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 demonstrated trends of surplus growth, supported by historically strong profitability. Despite challenges posed by a prolonged low-rate environment, GCU's balance sheet has grown steadily, and long term membership growth stands in contrast to declining trends in the fraternal industry. Although recent results are weaker, GCU has demonstrated an ability to adjust crediting rates and maintain healthy spreads. The company remains focused on controlled, strategic growth, particularly in its fixed indexed annuity product line.

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, exposure to disintermediation risk, and an increasingly competitive landscape. Sustained spread compression has impacted results and, while viewed as manageable, the Society's investment portfolio faces 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 remains concentrated, with reserves predominantly interest sensitive. While life sales and geographic expansion are strategic priorities, meaningful diversification will 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 at current levels 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 Historically Good Profitability Strong capitalization growth, with total adjusted capital (TAC) reaching $249 million at YE2023, a 4.5% increase from the prior year, 37% growth over five years, and a 198% increase over the past decade. While the risk-based capital (RBC) company action level (CAL) remained at 322% YE 2023, down from its historical range of 350-400%, it is expected to return to that range over the long term. Net gains from operations have historically been strong, averaging approximately $30 million annually from 2019-2021, but declined to $18.1 million in 2022 and further to $10.5 million in 2023, reflecting recent profitability pressures.	+
Long Term Trend of Expanding Membership GCU reported approximately 49,000 members at YE2024, a 4% decline from the prior year marking the first decrease in over a decade. Despite this recent drop, membership has grown by 9% over the past 10 years, driven by effective distribution strategies, competitive rates, and strong customer service. While many fraternals face declining membership, GCU's trends remain favorable compared to the fraternal sub sector.	+
Strategic Diversification Efforts GCU is focused on diversifying its business by expanding its life insurance portfolio, optimizing distribution, and targeting new geographies and demographics. Life premiums totaled $7.7 million through September 2024, up from $7.2 million a year earlier, representing about 3% of total premium writings.	+
Exposure to Reinvestment Risk Remains but Is Being Mitigated Through Active Portfolio Management GCU has notable exposure to reinvestment risk due to the product portfolio's required yields to meet guaranteed rates in the annuity block. While rising interest rates have partially mitigated this risk, target spreads remain unmet due to declining overall net investment yields. Active management of credited rates	−/+

and refined asset allocations are expected to restore yields to normal levels in the medium term. Management in the last 12-18 months has repositioned a significant portfolio the overall portfolio.	
Exposure to Disintermediation Risk and Significant Spread Compression Impacting Overall Results Like other industry participants, GCU continues to face challenges from the evolving interest rate environment. Historically low rates compressed yields and margins for interest-sensitive liabilities, while the recent rapid rate increases heightened disintermediation risk. Although elevated cash outflows due to full or partial annuity surrenders remain above historical norms, their impact has started to decline. As of Q3 2024, 54.3% of annuity reserves are in products with a guaranteed rate of 3.0% or higher and 54% of reserves have no or minimal surrender charges (down from 57% at YE2023). While GCU's above-average investment yield (5.0% or higher from 2015-2021) and high-credit quality portfolio offer some protection, net investment income has declined (4.6%-4.9% from 2022-Q3 2024), with the average crediting rate rising sharply in recent years. As a result, the average earned spread fell significantly from the historical average. GCU's fixed indexed annuities may offer some buffer against these pressures, particularly as the Federal Reserve signals further rate adjustments.	–
Lack of Business Diversification GCU's business mix is highly concentrated, with 94% to 96% of reserves being interest-sensitive between YE2019 and YE2023.	–

Rating Sensitivities	
▪ Sustained growth in earnings relative to historical earnings levels ▪ 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 ▪ Sustained decline in earnings and/or underperform projections provided to KBRA ▪ 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 without a suitable replacement	–

Recent Developments

- Higher interest rates have increased disintermediation risk but GCU has managed this effectively through balance sheet strength. While withdrawals and cash surrenders remain elevated, crediting rates have increased. Deferred annuity account value held steady at $2.1 billion in Q3 2024 compared to $2.10 billion a year earlier and $2.12 billion at YE2022.
- GCU recently received approval to sell FIA products in California and aims to grow sales on the West Coast.
- The new Oracle PAS platform (OIPA) successfully launched for FIA and fixed deferred annuities. Existing business conversions have yet to take place.
- Management is pursing strategic reinsurance partnership(s) to support indexed annuity growth and manage spread compression.
- GCU implemented an expense mitigation strategy around 18 months ago to address interest rate impacts and surrender activity.
- 2023 through Q3 2024 earnings and capital trends have been in unfavorable variance relative to projections.

Insurance Entity Financials

GCU						
(in thousands)	**Q3 2024 YTD**	**2023**	**2022**	**2021**	**2020**	**2019**
Total Assets ($000)	$ 2,774,345	$ 2,704,690	$ 2,641,748	$ 2,413,827	$ 2,200,816	$ 2,052,334
Capital & Surplus (C&S) ($000)	$ 216,687	$ 221,307	$ 219,484	$ 209,242	$ 182,648	$ 162,742
Asset Valuation Reserve (AVR) ($000)	$ 39,128	$ 27,891	$ 18,876	$ 23,831	$ 8,316	$ 18,747
Total Adjusted Capital (TAC) ($000)	NA	$ 249,353	$ 238,515	$ 233,228	$ 191,114	$ 181,638
Change in TAC	*NA*	*4.5%*	*2.3%*	*22.0%*	*5.2%*	*4.6%*
C&S to Liabilities	8.5%	8.9%	9.1%	9.5%	9.1%	8.6%
Surplus Notes/TAC	NA	0.0%	0.0%	0.0%	0.0%	0.0%
NAIC RBC (CAL)	NA	322%	322%	353%	355%	363%
BIG Bonds to TAC	NA	24.2%	39.1%	32.7%	41.2%	37.3%
Dividends to Stockholders ($000)	$ -	$ -	$ -	$ -	$ -	$ -
Capital Contributions ($000)	$ -	$ -	$ -	$ -	$ -	$ -
Net Gain From Operations ($000)	$ (1,101)	$ 10,448	$ 20,686	$ 32,840	$ 29,669	$ 31,686
Net Income ($000)	$ 712	$ 5,896	$ 18,128	$ 33,021	$ 12,818	$ 27,713
Net Investment Yield*	4.6%	4.7%	4.9%	5.4%	5.2%	5.4%
Net Return on Avg Admitted Assets w/o Sep Accounts*	0.03%	0.22%	0.72%	1.43%	0.60%	1.41%
1 Yr. Oper ROAC&S*	-0.7%	4.7%	9.7%	16.8%	17.2%	20.0%
% Interest Sensitive Reserves	NA	96.3%	96.4%	96.4%	96.4%	96.3%
% Annuities w/no surrender charge	NA	70.6%	71.5%	74.2%	69.6%	63.8%
Current Liquidity	103.5%	104.2%	104.7%	105.3%	105.9%	105.9%
General Insurance Expenses/Total Revenue	NA	2.7%	2.6%	2.9%	2.8%	2.7%

*Q3 2024 figures are annualized

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 but two scenarios and sensitivities projected a positive present value of 40th year ending value of surplus based on both book value and market value. Only the NY2 (increasing interest rate scenario) and MDS11 (pop-up scenario) scenarios resulted in aggregate interim book values of surplus that were negative for the entire projection period compared to just the NY2 having interim book value deficient surplus the prior year. Consequently, no additional reserves were established.

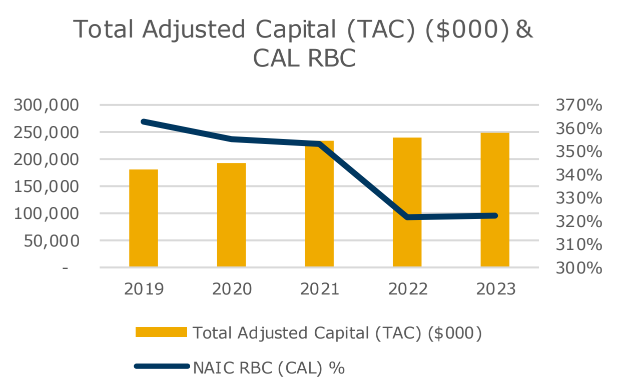
KBRA also performed an asset credit stress test on GCU's fixed income portfolio. The results were consistent with GCU's current IFSR.

Balance Sheet Management

Quality of Capital/Underwriting Leverage

Despite recent results, since 2009 GCU has exhibited exceptionally strong and consistent growth in total adjusted capital and operating results have been favorable. The sizeable income generation exhibited though 2022 fostered substantial surplus and balance sheet growth. As of year-end 2023, the Society's surplus had grown at a 10-year compound annual growth rate of 13.3%. KBRA further notes that GCU continues to maintain a conservative asset makeup on its balance sheet with no financial leverage.

GCU's RBC CAL of 322% as of YE2023 is below benchmarks but remains adequate, in KBRA's opinion.



Source: Statutory Financials

Asset Quality and Investment Risk

GCU maintains a conservative portfolio focused on fixed income securities, primarily investment grade corporate bonds, with total cash and invested assets of $2.7 billion at Q3 2024. Bonds comprise 93% of GCU's assets and the portfolio has an option adjusted duration of 9.6 years at end-Q3 2023 compared to 9.1 years a year earlier. The portfolio quality remains sound with an overall credit rating of BBB+.

Investment Portfolio by Asset Class ($000)								
Asset Class	2021	%	2022	%	2023	%	Q3 2024	%
Bonds	2,213,353	92.8%	2,472,932	94.7%	2,499,632	93.5%	2,557,741	93.3%
Preferred Stocks	23,125	1.0%	18,626	0.7%	17,144	0.6%	17,604	0.6%
Common stocks	35,384	1.5%	27,985	1.1%	27,935	1.0%	27,439	1.0%
Mortgages	3,674	0.2%	3,473	0.1%	2,509	0.1%	2,582	0.1%
Real Estate	15,461	0.6%	15,059	0.6%	15,858	0.6%	15,562	0.6%
Cash & Cash Equivalents	48,638	2.0%	15,575	0.6%	38,457	1.4%	36,201	1.3%
Contract Loans	608	0.0%	630	0.0%	671	0.0%	791	0.0%
Derivatives	472	0.0%	1,115	0.0%	3,337	0.1%	8,159	0.3%
Other Invested Assets	45,062	1.9%	55,912	2.1%	68,213	2.6%	76,068	2.8%
Receivables for Securities	-	0.0%	127	0.0%	228	0.0%	265	0.0%
Securities Lending Reinvested Collateral Assets	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Aggregate Write-ins for Invested Assets	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Total Cash & Invested Assets	2,385,776	100.0%	2,611,435	100.0%	2,673,983	100.0%	2,742,412	100.0%

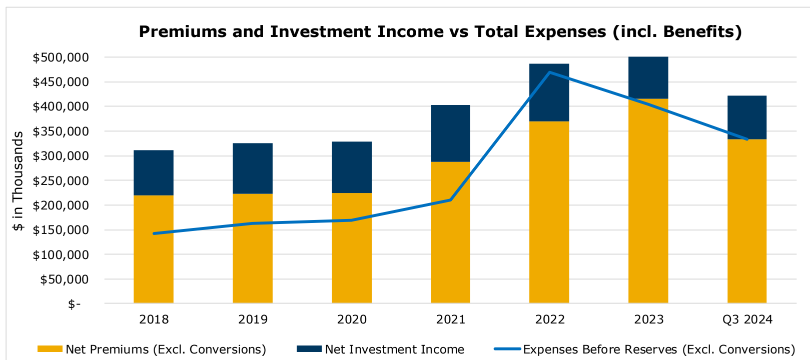
Source: Statutory Financials

Fixed Income Portfolio Quality ($000)								
Class	2021	%	2022	%	2023	%	Q3 2024	%
NAIC 1	509,976	22.8%	673,670	27.2%	848,504	33.9%	955,381	37.3%
NAIC 2	1,650,118	73.8%	1,706,070	69.0%	1,590,717	63.6%	1,547,335	60.5%
NAIC 3	62,221	2.8%	62,430	2.5%	44,359	1.8%	33,317	1.3%
NAIC 4	13,985	0.6%	29,573	1.2%	14,709	0.6%	22,009	0.9%
NAIC 5	-	0.0%	1,017	0.0%	982	0.0%	435	0.0%
NAIC 6	52	0.0%	171	0.0%	361	0.0%	386	0.0%
NAIC 3-6	76,258	3.4%	93,192	3.8%	60,412	2.4%	56,147	2.2%
Total	2,236,352	100.0%	2,472,932	100.0%	2,499,632	100.0%	2,558,863	100.0%

Source: Statutory Financials

The below investment grade (BIG) portion of the portfolio fell to 24.2% of TAC at YE2023, down significantly from its 2016 peak at 161%. Public corporates are GCU's largest allocation and are diversified by sector. The most significant concentrations are in financials (16% of total corporate bond holdings), health care (11%), communication services (9%), consumer staples (8%), and energy (8%).

Common stocks only comprise approximately 1.0% of invested assets. At YE2023, $25.6 million or 92% (80% a year prior) of the common stock holdings are investments in affiliates. GCU also has a small alternative/Schedule BA allocation with notable investments in several real estate-based LP funds.



Source: Statutory Financials and Company

Financial Flexibility and Access to Capital

GCU has solid financial flexibility given its profitability and revenue generation. Historically, GCU's operating performance and internal capital generation have allowed 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 (FHLB) of Pittsburgh, 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 more than $190 million. The Board approved limit for borrowings has been raised to $30 million from $22 million. As of Q3 2024, GCU has borrowed $19.5 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. After seeing lapse rates rise slightly the prior two years, lapse rates fell to 3.6% during 2023 and remain very low relative to non-fraternal benchmarks. However, GCU is vulnerable to disintermediation risk in a rising rate environment.

The life insurance block, largely whole life, provides a steady source of earnings for the Society. It generally exhibits a lower risk profile relative to annuities and is built on the cash value of the account. Historically GCU's lapse ratio was low and despite being slightly elevated the past few years, it was only 7.5% during 2023.

The Society's premium revenue stream (excluding conversions) – $284 million during 2023 compared to $358 million during 2022, and net investment income of $119 million – continue to compare favorably to current benefits paid. GCU does not currently have a formal ALM target.

Operating Fundamentals

Drivers of Profitability

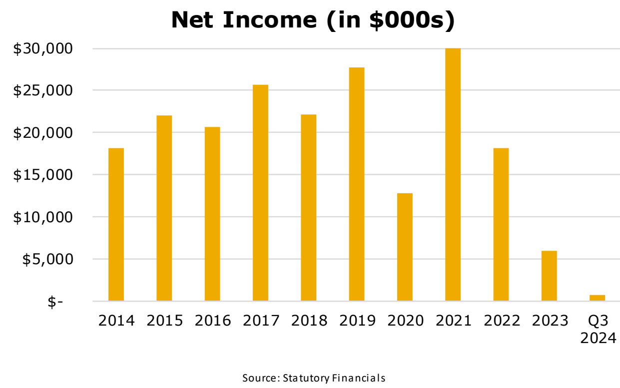
In order to sustain its historical level of profitability – approximately 10% or greater return on capital – GCU will need to continue monitoring its crediting rate strategy on its annuity programs to maintain target spreads. Paired with continued success in its annuity book (which should be aided by future growth in net investment income), successful growth of the Society's life insurance portfolio should provide further stability to its earnings profile. GCU's targeted spreads remain in the 150-200 basis points range.

Investment expenses increased due to growing AUM and amortizing the cost of purchased call options related to FIA's. As a result, net investment income and the respective net investment income yield are lower due to expenses associated with hedging activity.

Consistency of Profitability

GCU successfully grew its net gain from operations over time, reaching a peak of $32.8 million 2021. However, net gain from operations has fallen more recently, reaching $10.5 million in 2023 and $(1.1) million in Q3 2024. While the decrease in bottom line results in recent years is in line with projections, the magnitude has been greater than projected. Top-line growth has been supported by expanding membership and enhancing product offerings.

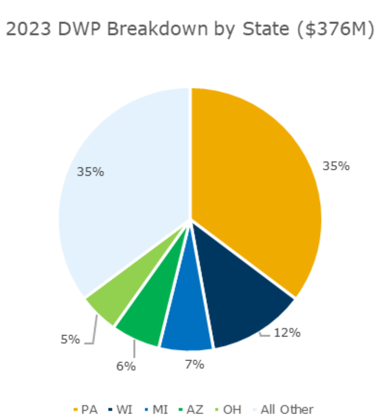
Similarly, net income at year-end 2023 fell to $5.9 million, compared $18.1 million in 2022 and $33.0 million in 2021. Through Q3 2024, net income was $0.7 million, which significantly lags Q3 2023 results.

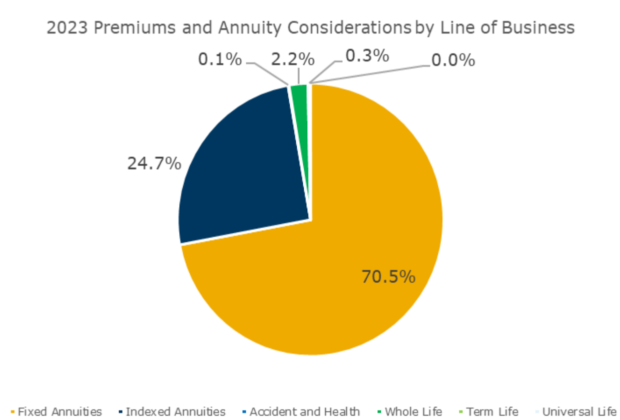


Earnings Diversification: Product/Geography

The majority of GCU's business is written in the mid-Atlantic and mid-western regions of the United States. Approximately 54% of premiums and annuity considerations are concentrated in Pennsylvania, Wisconsin, and Michigan. GCU is currently licensed in 30 states. GCU is in the process of expanding its geographic footprint. GCU received approval to sell its products in Delaware and approval is pending in Nebraska. In 2025, GCU will also begin selling fixed indexed annuities in California.

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 YE2023. 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.





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, as approximately 95% 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 mission is to invest in creating strong, stable products that make its members and their family's futures more secure. The Society's management expertise is concentrated within several key persons who collectively have extensive experience in the Society's products, operations, and historical events. Several hires in recent years, including a new COO, have rounded out its management team. Management remains focused on disciplined growth and leveraging technology, particularly the new policy administration system.

Market Position

GCU has low market penetration in even its largest territories, however, it is one of the ten largest fraternals by net admitted assets and has demonstrated growth over the long term.

Distribution

GCU distributes its products through independent marketing organizations (IMO), independent agents, and select field marketing organizations (FMO). GCU continues to add agents and IMOs. To avoid overconcentration, GCU has a 20% premium limit from a single distribution source of its life and annuities business.

Risk Management

GCU has a formal enterprise risk management (ERM) program, which is detailed in its ERM Policy and incorporates an annual risk appetite statement. A comprehensive risk and control framework, including the key financial reporting controls for GCU and its subsidiaries have been developed and implemented given the trajectory of its business growth.

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 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 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 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.

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, companies 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 a company'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 companies 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 holds only USD-denominated securities or hedged foreign current exposures in its asset portfolio, there is no currency transfer risk.