



Consolidated Financial Statements

Years ended 2015, 2014, and 2013

**ATHENE LIFE RE LTD.
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October 6, 2016

Independent Auditor's Report

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. (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015, 2014 and 2013, and the related consolidated statements of income (loss), comprehensive income (loss), equity and 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.

Auditor's 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, 2015, 2014 and 2013, 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.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Reference: Independent Auditor's Report on the Consolidated Financial Statements of Athene Life Re Ltd. and its subsidiaries as at December 31, 2015, 2014 and 2013 and for the years then ended.

ATHENE LIFE RE LTD.
Consolidated Balance Sheets

<i>(In millions)</i>	December 31,		
	2015	2014	2013
Assets			
Investments			
Available for sale securities, fixed maturity securities, at fair value (amortized cost: 2015 - \$3,020, 2014 - \$1,063 and 2013 - \$368)	\$ 2,943	\$ 1,080	\$ 389
Trading securities, at fair value	238	181	—
Investment funds	624	607	888
Funds withheld at interest	43,879	45,329	44,627
Derivative assets	1	1	—
Short-term investments, at fair value	37	17	—
Total investments	47,722	47,215	45,904
Cash and cash equivalents	253	313	262
Restricted cash	9	24	8
Accrued investment income	22	10	3
Deferred acquisition costs and deferred sales inducements	2,028	1,547	1,708
Other assets	4	6	2
Assets of consolidated variable interest entities	—	—	953
Total Assets	\$ 50,038	\$ 49,115	\$ 48,840
Liabilities and Equity			
Liabilities			
Interest sensitive contract liabilities (portion at fair value: 2015 - \$3,540, 2014 - \$3,532 and 2013 - \$2,587)	\$ 42,975	\$ 42,817	\$ 42,954
Future policy benefits	3,682	3,813	3,390
Other policy claims and benefits	30	20	30
Derivative liabilities	—	—	1
Reinsurance payable	1	2	1
Other liabilities	35	42	59
Liabilities of consolidated variable interest entities	—	—	742
Total Liabilities	46,723	46,694	47,177
Note receivable - mezzanine	—	—	(58)
Noncontrolling interest - mezzanine	—	—	58
Equity			
Common shares	2	2	2
Additional paid-in-capital	2,292	1,152	1,152
Retained earnings	1,098	1,250	479
Accumulated other comprehensive income	(77)	17	23
Noncontrolling interest excluding mezzanine	—	—	7
Total Equity	3,315	2,421	1,663
Total Liabilities and Equity	\$ 50,038	\$ 49,115	\$ 48,840

See accompanying notes to consolidated financial statements

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

<i>(In millions)</i>	Years ended December 31,		
	2015	2014	2013
Revenue			
Premiums	\$ 37	\$ 15	\$ 2,802
Product charges	191	167	57
Net investment income ¹	452	3,789	1,898
Net investment income from consolidated variable interest entities	—	16	(8)
Total revenues	680	3,987	4,749
Benefits and Expenses			
Interest sensitive contract benefits	519	1,424	809
Future policy and other policy benefits	116	657	2,952
Amortization of deferred sales inducements	(8)	15	13
Amortization of deferred acquisition costs	(98)	469	73
Policy and other operating expenses	303	305	155
Operating expenses of consolidated variable interest entities	—	3	13
Total benefits and expenses	832	2,873	4,015
Net Income (Loss)	\$ (152)	\$ 1,114	\$ 734

¹ Includes the change in unrealized gain (loss) mark-to-market impacts of \$(1,415) million, \$1,013 million and \$(204) million for the years ended December 31, 2015, 2014 and 2013, respectively. See Note 3 - Investments for more information.

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income (Loss)

<i>(In millions)</i>	Years ended December 31,		
	2015	2014	2013
Net income (loss)	\$ (152)	\$ 1,114	\$ 734
Other comprehensive (loss)			
Change in unrealized investment gains (losses) on available-for-sale securities	(94)	(6)	(13)
Other comprehensive (loss)	(94)	(6)	(13)
Comprehensive income (loss)	\$ (246)	\$ 1,108	\$ 721

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Equity

<i>(In millions)</i>	Common shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Life Re Ltd. shareholders' equity	Non controlling interest	Total equity
Balance at December 31, 2012	\$ 2	\$ 1,046	\$ 400	\$ 36	\$ 1,484	\$ —	\$ 1,484
Net income	—	—	734	—	734	—	734
Other comprehensive loss	—	—	—	(13)	(13)	—	(13)
Dividends paid	—	—	(655)	—	(655)	—	(655)
Capital contributions received	—	106	—	—	106	—	106
Change in equity of noncontrolling interests	—	—	—	—	—	7	7
Balance at December 31, 2013	<u>2</u>	<u>1,152</u>	<u>479</u>	<u>23</u>	<u>1,656</u>	<u>7</u>	<u>1,663</u>
Net income	—	—	1,114	—	1,114	—	1,114
Other comprehensive loss	—	—	—	(6)	(6)	—	(6)
Dividends paid	—	—	(350)	—	(350)	—	(350)
Change in equity of non-controlling interest	—	—	7	—	7	(7)	—
Balance at December 31, 2014	<u>2</u>	<u>1,152</u>	<u>1,250</u>	<u>17</u>	<u>2,421</u>	<u>—</u>	<u>2,421</u>
Net loss	—	—	(152)	—	(152)	—	(152)
Other comprehensive loss	—	—	—	(94)	(94)	—	(94)
Capital contributions received	—	1,140	—	—	1,140	—	1,140
Balance at December 31, 2015	<u>\$ 2</u>	<u>\$ 2,292</u>	<u>\$ 1,098</u>	<u>\$ (77)</u>	<u>\$ 3,315</u>	<u>\$ —</u>	<u>\$ 3,315</u>

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Cash Flows

(In millions)	Years ended December 31,		
	2015	2014	2013
Cash flows from operating activities			
Net income (loss)	\$ (152)	\$ 1,114	\$ 734
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs	(98)	469	73
Amortization of deferred sales inducements	(8)	15	13
Amortization (accretion) of net investment premiums, discounts, and other	(18)	(9)	2
Product charges ¹	(191)	(167)	(57)
Interest sensitive contract benefits ^{1,2}	519	1,424	807
Net investment (income) loss ³	69	42	(302)
Other non-cash income adjustments only related to funds withheld and modified coinsurance agreements			
Premiums	(37)	(15)	(2,802)
Net investment (income) on funds withheld at interest	(423)	(3,777)	(1,596)
Policy and other operating expenses	286	270	106
Future policy benefits and other policy claims and benefits	116	657	2,952
Other changes in operating assets and liabilities:			
Accrued investment income	(12)	(8)	—
Cash profit settlements on funds withheld and modified coinsurance agreements	130	619	409
Other assets and liabilities	(10)	(17)	18
Other assets and liabilities of consolidated variable interest entities	—	(20)	—
Net cash provided by operating activities	<u>171</u>	<u>597</u>	<u>357</u>
Cash flows from investing activities			
Sales, maturities, and repayments of:			
Available-for-sale securities	443	220	374
Trading securities	96	53	7
Investment funds	161	291	255
Short-term investments	56	—	—
Purchases of:			
Available-for-sale securities	(1,050)	(681)	—
Trading securities	(62)	(114)	—
Investment funds	(232)	(64)	(44)
Short-term investments	(78)	—	—
Sales, maturities, and repayments of investments of consolidated variable interest entities	—	845	—
Cash settlement of derivatives	2	—	(69)
Change in restricted cash	14	(16)	4
Net cash (used in) provided by investing activities	<u>(650)</u>	<u>534</u>	<u>527</u>

(Continued)

¹ Comprised of impacts related to funds withheld, modified coinsurance, and coinsurance agreements.

² Comprised of interest credited to policyholder account balances, changes in fair value of embedded derivatives associated with fixed indexed annuities, and amortization of unearned revenue reserves.

³ Comprised of realized (gains) losses on investments, (income) losses on equity method investments net of dividend distributions, and changes in fair value of trading securities.

See accompanying notes to consolidated financial statements

(In millions)	Years ended December 31,		
	2015	2014	2013
Cash flows from financing activities			
Capital contributions	\$ 432	\$ —	\$ 72
Dividends paid	—	(350)	(655)
Repayment of note payables	—	—	(40)
Withdrawals on investment-type policies and contracts	(13)	(15)	(16)
Repayment on borrowings of consolidated variable interest entities	—	(719)	(6)
Net cash provided by (used in) financing activities	419	(1,084)	(645)
Effect of exchange rate changes on cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents	(60)	47	239
Cash and cash equivalents at beginning of year ¹	313	266	27
Cash and cash equivalents at end of year¹	\$ 253	\$ 313	\$ 266

Supplementary information

Cash paid for interest	6	3	11
Non-cash transactions			
Premiums and deposits on policies reinsured through funds withheld and modified coinsurance agreements, excluding block reinsurance transactions	3,731	2,525	1,264
Day one premiums and deposits reinsured through block reinsurance transactions	—	—	33,135
Claims and surrenders on policies reinsured through funds withheld and modified coinsurance agreements	4,155	4,372	2,172
Non-cash capital contributions in the form of securities	708	—	34
Non-cash net profit settlements on funds withheld and modified coinsurance agreements in the form of securities	727	255	447

¹ Includes cash and cash equivalents of consolidated variable interest entities of \$4 million at December 31, 2013, which is reported in the assets of consolidated variable entities on the consolidated balance sheets.

Profit withdrawals from our funds withheld and modco reinsurance accounts are based on the statutory earnings of the associated assets and liabilities. The profit (loss) under these agreements are settled on a quarterly basis and can be settled in either cash or securities. The portion settled in both cash and securities is included in the table below, with the cash basis portion being reflected within cash from operations, and the securities portion disclosed as a non-cash transaction.

	Years ended December 31,		
	2015	2014	2013
Net cash provided by operating activities	171	597	357
Non-cash net settlements on funds withheld and modified coinsurance agreements in the form of securities	727	255	447
Total	898	852	804

See accompanying notes to consolidated financial statements

1. Organization and Corporate Structure

Athene Life Re Ltd. (ALRe, the Company, we, us, or our) a Bermuda exempted company, is a leading retirement services company that reinsures retirement savings products that originate in all 50 U.S. states and the District of Columbia. ALRe is wholly owned by Athene Holding Ltd. (AHL, or the Parent), a Bermuda exempted company. ALRe reinsures business from both third party cedants and affiliates. See *Note 8 - Reinsurance* for more information.

The Company was registered as a Long-Term Insurer on June 26, 2009 under the Insurance Act, 1978 of Bermuda and is classified as a Class E insurer. The Company is engaged in the business of annuity reinsurance, focusing on contracts reinsuring a quota share of future sales (flow transactions) of various fixed annuity product lines. The Company also reinsures closed blocks of existing business (block transactions). Liabilities for reinsurance include immediate annuities, fixed deferred annuities (including fixed indexed products) and funding agreements.

As of December 31, 2015, Fitch, S&P and A.M. Best had issued credit ratings, financial strength ratings and/or outlook statements regarding us, as listed below. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurer or reinsurer to meet its obligations under an insurance policy or reinsurance arrangement and generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their financial strength ratings upon information furnished to them by the company and upon their own investigations, studies and assumptions. Financial strength ratings are based upon factors of concern to policyholders, agents, intermediaries and ceding companies and are not directed toward the protection of investors. Credit and financial strength ratings are not recommendations to buy, sell or hold securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

	December 31, 2015		
	A.M. Best	S&P	Fitch
Financial Strength Rating	A-	A-	A-
Outlook	Stable	Stable	Stable

On May 18, 2016, A. M. Best revised the outlook of the Company from "Stable" to "Positive".

2. Summary of Significant Accounting Policies

Consolidation and Basis of Presentation - The consolidated financial statements of the Company include any variable interest entities for which we are the primary beneficiary. Investments in entities that we do not control, 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.

For entities that are consolidated, but not 100% owned, we allocate a portion of the income or loss and corresponding equity to the owners other than the Company. We include the aggregate of the income or loss and corresponding equity that is not owned by the Company in noncontrolling interests in the consolidated financial statements.

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. Actual experience could materially differ from these estimates and assumptions. The Company's principal estimates impact:

- fair value of investments;
- impairment of investments and valuation allowances;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs (DAC), deferred sales inducements (DSI), and reinsurance intangibles; and
- future policy benefit reserves.

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

Investments

Fixed Maturity and Equity Securities – Fixed maturity securities includes corporate bonds, collateralized loan obligations (CLO's), asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and redeemable preferred stock. Equity securities in the funds withheld at interest portfolio include common stock, mutual funds, and non-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 6 - 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 – Unrealized gains and losses on AFS securities are reflected in accumulated other comprehensive income (AOCI) on the consolidated balance sheets.

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 net investment income on the consolidated statements of income and (loss). 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.

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. Private placement and investment fund purchases are recorded on a settlement date basis.

Purchased Credit Impaired (PCI) Securities – We purchase certain structured securities, primarily RMBS, having deterioration in credit quality since their issuance, which meet the definition of PCI securities. We determined, based on our expectations as to the timing and amount of cash flows expected to be received, that it was probable at acquisition that we would not collect all contractually required payments, including both principal and interest and considering the effects of prepayments for these PCI securities. Based on these assumptions, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is accreted into investment income, net of related expenses, over their remaining lives on a level-yield basis. The difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents 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 can change.

Quarterly, we evaluate the undiscounted expected future cash flows associated with PCI securities based on updates to key assumptions. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Declines in undiscounted expected future cash flows due to further credit deterioration, as well as changes in the expected timing of the cash flows, can result in the recognition of an other-than-temporary impairment (OTTI) charge, as PCI securities are subject to our policy for evaluating investments for OTTI. Significant increases in undiscounted expected future cash flows are recognized prospectively as an adjustment to the accretable yield.

Mortgage Loans – We hold mortgage loans through our funds withheld and modified coinsurance arrangements, accordingly these mortgages are valued at fair value, which is comprised of the amortized cost plus mark-to-market unrealized gains or losses. We calculate amortized cost to be unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. 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 and (loss).

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 have determined we are not the primary beneficiary, and therefore not required to consolidate, we typically record these investments using the equity method of accounting, where the cost is recorded as an investment in the fund. Adjustments to the carrying amount reflect our pro rata ownership percentage of the operating results as indicated by net asset value (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 and (loss). Contributions paid or distributions received by the Company are recorded directly to the investment fund balance as an increase to carrying value or as a return of capital, thus reducing our carrying value.

Policy Loans – We hold policy loans through our funds withheld and modified coinsurance arrangements accordingly, these policy loans are held at fair value which approximates the unpaid principal balance. Policy loans are funds provided to policyholders in return for a claim on the policy's account value. 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 policy account balance.

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Notes to Consolidated Financial Statements

Funds Withheld at Interest – Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which we act as reinsurer or a modified coinsurer. While the assets in funds withheld and modified coinsurance trusts are legally owned by the ceding company, the assets are legally segregated from the general accounts of our cedants and all economic rights and obligations on the assets accrue to us. We periodically settle interest accruing to those assets at rates defined by the terms of the agreement. The underlying agreements contain embedded derivatives as discussed below, and as a result the carrying value of Funds Withheld at Interest is equal to the fair value of the underlying assets. The resulting impact on the consolidated statement of cash flows from funds withheld and modco agreements after non-cash activity is backed out is that the net cash interest settlements are included in operating activities. Any securities transfers as part of interest settlements, as well as deposits and withdrawals on the underlying agreements, are disclosed as non-cash items. See additional information in Note 7 - Funds Withheld at Interest.

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 securities are held at fair value which approximates amortized cost. Short-term loans are carried at amortized cost.

Net 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 premiums and the accretion of any discount. Investment income on equity securities represents dividend income and preferred coupons. Realized gains and losses on sales of investments are included on the consolidated statements of income and (loss) in net investment income. Other-than-temporary impairments are included on the consolidated statements of income and (loss) in Net investment income (NII). Realized gains and losses on investments sold are determined based on a first-in first-out method.

Other-Than-Temporary Impairment – We identify fixed maturity and equity securities that could potentially have impairments that are other-than-temporary by monitoring market events for changes in market interest rates, credit issues, changes in business climate, management changes, litigation, government actions, and other similar factors. Indicators of impairment may include changes in the issuers' credit ratings, late payments, pricing levels, rating agency actions, key financial ratios, financial statements, revenue forecasts, and cash flow projections.

We review all securities on a case-by-case basis to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuer's financial position and access to capital; and (4) for fixed maturity securities, our ability and intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent we determine that a security is other-than-temporarily impaired, an impairment loss is recognized.

The recognition of impairment losses on fixed maturity securities on the consolidated financial statements is dependent on the facts and circumstances related to the specific security. If 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 less any recorded credit loss, we recognize an OTTI in net investment income on the consolidated statements of income and (loss) for the difference between amortized cost and fair value. If neither of these two conditions exists, then the recognition of the OTTI is bifurcated and we recognize the credit loss portion in net investment income on the consolidated statements of income and (loss) and the non-credit loss portion in AOCI on the consolidated balance sheets.

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The techniques and assumptions for establishing the best estimate cash flows vary depending on the type of security. The 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 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.

In periods after an OTTI loss is recognized on a fixed maturity security, we report the impaired security as if it had been purchased on the date it was impaired and continue to estimate the present value of the estimated cash flows of the security. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income over the remaining term of the fixed maturity security in a prospective manner based on the amount and timing of estimated future cash flows.

We impair a mortgage loan when it is probable we will not collect all amounts due under the agreement. We establish a valuation allowance on individual loans based on expected losses from future dispositions or settlement, including foreclosures. We calculate the allowance based on how much the carrying value exceeds one of these values:

- the present value of expected future cash flows discounted at the loan's original effective interest rate;
- the value of the loan's collateral if it is in the process of foreclosure or otherwise collateral dependent; or
- the loan's fair value if the loan is being sold.

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We first apply any interest accrued or received on the net carrying amount of the impaired loan to the principal of the loan, and once the principal is repaid, we include amounts received in net investment income. We limit accrued interest income on impaired loans to 90 days of interest. Once accrued interest on the impaired loan is received, we recognize interest income on a cash basis. Loans deemed uncollectible or in foreclosure are charged off against the valuation allowances, and subsequent recoveries, if any, are credited to the valuation allowances. Changes in valuation allowances are reported in net investment income on the consolidated statements of income and (loss).

The cost of other invested assets is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. These impairments are included within net investment income, and the cost basis of the investment securities is reduced accordingly. We do not change the revised cost basis for subsequent recoveries in value.

Derivative Instruments—We invest in derivatives in both our general account and funds withheld at interest for managing risks experienced in our ongoing operations, such as equity risk, interest rate risk, cash flow risks, which primarily involve managing liability risks associated with our indexed annuity products and reinsurance agreements. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or other underlying notional amount. Derivatives are carried at fair value on the consolidated balance sheets in derivative assets and derivative liabilities. 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 4 - Derivative Instruments*.

Embedded Derivatives – We 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. Embedded derivatives are carried on the consolidated balance sheets at fair value in the same line item as the host contract. Changes in the fair value of embedded derivatives associated with fixed indexed annuities are reflected in interest sensitive contract benefits on the consolidated statements of income and (loss). Embedded derivatives that are not clearly and closely related to the host contract within a financial asset are required to be bifurcated and recorded at fair value 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 all related gains and losses on the host contract and derivative will be reflected within net investment income on the consolidated statements of income and (loss).

Fixed indexed annuity contracts allow the policyholder to elect a fixed interest rate return or an equity market component where interest credited is based on the performance of common stock market indices. The equity market option is an embedded derivative, similar to a call option. 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 derivative 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. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as were used to project policy contract values. For certain funds withheld and modified coinsurance reinsurance contracts the embedded derivative cash flows are discounted using the Company's 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.

Additionally, reinsurance agreements written on a funds withheld or modified coinsurance (modco) basis contain embedded derivatives. The fair value of the embedded derivatives on funds withheld and modco agreements is included in the funds withheld at interest line item on the consolidated balance sheets and is equal to the unrealized gain or loss on the underlying assets in the funds withheld or modco trust. The change in the fair value of the embedded derivatives is recorded in net investment income on the consolidated statements of income and (loss).

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 of a controlling financial interest is a variable interest entity (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 generally 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, LLC (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 generally concluded we are not under common control, as defined by ASU 2015-02, with the related party, and therefore consolidate in the circumstances when substantially all of the activities of the VIE are conducted on our behalf. We reassess the VIE and primary beneficiary determinations on an ongoing basis.

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If we are not the primary beneficiary, but are able to exert significant influence over the VIE's operations, we record the VIE as an equity method investment. If we are not able to exercise significant influence, generally on investment funds in which we own a less than a 3% interest, we elect the fair value option.

See *Note 5 - Variable Interest Entities* for discussion of our interest in entities that meet the definition of a VIE.

Reinsurance—We assume insurance and investment contracts under coinsurance, funds withheld coinsurance (funds withheld), and modified coinsurance (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 include insurance risk consisting of underwriting, investment, timing risk, and any other significant risks. Assumed premiums are included in the premiums line of the consolidated statements of income and (loss).

Assets and liabilities assumed under modco or funds withheld are presented gross on the consolidated balance sheets. The total return on funds withheld at interest is presented in net investment income on the consolidated statements of income and (loss).

Accounting for reinsurance requires the use of assumptions upon agreement inception, 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 segregated accounts, 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. Refer to *Note 9 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for more information.

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 consists of cash and cash equivalents held in funds in trust as part of certain coinsurance agreements to secure all statutory reserves and liabilities of the coinsured parties. Changes in the restricted cash balance are reported in investing activities on the consolidated statements of cash flows.

Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles

Deferred Acquisition Costs and Deferred Sales Inducements - Costs related to direct and successful efforts of acquiring new business 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. We include the effects of net unrealized investment gains and losses in the calculation of DAC, DSI and reinsurance intangible balances due to the funds withheld at interest assets being marked-to-market through income. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive policies. We also periodically revise the key assumptions used in the calculation of the amortization of DAC 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 interest sensitive investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, 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 impacts of the change in fair value of the embedded derivatives and the change in fair value of the derivative instruments purchased to economically hedge the indexed liabilities. Estimates of the future gross profits are based on assumptions using accepted actuarial methods. The balances associated with the preceding amortization methodology are recorded in deferred acquisition costs and deferred sales inducements on the consolidated balance sheets.

Deferred costs related to contracts with only investment related sources of revenues are amortized using the interest method. The interest method amortizes the deferred costs by discounting the future liability cash flows at a break-even rate. The break-even rate is solved such that the present value of future liability cash flows is equal to the net liability at the inception of the contract. The balances associated with this amortization methodology are recorded in deferred acquisition costs and deferred sales inducements on the consolidated balance sheets.

Reinsurance Intangibles - For block reinsurance transactions, the difference between the fair value of assets and the sum of the reserves reinsured, other liabilities reinsured, and ceding commission payable or receivable is deferred and recognized on a product-by-product basis either as an unearned revenue reserve ("URR") or deferred acquisition cost ("DAC"). In this context, the URR may also be referred to as the day one gain on reinsurance and DAC as the day one loss on reinsurance. Day one losses are included in deferred acquisition costs and deferred sales inducements and day one gains are included in interest sensitive contract liabilities on the consolidated balance sheets. If financial performance significantly deteriorates to the point where a premium deficiency exists, then we record a cumulative charge to the current period. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process for the interest sensitive

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policies. We also periodically revise the key assumptions used in the calculation of the amortization of DAC 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.

Day one gains and losses related to interest sensitive investment-type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration, 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 impacts of the change in fair value of the embedded derivatives and the change in fair value of the derivative instruments purchased to economically hedge the indexed liabilities. Estimates of the future gross profits are based on assumptions using accepted actuarial methods. If we project a negative future gross profit, the day one gain or loss is amortized proportional to the change in the present value of account value over the lives of the policies.

See *Note 9 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for further discussion.

Interest Sensitive Contract Liabilities—Interest sensitive investment-type contracts include fixed indexed and traditional fixed annuities in the accumulation phase, funding agreements, and immediate annuities without significant mortality risk. We carry liabilities for fixed annuities, and funding agreements at the account balances without reduction for potential surrender or withdrawal charges. Liabilities for immediate annuities without significant mortality risk are calculated as a present value of future liability cash flows at contractual interest rates.

Changes in the interest sensitive contract liabilities are recorded in interest sensitive contract benefits or product charges on the consolidated statements of income and (loss).

Future Policy Benefits—We reinsure contracts classified as long-duration, which includes endowments, and deferred and immediate annuities with life contingencies. Liabilities for 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. The reserve investment yield assumptions 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 and DSI) is less than the gross premium liability, then the impairment is deemed to have occurred. Accordingly, the DAC and DSI asset balances are reduced until the net GAAP liability is equal to the gross premium liability. For deferred annuity policies classified as insurance contracts, if the DAC and DSI asset balances are completely written off and the net GAAP liability is still less than the gross premium liability, then an additional liability is posted to arrive at the gross premium liability.

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

Changes in future policy benefits are recorded in future policy and other policy benefits on the consolidated statements of income and (loss).

Other Policy Claims and Benefits—Other policy claims and benefits include amounts payable relating to in course of settlements (ICOS) liabilities associated with interest sensitive contract liabilities and future policy benefits. 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.

Recognition of Revenues and Related Expenses—Revenues for annuities, including surrender and market value adjustments, costs of insurance, policy administration, GMDB, and GLWB, are earned when assessed against policyholder account balances during the period. Interest sensitive contract benefits related to annuity products include interest credited to policyholder account balances. In addition, 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 and (loss).

For certain assumed reinsurance transactions involving in force blocks of business, the ceding company may pay a premium equal to the initial required reserve (future policy benefit). In such transactions, we net the expense associated with the establishment of the reserve against the premiums from the transaction in interest sensitive contract benefits on the consolidated statements of income and (loss).

Premiums for traditional life insurance products, including products with fixed and guaranteed premiums and benefits, are recognized as revenues when due from policyholders.

Recently Adopted Accounting Pronouncements

Debt Issuance Costs (ASU 2015-15 and 2015-03)

These updates require debt issuance costs related to a recognized debt liability or line of credit arrangement to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability and bring existing SEC guidance into conformity with this debt issuance cost guidance. We elected to early adopt this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Consolidation Analysis (ASU 2015-02)

This update changes the analysis a reporting entity performs to determine whether it should consolidate certain types of legal entities and is adopted in these financial statements. We adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Transfers and Servicing (ASU 2014-11)

This update requires repurchase-to-maturity transactions and repurchase financing arrangements be accounted for as secured borrowings and provides for enhanced disclosures, including the nature of collateral pledged and the time to maturity. We fully adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Discontinued Operations (ASU 2014-08)

This update changes the criteria related to reporting discontinued operations and introduces new disclosures. We adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Troubled Debt Restructuring (ASU 2014-04)

This update clarifies when an in substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. We adopted this standard effective January 1, 2015, and the adoption did not have a material impact to our consolidated financial statements.

Recently Issued Accounting Pronouncements

Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)

This update simplifies several aspects of the accounting for share-based payment award transactions, including income tax consequences and classification on the statement of cash flows. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Revenue Recognition (ASU 2016-11, ASU 2016-10, ASU 2016-08, ASU 2015-14, and ASU 2014-09)

ASU 2014-09 indicates an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 provided for a one-year deferral of the effective date, which will require us to adopt this standard effective January 1, 2018. ASU 2016-08 amends the principal-versus-agent implementation guidance and illustrations in ASU 2014-09. ASU 2016-10 clarifies the identification of performance obligations as well as licensing implementation guidance. ASU 2016-11 brings existing SEC guidance into conformity with revenue recognition accounting guidance of ASU 2014-09 discussed above. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Equity Method and Joint Ventures (ASU 2016-07)

This update eliminates the retroactive adjustments to an investment upon it qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence by the investor. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Derivatives and Hedging – Contingent Put and Call Options (ASU 2016-06)

This update is intended to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to debt hosts. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

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Derivatives and Hedging – Effects of Derivative Contract Novation (ASU 2016-05)

This update is intended to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require a de-designation of that hedging relationship provided all other hedge accounting criteria continue to be met. We will be required to adopt this standard effective January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Leases (ASU 2016-02)

This update is intended to increase transparency and comparability for lease transactions. A lessee is required to recognize an asset and a liability for all lease arrangements longer than 12 months. Lessor accounting is largely unchanged. We will be required to adopt this standard effective January 1, 2019. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Financial Instruments – Recognition and Measurement (ASU 2016-01)

This update retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. We will be required to adopt this standard effective January 1, 2018. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Fair Value Measurement – Net Asset Value (ASU 2015-07)

This update has a disclosure-only impact for entities that measure investments using net asset value per share under the practical expedient in the fair value measurement guidance. We will be required to adopt this standard effective January 1, 2016. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Cloud Computing Arrangements (ASU 2015-05)

This update clarifies whether a cloud computing arrangement is an intangible asset or a service contract. We will be required to adopt this standard effective January 1, 2016. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

Stock-Based Compensation (ASU 2014-12)

This update requires a performance target in a share based payment arrangement that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. We will be required to adopt this standard effective January 1, 2016. We do not expect the adoption of this update to have a material effect on our consolidated financial statements.

3. Investments

Available-for-sale securities - The following table represents our AFS investments by asset type. Our AFS investment portfolio includes direct investments in affiliates of Apollo where Apollo can exercise significant influence over the affiliates.

December 31, 2015					
<i>(In millions)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	\$ 4	\$ 1	\$ —	\$ 5	\$ —
U.S. State, municipals, and political subdivisions	44	8	—	52	—
Corporate	955	15	(17)	953	—
CLO	521	—	(46)	475	—
ABS	256	1	(7)	250	—
CMBS	39	—	(1)	38	—
RMBS	1,052	9	(27)	1,034	3
Total - other than related party AFS securities	2,871	34	(98)	2,807	3
Fixed maturity securities - related party					
CLO	149	—	(13)	136	—
Total AFS securities	\$ 3,020	\$ 34	\$ (111)	\$ 2,943	\$ 3
December 31, 2014					
<i>(In millions)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	\$ 6	\$ 1	\$ —	\$ 7	\$ —
U.S. State, municipals, and political subdivisions	54	10	—	64	—
Corporate	259	9	(1)	267	—
CLO	306	2	(11)	297	—
ABS	58	—	—	58	—
RMBS	319	11	(3)	327	—
Total - other than related party AFS securities	1,002	33	(15)	1,020	—
Fixed maturity securities - related party					
CLO	61	—	(1)	60	—
Total AFS securities	\$ 1,063	\$ 33	\$ (16)	\$ 1,080	\$ —
December 31, 2013					
<i>(In millions)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities					
U.S. government and agencies	\$ 6	\$ —	\$ —	\$ 6	\$ —
U.S. State, municipals, and political subdivisions	34	4	(1)	37	—
Corporate	131	4	(3)	132	—
CLO	21	1	—	22	—
ABS	18	1	—	19	—
RMBS	158	17	(2)	173	—
Total AFS securities	\$ 368	\$ 27	\$ (6)	\$ 389	\$ —

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

<i>(In millions)</i>	December 31, 2015	
	Amortized Cost	Fair Value
Fixed maturity securities		
Due in one year or less	\$ 81	\$ 82
Due after one year through five years	219	218
Due after five year through ten years	450	451
Due after ten years	253	258
ABS, CLO, CMBS and RMBS	1,868	1,798
Total - other than related party fixed maturity securities	2,871	2,807
Fixed maturity securities – related party		
CLO	149	136
Total fixed maturity securities	\$ 3,020	\$ 2,943

<i>(In millions)</i>	December 31, 2014	
	Amortized Cost	Fair Value
Fixed maturity securities		
Due in one year or less	\$ 7	\$ 7
Due after one year through five years	112	114
Due after five year through ten years	101	104
Due after ten years	99	113
ABS, CLO, CMBS and RMBS	683	683
Total - other than related party fixed maturity securities	1,002	1,021
Fixed maturity securities – related party		
CLO	61	59
Total fixed maturity securities	\$ 1,063	\$ 1,080

<i>(In millions)</i>	December 31, 2013	
	Amortized Cost	Fair Value
Fixed maturity securities		
Due in one year or less	\$ 1	\$ 1
Due after one year through five years	31	32
Due after five year through ten years	58	58
Due after ten years	81	83
ABS, CLO, CMBS and RMBS	197	215
Total fixed maturity securities	368	389

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Unrealized Losses on AFS Securities-The following summarizes the fair value and gross unrealized losses for AFS securities, including related party AFS securities, aggregated by class of security and length of time the fair value has remained below amortized cost:

<i>(In millions)</i>	December 31, 2015					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. State, municipals, and political subdivisions	\$ 3	\$ —	\$ —	\$ —	\$ 3	\$ —
Corporate	379	(15)	14	(2)	393	(17)
CLO	400	(36)	52	(10)	452	(46)
ABS	198	(7)	—	—	198	(7)
CMBS	11	(1)	—	—	11	(1)
RMBS	723	(21)	103	(6)	826	(27)
Total AFS securities - other than related party	1,714	(80)	169	(18)	1,883	(98)
Fixed maturity securities - related party						
CLO	128	(13)	—	—	128	(13)
Total AFS securities	\$ 1,842	\$ (93)	\$ 169	\$ (18)	\$ 2,011	\$ (111)

<i>(In millions)</i>	December 31, 2014					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. State, municipals, and political subdivisions	\$ 10	\$ —	\$ 1	\$ —	\$ 11	\$ —
Corporate	33	—	21	(1)	54	(1)
CLO	233	(10)	17	(1)	250	(11)
ABS	32	—	—	—	32	—
RMBS	100	(1)	18	(2)	118	(3)
Total AFS securities - other than related party	408	(11)	57	(4)	465	(15)
Fixed maturity securities - related party						
CLO	59	(2)	—	—	59	(2)
Total AFS securities	\$ 467	\$ (13)	\$ 57	\$ (4)	\$ 524	\$ (17)

<i>(In millions)</i>	December 31, 2013					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. government and agencies	\$ 3	\$ —	\$ —	\$ —	\$ 3	\$ —
U.S. State, municipals, and political subdivisions	10	(1)	1	—	11	(1)
Corporate	56	(3)	—	—	56	(3)
ABS	5	—	—	—	5	—
RMBS	9	(1)	11	(1)	20	(2)
Total available for sale securities	\$ 83	\$ (5)	\$ 12	\$ (1)	\$ 95	\$ (6)

At December 31, 2015, we held 323 AFS securities that were in an unrealized loss position. Of this total, 42 were in an unrealized loss position longer than 12 months.

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Other-Than-Temporary Impairments on AFS Securities-For the year ended December 31, 2015, on total AFS securities including related party of \$2,943 million, we incurred \$1 million of net OTTI losses, of which none related to intent-to-sell impairments. These securities were impaired to fair value as of the impairment date. The remainder of net OTTI losses of \$1 million related to credit impairments, of which none related to credit loss impairments that we impaired to fair value and did not bifurcate a portion of the impairment in AOCI, and is also excluded from the rollforward below.

The following table represents a rollforward of the cumulative amounts recognized on the consolidated statements of income for OTTI related to pre-tax credit loss impairments on AFS fixed maturity securities, for which a portion of the securities' total OTTI was recognized in AOCI:

(In millions)	December 31,		
	2015	2014	2013
Beginning balance	\$ —	\$ —	\$ —
Initial impairments – credit loss OTTI recognized on securities not previously impaired	1	—	—
Ending balance	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>

Net Investment Income - Net investment income by asset type consist of the following:

(In millions)	December 31,		
	2015	2014	2013
Fixed maturity securities	\$ 107	\$ 40	\$ 25
Trading securities	7	—	(1)
Investment funds	21	46	387
Cash and cash equivalents	—	4	—
Funds withheld at interest ¹			
Investment income	2,043	2,014	1,127
Investment related gains (losses)	(1,620)	1,763	471
Investment expenses	(98)	(85)	(45)
Gross realized gain on AFS securities	7	6	13
Gross realized loss on AFS securities	(17)	(3)	(10)
Derivative gains (losses)	2	—	(70)
Other losses	—	4	1
Net investment income	<u>\$ 452</u>	<u>\$ 3,789</u>	<u>\$ 1,898</u>

¹ The total income related to funds withheld at interest is comprised of the total return, including (1) investment income which is comprised of book income on the underlying securities, and (2) investment related gains (losses) which is comprised of realized gains (losses), mark-to-market impacts (change in unrealized gains or losses), and total return on derivatives. The portion related to mark-to-market was a gain (loss) of \$(1,415) million, \$1,013 million and \$(204) million for years ended December 31, 2015, 2014 and 2013, respectively.

Included in net investment income on trading securities are losses of \$1 million, losses of \$3 million, and losses of \$0 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2015, 2014, and 2013, respectively. Also included in net investment income on trading securities are related party losses of \$8 million, losses of \$2 million, and losses of \$0 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2015, 2014, and 2013, respectively.

Credit Quality

The Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) is responsible for the credit quality assessment and valuation of securities owned by state regulated insurance companies. Insurance companies report ownership of securities to the SVO when such securities are eligible for filing on the relevant schedule of the NAIC Financial Statement Blank. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation and/or unit price. Typically, if a security has been rated by a Nationally Recognized Statistical Rating Organization (NRSRO), the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

NAIC designation	NRSRO equivalent rating
1	AAA/AA/A
2	BBB
3	BB
4	B
5	CCC
6	CC and lower

The SVO’s loan-backed and structured securities (“LBaSS”) methodology is focused on determining the risk associated with the recovery of the amortized cost of each security. In contrast, the NRSRO ratings methodology is focused on the likelihood of recovery of all contractual payments, including principal at par regardless of entry price. The NRSRO rating assumes that the holder is the original purchaser at par whereas the modeled and non-modeled LBaSS ratings are focused on the recovery of current amortized cost. As the NAIC ratings methodology considers our investment and amortized cost, and the likelihood of recovery of that book value as opposed to the likelihood of default of the security, we view the NAIC ratings methodology as the most appropriate way to view our fixed maturity portfolio from a ratings perspective since a large portion of our holdings were purchased at a significant discount to par.

Specific to LBaSS, the SVO has developed a ratings process and provides instruction on both modeled and non-modeled LBaSS. The modeled LBaSS process is specific to the RMBS and CMBS asset classes. In order to establish ratings at the individual security level, the SVO obtains loan-level analysis of each RMBS and CMBS using a selected vendor’s proprietary financial model. The SVO ensures that the vendor has extensive internal quality-control processes in place and the SVO conducts its own quality-control checks of the selected vendor’s valuation process. The NAIC retained the services of Pacific Investment Management Co.’s advisory services (“PIMCO Advisory”) to model non-agency RMBS owned by U.S. insurers in 2014. The SVO switched from PIMCO Advisory to Blackrock, Inc. (“Blackrock”) for non-agency RMBS in 2015. For CMBS, the SVO has retained the services of Blackrock for all years presented. PIMCO Advisory and Blackrock, specific to the periods referred to above (the “selected vendors”), provide five prices (“breakpoints” based on each U.S. insurer’s statutory book value price) to utilize in determining the NAIC designation for each modeled LBaSS. For non-modeled LBaSS (ABS and CLOs) with the initial rating of NAIC 1 or NAIC 6, the rating remains the same through the life of the security. For non-modeled LBaSS with the initial rating of NAIC 2 through NAIC 5, the selected vendors are not utilized and the NAIC designations are set using a standardized table of breakpoints provided by the SVO for application to the insurer’s statutory book value price. The NAIC designation determines the associated level of RBC that an insurer is required to hold for modeled LBaSS owned

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A summary of our AFS fixed maturity securities by NAIC designation is as follows (dollars in millions):

(In millions)

NAIC Designation	Dec 31, 2015		
	Amortized Cost	Fair Value	Percent of Total
1	\$ 1,937	\$ 1,912	65%
2	818	778	26%
Total investment grade	2,755	2,690	91%
3	256	245	9%
4	8	8	—%
5	—	—	—%
6	1	—	—%
Total below investment grade	265	253	9%
Total	\$ 3,020	\$ 2,943	100%

(In millions)

NAIC Designation	Dec 31, 2014		
	Amortized Cost	Fair Value	Percent of Total
1	\$ 811	\$ 827	77%
2	200	202	19%
Total investment grade	1,011	1,029	96%
3	47	46	4%
4	2	2	—%
5	3	3	—%
6	—	—	—%
Total below investment grade	52	51	4%
Total	\$ 1,063	\$ 1,080	100%

(In millions)

NAIC Designation	Dec 31, 2013		
	Amortized Cost	Fair Value	Percent of Total
1	\$ 320	\$ 340	87%
2	37	37	10%
Total investment grade	357	377	97%
3	8	8	2%
4	3	4	1%
5	—	—	—%
6	—	—	—%
Total below investment grade	11	12	3%
Total	\$ 368	\$ 389	100%

Substantially all of the fixed maturity portfolio, 91%, 96% and 97% as of December 31, 2015 2014 and 2013 respectively was invested in investment grade assets with a NAIC rating of 1 or 2.

A summary of our AFS fixed maturity securities by NRSRO ratings is set forth below (dollars in millions):

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(In millions)	Dec 31, 2015		Dec 31, 2014		Dec 31, 2013	
	Fair Value	Percent of Total	Fair Value	Percent of Total	Fair Value	Percent of Total
AAA/AA/A	\$ 758	26%	\$ 359	33%	\$ 180	47%
BBB	940	32%	299	28%	80	20%
Non-Rated ¹	287	10%	5	—%	1	—%
Total Investment grade	1,985	68%	663	61%	261	67%
BB	225	8%	153	14%	16	4%
B	38	1%	33	3%	16	4%
CCC	210	7%	103	10%	71	19%
CC and lower	417	14%	128	12%	25	6%
Non-Rated ¹	68	2%	—	—%	—	—%
Total below investment grade	958	32%	417	39%	128	33%
Total fixed maturity securities	\$ 2,943	100%	\$ 1,080	100%	\$ 389	100%

¹Securities denoted as non-rated by the NRSRO were classified as investment or non-investment grade according to the security's respective NAIC rating. The percentage of investment grade securities under NRSRO ratings is lower than under NAIC ratings due to NRSRO ratings not factoring in the Company specific price point of carrying value on structured securities, whereas NAIC ratings factor this in as previously described.

Consistent with the NAIC Process and Procedures Manual, an NRSRO rating was assigned based on the following criteria: (a) the equivalent S&P rating where the security is rated by one NRSRO; (b) the equivalent S&P rating of the lowest NRSRO when the security is rated by two NRSROs; and (c) the equivalent S&P rating of the second lowest NRSRO if the security is rated by three or more NRSROs. If the lowest two NRSRO ratings are equal, then such rating will be the assigned rating. NRSRO ratings available for the periods presented were S&P, Fitch, Moody's Investor Service ("Moody's"), DBRS, and Kroll Bond Rating Agency, Inc. ("KBRA").

The portion of our AFS fixed maturity portfolio that was considered below investment grade based on NRSRO ratings decreased to 32% from 39% and 33% as of December 31, 2015, 2014 and 2013, respectively. The primary driver of the difference in the ratio of securities considered below investment grade by NRSROs as compared to the securities considered below investment grade by the NAIC relates to the difference in ratings methodologies between the NRSRO and NAIC for RMBS due to investments acquired at a discount to par value, as discussed above. The primary driver of the increase in the percentage of NRSRO below investment grade securities and the corresponding increase in NAIC below investment grade securities is driven by the reinvestment activity and volatile economic environment in 2015.

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Purchased Credit Impaired (PCI) Securities - The following table summarizes our PCI securities, which are included in AFS fixed maturity securities:

<i>(In millions)</i>	December 31,	
	2015	2014
Contractually required principal and interest ¹	\$ 1,092	\$ 325
Less: Cash flows expected to be collected ²	(704)	(237)
Non-accretable difference	\$ 388	\$ 88
Cash flows expected to be collected	\$ 704	\$ 237
Less: Amortized cost	(533)	(180)
Accretable difference	\$ 171	\$ 57
Fair value	\$ 523	\$ 183

¹ Includes principal and accrued interest.

² Represents the acquisition date undiscounted principal and interest cash flows expected.

We acquired PCI investments with the following amounts at the time of purchase:

<i>(In millions)</i>	Years ended December 31,	
	2015	2014
Contractually required principal and interest	\$ 622	\$ 219
Expected cash flows	385	154
Estimated fair value	279	120

The following table summarize the activity for the accretable yield on PCI securities:

<i>(In millions)</i>	Years ended December 31,	
	2015	2014
Balance at beginning of year	\$ 57	\$ 42
Purchases of PCI securities, net	99	38
Accretion	(7)	5
Changes in expected cash flows	22	(28)
Balance at end of year	\$ 171	\$ 57

4. Derivative Instruments

We use a variety of derivative instruments to manage equity risk, interest rate risk, credit risk, foreign currency risk, and market volatility. See *Note 2 - Summary of Significant Accounting Policies* for a description of our accounting policies for derivatives and *Note 6 - Fair Value* for information about the fair value hierarchy for derivatives.

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

	December 31, 2015		
	Notional Amount	Fair Value	
		Assets	Liabilities
<i>(In millions)</i>			
Foreign currency forwards	\$ 41	\$ 1	\$ —
Embedded derivatives			
Funds withheld	—	469	—
Interest sensitive contract liabilities	—	—	3,540
Total derivatives	\$ 41	\$ 470	\$ 3,540
	December 31, 2014		
	Notional Amount	Fair Value	
		Assets	Liabilities
<i>(In millions)</i>			
Foreign currency forwards	\$ 37	\$ 1	\$ —
Embedded derivatives			
Funds withheld	—	2,478	—
Interest sensitive contract liabilities	—	—	3,532
Total derivatives	\$ 37	\$ 2,479	\$ 3,532
	December 31, 2013		
	Notional Amount	Fair Value	
		Assets	Liabilities
<i>(In millions)</i>			
Foreign currency forwards	\$ 61	\$ —	\$ 1
Embedded derivatives			
Funds withheld	—	1,612	—
Interest sensitive contract liabilities	—	—	2,587
Total derivatives	\$ 61	\$ 1,612	\$ 2,588

Derivatives are included in derivative assets or liabilities on the consolidated balance sheets, with the exception of embedded derivatives. Funds withheld and modco embedded derivatives are included in funds withheld at interest on the consolidated balance sheets. Indexed annuity products embedded derivatives are included in interest sensitive contract liabilities on the consolidated balance sheets. None of our derivatives are designated as hedges.

Foreign currency forwards - We use foreign currency forward contracts to hedge certain invested assets against movement in foreign currency. The price is agreed upon at the time of the contract and payment is made at a specified future date.

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 a modco or funds withheld basis and indexed annuity products. Included in net investment income is the total return of the funds withheld embedded derivatives.

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.

As of December 31, 2015, 2014, and 2013 we had no collateral pledged to counterparties in connection with derivative instruments.

5. Variable Interest Entities

Our investment funds generally meet the definition of a VIE, and in certain cases these investment funds are consolidated in our financial statements because we meet the criteria of the primary beneficiary.

Consolidated VIEs

On September 29, 2011, ALRe formed Highland Re Ltd (HRL). HRL was a Bermuda special purpose insurer and a direct subsidiary of ALRe. HRL issued voting Common Shares, 100% owned by ALRe, and one non-voting preferred share, 100% owned by a third party, in order to capitalize HRL. On December 16, 2011 ALRe entered into two non-proportional reinsurance agreements with HRL to cede claims risk associated with an affiliate reinsurance deal. ALRe’s interest in HRL represents an interest in a VIE under current authoritative guidance. The Company has determined that it is the primary beneficiary as it satisfies both the power and benefits criteria in that guidance. Accordingly, HRL is consolidated in the financial statements of the Company at December 31, 2013. The preferred share buyer was entitled to request redemption of all or fractional portions of the preferred share under certain conditions during the term of the note. The note was repaid during 2014 and HRL was dissolved in the fourth quarter of 2014.

On November 10, 2010, 2011 A4 Fund, L.P. was formed to purchase commercial mortgage-backed securities in a leveraged structure for the benefit of the limited partners and met the definition of a VIE. The 2011 A4 Fund, L.P. ("A4 Fund") entered into a repurchase agreement with Wells Fargo Bank, N.A. Under this agreement, the A4 Fund could borrow up to \$800 million to finance the acquisition of CMBS originally AAA rated. The facility had a three-year term, with two one-year extensions available at the A4 Fund's option with the payment of a 25 basis point extension fee on the outstanding balance of the facility. The A4 Fund was fully liquidated during 2014.

The following table summarizes the assets of consolidated variable interest entities presented:

<i>(in millions)</i>	December 31, 2013
Investments, at fair value	\$ 944
Cash and cash equivalents	4
Other assets	5
Assets of consolidated variable interest entities	\$ 953

The following table summarizes the liabilities of consolidated variable interest entities presented:

<i>(in millions)</i>	December 31, 2013
Borrowings	\$ 719
Other liabilities	23
Liabilities of consolidated variable interest entities	\$ 742

Net investment income (loss) of consolidated variable interest entities was \$16 million and \$(8) million for the years ended December 31, 2014 and 2013 respectively. The operating expenses of consolidated variable interest entities was \$3 million and \$13 million for the years ended December 31, 2014, and 2013 respectively.

Non-consolidated VIEs - We invest in other entities meeting the definition of a VIE. We do not consolidate these investments because we do not meet the criteria of primary beneficiary as described below.

Fixed Maturity Securities - We invest in securitization entities as a debt holder or an investor in the residual interest of the securitization vehicle, which are included in fixed maturity securities on the consolidated balance sheets. 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 by 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 ASU 2015-02, 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 under US GAAP and are held at fair value on the balance sheet and classified as AFS or trading.

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

A portion of these investment funds are sponsored and managed by unrelated parties in which we, as limited partner, do not have the power to direct the activities that most significantly impact the economic performance of the fund, nor do we unilaterally have substantive rights to remove the general partner or dissolve the entity without cause. As a result, we do not meet the power criterion to be considered the primary beneficiary and do not consolidate these VIEs in our financial statements.

We also have equity interests in investment funds where the general partner or investment manager is a related party. We have determined we are not under common control, as defined by ASU 2015-02, with the related party, nor are we deemed to be the primary beneficiary. As a result, investments in these VIEs are not consolidated.

We account for non-consolidated investment funds where we are able to exercise significant influence over the entity under the equity method or by electing the fair value option, in which NAV is used as a practical expedient for fair value.

Income from investment funds is recorded in net investment income on the consolidated statements of income and (loss) and represents the change in fair value of investment fund, net of expenses.

The Company's investments in investment funds are generally passive in nature as we do not take an active role in the investment fund's management. Our risk of loss is limited and depends on the investment as follows: (1) investment funds accounted for under the equity method are limited to the Company's initial investment plus unfunded commitments; (2) investment funds under the fair value option are limited to the fair value plus unfunded commitments; (3) available-for-sale securities and other investments are limited to amortized cost; and (4) trading securities are limited to carrying value.

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

(in millions)

	December 31, 2015	
	Carrying Amount	Maximum Loss Exposure
Investment funds	\$ 220	\$ 211
Investment in related parties – investment funds	404	436
Investment in fixed maturity securities	1,919	1,991
Investment in related parties – fixed maturity securities	208	231
Total assets	\$ 2,751	\$ 2,869

(in millions)

	December 31, 2014	
	Carrying Amount	Maximum Loss Exposure
Investment funds	\$ 106	\$ 105
Investment in related parties – investment funds	501	523
Investment in fixed maturity securities	740	742
Investment in related parties – fixed maturity securities	137	138
Total assets	\$ 1,484	\$ 1,508

(in millions)

	December 31, 2013	
	Carrying Amount	Maximum Loss Exposure
Investment funds	\$ 50	\$ 52
Investment in related parties – investment funds	838	883
Investment in fixed maturity securities	215	197
Total assets	\$ 1,103	\$ 1,132

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The following summarizes the Company's investment funds, including related party investment funds and investment funds owned by consolidated VIEs:

(in millions)

	December 31, 2015		
	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Private equity	\$ 49	22%	4-5
Mortgage and real assets	23	10%	3-4
Credit funds	148	68%	1-2
Total investment funds non-related party	<u>\$ 220</u>	<u>100%</u>	
Investment funds – related party, comprised of underlying investments in:			
Private equity Apollo Alternative Assets (AAA)	\$ 315	78%	1-4
Private equity	35	9%	6-7
Credit funds	54	13%	6-7
Total investment funds – related party	<u>\$ 404</u>	<u>100%</u>	
Total investment funds	<u>\$ 624</u>		

(in millions)

	December 31, 2014		
	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Private equity	\$ 48	45%	5-6
Credit funds	58	55%	2-3
Total investment funds non-related party	<u>\$ 106</u>	<u>100%</u>	
Investment funds – related party, comprised of underlying investments in:			
Private equity Apollo Alternative Assets (AAA)	\$ 472	94%	2-5
Private equity	29	6%	7-8
Total investment funds – related party	<u>\$ 501</u>	<u>100%</u>	
Total investment funds	<u>\$ 607</u>		

(in millions)

	December 31, 2013		
	Carrying Value	Percent of Total	Weighted Avg Life (WAL)
Investment funds			
Private equity	\$ 50	100%	6-7
Total investment funds non-related party	<u>\$ 50</u>	<u>100%</u>	
Investment funds – related party, comprised of underlying investments in:			
Private equity Apollo Alternative Assets (AAA)	\$ 815	97%	3-6
Private equity	23	3%	8-9
Total investment funds – related party	<u>\$ 838</u>	<u>100%</u>	
Total investment funds	<u>\$ 888</u>		

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Summarized Financial Information of Investment Funds—The following is the aggregated summarized financial information of equity method investees and may be presented on a lag due to the availability of financial information from the investee:

(in millions)

	December 31,		
	2015	2014	2013
Consolidated Balance Sheets			
Assets	\$ 1,969	\$ 4,214	\$ 1,556
Liabilities	3	940	6
Equity	1,966	3,274	1,550

(in millions)

	December 31,		
	2015	2014	2013
Consolidated Statements of Income			
Net income	\$ 27	\$ 239	\$ 464

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

(in millions)

	December 31,		
	2015	2014	2013
Ownership Percentage			
100%	\$ 49	\$ 48	\$ 50
50% – 99%	315	471	815
3% – 49%	260	88	23
Equity method investment funds	\$ 624	\$ 607	\$ 888

6. 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.

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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Notes to Consolidated Financial Statements

The following represents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
AFS fixed maturity securities				
U.S. government and agencies	\$ 5	\$ —	\$ —	\$ 5
U.S. State, municipals, and political subdivisions	—	52	—	52
Corporate	—	917	36	953
CLO	—	566	45	611
ABS	—	142	108	250
CMBS	—	38	—	38
RMBS	—	1,034	—	1,034
Total AFS fixed maturity securities	5	2,749	189	2,943
Trading fixed maturity securities				
U.S. State, municipals, and political subdivisions	—	45	—	45
CLO	—	—	72	72
RMBS	—	97	24	121
Total trading fixed maturity securities	—	142	96	238
Short-term investments	—	37	—	37
Funds withheld at interest ¹	—	—	43,879	43,879
Derivative assets	—	1	—	1
Cash and cash equivalents	253	—	—	253
Restricted cash	9	—	—	9
Total assets measured at fair value	\$ 267	\$ 2,929	\$ 44,164	\$ 47,360
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	\$ —	\$ —	\$ 3,540	\$ 3,540
Total liabilities measured at fair value	\$ —	\$ —	\$ 3,540	\$ 3,540

¹Comprised of host contract and embedded derivative of \$469 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 7 - Funds Withheld at Interest for more detail.

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December 31, 2014

	Level 1	Level 2	Level 3	Total
Assets				
AFS fixed maturity securities				
U.S. government and agencies	\$ 7	\$ —	\$ —	\$ 7
U.S. State, municipals, and political subdivisions	—	64	—	64
Corporate	—	267	—	267
CLO	—	346	11	357
ABS	—	54	4	58
RMBS	—	327	—	327
Total AFS fixed maturity securities	7	1,058	15	1,080
Trading fixed maturity securities				
U.S. State, municipals, and political subdivisions	—	47	—	47
CLO	—	—	112	112
RMBS	—	22	—	22
Total trading fixed maturity securities	—	69	112	181
Short-term investments				
Funds withheld at interest ¹	—	—	45,329	45,329
Derivative assets	—	1	—	1
Cash and cash equivalents	313	—	—	313
Restricted cash	24	—	—	24
Total assets measured at fair value	\$ 344	\$ 1,145	\$ 45,456	\$ 46,945
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	\$ —	\$ —	\$ 3,532	\$ 3,532
Total liabilities measured at fair value	\$ —	\$ —	\$ 3,532	\$ 3,532

¹Comprised of host contract and embedded derivative of \$2,478 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 7 - Funds Withheld at Interest for more detail.

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December 31, 2013

	Level 1	Level 2	Level 3	Total
Assets				
AFS fixed maturity securities				
U.S. government and agencies	\$ —	\$ 6	\$ —	\$ 6
U.S. State, municipals, and political subdivisions	—	37	—	37
Corporate	—	132	—	132
CLO	—	22	—	22
ABS	—	14	5	19
RMBS	—	173	—	173
Total AFS fixed maturity securities	—	384	5	389
Funds withheld at interest ¹	—	—	44,627	44,627
Cash and cash equivalents	262	—	—	262
Restricted cash	8	—	—	8
Total assets measured at fair value	\$ 270	\$ 384	\$ 44,632	\$ 45,286
Liabilities				
Interest sensitive contract liabilities - embedded derivatives	\$ —	\$ —	\$ 2,587	\$ 2,587
Derivative liabilities	—	1	—	1
Total liabilities measured at fair value	\$ —	\$ 1	\$ 2,587	\$ 2,588

¹Comprised of host contract and embedded derivative of \$1,612 million. The carrying value is equal to the fair value for both the host and embedded derivative. See Note 7 - Funds Withheld at Interest for more detail.

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

AFS and trading securities

Fixed maturity - We obtain the fair value for most marketable bonds 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, broker-dealer quotes, credit quality, issuer spreads, bids, offers, and other reference data. This category typically includes U.S. and non-U.S. corporate bonds, U.S. agency and government guaranteed securities, ABS, CMBS, and RMBS.

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.

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 analytics or brokers and are classified as Level 2 or 3.

Funds withheld (embedded derivative) - The fair value of funds withheld at interest is classified as Level 3 as a more than insignificant amount of the underlying assets are Level 3. See Note 7 - Funds Withheld at Interest for more information.

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 - 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.

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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 actuarial assumptions for policyholder behavior.

Fair Value Option-The following represents the gains or losses recorded for instruments we have elected the fair value option:

(In millions)	Twelve months ended December 31,		
	2015	2014	2013
Losses recorded for instruments we have elected the fair value option			
Trading securities	\$ (88)	\$ (1)	\$ —
Total (loss) on fair value option	\$ (88)	\$ (1)	\$ —

Transfers Between Levels-Transfers into Level 3 represent securities that were valued using pricing sources which, due to changing market conditions, were less observable than in prior periods as indicated by the lack of commercially available vendor prices with observable inputs. Additionally, changes in pricing sources also led to securities transferring into Level 3.

Transfers out of Level 3 represent securities that were valued using pricing sources which, due to changing market conditions, were more observable than in prior periods as indicated by commercially available vendor prices with observable inputs. Additionally, changes in pricing sources also led to securities transferring into Level 2.

For the years ended December 31, 2015, 2014, and 2013, there were no transfers between Level 1 and Level 2.

Level 3 Financial Instruments-The following is a reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis:

(In millions)	Twelve months ended December 31, 2015									
	Beginning Balance	Total realized and unrealized gains (losses)		Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	Total gains (losses) included in earnings ¹
Assets										
AFS Securities										
Corporate	\$ —	\$ —	\$ —	\$ 37	\$ (1)	\$ —	\$ —	\$ —	\$ 36	\$ —
CLO	11	—	(1)	—	—	45	(10)	—	45	—
ABS	4	—	—	54	(6)	56	—	—	108	—
Trading securities										
CLO	35	2	1	4	(42)	—	—	—	—	—
RMBS	—	(1)	—	25	—	—	—	—	24	—
Investments in related parties										
Trading securities, CLO	77	(4)	—	51	(52)	—	—	—	72	(9)
Funds withheld at interest	45,329	(1,620)	—	—	—	—	—	170	43,879	—
Total Level 3 assets	\$ 45,456	\$ (1,623)	\$ —	\$ 171	\$ (101)	\$ 101	\$ (10)	\$ 170	\$ 44,164	\$ (9)
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	\$ (3,532)	\$ 226	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (234)	\$ (3,540)	\$ —
Total Level 3 liabilities	\$ (3,532)	\$ 226	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (234)	\$ (3,540)	\$ —

¹ Related to instruments held at end of year.

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Twelve months ended December 31, 2014

(In millions)	Total realized and unrealized gains (losses)									Total gains (losses) included in earnings ¹
	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	
Assets										
AFS securities										
CLO	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 11	\$ —	\$ —	\$ 11	\$ —
ABS	5	—	—	3	(4)	—	—	—	4	—
Trading securities										
CLO	—	—	—	35	—	—	—	—	35	—
Investments in related parties										
Trading securities, CLO	—	(2)	—	79	—	—	—	—	77	(2)
Funds withheld at interest	44,627	1,763	—	—	—	—	—	(1,061)	45,329	—
Total Level 3 assets	\$ 44,632	\$ 1,761	\$ —	\$ 117	\$ (4)	\$ 11	\$ —	\$ (1,061)	\$ 45,456	\$ (2)
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	\$ (2,587)	\$ (699)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (246)	\$ (3,532)	\$ —
Total Level 3 liabilities	\$ (2,587)	\$ (699)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (246)	\$ (3,532)	\$ —

¹ Related to instruments held at end of year.

Twelve months ended December 31, 2013

(In millions)	Total realized and unrealized gains (losses)									Total gains (losses) included in earnings ¹
	Beginning Balance	Included in income	Included in OCI	Purchases	Sales, maturities, redemptions	Transfers In	Transfers (Out)	Other	Ending Balance	
Assets										
AFS securities										
ABS	\$ 3	\$ —	\$ —	\$ 5	\$ (3)	\$ —	\$ —	\$ —	\$ 5	\$ —
Funds withheld at interest	11,209	471	—	—	—	—	—	32,947	44,627	—
Total Level 3 assets	\$ 11,212	\$ 471	\$ —	\$ 5	\$ (3)	\$ —	\$ —	\$ 32,947	\$ 44,632	\$ —
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	\$ (507)	\$ (340)	\$ —	\$ (1,660)	\$ —	\$ —	\$ —	\$ (80)	\$ (2,587)	\$ —
Total Level 3 liabilities	\$ (507)	\$ (340)	\$ —	\$ (1,660)	\$ —	\$ —	\$ —	\$ (80)	\$ (2,587)	\$ —

¹ Related to instruments held at end of year.

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Significant Unobservable Inputs-Significant unobservable inputs occur when we could not obtain or corroborate the quantitative detail of the inputs. This applies to AFS fixed maturity securities. Additional significant unobservable inputs are described below.

Fixed maturity securities – For certain fixed maturity securities that support the funds withheld at interest, internal models are used to calculate the fair value. A discounted cash flow approach is utilized. The discount rate is the significant unobservable input due to the determined credit spread being internally developed, illiquid, or other adjustments made to the base rate. The base rate represents a market comparable rate for securities with similar characteristics. Discounts ranged from 4% to 10%. This excludes assets for which significant unobservable inputs are not developed internally, primarily consisting of broker quotes.

Investment funds – The underlying investment funds that support the funds withheld at interest may have significant unobservable inputs for comparable multiples and weighted average cost of capital rates applied in the valuation models. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, the comparable multiples are multiplied by the underlying investment’s earnings before interest, tax, depreciation, and amortization to establish the total enterprise value of the underlying investments. We use a comparable multiple consistent with the implied trading multiple of public industry peers.

Similarly, for certain underlying investments that support the funds withheld at interest we may use a discounted cash flow model. When we use a discounted cash flow model, the significant input is the discount rate applied to present value the projected cash flows. An increase in the discount rate can significantly lower the fair value; a decrease in the discount rate can significantly increase the fair value. We determine the discount rate considering the weighted average cost of capital calculation of companies in similar industries with comparable debt to equity ratios.

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. Non-performance risk - For funds withheld and modco contracts we reinsure with affiliated parties, we use the credit spread from the U.S. 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. For non-affiliated contracts reinsured through funds withheld and modco reinsurance, the cedant company holds collateral against its exposure; therefore, immaterial non-performance risk is ascribed to these contracts.
2. Option budget - The Company assumes 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. These are based on the Company's initial pricing assumptions updated for actual experience. Actual Company experience may be limited for recently issued products.

December 31, 2015					
<i>(In millions)</i>	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	\$ 3,540	Option budget method	Non-performance risk	0.00% - 1.81%	Decrease
			Option budget	0.8% - 3.8%	Increase
			Surrender rate	0% - 10.7%	Decrease
December 31, 2014					
<i>(In millions)</i>	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	\$ 3,532	Option budget method	Non-performance risk	0.00% - 2.09%	Decrease
			Option budget	0.91% - 3.93%	Increase
			Surrender rate	0% - 10.2%	Decrease

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December 31, 2013

<i>(In millions)</i>	Fair value	Valuation technique	Unobservable inputs	Input/range of inputs	Impact of an increase in the input on fair value
Fixed indexed annuities embedded derivatives	\$ 2,587	Option budget method	Non-performance risk	0.00% - 2.12%	Decrease
			Option budget	1.56% - 2.5%	Increase
			Surrender rate	0% - 22%	Decrease

Fair Value of Financial Instruments Not Carried at Fair Value-The following represents the Company's financial instruments not carried at fair value on the consolidated balance sheets:

<i>(In millions)</i>	Fair Value Level	December 31, 2015		December 31, 2014		December 31, 2013	
		Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets							
Investment funds	3	\$ 220	\$ 220	\$ 106	\$ 106	\$ 50	\$ 50
Investment funds in related parties	3	404	404	501	501	838	838
Total assets not carried at fair value		<u>\$ 624</u>	<u>\$ 624</u>	<u>\$ 607</u>	<u>\$ 607</u>	<u>\$ 888</u>	<u>\$ 888</u>
Liabilities							
Interest sensitive contract liabilities	3	\$ 39,435	\$ 39,281	\$ 39,285	\$ 39,768	\$ 40,367	\$ 40,084
Total liabilities not carried at fair value		<u>\$ 39,435</u>	<u>\$ 39,281</u>	<u>\$ 39,285</u>	<u>\$ 39,768</u>	<u>\$ 40,367</u>	<u>\$ 40,084</u>

We estimate the fair value for financial instruments not carried at fair value using the same methods and assumptions as those we do carry at fair value. The financial instruments presented above are reported at carrying value on the consolidated balance sheets; however, in the case of investment funds, investment funds in related parties and interest sensitive contract liabilities, the carrying amount approximates or equals fair value.

Investment in related parties - Other investments - The fair value of investment in related party - other investments is determined using a discounted cash flow model using discount rates for similar investments.

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.

7. Funds Withheld at Interest

Funds withheld at interest represents the receivable for assets supporting funds withheld and modified coinsurance reinsurance. These assets are held in trusts or custodial accounts that are legally segregated from our third party ceding companies' general accounts and are managed by Athene Asset Management, a related party to ALRe. In the event of a ceding company's insolvency, we would need to assert a claim on the assets supporting our reserve liabilities. However, we have the ability to offset amounts we owe to the ceding company, which reduces our risk of loss. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance and has all economic rights and obligations on the funds withheld assets in a fashion similar to invested assets held directly by the Company.

Information on the underlying assets within the funds withheld at interest is presented below.

<i>(In millions)</i>	Assets Supporting Funds withheld at Interest	
	December 31, 2015	December 31, 2014
Fixed maturity securities		
U.S. government and agencies	\$ 8	\$ 15
U.S. state, municipal, and political subdivisions	894	1,219
Foreign governments	101	—
Corporate	17,178	19,848
CLOs	4,803	4,265
ABS	2,389	2,042
CMBS	1,674	2,867
RMBS	6,923	5,833
Equity securities	179	192
Mortgage loans	5,007	5,003
Investment funds	2,551	2,503
Policy loans	39	36
Derivatives	688	1,284
Short-term investments	114	—
Other investments	255	254
Cash and cash equivalents	1,068	525
Other assets and liabilities ¹	8	(557)
Funds Withheld at Interest	\$ 43,879	\$ 45,329

¹ Other assets and liabilities includes the net of accrued investment income, open payable and receivable for security trades, excise tax payable, deposits and premiums receivable, claims and surrenders payable, and other assets and liabilities associated with the funds withheld and modco reinsurance treaties.

Approximately 94.2%, and 93.5% of the fixed maturity securities within the funds withheld at interest are investment grade by NAIC designation as of December 31, 2015 and 2014, respectively.

8. Reinsurance

Third-party reinsurance

In July 2009, the Company reinsured a block and flow of fixed annuities of American Equity Investment Life Insurance Company ("AEL") on a funds withheld basis. Effective January 1, 2014, the Company reinsures flow business from AEL on a modified coinsurance basis.

In October 2009, the Company entered into a funds withheld arrangement for a block of deferred annuities with Western United Life Assurance Company.

In the fourth quarter of 2010, the Company entered into a coinsurance reinsurance arrangements for a block of deferred annuities with certain subsidiaries of Universal American Corporation.

In December 2010, the Company entered into a funds withheld reinsurance arrangement for a block of deferred annuities with Jefferson National Life Insurance Company.

In October 2011, the Company entered into a funds withheld reinsurance arrangement for a flow of deferred annuities with Sentinel Security Life Insurance Company.

In January 2014, the Company reinsured a flow of multi-year guaranteed annuities of Midland National Life Insurance Company (Midland), on a modified coinsurance basis.

Affiliated reinsurance

In March 2010, concurrent with AHL's incorporation of Athene Life Insurance Company (ALIC), ALIC ceded all of its funding agreement business to ALRe on a modified coinsurance basis.

In April 2011, concurrent with AHL's acquisition of Liberty Life Insurance Company (LLIC), LLIC ceded a portion of its annuity business to ALRe. LLIC was later renamed Athene Annuity & Life Assurance Company (AADE).

In July 2011, concurrent with AHL's acquisition of Investors Insurance Corp. ("IIC"), IIC ceded a portion of its annuity business to ALRe on a modified coinsurance basis. Effective September 2011, AHL restructured the acquired business such that IIC ceded a portion of the annuity business to Athene Annuity on a coinsurance basis and Athene Annuity ceded a portion of the business to ALRe on a modified coinsurance basis.

Effective July 2012, concurrent with AHL's purchase of Presidential Life Insurance Company (PLIC), PLIC ceded a portion of its annuity business to Athene Annuity and Athene Annuity ceded a portion of such annuity business to ALRe. PLIC was later named Athene Annuity & Life Assurance Company of New York (AANY). Subsequently the reinsurance arrangement was modified and AANY ceded this business to AADE, which is then retroceded to ALRe.

Effective November 2012, AADE entered into a coinsurance agreement with Liberty Bankers Life Insurance Company for a block of deferred annuities, a portion of which was ceded to ALRe on a modified coinsurance basis.

In December 2011, Athene Annuity & Life Assurance Company (AADE) entered into two coinsurance agreements with Transamerica Life Insurance Company for a block of fixed deferred annuities and funding agreement business. AADE ceded a portion of the fixed annuities and all of its funding agreement business to ALRe on a modified coinsurance basis.

Effective October 2013, concurrent with AHL's acquisition of annuity and life operations of Aviva plc's US (later renamed Athene Annuity and Life Company (IA) or AAIA), AAIA ceded a portion of the annuity business to ALRe on a modified coinsurance basis.

The Company continues to reinsure new business related to annuities and funding agreements from AAIA and AADE.

9. Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles

Included within *Deferred Acquisition Costs and Deferred Sales Inducements* on the consolidated balance sheets are day one losses. The day one losses are summarized separately within the reinsurance intangibles section below.

The following summarizes a rollforward of deferred acquisition costs ("DAC") and deferred sales inducements ("DSI"):

<i>(In millions)</i>	DAC	DSI	Total
Balance at December 31, 2012	\$ 127	\$ 67	\$ 194
Additions	105	28	133
Amortization	(31)	(13)	(44)
Balance at December 31, 2013	201	82	283
Additions	232	91	323
Amortization	(46)	(15)	(61)
Balance at December 31, 2014	387	158	545
Additions	264	111	375
Amortization	15	8	23
Balance at December 31, 2015	\$ 666	\$ 277	\$ 943

We did not make any adjustments to DAC recoverability during the years ended December 31, 2015, 2014, or 2013.

Reinsurance Intangibles

For each block reinsurance transaction, the Company defers the net of the fair value of assets acquired and the sum of reserves acquired, other liabilities acquired, and ceding commission payable or receivable as deferred acquisition cost ("DAC") or unearned revenue reserve ("URR") and referred as day one loss and day one gains, respectively.

The following summarizes the day one losses and day one gains included within *Deferred acquisition costs and deferred sales inducements and Interest sensitive contract liabilities* respectively on the consolidated balance sheets.

<i>(In millions)</i>	Day one gain	Day one loss	Total
Balance at December 31, 2012	\$ 243	\$ (52)	\$ 191
Additions	796	(1,415)	(619)
Amortization	(76)	42	(34)
Balance at December 31, 2013	963	(1,425)	(462)
Additions	—	—	—
Amortization	(102)	423	321
Balance at December 31, 2014	861	(1,002)	(141)
Additions	—	—	—
Amortization	(96)	(83)	(179)
Balance at December 31, 2015	\$ 765	\$ (1,085)	\$ (320)

10. Reserves

Included in *Interest sensitive contract liabilities* are day one gains as of December 31, 2015, December 31, 2014 and December 31, 2013. See *Note 9 - Deferred Acquisition Costs, Deferred Sales Inducements and Reinsurance Intangibles* for a summary of day one gains and losses.

The following table summarizes the interest sensitive contract liability reserves by product:

<i>(in millions)</i>	December 31,		
	2015	2014	2013
Deferred annuities	\$ 8,857	\$ 8,989	\$ 9,599
Fixed indexed annuities	30,891	30,685	29,574
Funding agreements	1,539	1,318	1,821
Single premium immediate annuities and supplemental contracts - non-life contingent	923	964	997
Total	\$ 42,210	\$ 41,956	\$ 41,991

The following table summarizes the future policy benefit reserves by product:

<i>(in millions)</i>	December 31,		
	2015	2014	2013
Deferred annuities	\$ 23	\$ 27	\$ 1
Fixed indexed annuities	603	624	126
Single premium immediate annuities and supplemental contracts - life contingent	3,056	3,162	3,263
Total	\$ 3,682	\$ 3,813	\$ 3,390

11. Debt

Refer to *Note 5 - Variable Interest Entities* for disclosures regarding borrowings of the Company's consolidated VIEs.

Revolving Credit Facility—On September 20, 2013, AHL and ALRe entered into a three-year revolving credit agreement (Credit Facility) with Citibank, N.A., as administrative agent. Beginning in 2014, Athene USA was added as a borrower. The amount available under the Credit Facility was \$500 million. In connection with the Credit Facility, AHL guaranteed all of the obligations of ALRe and Athene USA, ALRe guaranteed certain of the obligations of AHL and Athene USA, and Athene USA guaranteed the obligations of AHL and ALRe. The agreement contained various standard covenants with which we had to comply. As of December 31, 2015, we had no amounts outstanding under the Credit Facility and were in compliance with all covenants.

On January 22, 2016, AHL, Athene USA and ALRe terminated the Credit Facility and entered into a five-year revolving credit agreement with Citibank, N.A., as administrative agent. The amount available under the new Credit Facility is \$1 billion, with AHL, ALRe, and Athene USA as joint and several borrowers and guarantors. Interest will accrue on outstanding borrowings at LIBOR plus a margin or a base rate plus a margin, based on the credit rating of AHL. The new Credit Facility has a commitment fee on the unused commitment, based on the credit rating of AHL.

12. Common Shares

The Company has one class of common shares, which represents 100% of the total voting power of the Company, and is beneficially owned by AHL. The Company is authorized to and has issued 1,500,000 shares at a par value of \$1.00 each to AHL.

13. Stock-Based Compensation

AHL has adopted share incentive plans to issue non-qualified share options, rights to purchase shares, restricted shares, restricted stock units, and other awards which may be settled in, or based upon, AHL's common shares. AHL currently issues restricted Class M common shares and restricted share units to the Company's employees with certain service and performance conditions. As a result, a portion of stock-based compensation expense incurred during the year is allocated to the Company by AHL.

During 2014, AHL adopted amendments to the terms of existing stock-based compensation agreements to conform certain vesting and repurchase terms. Prior to 2014, AHL had the right to repurchase vested shares at the lower of purchase cost or fair value if an employee resigned without good reason, either before an IPO or under other conditions as defined in the original plans. As a result of this repurchase option, the expense associated with vested incentive shares would not be recognized on the income statement until the date on which such shares would have been converted to Class A shares. Therefore, no expense was recorded prior to 2014.

Total stock-based compensation expense incurred by the Company was \$3 million and \$14 million for the years ended December 31, 2015 and December 31, 2014 respectively. As described above, there was no stock-based compensation expense recognized in connection with the stock-based compensation plans in 2013. These amounts are reflected within the policy and other operating expenses on the consolidated statements of income and (loss).

14. Accumulated Other Comprehensive Income

The following is a detail of AOCI:

<i>(In millions)</i>	December 31,		
	2015	2014	2013
AFS securities	\$ (77)	\$ 17	\$ 23
Accumulated other comprehensive income (loss)	\$ (77)	\$ 17	\$ 23

Changes in AOCI are presented below.

<i>(In millions)</i>	Years ended December 31,		
	2015	2014	2013
Unrealized gains (losses) on AFS securities			
Unrealized holding gain (losses) arising during the year	\$ (84)	\$ (12)	\$ (16)
Less: Reclassification adjustment for gains (losses) realized in net income ¹	(10)	6	3
Change in AOCI	\$ (94)	\$ (6)	\$ (13)

¹ Recognized in net investment income on the consolidated statements of income and (loss).

15. Income Taxes

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 Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

16. Statutory Requirements

ALRe is licensed by the Bermuda Monetary Authority (BMA) as a Class E long term insurer and is subject to the Insurance Act 1978, as amended and regulations promulgated thereunder (Bermuda Insurance Act). The statutory financial statements of ALRe are prepared in accordance with the Bermuda Insurance Act, as well as directions issued by the BMA. Under the Bermuda Insurance Act, ALRe is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin (MSM) and the Enhanced Capital Requirement (ECR). The MSM is equal to the greater of \$8 million or 2% of the first \$500 million of assets plus 1.5% of assets above \$500 million and the ECR is calculated based on either an internally developed risk-based capital model or a standard risk-based capital model developed by the BMA. At December 31, 2015, the MSM and ECR were \$723 million and \$1,751 million, respectively.

Under the Bermuda Insurance Act, ALRe is 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 ALRe’s board of directors sign and submit to the BMA, an affidavit attesting that a dividend in excess of this amount would not cause ALRe to fail to meet its relevant margins. In certain instances ALRe 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 in accordance with the Bermuda Insurance Act, and further subject to ALRe meeting its MSM and ECR, ALRe 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. As of December 31, 2015, 2014, and 2013 the maximum distribution ALRe was permitted to pay AHL without the need for prior approval was \$3,529 million, \$3,068 million and \$2,776 million respectively.

The BMA has granted ALRe permission to use amortized cost instead of fair value as the basis for non-equity securities, including investments underlying funds withheld and modco reinsurance agreements. Excluded from ALRe’s statutory returns were \$162 million of unrealized losses, \$1,255 million of unrealized gains and \$163 million as of December 31, 2015, 2014, and 2013 respectively.

Bermuda Regulatory Solvency II Equivalence - As of January 1, 2016, the BMA has embedded an Economic Balance Sheet (“EBS”) framework as part of the Capital and Solvency Return. The framework, of which the EBS is a part of, was granted equivalency to Solvency II in March 2016. The first EBS filing is due in 2017, for the year ended December 31, 2016.

Statutory capital and surplus and net income (loss) - The following table presents the statutory capital and surplus and the statutory net income (loss), based on the most recently filed statutory financial statements filed with insurance regulators:

<i>(In millions)</i>	Statutory Capital & Surplus			Statutory Net Income (Loss)		
	December 31,			Years ended December 31,		
	2015	2014	2013	2015	2014	2013
ALRe	\$ 5,650	\$ 4,048	\$ 3,767	\$ 461	\$ 632	\$ 2,704

17. Related Party Transactions

The following summarizes related party balances included on the consolidated balance sheets and the consolidated statements of income and (loss). The table below includes related party balances not previously disclosed.

<i>(in millions)</i>	December 31,		
	2015	2014	2013
Assets			
Funds withheld at interest ¹	\$ 40,396	\$ 42,556	\$ 42,127
Deferred acquisition costs and deferred sales inducements ¹	1,841	1,388	1,562
Other assets ²	3	—	—
Liabilities			
Interest sensitive contract liabilities ¹	\$ 39,178	\$ 39,891	\$ 40,235
Future policy benefits ¹	3,623	3,736	3,343
Other policy claims and benefits ¹	30	32	40
Other liabilities ³	34	40	26

<i>(in millions)</i>	Years ended December 31,		
	2015	2014	2013
Revenue			
Premiums ¹	\$ 37	\$ 15	\$ 2,802
Product charges ¹	186	163	52
Net investment income ⁴	264	3,535	1,738
Benefits and Expenses			
Interest sensitive contract benefits ¹	\$ 436	\$ 1,312	\$ 717
Amortization of deferred sales inducements ¹	(9)	18	3
Future policy and other policy benefits ¹	107	644	2,940
Amortization of deferred acquisition costs ¹	(106)	464	51
Policy and other operating expenses ⁵	271	259	107

¹ We have intercompany modco reinsurance agreements with our affiliates. See Note 8 - Reinsurance for more information. Accordingly, these balances result from our intercompany reinsurance transactions with our affiliates.

² Included in Other assets are amounts due from affiliate(s).

³ Included in Other liabilities are amounts due to affiliate(s).

⁴ Included in Net investment income is the net income earned from the assets supporting the funds withheld at interest of our intercompany modco reinsurance agreements of \$345 million, \$3,586 million and \$1,388 million for the years ended December 31, 2015, 2014 and 2013 respectively. Also included in Net investment income is the income earned on the assets directly managed by Apollo, net of Apollo's management fee and sub-advise fee, of \$(81) million, \$(51) million and \$350 million for the years ended December 31, 2015, 2014 and 2013 respectively.

⁵ Included in Policy and other operating expenses are policy benefit expenses to our affiliates in relation to the intercompany modco reinsurance agreements for \$273 million, \$259 million and \$97 million for the years ended December 31, 2015, 2014 and 2013, respectively. Also included in Policy and other operating expenses are cost sharing expenses (recovery) with Apollo for \$(1) million, \$0 million and \$10 million for the years ended December 31, 2015, 2014 and 2013 respectively.

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Significant cash flows from related party modco reinsurance are included in cash from operations and are disclosed below, along with non-cash profit settlements in the form of security transfers.

	Years ended December 31,		
	2015	2014	2013
Cash profit settlements on modified coinsurance agreements - related party	102	586	338
Non-cash profit settlements on modified coinsurance agreements in the form of securities - related party	653	249	434
Total	755	835	772

A summary of significant related party investing cash flows is as follows:

	Years ended December 31,		
	2015	2014	2013
Cash flow from investing activities			
Sales, maturities, and repayments of:			
Trading securities	53	—	—
Investment funds	154	291	261
Purchases of:			
Available for sale securities, fixed maturity securities	(47)	(61)	—
Trading securities	(52)	(79)	—
Investment funds	(121)	(5)	—

Investment related expenses - Substantially all of our investments are managed by AAM, a subsidiary of AGM. AAM provides direct investment management, asset allocation, mergers and acquisition asset diligence, and certain operational support services for our investment portfolio, including investment compliance, tax, legal, and risk management support. As of December 31, 2015, AAM directly manages \$3,507 million of our investment portfolio assets, of which 76% are rated one or two by the NAIC. For certain assets which require specialized sourcing and underwriting capabilities, AAM has chosen to mandate sub-advisors rather than building out in-house capabilities. For the services related to these investments, AAM earns a fee of 0.40% per annum on all assets managed in accounts owned by or related to the Company, including sub-advised assets but excluding certain other limited exceptions. Additionally, AAM recharges the sub-advisory fees to the Company.

Assets supporting funds withheld at interest: The majority of the assets supporting the funds withheld at interest are managed by AAM. See *Note 7 - Funds Withheld at Interest* for more information.

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AAM has entered into a Master Sub-Advisory Agreement (MSAA) 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 of 0.40% per annum paid to AAM as described above. The MSAA covers services rendered by Apollo-affiliated sub-advisors relating to investments in certain asset classes, primarily CLO, CMBS, and ABS.

The following represents the assets sub-advised by Apollo affiliates:

<i>(In millions, except for percentages)</i>	December 31,		
	2015	2014	2013
Fixed maturity securities			
U.S. state, municipals, and political subdivisions	\$ —	\$ 6	\$ —
Corporate	57	29	—
CLO	475	273	22
ABS	48	28	10
CMBS	38	—	—
Trading securities	—	35	—
Total assets	<u>\$ 618</u>	<u>\$ 371</u>	<u>\$ 32</u>
Percent of total AAM managed Company assets	<u>15%</u>	<u>17%</u>	<u>2%</u>

The management and sub-advisory fees are included within the net investment income line on the consolidated statements of income and (loss). The management fees payable as of December 31, 2015, 2014, and 2013 were \$14 million, \$10 million and \$12 million respectively. The sub-advisory fees payable as of December 31, 2015, 2014, and 2013 were \$19 million, \$12 million, and \$0 million respectively.

Because the Apollo Group has a significant voting interest in us, in order to protect against potential conflicts of interest resulting from transactions that we and AHL have entered, and will continue to enter into with the Apollo Group, the AHL board of directors has formed a conflicts committee, consisting of five of its directors who are not officers or employees of any member of the Apollo Group, other than AHL and ALRe. The conflicts committee reviews and a majority of the committee members must approve certain material transactions between AHL and/or its subsidiaries and the Apollo Group, subject to certain exceptions.

Service fees - AHL has entered into shared services agreements with AAM. Under these agreements, we and AAM make available to each other certain personnel and services. Expenses for the services are based on the amount of time spent on the affairs of the other party, in addition to actual expenses incurred and certain cost reimbursements. For the years ended December 31, 2015, 2014, and 2013, net expenses allocated from (to) AAM under these agreements were \$(1) million, \$0 million, and \$10 million, respectively. The Company had no net expenses payable to AAM as of December 31, 2015 and 2014 and \$7 million of net expense payable to AAM as of December 31, 2013.

18. Commitments and Contingencies

Contingent Commitments-The Company had commitments to make additional capital contributions to certain investment funds of \$57 million, \$48 million and \$41 million as of December 31, 2015, 2014 and 2013 respectively. The Company expects most of its current commitments will be invested over the next five years; however, these commitments could become due any time upon counterparty request.

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

<i>(In millions)</i>	December 31,		
	2015	2014	2013
Fixed maturity securities - AFS	<u>\$ 124</u>	<u>\$ 143</u>	<u>\$ 144</u>
Restricted cash	9	24	8
Total restricted assets	<u>\$ 133</u>	<u>\$ 167</u>	<u>\$ 152</u>

ALRe has established reinsurance trusts of assets equal to statutory reserves, plus an additional amount of assets, as a result of coinsurance agreements with UA described in *Note 8 - Reinsurance*.

Litigation, Claims, and Assessments - On June 12, 2015, a putative class action complaint was filed in the United States District Court, Northern District of California against ALRe, AHL and certain other affiliates. The complaint, which is similar to complaints previously filed against other large insurance companies, primarily alleges that captive reinsurance and other transactions had the effect of misrepresenting the financial condition of AAIA. The complaint purports to be brought on behalf of a class of purchasers of annuity products issued by AAIA between 2007 and the present. There are also various allegations related to the purchase of Aviva USA Corporation concerning entry into a modified coinsurance transaction with ALRe in October 2013. The suit asserts claims of violation of the Racketeer Influenced and Corrupt Organizations Act and seeks compensatory damages, trebled, in an amount to be determined, costs, and attorneys' fees. On March 25, 2016, our motion to transfer to the United States District Court, Southern District of Iowa was granted. We believe that we have meritorious defenses to the claims set forth in the complaint, intend to vigorously defend the litigation, and are seeking dismissal of the complaint through a motion to dismiss that is currently being briefed. In light of the inherent uncertainties involved in this matter, reasonable possible losses, if any, cannot be estimated at this time.

19. Subsequent Events

On May 18, 2016, A. M. Best revised the outlook of the Company from "Stable" to "Positive".

The Company has evaluated the impact of subsequent events through October 6, 2016, the date at which the financial statements were available to be issued.