ELCO Mutual Life and Annuity

Operating Company			
Action: Upgrade	**Type**	**Rating**	**Outlook**
ELCO Mutual Life and Annuity (ELCO)	IFSR	BBB	Stable

Methodology

Insurer & Insurance Holding Company Global Rating Methodology

ESG Global Rating Methodology

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Rating Summary:

The upgrade to BBB from BBB- reflects the company's demonstrated track record of growth across its surplus and capital bases which remain underpinned by consistent trends of profitability and earnings supported by its low-risk, flagship product. ELCO has demonstrated the formalization, continuous refinement, and maturation of its corporate governance, enterprise risk management, and strategic and financial planning processes, which have kept pace with the company's growth in assets and are viewed as consistent with its rating level. In KBRA's opinion, when viewed relative to the current credit environment of rising interest rates, the company's performance and risk management initiatives are favorable.

The rating continues to reflect the company's conservative investment portfolio and an improving overall asset/liability management profile. The risk profile of its MCA product remains favorably low. KBRA continues to believe ELCO's management remains committed to transitioning the company to better identify, quantify and mitigate its risks as well as to consistently employ a risk-based decision-making process, including the execution of its five-year strategic plan.

Balancing these credit strengths is significant concentration risk with a leading distribution partner, a business mix which is improving though lacks diversification, and exposure to regulatory shifts within the MCA space, though no regulatory changes are currently under consideration. KBRA continues to view the company's current capitalization as adequate, although favorable trends in capital across the near term have been observed. In KBRA's opinion, while earnings have been consistently favorable, continued growth in surplus and risk adjusted capital would mitigate concentration risk to an extent, all else equal. Though declining significantly since 2019, reinsurance leverage remains significantly elevated relative to peers.

Outlook

The Stable Outlook reflects KBRA's expectation that ELCO will continue to be profitable and grow its risk-adjusted capital base and maintain key distribution channels. Additionally, KBRA expects to observe continued execution on enhancements across its entity-wide corporate governance, strategic planning, and risk management practices as its business grows. Lastly, KBRA expects the regulatory environment for MCAs to remain stable.

Key Credit Considerations	+/−
Unique Product Focus With High Barriers to Entry ELCO's flagship product, a Medicaid-compliant annuity (MCA), has minimal competition, sizeable barriers to entry (non-standard policies largely underwritten by elder law attorneys), high margins (spreads in excess of up to 300 bps, though narrower across last 12 months), and is a relatively untapped market with limited competition.	+
Strong Financial Operating Performance Has Fostered Organic Capital Growth ELCO continues to generate strong, consistent top-line growth and stable operating income. Operating profits have remained stable while general insurance expenses relative to total revenues (4.9%) are significantly below the peer and industry average, reflecting the stability of its MCA product line which allows ELCO to issue policies without many competitors. Historically, deferred annuity sales trends have pressured ELCO's capital ratios, leading to extensive use of reinsurance as a risk management tool, though reinsurance leverage has decreased annually across the last five years as the company updates its products/pricing. Total adjusted capital across the last five years has grown at an average annual rate of 4.4%.	+

Favorable Product Risk Profile and Niche, Market Approach ELCO remains focused on the senior market. The risk profile of ELCO's business is favorable as MCAs are relatively short-term in nature, have defined periods, and cannot be surrendered. At end-2022, approximately 47% of ELCO's net reserves are in MCAs, with 44% in deferred annuities and 9% in life. ELCO is looking to increase life sales by adding additional products, refreshing pricing, and developing new distribution relationships.	+
High-Quality Investment Portfolio ELCO continues to benefit from J.P. Morgan Asset Management's (JPMAM) strong investment and asset/liability management (ALM) expertise. As JPMAM continues to enhance ALM, lower concentrations, increase issuer diversity, and improve cash management, ELCO has materially shortened its portfolio duration and increased credit quality while slightly improving yields across the near term. Risk adjusted capital has generally been maintained while allocations to alternative assets have marginally increased to enhance yields. Overall, invested assets remain low-risk and diversified, consisting primarily of fixed income, approximately 90% bonds, with no below investment grade exposure (at Q1 2023).	+
Enhanced Corporate Governance, Strategic Planning and ERM ELCO's corporate governance, strategic planning, financial management capabilities, and ERM processes have continually improved and evolved. ELCO is transitioning its strategic planning and corporate governance to incorporate more defined policies, procedures, and frameworks while enhancing its digital capabilities. A deep senior management bench and a strengthened Board of Directors should enhance these initiatives.	+
Sales Concentration With Leading Distribution Partner ELCO has a sizable distribution concentration with an attorney-led financial services firm, which accounts for the majority of its MCA sales and deposits. The loss of this partner would have a significant impact on the company's financial profile, as MCA sales represent approximately 74% of premiums and new deposits.	–
Product Exposed to Regulatory Changes The MCA product is susceptible to potential changes in state and federal regulation that could limit or eliminate future production. Management is unaware of any current legislative changes under consideration; however, the future legislative environment regarding MCAs is unknown.	–
Significant Use of Reinsurance to Improve Risk-Adjusted Capitalization KBRA recognizes the substantial improvements in ELCO's overall risk-adjusted capital over the last few years. Reinsurance leverage remains significantly elevated relative to peers, though has decreased annually since 2019.	–
Business Mix Lacks Diversification The current business mix is concentrated in interest rate sensitive reserves. This lack of diversification is most evident from actuarial cash flow testing results, as an asset adequacy reserve (AAR) has been maintained since 2017. In totality, reserves are split approximately 90%/10% between annuity and life reserves.	–

Rating Sensitivities	
▪ Continued favorable risk-adjusted capital trends ▪ Completed systems upgrade and digital transformation ▪ Elimination of asset adequacy reserve ▪ Favorable execution of planned product suite expansion	+
▪ Growth which adversely impacts capital ▪ Unplanned or unanticipated loss of key distribution partner ▪ Legislative environment which curtails MCA production ▪ Business growth which is not supported by continued ERM, strategic planning, and corporate governance development	–

Recent Developments

- Capital and surplus grew by approximately $1.8 million, or 2.3%, to $77.9 million at end-2022. The growth was primarily driven by net income ($3.8 million). Assets increased 6% to $1.1 billion at end-2022. Compound annual growth rates (CAGR) across 2018-2022 for total assets, capital and surplus, and total adjusted capital are 4.7%, 3.3%, and 4.4%, respectively.
- Through end-2022, net investment yield increased 44 bps to 3.6%, largely in line with peers.
- Net written premiums and deposits for 2022 were $457.4 million, up $15.3 million or 3.5% from the year prior. Net written premiums and deposits through Q1 2023 totaled $108.0 million, an increase of approximately 10.6% from the same period a year prior ($97.7 million). General insurance expenses at end-2022 totaled $12.2 million, an increase of 7.0%.

- ELCO’s invested assets remain conservative, which KBRA views favorably. At Q1 2023, within ELCO’s bond portfolio, 56.2% were rated in the A-category or above and 43.8% were rated within the BBB-category. Credit quality has trended upwards.
- ELCO’s NAIC RBC ratio (CAL) declined slightly year over year, which was primarily driven by the impact of allocations to Schedule BA assets. The company manages to a minimum ratio of 350% and is targeting the 375-400% range going forward.
- In 2023, ELCO revamped its MCA product to discontinue the cash refund annuity product feature to improve pricing elements. This corresponded to an increase in deposit-type premium. The company continues to work with its leading distribution partner to enhance its product portfolio.

Insurance Entity Financials

ELCO Mutual Life & Annuity						
(in thousands)	**Q1 2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Total Assets ($000)	$ 1,050,087	$ 1,055,549	$ 993,119	$ 934,125	$ 941,430	$ 878,437
Capital & Surplus (C&S) ($000)	$ 77,944	$ 77,889	$ 76,112	$ 74,242	$ 71,745	$ 68,313
Asset Valuation Reserve (AVR) ($000)	$ 12,233	$ 10,135	$ 7,826	$ 6,690	$ 6,403	$ 5,884
Total Adjusted Capital (TAC) ($000)	NA	$ 88,548	$ 84,436	$ 81,373	$ 78,551	$ 74,580
Change in TAC	*NA*	*4.9%*	*3.8%*	*3.6%*	*5.3%*	*16.7%*
C&S to Liabilities	8.0%	8.0%	8.3%	8.6%	8.2%	8.4%
Surplus Notes/TAC	NA	0.0%	0.0%	0.0%	0.0%	0.0%
NAIC RBC (CAL)	NA	346%	360%	370%	330%	292%
BIG Bonds to TAC	NA	2.3%	2.4%	8.6%	12.3%	38.9%
Dividends to Stockholders ($000)	$ -	$ -	$ -	$ -	$ -	$ -
Capital Contributions ($000)	$ -	$ -	$ -	$ -	$ -	$ -
Net Gain From Operations ($000)	$ 1,202	$ 3,790	$ 2,750	$ 2,923	$ 3,650	$ 10,253
Net Income ($000)	$ 1,202	$ 3,790	$ 2,750	$ 2,653	$ 3,193	$ 9,763
Net Investment Yield	3.8%	3.6%	3.1%	3.6%	4.0%	4.3%
Net Return on Avg Admitted Assets w/o Sep Accounts	0.46%	0.37%	0.29%	0.28%	0.35%	1.19%
1 Yr. Oper ROAC&S	6.2%	4.9%	3.7%	4.0%	5.2%	16.2%
% Interest Sensitive Reserves	NA	90.8%	90.6%	90.5%	90.5%	NA
% Annuities w/no surrender charge	NA	53.8%	58.3%	59.3%	57.5%	58.2%
Current Liquidity	97.8%	98.0%	102.6%	104.7%	104.0%	104.2%
General Insurance Expenses/Total Revenue	NA	4.9%	4.5%	4.5%	3.4%	2.6%

Source: Statutory Statements

Stress Testing

KBRA employed a stress testing approach to assess the impact of adverse scenarios on ELCO, including reviewing the company’s asset adequacy analysis, as required by state regulators, its quarterly stress testing, and performing our own asset stress test. ELCO utilizes 12 deterministic interest rate scenarios, which include the NY7 plus 5 additional scenarios, as well as various sensitivity tests. The present value of results for 10-, 20-, and 30-year projections on both a book value and market value basis were analyzed for the aggregate product portfolio.

Results in the aggregate are used to determine the need for asset adequacy reserves. An asset adequacy reserve of $2.5 million is necessary to eliminate negative results within the scenario testing, the same amount as a year prior. This amount is sufficient to cause positive results of ending assets in all scenarios. Given that ELCO had capital and surplus of $77.9 million and AVR $12.2 million at end-Q1 2023, KBRA believes these results are manageable. Inclusive of the additional reserve, combined results (i.e., all products) improved relative to a year prior.

KBRA performed its own asset stress test on ELCO’s fixed income portfolio. The results were consistent with ELCO’s current IFSR.

Balance Sheet Management

Quality of Capital/Underwriting Leverage

To accommodate its business growth while generally maintaining its risk-adjusted capital, ELCO entered into several reinsurance agreements. Reinsurance leverage remains high, particularly relative to peers. Across its various reinsurance relationships, total reserve credits ($601 million) for its legacy coinsurance treaties have generally decreased from a year prior ($780 million). As ELCO advances its strategy to increase life insurance sales, the company may explore additional reinsurance opportunities.

Reinsurance Relationships							
Reinsurer	Reinsurance Type	Product Type	Year Effective	Status	Premiums	Balance YE21	Balance YE22
Aureum Reinsurance Company, LTD (Cayman)	Coinsurance	Deferred Annuities	2017	Run-off	-	$652 Million	$487 Million
Aureum Reinsurance Company, LTD (Cayman)	Coinsurance	MCAs	2019	Run-off	-	$31 Million	$17 Million
Heritage Life Ins Co (AZ)	Coinsurance	Deferred Annuities	2022	Active	$26 Million	N/A	$28 Million
Heritage Life Ins Co (AZ)	Coinsurance	MCAs	2013	Run-off	-	$7 Million	$4 Million
Clear Spring Life and Annuity Company (Guggenheim)	Coinsurance	Funding Agreements	2012	Run-off	-	$90 Million	$93 Million
Swiss Re Life & Health America Inc	Coinsurance	Life Insurance	2022	Active	NM	N/A	NM

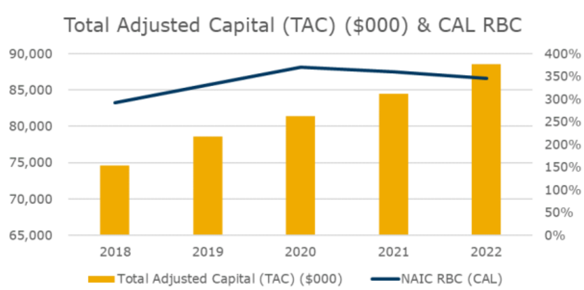
Source: Statutory Statements and company.

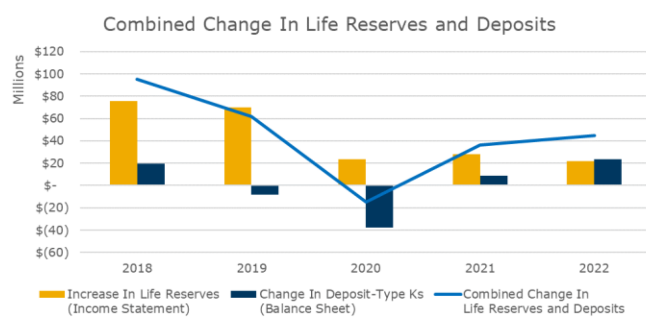
Aureum Reinsurance Company Ltd. (Aureum Re) is a Cayman-based class "D" reinsurer. As the reinsurer is offshore, Aureum Re posts collateral in a Bank of New York Mellon trust account for the benefit of policyholders.

ELCO's capital levels have been improving in recent years, and remain in line with peers, with a CAL RBC of 346% at end-2022. KBRA views ELCO's risk-adjusted capital levels as adequate though quality of capital, with no financial leverage, is favorable. Investment leverage (11.6x) increased year over year and remains elevated compared to peers. Similarly, C&S to liabilities (8.0%) remains unfavorable relative to the peer average.

Historically, there have been periods when ELCO's CAL RBC has trended low, significantly below peers and the industry. However, ELCO's main product, MCAs, is fairly low risk, irrevocable, without annuitant surrender risk and has a short average term of approximately 36 months. The relatively lower risk nature of ELCO's primary business, all things equal, generally reduces the need to hold as much capital and surplus as might be necessary for a more traditional annuity writer. Generally, the growth on a risk-adjusted basis had benefited from slower growth in reserves, which allowed ELCO to retain more capital from operating income.

ELCO's operating strategy is dependent on the availability of reinsurance as a risk management tool. Although KBRA believes that there is currently ample capacity in the U.S. life/annuity reinsurance arena and that pricing remains relatively stable, these trends may moderate if the overall economic environment shifts.





Source: Statutory Statements

Asset Quality and Investment Risk

Since 2018, ELCO's assets have been managed by JPMAM, whose objectives have included lowering ELCO's larger issuer exposures, improving credit quality, shortening overall duration to better match liabilities, and improving cash management.

ELCO's investment portfolio remains conservative with about 87% in bonds as of Q1 2023. The credit quality within the fixed income bond portfolio has steadily increased while portfolio yields and ALM trends have generally improved.

As of Q1 2023, approximately 44% of the bond portfolio was in the BBB category and nearly 56% was A- or higher. To diversify its fixed income allocations, ELCO allocates a small amount to alternative assets (approximately $66.7 million at end-2022 primarily to three funds), though overall it remains about 7% of total invested assets. ELCO has no further capital call commitments with regard to these investments. While there was no exposure to below investment grade (BIG) bonds at Q1 2023 and credit quality has historically been favorable and improving, ELCO's allocation to BBB-rated bonds across the last five years, though within internal targets, is elevated relative to the industry.

ELCO's bond portfolio is largely comprised of corporates – approximately 66% at end-May 2023. The leading sector allocations in ELCO's corporate portfolio are banking (15%), consumer noncyclical (8%), and insurance (6%).

Investment Portfolio by Asset Class ($000)

Asset Class	2020	%	2021	%	2022	%	Q1 2023	%
Bonds	744,988	81.6%	887,154	91.5%	915,439	89.1%	886,284	86.8%
Preferred Stocks	1,000	0.1%	1,026	0.1%	865	0.1%	942	0.1%
Common stocks	65	0.0%	1,000	0.1%	1,495	0.1%	1,495	0.1%
Mortgages	257	0.0%	-	0.0%	-	0.0%	-	0.0%
Real Estate	2,667	0.3%	2,556	0.3%	2,446	0.2%	2,422	0.2%
Cash & Cash Equivalents	153,691	16.8%	52,023	5.4%	39,604	3.9%	61,845	6.1%
Contract Loans	125	0.0%	94	0.0%	90	0.0%	90	0.0%
Derivatives	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Other Invested Assets	10,466	1.1%	25,453	2.6%	66,743	6.5%	67,750	6.6%
Receivables for Securities	-	0.0%	-	0.0%	374	0.0%	388	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	**913,257**	**100.0%**	**969,307**	**100.0%**	**1,027,057**	**100.0%**	**1,021,216**	**100.0%**

Source: Statutory Statements

Fixed Income Portfolio Quality ($000)

Class	2020	%	2021	%	2022	%	Q1 2023	%
NAIC 1	496,715	56.9%	467,931	52.7%	523,423	56.6%	497,697	56.2%
NAIC 2	369,254	42.3%	417,190	47.0%	399,912	43.2%	388,587	43.8%
NAIC 3	7,008	0.8%	2,033	0.2%	2,012	0.2%	-	0.0%
NAIC 4	-	0.0%	-	0.0%	-	0.0%	-	0.0%
NAIC 5	-	0.0%	-	0.0%	-	0.0%	-	0.0%
NAIC 6	-	0.0%	-	0.0%	-	0.0%	-	0.0%
NAIC 3-6	7,008	0.8%	2,033	0.2%	2,012	0.2%	-	0.0%
Total	**872,977**	**100.0%**	**887,154**	**100.0%**	**925,346**	**100.0%**	**886,284**	**100.0%**

Source: Statutory Statements

Financial Flexibility and Access to Capital

Due to the size and mutual structure of the company, KBRA believes ELCO has a limited ability to access the capital markets. ELCO is a member of the Federal Home Loan Bank (FHLB) of Chicago. As of Q1 2023, current borrowing capacity is approximately $36 million, which has all been advanced. The company has utilized its FHLB facility for spread enhancement activities. The FHLB of Chicago remains a reliable and cost-efficient source of liquidity, in KBRA's opinion. KBRA notes that ELCO does not have any committed bank lines and management does not have plans for establishing any credit facilities in the future.

Liquidity and Asset/Liability Management

KBRA believes ELCO's current liquidity position is sufficient, and favorable relative to peers. With respect to asset/liability matching, JPMAM continues to manage an ALM strategy to better align assets with the overall cash flow profile of the liabilities. The duration of the asset portfolio has shortened across the last few years.

Overall, ELCO's ALM management is still evolving though, more recently, assets are segmented by product line. While ELCO does not have a formalized target, its asset duration is closely matched (all within less than 1.2 years) to its liability duration across its lines of business.

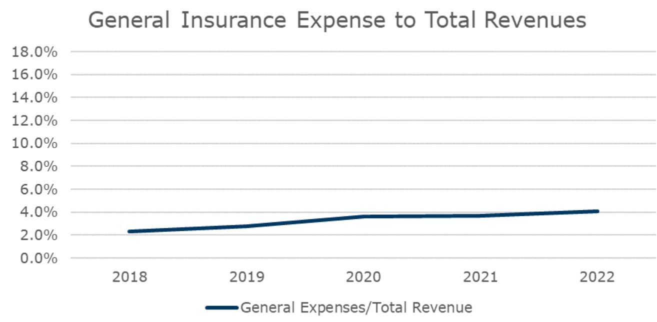
Operating Fundamentals

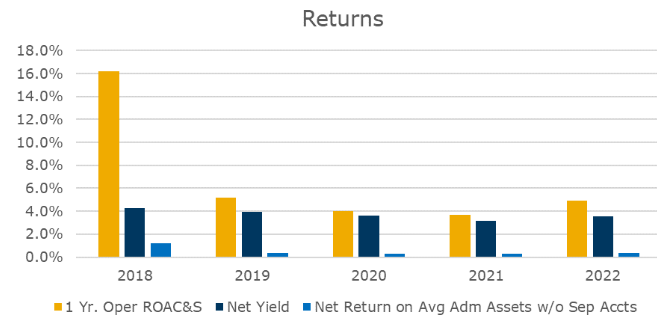
Drivers of Profitability

ELCO's earnings remain anchored by the MCA product's considerable spreads. ELCO's favorable trend of operating earnings should continue as MCAs generally compare favorably relative to traditional fixed annuities or other more commoditized products as MCAs are not subject to extensive competition and interest rate and lapse risks remain low.

ELCO's expense base remains favorably lower than peers and the industry, as measured by general insurance expense to total revenues. Across the short-term, expenses are anticipated to increase as ELCO continues to invest in strategic and technological initiatives which include a new policy administration system and general ledger. In KBRA's opinion, project budgets detail manageable average annual expenses across the next three years relative to the historical trend of annual net income. Anticipated implementation inclusive of Phase I (Life) and Phase II (Annuity) is Q4 2024. Paperless workflows in all departments are underway. These priorities will help ELCO execute its long-term plan. Moving away from its legacy system should serve to enhance distribution efforts and increase top line growth.

ELCO continues to generate healthy spreads across all lines of business, especially the MCA product, though through Q1 2023, observed earned spreads have not generally widened across its in-force portfolio. The MCA product provides a degree of stability due to the lack of competition and customization of the product. This consistent, favorable impact on operating results has been demonstrated across the last several years. All else equal, as assets are reinvested into current new money rates, earned spreads across its products should increase.





Source: Statutory Statements

Consistency of Profitability
ELCO has reported solid operating results over the last several years, with intermittent periods of notable reserve strain. ELCO's revenue across the last five years has been fairly stable, with gross premiums and deposits averaging $465 million annually. For MCA sales, KBRA notes that the financial statements reflect a shift between treatment as deposits vs. premiums occurring in 2023 as ELCO eliminated its unique cash fund product due to pricing concerns. However, this difference in accounting treatment – which is determined based on a minor variation in product features – does not impact the economics of the business. Going forward, all MCAs will be reserved as deposit-type contracts.

Earnings Diversification: Product/Geography
ELCO is implementing long-term strategic plans to further diversify its lines of business by growing its life and non-MCA annuity books, particularly as interest rates have risen. The MCA product, which remains a large proportion of ELCO's business, reflects about 75% of total premium and new deposits.

ELCO's products are well diversified by geography throughout the United States and the company is licensed to write policies in 44 states, and the District of Columbia. The majority of premiums and deposits (approximately 80%) generally come from 15 states, with the largest being Pennsylvania (13%), Ohio (9%), and Texas (9%) at year-end 2022. Across the last five years, there's been no significant adverse shifts in composition within product or geographic mix.

Distribution of ELCO's main product is primarily through elder law attorneys, with ELCO's largest law firm partnership being a Wisconsin-based office. This relationship has been a long-standing partnership for over 20 years and is further strengthened by each side's robust market reputation. KBRA expects that ELCO's key distributor is unlikely to move to another carrier. However, the partnership is informal and not exclusive. The attorney-led firm has partnered with other insurers with larger franchises and superior capitalization compared to ELCO and works with these organizations to offer products, including some in states where ELCO is not licensed.

Exposure to Event Risk
As noted above, ELCO may be negatively affected by adverse changes in regulations that would impact its MCA product or distribution, the potential loss of its key distributor, and a spike in interest rates. Of late, the duration of ELCO's investment portfolio has shortened and currently matches well to the cash flows of liabilities.

Further, ELCO maintains a generally high credit quality investment portfolio comprised primarily of diversified fixed income securities and cash (combined approximately 93% of invested assets). While the credit quality of the fixed income portfolio is relatively high, bonds have increased vulnerability to interest rate risk during periods of high inflation and credit stress.

Company Profile and Risk Management

Management Profile and Strategy
ELCO's management team remains experienced within the life insurance, annuities (including MCAs) and pre-need lines of business. The company employs a niche strategy that is focused on profitable growth. In addition to strengthening

the senior management team (recent hires include a Senior VP, Chief Strategy Officer and a VP, Business Development). Continued, successful execution of initiatives within its strategic plan would be viewed favorably.

Senior management remains challenged by several strategic risks to the company, namely the aforementioned distribution concentration with a single elder law office. Although the risk of separation remains remote, in KBRA's opinion, a significant reduction of business between the two companies, all things equal, could have a sizeable negative impact on ELCO's revenue and profitability. Ongoing efforts to diversify distribution channels may serve to mitigate this risk over the longer term.

ELCO's strategy is to serve the senior market. ELCO remains focused on increasing life production and adding/strengthening its distribution relationships. Further, ELCO continues to improve its corporate governance and enhancements continue to target succession planning and middle management strength/depth.

Market Position

ELCO's market position is very strong within the product niche of MCAs, but the overall market penetration is currently low. This provides ELCO with significant growth potential and the opportunity for continued high margins. Moreover, from the provider's point of view, the MCA is a fairly dependable product given its irrevocability, certain term, and short duration. Due to the MCA being an estate planning product with Medicaid bearing significant costs, the product carries the regulatory risk that the MCA could be eliminated as a viable product line although management is unaware of any legislative changes currently under consideration that would cause this to occur.

Distribution

Supplementing the approximately 70% of MCA sales through the Wisconsin-based office, the remaining MCA policies are marketed among approximately 275 independent agents and independent marketing organizations (IMOs). Many of the insurance agents and IMOs work with elder law attorney firms, but there are some non-attorney agents. ELCO's non-MCA policies are marketed through external IMOs and PPGAs. Pre-need policies are marketed through owner/operators of funeral establishments. Recruitment and distribution efforts are bolstered by various conventions and seminars.

Management remains committed to growing ordinary life policies, but sales remain fairly limited at this time as life premiums comprise less than 3% of the total net premiums (including pre-need, which is the majority). ELCO has recently launched new products to diversify earnings.

Risk Management

The continued development of ELCO's risk management is viewed favorably relative to its rating level and business profile. Policies and procedures, frameworks, and positions have been formalized and are continuously reviewed. Risk management initiatives are supervised by ELCO's Chief Risk Officer, and strategically leverage external consultants and advisors. The company is taking steps to drive and support ERM awareness across all levels of the organization.

Moreover, ELCO's management has developed comprehensive risk functions in other areas, including disaster plans (e.g., loss of headquarters, loss of key management, and cyber threats), and it holds formal enterprise risk management meetings monthly. Key risks are identified annually and assigned primary risk owners. Risks are identified and quantified, or assigned tolerances, before mitigation efforts are determined. Risks are scored on financial, compliance, strategic, reputational, and operational impacts. A risk register is maintained and updated annually, as well as an annual ERM report. Top risks include cybersecurity, economic/market risk, operational, distribution, financial, actuarial, and compliance/regulatory. An emerging risk register is being developed, which should further enhance the organization's risk-based decision-making process.

Demonstrated financial modeling and stress testing capabilities include monthly liquidity tests as well as quarterly stress testing of its life and annuity exposures. ELCO also continues to build out its sensitivity analysis framework.

ESG Management

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

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

Environmental Factors

Within ELCO's ESG Policy, the company has identified key areas/initiatives to increase energy efficiency and reduce its carbon footprint. The company's product profile does not currently expose ELCO to material risks related to climate change. With respect to its asset portfolio, while ELCO has no specific ESG investment mandates, the company remains "ESG-minded" and continues to utilize third-party ESG ratings within its investment portfolio.

Social Factors

As a mutual company, ELCO is particularly committed to serving its policyholders, who are viewed as a critical stakeholder group. Equally important is ELCO's reputation for providing excellent customer service and financial stability as it provides the senior market with specialized products and insurance solutions.

As an organization, ELCO is committed to safe, inclusive, and respectful workplace practices. It invests in its community and nonprofit organizations to enhance the quality of life in its community. The company monitors Diversity, Equity, and Inclusion among employees, management, and its Board of Directors.

Governance Factors

The Board of Directors, through its Enterprise Risk Governance Team, provides oversight of ELCO's overall ESG Policy. The company has a relatively well-defined and adequate cybersecurity program which mainly leverages outside IT partners. ELCO maintains a multi-pronged approach encompassing multi-factor authentication, monthly staff training and testing, network upgrades, monitoring and response planning. The company also maintains a cyber liability policy.

External Considerations

As ELCO is the top company in the structure and its subsidiary is strategic and risk-neutral, there are no material external considerations.

Transfer Risk

Since all of ELCO's operations are in the United States (AAA/Stable) and conducted in USD, there is no currency transfer risk.