GCU

GCU

Investing in the Goodness of Community

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February 4, 2020

Kroll Bond Rating Agency (KBRA) has affirmed the BBB+ insurance financial strength rating (IFSR) of GCU based on KBRA's **Global Insurer & Insurance Holding Company Rating Methodology** ("Insurance Methodology"), published on October 10, 2017. The rating Outlook has been revised to Positive from Stable.

Ratings				
Entity	**Type**	**Rating**	**Outlook**	**Action**
GCU	IFSR	BBB+	Positive	Affirmed

GCU, formerly the Greek Catholic Union of the U.S.A., was founded on February 14, 1892 in Wilkes-Barre, Pennsylvania. GCU is a non-profit organization which provides financial and fraternal benefits to its members while promoting its heritage. GCU is domiciled in Pennslyvania and maintains its home office in Beaver, PA.

Rating Rationale

The positive outlook reflects favorable trends in the society's surplus, underpinned by its consistent profitability. GCU possesses a solid balance sheet and a stable membership base, which is in contrast to the overall decline in membership across the U.S. fraternal sector. In a challenging investment environment, GCU has successfully demonstrated its ability to adjust credited rates to maintain healthy margins. KBRA also views favorably the recent steps the society has taken to improve its corporate governance, investment management and enterprise risk management practices. Over the last 24 months, GCU has made key additions to its senior and middle management teams, each person with extensive industry experience. Lastly, GCU has undertaken a transformational administrative systems consolidation project which should create longer-term operational efficiencies, enhance the user experience for members and agents, as well as improve ease of business and reporting & analytics capabilities.

GCU is the 7th largest fraternal benefit society (based on net admitted assets as of September 30, 2019) and is focused on writing life insurance and annuity products. Although the organization experienced some adversity during the financial crisis, the society has broadened and refined its product offerings, accumulated surplus, and repositioned the company for profitability and growth. Since year-end 2009, GCU's reported surplus has achieved a compound annual growth rate of roughly 25%, and total admitted assets surpassed the $2.0 billion level during the second half of 2019. As such, the society maintains an industry-leading low operating expense profile, although investments in technology will cause expenses to rise slightly in the near to medium term. Moreover, GCU has sound liquidity and good financial flexibility with no leverage and access to low-cost funds through its membership in the Federal Home Loan Bank of Pittsburgh.

Countering these strengths are GCU's noteworthy exposure to spread compression within its legacy annuity block due to high minimum guaranteed crediting rates. Although manageable, the society's investment portfolio has notable exposure to reinvestment risk along with credit/default risk in its longer maturity bonds. The society also faces challenges related to expanding its geographic reach and diversifying its business mix to sell more life insurance. GCU's business mix currently lacks true diversification as reserves are almost entirely interest-sensitive (roughly 96% fixed annuities as of September 30, 2019). Additionally, KBRA believes that the society relies upon strong, dedicated leadership to best serve its membership and being able to develop adequate succession planning will be critical. Finally, although GCU is making significant progress, KBRA believes the society's enterprise risk management practices are maturing and continuing along this path would enhance the financial strength of the organization.

KBRA KROLL BOND RATING AGENCY

Key Rating Drivers
Credit Strengths
• Strong capitalization growth; highly favorable trends in total adjusted capital (700+% increase since 2009) as well as steadying of CAL RBC in the 350-400% range. • Leading net gain from operations compared to similarly-sized fraternal peers, $119 million in cumulative gains for the 2014-2018 period. Also, GCU has reported industry-leading annualized return-on-capital since the financial crisis (GCU 27.4% while the fraternal average was 6.5%). • Well-established fraternal with roughly 47,000 members, representing a 23% increase since 2009. Most fraternals have been experiencing a decline in membership, so GCU is bucking the trend. • Historically low operating expense profile; ratio of general operating expenses to total assets has been below 0.5% on an annual basis since 2012 (current fraternal peer average is 1.2%) • Above-average investment yield, 5.3% in 2018, while maintaining a generally good quality invested asset portfolio (95% of the portfolio is in fixed income with 96.5% held in NAIC 1 or 2 rated bonds) • Substantial improvements in corporate governance and notable development of a formal enterprise risk management program • Strategically targeting a diversification of its business; plans to grow its life insurance portfolio, optimize distribution, and target new geographies
Credit Constraints
• Annuity block susceptible to spread compression (66.5% of annuity reserves are held in products with a guaranteed rate of 3.0% or greater as of year-end 2019) and disintermediation (66.2% of annuity reserves have no or a minimal surrender charge) • Notable exposure to reinvestment risk given product portfolio and required yield to meet guaranteed rates in the annuity block. However, target spreads are still being achieved as the society actively manages credited rates and refines asset reallocations to maximize yield. • Business mix lacks true diversification as reserves are almost entirely interest-sensitive (between 94% and 96% as measured at YE 2013-2018) • Succession planning and key individuals risk; insurance and societal knowledge is within a select group of management and department leaders. This has been partially mitigated by recent additions to the management team.

Outlook

The Positive Outlook reflects KBRA's expectation that GCU will continue to preserve, and improve upon, its current capitalization through operating profitability, grow its life insurance business, maintain sound investment portfolio credit quality, avoid significant spread compression through active management of credited rates, retain key members of its management team and successfully execute the policy administrative system replacement.

Drivers of a Rating Change

Rating Upgrade

Given the Positive Outlook on GCU's rating, an upgrade in the near to medium term is likely. KBRA will look for sustained earnings, continued favorable capital trends, stable membership, growth in life insurance sales, demonstrated enterprise risk management process maturation, and maintenance of above-average investment performance without compromising credit quality.

Rating Downgrade

Change in risk profile, decline in earnings, material investment losses, lack of credited rates discipline, failure to execute upon business plans (including the replacement of GCU's policy admin system), and/or departure of key members of the management team could result in the Outlook being revised to Stable.

Rating Sensitivities

As discussed in the paragraph above, key rating sensitivities for an upgrade relate to the following topics:

- earnings and profitability
- capital
- membership
- enterprise risk management
- investment performance

As discussed in the paragraph above, key rating sensitivities for a downgrade/change in outlook relate to the following topics:

- risk profile
- earnings
- investment performance
- spread compression
- management team

Recent Developments

During 2018 and YTD 3Q19, GCU has continued to remain profitable and had no major changes in trends in sales, distribution or operations. One item to note is the financial impact of an accounting issue that was discovered by Allen Bailey & Associates, GCU's appointed actuary (Allen Bailey took over from another actuarial firm effective 12/1/17), during the course of calculating the 3Q19 annuity CARVM reserve. The overall financial impact was $21.3 million. This is comprised of a $17.1 million prior period adjustment to surplus for the cumulative effect of corrections occurring as of December 31, 2018 and previously; and $4.2 million for the impact of 2019 issued contracts from January 1, 2019 to September 30, 2019.

To correct these errors in calculating annuity reserves, the society recorded a prior period adjustment to the surplus amount reported as of year-end 2018. Annuity reserves were understated by $17.1 million due to: (1) $15.0 million from the use of an incorrect settlement (annuitization) table; and (2) $2.1 million to fully value extended interest rate guarantees contained in certain annuity contracts. It is important to note that the strengthening of annuity reserves results in a more conservative balance sheet; the reserves will be released into earnings over time. Additionally, according to industry studies, over 90% of annuities are never annuitized. Hence, GCU's reserves post-adjustment reflect conservatism.

The recently completed risk-focused examination by the Pennsylvania Insurance Department disclosed the reserve understatement, but did not reflect any concerns regarding GCU's actuarial reserving process, assumptions, methodologies, calculations or reserve adequacy as of the examination date (period under examination 1/1/14-12/31/18).

Balance Sheet Strength and Operating Metrics

- Admitted assets grew to $2.0 billion at 3Q19; now the 7th largest fraternal benefit society
- Surplus reached $152 million at 9/30/19, down only slightly from year-end 2018 ($154.3 million). The society is expected to generate $5-7 million of earnings during 4Q19
    - Encompasses the aforementioned prior period accounting adjustment of $17.1 million
    - GCU reported solid operating earnings during the first 9 months of 2019 ($18.4 million) vs. $19.3 million for the same period in 2018.
    - The society maintains an industry-leading low expense profile, although investments in technology will cause expenses to rise slightly.

- Total revenue increased about 10% YTD 3Q19 vs. YTD 3Q18. This was accomplished with higher sales through geographic expansion and developing new distribution partners.
    - The society plans to continue to grow annuity sales in the coming year, in a disciplined way (i.e. maintaining spreads through proactive management of credited rates)
    - GCU will also focus on growing life sales. To this end, whole and ordinary life policy forms were refiled in 2018 along with generally lower rate filings from incorporating the 2017 CSO tables.
    - In early 2020, GCU expects to introduce a new final expense life insurance product.
- Unadjusted net income through 3Q19 would have increased 8.7% to $18.7 million vs. the prior year amount of $17.2 million. The society anticipates full-year 2019 earnings to be in the range of $20-25 million, and that GCU's surplus, net of the accounting adjustment, will increase notably.

Corporate Governance/Operations

- Key additions to the leadership team as Jeremy Nichols (controller), Bill Schulok (chief underwriter), Gary Sorensen (sales/marketing director) and Damian Martino (head of IT) were all hired within the last 12-18 months. These experienced hires will supplement GCU's small executive team and provide more candidates for succession planning.
- The national convention was eliminated, making the board of directors GCU's supreme governing body. Also eliminated the Supreme Tribunal and started to ramp up the board committees, especially the Governance and Nominating committees, which will be integral in coordinating and managing the 2020 election of the board of directors.
- The most significant expense and top corporate priority for the near to medium term will be the modernization of GCU's admin system. Several of GCU's processes are manual, so this provides an opportunity to convert to more automated workflows and a foundation for future growth.
    - Signed a multiyear agreement with Equisoft to consolidate all of GCU's lines of business on a single, modern policy administration system and offer an enhanced digital experience. The project will be deployed using the Equisoft Composite Cloud offering.
    - In addition to the primary goal of enhancing the overall user experience for members and agents, the project will allow GCU to keep up with ongoing regulatory and compliance requirements, as well as improve ease of business and reporting & analytics capabilities.

Investments

- Recently revised its investment policy statement (effective December 1, 2019) with the assistance of its new asset managers, PNC Capital Advisors and Northern Trust Investments.
    - Guidelines maintain a conservative bent, with a long-term investment horizon and fixed income assets to only be invested in investment grade bonds
    - Added the ability to invest a modest amount in alternative asset classes such as income-producing real estate LPs, hedge funds, private equity and venture capital LPs, and private credit LPs.

Active Rate Management

- In July 2019, GCU decreased its crediting rates by 20 bps on its 1+4 Choice, Triple Advantage and 5 Year Advantage annuities, and lowered the Flex 8 credited rate by 25 bps.
- In September 2019, GCU again decreased its crediting rates: by 20 bps on 1+4 Choice and Triple Advantage; by 10 bps on 5 Year Advantage; and by 15 bps on the Flex 8 annuity.
    - These rate adjustments were in response to diminishing yields on GCU's investment portfolio with new money rates declining. The society's objective is to maintain spreads in the range of 150-200 bps.
    - Management expects these actions to place GCU at a competitive disadvantage relative to other fraternals, but believes it is the most prudent strategy for its members and for the society's long-term financial strength.

As alluded to above, GCU made considerable improvements to its corporate governance in the last 12-24 months. KBRA believes the society as a whole is more agile and the board of directors is now empowered to make decisions more quickly. This was due to the GCU passing a referendum that changed bylaws to eliminate the quadrennial national convention. Historically, all major decisions were made at the national convention, which made certain decisions a slow and difficult process as only the attending delegates voted. Additionally, the delegates were the only source of executives and board members. The recent change in bylaws makes the board GCU's supreme governing body and creates a Nominating committee. Hence, in 2020, board members will be elected by all eligible adult members of the organization. Furthermore, GCU also intends to have the ability to elect four independent directors that are not members of the society, which could potentially improve the quality of new board member candidates. KBRA views these changes as credit positive and moves GCU more in line with its fraternal and mutual peers.

In addition, to corporate governance modernization, GCU has made several material internal changes. The society changed two of its key investment managers from Huntington Bank and CIM Investment Management to Northern Trust and PNC Bank. These new asset managers bring greater skillsets and experience to the table compared to the previous firms. One of the most significant impacts from this change can be seen in GCU's level of below investment grade securities, which declined to about 57% (at YE 2018) and then further to 40% (as of 3Q 2019), from 161% of total adjusted capital at YE 2016.

Recently, GCU also changed actuarial firms – from Bruce & Bruce to Allen Bailey. Allen Bailey helped the society incorporate the CSO 2017 mortality table changes into its products, which should facilitate a reduction in its life insurance premiums and enhance GCU's competitive position in the marketplace. The potential increase in life sales, and steps towards diversifying its business mix, would be viewed favorably by KBRA. Also, GCU is in the process of replacing its admin system – moving to an Oracle-based platform. Although this will be a material financial outlay for the organization, the overall impact will be to improve underwriting and enhance the society's overall efficiency over the long term.

In February 2018, GCU's board announced the appointment of Scott Schuetz as executive vice president and chief operating officer of the society. Scott has over 25 years of industry experience, most recently with Phoenix Life and Aviva USA, adding necessary depth and expertise to the senior management team.

Finally, the society is in the process of moving to an alternate structure as it will be hiring a regional fraternal coordinator to facilitate the consolidation of small lodges. For example, in Pittsburgh GCU's 7 lodges have become 4 regional lodges. This will further improve the efficiency of the society's fraternal operations and enhance marketing opportunities.

Financial Metrics

GCU	3Q19	2018	2017	2016	2015	2014
BALANCE SHEET						
Total Admitted Assets	2,034,789,664	1,890,844,697	1,712,285,488	1,549,960,643	1,354,927,436	1,196,636,848
Surplus	152,009,014	154,269,000	133,042,421	108,531,975	90,739,736	71,825,430
Asset Valuation Reserve (AVR)	17,122,019	19,311,098	18,662,238	17,556,902	13,217,553	11,663,823
Total Adjusted Capital (TAC)	169,131,033	173,580,098	151,704,659	126,088,877	103,957,289	83,489,253
Chg in TAC from Prior Period	-2.6%	14.4%	20.3%	21.3%	24.5%	38.1%
Surplus to Liabilities (excl. Separate Accts)	8.1%	8.9%	8.4%	7.5%	7.2%	6.4%
NAIC RBC (CAL)	NA	379%	390%	277%	380%	358%
BIG Bonds/TAC	39.4%	56.8%	74.1%	160.5%	76.4%	60.9%
High-Risk Assets/TAC	80.1%	102.8%	125.8%	214.4%	114.8%	114.5%
PROFITABILITY						
Net Gain from Operations	18,212,863	25,596,181	28,455,531	23,705,811	22,039,996	19,242,838
Net Income	14,181,333	22,182,737	25,707,763	20,636,081	22,061,922	18,166,287
Net Investment Yield*	5.1%	5.3%	5.4%	5.6%	5.9%	5.5%
1 Yr. Operating ROE*	16.0%	17.8%	23.6%	23.8%	27.1%	31.5%
Return on Admitted Assets*	1.2%	1.2%	1.6%	1.4%	1.7%	1.6%
Key Insurance Metrics						
% Annuities w/o Surrender Charge	NA	61.8%	61.1%	71.0%	65.1%	63.6%
Avg. Face Amt. of Life New Business	NA	35,480	58,438	36,912	28,950	19,003
Life Ins as % of Total Reserves	NA	4.1%	4.5%	4.7%	5.3%	5.8%
Lapse Ratio	NA	1.9%	3.3%	0.7%	2.8%	4.1%
Current Liquidity	105.3%	106.3%	105.7%	105.0%	105.0%	104.2%
General Ins. Exp. to Total Admitted Assets	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%

*Annualized

Background

GCU was formed by the combination of 14 independent lodges, located across Pennsylvania, New York, Connecticut, Illinois and New Jersey, associated with the Greek Catholic Church. Lodges were originally formed at Greek Catholic churches (today they are called Byzantine Catholic and are members of the Eastern Catholic Church) to offer security and protection to their Rusyn[1] immigrant founders. Many of these immigrants worked dangerous jobs in coal mines and steel mills and commercial life insurance companies would not insure them. When a member was seriously injured or killed, the lodge would assess a fee on the other members of the lodge. This was then collected and passed on to help ease the burden on the family suffering the loss. Today, in addition to providing protection to the Byzantine Catholic community, GCU's life and annuity products are available to all Christians.

The society is licensed in 31 states and Washington D.C. to sell a full range of annuity and life insurance products to meet its members' financial needs. In addition to annuities and life policies, the society also sold Medicare supplement products. However, as of January 1, 2020, GCU decided to cease sales of Medicare supplement products; hence, the business is now a closed block. Currently, the society has roughly 47,000 members nationwide (95% are adult members) with over 75,000 active policies. Based on statutory filings, the majority of GCU's business is generated from Pennslyvania (42% of direct written premiums/deposits through 3Q19) and Wisconsin (11%).

At year-end 2018, the society had 51 lodges or branches through which business is generated and fraternal activities are conducted. GCU has roughly 1,200 independent general agents selling and marketing its products. These agents are located primarily in Pennsylvania, Wisconsin, Ohio, Minnesota, California, Michigan, Illinois, Indiana, Arizona and Florida. For Medicare supplement business, GCU utilizes a third-party administrator, Equitable Life & Casualty Insurance Company (Utah). The society has no managing general agent.

Fraternal/Community Outreach

GCU is dedicated to its mission of "*Protecting Families, Promoting Faith and Fraternalism, Strengthening Communities*." GCU utlizes its operating profits to support members' local communities in the form of grants, charitable donations, and scholarships. The society, through its members, supports community projects which include fundraising, donating to homeless shelters, food banks, public libraries, day care centers, schools for the blind, and homes for pregnant teens. Many member events are sponsored by GCU through its matching funds, fraternal grant, and "*GCU Go Give!*" programs. In addition, the society remains a significant benefactor to the SS. Cyril & Methodius Byzantine Catholic Seminary located in Pittsburgh.

Another key aspect of a fraternal organization is that the profits are also returned to the society's policyholders in the form of higher interest crediting rates and/or dividends than would generally be offered by commercial carriers.

Organizational Structure

GCU was officially organized under the laws of Pennsylvania on March 20, 1893. The society is authorized to transact business as a fraternal benefit society and may offer annuities, life, and accident & health products. As a fraternal benefit society, GCU qualifies as a tax-exempt organization under IRS tax code 501(c)8. GCU's legal, and original, name was the Greek Catholic Union of the U.S.A. until the June 2016 convention when the delegates voted to change the legal name to GCU.

In 1994, the society formed GCU Holding Company, Inc. (GHC) to develop a residential community on real estate owned by GCU adjoining its home office and country club complex. GHC's two major investments are Seven Oaks Country Club, Inc. (SOCC) and GCU Real Estate Company, Inc. (GREC). GCU Agency, Inc. (GCUA) is a licensed insurance agency that provides members access to products not offered by GCU. GCU recently entered into an affinity marketing agreement with Nationwide Mutual to offer personal lines

[1] The Rusyn minority lives in four countries – Poland, Slovakia, former Yugoslavia, and Ukraine. Generally, Rusyns are considered to be a fourth eastern Slavic people or a branch of the Ukrainian nation.

coverages (vehicle, homeowners, and pet health) to GCU's members. GHC and its subsidiaries, SOCC, GREC, and GCUA, are for-profit corporations.

In 2008, GCU helped to establish The GCU Foundation, a 501(c)(3) charitable entity separate from the fraternal benefit society, to advance the interests of the society's members and engage individuals who are interested in learning more about the Byzantine Catholic Church. The GCU Foundation advances the above initiatives by making monetary grants for charitable, educational, and religious purposes.

Affiliated Transactions

GCU engages in certain transactions with GHC, and its wholly owned subsidiaries. GHC also shares management and certain board of director members with the society.

During the years 2018 and 2017, GCU made capital contributions to SOCC in the amounts of $3.4 million and $1.87 million, respectively. SOCC used the proceeds from the capital contributions for capital expenditures, the payment of principal and interest on debt obligations (equipment and vehicle loans), and for partial payment of operating costs. During the years 2018 and 2017, GCU did not make any capital contributions to GREC but has previously made contributions.

Corporate Governance

As a fraternal benefit society, GCU operates under a lodge system consisting of the home office, districts, and regional lodges (and subordinate lodges). Lodges and districts are groups of dedicated community members who support the GCU mission of protecting families, promoting faith and fraternalism, and strengthening communities. Lodge membership has always been part of the fabric of GCU since its founding.

Historically, the society's supreme legislative and judicial authority was the national convention which was held every four years. In November 2018, revised bylaws for the society became effective that eliminated the national convention and made the board of directors the absolute governing body and ultimate decision maker. Not only does this help to reduce corporate expenses, but it fosters greater accountability across the organization. KBRA views this as a credit positive, as the supreme council system that is common in many fraternals hinders management and results in an expensive and inefficient decision-making process. Moreover, the Supreme Tribunal, which was established to be the judicial authority of the society, was also eliminated. The seven-member group had limited expertise from a legal perspective and was deemed to be unnecessary.

GCU's board of directors has 10 members as well as a Spiritual Advisor, who is the highest authority on religious matters and participates on board committees. The society's bylaws grant the board authority to appoint up to 4 benefit members to serve as voting directors for a term to be determined by the elected directors. The elected directors each have 4-year terms; all board positions are up for reelection in 2020.

The Governance committee of the board will be responsible for coordinating the election process. The other standing committees of the board are Audit, Executive Finance, Fraternal, Human Resources & Compensations, Nominating, Risk, and Strategic Vision. Other than the Strategic Vision committee, all standing committees have a minimum of five board members and at least one non-voting member of GCU's senior management team. Additional committees established by the board are Employee Relations, Fraternal Symposium, Lodge/District Restructuring, Merger and Scholarship.

Management Team

George Juba, president and chief executive officer – Juba has served as national president and chief executive officer of GCU since April 2007. Before being elected president, Juba was GCU's national secretary-treasurer from 1996 to 2007. He also serves as a board member for several community organizations, including the Beaver County Salvation Army and the Mt. Macrina Manor Board. George earned a bachelor's degree in accounting from the University of Miami (FL) as well as a master's degree from the University of Scranton.

Scott Schuetz, executive vice president and chief operating officer – Schuetz joined GCU in February 2018 as the chief operating officer. Prior to GCU, Schuetz spent the past 25 years working within the insurance and financial services industry. Most recently, he served as a vice president in the life and annuity product division of Phoenix Life and Annuity Company. Prior to that, Schuetz held the position of senior vice president of operations at Aviva USA. He earned a bachelor's degree in business management and accounting (with an emphasis in finance) from the University of Kansas.

Timothy Demetres, chief financial officer and chief risk officer – Demetres joined GCU in 2016 as chief financial officer. Prior to joining GCU, he was with The Penn Mutual Life Insurance Company for 6 years where his role was chief accounting officer. He also previously served as assistant corporate controller of Guardian Life Insurance Company of America. Demetres earned his bachelor's degree in accounting from Syracuse University and is a Certified Public Accountant.

Jeremy Nichols, controller – Nichols joined GCU in 2018 having previously served as the national treasurer for Woman's Life Insurance Society for about 10 years. Previously, he was an accounting manager at North Pointe Holdings and participated in on-site reviews as an auditor/internal analyst for the State of Michigan Department of Insurance and Financial Services. Nichols earned his bachelor's degree in accounting from Central Michigan University.

Bill Schulok, chief underwriting officer – Schulok joined GCU in 2018 after spending about 12 years in the underwriting department of Phoenix Life. Earlier in his career as a life insurance underwriter he worked at Banner Life (8 years), Monumental Life (2 years) and Metropolitan Life (7 years). Schulok earned a bachelor's degree in science marketing from Saint Thomas Aquinas College.

Gary Sorensen, sales and distribution management director – Sorensen has over 25 years of sales-related experience in the financial services sector. Prior to joining GCU in 2018, he was a regional sales manager for Mutual of Omaha and a sales support manager for F&G Life. Sorensen also worked in marketing and business development for Voya Financial, Davis Life Brokerage, Triumph Financial Group, and Aviva USA. Sorensen earned his bachelor's degree in political science from the University of Iowa.

John Harbist, compliance director – Harbist joined GCU in 1983. He has worked across various departments, including the communications department, sales department, and membership services department. He has held roles of increasing responsibility over the course of his 35 years with the society.

Harbist earned his bachelor's degree in business management from Point Park College.

Basil Wahal, marketing/fraternal communications director – Wahal joined the GCU printing department staff in 1983. He trained in all areas of the printing trade from presses, to offset printing and bindery operations prior to assuming his current role. Wahal also serves on the Fraternal Symposium committee as was the lead organizer of the GCU national convention.

Damian Martino, technology director – Martino joined the society in 2019 after spending almost 12 years as director of IT at InTransit, LLC. He has over 20 years of experience in the information technology sector. Martino obtained a masters certificate in project management for the IT professional from Duquesne University as well as earned a bachelor's of science in management of information systems from Indiana University of Pennsylvania.

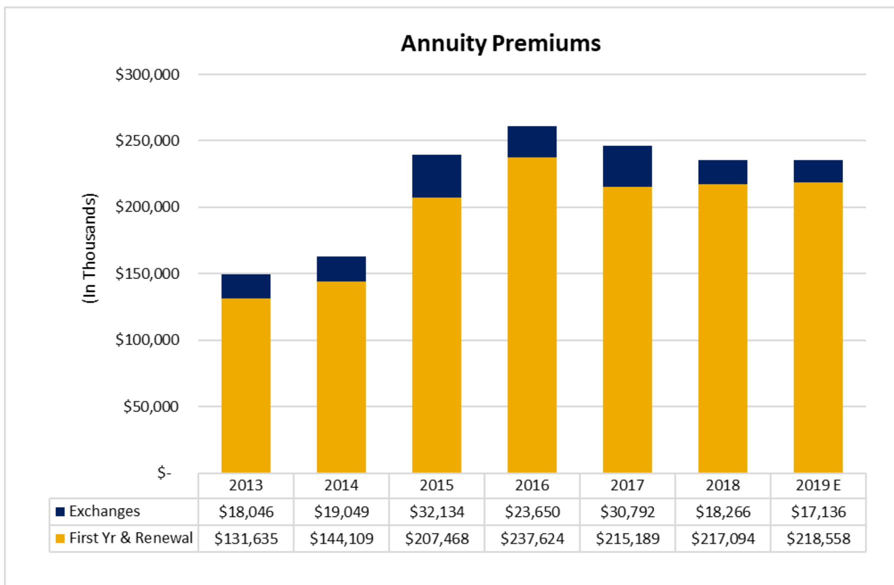
Product Overview

GCU offers fixed annuities and life insurance, whole life and term, actively in 26 states.

ANNUITIES

GCU's primary offering is annuities, both deferred and immediate annuities. The society offers single and flexible premium deferred annuities, single premium immediate annuities both involving and not involving life contingencies. GCU does not offer variable annuity products.

Consistent with many fraternals, the guaranteed minimum interest rates (and crediting rates) on GCU's annuity offerings have been higher than those of commercial carriers' products. Current spreads on the society's annuity products are in the range of 150-200 basis points across the various offerings. Throughout 2008 to 2012, GCU underwent a product transition; in doing so, the society began to remove its longer duration and higher minimum guaranteed rate products in favor of a newer suite of products. This suite of products included, notably, the following deferred annuities: 1+4 Option, Triple Advantage, Five Year Advantage, and Flex 8. GCU projects continued growth across these products – YTD 3Q 2019 the society generated $170 million in first year/renewals and processed roughly $17 million in conversions.



1+4 Choice

GCU's 1+4 Choice Deferred Annuity is a five-year investment product with an optional election feature: the annuitant may choose to surrender the contract during a 30-day window that begins on the first contract anniversary with no surrender charges. The initial interest rate is guaranteed for the first year and upon the first contract anniversary, and for 30 days thereafter, you have the option of: 1) continuing the contract for the remaining four years. The credited rate for each subsequent year will be based on the Five Year Advantage new issue crediting rate, 2) surrendering the contract during the 30-day window, and converting to a new 1+4 Choice Deferred Annuity, or 3) surrendering the contract completely without incurring a surrender charge.

Issue Ages: No age restrictions
Minimum Guaranteed Rate: 1.75% (as of 1/1/19)
Credited Rate (as of Sept. 2019): 2.25%
Initial Rate Guarantee Period: 1 year

Withdrawal provisions: This contract does not allow for any surrender charge free withdrawals during the first year. Surrender charges in the first year are 9% and are reduced by 2% in each subsequent year of the five-year contract (9%-7%-5%-3%-1%).

Additional deposits: Currently, the maximum dollar amount of deposits into a 1+4 Choice Deferred Annuity is $200,000 per annuitant, per calendar year. This maximum applies per annuitant regardless of the number of contracts in force.

Triple Advantage

GCU's Triple Advantage Deferred Annuity is a three-year investment product that offers a fixed rate of interest for the entire three years of the contract. Limited surrender-charge-free withdrawals are permitted in the second and third contract years.

Issue Ages: 0–95
Minimum Guaranteed Rate: 1.75% (as of 1/1/19)
Credited Rate (Sept. 2019): 2.40%
Initial Rate Guarantee Period: 3 years

Withdrawal provisions: This contract does not allow for any surrender charge free withdrawals during the first year. Surrender charges in the first year are 5% and are reduced by 2% in each subsequent year of the three-year contract (5%-3%-1%).

Additional deposits: Currently, the maximum dollar amount of deposits into a Triple Advantage contract is $200,000 per annuitant, per calendar year. This maximum applies per annuitant regardless of the number of contracts in force.

Five Year Advantage

GCU's Five Year Advantage Deferred Annuity is a five-year investment product; however, surrender charge free withdrawals are available in each contract year.

Issue Ages: 0–88
Minimum Guaranteed Rate: 1.75% (effective 10/1/19)
Credited Rate (as of Dec. 2019): 2.90%
Initial Rate Guarantee Period: 1 year (changed 11/1/19)

Withdrawal provisions: GCU currently allows for surrender charge free withdrawals in each contract year. Year one = 10% of the initial deposit; years two through five = 20% in each year based on the account value at the end of the previous contract year. Withdrawals exceeding the permitted amounts will be subject to a surrender charge. Surrender charges in the first year are 9% and are reduced by 2% in each subsequent year of the five-year contract (9%-7%-5%-3%-1%).

Additional deposits: Currently, the maximum dollar amount of deposits into a Five Year Advantage Deferred Annuity is $500,000 per annuitant, per calendar year. This maximum applies per annuitant regardless of the number of contracts in force.

Flex 8

GCU's Flex 8 Deferred Annuity offers the highest current interest rate of any current GCU annuity offering. It is an eight-year investment product that allows for limited surrender charge free withdrawals in each contract year. The interest credited rate is guaranteed for the first contract year and can respond to a changing interest rate environment in subsequent years. For subsequent contract years, the interest rate will be based, month to month, on the new issue crediting rate for the GCU Flex 8 contracts.

Issue Ages: 0–80
Minimum Guaranteed Rate: 2.25% (effective 9/1/19)
Credited Rate (as of Sept. 2019): 3.25%
Initial Rate Guarantee Period: 1 year

Withdrawal provisions: GCU currently allows for surrender charge free withdrawals in each contract year. Year one = 10% of the initial deposit; years two through eight = 10% in each year based on the account value at the end of the previous contract year. Withdrawals exceeding the permitted amounts will be subject to a surrender charge. Surrender charges in the first year are 9% and are reduced by 1% in each subsequent year of the eight-year contract (9%-8%-7%-6%-5%-4%-3%-2%).

Additional deposits: Currently, the maximum dollar amount of deposits into a Flex 8 Deferred Annuity is $1,000,000 per annuitant, per calendar year. This maximum applies per annuitant regardless of the number of contracts in force.

Discontinued Products
During the product transition in 2008 through 2012, GCU discontinued its existing products as the newer products were rolled out. Currently, the Flex product (roughly 10% of reserves; replaced by the 1+4 Choice) is, and will continue to be, credited at the guaranteed rate. The Flex 5 annuity (roughly 15% of reserves) is currently being credited at the greater of the guaranteed rate or Five Year Advantage monthly rate. The closed block of Flex 10 (also roughly 15% of reserves) is currently being credited at the greater of the guaranteed rate or Flex 8 monthly rate. These actions are being taken to promote member loyalty and reduce the internal cost of conversion and incurring a new commission.

Other Annuities
GCU also has immediate annuity offerings. Option A is a liquid account (no surrender charges) that pays only the interest earned and guarantees the principal amount. The crediting rate may change on a month-to-month basis (2.00% as of March 2019) but will never drop below the contract minimum. Option B is a single premium annuity and is available in two forms: 1) fixed period certain income and 2) lifetime income. The fixed period certain income option is designed for individuals looking for income over a set period (1 to 20 years). The lifetime income option is designed for individual or joint annuitants. In exchange for the deposit amount, GCU guarantees an income for the life of one or both annuitants.

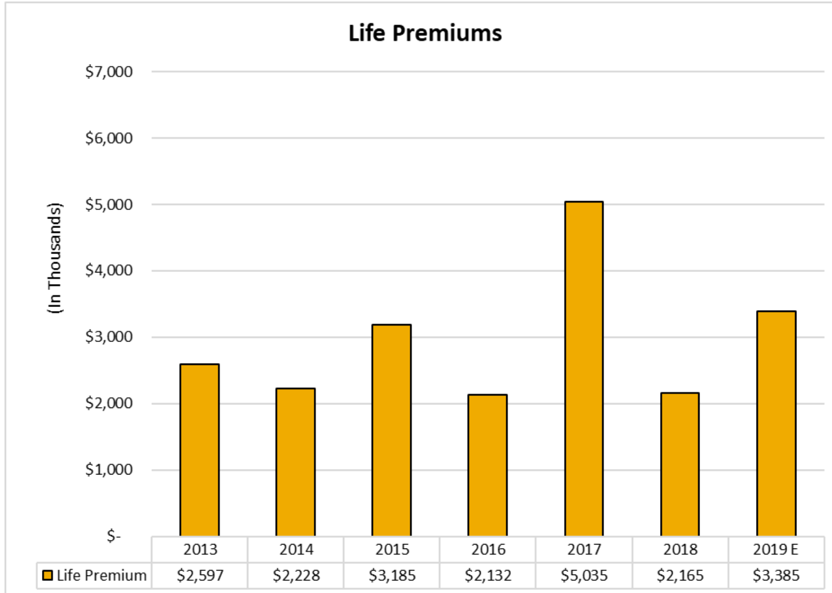
LIFE INSURANCE (about $72 million in reserves as of year-end 2019)

GCU's life insurance offerings include both whole life and term products. The life products have recently been repriced, with pricing assumptions and product specifications developed by Allen Bailey & Associates, to incorporate the 2017 CSO mortality tables. GCU projects considerable growth in this line of business due to the society's planned introduction of a final expense life insurance product in the first quarter of 2020. Discussions are currently underway with an experienced marketing agency providing access to an active agent force. Further, to provide surplus relief from reserve and expense strain, the society is in discussions with Optimum Re to provide 60/40 quota share coinsurance reinsurance with GCU retaining 60%.

Whole Life Insurance
Whole life insurance is a contract with premiums that includes insurance and investment components. The insurance component pays a predetermined amount when the insured individual dies. The investment component builds an accumulated cash value the insured individual can borrow against or withdraw. GCU offers several whole life policies, most notably its Legacy Advantage, an ordinary whole life policy, and Legacy Advantage 20, a 20-year payment life product. Both products are participating whole life certificates with level premium payments.

Ordinary Whole Life
The Legacy Advantage is GCU's traditional participating whole life offering. Premiums are payable for life with many policyholders terminating premium payments at retirement and electing a reduced paid-up insurance benefit. The product is issued in amounts of $5,000 and above.

20-Year Payment Life
GCU's 20-Year Payment Life certificate is attractive because members pay premiums for only 20 years, and then become the owners of paid-up certificates. After the certificate is paid up, the cash value continues to grow. The Legacy Advantage 20 certificate is issued in amounts of $5,000 and above.



Single Premium Whole Life Insurance
Legacy Protector is a participating whole life certificate with a single initial premium deposit and guaranteed cash values that come back to initial deposit within the first 5 years. Pay one premium and have fully paid-up cash value life insurance. Issued in any amount subject to current GCU non-medical limits. Issue ages 0-85.

Simplified Issue Life Insurance
GCU also offers Simplified Issue Whole Life Insurance. This whole life policy is available from ages 50 to 80, as either an ordinary whole life or a 20-year whole life plan. Coverage is available in face amounts from $5,000 up to $25,000. No medical exam is required, and acceptance is based on a brief questionnaire and a prescription check of the applicant.

Irrevocable Burial Trust
GCU's Irrevocable Burial Trust (IBT) is life insurance coverage for burial and funeral expenses. It enables members to pre-pay, on a tax-advantaged basis, for a funeral and associated costs without choosing a specific funeral home or visiting one. The IBT is available in tandem with current or new GCU whole life insurance policies.

Term Life Insurance
Term life insurance provides coverage, i.e. the death benefit, at a fixed premium for a specified period. Term life is typically the least expensive way to purchase a substantial amount of coverage amount per premium dollar as these policies have no cash value. GCU offers various term life policies, which provide its members with death benefit protection at a lower premium cost than whole life. The society markets level premium policies for 10, 20, and 30 year terms (Family Guard Series) and juvenile term policies (Term to age 30).

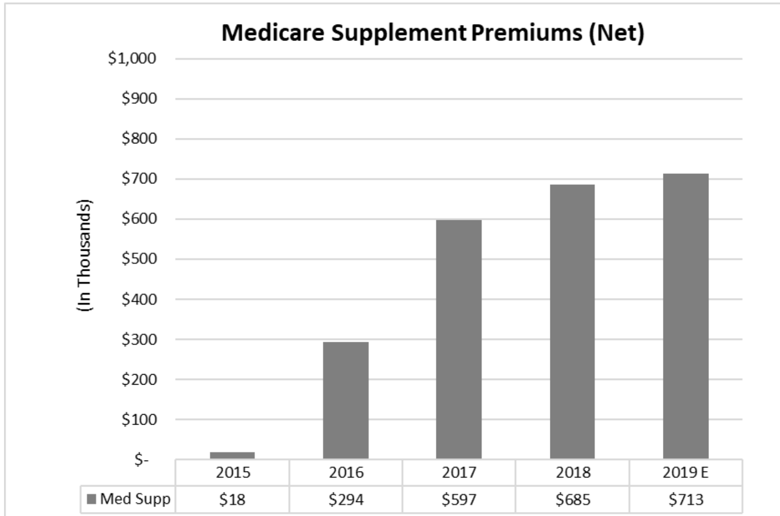
10 Year Level Premium Term
GCU offers its shortest term product with a coverage issuance minimum of $25,000, increasing in increments of $5,000. The policy is payable monthly, semi-annually, or annually.

20 Year & 30 Year Premium Level Term
GCU offers 20 and 30 year life insurance certificates with a coverage issuance minimum of $25,000, subject to the below conditions. The product is issued from age 20 to age 80 for the 20 year product and age 70 for the 30 year product. The minimum death benefit is $100,000 for those age 50 and below, $50,000 for issue ages 51 to 65 and $25,000 for those over age 65.

Juvenile Term
Term insurance offers a death benefit only and the Term to Age 30 policy provides maximum protection to young members at the following rates: $50,000 insurance - $50 per year and $25,000 insurance - $25 per year from issuance to the year the covered person turns 30 years old.

MEDICARE SUPPLEMENT INSURANCE

In 2015, GCU commenced selling Medicare supplement products (Plans A, B, C, D, F, G, and N) supported by a quota share reinsurance contract with Aetna Life Insurance Company (Aetna). The society retains a small exposure (5%) of claims and expenses and the rest is assumed by Aetna. The society historically offered these products to meet member needs and further enhance the fraternal relationship. The product was underwritten and manufactured by Aetna, including guidelines and pricing. As of January 1, 2020, GCU placed this line of business into runoff. The closed block will take several years to run off; results from the Medicare supplement product line are immaterial for GCU.



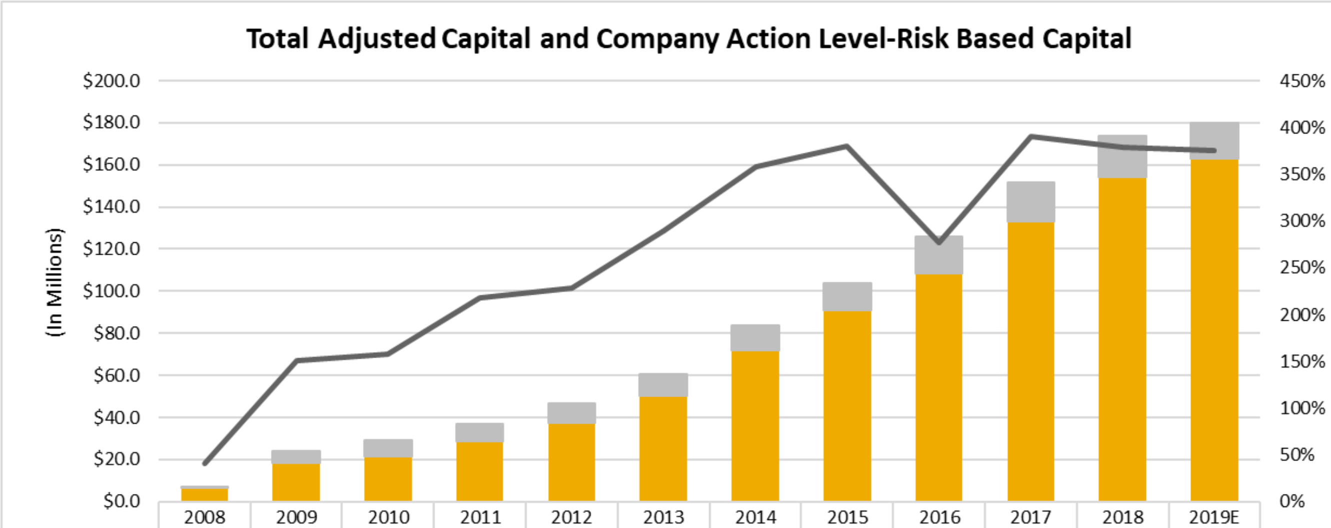
Stress Testing

KBRA employed a stress testing approach to attempt to quantify the impact of adverse economic scenarios on GCU's balance sheet. Specifically, a material decline in the equity markets, higher credit defaults, and volatility in interest rates were considered. Because GCU's liability profile is almost entirely interest-sensitive and its investment portfolio is conservative and "plain vanilla" (95% fixed income securities, and over 90% in corporates), KBRA believes the society's most significant exposure is to changes in interest rates. Hence, the stress testing entailed a detailed examination of GCU's cash flow testing process.

The team reviewed various actuarial reports, the principal one being GCU's year-end 2018 asset adequacy analysis required by state regulators. GCU's appointed actuary, Allen Bailey, utilized seven deterministic interest scenarios (typically described as the New York 7) as well as four sensitivity tests based on the level scenario (NY1): (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. The most significant impact was seen in the pop up 3%, level thereafter scenario which resulted in a present value of book value of surplus at the end of 40 years of about $80 million. There were no interim periods in the projections where surplus became negative.

These results appear more favorable than what is typically seen with annuity portfolios that undergo interest rate shocks such as an immediate spike or sharp decline of 300 bps. Given that the society has nearly $170 million of total adjusted capital, KBRA believes that GCU's balance sheet is able to weather these severe stress scenarios.

Balance Sheet Management



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E
AVR	$0.1	$5.9	$7.7	$8.4	$9.5	$9.9	$11.7	$13.2	$17.6	$18.7	$19.3	$17.1
Surplus	$6.4	$18.2	$21.5	$28.4	$37.2	$50.5	$71.8	$90.7	$108.5	$133.0	$154.3	$163.0
CAL RBC	40%	151%	158%	218%	228%	290%	358%	380%	277%	390%	379%	375%

GCU suffered a severe setback in its investment portfolio that led to a 76% decline in surplus during 2008 (CAL RBC of 40%). The drivers were decreases of $9.8 million and $8.2 million in the valuations of common stock and bonds, respectively. Due to the financial crisis of 2008/09 and high credited rates in the preceding years, GCU's board of directors activated, on June 30, 2009, the "maintenance of solvency" provision within its inforce annuity contracts and life insurance policies. The provision, once enacted, allowed the society to attach a noninterest-bearing lien on the cash value of the contracts and policies. GCU was then able to record a $12 million increase to its surplus account. The cash values of the life insurance plans in place were not reduced and continued to earn a dividend and the statement values of the annuity contracts were not reduced and continued to earn the declared rate of interest.

Since 2009, GCU has exhibited very strong and consistent growth in total adjusted capital, in addition to fully retiring the lien on policyholder accounts in 2014. GCU has been able to successfully leverage new distribution platforms and has revitalized products to drive growth in annuity sales. The sizeable income generation exhibited in recent years has fostered substantial surplus growth. The society's surplus is up more than 900% since the end of 2009, reaching a new high of $166 million at June 30, 2019.

GCU currently holds a sufficient level of risk-adjusted capital (CAL RBC 390% and 379% as of YE 2017 and YE 2018, respectively) which is sound, but somewhat below the industry median of 472% and industry aggregate of 420% (703 companies included, per NAIC). This measure is also slightly below that of similarly rated fraternal peers. Nevertheless, KBRA is comfortable with GCU's current level of risk-based capital given (1) the society has consistently added to capital over the last several years, and has a very low expense base which will facilitate continued growth; and (2) the society's investment portfolio is now more focused on lower risk assets and has new managers with substantial experience monitoring insurer asset portfolios to minimize losses, maintain/improve quality, and invest in a capital efficient manner.

Top Ten Fraternals By Assets

	Society Name	Net Admitted Assets 6/30/19	Surplus 6/30/19
1	Thrivent Financial for Lutherans	$96.1 B	$9.8 B
2	Knights of Columbus	$26.3 B	$2.3 B
3	Modern Woodmen of America	$17.1 B	$2.0 B
4	Woodmen of the World Life Insurance Society	$11.1 B	$1.5 B
5	US Branch of The Independent Order of Foresters (Foresters Financial)	$3.4 B	$145.9 M
6	GBU Financial Life	$2.9 B	$213.6 M
7	**GCU**	**$2.0 B**	**$166.3 M**
8	Catholic Financial Life	$1.7 B	$106.2 M
9	National Slovak Society of the USA (NSS Life)	$1.3 B	$60.3 M
10	Gleaner Life Insurance Society	$1.2 B	$93.9 M

Driven by solid asset performance, steady annuity and life (albeit small) premium flows, and favorable earnings trends, GCU grew its asset base to over $2.0 billion as of June 30, 2019. This increase can be attributed to continued positive cash flows from strong annuity sales and growth in investment earnings. As of mid-2019, GCU was the 7th largest fraternal based on net admitted assets and surplus. KBRA further opines that GCU maintains a conservative asset makeup on its balance sheet with no financial leverage.

Asset Quality and Investment Risk

Through mid-2019, GCU utilized Morgan Stanley to provide investment management oversight and quarterly reviews. Subsequently, these responsibilities were brought in-house and assumed by Tim Demetres, CFO. Demetres has been instrumental in reshaping the society's investment policies and objectives, appointing the new investment managers, and monitoring investment performance. GCU's Executive Finance committee is responsible for governance, investment strategy, and providing results to the board of directors. The committee has 9 members, including George Juba (Chair), Tim Demetres, Scott Schuetz and Ted Trbovich (GCU's general counsel) – all of whom are non-voting.

GCU currently has three investment advisors who manage its bond portfolio: Northern Trust (about 40% of invested assets as of mid-year 2019), PNC (35%), and Prosperity Capital Advisors (25%), with all managers operating under the same recently-revised guidelines. Previously (prior to mid-2018), the assets that are currently with Northern Trust and PNC were with CIM Investment Management and Huntington Bank, respectively. Northern Trust also acts as the custodian of the investment portfolio (was previously Huntington).

Invested Assets			
(BV In Thousands)		**3Q 2019**	**%**
Bonds	$	1,900,362	94.7%
Preferred Stock		43,622	2.2%
Cash & Cash Equiv.		21,306	1.1%
Common Stock		15,737	0.8%
Other Invested Assets		20,129	1.0%
Mortgage Loans		5,091	0.3%
Other Assets		1,118	0.1%
Total Invested Assets	**$**	**2,007,365**	**100%**

GCU maintains a conservative portfolio with a focus on fixed income securities. The investment portfolio, consisting primarily of investment grade corporate bonds, increased to $2.0 billion at September 30, 2018. Bonds make up 95% of GCU's assets, with an average maturity of 19 years and an option adjusted duration of just under 11 years. The society maintains high bond quality with 96.5% of the bonds in the two highest NAIC rating classes and an overall average quality rating of BBB+.

Bond Portfolio Quality						
(In Thousands)		**2018 BV**	**%**		**3Q19 BV**	**%**
NAIC 1	$	473,256	26.9%	$	547,857	28.8%
NAIC 2	$	1,190,127	67.5%	$	1,285,801	67.7%
NAIC 3	$	57,112	3.2%	$	31,154	1.6%
NAIC 4	$	24,109	1.4%	$	23,453	1.2%
NAIC 5	$	17,144	1.0%	$	11,306	0.6%
NAIC 6	$	272	0.0%	$	791	0.0%
Total Bonds	**$**	**1,762,020**	**100%**	**$**	**1,900,362**	**100%**
BIGs/TAC		**56.8%**			**39.4%**	

The below investment grade portion of the fixed income portfolio has been reduced considerably – less than 40% of total adjusted capital as of September 30, 2019. Public corporates are GCU's largest allocation and are diversified by sector. The most significant concentrations are in financials (23% of total bond holdings), consumer-noncyclical (17%), technology/communications (15%), and energy (10%). No single credit exposure is greater than 1.4% of the portfolio (AT&T 1.38%; Anheuser-Busch 1.0%; Morgan Stanley 0.96% and Goldman Sachs 0.95%). There are roughly 750 unique issuers in the GCU portfolio (nearly 850 when sorting by the first six digits in the CUSIP).

Bond Portfolio Maturity			
(In Thousands)		**2Q19 MV**	**%**
Less than 1 Year	$	18,250	0.9%
1 to 5 Years	$	54,719	2.7%
5 to 10 Years	$	283,306	13.9%
10 to 20 Years	$	624,518	30.6%
20 to 30 Years	$	962,656	47.2%
Over 30 Years	$	96,736	4.7%
Total Bonds	**$**	**2,040,185**	**100%**

Additional assets are in preferred stocks (2% of invested assets as of 3Q 2019) and common stocks (1%, but $11.2 million or 72% of the common stock holdings are investments in affiliates). The asset classes serve to provide diversity and balance to the portfolio, as well as provide the benefit of growth potential of the market. GCU continues to reduce exposure to equities through targeted dispositions, per strategy.

GCU also has a small alternative/Schedule BA allocation with notable investments in a Washington Alliance Fund ($11.8 million as valued on 9/30/2019; real estate fund) that has generated double-digit performance in the reported trailing twelve months. In 4Q19, GCU committed $10.1 million to a private equity fund. Additionally, $4 million of "Other Invested Assets" are in holdings of insurance company surplus notes.

Furthermore, GCU has exhibited persistent (since 2008) outperformance of its peers in net investment income due to its growing invested asset base as well as an above-average pre-tax investment yield. Despite the continued depressed interest rate environment, the net investment yield on the portfolio in recent years has been in the range of 5-6%. KBRA (as well as GCU) expects investment yields to decline going forward due to the rolling off of high-coupon securities and tight credit spreads. This is the main reason behind the society's active management of credited rates so that target margins can be maintained.

Financial Flexibility and Access to Capital

GCU has favorable 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 initiatives in addition to meeting the needs of any current expenses. Currently, GCU maintains no debt and all financial obligations are supported by operations.

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 $15 million (up from $10 million in the prior year), based on qualifying investments and its ownership of $330,000 in FHLBP stock. In addition to the funding capacity limitation imposed by the FHLBP, advances will be further limited such that the collateralized borrowing reserves will not be permitted to exceed 5% of total admitted assets, which is roughly $100 million at 9/30/2019. As of 3Q 2019, GCU borrowed $8 million via funding agreement (below 2% cost of borrowing) to enhance earnings. KBRA does not expect this to become a material line of business for GCU and will monitor the process closely to ensure that prudent asset/liability management is conducted.

KBRA notes that GCU, SOCC, and GREC own approximately 740 total acres of which the home office, golf course, and planned communities reside, along with adjoining undeveloped land. At present, there are 11 lots available for sale to build carriage homes within the planned communities. These lots are selling for $65,000 on average (approx. 1/3 acre each). Following such a sale, that would leave about 470 acres of undeveloped land. Management roughly estimates the 470 undeveloped acres could be conservatively priced at $30,000 per acre, for a total consideration of about $14 million. GCU's cost and carrying basis in the property is about $500 per acre. Note: GCU has retained all gas and mineral rights (the land is located within the Marcellus Shale which contains largely untapped natural gas reserves) on the entire property. Royalties could be generated in the future in the range of 15% to 18% of sales with a signing bonus of $2,000+ per acre. There are no discussions underway with respect to land leases for gas or mineral extraction.

KBRA expects GCU to maintain sufficient financial resources to fund any planned initiatives and cash requirements in the near to medium term.

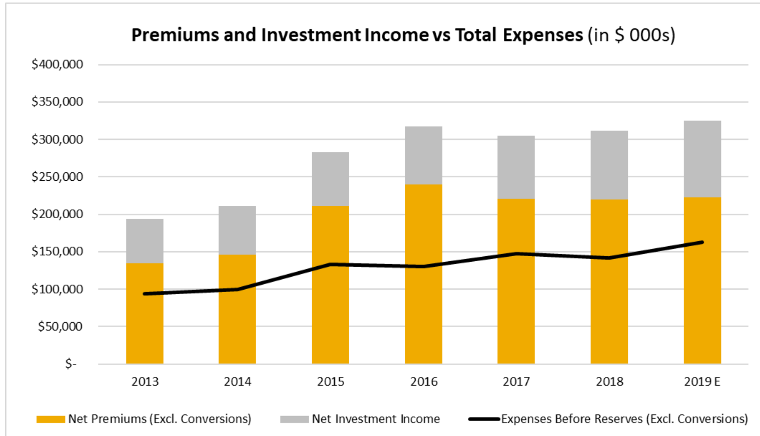
Liquidity and Asset/Liability Management

Liquidity is vitally important for an insurer, as a company's fundamental promise to its customers is to pay claims promptly. KBRA evaluates liquidity at the operating company by assessing liquid assets in relation to liquid liabilities.

GCU's liability structure is heavily weighted in annuity reserves — 95%. Upon issue, products are protected with surrender charges (as noted in the Products section above), notably within its two most prominent products, Five Year Advantage and Flex 8. In addition to the protection provided by the surrender charges, the society, like many fraternals, benefits from low lapses/withdrawals due to the strong affinity relationships that members have with the societies. However, KBRA believes that disintermediation risk would still be heightened if interest rates were to rise. KBRA notes that 66% of GCU's annuity contracts have less than 5% surrender charge with 42% without any charges. This particular concern is somewhat mitigated by the fact that many of these contracts have guaranteed minimum interest crediting rates of 3.0% or higher.

The life insurance block, largely whole life, provides a steady source of earnings for the company. While small compared to the annuity products, it is a highly creditworthy product built on the cash value of the account. Additionally, the society's lapse ratio, 1.9% for 2018, is below its fraternal peers (average 3.9% - 5 societies).

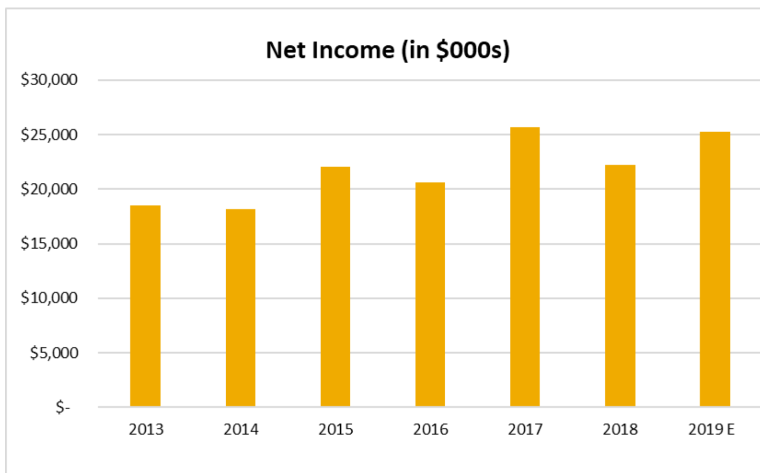
The company's current revenue stream (excluding conversions) – expected to approach $225 million in 2019, and net investment income, to exceed $100 million – compares favorably to current benefits paid. GCU estimates that expenses (general operating and benefits paid, excluding one-time "investments" in the new policy admin system) will grow at a slower pace into the future with sound investment income, due to absolute size, able to provide for adequate cash in the event of slower sales.



Operating Fundamentals

Profitability

Since a low point in 2008 (less than $1 million in net gain from operations), GCU has successfully grown its net gain from operations over time, with the most recent full year at $25.6 million (2018) and $18.2 million through 3Q19. The society has been able to maintain top line growth by expanding its membership base along with penetrating its existing membership with its new (more conservative) product offerings.



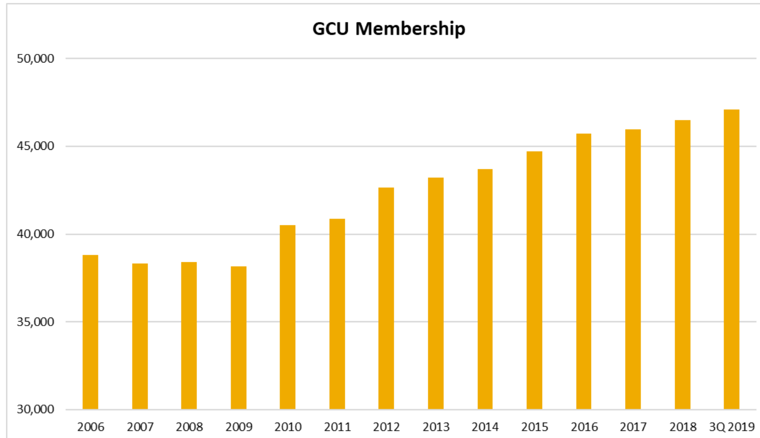
Net written premiums through 3Q 2019 increased by $17.7 million over the prior year-to-date to $190.4 million. The increase in premiums during 2019 was the result of higher annuity sales (more competitive products) and a tick up in life sales (up over 50% from a small base). However, a slower annuity sales quarter is expected in 4Q19 due to the lowering of crediting rates during the latter part of the year, making GCU's policies less competitive. In 2020, life sales are expected to increase due to the new final expense offering.

Net income for the nine months ending 9/30/2019 was $14.1 million, a $3 million decrease of over the prior year. The difference was mostly due to realized losses incurred during 2019 on legacy energy bond holdings. KBRA expects 2019 full year net income to slightly exceed the prior year amount of $22.2 million as the society earns greater investment income off of a larger asset base. Also, the income statement will not be as impacted by statutory strain with annuity sales being essentially flat year over year.

In order to sustain its current level of profitability – above 15% return on capital – GCU will need to continue monitoring its crediting rate strategy on its annuity programs to maintain its target spreads. KBRA notes that GCU's crediting rate strategy needs to exhibit like-responsiveness in both up and down rate environments. Paired with continued success in its annuity book, successful growth of the society's life insurance portfolio will provide further stability to its operating results.

Earnings Diversification: Product/Geography

KBRA notes that GCU's membership has been on a slight incline since 2009. Management acknowledges that it had historically employed a strategy to sell annuities at credited rates above the commercial market; hence, at lower spreads. This strategy has since been abandoned in favor of maintaining healthy margins in the persistent low interest rate environment via active management of credited rates. Nevertheless, it is important to highlight that GCU has been successful in growing membership within the products it is actively marketing, and that this trend is counter to the declining membership trends of many other fraternals.



GCU has a regional geographic spread with the majority of its business written in mid-Atlantic and mid-western sections of the United States. GCU also has sizeable policy counts in Arizona, California, and Florida given the considerable Christian populations and targeted outreach. KBRA believes GCU's geographic distribution sufficiently supports the business strategies and continued stability in its core membership. KBRA notes that, based on NAIC data, GCU's top 2 states (PA and WI) account for over half of its direct premiums written, ranging from 55% to 62% since 2012 (down to 53% through 3Q 19).

Exposure to Event Risk

The financial crisis of 2008 and 2009 stands out as a major example of event risk for life insurers as their investment portfolios initially reported substantial unrealized losses and subsequently suffered other-than-temporary write-downs. Companies that were most exposed were those that had market and/or real estate exposure on both sides of the balance sheet such as variable annuity writers or mortgage insurers. Additionally, companies with large blocks of annuities out of the surrender charge periods were exposed to liquidity runs.

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, it is not as likely for a fraternal to experience a "run-on-the-bank" scenario. KBRA notes that a significant portion of annuities are outside of surrender with 66% of policies below a 5% surrender charge at year-end 2019.

Company Profile and Risk Management

Management Profile and Strategy

For fraternal organizations, it is critical for management to be engaged and closely associated with their members. 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. The society has hired several officers over the last 12-18 months to round out its management team (see Management section above).

KBRA believes the following issues could present some challenges to GCU's business model:

- Membership and/or revenue declines
- Watering down of the common bond driving some fraternals to merge
- Potential elimination of fraternals' tax-exempt status
- Intense competition from commercial carriers as well as some of the larger fraternals
- Product pricing utilized to drive revenue and reserve build-up under guaranteed rates
- Little market penetration and name recognition in the society's major geographies
- Considerable effort/resources necessary to develop/hire talent, including experienced management
- Greater use of technology across the industry to better serve all constituents

Market Position

An insurer's market presence in its core businesses and geographies, as well as the ability to maintain a competitive advantage in its target markets is an important qualitative rating determinant for commercial life insurers. For fraternal organizations, the foundation of the membership, principles of the organization, and fraternal benefits are important qualitative factors.

GCU has little market penetration in even its largest territories, and commercial carriers are looking for more and more ways to broaden sales – product innovation, strategic relationships, cross-selling, worksite strategies, disintermediation of agents and social media, to name a few. GCU has contracted with new distribution platforms, discussed in the following section, in addition to revitalizing its brand image. With the name change to GCU, and its outreach to all Christians, the society has launched a new website with agent and member portals to attract potential new policyholders and provide a more streamlined interface to its members/trading partners.

Distribution

Distribution is a necessity of any insurance company, which allows it to sell its products, develop its reputation, increase revenues and generate earnings. 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. Additionally, the sales team now reports up to Gary Sorensen, who has vast experience with commercial carriers.

With the addition of Gary Sorensen, 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. For example, to remain active, agents need to submit a minimum of 12 pieces of business within a rolling 24 months.

Risk Management

GCU established a formal enterprise risk management (ERM) program in 2017. The ERM program is designed to identify, assess, monitor, manage and report on risks now and into the future. Following the board approval, an Enterprise Risk Management Policy and GCU Risk Appetite Statement were constructed and subsequently rolled out. The key objective was to develop, and implement, an overall risk and control framework, including the key financial reporting controls for GCU and its subsidiaries.

GCU RISK APPETITE STATEMENT

Risk Elements	*Our Assertions*	
Risks that are acceptable or On-Strategic	Market Growth	We will pursue controlled growth strategies providing individuals of Christian faith access to the Company's life and annuity products.
	Tax Exempt Status	We will aggressively protect and preserve the tax-exempt status of GCU as a Fraternal Benefit Society under IRC 501(c)(8).
Risks that are undesirable or Off-Strategic	Reputation and Brand Image	We will avoid any situation and action resulting in a negative impact on our reputation, if and when an undesirable situation arises, manage it aggressively to protect our reputation and brand.
Strategic risk parameters	Investment Limits	We will invest in investment grade securities and limit high yield (below investment grade) exposure to 5% or less of total bonds and preferred stocks.
		We will seek quality, low volatility equity investing opportunistically.
		We will limit capital expenditures and investment in mergers and acquisitions that allows the Company to achieve its annual free cash flow of $150 million or greater.
Financial risk parameters	Target Credit Rating	We will aggressively pursue and maintain a minimum A- insurance financial strength rating issued by a recognized NRSRO.
	Financial Strength	We will always maintain a minimum risk based capital ratio (RBC) of 750%.
		We will maintain a 10% minimum annual rate of return on members' surplus.
Operational risk Parameters	Loss Exposure	We will manage our operational activities and exposures to avoid an event resulting in a loss to income before realized gains (losses) of more than $5 million.
	Distribution Independence	No single distribution source will account for more than 20 percent of our total life and annuity premiums.

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 four representatives from the executive management team (the same four who are on the Executive Finance Committee). Members of the Risk Committee shall be appointed by the chairman of the board of directors and shall serve for a four-year period.

The ERC is delegated by the Risk Committee to oversee risk management activities, management of day-to-day risk decision-making, review and assessment of risk management reports from all areas of GCU, and approval of appropriate risk management procedures and measurement methodologies. The president and chief executive officer of GCU selects the chief risk officer (CRO) to serve as the head of the ERC. The current CRO is Tim Demetres, who also serves as the society's chief financial officer. The CRO is responsible for the management and supervision of the ERC and implementation of the ERM Policy. The CRO reports directly to the Risk Committee at least semi-annually to review the decisions made by the ERC and to give a transparent report of ERM activities including the results of any risk assessments performed across GCU.

For the program to be a success, key individuals will need to have clearly identified roles, responsibilities, and accountabilities. The board of directors, president and CEO, and, CRO must ensure that risk assessments are appropriately embedded in the executive decision-making process. Successful implementation and diffusion of the ERM process throughout the society will aid in ensuring continued operating performance and the long-term viability of GCU. Due to the recent establishment of GCU's formal ERM program, the effectiveness of the society's process cannot yet be determined. However, the pieces are all in place.

The society has identified its key risks and monitors them through a heat map reporting process. Major risks that GCU has been focusing on include cybersecurity, compliance, technology, spread compression and reinvestment risk. The society implemented a cybersecurity program in 2019 that encompassed data retention, 3rd party vendor security, business continuity and contingency planning. Technology risk was addressed with the decision to replace GCU's antiquated admin system which lacked automated controls and the ability to produce useful management reports. Finally, as mentioned above, spread compression is being addressed through proactive credited rate management to maintain target spreads.

Reinsurance Utilization

GCU has relationships with two insurers: Optimum Re Insurance Company (Optimum) and Aetna Life Insurance Company (Aetna), respectively, provide reinsurance to the various policies, life and Medicare supplement, 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. As of January 1, 2020, GCU's Medicare supplement block was placed into run-off. Hence, no new business is being written. Equitable Life & Casualty (Utah) administers all of the Medicare supplement policies in its capacity as a third-party administrator.

GCU has had a relationship with Optimum since July 2005. Optimum Re is used for an automatic treaty reinsurance agreement for its issued life insurance contracts. GCU maintains prudent retention levels in its transfer of risk for any single policy. The maximum retention on any individual life insurance policy, for both male and female certificates, is $250,000 for ages 0-65, $150,000 for ages 66-80, and $50,000 for issue ages above 80. The retained limit per policy is also graded downward for substandard risks.

Appendix A: Financial Statements - GCU

Summary of Financial Statistics			
(000's omitted)	9/30/19	9/30/18	Change
Total Income	$ 270,104	$ 244,676	$ 25,428
Total Expenses	251,685	225,358	26,327
Net Income (Loss)	14,181	17,191	(3,010)
(000's omitted)	9/30/19	12/31/18	Change
Assets	2,034,790	1,890,844	143,946
Asset Valuation Reserve	17,122	19,311	(2,189)
Interest Maintenance Reserve	22,558	22,583	(25)
Surplus (Net Worth)	152,009	154,269	(2,260)
Total Adjusted Capital (TAC)	169,281	173,730	(4,449)
Normal Solvency Ratio	108.1%	108.9%	-0.8%
Solv. Ratio by Total Adj. Capital	109.1%	110.1%	-1.0%

Change in Surplus	
(000's omitted)	
Beginning Surplus-12/31/18	$154,269
Net Income/(loss)	14,181
Prior Period Adjustment	(17,083)
Change in Unrealized Gain/(Loss)	(218)
GCU Holding Company & Other	(846)
Changes in Non-Admitted Assets	(484)
Changes in Asset Valuation Reserve	2,189
Net Change in Surplus	(2,260)
Ending Surplus-9/30/19	**$152,009**

Appendix A: Financial Statements (continued)

INCOME STATEMENTS

Nine Months 2019 vs. 2018

INCOME *(000's omitted)*	9/30/2019	9/30/2018	Change
Life Premium	$ 2,473	$ 1,413	$ 1,059
Annuity Premium	174,010	157,807	16,203
Annuity Exchanges	13,343	12,938	405
Accident & Health	537	510	27
Sub Total	190,363	172,668	17,695
Net Investment Income	75,148	67,116	8,033
Amort. of Int. Maint. Resrv.	2,121	2,396	(276)
Commission-Reinsurance	1,931	2,076	(145)
Other	541	419	121
Total Income	**$270,104**	**$244,676**	**$25,428**

EXPENSES			
Death Benefits	$ 1,686	$ 1,963	$ (277)
Annuity Benefits Paid	99,747	82,820	16,926
Annuity Exchanges	13,343	12,938	405
Surrender Benefits	653	731	(78)
Accident & Health Benefits Pd.	499	450	50
Commissions	7,805	7,451	354
General Insurance Exp	5,677	5,409	268
Ins., Taxes, Licenses and Fees	378	243	135
Pension Expense	56	1,339	(1,283)
Int. Contract & Deposit Accts.	54	57	(2)
Sub-Total	$ 129,896	$ 113,400	$ 16,497
Increase in Reserves	121,789	111,958	9,830
Total Expenses	**$251,685**	**$225,358**	**$26,327**
Net Gain/Loss Before Refunds	**18,419**	**19,318**	**(899)**
Refunds to Members	**206**	**203**	**3**
Net Gain/Loss After Refunds	**18,213**	**19,115**	**(902)**
Net Capital Gains (Losses)	**(4,032)**	**(1,924)**	**(2,108)**
Net Income/Loss	**$ 14,181**	**$ 17,191**	**$(3,010)**

BALANCE SHEETS

September 30, 2019 vs. December 31, 2018

ASSETS *(000's omitted)*	9/30/2019	12/31/2018	Change
Bonds	$1,900,426	$ 1,762,021	$138,405
Preferred Stocks	43,622	49,821	$(6,199)
Common Stocks	15,737	13,990	$1,747
Alternative Investments	20,129	15,908	
Cash/Short Term Invest.	21,306	18,882	$2,424
Mortgages	5,091	4,770	$321
Certificate Loans	571	648	$(77)
Real Estate	483	490	(7)
Inv. Income Due & Accrued	26,621	23,960	2,661
Other	805	355	450
Total Assets	**$2,034,791**	**$1,890,844**	**$143,947**

Percentage Change—7.6%

LIABILITIES			
Life Reserves	$ 71,485	$ 70,023	$ 1,462
Annuity Reserves	1,750,568	1,606,084	144,484
Accident & Health Reserves	195	200	(5)
Employee Pension Liability	6,769	6,311	458
Convention Reserve	279	279	0
Adv. Prem. & Fut. Ref. Resrvs.	358	367	(9)
Pending Investment Trades	10,286	7,415	2,871
Accounts Payable	906	985	(79)
Refund Accumulations	2,254	3,018	(764)
Asset Valuation Reserve-AVR	17,122	19,311	(2,189)
Interest Maint. Reserve-IMR	22,558	22,583	(25)
Total Liabilities	**$1,882,780**	**$1,736,576**	**$146,204**
Surplus Fund	152,009	154,269	(2,260)
Total Liabilities & Surplus	**$2,034,789**	**$1,890,844**	**$143,945**
Normal Solvency	**108.1%**	**108.9%**	
Solvency Ratio*	**109.1%**	**110.1%**	

**Adds AVR + ½ of dividend liability to surplus.*

Financial information is unaudited and presented on the statutory basis of accounting.

Totals may vary slightly due to rounding.