

## Best's Credit Rating Effective Date

March 19, 2021

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## Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

## Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

## Athora Life Re Ltd.

**AMB #:** 095382

**Ultimate Parent:** AMB # 046366 - Athora Holding Ltd.

### Best's Credit Ratings - for the Rating Unit Members

#### Financial Strength Rating (FSR)

<b>A-</b>
<b>Excellent</b>
Outlook: <b>Stable</b> Action: <b>Upgraded</b>

#### Issuer Credit Rating (ICR)

<b>a-</b>
<b>Excellent</b>
Outlook: <b>Stable</b> Action: <b>Upgraded</b>

### Assessment Descriptors

Balance Sheet Strength	<b>Strong</b>
Operating Performance	<b>Adequate</b>
Business Profile	<b>Neutral</b>
Enterprise Risk Management	<b>Appropriate</b>

### Rating Unit - Members

**Rating Unit:** Athora Life Re Ltd. | **AMB #:** 095382

**AMB #** Rating Unit Members  
077712 Athora Ireland plc

## Rating Rationale

### Balance Sheet Strength: **Strong**

- The risk-adjusted capitalisation of Athora Life Re Limited (Athora Re), as measured by Best's Capital Adequacy Ratio (BCAR), was at the strongest level at year-end 2019 and is expected to be maintained at least at the very strong level.
- There is material uncertainty relating to the scale, timing and commercial terms of future reinsurance transactions and how these will influence the company's balance sheet composition. However, capital is managed under Bermuda's Solvency II equivalent regulatory regime, and it is expected to be maintained at a level comfortably in excess of the Bermuda Solvency Capital Requirement (BSCR).
- Athora Re's investment risk is driven by its appetite for private credit and alternative investments. Once its target asset allocation is fully implemented, these assets will comprise a higher than average proportion of the investment portfolio compared to European life insurers. This risk is partially mitigated through the company's goal of a close-to-zero duration gap and the significant experience in credit investing of Athora group shareholder and strategic partner Apollo Global Management, Inc. (Apollo).
- Athora Re's financial flexibility is supported by the access of its ultimate parent, Athora Holding Limited (Athora), to EUR 1 billion of liquid resources in the form of committed equity capital and unsecured revolving credit facilities.

### Operating Performance: **Adequate**

- Athora Re is expected to generate strong returns once it reaches its target scale. However, in the intermediate term there is material uncertainty surrounding Athora Re's forecast profitability given the low volume of external reinsurance business transacted to date and the company's limited operating history.
- Investment return is expected to be a significant driver of performance, driven by Athora Re's appetite for private credit and alternative investments.
- Athora Re's business model has been developed based on the reinsurance operations of its shareholder and parent company prior to the deconsolidation of Athora, Athene Holding Limited (Athene).

### Business Profile: **Neutral**

- Athora Re has access to a healthy pipeline of both internal and external reinsurance transactions. The company's position as a specialist life reinsurer is relatively niche, and it benefits from the experience and capabilities of its shareholders and strategic partners, Athene and Apollo.
- The company's external reinsurance, its main source of forecast business growth, is still in the build stage, with a low transaction volume to date. There is material uncertainty relating to the scale, timing and commercial terms of future reinsurance transactions.
- The company's Bermuda domicile plays a central role in enhancing returns, through the centralisation of liabilities for capital optimisation within the group.
- Athora's management team has extensive experience and expertise in corporate acquisitions and the structuring of reinsurance transactions.

### Enterprise Risk Management: **Appropriate**

- Athora Re has a well-developed enterprise risk management (ERM) framework that is commensurate with the company's risk profile.
- ERM processes are well developed across the Athora group and are centered on capital management, asset/liability matching (ALM) and stress and scenario testing.
- Athora's management actions during the COVID-19 pandemic proved effective for protecting subsidiaries' capital bases during market volatility.

### Rating Lift/Drag

- Athora Re plays an important role in the group's capital management by reinsuring a proportion of Athora group liabilities.
- The company is the group's vehicle for writing external reinsurance business, which is an area of significant targeted growth for the group.

- Forecast growth in Athora Re is expected to be supported by capital injections from Athora.

## Outlook

- The stable outlooks reflect the expectation that Athora Re will generate positive operating returns in the intermediate term while growing and maintaining a strong balance sheet. The ratings also reflect the expectation that Athora Re will remain strategically important to the Athora group.

## Rating Drivers

- Negative rating pressure may arise if the company is unable to execute its business plan successfully and achieve performance targets.
- Negative pressure may arise if the company's risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio, falls below the very strong level.
- Positive or negative rating pressure may arise if there is a change in AM Best's view of the financial strength of Athora Holding Limited, the company's ultimate parent.
- Negative rating pressure may arise if the strategic importance of Athora Re to the Athora group is perceived to have reduced.

## Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

### Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	42.1	39.8	38.9	38.6

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2019 EUR (000)	2018 EUR (000)	2017	2016	2015
Net Premiums Written:					
Life	-10,986	279,593	...	...	...
Composite	-10,986	279,593	...	...	...
Net Income	-17,534	-8,993	...	...	...
Total Assets	3,323,543	3,163,882	...	...	...
Total Capital and Surplus	217,286	217,384	...	...	...

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2019	2018	2017	2016	2015	Weighted 5-Year Average
Profitability:						
Balance on Life Technical Account	-19,783	-13,660	...	...	...	...
Net Income Return on Revenue (%)	-10.3	-3.1	...	...	...	...
Net Income Return on Capital and Surplus (%)	-8.1	...	...	...	...	...
Net Investment Yield (%)	0.6	...	...	...	...	...
Leverage:						
Net Premiums Written to Capital and Surplus (%)	-5.1	128.6	...	...	...	...

Source: BestLink® - Best's Financial Suite

## Credit Analysis

### Balance Sheet Strength

The BCAR scores and financial leverage ratios presented under the 'Best's Capital Adequacy Ratio' section of this report are based on audited year-end 2019 financial statements. Year-end 2020 figures are forecast.

### Balance Sheet Strength (Continued...)

Athora Re's balance sheet assessment is underpinned by risk-adjusted capitalisation which is expected to be maintained at least at the very strong level, as measured by BCAR, and good financial flexibility enhanced by its relationship with its ultimate parent, Athora Holding Limited (Athora). Investments and asset-liability management are neutral to the assessment. An offsetting factor is the significant level of uncertainty deriving from the company's forecasts, with gross insurance liabilities forecast to grow from EUR 1.6 billion in 2019 to in excess of EUR 10 billion in 2023. The projected balance sheet is mostly comprised of transactions that have yet to take place on terms that have yet to be negotiated.

At year-end 2019, the company's technical provisions were largely composed of legacy variable annuity liabilities (EUR 1.3billion), assumed on the acquisition of Aegon Ireland plc, subsequently renamed Athora Ireland plc (Athora Ireland), in 2018 and internal reinsurance arrangements with the Athora group's German subsidiary. Insurance / reinsurance payable and receivable balances related largely to the 100% cession of legacy variable annuity liabilities to a counterparty of high credit quality. Short-term borrowings related to a bank overdraft and long-term borrowings relate to a funding agreement between Athora Re and Athora's Germany subsidiary.

The size of the group's balance sheet is expected to have increased by EUR 1.1 billion during 2020 to EUR 4.4 billion. This was driven by an internal reinsurance transaction and the reinsurance of an external cedant's bulk purchase annuity liabilities.

At year-end 2020, around half of the company's balance sheet was composed of balances relating to legacy variable annuity liabilities and associated retrocession balances. Athora Re announced, on 3 March 2021, the sale of these legacy liabilities to Monument Re, which is expected to close before year-end 2021. While the disposal is only marginally positive to the company's risk-adjusted capitalisation, as measured by BCAR, due to the low level of risk retained in the arrangement, the disposal will leave the balance sheet free of legacy liabilities.

Leverage is considered positive to the balance sheet assessment. The company had a bank overdraft at year-end 2019, resulting in a financial leverage ratio of 7%, but is not expected to utilise financial leverage in the future. Funding agreements with subsidiaries have been considered as operating leverage.

### Capitalisation

Athora Re's risk-adjusted capitalisation, as measured by BCAR, was at the strongest level at year-end 2019. Risk-adjusted capitalisation is expected to reduce to the very strong level in the medium-term due to planned business growth and increased investment risk. The company's capital base is forecast to have increased to EUR 240 million at year-end 2020 from EUR 217 million at year-end 2019 on a statutory reporting basis, as a result of internal capital generation.

The group is expected to report higher capital on a Bermuda Economic Balance Sheet (EBS) basis than on a statutory basis from 2020 onwards. Partial credit is given for the company's economic capital in excess of statutory capital in the BCAR model. Expected growth in the company's statutory capital base from 2021 to 2023 is supported by excess spread generation and capital injections from Athora. The EBS capital base is expected to grow in excess of the statutory capital base due to the value of new business acquired.

Financial flexibility is viewed as positive, due to Athora Re's relationship with its parent company. Athora had paid-in equity capital of approximately EUR 3.5 billion at year-end 2020, and the group's financial flexibility is supported by EUR 1 billion of liquid resources, including undrawn equity capital and unsecured revolving credit facilities, and access to debt markets.

Capital is managed under Bermuda's Solvency II equivalent regulatory regime and Athora Re's subsidiary, Athora Ireland, manages capital in line with Solvency II. Both companies are expected to maintain a margin over regulatory solvency capital requirements.

<b>Capital Generation Analysis</b>	<b>2019 EUR (000)</b>	<b>2018 EUR (000)</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Beginning Capital and Surplus	217,384	215	...	...	...
Net Income	-17,534	-8,993	...	...	...
Net Unrealized Capital Gains (Losses)	1,711	1,584	...	...	...
Currency Exchange Gains (Losses)	757	-1,454	...	...	...
Change in Equalisation and Other Reserves	14,968	226,032	...	...	...
Net Change in Capital and Surplus	-98	217,169	...	...	...
Ending Capital and Surplus	217,286	217,384	...	...	...
Net Change in Capital and Surplus (%)	...	999.9	...	...	...

Source: BestLink® - Best's Financial Suite

## Balance Sheet Strength (Continued...)

Liquidity Analysis (%)	2019	2018	2017	2016	2015
Liquid Assets to Total Liabilities	52.9	44.0	...	...	...
Total Investments to Total Liabilities	62.2	54.7	...	...	...

Source: BestLink® - Best's Financial Suite

## Asset Liability Management - Investments

Athora Re's business model is to achieve a higher level of investment return than the majority of insurers writing a similar product and geographical mix by allocating a proportion of its investment portfolio towards high yielding private credit and alternative investments. This strategy exposes the company to elevated investment risk, which is somewhat offset by its close-to-zero duration gap target and the significant experience of its strategic partner, Apollo, in credit investing.

Athora has a strategic partnership with Apollo Asset Management Europe LLP, a subsidiary of Apollo, which is a shareholder of, and provides asset management and advisory services to, Athora. Apollo is one of the largest investment groups worldwide, providing Athora with access to a wide universe of investments and top-tier ALM capabilities. Apollo's experience in managing private lending and alternative assets is expected to be a key driver in the Athora's forecast returns.

Around 55-60% of Athora Re's gross BCAR capital requirements are driven by investment risk. Athora Re's investment portfolio is expected to be liquid and well diversified, with around two-thirds held in cash and fixed income. The remainder of the portfolio is expected to be composed of residential mortgages, commercial real estate debt, private credit and alternative investments. Athora Re has a greater appetite for spread and default risk and less appetite for systematic market risk and underwriting risk than its competitors.

Composition of Cash and Invested Assets	2019 EUR (000)	2018 EUR (000)	2017	2016	2015
Total Cash and Invested Assets	1,930,634	1,612,876	...	...	...
Cash (%)	3.2	12.2	...	...	...
Bonds (%)	16.9	8.6	...	...	...
Equity Securities (%)	13.4	...	...	...	...
Other Invested Assets (%)	66.5	63.2	...	...	...
Total Cash and Unaffiliated Invested Assets (%)	100.0	84.0	...	...	...
Investments in Affiliates (%)	...	16.0	...	...	...
Total Cash and Invested Assets (%)	100.0	100.0	...	...	...

Source: BestLink® - Best's Financial Suite

## Operating Performance

The company is expected to produce a loss of EUR 5 million in 2020, as a result of low business volumes and start-up costs. The company's returns are expected to be modest as it builds scale and applies its strategic asset to allocation to assets backing new transactions, but successful implementation of the company's business plan is expected to lead to strong returns on equity.

Investment return forecasts are dependent on the application of Athora Re's strategic asset allocation, which will have an above average weighting towards higher return investments such as private credit and alternatives when compared to most companies in the European life insurance market.

Execution risk is an offsetting factor to operating performance. There is material uncertainty in Athora Re's forecast performance as the company has transacted a low volume of external reinsurance business and has a limited operating history. Additionally, exposure to higher-risk asset classes in order to generate high investment returns is a source of potential volatility in operating performance.

The Athora group has competitive advantages over many traditional insurers, which are expected to contribute materially to Athora Re's operating performance. These advantages include expertise in private credit and alternative investments, supported by Apollo, and an operating environment in Bermuda, which is supportive of the group's capital management strategy.

## Operating Performance (Continued...)

<b>Financial Performance Summary</b>	<b>2019 EUR (000)</b>	<b>2018 EUR (000)</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Pre-Tax Income	-19,505	-9,222	...	...	...
Net Income after Non-Controlling Interests	-17,534	-8,993	...	...	...

Source: BestLink® - Best's Financial Suite

<b>Operating and Performance Ratios (%)</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Overall Performance:					
Return on Assets	-0.8	...	...	...	...
Return on Capital and Surplus	-8.1	...	...	...	...

Source: BestLink® - Best's Financial Suite

## Business Profile

Athora Re is a Bermuda-based reinsurer, which was incorporated in April 2017. The company is a wholly-owned subsidiary of Athora, and is the main risk carrier for the group's reinsurance operations. The company currently writes internal reinsurance for other group subsidiaries, and will eventually aim to consolidate a significant portion of the group's balance sheet. The company also writes external reinsurance in the European market, which is its main source of planned business growth, however, a low volume of external business has been transacted to date. The group closed its first external reinsurance transaction in 2020.

Athora Re is expected to source a proportion of its external reinsurance business via its wholly owned subsidiary, Athora Ireland, which in turn may retrocede a portion of new liabilities acquired to Athora Re. The company's neutral business profile assessment reflects AM Best's expectation that Athora Re will execute its business plan effectively so that it achieves scale and geographical diversification across Europe. The company has a healthy pipeline of guaranteed life insurance liabilities, which in the context of its strategy are expected to be managed profitably. Athora Re will also provide reinsurance capacity to support cedants' new business volumes.

Athora Ireland (formerly Aegon Ireland plc) was acquired by Athora Re in 2018, and its liabilities have been significantly restructured. The company's offshore bond investment contract portfolio was sold to Utmost Ireland DAC. The company's legacy variable annuity book was initially fully reinsured, but the sale of this portfolio to Monument Re was announced on 3 March 2021 and is expected to close by the end of 2021.

A proportion of Athora Re's external reinsurance business will be comprised of large reinsurance transactions, as an alternative to a corporate acquisition based approach. As a result, forecast growth may be volatile, with a small number of large transactions potentially having a material effect on the company's profile.

## Enterprise Risk Management

Athora Re benefits from a well-developed risk management framework and corporate governance structure. There is a Chief Risk Officer in place at group level, a dual-role Chief Risk and Financial Officer at Athora Re level and a Chief Risk Officer at Athora Ireland level. Athora employs a three lines of defence risk management model.

In compliance with BMA guidance, appropriate risk tolerances, corresponding limits, proper governance and reporting lines, and a risk appetite statement with clear thresholds are in place as part of Athora's risk framework.

Management are expected to maintain Athora Re's capital at levels well in excess of regulatory limits. Consequently, transactions will be capitalised in line with a set of minimum capital thresholds established at board level. Stress testing and scenario testing are part of the ongoing monitoring of capital levels.

## Reinsurance Summary

The company is expected to retrocede most biometric and other non-core risks to large and financially strong reinsurers. The company has also entered into a cooperation agreement which gives Athene first right of refusal on the retrocession of certain liabilities.

## Rating Lift/Drag

Athora Re, supported by its subsidiary Athora Ireland, plays a crucial role in the Athora group strategy, writing external reinsurance to the European life insurance market and providing capital efficient internal reinsurance solutions to fellow subsidiaries. A proportion of the group's insurance liabilities are reinsured into Athora Re.

The company is a key part of the group's capital management strategy, supporting fungibility of capital, reducing Solvency II capital requirements and improving diversification benefits across subsidiaries.

The company's capital base is expected to be approximately EUR 240 million at year-end 2020. External reinsurance business, written through Athora Re, is a significant growth driver in the group's strategy. The group is expected to support this growth through capital injections to Athora Re.

## Financial Statements

	12/31/2019		12/31/2019
	EUR (000)	%	USD (000)
<b>Balance Sheet</b>			
Cash and Short Term Investments	61,539	1.9	68,924
Bonds	327,124	9.8	366,379
Equity Securities	258,749	7.8	289,799
Other Invested Assets	1,283,222	38.6	1,437,209
<b>Total Cash and Invested Assets</b>	1,930,634	58.1	2,162,310
Debtors / Amounts Receivable	1,362,290	41.0	1,525,765
Other Assets	30,619	0.9	34,293
<b>Total Assets</b>	3,323,543	100.0	3,722,368
Life - Long Term Business	1,605,764	48.3	1,798,456
Total Gross Technical Reserves	1,605,764	48.3	1,798,456
Debt / Borrowings	96,398	2.9	107,966
Other Liabilities	1,404,095	42.2	1,572,586
<b>Total Liabilities</b>	3,106,257	93.5	3,479,008
Capital Stock	250	...	280
Retained Earnings	-26,562	-0.8	-29,749
Other Capital and Surplus	243,598	7.3	272,830
<b>Total Capital and Surplus</b>	217,286	6.5	243,360
<b>Total Liabilities and Surplus</b>	3,323,543	100.0	3,722,368

Source: BestLink® - Best's Financial Suite  
US \$ per Local Currency Unit 1.12 = 1 Euro (EUR)

	Non-Life EUR (000)	Life EUR (000)	Other EUR (000)	12/31/2019	12/31/2019
				Total EUR (000)	Total USD (000)
<b>Income Statement</b>					
Gross Premiums Written	...	15,731	...	15,731	17,619
Net Premiums Earned	...	-10,986	...	-10,986	-12,304
Net Investment Income	...	10,618	...	10,618	11,892
Realized capital gains / (losses)	...	62,157	...	62,157	69,616
Unrealized capital gains / (losses)	...	87,468	...	87,468	97,964
Other Income	...	21,204	...	21,204	23,748
Total Revenue	...	170,461	...	170,461	190,916
Benefits and Claims	...	135,753	...	135,753	152,043
Net Operating and Other Expense	...	54,491	-278	54,213	60,719
Total Benefits, Claims and Expenses	...	190,244	-278	189,966	212,762
<b>Pre-Tax Income</b>	...	-19,783	278	-19,505	-21,846
Income Taxes Incurred	...	...	...	-1,971	-2,208
<b>Net Income before Non-Controlling Interests</b>	...	...	...	-17,534	-19,638
<b>Net Income/(loss)</b>	...	...	...	-17,534	-19,638

Source: BestLink® - Best's Financial Suite  
US \$ per Local Currency Unit 1.12 = 1 Euro (EUR)

## Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)





[Rating New Company Formations, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

[Understanding Universal BCAR, 03/11/2021](#)

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