Athene Life Re Ltd. Financial Condition Report

For the twelve (12) month period ending 31st December 2017

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This Report contains references to information contained in the Athene Holding Ltd. Form 10-K filed with the Securities and Exchange Commission in accordance with the Securities and Exchange Act of 1935, as amended, and references to the Athene Life Re Ltd. Financial Statements and other information as posted on its website. These references are for the readers' convenience only. In the event that any information contained herein conflicts with the Form 10-K or any other publically disclosed documents, such conflict is unintended and the publically disclosed documents shall control.

1. EXECUTIVE SUMMARY

This financial condition report ("**FCR**") for Athene Life Re Ltd. (the "**Company**" or "**ALRe**") is produced in accordance with the Insurance (Public Disclosure) Rules 2015 (the "**Rules**") under the Bermuda Insurance Act 1978 (the "**Act**"). This outlines the financial condition of ALRe as at 31 December 2017. The FCR contains qualitative and quantitative information of ALRe's business and performance, governance structure, risk profile, solvency valuation and capital management.

ALRe is a leading retirement services company that reinsures retirement savings products originated 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 its affiliates.

2. DECLARATION

Declaration on the Financial Condition Report

We, the undersigned, declare that to the best of our knowledge and belief, the financial condition report fairly represents the financial condition of the Company in all material respects as at December 31, 2017.

Frank L. Gillis
Chief Executive Officer
Athene Life Re Ltd.

Barry McDonald
VP, Chief Risk Officer
Athene Life Re Ltd.

3. COMPANY BACKGROUND INFORMATION

Athene Life Re Ltd. (the "**Company**", "**ALRe**" or "**We**") was registered as a Long-Term Insurer on June 26, 2009 under the Insurance Act, 1978 (the "**Act**") 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, 2017, Fitch, S&P and A.M. Best issued credit ratings, financial strength ratings and/or outlook statements regarding the Company, as listed below. Credit ratings generally represent the opinions of rating agencies regarding an entity's ability to repay its long term 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, 2017		
	A.M. Best	**S&P**	**Fitch**
Financial Strength Rating	A	A-	A-
Outlook	Stable	Positive	Stable

The Company produces its financial statements in accordance with U.S. Generally Accepted Accounting Principles ("**GAAP**").

4. BUSINESS AND PERFORMANCE

a. Name of Insurer

Athene Life Re Ltd.

b. Supervisor

The Insurance Supervisor for the Company is:

The Bermuda Monetary Authority ("**BMA**")
BMA House
43 Victoria Street, Hamilton
Bermuda
(441) 295-2758

c. Approved Auditor

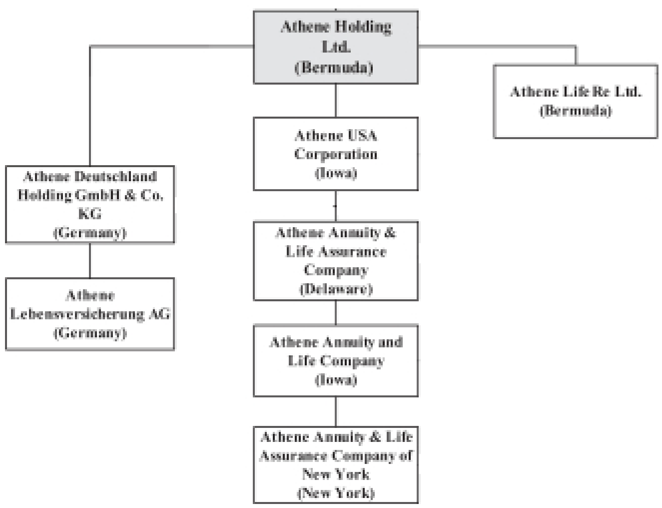
Statutory Reporting and GAAP Reporting

PricewaterhouseCoopers Ltd.
P.O. Box HM1171
Hamilton HM EX, Bermuda

d. Ownership Details

The Company is a wholly owned subsidiary of Athene Holding Ltd. (“**AHL**”), whose Class A common shares are listed on the New York Stock Exchange (symbol: ATH).

e. Group Structure[1]



f. Insurance Business Written by Business Segment and Geographical Region

i. Gross Premium Written by Business Segment for the Reporting Period

We principally reinsure two product lines: annuities and funding agreements. Our primary product line is annuities and includes fixed, payout and PRT annuities.

For additional information on gross premium for the reporting period, please refer to the Consolidated Statements of Income (Loss) in the Company’s financial statements for the reporting period and Note 1 at page 9 – “Business, Basis of Presentation and Significant Accounting Policies” in the Notes to the Company’s financial statements for the reporting period, available on our website at:
http://www.athenelifere.bm/about/financials/.

[1] *As of 31 December 2017. See Subsequent Events on page 21 for more information. Please also note that Athene Deutschland Holding GmbH & Co. KG and Athene Lebenversicherung AG were deconsolidated as of January 1, 2018.*

ii. Gross Premium Written by Geographical Region for the Reporting Period

ALRe reinsures retirement savings products that originate in all 50 U.S. states and the District of Columbia.

For additional information on gross premium written by geographical region for the reporting period, please refer to the Notes to the Company's financial statements for the reporting period, available on our website at: http://www.athenelifere.bm/about/financials/. Please refer to Note 1 at page 9 – "Business, Basis of Presentation and Significant Accounting Policies" and Note 7 at page 38 – "Reinsurance" for more information.

g. Performance of Investments and Material Income and Expenses Incurred for the Reporting Period

i. Performance

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

	December 31,		
(In millions)	2017	2016	2015
Fixed maturity securities	$ 225	$ 192	$ 107
Trading securities	29	27	7
Investment funds	55	(3)	21
Cash and cash equivalents	1	—	—
Funds withheld at interest[1]			
Investment income	2,595	2,201	2,043
Investment related gains (losses)	2,915	1,184	(1,620)
Investment expenses	(118)	(112)	(98)
Gross realized gain on AFS securities	12	13	7
Gross realized loss on AFS securities	(17)	(11)	(17)
Derivative gains (losses)	(1)	—	2
Other losses	(4)	1	—
Net investment income	$ 5,692	$ 3,492	$ 452

[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 $1,253 million, $882 million and $(1,415) million for years ended December 31, 2017, 2016 and 2015, respectively.*

Included in net investment income on trading securities are gains of $13 million, losses of $5 million, and losses of $1 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2017, 2016, and 2015, respectively. Also included in net investment income on trading securities are related party gains of $1 million, losses of $0 million, and losses of $8 million resulting from the change in unrealized gains or losses for the underlying bonds we still held as of December 31, 2017, 2016, and 2015, respectively.

ii. Material Income & Expenses for the Reporting Period

(In millions)	Years ended December 31, 2017	2016	2015
Revenue			
Premiums	$ 1,768	$ 15	$ 37
Product charges	270	220	191
Net investment income[1]	5,692	3,492	452
Net investment income from consolidated variable interest entities	2	—	—
Other revenues	—	2	—
Total revenues	7,732	3,729	680
Benefits and Expenses			
Interest sensitive contract benefits	1,971	948	519
Future policy and other policy benefits	2,945	670	116
Amortization of deferred sales inducements	86	53	(8)
Amortization of deferred acquisition costs	263	264	(98)
Policy and other operating expenses	357	329	303
Total benefits and expenses	5,622	2,264	832
Net Income (Loss)	$ 2,110	$ 1,465	$ (152)

[1] *Includes the change in unrealized gain (loss) mark-to-market impacts of $1,253 million, $882 million and $(1,415) million for the years ended December 31, 2017, 2016 and 2015, respectively. See Note 2 - Investments for more information.*

For additional information about material income and expenses incurred for the reporting period please refer to Note 1 at page 9 of the Company's Consolidated Statements of Income (Loss) in the Company's financial statements for the reporting period, available on our website at: http://www.athenelifere.bm/about/financials/.

h. Any other Material Information

None.

5. GOVERNANCE STRUCTURE

The Company has established a corporate governance framework designed to support its core values of transparency, accountability and integrity.

a. Board and Senior Executive

i. Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities

The business and affairs of the Company are overseen by the Company's Board of Directors (the "**Board**"). The Board maintains responsibility for the management, strategic direction and long-term performance of the Company.

The Board is responsible for executing strategy and policy in accordance both with its strategic plan and the longer term group strategy established at the AHL level. Together, the Board and the AHL Board of Directors (the "**AHL Board**") guide and monitor the business affairs of the Company.

The Board currently consists of 6 directors, of which 3 are executive directors and 3 are non-executive directors. Their roles and responsibilities are outlined in the Company's Board Governance Guidelines and byelaws.

Executive, Audit, Nominating and Corporate Governance, Risk, Compensation and Conflicts Committees have been constituted at the AHL level, each of which has been delegated certain responsibilities for subsidiary oversight as set forth in their respective charters. The Company has established a Reinsurance and Operations Committee ("**AROC**") comprised of executive and senior management. AROC is responsible for reviewing and monitoring the Company's reinsurance transactions and addressing operational and other business matters impacting or potentially impacting the Company, subject to its level of delegated authority and mandate established by the Board. Although certain authorities are delegated, the group governance structure provides mechanisms for the Board to maintain ultimate oversight.

ii. Remuneration Policy

The Company's remuneration policy is intended to attract, recruit, develop and retain competent employees with the skills, knowledge and expertise to fulfill their allocated responsibilities, reward high performance and provide for staff to be compensated in a manner that encourages sound risk management in accordance with our core purpose and values. The Company's remuneration policy follows the AHL level remuneration policy.

*For additional information please refer to pages 29-32 of the AHL 2018 definitive proxy statement filed with the United States Securities and Exchange Commission (the "**2018 Proxy Statement**") which can be found at: https://ir.athene.com/Cache/2000186687.pdf.*

iii. Pension or Early Retirement Schemes for Members, Board and Senior Employees

The Company provides all employees, including executive and senior management with pension benefits through a defined contribution pension scheme, administered by a third party. The Company provides matching contributions consistent with the employee's level of contribution up to a pre-determined amount. Funds are invested in investment portfolios as selected by the employee. The Company does not have an early retirement scheme.

iv. Any material transactions with shareholder controllers, persons who exercise significant influence, the Board or senior executives

The Company has a strategic relationship with Apollo Global Management, LLC ("**Apollo**"). Apollo's indirect subsidiary, Athene Asset Management, LLC ("**AAM**"), serves as the Company's investment manager. In addition to being our co-founder, Apollo assists us in identifying and capitalizing on acquisition opportunities that have been critical to AHL's ability to significantly grow the business. Members of the Apollo group are significant owners of AHL's common shares and control 45% of the aggregate voting power of AHL's equity securities, which may be subject to certain adjustments. James R. Belardi, the Chief Executive Officer of AHL and a member of the AHL Board and the Board, is the Chief Executive Officer, Chief Investment Officer and a director of AAM, and is an employee of AAM. He receives substantial remuneration from acting as Chief Executive Officer of AAM and also owns a 5% profits interest in AAM. Three other AHL directors, Messrs. Gernot Lohr, Matthew Michelini, and Marc Rowan, also serve as directors of AAM. Additionally, Gernot Lohr serves on the Board. The Company expects the strategic relationship with Apollo to continue for the foreseeable future. AHL have entered into side letters with certain shareholders and have granted them certain rights pursuant to the respective side letters.

For additional information please refer to page 51 of the 2018 Proxy Statement which can be found at https://ir.athene.com/Cache/2000186687.pdf.

b. Fitness and Propriety Requirements

i. Fit and Proper process in assessing the Board and Senior Executive

The Company maintains a hiring and vetting process including recruitment and interviewing requirements, to confirm fitness and propriety for the relevant role. Board appointments are subject to review by the AHL Nominating and Corporate Governance Committee.

ii. Board and Senior Executives professional qualifications, skills and expertise

Please refer to our website at: https://www.athenelifere.bm/leadership/executive-team/ for individual biographies of the Board and management.

c. Risk Management and Solvency Self-Assessment

i. Risk Management processes and procedures to identify, measure, manage and report on Risk Exposures

The function of our risk management framework is to identify, assess and prioritize risks to ensure that both senior management and the Board understand and can manage our risk profile. The risk management team structure consists of an enterprise risk management ("**ERM**") team, a derivatives trading team and an asset risk team. The risk management team is led by AHL's Chief Risk Officer ("**CRO**"), who reports to the chair of the AHL Risk Committee. Our risk management team is comprised of approximately 30 dedicated, full time employees. One of these is the CRO of ALRe who is also the Vice President of Liquidity Risk for the group.

Risk areas are reviewed at the entity specific exposure and then consolidated and evaluated at the consolidated level. Risk Self-Assessment ("**RSA**") reviews are completed at an entity level including ALRe covering all facets of the Company's business including but not limited to Capital Management, Actuarial, Tax, Finance, IT, Legal and Compliance and Human Resources. The RSA process addresses Risk Categories, Risk Descriptions, Current Risk Mitigation, Potential Enhancements to Risk Mitigation, Probability of Occurrence and Severity. Entity and overall results of the RSA process are discussed at the Operational Risk Committee and then communicated to the Management Risk Committee ("**MRC**") and the Board as required.

AHL prepares an Own Risk and Solvency Self-Assessment ("**ORSA**") with certain expansions addressing ALRe Commercial Insurer Solvency Self-Assessment ("**CISSA**") queries outlined in the Bermuda statutory return.

ii. Description of how the risk management and solvency self-assessment systems are implemented and integrated into the insurer's operations; including strategic planning and organizational and decision making process

The ALRe CRO provides a report to the Board which encompasses multiple risk areas including but not limited to stress testing results with a particular focus on the role of ALRe in the provision of collateral and/or capital under its reinsurance agreements and capital maintenance agreements. The ALRe CRO reports to the Board regarding the ability of ALRe and AHL to effectively manage liquidity risk, derivative activity performed for the economic benefit of ALRe including activity related to modco contracts and investment compliance reporting. The ALRe CRO is an active member of various ALRe Committees whose focus is on ALRe specific issues. These include AROC, several sub-committees and weekly/monthly meetings reviewing rate setting, product development and operational risk. The ALRe CRO and VP Liquidity Risk is involved directly with the AHL VP, Assistant Treasurer regarding capital management and liquidity management including establishment of various inter-company lending facilities, monitoring of liquid assets both at ALRe and AHL addressing the quantification and allocation of capital to current and new operations.

iii. Description of the relationship between the solvency self-assessment, solvency needs, and capital and risk management systems

The group seeks to manage its business, capital and liquidity profile with the objective of withstanding severe adverse shocks, while maintaining a meaningful buffer above regulatory minimums and certain capital thresholds.

The Company's solvency self-assessment tests that there is sufficient group capital (at the AHL level) available to withstand the various risks that affect the Company, individually and collectively, up to its risk appetite. Risk appetite is defined and communicated to the Company's businesses through a series of position, liquidity and scenario limits, as well as through its risk review processes. These limits are the operational expression of the Company's risk appetite, and taken together, define the capital required to execute its business plan and remain within its risk appetite.

The Company's risk appetite is defined by its performance in the following two stress scenarios:

1. **Moderate stress event**: Maintain targeted financial strength and ratings at its major regulated insurance subsidiaries; and
2. **Substantial stress event**: Retain investment grade financial strength and ratings at its major regulated insurance subsidiaries.

The impacts of these events on all subsidiaries including ALRe are calculated and accumulated. As ALRe holds the majority of the group's capital the impact on its portfolios are evaluated and the impact under various reinsurance agreements is reflected in the stress testing results. The results are reported to both the Board and the AHL Board. The impact of such events both on capital and the anticipated impact on third party ratings (AM Best, S&P) are quantified. Similar evaluations are carried out under the Economic Balance Sheet ("**EBS**") tests specific to ALRe and reported on the various Sub-Committees and the Board with a particular focus on the capital impact.

The Company evaluates exposure to market risk through internally defined modeling of portfolio performance during times of economic stress. The Company manages business, capital and liquidity needs to withstand stress scenarios and target capital that it believes will maintain current ratings in a moderate recession scenario and will allow the Company to continue to be rated investment grade under a substantially severe financial crisis akin to the Lehman scenario in 2008. In the recession scenario, the Company calibrates recessionary shocks to several key risk factors (including but not limited to, S&P 500, BBB corporate spreads, high yield corporate spreads and 2 year and 10 year U.S. Treasury yields) using data from the 1991, 2001 and 2008 recessions, and estimate mark to market impacts to the various sectors in the portfolio using regression analysis of their credit spreads to the key risk factors. To estimate other-than-temporary-impairment ("**OTTI**") impacts, the Company uses historical default, stressed recovery, and ratings migration rates from the aforementioned recessionary periods. In the Lehman scenario, the Company uses credit spread and interest rate movements between September 12, 2008 and December 15, 2008 to estimate mark to market changes and also uses one-year default probabilities from 2008, along with stressed recovery and ratings migration rates, to estimate OTTI impacts. The Company reviews the impacts of stress test analyses quarterly with management.

iv. Description of the solvency self-assessment approval process including the level of oversight and independent verification by the Board and senior executives

The ORSA which is completed prior to the filing of the Bermuda Solvency Capital Requirement ("**BSCR**") but not provided to the AHL Board for approval until a later date is the principal document utilized for solvency self-assessment. The ORSA draws heavily on: (i) strategy and planning work completed during the period; (ii) the year-end statutory valuation; (iii) MRC, (iv) Management Investment Committee ("**MIC**"); and (v) the Asset Liability Committee ("**ALC**") reports. The process that underpins the ORSA is not merely a snap-shot, but is continually reviewed throughout the year by multiple parties across all disciplines including Finance, Legal, Actuarial, Risk, Asset Management, Treasury and Internal Audit. The ORSA documents management information that has previously been reviewed and approved by senior management and the AHL Board and informs Company management of any issues or concerns not already communicated.

d. Internal Controls

i. Description of the internal control system

Management is responsible for the Company's internal control over financial reporting including those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the Board; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Company's assets that could have a material effect on the financial statements.

ii. Compliance Function

The compliance function oversees the Company's compliance activity and promotes and sustains a corporate culture of compliance and integrity.

Compliance develops policies, procedures and processes, maintains compliance monitoring and testing, (including a plan to address any deficiencies or non-compliance that may be identified), oversees that there are processes in place for regulatory monitoring and supports management in implementing any new rules, regulations or internal documentation, policies, procedures and controls in addition to maintaining mechanisms for staff to confidentially report concerns regarding compliance deficiencies and breaches.

The function also acts as a channel of communication to receive, review, evaluate and investigate compliance issues or direct such matters to appropriate other resources for investigation and resolution.

e. Internal Audit

The Internal Audit department reports to the AHL Audit Committee and is staffed independently of any other function. Internal Audit's responsibilities are outlined in the AHL Internal Audit Charter as approved by the AHL Audit Committee. Internal Audit has no responsibility for other functions across the business. This reporting structure and responsibility promotes independence and better compliance. The Internal Audit function assists the group boards with oversight responsibility for assessing and testing the enterprise wide internal control environment, monitors that adequate internal controls are in place, facilitates periodic review and assessment of the control environment and tests compliance with internal controls. Internal Audit communicates all findings to organizational management and significant findings to the AHL Audit Committee. It has unrestricted access to the respective boards, and their committees, management and all areas of the organization.

f. Actuarial Function

The Company's Chief Actuary also serves as the Approved Actuary. The position is responsible for monitoring information concerning the liabilities of the Company and has oversight responsibilities for the Company's underwriting processes, financial reporting including EBS and actuarial staff functions.

g. Outsourcing

i. Outsourcing Policy and key functions that have been outsourced

The Company maintains an outsourcing and procurement policy that outlines the vetting, suitability and contracting process for outsourced relationships and the due diligence procedures to be undertaken to monitor performance and provide oversight of such arrangements. The Company monitors its outsourcing partners and integrates their services into its operations. The Company believes that outsourcing certain functions allows it to focus capital and employees on core business operations. The Company has not outsourced any key functions (i.e. actuarial, risk management, compliance and internal audit). Notwithstanding the foregoing, most of the Company's investment assets are managed directly by AAM, a subsidiary of AGM. AAM provides a full suite of services for the Company's investment portfolio, including direct investment management, asset allocation, mergers and acquisition asset diligence and certain operational support services.

ii. Material Intra-group Outsourcing

Please see section 5g(i) above – *Outsourcing Policy and key functions that have been outsourced.*

h. Any other material information

None.

6. RISK PROFILE

a. Material Risks the Insurer is exposed to during the Reporting Period

The 2017 RSA review and Operational Risk review process was completed encompassing a comprehensive review of all documented and undocumented processes and procedures as they relate to Fraud, Human Resources, Outsourcing Distribution Channels Business Processes, Business Continuity, Information Systems and Compliance. Material risks were identified and quantified as to economic impact and probability with the identification of mitigating controls and potential future mitigating controls. Documented processes are in place ensuring that material operational risks are identified and communicated to senior management and if warranted to various other Committees.

*For additional information on the various material risks of the Company please refer to pages 12, 48 and 125-127 of the AHL Form 10K Annual Report, as filed with the United States Securities and Exchange Commission, (the "**AHL 10K**") which can be found at:*
https://ir.athene.com/Cache/392337055.PDF?O=PDF&T=&Y=&D=&FID=392337055&iid=4273880 .

b. Risk Mitigation in the Organization

As part of the Company's 2017 RSA review potential future mitigating controls were identified. During 2018 these areas will be reviewed again and, where applicable additional mitigating controls will be put in place.

For addtional information on risk mitigation in the organization please refer to page 12 of the AHL 10K which can be found at:
https://ir.athene.com/Cache/392337055.PDF?O=PDF&T=&Y=&D=&FID=392337055&iid=4273880 .

c. Material Concentration Risk

On an EBS look through basis certain areas of risk were identified and are being tracked to ensure material concentrations are identified and communicated to the Company's senior management and the related Board as appropriate.

For additional information on material concentration risk please refer to page 125 of the AHL 10K which can be found at:
https://ir.athene.com/Cache/392337055.PDF?O=PDF&T=&Y=&D=&FID=392337055&iid=4273880.

d. Investment in assets in accordance with the Prudent Person Principles of the Code of Conduct

Most of the Company's investment assets are managed directly by AAM, a subsidiary of AGM. The remaining assets are managed by AAM in conjunction with a sub-advisory agreement between AAM and affiliates of AGM. Investment guidelines are reviewed on a regular basis and the Company's CRO is a member of the risk group that meets frequently with AAM to discuss current developments within the various entities portfolios. The Company's CRO reviews all investment compliance reports and reports on the results to the Board.

e. Stress testing and sensitivity analysis to assess Material Risks

The Company assesses interest rate exposures for financial assets, liabilities and derivatives using hypothetical stress tests and exposure analyses. Assuming all other factors are constant, if there was an immediate, parallel increase in interest rates of 25 basis points from levels as of December 31, 2017, the estimated point-in-time impact to our pre-tax consolidated statements of income would have been increased since December 31, 2017. The increase compared to the prior year was driven primarily by growth of the assumed reinsurance embedded derivative. An immediate, parallel decline in interest rates of 25 basis points is estimated to decrease our pre-tax consolidated statements of income as of December 31, 2017 and 2016 by similar amounts to the increases discussed above.

Assuming a 25 basis points increase in interest rates persists for a 12-month period, the estimated impact to adjusted operating income would have increased. This is driven by an increase in investment income from floating rate assets, offset by DAC, DSI and VOBA amortization and rider reserve change, all calculated without regard to future changes to assumptions. The estimated impact to adjusted operating income excludes any effects related to the Public Law no. 115-97, the Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018 ("**Tax Act**"). The increase to adjusted operating income would be lower to the extent that we experience an increase in our effective tax rate. The models used to estimate the impact of a 25 basis point change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate change in interest rates without any discretionary management action to counteract such a change. Consequently, potential changes in our valuations indicated by these simulations will likely be different from the actual changes experienced under any given interest rate scenarios and these differences may be material. Because we actively manage our assets and liabilities, the net exposure to interest rates can vary over time. However, any such decreases in the fair value of fixed maturity securities, unless related to credit concerns of the issuer requiring recognition of an OTTI, would generally be realized only if we were required to sell such securities at losses to meet liquidity needs.

For additional information on stress testing and sensitivity analysis to assess material risks please refer to page 127 of the AHL 10K which can be found at: *https://ir.athene.com/Cache/392337055.PDF?O=PDF&T=&Y=&D=&FID=392337055&iid=4273880.*

7. SOLVENCY VALUATION

a. Valuation bases, assumptions and methods to derive the value of each asset class

The Company has considered the valuation principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. The Company's economic valuation principles are to measure assets on a fair value basis.

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.

Fair Value Valuation Methods

We used the following valuation methods and assumptions to estimate fair value for assets held directly and assets supporting funds withheld at interest:

AFS, trading securities and fixed maturity and equity securities supporting funds withheld
Fixed Maturity - We obtain the fair value for most marketable securities without an active market from several commercial pricing services. These are classified as Level 2 assets. The pricing services incorporate a variety of market observable information in their valuation techniques,

including benchmark yields, trading activity, credit quality, issuer spreads, bids, offers and other reference data. This category typically includes 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, and 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 commercial pricing services or brokers and are classified as Level 2 or 3.

Mortgage loans supporting funds withheld
We estimate fair value on a monthly basis using discounted cash flow analysis and rates being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The discounted cash flow model uses unobservable inputs, including estimates of discount rates and loan prepayments. Mortgage loans are classified as Level 3.

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.

For additional information please see Note 6 at page 39 to the Company's financial statements - Funds Withheld at Interest, available on our website at:
http://www.athenelifere.bm/about/financials/.

Derivatives and derivatives supporting funds withheld
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, cash equivalents, and cash and cash equivalents supporting funds withheld
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.

Investment Funds and investment funds supporting funds withheld
We value our investment funds using net asset values ("**NAV**") as a practical expedient in determining fair value.

b. Valuation bases, assumptions and methods to derive the value of technical provisions

The Company has considered valuation principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime" when determining insurance technical provisions. The Company believes that the techniques it uses in developing the insurance technical provisions are consistent with BMA guidance.

The primary valuation method that was used to determine the best estimate technical provisions was the BMA's Scenario Based Approach. The best estimate cash flows have been discounted reflecting the projected performance of the Company's assets under the most severe interest rate stress scenario. The risk free interest rate scenarios were supplied by the BMA.

In addition, the Company also holds a risk margin to reflect the uncertainty inherent in the underlying cash flows which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the BMA for each reporting period.

For additional information on valuation bases, assumptions and methods to derive the value of the technical provisions please refer to Note 15 at page 41 of the Company's financial statements - "Statutory Requirements" for the reporting period, available on our website at:
http://www.athenelifere.bm/about/financials/.

c. Description of recoverables from reinsurance contracts

The Company does not have any ceded insurance.

d. Valuation bases, assumptions and methods to derive the value of other liabilities

Similar to the valuation principles for assets, the Company's liabilities follow the valuation principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime" which values liabilities on a fair value basis.

For additional information on the fair value principles used to value liabilities for "other than technical provisions", please refer to Note 1 at page 9 - "Business, Basis of Presentation and Significant Accounting Policies" and Note 5 at page 28 - "Fair Value" in the Notes to the Company's financial statements available on our website at:
http://www.athenelifere.bm/about/financials/.

8. CAPITAL MANAGEMENT

a. Eligible Capital

i. Capital Management Policy and process for capital needs, how capital is managed and material changes during the Reporting Period

The capital management objective of the Company is to maintain sufficient capital at all times to meet regulatory and rating agency capital requirements and to support future business development needs. The Company's business plan contains a five year planning horizon of funding requirements which helps to focus actions for future funding and assists in assessing the capital required to maintain solvency and the defined threshold taking into consideration the Company's risk profile. Surplus capital is paid out in dividends, subject to certain parameters.

ALRe is licensed by the BMA as a Class E long term insurer and is subject to the Act and regulations promulgated thereunder. Under EBS framework a Class E insurer must produce three sets of financial statements:

1. ***GAAP Financial Statements -*** Financial statements prepared in accordance with an internationally recognized comprehensive base of accounting and for which ALRe has elected to prepare US GAAP financial statements. These financial statements form the basis for the preparation of both the Statutory Financial Statements and EBS.

2. ***Statutory Financial Statements ("SFS")*** - Equal to the GAAP financial statements adjusted for:

    a. Prudential filters that include a) adjustments to eliminate non-admitted assets including goodwill and other similar intangible assets, not considered admissible for solvency purposes and b) adjustments to include certain assets and liabilities that are generally off-balance sheet under general purpose reporting. These include items such as guarantees and other instruments that do not relate to the insurer's own insurance contracts.

    b. Directions (aka permitted practices) issued by the BMA.

3. ***EBS*** - A balance sheet where assets are recorded based on GAAP fair values and insurance reserves are based on technical provisions comprised of the sum of a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or the scenario approach. Under the standard approach the discount rate for insurance reserves is a rate prescribed by the BMA. Under the scenario approach the discount rate for insurance reserves is based on the yield on eligible assets owned by the insurer as determined under the worst result of nine prescribed stressed scenarios.

ii. Eligible Capital categorized by tiers in accordance with the Eligible Capital Rule

To enable the BMA to better assess the quality of the insurer's capital resources, a Class E insurer is required to disclose the makeup of its capital in accordance with the '3-tiered capital system.' Highest quality capital is classified as Tier 1 Capital, lesser quality capital is classified as either Tier 2 Capital or Tier 3 Capital. The Act requires that Class E insurers have Tier 1 Capital equal to or greater than 50% of the value of its Enhanced Capital Ratio ("**ECR**") and Tier 3 Capital of not more than 17.65% of the aggregate of its Tier 1 Capital and Tier 2 Capital.

As of December 31, 2017 all of the eligible capital used by ALRe to meet the Minimum Solvency Margin ("**MSM**") and ECR was Tier 1 Capital. ALRe monitors its capital tiers and any encumbrances on capital when determining capital tiers, including assessing any capital restricted in trusts and funds withheld or modco arrangements.

iii. Eligible Capital categorized by tiers in accordance with the Eligible Capital Rules used to meet ECR and MSM requirements of the Act

To enable the BMA to better assess the quality of the insurer's capital resources, a Class E insurer is required to disclose the makeup of its capital in accordance with the '3-tiered capital system.' Highest quality capital is classified as Tier 1 Capital, lesser quality capital is classified as either Tier 2 Capital or Tier 3 Capital. The Act requires that Class E insurers have Tier 1 Capital equal to or greater than 50% of the value of its ECR and Tier 3 Capital of not more than 17.65% of the aggregate of its Tier 1 Capital and Tier 2 Capital. As of December 31, 2017 all of the eligible capital used by ALRe to meet the MSM and ECR was Tier 1 Capital. ALRe monitors its capital tiers and any encumbrances on capital when determining capital tiers, including assessing any capital restricted in trusts and funds withheld or modco arrangements.

Under the Act, ALRe is required to maintain SFS capital and surplus to meet the MSM which is equal to the greater of $8 million or 2% of the first $500 million of SFS assets plus 1.5% of SFS assets above $500 million. As of January 1, 2017 the MSM is subject to a floor of 25% of the ECR.

Under the Act, ALRe is also required to maintain minimum EBS capital and surplus to meet the ECR which is equal to a risk based capital model where risk factor charges are applied to the EBS balance sheet in order to determine the ECR.

The following table presents the ALRE actual and required GAAP, SFS, and EBS capital and surplus and net income amounts as of and for the year ended December 31, 2017.

	Year ended December 31, 2017		
(In millions)	GAAP	SFS	EBS
Actual Capital and Surplus	7,159	6,972	7,724
Required Capital and Surplus (1)	N/A	—	2,181
BSCR Ratio (2)	N/A	N/A	354%
Net Income (Loss) (3)	2,110	828	N/A

(1) Represents the MSM for the SFS and the ECR for EBS. There is not a required capital and surplus amount for the GAAP financial statements.
(2) BSCR ratio for the current binding regulatory solvency constraint of EBS is shown.
(3) EBS comprises of only a balance sheet.

The BMA has granted ALRe a direction in the SFS to utilize amortized cost for the valuation of certain investments instead of fair value as well as a direction to use U.S. statutory reserving principles for the calculation of insurance reserves instead of US GAAP, subject to the reserves being proven to be adequate based on cash flow testing. The impact on the SFS of these directions is approximately equal to the difference between GAAP and SFS capital and surplus and net income.

iv. Confirmation of Eligible Capital that is subject to transitional arrangements

Not applicable.

v. Identification of any factors affecting encumbrances on the availability and transferability of capital to meet the ECR

Not applicable.

vi. Identification of ancillary capital instruments approved by the Authority

Not applicable.

vii. Identification of differences in shareholder's equity as stated in the Financial Statements versus the available capital and surplus

Please see the table in section 8b(i) below - *ECR and MSM requirements at the end of the Reporting Period.*

b. Regulatory Capital Requirements

i. ECR and MSM requirements at the end of the Reporting Period

	Year ended December 31, 2017		
(In millions)	GAAP	SFS	EBS
Actual Capital and Surplus	7,159	6,972	7,724
Required Capital and Surplus [1]	N/A	—	2,181
BSCR Ratio [2]	N/A	N/A	354%
Net Income (Loss) [3]	2,110	828	N/A

(1) Represents the MSM for the SFS and the ECR for EBS. There is not a required capital and surplus amount for the GAAP financial statements.
(2) BSCR ratio for the current binding regulatory solvency constraint of EBS is shown.
(3) EBS comprises of only a balance sheet.

For additional information about ECR and MSM requirements please refer to Note 15 at page 41 "Statutory Requirements" found in the Notes to the Company's financial statements for the reporting period, available on our website at http://www.athenelifere.bm/about/financials/.

ii. Identification of any non-compliance with the MSM and the ECR

The Company was compliant with the MSM and ECR requirement at the end of the reporting period.

iii. A description of the amount and circumstances surrounding the non-compliance, the remedial measures and their effectiveness

Not applicable.

iv. Where the non-compliance is not resolved, a description of the amount of the non-compliance

Not applicable.

c. <u>Approved Internal Capital Model</u>

Not applicable.

9. SUBSEQUENT EVENTS

In the first quarter of 2018 AHL contributed to ALRe all of the issued and outstanding shares in Athene USA Corporation, an Iowa corporation and wholly owned subsidiary of AHL.