059	0.6%	$ 15,958	0.6%
Mortgage Loans	$ 3,674	0.2%	$ 3,473	0.1%	$ 2,523	0.1%
Total Invested Assets	**$ 2,385,776**	**100.0%**	**$ 2,611,435**	**100.0%**	**$ 2,660,526**	**100%**

Source: Statutory Financials and Company

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%, with the exception of 2022 when it was 4.8%, but should increase given the rising interest rate environment. The decrease in net investment yield was driven by the timing of maturing investments and is expected to increase in the coming years.



Source: Statutory Financials

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 Society has a maximum borrowing capacity of approximately $75 million. The Board approved limit for borrowings remains at $22 million. As of Q3 2023, GCU has borrowed $17 million via a funding agreement to enhance earnings.

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. Although lapses have risen slightly the past two years but are still very low relative to non-fraternal peers. However, disintermediation risk is heightened in a rising rate environment. KBRA notes that through 9M 2023, 70% (73% in 2022) of GCU's annuity contracts have surrender charges of 5% or less, just slightly below recent historical levels, and 44% (46% in 2022) have no surrender charges, also just slightly below recent historical levels. This particular concern is somewhat mitigated due to many of these contracts having guaranteed minimum interest crediting rates of 3.0% or higher (59.2% of fund value of annuities at Q3 2023, up 4.7% from YE2022 but up only 0.7% from YE2021).

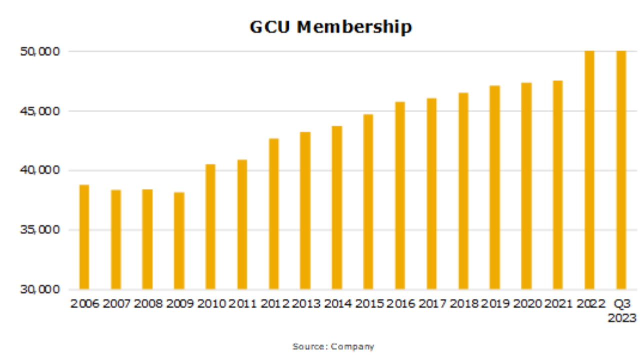
The life insurance block, largely whole life, provides a steady source of earnings for the Society. While a small component of GCU's portfolio relative to annuities, it generally exhibits a lower risk profile relative to annuities (and other life products) and is built on the cash value of the account. 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. In 2022, the lapse ratio declined slightly to 7.6%.

The Society's premium revenue stream (excluding conversions) – $358 million during 2022 compared to $277 million during 2021, and net investment income of $88 million – continue to compare favorably to current benefits paid. While GCU does not currently have a formal ALM strategy or target, investment durations are matched to meet the needs of insurance products and operational expenses.

Operating Fundamentals

Drivers of Profitability

In order to sustain its current level of profitability – approximately 10% or greater 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 the current rate environment. Paired with continued success in its annuity book (which should be aided by growth in net investment income in the coming quarters), 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.

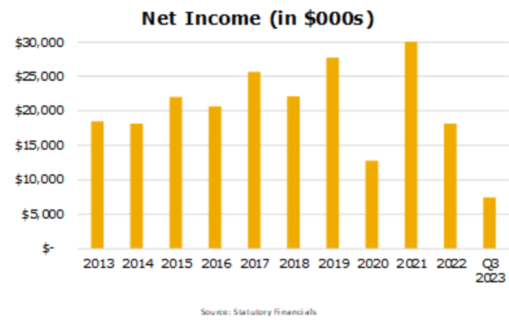


While GCU experienced spread compression recently despite the rising interest rate environment, the depressed margins are expected to improve in the coming quarters. Further, investment expenses increase due to growing AUM and amortizing the cost of purchased call options related to FIA's. As a result, gross investment income and investment expenses show decreases for the effect of ceded FIA premiums. In addition, income from alternative assets, which is growing, produce higher returns than fixed income securities.
Despite the decrease through the first 9M 2023, KBRA notes that GCU's membership has been on a modest upward trajectory since 2009, which stands in contrast to the declining membership trends of many other fraternals. The decline in 2023 can be largely attributed to the increase in interest rates and management's unwillingness to match competitors in chasing rates.

GCU is committed to growing its life sales. In addition, over the past three years, GCU has invested heavily in an Oracle/Equisoft policy administration system to support new products. System advancements and upgrades, which are ongoing, provide capacity for future growth, superior customer service, and serve as a platform to report and track essential metrics.

Consistency of Profitability

GCU has successfully grown its net gain from operations over time, with $20.7 million in 2022 and $8.05 million as of Q3 2023. The Society has been able to maintain top line growth by expanding its membership base along with additional product offerings.

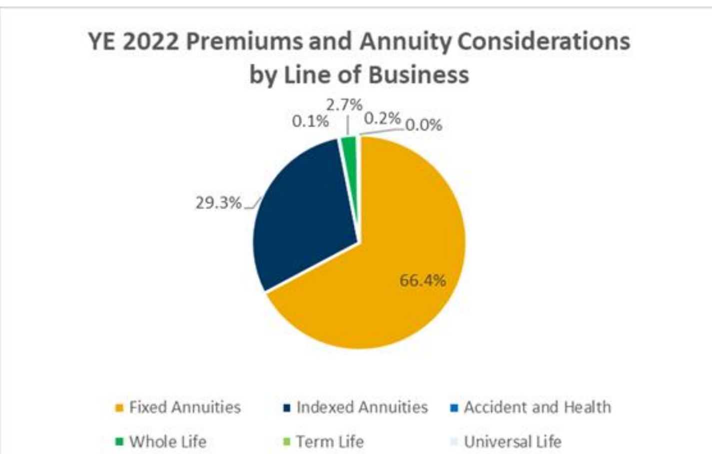


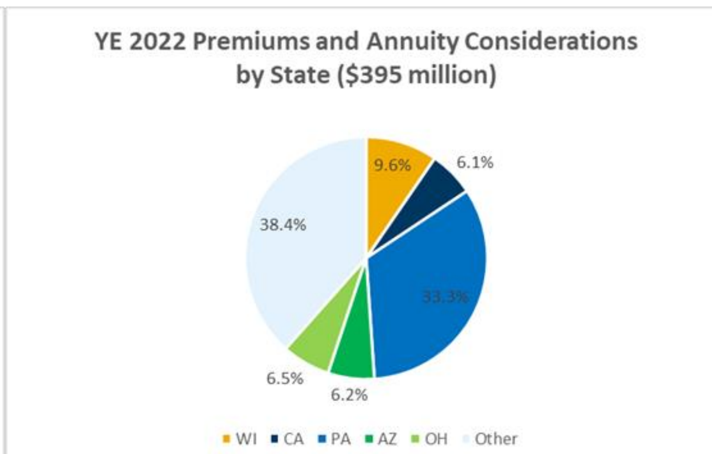
Net income at year-end 2022 was $18 million, which represented a 45% decrease from 2021. This decrease was primarily attributable increases in the increase in aggregate reserves for life and accident and health contracts as well as annuity benefits. Through Q3 2023, net income was $7.4 million, which significantly lags Q3 2022 results.

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 OH) account for approximately 49% premium and annuity considerations. GCU is currently licensed in 30 states. GCU is in the process of expanding its geographic footprint in the South – specifically, along the East coast. Management is assessing expansion into Massachusetts, Oregon, Washington, Alabama, and Oklahoma. GCU's traditional whole and term life products as well as fixed indexed annuities are pending approval in three states.

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 2022. 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 nearly 5% (6% prior year) of total premiums and annuity considerations during 2022.





Source: Statutory Financials

Exposure to Event Risk

Given its sound capitalization, conservative investments, and long term trend of growing membership, KBRA believes GCU is well-positioned to withstand an economic downturn. Still, GCU is exposed to financial market volatility as well as changes in interest rates and movements in credit spreads, though approximately 96% of reserves are interest sensitive. While GCU is exposed to elements of disintermediation and liquidity risk on its annuity reserves, 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. In addition, GCU does not have the benefit of a well-balanced reserve mix.

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 Society'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. GCU is currently searching for a new COO. Management remains disciplined and committed to controlled growth of its suite of products. GCU continues to leverage technology across its platform. The Society added three new Directors this past year as two Directors retired and the Spiritual Advisor of GCU passed away.

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 Christian and 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, all of which has taken place in recent years.

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 and continues steady overall growth.

Distribution

GCU distributes its products through independent marketing organizations (IMO), independent agents, 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, such that cross selling of products is emphasized. GCU is also expanding its agent presence in North Carolina and Georgia and is focusing on having a "boots on the ground" presence. In addition, GCU soft launched its agent member portal.

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. GCU has outlined its key risks and has created a heat map documenting each risk in relation to its probability of occurrence and potential impact.

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.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

Environmental Factors
The impact of climate change on (re)insurance entities will differ across short-, medium- and long-term horizons, and may materialize through a range of risk vectors, including physical exposures, energy/carbon transition, and liability profiles. Climate change effects could occur on either side of the balance sheet and while direct financial implications might be immaterial for a company in the short-term, over time, implications for the overall economic system could be material and may drive adjustments in a (re)insurer's operations or strategy. The effectiveness of mitigation efforts related to climate risk will drive materiality across the sector.

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 Society'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 Society 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.