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Research Update:

Athene Holding Ltd. And Subsidiaries Outlook Revised To Positive; Ratings Affirmed

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Research Update:

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Overview

- The Athene group's product and channel diversification continue to improve.
- We are revising our outlook on Athene Holding Ltd. and its core operating subsidiaries to positive to reflect our expectation that the group will maintain profitable diversification that is more in line with that of 'A' rated peers.
- We are also affirming our ratings on these companies.

Rating Action

On Aug. 16, 2017, S&P Global Ratings revised its outlook on Athene Holding Ltd. (AHL) and its operating subsidiaries (collectively referred to as Athene) to positive from stable. At the same time, we affirmed our ratings on all these companies.

Rationale

Historically, our view of Athene's competitive position has been constrained by the group's concentration in individual annuities sold via the retail channel (primarily through independent marketing organizations; IMOs). However, since 2015, the company has been diversifying its distribution into different institutional channels, namely flow reinsurance and funding-agreement backed notes (FABNs). The flow reinsurance line produced \$1.1 billion in deposits in 2015 and \$3.4 billion in 2016. The company had accessed the FABN market once prior to its December 2016 initial public offering and has subsequently issued over \$2 billion so far in 2017. While we consider these institutional channels relatively opportunistic in nature--as the year-to-year volatility of deposits for each line demonstrates--we believe that going forward, these two lines (in combination with Athene's newly introduced pension risk transfer (PRT) business; it closed its first deal this year) will contribute at least 20% of deposits annually. As of June 30, 2017, deposits for lines other than retail annuity have totaled about \$2.4 billion, or 47% of year-to-date deposits. We consider the flow reinsurance business in particular to be an important source of diversification, as we consider both FABNs and PRTs more subject to volatility and market conditions. We also expect Athene to maintain its pricing discipline with each of these lines.

Following its initial public offering in December 2016, we believe that Athene has wider access to a variety of capital resources, including public equity

markets and reinsurance. This--combined with having no debt or interest or fixed-charge expenses--leads us to view the company's financial flexibility as strong, an improvement from our prior assessment of adequate.

We continue to view Athene's capital as very strong, and we consider the company's overall risk position to be in line with that of peers despite high-risk assets constituting an above-average proportion of total adjusted capital. Our view of the company's financial risk profile is somewhat moderated by the forecasting uncertainty related to the varied accounting frameworks we use in our modeling, which requires a more bespoke approach, as well as the lack of a long-term track record of capital adequacy at the 'AA' level. As the company has only recently gone public, we will also continue to watch its developing policies and practices with regard to its shareholders. Athene has no common stock dividend and has stated it does not intend to pay one in the near future.

Outlook

The positive outlook reflects our expectation that Athene will maintain its profitable expansion into lines of business other than retail individual annuities over the next two years.

Downside scenario

We could revise the outlook back to stable if Athene fails to execute on its diversification strategy and retail annuities once again constitute more than 80% of deposits. We could also revise the outlook back to stable if the group's capital adequacy erodes significantly due to, for example, significant asset impairments or negative earnings performance.

Upside scenario

We could raise the rating over the next 24 months if Athene continues its successful diversification while maintaining profitability. We could also raise the ratings if we believed that the company will sustainably maintain a very strong financial risk profile.

Ratings Score Snapshot

	To:	From:
Holding Company Rating BBB/Stable/--	BBB/Positive/--	
Financial Strength Rating	A-/Positive	A-/Stable
Anchor Business Risk Profile IICRA*	a- Satisfactory Low Risk	a- Satisfactory Low Risk

Competitive Position	Adequate	Adequate
Financial Risk Profile	Strong	Strong
Capital & Earnings	Strong	Strong
Risk Position	Intermediate Risk	Intermediate Risk
Financial Flexibility	Strong	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Strong	Strong
Support	0	0
Group Support	0	0
Government Support	0	0

*Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria - Insurance - General: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Criteria - Insurance - General: Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - Life: Liquidity Model For U.S. And Canadian Life Insurers, April 22, 2004

Ratings List

Ratings Affirmed; Outlook Action

To

From

Research Update: Athene Holding Ltd. And Subsidiaries Outlook Revised To Positive; Ratings Affirmed

Athene Holding Ltd.

Counterparty Credit Rating

Local Currency

BBB/Positive/--

BBB/Stable/--

Athene Annuity & Life Assurance Co.

Athene Life Re Ltd.

Athene Annuity and Life Company

Athene Annuity & Life Assurance Co. of New York

Counterparty Credit Rating

Local Currency

A-/Positive/--

A-/Stable/--

Financial Strength Rating

Local Currency

A-/Positive/--

A-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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