



Consolidated Financial Statements
Years ended 2020 and 2019

ATHENE LIFE RE LTD.
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April 20, 2021

Report of Independent Auditors

To the Board of Directors and Shareholder of Athene Life Re Ltd.

We have audited the accompanying consolidated financial statements of Athene Life Re Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, consolidated statements of comprehensive income (loss), consolidated statements of equity and consolidated statements of cash flows for the years then ended.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Athene Life Re Ltd. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PrattwaterhouseCoopers Ltd.

Chartered Professional Accountants

ATHENE LIFE RE LTD.
Consolidated Balance Sheets

<i>(In millions)</i>	December 31, 2020	December 31, 2019
Assets		
Investments		
Available-for-sale securities, at fair value (amortized cost: 2020 – \$75,092 and 2019 – \$66,626; allowance for credit losses: 2020 – \$103)	\$ 81,758	\$ 70,549
Trading securities, at fair value (consolidated variable interest entities: 2020 – \$0 and 2019 – \$16)	2,093	2,070
Equity securities, at fair value (portion at fair value: 2020 – \$331 and 2019 – \$247; consolidated variable interest entities: 2020 – \$0 and 2019 – \$6)	532	253
Mortgage loans (allowance for credit losses: 2020 – \$232 and 2019 – \$11; portion at fair value: 2020 – \$19 and 2019 – \$27; consolidated variable interest entities: 2020 – \$1,800 and 2019 – \$0)	15,264	14,306
Investment funds (portion at fair value: 2020 – \$161 and 2019 – \$154; consolidated variable interest entities: 2020 – \$0 and 2019 – \$683)	803	1,414
Policy loans	369	417
Funds withheld at interest (portion at fair value: 2020 – \$1,990 and 2019 – \$769)	49,588	16,024
Derivative assets	3,507	2,885
Short-term investments (portion at fair value: 2020 – \$221 and 2019 – \$406)	222	596
Other investments (allowance for credit losses: 2020 – \$3; portion at fair value: 2020 – \$105 and 2019 – \$93)	572	158
Total investments	154,708	108,672
Cash and cash equivalents (consolidated variable interest entities: 2020 – \$0 and 2019 – \$3)	7,278	4,012
Restricted cash	692	331
Investments in related parties		
Available-for-sale securities, at fair value (amortized cost: 2020 – \$6,445 and 2019 – \$3,781; allowance for credit losses: 2020 – \$1)	6,520	3,802
Trading securities, at fair value	1,529	785
Equity securities, at fair value	72	58
Mortgage loans (allowance for credit losses: 2020 – \$14 and 2019 – \$0)	674	653
Investment funds (portion at fair value: 2020 – \$2,119 and 2019 – \$248)	4,575	2,754
Funds withheld at interest (portion at fair value: 2020 – \$862 and 2019 – \$594)	13,030	13,220
Other investments (allowance for credit losses: 2020 – \$4)	468	487
Intercompany notes receivable (consolidated variable interest entities: 2020 – \$6 and 2019 – \$0)	61	23
Accrued investment income (related party: 2020 – \$38 and 2019 – \$27)	887	798
Reinsurance recoverable (portion at fair value: 2020 – \$2,100 and 2019 – \$1,821)	4,848	4,863
Deferred acquisition costs, deferred sales inducements and value of business acquired	4,906	5,008
Other assets (consolidated variable interest entities: 2020 – \$1 and 2019 – \$20)	1,205	999
Total assets	\$ 201,453	\$ 146,465

(Continued)

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Balance Sheets

<i>(In millions, except per share data)</i>	December 31, 2020	December 31, 2019
Liabilities and Equity		
Liabilities		
Interest sensitive contract liabilities (related party: 2020 – \$14,150 and 2019 – \$15,285; portion at fair value: 2020 – \$14,181 and 2019 – \$11,992)	\$ 144,566	\$ 102,745
Future policy benefits (related party: 2020 – \$1,610 and 2019 – \$1,302; portion at fair value: 2020 – \$2,376 and 2019 – \$2,301)	29,258	23,330
Other policy claims and benefits (related party: 2020 – \$2 and 2019 – \$13)	130	138
Dividends payable to policyholders	110	113
Short-term debt	—	475
Related party notes payable	1,393	—
Derivative liabilities	262	93
Payables for collateral on derivatives and securities to repurchase	3,801	3,255
Funds withheld liability (portion at fair value: 2020 – \$59 and 2019 – \$31)	452	408
Other liabilities (related party: 2020 – \$76 and 2019 – \$434; consolidated variable interest entities: 2020 – \$134 and 2019 – \$1)	1,988	1,142
Total liabilities	181,960	131,699
Equity		
Common stock – par value \$1 per share; authorized: 2020 – 3,000,000 shares and 2019 – 1,500,000 shares; issued and outstanding: 2020 – 2,420,000 shares and 2019 – 1,500,000 shares	2	2
Additional paid-in capital	5,930	5,042
Retained earnings	8,169	6,685
Accumulated other comprehensive income (related party: 2020 – \$(59) and 2019 – \$(77))	3,909	2,286
Total Athene Life Re Ltd. shareholders' equity	18,010	14,015
Noncontrolling interests	1,483	751
Total shareholders' equity	19,493	14,766
Total liabilities and equity	\$ 201,453	\$ 146,465

(Concluded)

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Income

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Revenues			
Premiums (related party: 2020 – \$322, 2019 – \$243 and 2018 – \$679)	\$ 5,963	\$ 6,382	\$ 3,462
Product charges (related party: 2020 – \$51, 2019 – \$54 and 2018 – \$34)	571	524	449
Net investment income (related party investment income: 2020 – \$903, 2019 – \$446 and 2018 – \$542; consolidated variable interest entities: 2020 – \$51, 2019 – \$74 and 2018 – \$56; and related party investment expense: 2020 – \$486, 2019 – \$427 and 2018 – \$350)	4,747	4,585	4,044
Investment related gains (losses) (related party: 2020 – \$802, 2019 – \$1,266 and 2018 – \$(23); and consolidated variable interest entities: 2020 – \$22, 2019 – \$5 and 2018 – \$(18))	3,457	4,679	(1,374)
Other revenues	37	37	21
Total revenues	14,775	16,207	6,602
Benefits and expenses			
Interest sensitive contract benefits (related party: 2020 – \$295, 2019 – \$511 and 2018 – \$63)	3,891	4,557	290
Amortization of deferred sales inducements	66	74	54
Future policy and other policy benefits (related party: 2020 – \$405, 2019 – \$365 and 2018 – \$707)	7,187	7,587	4,281
Amortization of deferred acquisition costs and value of business acquired	521	958	174
Dividends to policyholders	38	36	37
Policy and other operating expenses (related party: 2020 – \$11, 2019 – \$28 and 2018 – \$35)	732	604	519
Total benefits and expenses	12,435	13,816	5,355
Income before income taxes	2,340	2,391	1,247
Income tax expense	286	117	122
Net income	2,054	2,274	1,125
Less: Net income attributable to noncontrolling interests	453	(8)	—
Net income attributable to Athene Life Re Ltd. shareholders	\$ 1,601	\$ 2,282	\$ 1,125

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Comprehensive Income (Loss)

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Net income	\$ 2,054	\$ 2,274	\$ 1,125
Other comprehensive income (loss), before tax			
Unrealized investment gains (losses) on available for sale securities	2,228	3,469	(2,419)
Noncredit component of other-than-temporary impairment losses on AFS securities	—	(6)	(6)
Unrealized gains on hedging instruments	(104)	28	146
Foreign currency translation and other adjustments	5	1	(1)
Other comprehensive income (loss), before tax	2,129	3,492	(2,280)
Income tax expense (benefit) related to other comprehensive income (loss)	413	697	(429)
Other comprehensive income (loss)	1,716	2,795	(1,851)
Comprehensive income (loss)	3,770	5,069	(726)
Less: Comprehensive income (loss) attributable to noncontrolling Interests	540	(3)	—
Comprehensive income (loss) attributable to Athene Life Re Ltd. shareholders	\$ 3,230	\$ 5,072	\$ (726)

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Equity

<i>(In millions)</i>	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Life Re Ltd. shareholders' equity	Noncontrolling interests	Total shareholders' equity
Balance at December 31, 2017	\$ 2	\$ 4,264	\$ 3,286	\$ 1,421	\$ 8,973	\$ —	\$ 8,973
Adoption of accounting standard	—	—	42	(42)	—	—	\$ —
Net income	—	—	1,125	—	1,125	—	\$ 1,125
Other comprehensive loss	—	—	—	(1,851)	(1,851)	—	\$ (1,851)
Contribution from parent	—	910	—	—	910	—	\$ 910
Dividend to parent	—	—	(50)	—	(50)	—	\$ (50)
Balance at December 31, 2018	<u>2</u>	<u>5,174</u>	<u>4,403</u>	<u>(472)</u>	<u>9,107</u>	<u>—</u>	<u>9,107</u>
Adoption of accounting standard	—	—	—	—	—	—	—
Net income	—	—	2,282	—	2,282	(8)	2,274
Other comprehensive income	—	—	—	2,790	2,790	5	2,795
Stock-based compensation	—	15	—	—	15	—	15
Contributions from noncontrolling interests	—	(147)	—	(32)	(179)	754	575
Balance at December 31, 2019	<u>2</u>	<u>5,042</u>	<u>6,685</u>	<u>2,286</u>	<u>14,015</u>	<u>751</u>	<u>14,766</u>
Adoption of accounting standard	—	—	(117)	(6)	(123)	(2)	(125)
Net income	—	—	1,601	—	1,601	453	2,054
Other comprehensive income	—	—	—	1,629	1,629	87	1,716
Stock-based compensation	—	15	—	—	15	—	15
Return of capital	—	(47)	—	—	(47)	—	(47)
Contribution from parent	—	920	—	—	920	—	920
Contributions from noncontrolling interests	—	—	—	—	—	240	240
Distributions to noncontrolling Interests	—	—	—	—	—	(46)	(46)
Balance at December 31, 2020	<u><u>2</u></u>	<u><u>5,930</u></u>	<u><u>8,169</u></u>	<u><u>3,909</u></u>	<u><u>18,010</u></u>	<u><u>1,483</u></u>	<u><u>19,493</u></u>

See accompanying notes to consolidated financial statements

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ATHENE LIFE RE LTD.
Consolidated Statements of Cash Flows

(In millions)	Years ended December 31,		
	2020	2019	2018
Cash flows from operating activities			
Net income	\$ 2,054	\$ 2,274	\$ 1,125
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs and value of business acquired	521	958	174
Amortization of deferred sales inducements	66	74	54
Amortization of net investment premiums, discounts and other	(209)	—	—
Net accretion of net investment premiums, discounts and other (related party: 2020 – \$(7))	—	(94)	(178)
Payment at inception of coinsurance agreement	(723)	—	—
Payment at inception of reinsurance agreements, net (related party: 2020 – \$0, 2019 – \$0 and 2018 – \$(407))	—	—	(394)
Policy novation	—	(17)	—
Stock-based compensation	—	15	—
Net investment (income) loss (related party: 2020 – \$(485), 2019 – \$(162) and 2018 – \$(106); consolidated variable interest entities: 2020 – \$(29), 2019 – \$(2) and 2018 – \$0)	(274)	(160)	(87)
Net recognized (gains) losses on investments and derivatives (related party: 2020 – \$(28), 2019 – \$(16) and 2018 – \$16; consolidated variable interest entities: 2020 – \$6, 2019 – \$(7) and 2018 – \$17)	(744)	(2,482)	1,126
Foreign currency gains and losses	—	1	—
Deferred income tax expense	180	65	—
Stock-based compensation	18	—	—
Changes in operating assets and liabilities:			
Accrued investment income (related party: 2020 – \$(13), 2019 – \$(2) and 2018 – \$(15); consolidated variable interest entities: 2020 – \$(6), 2019 – \$0 and 2018 – \$0)	(128)	(120)	(66)
Policy acquisition costs deferred	(632)	(646)	(919)
Interest sensitive contract liabilities (related party: 2020 – \$276, 2019 – \$471 and 2018 – \$30)	3,347	4,003	(365)
Future policy benefits, other policy claims and benefits, dividend payable to policyholders and reinsurance recoverable (related party: 2020 – \$291, 2019 – \$295 and 2018 – \$109)	3,247	1,171	2,457
Current income tax recoverable	(55)	36	—
Funds withheld assets and liabilities (related party: 2020 – \$(902), 2019 – \$(1,368) and 2018 – \$1)	(2,326)	(2,633)	270
Other assets and liabilities (variable interest entities: 2020 – \$(418))	(70)	237	(207)
Intercompany items	(2)	—	—
Net cash provided by operating activities	4,270	2,682	2,990

(Continued)

See accompanying notes to consolidated financial statements

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ATHENE LIFE RE LTD.

Consolidated Statements of Cash Flows

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Cash flows from investing activities			
Sales, maturities and repayments of:			
Available-or-sale securities (related party: 2020 – \$284, 2019 – \$252 and 2018 – \$179)	\$ 11,346	\$ 12,014	\$ 11,976
Trading securities (related party: 2020 – \$31, 2019 – \$40 and 2018 – \$30)	170	272	348
Equity securities (related party: 2020 – \$5, 2019 – \$72 and 2018 – \$29)	820	254	132
Mortgage loans- (related party: 2020 – \$12, 2019 – \$4 and 2018 – \$13)	2,162	2,070	1,373
Investment funds (related party: 2020 – \$691, 2019 – \$291 and 2018 – \$305; consolidated variable interest entities: 2020 – \$0, 2019 – \$101 and 2018 – \$217)	788	516	698
Derivative instruments and other invested assets (related party: 2020 – \$0, 2019 – \$291 and 2018 – \$13)	2,505	1,503	1,859
Short term investments (related party: 2020 – \$28, 2019 – \$0 and 2018 – \$172)	868	398	534
Purchases of:			
Available-for-sale securities (related party: 2020 – \$3, 2019 – \$(2,895) and 2018 – \$(809))	(23,330)	(16,433)	(14,474)
Trading securities (related party: 2020 – \$(278), 2019 – \$(6) and 2018 – \$(4))	(341)	(495)	(54)
Equity securities (related party: 2020 – \$(19), 2019 – \$(262) and 2018 – \$(149))	(1,362)	(451)	(334)
Mortgage loans (related party: 2020 – \$(61), 2019 – \$(366) and 2018 – \$(389))	(4,091)	(6,391)	(5,745)
Investment Funds (related party: 2020 – \$(1,827), 2019 – \$(726) and 2018 – \$(1,140); consolidated variable interest entities: 2020 – \$0, 2019 – \$(110) and 2018 – \$(83))	(1,082)	(992)	(1,458)
Derivative instruments and other investment assets (related party: 2020 – \$0, 2019 – \$(100) and 2018 – \$(150))	(1,879)	(1,295)	(1,348)
Short-term investments- (related party: 2020 – \$(28), 2019 – \$0 and 2018 – \$(121))	(617)	(802)	(473)
Cash settlement of derivatives	—	38	
Net changes of cash collateral posted for derivative transactions	—	3	—
Policy loans, net	—	33	—
Issuances of intercompany note receivable	—	—	(104)
Other investing activities, net	(197)	(144)	(35)
Proceeds from note receivable - related party	778	174	—
Investment in note receivable	(740)	(136)	—
Issuances of loans to subsidiaries	237	—	—
Receipts on loans to subsidiaries	(50)	—	—
Net cash used in investing activities	(14,015)	(9,864)	(7,105)

(Continued)

See accompanying notes to consolidated financial statements

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ATHENE LIFE RE LTD.
Consolidated Statements of Cash Flows

(In millions)	Years ended December 31,		
	2020	2019	2018
Cash flows from financing activities			
Capital contributions	920	—	95
Proceeds from short-term debt	\$ —	\$ 475	\$ 183
Repayment of short-term debt	(75)	—	(183)
Proceeds from intercompany notes payable	—	—	20
Repayment of intercompany notes payable	—	—	(36)
Deposits on investment-type policies and contracts (related party: 2020 – \$86, 2019 – \$146 and 2018 – \$151)	18,836	11,569	10,262
Withdrawals on investment-type policies and contracts (related party: 2020 – \$(382), 2019 – \$(455) and 2018 – \$(252))	(7,068)	(6,548)	(6,205)
Withdrawals for coinsurance agreements on investment-type contracts	66	—	—
Payments for coinsurance agreements on investment-type contracts, net	(93)	(44)	(2)
Net change in cash collateral posted for derivative transactions	545	2,288	(1,354)
Dividends paid	—	—	(50)
Capital contributions from noncontrolling interests	240	575	—
Capital distributions to noncontrolling interests	(47)	—	—
Other financing activities, net	133	(81)	117
Intercompany items	(85)	—	—
Net cash provided by financing activities	<u>13,372</u>	<u>8,234</u>	<u>2,847</u>
Effect of exchange rate changes on cash and cash equivalents	—	—	—
Net increase (decrease) in cash and cash equivalents	3,627	1,052	(1,268)
Cash and cash equivalents at beginning of year ¹	4,343	3,291	4,559
Cash and cash equivalents at end of year ¹	<u>\$ 7,970</u>	<u>\$ 4,343</u>	<u>\$ 3,291</u>
Supplementary information			
Cash paid (refunded) for taxes	\$ 168	\$ (9)	\$ 52
Cash paid for interest	36	49	3
Non-cash transactions			
Deposits on investment-type policies and contracts through reinsurance agreements (related party: 2020 – \$344, 2019 – \$217 and 2018 – \$17,619)	30,172	782	26,532
Withdrawals on investment-type policies and contracts through reinsurance agreements (related party: 2020 – \$1,435, 2019 – \$1,753 and 2018 – \$1,050)	5,010	3,393	1,843
Investments received from settlements on reinsurance agreements	53	56	52
Investments received from settlements on related party reinsurance agreements	—	149	—
Investments received from pension risk transfer premiums	2,364	5,235	435
Investments exchanged for related party investments	516	—	95
Related party investments exchanged for investments	—	—	115
Reduction in investments and other assets and liabilities relating to reinsurance	4,298	—	—
Ceding commission on reinsurance agreements settled in investments	(1,206)	—	266
Related party investments received in exchange for the issuance of ATH shares	1,147	—	815

¹ Includes cash and cash equivalents, restricted cash, and cash and cash equivalents of consolidated variable interest entities.

(Concluded)

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.

Notes to Consolidated Financial Statements

1. Business, Basis of Presentation and Significant Accounting Policies

Athene Life Re Ltd. (ALRe), a Bermuda exempted company, together with its subsidiaries (collectively, we, our, us, or the Company), is a leading retirement services company. We conduct business primarily through the following consolidated subsidiaries:

- Our non-U.S. reinsurance subsidiaries, to which ALRe's other insurance subsidiaries and third-party ceding companies directly and indirectly reinsure a portion of their liabilities, including Athene Annuity Re Ltd. (AARE); and
- Athene USA Corporation, an Iowa corporation (together with its subsidiaries, Athene USA) which primarily issues retirement savings products.

ALRe is wholly owned by Athene Holding Ltd. (AHL), a Bermuda exempted company, whose Class A common shares are listed on the New York Stock Exchange (symbol: ATH).

Consolidation and Basis of Presentation—Our consolidated financial statements include our wholly owned subsidiaries and investees in which we hold a controlling financial interest, including variable interest entities (VIEs). Investees in which we do not hold a controlling financial interest, but have the ability to exercise significant influence over operating and financing decisions, other than investments for which we have elected the fair value option, are accounted for under the equity method. Intercompany balances and transactions have been eliminated.

For entities that are consolidated, but not wholly owned, we allocate a portion of the income or loss and corresponding equity to the owners other than us. We include the aggregate of the income or loss and corresponding equity that is not owned by us in noncontrolling interests in the consolidated financial statements.

We report investments in related parties separately, as further described in the accounting policies that follow.

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. There are material risks and uncertainties surrounding the spread of the Coronavirus Disease of 2019 (COVID-19), which has resulted in significant volatility in the financial markets. Our estimates may vary as more information about the extent to which COVID-19 and the resulting impact on economic conditions and the financial markets become known. Actual experience could materially differ from these estimates and assumptions. Our principal estimates impact:

- fair value of investments;
- impairment of investments and allowances for expected credit losses;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs (DAC), deferred sales inducements (DSI) and value of business acquired (VOBA);
- future policy benefit reserves; and
- valuation allowances on deferred tax assets.

Additional details around these principal estimates and assumptions are discussed in the significant accounting policies that follow and the related footnote disclosures.

Summary of Significant Accounting Policies

Investments

Fixed Maturity Securities – Fixed maturity securities includes bonds, collateralized loan obligations (CLO), asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and redeemable preferred stock. We classify fixed maturity securities as available-for-sale (AFS) or trading at the time of purchase and subsequently carry them at fair value. Fair value hierarchy and valuation methodologies are discussed in *Note 5 – Fair Value*. Classification is dependent on a variety of factors including our expected holding period, election of the fair value option and asset and liability matching.

AFS Securities – AFS securities are held at fair value on the consolidated balance sheets with unrealized gains and losses, net of allowances for expected credit losses, tax and adjustments to DAC, DSI, VOBA and future policy benefits, if applicable, generally reflected in accumulated other comprehensive income (loss) (AOCI) on the consolidated balance sheets. Unrealized gains or losses relating to identified risks within AFS securities in fair value hedging relationships are reflected in investment related gains (losses) on the consolidated statements of income.

Trading Securities – We elected the fair value option for certain fixed maturity securities. These fixed maturity securities are classified as trading, with changes to fair value included in investment related gains (losses) on the consolidated statements of income. Although the securities are classified as trading, the trading activity related to these investments is primarily focused on asset and liability matching activities and is not intended to be an income strategy based on active trading. As such, the activity related to these investments on the consolidated statements of cash flows is classified as investing activities.

ATHENE LIFE RE LTD.

Notes to Consolidated Financial Statements

We generally record security transactions on a trade date basis, with any unsettled trades recorded in other assets or other liabilities on the consolidated balance sheets. Bank loans, private placements and investment funds are recorded on settlement date basis.

Equity Securities – Equity securities includes common stock, mutual funds and non-redeemable preferred stock. Equity securities with readily determinable fair values are carried at fair value with subsequent changes in fair value recognized in net income. We have elected to account for certain equity securities without readily determinable fair values that do not qualify for the practical expedient to estimate fair values based on net asset value (NAV) per share (or its equivalent) at cost less impairment, subject to adjustments based on observable price changes in orderly transactions for identical or similar investments of the same issuer.

Purchased Credit Deteriorated (PCD) Investments – We purchase certain structured securities, primarily RMBS, and re-performing mortgage loans having experienced a more-than-insignificant deterioration in credit quality since their origination which upon our assessment have been determined to meet the definition of PCD investments. Additionally, structured securities classified as beneficial interests follow the initial measurement guidance for PCD investments if there is a significant difference between contractual cash flows adjusted for expected prepayments and expected cash flows at the date of recognition. The initial allowance for credit losses for PCD investments is recorded through a gross-up adjustment to the initial amortized cost. For mortgage loans, the initial allowance is determined using the methodology described in the *Credit Losses – Assets Held at Amortized Cost and Off-Balance Sheet Credit Exposures* section. For structured securities classified as beneficial interests, the initial allowance is calculated as the present value of the difference between contractual cash flows adjusted for expected prepayments and expected cash flows at the date of recognition. The non-credit purchase discount or premium is amortized into investment income using the effective interest method. The credit discount, represented by the allowance for expected credit losses, is remeasured each period following the policies for measuring credit losses described in the *Credit Losses – Assets Held at Amortized Cost and Off-Balance Sheet Credit Exposures* and *Credit Losses – Available-for-Sale Securities* sections below.

Purchased Credit Impaired (PCI) Investments – Prior to January 1, 2020, certain securities purchased with deterioration in credit quality since their issuance were accounted for as PCI investments. The difference between the undiscounted expected future cash flows of the PCI investment and the recorded investment represented the initial accretable yield, which was accreted into investment income, net of related expenses, over its remaining life on a level-yield basis. The difference between the contractually required payments on the PCI investment and the undiscounted expected future cash flows represented the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference could change. PCI investments are presented on the consolidated financial statements consistent with AFS securities or mortgage loans depending on the underlying investment. Quarterly, we evaluated the undiscounted expected future cash flows associated with PCI investments based on updates to key assumptions.

Mortgage Loans – Mortgage loans are primarily stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of allowances for expected credit losses. Interest income is accrued on the principal amount of the loan based on its contractual interest rate. We record amortization of premiums and discounts using the effective yield method and contractual cash flows on the underlying loan. We accrue interest on loans until it is probable we will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income on the consolidated statements of income. We have also elected the fair value option on a portion of our mortgage loans.

Investment Funds – We invest in certain non-fixed income, alternative investments in the form of limited partnerships or similar legal structures (investment funds). For investment funds in which we do not hold a controlling financial interest, and therefore are not required to consolidate, we typically account for these investments using the equity method, where the cost is recorded as an investment in the fund, or we have elected the fair value option. Adjustments to the carrying amount reflect our pro rata ownership percentage of the operating results as indicated by NAV in the investment fund financial statements, which can be on a lag of up to three months when investee information is not received in a timely manner.

We record our proportionate share of investment fund income within net investment income on the consolidated statements of income. Contributions paid or distributions received by us are recorded directly to the investment fund balance as an increase to carrying value or as a return of capital, respectively.

Policy Loans – Policy loans are funds provided to policyholders in return for a claim on the policyholder's account balance. The funds provided are limited to a specified percentage of the account balance. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policyholder's account balance. Policy loans are reported at the unpaid principal balance. Interest income is recorded as earned using the contract interest rate and is reported in net investment income on the consolidated statements of income.

Funds Withheld at Interest – Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with funds withheld coinsurance (funds withheld) and modified coinsurance (modco) reinsurance agreements in which we are the reinsurer. Generally, assets equal to statutory reserves are withheld and legally owned by the ceding company, and any excess or shortfall is settled periodically. The underlying agreements contain embedded derivatives as discussed below.

Short-term Investments – Short-term investments consists of financial instruments with maturities of greater than three months but less than twelve months when purchased. Short-term debt securities are accounted for as trading or AFS consistent with our policies for those

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investments. Short-term loans are carried at amortized cost. Fair values are determined consistent with methodologies described in *Note 5 – Fair Value* for the respective investment type.

Other Investments – Other investments includes, but is not limited to, term loans collateralized by mortgages on residential and commercial real estate. Mortgage collateralized term loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of allowances for expected credit losses. Interest income is accrued on the principal amount of the loan based on its contractual interest rate. We record amortization of premiums and discounts using the effective interest method and contractual cash flows on the underlying loan. We accrue interest on loans until it is probable we will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums and discounts, and prepayment and other fees are reported in net investment income on the consolidated statements of income.

Securities Repurchase and Reverse Repurchase Agreements – Securities repurchase and reverse repurchase transactions involve the temporary exchange of securities for cash or other collateral of equivalent value, with agreement to redeliver a like quantity of the same or similar securities at a future date and at a fixed and determinable price. We evaluate transfers of securities under these agreements to repurchase or resell to determine whether they satisfy the criteria for accounting treatment as secured borrowing or lending arrangements. Agreements not meeting the criteria would require recognition of the transferred securities as sales or purchases, with related forward repurchase or resale commitments. All of our securities repurchase transactions are accounted for as secured borrowings and are included in payables for collateral on derivatives and securities to repurchase on the consolidated balance sheets. Earnings from investing activities related to the cash received under our securities repurchase arrangements are included in net investment income on the consolidated statements of income. The associated borrowing cost is included in policy and other operating expenses on the consolidated statements of income. The investments purchased in reverse repurchase agreements, which represent collateral on a secured lending arrangement, are not reflected in our consolidated balance sheets; however, the secured lending arrangement is recorded as a short-term investment for the principal amount loaned under the agreement.

Investment Income – We recognize investment income as it accrues or is legally due, net of investment management and custody fees. Investment income on fixed maturity securities includes coupon interest, as well as the amortization of any premium and the accretion of any discount. Investment income on equity securities represents dividend income and preferred coupons interest. Realized gains and losses on sales of investments are included in investment related gains (losses) on the consolidated statements of income. Realized gains and losses on investments sold are determined based on a first-in first-out method.

Credit Losses – Assets Held at Amortized Cost and Off-Balance Sheet Credit Exposures – We establish an allowance for expected credit losses at the time of purchase for assets held at amortized cost, which primarily includes our residential and commercial mortgage loan portfolios, but also includes certain other loans and reinsurance assets. The allowance for expected credit losses represents the portion of the asset's amortized cost basis that we do not expect to collect due to credit losses over the asset's contractual life, considering past events, current conditions, and reasonable and supportable forecasts of future economic conditions or macroeconomic forecasts. We use a quantitative probability of default and loss given default methodology to develop our estimate of expected credit loss. We develop the estimate on a collective basis factoring in the risk characteristics of the assets in the portfolio. If an asset does not share similar risk characteristics with other assets, the asset is individually assessed.

Allowance estimates are highly dependent on expectations of future economic conditions and macroeconomic forecasts, which involve significant judgment and subjectivity. We use quantitative modeling to develop the allowance for expected credit losses. Key inputs into the model include data pertaining to the characteristics of the assets, historical losses and current market conditions. Additionally, the model incorporates management's expectations around future economic conditions and macroeconomic forecasts over a reasonable and supportable forecast period, after which the model reverts to historical averages. These inputs, the reasonable and supportable forecast period, and reversion to historical average technique are subject to a formal governance and review process by management. Additionally, management considers qualitative adjustments to the model output to the extent that any relevant information regarding the collectability of the asset is available and not already considered in the quantitative model. If we determine that a financial asset has become collateral dependent, which we determine to be the point at which foreclosure is probable, the allowance is measured as the difference between amortized cost and the fair value of the collateral, less any expected costs to sell.

The initial allowance for invested assets held at amortized cost other than for PCD investments, and subsequent changes in the allowance including PCD investments, are recorded through a charge to credit loss expense within investment related gains (losses) on the consolidated statements of income. Credit loss expense for reinsurance assets held at amortized cost is recorded through policy and other operating expenses on the consolidated statements of income.

We limit accrued interest income on loans to 90 days of interest. Once a loan becomes 90 days past due, the loan is put on non-accrual status and any accrued interest is written off. Once a loan is on non-accrual status, we first apply any payments received to the principal of the loan, and once the principal is repaid, we include amounts received in net investment income. We have elected to present accrued interest receivable separately in accrued investment income on the consolidated balance sheets. We have also elected the practical expedient to exclude the accrued interest receivable from the amortized cost balance used to calculate the allowance given our policy to write off such balances in a timely manner. Any write-off of accrued interest is recorded through a reversal of net investment income on the consolidated statements of income.

Upon determining that all or a portion of the amortized cost of an asset is uncollectible, which is generally when all efforts for collection are exhausted, the amortized cost is written off against the existing allowance. Any write off in excess of the existing allowance is recorded through credit loss expense within investment related gains (losses) on the consolidated statements of income.

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We also have certain off-balance sheet credit exposures for which we establish a liability for expected credit losses. These exposures primarily relate to commitments to fund commercial or residential mortgage loans that are not unconditionally cancelable. The methodology for estimating the liability for these credit exposures is consistent with that described above, with the additional consideration pertaining to the probability of funding. At the time the commitment expires or is funded, the liability is reversed and an allowance for expected credit losses is established, as applicable. The liability for off-balance sheet credit exposures is included in other liabilities on the consolidated balance sheets. The establishment of the initial liability and all subsequent changes are recorded through credit loss expense within investment related gains (losses) on the consolidated statements of income.

Credit Losses – Available-for-Sale Securities – We evaluate AFS securities with a fair value that has declined below amortized cost to determine how the decline in fair value should be recognized. If we determine, based on the facts and circumstances related to the specific security, that we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost, any existing allowance for expected credit losses is reversed and the amortized cost of the security is written down to fair value. If neither of these conditions exist, we evaluate whether the decline in fair value has resulted from a credit loss or other factors.

For non-structured AFS securities, we qualitatively consider relevant facts and circumstances in evaluating whether a decline below fair value is credit-related. Relevant facts and circumstances include but are not limited to: (1) the extent to which the fair value is less than amortized cost; (2) changes in agency credit ratings, (3) adverse conditions related to the security's industry or geographical area, (4) failure to make scheduled payments, and (5) other known changes in the financial condition of the issuer or quality of any underlying collateral or credit enhancements. For structured AFS securities meeting the definition of beneficial interests, the qualitative assessment is bypassed, and any securities having experienced a decline in fair value below amortized cost move directly to a quantitative analysis.

If upon completion of this analysis it is determined that a potential credit loss exists, an allowance for expected credit losses is established equal to the amount by which the present value of expected cash flows is less than amortized cost, limited by the amount by which fair value is less than amortized cost. A non-structured security's cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using security-specific facts and circumstances including timing, security interests and loss severity. A structured security's cash flow estimates are based on security-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity, prepayments and structural support, including subordination and guarantees. The expected cash flows are discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete a structured security. For securities with a contractual interest rate that varies based on changes in an independent factor, such as an index or rate, the effective interest rate is calculated based on the factor as it changes over the life of the security. Inherently under the discounted cash flow model, both the timing and amount of expected cash flows affect the measurement of the allowance for expected credit losses.

The allowance for expected credit losses is remeasured each period for the passage of time, any change in expected cash flows, and changes in the fair value of the security. All impairments, whether intent or requirement to sell or credit-related, are recorded through a charge to credit loss expense within investment related gains (losses) on the consolidated statements of income. All changes in the allowance for expected credit losses are recorded through credit loss expense within investment related gains (losses) on the consolidated statements of income.

We have elected to present accrued interest receivable separately in accrued investment income on the consolidated balance sheets. We have also elected the practical expedient to exclude the accrued interest receivable from the amortized cost balance used to calculate the allowance for expected credit losses, as we have a policy to write off such balances in a timely manner, when they become 90 days past due. Any write-off of accrued interest is recorded through a reversal of net investment income on the consolidated statements of income.

Upon determining that all or a portion of the amortized cost of an asset is uncollectible, which is generally when all efforts for collection are exhausted, the amortized cost is written off against the existing allowance. Any write off in excess of the existing allowance is recorded through credit loss expense within investment related gains (losses) on the consolidated statements of income.

Derivative Instruments—We invest in derivatives to hedge the risks experienced in our ongoing operations, such as equity, interest rate and cash flow risks, or for other risk management purposes, which primarily involve managing liability risks associated with our indexed annuity products and reinsurance agreements. Derivatives are financial instruments with values that are derived from interest rates, foreign exchange rates, financial indices or other combinations of an underlying and notional. Derivative assets and liabilities are carried at fair value on the consolidated balance sheets. We elect to present any derivatives subject to master netting provisions as a gross asset or liability and gross of collateral. Disclosures regarding balance sheet presentation of derivatives subject to master netting agreements are discussed in *Note 3 – Derivative Instruments*. We may designate derivatives as cash flow, fair value or net investment hedges.

Hedge Documentation and Hedge Effectiveness – To qualify for hedge accounting, at the inception of the hedging relationship, we formally document our designation of the hedge as a cash flow, fair value or net investment hedge and our risk management objective and strategy for undertaking the hedging transaction. In this documentation, we identify how the hedging instrument is expected to hedge the designated risks related to the hedged item and the method that will be used to retrospectively and prospectively assess the hedge effectiveness and the method which will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the hedge accounting relationship.

For a cash flow hedge, all changes in the fair value of the hedging derivative are reported within AOCI and the related gains or losses on the derivative are reclassified into the consolidated statements of income when the cash flows of the hedged item affect earnings.

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For a fair value hedge, changes in the fair value of the hedging derivative and changes in the fair value of the hedged item related to the designated risk being hedged are reported on the consolidated statements of income according to the nature of the risk being hedged. Additionally, changes in the fair value of amounts excluded from the assessment of effectiveness are recorded in AOCI and amortized into income over the life of the hedge accounting relationship.

For a net investment hedge, changes in the fair value of the hedging derivative are reported within AOCI to offset the translation adjustments for subsidiaries with functional currencies other than US dollar.

We discontinue hedge accounting prospectively when: (1) we determine the derivative is no longer highly effective in offsetting changes in the estimated cash flows or fair value of a hedged item; (2) the derivative expires, is sold, terminated, or exercised; or (3) the derivative is de-designated as a hedging instrument. When hedge accounting is discontinued, the derivative continues to be carried on the consolidated balance sheets at fair value, with changes in fair value recognized in investment related gains (losses) on the consolidated statements of income.

For a derivative not designated as a hedge, changes in the derivative's fair value and any income received or paid on derivatives at the settlement date are included in investment related gains (losses) on the consolidated statements of income.

Embedded Derivatives – We issue and reinsure products, primarily fixed indexed annuity products, or purchase investments that contain embedded derivatives. If we determine the embedded derivative has economic characteristics not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately, unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as the entire contract is carried at fair value with all related gains and losses recognized in investment related gains (losses) on the consolidated statements of income. Embedded derivatives are carried on the consolidated balance sheets at fair value in the same line item as the host contract.

Fixed indexed annuity, index-linked variable annuity and indexed universal life insurance contracts allow the policyholder to elect a fixed interest rate return or an equity market component for which interest credited is based on the performance of certain stock market indices. The equity market option is an embedded derivative. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of the embedded derivatives is computed as the present value of benefits attributable to the excess of the projected policy contract values over the projected minimum guaranteed contract values. The projections of policy contract values are based on assumptions for future policy growth, which include assumptions for expected index credits on the next policy anniversary date, future equity option costs, volatility, interest rates and policyholder behavior assumptions including lapses and the use of benefit riders. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as were used to project policy contract values. The embedded derivative cash flows are discounted using a rate that reflects our own credit rating. The host contract is established at contract inception as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. The host contract accretion rate is updated each quarter so that the present value of actual and expected guaranteed cash flows is equal to the initial host value. Changes in the fair value of embedded derivatives associated with fixed indexed annuities, index-linked variable annuities and indexed universal life insurance contracts are included in interest sensitive contract benefits on the consolidated statements of income.

Additionally, reinsurance agreements written on a funds withheld or modco basis contain embedded derivatives. We have determined that the right to receive or obligation to pay the total return on the assets supporting the funds withheld at interest or funds withheld liability, respectively, represents a total return swap with a floating rate leg. The fair value of embedded derivatives on funds withheld and modco agreements is computed as the unrealized gain (loss) on the underlying assets and is included within funds withheld at interest and funds withheld liability on the consolidated balance sheets for assumed and ceded agreements, respectively. The change in the fair value of the embedded derivatives is recorded in investment related gains (losses) on the consolidated statements of income. Assumed and ceded earnings from funds withheld at interest, funds withheld liability and changes in the fair value of embedded derivatives are reported in operating activities on the consolidated statements of cash flows. Contributions to and withdrawals from funds withheld at interest and funds withheld liability are reported in operating activities on the consolidated statements of cash flows.

Variable Interest Entities—An entity that does not have sufficient equity to finance its activities without additional financial support, or in which the equity investors, as a group, do not have the characteristics typically afforded to common shareholders is a VIE. The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and may require significant judgment. Our investment funds typically qualify as VIEs and are evaluated for consolidation under the VIE model.

We are required to consolidate a VIE if we are the primary beneficiary, defined as the variable interest holder with both the power to direct the activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. We determine whether we are the primary beneficiary of an entity based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose and our relative exposure to the related risks of the VIE. Since affiliates of Apollo Global Management, Inc. (AGM and, together with its subsidiaries, Apollo), a related party, are the decision makers in certain of the investment funds, we and a member of our related party group may together have the characteristics of the primary beneficiary of an investment fund. In this situation, we have concluded we are not under common control, as defined by GAAP, with the related party, and therefore we do not consolidate because the related party, whom is the decision maker, holds a significant indirect financial interest in the investee through its ownership interest in us. We reassess the VIE and primary beneficiary determinations on an ongoing basis.

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For entities that we do not consolidate but can exercise significant influence over the entities' operating and financing decisions, we record our investment under the equity method. If we do not consolidate and do not have significant influence, generally on investment funds in which we own a less than 3% interest, we elect the fair value option.

See *Note 4 – Variable Interest Entities* for discussion of our interest in entities that meet the definition of a VIE.

Reinsurance—We assume and cede insurance and investment contracts under coinsurance, funds withheld and modco. We follow reinsurance accounting for transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must transfer insurance risk arising from uncertainties about both underwriting and timing risks. Cessions under reinsurance do not discharge our obligations as the primary insurer, unless the requirements of assumption reinsurance have been met. We generally have the right of offset on reinsurance contracts, but have elected to present reinsurance settlement amounts due to and from the Company on a gross basis.

Assets and liabilities assumed or ceded under coinsurance, funds withheld, or modco are presented gross on the consolidated balance sheets. For investment contracts, the change in assumed and ceded reserves are presented net in interest sensitive contract benefits on the consolidated statements of income. For insurance contracts, the change in assumed and ceded reserves and benefits are presented net in future policy and other policy benefits on the consolidated statements of income. Assumed or ceded premiums are included in premiums on the consolidated statements of income.

Accounting for reinsurance requires the use of assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. We attempt to minimize our counterparty credit risk through the structuring of the terms of our reinsurance agreements, including the use of trusts, and we monitor credit ratings of counterparties for signs of declining credit quality. When a ceding company does not report information on a timely basis, we record accruals based on the best available information at the time, which includes the reinsurance agreement terms and historical experience. We periodically compare actual and anticipated experience to the assumptions used to establish reinsurance assets and liabilities. See *Note 6 – Reinsurance* for more information.

Funds Withheld and ModCo – For business assumed or ceded on a funds withheld or modco basis, a funds withheld segregated portfolio, comprised of invested assets and other assets is maintained by the ceding entity, which is sufficient to support the current balance of statutory reserves. The fair value of the funds withheld is recorded as a funds withheld asset or liability and any excess or shortfall in relation to statutory reserves is settled periodically.

Cash and Cash Equivalents—Cash and cash equivalents include deposits and short-term highly liquid investments with a maturity of less than 90 days from the date of acquisition. Amounts included are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Restricted Cash—Restricted cash primarily consists of cash and cash equivalents held in funds in trust as part of certain coinsurance agreements to secure statutory reserves and liabilities of the coinsured parties. Restricted cash is reported separately on the consolidated balance sheets, but is included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the consolidated statements of cash flows.

Investments in Related Parties—Investments in related parties and associated earnings, other comprehensive income and cash flows are separately identified on the consolidated financial statements and accounted for consistently with the policies described above for each category of investment. Investments in related parties are primarily comprised of investments over which Apollo can exercise significant influence.

Deferred Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired

Deferred Acquisition Costs and Deferred Sales Inducements – Costs related directly to the successful acquisition of new, or renewal of, insurance or investment contracts are deferred to the extent they are recoverable from future premiums or gross profits. These costs consist of commissions and policy issuance costs, as well as sales inducements credited to policyholder account balances, and are included in deferred acquisition costs, deferred sales inducements and value of business acquired on the consolidated balance sheets. We perform periodic tests, including at issuance, to determine if the deferred costs are recoverable. If we determine that the deferred costs are not recoverable, we record a cumulative charge to the current period.

Deferred costs related to universal life-type policies and investment contracts with significant revenue streams from sources other than investment of the policyholder funds are amortized over the lives of the policies, based upon the proportion of the present value of actual and expected deferred costs to the present value of actual and expected gross profits to be earned over the life of the policies. Gross profits include investment spread margins, surrender charge income, policy administration charges and expenses, changes in the guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves and realized gains and losses on investments. Current period gross profits for fixed indexed annuities also include the change in fair value of both freestanding and embedded derivatives. Estimates of the expected gross profits and margins are based on assumptions using accepted actuarial methods related to policyholder behavior, including lapses and the utilization of benefit riders, mortality, yields on investments supporting the liabilities, future interest credited amounts (including indexed related credited amounts on fixed indexed annuity products), and other policy changes as applicable, and the level of expenses necessary to maintain the policies over their expected lives. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process and adjust the DAC and DSI balances due to the other comprehensive income (OCI) effects of unrealized

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investment gains and losses on AFS securities. We also periodically revise the key assumptions used in the amortization calculation, which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Deferred costs related to investment contracts without significant revenue streams from sources other than investment of the policyholder funds are amortized using the effective interest method. The effective interest method amortizes the deferred costs by discounting the future liability cash flows at a break-even rate. The break-even rate is solved for such that the present value of future liability cash flows is equal to the net liability at the inception of the contract.

Value of Business Acquired – We establish VOBA for blocks of insurance contracts acquired through the acquisition of insurance entities. We record the fair value of the liabilities assumed in two components: reserves and VOBA. Reserves are established using our best estimate assumptions consistent with the policies described below for future policy benefits and interest sensitive contract liabilities. VOBA is the difference between the fair value of the liabilities and the reserves. VOBA can be either positive or negative. Any negative VOBA is recorded to the same financial statement line on the consolidated balance sheets as the associated reserves. Positive VOBA is recorded in deferred acquisition costs, deferred sales inducements and value of business acquired on the consolidated balance sheets. We perform periodic tests to determine if the VOBA remains recoverable. If we determine that VOBA is not recoverable, we record a cumulative charge to the current period.

VOBA associated with investment contracts without significant revenue streams from sources other than investment of the policyholder funds is amortized using the effective interest method. VOBA associated with immediate annuity contracts classified as long duration contracts is amortized at a constant rate in relation to net policyholder liabilities. For universal life-type policies and investment contracts with significant revenue streams from sources other than investment of policyholder funds, VOBA is amortized in relation to the present value of estimated gross profits using methods consistent with those used to amortize DAC and DSI. Negative VOBA is amortized at a constant rate in relation to applicable net policyholder liabilities.

See *Note 7 – Deferred Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired* for further discussion.

Interest Sensitive Contract Liabilities—Universal life-type policies and investment contracts include fixed indexed and traditional fixed annuities in the accumulation phase, funding agreements, universal life insurance, fixed indexed universal life insurance, and immediate annuities without significant mortality risk (which includes pension risk transfer (PRT) annuities without life contingencies). We carry liabilities for fixed annuities, universal life insurance, and funding agreements at the account balances without reduction for potential surrender or withdrawal charges, except for a block of universal life business ceded to Global Atlantic Financial Group Limited (together with its subsidiaries, Global Atlantic) which we carry at fair value. Liabilities for immediate annuities without significant mortality risk are calculated as the present value of future liability cash flows and policy maintenance expenses discounted at contractual interest rates. For a discussion regarding our indexed products, refer above to the embedded derivative discussion.

Changes in the interest sensitive contract liabilities, excluding deposits and withdrawals, are recorded in interest sensitive contract benefits or product charges on the consolidated statements of income. Interest sensitive contract liabilities are not reduced for amounts ceded under reinsurance agreements which are reported as reinsurance recoverable on the consolidated balance sheets. See the reinsurance accounting policy discussed in *–Reinsurance* above and *Note 6 – Reinsurance* for more information on reinsurance.

Future Policy Benefits—We issue contracts classified as long-duration, which includes term and whole life, accident and health, disability, and deferred and immediate annuities with life contingencies (which includes PRT annuities with life contingencies). Liabilities for non-participating long-duration contracts are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yields, mortality, morbidity and persistency, with a provision for adverse deviation, at the date of issue or acquisition. As of December 31, 2020, the reserve investment yield assumptions for non-participating contracts range from 2.3% to 5.4% and are specific to our expected earned rate on the asset portfolio supporting the reserves. We base other key assumptions, such as mortality and morbidity, on industry standard data adjusted to align with actual company experience, if necessary.

For long-duration contracts, the assumptions are locked in at contract inception and only modified if we deem the reserves to be inadequate. We periodically review actual and anticipated experience compared to the assumptions used to establish policy benefits. If the net GAAP liability (gross reserves less DAC, DSI and VOBA) is less than the gross premium liability, impairment is deemed to have occurred, and the DAC, DSI and VOBA asset balances are reduced until the net GAAP liability is equal to the gross premium liability. If the DAC, DSI and VOBA asset balances are completely written off and the net GAAP liability is still less than the gross premium liability, then an additional liability is recorded to arrive at the gross premium liability.

We issue and reinsure deferred annuity contracts which contain GLWB and GMDB riders. We establish future policy benefits for GLWB and GMDB riders by estimating the expected value of withdrawal and death benefits in excess of the projected policyholder account balances. We recognize the excess proportionally over the accumulation period based on total actual and expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, which includes lapses, withdrawals and utilization of benefit riders; mortality, expected yield on investments supporting the liability; and market conditions affecting the account balance growth.

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Future policy benefits includes liabilities for no-lapse guarantees on universal life insurance and fixed indexed universal life insurance. We establish future policy benefits for no-lapse guarantees by estimating the expected value of death benefits paid after policyholder account balances have been exhausted. We recognize these benefits proportionally over the life of the contracts based on total actual and expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, mortality, expected yield on investments supporting the liability, and market conditions affecting policyholder account balance growth.

For the liabilities associated with GLWB and GMDB riders and no-lapse guarantees, each reporting period, we update expected excess benefits and assessments with actual excess benefits and assessments and adjust the liability balances due to the OCI effects of unrealized investment gains and losses on AFS securities. We also periodically revise the key assumptions used in the calculation of the liabilities which results in revisions to the expected excess benefits and assessments. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Changes in future policy benefits other than the adjustment for the OCI effects of unrealized investment gains and losses on AFS securities, are recorded in future policy and other policy benefits on the consolidated statements of income. Future policy benefits are not reduced for amounts ceded under reinsurance agreements which are reported as reinsurance recoverable on the consolidated balance sheets. See the reinsurance accounting policy discussed in *–Reinsurance* above and *Note 6 – Reinsurance* for more information on reinsurance.

Closed Block Business—We established closed blocks of policies in connection with the reorganization of two predecessor subsidiaries from mutual companies to stock companies, collectively referred to as the Closed Blocks, and individually referred to as the AmerUs Life Insurance Company (AmerUs) closed block (AmerUs Closed Block) and the Indianapolis Life Insurance Company (ILICO) closed block (ILICO Closed Block). Insurance policies which had a dividend scale in effect as of each closed block establishment date were included in the respective closed block. The Closed Blocks were designed to give reasonable assurance to owners of insurance policies included therein that, after the reorganization, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization, if the experience underlying such scales and crediting continued. The assets, including related revenue, allocated to the Closed Blocks will accrue solely to the benefit of the policyholders included in the Closed Blocks until they no longer exist. A policyholder dividend obligation is required to be established for earnings in the Closed Blocks that are not available to the shareholders. We have elected the fair value option for the AmerUs Closed Block and the ILICO Closed Block. See *Note 8 – Closed Block* for more information on the Closed Blocks.

Other Policy Claims and Benefits—Other policy claims and benefits include amounts payable relating to in course of settlements (ICOS) and incurred but not reported (IBNR) liabilities associated with interest sensitive contract liabilities and future policy benefits. For traditional life and universal life policies, ICOS claim liabilities are established when we are notified of the death of the policyholder but the claim has not been paid as of the reporting date. For immediate annuities and supplemental contracts, ICOS claim liabilities are established to accrue suspended benefit payments between the date of notification of death and the date of verification of death.

We determine IBNR claim liabilities using studies of past experience. The time that elapses from the death or claim date to when the claim is reported to us can vary significantly by product type, but generally ranges between one to six months for life business. We estimate IBNR claims on an undiscounted basis, using actuarial estimates of historical claims expense, adjusted for current trends and conditions. These estimates are continually reviewed and the ultimate liability may vary significantly from the amount recognized.

Dividends Payable to Policyholders—Participating policies entitle the policyholders to receive dividends based on actual interest, mortality, morbidity and expense experience for the year. Dividends are distributed to the policyholders through annual or terminal dividends which the board of directors of the applicable insurance subsidiary approves. As of December 31, 2020 and 2019, 10% of life policies, inclusive of ceded policies, were participating, and the related liability is recorded in dividends payable to policyholders on the consolidated balance sheets. Premiums related to participating policies represented 32%, 30% and 26% of total life insurance direct premiums and deposits for the years ended December 31, 2020, 2019 and 2018, respectively.

Policyholder dividend liabilities are recorded in dividends payable to policyholders on the consolidated balance sheets and policyholder dividends are recorded in dividends to policyholders on the consolidated statements of income.

Foreign Currency—The accounts of foreign-based subsidiaries and equity method investments are measured using their functional currency. Revenue and expenses of these subsidiaries are translated into US dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. For the equity method investments, our proportionate share of the investee's income is translated into US dollars at the average exchange rate for the period and our investment is translated using the exchange rate as of the end of the reporting period. The resulting translation adjustments are included in equity as a component of AOCI. Gains or losses arising from transactions denominated in a currency other than the functional currency of the entity that is party to the transaction are included in net income. The impacts of any non-US dollar denominated AFS securities are included in AOCI along with the change in its fair value unless in a fair value hedging relationship as discussed in *–Derivative Instruments* above.

Recognition of Revenues and Related Expenses—Revenues for universal life-type policies and investment contracts, including surrender and market value adjustments, costs of insurance, policy administration, GMDB, GLWB and no-lapse guarantee charges, are earned when assessed against policyholder account balances during the period. Interest credited to policyholder account balances and the change in fair value of embedded derivatives within fixed indexed annuity contracts is included in interest sensitive contract benefits on the consolidated statements of income.

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Premiums for long-duration contracts, including products with fixed and guaranteed premiums and benefits, are recognized as revenue when due from policyholders. When premiums are due over a significantly shorter period than the period over which benefits are provided, such as immediate annuities with life contingencies (which includes PRT annuities), a deferred profit liability is established equal to the excess of the gross premium over the net premium. The deferred profit liability is recognized in future policy benefits on the consolidated balance sheets and amortized into income in a constant relationship to the benefit reserve through future policy and other policy benefits on the consolidated statements of income.

All insurance related revenue is reported net of reinsurance ceded.

Income Taxes—We compute income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial statement carrying amounts and the tax basis of our assets and liabilities using estimated tax rates expected to be in effect for the year in which the differences are expected to reverse. Such temporary differences are primarily due to the tax basis of reserves, DAC, VOBA, unrealized investment gains/losses, reinsurance related differences, embedded derivatives and net operating loss carryforwards. Changes in deferred income tax assets and liabilities associated with components of OCI are recorded directly to OCI. We evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that it is more likely than not that some portion of the tax benefit will not be realized. We adjust the valuation allowance if, based on our evaluation, there is a change in the amount of deferred income tax assets that are deemed more-likely-than-not to be realized. Changes in deferred tax assets and liabilities attributable to changes in enacted income tax rates are recorded through net income in the period of enactment. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the relevant taxing authorities, based on the technical merits of our position. For those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. We recognize any income tax interest and penalties in income tax expense.

See *Note 11 – Income Taxes* for discussion on withholding taxes for undistributed earnings of subsidiaries.

Reclassifications—Certain reclassifications have been made to conform with current year presentation.

Adopted Accounting Pronouncements

Reference Rate Reform (Topic 848) – Facilitation of the effects of Reference Rate Reform on Financial Reporting (ASU 2021-01, ASU 2020-04)

The new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, derivative contracts (including derivative instruments that use interest rates for margining, discounting, or contract price alignment), and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the amendments do not apply to contract modifications made or hedging relationships entered into or evaluated after December 31, 2022, with exceptions for certain hedging relationships. The amendments are available for election from March 12, 2020 through December 31, 2022. This guidance may be elected and applied prospectively as contracts and hedging relationships are amended for the effects of reference rate reform. We adopted this update effective October 1, 2020. This update did not have a material impact on our consolidated financial statements. We will continue to evaluate the impacts of reference rate reform on contract modifications and hedging relationships.

Financial Instruments – Credit Losses (ASU 2019-05, ASU 2019-04, ASU 2018-19 and ASU 2016-13)

This update limits the number of credit impairment models used for different assets and results in accelerated credit loss recognition on assets held at amortized cost, which primarily includes our commercial and residential mortgage loans, but also includes certain other loans and reinsurance assets. The identification of PCD financial assets includes all assets that have experienced a more-than-insignificant deterioration in credit since origination. Additionally, changes in the expected cash flows of purchased credit-deteriorated financial assets are recognized immediately in the income statement. AFS securities are not in scope of the new credit loss model, but were subject to targeted improvements including the establishment of a valuation allowance for credit losses versus the previous direct write down approach. We adopted this update effective January 1, 2020 with a cumulative-effect adjustment that decreased retained earnings by \$117 million, net of tax and offsetting impacts to DAC, DSI, VOBA and the SOP 03-1 reserve which amounted to \$74 million. The adjustment to retained earnings primarily relates to the establishment of an allowance on our commercial mortgage loan portfolio, which represented 1.59% of the amortized cost of the portfolio, but also includes immaterial impacts relating to other assets in scope, including residential mortgage loans, funds withheld at interest, and reinsurance recoverable.

Additionally, the update requires investments previously considered purchased credit impaired (PCI), which includes certain of our residential mortgage loans and RMBS to become subject to a modified PCD framework at the transition date. Any required allowance at transition for these assets is to be recorded through a gross-up of the amortized cost, rather than a charge to retained earnings. Additionally, under the AFS impairment model, the recording of an allowance is prohibited in instances where fair value exceeds amortized cost as such securities are not considered impaired under the AFS impairment model. Therefore, no allowance was recorded at transition for PCI RMBS that were in an unrealized gain position. The transition increase in amortized cost and corresponding valuation allowance for residential mortgage loans and RMBS was \$36 million and \$17 million, respectively.

Collaborative Arrangements (ASU 2018-18)

The amendments in this update provide guidance on whether certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606, providing comparability in the presentation of revenue for certain transactions. We adopted this update effective January 1, 2020. This update did not have a material effect on our consolidated financial statements.

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Consolidation (ASU 2018-17)

The amendments in this update expand certain discussions in the VIE guidance, including considerations necessary for determining when a decision-making fee is a variable interest. We adopted this update effective January 1, 2020. This update did not have a material effect on our consolidated financial statements.

Cloud Computing Arrangements (ASU 2018-15)

The amendments in this update align the requirements for capitalizing implementation costs incurred in a cloud computing service arrangement with the requirements for capitalizing implementation costs incurred for internal-use software. We adopted this update on a prospective basis effective January 1, 2020. This update did not have a material effect on our consolidated financial statements.

Fair Value Measurement – Disclosure Requirements (ASU 2018-13)

The amendments in this update modify the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. On October 1, 2018, we early adopted the removal and modification of certain disclosures as permitted. The additional disclosures in the update were adopted effective January 1, 2020. This update did not have a material effect on our consolidated financial statements.

Intangibles – Simplifying the Test for Goodwill Impairment (ASU 2017-04)

The amendments in this update simplify the subsequent measurement of goodwill by eliminating the comparison of the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill to determine the goodwill impairment loss. With the adoption of this guidance, a goodwill impairment is the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of the goodwill allocated to that reporting unit. Entities continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. We do not have material goodwill and adopted this update on a prospective basis effective January 1, 2020. This update did not have a material effect on our consolidated financial statements.

Recently Issued Accounting Pronouncements

Insurance – Targeted Improvements to the Accounting for Long-Duration Contracts (ASU 2020-11, ASU 2019-09, ASU 2018-12)

These updates amend four key areas pertaining to the accounting and disclosures for long-duration insurance and investment contracts.

- The update requires cash flow assumptions used to measure the liability for future policy benefits to be updated at least annually and no longer allows a provision for adverse deviation. The remeasurement of the liability associated with the update of assumptions is required to be recognized in net income. Loss recognition testing is eliminated for traditional and limited-payment contracts. The update also requires the discount rate used in measuring the liability to be an upper-medium grade fixed-income instrument yield, which is to be updated at each reporting date. The change in liability due to changes in the discount rate is to be recognized in other comprehensive income.
- The update simplifies the amortization of deferred acquisition costs and other balances amortized in proportion to premiums, gross profits, or gross margins, requiring such balances to be amortized on a constant level basis over the expected term of the contracts. Deferred costs are required to be written off for unexpected contract terminations but are not subject to impairment testing.
- The update requires certain contract features meeting the definition of market risk benefits to be measured at fair value. Among the features included in this definition are the GLWB and GMDB riders attached to our annuity products. The change in fair value of the market risk benefits is to be recognized in net income, excluding the portion attributable to changes in instrument-specific credit risk which is recognized in other comprehensive income.
- The update also introduces disclosure requirements around the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs. This includes disaggregated rollforwards of these balances and information about significant inputs, judgments, assumptions and methods used in their measurement.

We are required to adopt these updates on January 1, 2023. Certain provisions of the update are required to be adopted on a fully retrospective basis, while others may be adopted on a modified retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs (ASU 2020-08)

The amendments in this update clarify that callable debt securities should be reevaluated each reporting period to determine if the amortized cost exceeds the amount repayable by the issuer at the next earliest call date and, if so, the excess should be amortized to the next call date. We will be required to adopt this update January 1, 2021 and apply it on a prospective basis for existing or newly purchased callable debt securities. Early adoption is not permitted. We do not expect that the adoption of this update will have a material effect on our consolidated financial statements.

Income Taxes – Simplifying the Accounting for Income Taxes (ASU 2019-12)

The amendments in this update simplify the accounting for income taxes by eliminating certain exceptions to the tax accounting guidance related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities related to foreign investment ownership changes. It also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill and allocating consolidated income taxes to separate financial statements of entities not subject to income tax. We will be required to adopt this

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update January 1, 2021 and apply certain aspects of the update retrospectively while other aspects will be applied on a modified retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

2. Investments

AFS Securities—The following table represents the amortized cost, allowance for credit losses, gross unrealized gains and losses and fair value our AFS investments by asset type:

<i>(In millions)</i>	December 31, 2020				
	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS securities					
US government and agencies	\$ 349	\$ —	\$ 3	\$ (1)	\$ 351
US state, municipal and political subdivisions	864	—	169	—	1,033
Foreign governments	330	—	38	—	368
Corporate	50,930	(6)	6,264	(99)	57,089
CLO	9,631	(1)	145	(207)	9,568
ABS	4,258	(6)	140	(123)	4,269
CMBS	2,163	(11)	86	(71)	2,167
RMBS	6,568	(80)	447	(22)	6,913
Total AFS securities	75,093	(104)	7,292	(523)	81,758
AFS securities – related party					
Corporate	213	—	2	—	215
CLO	1,511	(1)	23	(13)	1,520
ABS	4,721	—	94	(30)	4,785
Total AFS securities – related party	6,445	(1)	119	(43)	6,520
Total AFS securities including related party	\$ 81,538	\$ (105)	\$ 7,411	\$ (566)	\$ 88,278

The following table represents the amortized cost, gross unrealized gains and losses, fair value and other-than-temporary impairment (OTTI) in AOCI of our AFS investments by asset type:

<i>(In millions)</i>	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
AFS securities					
US government and agencies	\$ 35	\$ 3	\$ —	\$ 38	\$ —
US state, municipal and political subdivisions	1,322	220	(1)	1,541	—
Foreign governments	298	29	0	327	—
Corporate	43,259	3,327	(178)	46,408	1
CLO	7,523	21	(196)	7,348	—
ABS	5,017	123	(24)	5,117	4
CMBS	2,299	104	(8)	2,395	1
RMBS	6,872	513	(10)	7,375	19
Total AFS securities	66,625	4,340	(417)	70,549	25
AFS securities – related party					
Corporate	18	1	—	19	—
CLO	949	3	(18)	934	—
ABS	2,814	37	(2)	2,849	—
Total AFS securities – related party	3,781	41	(20)	3,802	—
Total AFS securities including related party	\$ 70,406	\$ 4,381	\$ (437)	\$ 74,351	\$ 25

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The amortized cost and fair value of AFS securities, including related party, are shown by contractual maturity below:

<i>(In millions)</i>	December 31, 2020	
	Amortized Cost	Fair Value
AFS securities		
Due in one year or less	\$ 808	\$ 819
Due after one year through five years	8,114	8,651
Due after five years through ten years	13,913	15,173
Due after ten years	29,638	34,198
CLO, ABS, CMBS and RMBS	22,621	22,917
Total AFS securities	75,093	81,759
AFS securities – related party		
Due after one year through five years	18	20
Due after five years through ten years	195	195
CLO and ABS	6,232	6,305
Total AFS securities – related party	6,445	6,520
Total AFS securities including related party	\$ 81,538	\$ 88,279

Actual maturities can differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Unrealized Losses on AFS Securities—The following summarizes the fair value and gross unrealized losses for AFS securities, including related party, for which an allowance for credit losses has not been recorded, aggregated by asset type and length of time the fair value has remained below amortized cost:

<i>(In millions)</i>	December 31, 2020					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
AFS securities						
US government and agencies	\$ 31	\$ (1)	\$ —	\$ —	\$ 31	\$ (1)
US state, municipal and political subdivisions	10	—	6	—	16	—
Foreign governments	2	—	—	—	2	—
Corporate	2,178	(63)	249	(24)	2,427	(87)
CLO	1,649	(32)	3,179	(167)	4,828	(199)
ABS	1,169	(73)	84	(18)	1,253	(91)
CMBS	710	(37)	48	(13)	758	(50)
RMBS	548	(11)	37	(2)	585	(13)
Total AFS securities	6,297	(217)	3,603	(224)	9,900	(441)
AFS securities – related party						
CLO	336	(3)	232	(10)	568	(13)
ABS	1,012	(30)	—	—	1,012	(30)
Total AFS securities – related party	1,348	(33)	232	(10)	1,580	(43)
Total AFS securities including related party	\$ 7,645	\$ (250)	\$ 3,835	\$ (234)	\$ 11,480	\$ (484)

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The following summarizes the fair value and gross unrealized losses for AFS securities, including related party, aggregated by asset type and length of time the fair value has remained below amortized cost:

<i>(In millions)</i>	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
AFS securities						
US government and agencies	\$ 3	\$ —	\$ —	\$ —	\$ 3	\$ —
US state, municipal and political subdivisions	78	(1)	11	—	89	(1)
Corporate	2,130	(108)	902	(69)	3,032	(177)
CLO	1,959	(38)	3,241	(158)	5,200	(196)
ABS	642	(6)	254	(18)	896	(24)
CMBS	217	(4)	41	(3)	258	(8)
RMBS	445	(6)	163	(4)	608	(10)
Total AFS securities	5,474	(163)	4,612	(252)	10,086	(416)
AFS securities – related party						
CLO	362	(7)	242	(11)	604	(18)
ABS	357	(2)	—	—	357	(2)
Total AFS securities – related party	719	(9)	242	(11)	961	(20)
Total AFS securities including related party	\$ 6,193	\$ (172)	\$ 4,854	\$ (263)	\$ 11,047	\$ (436)

The following summarizes the number of AFS securities that were in an unrealized loss position, including related party, for which an allowance for credit losses has not been recorded:

	December 31, 2020	
	Unrealized loss position	Unrealized loss position 12 months or more
AFS securities	1,262	356
AFS securities – related party	45	8

The unrealized losses on AFS securities can primarily be attributed to changes in market interest rates since acquisition. We did not recognize the unrealized losses in income as we intend to hold these securities and it is not more likely than not we will be required to sell a security before the recovery of its amortized cost.

Allowance for Credit Losses—The following table summarizes the activity in the allowance for credit losses for AFS securities by asset type:

<i>(In millions)</i>	Years ended December 31, 2020					
	Beginning balance	Additions		Reductions		Ending Balance
		Initial credit losses	Initial credit losses on PCD securities	Securities sold during the period	Additions (reductions) to previously impaired securities	
AFS securities						
Corporate	\$ —	\$ 44	\$ —	\$ (14)	\$ (24)	\$ 6
CLO	—	1	—	—	—	1
ABS	—	7	—	—	(1)	6
CMBS	—	24	—	(1)	(13)	10
RMBS	17	50	67	(17)	(37)	80
Total AFS securities	17	126	67	(32)	(75)	103
AFS securities – related party, CLO	—	2	—	(1)	—	1
Total AFS securities including related party	\$ 17	\$ 128	\$ 67	\$ (33)	\$ (75)	\$ 104

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Net Investment Income—Net investment income by asset class consists of the following:

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
AFS securities	\$ 3,194	\$ 3,086	\$ 2,840
Trading securities	192	189	200
Equity securities	14	16	12
Mortgage loans	704	670	457
Investment funds	637	375	290
Funds withheld at interest	273	529	492
Other	230	156	109
Investment revenue	5,244	5,021	4,400
Investment expenses	(497)	(436)	(356)
Net investment income	\$ 4,747	\$ 4,585	\$ 4,044

Investment Related Gains (Losses)—Investment related gains (losses) by asset class consists of the following:

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
AFS securities			
Gross realized gains on investment activity	\$ 539	\$ 178	\$ 156
Gross realized losses on investment activity	(351)	(53)	(123)
Net realized investment gains on AFS securities	188	125	33
Net recognized investment gains (losses) on trading securities	33	152	(255)
Net recognized investment gains (losses) on equity securities	(218)	17	(19)
Derivative gains (losses)	3,606	4,400	(1,099)
Provision for credit losses	(90)	—	—
Other gains (losses)	(62)	(15)	(34)
Investment related gains (losses)	\$ 3,457	\$ 4,679	\$ (1,374)

Proceeds from sales of AFS securities were \$7,903 million, \$6,885 million and \$6,966 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table summarizes the change in unrealized gains (losses) on trading and equity securities, including related party and consolidated VIEs, we held as of the respective year end:

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Trading securities	\$ 130	\$ 193	\$ (143)
Trading securities – related party	(37)	(18)	(25)
Equity securities	(9)	19	(18)
Equity securities – related party	—	(18)	24

Purchased Financial Assets with Credit Deterioration—The following table summarizes our PCD investment purchases with the following amounts at the time of purchase:

<i>(In millions)</i>	Year ended December 31, 2020	
	Fixed maturity securities	Mortgage loans
Purchase price	\$ 254	\$ 524
Allowance for credit losses at acquisition	67	7
Discount (premiums) attributable to other factors	36	(13)
Par value	\$ 357	\$ 518

Purchased Credit Impaired Investments—Prior to January 1, 2020, we accounted for certain securities purchased with deterioration in credit quality since their issuance which met the definition of PCI investments. The following table summarizes our PCI investments as of December 31, 2019:

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<i>(In millions)</i>	Fixed maturity securities	Mortgage loans
Contractually required payments receivable	\$ 6,772	\$ 3,647
Less: Cash flows expected to be collected ¹	(6,064)	(3,606)
Non-accretable difference	\$ 708	\$ 41
Cash flows expected to be collected ¹	\$ 6,064	\$ 3,606
Less: Amortized cost	(4,603)	(2,575)
Accretable difference	\$ 1,461	\$ 1,031
Fair value	\$ 5,007	\$ 2,756
Outstanding balance	5,740	2,925

¹ Represents the undiscounted principal and interest cash flows expected.

During the year ended December 31, 2019, we acquired PCI investments with the following amounts at the time of purchase:

<i>(In millions)</i>	Fixed maturity securities	Mortgage loans
Contractually required payments receivable	\$ 176	\$ 1,198
Cash flows expected to be collected	146	1,179
Fair value	124	910

The following table summarizes the activity for the accretable yield on PCI investments during 2019:

<i>(In millions)</i>	Fixed maturity securities	Mortgage loans
Beginning balance at January 1, 2019	\$ 1,677	\$ 697
Purchases of PCI investments, net of sales	1	191
Accretion	(307)	(115)
Net reclassification from non-accretable difference	90	258
Ending balance at December 31, 2019	\$ 1,461	\$ 1,031

Repurchase Agreements—The following table summarizes the maturities of our repurchase agreements:

<i>(In millions)</i>	December 31, 2020					
	Remaining Contractual Maturity					
	Overnight and continuous	Less than 30 days	30-90 days	91 days to 1 year	Greater than 1 year	Total
Payables for repurchase agreements ¹	\$ —	\$ —	\$ —	\$ —	\$ 598	\$ 598

¹ Included in payables for collateral on derivatives and securities to repurchase on the consolidated balance sheets.

<i>(In millions)</i>	December 31, 2019					
	Remaining Contractual Maturity					
	Overnight and continuous	Less than 30 days	30-90 days	91 days to 1 year	Greater than 1 year	Total
Payables for repurchase agreements ¹	\$ —	\$ 102	\$ 200	\$ 211	\$ —	\$ 513

¹ Included in payables for collateral on derivatives and securities to repurchase on the consolidated balance sheets.

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The following table summarizes the securities pledged as collateral for repurchase agreements:

<i>(In millions)</i>	December 31,			
	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AFS securities - Corporate	\$ 559	\$ 644	\$ 498	\$ 534

Reverse Repurchase Agreements—As of December 31, 2020 and 2019, amounts loaned under reverse repurchase agreements were \$0 million and \$190 million, respectively, and collateral received was \$0 million and \$630 million, respectively.

Mortgage Loans, including related party—Mortgage loans, net of allowances, consists of the following:

<i>(In millions)</i>	December 31,	
	2020	2019
Commercial mortgage loans	\$ 11,383	\$ 10,412
Commercial mortgage loans under development	232	93
Total commercial mortgage loans	11,615	10,505
Allowance for credit losses on commercial mortgage loans	(167)	—
Commercial mortgage loans, net of allowances	11,448	10,505
Residential mortgage loans	4,569	4,454
Allowance for credit losses on residential mortgage loans	(79)	—
Residential mortgage loans, net of allowances	4,490	4,454
Mortgage loans, net of allowances	\$ 15,938	\$ 14,959

We primarily invest in commercial mortgage loans on income producing properties including office and retail buildings, apartments, hotels, and industrial properties. We diversify the commercial mortgage loan portfolio by geographic region and property type to reduce concentration risk. We evaluate mortgage loans based on relevant current information to confirm if properties are performing at a consistent and acceptable level to secure the related debt.

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The distribution of commercial mortgage loans, including those under development, net of allowances, by property type and geographic region, is as follows:

	December 31,			
	2020		2019	
	Net Carrying Value	Percentage of Total	Net Carrying Value	Percentage of Total
<i>(In millions, except for percentages)</i>				
Property type				
Office building	\$ 3,589	31.4 %	\$ 2,899	27.6 %
Retail	2,083	18.2 %	2,182	20.8 %
Apartment	2,441	21.3 %	2,142	20.4 %
Hotels	1,294	11.3 %	1,104	10.5 %
Industrial	1,362	11.9 %	1,448	13.8 %
Other commercial	679	5.9 %	730	6.9 %
Total commercial mortgage loans	\$ 11,448	100.0 %	\$ 10,505	100.0 %
US Region				
East North Central	\$ 1,209	10.5 %	\$ 1,036	9.9 %
East South Central	402	3.5 %	428	4.1 %
Middle Atlantic	3,069	26.8 %	2,580	24.6 %
Mountain	487	4.2 %	528	5.0 %
New England	350	3.1 %	340	3.2 %
Pacific	2,746	24.0 %	2,502	23.8 %
South Atlantic	1,773	15.5 %	1,920	18.3 %
West North Central	145	1.3 %	146	1.4 %
West South Central	640	5.6 %	791	7.5 %
Total US Region	10,821	94.5 %	10,271	97.8 %
International Region	627	5.5 %	234	2.2 %
Total commercial mortgage loans	\$ 11,448	100.0 %	\$ 10,505	100.0 %

Our residential mortgage loan portfolio includes first lien residential mortgage loans collateralized by properties in various geographic locations and is summarized by proportion of the portfolio in the following table:

	December 31,	
	2020	2019
US States		
California	24.8 %	27.0 %
Florida	13.3 %	12.7 %
Texas	4.4 %	6.2 %
New York	6.2 %	3.3 %
Other ¹	36.7 %	38.4 %
Total US residential mortgage loan percentage	85.4 %	87.6 %
International		
Ireland	12.9 %	12.4 %
Other ²	1.7 %	— %
Total International residential mortgage loan percentage	14.6 %	12.4 %
Total residential mortgage loan percentage	100.0 %	100.0 %

¹ Represents all other states, with each individual state comprising less than 5% of the portfolio.

² Represents all other countries, with each individual country comprising less than 5% of the portfolio.

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Loan Valuation Allowance—The allowances for our mortgage loan portfolio and other loans is summarized as follows:

<i>(In millions)</i>	December 31, 2020			
	Commercial Mortgage	Residential Mortgage	Other Investments	Total
Beginning balance	\$ 10	\$ 1	\$ —	\$ 11
Adoption of accounting standard	167	43	11	221
Provision (reversal) for expected credit losses	(10)	29	(4)	15
Initial credit losses on PCD loans	—	7	—	7
Loans charged-off	—	(1)	—	(1)
Ending balance	\$ 167	\$ 79	\$ 7	\$ 253

Commercial mortgage loans – Our allowance model for commercial mortgage loans is based on the characteristics of the loans in our portfolio, historical economic data and loss information, and current and forecasted economic conditions. Key loan characteristics affecting the estimate include, among others: time to maturity, delinquency status, loan-to-value ratios, debt service coverage ratios, etc. Key macroeconomic variables include unemployment rates, rent growth, capitalization rates, and the housing price index. Management reviews and approves forecasted macroeconomic variables, along with the reasonable and supportable forecast period and mean reversion technique. Management also evaluates assumptions from independent third parties and these assumptions have a high degree of subjectivity. The mean reversion technique varies by macroeconomic variable and may vary by geographic location. As of December 31, 2020, our reasonable and supportable forecast period ranged from one to two years, after which, we revert to the 30-year or greater historical average or the average 10-year US Treasury constant maturity rate over a period of up to eight years.

Residential mortgage loans – Our allowance model for residential mortgage loans is based on the characteristics of the loans in our portfolio, historical economic data and loss information, and current and forecasted economic conditions. Key loan characteristics affecting the estimate include, among others: time to maturity, delinquency status, original credit scores and loan-to-value ratios. Key macroeconomic variables include unemployment rates and the housing price index. Management reviews and approves forecasted macroeconomic variables, along with the reasonable and supportable forecast period and mean reversion technique. Management also evaluates assumptions from independent third parties and these assumptions have a high degree of subjectivity. The mean reversion technique varies by macroeconomic variable and may vary by geographic location. As of December 31, 2020, our reasonable and supportable forecast period was one year, after which, we revert to the 30-year or greater historical average over a period of up to one year and then continue at those averages through the contractual life of the loan.

Other investments – The allowance model for the loans included in other investments and related party other investments derives an estimate based on historical loss data available for similarly rated unsecured corporate debt obligations, while also incorporating management’s expectations around prepayment. See *Note 13 – Related Parties* for further information on the related party loans.

Credit Quality Indicators

Residential mortgage loans – The underwriting process for our residential mortgage loans includes an evaluation of relevant credit information including past loan performance, credit scores, loan-to-value and other relevant information. Subsequent to purchase or origination, we closely monitor economic conditions and loan performance to manage and evaluate our exposure to credit risk in our residential mortgage loan portfolio. The primary credit quality indicator monitored for residential mortgage loans is loan performance. Nonperforming residential mortgage loans are 90 days or more past due and/or are in non-accrual status.

The following represents our residential loan portfolio by origination year and performance status:

<i>(In millions)</i>	December 31, 2020						
	2020	2019	2018	2017	2016	Prior	Total
Current (less than 30 days past due)	\$ 955	\$ 942	\$ 1,730	\$ 485	\$ 141	\$ 6	\$ 4,259
30 to 59 days past due	68	16	34	26	8	1	153
60 to 89 days past due	15	7	16	9	3	—	50
90 days or more past due	3	26	22	43	12	1	107
Total residential mortgages	\$ 1,041	\$ 991	\$ 1,802	\$ 563	\$ 164	\$ 8	\$ 4,569

As of December 31, 2019, \$67 million of our residential mortgage loans were nonperforming.

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The following represents our residential loan portfolio in non-accrual status:

<i>(In millions)</i>	December 31, 2020
Beginning amortized cost of residential mortgage loans in non-accrual status	\$ 67
Ending amortized cost of residential mortgage loans in non-accrual status	108
Amortized cost of residential mortgage loans in non-accrual status without a related allowance for credit losses	13

During the year ended December 31, 2020, we recognized \$5 million of interest income on residential mortgage loans in non-accrual status.

Commercial mortgage loans – The following represents our commercial mortgage loan portfolio by origination year and loan performance status:

<i>(In millions)</i>	December 31, 2020						
	2020	2019	2018	2017	2016	Prior	Total
Current (less than 30 days past due)	\$ 1,913	\$ 4,400	\$ 2,617	\$ 987	\$ 130	\$ 1,452	\$ 11,499
30 to 59 days past due	—	20	45	25	—	5	95
90 days or more past due	—	—	—	—	—	21	21
Total commercial mortgages	\$ 1,913	\$ 4,420	\$ 2,662	\$ 1,012	\$ 130	\$ 1,478	\$ 11,615

As of December 31, 2019, none of our commercial loans were 30 days or more past due.

The following represents our commercial mortgage loan portfolio in non-accrual status:

<i>(In millions)</i>	December 31, 2020
Beginning amortized cost of commercial mortgage loans in non-accrual status	\$ —
Ending amortized cost of commercial mortgage loans in non-accrual status	38
Amortized cost of commercial mortgage loans in non-accrual status without a related allowance for credit losses	—

During the year ended December 31, 2020, no interest income was recognized on commercial mortgage loans in non-accrual status.

Loan-to-value and debt service coverage ratios are measures we use to assess the risk and quality of commercial mortgage loans other than those under development. Loans under development are not evaluated using these ratios as the properties underlying these loans are generally not yet income-producing and the value of the underlying property significantly fluctuates based on the progress of construction. Therefore, the risk and quality of loans under development are evaluated based on the aging and geographical distribution of such loans as shown above.

The loan-to-value ratio is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A loan-to-value ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. Loan-to-value information is updated annually as part of the re-underwriting process supporting the NAIC risk based capital rating criteria. The following represents the loan-to-value ratio of the commercial mortgage loan portfolio, excluding those under development, by origination year:

<i>(In millions)</i>	December 31,						
	2020	2019	2018	2017	2016	Prior	Total
Less than 50%	\$ 431	\$ 600	\$ 201	\$ 152	\$ 44	\$ 1,153	\$ 2,581
50% to 59%	315	1,320	765	300	40	147	2,887
60% to 69%	583	1,988	1,222	440	46	106	4,385
70% to 79%	478	485	375	95	—	13	1,446
80% to 99%	—	—	—	25	—	21	46
100% or greater	—	—	—	—	—	38	38
Commercial mortgage loans	\$ 1,807	\$ 4,393	\$ 2,563	\$ 1,012	\$ 130	\$ 1,478	\$ 11,383

The following represents the loan-to-value ratio of the commercial mortgage loan portfolio, excluding those under development, net of valuation allowances:

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<i>(In millions)</i>	December 31, 2019
Less than 50%	\$ 2,640
50% to 59%	2,486
60% to 69%	4,093
70% to 79%	1,162
80% to 99%	31
Commercial mortgage loans	\$ 10,412

The debt service coverage ratio is expressed as a percentage of a property's net operating income to its debt service payments. A debt service ratio of less than 1.0 indicates a property's operations do not generate enough income to cover debt payments. Debt service coverage ratios are updated as more recent financial statements become available, at least annually or as frequently as quarterly in some cases. The following represents the debt service coverage ratio of the commercial mortgage loan portfolio, excluding those under development, by origination year:

<i>(In millions)</i>	December 31,						
	2020	2019	2018	2017	2016	Prior	Total
Greater than 1.20x	\$ 1,274	\$ 2,964	\$ 2,440	\$ 846	\$ 129	\$ 1,369	\$ 9,022
1.00x – 1.20x	533	1,122	36	70	1	101	1,863
Less than 1.00x	—	307	87	96	—	8	498
Commercial mortgage loans	\$ 1,807	\$ 4,393	\$ 2,563	\$ 1,012	\$ 130	\$ 1,478	\$ 11,383

The following represents the debt service coverage ratio of the commercial mortgage loan portfolio, excluding those under development, net of valuation allowances:

<i>(In millions)</i>	December 31, 2019
Greater than 1.20x	\$ 9,212
1.00x – 1.20x	1,166
Less than 1.00x	34
Commercial mortgage loans	\$ 10,412

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Investment Funds—Our investment fund portfolio consists of funds that employ various strategies and include investments in real estate, real assets, credit, equity and natural resources. Investment funds can meet the definition of VIEs, which are discussed further in *Note 4 – Variable Interest Entities*. Our investment funds do not specify timing of distributions on the funds’ underlying assets.

The following summarizes our investment funds, including related party:

	December 31,			
	2020		2019	
	Carrying value	Percent of total	Carrying value	Percent of total
<i>(In millions, except for percentages)</i>				
Investment funds				
Real estate	\$ 348	43.3 %	\$ 394	45.5 %
Credit funds	107	13.3 %	153	17.6 %
Private equity	267	33.3 %	236	27.2 %
Real assets	81	10.1 %	83	9.6 %
Natural resources	—	— %	1	0.1 %
Total investment funds	803	100.0 %	867	100.0 %
Investment funds – related parties				
Differentiated investments				
MidCap FinCo Designated Activity Company (MidCap) ¹	—	— %	547	16.6 %
AmeriHome Mortgage Company, LLC (AmeriHome) ²	444	9.7 %	487	14.8 %
Catalina Holdings Ltd. (Catalina)	334	7.3 %	271	8.2 %
Venerable Holdings, Inc. (Venerable) ²	123	2.7 %	99	3.0 %
Other	279	6.1 %	222	6.7 %
Total differentiated investments	1,180	25.8 %	1,626	49.3 %
Real estate	828	18.1 %	737	22.4 %
Credit funds	375	8.2 %	370	11.2 %
Private equity	473	10.3 %	102	3.1 %
Real assets	173	3.8 %	183	5.5 %
Natural resources	113	2.5 %	163	4.9 %
Public equities	109	2.4 %	119	3.6 %
Investment in Apollo ¹	1,324	28.9 %	—	— %
Total investment funds – related parties	4,575	100.0 %	3,301	100.0 %
Total investment funds including related party	\$ 5,378		\$ 4,168	

¹ See further discussion on MidCap, Venerable and our investment in Apollo in Note 13 – Related Parties.

² Our AmeriHome investment is held indirectly through A-A Mortgage Opportunities, L.P. (A-A Mortgage). See further discussion on A-A Mortgage and AmeriHome in Note 13 – Related Parties.

Summarized Ownership of Investment Funds—The following is the aggregated summarized financial information of equity method investees, including those for which we elected the fair value option and would otherwise be accounted for as an equity method investment, and may be presented on a lag due to the availability of financial information from the investee:

	December 31,	
	2020	2019
<i>(In millions)</i>		
Assets	\$ 31,480	\$ 31,876
Liabilities	15,651	14,152
Equity	15,829	17,724

	Years ended December 31,		
	2020	2019	2018
<i>(In millions)</i>			
Net income	\$ 1,316	\$ 857	\$ 1,094

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The following table presents the carrying value by ownership percentage of equity method investment funds, including related party investment funds:

<i>(In millions)</i>	December 31,	
	2020	2019
Ownership Percentage		
100%	\$ 717	\$ 11
50% – 99%	678	1,378
3% – 49%	2,412	1,939
Equity method investment funds	<u>\$ 3,807</u>	<u>\$ 3,328</u>

The following table presents the carrying value by ownership percentage of investment funds held at fair value, either due to election of the fair value option or requirement, including related party investment funds:

<i>(In millions)</i>	December 31,	
	2020	2019
Ownership Percentage		
50% - 99%	\$ 28	\$ 28
3% – 49%	1,400	640
Less than 3%	143	173
Fair value investment funds	<u>\$ 1,571</u>	<u>\$ 841</u>

Non-Consolidated Securities and Investment Funds

Fixed maturity securities – We invest in securitization entities as a debt holder or an investor in the residual interest of the securitization vehicle. These entities are deemed VIEs due to insufficient equity within the structure and lack of control by the equity investors over the activities that significantly impact the economics of the entity. In general, we are a debt investor within these entities and, as such, hold a variable interest; however, due to the debt holders’ lack of ability to control the decisions within the trust that significantly impact the entity, and the fact the debt holders are protected from losses due to the subordination of the equity tranche, the debt holders are not deemed the primary beneficiary. Securitization vehicles in which we hold the residual tranche are not consolidated because we do not unilaterally have substantive rights to remove the general partner, or when assessing related party interests, we are not under common control, as defined by GAAP, with the related party, nor are substantially all of the activities conducted on our behalf; therefore, we are not deemed the primary beneficiary. Debt investments and investments in the residual tranche of securitization entities are considered debt instruments and are held at fair value on the balance sheet and classified as AFS or trading.

Investment funds – Investment funds include non-fixed income, alternative investments in the form of limited partnerships or similar legal structures.

Equity securities – We invest in preferred equity securities issued by entities deemed to be VIEs due to insufficient equity within the structure.

Our risk of loss associated with our non-consolidated investments depends on the investment. Investment funds, equity securities and trading securities are limited to the carrying value plus unfunded commitments. AFS securities are limited to amortized cost plus unfunded commitments.

The following summarizes the carrying value and maximum loss exposure of these non-consolidated investments:

<i>(In millions)</i>	December 31,			
	2020		2019	
	Carrying Value	Maximum Loss Exposure	Carrying Value	Maximum Loss Exposure
Investment funds	\$ 803	\$ 1,266	\$ 731	\$ 1,246
Investment in related parties – investment funds	4,575	6,975	3,437	5,974
Investment in fixed maturity securities	23,325	23,022	22,694	22,170
Investment in related parties – fixed maturity securities	7,834	8,127	4,570	4,878
Investment in related parties – equity securities	72	72	58	58
Total non-consolidated investments	<u>\$ 36,609</u>	<u>\$ 39,462</u>	<u>\$ 31,490</u>	<u>\$ 34,326</u>

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Funds Withheld at Interest—Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with modco and funds withheld reinsurance agreements in which we act as the reinsurer. Generally, assets equal to statutory reserves are withheld and legally owned by the ceding company.

The funds withheld at interest is comprised of the host contract and an embedded derivative. We are subject to the investment performance on the withheld assets with the total return directly impacting the host contract and the embedded derivative. Interest accrues at a risk free rate on the host receivable and is recorded as net investment income in the consolidated statements of income. The change in the embedded derivative in our reinsurance agreements, which is similar to a total return swap on the income generated by the underlying assets held by the ceding companies, is recorded in investment related gains (losses). Although we do not directly control the underlying investments in the funds withheld at interest, in each instance the ceding company has hired Apollo Insurance Group Solutions LLC (ISG) to manage the withheld assets in accordance with our investment guidelines.

The following summarizes the underlying investment composition of the funds withheld at interest, including related party:

<i>(In millions, except percentages)</i>	December 31, 2020		December 31, 2019	
	Carrying value	Percent of total	Carrying value	Percent of total
Fixed maturity securities				
US government and agencies	\$ —	— %	\$ 15	0.1 %
US state, municipal and political subdivisions	513	0.8 %	481	1.6 %
Foreign governments	301	0.5 %	143	0.5 %
Corporate	34,996	55.9 %	15,434	52.8 %
CLO	5,912	9.4 %	2,586	8.8 %
ABS	5,212	8.3 %	2,510	8.6 %
CMBS	2,374	3.8 %	756	2.6 %
RMBS	2,270	3.6 %	1,482	5.1 %
Equity securities	119	0.2 %	74	0.3 %
Mortgage loans	8,201	13.1 %	4,357	14.9 %
Investment funds	1,155	1.8 %	807	2.8 %
Derivative assets	219	0.3 %	224	0.8 %
Short-term investments	608	1.0 %	157	0.5 %
Other Investments	15	— %	—	— %
Cash and cash equivalents	952	1.5 %	239	0.8 %
Other assets and liabilities	(229)	(0.4)%	(21)	(0.1)%
Total funds withheld at interest, including related party	<u>\$ 62,618</u>	<u>100.0 %</u>	<u>\$ 29,244</u>	<u>100.0 %</u>

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Notes to Consolidated Financial Statements

3. Derivative Instruments

We use a variety of derivative instruments to manage risks, primarily equity, interest rate, credit, foreign currency and market volatility. See *Note 1 – Business, Basis of Presentation and Significant Accounting Policies* for a description of our accounting policies for derivatives and *Note 5 – Fair Value* for information about the fair value hierarchy for derivatives.

The following table presents the notional amount and fair value of derivative instruments:

<i>(In millions)</i>	December 31,					
	Notional Amount	2020		Notional Amount	2019	
		Fair Value			Fair Value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as hedges						
Foreign currency swaps	4,222	\$ 116	\$ 182	3,018	\$ 112	\$ 55
Foreign currency forwards	1,969	2	9	717	1	9
Foreign currency forwards on net investments	102	—	1	139	—	2
Total derivatives designated as hedges		118	192		113	66
Derivatives not designated as hedges						
Equity options	53,666	3,210	23	49,549	2,746	6
Futures	24	58	2	11	10	1
Total return swaps	97	6	—	106	6	—
Foreign currency swaps	1,510	97	—	35	2	1
Interest rate swaps	324	—	2	310	—	1
Credit default swaps	10	—	4	10	—	3
Foreign currency forwards	2,890	18	39	1,924	4	16
Embedded derivatives						
Funds withheld including related party		2,852	59		1,363	31
Interest sensitive contract liabilities		—	12,873		—	10,942
Total derivatives not designated as hedges		6,241	13,002		4,131	11,001
Total derivatives		\$ 6,359	\$ 13,194		\$ 4,244	\$ 11,067

Derivatives Designated as Hedges

Foreign currency swaps – We use foreign currency swaps to convert foreign currency denominated cash flows of an investment to US dollars to reduce cash flow fluctuations due to changes in currency exchange rates. Certain of these swaps are designated and accounted for as cash flow hedges, which will expire by March 2052. During the years ended December 31, 2020, 2019 and 2018, we had foreign currency swap losses of \$106 million and gains of \$29 million and \$146 million, respectively, recorded in OCI. There were no amounts reclassified to income and no amounts deemed ineffective during the years ended December 31, 2020, 2019 or 2018. As of December 31, 2020, no amounts are expected to be reclassified to income within the next 12 months.

Foreign currency forwards – We use foreign currency forward contracts to hedge certain exposures to foreign currency risk. The price is agreed upon at the time of the contract and payment is made at a specified future date. Certain of these forwards are designated and accounted for as fair value hedges. The following represents the carrying amount and the cumulative fair value hedging adjustments included in the hedged assets or liabilities:

<i>(In millions)</i>	December 31, 2020	
	Carrying amount of the hedged assets or liabilities	Cumulative amount of fair value hedging gains (losses)
AFS securities	\$ 1,857	\$ 122
Interest sensitive contract liabilities	65	(1)

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The following is a summary of the gains (losses) related to the derivatives and related hedged items in fair value hedge relationships:

<i>(In millions)</i>	Derivatives	Hedged Items	Amount Excluded	Net
Year ended December 31, 2020				
Investment related gains (losses)	\$ (125)	\$ 122	\$ (2)	\$ (5)
Interest sensitive contract liabilities	1	(1)	—	—
Year ended December 31, 2019				
Investment related gains (losses)	2	—	—	2
Year ended December 31, 2018				
Investment related gains (losses)	(1)	1	—	—

Foreign currency forwards on net investments – We have foreign currency forwards designated as net investment hedges. These forwards hedge the foreign currency exchange rate risk of our investments in subsidiaries that have a reporting currency other than the US dollar. We assess hedge effectiveness based on the changes in forward rates. During the years ended December 31, 2020, 2019 and 2018, these derivatives had gains of \$2 million and losses of \$2 million and \$0 million, respectively, which are included in foreign currency translation and other adjustments on the consolidated statements of comprehensive income. As of December 31, 2020 and 2019, the cumulative foreign currency translation recorded in AOCI related to these net investment hedges was losses of \$0 million and \$2 million, respectively. There were no amounts deemed ineffective for the years ended December 31, 2020, 2019 and 2018.

Derivatives Not Designated as Hedges

Equity options – We use equity indexed options to economically hedge fixed indexed annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index, primarily the S&P 500. To hedge against adverse changes in equity indices, we enter into contracts to buy equity indexed options. The contracts are net settled in cash based on differentials in the indices at the time of exercise and the strike price.

Futures – Futures contracts are purchased to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. We enter into exchange-traded futures with regulated futures commission clearing brokers who are members of a trading exchange. Under exchange-traded futures contracts, we agree to purchase a specified number of contracts with other parties and to post variation margin on a daily basis in an amount equal to the difference in the daily fair values of those contracts.

Total return swaps – We purchase total rate of return swaps to gain exposure and benefit from a reference asset or index without ownership. Total rate of return swaps are contracts in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset or index, which includes both the income it generates and any capital gains.

Interest rate swaps – We use interest rate swaps to reduce market risks from interest rate changes and to alter interest rate exposure arising from duration mismatches between assets and liabilities. With an interest rate swap, we agree with another party to exchange the difference between fixed-rate and floating-rate interest amounts tied to an agreed-upon notional principal amount at specified intervals.

Credit default swaps – Credit default swaps provide a measure of protection against the default of an issuer or allow us to gain credit exposure to an issuer or traded index. We use credit default swaps coupled with a bond to synthetically create the characteristics of a reference bond. These transactions have a lower cost and are generally more liquid relative to the cash market. We receive a periodic premium for these transactions as compensation for accepting credit risk.

Hedging credit risk involves buying protection for existing credit risk. The exposure resulting from the agreements, which is usually the notional amount, is equal to the maximum proceeds that must be paid by a counterparty for a defaulted security. If a credit event occurs on a reference entity, then a counterparty who sold protection is required to pay the buyer the trade notional amount less any recovery value of the security.

Embedded derivatives – We have embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance agreements structured on modco or funds withheld basis and indexed annuity products.

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The following is a summary of the gains (losses) related to derivatives not designated as hedges:

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Equity options	\$ 820	\$ 2,169	\$ (877)
Futures	124	(13)	2
Swaps	114	39	(8)
Foreign currency forwards	(88)	(2)	16
Embedded derivatives on funds withheld	2,753	2,246	(232)
Amounts recognized in investment related gains (losses)	3,723	4,439	(1,099)
Embedded derivatives in indexed annuity products ¹	(1,384)	(2,526)	923
Total gains (losses) on derivatives not designated as hedges	\$ 2,339	\$ 1,913	\$ (176)

¹ Included in interest sensitive contract benefits on the consolidated statements of income.

Credit Risk—We may be exposed to credit-related losses in the event of counterparty nonperformance on derivative financial instruments. Generally, the current credit exposure of our derivative contracts is the fair value at the reporting date less any collateral received from the counterparty.

We manage credit risk related to over-the-counter derivatives by entering into transactions with creditworthy counterparties. Where possible, we maintain collateral arrangements and use master netting agreements that provide for a single net payment from one counterparty to another at each due date and upon termination. We have also established counterparty exposure limits, where possible, in order to evaluate if there is sufficient collateral to support the net exposure.

Collateral arrangements typically require the posting of collateral in connection with its derivative instruments. Collateral agreements often contain posting thresholds, some of which may vary depending on the posting party's financial strength ratings. Additionally, a decrease in our financial strength rating to a specified level can result in settlement of the derivative position.

The estimated fair value of our net derivative and other financial assets and liabilities after the application of master netting agreements and collateral were as follows:

<i>(In millions)</i>	Gross amount recognized ¹	Gross amounts not offset on the consolidated balance sheets		Net amount	Off-balance sheet securities collateral ³	Net amount after securities collateral
		Financial instruments ²	Collateral received/pledged			
December 31, 2020						
Derivative assets	\$ 3,507	\$ (155)	\$ (3,196)	\$ 156	\$ (46)	\$ 110
Derivative liabilities	(262)	155	124	17	—	17
December 31, 2019						
Derivative assets	\$ 2,885	\$ (67)	\$ (2,743)	\$ 75	\$ (145)	\$ (70)
Derivative liabilities	(93)	67	31	5	—	5

¹ The gross amounts of recognized derivative assets and derivative liabilities are reported on the consolidated balance sheets. As of December 31, 2020 and 2019, amounts not subject to master netting or similar agreements were immaterial.

² Represents amounts offsetting derivative assets and derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets or gross derivative liabilities for presentation on the consolidated balance sheets.

³ For non-cash collateral received, we do not recognize the collateral on our balance sheet unless the obligor (transferor) has defaulted under the terms of the secured contract and is no longer entitled to redeem the pledged asset. Amounts do not include any excess of collateral pledged or received.

Certain derivative instruments contain provisions for credit-related events, such as downgrades in our credit ratings or for a negative credit event of a credit default swap's reference entity. If a credit event were to occur, we may be required to settle an outstanding liability. The following is a summary of our exposure to credit-related events:

<i>(In millions)</i>	December 31,	
	2020	2019
Fair value of derivative liabilities with credit related provisions	\$ 4	\$ 3
Maximum exposure for credit default swaps	10	10

As of December 31, 2020 and 2019, no additional collateral would be required if a default or termination event were to occur.

ATHENE LIFE RE LTD.

Notes to Consolidated Financial Statements

4. Variable Interest Entities

We consolidate Hamlet Securitization Trust 2020-CRE1 (Hamlet), which was formed to securitize a portion of our commercial mortgage loan portfolio as CMBS securities held by AHL subsidiaries and third-party cedant portfolios. Securitization of these commercial mortgage loans allows retention of the full economics of these assets while being able to pledge these assets as collateral to the Federal Home Loan Bank (FHLB) under the funding agreement program. As substantially all of the activities and economics of Hamlet are conducted on our behalf, we are the primary beneficiary and consolidate Hamlet and the assets are included in mortgage loans on the consolidated balance sheets. Additionally, as Hamlet is in the form of a trust, the commercial mortgage loan assets are included in the pledged assets and funds in trust table in *Note 15 – Commitments and Contingencies*. No arrangement exists requiring us to provide additional funding in excess of our committed capital investment, liquidity, or the funding of losses or an increase to our loss exposure in excess of our investment in the VIE.

We consolidated the following VIEs during the years ended December 31, 2019 and 2018:

- AAA Investments (Co-Invest VI), L.P. (CoInvest VI);
- AAA Investments (Co-Invest VII), L.P. (CoInvest VII);
- AAA Investments (Other), L.P. (CoInvest Other);
- ALR Aircraft Investment Ireland Limited (ALR) and
- Entities included under our agreement to purchase funds managed by Apollo entities (Strategic Partnership). See *Note 14 – Related Parties* for further discussion on the Strategic Partnership.

We were the only limited partner or holder of profit participating notes in these investment funds and received all of the economic benefits and losses, other than management fees and carried interest, as applicable, paid to the general partner in each entity, or a related entity, which are related parties. We did not have any voting rights as limited partner and, as the limited partner or holder of profit participating notes, did not solely satisfy the power criteria to direct the activities that significantly impact the economics of the VIE. However, the criteria for the primary beneficiary were satisfied by our related party group and, because substantially all of the activities were conducted on our behalf, we consolidated the investment funds.

CoInvest VI, CoInvest VII and CoInvest Other were formed to make investments, including co-investments alongside private equity funds sponsored by Apollo. Investments held by CoInvest VI, CoInvest VII and CoInvest Other were related party investments because Apollo affiliates exercised significant influence over the management or operations of the investees. We received our interests in CoInvest VI, CoInvest VII and CoInvest Other as part of a contribution agreement in 2012 with AAA Guarantor – Athene, L.P. (AAA Investor) and its subsidiary, Apollo Life Re Ltd., in order to provide a capital base to support future acquisitions.

During the first quarter 2020, as a result of the AGM share transaction discussed further in *Note 14 – Related Parties*, we reassessed the consolidation conclusions for the following VIEs, which are managed by Apollo affiliates:

- CoInvest VI;
- CoInvest VII;
- CoInvest Other; and
- Entities included under the Strategic Partnership.

Following the AGM share transaction, we determined that we are no longer the primary beneficiary of CoInvest VI, CoInvest VII, CoInvest Other and the Strategic Partnership, as a result of Apollo receiving significant economics of these entities through their increased economic ownership in us. We did not recognize a gain or loss upon deconsolidation of these previously consolidated VIEs, as the deconsolidated VIEs accounted for their assets and liabilities at fair value. The investments remaining from the deconsolidated VIEs are included at NAV in related party investment funds on the consolidated balance sheets after March 31, 2020.

ALR was formed to invest in a joint venture that provides airplane lease financing to a major commercial airline. During the second quarter of 2020, we received final payment on the profit participating notes and no longer consolidate ALR.

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5. Fair Value

Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. We determine fair value based on the following fair value hierarchy:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Quoted prices for inactive markets or valuation techniques that require observable direct or indirect inputs for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets,
- Observable inputs other than quoted market prices, and
- Observable inputs derived principally from market data through correlation or other means.

Level 3 – Prices or valuation techniques with unobservable inputs significant to the overall fair value estimate. These valuations use critical assumptions not readily available to market participants. Level 3 valuations are based on market standard valuation methodologies, including discounted cash flows, matrix pricing or other similar techniques.

NAV – Investment funds are typically measured using NAV as a practical expedient in determining fair value and are not classified in the fair value hierarchy. The underlying investments of the investment funds may have significant unobservable inputs, which may include but are not limited to, comparable multiples and weighted average cost of capital rates applied in valuation models or a discounted cash flow model.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the instrument's fair value measurement.

We use a number of valuation sources to determine fair values. Valuation sources can include quoted market prices; third-party commercial pricing services; third-party brokers; industry-standard, vendor modeling software that uses market observable inputs; and other internal modeling techniques based on projected cash flows. We periodically review the assumptions and inputs of third-party commercial pricing services through internal valuation price variance reviews, comparisons to internal pricing models, back testing to recent trades, or monitoring trading volumes.

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The following represents the hierarchy for our assets and liabilities measured at fair value on a recurring basis:

<i>(In millions)</i>	December 31, 2020				
	Total	NAV	Level 1	Level 2	Level 3
Assets					
AFS securities					
US government and agencies	\$ 351	\$ —	\$ 332	\$ 19	\$ —
US state, municipal and political subdivisions	1,033	—	—	999	34
Foreign governments	368	—	—	366	2
Corporate	57,089	—	—	56,311	778
CLO	9,568	—	—	9,360	208
ABS	4,269	—	—	3,469	800
CMBS	2,167	—	—	2,124	43
RMBS	6,913	—	—	6,913	—
Total AFS securities	81,758	—	332	79,561	1,865
Trading securities					
US government and agencies	6	—	3	3	—
US state, municipal and political subdivisions	106	—	—	106	—
Corporate	1,578	—	—	1,578	—
CLO	4	—	—	—	4
ABS	128	—	—	93	35
CMBS	52	—	—	52	—
RMBS	219	—	—	172	47
Total trading securities	2,093	—	3	2,004	86
Equity securities	331	—	57	263	11
Mortgage loans	19	—	—	—	19
Investment funds	161	144	—	—	17
Funds withheld at interest – embedded derivative	1,990	—	—	—	1,990
Derivative assets	3,503	—	58	3,445	—
Short-term investments	221	—	146	73	2
Other investments	105	—	—	105	—
Cash and cash equivalents	7,278	—	7,278	—	—
Restricted cash	692	—	692	—	—
Investments in related parties					
AFS securities					
Corporate	215	—	—	20	195
CLO	1,520	—	—	1,520	—
ABS	4,785	—	—	676	4,109
Total AFS securities – related party	6,520	—	—	2,216	4,304
Trading securities					
CLO	54	—	—	4	50
ABS	1,475	—	—	—	1,475
Total trading securities – related party	1,529	—	—	4	1,525
Equity securities	72	—	—	—	72
Investment funds	2,119	86	—	—	2,033
Funds withheld at interest – embedded derivative	862	—	—	—	862
Reinsurance recoverable	2,100	—	—	—	2,100
Total assets measured at fair value	\$ 111,353	\$ 230	\$ 8,566	\$ 87,671	\$ 14,886

(Continued)

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<i>(In millions)</i>	December 31, 2020				
	Total	NAV	Level 1	Level 2	Level 3
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	\$ 12,873	\$ —	\$ —	\$ —	\$ 12,873
Universal life benefits	1,308	—	—	—	1,308
Future policy benefits					
AmerUs Closed Block	1,600	—	—	—	1,600
ILICO Closed Block and life benefits	776	—	—	—	776
Derivative liabilities	262	—	2	256	4
Funds withheld liability – embedded derivative	59	—	—	—	59
Total liabilities measured at fair value	\$ 16,878	\$ —	\$ 2	\$ 256	\$ 16,620

(Concluded)

<i>(In millions)</i>	December 31, 2019				
	Total	NAV	Level 1	Level 2	Level 3
Assets					
AFS securities					
US government and agencies	\$ 36	\$ —	\$ 36	\$ —	\$ —
US state, municipal and political subdivisions	1,541	—	—	1,501	40
Foreign governments	327	—	—	327	—
Corporate	46,408	—	—	45,683	725
CLO	7,348	—	—	7,227	121
ABS	5,117	—	—	3,743	1,374
CMBS	2,398	—	—	2,351	47
RMBS	7,374	—	—	7,374	—
Total AFS securities	70,549	—	36	68,206	2,307
Trading securities					
US government and agencies	11	—	8	3	—
US state, municipal and political subdivisions	135	—	—	135	—
Corporate	1,456	—	—	1,456	—
CLO	6	—	—	—	6
ABS	92	—	—	92	—
CMBS	51	—	—	51	—
RMBS	303	—	—	251	52
Total trading securities	2,054	—	8	1,988	58
Equity securities	247	—	43	201	3

(Continued)

ATHENE LIFE RE LTD.

Notes to Consolidated Financial Statements

<i>(In millions)</i>	December 31, 2019				
	Total	NAV	Level 1	Level 2	Level 3
Mortgage loans	27	—	—	—	27
Investment funds	154	132	—	—	22
Funds withheld at interest – embedded derivative	769	—	—	—	769
Derivative assets	2,885	—	10	2,875	—
Short-term investments	406	—	46	319	41
Other investments	93	—	—	93	—
Cash and cash equivalents	4,012	—	4,012	—	—
Restricted cash	331	—	331	—	—
Investments in related parties					
AFS securities					
Corporate	19	—	—	19	—
CLO	934	—	—	934	—
ABS	2,849	—	—	525	2,324
Total AFS securities – related party	3,802	—	—	1,478	2,324
Trading securities					
CLO	74	—	—	36	38
ABS	711	—	—	—	711
Total trading securities – related party	785	—	—	36	749
Equity securities	58	—	—	—	58
Investment funds	248	121	—	—	127
Funds withheld at interest – embedded derivative	594	—	—	—	594
Reinsurance recoverable	1,821	—	—	—	1,821
Total assets measured at fair value	\$ 88,835	\$ 253	\$ 4,486	\$ 75,196	\$ 8,900
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	\$ 10,942	\$ —	\$ —	\$ —	\$ 10,942
Universal life benefits	1,050	—	—	—	1,050
Future policy benefits					
AmerUs Closed Block	1,546	—	—	—	1,546
ILICO Closed Block and life benefits	755	—	—	—	755
Derivative liabilities	93	—	1	89	3
Funds withheld liability – embedded derivative	31	—	—	31	—
Total liabilities measured at fair value	\$ 14,417	\$ —	\$ 1	\$ 120	\$ 14,296

(Concluded)

Fair Value Valuation Methods—We used the following valuation methods and assumptions to estimate fair value:

AFS and trading securities – We obtain the fair value for most marketable securities without an active market from several commercial pricing services. These are classified as Level 2 assets. The pricing services incorporate a variety of market observable information in their valuation techniques, including benchmark yields, trading activity, credit quality, issuer spreads, bids, offers and other reference data. This category typically includes US and non-US corporate bonds, US agency and government guaranteed securities, CLO, ABS, CMBS and RMBS.

We also have fixed maturity securities priced based on indicative broker quotes or by employing market accepted valuation models. For certain fixed maturity securities, the valuation model uses significant unobservable inputs and are included in Level 3 in our fair value hierarchy. Significant unobservable inputs used include: discount rates, issue specific credit adjustments, material non-public financial information, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. These inputs are usually considered unobservable, as not all market participants have access to this data.

We value privately placed fixed maturity securities based on the credit quality and duration of comparable marketable securities, which may be securities of another issuer with similar characteristics. In some instances, we use a matrix-based pricing model. These models consider the current level of risk-free interest rates, corporate spreads, credit quality of the issuer and cash flow characteristics of the security. We also consider additional factors such as net worth of the borrower, value of collateral, capital structure of the borrower, presence of guarantees and our evaluation of the borrower’s ability to compete in its relevant market. Privately placed fixed maturity securities are classified as Level 2 or 3.

ATHENE LIFE RE LTD.

Notes to Consolidated Financial Statements

Equity securities – Fair values of publicly traded equity securities are based on quoted market prices and classified as Level 1. Other equity securities, typically private equities or equity securities not traded on an exchange, we value based on other sources, such as commercial pricing services or brokers, and are classified as Level 2 or 3.

Mortgage loans – Mortgage loans for which we have elected the fair value option or those held for sale are carried at fair value. We estimate fair value on a monthly basis using discounted cash flow analysis and rates being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The discounted cash flow model uses unobservable inputs, including estimates of discount rates and loan prepayments. Mortgage loans are classified as Level 3.

Investment funds – Certain investment funds for which we elected the fair value option are included in Level 3 and are priced based on market accepted valuation models. The valuation models use significant unobservable inputs, which include material non-public financial information, estimation of future distributable earnings and demographic assumptions. These inputs are usually considered unobservable, as not all market participants have access to this data.

Funds withheld at interest embedded derivative – We estimate the fair value of the embedded derivative based on the change in the fair value of the assets supporting the funds withheld payable under modco and funds withheld reinsurance agreements. As a result, the fair value of the embedded derivative is classified as Level 2 or 3 based on the valuation methods used for the assets held supporting the reinsurance agreements.

Derivatives – Derivative contracts can be exchange traded or over-the-counter. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy depending on trading activity. Over-the-counter derivatives are valued using valuation models or an income approach using third-party broker valuations. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlation of the inputs. We consider and incorporate counterparty credit risk in the valuation process through counterparty credit rating requirements and monitoring of overall exposure. We also evaluate and include our own nonperformance risk in valuing derivatives. The majority of our derivatives trade in liquid markets; therefore, we can verify model inputs and model selection does not involve significant management judgment. These are typically classified within Level 2 of the fair value hierarchy.

Cash and cash equivalents, including restricted cash – The carrying amount for cash equals fair value. We estimate the fair value for cash equivalents based on quoted market prices. These assets are classified as Level 1.

Interest sensitive contract liabilities embedded derivative – Embedded derivatives related to interest sensitive contract liabilities with fixed indexed annuity products are classified as Level 3. The valuations include significant unobservable inputs associated with economic assumptions and actuarial assumptions for policyholder behavior.

AmerUs Closed Block – We elected the fair value option for the future policy benefits liability in the AmerUs Closed Block. Our valuation technique is to set the fair value of policyholder liabilities equal to the fair value of assets. There is an additional component which captures the fair value of the open block’s obligations to the closed block business. This component is the present value of the projected release of required capital and future earnings before income taxes on required capital supporting the AmerUs Closed Block, discounted at a rate which represents a market participant’s required rate of return, less the initial required capital. Unobservable inputs include estimates for these items. The AmerUs Closed Block policyholder liabilities and any corresponding reinsurance recoverable are classified as Level 3.

ILICO Closed Block – We elected the fair value option for the ILICO Closed Block. Our valuation technique is to set the fair value of policyholder liabilities equal to the fair value of assets. There is an additional component which captures the fair value of the open block’s obligations to the closed block business. This component uses the present value of future cash flows which include commissions, administrative expenses, reinsurance premiums and benefits, and an explicit cost of capital. The discount rate includes a margin to reflect the business and nonperformance risk. Unobservable inputs include estimates for these items. The ILICO Closed Block policyholder liabilities and corresponding reinsurance recoverable are classified as Level 3.

Universal life liabilities and other life benefits – We elected the fair value option for certain blocks of universal and other life business ceded to Global Atlantic. We use a present value of liability cash flows. Unobservable inputs include estimates of mortality, persistency, expenses, premium payments and a risk margin used in the discount rates that reflects the riskiness of the business. These universal life policyholder liabilities and corresponding reinsurance recoverable are classified as Level 3.

Fair Value Option—The following represents the gains (losses) recorded for instruments for which we have elected the fair value option, including related parties:

(In millions)	Years ended December 31,		
	2020	2019	2018
Trading securities	\$ 33	\$ 152	\$ (254)
Investment funds	295	(11)	37
Future policy benefits	(54)	(103)	182
Total gains (losses)	\$ 274	\$ 38	\$ (35)

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Notes to Consolidated Financial Statements

Gains and losses on trading securities are recorded in investment related gains (losses) on the consolidated statements of income. For fair value option mortgage loans, we record interest income in net investment income and subsequent changes in fair value in investment related gains (losses) on the consolidated statements of income. Gains and losses related to investment funds, including related party investment funds, are recorded in net investment income on the consolidated statements of income. We record the change in fair value of future policy benefits to future policy and other policy benefits on the consolidated statements of income.

The following summarizes information for fair value option mortgage loans:

<i>(In millions)</i>	December 31,	
	2020	2019
Unpaid principal balance	\$ 17	\$ 25
Mark to fair value	2	2
Fair value	\$ 19	\$ 27

There were no fair value option mortgage loans 90 days or more past due as of December 31, 2020 and 2019.

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Notes to Consolidated Financial Statements

Level 3 Financial Instruments—The following are reconciliations for Level 3 assets and liabilities measured at fair value on a recurring basis:

	Year ended December 31, 2020							
	Beginning balance	Total realized and unrealized gains (losses)		Net purchases, issuances, sales and settlements	Net transfers in (out)	Ending balance	Total gains (losses) included in earnings ¹	Total gains (losses) included in OCI ¹
<i>(In millions)</i>								
Assets								
AFS securities								
US state, municipal and political subdivisions	\$ 40	\$ —	\$ —	\$ (6)	\$ —	\$ 34	\$ —	\$ —
Foreign governments	—	—	—	2	—	2	—	—
Corporate	725	10	5	10	28	778	—	\$ 5
CLO	121	—	—	109	(22)	208	—	—
ABS	1,374	20	(48)	(282)	(264)	800	—	(47)
CMBS	47	(4)	(6)	(5)	11	43	—	(4)
Trading securities								
CLO	6	(2)	—	—	—	4	—	—
ABS	—	—	—	35	—	35	—	—
RMBS	52	(9)	—	—	4	47	2	—
Equity securities	3	3	—	5	—	11	3	—
Mortgage loans	27	—	—	(8)	—	19	—	—
Investment funds	22	(5)	—	—	—	17	(5)	—
Funds withheld at interest – embedded derivative	769	1,221	—	—	—	1,990	—	—
Short-term investments	41	—	—	(39)	—	2	—	—
Investments in related parties								
AFS securities								
ABS	2,324	24	37	1,889	(165)	4,109	—	37
Trading securities								
CLO	38	(13)	—	14	11	50	(9)	—
ABS	711	(13)	—	777	—	1,475	(14)	—
Equity securities	58	2	—	12	—	72	1	—
Investment funds	127	303	—	1,603	—	2,033	122	—
Funds withheld at interest – embedded derivative	594	268	—	—	—	862	—	—
Reinsurance recoverable	1,821	279	—	—	—	2,100	—	—
Total Level 3 assets	\$ 8,900	\$ 2,084	\$ (12)	\$ 4,116	\$ (397)	\$ 14,691	\$ 100	\$ (9)
Liabilities								
Interest sensitive contract liabilities								
Embedded derivative	\$ (10,942)	\$ (1,384)	\$ —	\$ (547)	\$ —	\$ (12,873)	\$ —	\$ —
Universal life benefits	(1,050)	(258)	—	—	—	(1,308)	—	—
Future policy benefits								
AmerUs Closed Block	(1,546)	(54)	—	—	—	(1,600)	—	—
ILICO Closed Block and life benefits	(755)	(21)	—	—	—	(776)	—	—
Derivative liabilities	(3)	(1)	—	—	—	(4)	—	—
Funds withheld liability - embedded derivative	—	—	—	(59)	—	(59)	—	—
Total Level 3 liabilities	\$ (14,296)	\$ (1,718)	\$ —	\$ (606)	\$ —	\$ (16,620)	\$ —	\$ —

¹ Related to instruments held at end of period.

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Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In millions)	Total realized and unrealized gains (losses)		Included in OCI	Net purchases, issuances, sales and settlements	Net transfers in (out)	Ending balance	Total gains (losses) included in earnings ¹
	Beginning balance	Included in income					
Assets							
AFS securities							
US state, municipal and political subdivisions	\$ —	\$ —	\$ —	\$ 40	\$ —	\$ 40	\$ —
Corporate	898	14	12	(61)	(138)	725	—
CLO	107	—	3	50	(39)	121	—
ABS	1,615	7	32	120	(400)	1,374	—
CMBS	187	2	7	(131)	(19)	46	—
RMBS	56	2	2	(13)	(47)	—	—
Trading securities							
CLO	1	(1)	—	—	5	5	6
ABS	—	—	—	(9)	25	16	—
RMBS	134	(21)	—	10	(71)	52	1
Equity securities	3	—	—	—	—	3	—
Mortgage loans	32	—	—	(5)	—	27	—
Investment funds	29	(3)	—	(4)	—	22	(3)
Funds withheld at interest – embedded derivative	57	712	—	—	—	769	—
Short-term investments	—	—	—	41	—	41	—
Investments in related parties							
AFS securities, ABS	328	2	22	2,076	(104)	2,324	—
Trading securities							
CLO	113	(7)	—	(49)	(19)	38	3
ABS	149	(14)	—	473	104	712	(6)
Equity securities	133	(2)	—	(67)	—	64	(1)
Investment funds	15	(1)	—	—	(13)	1	(1)
Funds withheld at interest – embedded derivative	(110)	704	—	—	—	594	—
Reinsurance recoverable	1,676	145	—	—	—	1,821	—
Total Level 3 assets	\$ 5,423	\$ 1,539	\$ 78	\$ 2,471	\$ (716)	\$ 8,795	\$ (1)
Liabilities							
Interest sensitive contract liabilities							
Embedded derivative	\$ (7,969)	\$ (2,526)	\$ —	\$ (447)	\$ —	\$ (10,942)	\$ —
Universal life benefits	(932)	(118)	—	—	—	(1,050)	—
Future policy benefits							
AmerUs Closed Block	(1,443)	(103)	—	—	—	(1,546)	—
ILICO Closed Block and life benefits	(730)	(25)	—	—	—	(755)	—
Derivative liabilities	(4)	1	—	—	—	(3)	1
Total Level 3 liabilities	\$ (11,078)	\$ (2,771)	\$ —	\$ (447)	\$ —	\$ (14,296)	\$ 1

¹ Related to instruments held at end of period.

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Notes to Consolidated Financial Statements

The following represents the gross components of purchases, issuances, sales and settlements, net, and net transfers in (out) shown above:

(In millions)	Year ended December 31, 2020							
	Purchases	Issuances	Sales	Settlements	Net purchases, issuances, sales and settlements	Transfers in	Transfers out	Net transfers in (out)
Assets								
AFS securities								
US state, municipal and political subdivisions	\$ —	\$ —	\$ (5)	\$ (1)	\$ (6)	\$ —	\$ —	\$ —
Corporate	177	—	—	(166)	11	69	(41)	28
CLO	145	—	(7)	(28)	110	—	(22)	(22)
ABS	128	—	—	(410)	(282)	7	(271)	(264)
CMBS	—	—	(4)	(1)	(5)	11	—	11
Trading securities								
ABS	35	—	—	—	35	—	—	—
RMBS	—	—	—	—	—	5	(1)	4
Equity securities	10	—	—	(5)	5	—	—	—
Mortgage loans	—	—	—	(8)	(8)	—	—	—
Investment funds	—	—	—	—	—	—	—	—
Short-term investments	3	—	(7)	(35)	(39)	—	—	—
Investments in related parties								
AFS securities, ABS	2,156	—	(5)	(262)	1,889	—	(165)	(165)
Trading securities								
CLO	27	—	(13)	—	14	15	(4)	11
ABS	802	—	(10)	(15)	777	—	—	—
Equity securities	18	—	(1)	(5)	12	—	—	—
Investment funds	1,678	—	(75)	—	1,603	—	—	—
Total Level 3 assets	\$ 5,179	\$ —	\$ (127)	\$ (936)	\$ 4,116	\$ 107	\$ (504)	\$ (397)
Liabilities								
Interest sensitive contract liabilities								
– embedded derivative	\$ —	\$ (1,188)	\$ —	\$ 641	\$ (547)	\$ —	\$ —	\$ —
Total Level 3 liabilities	\$ —	\$ (1,188)	\$ —	\$ 641	\$ (547)	\$ —	\$ —	\$ —

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Notes to Consolidated Financial Statements

Year ended December 31, 2019

<i>(In millions)</i>	Purchases	Issuances	Sales	Settlements	Net purchases, issuances, sales and settlements	Transfers in	Transfers out	Net transfers in (out)
Assets								
AFS securities								
US state, municipal and political subdivisions	\$ 40	\$ —	\$ —	\$ —	\$ 40	\$ —	\$ —	\$ —
Corporate	115	—	(2)	(174)	(61)	5	(143)	(138)
CLO	94	—	—	(44)	50	—	(39)	(39)
ABS	409	—	(172)	(117)	120	30	(430)	(400)
CMBS	—	—	(4)	(127)	(131)	—	(19)	(19)
RMBS	1	—	—	(14)	(13)	—	(47)	(47)
Trading securities								
CLO	—	—	—	—	—	5	—	5
ABS	—	—	(9)	—	(9)	25	—	25
RMBS	10	—	—	—	10	4	(75)	(71)
Mortgage loans	—	—	—	(5)	(5)	—	—	—
Investment funds	—	—	(4)	—	(4)	—	—	—
Short-term investments	74	—	—	(33)	41	—	—	—
Investments in related parties								
AFS securities, ABS	2,207	—	—	(131)	2,076	—	(104)	(104)
Trading securities								
CLO	—	—	(49)	—	(49)	17	(36)	(19)
ABS	511	—	—	(38)	473	104	—	104
Equity securities	75	—	(5)	(137)	(67)	—	—	—
Investment funds	—	—	—	—	—	—	(13)	(13)
Total Level 3 assets	\$ 3,536	\$ —	\$ (245)	\$ (820)	\$ 2,471	\$ 190	\$ (906)	\$ (716)
Liabilities								
Interest sensitive contract liabilities – embedded derivative								
Total Level 3 liabilities	\$ —	\$ (937)	\$ —	\$ 490	\$ (447)	\$ —	\$ —	\$ —

Significant Unobservable Inputs—Significant unobservable inputs occur when we could not obtain or corroborate the quantitative detail of the inputs. This applies to fixed maturity securities, equity securities, mortgage loans and certain derivatives, as well as embedded derivatives in liabilities. Additional significant unobservable inputs are described below.

AFS and trading securities – For certain fixed maturity securities, internal models are used to calculate the fair value. We use a discounted cash flow approach. The discount rate is the significant unobservable input due to the determined credit spread being internally developed, illiquid, or as a result of other adjustments made to the base rate. The base rate represents a market comparable rate for securities with similar characteristics. This excludes assets for which significant unobservable inputs are not developed internally, primarily consisting of broker quotes.

Interest sensitive contract liabilities – embedded derivative – Significant unobservable inputs we use in the fixed indexed annuities embedded derivative of the interest sensitive contract liabilities valuation include:

1. Nonperformance risk – For contracts we issue, we use the credit spread, relative to the US Department of the Treasury (Treasury) curve based on our public credit rating as of the valuation date. This represents our credit risk for use in the estimate of the fair value of embedded derivatives.
2. Option budget – We assume future hedge costs in the derivative’s fair value estimate. The level of option budgets determines the future costs of the options and impacts future policyholder account value growth.
3. Policyholder behavior – We regularly review the lapse and withdrawal assumptions (surrender rate). These are based on our initial pricing assumptions updated for actual experience. Actual experience may be limited for recently issued products.

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The following summarizes the unobservable inputs for AFS and trading securities and the embedded derivatives of fixed indexed annuities:

December 31, 2020							
<i>(In millions, except for percentages)</i>	Fair value	Valuation technique	Unobservable inputs	Minimum	Maximum	Weighted average	Impact of an increase in the input on fair value
AFS and trading securities	\$ 5,858	Discounted cash flow	Discount	1.7 %	35 %	4.6 % ¹	Decrease
Interest sensitive contract liabilities – fixed indexed annuities embedded derivatives	\$ 12,873	Option budget method	Nonperformance risk	0.0 % –	1.1 %	0.5% ²	Decrease
			Option budget	0.6 % –	3.5 %	1.9% ³	Increase
			Surrender rate	5.3 % –	9.5 %	7.1% ⁴	Decrease
December 31, 2019							
	Fair value	Valuation technique	Unobservable inputs	Minimum	Maximum	Weighted average	Impact of an increase in the input on fair value
AFS and trading securities	\$ 1,289	Discounted cash flow	Discount	3.0 %	9.0 %	6.6 % ¹	Decrease
Interest sensitive contract liabilities – fixed indexed annuities embedded derivatives	\$ 10,942	Option budget method	Nonperformance risk	0.2 % –	1.1 %	0.6% ²	Decrease
			Option budget	0.7 % –	3.7 %	1.9% ³	Increase
			Surrender rate	3.5 % –	8.1 %	7.1% ⁴	Decrease

¹ The discount weighted average is calculated based on the relative fair values of the securities.

² The nonperformance risk weighted average is based on the projected excess benefits of reserves used in the calculation of the embedded derivative.

³ The option budget weighted average is calculated based on the indexed account values.

⁴ The surrender rate weighted average is calculated based on projected account values.

Financial Instruments Without Readily Determinable Fair Values—We have elected the measurement alternative for certain equity securities that do not have a readily determinable fair value. The equity securities are held at cost less any impairment. The carrying amount of the equity securities was \$202 million, with an impairment of \$231 million as of December 31, 2020. In connection with preparing our annual financial statements and as a result of adverse changes in the market, economic indicators, and a deterioration of the earnings performance of the investee, we recorded an impairment of \$231 million in the fourth quarter of 2020.

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Fair Value of Financial Instruments Not Carried at Fair Value—The following represents our financial instruments not carried at fair value on the consolidated balance sheets:

<i>(In millions)</i>	December 31, 2020					
	Carrying Value	Fair Value	NAV	Level 1	Level 2	Level 3
Financial assets						
Mortgage loans	15,246	\$ 15,811	\$ —	\$ —	\$ —	\$ 15,811
Investment funds	642	642	642	—	—	—
Policy loans	369	369	—	—	369	—
Funds withheld at interest	47,598	47,598	—	—	—	47,598
Other investments	467	471	—	—	—	471
Investments in related parties						
Mortgage loans	674	694	—	—	—	694
Investment funds	3,165	3,165	3,165	—	—	—
Funds withheld at interest	12,168	12,168	—	—	—	12,168
Other investments	468	499	—	—	—	499
Total financial assets not carried at fair value	\$ 80,797	\$ 81,417	\$ 3,807	\$ —	\$ 369	\$ 77,241
Financial liabilities						
Interest sensitive contract liabilities	\$ 94,685	\$ 98,945	\$ —	\$ —	\$ —	\$ 98,945
Funds withheld liability	393	393	—	—	393	—
Total financial liabilities not carried at fair value	\$ 95,078	\$ 99,338	\$ —	\$ —	\$ 393	\$ 98,945

<i>(In millions)</i>	December 31, 2019					
	Carrying Value	Fair Value	NAV	Level 1	Level 2	Level 3
Financial assets						
Mortgage loans	\$ 14,279	\$ 14,719	\$ —	\$ —	\$ —	\$ 14,719
Investment funds	577	577	577	—	—	—
Policy loans	417	417	—	—	417	—
Funds withheld at interest	15,255	15,255	—	—	—	15,255
Short-term investments	190	190	—	—	—	190
Other investments	66	66	—	—	—	66
Investments in related parties						
Mortgage loans	653	641	—	—	—	641
Investment funds	2,506	2,506	2,506	—	—	—
Funds withheld at interest	12,626	12,626	—	—	—	12,626
Other investments	487	537	—	—	—	537
Total financial assets not carried at fair value	\$ 47,056	\$ 47,534	\$ 3,083	\$ —	\$ 417	\$ 44,034
Financial liabilities						
Interest sensitive contract liabilities	\$ 57,272	\$ 58,027	\$ —	\$ —	\$ —	\$ 58,027
Short-term debt	475	475	—	—	475	—
Funds withheld liability	377	377	—	—	377	—
Total financial liabilities not carried at fair value	\$ 58,124	\$ 58,879	\$ —	\$ —	\$ 852	\$ 58,027

We estimate the fair value for financial instruments not carried at fair value using the same methods and assumptions as those we carry at fair value. The financial instruments presented above are reported at carrying value on the consolidated balance sheets; however, in the case of policy loans, funds withheld at interest and liability, short-term investments, short-term debt and securities to repurchase, the carrying amount approximates fair value.

Other investments – The fair value of other investments is determined using a discounted cash flow model using discount rates for similar investments.

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Interest sensitive contract liabilities – The carrying and fair value of interest sensitive contract liabilities above includes fixed indexed and traditional fixed annuities without mortality or morbidity risks, funding agreements and payout annuities without life contingencies. The embedded derivatives within fixed indexed annuities without mortality or morbidity risks are excluded, as they are carried at fair value. The valuation of these investment contracts is based on discounted cash flow methodologies using significant unobservable inputs. The estimated fair value is determined using current market risk-free interest rates, adding a spread to reflect our nonperformance risk and subtracting a risk margin to reflect uncertainty inherent in the projected cash flows.

6. Reinsurance

The following summarizes the effect of reinsurance on premiums and future policy and other policy benefits on the consolidated statements of income:

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Premiums			
Direct	\$ 5,691	\$ 5,449	\$ 2,813
Reinsurance assumed	413	1,092	1,066
Reinsurance ceded	(141)	(159)	(417)
Total premiums	<u>\$ 5,963</u>	<u>\$ 6,382</u>	<u>\$ 3,462</u>
Future policy and other policy benefits			
Direct	\$ 7,016	\$ 6,697	\$ 3,739
Reinsurance assumed	522	1,223	1,093
Reinsurance ceded	(351)	(333)	(551)
Total future policy and other policy benefits	<u>\$ 7,187</u>	<u>\$ 7,587</u>	<u>\$ 4,281</u>

Reinsurance typically provides for recapture rights on the part of the ceding company for certain events of default. Additionally, some agreements require us to place assets in trust accounts for the benefit of the ceding entity. The required minimum assets are equal to or greater than statutory reserves, as defined by the agreement, and were \$6,538 million and \$8,377 million as of December 31, 2020 and 2019, respectively. Although we own the assets placed in trust, their use is restricted based on the trust agreement terms. If the statutory book value of the assets, or in certain cases fair value, in a trust declines because of impairments or other reasons, we may be required to contribute additional assets to the trust. In addition, the assets within a trust may be subject to a pledge in favor of the applicable reinsurance company.

Reinsurance transactions

We have entered into various coinsurance and modco agreements to reinsure blocks of fixed deferred and fixed indexed and PRT annuities. The following summarizes those agreements at inception:

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Liabilities assumed	\$ 27,439	\$ 791	\$ 27,238
Less: Assets received	28,805	818	26,255
Ceding commission paid	—	—	(660)
Net cost of reinsurance	<u>\$ (1,366)</u>	<u>\$ (27)</u>	<u>\$ 1,643</u>
DAC	\$ —	\$ —	\$ 1,777
Unearned revenue reserve ¹	(1,366)	—	(69)
Deferred profit liability ²	—	(27)	(65)
Net cost of reinsurance	<u>\$ (1,366)</u>	<u>\$ (27)</u>	<u>\$ 1,643</u>

¹ Included within interest sensitive contract liabilities on the consolidated balance sheets.

² Included within future policy benefits on the consolidated balance sheets.

DAC and unearned revenue reserve balances are amortized over the life of the reinsurance agreements on a basis consistent with our DAC amortization policy. The deferred profit liability balance is amortized over the life of the reinsurance agreement on a constant relationship to the benefit reserves.

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Certain of these reinsurance agreements were with related parties. See *Note 13 – Related Parties* for further information.

Effective July 1, 2020, we restructured our reinsurance agreement with Mass Mutual Life Insurance Company (MassMutual). MassMutual recaptured the existing coinsurance agreement and we immediately entered into a new funds withheld coinsurance agreement. As a result, we recorded a \$5,021 million increase in funds withheld at interest and a corresponding decrease in assets, primarily consisting of investments and cash.

Global Atlantic – We have a 100% coinsurance and assumption agreement with Global Atlantic. The agreement ceded all existing open block life insurance business issued by Athene Annuity and Life Company (AAIA), with the exception of enhanced guarantee universal life insurance products. We also entered into a 100% coinsurance agreement with Global Atlantic to cede all policy liabilities of the ILICO Closed Block. The ILICO Closed Block consists primarily of participating whole life insurance policies. We also have an excess of loss arrangement with Global Atlantic to reimburse us for any payments required from our general assets to meet the contractual obligations of the AmerUs Closed Block not covered by existing reinsurance through Athene Re USA IV. The AmerUs Closed Block consists primarily of participating whole life insurance policies. Since all liabilities were covered by the existing reinsurance at close, no reinsurance premiums were ceded. The assets backing the AmerUs Closed Block are managed, on AAIA’s behalf, by Goldman Sachs Asset Management, an affiliate of Global Atlantic.

As of December 31, 2020 and 2019, Global Atlantic maintained a series of trust and custody accounts under the terms of these agreements with assets equal to or greater than a required aggregate statutory balance of \$3,022 million and \$3,478 million, respectively.

Protective Life Insurance Company (Protective) – We reinsured substantially all of the existing life and health business of Athene Annuity & Life Assurance Company (AADE) to Protective under a coinsurance agreement in 2011. As of December 31, 2020 and 2019, Protective maintained a trust for our benefit with assets having a fair value of \$1,722 million and \$1,640 million, respectively.

Novations—We have novated certain open blocks of business ceded to Global Atlantic, in accordance with the terms of the coinsurance and assumption agreement. Additionally, during the year ended December 31, 2019, we novated the reinsurance agreement for blocks of endowment contracts and annuities assumed from Athora Lebensversicherung AG (ALV) to Athora Life Re Ltd. (ARE). The below table summarizes the decreases in amounts on the consolidated balance sheets as a result of the novations.

<i>(In millions)</i>	Years ended December 31,	
	2020	2019
Interest sensitive contract liabilities	\$ 148	\$ 407
Future policy benefits	52	305
Funds withheld liability	—	347
Investments, excluding policy loans	—	320
Policy loans	23	38
Reinsurance recoverable	177	674
Other assets (liabilities), net	—	27

Reinsurance Recoverables—The following summarizes our reinsurance recoverable from the following:

<i>(In millions)</i>	December 31,	
	2020	2019
Global Atlantic	\$ 3,108	\$ 2,981
Protective	1,558	1,605
Other ¹	182	277
Reinsurance recoverable	\$ 4,848	\$ 4,863

¹ Represents all other reinsurers, with no single reinsurer having a carrying value in excess of 5% of total recoverable.

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Notes to Consolidated Financial Statements

7. Deferred Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired

The following represents a rollforward of DAC, DSI and VOBA:

<i>(In millions)</i>	DAC	DSI	VOBA	Total
Balance at December 31, 2017	\$ 1,375	\$ 520	\$ 1,077	\$ 2,972
Additions	2,481	264	—	2,745
Unlocking	21	7	54	82
Amortization	(108)	(61)	(141)	(310)
Impact of unrealized investment (gains) losses	152	69	197	418
Balance at December 31, 2018	3,921	799	1,187	5,907
Additions	645	226	—	871
Unlocking	(117)	(9)	(24)	(150)
Amortization	(749)	(65)	(68)	(882)
Impact of unrealized investment (gains) losses	(426)	(131)	(181)	(738)
Balance at December 31, 2019	3,274	820	914	5,008
Adoption of accounting standard	12	5	5	22
Additions	633	178	—	811
Unlocking	(36)	(13)	(11)	(60)
Amortization	(414)	(53)	(60)	(527)
Impact of unrealized investment (gains) losses	(233)	(80)	(35)	(348)
Balance at December 31, 2020	<u>\$ 3,236</u>	<u>\$ 857</u>	<u>\$ 813</u>	<u>\$ 4,906</u>

The expected amortization of VOBA for the next five years is as follows:

<i>(In millions)</i>	Expected Amortization
2021	\$ 86
2022	78
2023	73
2024	67
2025	64

8. Closed Block

We pay guaranteed benefits under all policies included in the Closed Blocks. In the event the performance of the Closed Blocks' assets is insufficient to maintain dividend scales and interest credits, we may reduce the policyholder dividend scales. In the event dividends have been reduced to zero and the Closed Blocks' assets remain insufficient to fund the Closed Blocks' guaranteed benefits, we would use assets supporting open block policies or surplus to meet the contractual benefits of the Closed Blocks' policyholders. The ILICO Closed Block has been ceded to Global Atlantic. Therefore, Global Atlantic would be required to provide funding for any asset insufficiency related to the ILICO Closed Block. Additionally, the AmerUs Closed Block has a letter of credit and tail risk reinsurance agreement in place that limits our exposure to potential asset insufficiency.

We elected the fair value option for the AmerUs Closed Block. The fair value of liabilities of the AmerUs Closed Block was derived at election as the sum of the fair value of the AmerUs Closed Block assets plus our cost of capital in the AmerUs Closed Block. The cost of capital was then determined to be the present value of the projected release of required capital and future after tax earnings on required capital supporting the AmerUs Closed Block, discounted at a rate which represents a market participant's required rate of return, less the initial required capital. At each reporting period, we record the fair value of the AmerUs Closed Block by adjusting the change in liabilities, exclusive of the cost of capital, to equal the change in assets. We do not record additional policyholder dividend obligations, as there are no future GAAP earnings available to the policyholders.

The excess of the fair value of the liabilities over the fair value of the assets represents our cost of capital in the AmerUs Closed Block. The maximum amount of future earnings from the assets and liabilities of the AmerUs Closed Block is represented by the reduction in the cost of capital in future years based on the operations of the AmerUs Closed Block and recalculation of the cost of capital each reporting period.

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Summarized financial information of the AmerUs Closed Block is presented below.

<i>(In millions)</i>	December 31,	
	2020	2019
Liabilities		
Future policy benefits	\$ 1,600	\$ 1,546
Other policy claims and benefits	15	18
Dividends payable to policyholders	84	87
Total liabilities	1,699	1,651
Assets		
Trading securities	1,431	1,353
Mortgage loans, net of allowances	19	27
Policy loans	124	139
Total investments	1,574	1,519
Cash and cash equivalents	35	30
Accrued investment income	44	44
Reinsurance recoverable	16	19
Other assets	2	9
Total assets	1,671	1,621
Maximum future earnings to be recognized from AmerUs Closed Block	\$ 28	\$ 30

The following represents the contribution from AmerUs Closed Block.

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Revenues			
Premiums	\$ 48	\$ 54	\$ 48
Net investment income	71	74	77
Investment related gains (losses)	99	147	(118)
Total revenues	218	275	7
Benefits and Expenses			
Future policy and other policy benefits	177	234	(49)
Dividends to policyholders	38	36	36
Total benefits and expenses	215	270	(13)
Contribution from AmerUs Closed Block before income taxes	3	5	20
Income tax expense (benefit)	1	(1)	—
Contribution from AmerUs Closed Block, net of income taxes	\$ 2	\$ 6	\$ 20

9. Debt

Credit Facility—We have a revolving credit agreement with Citibank, N.A. as administrative agent, which matures on December 3, 2024, subject to up to two one-year extensions (Credit Facility). The borrowing capacity under the Credit Facility is \$1.25 billion, with potential increases up to \$1.75 billion. In connection with the Credit Facility, AHL and AUSA guaranteed all of the obligations of AHL, ALRe, Athene Annuity Re Ltd. (AARE) and AUSA under this facility, and ALRe and AARE guaranteed certain of the obligations of AHL, ALRe, AARE and AUSA under this facility. The Credit Facility contains various standard covenants with which we must comply, including the following:

1. Consolidated debt to capitalization ratio of not greater than 35%;
2. Minimum consolidated net worth of no less than \$7.3 billion; and
3. Restrictions on our ability to incur debt and liens, in each case with certain exceptions.

As of December 31, 2020 and 2019, we had no amounts outstanding under the Credit Facility and were in compliance with all covenants under the facility.

Interest accrues on outstanding borrowings at either the Eurodollar Rate (as defined in the Credit Facility) plus a margin or a base rate plus a margin, with the applicable margin varying based on AHL's Debt Rating (as defined in the Credit Facility). The Credit Facility has a commitment fee that is determined by reference to AHL's Debt Rating, and ranges from 0.10% to 0.30% of the undrawn commitment. As of December 31, 2020 and 2019, the commitment fee was 0.15% of the undrawn commitment.

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Short-term Borrowings—In the fourth quarter of 2019, we borrowed \$475 million from the FHLB through their variable rate short-term federal funds program. During the first quarter of 2020, \$75 million of the short-term borrowings matured. In the second quarter of 2020, the remaining \$400 million of short-term borrowings were converted to funding agreements with the FHLB. See *Note 14 – Commitments and Contingencies* for further discussion regarding existing collateral posting with the FHLB.

10. Equity

Common Stock—We have one class of common stock, which represents 100% of the total voting power, and is beneficially owned by AHL. We have an authorized share capital of US\$3,000,000 comprised of 3,000,000 shares of par value \$1.00 each, of which \$2,420,000 have been issued to AHL.

Accumulated Other Comprehensive Income (Loss)—The following provides the details and changes in AOCI:

<i>(In millions)</i>	Unrealized investment gains (losses) on AFS securities without a credit allowance	Unrealized investment gains (losses) on AFS securities with a credit allowance	DAC, DSI, VOBA and future policy benefits adjustments on AFS securities	Unrealized gains (losses) on hedging instruments	Foreign currency translation and other adjustments	Accumulated other comprehensive income (loss)
Balance at December 31, 2017	\$ 1,964	\$ —	\$ (462)	\$ (76)	\$ (4)	\$ 1,422
Adoption of accounting standards	(46)	—	4	—	—	\$ (42)
Other comprehensive income (loss) before reclassifications	(3,158)	—	733	146	(1)	\$ (2,280)
Less: Reclassification adjustments for gains (losses) realized in net income ¹	1	—	(1)	—	—	\$ —
Less: Income tax expense (benefit)	(614)	—	155	31	—	\$ (428)
Balance at December 31, 2018	(627)	—	121	39	(5)	(472)
Other comprehensive income (loss) before reclassifications	4,923	—	(1,321)	28	1	3,631
Less: Reclassification adjustments for gains (losses) realized in net income ¹	225	—	(54)	—	—	171
Less: Income tax expense (benefit)	958	—	(267)	6	—	697
Less: Other comprehensive income attributable to NCI	5	—	—	—	—	5
Balance at December 31, 2019	3,108	—	(879)	61	(4)	2,286
Adoption of accounting standards	4	(4)	(6)	—	—	(6)
Other comprehensive income (loss) before reclassifications	3,162	(41)	(634)	(104)	5	2,388
Less: Reclassification adjustments for gains (losses) realized in net income ¹	353	—	(94)	—	—	259
Less: Income tax expense (benefit)	562	(8)	(115)	(26)	—	413
Less: Other comprehensive income attributable to NCI	71	2	—	7	7	87
Balance at December 31, 2020	<u>\$ 5,288</u>	<u>\$ (39)</u>	<u>\$ (1,310)</u>	<u>\$ (24)</u>	<u>\$ (6)</u>	<u>\$ 3,909</u>

¹ Recognized in investment related gains (losses) on the consolidated statements of income.

11. Income Taxes

Income tax expense consists of the following:

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Current	\$ 108	\$ 53	\$ 78
Deferred	178	64	44
Income tax expense	<u>\$ 286</u>	<u>\$ 117</u>	<u>\$ 122</u>

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Income tax expense was calculated based on the following income (loss) before income taxes by jurisdiction:

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Bermuda	\$ 984	\$ 1,863	\$ 713
US	1,083	528	534
United Kingdom	273	—	—
Income before income taxes	\$ 2,340	\$ 2,391	\$ 1,247

The expected tax provision computed on pre-tax income at the weighted average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. Statutory tax rates of 0%, 21% and 19% have been used for Bermuda, the US, and the United Kingdom (UK), respectively, for the years ended December 31, 2020, 2019 and 2018. A reconciliation of the difference between the expected tax provision at the weighted average tax rate and income tax expense (benefit) is as follows:

<i>(In millions, except for percentages)</i>	Years ended December 31,		
	2020	2019	2018
Expected tax provision computed on pre-tax income at weighted average income tax rate	\$ 279	\$ 111	\$ 112
Increase in income taxes resulting from:			
Prior year true-up	(2)	2	11
Corporate owned life insurance	(6)	(6)	(3)
Stock compensation expense	—	2	1
State taxes and other	15	8	1
Income tax expense	\$ 286	\$ 117	\$ 122
Effective tax rate	12 %	5 %	10 %

Total income taxes were as follows:

<i>(In millions)</i>	Years ended December 31,		
	2020	2019	2018
Income tax expense	\$ 286	\$ 117	\$ 122
Income tax expense (benefit) from OCI	413	697	(429)
Total income tax expense (benefit)	\$ 699	\$ 814	\$ (307)

Current income tax recoverable and deferred tax assets are included in other assets on the consolidated balance sheets, and current income tax payable and deferred tax liabilities are included in other liabilities on the consolidated balance sheets. Current and deferred income tax assets and liabilities were as follows:

<i>(In millions)</i>	December 31,	
	2020	2019
Current income tax recoverable	\$ 55	\$ —
Current income tax payable	2	14
Net current income tax recoverable (payable)	\$ 53	\$ (14)
Deferred tax assets	\$ —	\$ —
Deferred tax liabilities	972	422
Net deferred tax liabilities	\$ (972)	\$ (422)

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Deferred income tax assets and liabilities consisted of the following:

<i>(In millions)</i>	December 31,	
	2020	2019
Deferred tax assets		
Insurance liabilities	\$ 1,723	\$ 1,753
Net operating and capital loss carryforwards	75	126
Employee benefits	20	21
Other	22	10
Total deferred tax assets	1,840	1,910
Valuation allowance	(50)	(47)
Deferred tax assets, net of valuation allowance	1,790	1,863
Deferred tax liabilities		
Investments, including derivatives	998	928
Net unrealized gains on AFS	997	585
DAC, DSI and VOBA	767	757
Other	—	15
Total deferred tax liabilities	2,762	2,285
Net deferred tax liabilities	\$ (972)	\$ (422)

As of December 31, 2020, we have gross deferred tax assets associated with US federal and state net operating losses of \$552 million, which will begin to expire in 2022.

The valuation allowance consists of the following:

<i>(In millions)</i>	December 31,	
	2020	2019
US federal and state net operating losses and other deferred tax assets	\$ 50	\$ 47
Total valuation allowance	\$ 50	\$ 47

ALRe and its Bermuda subsidiaries file protective US income tax returns and its US subsidiaries file income tax returns with the US federal government and various US state governments. AAE is not subject to US federal and state examinations by tax authorities for years prior to 2013, while Athene Annuity & Life Assurance Company of New York (AANY) is not subject to examinations for years prior to 2015. The Internal Revenue Service is currently auditing the 2013 consolidated tax return filed by AUSA, is conducting a limited scope audit of the 2015 consolidated tax return filed by AAE, and is auditing the 2017 consolidated tax return filed by AAE. No material adverse proposed adjustments have been issued with respect to any examination.

Under current Bermuda law, we are not required to pay any taxes in Bermuda on either income or capital gains. We have received an undertaking from the Bermuda Minister of Finance that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

12. Statutory Requirements

Our insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate including Bermuda and the US. Certain regulations include restrictions that limit the dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities. The differences between financial statements prepared for insurance regulatory authorities and GAAP financial statements vary by jurisdiction.

Bermuda statutory requirements—ALRe, AARE and Athene Co-Invest Reinsurance Affiliate 1A Ltd. (ACRA 1A, and together with its subsidiaries, ACRA) are each licensed by the Bermuda Monetary Authority (BMA) as long-term insurers and are subject to the Insurance Act 1978, as amended (Bermuda Insurance Act) and regulations promulgated thereunder. The BMA implemented the Economic Balance Sheet (EBS) framework into the Bermuda Solvency Capital Requirement (BSCR), which was granted equivalence to the European Union’s Directive (2009/138/EC) (Solvency II).

Under the Bermuda Insurance Act, long-term insurers are required to maintain minimum statutory capital and surplus to meet the minimum margin of solvency (MMS) and minimum economic statutory capital and surplus (EBS capital and surplus) to meet the Enhanced Capital Requirement (ECR). For our Class C reinsurer, ACRA 1A, MMS is equal to the greater of \$500,000, 1.5% of the total statutory assets or 25% of ECR. For our Class E reinsurers, ALRe and AARE, MMS is equal to the greater of \$8 million, 2% of the first \$500 million of statutory assets plus 1.5% of statutory assets above \$500 million or 25% of ECR. For each class, the ECR is calculated based on a risk-based capital model where risk factor charges are applied to the EBS. The ECR is floored at the MMS. As of December 31, 2020, our Bermuda subsidiaries were in

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excess of the minimum levels required. For our Bermuda reinsurance subsidiaries, the ECR is the binding regulatory constraint. The following represents the EBS capital and surplus and BSCR ratios:

<i>(In millions)</i>	EBS capital & surplus		BSCR ratio	
	December 31,		December 31,	
	2020	2019	2020	2019
ALRe	\$ 17,168	\$ 14,073	252 %	310 %
AARe	2,441	2,898	914 %	257 %
ACRA 1A	2,916	1,237	231 %	341 %

Under the EBS framework, statutory financial statements are generally equivalent to GAAP financial statements, with the exception of permitted practices granted by the BMA. Our Bermuda subsidiaries have permission in the statutory financial statements to use amortized cost instead of fair value as the basis for certain investments. Additionally, our Bermuda subsidiaries use US statutory reserving principles for the calculation of insurance reserves instead of GAAP, subject to the reserves being proved adequate based on cash flow testing. The following represents the effect of the permitted practices to the statutory financial statements:

<i>(In millions)</i>	December 31, 2020		
	ALRe	AARe ¹	ACRA 1A
Decrease to capital and surplus due to permitted practices	\$ (4,491)	\$ (7,762)	\$ (378)
Decrease to statutory net income due to permitted practices	(56)	(2,922)	(683)

¹ AARe has permission to use amortized cost instead of fair value as the basis for certain investments but does not produce GAAP financial statements. The effect of the permitted practices to the AARe statutory financial statements reflects the impact of the difference between amortized cost and fair value for certain investments.

Under the Bermuda Insurance Act, our Bermuda subsidiaries are prohibited from paying a dividend in an amount exceeding 25% of the prior year's statutory capital and surplus, unless at least two members of the companies' respective board of directors and its principal representative in Bermuda sign and submit to the BMA an affidavit attesting that a dividend in excess of this amount would not cause the subsidiary to fail to meet its relevant margins. In certain instances, the Bermuda subsidiary would also be required to provide prior notice to the BMA in advance of the payment of dividends. In the event that such an affidavit is submitted to the BMA, and further subject to meeting the MMS and ECR requirements, a Bermuda subsidiary is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of statutory capital. Distributions in excess of this amount require the approval of the BMA. The following represents the maximum distribution our Bermuda subsidiaries would be permitted to remit to its parent without the need for prior approval:

<i>(In millions)</i>	December 31,	
	2020	2019
ALRe	\$ 9,972	\$ 8,141
AARe	1,096	1,216
ACRA 1A	1,592	59

US statutory requirements—Our regulated US subsidiaries and the corresponding insurance regulatory authorities are as follows:

Subsidiary	Regulatory Authority
AADE	Delaware Department of Insurance
AAIA	Iowa Insurance Division
AANY	New York Department of Financial Services
Athene Re USA IV	State of Vermont Department of Financial Regulation

Each entity's statutory statements are presented on the basis of accounting practices determined by the respective regulatory authority. The regulatory authority recognizes only statutory accounting practices prescribed or permitted by the corresponding state for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under insurance law.

The maximum dividend these subsidiaries can pay to shareholders, without prior approval of the respective state insurance department, is subject to restrictions relating to statutory surplus or net gain from operations. The maximum dividend payment over a twelve-month period may not, without prior approval, be paid from a source other than earned surplus and may not exceed the greater of (1) the prior year's net gain from operations or (2) 10% of policyholders' surplus. Based on these restrictions, the maximum dividend AADE could pay to AUSA absent regulatory approval was \$170 million and \$152 million as of December 31, 2020 and 2019, respectively. Any dividends from AHL's other US statutory entities in excess of the amounts allowed for AADE would not be able to be remitted to AUSA without regulatory approval from the Delaware Department of Insurance.

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As of December 31, 2020, our US subsidiaries’ solvency, liquidity and risk-based capital amounts were significantly in excess of the minimum levels required.

In some instances, the states of domicile of our US subsidiaries have adopted prescribed accounting practices that differ from the required accounting outlined in National Association of Insurance Commissioners (NAIC) Statutory Accounting Principles (SAP). These subsidiaries also have certain accounting practices permitted by the states of domicile that differ from those found in NAIC SAP. These prescribed and permitted practices are described as follows:

AAIA – Among the products issued by AAIA are indexed universal life insurance and fixed indexed annuities. These products allow a portion of the premium to earn interest based on certain indices, primarily the S&P 500. We purchase call options, futures and variance swaps to hedge the growth in interest credited to the customer as a direct result of increases in the related index. The Iowa Insurance Division allows an insurer to elect (1) to use an amortized cost method to account for certain derivative instruments, such as call options, purchased to hedge the growth in interest credited to the customer on indexed insurance products and (2) to use an indexed annuity reserve calculation methodology under which call options associated with the current index interest crediting term are valued at zero. AAIA has elected to apply this option to its over-the-counter call options and reserve liabilities. As a result, AAIA’s statutory surplus decreased by \$84 million and \$80 million as of December 31, 2020 and 2019, respectively.

Athene Re USA IV – AAIA has ceded the AmerUs Closed Block to Athene Re USA IV on a 100% funds withheld basis. A permitted practice in the State of Vermont allows Athene Re USA IV to include as admitted assets the face amount of all issued and outstanding letters of credit used to fund its reinsurance obligations to AAIA in its statutory financial statements. If Athene Re USA IV had not followed this permitted practice, then it would not have exceeded authorized control level risk based capital requirements. As of December 31, 2020 and 2019, Athene Re USA IV included as admitted assets \$134 million and \$137 million, respectively, related to the outstanding letters of credit.

Statutory capital and surplus and net income (loss)—The following table presents, for each of our primary insurance subsidiaries, the statutory capital and surplus and the statutory net income (loss), based on the most recent statutory financial statements to be filed with insurance regulators:

<i>(In millions)</i>	Statutory capital & surplus		Statutory net income (loss)		
	December 31,		Years ended December 31,		
	2020	2019	2020	2019	2018
ALRe	\$ 13,519	\$ 11,000	\$ 1,544	\$ 1,247	\$ 418
AARe	2,457	2,343	92	248	997
ACRA 1A	2,718	808	1,522	265	(287)
AADE	1,700	1,526	54	(86)	18
AAIA	1,312	1,209	(8)	241	81
AANY	320	318	(25)	33	6

13. Related Parties

Unsecured Revolving Notes Receivable—ALRe has unsecured revolving notes agreement with AHL and ALREI.

The unsecured revolving note receivable from AHL has a borrowing capacity of \$1 billion. As of December 31, 2020, there were no amounts outstanding. As of December 31, 2019, there was an outstanding balance of \$38 million. Interest accrues at a fixed rate of 1.25% per year and has a maturity date of March 31, 2024, or earlier at ALRe’s request.

The unsecured revolving note receivable from ALREI has a borrowing capacity of \$500 million and \$100 million and had an outstanding balance of \$54 million and \$28 million as of December 31, 2020 and 2019, respectively. Interest accrues at 3 month LIBOR rate on principal plus applicable margin of 41 bps and a maturity date of December 11, 2024, or earlier at ALRe’s request.

Unsecured Revolving Note Payable—In addition to the unsecured revolving notes receivable described above, ALRE has an unsecured revolving note agreement with AHL and ALREI.

The unsecured revolving note payable to AHL permits ALRe to borrow up to \$1 billion with interest accrues at a fixed rate of 1.25% per year and has a maturity date of March 31, 2024, or earlier at AHL’s request. As of December 31, 2020 and 2019, the revolving note payable had no outstanding balance. Additionally, ALRe has an unsecured note payable to AHL with an outstanding balance of \$1,206 million and \$0 million as of December 31, 2020 and 2019, respectively. Interest accrues at a fixed rate of 2.34% per year until February 28, 2023, and at the three-month London Interbank Offer Rate rate plus a 0.98% margin thereafter. The balance is due on February 28, 2026, or earlier at AHL’s request.

The unsecured revolving note payable to ALREI permits ALRe to borrow up to \$500 million and \$100 million as of December 31, 2020 and 2019, respectively, with interest accrues at 3 month LIBOR rate on principal plus applicable margin of 41 bps and a maturity date of December 11, 2024, or earlier at ALREI’s request. As of December 31, 2020 and 2019, the revolving note payable had no outstanding balance.

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Apollo

Current fee structure – Substantially all of our investments are managed by Apollo. Apollo provides us a full suite of services that includes: direct investment management; asset sourcing and allocation; mergers and acquisition sourcing, execution and asset diligence; and strategic support and advice. Apollo also provides certain operational support services for our investment portfolio including investment compliance, tax, legal and risk management support.

Apollo has extensive experience managing our investment portfolio and its knowledge of our liability profile enables it to tailor an asset management strategy to fit our specific needs. This strategy has proven responsive to changing market conditions and focuses on earning incremental yield by taking liquidity risk and complexity risk, rather than assuming solely credit risk. Our partnership has enabled us to take advantage of investment opportunities that would likely not otherwise have been available to us.

During the second quarter of 2019, we entered into the Seventh Amended and Restated Fee Agreement, dated as of June 10, 2019, between us and AGM’s subsidiary, Apollo Insurance Solutions Group LP (ISG) (Fee Agreement). Under the Fee Agreement, effective retroactive to January 1, 2019, we pay Apollo:

- (1) a base management fee equal to the sum of (i) 0.225% per year of the lesser of (A) the aggregate market value of substantially all of the assets in substantially all of the investment accounts of or relating to us (collectively, the Accounts) on December 31, 2018 of \$103.4 billion (Backbook Value) and (B) the aggregate market value of substantially all of the assets in the Accounts at the end of the respective month, plus (ii) 0.15% per year of the amount, if any (Incremental Value), by which the aggregate market value of substantially all of the assets in the Accounts at the end of the respective month exceeds the Backbook Value; plus
- (2) with respect to each asset in an Account, subject to certain exceptions, that is managed by Apollo and that belongs to a specified asset class tier (Core, Core Plus, Yield, and High Alpha), a sub-allocation fee as follows, which will, in the case of assets acquired after January 1, 2019, be subject to a cap of 10% of the applicable asset’s gross book yield:
 - (i) 0.065% of the market value of Core assets, which include public investment grade corporate bonds, municipal securities, agency RMBS or CMBS, and obligations of governmental agencies or government sponsored entities that are not expressly backed by the US government;
 - (ii) 0.13% of the market value of Core Plus assets, which include private investment grade corporate bonds, fixed rate first lien commercial mortgage loans (CML), and certain obligations issued or assumed by financial institutions and determined by Apollo to be “Tier 2 Capital” under Basel III, a set of recommendations for international banking regulations developed by the Bank for International Settlements;
 - (iii) 0.375% of the market value of Yield assets, which include non-agency RMBS, investment grade CLO, CMBS and other ABS (other than RMBS and CLO), emerging market investments, below investment grade corporate bonds, subordinated debt obligations, hybrid securities or surplus notes issued or assumed by a financial institution, rated preferred equity, residential mortgage loans (RML), bank loans, investment grade infrastructure debt, and floating rate CMLs on slightly transitional or stabilized traditional real estate;
 - (iv) 0.70% of the market value of High Alpha assets, which include subordinated CML, below investment grade CLO, unrated preferred equity, debt obligations originated by MidCap, CMLs for redevelopment or construction loans or secured by non-traditional real estate, below investment grade infrastructure debt, certain loans originated directly by Apollo (other than MidCap loans), and agency mortgage derivatives; and
 - (v) 0.00% of the market value of cash and cash equivalents, US treasuries, non-preferred equities and alternatives.

The following represents assets based on the above sub-allocation structure:

<i>(In millions, except percentages)</i>	December 31, 2020	Percent of Total	December 31, 2019	Percent of Total
Core	\$ 49,249	27.4 %	\$ 31,938	25.2 %
Core Plus	41,492	23.1 %	30,053	23.7 %
Yield	64,684	35.9 %	48,551	38.4 %
High Alpha	6,200	3.4 %	5,062	4.0 %
Other	18,368	10.2 %	11,068	8.7 %
Total sub-allocation assets	\$ 179,993	100.0 %	\$ 126,672	100.0 %

Additionally, the Fee Agreement provides for a possible payment by Apollo to us, or a possible payment by us to Apollo, equal to 0.025% of the Incremental Value as of the end of each year, beginning on December 31, 2019, depending upon the percentage of our investments that consist of Core and Core Plus assets. If more than 60% of our invested assets that are subject to the sub-allocation fees are invested in Core and Core Plus assets, we will receive a 0.025% fee reduction on the Incremental Value. If less than 50% of our invested assets that are subject to the sub-allocation fee are invested in Core and Core Plus assets, we will pay an additional fee of 0.025% on Incremental Value. Under the Fee Agreement fees payable to Apollo for sub-advisory services are encompassed within the current fee structure and we no longer separately pay sub-advisory fees (as defined below). See *–Historical fee structure* below for further discussion of the prior fee structure.

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For the years ended December 31, 2020, 2019 and 2018, we incurred management fees, inclusive of the base and sub-allocation fees, of \$490 million, \$426 million and \$349 million, respectively. Management fees are included within net investment income on the consolidated statements of income. As of December 31, 2020 and 2019, management fees payable were \$41 million and \$42 million, respectively, and are included in other liabilities on the consolidated balance sheets. Such amounts include fees incurred attributable to ACRA including 100% of the noncontrolling interest in ACRA. In addition to the assets on our consolidated balance sheets managed by Apollo, Apollo manages the assets underlying our funds withheld receivable. For these assets, the third-party cedants pay Apollo fees based upon the same fee construct we have with Apollo. Such fees directly reduce the settlement payments that we receive from the third-party cedant and, as such, we indirectly pay those fees. Finally, Apollo charges management fees and carried interest on Apollo-managed funds and other entities in which we invest. Neither the fees paid by such third-party cedants nor the fees or carried interest paid by such Apollo-managed funds or other entities are included in the investment management fee amounts cited above.

Historical fee structure - Prior to January 1, 2019, we paid AAM an annual fee of 0.40%, subject to certain discounts and exceptions, on all assets that AAM managed in accounts owned by us in the US and Bermuda or in accounts supporting reinsurance ceded to our US and Bermuda subsidiaries by third-party insurers (North American Accounts) up to \$65,846 million and 0.30% per year on assets managed in excess of such amount. Additionally, for certain assets which required specialized sourcing and underwriting capabilities, AAM had chosen to mandate sub-advisors rather than build out in-house capabilities. AAM entered into Master Sub-Advisory Agreements (MSAAs) with certain Apollo affiliates to sub-advise AAM with respect to a portion of our assets, with the fees recharged to us, in addition to the gross fee paid to AAM as described above.

AAM paid Apollo 0.40% per year on all assets in the North American Accounts explicitly sub-advised by Apollo up to \$10,000 million, 0.35% per year on all assets in such accounts explicitly sub-advised by Apollo in excess of \$10,000 million up to \$12,441 million, 0.40% per year on all assets in such accounts explicitly sub-advised by Apollo in excess of \$12,441 million up to \$16,000 million, and 0.35% per year on all assets in such accounts explicitly sub-advised by Apollo in excess of \$16,000 million, subject to certain exceptions (sub-advisory fees).

Investment management agreement (IMA) termination – AHL’s bye-laws currently provide that it may not, and will cause its subsidiaries not to, terminate any IMA among them or any of its subsidiaries, on the one hand, and the applicable Apollo subsidiary, on the other hand, other than on June 4, 2023 or any two year anniversary of such date (each such date, an IMA Termination Election Date) and any termination on an IMA Termination Election Date requires (i) the approval of two-thirds of AHL’s Independent Directors (as defined in the bye-laws) and (ii) prior written notice to the applicable Apollo subsidiary of such termination at least 30 days, but not more than 90 days, prior to an IMA Termination Election Date. If AHL’s Independent Directors make such election to terminate and notice of such termination is delivered, the termination will be effective no earlier than the second anniversary of the applicable IMA Termination Election Date (IMA Termination Effective Date). Notwithstanding the foregoing, (A) except as set forth in clause (B) below, AHL’s board of directors may only elect to terminate an IMA on an IMA Termination Election Date if two-thirds of its Independent Directors determine, in their sole discretion and acting in good faith, that either (i) there has been unsatisfactory long-term performance materially detrimental to us by the applicable Apollo subsidiary or (ii) the fees being charged by the applicable Apollo subsidiary are unfair and excessive compared to a comparable asset manager (provided, that in either case such Independent Directors must deliver notice of any such determination to the applicable Apollo subsidiary and the applicable Apollo subsidiary will have until the applicable IMA Termination Effective Date to address such concerns, and provided, further, that in the case of such a determination that the fees being charged by the applicable Apollo subsidiary are unfair and excessive, the applicable Apollo subsidiary has the right to lower its fees to match the fees of such comparable asset manager) and (B) upon the determination by two-thirds of AHL’s Independent Directors, AHL or its subsidiaries may also terminate an IMA with the applicable Apollo subsidiary, on a date other than an IMA Termination Effective Date, as a result of either (i) a material violation of law relating to the applicable Apollo subsidiary’s advisory business, or (ii) the applicable Apollo subsidiary’s gross negligence, willful misconduct or reckless disregard of its obligations under the relevant agreement, in each case of this clause (B), that is materially detrimental to us, and in either case of this clause (B), subject to the delivery of written notice at least 30 days prior to such termination; provided, that in connection with an event described in clause (B)(i) or (B)(ii), the applicable Apollo subsidiary shall have the right to dispute such determination of the Independent Directors within 30 days after receiving notice from AHL of such determination, in which case the matter will be submitted to binding arbitration and such IMA shall continue to remain in effect during the period of the arbitration (the events described in the foregoing clauses (A) and (B) are referred to in more detail in AHL’s bye-laws as “AHL Cause”).

Governance – AHL has a management investment committee, which includes members of senior management and reports to the risk committee of AHL’s board of directors. The committee focuses on strategic decisions involving our investment portfolio, such as approving investment limits, new asset classes and our allocation strategy, reviewing large asset transactions, as well as monitoring our credit risk, and the management of our assets and liabilities.

A significant voting interest in AHL is held by shareholders who are members of the Apollo Group, as defined in AHL’s bye-laws. Also, James Belardi, AHL’s Chief Executive Officer, is also an employee of ISG, receives remuneration from acting as Chief Executive Officer of ISG. Mr. Belardi also owns a 5% profit interest in ISG (Interest). It is expected that the Interest will be revised such that Mr. Belardi will receive a lesser interest in the equity of ISG and also receive a specified percentage of other fee streams earned by Apollo, potentially comprised of or including the sub-allocation fees. Additionally, six of the sixteen members of AHL’s board of directors are employees of or consultants to Apollo (including Mr. Belardi). In order to protect against potential conflicts of interest resulting from transactions into which we have entered and will continue to enter into with the Apollo Group, AHL’s bye-laws require it to maintain a conflicts committee comprised solely of AHL directors who are not officers or employees of any member of the Apollo Group. The conflicts committee reviews and approves material transactions between AHL and the Apollo Group, subject to certain exceptions.

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Other related party transactions

A-A Mortgage – We have an equity method investment of \$444 million and \$487 million as of December 31, 2020 and 2019, respectively, in A-A Mortgage, which has an investment in AmeriHome. We have a loan purchase agreement with AmeriHome. The agreement allows us to purchase residential mortgage loans which AmeriHome has purchased from correspondent sellers and pooled for sale in the secondary market. AmeriHome retains the servicing rights to the sold loans. We purchased \$169 million, \$411 million and \$722 million of residential mortgage loans under this agreement during the years ended December 31, 2020, 2019 and 2018, respectively. Additionally, we hold investments issued by AmeriHome or AmeriHome affiliates of \$360 million and \$170 million as of December 31, 2020 and 2019, respectively, which are included in related party AFS securities on the consolidated balance sheets. We also have commitments to make additional equity investments in A-A Mortgage of \$381 million as of December 31, 2020. On February 16, 2021, Apollo, Athene and AmeriHome announced the sale of AmeriHome to a subsidiary of Western Alliance Bancorporation. We currently anticipate that this transaction will close during the second quarter of 2021, subject to customary closing conditions. We estimate approximately \$175 million of revenue from the premium of the platform sale, net of carry and transaction expenses.

MidCap – During the third quarter of 2020, CoInvest VII was dissolved. CoInvest VII held a significant investment in MidCap. CoInvest VII was included in related party investment funds on the consolidated balance sheets and was reflected as a consolidated VIE prior to the first quarter of 2020. Subsequent to dissolution of CoInvest VII, we now hold MidCap directly as profit participating notes. We have also advanced amounts under a subordinated debt facility to Midcap. During the second quarter of 2020, we invested in MidCap redeemable preferred stock. The subordinated debt facility is included in related party other investments and the redeemable preferred stock and profit participating notes are included in related party trading securities on the consolidated balance sheets. The following summarizes these investments in MidCap:

<i>(In millions)</i>	December 31,	
	2020	2019
Profit participating notes	\$ 534	\$ —
Investment fund	—	547
Subordinated debt facility	328	339
Redeemable preferred stock	77	—
Total investment in MidCap	\$ 939	\$ 886

Additionally, we hold ABS and CLO securities issued by MidCap affiliates of \$630 million and \$624 million as of December 31, 2020 and 2019, respectively, which are included in related party AFS securities on the consolidated balance sheets.

Athora – We have a cooperation agreement with Athora, pursuant to which, among other things, (1) for a period of 30 days from the receipt of notice of a cession, we have the right of first refusal to reinsure (i) up to 50% of the liabilities ceded from Athora’s reinsurance subsidiaries to Athora Life Re Ltd. and (ii) up to 20% of the liabilities ceded from a third party to any of Athora’s insurance subsidiaries, subject to a limitation in the aggregate of 20% of Athora’s liabilities, (2) Athora agreed to cause its insurance subsidiaries to consider the purchase of certain funding agreements and/or other spread instruments issued by our insurance subsidiaries, subject to a limitation that the fair market value of such funding agreements purchased by any of Athora’s insurance subsidiaries may generally not exceed 3% of the fair market value of such subsidiary’s total assets, (3) we provide Athora with a right of first refusal to pursue acquisition and reinsurance transactions in Europe (other than the UK) and (4) Athora provides us and our subsidiaries with a right of first refusal to pursue acquisition and reinsurance transactions in North America and the UK. Notwithstanding the foregoing, pursuant to the cooperation agreement, Athora is only required to use its reasonable best efforts to cause its subsidiaries to adhere to the provisions set forth in the cooperation agreement and therefore Athora’s ability to cause its subsidiaries to act pursuant to the cooperation agreement may be limited by, among other things, legal prohibitions or the inability to obtain the approval of the board of directors or other applicable governing body of the applicable subsidiary, which approval is solely at the discretion of such governing body. As of December 31, 2020, we have not exercised our right of first refusal to reinsure liabilities ceded to Athora’s insurance or reinsurance subsidiaries.

During the fourth quarter of 2018, we entered into a coinsurance agreement with ALV to reinsure endowment contracts and annuities, in which we assumed liabilities of \$325 million. We then retroceded these endowment contracts and annuities through a modco agreement to ARE, in which we recorded a funds withheld liability of \$337 million. ARE modco assets were recorded as reinsurance recoverable on the consolidated balance sheets. During the fourth quarter of 2019, we novated the reinsurance agreement for the ALV endowment contracts and annuities to ARE, which resulted in a decrease of \$663 million of liabilities and related assets on the consolidated balance sheets.

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Venerable – On June 1, 2018, we entered into coinsurance and modco agreements with Voya Insurance and Annuity Company (VIAC) to reinsure a block of fixed and fixed indexed annuities, in which we assumed liabilities of \$18,578 million. VIAC is a related party due to our minority equity investment in its holding company's parent, VA Capital Company LLC (VA Capital), which was \$123 million and \$99 million as of December 31, 2020 and 2019, respectively. The minority equity investment in VA Capital is included in related party investment funds on the consolidated balance sheets and accounted for as an equity method investment. VA Capital is owned by a consortium of investors, led by affiliates of AGM, Crestview Partners and Reverence Capital Partners, and is the parent of Venerable, which is the parent of VIAC. Additionally, we have a 15-year term loan receivable from Venerable due in 2033, which is included in related party other investments on the consolidated balance sheets. The loan is held at the principal balance less allowances and was \$145 million and \$148 million as of December 31, 2020 and 2019, respectively. While management views the overall transactions with Venerable as favorable to us, the stated interest rate of 6.257% on the term loan to Venerable represents a below-market interest rate, and management considered such rate as part of its evaluation and pricing of the reinsurance transactions.

Strategic Partnership – On October 24, 2018, we entered into an agreement pursuant to which we may invest up to \$2.5 billion over three years in funds managed by Apollo entities (Strategic Partnership). This arrangement is intended to permit us to invest across the Apollo alternatives platform into credit-oriented, strategic and other alternative investments in a manner and size that is consistent with our existing investment strategy. Fees for such investments payable by us to Apollo would be more favorable to us than market rates, and consistent with our existing alternative investments, investments made under the Strategic Partnership require approval of ISG and remain subject to our existing governance processes, including approval by our conflicts committee where applicable. As of December 31, 2020 and 2019, we had \$214 million and \$97 million, respectively, of investments under the Strategic Partnership and these investments are included in related party investment funds on the consolidated balance sheets and were reflected as consolidated VIEs in periods prior to March 31, 2020.

PK AirFinance – During the fourth quarter of 2019, we and Apollo purchased PK AirFinance (PK), an aviation lending business, including PK's in force loan portfolio (Aviation Loans), from the Aviation Services Unit of GE Capital (GE). The Aviation Loans are generally fully secured by aircraft leases and aircraft. In connection with such transaction, Apollo acquired the PK loan origination platform, including personnel and systems and, pursuant to certain agreements entered into between us, Apollo, and certain entities managed by Apollo (collectively, PK Transaction Agreements), the existing Aviation Loans were acquired and securitized by a newly formed SPV for which Apollo acts as ABS manager (ABS-SPV). The ABS-SPV issued tranches of senior notes and subordinated notes, which are secured by the Aviation Loans.

In connection with the acquisition of the existing Aviation Loans by the ABS-SPV (i) a tranche of senior notes was acquired by third-party investors and (ii) we purchased mezzanine tranches of the senior notes and the subordinated notes. As of December 31, 2020 and 2019, our investment in securitizations of loans originated by PK was \$1,373 million and \$1,282 million, respectively, and are included in related party AFS or trading securities on the consolidated balance sheets. We also have commitments to make additional investment in securitizations of loans originated by PK of \$229 million as of December 31, 2020.

In addition to the investment in the senior notes and subordinated notes, we also have a right to acquire, whether directly, through the ABS-SPV or through a similar vehicle, all Aviation Loans originated by PK (Forward Flow Loans). All servicing and administrative costs and expenses of Apollo (determined at cost, without mark-up) that are incurred in connection with the sourcing, origination, servicing and maintaining the Forward Flow Loans, net of any service fees and servicing and administrative cost and expense reimbursement amounts received directly from the ABS-SPV or other entities investing in the Forward Flow Loans are allocated to, and reimbursed by the ABS-SPV or us, as applicable, subject to an agreed-upon annual cap.

In addition to the payment of the expenses described in the preceding paragraph and the base management fee paid to Apollo on all assets managed by Apollo, we have paid or expect to pay the following fees to Apollo or certain service providers that are affiliates of, or are companies managed by, Apollo in connection with the PK Transaction Agreements:

- (A) To Apollo, sub-allocation fees on the senior notes based on the rates applicable to Yield assets and sub-allocation fees on the subordinated notes based on the rates applicable to High Alpha assets.
- (B) To Redding Ridge Asset Management LLC, a company in which certain funds managed by Apollo have an interest, as consideration for assistance with the structuring, monitoring, support and maintenance of the securitization transactions, a one-time structuring fee, as well as ongoing support fees equal to 1.5 bps on the total capitalization amount and certain other fees, which may become due upon the occurrence of certain events; and
- (C) To Merx Aviation Servicing Limited, a company externally managed by Apollo Investment Management, L.P., with respect to certain diligence, technical support and enforcement, remarketing and restructuring services with respect to the existing Aviation Loans and the Forward Flow Loans, a one-time servicing fee, as well as certain special situations fees, which may become due upon the occurrence of certain events.

Apollo/Athene Dedicated Investment Program (ADIP) – On October 1, 2019, we sold 67% of our equity interests in our subsidiary, ACRA, to ADIP, which is managed by AGM, for \$575 million. As a result, we reduced APIC and AOCI by \$145 million and \$34 million, respectively, and recorded \$754 million for the issuance of equity to noncontrolling interests. The shares held by ADIP are non-voting and our shares represent 100% of the voting power and, subsequent to the sale, we owned the remaining 33% of the equity interests in ACRA. On April 1, 2020, ALRe purchased 14,000 newly issued ACRA shares for \$66 million, which resulted in ALRe holding 36.55% of the economic interests in ACRA. The remaining 63.45% of the economic interests in ACRA are held by ADIP. During the year ended December 31, 2020, we received capital contributions of \$240 million from ADIP and paid a dividend of \$46 million to ADIP.

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Apollo Share Exchange and Related Transactions – On February 28, 2020, AHL closed a strategic transaction with AGM and certain affiliates of AGM which collectively comprise the Apollo Operating Group (AOG), pursuant to which ALRe issued an unsecured revolving note payable of \$1,206 million to AHL for an investment in Apollo of 29,154,519 newly issued AOG units valued at \$1.1 billion.

Concurrent with our entry into the transaction agreements, AMH, James Belardi, our Chief Executive Officer, and William Wheeler, our President (each an “Other Shareholder”), entered into a voting agreement, pursuant to which each Other Shareholder irrevocably appointed AMH as its proxy and attorney-in-fact (Proxy) to vote all of such Other Shareholder’s Class A common shares at any meeting of our shareholders occurring following the closing date and in connection with any written consent of our shareholders following the closing date. The Proxy will be of no force and effect if Apollo and certain affiliates thereof cease to hold some minimum level of ownership not to exceed 7.5% of our Class A common shares.

AA Infrastructure Fund I LLC (AA Infrastructure) – We have an investment in preferred shares of AA Infrastructure, which is a fund managed by ISG. As of December 31, 2020 and 2019, we held \$72 million and \$58 million, respectively, of preferred shares, which are included in related party equity securities on the consolidated balance sheets. In the fourth quarter of 2019, AA Infrastructure issued \$267 million of ABS securities as a return of capital on the preferred shares. As of December 31, 2020 and 2019, we held AA Infrastructure ABS securities of \$420 million and \$267 million, respectively, which are included in related party trading securities on the consolidated balance sheets. We also have commitments to make additional investments in AA Infrastructure of \$36 million as of December 31, 2020.

14. Commitments and Contingencies

Contingent Commitments—We had commitments to make investments, primarily capital contributions to investment funds, inclusive of related party commitments discussed previously of \$7,166 million and \$4,339 million as of December 31, 2020 and 2019, respectively. We expect most of our current commitments will be invested over the next five years; however, these commitments could become due any time upon counterparty request.

Funding Agreements— Certain U.S. subsidiaries are members of the FHLB and, through membership, they have issued funding agreements to the FHLB in exchange for cash advances. As of December 31, 2020 and 2019, we had \$2,002 million and \$1,226 million, respectively, of FHLB funding agreements outstanding. Such subsidiaries are required to provide collateral in excess of the funding agreement amounts outstanding, considering any discounts to the securities posted and prepayment penalties.

We have a funding agreement backed notes (FABN) program, which allows Athene Global Funding, a special-purpose, unaffiliated statutory trust, to offer its senior secured medium-term notes. Athene Global Funding uses the net proceeds from each sale to purchase one or more funding agreements from us. As of December 31, 2020 and 2019, we had \$8,822 million and \$3,700 million, respectively, of FABN funding agreements outstanding. We had \$6.3 billion of FABN capacity remaining as of December 31, 2020.

During the third quarter of 2020, we established a secured funding agreement backed repurchase agreement (FABR) program, in which a special-purpose, unaffiliated entity entered into repurchase agreements with a bank and the proceeds of the repurchase agreements were used by the special purpose entity to purchase funding agreements from us. As of December 31, 2020, we had \$1,000 million of FABR funding agreements outstanding.

Pledged Assets and Funds in Trust (Restricted Assets)—The total restricted assets included on the consolidated balance sheets are as follows:

<i>(In millions)</i>	December 31,	
	2020	2019
AFS securities	\$ 8,946	\$ 9,369
Trading securities	60	45
Equity securities	26	22
Mortgage loans	5,028	2,535
Investment funds	68	84
Derivative assets	107	105
Short-term investments	52	92
Other investments	105	88
Restricted cash	692	331
Total restricted assets	\$ 15,084	\$ 12,671

The restricted assets are primarily related to reinsurance trusts established in accordance with coinsurance agreements and the FHLB and FABR funding agreements described above.

Letter of Credit—We have undrawn letters of credit totaling \$1,408 million as of December 31, 2020. These letters of credit were issued for our reinsurance program and expire between December 10, 2021 and June 19, 2023.

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Litigation, Claims and Assessments

Corporate-owned Life Insurance (COLI) Matter – In 2000 and 2001, two insurance companies which were subsequently merged into AAIA, purchased broad based variable COLI policies from American General Life Insurance Company (American General) that, as of December 31, 2020, had an asset value of \$412 million, and is included in other assets on the consolidated balance sheets. In January 2012, the COLI policy administrator delivered to AAIA a supplement to the existing COLI policies and advised that American General and ZC Resource Investment Trust (ZC Trust) had unilaterally implemented changes set forth in the supplement that if effective, would: (1) potentially negatively impact the crediting rate for the policies and (2) change the exit and surrender protocols set forth in the policies. In March 2013, AAIA filed suit against American General, ZC Trust, and ZC Resource LLC in Chancery Court in Delaware, seeking, among other relief, a declaration that the changes set forth in the supplement were ineffectual and in breach of the parties' agreement. The parties filed cross motions for judgment as a matter of law, and the court granted defendants' motion and dismissed without prejudice on ripeness grounds. The issue that negatively impacts the crediting rate for one of the COLI policies has subsequently been triggered and on April 3, 2018, we filed suit against the same defendants in Chancery Court in Delaware seeking substantially similar relief. Defendants moved to dismiss and the court heard oral arguments on February 13, 2019. The court issued an opinion on July 31, 2019 that did not address the merits, but found that the Chancery Court did not have jurisdiction over our claims and directed us to either amend our complaint or transfer the matter to Delaware Superior Court. The matter has been transferred to the Delaware Superior Court. Defendants renewed their motion to dismiss and the Superior Court heard oral arguments on December 18, 2019. The Superior Court issued an opinion on May 18, 2020 in which it granted in part and denied in part defendants' motion. The Superior Court denied defendants' motion with respect to the issue that negatively impacts the crediting rate for one of the COLI policies, which issue will proceed to discovery. The Superior Court granted defendants' motion and dismissed without prejudice on ripeness grounds claims related to the exit and surrender protocols set forth in the policies, and dismissed defendant ZC Resource LLC. If the supplement is ultimately deemed to be effective, the purported changes to the policies could impair AAIA's ability to access the value of guarantees associated with the policies. The Superior Court issued a scheduling order providing for a July 2022 trial and the parties are currently engaged in discovery. The value of the guarantees included within the asset value reflected above is \$194 million as of December 31, 2020.

Regulatory Matters – Beginning in 2015, our US insurance subsidiaries have experienced increased complaints related to the conversion and administration of the block of life insurance business acquired in connection with our acquisition of Aviva USA and reinsured to affiliates of Global Atlantic. The life insurance policies included in this block have been and are currently being administered by AllianceOne Inc. (AllianceOne), a subsidiary of DXC Technology Company, which was retained by such Global Atlantic affiliates to provide third party administration services on such policies. AllianceOne also administers a small block of annuity policies that were on Aviva USA's legacy policy administration systems that were also converted in connection with the acquisition of Aviva USA and have experienced some similar service and administration issues, but to a lesser degree.

As a result of the difficulties experienced with respect to the administration of such policies, we have received notifications from several state regulators, including but not limited to New York State Department of Financial Services (NYSDFS), the California Department of Insurance (CDI) and the Texas Department of Insurance (TDI), indicating, in each case, that the respective regulator planned to undertake a market conduct examination or enforcement proceeding of the applicable US insurance subsidiary relating to the treatment of policyholders subject to our reinsurance agreements with affiliates of Global Atlantic and the conversion of the life and annuity policies, including the administration of such blocks by AllianceOne. We entered into consent orders with several state regulators, including the NYSDFS, the CDI and the TDI, to resolve underlying matters in the respective states. All fines and costs, including those associated with remediation plans, paid in connection with the consent orders are subject to indemnification by Global Atlantic or affiliates of Global Atlantic.

In addition to the examinations and proceedings initiated to date, it is possible that other regulators may pursue similar formal examinations, inquiries or enforcement proceedings and that any examinations, inquiries and/or enforcement proceedings may result in fines, administrative penalties and payments to policyholders. While we do not expect the amount of any such fines, penalties or payments arising from these matters to be material to our financial condition, results of operations or cash flows, it is possible that such amounts could be material.

Pursuant to the terms of the reinsurance agreements between us and the relevant affiliates of Global Atlantic, the applicable affiliates of Global Atlantic have financial responsibility for the ceded life block and are subject to significant administrative service requirements, including compliance with applicable law. The agreements also provide for indemnification to us, including for administration issues.

On January 23, 2019, we received a letter from the NYSDFS, with respect to a PRT transaction, which expressed concerns with our interpretation and reliance upon certain exemptions from licensing in New York in connection with certain activities performed by employees in our PRT channel, including specific activities performed within New York. On April 13, 2020, we entered into a consent order with the NYSDFS to resolve this matter. Pursuant to the consent order, the NYSDFS imposed a fine of \$45 million, which was accrued in other liabilities on the consolidated balance sheets as of December 31, 2019, and paid during the second quarter of 2020.

Central Laborers' Pension Fund (CLPF) and Cambria County Employees' Retirement System (Cambria) – On June 18, 2019 and July 25, 2019, CLPF and Cambria, respectively, filed derivative actions against AAM and AGM, as defendants, and us, as a nominal defendant, in New York State Court (the New York Actions). CLPF and Cambria, both purporting to be our shareholders, each allege that AAM and AGM injured us by causing us to pay excessive management fees to AAM and AGM. The complaints do not name any of our directors as defendants, but allege certain breaches of fiduciary duty. Both complaints seek forms of injunctive relief and disgorgement, but neither complaint seeks monetary relief from us.

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On July 5, 2019 and July 29, 2019, the Supreme Court of Bermuda enjoined CLPF and Cambria, respectively, from taking any further steps to advance or otherwise positively participate in its respective New York Action in light of the exclusive jurisdiction provision in our bye-laws. On July 31, 2019, CLPF and Cambria each filed a notice that it was dismissing its claims in its respective New York Action. We moved for default judgments in the Supreme Court of Bermuda and, on October 15, 2019, the Court granted our applications and permanently enjoined CLPF and Cambria from taking any further steps in the New York Actions. The Supreme Court of Bermuda has awarded costs in our favor against CLPF and Cambria, which have been paid and we believe this litigation is concluded.

Note 15 – Subsequent Events

Share Subdivision – On February 9, 2021 the Company subdivided its authorised share capital from \$3,000,000, comprised of 3,000,000 common shares of par value \$1.00 each, into \$3,000,000 comprised of 300,000,000 common shares of par value \$0.01 each.

Athene/Apollo Merger – On March 8, 2021, AHL entered into an Agreement and Plan of Merger (Merger Agreement), by and among AHL, AGM and certain newly created companies established to effect the merger contemplated by the Merger Agreement. Pursuant to the Merger Agreement, AHL and AGM have agreed to effect an all-stock merger transaction to combine their respective businesses, with each of AGM and AHL surviving as direct wholly owned subsidiaries of a new holding company, which as of the effective time of the merger (Effective Time) will be renamed Apollo Global Management, Inc. (New Holdco).

The Merger Agreement and the consummation of the transactions contemplated by the Merger Agreement have been approved by the boards of directors of both AHL and AGM, in addition to certain committees of the board of each company.

At the Effective Time of the merger, each Class A common share of AHL, subject to certain exceptions, will be converted automatically into the right to receive 1.149 shares of Class A common stock of New Holdco. Completion of the merger is subject to approval by the shareholders of each company, regulatory approvals and other customary closing conditions.