Best's Credit Rating Effective Date
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Best's Credit Rating Methodology

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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)	Issuer Credit Rating (ICR)
B++	**bbb+**
Good	**Good**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Strong**
Operating Performance	**Adequate**
Business Profile	**Neutral**
Enterprise Risk Management	**Appropriate**

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

- Risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR) model, is projected to be at the strongest level for year-end 2019. Risk-adjusted capitalisation is expected to decline in the mid-term; however, it is expected that parent company Athora Holding Limited (Athora) will provide Athora Life Re Limited (Athora Re) with sufficient capital to support its strategy.
- 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.
- Athora Re's investment portfolio is expected to be liquid and well diversified, though holdings of private credit and alternative investments expose the company to elevated investment risk. Athora's target of a close-to-zero duration gap somewhat mitigates this risk, as does its strategic partnership with its shareholder and investment manager, Apollo Global Management, Inc. (Apollo), which has significant experience in credit investing.
- Athora Re's financial flexibility is supported by Athora's access to EUR 4 billion of committed capital, which includes EUR 1.8 billion committed by shareholders on 5 February 2020 and of which approximately EUR 700 million has been drawn to date. Athora's planned acquisition of Netherlands-based insurer VIVAT N.V. is expected to be supported by a significant further drawdown.
- Capital will be managed under Bermuda's Solvency II equivalent regulatory regime, and it is expected to be maintained at a level in excess of 175% of the Bermuda Solvency Capital Requirement (BSCR).

Operating Performance: Adequate

- There is material uncertainty in Athora Re's forecast performance as the company has not transacted any external reinsurance business to date and has a limited operating history.
- The company's return expectations are ambitious, with attractive targeted internal rates of return (IRRs) on transactions. Athora Re's return on equity is not expected to meet return targets in 2020 but is forecast to improve as the company builds scale.
- Athora Re expects to enhance investment returns by allocating a proportion of assets to higher-yielding asset classes, such as 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 currently provides internal reinsurance to Athora group subsidiaries. However, a key pillar of the company's strategy, and the main source of forecast business growth, is to provide external reinsurance solutions to life insurers in the European market.
- The company is currently behind plan, having not completed any external reinsurance transactions 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 to shareholders, 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. Athora benefits from the experience and capabilities of its shareholders and strategic partners, Athene and Apollo.

Enterprise Risk Management: Appropriate

- AM Best expects Athora Re to maintain 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, ALM and stress and scenario testing. A well-developed internal risk model is used in subsidiary Athora Ireland and will assist modelling efforts elsewhere in Athora.
- The company is licensed to write reinsurance in Bermuda, meaning that the ERM framework is expected to be developed at least in line with the Bermuda regulatory regime, which is Solvency II equivalent.

Rating Lift/Drag

- Athora Re is expected to play 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.
- The company reported a capital base of EUR 217 million in its year-end 2018 financial statements, and the group is expected to provide further capital to Athora Re when required in order to support its strategy.
- It is expected that a proportion of the group's insurance liabilities will eventually be reinsured into Athora Re, and that reinsurance business will eventually comprise around half of the group's net written premium.

Outlook

- The stable outlooks reflect the expectations that Athora Re will successfully execute its business plan whilst maintaining at least a strong balance sheet over the near to medium term.

Rating Drivers

- Positive rating pressure may arise if the company is able to successfully execute its business plan and generate stronger than forecast returns whilst maintaining a strong balance sheet.
- Negative rating pressure may arise if the company is unable to execute its business plan and achieve performance targets.
- 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.

Key Financial Indicators

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

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	42.0	38.0	36.0	35.0

Source: Best's Capital Adequacy Ratio Model - Universal

Credit Analysis

Balance Sheet Strength

The BCAR scores presented under the 'Best's Capital Adequacy Ratio Summary' section of this report are based on AM Best's projections for year-end 2019.

Capitalization

Athora Re's risk-adjusted capitalisation, as measured by BCAR, is forecast to be at the strongest level for the 2019 year-end. Although risk-adjusted capitalisation is expected to decline in the mid-term due to planned business growth and increased investment risk, its parent, Athora, is expected to provide the company with sufficient capital to support its strategy.

Athora Re’s capitalisation is underpinned by Athora’s access to EUR 4 billion of committed capital, which includes EUR 1.8 billion committed by shareholders on 5 February 2020 and of which approximately EUR 700 million has been drawn to date. Athora’s acquisition of Netherlands-based insurer VIVAT N.V., which is planned to complete in the first quarter of 2020 subject to regulatory approval, is expected to be supported by a further drawdown. Offsetting factors include material uncertainty surrounding the scale, timing and commercial terms of future reinsurance transactions and how these will influence the company’s balance sheet composition, as well as elevated investment risk from exposure to private credit and alternative investments.

Capital will be managed under Bermuda's Solvency II equivalent regulatory regime, and is expected to be maintained at a level in excess of 175% of Bermuda Solvency Capital Requirement (BSCR). Athora Re's subsidiary, Athora Ireland plc (Athora Ireland), is expected to maintain capital at a level in excess of 135% of Solvency II Solvency Capital Requirement (SCR).

Balance Sheet Strength (Continued...)

Asset Liability Management - Investments

Most of the risk borne by Athora Re's balance sheet relates to investments. Athora Re’s investment portfolio is expected to be liquid and well diversified and held predominantly in cash and cash equivalents, investment grade fixed income and residential mortgages. Athora Re sees itself as having greater appetite for default and spread risk and less appetite for underwriting risk than its competitors.

The group's business model is to achieve a higher level of investment return than the majority of insurers writing Athora’s product and geographical mix by allocating a proportion of its investment portfolio towards high yielding private credit and alternative investments.

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 alternative assets is expected to be a key driver in the Athora's forecast returns.

Athora Re's investment strategy exposes it to elevated investment risk, but this is somewhat offset by its close-to-zero duration gap target and strategic partner Apollo’s significant experience in credit investing.

Operating Performance

Athora Re's investment returns are expected to be the main driver of its return on equity (RoE) and overall profitability. In the early stages of implementing its business plan, the company's returns are expected to be below long-term targets as it builds scale and restructures its investment portfolio. Ambitious investment return forecasts are dependent on the reallocation of assets towards higher-yielding investments, such as private credit and alternative investments. Successful implementation of company's business plan is expected to lead to attractive RoEs.

As a consolidator of life portfolios, 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.

Execution risk is an offsetting factor which could generate volatility in Athora Re’s returns. There is material uncertainty in Athora Re's forecast performance as the company has not yet transacted any 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.

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 expected to be 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 plans to write external reinsurance in the European market, which is its main source of forecast business growth.

Athora Re is expected to source the vast majority of its external reinsurance business via its wholly owned subsidiary, Athora Ireland plc (Athora Ireland, formerly Aegon Ireland plc). Athora Ireland is expected to 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's target market of life back-book consolidation is considered large and potentially profitable, and Athora Re will also provide reinsurance capacity to support cedants’ new business volumes.

Following the acquisition of Aegon Ireland plc by Athora Re, its liabilities were significantly restructured. Aegon Ireland's off-shore bond investment contract portfolio was sold to Utmost Ireland DAC, and Aegon Ireland's legacy variable annuity was fully reinsured. Athora Re held around EUR 1.3 billion of net insurance and reinsurance liabilities at year-end 2018, the majority of which relate to legacy business acquired through Aegon Ireland.

Athora Re's external reinsurance business will be comprised mainly of a relatively low volume of large reinsurance transactions, as an alternative to a corporate acquisition based approach. As a result, forecast growth is expected to be volatile, with a small number of

Business Profile (Continued...)

large transactions potentially having a material effect on the company's profile. While the company maintains a pipeline of material targets, it is behind plan in terms of transacting business, having written no external business to date.

Enterprise Risk Management

Athora Re benefits from a well-developed risk management framework and corporate governance structure. The company is expected to operate with well-developed a risk management function, with Chief Risk Officers embedded at both group level and within the reinsurance vertical. 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. A well-developed internal risk model maintained by Athora Ireland is used for the subsidiary's capital modelling. Its use will likely be expanded across the Athora group in the mid-term.

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 is part of the ongoing monitoring of capital levels.

Reinsurance Summary

The company is expected to retrocede 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. The company is not expected to depend heavily on the retrocession of business to execute its business plan.

Rating Lift/Drag

Athora Re, supported by its subsidiary Athora Ireland, is expected to play 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. The company is a key factor in the group's capital management strategy.

The company reported a capital base of EUR 217 million in its year-end 2018 financial statements, and the group is expected to provide further capital to Athora Re when required in order to support its strategy.

It is expected that a proportion of the group's insurance liabilities will eventually be reinsured into Athora Re, and that reinsurance business will eventually comprise around half of the group's net written premium.

Related Methodology and Criteria

Best's Credit Rating Methodology, 12/20/2018

Available Capital & Holding Company Analysis, 10/13/2017

Rating New Company Formations, 10/13/2017

Rating Run-Off Insurers and Specialists, 10/13/2017

Understanding Universal BCAR, 05/23/2019

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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