

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-37963



ATHENE HOLDING LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-0630022
(I.R.S. Employer
Identification Number)

**96 Pitts Bay Road
Pembroke, HM 08, Bermuda
(441) 279-8400**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A common shares, par value \$0.001 per share	ATH	New York Stock Exchange
Depository Shares, each representing a 1/1,000 th interest in a 6.35% Fixed-to-Floating Rate Perpetual Non-Cumulative Preference Share, Series A	ATHPrA	New York Stock Exchange
Depository Shares, each representing a 1/1,000 th interest in a 5.625% Fixed Rate Perpetual Non-Cumulative Preference Share, Series B	ATHPrB	New York Stock Exchange
Depository Shares, each representing a 1/1,000 th interest in a 6.375% Fixed-Rate Reset Perpetual Non-Cumulative Preference Share, Series C	ATHPrC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 31, 2020, 194,250,720 of our Class A common shares were outstanding.

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As used in this Quarterly Report on Form 10-Q (report), unless the context otherwise indicates, any reference to “Athene,” “our Company,” “the Company,” “us,” “we” and “our” refer to Athene Holding Ltd. together with its consolidated subsidiaries and any reference to “AHL” refers to Athene Holding Ltd. only.

Forward-Looking Statements

Certain statements in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “seek,” “assume,” “believe,” “may,” “will,” “should,” “could,” “would,” “likely” and other words and terms of similar meaning, including the negative of these or similar words and terms, in connection with any discussion of the timing or nature of future operating or financial performance or other events. However, not all forward-looking statements contain these identifying words. Forward-looking statements appear in a number of places throughout and give our current expectations and projections relating to our business, financial condition, results of operations, plans, strategies, objectives, future performance and other matters.

We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated financial condition, results of operations, liquidity, cash flows and performance may differ materially from that made in or suggested by the forward-looking statements contained in this report. A number of important factors could cause actual results or conditions to differ materially from those contained or implied by the forward-looking statements, including the risks discussed in *Part II–Item 1A. Risk Factors* included in this report and *Part I–Item 1A. Risk Factors* included in our Annual Report on Form 10-K for the year ended December 31, 2019 (2019 Annual Report). Factors that could cause actual results or conditions to differ from those reflected in the forward-looking statements contained in this report include:

- the accuracy of management’s assumptions and estimates;
- variability in the amount of statutory capital that our insurance and reinsurance subsidiaries have or are required to hold;
- interest rate and/or foreign currency fluctuations;
- our potential need for additional capital in the future and the potential unavailability of such capital to us on favorable terms or at all;
- major public health issues, and specifically the pandemic caused by the effects of the spread of the Coronavirus Disease of 2019 (COVID-19);
- changes in relationships with important parties in our product distribution network;
- the activities of our competitors and our ability to grow our retail business in a highly competitive environment;
- the impact of general economic conditions on our ability to sell our products and on the fair value of our investments;
- our ability to successfully acquire new companies or businesses and/or integrate such acquisitions into our existing framework;
- downgrades, potential downgrades or other negative actions by rating agencies;
- our dependence on key executives and inability to attract qualified personnel, or the potential loss of Bermudian personnel as a result of Bermuda employment restrictions;
- market and credit risks that could diminish the value of our investments;
- changes to the creditworthiness of our reinsurance and derivative counterparties;
- the discontinuation of London Inter-bank Offered Rate (LIBOR);
- changes in consumer perception regarding the desirability of annuities as retirement savings products;
- potential litigation (including class action litigation), enforcement investigations or regulatory scrutiny against us and our subsidiaries, which we may be required to defend against or respond to;
- the impact of new accounting rules or changes to existing accounting rules on our business;
- interruption or other operational failures in telecommunication and information technology and other operating systems, as well as our ability to maintain the security of those systems;
- the termination by Apollo Global Management, Inc. (AGM) or any of its subsidiaries (collectively, AGM together with its subsidiaries, Apollo) of its investment management agreements with us and limitations on our ability to terminate such arrangements;
- Apollo’s dependence on key executives and inability to attract qualified personnel;
- the accuracy of our estimates regarding the future performance of our investment portfolio;
- increased regulation or scrutiny of alternative investment advisers and certain trading methods;
- potential changes to regulations affecting, among other things, transactions with our affiliates, the ability of our subsidiaries to make dividend payments or distributions to AHL, acquisitions by or of us, minimum capitalization and statutory reserve requirements for insurance companies and fiduciary obligations on parties who distribute our products;
- the failure to obtain or maintain licenses and/or other regulatory approvals as required for the operation of our insurance subsidiaries;
- increases in our tax liability resulting from the Base Erosion and Anti-Abuse Tax (BEAT);
- improper interpretation or application of 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) or subsequent changes to, clarifications of or guidance under the Tax Act that is counter to our interpretation and has retroactive effect;
- AHL or any of its non-United States (U.S.) subsidiaries becoming subject to U.S. federal income taxation;
- adverse changes in U.S. tax law;
- our being subject to U.S. withholding tax under the Foreign Account Tax Compliance Act (FATCA);
- changes in our ability to pay dividends or make distributions;
- our failure to recognize the benefits expected to be derived from the share exchange transaction with Apollo;

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- the failure to achieve the economic benefits expected to be derived from the Athene Co-Invest Reinsurance Affiliate 1A Ltd. (together with its subsidiaries, ACRA) capital raise or future ACRA capital raises;
- the failure of third-party ACRA investors to fund their capital commitment obligations; and
- other risks and factors listed in *Part II—Item 1A. Risk Factors* included in this report, *Part I—Item 1A. Risk Factors* included in our 2019 Annual Report and those discussed elsewhere in this report and in our 2019 Annual Report.

We caution you that the important factors referenced above may not be exhaustive. In light of these risks, you should not place undue reliance upon any forward-looking statements contained in this report. Unless an earlier date is specified, the forward-looking statements included in this report are made only as of the date that this report was filed with the U.S. Securities and Exchange Commission (SEC). We undertake no obligation, except as may be required by law, to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

GLOSSARY OF SELECTED TERMS

Unless otherwise indicated in this report, the following terms have the meanings set forth below:

Entities

Term or Acronym	Definition
A-A Mortgage	A-A Mortgage Opportunities, L.P.
AAA Investor	AAA Guarantor – Athene, L.P.
AAIA	Athene Annuity and Life Company
AARe	Athene Annuity Re Ltd., a Bermuda reinsurance subsidiary
ACRA	Athene Co-Invest Reinsurance Affiliate 1A Ltd., together with its subsidiaries
ADIP	Apollo/Athene Dedicated Investment Program
AGM	Apollo Global Management, Inc.
AHL	Athene Holding Ltd.
ALRe	Athene Life Re Ltd., a Bermuda reinsurance subsidiary
ALReI	Athene Life Re International Ltd., a Bermuda reinsurance subsidiary
AmeriHome	AmeriHome Mortgage Company, LLC
AOG	Apollo Operating Group
Apollo	Apollo Global Management, Inc., together with its subsidiaries
Apollo Group	(1) Apollo, (2) the AAA Investor, (3) any investment fund or other collective investment vehicle whose general partner or managing member is owned, directly or indirectly, by Apollo or one or more of Apollo’s subsidiaries, (4) BRH Holdings GP, Ltd. and its shareholders, (5) any executive officer or employee of AGM or its subsidiaries (6) any shareholder that has granted to AGM or any of its affiliates a valid proxy with respect to all of such shareholder’s Class A common shares pursuant to our bye-laws and (7) any affiliate of any of the foregoing (except that AHL or its subsidiaries are not members of the Apollo Group)
Athene USA	Athene USA Corporation
Athora	Athora Holding Ltd.
BMA	Bermuda Monetary Authority
CoInvest VI	AAA Investments (Co-Invest VI), L.P.
CoInvest VII	AAA Investments (Co-Invest VII), L.P.
ISG	Apollo Insurance Solutions Group LP, formerly known as Athene Asset Management LLC
Jackson	Jackson National Life Insurance Company
LIMRA	Life Insurance and Market Research Association
MidCap	MidCap FinCo Designated Activity Company
NAIC	National Association of Insurance Commissioners
NYSDFS	New York State Department of Financial Services
RLI	ReliaStar Life Insurance Company
Treasury	United States Department of the Treasury
VIAC	Venerable Insurance and Annuity Company, formerly Voya Insurance and Annuity Company
Venerable	Venerable Holdings, Inc., together with its subsidiaries

Certain Terms & Acronyms

Term or Acronym	Definition
ABS	Asset-backed securities
ACL	Authorized control level RBC as defined by the model created by the National Association of Insurance Commissioners
ALM	Asset liability management
ALRe RBC	The risk-based capital ratio using Bermuda capital and applying NAIC risk-based capital factors to the statutory financial statements of AHL's non-U.S. reinsurance subsidiaries on an aggregate basis. Adjustments are made to (i) exclude U.S. subsidiaries which are included within our U.S. RBC Ratio, (ii) exclude our interests in the AOG units and other non-insurance subsidiary holding companies from our capital base and (iii) limit RBC concentration charges such that when they are applied to determine target capital, the charges do not exceed 100% of the asset's carrying value.
Alternative investments	Alternative investments, including investment funds, CLO equity positions and certain other debt instruments considered to be equity-like
Base of earnings	Earnings generated from our results of operations and the underlying profitability drivers of our business
Bermuda capital	The capital of Athene's non-U.S. reinsurance subsidiaries calculated under U.S. statutory accounting principles, including that for policyholder reserve liabilities which are subjected to U.S. cash flow testing requirements, but (i) excluding certain items that do not exist under our applicable Bermuda requirements, such as interest maintenance reserves and (ii) including certain Bermuda statutory accounting differences, such as marking to market of inception date investment gains or losses relating to reinsurance transactions. Bermuda capital may from time to time materially differ from the calculation of statutory capital under U.S. statutory accounting principles primarily due to the foregoing differences.
Block reinsurance	A transaction in which the ceding company cedes all or a portion of a block of previously issued annuity contracts through a reinsurance agreement
BSCR	Bermuda Solvency Capital Requirement
CAL	Company action level risk-based capital as defined by the model created by the National Association of Insurance Commissioners
CLO	Collateralized loan obligation
CMBS	Commercial mortgage-backed securities
CML	Commercial mortgage loans
Cost of crediting	The interest credited to the policyholders on our fixed annuities, including, with respect to our fixed indexed annuities, option costs, as well as institutional costs related to institutional products, presented on an annualized basis for interim periods
Cost of funds	Cost of funds includes liability costs related to cost of crediting on both deferred annuities and institutional products, as well as other liability costs. Cost of funds is computed as the total liability costs divided by the average net invested assets for the relevant period. Presented on an annualized basis for interim periods.
DAC	Deferred acquisition costs
Deferred annuities	Fixed indexed annuities, annual reset annuities, multi-year guaranteed annuities and registered index-linked annuities
DSI	Deferred sales inducement
Excess capital	Capital in excess of the level management believes is needed to support our current operating strategy
FIA	Fixed indexed annuity, which is an insurance contract that earns interest at a crediting rate based on a specified index on a tax-deferred basis
Fixed annuities	FIAs together with fixed rate annuities
Fixed rate annuity	An insurance contract that offers tax-deferred growth and the opportunity to produce a guaranteed stream of retirement income for the lifetime of its policyholder
Flow reinsurance	A transaction in which the ceding company cedes a portion of newly issued policies to the reinsurer
GAAP	Accounting principles generally accepted in the United States of America
GLWB	Guaranteed lifetime withdrawal benefit
GMDB	Guaranteed minimum death benefit
Gross invested assets	The sum of (a) total investments on the consolidated balance sheet with available-for-sale securities at amortized cost, excluding derivatives, (b) cash and cash equivalents and restricted cash, (c) investments in related parties, (d) accrued investment income, (e) consolidated variable interest entities' assets, liabilities and noncontrolling interest and (f) policy loans ceded (which offset the direct policy loans in total investments). Gross invested assets includes investments supporting assumed funds withheld and modco agreements and excludes assets associated with funds withheld liabilities related to business exited through reinsurance agreements and derivative collateral (offsetting the related cash positions). Gross invested assets includes the entire investment balance attributable to ACRA as ACRA is 100% consolidated

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Term or Acronym	Definition
IMA	Investment management agreement
IMO	Independent marketing organization
Investment margin on deferred annuities	Investment margin applies to deferred annuities and is the excess of our net investment earned rate over the cost of crediting to our policyholders, presented on an annualized basis for interim periods
Liability outflows	The aggregate of withdrawals on our deferred annuities, maturities of our funding agreements, payments on payout annuities, and pension risk benefit payments
MMS	Minimum margin of solvency
Modco	Modified coinsurance
MVA	Market value adjustment
MYGA	Multi-year guaranteed annuity
Net invested assets	The sum of (a) total investments on the consolidated balance sheet with available-for-sale securities at amortized cost, excluding derivatives, (b) cash and cash equivalents and restricted cash, (c) investments in related parties, (d) accrued investment income, (e) consolidated variable interest entities' assets, liabilities and noncontrolling interest and (f) policy loans ceded (which offset the direct policy loans in total investments). Net invested assets includes investments supporting assumed funds withheld and modco agreements and excludes assets associated with funds withheld liabilities related to business exited through reinsurance agreements and derivative collateral (offsetting the related cash positions). Net invested assets includes our economic ownership of ACRA investments but does not include the investments associated with the noncontrolling interest
Net investment earned rate	Income from our net invested assets divided by the average net invested assets for the relevant period, presented on an annualized basis for interim periods
Net investment spread	Net investment spread measures our investment performance less the total cost of our liabilities, presented on an annualized basis for interim periods
Net reserve liabilities	The sum of (a) interest sensitive contract liabilities, (b) future policy benefits, (c) dividends payable to policyholders, and (d) other policy claims and benefits, offset by reinsurance recoverable, excluding policy loans ceded. Net reserve liabilities also includes the reserves related to assumed modco agreements in order to appropriately match the costs incurred in the consolidated statements of income with the liabilities. Net reserve liabilities is net of the ceded liabilities to third-party reinsurers as the costs of the liabilities are passed to such reinsurers and therefore we have no net economic exposure to such liabilities, assuming our reinsurance counterparties perform under our agreements. Net reserve liabilities is net of the reserve liabilities attributable to the ACRA noncontrolling interest
Other liability costs	Other liability costs include DAC, DSI and VOBA amortization, change in rider reserves, the cost of liabilities on products other than deferred annuities and institutional products, excise taxes, as well as offsets for premiums, product charges and other revenues
OTTI	Other-than-temporary impairment
Payout annuities	Annuities with a current cash payment component, which consist primarily of single premium immediate annuities, supplemental contracts and structured settlements
Policy loan	A loan to a policyholder under the terms of, and which is secured by, a policyholder's policy
PRT	Pension risk transfer
RBC	Risk-based capital
Rider reserves	Guaranteed lifetime withdrawal benefits and guaranteed minimum death benefits reserves
RMBS	Residential mortgage-backed securities
RML	Residential mortgage loan
Sales	All money paid into an individual annuity, including money paid into new contracts with initial purchase occurring in the specified period and existing contracts with initial purchase occurring prior to the specified period (excluding internal transfers)
SPIA	Single premium immediate annuity
Surplus assets	Assets in excess of policyholder obligations, determined in accordance with the applicable domiciliary jurisdiction's statutory accounting principles
TAC	Total adjusted capital as defined by the model created by the NAIC
U.S. RBC Ratio	The CAL RBC ratio for AADE, our parent U.S. insurance company
VIE	Variable interest entity
VOBA	Value of business acquired

Item 1. Financial Statements

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Condensed Consolidated Balance Sheets (Unaudited)

<i>(In millions)</i>	June 30, 2020	December 31, 2019
Assets		
Investments		
Available-for-sale securities, at fair value (amortized cost: 2020 – \$71,215 and 2019 – \$67,479; allowance for credit losses: 2020 – \$173)	\$ 74,735	\$ 71,374
Trading securities, at fair value (consolidated variable interest entities: 2020 – \$0 and 2019 – \$16)	2,075	2,070
Equity securities, at fair value	237	247
Mortgage loans (allowance for credit losses: 2020 – \$352 and 2019 – \$11; portion at fair value: 2020 – \$25 and 2019 – \$27; consolidated variable interest entities: 2020 – \$1,856 and 2019 – \$0)	15,203	14,306
Investment funds (portion at fair value: 2020 – \$146 and 2019 – \$154; consolidated variable interest entities: 2020 – \$0 and 2019 – \$19)	682	750
Policy loans	393	417
Funds withheld at interest (portion at fair value: 2020 – \$763 and 2019 – \$801)	42,269	15,181
Derivative assets	2,379	2,888
Short-term investments (portion at fair value: 2020 – \$364 and 2019 – \$406)	364	596
Other investments (allowance for credit losses: 2020 – \$6; portion at fair value: 2020 – \$109 and 2019 – \$93)	359	158
Total investments	138,696	107,987
Cash and cash equivalents (consolidated variable interest entities: 2020 – \$0 and 2019 – \$3)	6,240	4,240
Restricted cash	1,281	402
Investments in related parties		
Available-for-sale securities, at fair value (amortized cost: 2020 – \$4,173 and 2019 – \$3,783; allowance for credit losses: 2020 – \$2)	4,070	3,804
Trading securities, at fair value	872	785
Equity securities, at fair value (consolidated variable interest entities: 2020 – \$0 and 2019 – \$6)	52	64
Mortgage loans (allowance for credit losses: 2020 – \$27 and 2019 – \$0)	626	653
Investment funds (portion at fair value: 2020 – \$1,885 and 2019 – \$819; consolidated variable interest entities: 2020 – \$0 and 2019 – \$664)	5,278	3,550
Funds withheld at interest (portion at fair value: 2020 – \$560 and 2019 – \$594)	12,971	13,220
Other investments (allowance for credit losses: 2020 – \$14)	474	487
Accrued investment income (related party: 2020 – \$53 and 2019 – \$27)	836	807
Reinsurance recoverable (portion at fair value: 2020 – \$2,099 and 2019 – \$1,821)	5,310	4,863
Deferred acquisition costs, deferred sales inducements and value of business acquired	5,468	5,008
Other assets (consolidated variable interest entities: 2020 – \$6 and 2019 – \$20)	1,067	1,005
Total assets	\$ 183,241	\$ 146,875

*(Continued)**See accompanying notes to the unaudited condensed consolidated financial statements*

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ATHENE HOLDING LTD.
Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except per share data)

	June 30, 2020	December 31, 2019
Liabilities and Equity		
Liabilities		
Interest sensitive contract liabilities (related party: 2020 – \$14,609 and 2019 – \$15,285; portion at fair value: 2020 – \$12,463 and 2019 – \$11,992)	\$ 135,537	\$ 102,745
Future policy benefits (related party: 2020 – \$1,446 and 2019 – \$1,302; portion at fair value: 2020 – \$2,334 and 2019 – \$2,301)	24,596	23,330
Other policy claims and benefits (related party: 2020 – \$0 and 2019 – \$13)	124	138
Dividends payable to policyholders	112	113
Short-term debt	—	475
Long-term debt	1,486	992
Derivative liabilities	118	97
Payables for collateral on derivatives and securities to repurchase	3,716	3,255
Funds withheld liability (portion at fair value: 2020 – \$46 and 2019 – \$31)	427	408
Other liabilities (related party: 2020 – \$70 and 2019 – \$79; consolidated variable interest entities: 2020 – \$28 and 2019 – \$0)	1,486	1,181
Total liabilities	167,602	132,734
Commitments and Contingencies (Note 12)		
Equity		
Preferred stock		
Series A – par value \$1 per share; \$863 aggregate liquidation preference; authorized, issued and outstanding: 2020 and 2019 – 0.0 shares	—	—
Series B – par value \$1 per share; \$345 aggregate liquidation preference; authorized, issued and outstanding: 2020 and 2019 – 0.0 shares	—	—
Series C – par value \$1 per share; \$600 aggregate liquidation preference; authorized, issued and outstanding: 2020 and 2019 – 0.0 shares	—	—
Common stock		
Class A – par value \$0.001 per share; authorized: 2020 and 2019 – 425.0 shares; issued and outstanding: 2020 – 194.3 and 2019 – 143.2 shares	—	—
Class B – par value \$0.001 per share; convertible to Class A; authorized: 2020 – 0.0 and 2019 – 325.0 shares; issued and outstanding: 2020 – 0.0 and 2019 – 25.4 shares	—	—
Class M-1 – par value \$0.001 per share; convertible to Class A; authorized: 2020 – 0.0 and 2019 – 7.1 shares; issued and outstanding: 2020 – 0.0 and 2019 – 3.3 shares	—	—
Class M-2 – par value \$0.001 per share; convertible to Class A; authorized: 2020 – 0.0 and 2019 – 5.0 shares; issued and outstanding: 2020 – 0.0 and 2019 – 0.8 shares	—	—
Class M-3 – par value \$0.001 per share; convertible to Class A; authorized: 2020 – 0.0 and 2019 – 7.5 shares; issued and outstanding: 2020 – 0.0 and 2019 – 1.0 shares	—	—
Class M-4 – par value \$0.001 per share; convertible to Class A; authorized: 2020 – 0.0 and 2019 – 7.5 shares; issued and outstanding: 2020 – 0.0 and 2019 – 4.0 shares	—	—
Additional paid-in capital	6,090	4,171
Retained earnings	6,437	6,939
Accumulated other comprehensive income (related party: 2020 – \$(106) and 2019 – \$17)	2,184	2,281
Total Athene Holding Ltd. shareholders' equity	14,711	13,391
Noncontrolling interests	928	750
Total equity	15,639	14,141
Total liabilities and equity	\$ 183,241	\$ 146,875

(Concluded)

See accompanying notes to the unaudited condensed consolidated financial statements

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ATHENE HOLDING LTD.
Condensed Consolidated Statements of Income (Loss) (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
<i>(In millions, except per share data)</i>				
Revenues				
Premiums (related party of \$94 and \$56 for the three months ended and \$163 and \$122 for the six months ended June 30, 2020 and 2019, respectively)	\$ 355	\$ 787	\$ 1,495	\$ 2,787
Product charges (related party of \$12 and \$14 for the three months ended and \$28 and \$28 for the six months ended June 30, 2020 and 2019, respectively)	141	132	281	257
Net investment income (related party investment income of \$490 and \$154 for the three months ended and \$276 and \$353 for the six months ended June 30, 2020 and 2019, respectively; consolidated variable interest entities of \$16 and \$21 for the three months ended and \$16 and \$37 for the six months ended June 30, 2020 and 2019, respectively; and related party investment expense of \$123 and \$94 for the three months ended and \$251 and \$186 for the six months ended June 30, 2020 and 2019, respectively)	1,336	1,182	2,081	2,264
Investment related gains (losses) (related party of \$761 and \$431 for the three months ended and \$130 and \$752 for the six months ended June 30, 2020 and 2019, respectively; and consolidated variable interest entities of \$(7) and \$3 for the three months ended and \$(6) and \$8 for the six months ended June 30, 2020 and 2019, respectively)	2,548	1,313	(1,024)	3,089
Other revenues	18	9	16	21
Total revenues	4,398	3,423	2,849	8,418
Benefits and expenses				
Interest sensitive contract benefits (related party of \$197 and \$114 for the three months ended and \$100 and \$297 for the six months ended June 30, 2020 and 2019, respectively)	2,076	1,094	757	2,610
Amortization of deferred sales inducements	(21)	13	(11)	18
Future policy and other policy benefits (related party of \$142 and \$91 for the three months ended and \$192 and \$197 for the six months ended June 30, 2020 and 2019, respectively)	674	1,111	2,030	3,440
Amortization of deferred acquisition costs and value of business acquired	361	261	(52)	492
Dividends to policyholders	9	9	20	18
Policy and other operating expenses (related party of \$11 and \$12 for the three months ended and \$27 and \$20 for the six months ended June 30, 2020 and 2019, respectively)	218	185	406	350
Total benefits and expenses	3,317	2,673	3,150	6,928
Income (loss) before income taxes	1,081	750	(301)	1,490
Income tax expense (benefit)	150	30	(16)	62
Net income (loss)	931	720	(285)	1,428
Less: Net income (loss) attributable to noncontrolling interests	88	—	(81)	—
Net income (loss) attributable to Athene Holding Ltd. shareholders	843	720	(204)	1,428
Less: Preferred stock dividends	19	—	37	—
Net income (loss) available to Athene Holding Ltd. common shareholders	\$ 824	\$ 720	\$ (241)	\$ 1,428
Earnings per share				
Basic – Class A	\$ 4.25	\$ 3.76	\$ (0.64)	\$ 7.43
Basic – Classes B, M-1, M-2, M-3 and M-4	N/A	3.76	(3.87)	7.43
Diluted – Class A	4.19	3.75	(0.64)	7.41
Diluted – Class B	N/A	3.76	(3.87)	7.43
Diluted – Class M-1	N/A	3.76	(3.87)	7.43
Diluted – Class M-2	N/A	3.76	(3.87)	7.43
Diluted – Class M-3	N/A	3.76	(3.87)	7.43
Diluted – Class M-4	N/A	3.28	(3.87)	6.45

N/A – Not applicable. See Notes 9 – Earnings Per Share and 10 – Equity for further information.

See accompanying notes to the unaudited condensed consolidated financial statements

[Table of Contents](#)**ATHENE HOLDING LTD.**
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 931	\$ 720	\$ (285)	\$ 1,428
Other comprehensive income (loss), before tax				
Unrealized investment gains (losses) on available-for-sale securities, net of offsets	4,506	1,261	(333)	2,738
Unrealized gains (losses) on hedging instruments	(83)	55	318	47
Foreign currency translation and other adjustments	(10)	(1)	(1)	(1)
Other comprehensive income (loss), before tax	4,413	1,315	(16)	2,784
Income tax expense related to other comprehensive income (loss)	805	261	8	552
Other comprehensive income (loss)	3,608	1,054	(24)	2,232
Comprehensive income (loss)	4,539	1,774	(309)	3,660
Less: Comprehensive income (loss) attributable to noncontrolling interests	338	—	(14)	—
Comprehensive income (loss) attributable to Athene Holding Ltd. shareholders	\$ 4,201	\$ 1,774	\$ (295)	\$ 3,660

See accompanying notes to the unaudited condensed consolidated financial statements

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ATHENE HOLDING LTD.
Condensed Consolidated Statements of Equity (Unaudited)

<i>(In millions)</i>	Three months ended							
	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Holding Ltd. shareholders' equity	Noncontrolling interests	Total shareholders' equity
Balance at March 31, 2019	\$ —	\$ —	\$ 3,448	\$ 5,963	\$ 706	\$ 10,117	\$ —	\$ 10,117
Net income	—	—	—	720	—	720	—	720
Other comprehensive income	—	—	—	—	1,054	1,054	—	1,054
Issuance of preferred shares, net of expenses	—	—	839	—	—	839	—	839
Issuance of common shares, net of expenses	—	—	1	—	—	1	—	1
Stock-based compensation	—	—	10	—	—	10	—	10
Retirement or repurchase of shares	—	—	(154)	(222)	—	(376)	—	(376)
Balance at June 30, 2019	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,144</u>	<u>\$ 6,461</u>	<u>\$ 1,760</u>	<u>\$ 12,365</u>	<u>\$ —</u>	<u>\$ 12,365</u>
Balance at March 31, 2020	\$ —	\$ —	\$ 5,501	\$ 5,613	\$ (1,174)	\$ 9,940	\$ 590	\$ 10,530
Net income	—	—	—	843	—	843	88	931
Other comprehensive income	—	—	—	—	3,358	3,358	250	3,608
Issuance of preferred shares, net of expenses	—	—	583	—	—	583	—	583
Stock-based compensation	—	—	6	—	—	6	—	6
Preferred stock dividends	—	—	—	(19)	—	(19)	—	(19)
Balance at June 30, 2020	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,090</u>	<u>\$ 6,437</u>	<u>\$ 2,184</u>	<u>\$ 14,711</u>	<u>\$ 928</u>	<u>\$ 15,639</u>

<i>(In millions)</i>	Six months ended							
	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Holding Ltd. shareholders' equity	Noncontrolling interests	Total shareholders' equity
Balance at December 31, 2018	\$ —	\$ —	\$ 3,462	\$ 5,286	\$ (472)	\$ 8,276	\$ —	\$ 8,276
Net income	—	—	—	1,428	—	1,428	—	1,428
Other comprehensive income	—	—	—	—	2,232	2,232	—	2,232
Issuance of preferred shares, net of expenses	—	—	839	—	—	839	—	839
Issuance of common shares, net of expenses	—	—	2	—	—	2	—	2
Stock-based compensation	—	—	15	—	—	15	—	15
Retirement or repurchase of shares	—	—	(174)	(253)	—	(427)	—	(427)
Balance at June 30, 2019	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,144</u>	<u>\$ 6,461</u>	<u>\$ 1,760</u>	<u>\$ 12,365</u>	<u>\$ —</u>	<u>\$ 12,365</u>
Balance at December 31, 2019	\$ —	\$ —	\$ 4,171	\$ 6,939	\$ 2,281	\$ 13,391	\$ 750	\$ 14,141
Adoption of accounting standard	—	—	—	(117)	(6)	(123)	(2)	(125)
Net loss	—	—	—	(204)	—	(204)	(81)	(285)
Other comprehensive income (loss)	—	—	—	—	(91)	(91)	67	(24)
Issuance of preferred shares, net of expenses	—	—	583	—	—	583	—	583
Issuance of common shares, net of expenses	—	—	1,509	—	—	1,509	—	1,509
Stock-based compensation	—	—	11	—	—	11	—	11
Retirement or repurchase of shares	—	—	(184)	(144)	—	(328)	—	(328)
Preferred stock dividends	—	—	—	(37)	—	(37)	—	(37)
Contributions from noncontrolling interests	—	—	—	—	—	—	240	240
Distributions to noncontrolling interests	—	—	—	—	—	—	(46)	(46)
Balance at June 30, 2020	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,090</u>	<u>\$ 6,437</u>	<u>\$ 2,184</u>	<u>\$ 14,711</u>	<u>\$ 928</u>	<u>\$ 15,639</u>

See accompanying notes to the unaudited condensed consolidated financial statements

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ATHENE HOLDING LTD.
Condensed Consolidated Statements of Cash Flows (Unaudited)

<i>(In millions)</i>	Six months ended June 30,	
	2020	2019
Cash flows from operating activities		
Net income (loss)	\$ (285)	\$ 1,428
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of deferred acquisition costs and value of business acquired	(52)	492
Amortization of deferred sales inducements	(11)	18
Accretion of net investment premiums, discounts and other	(91)	(54)
Net investment income (related party: 2020 – \$(12) and 2019 – \$(52); consolidated variable interest entities: 2020 – \$(5), 2019 – \$0)	(1)	(47)
Net recognized (gains) losses on investments and derivatives (related party: 2020 – \$75 and 2019 – \$(15); consolidated variable interest entities: 2020 – \$7 and 2019 – \$(8))	1,214	(1,526)
Policy acquisition costs deferred	(281)	(354)
Changes in operating assets and liabilities:		
Accrued investment income (related party: 2020 – \$(26) and 2019 – \$3)	(29)	(76)
Interest sensitive contract liabilities (related party: 2020 – \$102 and 2019 – \$264)	611	2,397
Future policy benefits, other policy claims and benefits, dividends payable to policyholders and reinsurance recoverable (related party: 2020 – \$140 and 2019 – \$162)	39	921
Funds withheld assets and liabilities (related party: 2020 – \$(325) and 2019 – \$(953))	375	(1,886)
Other assets and liabilities	(87)	270
Net cash provided by operating activities	1,402	1,583
Cash flows from investing activities		
Sales, maturities and repayments of:		
Available-for-sale securities (related party: 2020 – \$209 and 2019 – \$73)	6,425	5,567
Trading securities (related party: 2020 – \$31 and 2019 – \$60; consolidated variable interest entities: 2020 – \$10 and 2019 – \$33)	85	143
Equity securities (related party: 2020 – \$3 and 2019 – \$51; consolidated variable interest entities: 2020 – \$0 and 2019 – \$51)	3	70
Mortgage loans (related party: 2020 – \$0 and 2019 – \$4)	1,136	994
Investment funds (related party: 2020 – \$241 and 2019 – \$116; consolidated variable interest entities: 2020 – \$20 and 2019 – \$5)	313	186
Derivative instruments and other invested assets	765	653
Short-term investments (related party: 2020 – \$28 and 2019 – \$0)	650	163
Purchases of:		
Available-for-sale securities (related party: 2020 – \$(611) and 2019 – \$(436))	(9,624)	(7,813)
Trading securities (related party: 2020 – \$(150) and 2019 – \$(6))	(152)	(382)
Equity securities (related party: 2020 – \$(3) and 2019 – \$(213))	(16)	(332)
Mortgage loans	(2,317)	(2,558)
Investment funds (related party: 2020 – \$(807) and 2019 – \$(402); consolidated variable interest entities: 2020 – \$0 and 2019 – \$(21))	(831)	(500)
Derivative instruments and other invested assets	(1,034)	(581)
Short-term investments (related party: 2020 – \$(28) and 2019 – \$0)	(412)	(259)
Deconsolidation of previously consolidated variable interest entities	(3)	—
Other investing activities, net	276	631
Net cash used in investing activities	(4,736)	(4,018)

(Continued)

See accompanying notes to the unaudited condensed consolidated financial statements

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ATHENE HOLDING LTD.
Condensed Consolidated Statements of Cash Flows (Unaudited)

<i>(In millions)</i>	Six months ended June 30,	
	2020	2019
Cash flows from financing activities		
Issuance of common stock	\$ 350	\$ —
Repayment of short-term debt	(75)	—
Proceeds from long-term debt	499	—
Deposits on investment-type policies and contracts (related party: 2020 – \$39 and 2019 – \$117)	8,398	5,972
Withdrawals on investment-type policies and contracts (related party: 2020 – \$(210) and 2019 – \$(225))	(3,871)	(3,275)
Payments for coinsurance agreements on investment-type contracts, net	(11)	(31)
Capital contributions from noncontrolling interests	240	—
Capital distributions to noncontrolling interests	(46)	—
Net change in cash collateral posted for derivative transactions and securities to repurchase	461	1,214
Issuance of preferred stock, net of expenses	583	839
Preferred stock dividends	(37)	—
Repurchase of common stock	(328)	(427)
Other financing activities, net	71	(23)
Net cash provided by financing activities	6,234	4,269
Effect of exchange rate changes on cash and cash equivalents	(21)	—
Net increase in cash and cash equivalents	2,879	1,834
Cash and cash equivalents at beginning of year ¹	4,642	3,405
Cash and cash equivalents at end of period ¹	\$ 7,521	\$ 5,239

Supplementary information

Non-cash transactions		
Deposits on investment-type policies and contracts through reinsurance agreements (related party: 2020 – \$156 and 2019 – \$108)	\$ 28,077	\$ 423
Withdrawals on investment-type policies and contracts through reinsurance agreements (related party: 2020 – \$730 and 2019 – \$910)	1,895	1,873
Investments received from settlements on reinsurance agreements	53	31
Investments received from pension risk transfer premiums	829	1,918
Related party investments received in exchange for the issuance of Class A common shares	1,147	—

¹ Includes cash and cash equivalents and restricted cash.

(Concluded)

See accompanying notes to the unaudited condensed consolidated financial statements

ATHENE HOLDING LTD.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Business, Basis of Presentation and Significant Accounting Policies

Athene Holding Ltd. (AHL), a Bermuda exempted company, together with its subsidiaries (collectively, Athene, we, our, us, or the Company), is a leading retirement services company that issues, reinsures and acquires retirement savings products in all United States (U.S.) states and the District of Columbia, and the United Kingdom (UK).

We conduct business primarily through the following consolidated subsidiaries:

- Our non-U.S. reinsurance subsidiaries, to which AHL's other insurance subsidiaries and third-party ceding companies directly and indirectly reinsure a portion of their liabilities, including Athene Life Re Ltd. (ALRe), a Bermuda exempted company, and Athene Life Re International Ltd. (ALReI); and
- Athene USA Corporation, an Iowa corporation (together with its subsidiaries, Athene USA).

In addition, we consolidate certain variable interest entities (VIEs) for which we determined we are the primary beneficiary. See *Note 4 – Variable Interest Entities* for further information on VIEs.

Consolidation and Basis of Presentation—We have prepared the accompanying condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the United States Securities and Exchange Commission's rules and regulations for Form 10-Q and Article 10 of Regulation S-X. The accompanying condensed consolidated financial statements are unaudited and reflect all adjustments, consisting only of normal recurring items, considered necessary for fair statement of the results for the interim periods presented. All intercompany accounts and transactions have been eliminated. Interim operating results are not necessarily indicative of the results expected for the entire year, particularly in light of the material risks and uncertainties surrounding the spread of the Coronavirus Disease of 2019 (COVID-19), which has resulted in significant volatility in the financial markets.

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 us. We include the aggregate of the income or loss and corresponding equity that is not owned by us in noncontrolling interests in the consolidated financial statements.

The condensed consolidated balance sheet as of December 31, 2019 has been derived from the audited financial statements, but does not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019. The preparation of financial statements requires the use of management estimates. Our estimates may vary as more information about the extent to which COVID-19 and the resulting impact on economic conditions and the financial markets become known. Actual results may differ from estimates used in preparing the condensed consolidated financial statements.

Summary of Significant Accounting Policies

The following accounting policies have been updated for the adoption of Accounting Standards Update (ASU) 2016-13 and related ASUs, and apply for reporting periods beginning January 1, 2020.

Investments

Purchased Credit Deteriorated (PCD) Investments – We purchase certain structured securities, primarily residential mortgage backed securities (RMBS), and re-performing mortgage loans having experienced a more-than-insignificant deterioration in credit quality since their origination which upon our assessment have been determined to meet the definition of PCD investments. Additionally, structured securities classified as beneficial interests follow the initial measurement guidance for PCD investments if there is a significant difference between contractual cash flows adjusted for expected prepayments and expected cash flows at the date of recognition. The initial allowance for credit losses for PCD investments is recorded through a gross-up adjustment to the initial amortized cost. For mortgage loans, the initial allowance is determined using the methodology described in the *Credit Losses – Assets Held at Amortized Cost and Off-Balance Sheet Credit Exposures* section. For structured securities classified as beneficial interests, the initial allowance is calculated as the present value of the difference between contractual cash flows adjusted for expected prepayments and expected cash flows at the date of recognition. The non-credit purchase discount or premium is amortized into investment income using the effective interest method. The credit discount, represented by the allowance for expected credit losses, is remeasured each period following the policies for measuring credit losses described in the *Credit Losses – Assets Held at Amortized Cost and Off-Balance Sheet Credit Exposures* and *Credit Losses – Available-for-Sale Securities* sections below.

ATHENE HOLDING LTD.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Credit Losses – Assets Held at Amortized Cost and Off-Balance Sheet Credit Exposures – We establish an allowance for expected credit losses at the time of purchase for assets held at amortized cost, which primarily includes our residential and commercial mortgage loan portfolios, but also includes certain other loans and reinsurance assets. The allowance for expected credit losses represents the portion of the asset's amortized cost basis that we do not expect to collect due to credit losses over the asset's contractual life, considering past events, current conditions, and reasonable and supportable forecasts of future economic conditions or macroeconomic forecasts. We use a quantitative probability of default and loss given default methodology to develop our estimate of expected credit loss. We develop the estimate on a collective basis factoring in the risk characteristics of the assets in the portfolio. If an asset does not share similar risk characteristics with other assets, the asset is individually assessed.

Allowance estimates are highly dependent on expectations of future economic conditions and macroeconomic forecasts, which involve significant judgment and subjectivity. We use quantitative modeling to develop the allowance for expected credit losses. Key inputs into the model include data pertaining to the characteristics of the assets, historical losses and current market conditions. Additionally, the model incorporates management's expectations around future economic conditions and macroeconomic forecasts over a reasonable and supportable forecast period, after which the model reverts to historical averages. These inputs, the reasonable and supportable forecast period, and reversion to historical average technique are subject to a formal governance and review process by management. Additionally, management considers qualitative adjustments to the model output to the extent that any relevant information regarding the collectability of the asset is available and not already considered in the quantitative model. If we determine that a financial asset has become collateral dependent, which we determine to be when foreclosure is probable, the allowance is measured as the difference between amortized cost and the fair value of the collateral, less any expected costs to sell.

The initial allowance for invested assets held at amortized cost other than for PCD investments, and subsequent changes in the allowance including PCD investments, are recorded through a charge to credit loss expense within investment related gains (losses) on the condensed consolidated statements of income (loss). Credit loss expense for reinsurance assets held at amortized cost is recorded through policy and other operating expenses on the condensed consolidated statements of income (loss).

We limit accrued interest income on loans to 90 days of interest. Once a loan becomes 90 days past due, the loan is put on non-accrual status and any accrued interest is written off. Once a loan is on non-accrual status, we first apply any payments received to the principal of the loan, and once the principal is repaid, we include amounts received in net investment income. We have elected to present accrued interest receivable separately in accrued investment income on the condensed consolidated balance sheets. We have also elected the practical expedient to exclude the accrued interest receivable from the amortized cost balance used to calculate the allowance given our policy to write off such balances in a timely manner. Any write-off of accrued interest is recorded through a reversal of net investment income on the condensed consolidated statements of income (loss).

Upon determining that all or a portion of the amortized cost of an asset is uncollectible, which is generally when all efforts for collection are exhausted, the amortized cost is written off against the existing allowance. Any write off in excess of the existing allowance is recorded through credit loss expense within investment related gains (losses) on the condensed consolidated statements of income (loss).

We also have certain off-balance sheet credit exposures for which we establish a liability for expected future credit losses. These exposures primarily relate to commitments to fund commercial or residential mortgage loans that are not unconditionally cancelable. The methodology for estimating the liability for these credit exposures is consistent with that described above, with the additional consideration pertaining to the probability of funding. At the time the commitment expires or is funded, the liability is reversed and an allowance for expected credit losses is established, as applicable. The liability for off-balance sheet credit exposures is included in other liabilities on the condensed consolidated balance sheets. The establishment of the initial liability and all subsequent changes are recorded through credit loss expense within investment related gains (losses) on the condensed consolidated statements of income (loss).

Credit Losses – Available-for-Sale Securities – We evaluate available-for-sale (AFS) securities with a fair value that has declined below amortized cost to determine how the decline in fair value should be recognized. If we determine, based on the facts and circumstances related to the specific security, that 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, any existing allowance for credit losses is reversed and the amortized cost of the security is written down to fair value. If neither of these conditions exist, we evaluate whether the decline in fair value has resulted from a credit loss or other factors.

For non-structured AFS securities, we qualitatively consider relevant facts and circumstances in evaluating whether a decline below fair value is credit-related. Relevant facts and circumstances include but are not limited to: (1) the extent to which the fair value is less than amortized cost; (2) changes in agency credit ratings, (3) adverse conditions related to the security's industry or geographical area, (4) failure to make scheduled payments, and (5) other known changes in the financial condition of the issuer or quality of any underlying collateral or credit enhancements. For structured AFS securities meeting the definition of beneficial interests, the qualitative assessment is bypassed, and any securities having experienced a decline in fair value below amortized cost move directly to a quantitative analysis.

ATHENE HOLDING LTD.

Notes to Condensed Consolidated Financial Statements (Unaudited)

If upon completion of this analysis it is determined that a potential credit loss exists, an allowance for expected credit losses is established equal to the amount by which the present value of expected cash flows is less than amortized cost, limited by the amount by which fair value is less than amortized cost. A 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. A 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 expected cash flows are discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete a structured security. For securities with a contractual interest rate that varies based on changes in an independent factor, such as an index or rate, the effective interest rate is calculated based on the factor as it changes over the life of the security. Inherently under the discounted cash flow model, both the timing and amount of cash flows affect the measurement of the allowance for expected credit losses.

The allowance for expected credit losses is remeasured each period for the passage of time, any change in expected cash flows, and changes in the fair value of the security. All impairments, whether intent or requirement to sell or credit-related, are recorded through a charge to credit loss expense within investment related gains (losses) on the condensed consolidated statements of income (loss). All changes in the allowance for expected credit losses are recorded through credit loss expense within investment related gains (losses) on the condensed consolidated statements of income (loss).

We have elected to present accrued interest receivable separately in accrued investment income on the condensed consolidated balance sheets. We have also elected the practical expedient to exclude the accrued interest receivable from the amortized cost balance used to calculate the allowance for expected credit losses, as we have a policy to write off such balances in a timely manner, when they become 90 days past due. Any write-off of accrued interest is recorded through a reversal of net investment income on the condensed consolidated statements of income (loss).

Upon determining that all or a portion of the amortized cost of an asset is uncollectible, which is generally when all efforts for collection are exhausted, the amortized cost is written off against the existing allowance. Any write off in excess of the existing allowance is recorded through credit loss expense within investment related gains (losses) on the condensed consolidated statements of income (loss).

Adopted Accounting Pronouncements

Financial Instruments – Credit Losses (ASU 2019-05, ASU 2019-04, ASU 2018-19 and ASU 2016-13)

This update limits the number of credit impairment models used for different assets and results in accelerated credit loss recognition on assets held at amortized cost, which primarily includes our commercial and residential mortgage loans, but also includes certain other loans and reinsurance assets. The identification of PCD financial assets includes all assets that have experienced a more-than-insignificant deterioration in credit since origination. Additionally, changes in the expected cash flows of purchased credit-deteriorated financial assets are recognized immediately in the income statement. AFS securities are not in scope of the new credit loss model, but were subject to targeted improvements including the establishment of a valuation allowance for credit losses versus the previous direct write down approach. We adopted this update effective January 1, 2020 with a cumulative-effect adjustment that decreased retained earnings by \$117 million net of tax and offsetting impacts to DAC, DSI, VOBA and the SOP 03-1 reserve. The adjustment to retained earnings primarily relates to the establishment of an allowance on our commercial mortgage loan portfolio, which represented 1.59% of the amortized cost of the portfolio, but also includes immaterial impacts relating to other assets in scope, including residential mortgage loans, funds withheld at interest, and reinsurance recoverable.

Additionally, the update requires investments previously considered purchased credit impaired (PCI), which includes certain of our residential mortgage loans and RMBS to become subject to a modified PCD framework at the transition date. Any required allowance at transition for these assets is to be recorded through a gross-up of the amortized cost, rather than a charge to retained earnings. Additionally, under the AFS impairment model, the recording of an allowance is prohibited in instances where fair value exceeds amortized cost as such securities are not considered impaired under the AFS impairment model. Therefore, no allowance was recorded at transition for PCI RMBS that were in an unrealized gain position. The transition increase of amortized cost and corresponding valuation allowance for residential mortgage loans and RMBS was \$36 million and \$17 million, respectively.

Collaborative Arrangements (ASU 2018-18)

The amendments in this update provide guidance on whether certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606, providing comparability in the presentation of revenue for certain transactions. We adopted this update effective January 1, 2020. This update did not have a material effect on our consolidated financial statements.

Consolidation (ASU 2018-17)

The amendments in this update expand certain discussions in the VIE guidance, including considerations necessary for determining when a decision-making fee is a variable interest. We adopted this update effective January 1, 2020. The adoption of this update did not have a material effect on our consolidated financial statements.

Cloud Computing Arrangements (ASU 2018-15)

The amendments in this update align the requirements for capitalizing implementation costs incurred in a cloud computing service arrangement with the requirements for capitalizing implementation costs incurred for internal-use software. We adopted this update on a prospective basis effective January 1, 2020. This update did not have a material effect on our consolidated financial statements.

ATHENE HOLDING LTD.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Fair Value Measurement – Disclosure Requirements (ASU 2018-13)

The amendments in this update modify the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. On October 1, 2018, we early adopted the removal and modification of certain disclosures as permitted. The additional disclosures in the update were adopted effective January 1, 2020. The adoption of this update did not have a material effect on our consolidated financial statements.

Intangibles – Simplifying the Test for Goodwill Impairment (ASU 2017-04)

The amendments in this update simplify the subsequent measurement of goodwill by eliminating the comparison of the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill to determine the goodwill impairment loss. With the adoption of this guidance, a goodwill impairment is the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of the goodwill allocated to that reporting unit. Entities continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. We do not have material goodwill and adopted this update on a prospective basis effective January 1, 2020. The adoption of this update did not have a material effect on our consolidated financial statements.

Recently Issued Accounting Pronouncements

Insurance – Targeted Improvements to the Accounting for Long-Duration Contracts (ASU 2019-09, ASU 2018-12)

These updates amend four key areas pertaining to the accounting and disclosures for long-duration insurance and investment contracts.

- The update requires cash flow assumptions used to measure the liability for future policy benefits to be updated at least annually and no longer allows a provision for adverse deviation. The remeasurement of the liability associated with the update of assumptions is required to be recognized in net income. Loss recognition testing is eliminated for traditional and limited-payment contracts. The update also requires the discount rate used in measuring the liability to be an upper-medium grade fixed-income instrument yield, which is to be updated at each reporting date. The change in liability due to changes in the discount rate is to be recognized in other comprehensive income.
- The update simplifies the amortization of deferred acquisition costs and other balances amortized in proportion to premiums, gross profits, or gross margins, requiring such balances to be amortized on a constant level basis over the expected term of the contracts. Deferred costs are required to be written off for unexpected contract terminations but are not subject to impairment testing.
- The update requires certain contract features meeting the definition of market risk benefits to be measured at fair value. Among the features included in this definition are the guaranteed lifetime withdrawal benefits (GLWB) and guaranteed minimum death benefit (GMDB) riders attached to our annuity products. The change in fair value of the market risk benefits is to be recognized in net income, excluding the portion attributable to changes in instrument-specific credit risk which is recognized in other comprehensive income.
- The update also introduces disclosure requirements around the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs. This includes disaggregated rollforwards of these balances and information about significant inputs, judgments, assumptions and methods used in their measurement.

While we are currently required to adopt these updates on January 1, 2022, the Financial Accounting Standards Board has proposed a deferral to the adoption date, which, if codified, would require adoption on January 1, 2023. Certain provisions of the update are required to be adopted on a fully retrospective basis, while others may be adopted on a modified retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Income Taxes – Simplifying the Accounting for Income Taxes (ASU 2019-12)

The amendments in this update simplify the accounting for income taxes by eliminating certain exceptions to the tax accounting guidance related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities related to foreign investment ownership changes. It also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill and allocating consolidated income taxes to separate financial statements of entities not subject to income tax. We will be required to adopt this update January 1, 2021 and apply certain aspects of the update retrospectively while other aspects will be applied on a modified retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

2. Investments

AFS Securities—Our AFS investment portfolio includes bonds, collateralized loan obligations (CLO), asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), RMBS and redeemable preferred stock. Our AFS investment portfolio includes related party investments that are primarily comprised of investments over which Apollo can exercise significant influence. These investments are presented as investments in related parties on the condensed consolidated balance sheets, and are separately disclosed below.

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ATHENE HOLDING LTD.
Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table represents the amortized cost, allowance for credit losses, gross unrealized gains and losses and fair value of our AFS investments by asset type:

<i>(In millions)</i>	June 30, 2020				
	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS securities					
U.S. government and agencies	\$ 71	\$ —	\$ 3	\$ —	\$ 74
U.S. state, municipal and political subdivisions	799	—	146	(2)	943
Foreign governments	318	—	20	(1)	337
Corporate	47,251	(31)	4,608	(629)	51,199
CLO	8,441	(1)	19	(507)	7,952
ABS	4,923	(2)	110	(258)	4,773
CMBS	2,402	(10)	53	(148)	2,297
RMBS	7,010	(129)	343	(64)	7,160
Total AFS securities	71,215	(173)	5,302	(1,609)	74,735
AFS securities – related party					
Corporate	18	—	2	—	20
CLO	1,297	(2)	5	(61)	1,239
ABS	2,858	—	26	(73)	2,811
Total AFS securities – related party	4,173	(2)	33	(134)	4,070
Total AFS securities including related party	\$ 75,388	\$ (175)	\$ 5,335	\$ (1,743)	\$ 78,805

The following table represents the amortized cost, gross unrealized gains and losses, fair value and other than temporary impairments (OTTI) in accumulated other comprehensive income (AOCI) of our AFS investments by asset type:

<i>(In millions)</i>	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
AFS securities					
U.S. government and agencies	\$ 35	\$ 1	\$ —	\$ 36	\$ —
U.S. state, municipal and political subdivisions	1,322	220	(1)	1,541	—
Foreign governments	298	29	—	327	—
Corporate	44,106	3,332	(210)	47,228	1
CLO	7,524	21	(196)	7,349	—
ABS	5,018	124	(24)	5,118	4
CMBS	2,304	104	(8)	2,400	1
RMBS	6,872	513	(10)	7,375	19
Total AFS securities	67,479	4,344	(449)	71,374	25
AFS securities – related party					
Corporate	18	1	—	19	—
CLO	951	3	(18)	936	—
ABS	2,814	37	(2)	2,849	—
Total AFS securities – related party	3,783	41	(20)	3,804	—
Total AFS securities including related party	\$ 71,262	\$ 4,385	\$ (469)	\$ 75,178	\$ 25

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

(In millions)	June 30, 2020	
	Amortized Cost	Fair Value
AFS securities		
Due in one year or less	\$ 1,203	\$ 1,210
Due after one year through five years	9,089	9,467
Due after five years through ten years	11,247	11,958
Due after ten years	26,900	29,918
CLO, ABS, CMBS and RMBS	22,776	22,182
Total AFS securities	71,215	74,735
AFS securities – related party		
Due after one year through five years	18	20
CLO and ABS	4,155	4,050
Total AFS securities – related party	4,173	4,070
Total AFS securities including related party	\$ 75,388	\$ 78,805

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.

Unrealized Losses on AFS Securities—The following summarizes the fair value and gross unrealized losses for AFS securities, including related party, for which an allowance for credit losses has not been recorded, aggregated by asset type and length of time the fair value has remained below amortized cost:

(In millions)	June 30, 2020					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
AFS securities						
U.S. government and agencies	\$ 11	\$ —	\$ —	\$ —	\$ 11	\$ —
U.S. state, municipal and political subdivisions	43	(1)	10	(1)	53	(2)
Foreign governments	76	(1)	—	—	76	(1)
Corporate	7,217	(451)	398	(84)	7,615	(535)
CLO	4,063	(189)	2,782	(305)	6,845	(494)
ABS	2,161	(211)	159	(23)	2,320	(234)
CMBS	878	(123)	30	(10)	908	(133)
RMBS	817	(36)	32	(2)	849	(38)
Total AFS securities	15,266	(1,012)	3,411	(425)	18,677	(1,437)
AFS securities – related party						
CLO	937	(44)	172	(17)	1,109	(61)
ABS	1,930	(73)	—	—	1,930	(73)
Total AFS securities – related party	2,867	(117)	172	(17)	3,039	(134)
Total AFS securities including related party	\$ 18,133	\$ (1,129)	\$ 3,583	\$ (442)	\$ 21,716	\$ (1,571)

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The following summarizes the fair value and gross unrealized losses for AFS securities, including related party, aggregated by asset type and length of time the fair value has remained below amortized cost:

(In millions)	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
AFS securities						
U.S. government and agencies	\$ 3	\$ —	\$ —	\$ —	\$ 3	\$ —
U.S. state, municipal and political subdivisions	78	(1)	10	—	88	(1)
Corporate	2,898	(140)	902	(70)	3,800	(210)
CLO	1,959	(38)	3,241	(158)	5,200	(196)
ABS	642	(6)	255	(18)	897	(24)
CMBS	220	(4)	41	(4)	261	(8)
RMBS	445	(6)	163	(4)	608	(10)
Total AFS securities	6,245	(195)	4,612	(254)	10,857	(449)
AFS securities – related party						
CLO	362	(7)	242	(11)	604	(18)
ABS	357	(2)	—	—	357	(2)
Total AFS securities – related party	719	(9)	242	(11)	961	(20)
Total AFS securities including related party	\$ 6,964	\$ (204)	\$ 4,854	\$ (265)	\$ 11,818	\$ (469)

As of June 30, 2020, we held 2,316 AFS securities that were in an unrealized loss position. Of this total, 365 were in an unrealized loss position 12 months or more. As of June 30, 2020, we held 152 related party AFS securities that were in an unrealized loss position. Of this total, 18 were in an unrealized loss position 12 months or more. The unrealized losses on AFS securities can primarily be attributed to changes in market interest rates since acquisition. We did not recognize the unrealized losses in income as we intend to hold these securities and it is not more likely than not we will be required to sell a security before the recovery of its amortized cost.

Allowance for Credit Losses—The following table summarizes the activity in the allowance for credit losses for AFS securities by asset type:

(In millions)	Three months ended June 30, 2020					
	Beginning balance	Additions		Reductions		Ending Balance
		Initial credit losses	Initial credit losses on PCD securities	Securities sold during the period	Additions (reductions) to previously impaired securities	
AFS securities						
Corporate	\$ 15	\$ 16	\$ —	\$ —	\$ —	\$ 31
CLO	—	1	—	—	—	1
ABS	5	—	—	—	(3)	2
CMBS	4	5	—	—	1	10
RMBS	54	13	60	(1)	3	129
Total AFS securities	78	35	60	(1)	1	173
AFS securities – related party						
CLO	—	1	—	—	1	2
Total AFS securities including related party	\$ 78	\$ 36	\$ 60	\$ (1)	\$ 2	\$ 175

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<i>(In millions)</i>	Six months ended June 30, 2020					
	Beginning balance	Additions		Reductions		Ending Balance
		Initial credit losses	Initial credit losses on PCD securities	Securities sold during the period	Additions (reductions) to previously impaired securities	
AFS securities						
Corporate	\$ —	\$ 31	\$ —	\$ —	\$ —	\$ 31
CLO	—	1	—	—	—	1
ABS	—	5	—	—	(3)	2
CMBS	—	9	—	—	1	10
RMBS	17	48	61	(2)	5	129
Total AFS securities	17	94	61	(2)	3	173
AFS securities – related party						
CLO	—	1	—	—	1	2
Total AFS securities including related party	\$ 17	\$ 95	\$ 61	\$ (2)	\$ 4	\$ 175

Net Investment Income—Net investment income by asset class consists of the following:

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
AFS securities	\$ 790	\$ 763	\$ 1,627	\$ 1,516
Trading securities	42	49	90	91
Equity securities	2	4	6	7
Mortgage loans	175	159	361	310
Investment funds	372	123	94	149
Funds withheld at interest	43	134	84	297
Other	38	45	75	84
Investment revenue	1,462	1,277	2,337	2,454
Investment expenses	(126)	(95)	(256)	(190)
Net investment income	\$ 1,336	\$ 1,182	\$ 2,081	\$ 2,264

Investment Related Gains (Losses)—Investment related gains (losses) by asset class consists of the following:

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
AFS securities				
Gross realized gains on investment activity	\$ 68	\$ 56	\$ 232	\$ 73
Gross realized losses on investment activity	(66)	(4)	(200)	(17)
Net realized investment gains on AFS securities	2	52	32	56
Net recognized investment gains (losses) on trading securities	191	79	(32)	135
Net recognized investment gains (losses) on equity securities	30	1	(20)	19
Derivative gains (losses)	2,330	1,181	(689)	2,873
Provision for credit losses	(5)	—	(289)	—
Other gains (losses)	—	—	(26)	6
Investment related gains (losses)	\$ 2,548	\$ 1,313	\$ (1,024)	\$ 3,089

Proceeds from sales of AFS securities were \$1,778 million and \$1,958 million for the three months ended June 30, 2020 and 2019, respectively, and \$3,585 million and \$3,211 million for the six months ended June 30, 2020 and 2019, respectively.

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The following table summarizes the change in unrealized gains (losses) on trading and equity securities we held as of the respective period end:

(In millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Trading securities	\$ 135	\$ 98	\$ 62	\$ 169
Trading securities – related party	66	(13)	(43)	(15)
Equity securities	17	2	(20)	20
Equity securities – related party	—	(5)	—	(2)

Purchased Financial Assets with Credit Deterioration—The following table summarizes our PCD investment purchases with the following amounts at the time of purchase:

(In millions)	Three months ended June 30, 2020		Six months ended June 30, 2020	
	Fixed maturity securities	Mortgage loans	Fixed maturity securities	Mortgage loans
Purchase price	\$ 225	\$ —	\$ 239	\$ —
Allowance for credit losses at acquisition	60	—	61	—
Discount (premiums) attributable to other factors	33	—	34	—
Par value	\$ 318	\$ —	\$ 334	\$ —

Repurchase Agreements—The following table summarizes the maturities of our repurchase agreements:

(In millions)	June 30, 2020					
	Remaining Contractual Maturity					
	Overnight and continuous	Less than 30 days	30-90 days	91 days – 1 year	Greater than 1 year	Total
Payables for repurchase agreements ¹	\$ —	\$ —	\$ 501	\$ 500	\$ 598	\$ 1,599

¹ Included in payables for collateral on derivatives and securities to repurchase on the condensed consolidated balance sheets.

(In millions)	December 31, 2019					
	Remaining Contractual Maturity					
	Overnight and continuous	Less than 30 days	30-90 days	91 days – 1 year	Greater than 1 year	Total
Payables for repurchase agreements ¹	\$ —	\$ 102	\$ 200	\$ 210	\$ —	\$ 512

¹ Included in payables for collateral on derivatives and securities to repurchase on the condensed consolidated balance sheets.

The following table summarizes the securities pledged as collateral for repurchase agreements:

(In millions)	June 30, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AFS securities – Corporate	\$ 1,595	\$ 1,829	\$ 498	\$ 534

Reverse Repurchase Agreements—Reverse repurchase agreements represent the purchase of investments from a seller with the agreement that the investments will be repurchased by the seller at a specified price and date or within a specified period of time. The investments purchased, which represent collateral on a secured lending arrangement, are not reflected in our condensed consolidated balance sheets; however, the secured lending arrangement is recorded as a short-term investment for the principal amount loaned under the agreement. As of June 30, 2020 and December 31, 2019, amounts loaned under reverse repurchase agreements were \$0 million and \$190 million, respectively, and collateral backing the agreement was \$0 million and \$630 million, respectively.

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Mortgage Loans, including related party—Mortgage loans, net of allowances, consists of the following:

<i>(In millions)</i>	June 30, 2020	December 31, 2019
Commercial mortgage loans	\$ 11,339	\$ 10,422
Commercial mortgage loans under development	186	93
Total commercial mortgage loans	11,525	10,515
Allowance for credit losses on commercial mortgage loans	(294)	(10)
Commercial mortgage loans, net of allowances	11,231	10,505
Residential mortgage loans	4,683	4,455
Allowance for credit losses on residential mortgage loans	(85)	(1)
Residential mortgage loans, net of allowances	4,598	4,454
Mortgage loans, net of allowances	\$ 15,829	\$ 14,959

We primarily invest in commercial mortgage loans on income producing properties including office and retail buildings, apartments, hotels and industrial properties. We diversify the commercial mortgage loan portfolio by geographic region and property type to reduce concentration risk. We evaluate mortgage loans based on relevant current information to confirm if properties are performing at a consistent and acceptable level to secure the related debt.

The distribution of commercial mortgage loans, including those under development, net of allowances, by property type and geographic region, is as follows:

<i>(In millions, except for percentages)</i>	June 30, 2020		December 31, 2019	
	Net Carrying Value	Percentage of Total	Net Carrying Value	Percentage of Total
Property type				
Office building	\$ 3,545	31.6%	\$ 2,899	27.6%
Retail	2,080	18.5%	2,182	20.8%
Apartment	2,401	21.4%	2,142	20.4%
Hotels	1,131	10.1%	1,104	10.5%
Industrial	1,385	12.3%	1,448	13.8%
Other commercial	689	6.1%	730	6.9%
Total commercial mortgage loans	\$ 11,231	100.0%	\$ 10,505	100.0%
U.S. Region				
East North Central	\$ 1,202	10.7%	\$ 1,036	9.9%
East South Central	417	3.7%	428	4.1%
Middle Atlantic	3,058	27.3%	2,580	24.6%
Mountain	508	4.5%	528	5.0%
New England	336	3.0%	340	3.2%
Pacific	2,585	23.0%	2,502	23.8%
South Atlantic	1,988	17.7%	1,920	18.3%
West North Central	137	1.2%	146	1.4%
West South Central	765	6.8%	791	7.5%
Total U.S. Region	10,996	97.9%	10,271	97.8%
International Region	235	2.1%	234	2.2%
Total commercial mortgage loans	\$ 11,231	100.0%	\$ 10,505	100.0%

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Our residential mortgage loan portfolio includes first lien residential mortgage loans collateralized by properties in various geographic locations and is summarized by proportion of the portfolio in the following table:

	June 30, 2020	December 31, 2019
U.S. States		
California	36.5%	27.0%
Florida	11.5%	12.7%
Texas	4.4%	6.2%
Other ¹	35.5%	41.7%
Total U.S. residential mortgage loan percentage	87.9%	87.6%
International – Ireland	11.9%	12.4%
International – Other ²	0.2%	—%
Total residential mortgage loan percentage	100.0%	100.0%

¹ Represents all other states, with each individual state comprising less than 5% of the portfolio.

² Represents all other countries, with each individual country comprising less than 5% of the portfolio.

Loan Valuation Allowance—The allowances for our mortgage loan portfolio and other loans is summarized as follows:

(In millions)	Three months ended June 30, 2020				Six months ended June 30, 2020			
	Commercial Mortgage	Residential Mortgage	Other Investments	Total	Commercial Mortgage	Residential Mortgage	Other Investments	Total
Beginning balance	\$ 343	\$ 81	\$ 12	\$ 436	\$ 10	\$ 1	\$ —	\$ 11
Adoption of accounting standard	—	—	—	—	167	43	11	221
Provision (reversal) for expected credit losses	(49)	5	8	(36)	117	42	9	168
Loans charged-off	—	(1)	—	(1)	—	(1)	—	(1)
Ending balance	\$ 294	\$ 85	\$ 20	\$ 399	\$ 294	\$ 85	\$ 20	\$ 399

Residential mortgage loans – Our allowance model for residential mortgage loans is based on the characteristics of the loans in our portfolio, historical economic data and loss information, and current and forecasted economic conditions. Key loan characteristics affecting the estimate include, among others: time to maturity, delinquency status, original credit scores and loan-to-value ratios. Key macroeconomic variables include unemployment rates and the housing price index. Management reviews and approves forecasted macroeconomic variables, along with the reasonable and supportable forecast period and mean reversion technique. Management also evaluates assumptions from independent third parties and these assumptions have a high degree of subjectivity. The mean reversion technique varies by macroeconomic variable and may vary by geographic location. As of June 30, 2020, our reasonable and supportable forecast period was one year, after which, we revert to the 30-year or greater historical average over a period of up to one year and then continue at those averages through the contractual life of the loan.

Commercial mortgage loans – Our allowance model for commercial mortgage loans is based on the characteristics of the loans in our portfolio, historical economic data and loss information, and current and forecasted economic conditions. Key loan characteristics affecting the estimate include, among others: time to maturity, delinquency status, loan-to-value ratios, debt service coverage ratios, etc. Key macroeconomic variables include unemployment rates, rent growth, capitalization rates, and the housing price index. Management reviews and approves forecasted macroeconomic variables, along with the reasonable and supportable forecast period and mean reversion technique. Management also evaluates assumptions from independent third parties and these assumptions have a high degree of subjectivity. The mean reversion technique varies by macroeconomic variable and may vary by geographic location. As of June 30, 2020, our reasonable and supportable forecast period ranged from one year to two years, after which, we revert to the 30-year or greater historical average over a period of up to eight years.

Other investments – The allowance model for the loans included in other investments and related party other investments derives an estimate based on historical loss data available for similarly rated unsecured corporate debt obligations, while also incorporating management’s expectations around prepayment. See *Note 11 – Related Parties* for further information on the related party loans.

Credit Quality Indicators

Residential mortgage loans – The underwriting process for our residential mortgage loans includes an evaluation of relevant credit information including past loan performance, credit scores, loan-to-value and other relevant information. Subsequent to purchase or origination, we closely monitor economic conditions and loan performance to manage and evaluate our exposure to credit risk in our residential mortgage loan portfolio. The primary credit quality indicator monitored for residential mortgage loans is loan performance. Nonperforming residential mortgage loans are 90 days or more past due and/or are in non-accrual status.

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The following represents our residential loan portfolio by origination year and performance status:

(In millions)	June 30, 2020							Total
	2020	2019	2018	2017	2016	Prior		
Current (less than 30 days past due)	\$ 794	\$ 959	\$ 1,782	\$ 467	\$ 114	\$ 8	\$ 4,124	
30 to 59 days past due	4	30	85	43	19	—	181	
60 to 89 days past due	1	53	122	50	22	—	248	
Over 90 days past due	—	22	34	48	24	2	130	
Total residential mortgages	\$ 799	\$ 1,064	\$ 2,023	\$ 608	\$ 179	\$ 10	\$ 4,683	

As of December 31, 2019, \$67 million of our residential mortgage loans were nonperforming.

The following represents our residential loan portfolio in non-accrual status:

(In millions)	June 30, 2020
Beginning amortized cost of residential mortgage loans in non-accrual status	\$ 67
Ending amortized cost of residential mortgage loans in non-accrual status	130
Amortized cost of residential mortgage loans in non-accrual status without a related allowance for credit losses	22

During the three months and six months ended June 30, 2020, we recognized \$0 million and \$1 million, respectively, of interest income on residential mortgage loans in non-accrual status.

Commercial mortgage loans – The following represents our commercial mortgage loan portfolio by origination year and loan performance status:

(In millions)	June 30, 2020							Total
	2020	2019	2018	2017	2016	Prior		
Current (less than 30 days past due)	\$ 1,266	\$ 4,553	\$ 2,860	\$ 1,049	\$ 146	\$ 1,651	\$ 11,525	

As of December 31, 2019, none of our commercial loans were 30 days or more past due.

The following represents our commercial mortgage loan portfolio in non-accrual status:

(In millions)	June 30, 2020
Beginning amortized cost of commercial mortgage loans in non-accrual status	\$ —
Ending amortized cost of commercial mortgage loans in non-accrual status	39
Amortized cost of commercial mortgage loans in non-accrual status without a related allowance for credit losses	—

During the three months and six months ended June 30, 2020, no interest income was recognized on commercial mortgage loans in non-accrual status.

Loan-to-value and debt service coverage ratios are measures we use to assess the risk and quality of commercial mortgage loans other than those under development. Loans under development are not evaluated using these ratios as the properties underlying these loans are generally not yet income-producing and the value of the underlying property significantly fluctuates based on the progress of construction. Therefore, the risk and quality of loans under development are evaluated based on the aging and geographical distribution of such loans as shown above.

The loan-to-value ratio is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A loan-to-value ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. Loan-to-value information is updated annually as part of the re-underwriting process supporting the NAIC risk based capital rating criteria. The following represents the loan-to-value ratio of the commercial mortgage loan portfolio, excluding those under development, by origination year:

(In millions)	June 30, 2020							Total
	2020	2019	2018	2017	2016	Prior		
Less than 50%	\$ 274	\$ 631	\$ 207	\$ 147	\$ 60	\$ 1,324	\$ 2,643	
50% to 60%	144	1,268	831	332	40	135	2,750	
61% to 70%	442	2,023	1,445	475	46	106	4,537	
71% to 80%	342	599	287	95	—	47	1,370	
Greater than 100%	—	—	—	—	—	39	39	
Commercial mortgage loans	\$ 1,202	\$ 4,521	\$ 2,770	\$ 1,049	\$ 146	\$ 1,651	\$ 11,339	

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The following represents the loan-to-value ratio of the commercial mortgage loan portfolio, excluding those under development, net of valuation allowances:

<i>(In millions)</i>	December 31, 2019
Less than 50%	\$ 2,640
50% to 60%	2,486
61% to 70%	4,093
71% to 80%	1,162
81% to 100%	31
Commercial mortgage loans	\$ 10,412

The debt service coverage ratio is expressed as a percentage of a property's net operating income to its debt service payments. A debt service ratio of less than 1.0 indicates a property's operations do not generate enough income to cover debt payments. Debt service coverage ratios are updated as more recent financial statements become available, at least annually or as frequently as quarterly in some cases. The following represents the debt service coverage ratio of the commercial mortgage loan portfolio, excluding those under development, by origination year:

<i>(In millions)</i>	June 30, 2020						
	2020	2019	2018	2017	2016	Prior	Total
Greater than 1.20x	\$ 928	\$ 3,501	\$ 2,712	\$ 994	\$ 146	\$ 1,564	\$ 9,845
1.00x – 1.20x	274	1,020	58	32	—	80	1,464
Less than 1.00x	—	—	—	23	—	7	30
Commercial mortgage loans	\$ 1,202	\$ 4,521	\$ 2,770	\$ 1,049	\$ 146	\$ 1,651	\$ 11,339

The following represents the debt service coverage ratio of the commercial mortgage loan portfolio, excluding those under development, net of valuation allowances:

<i>(In millions)</i>	December 31, 2019
Greater than 1.20x	\$ 9,212
1.00x – 1.20x	1,166
Less than 1.00x	34
Commercial mortgage loans	\$ 10,412

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Investment Funds—Our investment fund portfolio consists of funds that employ various strategies and include investments in real estate, real assets, credit, equity and natural resources. Investment funds can meet the definition of VIEs. Our investment funds do not specify timing of distributions on the funds' underlying assets.

The following summarizes our investment funds, including related party:

	June 30, 2020		December 31, 2019	
	Carrying value	Percent of total	Carrying value	Percent of total
<i>(In millions, except for percentages)</i>				
Investment funds				
Real estate	\$ 274	40.2%	\$ 277	36.9%
Credit funds	115	16.9%	153	20.4%
Private equity	232	34.0%	236	31.5%
Real assets	61	8.9%	83	11.1%
Natural resources	—	—%	1	0.1%
Total investment funds	682	100.0%	750	100.0%
Investment funds – related parties				
Differentiated investments				
MidCap FinCo Designated Activity Company (MidCap) ¹	517	9.8%	547	15.4%
AmeriHome Mortgage Company, LLC (AmeriHome) ¹	594	11.3%	487	13.7%
Catalina Holdings Ltd. (Catalina)	295	5.6%	271	7.6%
Athora Holding Ltd. (Athora) ¹	497	9.4%	132	3.7%
Venerable Holdings, Inc. (Venerable) ¹	118	2.2%	99	2.8%
Other	246	4.7%	222	6.3%
Total differentiated investments	2,267	43.0%	1,758	49.5%
Real estate	709	13.4%	853	24.0%
Credit funds	363	6.9%	370	10.4%
Private equity	255	4.8%	105	3.0%
Real assets	233	4.4%	182	5.1%
Natural resources	95	1.8%	163	4.6%
Public equities	43	0.8%	119	3.4%
Investment in Apollo ¹	1,313	24.9%	—	—%
Total investment funds – related parties	5,278	100.0%	3,550	100.0%
Total investment funds including related party	\$ 5,960		\$ 4,300	

¹ See further discussion on MidCap, AmeriHome, Athora, Venerable and our investment in Apollo in Note 11 – Related Parties.

Non-Consolidated Securities and Investment Funds

Fixed maturity securities – We invest in securitization entities as a debt holder or an investor in the residual interest of the securitization vehicle. 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 of 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 GAAP, 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 and are held at fair value on the balance sheet and classified as AFS or trading.

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

Equity securities – We invest in preferred equity securities issued by entities deemed to be VIEs due to insufficient equity within the structure.

Our risk of loss associated with our non-consolidated investments depends on the investment. Investment funds, equity securities and trading securities are limited to the carrying value plus unfunded commitments. AFS securities are limited to amortized cost plus unfunded commitments.

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

(In millions)	June 30, 2020		December 31, 2019	
	Carrying Value	Maximum Loss Exposure	Carrying Value	Maximum Loss Exposure
Investment funds	\$ 682	\$ 1,165	\$ 750	\$ 1,265
Investment in related parties – investment funds	5,278	7,316	3,550	5,955
Investment in fixed maturity securities	22,589	23,183	22,694	22,170
Investment in related parties – fixed maturity securities	4,922	5,393	4,570	4,878
Investment in related parties – equity securities	52	52	58	58
Total non-consolidated investments	<u>\$ 33,523</u>	<u>\$ 37,109</u>	<u>\$ 31,622</u>	<u>\$ 34,326</u>

3. Derivative Instruments

We use a variety of derivative instruments to manage risks, primarily equity, interest rate, credit, foreign currency and market volatility. See *Note 5 – Fair Value* for information about the fair value hierarchy for derivatives.

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

(In millions)	June 30, 2020			December 31, 2019		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as hedges						
Foreign currency swaps	3,255	\$ 414	\$ 38	3,158	\$ 113	\$ 56
Foreign currency forwards	1,055	4	1	717	1	9
Foreign currency forwards on net investments	132	1	—	139	—	2
Total derivatives designated as hedges		<u>419</u>	<u>39</u>		<u>114</u>	<u>67</u>
Derivatives not designated as hedges						
Equity options	52,123	1,836	14	49,549	2,746	5
Futures	19	80	—	8	10	1
Total return swaps	516	7	2	106	6	—
Foreign currency swaps	511	2	2	35	2	1
Interest rate swaps	887	14	44	776	3	4
Credit default swaps	10	—	5	10	—	3
Foreign currency forwards	2,964	21	12	1,924	7	16
Embedded derivatives						
Funds withheld including related party		1,323	46		1,395	31
Interest sensitive contract liabilities		—	11,140		—	10,942
Total derivatives not designated as hedges		<u>3,283</u>	<u>11,265</u>		<u>4,169</u>	<u>11,003</u>
Total derivatives		<u>\$ 3,702</u>	<u>\$ 11,304</u>		<u>\$ 4,283</u>	<u>\$ 11,070</u>

Derivatives Designated as Hedges

Foreign currency swaps – We use foreign currency swaps to convert foreign currency denominated cash flows of an investment to U.S. dollars to reduce cash flow fluctuations due to changes in currency exchange rates. Certain of these swaps are designated and accounted for as cash flow hedges, which will expire by December 2050. During the three months ended June 30, 2020 and 2019, we had foreign currency swap losses of \$83 million and gains of \$55 million, respectively, recorded in AOCI. During the six months ended June 30, 2020 and 2019, we had foreign currency swap gains of \$318 million and \$47 million, respectively, recorded in AOCI. There were no amounts reclassified to income and no amounts deemed ineffective for the six months ended June 30, 2020 and 2019. As of June 30, 2020, no amounts are expected to be reclassified to income within the next 12 months.

Foreign currency forwards – We use foreign currency forward contracts to hedge certain exposures to foreign currency risk. The price is agreed upon at the time of the contract and payment is made at a specified future date. Certain of these forwards are designated and accounted for as fair value hedges. As of June 30, 2020 and December 31, 2019, the carrying amount of the hedged AFS securities was \$1,065 million and \$456 million, respectively, and the cumulative amount of fair value hedging adjustments included in the hedged AFS securities included gains of \$10 million and \$1 million, respectively.

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The following is a summary of the gains (losses) related to the derivatives and related hedged items in fair value hedge relationships, which are included in investment related gains (losses) on the condensed consolidated statements of income (loss):

(In millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Derivatives	\$ (20)	\$ (3)	\$ (8)	\$ —
Related AFS securities	17	(4)	9	(1)
Total gains (losses) on derivatives and related hedged items	\$ (3)	\$ (7)	\$ 1	\$ (1)

Foreign currency forwards on net investments – We have foreign currency forwards designated as net investment hedges. These forwards hedge the foreign currency exchange rate risk of our investments in subsidiaries that have a reporting currency other than the U.S. dollar. We assess hedge effectiveness based on the changes in forward rates. During the three months and six months ended June 30, 2020, these derivatives had losses of \$11 million and gains of \$2 million, respectively, which are included in foreign currency translation and other adjustments on the condensed consolidated statements of comprehensive income (loss). As of June 30, 2020 and December 31, 2019, the cumulative foreign currency translation recorded in AOCI related to these net investment hedges were gains of \$1 million and losses of \$2 million, respectively. During the three and six months ended June 30, 2020, there were no amounts deemed ineffective.

Derivatives Not Designated as Hedges

Equity options – We use equity indexed options to economically hedge fixed indexed annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index, primarily the S&P 500. To hedge against adverse changes in equity indices, we enter into contracts to buy equity indexed options. The contracts are net settled in cash based on differentials in the indices at the time of exercise and the strike price.

Futures – Futures contracts are purchased to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. We enter into exchange-traded futures with regulated futures commission clearing brokers who are members of a trading exchange. Under exchange-traded futures contracts, we agree to purchase a specified number of contracts with other parties and to post variation margin on a daily basis in an amount equal to the difference in the daily fair values of those contracts.

Total return swaps – We purchase total rate of return swaps to gain exposure and benefit from a reference asset or index without ownership. Total rate of return swaps are contracts in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset or index, which includes both the income it generates and any capital gains.

Interest rate swaps – We use interest rate swaps to reduce market risks from interest rate changes and to alter interest rate exposure arising from duration mismatches between assets and liabilities. With an interest rate swap, we agree with another party to exchange the difference between fixed-rate and floating-rate interest amounts tied to an agreed-upon notional principal amount at specified intervals.

Credit default swaps – Credit default swaps provide a measure of protection against the default of an issuer or allow us to gain credit exposure to an issuer or traded index. We use credit default swaps coupled with a bond to synthetically create the characteristics of a reference bond. These transactions have a lower cost and are generally more liquid relative to the cash market. We receive a periodic premium for these transactions as compensation for accepting credit risk.

Hedging credit risk involves buying protection for existing credit risk. The exposure resulting from the agreements, which is usually the notional amount, is equal to the maximum proceeds that must be paid by a counterparty for a defaulted security. If a credit event occurs on a reference entity, then a counterparty who sold protection is required to pay the buyer the trade notional amount less any recovery value of the security.

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 modified coinsurance (modco) or funds withheld basis and indexed annuity products.

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The following is a summary of the gains (losses) related to derivatives not designated as hedges:

(In millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Equity options	\$ 672	\$ 439	\$ (909)	\$ 1,288
Futures	(3)	(3)	13	(14)
Swaps	55	11	(20)	29
Foreign currency forwards	(23)	(1)	44	5
Embedded derivatives on funds withheld	1,629	735	183	1,565
Amounts recognized in investment related gains (losses)	2,330	1,181	(689)	2,873
Embedded derivatives in indexed annuity products ¹	(1,534)	(638)	(357)	(1,655)
Total gains (losses) on derivatives not designated as hedges	\$ 796	\$ 543	\$ (1,046)	\$ 1,218

¹ Included in interest sensitive contract benefits on the condensed consolidated statements of income (loss).

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.

We manage credit risk related to over-the-counter derivatives by entering into transactions with creditworthy counterparties. Where possible, we maintain collateral arrangements and use master netting agreements that provide for a single net payment from one counterparty to another at each due date and upon termination. We have also established counterparty exposure limits, where possible, in order to evaluate if there is sufficient collateral to support the net exposure.

Collateral arrangements typically require the posting of collateral in connection with its derivative instruments. Collateral agreements often contain posting thresholds, some of which may vary depending on the posting party's financial strength ratings. Additionally, a decrease in our financial strength rating to a specified level can result in settlement of the derivative position.

The estimated fair value of our net derivative and other financial assets and liabilities after the application of master netting agreements and collateral were as follows:

(In millions)	Gross amount recognized ¹	Gross amounts not offset on the condensed consolidated balance sheets		Net amount	Off-balance sheet securities collateral ³	Net amount after securities collateral
		Financial instruments ²	Collateral (received)/pledged			
June 30, 2020						
Derivative assets	\$ 2,379	\$ (32)	\$ (2,117)	\$ 230	\$ (93)	\$ 137
Derivative liabilities	(118)	32	9	(77)	—	(77)
December 31, 2019						
Derivative assets	\$ 2,888	\$ (67)	\$ (2,743)	\$ 78	\$ (145)	\$ (67)
Derivative liabilities	(97)	67	31	1	—	1

¹ The gross amounts of recognized derivative assets and derivative liabilities are reported on the condensed consolidated balance sheets. As of June 30, 2020 and December 31, 2019, amounts not subject to master netting or similar agreements were immaterial.

² Represents amounts offsetting derivative assets and derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets or gross derivative liabilities for presentation on the condensed consolidated balance sheets.

³ For non-cash collateral received, we do not recognize the collateral on our balance sheet unless the obligor (transferor) has defaulted under the terms of the secured contract and is no longer entitled to redeem the pledged asset. Amounts do not include any excess of collateral pledged or received.

4. Variable Interest Entities

VIE Deconsolidation—During the first quarter 2020, as a result of the Apollo Global Management, Inc. (AGM and, together with its subsidiaries, Apollo) share transaction discussed further in Note 11 – Related Parties, we reassessed the consolidation conclusions for the following VIEs which are managed by Apollo affiliates:

- AAA Investments (Co-Invest VI), L.P. (CoInvest VI);
- AAA Investments (Co-Invest VII), L.P. (CoInvest VII);
- AAA Investments (Other), L.P. (CoInvest Other);
- Entities included under our agreement to purchase funds managed by Apollo entities (Strategic Partnership).

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Following the share transaction, we determined that we are no longer the primary beneficiary of these entities, as a result of Apollo receiving significant economics of these entities through their increased economic ownership in us. We did not recognize a gain or loss upon deconsolidation, as the deconsolidated VIEs accounted for their assets and liabilities at fair value. The investments remaining from the deconsolidated VIEs are included at net asset value (NAV) in related party investment funds on the condensed consolidated balance sheets after March 31, 2020.

Commercial Mortgage Loan Securitization Trust—During the second quarter of 2020, we formed Hamlet Securitization Trust 2020-CRE1 (Hamlet) to securitize a portion of our commercial mortgage loan portfolio as CMBS securities, which are held by AHL subsidiaries and third-party cedant portfolios. Securitization of these commercial mortgage loans allows us to retain the full economics of these assets while being able to pledge these assets as collateral to the Federal Home Loan Bank (FHLB) under the funding agreement program. As substantially all of the activities and economics of Hamlet are conducted on our behalf, we are the primary beneficiary and consolidate Hamlet and the assets are included in mortgage loans on the condensed consolidated balance sheets. Additionally, as Hamlet is in the form of a trust, the commercial mortgage loan assets are included in the pledged assets and funds in trust table in *Note 12 – Commitments and Contingencies*.

ALR Aircraft Investment Ireland Limited (ALR)—ALR was formed to invest in a joint venture that provides airplane lease financing to a major commercial airline. We were the only investor in the profit participating notes and, as substantially all of the activities of ALR were conducted on our behalf, we were the primary beneficiary and consolidated ALR. During the second quarter of 2020, we received final payment on the profit participating notes and no longer consolidate ALR.

5. 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.

NAV – Investment funds are typically measured using NAV as a practical expedient in determining fair value and are not classified in the fair value hierarchy. The underlying investments of the investment funds may have significant unobservable inputs, which may include but are not limited to, comparable multiples and weighted average cost of capital rates applied in valuation models or a discounted cash flow model.

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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The following represents the hierarchy for our assets and liabilities measured at fair value on a recurring basis:

(In millions)	June 30, 2020				
	Total	NAV	Level 1	Level 2	Level 3
Assets					
AFS securities					
U.S. government and agencies	\$ 74	\$ —	\$ 74	\$ —	\$ —
U.S. state, municipal and political subdivisions	943	—	—	903	40
Foreign governments	337	—	—	337	—
Corporate	51,199	—	—	50,325	874
CLO	7,952	—	—	7,792	160
ABS	4,773	—	—	3,905	868
CMBS	2,297	—	—	2,248	49
RMBS	7,160	—	—	7,144	16
Total AFS securities	74,735	—	74	72,654	2,007
Trading securities					
U.S. government and agencies	11	—	8	3	—
U.S. state, municipal and political subdivisions	114	—	—	114	—
Corporate	1,543	—	—	1,537	6
CLO	3	—	—	—	3
ABS	81	—	—	81	—
CMBS	51	—	—	51	—
RMBS	272	—	—	217	55
Total trading securities	2,075	—	8	2,003	64
Equity securities					
Mortgage loans	25	—	—	—	25
Investment funds	146	129	—	—	17
Funds withheld at interest – embedded derivative	763	—	—	—	763
Derivative assets	2,379	—	81	2,298	—
Short-term investments	364	—	43	207	114
Other investments	109	—	—	109	—
Cash and cash equivalents	6,240	—	6,240	—	—
Restricted cash	1,281	—	1,281	—	—
Investments in related parties					
AFS securities					
Corporate	20	—	—	20	—
CLO	1,239	—	—	1,239	—
ABS	2,811	—	—	750	2,061
Total AFS securities – related party	4,070	—	—	2,009	2,061
Trading securities					
CLO	48	—	—	3	45
ABS	824	—	—	—	824
Total trading securities – related party	872	—	—	3	869
Equity securities					
Investment funds	1,885	75	—	—	1,810
Funds withheld at interest – embedded derivative	560	—	—	—	560
Reinsurance recoverable	2,099	—	—	—	2,099
Total assets measured at fair value	\$ 97,892	\$ 204	\$ 7,755	\$ 79,486	\$ 10,447

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(In millions)	June 30, 2020				
	Total	NAV	Level 1	Level 2	Level 3
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	\$ 11,140	\$ —	\$ —	\$ —	\$ 11,140
Universal life benefits	1,323	—	—	—	1,323
Future policy benefits					
AmerUs Life Insurance Company (AmerUs) Closed Block	1,573	—	—	—	1,573
Indianapolis Life Insurance Company (ILICO) Closed Block and life benefits	761	—	—	—	761
Derivative liabilities	118	—	—	113	5
Funds withheld liability – embedded derivative	46	—	—	46	—
Total liabilities measured at fair value	\$ 14,961	\$ —	\$ —	\$ 159	\$ 14,802

(Concluded)

(In millions)	December 31, 2019				
	Total	NAV	Level 1	Level 2	Level 3
Assets					
AFS securities					
U.S. government and agencies	\$ 36	\$ —	\$ 36	\$ —	\$ —
U.S. state, municipal and political subdivisions	1,541	—	—	1,501	40
Foreign governments	327	—	—	327	—
Corporate	47,228	—	—	46,503	725
CLO	7,349	—	—	7,228	121
ABS	5,118	—	—	3,744	1,374
CMBS	2,400	—	—	2,354	46
RMBS	7,375	—	—	7,375	—
Total AFS securities	71,374	—	36	69,032	2,306
Trading securities					
U.S. government and agencies	11	—	8	3	—
U.S. state, municipal and political subdivisions	135	—	—	135	—
Corporate	1,456	—	—	1,456	—
CLO	6	—	—	—	6
ABS	108	—	—	92	16
CMBS	51	—	—	51	—
RMBS	303	—	—	251	52
Total trading securities	2,070	—	8	1,988	74
Equity securities	247	—	43	201	3
Mortgage loans	27	—	—	—	27
Investment funds	154	132	—	—	22
Funds withheld at interest – embedded derivative	801	—	—	—	801
Derivative assets	2,888	—	10	2,878	—
Short-term investments	406	—	46	319	41
Other investments	93	—	—	93	—
Cash and cash equivalents	4,240	—	4,240	—	—
Restricted cash	402	—	402	—	—

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<i>(In millions)</i>	December 31, 2019				
	Total	NAV	Level 1	Level 2	Level 3
Investments in related parties					
AFS securities					
Corporate	19	—	—	19	—
CLO	936	—	—	936	—
ABS	2,849	—	—	525	2,324
Total AFS securities – related party	3,804	—	—	1,480	2,324
Trading securities					
CLO	74	—	—	36	38
ABS	711	—	—	—	711
Total trading securities – related party	785	—	—	36	749
Equity securities	64	—	—	—	64
Investment funds	819	687	—	—	132
Funds withheld at interest – embedded derivative	594	—	—	—	594
Reinsurance recoverable	1,821	—	—	—	1,821
Total assets measured at fair value	\$ 90,589	\$ 819	\$ 4,785	\$ 76,027	\$ 8,958
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	\$ 10,942	\$ —	\$ —	\$ —	\$ 10,942
Universal life benefits	1,050	—	—	—	1,050
Future policy benefits					
AmerUs Closed Block	1,546	—	—	—	1,546
ILICO Closed Block and life benefits	755	—	—	—	755
Derivative liabilities	97	—	1	93	3
Funds withheld liability – embedded derivative	31	—	—	31	—
Total liabilities measured at fair value	\$ 14,421	\$ —	\$ 1	\$ 124	\$ 14,296

(Concluded)

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

AFS and trading securities – 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, CLO, ABS, CMBS and RMBS.

We also have fixed maturity securities priced based on indicative broker quotes or by employing market accepted valuation models. For certain fixed maturity securities, the valuation model uses significant unobservable inputs and are included in Level 3 in our fair value hierarchy. Significant unobservable inputs used include: issue specific credit adjustments, material non-public financial information, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. These inputs are usually considered unobservable, as not all market participants have access to this data.

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 commercial pricing services or brokers, and are classified as Level 2 or 3.

Mortgage loans – Mortgage loans for which we have elected the fair value option or those held for sale are carried at fair value. 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.

Investment funds – Certain investment funds for which we elected the fair value option are included in Level 3 and are priced based on market accepted valuation models. The valuation models use significant unobservable inputs, which include material non-public financial information, estimation of future distributable earnings and demographic assumptions. These inputs are usually considered unobservable, as not all market participants have access to this data.

Funds withheld at interest embedded derivative – We estimate the fair value of the embedded derivative based on the change in the fair value of the assets supporting the funds withheld payable under modco and funds withheld reinsurance agreements. As a result, the fair value of the embedded derivative is classified as Level 2 or 3 based on the valuation methods used for the assets held supporting the reinsurance agreements.

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, including restricted cash – 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.

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 economic assumptions and actuarial assumptions for policyholder behavior.

AmerUs Closed Block – We elected the fair value option for the future policy benefits liability in the AmerUs Closed Block. Our valuation technique is to set the fair value of policyholder liabilities equal to the fair value of assets. There is an additional component which captures the fair value of the open block's obligations to the closed block business. This component is the present value of the projected release of required capital and future earnings before income taxes on required capital supporting the AmerUs Closed Block, discounted at a rate which represents a market participant's required rate of return, less the initial required capital. Unobservable inputs include estimates for these items. The AmerUs Closed Block policyholder liabilities and any corresponding reinsurance recoverable are classified as Level 3.

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ILICO Closed Block – We elected the fair value option for the ILICO Closed Block. Our valuation technique is to set the fair value of policyholder liabilities equal to the fair value of assets. There is an additional component which captures the fair value of the open block's obligations to the closed block business. This component uses the present value of future cash flows which include commissions, administrative expenses, reinsurance premiums and benefits, and an explicit cost of capital. The discount rate includes a margin to reflect the business and nonperformance risk. Unobservable inputs include estimates for these items. The ILICO Closed Block policyholder liabilities and corresponding reinsurance recoverable are classified as Level 3.

Universal life liabilities and other life benefits – We elected the fair value option for certain blocks of universal and other life business ceded to Global Atlantic. We use a present value of liability cash flows. Unobservable inputs include estimates of mortality, persistency, expenses, premium payments and a risk margin used in the discount rates that reflects the riskiness of the business. These universal life policyholder liabilities and corresponding reinsurance recoverable are classified as Level 3.

Fair Value Option—The following represents the gains (losses) recorded for instruments for which we have elected the fair value option, including related parties:

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Trading securities	\$ 191	\$ 79	\$ (32)	\$ 135
Mortgage loans	—	1	—	1
Investment funds	466	4	166	—
Future policy benefits	(92)	(52)	(27)	(92)
Total gains (losses)	\$ 565	\$ 32	\$ 107	\$ 44

Gains and losses on trading securities are recorded in investment related gains (losses) on the condensed consolidated statements of income (loss). For fair value option mortgage loans, we record interest income in net investment income and subsequent changes in fair value in investment related gains (losses) on the condensed consolidated statements of income (loss). Gains and losses related to investment funds, including related party investment funds, are recorded in net investment income on the condensed consolidated statements of income (loss). We record the change in fair value of future policy benefits to future policy and other policy benefits on the condensed consolidated statements of income (loss).

The following summarizes information for fair value option mortgage loans:

<i>(In millions)</i>	June 30, 2020	December 31, 2019
Unpaid principal balance	\$ 23	\$ 25
Mark to fair value	2	2
Fair value	\$ 25	\$ 27

There were no fair value option mortgage loans 90 days or more past due as of June 30, 2020 and December 31, 2019.

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Level 3 Financial Instruments—The following tables are reconciliations for all Level 3 assets and liabilities measured at fair value on a recurring basis. All transfers in and out of Level 3 are based on changes in the availability of pricing sources, as described in the valuation methods above.

(In millions)	Three months ended June 30, 2020							
	Beginning balance	Total realized and unrealized gains (losses)		Net purchases, issuances, sales and settlements	Net transfers in (out)	Ending balance	Total gains (losses) included in earnings ¹	Total gains (losses) included in OCI ¹
		Included in income	Included in OCI					
Assets								
AFS securities								
U.S. state, municipal and political subdivisions	\$ 37	\$ —	\$ 3	\$ —	\$ —	\$ 40	\$ —	\$ 3
Corporate	1,233	—	41	(32)	(368)	874	—	41
CLO	122	—	2	39	(3)	160	—	2
ABS	917	1	9	(39)	(20)	868	—	10
CMBS	45	(5)	(1)	(4)	14	49	—	(1)
RMBS	42	—	2	1	(29)	16	—	—
Trading securities								
Corporate	32	4	—	—	(30)	6	4	—
CLO	3	—	—	—	—	3	—	—
ABS	14	—	—	(14)	—	—	—	—
RMBS	70	2	—	—	(17)	55	7	—
Equity securities	7	(1)	—	—	—	6	(1)	—
Mortgage loans	26	—	—	(1)	—	25	(1)	—
Investment funds	21	(4)	—	—	—	17	(4)	—
Funds withheld at interest – embedded derivative	(374)	1,137	—	—	—	763	—	—
Short-term investments	67	—	(1)	53	(5)	114	—	—
Investments in related parties								
AFS securities, ABS	1,887	4	169	1	—	2,061	—	169
Trading securities								
CLO	32	5	—	—	8	45	4	—
ABS	676	74	—	74	—	824	74	—
Equity securities	49	4	—	(1)	—	52	4	—
Investment funds	979	470	—	361	—	1,810	470	—
Funds withheld at interest – embedded derivative	(15)	575	—	—	—	560	—	—
Reinsurance recoverable	2,115	(16)	—	—	—	2,099	—	—
Total Level 3 assets	\$ 7,985	\$ 2,250	\$ 224	\$ 438	\$ (450)	\$ 10,447	\$ 557	\$ 224
Liabilities								
Interest sensitive contract liabilities								
Embedded derivative	\$ (9,089)	\$ (1,534)	\$ —	\$ (517)	\$ —	\$ (11,140)	\$ —	\$ —
Universal life benefits	(1,322)	(1)	—	—	—	(1,323)	—	—
Future policy benefits								
AmerUs Closed Block	(1,481)	(92)	—	—	—	(1,573)	—	—
ILICO Closed Block and life benefits	(778)	17	—	—	—	(761)	—	—
Derivative liabilities	(7)	2	—	—	—	(5)	2	—
Total Level 3 liabilities	\$ (12,677)	\$ (1,608)	\$ —	\$ (517)	\$ —	\$ (14,802)	\$ 2	\$ —

¹ Related to instruments held at end of period.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

(In millions)	Three months ended June 30, 2019							Total gains (losses) included in earnings ¹
	Beginning balance	Total realized and unrealized gains (losses)		Net purchases, issuances, sales and settlements	Net transfers in (out)	Ending balance		
		Included in income	Included in OCI					
Assets								
AFS securities								
U.S. state, municipal and political subdivisions	\$ —	\$ —	\$ —	\$ 40	\$ —	\$ 40	\$ —	
Corporate	1,035	3	12	32	(261)	821	—	
CLO	110	—	—	122	(32)	200	—	
ABS	1,614	2	19	120	(359)	1,396	—	
CMBS	174	—	1	39	(8)	206	—	
RMBS	57	—	3	—	(60)	—	—	
Trading securities								
Corporate	10	1	—	—	(5)	6	1	
CLO	8	(1)	—	—	—	7	6	
ABS	6	—	—	—	—	6	—	
RMBS	86	(2)	—	—	(38)	46	2	
Equity securities	3	—	—	—	—	3	1	
Mortgage loans	32	1	—	(1)	—	32	—	
Investment funds	25	2	—	(2)	—	25	2	
Funds withheld at interest – embedded derivative	446	258	—	—	—	704	—	
Short-term investments	—	—	—	45	—	45	—	
Investments in related parties								
AFS securities								
CLO	—	—	—	37	—	37	—	
ABS	497	—	13	(8)	(103)	399	—	
Trading securities								
CLO	89	(2)	—	(47)	55	95	(1)	
ABS	138	(7)	—	(17)	104	218	(14)	
Equity securities	307	7	—	36	—	350	(5)	
Investment funds	138	3	—	—	—	141	2	
Funds withheld at interest – embedded derivative	214	287	—	—	—	501	—	
Reinsurance recoverable	1,737	97	—	—	—	1,834	—	
Total Level 3 assets	\$ 6,726	\$ 649	\$ 48	\$ 396	\$ (707)	\$ 7,112	\$ (6)	
Liabilities								
Interest sensitive contract liabilities								
Embedded derivative	\$ (9,106)	\$ (638)	\$ —	\$ (161)	\$ —	\$ (9,905)	\$ —	
Universal life benefits	(979)	(72)	—	—	—	(1,051)	—	
Future policy benefits								
AmerUs Closed Block	(1,483)	(52)	—	—	—	(1,535)	—	
ILICO Closed Block and life benefits	(743)	(26)	—	—	—	(769)	—	
Derivative liabilities	(4)	—	—	—	—	(4)	—	
Total Level 3 liabilities	\$ (12,315)	\$ (788)	\$ —	\$ (161)	\$ —	\$ (13,264)	\$ —	

¹ Related to instruments held at end of period.

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		Six months ended June 30, 2020							
(In millions)	Beginning balance	Total realized and unrealized gains (losses)		Net purchases, issuances, sales and settlements	Net transfers in (out)	Ending balance	Total gains (losses) included in income ¹	Total gains (losses) included in OCI ¹	
		Included in income	Included in OCI						
Assets									
AFS securities									
U.S. state, municipal and political subdivisions	\$ 40	\$ —	\$ —	\$ —	\$ —	\$ 40	\$ —	\$ —	
Corporate	725	(4)	(8)	(10)	171	874	—	(8)	
CLO	121	—	(4)	69	(26)	160	—	(4)	
ABS	1,374	23	(102)	(246)	(181)	868	—	(101)	
CMBS	46	(4)	(7)	(4)	18	49	—	(6)	
RMBS	—	—	—	—	16	16	—	—	
Trading securities									
Corporate	—	—	—	—	6	6	—	—	
CLO	6	(3)	—	—	—	3	(1)	—	
ABS	16	—	—	(16)	—	—	—	—	
RMBS	52	(1)	—	—	4	55	5	—	
Equity securities	3	3	—	—	—	6	3	—	
Mortgage loans	27	—	—	(2)	—	25	—	—	
Investment funds	22	(5)	—	—	—	17	(5)	—	
Funds withheld at interest – embedded derivative	801	(38)	—	—	—	763	—	—	
Short-term investments	41	—	(1)	74	—	114	—	—	
Investments in related parties									
AFS securities, ABS	2,324	1	(53)	(49)	(162)	2,061	—	(53)	
Trading securities									
CLO	38	(17)	—	14	10	45	(23)	—	
ABS	711	(27)	—	140	—	824	(27)	—	
Equity securities	64	(6)	—	—	(6)	52	(6)	—	
Investment funds	132	170	—	1,508	—	1,810	170	—	
Funds withheld at interest – embedded derivative	594	(34)	—	—	—	560	—	—	
Reinsurance recoverable	1,821	278	—	—	—	2,099	—	—	
Total Level 3 assets	\$ 8,958	\$ 336	\$ (175)	\$ 1,478	\$ (150)	\$ 10,447	\$ 116	\$ (172)	
Liabilities									
Interest sensitive contract liabilities									
Embedded derivative	\$ (10,942)	\$ (357)	\$ —	\$ 159	\$ —	\$ (11,140)	\$ —	\$ —	
Universal life benefits	(1,050)	(273)	—	—	—	(1,323)	—	—	
Future policy benefits									
AmerUs Closed Block	(1,546)	(27)	—	—	—	(1,573)	—	—	
ILICO Closed Block and life benefits	(755)	(6)	—	—	—	(761)	—	—	
Derivative liabilities	(3)	(2)	—	—	—	(5)	(2)	—	
Total Level 3 liabilities	\$ (14,296)	\$ (665)	\$ —	\$ 159	\$ —	\$ (14,802)	\$ (2)	\$ —	

¹ Related to instruments held at end of period.

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ATHENE HOLDING LTD.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In millions)	Six months ended June 30, 2019							
	Beginning balance	Total realized and unrealized gains (losses)		Net purchases, issuances, sales and settlements	Net transfers in (out)	Ending balance	Total gains (losses) included in earnings ¹	
		Included in income	Included in OCI					
Assets								
AFS securities								
U.S. state, municipal and political subdivisions	\$ —	\$ —	\$ —	\$ 40	\$ —	\$ 40	\$ —	
Corporate	898	1	10	47	(135)	821	—	
CLO	107	—	3	121	(31)	200	—	
ABS	1,615	4	36	129	(388)	1,396	—	
CMBS	187	1	4	32	(18)	206	—	
RMBS	56	—	3	1	(60)	—	—	
Trading securities								
Corporate	—	—	—	—	6	6	—	
CLO	1	(1)	—	—	7	7	6	
ABS	—	—	—	6	—	6	—	
RMBS	134	(5)	—	—	(83)	46	5	
Equity securities	3	—	—	—	—	3	—	
Mortgage loans	32	1	—	(1)	—	32	1	
Investment funds	29	(1)	—	(3)	—	25	(2)	
Funds withheld at interest – embedded derivative	57	647	—	—	—	704	—	
Short-term investments	—	—	—	45	—	45	—	
Investments in related parties								
AFS securities								
CLO	—	—	—	37	—	37	—	
ABS	328	—	13	161	(103)	399	—	
Trading securities								
CLO	113	(3)	—	(48)	33	95	2	
ABS	149	(18)	—	(17)	104	218	(17)	
Equity securities	133	9	—	208	—	350	(2)	
Investment funds	120	2	—	19	—	141	2	
Funds withheld at interest – embedded derivative	(110)	611	—	—	—	501	—	
Reinsurance recoverable	1,676	158	—	—	—	1,834	—	
Total Level 3 assets	\$ 5,528	\$ 1,406	\$ 69	\$ 777	\$ (668)	\$ 7,112	\$ (5)	
Liabilities								
Interest sensitive contract liabilities								
Embedded derivative	\$ (7,969)	\$ (1,655)	\$ —	\$ (281)	\$ —	\$ (9,905)	\$ —	
Universal life benefits	(932)	(119)	—	—	—	(1,051)	—	
Future policy benefits								
AmerUs Closed Block	(1,443)	(92)	—	—	—	(1,535)	—	
ILICO Closed Block and life benefits	(730)	(39)	—	—	—	(769)	—	
Derivative liabilities	(4)	—	—	—	—	(4)	—	
Total Level 3 liabilities	\$ (11,078)	\$ (1,905)	\$ —	\$ (281)	\$ —	\$ (13,264)	\$ —	

¹ Related to instruments held at end of period.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

The following represents the gross components of purchases, issuances, sales and settlements, net, and net transfers in (out) shown above:

<i>(In millions)</i>	Three months ended June 30, 2020							
	Purchases	Issuances	Sales	Settlements	Net purchases, issuances, sales and settlements	Transfers in	Transfers out	Net transfers in (out)
Assets								
AFS securities								
Corporate	\$ —	\$ —	\$ —	\$ (32)	\$ (32)	\$ 122	\$ (490)	\$ (368)
CLO	44	—	—	(5)	39	—	(3)	(3)
ABS	1	—	—	(40)	(39)	31	(51)	(20)
CMBS	—	—	(4)	—	(4)	18	(4)	14
RMBS	1	—	—	—	1	—	(29)	(29)
Trading securities								
Corporate	—	—	—	—	—	6	(36)	(30)
ABS	—	—	(14)	—	(14)	—	—	—
RMBS	—	—	—	—	—	4	(21)	(17)
Mortgage loans	—	—	—	(1)	(1)	—	—	—
Short-term investments	53	—	—	—	53	—	(5)	(5)
Investments in related parties								
AFS securities, ABS	1	—	—	—	1	—	—	—
Trading securities								
CLO	—	—	—	—	—	11	(3)	8
ABS	88	—	—	(14)	74	—	—	—
Equity securities	—	—	—	(1)	(1)	—	—	—
Investment funds	361	—	—	—	361	—	—	—
Total Level 3 assets	\$ 549	\$ —	\$ (18)	\$ (93)	\$ 438	\$ 192	\$ (642)	\$ (450)
Liabilities								
Interest sensitive contract liabilities – embedded derivative	\$ —	\$ (646)	\$ —	\$ 129	\$ (517)	\$ —	\$ —	\$ —
Total Level 3 liabilities	\$ —	\$ (646)	\$ —	\$ 129	\$ (517)	\$ —	\$ —	\$ —

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ATHENE HOLDING LTD.

Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three months ended June 30, 2019							
<i>(In millions)</i>	Purchases	Issuances	Sales	Settlements	Net purchases, issuances, sales and settlements	Transfers in	Transfers out	Net transfers in (out)
Assets								
AFS securities								
U.S. state, municipal and political subdivisions	\$ 40	\$ —	\$ —	\$ —	\$ 40	\$ —	\$ —	\$ —
Corporate	59	—	—	(27)	32	1	(262)	(261)
CLO	122	—	—	—	122	—	(32)	(32)
ABS	155	—	—	(35)	120	—	(359)	(359)
CMBS	73	—	(2)	(32)	39	—	(8)	(8)
RMBS	—	—	—	—	—	—	(60)	(60)
Trading securities								
Corporate	—	—	—	—	—	—	(5)	(5)
RMBS	—	—	—	—	—	1	(39)	(38)
Mortgage loans	—	—	—	(1)	(1)	—	—	—
Investment funds	—	1	—	(3)	(2)	—	—	—
Short-term investments	48	—	—	(3)	45	—	—	—
Investments in related parties								
AFS securities								
CLO	37	—	—	—	37	—	—	—
ABS	—	—	—	(8)	(8)	—	(103)	(103)
Trading securities								
CLO	—	—	(47)	—	(47)	55	—	55
ABS	—	—	—	(17)	(17)	104	—	104
Equity securities	36	—	—	—	36	—	—	—
Total Level 3 assets	\$ 570	\$ 1	\$ (49)	\$ (126)	\$ 396	\$ 161	\$ (868)	\$ (707)
Liabilities								
Interest sensitive contract liabilities – embedded derivative	\$ —	\$ (301)	\$ —	\$ 140	\$ (161)	\$ —	\$ —	\$ —
Total Level 3 liabilities	\$ —	\$ (301)	\$ —	\$ 140	\$ (161)	\$ —	\$ —	\$ —

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Notes to Condensed Consolidated Financial Statements (Unaudited)

	Six months ended June 30, 2020								
(In millions)	Purchases	Issuances	Sales	Settlements	Net purchases, issuances, sales and settlements	Transfers in	Transfers out	Net transfers in (out)	
Assets									
AFS securities									
Corporate	\$ 62	\$ —	\$ (10)	\$ (62)	\$ (10)	\$ 209	\$ (38)	\$ 171	
CLO	78	—	—	(9)	69	—	(26)	(26)	
ABS	48	—	(13)	(281)	(246)	44	(225)	(181)	
CMBS	—	—	(4)	—	(4)	18	—	18	
RMBS	—	—	—	—	—	16	—	16	
Trading securities									
Corporate	—	—	—	—	—	6	—	6	
ABS	—	—	(16)	—	(16)	—	—	—	
RMBS	—	—	—	—	—	6	(2)	4	
Mortgage loans									
Short-term investments	89	—	—	(15)	74	—	—	—	
Investments in related parties									
AFS securities, ABS	5	—	—	(54)	(49)	—	(162)	(162)	
Trading securities									
CLO	27	—	(13)	—	14	13	(3)	10	
ABS	154	—	—	(14)	140	—	—	—	
Equity securities	3	—	—	(3)	—	—	(6)	(6)	
Investment funds	1,508	—	—	—	1,508	—	—	—	
Total Level 3 assets	<u>\$ 1,974</u>	<u>\$ —</u>	<u>\$ (56)</u>	<u>\$ (440)</u>	<u>\$ 1,478</u>	<u>\$ 312</u>	<u>\$ (462)</u>	<u>\$ (150)</u>	
Liabilities									
Interest sensitive contract liabilities – embedded derivative	\$ —	\$ (762)	\$ —	\$ 921	\$ 159	\$ —	\$ —	\$ —	
Total Level 3 liabilities	<u>\$ —</u>	<u>\$ (762)</u>	<u>\$ —</u>	<u>\$ 921</u>	<u>\$ 159</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	

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Notes to Condensed Consolidated Financial Statements (Unaudited)

	Six months ended June 30, 2019							
(In millions)	Purchases	Issuances	Sales	Settlements	Net purchases, issuances, sales and settlements	Transfers in	Transfers out	Net transfers in (out)
Assets								
AFS securities								
U.S. state, municipal and political subdivisions	\$ 40	\$ —	\$ —	\$ —	\$ 40	\$ —	\$ —	\$ —
Corporate	147	—	(2)	(98)	47	—	(135)	(135)
CLO	121	—	—	—	121	—	(31)	(31)
ABS	296	—	(33)	(134)	129	—	(388)	(388)
CMBS	73	—	(3)	(38)	32	—	(18)	(18)
RMBS	1	—	—	—	1	—	(60)	(60)
Trading securities								
Corporate	—	—	—	—	—	6	—	6
CLO	—	—	—	—	—	7	—	7
ABS	6	—	—	—	6	—	—	—
RMBS	—	—	—	—	—	2	(85)	(83)
Mortgage loans	—	—	—	(1)	(1)	—	—	—
Investment funds	—	—	—	(3)	(3)	—	—	—
Short-term investments	48	—	—	(3)	45	—	—	—
Investments in related parties								
AFS securities								
CLO	37	—	—	—	37	—	—	—
ABS	170	—	—	(9)	161	—	(103)	(103)
Trading securities								
CLO	—	—	(48)	—	(48)	46	(13)	33
ABS	—	—	—	(17)	(17)	104	—	104
Equity securities	213	—	(5)	—	208	—	—	—
Investment funds	—	20	—	(1)	19	—	—	—
Total Level 3 assets	\$ 1,152	\$ 20	\$ (91)	\$ (304)	\$ 777	\$ 165	\$ (833)	\$ (668)
Liabilities								
Interest sensitive contract liabilities – embedded derivative	\$ —	\$ (534)	\$ —	\$ 253	\$ (281)	\$ —	\$ —	\$ —
Total Level 3 liabilities	\$ —	\$ (534)	\$ —	\$ 253	\$ (281)	\$ —	\$ —	\$ —

Significant Unobservable Inputs—Significant unobservable inputs occur when we could not obtain or corroborate the quantitative detail of the inputs. This applies to fixed maturity securities, equity securities, mortgage loans and certain derivatives, as well as embedded derivatives in liabilities. Additional significant unobservable inputs are described below.

AFS and trading securities – For certain fixed maturity securities, internal models are used to calculate the fair value. We use a discounted cash flow approach. The discount rate is the significant unobservable input due to the determined credit spread being internally developed, illiquid, or as a result of other adjustments made to the base rate. The base rate represents a market comparable rate for securities with similar characteristics. This excludes assets for which significant unobservable inputs are not developed internally, primarily consisting of broker quotes.

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. Nonperformance risk – For contracts we issue, we use the credit spread, relative to the U.S. Department of the Treasury (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.
2. Option budget – We assume 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 (surrender rate). These are based on our initial pricing assumptions updated for actual experience. Actual experience may be limited for recently issued products.

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The following summarizes the unobservable inputs for AFS and trading securities and the embedded derivatives of fixed indexed annuities:

(In millions, except for percentages)	June 30, 2020							Impact of an increase in the input on fair value
	Fair value	Valuation technique	Unobservable inputs	Minimum	Maximum	Weighted average		
AFS and trading securities	\$ 3,582	Discounted cash flow	Discount	2.6%	22.7%	6.9% ¹	Decrease	
Interest sensitive contract liabilities – fixed indexed annuities embedded derivatives	\$ 11,140	Option budget method	Nonperformance risk	0.2%	1.7%	1.0% ²	Decrease	
			Option budget	0.7%	3.7%	1.9% ³	Increase	
			Surrender rate	5.2%	10.2%	7.2% ⁴	Decrease	
December 31, 2019								
(In millions, except for percentages)	Fair value	Valuation technique	Unobservable inputs	Minimum	Maximum	Weighted average	Impact of an increase in the input on fair value	
AFS and trading securities	\$ 1,289	Discounted cash flow	Discount	3.0%	9.0%	6.6% ¹	Decrease	
Interest sensitive contract liabilities – fixed indexed annuities embedded derivatives	\$ 10,942	Option budget method	Nonperformance risk	0.2%	1.1%	0.6% ²	Decrease	
			Option budget	0.7%	3.7%	1.9% ³	Increase	
			Surrender rate	3.5%	8.1%	7.1% ⁴	Decrease	

¹ The discount weighted average is calculated based on the relative fair values of the securities.

² The nonperformance risk weighted average is based on the projected excess benefits of reserves used in the calculation of the embedded derivative.

³ The option budget weighted average is calculated based on the indexed account values.

⁴ The surrender rate weighted average is calculated based on projected account values.

Fair Value of Financial Instruments Not Carried at Fair Value—The following represents our financial instruments not carried at fair value on the condensed consolidated balance sheets:

(In millions)	June 30, 2020						
	Carrying Value	Fair Value	NAV	Level 1	Level 2	Level 3	
Financial assets							
Mortgage loans	\$ 15,178	\$ 15,636	\$ —	\$ —	\$ —	\$ 15,636	
Investment funds	536	536	536	—	—	—	
Policy loans	393	393	—	—	393	—	
Funds withheld at interest	41,506	41,506	—	—	—	41,506	
Other investments	250	256	—	—	—	256	
Investments in related parties							
Mortgage loans	626	617	—	—	—	617	
Investment funds	3,393	3,392	3,392	—	—	—	
Funds withheld at interest	12,411	12,411	—	—	—	12,411	
Other investments	474	476	—	—	—	476	
Total financial assets not carried at fair value	\$ 74,767	\$ 75,223	\$ 3,928	\$ —	\$ 393	\$ 70,902	
Financial liabilities							
Interest sensitive contract liabilities	\$ 86,829	\$ 90,369	\$ —	\$ —	\$ —	\$ 90,369	
Long-term debt	1,486	1,035	—	—	1,035	—	
Securities to repurchase	1,599	1,599	—	—	1,599	—	
Funds withheld liability	381	381	—	—	381	—	
Total financial liabilities not carried at fair value	\$ 90,295	\$ 93,384	\$ —	\$ —	\$ 3,015	\$ 90,369	

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ATHENE HOLDING LTD.
Notes to Condensed Consolidated Financial Statements (Unaudited)

(In millions)	December 31, 2019					
	Carrying Value	Fair Value	NAV	Level 1	Level 2	Level 3
Financial assets						
Mortgage loans	\$ 14,279	\$ 14,719	\$ —	\$ —	\$ —	\$ 14,719
Investment funds	596	596	596	—	—	—
Policy loans	417	417	—	—	417	—
Funds withheld at interest	14,380	14,380	—	—	—	14,380
Short-term investments	190	190	—	—	—	190
Other investments	65	65	—	—	—	65
Investments in related parties						
Mortgage loans	653	641	—	—	—	641
Investment funds	2,731	2,731	2,731	—	—	—
Funds withheld at interest	12,626	12,626	—	—	—	12,626
Other investments	487	537	—	—	—	537
Total financial assets not carried at fair value	\$ 46,424	\$ 46,902	\$ 3,327	\$ —	\$ 417	\$ 43,158
Financial liabilities						
Interest sensitive contract liabilities	\$ 57,272	\$ 58,027	\$ —	\$ —	\$ —	\$ 58,027
Short-term debt	475	475	—	—	475	—
Long-term debt	992	1,036	—	—	1,036	—
Securities to repurchase	512	512	—	—	512	—
Funds withheld liability	377	377	—	—	377	—
Total financial liabilities not carried at fair value	\$ 59,628	\$ 60,427	\$ —	\$ —	\$ 2,400	\$ 58,027

We estimate the fair value for financial instruments not carried at fair value using the same methods and assumptions as those we carry at fair value. The financial instruments presented above are reported at carrying value on the condensed consolidated balance sheets; however, in the case of policy loans, funds withheld at interest and liability, short-term investments, short-term debt, and securities to repurchase, the carrying amount approximates fair value.

Investment in related parties – Other investments – The fair value of 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.

Long-term debt – We obtain the fair value of long-term debt from commercial pricing services. These are classified as Level 2. 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.

6. Reinsurance

Reinsurance transactions—On June 18, 2020, we entered into a funds withheld coinsurance agreement effective June 1, 2020 with Jackson National Life Insurance Company (Jackson) to reinsure a block of fixed and fixed indexed annuities. Additionally, as part of the transaction, we made a \$500 million equity investment in an indirect parent of Jackson, which closed on July 17, 2020. The following summarizes the transaction:

(In millions)	Funds Withheld
Liabilities assumed	\$ 27,439
Less: Net consideration received	28,805
Unearned revenue reserve¹	\$ (1,366)

¹ Included within interest sensitive contract liabilities on the condensed consolidated balance sheets.

Unearned revenue reserve balances are amortized over the life of the reinsurance agreements on a basis consistent with our DAC amortization policy.

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ATHENE HOLDING LTD.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The following summarizes the effect of reinsurance on premiums and future policy and other policy benefits on the condensed consolidated statements of income (loss):

(In millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Premiums				
Direct	\$ 281	\$ 765	\$ 1,382	\$ 2,744
Reinsurance assumed	109	62	183	136
Reinsurance ceded	(35)	(40)	(70)	(93)
Total premiums	\$ 355	\$ 787	\$ 1,495	\$ 2,787
Future policy and other policy benefits				
Direct	\$ 588	\$ 1,132	\$ 2,019	\$ 3,456
Reinsurance assumed	163	112	209	236
Reinsurance ceded	(77)	(133)	(198)	(252)
Total future policy and other policy benefits	\$ 674	\$ 1,111	\$ 2,030	\$ 3,440

7. Deferred Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired

The following represents a rollforward of deferred acquisition costs (DAC), deferred sales inducements (DSI) and value of business acquired (VOBA):

(In millions)	DAC	DSI	VOBA	Total
Balance at December 31, 2019	\$ 3,274	\$ 820	\$ 914	\$ 5,008
Adoption of accounting standard	12	5	5	22
Additions	281	83	—	364
Amortization	56	11	(4)	63
Impact of unrealized investment (gains) losses	—	(4)	15	11
Balance at June 30, 2020	<u>\$ 3,623</u>	<u>\$ 915</u>	<u>\$ 930</u>	<u>\$ 5,468</u>

(In millions)	DAC	DSI	VOBA	Total
Balance at December 31, 2018	\$ 3,921	\$ 799	\$ 1,187	\$ 5,907
Additions	354	130	—	484
Amortization	(472)	(18)	(20)	(510)
Impact of unrealized investment (gains) losses	(300)	(98)	(159)	(557)
Balance at June 30, 2019	<u>\$ 3,503</u>	<u>\$ 813</u>	<u>\$ 1,008</u>	<u>\$ 5,324</u>

8. Debt

Short-term Borrowing—During the second quarter of 2020, we converted \$400 million of short-term debt outstanding with the FHLB to funding agreements. See *Note 12 – Commitments and Contingencies* for further discussion regarding FHLB funding agreements.

Senior Notes—During the second quarter of 2020, we issued \$500 million of senior unsecured notes due April 3, 2030. The senior notes have a 6.150% coupon rate, payable semi-annually. We can call the senior notes, in whole or in part, at any time prior to January 3, 2030, at a price equal to the greater of (1) 100% of the principal and any accrued and unpaid interest and (2) an amount equal to the sum of the present values of remaining scheduled payments, discounted from the scheduled payment date to the redemption date at the Treasury Rate (as defined in the second supplemental indenture, dated April 3, 2020) plus 50 basis points, and any accrued and unpaid interest. Thereafter, we can call the notes, in whole or in part, at a price equal to 100% of the principal and any accrued and unpaid interest.

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9. Earnings Per Share

The following represents our basic and diluted earnings per share (EPS) calculations, which are calculated using unrounded amounts:

<i>(In millions, except per share data)</i>	Three months ended June 30, 2020	
	Class A	
Net income available to Athene Holding Ltd. common shareholders – basic and diluted	\$	824
Basic weighted average shares outstanding		193.9
Dilutive effect of stock compensation plans		3.0
Diluted weighted average shares outstanding		196.9
Earnings per share		
Basic	\$	4.25
Diluted	\$	4.19

<i>(In millions, except share and per share data)</i>	Three months ended June 30, 2019					
	Class A	Class B	Class M-1	Class M-2	Class M-3	Class M-4
Net income available to Athene Holding Ltd. common shareholders – basic and diluted	\$ 596	\$ 96	\$ 13	\$ 3	\$ 4	\$ 8
Basic weighted average shares outstanding	158.5	25.4	3.3	0.8	1.0	2.2
Dilutive effect of stock compensation plans	0.3	—	—	—	—	0.3
Diluted weighted average shares outstanding	158.8	25.4	3.3	0.8	1.0	2.5
Earnings per share						
Basic	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76
Diluted	\$ 3.75	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.28

<i>(In millions, except share and per share data)</i>	Six months ended June 30, 2020					
	Class A	Class B	Class M-1	Class M-2	Class M-3	Class M-4
Net loss available to Athene Holding Ltd. common shareholders – basic and diluted	\$ (114)	\$ (98)	\$ (13)	\$ (3)	\$ (4)	\$ (9)
Basic weighted average shares outstanding	177.6	25.4	3.3	0.8	1.0	2.4
Dilutive effect of stock compensation plans ¹	—	—	—	—	—	—
Diluted weighted average shares outstanding	177.6	25.4	3.3	0.8	1.0	2.4
Earnings per share						
Basic	\$ (0.64)	\$ (3.87)	\$ (3.87)	\$ (3.87)	\$ (3.87)	\$ (3.87)
Diluted	\$ (0.64)	\$ (3.87)	\$ (3.87)	\$ (3.87)	\$ (3.87)	\$ (3.87)

¹ The dilutive effect of stock compensation plans is antidilutive as a result of the net loss available to Athene Holding Ltd. common shareholders for the six months ended June 30, 2020.

<i>(In millions, except per share data)</i>	Six months ended June 30, 2019					
	Class A	Class B	Class M-1	Class M-2	Class M-3	Class M-4
Net income available to Athene Holding Ltd. common shareholders – basic and diluted	\$ 1,184	\$ 189	\$ 25	\$ 6	\$ 8	\$ 16
Basic weighted average shares outstanding	159.4	25.4	3.3	0.8	1.0	2.2
Dilutive effect of stock compensation plans	0.3	—	—	—	—	0.3
Diluted weighted average shares outstanding	159.7	25.4	3.3	0.8	1.0	2.5
Earnings per share						
Basic	\$ 7.43	\$ 7.43	\$ 7.43	\$ 7.43	\$ 7.43	\$ 7.43
Diluted	\$ 7.41	\$ 7.43	\$ 7.43	\$ 7.43	\$ 7.43	\$ 6.45

ATHENE HOLDING LTD.

Notes to Condensed Consolidated Financial Statements (Unaudited)

During the first quarter of 2020, as a result of the closing of the share transaction discussed further in *Note 11 – Related Parties*, we converted outstanding Class B shares to Class A shares and Class M shares were converted to Class A shares and warrants. As a result, the EPS calculation for the six months ended June 30, 2020 allocates all net income for the second quarter to Class A shares and, for the first quarter, uses only the weighted average shares for the first quarter to allocate first quarter net income for Class B and Class M shares; however, for Class B and Class M shares, the weighted average shares outstanding represents only that period of time that the shares were outstanding. The warrants issued as part of the conversion of the Class M shares are evaluated for dilution within the dilutive effect of stock compensation plans.

We use the two-class method for allocating net income available to Athene Holding Ltd. common shareholders to each class of our common stock. Dilutive shares are calculated using the treasury stock method. For Class A shares, this method takes into account shares that can be settled into Class A shares, net of a conversion price. The diluted EPS calculations for Class A shares excluded 3.3 million and 31.6 million shares, restricted stock units, options and warrants as of June 30, 2020 and 2019, respectively, for the three months ended and excluded 11.2 million and 31.6 million, as of June 30, 2020 and 2019, respectively, for the six months ended.

10. Equity

Preferred Stock—We have three series of preferred stock: 6.35% Fixed-to-Floating Rate Perpetual Non-Cumulative Preference Shares, Series A (Series A); 5.625% Fixed Rate Perpetual Non-Cumulative Preference Shares, Series B (Series B); and 6.375% Fixed-Rate Reset Perpetual Non-Cumulative Preference Shares, Series C (Series C) as summarized below:

	Series A	Series B	Series C
Authorized, issued and outstanding	34,500	13,800	24,000
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000
Dividends declared and paid per share during the six months ended June 30, 2020	\$ 793.76	\$ 703.12	\$ —
Aggregate dividends declared and paid during the six months ended June 30, 2020 (in millions)	\$ 27	\$ 10	\$ —

Preferred stock dividends are payable on a non-cumulative basis only when, as and if declared, quarterly in arrears on the 30th day of March, June, September and December of each year. Preferred stock ranks senior to our common stock with respect to dividends, to the extent declared, and in liquidation, to the extent of the liquidation preference.

Common Stock—During the first quarter of 2020, shareholders approved amendments to our bye-laws which eliminated our multi-class share structure at closing of the share transaction with Apollo. See *Note 11 – Related Parties* for further information on this transaction. On February 28, 2020, all Class B shares were converted to Class A shares on a one-to-one basis. Class M shares were converted to Class A shares representing 5% of the Class M value and warrants representing 95% of the Class M value. The warrants were issued with substantially the same terms, including the same economic terms, as the Class M shares.

Our bye-laws place certain restrictions on Class A shares such that a holder of Class A shares, except for shareholders permitted by our board of directors, which include members of the Apollo Group, as defined in our bye-laws, cannot control greater than 9.9% of the total outstanding vote and if a holder of Class A shares were to control greater than 9.9%, then such holder’s voting power is automatically reduced to 9.9% and the other holders of Class A shares would vote the remainder on a prorated basis.

Share Repurchase Authorization

Our board of directors has approved authorizations of \$1,567 million for the repurchase of our Class A shares under our repurchase program. We may repurchase shares in open market transactions, in privately negotiated transactions or otherwise. The size and timing of repurchases will depend on legal requirements, market and economic conditions and other factors, and are solely at our discretion. The program has no expiration date, but may be modified, suspended or terminated by the board at any time.

The following summarizes the activity on our share repurchase authorization:

<i>(In millions)</i>	Six months ended June 30,	
	2020	2019
Beginning balance at January 1	\$ 640	\$ 150
Additional authorization	—	367
Repurchases	(319)	(423)
Ending balance at June 30	\$ 321	\$ 94

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The table below shows the changes in each class of shares issued and outstanding:

<i>(In millions)</i>	<u>Six months ended June 30, 2020</u>
Class A	
Beginning balance	143.2
Issued shares	35.9
Forfeited shares	(0.1)
Repurchased shares	(10.4)
Converted from Class B shares	25.4
Converted from Class M shares	0.3
Ending balance	<u>194.3</u>
Class B	
Beginning balance	25.4
Converted to Class A shares	(25.4)
Ending balance	<u>—</u>
Class M-1	
Beginning balance	3.3
Converted to Class A shares	(0.2)
Converted to warrants	(3.1)
Ending balance	<u>—</u>
Class M-2	
Beginning balance	0.8
Converted to Class A shares	0.0
Converted to warrants	(0.8)
Ending balance	<u>—</u>
Class M-3	
Beginning balance	1.0
Converted to Class A shares	0.0
Converted to warrants	(1.0)
Ending balance	<u>—</u>
Class M-4	
Beginning balance	4.0
Converted to Class A shares	(0.1)
Converted to warrants	(3.6)
Repurchased shares	(0.3)
Ending balance	<u>—</u>

Accumulated Other Comprehensive Income (Loss)—The following provides the details of AOCI and changes in AOCI:

<i>(In millions)</i>	Unrealized investment gains (losses) on AFS securities without a credit allowance	Unrealized investment gains (losses) on AFS securities with a credit allowance	DAC, DSI, VOBA and future policy benefits adjustments on AFS securities	Unrealized gains (losses) on hedging instruments	Foreign currency translation and other adjustments	Accumulated other comprehensive income (loss)
Balance at March 31, 2020	\$ (1,540)	\$ (224)	\$ 195	\$ 395	\$ —	\$ (1,174)
Other comprehensive income (loss) before reclassifications	6,519	(611)	(1,404)	(83)	(10)	4,411
Less: Reclassification adjustments for gains (losses) realized in net income (loss) ¹	50	—	(52)	—	—	(2)
Less: Income tax expense (benefit)	1,234	(123)	(284)	(22)	—	805
Less: Other comprehensive income (loss) attributable to NCI	251	(10)	—	14	(5)	250
Balance at June 30, 2020	<u>\$ 3,444</u>	<u>\$ (702)</u>	<u>\$ (873)</u>	<u>\$ 320</u>	<u>\$ (5)</u>	<u>\$ 2,184</u>

¹ Recognized in investment related gains (losses) on the condensed consolidated statements of income (loss).

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<i>(In millions)</i>	Unrealized investment gains (losses) on AFS securities	DAC, DSI, VOBA and future policy benefits adjustments on AFS securities	Unrealized gains (losses) on hedging instruments	Foreign currency translation and other adjustments	Accumulated other comprehensive income (loss)
Balance at March 31, 2019	\$ 959	\$ (282)	\$ 33	\$ (4)	\$ 706
Other comprehensive income (loss) before reclassifications	1,776	(490)	55	(1)	1,340
Less: Reclassification adjustments for gains (losses) realized in net income (loss) ¹	35	(10)	—	—	25
Less: Income tax expense (benefit)	351	(101)	11	—	261
Balance at June 30, 2019	\$ 2,349	\$ (661)	\$ 77	\$ (5)	\$ 1,760

¹ Recognized in investment related gains (losses) on the condensed consolidated statements of income (loss).

<i>(In millions)</i>	Unrealized investment gains (losses) on AFS securities without a credit allowance	Unrealized investment gains (losses) on AFS securities with a credit allowance	DAC, DSI, VOBA and future policy benefits adjustments on AFS securities	Unrealized gains (losses) on hedging instruments	Foreign currency translation and other adjustments	Accumulated other comprehensive income (loss)
Balance at December 31, 2019	\$ 3,102	\$ —	\$ (879)	\$ 61	\$ (3)	\$ 2,281
Adoption of accounting standards	4	(4)	(6)	—	—	(6)
Other comprehensive income (loss) before reclassifications	757	(884)	(52)	318	(1)	138
Less: Reclassification adjustments for gains (losses) realized in net income (loss) ¹	221	—	(67)	—	—	154
Less: Income tax expense (benefit)	106	(176)	3	75	—	8
Less: Other comprehensive income (loss) attributable to NCI	92	(10)	—	(16)	1	67
Balance at June 30, 2020	\$ 3,444	\$ (702)	\$ (873)	\$ 320	\$ (5)	\$ 2,184

¹ Recognized in investment related gains (losses) on the condensed consolidated statements of income (loss).

<i>(In millions)</i>	Unrealized investment gains (losses) on AFS securities	DAC, DSI, VOBA and future policy benefits adjustments on AFS securities	Unrealized gains (losses) on hedging instruments	Foreign currency translation and other adjustments	Accumulated other comprehensive income (loss)
Balance at December 31, 2018	\$ (628)	\$ 121	\$ 39	\$ (4)	\$ (472)
Other comprehensive income (loss) before reclassifications	3,757	(999)	47	(1)	2,804
Less: Reclassification adjustments for gains (losses) realized in net income (loss) ¹	28	(8)	—	—	20
Less: Income tax expense (benefit)	752	(209)	9	—	552
Balance at June 30, 2019	\$ 2,349	\$ (661)	\$ 77	\$ (5)	\$ 1,760

¹ Recognized in investment related gains (losses) on the condensed consolidated statements of income (loss).

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11. Related Parties

Apollo

Current fee structure – Substantially all of our investments are managed by Apollo, which 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.

During the second quarter of 2019, we entered into the Seventh Amended and Restated Fee Agreement, dated as of June 10, 2019, between us and AGM’s subsidiary, Apollo Insurance Solutions Group LP (ISG) (Fee Agreement). Under the Fee Agreement, effective retroactive to January 1, 2019, we pay Apollo:

- (1) a base management fee equal to the sum of (i) 0.225% per year of the lesser of (A) the aggregate market value of substantially all of the assets in substantially all of the investment accounts of or relating to us (collectively, the Accounts) on December 31, 2018 of \$103.4 billion (Backbook Value) and (B) the aggregate market value of substantially all of the assets in the Accounts at the end of the respective month, plus (ii) 0.15% per year of the amount, if any (Incremental Value), by which the aggregate market value of substantially all of the assets in the Accounts at the end of the respective month exceeds the Backbook Value; plus
- (2) with respect to each asset in an Account, subject to certain exceptions, that is managed by Apollo and that belongs to a specified asset class tier (Core, Core Plus, Yield, and High Alpha), a sub-allocation fee as follows, which will, in the case of assets acquired after January 1, 2019, be subject to a cap of 10% of the applicable asset’s gross book yield:
 - (i) 0.065% of the market value of Core assets, which include public investment grade corporate bonds, municipal securities, agency RMBS or CMBS, and obligations of governmental agencies or government sponsored entities that are not expressly backed by the U.S. government;
 - (ii) 0.13% of the market value of Core Plus assets, which include private investment grade corporate bonds, fixed rate first lien commercial mortgage loans (CML), and certain obligations issued or assumed by financial institutions and determined by Apollo to be “Tier 2 Capital” under Basel III, a set of recommendations for international banking regulations developed by the Bank for International Settlements;
 - (iii) 0.375% of the market value of Yield assets, which include non-agency RMBS, investment grade CLO, CMBS and other ABS (other than RMBS and CLO), emerging market investments, below investment grade corporate bonds, subordinated debt obligations, hybrid securities or surplus notes issued or assumed by a financial institution, rated preferred equity, residential mortgage loans (RML), bank loans, investment grade infrastructure debt, and floating rate CMLs on slightly transitional or stabilized traditional real estate;
 - (iv) 0.70% of the market value of High Alpha assets, which include subordinated CML, below investment grade CLO, unrated preferred equity, debt obligations originated by MidCap, CMLs for redevelopment or construction loans or secured by non-traditional real estate, below investment grade infrastructure debt, certain loans originated directly by Apollo (other than MidCap loans), and agency mortgage derivatives; and
 - (v) 0.00% of the market value of cash and cash equivalents, U.S. treasuries, non-preferred equities and alternatives.

The following represents assets based on the above sub-allocation structure:

<i>(In millions, except percentages)</i>	June 30, 2020	Percent of Total	December 31, 2019	Percent of Total
Core	\$ 45,163	28.2%	\$ 32,474	25.5%
Core Plus	36,148	22.5%	30,155	23.6%
Yield	55,526	34.6%	48,557	38.0%
High Alpha	5,799	3.6%	5,062	4.0%
Other	17,873	11.1%	11,302	8.9%
Total sub-allocation assets	\$ 160,509	100.0%	\$ 127,550	100.0%

Additionally, the Fee Agreement provides for a possible payment by Apollo to us, or a possible payment by us to Apollo, equal to 0.025% of the Incremental Value as of the end of each year, beginning on December 31, 2019, depending upon the percentage of our investments that consist of Core and Core Plus assets. If more than 60% of our invested assets that are subject to the sub-allocation fees are invested in Core and Core Plus assets, we will receive a 0.025% fee reduction on the Incremental Value. If less than 50% of our invested assets that are subject to the sub-allocation fee are invested in Core and Core Plus assets, we will pay an additional fee of 0.025% on Incremental Value.

During the three months ended June 30, 2020 and 2019, we incurred management fees, inclusive of the base and sub-allocation fees, of \$123 million and \$94 million, respectively. During the six months ended June 30, 2020 and 2019, we incurred management fees, inclusive of the base and sub-allocation fees, of \$251 million and \$186 million, respectively. Management fees are included within net investment income on the condensed consolidated statements of income (loss). As of June 30, 2020 and December 31, 2019, management fees payable were \$44 million and \$42 million, respectively, and are included in other liabilities on the condensed consolidated balance sheets.

ATHENE HOLDING LTD.

Notes to Condensed Consolidated Financial Statements (Unaudited)

In addition to the assets on our condensed consolidated balance sheets managed by Apollo, Apollo manages the assets underlying our funds withheld receivable. For these assets, the third-party cedants pay Apollo fees based upon the same fee construct we have with Apollo. Such fees directly reduce the settlement payments that we receive from the third-party cedant and, as such, we indirectly pay those fees. Finally, Apollo charges management fees and carried interest on Apollo-managed funds and other entities in which we invest. Neither the fees paid by such third-party cedants nor the fees or carried interest paid by such Apollo-managed funds or other entities are included in the investment management fee amounts cited above.

Investment management agreement (IMA) termination – Our bye-laws currently provide that we may not, and will cause our subsidiaries not to, terminate any IMA among us or any of our subsidiaries, on the one hand, and a member of the Apollo Group (as defined in our bye-laws), on the other hand, other than on June 4, 2023 or any two year anniversary of such date (each such date, an IMA Termination Election Date) and any termination on an IMA Termination Election Date requires (i) the approval of two-thirds of our Independent Directors (as defined in the bye-laws) and (ii) prior written notice to the applicable Apollo subsidiary of such termination at least 30 days, but not more than 90 days, prior to an IMA Termination Election Date. If our Independent Directors make such election to terminate and notice of such termination is delivered, the termination will be effective no earlier than the second anniversary of the applicable IMA Termination Election Date (IMA Termination Effective Date). Notwithstanding the foregoing, (A) except as set forth in clause (B) below, our board of directors may only elect to terminate an IMA on an IMA Termination Election Date if two-thirds of our Independent Directors determine, in their sole discretion and acting in good faith, that either (i) there has been unsatisfactory long-term performance materially detrimental to us by the applicable Apollo subsidiary or (ii) the fees being charged by the applicable Apollo subsidiary are unfair and excessive compared to a comparable asset manager (provided, that in either case such Independent Directors must deliver notice of any such determination to the applicable Apollo subsidiary and the applicable Apollo subsidiary will have until the applicable IMA Termination Effective Date to address such concerns, and provided, further, that in the case of such a determination that the fees being charged by the applicable Apollo subsidiary are unfair and excessive, the applicable Apollo subsidiary has the right to lower its fees to match the fees of such comparable asset manager) and (B) upon the determination by two-thirds of our Independent Directors, we or our subsidiaries may also terminate an IMA with the applicable Apollo subsidiary, on a date other than an IMA Termination Effective Date, as a result of either (i) a material violation of law relating to the applicable Apollo subsidiary’s advisory business, or (ii) the applicable Apollo subsidiary’s gross negligence, willful misconduct or reckless disregard of its obligations under the relevant agreement, in each case of this clause (B), that is materially detrimental to us, and in either case of this clause (B), subject to the delivery of written notice at least 30 days prior to such termination; provided, that in connection with an event described in clause (B)(i) or (B)(ii), the applicable Apollo subsidiary shall have the right to dispute such determination of the Independent Directors within 30 days after receiving notice from us of such determination, in which case the matter will be submitted to binding arbitration and such IMA shall continue to remain in effect during the period of the arbitration (the events described in the foregoing clauses (A) and (B) are referred to in more detail in our bye-laws as “AHL Cause”).

Governance – We have a management investment committee, which includes members of our senior management and reports to the risk committee of our board of directors. The committee focuses on strategic decisions involving our investment portfolio, such as approving investment limits, new asset classes and our allocation strategy, reviewing large asset transactions, as well as monitoring our credit risk, and the management of our assets and liabilities.

A significant voting interest in the Company is held by shareholders who are members of the Apollo Group. Also, James Belardi, our Chief Executive Officer, is an employee of ISG and receives remuneration from acting as Chief Executive Officer of ISG. Mr. Belardi also owns a 5% profit interest in ISG (Interest). It is expected that the Interest will be revised such that Mr. Belardi will receive a lesser interest in the equity of ISG and also receive a specified percentage of other fee streams earned by Apollo, potentially comprised of or including the sub-allocation fees.

Additionally, six of the fifteen members of our board of directors are employees of or consultants to Apollo (including Mr. Belardi). In order to protect against potential conflicts of interest resulting from transactions into which we have entered and will continue to enter into with the Apollo Group, our bye-laws require us to maintain a conflicts committee comprised solely of directors who are not officers or employees of any member of the Apollo Group. The conflicts committee reviews and approves material transactions between us and the Apollo Group, subject to certain exceptions.

Other related party transactions

A-A Mortgage Opportunities, L.P. (A-A Mortgage) – We have an equity method investment of \$594 million and \$487 million as of June 30, 2020 and December 31, 2019, respectively, in A-A Mortgage, which has an investment in AmeriHome. We have a loan purchase agreement with AmeriHome. The agreement allows us to purchase residential mortgage loans which AmeriHome has purchased from correspondent sellers and pooled for sale in the secondary market. AmeriHome retains the servicing rights to the sold loans. We did not purchase any residential mortgage loans under this agreement during either the three months ended June 30, 2020 or 2019. We purchased \$169 million and \$0 million of residential mortgage loans under this agreement during the six months ended June 30, 2020 and 2019, respectively. Additionally, we hold ABS securities issued by AmeriHome affiliates of \$162 million and \$170 million as of June 30, 2020 and December 31, 2019, respectively, which are included in related party AFS securities on the condensed consolidated balances sheets. We also have commitments to make additional equity investments in A-A Mortgage of \$169 million as of June 30, 2020.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

MidCap – AAA Investment (Co Invest VII), L.P. (CoInvest VII) holds a significant investment in MidCap. CoInvest VII is included in related party investment funds on the condensed consolidated balance sheets and was reflected as a consolidated VIE prior to the first quarter of 2020. We have also advanced amounts under a subordinated debt facility to MidCap. During the second quarter of 2020, we also invested \$67 million in MidCap redeemable preferred stock. The subordinated debt facility and redeemable preferred stock are included in related party other investments and related party trading securities, respectively, on the condensed consolidated balance sheets. The following summarizes these investments in MidCap:

<i>(In millions)</i>	June 30, 2020	December 31, 2019
Investment fund	\$ 517	\$ 547
Subordinated debt facility	329	339
Redeemable preferred stock	77	—
Total investment in MidCap	\$ 923	\$ 886

Additionally, we hold ABS and CLO securities issued by MidCap affiliates of \$580 million and \$624 million as of June 30, 2020 and December 31, 2019, respectively, which are included in related party AFS securities on the condensed consolidated balance sheets.

Athora – We have a cooperation agreement with Athora, pursuant to which, among other things, (1) for a period of 30 days from the receipt of notice of a cession, we have the right of first refusal to reinsure (i) up to 50% of the liabilities ceded from Athora’s reinsurance subsidiaries to Athora Life Re Ltd. and (ii) up to 20% of the liabilities ceded from a third party to any of Athora’s insurance subsidiaries, subject to a limitation in the aggregate of 20% of Athora’s liabilities, (2) Athora agreed to cause its insurance subsidiaries to consider the purchase of certain funding agreements and/or other spread instruments issued by our insurance subsidiaries, subject to a limitation that the fair market value of such funding agreements purchased by any of Athora’s insurance subsidiaries may generally not exceed 3% of the fair market value of such subsidiary’s total assets, (3) we provide Athora with a right of first refusal to pursue acquisition and reinsurance transactions in Europe (other than the UK) and (4) Athora provides us and our subsidiaries with a right of first refusal to pursue acquisition and reinsurance transactions in North America and the UK. Notwithstanding the foregoing, pursuant to the cooperation agreement, Athora is only required to use its reasonable best efforts to cause its subsidiaries to adhere to the provisions set forth in the cooperation agreement and therefore Athora’s ability to cause its subsidiaries to act pursuant to the cooperation agreement may be limited by, among other things, legal prohibitions or the inability to obtain the approval of the board of directors or other applicable governing body of the applicable subsidiary, which approval is solely at the discretion of such governing body. As of June 30, 2020, we have not exercised our right of first refusal to reinsure liabilities ceded to Athora’s insurance or reinsurance subsidiaries.

Our investment in Athora, which is included in related party investment funds on the condensed consolidated balance sheets, was \$497 million and \$132 million as of June 30, 2020 and December 31, 2019, respectively. During the second quarter of 2020, we contributed capital of \$361 million to Athora. Additionally, as of June 30, 2020 and December 31, 2019, we had \$112 million and \$146 million, respectively, of funding agreements outstanding to Athora. We also have commitments to make additional equity investments in Athora of \$371 million as of June 30, 2020.

Venerable – We have coinsurance and modco agreements with Venerable Insurance and Annuity Company (VIAC, formerly Voya Insurance and Annuity Company). VIAC is a related party due to our minority equity investment in its holding company’s parent, VA Capital Company LLC (VA Capital), which was \$118 million and \$99 million as of June 30, 2020 and December 31, 2019, respectively. The minority equity investment in VA Capital is included in related party investment funds on the condensed consolidated balance sheets and accounted for as an equity method investment. VA Capital is owned by a consortium of investors, led by affiliates of AGM, Crestview Partners and Reverence Capital Partners, and is the parent of Venerable, which is the parent of VIAC. Additionally, we have a 15-year term loan receivable from Venerable due in 2033, which is included in related party other investments on the condensed consolidated balance sheets. The loan is held at the principal balance less allowances and was \$145 million and \$148 million as of June 30, 2020 and December 31, 2019, respectively. While management views the overall transactions with Venerable as favorable to us, the stated interest rate of 6.257% on the term loan to Venerable represents a below-market interest rate, and management considered such rate as part of its evaluation and pricing of the reinsurance transactions.

Strategic Partnership – We have an agreement pursuant to which we may invest up to \$2.5 billion over three years in funds managed by Apollo entities (Strategic Partnership). This arrangement is intended to permit us to invest across the Apollo alternatives platform into credit-oriented, strategic and other alternative investments in a manner and size that is consistent with our existing investment strategy. Fees for such investments payable by us to Apollo would be more favorable to us than market rates, and consistent with our existing alternative investments, investments made under the Strategic Partnership require approval of ISG and remain subject to our existing governance processes, including approval by our conflicts committee where applicable. As of June 30, 2020 and December 31, 2019, we had \$124 million and \$97 million, respectively, of investments under the Strategic Partnership and these investments are included in related party investment funds on the condensed consolidated balance sheets and were reflected as consolidated VIEs in prior periods.

PK AirFinance – During the fourth quarter of 2019, we and Apollo purchased PK AirFinance (PK), an aviation lending business, including PK’s in force loan portfolio (Aviation Loans), from the Aviation Services Unit of GE Capital (GE). The Aviation Loans are generally fully secured by aircraft leases and aircraft. In connection with such transaction, Apollo acquired the PK loan origination platform, including personnel and systems and, pursuant to certain agreements entered into between us, Apollo, and certain entities managed by Apollo (collectively, PK Transaction Agreements), the existing Aviation Loans were acquired and securitized by a newly formed SPV for which Apollo acts as ABS manager (ABS-SPV). The ABS-SPV issued tranches of senior notes and subordinated notes, which are secured by the Aviation Loans.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

In connection with the acquisition of the existing Aviation Loans by the ABS-SPV (i) a tranche of senior notes was acquired by third-party investors and (ii) we purchased mezzanine tranches of the senior notes and the subordinated notes. As of June 30, 2020 and December 31, 2019, our investment in securitizations of loans originated by PK was \$1,262 million and \$1,282 million, respectively, and are included in related party AFS or trading securities on the condensed consolidated balance sheets. We also have commitments to make additional investment in securitizations of loans originated by PK of \$216 million as of June 30, 2020.

In addition to the investment in the senior notes and subordinated notes, we also have a right to acquire, whether directly, through the ABS-SPV or through a similar vehicle, all Aviation Loans originated by PK (Forward Flow Loans). All servicing and administrative costs and expenses of Apollo (determined at cost, without mark-up) that are incurred in connection with the sourcing, origination, servicing and maintaining the Forward Flow Loans, net of any service fees and servicing and administrative cost and expense reimbursement amounts received directly from the ABS-SPV or other entities investing in the Forward Flow Loans are allocated to, and reimbursed by the ABS-SPV or us, as applicable, subject to an agreed-upon annual cap.

In addition to the payment of the expenses described in the preceding paragraph and the base management fee paid to Apollo on all assets managed by Apollo, we have paid or expect to pay the following fees to Apollo or certain service providers that are affiliates of, or are companies managed by, Apollo in connection with the PK Transaction Agreements:

- (A) To Apollo, sub-allocation fees on the senior notes based on the rates applicable to Yield assets and sub-allocation fees on the subordinated notes based on the rates applicable to High Alpha assets.
- (B) To Redding Ridge Asset Management LLC, a company in which certain funds managed by Apollo have an interest, as consideration for assistance with the structuring, monitoring, support and maintenance of the securitization transactions, a one-time structuring fee, as well as ongoing support fees equal to 1.5 bps on the total capitalization amount and certain other fees, which may become due upon the occurrence of certain events; and
- (C) To Merx Aviation Servicing Limited, a company externally managed by Apollo Investment Management, L.P., with respect to certain diligence, technical support and enforcement, remarketing and restructuring services with respect to the existing Aviation Loans and the Forward Flow Loans, a one-time servicing fee, as well as certain special situations fees, which may become due upon the occurrence of certain events.

Apollo/Athene Dedicated Investment Program (ADIP) – Our subsidiary, Athene Co-Invest Reinsurance Affiliate 1A Ltd. (together with its subsidiaries, ACRA) is partially owned by ADIP, which is managed by AGM. As of March 31, 2020, ADIP owned 67% of the equity interests, while we retained 100% of the voting power and 33% of the equity interests in ACRA. On April 1, 2020, ALRe purchased 14,000 newly issued ACRA shares for \$66 million, which resulted in ALRe holding 36.55% of the economic interests in ACRA. The remaining 63.45% of the economic interests in ACRA are held by ADIP. During the six months ended June 30, 2020, we received a capital contribution of \$240 million from ADIP and paid a dividend of \$46 million to ADIP.

Apollo Share Exchange and Related Transactions – On February 28, 2020, we closed a strategic transaction with AGM and certain affiliates of AGM which collectively comprise the Apollo Operating Group (AOG), pursuant to which we sold 27,959,184 newly issued Class A common shares to the AOG for an investment in Apollo of 29,154,519 newly issued AOG units valued at \$1.1 billion and we sold 7,575,758 newly issued Class A common shares to the AOG for \$350 million. Pursuant to the underlying transaction agreements, among other things (1) AGM has the right to purchase additional Class A common shares until August 26, 2020 to the extent AOG and certain affiliates, employees and consultants of AGM do not beneficially own at least 35% of the issued and outstanding Class A common shares (inclusive of Class A common shares over which any such persons have a valid proxy), on a fully diluted basis, in a number to achieve such 35% ownership level at a price based upon a weighted average price during the 30 days prior to the exercise of the purchase right and (2) Apollo Management Holdings, L.P. (AMH) has the right to purchase up to that number of Class A common shares that would increase by 5 percentage points the percentage of the issued and outstanding Class A common shares beneficially owned by the AOG and certain affiliates, employees and consultants of AGM (inclusive of Class A common shares over which any such persons have a valid proxy), calculated on a fully diluted basis. In connection with the closing of the transaction, we made certain amendments to our bye-laws which, among other things, eliminated our multi-class share structure.

Concurrent with our entry into the transaction agreements, AMH, James Belardi, our Chief Executive Officer, and William Wheeler, our President (each an “Other Shareholder”), entered into a voting agreement, pursuant to which each Other Shareholder irrevocably appointed AMH as its proxy and attorney-in-fact (Proxy) to vote all of such Other Shareholder’s Class A common shares at any meeting of our shareholders occurring following the closing date and in connection with any written consent of our shareholders following the closing date. The Proxy will be of no force and effect if Apollo and certain affiliates thereof cease to hold some minimum level of ownership not to exceed 7.5% of our Class A common shares.

AA Infrastructure Fund 1 LLC (AA Infrastructure) – We have an investment in preferred shares of AA Infrastructure, which is a fund managed by ISG. As of June 30, 2020 and December 31, 2019, we held \$52 million and \$58 million, respectively, of preferred shares, which are included in related party equity securities on the condensed consolidated balance sheets and also held AA Infrastructure ABS securities of \$297 million and \$267 million, respectively, which are included in related party trading securities on the condensed consolidated balance sheets. We also have commitments to make additional investments in AA Infrastructure of \$52 million as of June 30, 2020.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

12. Commitments and Contingencies

Contingent Commitments—We had commitments to make investments, primarily capital contributions to investment funds, inclusive of related party commitments discussed previously, of \$5,108 million and \$4,793 million as of June 30, 2020 and December 31, 2019, respectively. We expect most of our current commitments will be invested over the next five years; however, these commitments could become due any time upon counterparty request.

Funding Agreements—We are a member of the FHLB and, through membership, we have issued funding agreements to the FHLB in exchange for cash advances. As of June 30, 2020 and December 31, 2019, we had \$2,101 million and \$1,226 million, respectively, of FHLB funding agreements outstanding. We are required to provide collateral in excess of the funding agreement amounts outstanding, considering any discounts to the securities posted and prepayment penalties.

We have a funding agreement backed notes (FABN) program, which allows Athene Global Funding, a special-purpose, unaffiliated statutory trust, to offer its senior secured medium-term notes. Athene Global Funding uses the net proceeds from each sale to purchase one or more funding agreements from us. As of June 30, 2020 and December 31, 2019, we had \$4,887 million and \$3,700 million, respectively, of FABN funding agreements outstanding. We had \$4,013 million of FABN capacity remaining as of June 30, 2020.

Pledged Assets and Funds in Trust (Restricted Assets)—The total restricted assets included on the condensed consolidated balance sheets are as follows:

<i>(In millions)</i>	June 30, 2020	December 31, 2019
AFS securities	\$ 11,264	\$ 9,369
Trading securities	51	45
Equity securities	20	22
Mortgage loans	4,888	2,535
Investment funds	90	84
Derivative assets	96	105
Short-term investments	108	92
Other investments	104	88
Restricted cash	1,281	402
Total restricted assets	\$ 17,902	\$ 12,742

The restricted assets are primarily related to reinsurance trusts established in accordance with coinsurance agreements and the FHLB funding agreements described above.

Letters of Credit—We have undrawn letters of credit totaling \$1,418 million as of June 30, 2020. These letters of credit were issued for our reinsurance program and expire between December 10, 2020 and June 19, 2023.

Litigation, Claims and Assessments

Corporate-owned Life Insurance (COLI) Matter – In 2000 and 2001, two insurance companies, which were subsequently merged into Athene Annuity and Life Company (AAIA), purchased broad based variable COLI policies from American General Life Insurance Company (American General) that, as of June 30, 2020, had an asset value of \$396 million, and is included in other assets on the condensed consolidated balance sheets. In January 2012, the COLI policy administrator delivered to AAIA a supplement to the existing COLI policies and advised that American General and ZC Resource Investment Trust (ZC Trust) had unilaterally implemented changes set forth in the supplement that, if effective, would: (1) potentially negatively impact the crediting rate for the policies and (2) change the exit and surrender protocols set forth in the policies. In March 2013, AAIA filed suit against American General, ZC Trust, and ZC Resource LLC in Chancery Court in Delaware, seeking, among other relief, a declaration that the changes set forth in the supplement were ineffectual and in breach of the parties' agreement. The parties filed cross motions for judgment as a matter of law, and the court granted defendants' motion and dismissed without prejudice on ripeness grounds. The issue that negatively impacts the crediting rate for one of the COLI policies has subsequently been triggered and, on April 3, 2018, we filed suit against the same defendants in Chancery Court in Delaware seeking substantially similar relief. Defendants moved to dismiss and the court heard oral arguments on February 13, 2019. The court issued an opinion on July 31, 2019 that did not address the merits, but found that the Chancery Court did not have jurisdiction over our claims and directed us to either amend our complaint or transfer the matter to Delaware Superior Court. The matter has been transferred to the Delaware Superior Court. Defendants renewed their motion to dismiss and the Superior Court heard oral arguments on December 18, 2019. The Superior Court issued an opinion on May 18, 2020 in which it granted in part and denied in part defendants' motion. The Superior Court denied defendants' motion with respect to the issue that negatively impacts the crediting rate for one of the COLI policies, which issue will proceed to discovery. The Superior Court granted defendants' motion and dismissed without prejudice on ripeness grounds claims related to the exit and surrender protocols set forth in the policies, and dismissed defendant ZC Resource LLC. If the supplement is ultimately deemed to be effective, the purported changes to the policies could impair AAIA's ability to access the value of guarantees associated with the policies. The value of the guarantees included within the asset value reflected above is \$196 million as of June 30, 2020.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

Regulatory Matters – Beginning in 2015, our U.S. insurance subsidiaries have experienced increased complaints related to the conversion and administration of the block of life insurance business acquired in connection with our acquisition of Aviva USA and reinsured to affiliates of Global Atlantic. The life insurance policies included in this block have been and are currently being administered by AllianceOne Inc. (AllianceOne), a subsidiary of DXC Technology Company, which was retained by such Global Atlantic affiliates to provide third party administration services on such policies. AllianceOne also administers a small block of annuity policies that were on Aviva USA's legacy policy administration systems that were also converted in connection with the acquisition of Aviva USA and have experienced some similar service and administration issues, but to a lesser degree.

As a result of the difficulties experienced with respect to the administration of such policies, we have received notifications from several state regulators, including but not limited to New York State Department of Financial Services (NYSDFS), the California Department of Insurance (CDI) and the Texas Department of Insurance, indicating, in each case, that the respective regulator planned to undertake a market conduct examinations or enforcement proceeding of the applicable U.S. insurance subsidiary relating to the treatment of policyholders subject to our reinsurance agreements with affiliates of Global Atlantic and the conversion of the life and annuity policies, including the administration of such blocks by AllianceOne. We have entered into consent orders with several states, including the NYSDFS, to resolve underlying matters in those states. All fines and costs, including those associated with remediation plans, paid in connection with the consent orders are subject to indemnification by Global Atlantic or affiliates of Global Atlantic. Global Atlantic is currently finalizing negotiations with the CDI to resolve the pending joint action related to the converted life insurance policies, and we expect to enter into a Stipulation and Waiver with the CDI to resolve that action in the near future.

In addition to the examinations and proceedings initiated to date, it is possible that other regulators may pursue similar formal examinations, inquiries or enforcement proceedings and that any examinations, inquiries and/or enforcement proceedings may result in fines, administrative penalties and payments to policyholders. While we do not expect the amount of any such fines, penalties or payments arising from these matters to be material to our financial condition, results of operations or cash flows, it is possible that such amounts could be material.

Pursuant to the terms of the reinsurance agreements between us and the relevant affiliates of Global Atlantic, the applicable affiliates of Global Atlantic have financial responsibility for the ceded life block and are subject to significant administrative service requirements, including compliance with applicable law. The agreements also provide for indemnification to us, including for administration issues.

On January 23, 2019, we received a letter from the NYSDFS, with respect to a pension risk transfer (PRT) transaction, which expressed concerns with our interpretation and reliance upon certain exemptions from licensing in New York in connection with certain activities performed by employees in our PRT channel, including specific activities performed within New York. On April 13, 2020, we entered into a consent order with the NYSDFS to resolve this matter. Pursuant to the consent order, the NYSDFS imposed a fine of \$45 million, which was accrued in other liabilities on the consolidated balance sheets as of December 31, 2019, and paid during the second quarter of 2020.

Caldera Matters – On May 3, 2018, AHL filed a writ commencing litigation in the Supreme Court of Bermuda against a former officer of AHL, a former director of AHL (who is also considered a former officer pursuant to Bermuda law), and Caldera Holdings, Ltd. (Caldera). AHL alleges in the writ, among other things, that the defendants breached various duties owed to AHL under Bermuda law by using AHL's confidential information in their attempted acquisition of a company referred to in the litigation as Company A. AHL is seeking injunctive relief and damages.

Athene amended its writ on October 16, 2018. The trial court denied two separate motions to dismiss made by defendant Caldera on June 28, 2018 and by the former officer and former director defendants on January 14, 2019. On September 20, 2019, the Bermuda Court of Appeal affirmed both trial court rulings and dismissed the defendants' appeal. Defendants have not further pursued an appeal of this decision to the Judicial Committee of the Privy Council, the court of final appeal for matters litigated in Bermuda. On March 17, 2020, we filed an application for leave to amend the complaint to more broadly assert defendants' breaches of duties.

On May 3, 2018, following AHL's filing of the writ in Bermuda described above, Caldera, Caldera Life Reinsurance Company, and Caldera Shareholder, L.P., commenced an action in the Supreme Court of the State of New York, County of New York, by filing a Summons with Notice against AHL, Apollo, certain affiliates of Apollo and Leon Black, a founder of Apollo. On July 12, 2018, plaintiffs filed a complaint alleging claims for tortious interference with prospective business relations, defamation, and unfair competition related to plaintiffs' attempt to purchase Company A and seeking alleged damages of "no less than \$1.5 billion." AHL has moved to dismiss the complaint. On January 21, 2019, plaintiffs filed an amended complaint, which revised certain allegations about jurisdiction, venue and the merits of the plaintiffs' claims. We have renewed our motion to dismiss and, on December 20, 2019, the court granted our motion to dismiss. Plaintiffs have filed an appeal, but failed to timely effectuate the appeal. Unless plaintiffs belatedly try to perfect their appeal, or to extend their time to do so, and are successful in such efforts, we believe that this litigation is concluded.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

13. Segment Information

We operate our core business strategies out of one reportable segment, Retirement Services. In addition to Retirement Services, we report certain other operations in Corporate and Other.

Retirement Services—Retirement Services is comprised of our U.S. and Bermuda operations, which issue and reinsure retirement savings products and institutional products. Retirement Services has retail operations, which provide annuity retirement solutions to our policyholders. Retirement Services also has reinsurance operations, which reinsure multi-year guaranteed annuities, fixed indexed annuities, traditional one-year guarantee fixed deferred annuities, immediate annuities and institutional products from our reinsurance partners. In addition, our institutional operations, including funding agreements and group annuities, are included in our Retirement Services segment.

Corporate and Other—Corporate and Other includes certain other operations related to our corporate activities such as corporate allocated expenses, merger and acquisition costs, debt costs, preferred stock dividends, certain integration and restructuring costs, certain stock-based compensation and intersegment eliminations. In addition, we also hold capital in excess of the level of capital we hold in Retirement Services to support our operating strategy.

Financial Measures—Segment adjusted operating income available to common shareholders is an internal measure used by the chief operating decision maker to evaluate and assess the results of our segments.

Adjusted operating revenue is a component of adjusted operating income available to common shareholders and excludes market volatility and adjustments for other non-operating activity. Our adjusted operating revenue equals our total revenue, adjusted to eliminate the impact of the following non-operating adjustments:

- Change in fair values of derivatives and embedded derivatives – index annuities, net of offsets;
- Investment gains (losses), net of offsets; and
- VIE expenses, noncontrolling interests and other adjustments to revenues.

The table below reconciles segment adjusted operating revenues to total revenues presented on the condensed consolidated statements of income (loss):

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Retirement Services	\$ 1,589	\$ 2,248	\$ 4,058	\$ 5,554
Corporate and Other	446	24	116	56
Non-operating adjustments				
Change in fair values of derivatives and embedded derivatives – index annuities, net of offsets	754	466	(917)	1,406
Investment gains (losses), net of offsets	1,246	682	(439)	1,395
VIE expenses, noncontrolling interests and other adjustments to revenues	363	3	31	7
Total revenues	\$ 4,398	\$ 3,423	\$ 2,849	\$ 8,418

Adjusted operating income available to common shareholders is an internal measure used to evaluate our financial performance excluding market volatility and expenses related to integration, restructuring, stock compensation and certain other expenses. Our adjusted operating income available to common shareholders equals net income available to Athene Holding Ltd. common shareholders adjusted to eliminate the impact of the following non-operating adjustments:

- Investment gains (losses), net of offsets;
- Change in fair values of derivatives and embedded derivatives – index annuities, net of offsets;
- Integration, restructuring and other non-operating expenses;
- Stock-based compensation, excluding the long-term incentive plan (LTIP); and
- Income tax (expense) benefit – non-operating.

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The table below reconciles segment adjusted operating income available to common shareholders to net income available to Athene Holding Ltd. common shareholders presented on the condensed consolidated statements of income (loss):

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Retirement Services	\$ 208	\$ 376	\$ 412	\$ 662
Corporate and Other	282	(6)	(30)	(5)
Non-operating adjustments				
Investment gains (losses), net of offsets	775	417	(364)	875
Change in fair values of derivatives and embedded derivatives – index annuities, net of offsets	(405)	(57)	(340)	(84)
Integration, restructuring and other non-operating expenses	(9)	(11)	(13)	(12)
Stock-based compensation, excluding LTIP	—	(3)	(10)	(6)
Income tax (expense) benefit – non-operating	(27)	4	104	(2)
Net income (loss) available to Athene Holding Ltd. common shareholders	\$ 824	\$ 720	\$ (241)	\$ 1,428

The following represents total assets by segment:

<i>(In millions)</i>	June 30, 2020	December 31, 2019
Retirement Services	\$ 178,555	\$ 143,881
Corporate and Other	4,686	2,994
Total assets	\$ 183,241	\$ 146,875

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a leading retirement services company that issues, reinsures and acquires retirement savings products designed for the increasing number of individuals and institutions seeking to fund retirement needs. We generate attractive financial results for our policyholders and shareholders by combining our two core competencies of (1) sourcing long-term, generally illiquid liabilities and (2) investing in a high-quality investment portfolio, which takes advantage of the illiquid nature of our liabilities. Our steady and significant base of earnings generates capital that we opportunistically invest across our business to source attractively-priced liabilities and capitalize on opportunities.

We have established a significant base of earnings and, as of June 30, 2020, have an expected annual net investment spread for our Retirement Services segment, which measures our investment performance less the total cost of our liabilities, of 1–2% over the 9.2 year weighted-average life of our reserve liabilities. The weighted-average life includes deferred annuities, PRT group annuities, funding agreements, payout annuities and other products.

We operate our core business strategies out of one reportable segment, Retirement Services. In addition to Retirement Services, we report certain other operations in Corporate and Other. Retirement Services is comprised of our U.S. and Bermuda operations which issue and reinsure retirement savings products and institutional products. Corporate and Other includes certain other operations related to our corporate activities.

Our consolidated annualized ROE for the six months ended June 30, 2020 and the year ended December 31, 2019 was (3.4)% and 19.7%, respectively, and our consolidated annualized adjusted operating ROE was 7.8% and 14.1%, respectively. For the six months ended June 30, 2020 and the year ended December 31, 2019, in our Retirement Services segment, we generated an annualized net investment spread of 1.00% and 1.50%, respectively, and an annualized adjusted operating ROE of 11.4% and 17.3%, respectively. Our Retirement Services segment generated an annualized investment margin on deferred annuities of 1.81% and 2.46% for the six months ended June 30, 2020 and the year ended December 31, 2019, respectively. As of June 30, 2020, our deferred annuities had a weighted-average life of 8.7 years and made up a significant portion of our reserve liabilities.

The following table presents the deposits generated from our organic and inorganic channels:

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Retail sales	\$ 1,791	\$ 1,909	\$ 3,037	\$ 3,725
Flow reinsurance	2,265	1,125	3,126	2,145
Funding agreements ¹	2,636	299	3,459	299
Pension risk transfer	229	706	1,246	2,629
Total organic deposits	6,921	4,039	10,868	8,798
Inorganic deposits	28,792	—	28,792	—
Gross deposits	35,713	4,039	39,660	8,798
Deposits attributable to ACRA noncontrolling interest	(18,268)	—	(18,268)	—
Net deposits	\$ 17,445	\$ 4,039	\$ 21,392	\$ 8,798

¹ Funding agreements are comprised of our funding agreement backed note program, Federal Home Loan Bank secured funding agreements and long-term repurchase agreements.

Our organic channels, including retail, flow reinsurance and institutional products, provided deposits of \$10.9 billion and \$8.8 billion in the six months ended June 30, 2020 and 2019, respectively, which were underwritten to attractive, at-or-above target returns despite the historically low interest rate environment. Organic deposits increased \$2.1 billion, or 24%, reflecting the strength of our multi-channel distribution platform despite a challenging macroeconomic backdrop amidst the ongoing COVID-19 crisis. Withdrawals on our deferred annuities, maturities of our funding agreements, payments on payout annuities and pension risk benefit payments (collectively, liability outflows), in the aggregate, were \$6.0 billion and \$5.7 billion for the six months ended June 30, 2020 and 2019, respectively. We believe that our credit profile, our current product offerings and product design capabilities as well as our growing reputation as both a seasoned funding agreement issuer and a reliable PRT counterparty will continue to enable us to grow our existing organic channels and allow us to source additional volumes of profitably underwritten liabilities in various market environments. We plan to continue to grow organically by expanding each of our retail, flow reinsurance and institutional distribution channels. We believe that we have the right people, infrastructure and scale to position us for continued growth.

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Within our retail channel, we had fixed annuity sales of \$3.0 billion and \$3.7 billion for the six months ended June 30, 2020 and 2019, respectively. The decrease in our retail channel was primarily driven by a significant decline in industry-wide sales volumes as a result of the economic impacts of the spread of COVID-19, as well as the mitigation measures undertaken to combat the spread, which has complicated the sales process. The decrease was partially offset by relatively strong company performance amidst this industry backdrop as we continued to experience strong production in the bank and broker-dealer channels and demonstrate strong sales execution despite the challenging sales environment. Despite the significant headwinds, we have maintained our disciplined approach to pricing, including with respect to targeted underwritten returns. We aim to grow our retail channel by deepening our relationships with our approximately 50 independent marketing organizations (IMO); approximately 53,000 independent agents; and our growing network of 14 small and mid-sized banks and 94 regional broker-dealers. Our strong financial position and capital efficient products allow us to be dependable partners with IMOs, banks and broker-dealers as well as consistently write new business. We expect our retail channel to continue to benefit from our credit profile and recent product launches. We believe this should support growth in sales at our desired cost of funds through increased volumes via current IMOs, while also allowing us to continue to expand our bank and broker-dealer channels. Additionally, we are focusing on hiring and training a specialized sales force and creating products to capture new potential distribution opportunities.

In our flow reinsurance channel, we target reinsurance business consistent with our preferred liability characteristics and, as such, flow reinsurance provides another opportunistic channel for us to source liabilities with attractive crediting rates. We generated deposits through our flow reinsurance channel of \$3.1 billion and \$2.2 billion for the six months ended June 30, 2020 and 2019, respectively. The increase in our flow reinsurance channel from prior year was driven by strong volumes with existing partnerships. In July we established a new flow reinsurance partnership with a large Japanese financial institution, marking our entry into the large Japanese annuity market. We expect that our credit profile and our reputation as a solutions provider will help us continue to source additional reinsurance partners, which will further diversify our flow reinsurance channel.

Within our institutional channel, we generated deposits of \$4.7 billion and \$2.9 billion for the six months ended June 30, 2020 and 2019, respectively. The increase in our institutional channel was driven by higher funding agreement deposits, partially offset by lower PRT deposits. During the six months ended June 30, 2020, we issued funding agreements in the aggregate principal amount of \$3.5 billion and \$299 million for the six months ended June 30, 2020 and 2019, respectively, including our inaugural Euro denominated FABN. Funding agreements are comprised of our funding agreement backed note program, Federal Home Loan Bank secured funding agreements and long-term repurchase agreements with deposits in the aggregate principal amount of \$2.0 billion, \$875 million and \$598 million for the six months ended June 30, 2020, respectively. We closed two PRT transactions and issued group annuity contracts in the aggregate principal amount of \$1.3 billion, compared to \$2.6 billion during the six months ended June 30, 2019. Since entering the PRT channel in 2017 through June 30, 2020, we have closed 18 deals involving more than 181,000 plan participants resulting in the issuance of group annuities of \$12.1 billion. We expect to grow our institutional channel by continuing to engage in PRT transactions and opportunistic issuances of funding agreements.

Our inorganic channel has contributed significantly to our growth through both acquisitions and block reinsurance transactions. On June 18, 2020, we entered into an agreement with Jackson, effective June 1, 2020, pursuant to which we agreed to reinsure a block of fixed and fixed indexed annuities on a funds withheld coinsurance basis providing \$28.8 billion of gross deposits. Utilizing the strategic benefits of ACRA, approximately 63% of the total capital deployment for the transaction will be funded by third-party investors and approximately 37% will be funded by ALRe. Additionally, as part of the transaction, ACRA made a \$500 million equity investment in an indirect parent of Jackson, which closed on July 17, 2020. We expect that our inorganic channel will continue to be an important source of profitable growth in the future. We believe our internal transactions team, with support from Apollo, has an industry-leading ability to source, underwrite and expeditiously close transactions. With support from Apollo, we are a solutions provider with a proven track record of closing transactions, which we believe makes us the ideal partner to insurance companies seeking to restructure their business.

Executing our growth strategy requires that we have sufficient capital available to deploy. We believe that we have significant capital available to us to support our growth aspirations. As of June 30, 2020, we estimate that we have approximately \$7.3 billion in capital available to deploy, consisting of approximately \$3.0 billion in excess capital, \$2.5 billion in untapped debt capacity (assuming a peer average adjusted debt to capitalization ratio of 25%) and \$1.8 billion in available uncalled capital at ACRA, subject, in the case of debt capacity, to favorable market conditions and general availability.

In order to support our growth strategies and capital deployment opportunities, we established ACRA as a long-duration, on-demand capital vehicle. Effective April 1, 2020, ALRe purchased additional shares in ACRA increasing our ownership from the original 33% to 36.55% of the economic interests, with the remaining 63.45% of the economic interests being owned by ADIP, a series of funds managed by an affiliate of Apollo. ACRA is expected to participate in qualifying transactions and certain other transactions by drawing a portion of the required capital for such transactions from third-party investors equal to ADIP's proportionate economic interest in ACRA. This shareholder-friendly, strategic capital solution is expected to allow us the flexibility to simultaneously deploy capital across multiple accretive avenues, while maintaining a strong financial position.

Strategic Transaction with Apollo

On February 28, 2020, we closed a transaction with Apollo in which Apollo acquired an incremental stake in us for AOG units valued at \$1.1 billion, upon close, and \$350 million of cash. Additionally, we converted our Class B common shares to Class A common shares and our Class M common shares to Class A common shares and warrants, eliminating our multi-class share structure. The AOG units are reflected within the change in fair value of Apollo investment, net of tax line item and may present future volatility in our results of operations due to changes in the valuation of the AOG units. See *Note 11 – Related Parties* to the consolidated financial statements for further discussion.

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Industry Trends and Competition

Market Conditions

Market performance in the second quarter was primarily characterized by the significant rally seen across risk assets. Equity markets moved higher at a pace with limited historical precedent, coming close to reversing the significant underperformance of the first quarter by the middle of June. Fixed income securities rallied as well, with credit spreads on investment grade securities tightening approximately 250 basis points from the maximum levels by the end of the quarter, and parts of structured product, high yield, and other sectors outperforming to an even greater degree relative to their maximum levels (credit spreads on AAA-rated CLOs tightened 360 basis points and credit spreads on high yield securities tightened 435 basis points in the same time period). Energy markets, particularly oil, which was a secondary cause of volatility in the first quarter, saw more modest improvements, but in general, the market tone broadly stood in stark contrast to that of the first three months of the year. The nature of the response to COVID-19 by global central banks was the primary reason for the rally observed during the second quarter, and the various backstops, economic protections, and purchase programs put in place thus far significantly exceed all historical measures undertaken, including those undertaken in the midst of the Global Financial Crisis, with respect to both size and speed. Not all sectors have benefited equally from the rally and there are meaningful segments of the markets and the economy that remain challenged as a result - travel and leisure, transportation, entertainment, dining, brick and mortar retail, autos and lodging all face significant challenges in the near-term, and early indications from the second quarter earnings season suggest banks and other sectors are preparing for a challenged economic environment as well.

Interest Rate Environment

Both as a result of significant central bank intervention and a continued flight-to-quality trade (coupled with the ongoing global search for yield), interest rates remained close to all-time lows throughout the quarter. Importantly, yields outside of the U.S., which had been close to zero, and in some cases negative, moved even lower, exacerbating demand. Communications from global central banks suggest that market support will continue, although there remains significant additional purchasing to complete relating to previously announced programs, both in the U.S. and elsewhere.

The environment for yield focused buyers remains challenging. Quality names and structures will remain well-bid ensuring that yields on these assets remains relatively low. Credit spreads have a good amount of room to tighten before they come close to the lows of the last three years (approximately 40-50 basis points on U.S. investment grade credit, for example), and so will likely continue to attract buyers. On the supply side, the new issues market remains robust, even considering the current credit spread environment. Therefore, deployment challenges are likely to persist.

Our investment portfolio consists predominantly of fixed maturity investments. See *–Consolidated Investment Portfolio*. If prevailing interest rates were to rise, we believe the yield on our new investment purchases may also rise and our investment income from floating rate investments would increase, while the value of our existing investments may decline. If prevailing interest rates were to decline, it is likely that the yield on our new investment purchases may decline and our investment income from floating rate investments would decrease, while the value of our existing investments may increase. Year-to-date trends have entailed decreasing interest rates leading to a decrease in our investment income from floating rate investments, whereas widening credit spreads have resulted in an overall increase in asset yields, which we expect would result in an increase in the yield on our new investment purchases and a decline in the value of our existing investments.

We address interest rate risk through managing the duration of the liabilities we source with assets we acquire through ALM modeling. As part of our investment strategy, we purchase floating rate investments, which we expect would perform well in a rising interest rate environment and which we expect would underperform in a declining rate environment, such as has been experienced during the first half of 2020. Our investment portfolio includes \$23.5 billion of floating rate investments, or 17% of our net invested assets as of June 30, 2020.

If prevailing interest rates were to rise, we believe our products would be more attractive to consumers and our sales would likely increase. If prevailing interest rates were to decline, it is likely that our products would be less attractive to consumers and our sales would likely decrease. In periods of prolonged low interest rates, the net investment spread may be negatively impacted by reduced investment income to the extent that we are unable to adequately reduce policyholder crediting rates due to policyholder guarantees in the form of minimum crediting rates or otherwise due to market conditions. As of June 30, 2020, most of our products were fixed annuities with 23% of our FIAs at the minimum guarantees and 42% of our fixed rate annuities at the minimum crediting rates. As of June 30, 2020, minimum guarantees on all of our deferred annuities, including those with crediting rates already at their minimum guarantees, were, on average, greater than 100 basis points below the crediting rates on such deferred annuities, allowing us room to reduce rates before reaching the minimum guarantees. Our remaining liabilities are associated with immediate annuities, pension risk transfer obligations, funding agreements and life contracts for which we have little to no discretionary ability to change the rates of interest payable to the respective policyholder. A significant majority of our deferred annuity products have crediting rates that we may reset annually upon renewal, following the expiration of the current guaranteed period. While we have the contractual ability to lower these crediting rates to the guaranteed minimum levels, our willingness to do so may be limited by competitive pressures.

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See *Part I—Item 3. Quantitative and Qualitative Disclosures About Market Risks* to this report and *Part II—Item 7A. Quantitative and Qualitative Disclosures About Market Risks* in our 2019 Annual Report, which includes a discussion regarding interest rate and other significant risks and our strategies for managing these risks.

COVID-19

The spread of COVID-19 has resulted in significant volatility in the financial markets. The extent to which COVID-19 and the resulting impact on economic conditions and the financial markets may impact our business will depend on future developments and represents a material uncertainty to our business.

Risks and Mitigation Measures

The spread of COVID-19 presents three principal risks to our business: 1) business continuity risk; 2) market risk and 3) liquidity risk, including that resulting from policyholder behavior.

Business Continuity Risk. The spread of COVID-19 threatens the health and safety of our most valuable asset, our people. To mitigate the risk that the virus infects members of our workforce, to ensure the continuity of our operations throughout the duration of this pandemic and to ensure uninterrupted servicing of the policyholders who have entrusted us for their retirement needs, during March 2020 we implemented our business continuity plan. Pursuant to that plan, we implemented remote work protocols pursuant to which the significant majority of our employees worked remotely, with only certain operationally essential employees working at our facilities, to the extent lawfully permitted. For the operationally essential employees who continued working at our facilities, we implemented new safety protocols that incorporated recommendations, guidelines and regulations from the Center for Disease Control and other national, state and local health authorities, including mandated temperature screenings upon entering the building; the appropriate practice of social distancing, which includes but is not limited to a reduction in the number of people allowed in conference rooms and limiting elevator car capacity; the requirement to wear face coverings; and limitations on movement in the building, among other requirements designed to reduce the risk of transmission between employees (collectively, Safety Protocols). In addition, we implemented enhanced cleaning protocols, which include increased staff to clean common areas; availability of cleaning supplies, face coverings and hand sanitizer throughout our facilities that are operational; and actively encouraging our employees to adopt enhanced hygiene practices. On June 1, 2020, we commenced our repopulation plan with the first wave of employees returning to the office. Thereafter, employees returned in three additional waves, with each wave following the prior by at least two weeks. We expect a final wave, comprised of individuals with special circumstances, to return to the office in the coming months as their individual circumstances allow. As of July 31, 2020, a majority of our workforce had returned to the office. Prior to the commencement of our repopulation plan, all employees were required to complete a comprehensive training covering our repopulation plan and our Safety Protocols. We have implemented case investigation and contact tracing procedures to appropriately identify and quarantine those individuals who have been or may have been exposed to the virus. As of July 31, 2020, we had eight employees who had been certified as contact tracers through Johns Hopkins University. We have been successful in implementing our business continuity and repopulation plans and to date have experienced no material impairment to our business operations. We continue to closely monitor our situation and the recommendations and guidelines issued by national, state and local health authorities.

Market Risk. The effects of the spread of COVID-19 on economic conditions and the financial markets may trigger or increase the market risks to which we are subject, namely interest rate risk, credit risk and public equity risk. The spread of COVID-19 and the Federal Reserve's responsive measures have resulted in abrupt and significant decreases in interest rates and abrupt and significant increases in credit spreads. Changes in interest rates and credit spreads may result in a decrease in the value of our invested assets. To the extent that we needed to sell assets at these decreased values in order to satisfy our obligations, we would realize losses. However, approximately 75% of our deferred annuities have surrender charges, and 58% have market value adjustment features, which we believe greatly reduce the likelihood and magnitude of unexpected withdrawals. Further, our PRT and funding agreement obligations are predominantly non-surrenderable. In addition, we mitigate interest rate risk by managing the effective duration of our assets and liabilities. In doing so, we closely monitor and manage our net duration mismatch as well as our cash inflows and outflows. Decreases in interest rates impact the interest income that we receive on our floating rate assets. For the six months ended June 30, 2020, we recognized \$92 million less in floating rate income than we recognized for the six months ended June 30, 2019, primarily as a result of the declines in interest rates occurring during the six months ended June 30, 2020.

A greater proportion of the companies that issued the securities that we hold in our investment portfolio are more likely to experience financial hardship as a result of the economic effects of COVID-19. We mitigate such risk by actively managing our investment portfolio and attempting to exit or reduce exposures we deem to carry disproportionate risk when compared to their return profile. For the six months ended June 30, 2020, we recognized increased intent to sell impairments of \$8 million when compared to the six months ended June 30, 2019, as a result of our active portfolio management.

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We are exposed to public equity risk through the index crediting on our FIA products, our AOG unit holdings and our common stock holdings in OneMain Holdings, Inc. (OneMain). We effectively eliminate the public equity risk arising from the index crediting on our FIA products by hedging the relevant index performance over the crediting period. Though this results in an effective hedge for economic purposes, because the instruments used to hedge the index crediting period are for a shorter term than the FIA contract, the hedge is not deemed effective for accounting purposes and results in the recognition of gains and losses from period to period. The public equity volatility arising from our holdings of AOG Units and OneMain stock is unhedged. During the six months ended June 30, 2020, we recognized an income statement impact of \$(197) million resulting from our FIA products (net of offsets) and decreases in the market value of our OneMain holding, partially offset by an increase in the market value of our AOG holding, as the share price in the second quarter rebounded following market value decreases in the first quarter.

Liquidity Risk. In the current market environment, liquidity risk can arise in several areas of our business, including but not limited to asset-liability mismatch and policyholder behavior risk. As noted above, most of our deferred annuities have surrender charges and market value adjustments, which reduce the likelihood and magnitude of expected withdrawals, and our PRT and funding agreement obligations are predominantly non-surrenderable.

To be prepared to capitalize on growth opportunities that may arise in the current market environment as well as to manage any near-term liquidity risk, we have strategically increased our available liquidity. As of June 30, 2020, excluding the impact of the reinsurance transaction with Jackson National, we had approximately \$8.5 billion of available liquidity comprised of \$5.2 billion of cash and approximately \$3.3 billion of undrawn capacity under various financing facilities. We have taken measures to increase our financial flexibility, including negotiating new committed lending facilities and retaining a portion of the proceeds received from our organic channels in cash and other highly liquid assets. We have also entered into several new securities repurchase arrangements with different financial institutions to provide access to additional short-term liquidity, to the extent available. As economic conditions stabilize, we will seek to invest our excess liquidity in yield producing assets.

With a record number of individuals finding themselves abruptly out of work and searching for sources of liquidity, we face policyholder behavior risk in the form of increased withdrawal levels and lapse rates may be elevated. We have been closely monitoring policyholder behavior on a daily basis. As of July 31, 2020, we had noticed no material adverse change in policyholder behavior. We mitigate policyholder behavior risk by monitoring and projecting cash inflows and outflows and by maintaining greater levels of available liquidity.

Emerging Trends

As a result of the spread of COVID-19, the resulting impact on economic conditions and the financial markets and the mitigation efforts we have undertaken in response, we expect to see several trends impacting our future operating results.

First, we have held and could continue to hold a greater proportion of our invested assets in cash and other liquid assets which could impact our net investment earned rates and net spread. As economic conditions stabilize, we expect to see this trend begin to reverse as we seek to invest our excess liquidity in yield producing assets and also as we continue to redeploy the Jackson investment portfolio.

Second, we expect that the current market environment will cause certain issuers of securities held in our investment portfolio to experience financial hardship, resulting in recognition of credit losses or impairments. For the six months ended June 30, 2020, we had a provision for credit losses, net of noncontrolling interests, of \$281 million. While we cannot predict the duration or severity of the current economic downturn, we regularly perform stress testing of our investment portfolio under two hypothetical scenarios: a baseline recession scenario and a deep recession scenario. The assumptions for each hypothetical scenario and past experience are included in the chart below.

	Athene Assumptions		Sample Historical Recession Data Peak to Trough for Calendar Year			
	Baseline Recession Scenario	Deep Recession Scenario	1990	2001	2008	Euro 2016
10 Yr US Treasury Yield	Down 60%	Down 83%	Up 4%	Down 21%	Down 43%	Down 84% ¹
Absolute Spreads (BBB / B)	279bps / 802bps	636bps / 1,789bps	240bps / NA	318bps / 1,083bps	642bps / 1,913bps	317bps / 876bps
Equity Markets²	(25)%	(49)%	(20)%	(30)%	(49)%	(12)%
FI Defaults (BBB / B)	0.70% / 12.9%	1.4% / 13.7%	0.30% / 13.7%	1.01% / 9.2%	0.9% / 7.1%	0.0% / 2.4%
Housing Price (Peak to Trough)	(3)%	(27)%	(3)%	No Decline	(33)%	No Decline

¹ German 10-year bund yield.

² Primarily for representative purposes. Stress scenarios apply customized stresses as relevant for Alternatives sub-categories.

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In March 2020, we evaluated our investment portfolio under these hypothetical stress scenarios and estimated that absent any management intervention, we would recognize credit losses and impairments, net of DAC and tax offsets, as well as losses in our alternatives portfolio, of approximately \$1 billion and \$2 billion under the baseline recession scenario and deep recession scenario, respectively. These scenarios are hypothetical and are not representative of the current economic environment and even if representative, actual results may differ materially from estimates.

Third, we have experienced downward pressure on the valuation of our alternative investments portfolio. During the six months ended June 30, 2020, we experienced a decrease in net income of \$137 million attributed to mark-to-market performance of our alternative investments. A significant driver of this decrease is the fact that approximately 60% of our alternatives portfolio is accounted for on a one to three month lag. Therefore, the adverse impact of the economic environment during the three months ended March 31, 2020 drove the unfavorable performance. We would expect to see some of the second quarter recovery reflected in our third quarter performance for those alternatives reported on a lag.

Fourth, the substantial decrease in interest rates during the six months ended June 30, 2020 will have a negative impact on adjusted operating income if the current rates persist for a prolonged period. Currently, we estimate that a 25 basis point decrease in interest rates that persists for a 12-month period will result in an approximate \$30 – \$35 million decrease in adjusted operating income.

The spread of COVID-19, the resulting impact on economic conditions and the financial markets and the mitigating efforts we have and will undertake may have consequences to our business that are unforeseen at this time. The emerging trends identified above do not purport to be complete and actual experience may differ materially from our current expectations.

Discontinuation of LIBOR

The UK Financial Conduct Authority (FCA) has announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is expected that a number of private-sector banks currently reporting information used to set LIBOR will stop doing so after 2021 when their current reporting commitment ends, which could either cause LIBOR to stop publication immediately or cause the FCA to determine that the quality of LIBOR has degraded to the degree that LIBOR is no longer representative of its underlying market. With an estimated \$200 trillion in notional transactions referencing USD LIBOR in the cash and derivatives markets, including more than \$35 trillion extending past 2021, the discontinuation of LIBOR could have a significant impact on the financial markets and represents a material uncertainty to our business.

To manage the uncertainty surrounding the discontinuation of LIBOR we have established a plan, which involves the following six phases: (1) identify and quantify our exposure to LIBOR; (2) establish a counterparty communication strategy; (3) evaluate the specific risks to our business arising as a result of the transition; (4) identify actions that we can take to mitigate the risks identified in phase 3; (5) monitor market developments regarding the adoption of a replacement rate; and (6) transition to the market consensus rate or rates once such rate or rates emerge and are operational.

The phases of our plan are not discrete and need not occur in chronological order. Our plan is subject to change as we gain additional information. We have created an Executive Steering Committee composed of senior executives to coordinate and oversee the execution of our plan.

As of June 30, 2020, we had contracts tied to LIBOR in the notional amounts set forth in the table below:

<i>(In millions)</i>	Total Exposure	Extending Beyond 2021
Investments	\$ 22,952	\$ 19,673
Product Liabilities	13,680	3,128
Derivatives Hedging Product Liabilities	18,761	1,143
Other Derivatives	477	477
Other Contracts	2,963	2,663
Total notional of contracts tied to LIBOR	\$ 58,833	\$ 27,084

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Investments

As of June 30, 2020, our investments tied to LIBOR were in the following asset classes:

<i>(In millions)</i>	Total Exposure	Extending Beyond 2021
Multi-lateral Arrangements		
Corporates	\$ 900	\$ 504
RMBS	4,208	3,983
CMBS	346	45
CLO	11,525	11,438
ABS	1,511	1,435
Bank Loans	459	280
Total Multi-lateral Arrangements	18,949	17,685
Bi-lateral Arrangements		
CML	3,864	1,849
RML	139	139
Total Bi-lateral Arrangements	4,003	1,988
Total investments tied to LIBOR	\$ 22,952	\$ 19,673

Of the total notional value of investment-related contracts tied to LIBOR, extending beyond 2021, \$17.7 billion or 89.9% relate to multi-lateral arrangements. These arrangements are typically characterized by a large, diverse set of unrelated holders, the majority or all of whom must consent to amendments to the terms of the underlying investment instrument. Generally, when the amendments concern a material term such as the determination of interest, consent must be unanimous. Given the collective action issues inherent in such structures, such consent is typically impracticable and beyond our control. To the extent that such legacy arrangements do not contemplate the permanent discontinuation of LIBOR, we would look to some broad-based solution, such as the Alternative Reference Rates Committee’s proposed New York law amendment, to rectify such deficiency. To the extent that the fallback rates ultimately used to determine interest payable on such investments do not align with the fallback rates used to determine interest payable on the underlying assets, economic losses could be sustained on the overall structure.

The remaining notional value of investment-related contracts tied to LIBOR extending beyond 2021 of \$2.0 billion or 10.1% relates to bi-lateral arrangements that are capable of being amended through negotiation with the relevant counterparty.

As our investment manager, Apollo maintains the documentation associated with the assets in our investment portfolio. We are therefore dependent upon Apollo for the successful completion of our LIBOR transition efforts relating to our investment portfolio. See *Part II–Item 1A. Risk Factors–Uncertainty relating to the LIBOR Calculation process and potential phasing out of LIBOR after 2021 may adversely affect the value of our investment portfolio, our ability to achieve our hedging objectives and our ability to issue funding agreements bearing a floating rate of interest.* Apollo’s failure to fulfill its responsibilities could have an adverse impact on our results of operations and ability to timely report accurate financial information.

Product Liabilities and Associated Hedging Instruments

As of June 30, 2020, we had product liabilities with a notional value of approximately \$13.7 billion for which LIBOR is a component in the determination of interest credited, of which we expect \$3.1 billion to extend beyond 2021. Generally, there are two categories of indices that use LIBOR in the determination of interest credited, “excess return” indices (return of index in excess of LIBOR), for which we have previously disclosed exposure values, and indices that use LIBOR as a means to control volatility, which we identified during the current period. The indices to which these products are tied are primarily proprietary indices for which key inputs are determined by the index sponsor. The index sponsor has the right to unilaterally change the reference rate upon the discontinuation of LIBOR. As a result, we do not anticipate any administrative concerns in connection with the transition from LIBOR to a replacement rate with respect to these products.

As of June 30, 2020, we held derivatives with a notional value of approximately \$18.8 billion to hedge our exposure to these product liabilities, of which we expect \$1.1 billion to extend beyond 2021. Included within this category are \$4.3 billion of Eurodollar futures, of which we expect \$1.1 billion to extend beyond 2021. Exchange traded products such as Eurodollar futures will follow the CME Group Inc.’s approach regarding the discontinuation of LIBOR. The remaining derivatives in this category are primarily purchased to hedge the current crediting period. We expect that substantially all of such derivatives will expire before the end of 2021. We will be required to purchase new derivatives in future periods to hedge future crediting periods associated with the related existing product liabilities, which will expose us to potential basis mismatch to the extent that the reference rate for the product liability is not the same as the reference rate for the derivative instrument.

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Other Derivatives

Our other derivative contracts tied to LIBOR are generally entered into pursuant to an ISDA Master Agreement. We believe that fallbacks contemplating a permanent discontinuation of LIBOR will be integrated into the ISDA Master Agreement and applied to our outstanding obligations via standard protocol counterparty consent. To the extent that the fallbacks ultimately incorporated into our other derivative contracts result in the use of a replacement rate that differs from that employed in the contract being hedged, we may experience basis mismatch. We will continue to evaluate this risk as fallbacks become better defined.

Other Contracts and Other Sources of Exposure

Other contracts is comprised of our credit agreement, floating rate funding agreements and fixed-to-float Series A preference shares, all of which contemplate the permanent discontinuation of LIBOR or have fallback provisions in place that provide for the determination of interest after the discontinuation of LIBOR. In addition to the other contracts for which we have quantified our exposure, we are party to contracts that are tied to LIBOR based upon the occurrence of some remote contingency, such as the accrual of penalty interest, or for which LIBOR is otherwise not a material term of the contract. These contracts do not lend themselves to quantification and are lower in priority in our LIBOR remediation efforts. Finally, LIBOR is used as a component in our internal derivative valuation models. We intend to transition the benchmark yield curve in such models from LIBOR to the Secured Overnight Financing Rate prior to the discontinuation of LIBOR. Such transition may affect the valuation of our derivative instruments.

We can provide no assurance that we will be successful at completing all the phases of our plan prior to the discontinuation of LIBOR. Completion of certain phases of our plan are contingent upon market developments and are therefore not fully within our control. To the extent management effort and attention is focused on other matters, such as responding to the risks posed by COVID-19, the timely completion of our plan could become more difficult. Failure to complete all phases of our plan prior to the discontinuation of LIBOR may have a material adverse effect on our business, financial position, results of operations and cash flows and on our ability to timely report accurate financial information.

Demographics

Over the next four decades, the retirement-age population is expected to experience unprecedented growth. Technological advances and improvements in healthcare are projected to continue to contribute to increasing average life expectancy, and aging individuals must be prepared to fund retirement periods that will last longer than ever before. Further, many working households in the United States do not have adequate retirement savings. As a tool for addressing the unmet need for retirement planning, we believe that many Americans have begun to look to tax-efficient savings products with low-risk or guaranteed return features and potential equity market upside. Our tax-efficient savings products are well positioned to meet this increasing customer demand.

Competition

We operate in highly competitive markets. We face a variety of large and small industry participants, including diversified financial institutions and insurance and reinsurance companies. These companies compete in one form or another for the growing pool of retirement assets driven by a number of external factors such as the continued aging of the population and the reduction in safety nets provided by governments and private employers. In the markets in which we operate, scale and the ability to provide value-added services and build long-term relationships are important factors to compete effectively. We believe that our leading presence in the retirement market, diverse range of capabilities and broad distribution network uniquely position us to effectively serve consumers' increasing demand for retirement solutions, particularly in the FIA market.

According to LIMRA, total fixed annuity market sales in the United States were \$29.9 billion for the three months ended March 31, 2020, a 21.5% decrease from the same time period in 2019 as interest rates pulled down crediting rates in all fixed product lines. In the total fixed annuity market, for the three months ended March 31, 2020 (the most recent period for which specific market share data is available), we were the 7th largest company based on sales of \$1.2 billion, translating to a 4.1% market share. For the three months ended March 31, 2019, our market share was 4.8% with sales of \$1.8 billion.

According to LIMRA, total fixed annuity sales in the United States were \$139.8 billion for the year ended December 31, 2019, a 4.7% increase from the year ended December 31, 2018. In the total fixed annuity market, for the year ended December 31, 2019, we were the 5th largest company based on sales of \$6.8 billion, translating to a 4.8% market share. For the year ended December 31, 2018, our market share was 5.6% with sales of \$7.5 billion.

FIA's have been one of the fastest growing annuity products, having grown from \$27.3 billion in sales for the year ended December 31, 2005 to \$73.5 billion in sales for the year ended December 31, 2019. According to LIMRA data, for the three months ended March 31, 2020 (the most recent period for which specific market share data is available), we were the 4th largest provider of FIA's based on sales of \$1.1 billion, and our market share for the same period was 6.7%. For the three months ended March 31, 2019, we were the 2nd largest provider of FIA's based on sales of \$1.6 billion, translating to an 8.9% market share.

According to LIMRA, for the year ended December 31, 2019, we were the 2nd largest provider of FIA's based on sales of \$6.1 billion, and our market share for the same period was 8.3%. For the year ended December 31, 2018, we were the 2nd largest provider of FIA's based on sales of \$6.6 billion, translating to a 9.4% market share.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**Key Operating and Non-GAAP Measures**

In addition to our results presented in accordance with GAAP, we present certain financial information that includes non-GAAP measures. Management believes the use of these non-GAAP measures, together with the relevant GAAP measures, provides information that may enhance an investor's understanding of our results of operations and the underlying profitability drivers of our business. The majority of these non-GAAP measures are intended to remove from the results of operations the impact of market volatility (other than with respect to alternative investments) as well as integration, restructuring and certain other expenses which are not part of our underlying profitability drivers, as such items fluctuate from period to period in a manner inconsistent with these drivers. These measures should be considered supplementary to our results in accordance with GAAP and should not be viewed as a substitute for the corresponding GAAP measures.

Adjusted Operating Income (Loss) Available to Common Shareholders

Adjusted operating income (loss) available to common shareholders is a non-GAAP measure used to evaluate our financial performance excluding market volatility and expenses related to integration, restructuring, stock compensation and other expenses. Our adjusted operating income (loss) available to common shareholders equals net income (loss) available to AHL common shareholders adjusted to eliminate the impact of the following (collectively, the non-operating adjustments):

- **Investment Gains (Losses), Net of Offsets**—Consists of the realized gains and losses on the sale of AFS securities, the change in fair value of reinsurance assets, unrealized gains and losses, allowances, and other investment gains and losses. Unrealized, allowances and other investment gains and losses are comprised of the fair value adjustments of trading securities (other than CLOs) and investments held under the fair value option, derivative gains and losses not hedging FIA index credits, and the change in credit loss allowances recognized in operations net of the change in AmerUs Closed Block fair value reserve related to the corresponding change in fair value of investments and the change in unit-linked reserves related to the corresponding trading securities. Investment gains and losses are net of offsets related to DAC, DSI, and VOBA amortization and changes to guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves (together, GLWB and GMDB reserves represent rider reserves) as well as the market value adjustments (MVA) associated with surrenders or terminations of contracts.
- **Change in Fair Values of Derivatives and Embedded Derivatives – FIAs, Net of Offsets**—Consists of impacts related to the fair value accounting for derivatives hedging the FIA index credits and the related embedded derivative liability fluctuations from period to period. The index reserve is measured at fair value for the current period and all periods beyond the current policyholder index term. However, the FIA hedging derivatives are purchased to hedge only the current index period. Upon policyholder renewal at the end of the period, new FIA hedging derivatives are purchased to align with the new term. The difference in duration between the FIA hedging derivatives and the index credit reserves creates a timing difference in earnings. This timing difference of the FIA hedging derivatives and index credit reserves is included as a non-operating adjustment, net of offsets related to DAC, DSI, and VOBA amortization and changes to rider reserves.

We primarily hedge with options that align with the index terms of our FIA products (typically 1–2 years). From an economic basis, we believe this is suitable because policyholder accounts are credited with index performance at the end of each index term. However, because the term of an embedded derivative in an FIA contract is longer-dated, there is a duration mismatch which may lead to mismatches for accounting purposes.

- **Integration, Restructuring, and Other Non-operating Expenses**—Consists of restructuring and integration expenses related to acquisitions and block reinsurance costs as well as certain other expenses, which are not predictable or related to our underlying profitability drivers.
- **Stock Compensation Expense**—Consists of stock compensation expenses associated with our share incentive plans, excluding our long-term incentive plan, which are not related to our underlying profitability drivers and fluctuate from time to time due to the structure of our plans.
- **Bargain Purchase Gain**—Consists of adjustments to net income (loss) available to AHL common shareholders as they are not related to our underlying profitability drivers.
- **Income Tax (Expense) Benefit – Non-operating**—Consists of the income tax effect of non-operating adjustments and is computed by applying the appropriate jurisdiction's tax rate to the non-operating adjustments that are subject to income tax.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We consider these non-operating adjustments to be meaningful adjustments to net income (loss) available to AHL common shareholders for the reasons discussed in greater detail above. Accordingly, we believe using a measure which excludes the impact of these items is useful in analyzing our business performance and the trends in our results of operations. Together with net income (loss) available to AHL common shareholders, we believe adjusted operating income (loss) available to common shareholders provides a meaningful financial metric that helps investors understand our underlying results and profitability. Adjusted operating income (loss) available to common shareholders should not be used as a substitute for net income (loss) available to AHL common shareholders.

Adjusted Operating ROE

Adjusted operating ROE is a non-GAAP measure used to evaluate our financial performance excluding the impacts of AOCI and the cumulative change in fair value of funds withheld and modco reinsurance assets, net of DAC, DSI, rider reserve and tax offsets. Adjusted AHL common shareholders' equity is calculated as the ending AHL shareholders' equity excluding AOCI, the cumulative change in fair value of funds withheld and modco reinsurance assets and preferred stock. Adjusted operating ROE is calculated as the adjusted operating income (loss) available to common shareholders, divided by average adjusted AHL common shareholders' equity. These adjustments fluctuate period to period in a manner inconsistent with our underlying profitability drivers as the majority of such fluctuation is related to the market volatility of the unrealized gains and losses associated with our AFS securities. Except with respect to reinvestment activity relating to acquired blocks of businesses, we typically buy and hold AFS investments to maturity throughout the duration of market fluctuations, therefore, the period-over-period impacts in unrealized gains and losses are not necessarily indicative of current operating fundamentals or future performance. Accordingly, we believe using measures which exclude AOCI and the cumulative change in fair value of funds withheld and modco reinsurance assets are useful in analyzing trends in our operating results. To enhance the ability to analyze these measures across periods, interim periods are annualized. Adjusted operating ROE should not be used as a substitute for ROE. However, we believe the adjustments to net income (loss) available to AHL common shareholders and equity are significant to gaining an understanding of our overall financial performance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations***Adjusted Operating Earnings (Loss) Per Common Share, Weighted Average Common Shares Outstanding – Adjusted Operating and Adjusted Book Value Per Common Share***

Adjusted operating earnings (loss) per common share, weighted average common shares outstanding – adjusted operating and adjusted book value per common share are non-GAAP measures used to evaluate our financial performance and financial condition. The non-GAAP measures adjust the number of shares included in the corresponding GAAP measures to reflect the conversion or settlement of all shares and other stock-based awards outstanding. We believe using these measures represent an economic view of our share counts and provide a simplified and consistent view of our outstanding shares. Adjusted operating earnings (loss) per common share is calculated as the adjusted operating income (loss) available to common shareholders, over the weighted average common shares outstanding – adjusted operating. Adjusted book value per common share is calculated as the adjusted AHL common shareholders' equity divided by the adjusted operating common shares outstanding. Effective February 28, 2020, all Class B common shares were converted into Class A common shares and all Class M common shares were converted into warrants and Class A common shares. Our Class B common shares were economically equivalent to Class A common shares and could have been converted to Class A common shares on a one-for-one basis at any time. Our Class M common shares were in the legal form of shares but economically functioned as options as they were convertible into Class A common shares after vesting and settlement of the conversion price. In calculating Class A diluted earnings per share on a GAAP basis, we are required to apply sequencing rules to determine the dilutive impacts, if any, of our Class B common shares, Class M common shares and any other stock-based awards. To the extent our Class B common shares, Class M common shares and/or any other stock-based awards were not dilutive, after considering the dilutive effects of the more dilutive securities in the sequence, they were excluded. Weighted average common shares outstanding – adjusted operating and adjusted operating common shares outstanding assume conversion or settlement of all outstanding items that are able to be converted to or settled in Class A common shares, including the impacts of Class B common shares on a one-for-one basis, the impacts of all Class M common shares net of the conversion price and any other stock-based awards, but excluding any awards for which the exercise or conversion price exceeds the market value of our Class A common shares on the applicable measurement date. For certain historical periods, Class M shares were not included due to issuance restrictions which were contingent upon our IPO. Adjusted operating earnings (loss) per common share, weighted average common shares outstanding – adjusted operating and adjusted book value per common share should not be used as a substitute for basic earnings (loss) per share – Class A common shares, basic weighted average common shares outstanding – Class A or book value per common share. However, we believe the adjustments to the shares and equity are significant to gaining an understanding of our overall results of operations and financial condition.

Adjusted Debt to Capital Ratio

Adjusted debt to capital ratio is a non-GAAP measure used to evaluate our capital structure excluding the impacts of AOCI and the cumulative change in fair value of funds withheld and modco reinsurance assets, net of DAC, DSI, rider reserve and tax offsets. Adjusted debt to capital ratio is calculated as total debt divided by adjusted AHL shareholders' equity. Adjusted debt to capital ratio should not be used as a substitute for the debt to capital ratio. However, we believe the adjustments to total debt and shareholders' equity are significant to gaining an understanding of our capitalization, debt utilization and debt capacity.

Retirement Services Net Investment Spread, Investment Margin on Deferred Annuities and Operating Expenses

Net investment spread is a key measurement of the profitability of our Retirement Services segment. Net investment spread measures our investment performance less the total cost of our liabilities. Net investment earned rate is a key measure of our investment performance, while cost of funds is a key measure of the cost of our policyholder benefits and liabilities. Investment margin on our deferred annuities measures our investment performance less the cost of crediting for our deferred annuities, which make up a significant portion of our net reserve liabilities.

Net investment earned rate is a non-GAAP measure we use to evaluate the performance of our net invested assets that does not correspond to GAAP net investment income. Net investment earned rate is computed as the income from our net invested assets divided by the average net invested assets, excluding the impacts of our investment in Apollo, for the relevant period. To enhance the ability to analyze these measures across periods, interim periods are annualized. The adjustments to arrive at our net investment earned rate add (a) alternative investment gains and losses, (b) gains and losses related to trading securities for CLOs, (c) net VIE impacts (revenues, expenses and noncontrolling interest), (d) forward points gains and losses on foreign exchange derivative hedges and (e) the change in fair value of reinsurance assets, and removes the proportionate share of the ACRA net investment income associated with the ACRA noncontrolling interest as well as the gain or loss on our investment in Apollo. We include the income and assets supporting our change in fair value of reinsurance assets by evaluating the underlying investments of the funds withheld at interest receivables and we include the net investment income from those underlying investments which does not correspond to the GAAP presentation of change in fair value of reinsurance assets. We exclude the income and assets supporting business that we have exited through ceded reinsurance including funds withheld agreements. We believe the adjustments for reinsurance provide a net investment earned rate on the assets for which we have economic exposure.

Cost of funds includes liability costs related to cost of crediting on both deferred annuities and institutional products as well as other liability costs, but does not include the proportionate share of the ACRA cost of funds associated with the noncontrolling interest. Cost of funds is computed as the total liability costs divided by the average net invested assets, excluding our investment in Apollo, for the relevant period. To enhance the ability to analyze these measures across periods, interim periods are annualized.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cost of crediting includes the costs for both deferred annuities and institutional products. Cost of crediting on deferred annuities is the interest credited to the policyholders on our fixed strategies as well as the option costs on the indexed annuity strategies. With respect to FIAs, the cost of providing index credits includes the expenses incurred to fund the annual index credits, and where applicable, minimum guaranteed interest credited. Cost of crediting on institutional products is comprised of PRT costs including interest credited, benefit payments and other reserve changes, net of premiums received when issued, as well as funding agreement costs including the interest payments and other reserve changes. Cost of crediting is computed as the cost of crediting for deferred annuities and institutional products divided by the average net invested assets, excluding the investment in Apollo, for the relevant periods. Cost of crediting on deferred annuities is computed as the net interest credited on fixed strategies and option costs on indexed annuity strategies divided by the average net account value of our deferred annuities. Cost of crediting on institutional products is computed as the PRT and funding agreement costs divided by the average net institutional reserve liabilities. Our average net invested assets, excluding our investment in Apollo, net account values and net institutional reserve liabilities are averaged over the number of quarters in the relevant period to obtain our associated cost of crediting for such period. To enhance the ability to analyze these measures across periods, interim periods are annualized.

Other liability costs include DAC, DSI and VOBA amortization, change in rider reserves, the cost of liabilities on products other than deferred annuities and institutional products, excise taxes, premiums, product charges and other revenues. We believe a measure like other liability costs is useful in analyzing the trends of our core business operations and profitability. While we believe other liability costs is a meaningful financial metric and enhances our understanding of the underlying profitability drivers of our business, it should not be used as a substitute for total benefits and expenses presented under GAAP.

Net investment earned rate, cost of funds, net investment spread and investment margin on deferred annuities are non-GAAP measures we use to evaluate the profitability of our business. We believe these metrics are useful in analyzing the trends of our business operations, profitability and pricing discipline. While we believe each of these metrics are meaningful financial metrics and enhance our understanding of the underlying profitability drivers of our business, they should not be used as a substitute for net investment income, interest sensitive contract benefits or total benefits and expenses presented under GAAP.

Operating expenses excludes integration, restructuring and other non-operating expenses, stock compensation expense, interest expense and policy acquisition expenses. We believe a measure like operating expenses is useful in analyzing the trends of our core business operations and profitability. While we believe operating expenses is a meaningful financial metric and enhances our understanding of the underlying profitability drivers of our business, it should not be used as a substitute for policy and other operating expenses presented under GAAP.

Net Invested Assets

In managing our business, we analyze net invested assets, which does not correspond to total investments, including investments in related parties, as disclosed in our consolidated financial statements and notes thereto. Net invested assets represents the investments that directly back our net reserve liabilities as well as surplus assets. Net invested assets, excluding our investment in Apollo, is used in the computation of net investment earned rate, which allows us to analyze the profitability of our investment portfolio. Net invested assets includes (a) total investments on the consolidated balance sheets with AFS securities at cost or amortized cost, excluding derivatives, (b) cash and cash equivalents and restricted cash, (c) investments in related parties, (d) accrued investment income, (e) VIE assets, liabilities and noncontrolling interest adjustments, (f) net investment payables and receivables, (g) policy loans ceded (which offset the direct policy loans in total investments) and (h) an allowance for credit losses. Net invested assets also excludes assets associated with funds withheld liabilities related to business exited through reinsurance agreements and derivative collateral (offsetting the related cash positions). We include the underlying investments supporting our assumed funds withheld and modco agreements in our net invested assets calculation in order to match the assets with the income received. We believe the adjustments for reinsurance provide a view of the assets for which we have economic exposure. Net invested assets includes our proportionate share of ACRA investments, based on our economic ownership, but does not include the proportionate share of investments associated with the noncontrolling interest. Net invested assets also includes our investment in Apollo. Our net invested assets, excluding our investment in Apollo, are averaged over the number of quarters in the relevant period to compute our net investment earned rate for such period. While we believe net invested assets is a meaningful financial metric and enhances our understanding of the underlying drivers of our investment portfolio, it should not be used as a substitute for total investments, including related parties, presented under GAAP.

Net Reserve Liabilities

In managing our business, we also analyze net reserve liabilities, which does not correspond to total liabilities as disclosed in our consolidated financial statements and notes thereto. Net reserve liabilities represent our policyholder liability obligations net of reinsurance and is used to analyze the costs of our liabilities. Net reserve liabilities include (a) the interest sensitive contract liabilities, (b) future policy benefits, (c) dividends payable to policyholders, and (d) other policy claims and benefits, offset by reinsurance recoverable, excluding policy loans ceded. Net reserve liabilities include our proportionate share of ACRA reserve liabilities, based on our economic ownership, but does not include the proportionate share of reserve liabilities associated with the noncontrolling interest. Net reserve liabilities is net of the ceded liabilities to third-party reinsurers as the costs of the liabilities are passed to such reinsurers and, therefore, we have no net economic exposure to such liabilities, assuming our reinsurance counterparties perform under our agreements. The majority of our ceded reinsurance is a result of reinsuring large blocks of life business following acquisitions. For such transactions, GAAP requires the ceded liabilities and related reinsurance recoverables to continue to be recorded in our consolidated financial statements despite the transfer of economic risk to the counterparty in connection with the reinsurance transaction. While we believe net reserve liabilities is a meaningful financial metric and enhances our understanding of the underlying profitability drivers of our business, it should not be used as a substitute for total liabilities presented under GAAP.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Sales

Sales statistics do not correspond to revenues under GAAP but are used as relevant measures to understand our business performance as it relates to deposits generated during a specific period of time. Our sales statistics include deposits for fixed rate annuities and FIAs and align with the LIMRA definition of all money paid into an individual annuity, including money paid into new contracts with initial purchase occurring in the specified period and existing contracts with initial purchase occurring prior to the specified period (excluding internal transfers). While we believe sales is a meaningful metric and enhances our understanding of our business performance, it should not be used as a substitute for premiums presented under GAAP.

Consolidated Results of Operations

The following summarizes the consolidated results of operations:

<i>(In millions, except percentages)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenues	\$ 4,398	\$ 3,423	\$ 2,849	\$ 8,418
Benefits and expenses	3,317	2,673	3,150	6,928
Income (loss) before income taxes	1,081	750	(301)	1,490
Income tax expense (benefit)	150	30	(16)	62
Net income (loss)	931	720	(285)	1,428
Less: Net income (loss) attributable to noncontrolling interests	88	—	(81)	—
Net income (loss) attributable to Athene Holding Ltd.	843	720	(204)	1,428
Less: Preferred stock dividends	19	—	37	—
Net income (loss) available to AHL common shareholders	\$ 824	\$ 720	\$ (241)	\$ 1,428
ROE	26.8%	25.6%	(3.4)%	27.7%

Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019

In this section, references to 2020 refer to the three months ended June 30, 2020 and references to 2019 refer to the three months ended June 30, 2019.

Net Income Available to AHL Common Shareholders

Net income available to AHL common shareholders increased by \$104 million, or 14%, to \$824 million in 2020 from \$720 million in 2019. ROE increased to 26.8% from 25.6% in 2019. The increase in net income available to AHL common shareholders was driven by a \$1.0 billion increase in revenues, partially offset by an increase of \$644 million in benefits and expenses and a \$120 million increase in income tax expense.

Revenues

Revenues increased by \$1.0 billion to \$4.4 billion in 2020 from \$3.4 billion in 2019. The increase was driven by an increase in investment related gains and losses and an increase in net investment income, partially offset by a decrease in premiums.

Investment related gains and losses increased by \$1.2 billion to \$2.5 billion in 2020 from \$1.3 billion in the prior year, primarily due to the change in fair value of reinsurance assets, the change in fair value of FIA hedging derivatives, and the change in fair value of trading securities. The change in fair value of reinsurance assets increased \$894 million primarily driven by the change in the value of the underlying assets related to credit spreads tightening. The change in fair value of FIA hedging derivatives increased \$233 million driven by the favorable performance of the indices upon which our call options are based. The majority of our call options are based on the S&P 500 index which increased 20.0% in 2020, compared to an increase of 3.8% in 2019. The favorable change in fair value of trading securities of \$112 million was comprised primarily of an increase in AmerUs Closed Block assets of \$42 million, CLO equity securities, non-redeemable preferred stock and other trading securities primarily due to credit spreads tightening.

Net investment income increased by \$154 million to \$1.3 billion in 2020 from \$1.2 billion in the prior year, primarily driven by an unrealized gain on our investment in Apollo of \$481 million due to the increase in share price, partially offset by unfavorable alternative investment performance and lower floating rate income due to the lower interest rate environment.

Premiums decreased by \$432 million to \$355 million in 2020 from \$787 million in the prior year, driven by lower PRT premiums compared to prior year.

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Benefits and Expenses

Benefits and expenses increased by \$644 million to \$3.3 billion in 2020 from \$2.7 billion in 2019. The increase was driven by an increase in interest sensitive contract benefits and an increase in DAC, DSI and VOBA amortization, partially offset by a decrease in future policy and other policy benefits.

Interest sensitive contract benefits increased by \$1.0 billion to \$2.1 billion in 2020 from \$1.1 billion in 2019, driven by an increase in FIA fair value embedded derivatives of \$942 million and growth in the block of business. The change in the FIA fair value embedded derivatives was primarily due to the unfavorable change in discount rates used in our embedded derivative calculations as the current year experienced a larger decrease in discount rates compared to 2019, as well as the performance of the equity indices to which our FIA policies are linked, primarily the S&P 500 index, which experienced an increase of 20.0% in 2020, compared to an increase of 3.8% in 2019.

DAC, DSI and VOBA amortization increased by \$66 million to \$340 million in 2020 from \$274 million in 2019, primarily due to the favorable change in investment related gains and losses as a result of a favorable change in reinsurance embedded derivatives, partially offset by the unfavorable net change in FIA derivatives, favorable impacts from equity market performance, and lower gross profits.

Future policy and other policy benefits decreased by \$437 million to \$674 million in 2020 from \$1.1 billion in 2019, primarily attributable to lower PRT obligations and a decrease in the change in rider reserves, partially offset by an increase in the change in AmerUs Closed Block fair value liability. The change in rider reserve of \$73 million was primarily due to unfavorable net change in FIA derivatives and favorable impacts from equity market performance. The unfavorable change in the AmerUs Closed Block fair value liability of \$39 million was primarily driven by the increase in unrealized gains on the underlying investments related to credit spreads tightening.

Taxes

Income tax expense (benefit) increased by \$120 million to \$150 million in 2020 from \$30 million in 2019. The income tax expense for 2020 was primarily driven by higher income before tax resulting from the favorable change in reinsurance embedded derivatives and unrealized gains on our investment in Apollo.

Our effective tax rate in the second quarter of 2020 was 14% and 4% in 2019. Our effective tax rates may vary period to period depending upon the relationship of income and loss subject to tax compared to consolidated income and loss before income taxes.

Noncontrolling Interest

Noncontrolling interest increased by \$88 million to \$88 million in 2020 from \$0 million in 2019, driven by net income related to noncontrolling interests in ACRA following the sale of a 67% interest in ACRA to ADIP on October 1, 2019. Effective April 1, 2020, ALRe purchased additional shares in ACRA increasing our ownership from 33% to 36.55%. There was no significant noncontrolling interest prior to the ACRA sale to ADIP.

Preferred Stock Dividends

Preferred stock dividends increased by \$19 million to \$19 million in 2020 from \$0 million in 2019, driven by dividends paid on the preferred stock we issued in June and September of 2019.

Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

In this section, references to 2020 refer to the six months ended June 30, 2020 and references to 2019 refer to the six months ended June 30, 2019.

Net Income (Loss) Available to AHL Common Shareholders

Net income (loss) available to AHL common shareholders decreased by \$1.7 billion, or 117%, to \$(241) million in 2020 from \$1.4 billion in 2019. ROE decreased to (3.4)% from 27.7% in 2019. The decrease in net income (loss) available to AHL common shareholders was driven by a \$5.6 billion decrease in revenues, an \$81 million decrease in noncontrolling interests and a \$37 million increase in preferred stock dividends, partially offset by a decrease of \$3.8 billion in benefits and expenses and a \$78 million decrease in income tax expense.

Revenues

Revenues decreased by \$5.6 billion to \$2.8 billion in 2020 from \$8.4 billion in 2019. The decrease was driven by a decrease in investment related gains and losses, a decrease in premiums, and a decrease in net investment income.

Investment related gains and losses decreased by \$4.1 billion to \$(1.0) billion in 2020 from \$3.1 billion in the prior year, primarily due to the change in fair value of FIA hedging derivatives, the change in fair value of reinsurance assets, the change in provision for credit losses, the change in fair value of trading securities and a decrease in equity securities reflecting the decline in financial markets. The change in fair value of FIA hedging derivatives decreased \$2.2 billion driven by the unfavorable performance of the indices upon which our call options are based.

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The majority of our call options are based on the S&P 500 index which decreased 4.0% in 2020, compared to an increase of 17.3% in 2019. The change in fair value of reinsurance assets decreased \$1.4 billion primarily driven by the change in the value of the underlying assets related to credit spreads widening. The unfavorable change in gross provision for credit losses of \$289 million was primarily a result of the forecasted economic downturn from the spread of COVID-19. The unfavorable change in fair value of trading securities of \$167 million was comprised primarily of a decrease in AmerUs Closed Block assets of \$56 million, CLO equity securities, non-redeemable preferred stock and other trading securities primarily due to credit spreads widening.

Premiums decreased by \$1.3 billion to \$1.5 billion in 2020 from \$2.8 billion in the prior year, driven by lower PRT premiums compared to prior year.

Net investment income decreased by \$183 million to \$2.1 billion in 2020 from \$2.3 billion in the prior year, primarily driven by unfavorable alternative investment performance and lower floating rate income due to the lower interest rate environment, partially offset by an unrealized gain on our investment in Apollo of \$184 million due to the increase in share price.

Benefits and Expenses

Benefits and expenses decreased by \$3.8 billion to \$3.1 billion in 2020 from \$6.9 billion in 2019. The decrease was driven by a decrease in interest sensitive contract benefits, a decrease in future policy and other policy benefits and a decrease in DAC, DSI and VOBA amortization.

Interest sensitive contract benefits decreased by \$1.9 billion to \$757 million in 2020 from \$2.6 billion in 2019, driven by a decrease in FIA fair value embedded derivatives of \$1.9 billion, partially offset by growth in the block of business. The change in the FIA fair value embedded derivatives was primarily due the performance of the equity indices to which our FIA policies are linked, primarily the S&P 500 index, which experienced a decrease of 4% in 2020, compared to an increase of 17.3% in 2019, as well as a favorable change in discount rates used in our embedded derivative calculations as the current year experienced a smaller decrease in discount rates compared to 2019.

Future policy and other policy benefits decreased by \$1.4 billion to \$2.0 billion in 2020 from \$3.4 billion in 2019, primarily attributable to lower PRT obligations, a decrease in the change in rider reserves and a decrease in the change in AmerUs Closed Block fair value liability. The change in rider reserve of \$119 million was primarily due to the unfavorable change in reinsurance embedded derivatives and the unfavorable net change in FIA derivatives, partially offset by the unfavorable impacts from equity market performance and growth in the block of business. The favorable change in the AmerUs Closed Block fair value liability of \$66 million was primarily driven by the increase in unrealized losses on the underlying investments related to credit spreads widening, partially offset by the decrease in U.S. Treasury rates compared to prior year.

DAC, DSI and VOBA amortization decreased by \$573 million to \$(63) million in 2020 from \$510 million in 2019, primarily due to the unfavorable change in investment related gains and losses as a result of an unfavorable change in reinsurance embedded derivatives and the unfavorable net change in FIA derivatives partially offset by the unfavorable impacts from equity market performance and growth in the block of business.

Taxes

Income tax expense (benefit) decreased by \$78 million to \$(16) million in 2020 from \$62 million in 2019. The income tax benefit for 2020 was primarily driven by lower income before tax resulting from the unfavorable change in reinsurance embedded derivatives, partially offset by unrealized gains on our investment in Apollo.

Our effective tax rate in 2020 was 5% and 4% in 2019. Our effective tax rates may vary period to period depending upon the relationship of income and loss subject to tax compared to consolidated income and loss before income taxes.

Noncontrolling Interest

Noncontrolling interest decreased by \$81 million to \$(81) million in 2020 from \$0 million in 2019, driven by a net loss related to noncontrolling interests in ACRA following the sale of a 67% interest in ACRA to ADIP on October 1, 2019. Effective April 1, 2020, ALRe purchased additional shares in ACRA increasing our ownership in ACRA from 33% to 36.55%. There was no significant noncontrolling interest prior to the ACRA sale to ADIP.

Preferred Stock Dividends

Preferred stock dividends increased by \$37 million to \$37 million in 2020 from \$0 million in 2019, driven by dividends we paid on preferred stock we issued in June and September of 2019.

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Results of Operations by Segment

The following summarizes our adjusted operating income (loss) available to common shareholders by segment:

<i>(In millions, except percentages)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net income (loss) available to AHL common shareholders	\$ 824	\$ 720	\$ (241)	\$ 1,428
Non-operating adjustments				
Realized gains (losses) on sale of AFS securities	(11)	41	1	53
Unrealized, allowances and other investment gains (losses)	52	10	(317)	39
Change in fair value of reinsurance assets	1,113	570	(164)	1,186
Offsets to investment gains (losses)	(379)	(204)	116	(403)
Investment gains (losses), net of offsets	775	417	(364)	875
Change in fair values of derivatives and embedded derivatives – FIAs, net of offsets	(405)	(57)	(340)	(84)
Integration, restructuring and other non-operating expenses	(9)	(11)	(13)	(12)
Stock compensation expense	—	(3)	(10)	(6)
Income tax (expense) benefit – non-operating	(27)	4	104	(2)
Less: Total non-operating adjustments	334	350	(623)	771
Adjusted operating income available to common shareholders	\$ 490	\$ 370	\$ 382	\$ 657
Adjusted operating income (loss) available to common shareholders by segment				
Retirement Services	\$ 208	\$ 376	\$ 412	\$ 662
Corporate and Other	282	(6)	(30)	(5)
Adjusted operating income available to common shareholders	\$ 490	\$ 370	\$ 382	\$ 657
Adjusted operating ROE	19.4%	16.2%	7.8%	14.6%
Retirement Services adjusted operating ROE	11.1%	18.9%	11.4%	17.1%

Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019
Adjusted Operating Income Available to Common Shareholders

Adjusted operating income available to common shareholders increased by \$120 million, or 32%, to \$490 million in 2020 from \$370 million in 2019. Adjusted operating ROE was 19.4%, up from 16.2% in 2019. Adjusted operating income available to common shareholders excluding the investment in Apollo, net of tax was \$118 million for the three months ended June 30, 2020. The increase in adjusted operating income available to common shareholders was primarily driven by an increase in our Corporate and Other segment of \$288 million, partially offset by a decrease in our Retirement Services segment of \$168 million.

Our consolidated net investment earned rate was 3.29% in 2020, a decrease from 4.67% in 2019, primarily due to the unfavorable performance in our alternative portfolio as well as less favorable performance in our fixed and other investment portfolio. Alternative net investment earned rate was (6.75)% in 2020, a decrease from 14.13% in 2019, primarily driven by the unfavorable performance of alternatives reported on a lag reflecting the economic downturn from the spread of COVID-19 in the first quarter 2020, partially offset by an increase in AmeriHome returns. Fixed and other net investment earned rate was 3.78% in 2020, a decrease from 4.26% in 2019, driven by lower floating rate investment income, higher levels of cash than in the prior year, lower returns on the assets from the Jackson reinsurance transaction and lower bond call income and mortgage prepayments.

Non-operating Adjustments

Non-operating adjustments decreased by \$16 million to \$334 million in 2020 from \$350 million in 2019. The decrease in non-operating adjustments was primarily driven by the unfavorable change in net FIA derivatives, partially offset by the favorable changes in fair value of reinsurance assets. Net FIA derivatives were unfavorable by \$348 million primarily due to the unfavorable change in discount rates used in our embedded derivative calculations, partially offset by the favorable performance of the equity indices to which our FIA policies are linked, primarily the S&P 500 index. The change in fair value of reinsurance assets were favorable by \$543 million primarily due to credit spreads tightening.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019***Adjusted Operating Income Available to Common Shareholders*

Adjusted operating income available to common shareholders decreased by \$275 million, or 42%, to \$382 million in 2020 from \$657 million in 2019. Adjusted operating ROE was 7.8%, down from 14.6% in 2019. Adjusted operating income available to common shareholders excluding the investment in Apollo, net of tax was \$249 million for the six months ended June 30, 2020. The decrease in adjusted operating income available to common shareholders was primarily driven by a decrease in our Retirement Services segment of \$250 million, as well as a decrease in our Corporate and Other segment of \$25 million.

Our consolidated net investment earned rate was 3.56% in 2020, a decrease from 4.48% in 2019, primarily due to the unfavorable performance in our alternative portfolio as well as less favorable performance of our fixed and other investment portfolio. Alternative net investment earned rate was (4.70)% in 2020, a decrease from 9.28% in 2019, driven by unfavorable performance on alternatives reported on a lag reflecting the economic downturn from the spread of COVID-19 in the first quarter 2020, a decrease in market value of the equity position in OneMain and lower MidCap returns, partially offset by favorable AmeriHome returns. Fixed and other net investment earned rate was 3.97% in 2020, a decrease from 4.27% in 2019, driven by lower floating rate investment income, higher levels of cash than in the prior year and lower returns on the assets from the Jackson reinsurance transaction.

Non-operating Adjustments

Non-operating adjustments decreased by \$1.4 billion to \$(623) million in 2020 from \$771 million in 2019. The decrease in non-operating adjustments was primarily driven by the unfavorable changes in fair value of reinsurance assets, change in provision for credit loss and the unfavorable change in net FIA derivatives. The change in fair value of reinsurance assets were unfavorable \$1.4 billion due to credit spreads widening, partially offset by a decrease in U.S. Treasury rates. The unfavorable change in net provision for credit loss in 2020 of \$281 million was primarily a result of the forecasted economic downturn from the spread of COVID-19. Net FIA derivatives were unfavorable by \$256 million primarily due to the unfavorable performance of the equity indices to which our FIA policies are linked, primarily the S&P 500 index, partially offset by the favorable change in discount rates used in our embedded derivative calculations.

Retirement Services

Retirement Services is comprised of our United States and Bermuda operations which issue and reinsure retirement savings products and institutional products. Retirement Services has retail operations, which provide annuity retirement solutions to our policyholders. Retirement Services also has reinsurance operations, which reinsure FIAs, MYGAs, traditional one year guarantee fixed deferred annuities, immediate annuities and institutional products from our reinsurance partners. In addition, our institutional operations, including funding agreements and PRT obligations, are included in our Retirement Services segment.

Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019*Adjusted Operating Income Available to Common Shareholders*

Adjusted operating income available to common shareholders decreased by \$168 million, or 45%, to \$208 million in 2020, from \$376 million in 2019. Adjusted operating ROE was 11.1%, down from 18.9% in the prior period. The decrease in adjusted operating income available to common shareholders was driven by lower net investment earnings, partially offset by lower cost of funds. Net investment earnings decreased \$246 million primarily driven by unfavorable alternative investment performance, lower floating rate income, and higher levels of cash than in the prior year related to strong deposits in the quarter and raising liquidity during the second quarter, partially offset by \$10.9 billion of growth in our average net invested assets from prior year attributed to a strong growth in deposits and the Jackson reinsurance transaction. Cost of funds were \$67 million lower primarily related to favorable rider reserves and DAC amortization related to lower gross profits and favorable impacts from equity market performance.

Net Investment Spread

	Three months ended June 30,	
	2020	2019
Net investment earned rate	3.44%	4.63%
Cost of funds	2.48%	2.95%
Net investment spread	0.96%	1.68%

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Net investment spread, which measures the spread on our investment performance less the total cost of our liabilities, decreased 72 basis points to 0.96% in 2020 from 1.68% in 2019. Net investment earned rate decreased due to a decline in both the alternative net investment earned rate and fixed and other net investment earned rate. The alternative net investments earned rate decreased in 2020 to (4.38)% from 14.46% in 2019, driven by unfavorable performance on alternatives reported on a lag reflecting the economic downturn from the spread of COVID-19 in the first quarter of 2020, partially offset by higher AmeriHome returns mainly due to an increase in valuation reflecting higher origination volumes and increased gains on sales driven by increased spreads. The fixed and other net investment earned rate decreased in 2020 to 3.78% from 4.26% in 2019, primarily attributed to lower floating rate income, higher levels of cash compared to the prior year, lower returns on the assets from the Jackson reinsurance transaction and lower bond call income and mortgage prepayments.

Cost of funds decreased by 47 basis points to 2.48% in 2020, from 2.95% in 2019, primarily driven by favorable rider reserves and DAC amortization primarily due to lower gross profits and favorable impacts from equity market performance. Cost of crediting decreased 11 basis points primarily driven by a decrease in floating rate and recent funding agreement rates, a decrease in recent PRT rates and favorable rate actions on deferred annuities.

Investment Margin on Deferred Annuities

	Three months ended June 30,	
	2020	2019
Net investment earned rate	3.44%	4.63%
Cost of crediting on deferred annuities	1.94%	1.98%
Investment margin on deferred annuities	1.50%	2.65%

Investment margin on deferred annuities, which measures our investment performance less the cost of crediting for our deferred annuities, decreased by 115 basis points to 1.50% in 2020, from 2.65% in 2019, driven by a decrease in the net investment earned rate, partially offset by a decrease in the cost of crediting on deferred annuities from the prior year as we continue to focus on pricing discipline, managing interest rates credited to policyholders and managing the cost of options to fund the annual index credits on our FIA products.

Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

Adjusted Operating Income Available to Common Shareholders

Adjusted operating income available to common shareholders decreased by \$250 million, or 38%, to \$412 million in 2020, from \$662 million in 2019. Adjusted operating ROE was 11.4%, down from 17.1% in the prior period. The decrease in adjusted operating income available to common shareholders was driven by lower net investment earnings and slightly higher cost of funds. Net investment earnings decreased \$233 million primarily driven by unfavorable alternative investment performance, lower floating rate income and higher levels of cash than in the prior year, partially offset by \$8.5 billion of growth in our average net invested assets from prior year attributed to a strong growth in deposits. Cost of funds were \$20 million higher primarily related to unfavorable rider reserves and DAC amortization related to unfavorable impacts from equity market performance and growth in the block of business, partially offset by lower gross profits.

Net Investment Spread

	Six months ended June 30,	
	2020	2019
Net investment earned rate	3.73%	4.42%
Cost of funds	2.73%	2.90%
Net investment spread	1.00%	1.52%

Net investment spread, which measures the spread on our investment performance less the total cost of our liabilities, decreased 52 basis points to 1.00% in 2020 from 1.52% in 2019. Net investment earned rate decreased due to a decline in alternative net investment earned rate and fixed and other net investment earned rate. The alternative net investments earned rate decreased in 2020 to (1.95)% from 8.42% in 2019, driven by unfavorable performance on alternatives reported on a lag reflecting the economic downturn from the spread of COVID-19 in the first quarter 2020 and a lower MidCap return mainly due to a decrease in valuation reflecting an increase in loan loss assumptions and lower origination volumes reflecting the current interest rate environment, partially offset by higher AmeriHome return mainly due to an increase in valuation reflecting higher origination volumes and increased gains on sales driven by increased spreads. The fixed and other net investment earned rate decreased in 2020 to 3.98% from 4.27% in 2019, primarily attributed to lower floating rate investment income, higher levels of cash than in the prior year and lower returns on the assets from the Jackson reinsurance transaction.

Cost of funds decreased by 17 basis points to 2.73% in 2020, from 2.90% in 2019, primarily driven by lower cost of crediting and other liability costs. Cost of crediting decreased 11 basis points primarily driven by a decrease in floating rate and recent funding agreement rates, a decrease in recent PRT rates and favorable rate actions on deferred annuities. Other liability costs decreased 6 basis points primarily driven by lower rider reserves and DAC amortization related to lower gross profits, partially offset by unfavorable impacts from equity market performance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*Investment Margin on Deferred Annuities*

	Six months ended June 30,	
	2020	2019
Net investment earned rate	3.73%	4.42%
Cost of crediting on deferred annuities	1.92%	1.98%
Investment margin on deferred annuities	1.81%	2.44%

Investment margin on deferred annuities, which measures our investment performance less the cost of crediting for our deferred annuities, decreased by 63 basis points to 1.81% in 2020, from 2.44% in 2019, driven by a decrease in the net investment earned rate, partially offset by a decrease in the cost of crediting on deferred annuities from the prior year as we continue to focus on pricing discipline, managing interest rates credited to policyholders and managing the cost of options to fund the annual index credits on our FIA products.

Corporate and Other

Corporate and Other includes certain other operations related to our corporate activities such as corporate allocated expenses, merger and acquisition costs, debt costs, preferred stock dividends, certain integration and restructuring costs, certain stock-based compensation and intersegment eliminations. In addition, we also hold capital in excess of the level of capital we hold in Retirement Services to support our operating strategy.

Adjusted Operating Income (Loss) Available to Common Shareholders

Adjusted operating income (loss) available to common shareholders increased by \$288 million to \$282 million from \$(6) million for the three months ended June 30, 2020 and 2019, respectively. The increase in adjusted operating income (loss) available to common shareholders was primarily driven by a \$372 million gain on our investment in Apollo, net of tax, partially offset by unfavorable alternative investment performance on alternatives reported on a lag reflecting the economic downturn from the spread of COVID-19 in the first quarter 2020, as well as preferred stock dividends.

Adjusted operating income (loss) available to common shareholders decreased by \$25 million to \$(30) million from \$(5) million for the six months ended June 30, 2020 and 2019, respectively. The decrease in adjusted operating income (loss) available to common shareholders was primarily driven by unfavorable alternative investment performance on alternatives reported on a lag reflecting the economic downturn from the spread of COVID-19 in the first quarter 2020, as well as preferred stock dividends, partially offset by a gain of \$133 million on our investment in Apollo, net of tax.

Consolidated Investment Portfolio

We had consolidated investments, including related parties, of \$163.0 billion and \$130.6 billion as of June 30, 2020 and December 31, 2019, respectively. Our investment strategy seeks to achieve sustainable risk-adjusted returns through the disciplined management of our investment portfolio against our long-duration liabilities, coupled with the diversification of risk. The investment strategies utilized by our investment managers focus primarily on a buy and hold asset allocation strategy that may be adjusted periodically in response to changing market conditions and the nature of our liability profile. Substantially all of our investment portfolio is managed by Apollo, which provides a full suite of services, including direct investment management, asset allocation, mergers and acquisition asset diligence, and certain operational support services, including investment compliance, tax, legal and risk management support. Our relationship with Apollo allows us to take advantage of our generally illiquid liability profile by identifying investment opportunities with an emphasis on earning incremental yield by taking liquidity and complexity risk rather than assuming solely credit risk. Apollo's investment team and credit portfolio managers utilize their deep experience to assist us in sourcing and underwriting complex asset classes. Apollo has selected a diverse array of corporate bonds and more structured, but highly rated asset classes. We also maintain holdings in floating rate and less rate-sensitive instruments, including CLOs, non-agency RMBS and various types of structured products. In addition to our fixed income portfolio, we opportunistically allocate 5–10% of our portfolio to alternative investments where we primarily focus on fixed income-like, cash flow-based investments.

Net investment income on the condensed consolidated statements of income (loss) included management fees under our investment management arrangements with Apollo, inclusive of base and sub-allocation fees, of \$123 million and \$94 million, respectively, during the three months ended June 30, 2020 and 2019, and \$251 million and \$186 million, respectively, during the six months ended June 30, 2020 and 2019.

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The total amounts we have incurred, directly and indirectly, from Apollo and its affiliates were as follows:

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Investment management agreements ^{1,2}	\$ 139	\$ 128	\$ 291	\$ 244
Fund investments ³	29	21	11	41
Other ⁴	13	6	22	12
Gross fees	181	155	324	297
ACRA noncontrolling interest ⁵	9	—	14	—
Net fees	\$ 172	\$ 155	\$ 310	\$ 297

¹ Excludes \$1 million and \$1 million of sub-advisory fees paid to ISG for the benefit of third-party sub-advisors for the three months ended June 30, 2020 and 2019, respectively, and excludes \$1 million and \$2 million for the six months ended June 30, 2020 and 2019, respectively.

² Includes \$24 million and \$36 million of fees charged by Apollo to third-party cedants for the three months ended June 30, 2020 and 2019, respectively, and \$48 million and \$60 million for the six months ended June 30, 2020 and 2019, respectively, with respect to assets supporting obligations reinsured to us. Third-party cedants bear legal responsibility for payment of the investment management fees charged; however, we are the beneficiaries of the services performed and the fees ultimately reduce the settlement payments received from such third-party cedants.

³ Includes total management fees, carried interest (including unrealized but accrued carried interest fees) and other fees, including with respect to those investments we hold as equity method investments.

⁴ Other primarily relates to fees resulting from shared services, advisory and other agreements with Apollo or its affiliates.

⁵ Represents those fees incurred directly and indirectly attributable to ACRA, based upon the economic ownership of the noncontrolling interest in ACRA.

Our net invested assets, which are those that directly back our net reserve liabilities as well as surplus assets, were \$137.3 billion and \$117.5 billion as of June 30, 2020 and December 31, 2019, respectively. Apollo’s knowledge of our funding structure and regulatory requirements allows it to design customized strategies and investments for our portfolio. Apollo manages our asset portfolio within the limits and constraints set forth in our Investment and Credit Risk Policy. Under this policy, we set limits on investments in our portfolio by asset class, such as corporate bonds, emerging markets securities, municipal bonds, non-agency RMBS, CMBS, CLOs, commercial mortgage whole loans and mezzanine loans and investment funds. We also set credit risk limits for exposure to a single issuer that vary based on the issuer’s ratings. In addition, our investment portfolio is constrained by its scenario-based capital ratio limit and its stressed liquidity limit.

The following table presents the carrying values of our total investments and investments in related parties:

<i>(In millions, except percentages)</i>	June 30, 2020		December 31, 2019	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
AFS securities, at fair value	\$ 74,735	45.8%	\$ 71,374	54.7%
Trading securities, at fair value	2,075	1.3%	2,070	1.6%
Equity securities, at fair value	237	0.1%	247	0.2%
Mortgage loans, net of allowances	15,203	9.4%	14,306	11.0%
Investment funds	682	0.4%	750	0.6%
Policy loans	393	0.2%	417	0.3%
Funds withheld at interest	42,269	25.9%	15,181	11.6%
Derivative assets	2,379	1.5%	2,888	2.2%
Short-term investments	364	0.2%	596	0.5%
Other investments	359	0.2%	158	0.1%
Total investments	138,696	85.0%	107,987	82.8%
Investments in related parties				
AFS securities, at fair value	4,070	2.5%	3,804	2.9%
Trading securities, at fair value	872	0.5%	785	0.6%
Equity securities, at fair value	52	—%	64	—%
Mortgage loans, net of allowances	626	0.4%	653	0.5%
Investment funds	5,278	3.3%	3,550	2.7%
Funds withheld at interest	12,971	8.0%	13,220	10.1%
Other investments, net of allowances	474	0.3%	487	0.4%
Total related party investments	24,343	15.0%	22,563	17.2%
Total investments including related party	\$ 163,039	100.0%	\$ 130,550	100.0%

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The increase in our total investments, including related party, as of June 30, 2020 of \$32.5 billion compared to December 31, 2019 was primarily driven by an increase in funds withheld at interest assets as a result of the Jackson reinsurance transaction, growth from gross organic deposits of \$10.9 billion in excess of liability outflows of \$6.0 billion and an increase in investment funds driven by our investment in Apollo of \$1.3 billion. The increase was partially offset by a decrease in derivative assets due to unfavorable equity market performance as well as an effort to increase liquidity following the economic downturn from the spread of COVID-19.

Our investment portfolio consists largely of high quality fixed maturity securities, loans and short-term investments, as well as additional opportunistic holdings in investment funds and other instruments, including equity holdings. Fixed maturity securities and loans include publicly issued corporate bonds, government and other sovereign bonds, privately placed corporate bonds and loans, mortgage loans, CMBS, RMBS, CLOs and ABS.

While the substantial majority of our investment portfolio has been allocated to corporate bonds and structured credit products, a key component of our investment strategy is the opportunistic acquisition of investment funds with attractive risk and return profiles. Our investment fund portfolio consists of funds that employ various strategies including real estate and other real asset funds, credit funds and private equity funds. We have a strong preference for assets that have some or all of the following characteristics, among others: (1) investments that constitute a direct investment or an investment in a fund with a high degree of co-investment; (2) investments with credit- or debt-like characteristics (for example, a stipulated maturity and par value), or alternatively, investments with reduced volatility when compared to pure equity; or (3) investments that we believe have less downside risk.

We hold derivatives for economic hedging purposes to reduce our exposure to the cash flow variability of assets and liabilities, equity market risk, interest rate risk, credit risk and foreign exchange risk. Our primary use of derivative instruments relates to providing the income needed to fund the annual indexed credits on our FIA products. We primarily use fixed indexed options to economically hedge FIA products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specific market index.

With respect to derivative positions, we transact with highly rated counterparties, and expect the counterparties to fulfill their obligations under the contracts. We generally use industry standard agreements and annexes with bilateral collateral provisions to further reduce counterparty credit exposure.

AFS Securities

We invest in AFS securities with the intent to hold investments to maturity. In selecting investments we attempt to source investments that match our future cash flow needs. However, we may sell any of our investments in advance of maturity in order to timely satisfy our liabilities as they become due or in order to respond to a change in the credit profile or other characteristics of the particular investment.

AFS securities are carried at fair value, less allowances for expected credit losses, on our condensed consolidated balance sheets. Changes in fair value of our AFS securities, net of related DAC, DSI and VOBA amortization and the change in rider reserves, are charged or credited to other comprehensive income, net of tax. All changes in the allowance for expected credit losses, whether due to passage of time, change in expected cash flows, or change in fair value are recorded through credit loss expense within investment related gains (losses) on the condensed consolidated statements of income (loss).

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The distribution of our AFS securities, including related parties, by type is as follows:

	June 30, 2020					
<i>(In millions, except percentages)</i>	Amortized Cost	Allowance for Credit Losses	Unrealized Gains	Unrealized Losses	Fair Value	Percent of Total
AFS securities						
U.S. government and agencies	\$ 71	\$ —	\$ 3	\$ —	\$ 74	0.1%
U.S. state, municipal and political subdivisions	799	—	146	(2)	943	1.2%
Foreign governments	318	—	20	(1)	337	0.4%
Corporate	47,251	(31)	4,608	(629)	51,199	65.0%
CLO	8,441	(1)	19	(507)	7,952	10.1%
ABS	4,923	(2)	110	(258)	4,773	6.1%
CMBS	2,402	(10)	53	(148)	2,297	2.9%
RMBS	7,010	(129)	343	(64)	7,160	9.1%
Total AFS securities	71,215	(173)	5,302	(1,609)	74,735	94.9%
AFS securities – related party						
Corporate	18	—	2	—	20	—%
CLO	1,297	(2)	5	(61)	1,239	1.6%
ABS	2,858	—	26	(73)	2,811	3.5%
Total AFS securities – related party	4,173	(2)	33	(134)	4,070	5.1%
Total AFS securities including related party	\$ 75,388	\$ (175)	\$ 5,335	\$ (1,743)	\$ 78,805	100.0%

	December 31, 2019					
<i>(In millions, except percentages)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Percent of Total	
AFS securities						
U.S. government and agencies	\$ 35	\$ 1	\$ —	\$ 36	—%	
U.S. state, municipal and political subdivisions	1,322	220	(1)	1,541	2.1%	
Foreign governments	298	29	—	327	0.4%	
Corporate	44,106	3,332	(210)	47,228	62.8%	
CLO	7,524	21	(196)	7,349	9.8%	
ABS	5,018	124	(24)	5,118	6.8%	
CMBS	2,304	104	(8)	2,400	3.2%	
RMBS	6,872	513	(10)	7,375	9.8%	
Total AFS securities	67,479	4,344	(449)	71,374	94.9%	
AFS securities – related party						
Corporate	18	1	—	19	—%	
CLO	951	3	(18)	936	1.3%	
ABS	2,814	37	(2)	2,849	3.8%	
Total AFS securities – related party	3,783	41	(20)	3,804	5.1%	
Total AFS securities including related party	\$ 71,262	\$ 4,385	\$ (469)	\$ 75,178	100.0%	

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We maintain a diversified AFS portfolio of corporate fixed maturity securities across industries and issuers, and a diversified portfolio of structured securities. The composition of our AFS securities, including related parties, is as follows:

	June 30, 2020		December 31, 2019	
	Fair Value	Percent of Total	Fair Value	Percent of Total
<i>(In millions, except percentages)</i>				
Corporate				
Industrial other ¹	\$ 16,726	21.2%	\$ 14,956	19.9%
Financial	16,114	20.4%	15,286	20.3%
Utilities	12,258	15.6%	11,217	14.9%
Communication	2,966	3.8%	2,739	3.7%
Transportation	3,155	4.0%	3,049	4.1%
Total corporate	51,219	65.0%	47,247	62.9%
Other government-related securities				
U.S. state, municipal and political subdivisions	943	1.2%	1,541	2.1%
Foreign governments	337	0.4%	327	0.4%
U.S. government and agencies	74	0.1%	36	—%
Total non-structured securities	52,573	66.7%	49,151	65.4%
Structured securities				
CLO	9,191	11.7%	8,285	11.0%
ABS	7,584	9.6%	7,967	10.6%
CMBS	2,297	2.9%	2,400	3.2%
RMBS				
Agency	48	0.1%	3	—%
Non-agency	7,112	9.0%	7,372	9.8%
Total structured securities	26,232	33.3%	26,027	34.6%
Total AFS securities including related party	\$ 78,805	100.0%	\$ 75,178	100.0%

¹ Includes securities within various industry segments including capital goods, basic industry, consumer cyclical, consumer non-cyclical, industrial and technology.

The fair value of our AFS securities, including related parties, was \$78.8 billion and \$75.2 billion as of June 30, 2020 and December 31, 2019, respectively. The increase was mainly driven by strong growth from organic deposits of \$10.9 billion in excess of liability outflows of \$6.0 billion.

The Securities Valuation Office (SVO) of the 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. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation and/or unit price. Generally, the process for assigning an NAIC designation varies based upon whether a security is considered “filing exempt” (General Designation Process). Subject to certain exceptions, a security is typically considered “filing exempt” if it has been rated by a Nationally Recognized Statistical Rating Organization (NRSRO). For securities that are not “filing exempt,” insurance companies assign temporary designations based upon a subjective evaluation of credit quality. The insurance company generally must then submit the securities to the SVO within 120 days of acquisition to receive an NAIC designation. For securities considered “filing exempt,” the SVO utilizes the NRSRO 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

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An important exception to the General Designation Process occurs in the case of certain loan-backed and structured securities (LBaSS). The NRSRO ratings methodology is focused on the likelihood of recovery of all contractual payments, including principal at par, regardless of an investor’s carrying value. In effect, the NRSRO rating assumes that the holder is the original purchaser at par. In contrast, the SVO’s LBaSS methodology is focused on determining the risk associated with the recovery of the amortized cost of each security. Because the NAIC’s methodology explicitly considers amortized cost and the likelihood of recovery of such amount, we view the NAIC’s methodology as the most appropriate means of evaluating the credit quality of our fixed maturity portfolio since a large portion of our holdings were purchased and are carried at significant discounts to par.

The SVO has developed a designation process and provides instruction on both modeled and non-modeled LBaSS. For modeled LBaSS, the process is specific to the non-agency 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 SVO has retained the services of Blackrock, Inc. (Blackrock) to model non-agency RMBS and CMBS owned by U.S. insurers for all years presented herein. Blackrock provides 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.

Prior to January 1, 2019, certain non-modeled LBaSS (including CLOs and ABS, other than RMBS and CMBS) underwent ratings evaluation by an NAIC credit rating provider (CRP). Such securities were subject to an exemption from the General Designation Process (MFE Exemption) and received NAIC designations through a prescribed process (MFE Process). Pursuant to the MFE Process, CRP ratings were translated to an NAIC designation equivalent. If the translation process resulted in an NAIC designation equivalent of NAIC 1 or NAIC 6, then such designation was considered the final NAIC designation. If the translation process resulted in an NAIC designation equivalent of NAIC 2 through NAIC 5, then the NAIC designation equivalent was used to select the appropriate breakpoint from a pricing matrix and such breakpoint was applied to the amortized cost or fair value (in each instance, as a percentage of par), as applicable, to determine the final NAIC designation. Effective January 1, 2019, the MFE Exemption was eliminated, and as a result, NAIC designations for all non-modeled LBaSS are thereafter determined through the General Designation Process.

The NAIC designation determines the associated level of risk-based capital (RBC) that an insurer is required to hold for all securities owned by the insurer. In general, under the modeled LBaSS process and, prior to January 1, 2019, the non-modeled LBaSS process, the larger the discount to par value at the time of determination, the higher the NAIC designation the LBaSS will have.

A summary of our AFS securities, including related parties, by NAIC designation is as follows:

<i>(In millions, except percentages)</i>	June 30, 2020			December 31, 2019		
	Amortized Cost	Fair Value	Percent of Total	Amortized Cost	Fair Value	Percent of Total
NAIC designation						
1	\$ 37,502	\$ 39,700	50.4%	\$ 36,392	\$ 38,667	51.4%
2	32,569	34,124	43.3%	30,752	32,336	43.0%
Total investment grade	70,071	73,824	93.7%	67,144	71,003	94.4%
3	4,143	3,916	5.0%	3,237	3,300	4.4%
4	882	827	1.0%	740	740	1.0%
5	188	149	0.2%	102	94	0.1%
6	104	89	0.1%	39	41	0.1%
Total below investment grade	5,317	4,981	6.3%	4,118	4,175	5.6%
Total AFS securities including related party	\$ 75,388	\$ 78,805	100.0%	\$ 71,262	\$ 75,178	100.0%

A significant majority of our AFS portfolio, 93.7% and 94.4% as of June 30, 2020 and December 31, 2019, respectively, was invested in assets considered investment grade with a NAIC designation of 1 or 2.

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A summary of our AFS securities, including related parties, by NRSRO ratings is set forth below:

<i>(In millions, except percentages)</i>	June 30, 2020		December 31, 2019	
	Fair Value	Percent of Total	Fair Value	Percent of Total
NRSRO rating agency designation				
AAA/AA/A	\$ 30,238	38.4%	\$ 28,299	37.7%
BBB	28,443	36.1%	29,032	38.6%
Non-rated ¹	11,142	14.2%	10,014	13.3%
Total investment grade	69,823	88.7%	67,345	89.6%
BB	4,347	5.5%	3,403	4.5%
B	1,042	1.3%	813	1.1%
CCC	1,845	2.3%	1,981	2.6%
CC and lower	1,080	1.4%	1,076	1.4%
Non-rated ¹	668	0.8%	560	0.8%
Total below investment grade	8,982	11.3%	7,833	10.4%
Total AFS securities including related party	\$ 78,805	100.0%	\$ 75,178	100.0%

¹ Securities denoted as non-rated by the NRSRO were classified as investment or non-investment grade according to the security’s respective NAIC designation. With respect to modeled LBaSS, the NAIC designation methodology differs in significant respects from the NRSRO rating methodology.

Consistent with the NAIC Process and Procedures Manual, an NRSRO rating was assigned based on the following criteria: (a) the equivalent S&P rating when 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 when 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, DBRS, and Kroll Bond Rating Agency, Inc, as well as NAIC SVO Private Letter designations.

The portion of our AFS portfolio that was considered below investment grade based on NRSRO ratings was 11.3% and 10.4% as of June 30, 2020 and December 31, 2019, respectively. The primary driver of the difference in the percentage of securities considered below investment grade by NRSROs as compared to the securities considered below investment grade by the NAIC is the difference in methodologies between the NRSRO and NAIC for RMBS due to investments acquired and/or carried at a discount to par value, as discussed above.

As of June 30, 2020 and December 31, 2019, non-rated securities were comprised 64% and 61%, respectively, of corporate private placement securities for which we have not sought individual ratings from the NRSRO, and 22% and 24%, respectively, were comprised of RMBS, many of which were acquired at a significant discount to par. We rely on internal analysis and designations assigned by the NAIC to evaluate the credit risk of our portfolio. As of June 30, 2020 and December 31, 2019, 94% and 95%, respectively, of the non-rated securities were designated NAIC 1 or 2.

Asset-backed Securities – We invest in ABS which are securitized by pools of assets such as consumer loans, automobile loans, student loans, insurance-linked securities, operating cash flows of corporations and cash flows from various types of business equipment. Our ABS holdings were \$7.6 billion and \$8.0 billion as of June 30, 2020 and December 31, 2019, respectively. The decrease in our ABS portfolio is mainly driven by unrealized losses due to credit spreads widening, partially offset by the lower interest rate environment. As of June 30, 2020 and December 31, 2019, our ABS portfolio included \$7.0 billion (92% of the total) and \$7.4 billion (92% of the total), respectively, of securities that are considered investment grade based on NAIC designations, while \$6.9 billion (91% of the total) and \$7.4 billion (92% of the total), respectively, of securities were considered investment grade based on NRSRO ratings.

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Collateralized Loan Obligations – We also invest in CLOs which pay principal and interest from cash flows received from underlying corporate loans. These holdings were \$9.2 billion and \$8.3 billion as of June 30, 2020 and December 31, 2019, respectively.

A summary of our AFS CLO portfolio, including related parties, by NAIC designations and NRSRO quality ratings is as follows:

	June 30, 2020		December 31, 2019	
	Fair Value	Percent of Total	Fair Value	Percent of Total
<i>(In millions, except percentages)</i>				
NAIC designation				
1	\$ 5,641	61.4%	\$ 4,626	55.9%
2	3,462	37.6%	3,499	42.2%
Total investment grade	9,103	99.0%	8,125	98.1%
3	81	0.9%	133	1.6%
4	7	0.1%	20	0.2%
5	—	—%	7	0.1%
6	—	—%	—	—%
Total below investment grade	88	1.0%	160	1.9%
Total AFS CLO including related party	\$ 9,191	100.0%	\$ 8,285	100.0%
NRSRO rating agency designation				
AAA/AA/A	\$ 5,641	61.4%	\$ 4,626	55.9%
BBB	3,462	37.6%	3,499	42.2%
Non-rated	—	—%	—	—%
Total investment grade	9,103	99.0%	8,125	98.1%
BB	81	0.9%	133	1.6%
B	7	0.1%	20	0.2%
CCC	—	—%	7	0.1%
CC and lower	—	—%	—	—%
Non-rated	—	—%	—	—%
Total below investment grade	88	1.0%	160	1.9%
Total AFS CLO including related party	\$ 9,191	100.0%	\$ 8,285	100.0%

As of June 30, 2020 and December 31, 2019, a substantial majority of our AFS CLO portfolio, 99.0% and 98.1%, respectively, was invested in assets considered to be investment grade based upon application of the NAIC’s methodology and based on NRSRO ratings. The increase in our CLO portfolio is mainly driven by additional asset purchases, partially offset by unrealized losses due to credit spreads widening.

Commercial Mortgage-backed Securities – A portion of our AFS portfolio is invested in CMBS. CMBS are constructed from pools of commercial mortgages. These holdings were \$2.3 billion and \$2.4 billion as of June 30, 2020 and December 31, 2019, respectively. As of June 30, 2020 and December 31, 2019, our CMBS portfolio included \$2.1 billion (89% of the total) and \$2.1 billion (89% of the total), respectively, of securities that are considered investment grade based on NAIC designations, while \$1.7 billion (74% of the total) and \$1.7 billion (72% of the total), respectively, of securities were considered investment grade based on NRSRO ratings.

Residential Mortgage-backed Securities – A portion of our AFS portfolio is invested in RMBS, which are securities constructed from pools of residential mortgages. These holdings were \$7.2 billion and \$7.4 billion as of June 30, 2020 and December 31, 2019, respectively.

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A summary of our AFS RMBS portfolio by NAIC designations and NRSRO quality ratings is as follows:

<i>(In millions, except percentages)</i>	June 30, 2020		December 31, 2019	
	Fair Value	Percent of Total	Fair Value	Percent of Total
NAIC designation				
1	\$ 6,546	91.4%	\$ 6,701	90.9%
2	243	3.4%	330	4.5%
Total investment grade	6,789	94.8%	7,031	95.4%
3	243	3.4%	289	3.9%
4	39	0.6%	52	0.7%
5	43	0.6%	3	—%
6	46	0.6%	—	—%
Total below investment grade	371	5.2%	344	4.6%
Total AFS RMBS	\$ 7,160	100.0%	\$ 7,375	100.0%
NRSRO rating agency designation				
AAA/AA/A	\$ 701	9.8%	\$ 715	9.7%
BBB	555	7.8%	606	8.2%
Non-rated ¹	2,459	34.3%	2,428	32.9%
Total investment grade	3,715	51.9%	3,749	50.8%
BB	255	3.6%	281	3.8%
B	262	3.6%	232	3.2%
CCC	1,735	24.2%	1,890	25.6%
CC and lower	1,080	15.1%	1,074	14.6%
Non-rated ¹	113	1.6%	149	2.0%
Total below investment grade	3,445	48.1%	3,626	49.2%
Total AFS RMBS	\$ 7,160	100.0%	\$ 7,375	100.0%

¹ Securities denoted as non-rated by the NRSRO were classified as investment or non-investment grade according to the security’s respective NAIC designations. The NAIC designation methodology differs in significant respects from the NRSRO rating methodology.

A significant majority of our RMBS portfolio, 94.8% and 95.4% as of June 30, 2020 and December 31, 2019, respectively, was invested in assets considered to be investment grade based upon an application of the NAIC designations. The NAIC’s methodology with respect to RMBS gives explicit effect to the amortized cost at which an insurance company carries each such investment. Because we invested in RMBS after the stresses related to U.S. housing had caused significant downward pressure on prices of RMBS, we carry most of our investments in RMBS at significant discounts to par value, which results in an investment grade NAIC designation. In contrast, our understanding is that in setting ratings, NRSROs focus on the likelihood of recovering all contractual payments including principal at par value. As a result of a fundamental difference in approach, as of June 30, 2020 and December 31, 2019, NRSRO characterized 51.9% and 50.8%, respectively, of our RMBS portfolio as investment grade.

Unrealized Losses

Our investments in AFS securities, including related parties, are reported at fair value with changes in fair value recorded in other comprehensive income. Certain of our AFS securities, including related parties, have experienced declines in fair value that we consider temporary in nature. As of June 30, 2020, our AFS securities, including related party, had a fair value of \$78.8 billion, which was 4.5% above amortized cost of \$75.4 billion. As of December 31, 2019, our AFS securities, including related party, had a fair value of \$75.2 billion, which was 5.5% above amortized cost of \$71.3 billion. These investments are held to support our product liabilities, and we currently have the intent and ability to hold these securities until sale or maturity, and believe the securities will recover the amortized cost basis prior to sale or maturity.

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The following tables reflect the unrealized losses on the AFS portfolio, including related parties, for which an allowance for credit losses has not been recorded, by NAIC designations:

(In millions, except percentages)	June 30, 2020					
	Amortized Cost of AFS Securities with Unrealized Loss	Gross Unrealized Losses	Fair Value of AFS Securities with Unrealized Loss	Fair Value to Amortized Cost Ratio	Fair Value of Total AFS Securities	Gross Unrealized Losses to Total AFS Fair Value
NAIC designation						
1	\$ 10,718	\$ (499)	\$ 10,219	95.3%	\$ 39,700	(1.3)%
2	9,267	(706)	8,561	92.4%	34,124	(2.1)%
Total investment grade	19,985	(1,205)	18,780	94.0%	73,824	(1.6)%
3	2,554	(264)	2,290	89.7%	3,916	(6.7)%
4	599	(56)	543	90.7%	827	(6.8)%
5	113	(35)	78	69.0%	149	(23.5)%
6	36	(11)	25	69.4%	89	(12.4)%
Total below investment grade	3,302	(366)	2,936	88.9%	4,981	(7.3)%
Total	\$ 23,287	\$ (1,571)	\$ 21,716	93.3%	\$ 78,805	(2.0)%

The following tables reflect the unrealized losses on the AFS portfolio, including related parties, by NAIC designations:

(In millions, except percentages)	December 31, 2019					
	Amortized Cost of AFS Securities with Unrealized Loss	Gross Unrealized Losses	Fair Value of AFS Securities with Unrealized Loss	Fair Value to Amortized Cost Ratio	Fair Value of Total AFS Securities	Gross Unrealized Losses to Total AFS Fair Value
NAIC designation						
1	\$ 5,672	\$ (160)	\$ 5,512	97.2%	\$ 38,667	(0.4)%
2	5,252	(223)	5,029	95.8%	32,336	(0.7)%
Total investment grade	10,924	(383)	10,541	96.5%	71,003	(0.5)%
3	945	(41)	904	95.7%	3,300	(1.2)%
4	338	(34)	304	89.9%	740	(4.6)%
5	79	(11)	68	86.1%	94	(11.7)%
6	1	—	1	100.0%	41	—%
Total below investment grade	1,363	(86)	1,277	93.7%	4,175	(2.1)%
Total	\$ 12,287	\$ (469)	\$ 11,818	96.2%	\$ 75,178	(0.6)%

The gross unrealized losses on AFS securities, including related parties, were \$1.6 billion and \$469 million as of June 30, 2020 and December 31, 2019, respectively. The increase in unrealized losses was driven by credit spreads widening, partially offset by the decrease in U.S. Treasury rates during the six months ended June 30, 2020.

As of June 30, 2020 and December 31, 2019, we held \$5.8 billion and \$5.6 billion, respectively, in energy sector fixed maturity securities, or 7%, of the total fixed maturity securities, including related parties. The gross unrealized capital losses on these securities were \$208 million and \$65 million, or 13% and 14% of the total unrealized losses, respectively.

Provision for Credit Losses

For our credit loss accounting policies and the assumptions used in the allowances, see *Note 1 – Business, Basis of Presentation and Significant Accounting Policies* and *Note 2 – Investments* to the condensed consolidated financial statements, as well as *Critical Accounting Estimates and Judgments*.

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As of June 30, 2020, we held an allowance for credit loss on AFS securities of \$175 million. During the six months ended June 30, 2020, we recorded a change in provision for credit losses on AFS securities of \$158 million, of which \$97 million had an income statement impact. These changes were primarily driven by an increase in RMBS and corporate allowances. The intent-to-sell impairments for the six months ended June 30, 2020 were \$15 million primarily related to corporates. During the six months ended June 30, 2019, we recorded \$7 million of OTTI impairments. The annualized intent-to-sell impairments we experienced for the six months ended June 30, 2020 translate into 2 basis points of average net invested assets, which exclude the ACRA noncontrolling interest. The annualized OTTI losses we experienced for the six months ended June 30, 2019 translate into 1 basis point of average net invested assets.

International Exposure

A portion of our AFS securities are invested in securities with international exposure. As of June 30, 2020 and December 31, 2019, 32% of the carrying value of our AFS securities, including related parties, was comprised of securities of issuers based outside of the United States and debt securities of foreign governments. These securities are either denominated in U.S. dollars or do not expose us to significant foreign currency risk as a result of foreign currency swap arrangements.

The following table presents our international exposure in our AFS portfolio, including related parties, by country or region:

<i>(In millions, except percentages)</i>	June 30, 2020			December 31, 2019		
	Amortized Cost	Fair Value	Percent of Total	Amortized Cost	Fair Value	Percent of Total
Country of risk						
Ireland	\$ 1,468	\$ 1,421	5.6%	\$ 1,109	\$ 1,137	4.7%
Italy	6	7	—%	6	7	—%
Spain	66	71	0.3%	66	71	0.2%
Total Ireland, Italy, Greece, Spain and Portugal ¹	1,540	1,499	5.9%	1,181	1,215	4.9%
Other Europe	7,424	7,800	30.6%	7,333	7,711	32.1%
Total Europe	8,964	9,299	36.5%	8,514	8,926	37.0%
Non-U.S. North America	12,604	12,190	47.8%	11,650	11,670	48.5%
Australia & New Zealand	1,880	2,034	8.0%	1,853	1,966	8.2%
Central & South America	522	535	2.1%	473	501	2.1%
Africa & Middle East	830	865	3.4%	350	379	1.6%
Asia/Pacific	558	573	2.2%	580	616	2.6%
Total	\$ 25,358	\$ 25,496	100.0%	\$ 23,420	\$ 24,058	100.0%

¹ As of each of the respective periods, we had no holdings in Greece or Portugal.

Approximately 95.8% of these securities are investment grade by NAIC designation as of both June 30, 2020 and December 31, 2019. As of June 30, 2020, 10% of our AFS securities, including related parties, were invested in CLOs of Cayman Islands issuers (included in Non-U.S. North America) for which underlying investments are largely loans to U.S. issuers and 22% were invested in securities of other non-U.S. issuers.

Portugal, Ireland, Italy, Greece and Spain continue to represent credit risk as economic conditions in these countries continue to be volatile, especially within the financial and banking sectors. We had \$1.5 billion and \$1.2 billion of exposure in these countries as of June 30, 2020 and December 31, 2019, respectively.

As of June 30, 2020, we held United Kingdom and Channel Islands AFS securities of \$3.2 billion, or 4.1% of our AFS securities, including related parties. As of June 30, 2020, these securities were in a net unrealized gain position of \$101 million. Our investment managers analyze each holding for credit risk by economic and other factors of each country and industry.

Trading Securities

Trading securities, including related parties, were \$2.9 billion as of both June 30, 2020 and December 31, 2019. Trading securities are primarily comprised of AmerUs Closed Block securities for which we have elected the fair value option valuation, CLO equity tranche securities, structured securities with embedded derivatives, and investments which support various reinsurance arrangements.

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Mortgage Loans

The following is a summary of our mortgage loan portfolio by collateral type:

<i>(In millions, except percentages)</i>	June 30, 2020		December 31, 2019	
	Net Carrying Value	Percent of Total	Net Carrying Value	Percent of Total
Property type				
Office building	\$ 3,545	22.4%	\$ 2,899	19.3%
Retail	2,080	13.1%	2,182	14.6%
Apartment	2,401	15.2%	2,142	14.3%
Hotels	1,131	7.1%	1,104	7.4%
Industrial	1,385	8.8%	1,448	9.7%
Other commercial ¹	689	4.4%	730	4.9%
Total net commercial mortgage loans	11,231	71.0%	10,505	70.2%
Residential loans	4,598	29.0%	4,454	29.8%
Total mortgage loans, net of allowances	\$ 15,829	100.0%	\$ 14,959	100.0%

¹ Other commercial loans include investments in nursing homes, other healthcare institutions, parking garages, storage facilities and other commercial properties.

We invest a portion of our investment portfolio in mortgage loans, which are generally comprised of high quality commercial first lien and mezzanine real estate loans. Our mortgage loan holdings were \$15.8 billion and \$15.0 billion as of June 30, 2020 and December 31, 2019, respectively. This included \$2.0 billion and \$1.9 billion of mezzanine mortgage loans as of June 30, 2020 and December 31, 2019, respectively. We have acquired mortgage loans through acquisitions and reinsurance arrangements, as well as through an active program to invest in new mortgage loans. We invest in CMLs on income producing properties including hotels, apartments, retail and office buildings, and other commercial and industrial properties. Our RML portfolio primarily consists of first lien RMLs collateralized by properties located in the U.S. Loan-to-value ratios at the time of loan approval are generally 75% or less.

Our mortgage loans are primarily stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of credit loss allowances. Interest income is accrued on the principal amount of the loan based on the loan’s contractual interest rate. Amortization of premiums and discounts is recorded using the effective interest method. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income.

It is our policy to cease to accrue interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is our general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. As of June 30, 2020 and December 31, 2019, we had \$130 million and \$67 million, respectively, of mortgage loans that were 90 days past due, of which \$38 million and \$33 million, respectively, were in the process of foreclosure. We will continue to evaluate these policies with regard to the economic downturn brought about by the spread of COVID-19. Our ability to initiate foreclosure proceedings may be limited by legislation passed and executive orders issued in response to the spread of COVID-19.

See *Note 2 – Investments* to the condensed consolidated financial statements for information regarding credit loss allowance for collection loss, loan-to-value, and debt service coverage.

As of June 30, 2020, we had valuation allowances of \$379 million comprising of \$294 million of CML and \$85 million of RML allowances. During the six months ended June 30, 2020, we recorded a change in provision for credit losses on CMLs of \$117 million and RMLs of \$42 million. The increase in provision for credit losses was primarily a result of the adoption of CECL and the economic downturn experienced from the spread of COVID-19. As of December 31, 2019, we had a valuation allowance of \$11 million.

Investment Funds

Our investment funds investment strategy primarily focuses on funds with core holdings of credit assets, real assets, real estate, preferred equity and income producing assets. 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.

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The following table illustrates our investment funds, including related party:

<i>(In millions, except percentages)</i>	June 30, 2020		December 31, 2019	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Investment funds				
Real estate	\$ 274	4.6%	\$ 277	6.4%
Credit funds	115	1.9%	153	3.6%
Private equity	232	3.9%	236	5.5%
Real assets	61	1.0%	83	2.0%
Natural resources	—	—%	1	—%
Total investment funds	682	11.4%	750	17.5%
Investment funds – related parties				
Differentiated investments				
MidCap	517	8.7%	547	12.7%
AmeriHome	594	10.0%	487	11.3%
Catalina	295	4.9%	271	6.3%
Athora	497	8.3%	132	3.1%
Venerable	118	2.0%	99	2.3%
Other	246	4.1%	222	5.2%
Total differentiated investments	2,267	38.0%	1,758	40.9%
Real estate	709	11.9%	853	19.8%
Credit funds	363	6.1%	370	8.6%
Private equity	255	4.3%	105	2.4%
Real assets	233	3.9%	182	4.2%
Natural resources	95	1.6%	163	3.8%
Public equities	43	0.8%	119	2.8%
Investment in Apollo	1,313	22.0%	—	—%
Total investment funds – related parties	5,278	88.6%	3,550	82.5%
Total investment funds including related parties	\$ 5,960	100.0%	\$ 4,300	100.0%

Overall, the total investment funds, including related party, were \$6.0 billion and \$4.3 billion, respectively, as of June 30, 2020 and December 31, 2019. See *Note 2 – Investments* to the condensed consolidated financial statements for further discussion regarding how we account for our investment funds. Our investment fund portfolio is subject to a number of market related risks including interest rate risk and equity market risk. Interest rate risk represents the potential for changes in the investment fund’s net asset values resulting from changes in the general level of interest rates. Equity market risk represents potential for changes in the investment fund’s net asset values resulting from changes in equity markets or from other external factors which influence equity markets. These risks expose us to potential volatility in our earnings period-over-period. We actively monitor our exposure to these risks. The increase in investment funds, including related party, was primarily driven by our investment in Apollo of \$1.3 billion as of June 30, 2020 as well as an increase in our investment in Athora.

Funds Withheld at Interest

Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with modco and funds withheld reinsurance agreements in which we act as the reinsurer. Generally, assets equal to statutory reserves are withheld and legally owned by the ceding company. We hold funds withheld at interest receivables, including those held with VIAC, Lincoln and Jackson. As of June 30, 2020, the majority of the ceding companies holding the assets pursuant to such reinsurance agreements had a financial strength rating of A- or better (based on an A.M. Best scale).

The funds withheld at interest is comprised of the host contract and an embedded derivative. We are subject to the investment performance on the withheld assets with the total return directly impacting the host contract and the embedded derivative. Interest accrues at a risk-free rate on the host receivable and is recorded as net investment income in the condensed consolidated statements of income (loss). The embedded derivative in our reinsurance agreements is similar to a total return swap on the income generated by the underlying assets held by the ceding companies. The change in the embedded derivative is recorded in investment related gains (losses). Although we do not legally own the underlying investments in the funds withheld at interest, in each instance the ceding company has hired Apollo to manage the withheld assets in accordance with our investment guidelines.

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The following summarizes the underlying investment composition of the funds withheld at interest, including related parties:

<i>(In millions, except percentages)</i>	June 30, 2020		December 31, 2019	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Fixed maturity securities				
U.S. government and agencies	\$ 15	— %	\$ 15	0.1 %
U.S. state, municipal and political subdivisions	346	0.6 %	482	1.7 %
Foreign governments	182	0.3 %	143	0.5 %
Corporate	30,405	55.1 %	14,590	51.4 %
CLO	3,405	6.2 %	2,586	9.1 %
ABS	2,781	5.0 %	2,510	8.8 %
CMBS	2,157	3.9 %	756	2.7 %
RMBS	2,095	3.8 %	1,482	5.2 %
Equity securities	68	0.1 %	74	0.3 %
Mortgage loans	5,966	10.8 %	4,357	15.3 %
Investment funds	916	1.7 %	807	2.8 %
Derivative assets	161	0.3 %	224	0.8 %
Short-term investments	1,012	1.8 %	157	0.6 %
Cash and cash equivalents	6,736	12.2 %	239	0.8 %
Other assets and liabilities	(1,005)	(1.8)%	(21)	(0.1)%
Total funds withheld at interest including related party	\$ 55,240	100.0 %	\$ 28,401	100.0 %

As of June 30, 2020 and December 31, 2019, we held \$55.2 billion and \$28.4 billion, respectively, of funds withheld at interest receivables, including related party. Approximately 95.6% and 94.4% of the fixed maturity securities within the funds withheld at interest are investment grade by NAIC designation as of June 30, 2020 and December 31, 2019, respectively. The increase in funds withheld at interest receivables, including related party, was primarily driven by a \$28.8 billion increase in assets as a result of the Jackson reinsurance transaction, partially offset by unrealized losses on fixed maturity securities due to credit spreads widening and run off in the underlying blocks of business.

Derivative Instruments

We hold derivative instruments for economic hedging purposes to reduce our exposure to cash flow variability of assets and liabilities, equity market risk, interest rate risk, credit risk and foreign exchange risk. The types of derivatives we may use include interest rate swaps, foreign currency swaps and forward contracts, total return swaps, credit default swaps, variance swaps, futures and fixed indexed options.

A discussion regarding our derivative instruments and how such instruments are used to manage risk is included in *Note 3 – Derivative Instruments* to the condensed consolidated financial statements.

As part of our risk management strategies, management continually evaluates our derivative instrument holdings and the effectiveness of such holdings in addressing risks identified in our operations.

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Net Invested Assets

The following summarizes our net invested assets:

	June 30, 2020		December 31, 2019	
	Net Invested Asset Value ¹	Percent of Total	Net Invested Asset Value ¹	Percent of Total
<i>(In millions, except percentages)</i>				
Corporate	\$ 63,171	46.0%	\$ 55,077	46.9%
CLO	11,984	8.7%	10,223	8.7%
Credit	75,155	54.7%	65,300	55.6%
RMBS	8,665	6.3%	8,394	7.1%
CML	15,664	11.4%	14,038	12.0%
RML	4,755	3.5%	4,490	3.8%
CMBS	3,417	2.5%	2,930	2.5%
Real estate	32,501	23.7%	29,852	25.4%
ABS	10,507	7.6%	10,317	8.8%
Alternative investments	6,082	4.4%	5,586	4.8%
State, municipal, political subdivisions and foreign government	1,750	1.3%	2,260	1.9%
Equity securities	392	0.3%	365	0.3%
Short-term investments	699	0.5%	624	0.5%
U.S. government and agencies	85	0.1%	49	—%
Other investments	19,515	14.2%	19,201	16.3%
Cash and equivalents	7,541	5.5%	1,958	1.7%
Policy loans and other	1,244	0.9%	1,175	1.0%
Net invested assets excluding investment in Apollo	135,956	99.0%	117,486	100.0%
Investment in Apollo	1,313	1.0%	—	—%
Net invested assets	\$ 137,269	100.0%	\$ 117,486	100.0%

¹ See *Key Operating and Non-GAAP Measures for the definition of net invested assets*.

Our net invested assets were \$137.3 billion and \$117.5 billion as of June 30, 2020 and December 31, 2019, respectively. As of June 30, 2020, our net invested assets were mainly comprised of 46.0% of corporate securities, 25.1% of structured securities, 14.9% of mortgage loans and 4.4% of alternative investments. Corporate securities included \$16.6 billion of private placements, which represented 12.1% of our net invested assets. The increase in net invested assets as of June 30, 2020 from December 31, 2019 was primarily driven by a \$10.2 billion increase in assets, net of the ACRA noncontrolling interest, as a result of the Jackson reinsurance transaction, our investment in Apollo of \$1.3 billion, growth in deposits over liability outflows and reinvestment of earnings.

In managing our business we utilize net invested assets as presented in the above table. Net invested assets do not correspond to total investments, including related parties, on our condensed consolidated balance sheets, as discussed previously in *Key Operating and Non-GAAP Measures*. Net invested assets represent the investments that directly back our net reserve liabilities and surplus assets. We believe this view of our portfolio provides a view of the assets for which we have economic exposure. We adjust the presentation for funds withheld and modco transactions to include or exclude the underlying investments based upon the contractual transfer of economic exposure to such underlying investments. We also adjust for VIEs in order to show the net investment in the funds, which are included in the alternative investments line above as well as adjust for the allowance for credit losses. Net invested assets includes our proportionate share of ACRA investments, based on our economic ownership, but excludes the proportionate share of investments associated with the noncontrolling interest.

Net invested assets is utilized by management to evaluate our investment portfolio. Net invested assets, excluding our strategic investment in Apollo, is used in the computation of net investment earned rate, which allows us to analyze the profitability of our investment portfolio. Net invested assets is also used in our risk management processes for asset purchases, product design and underwriting, stress scenarios, liquidity, and ALM.

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Net Alternative Investments

The following summarizes our alternative investments:

	June 30, 2020		December 31, 2019	
	Net Invested Asset Value	Percent of Total	Net Invested Asset Value	Percent of Total
<i>(In millions, except percentages)</i>				
Retirement Services				
Differentiated investments				
AmeriHome	\$ 730	12.0%	\$ 595	10.7%
MidCap	594	9.8%	547	9.8%
Catalina	295	4.9%	271	4.9%
Venerable	118	1.9%	99	1.8%
Other	309	5.1%	208	3.7%
Total differentiated investments	2,046	33.7%	1,720	30.9%
Real estate	1,260	20.7%	1,430	25.6%
Credit	911	15.0%	968	17.3%
Private equity	550	9.0%	378	6.8%
Real assets	411	6.8%	349	6.2%
Natural resources	45	0.7%	51	0.9%
Other	—	—%	58	1.0%
Total Retirement Services alternative investments	5,223	85.9%	4,954	88.7%
Corporate and Other				
Athora	501	8.2%	140	2.5%
Credit	89	1.5%	128	2.3%
Natural resources	226	3.7%	245	4.4%
Public equities ¹	43	0.7%	119	2.1%
Total Corporate and Other alternative investments	859	14.1%	632	11.3%
Net alternative investments	\$ 6,082	100.0%	\$ 5,586	100.0%

¹ As of June 30, 2020 and December 31, 2019, public equities is exclusively comprised of an investment in OneMain Holdings, Inc. (ticker: OMF).

Net alternative investments were \$6.1 billion and \$5.6 billion as of June 30, 2020 and December 31, 2019, respectively, representing 4.4% and 4.8% of our net invested assets portfolio as of June 30, 2020 and December 31, 2019, respectively.

Net alternative investments do not correspond to the total investment funds, including related parties and VIEs, on our condensed consolidated balance sheets. As discussed above in the net invested assets section, we adjust the GAAP presentation for funds withheld, modco and VIEs. The investment in Apollo is excluded from our alternative investments, while we include CLO equity tranche securities in alternative investments due to their underlying characteristics and equity-like features.

Through our relationship with Apollo, we have indirectly invested in companies that meet the key characteristics we look for in net alternative investments. Two of our largest alternative investments are in asset originators, MidCap and AmeriHome, both of which, from time to time, provide us with access to assets for our investment portfolio.

MidCap

Our equity investment in MidCap is held indirectly through CoInvest VII, of which MidCap constitutes substantially all of the fund’s investments. MidCap is a commercial finance company that provides various financial products to middle-market businesses in multiple industries, primarily located in the U.S. MidCap primarily originates and invests in commercial and industrial loans, including senior secured corporate loans, working capital loans collateralized mainly by accounts receivable and inventory, senior secured loans collateralized by portfolios of commercial and consumer loans and related products and secured loans to highly capitalized pharmaceutical and medical device companies, and commercial real estate loans, including multifamily independent-living properties, assisted living, skilled nursing and medical office properties, warehouse, office building, hotel and other commercial use properties and multifamily properties. MidCap originates and acquires loans using borrowings under financing arrangements that it has in place with numerous financial institutions. MidCap’s earnings are primarily driven by the difference between the interest earned on its loan portfolio and the interest accrued under its outstanding borrowings. As a result, MidCap is primarily exposed to the credit risk of its loan counterparties and prepayment risk. Additionally, financial results are influenced by related levels of middle-market business investment and interest rates.

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Our alternative investment in MidCap had a carrying value of \$594 million and \$547 million as of June 30, 2020 and December 31, 2019, respectively. As of June 30, 2020 and December 31, 2019, this alternative investment is comprised of our investment in CoInvest VII, which is substantially comprised of its investment in MidCap, of \$517 million and \$547 million, respectively, and redeemable preferred stock of \$77 million and \$0 million, respectively. Our investment in CoInvest VII largely reflects any contributions to and distributions from CoInvest VII and the fair value of MidCap. CoInvest VII returned a net investment earned rate of 6.95% and 15.55% for the three months ended June 30, 2020 and 2019, respectively, and (4.68)% and 12.53% for the six months ended June 30, 2020 and 2019, respectively. Alternative investment income (loss) from CoInvest VII was \$10 million and \$21 million for the three months ended June 30, 2020 and 2019, respectively, and \$(11) million and \$35 million for the six months ended June 30, 2020 and 2019, respectively. The decrease in alternative investment income for the three months ended June 30, 2020 compared to 2019 was mainly due to lower origination volumes due to the current interest rate environment. The decrease in alternative investment income for the six months ended June 30, 2020 compared to 2019 was mainly due to a decrease in valuation in the first quarter reflecting an increase in loan loss assumptions and lower origination volumes due to the current interest rate environment. The redeemable preferred stock returned a net investment earned rate of 112.01% and 0.00% for the three months ended June 30, 2020 and 2019, respectively, and 84.05% and 0.00% for the six months ended June 30, 2020 and 2019, respectively. Alternative investment income from the redeemable preferred stock was \$11 million for both the three and six months ended June 30, 2020 and \$0 million for both the three and six months ended June 30, 2019. The increase in alternative investment income from the redeemable preferred stock was primarily driven by favorable profit interests.

AmeriHome

Our equity investment in AmeriHome is held indirectly through A-A Mortgage, of which AmeriHome is currently the fund's only investment. AmeriHome is a mortgage origination platform and an aggregator of mortgage servicing rights. AmeriHome acquires mortgage loans from retail originators and re-sells the loans to the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association and other investors. AmeriHome retains the mortgage servicing rights on the loans that it sells and employs a subservicer to perform servicing operations, including payment collection. AmeriHome's earnings are primarily driven by two sources: gains or losses on the sale of mortgage loans and the difference between the fee that it charges for mortgage servicing and the fee charged by the subservicer. As a result, AmeriHome's financial results are influenced by interest rates and related housing demand. AmeriHome is primarily exposed to credit risk related to the accuracy of the representations and warranties in the loans that AmeriHome acquires and prepayment risk, which prematurely terminates fees related to mortgage servicing.

Our alternative investment in A-A Mortgage had a carrying value of \$730 million and \$595 million as of June 30, 2020 and December 31, 2019, respectively. Our investment in A-A Mortgage represents our proportionate share of its net asset value, which largely reflects any contributions to and distributions from A-A Mortgage and the fair value of AmeriHome. A-A Mortgage returned a net investment earned rate of 63.57% and 13.71% for the three months ended June 30, 2020 and 2019, respectively, and 41.04% and 13.90% for the six months ended June 30, 2020 and 2019, respectively. Alternative investment income from A-A Mortgage was \$109 million and \$19 million for the three months ended June 30, 2020 and 2019, respectively, and \$135 million and \$39 million for the six months ended June 30, 2020 and 2019, respectively. The increase in alternative investment income for both the three and six months ended June 30, 2020 compared to 2019 was mainly due to an increase in valuation driven by strong earnings reflecting increased origination volumes and increased gains on sales to secondary markets.

Public Equities

We indirectly hold public equity positions through our equity investments in a few alternative investments. Although the net invested asset value of these securities is minor, such securities have resulted in volatility in our statements of income (loss) in recent periods. As of June 30, 2020 and December 31, 2019, we indirectly held public equity positions of \$43 million and \$119 million, respectively. As of June 30, 2020 and December 31, 2019, we held approximately 2.8 million shares of OneMain with a market value of \$43 million and \$119 million, respectively. The decrease in market value is driven by the decline in share price, partially offset by dividend received in 2020.

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Non-GAAP Measure Reconciliations

The reconciliations to the nearest GAAP measure for adjusted operating income (loss) available to common shareholders is included in the *Consolidated Results of Operations* section.

The reconciliation of total AHL shareholders’ equity to total adjusted AHL common shareholders’ equity, which is included in adjusted book value per common share, adjusted debt to capital ratio and adjusted operating ROE, is as follows:

<i>(In millions)</i>	June 30, 2020	December 31, 2019
Total AHL shareholders’ equity	\$ 14,711	\$ 13,391
Less: Preferred stock	1,755	1,172
Total AHL common shareholders’ equity	12,956	12,219
Less: AOCI	2,184	2,281
Less: Accumulated change in fair value of reinsurance assets	615	493
Total adjusted AHL common shareholders’ equity	<u>\$ 10,157</u>	<u>\$ 9,445</u>
Segment adjusted AHL common shareholders’ equity		
Retirement Services	\$ 6,957	\$ 7,443
Corporate and Other	3,200	2,002
Total adjusted AHL common shareholders’ equity	<u>\$ 10,157</u>	<u>\$ 9,445</u>

The reconciliation of average AHL shareholders’ equity to average adjusted AHL common shareholders’ equity, which is included in adjusted operating ROE is as follows:

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Average AHL shareholders’ equity	\$ 12,326	\$ 11,241	\$ 14,051	\$ 10,321
Less: Average preferred stock	1,464	420	1,464	420
Less: Average AOCI	505	1,233	2,233	644
Less: Average accumulated change in fair value of reinsurance assets	230	474	554	282
Average adjusted AHL common shareholders’ equity	<u>\$ 10,127</u>	<u>\$ 9,114</u>	<u>\$ 9,800</u>	<u>\$ 8,975</u>
Segment average adjusted AHL common shareholders’ equity				
Retirement Services	\$ 7,480	\$ 7,952	\$ 7,199	\$ 7,755
Corporate and Other	2,647	1,162	2,601	1,220
Average adjusted AHL common shareholders’ equity	<u>\$ 10,127</u>	<u>\$ 9,114</u>	<u>\$ 9,800</u>	<u>\$ 8,975</u>

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The reconciliation of net investment income to net investment earnings and earned rate is as follows:

	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
	Dollar	Rate	Dollar	Rate	Dollar	Rate	Dollar	Rate
<i>(In millions, except percentages)</i>								
GAAP net investment income	\$ 1,336	4.22 %	\$ 1,182	4.10 %	\$ 2,081	3.39 %	\$ 2,264	3.98 %
Change in fair value of reinsurance assets	218	0.69 %	161	0.56 %	488	0.79 %	293	0.52 %
Alternative income gain (loss)	56	0.18 %	12	0.04 %	(45)	(0.08)%	7	0.01 %
ACRA noncontrolling interest	(81)	(0.26)%	—	— %	(153)	(0.25)%	—	— %
Apollo investment (income) loss	(481)	(1.52)%	—	— %	(184)	(0.30)%	—	— %
Held for trading amortization and other	(8)	(0.02)%	(10)	(0.03)%	4	0.01 %	(16)	(0.03)%
Total adjustments to arrive at net investment earnings/earned rate	(296)	(0.93)%	163	0.57 %	110	0.17 %	284	0.50 %
Total net investment earnings/earned rate	\$ 1,040	3.29 %	\$ 1,345	4.67 %	\$ 2,191	3.56 %	\$ 2,548	4.48 %
Retirement Services	\$ 1,075	3.44 %	\$ 1,321	4.63 %	\$ 2,259	3.73 %	\$ 2,492	4.42 %
Corporate and Other	(35)	(8.91)%	24	8.39 %	(68)	(7.94)%	56	10.05 %
Total net investment earnings/earned rate	\$ 1,040	3.29 %	\$ 1,345	4.67 %	\$ 2,191	3.56 %	\$ 2,548	4.48 %
Retirement Services average net invested assets	\$ 124,943		\$ 114,059		\$ 121,213		\$ 112,711	
Corporate and Other average net invested assets ex. Apollo investment	1,567		1,162		1,712		1,113	
Consolidated average net invested assets ex. Apollo investment	\$ 126,510		\$ 115,221		\$ 122,925		\$ 113,824	

The reconciliation of interest sensitive contract benefits to Retirement Services' cost of crediting, and the respective rates, is as follows:

	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
	Dollar	Rate	Dollar	Rate	Dollar	Rate	Dollar	Rate
<i>(In millions, except percentages)</i>								
GAAP interest sensitive contract benefits	\$ 2,076	6.65 %	\$ 1,094	3.84 %	\$ 757	1.25 %	\$ 2,610	4.63 %
Interest credited other than deferred annuities and institutional products	75	0.24 %	50	0.18 %	138	0.22 %	105	0.19 %
FIA option costs	271	0.86 %	280	0.98 %	537	0.88 %	558	0.99 %
Product charges (strategy fees)	(34)	(0.11)%	(29)	(0.10)%	(66)	(0.11)%	(57)	(0.10)%
Reinsurance embedded derivative impacts	15	0.05 %	14	0.05 %	29	0.05 %	29	0.05 %
Change in fair value of embedded derivatives – FIAs	(1,734)	(5.55)%	(868)	(3.05)%	(230)	(0.38)%	(2,179)	(3.86)%
Negative VOBA amortization	5	0.02 %	7	0.02 %	12	0.02 %	19	0.03 %
ACRA noncontrolling interest	(113)	(0.37)%	—	— %	(75)	(0.12)%	—	— %
Other changes in interest sensitive contract liabilities	(1)	0.00 %	(1)	0.00 %	(2)	— %	(3)	(0.01)%
Total adjustments to arrive at cost of crediting	(1,516)	(4.86)%	(547)	(1.92)%	343	0.56 %	(1,528)	(2.71)%
Retirement Services cost of crediting	\$ 560	1.79 %	\$ 547	1.92 %	\$ 1,100	1.81 %	\$ 1,082	1.92 %
Retirement Services cost of crediting on deferred annuities	\$ 451	1.94 %	\$ 448	1.98 %	\$ 873	1.92 %	\$ 892	1.98 %
Retirement Services cost of crediting on institutional products	109	2.87 %	99	3.76 %	227	3.08 %	190	3.73 %
Retirement Services cost of crediting	\$ 560	1.79 %	\$ 547	1.92 %	\$ 1,100	1.81 %	\$ 1,082	1.92 %
Retirement Services average net invested assets	\$ 124,943		\$ 114,059		\$ 121,213		\$ 112,711	
Average account value on deferred annuities	92,814		90,675		90,654		90,261	
Average net institutional reserve liabilities	15,233		10,470		14,742		10,140	

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The reconciliation of GAAP benefits and expenses to other liability costs is as follows:

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
GAAP benefits and expenses	\$ 3,317	\$ 2,673	\$ 3,150	\$ 6,928
Premiums	(355)	(787)	(1,495)	(2,787)
Product charges	(141)	(132)	(281)	(257)
Other revenues	(18)	(9)	(16)	(21)
Cost of crediting	(275)	(253)	(534)	(495)
Change in fair value of embedded derivatives – FIA, net of offsets	(1,445)	(817)	11	(2,077)
DAC, DSI and VOBA amortization related to investment gains and losses	(323)	(181)	102	(354)
Rider reserves related to investment gains and losses	(46)	(24)	30	(52)
Policy and other operating expenses, excluding policy acquisition expenses	(145)	(117)	(262)	(220)
AmerUs closed block fair value liability	(100)	(59)	(55)	(112)
ACRA noncontrolling interest	(241)	—	(76)	—
Other	(13)	1	(17)	2
Total adjustments to arrive at other liability costs	(3,102)	(2,378)	(2,593)	(6,373)
Other liability costs	\$ 215	\$ 295	\$ 557	\$ 555
Retirement Services	\$ 215	\$ 295	\$ 557	\$ 555
Corporate and Other	—	—	—	—
Consolidated other liability costs	\$ 215	\$ 295	\$ 557	\$ 555

The reconciliation of policy and other operating expenses to operating expenses is as follows:

<i>(In millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
GAAP policy and other operating expenses	\$ 218	\$ 185	\$ 406	\$ 350
Interest expense	(29)	(15)	(49)	(32)
Policy acquisition expenses, net of deferrals	(73)	(69)	(144)	(131)
Integration, restructuring and other non-operating expenses	(9)	(11)	(13)	(12)
Stock compensation expenses	—	(3)	(10)	(6)
ACRA noncontrolling interest	(19)	—	(23)	—
Total adjustments to arrive at operating expenses	(130)	(98)	(239)	(181)
Operating expenses	\$ 88	\$ 87	\$ 167	\$ 169
Retirement Services	\$ 71	\$ 68	\$ 139	\$ 130
Corporate and Other	17	19	28	39
Consolidated operating expenses	\$ 88	\$ 87	\$ 167	\$ 169

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The reconciliation of total investments, including related parties, to net invested assets is as follows:

<i>(In millions)</i>	June 30, 2020	December 31, 2019
Total investments, including related parties	\$ 163,039	\$ 130,550
Derivative assets	(2,379)	(2,888)
Cash and cash equivalents (including restricted cash)	7,521	4,639
Accrued investment income	836	807
Payables for collateral on derivatives	(2,117)	(2,743)
Reinsurance funds withheld and modified coinsurance	(203)	(1,440)
VIE and VOE assets, liabilities and noncontrolling interest	(18)	25
Unrealized (gains) losses	(3,782)	(4,095)
Ceded policy loans	(225)	(235)
Net investment receivables (payables)	(1,281)	(57)
Allowance for credit losses	574	—
Total adjustments to arrive at gross invested assets	(1,074)	(5,987)
Gross invested assets	161,965	124,563
ACRA noncontrolling interest	(24,696)	(7,077)
Net invested assets	\$ 137,269	\$ 117,486

The reconciliation of total investment funds, including related parties, to net alternative investments within net invested assets is as follows:

<i>(In millions)</i>	June 30, 2020	December 31, 2019
Investment funds, including related parties	\$ 5,960	\$ 4,300
Nonredeemable preferred stock included in equity securities	—	78
CLO and ABS equities included in trading securities	504	405
Investment in Apollo	(1,313)	—
Investment funds within funds withheld at interest	916	807
Royalties and other assets included in other investments	85	67
Unrealized (gains) losses and other adjustments	8	8
ACRA noncontrolling interest	(78)	(79)
Total adjustments to arrive at alternative investments	122	1,286
Net alternative investments	\$ 6,082	\$ 5,586

The reconciliation of total liabilities to net reserve liabilities is as follows:

<i>(In millions)</i>	June 30, 2020	December 31, 2019
Total liabilities	\$ 167,602	\$ 132,734
Short-term debt	—	(475)
Long-term debt	(1,486)	(992)
Derivative liabilities	(118)	(97)
Payables for collateral on derivatives and securities to repurchase	(3,118)	(3,255)
Funds withheld liability	(427)	(408)
Other liabilities	(1,486)	(1,181)
Reinsurance ceded receivables	(5,310)	(4,863)
Policy loans ceded	(225)	(235)
ACRA noncontrolling interest	(24,094)	(6,574)
Other	(5)	(2)
Total adjustments to arrive at net reserve liabilities	(36,269)	(18,082)
Net reserve liabilities	\$ 131,333	\$ 114,652

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Liquidity and Capital Resources

There are two forms of liquidity relevant to our business, funding liquidity and balance sheet liquidity. Funding liquidity relates to the ability to fund operations. Balance sheet liquidity relates to our ability to liquidate or rebalance our balance sheet without incurring significant costs from fees, bid-offer spreads, or market impact. We manage our liquidity position by matching projected cash demands with adequate sources of cash and other liquid assets. Our principal sources of liquidity, in the ordinary course of business, are operating cash flows and holdings of cash, cash equivalents and other readily marketable assets.

Our investment portfolio is structured to ensure a strong liquidity position over time in order to permit timely payment of policy and contract benefits without requiring asset sales at inopportune times or at depressed prices. In general, liquid assets include cash and cash equivalents, highly rated corporate bonds, unaffiliated preferred stock and unaffiliated public common stock, all of which generally have liquid markets with a large number of buyers. The carrying value of these assets, excluding modified coinsurance and funds withheld portfolios, as of June 30, 2020 was \$62.9 billion. Assets included in modified coinsurance and funds withheld portfolios are available to fund the benefits for the associated obligations but are restricted from other uses. The carrying value of the underlying assets in these modified coinsurance and funds withheld portfolios that are liquid as of June 30, 2020 was \$38.0 billion. Although our investment portfolio does contain assets that are generally considered illiquid for liquidity monitoring purposes (primarily mortgage loans, policy loans, real estate, investment funds, and affiliated common stock), there is some ability to raise cash from these assets if needed. In periods of economic downturn, such as the one brought about by the spread of COVID-19, we may maintain higher cash balances than required to manage our liquidity risk and to take advantage of market dislocations as they arise. We have access to additional liquidity through our \$1.25 billion credit agreement, which was undrawn as of June 30, 2020 and had a remaining term of more than four years, subject to up to two one-year extensions. Our registration statement on Form S-3 ASR (Shelf Registration Statement) provides us access to the capital markets, subject to market conditions and other factors. We are also party to agreements with several different financial institutions, pursuant to which we may engage in secured repurchase transactions to obtain short-term liquidity, to the extent available. In addition, through our membership in the FHLB, we are eligible to borrow under variable rate short-term federal funds arrangements to provide additional liquidity.

We proactively manage our liquidity position to meet cash needs while minimizing adverse impacts on investment returns. We analyze our cash-flow liquidity over the upcoming 12 months by modeling potential demands on liquidity under a variety of scenarios, taking into account the provisions of our policies and contracts in force, our cash flow position, and the volume of cash and readily marketable securities in our portfolio. We also monitor our liquidity profile under more severe scenarios.

We perform a number of stress tests and analyses to assess our ability to meet our cash flow requirements, as well as the ability of our reinsurance and insurance subsidiaries to meet their collateral obligations. Among these analyses, we manage to the following ALM limits:

- our projected net cumulative cash flows, including both new business and target levels of new investments under a “plan scenario” and a “moderately severe scenario” event, are non-negative over a rolling 12-month horizon;
- we hold enough cash, cash equivalents and other discounted liquid limit assets to cover 12 months of AHL’s and Athene USA’s projected obligations, including debt servicing costs:
 - minimum of 50% of expenses and 100% of debt servicing to be held in cash and cash equivalents at AHL operating accounts
 - minimum of 50% of any required AHL – Athene USA inter-company loan commitments to be held in cash and cash equivalents by AHL
 - dividends from ALRe sufficient to support the ongoing operations of AHL must be available under moderate and substantial stress scenarios
 - for purposes of administering this test, liquid limit assets are discounted by 25% and include public corporate bonds rated A- or above, liquid ABS (defined as prime auto, auto floorplan, Tier 1 subprime auto, auto lease, prime credit cards, equipment lease or utility stranded assets); RMBS with weighted average lives less than three years rated A- or above and CMBS with weighted average lives less than three years rated AAA- or above
- we seek to maintain sufficient capital and surplus at ALRe to meet the following collateral and capital maintenance calls under a substantial stress event, such as the failure of a major financial institution (Lehman event):
 - collateral calls from modco and third-party reinsurance contracts
 - AAre capital maintenance calls arising from AAre collateral calls from modco reinsurance contracts; and
 - U.S. regulated entity capital maintenance calls from nonmodco activity.

Insurance Subsidiaries' Liquidity

Operations

The primary cash flow sources for our insurance subsidiaries include retirement services product inflows (premiums), investment income, principal repayments on our investments, net transfers from separate accounts and financial product deposits. Uses of cash include investment purchases, payments to policyholders for surrenders, withdrawals and payout benefits, interest and principal payments on funding agreements, PRT obligations, policy acquisition costs and general operating costs.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our policyholder obligations are generally long-term in nature. However, one liquidity risk is an extraordinary level of early policyholder withdrawals. We include provisions within our annuity policies, such as surrender charges and MVAs, which are intended to protect us from early withdrawals. As of June 30, 2020 and December 31, 2019, approximately 75% and 78%, respectively, of our deferred annuity liabilities were subject to penalty upon surrender. In addition, as of June 30, 2020 and December 31, 2019, approximately 58% and 64%, respectively, of policies contained MVAs that may also have the effect of limiting early withdrawals if interest rates increase, but may encourage early withdrawals by effectively subsidizing a portion of surrender charges when interest rates decrease. Our funding agreements, group annuities and payout annuities are generally non-surrenderable.

Membership in Federal Home Loan Bank

Through our membership in the FHLB, we are eligible to borrow under variable rate short-term federal funds arrangements to provide additional liquidity. The borrowings must be secured by eligible collateral such as mortgage loans, eligible CMBS or RMBS, government or agency securities and guaranteed loans. As of June 30, 2020 and December 31, 2019, we had \$0 million and \$475 million, respectively, of outstanding borrowings under these arrangements.

We have issued funding agreements to the FHLB in exchange for cash advances. These funding agreements were issued in an investment spread strategy, consistent with other investment spread operations. As of June 30, 2020 and December 31, 2019, we had funding agreements outstanding with the FHLB in the aggregate principal amount of \$2.1 billion and \$1.2 billion, respectively.

The maximum FHLB indebtedness by a member is determined by the amount of collateral pledged, and cannot exceed a specified percentage of the member's total statutory assets dependent on the internal credit rating assigned to the member by the FHLB. As of June 30, 2020, the total maximum borrowings under the FHLB facilities were limited to \$28.9 billion. However, our ability to borrow under the facilities is constrained by the availability of assets that qualify as eligible collateral under the facilities and certain other limitations. Considering these limitations, we estimate that as of June 30, 2020 we had the ability to draw up to a total of approximately \$3.4 billion, inclusive of borrowings then outstanding. This estimate is based on our internal analysis and assumptions, and may not accurately measure collateral which is ultimately acceptable to the FHLB. Drawing such amounts would have an adverse impact on AAE's and/or AAI's RBC ratio, which may further restrict our ability or willingness to draw up to our estimated capacity.

Securities Repurchase Agreements

We engage in repurchase transactions whereby we sell fixed income securities to third parties, primarily major brokerage firms or commercial banks, with a concurrent agreement to repurchase such securities at a determined future date. We require that, at all times during the term of the repurchase agreements, we maintain sufficient cash or other liquid assets sufficient to allow us to fund substantially all of the repurchase price. Proceeds received from the sale of securities pursuant to these arrangements are generally invested in short-term investments, with the offsetting obligation to repurchase the security included within payables for collateral on derivatives and securities to repurchase on the condensed consolidated balance sheets. As per the terms of the repurchase agreements, we monitor the market value of the securities sold and may be required to deliver additional collateral (which may be in the form of cash or additional securities) to the extent that the value of the securities sold decreases prior to the repurchase date.

As of June 30, 2020, the fair value of securities and collateral held by counterparties and payables for repurchase agreements was \$1.8 billion and \$1.6 billion, respectively.

On May 1, 2020, we signed a \$1.0 billion committed repurchase facility with BNP Paribas. The facility has an initial commitment period of 12 months and automatically renews for successive 12-month periods until terminated by either party. During the commitment period, we may sell and BNP Paribas is required to purchase eligible investment grade corporate bonds pursuant to repurchase transactions at pre-agreed discounts in exchange for a 41 basis points per annum commitment fee. As of June 30, 2020, we had no outstanding payables.

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Cash Flows

Our cash flows were as follows:

<i>(In millions)</i>	Six months ended June 30,	
	2020	2019
Net income (loss)	\$ (285)	\$ 1,428
Non-cash revenues and expenses	1,687	155
Net cash provided by operating activities	1,402	1,583
Sales, maturities and repayments of investments	9,377	7,776
Purchases of investments	(14,386)	(12,425)
Other investing activities	273	631
Net cash used in investing activities	(4,736)	(4,018)
Issuance of common stock	350	—
Net proceeds and repayments of debt	424	—
Deposits on investment-type policies and contracts	8,398	5,972
Withdrawals on investment-type policies and contracts	(3,871)	(3,275)
Net capital contributions and distributions to/from noncontrolling interests	194	—
Net change in cash collateral posted for derivative transactions and securities to repurchase	461	1,214
Issuance of preferred stock, net of expenses	583	839
Preferred stock dividends	(37)	—
Repurchase of common stock	(328)	(427)
Other financing activities	60	(54)
Net cash provided by financing activities	6,234	4,269
Effect of exchange rate changes on cash and cash equivalents	(21)	—
Net increase in cash and cash equivalents ¹	\$ 2,879	\$ 1,834

¹ Includes cash and cash equivalents and restricted cash.

Cash flows from operating activities

The primary cash inflows from operating activities include net investment income, annuity considerations and insurance premiums. The primary cash outflows from operating activities are comprised of benefit payments and operating expenses. Our operating activities generated cash flows totaling \$1.4 billion and \$1.6 billion for the six months ended June 30, 2020 and 2019, respectively. The decrease in cash provided by operating activities was primarily driven by lower cash received from PRT transactions as well as a decrease in net investment income.

Cash flows from investing activities

The primary cash inflows from investing activities are the sales, maturities and repayments of investments. The primary cash outflows from investing activities are the purchases and acquisitions of new investments. Our investing activities used cash flows totaling \$4.7 billion and \$4.0 billion for the six months ended June 30, 2020 and 2019, respectively. The increase in cash used in investing activities was primarily attributed to an increase in purchases of investments attributed to deploying the deposits received, redeployment of the investment portfolio associated with the Jackson reinsurance transaction, as well as managing our liquidity risk to capitalize on growth opportunities as they may arise.

Cash flows from financing activities

The primary cash inflows from financing activities are deposits on our investment-type policies, changes of cash collateral posted for derivative transactions, capital contributions and proceeds from borrowing activities. The primary cash outflows from financing activities are withdrawals on our investment-type policies, changes of cash collateral posted for derivative transactions, repayments of outstanding borrowings, repurchases of common stock and payment of preferred stock dividends. Our financing activities provided cash flows totaling \$6.2 billion and \$4.3 billion for the six months ended June 30, 2020 and 2019, respectively. The increase in cash provided by financing activities was primarily attributed to higher investment-type deposits from retail, flow reinsurance and funding agreement deposits as well as proceeds of \$499 million of long-term debt, the issuance of stock in connection with the strategic transaction with Apollo and net capital contributions from noncontrolling interests, partially offset by the change in cash collateral posted for derivative transactions driven by unfavorable equity market performance in 2020, the repayment of short-term debt, lower preferred stock issuances than prior year and the payment of preferred stock dividends.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Holding Company Liquidity

Dividends from Subsidiaries

AHL is a holding company whose primary liquidity needs include the cash-flow requirements relating to its corporate activities, including its day-to-day operations, debt servicing, preferred stock dividend payments and strategic transactions, such as acquisitions. The primary source of AHL's cash flow is dividends from its subsidiaries, which are expected to be adequate to fund cash flow requirements based on current estimates of future obligations.

The ability of AHL's insurance subsidiaries to pay dividends is limited by applicable laws and regulations of the jurisdictions where the subsidiaries are domiciled, as well as agreements entered into with regulators. These laws and regulations require, among other things, the insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay.

Subject to these limitations and prior notification to the appropriate regulatory agency, the U.S. insurance subsidiaries are permitted to pay ordinary dividends based on calculations specified under insurance laws of the relevant state of domicile. Any distributions above the amount permitted by statute in any twelve month period are considered to be extraordinary dividends, and require the approval of the appropriate regulator prior to payment. AHL does not currently plan on having the U.S. subsidiaries pay any dividends to ALRe.

Dividends from ALRe are projected to be the primary source of AHL's liquidity. 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 and its principal representative in Bermuda sign and submit to the Bermuda Monetary Authority (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 relevant margins, ALRe is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of its total statutory capital. Distributions in excess of this amount require the approval of the BMA.

The maximum distribution permitted by law or contract is not necessarily indicative of our actual ability to pay such distributions, which may be further restricted by business and other considerations, such as the impact of such distributions on surplus, which could affect our ratings or competitive position and the amount of premiums that can be written. Specifically, the level of capital needed to maintain desired financial strength ratings from rating agencies, including S&P, A.M. Best and Fitch, is of particular concern when determining the amount of capital available for distributions. AHL believes its insurance subsidiaries have sufficient statutory capital and surplus, combined with additional capital available to be provided by AHL, to meet their financial strength ratings objectives. Finally, state insurance laws and regulations require that the statutory surplus of our insurance subsidiaries following any dividend or distribution must be reasonable in relation to their outstanding liabilities and adequate for the insurance subsidiaries' financial needs.

Other Sources of Funding

If needed, we may seek to secure additional funding at the holding company level by means other than dividends from subsidiaries, such as by drawing on our undrawn \$1.25 billion credit agreement or by pursuing future issuances of debt or equity securities to third-party investors. Certain other sources of liquidity potentially available at the holding company level are discussed below.

Shelf Registration – Under our Shelf Registration Statement, subject to market conditions, we have the ability to issue, in indeterminate amounts, debt securities, preference shares, depositary shares, Class A common shares, warrants and units.

Debt – On January 12, 2018, we issued \$1.0 billion in aggregate principal amount of 4.125% Senior Notes due January 2028 (2028 Notes). On April 3, 2020, we issued \$500 million in aggregate principal amount of 6.150% senior unsecured notes due 2030 (2030 Notes).

Preferred Stock – On June 10, 2019, we issued 34,500 6.35% Fixed-to-Floating Rate Perpetual Non-Cumulative Preference Shares, Series A, par value of \$1.00 per share with a liquidation preference of \$25,000 per share, for aggregate proceeds of \$839 million, net of the underwriters' discount and estimated expenses.

On September 19, 2019, we issued 13,800 5.625% Fixed Rate Perpetual Non-Cumulative Preference shares, Series B, par value of \$1.00 per share with a liquidation preference of \$25,000 per share, for aggregate proceeds of \$333 million, net of the underwriters' discount and estimated expenses.

On June 11, 2020, we issued 24,000 6.375% Fixed Rate Reset Perpetual Non-Cumulative Preference shares, Series C, par value of \$1.00 per share with a liquidation preference of \$25,000 per share, for aggregate proceeds of \$583 million, net of underwriters' discount and estimated expenses. See *Note 10 – Equity* to the condensed consolidated financial statements for further information.

Intercompany Note – AHL has an unsecured revolving note payable with ALRe, which permits AHL to borrow up to \$1 billion with a fixed interest rate of 1.25% and a maturity date of March 31, 2024. As of June 30, 2020 and December 31, 2019, the revolving note payable had an outstanding balance of \$153 million and \$38 million, respectively.

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In light of the spread of COVID-19 and the resulting impact on economic conditions and the financial markets, additional funding of the type described above may not be available on terms favorable to us or at all. As a result of the economic consequences of the spread of COVID-19, we have observed an increase in our cost of debt. At the time of issuance, our 2028 Notes had a yield to maturity of 4.14% and a spread to benchmark treasury of T + 160 basis points. At the time of issuance, our 2030 Notes had a yield to maturity of 6.18% and a spread to benchmark treasury of T + 550 basis points. In addition, certain covenants in our credit agreement prohibit us from maintaining debt in excess of specified thresholds. Specifically, our credit agreement prohibits us from permitting the Consolidated Debt to Capitalization Ratio (as such term is defined in the credit agreement) to exceed 35% as of the end of any quarter.

Capital Resources

As of December 31, 2019 and 2018, our U.S. insurance companies' TAC, as defined by the NAIC, was \$2.4 billion and \$2.2 billion, respectively, and our U.S. RBC ratio was 429% and 421%, respectively. Each U.S. domestic insurance subsidiary's state of domicile imposes minimum RBC requirements that were developed by the NAIC. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of TAC to its authorized control level RBC (ACL). Our TAC was significantly in excess of all regulatory standards as of December 31, 2019 and 2018, respectively.

Bermuda capital for ALRe was \$11.0 billion and \$9.7 billion as of December 31, 2019 and 2018, respectively. ALRe adheres to BMA regulatory capital requirements to maintain statutory capital and surplus to meet the minimum margin of solvency and maintain minimum economic balance sheet (EBS) capital and surplus to meet the enhanced capital requirement. Under the EBS framework, ALRe's assets are recorded at market value and its insurance reserves are determined by reference to nine prescribed scenarios, with the scenario resulting in the highest reserve balance being ultimately required to be selected. ALRe's EBS capital and surplus was \$14.1 billion and \$12.0 billion, resulting in a BSCR ratio of 310% and 340% as of December 31, 2019 and 2018, respectively. An insurer must have a BSCR ratio of 100% or greater to be considered solvent by the BMA. As of December 31, 2019 and 2018, ALRe held the appropriate capital to adhere to these regulatory standards.

As of December 31, 2019 and 2018, our ALRe RBC was 443% and 405%, respectively. We believe that we have a strong capital position in light of our risks and that we are well positioned to meet policyholder and other obligations. We also believe that our strong capital position, as well as our excess capital position and access to uncalled capital commitments at ACRA, may provide us the opportunity to take advantage of market dislocations as they arise. We exclude our interests in the AOG units and other subsidiary holding companies from our capital base for purposes of calculating ALRe RBC, but do reflect such interests within our excess capital calculations, net of risk charges.

In evaluating the amount of capital needed to support our Retirement Services segment, we utilize internal economic capital models as well as capital models of our three rating agencies, S&P, A.M. Best and Fitch, to review capital levels. Generally, the RBC ratios we calculate for our U.S. and for our Bermuda subsidiaries (under U.S. methodologies for our U.S. insurance subsidiaries and our ALRe RBC ratio methodology for our Bermuda insurance subsidiaries) enable us to determine capital needed to support our Retirement Services segment consistent with levels determined by such rating agencies and our economic capital models.

Repurchase of Securities

Share Repurchase Program

In December 2018, our board of directors established a share repurchase program with an initial authorization for the repurchase of up to \$250 million of our Class A shares. In 2019, our board of directors approved four additional authorizations under our share repurchase program for the purchase of up to an additional \$1.3 billion of our Class A common shares, in the aggregate, for a total authorization of \$1.6 billion. Pursuant to our share repurchase program, we repurchased 10.4 million Class A common shares for \$319 million during the six months ended June 30, 2020. As of August 5, 2020, we have repurchased, in the aggregate, 32.8 million Class A common shares for \$1.2 billion since inception of our share repurchase program and have \$321 million of repurchase authorization remaining. In connection with our strategic initiative to increase available liquidity in response to the spread of COVID-19, during March 2020, management temporarily halted share repurchases under our program. Management has determined it is appropriate to recommence share repurchases under our program. The timing and amount of share repurchases, if any, will be determined by management in accordance with the authority delegated by our board of directors.

Repurchase of Other Securities

We may from time to time seek to retire or purchase our other outstanding debt or equity securities through cash purchases and/or exchanges for other securities, purchases in the open market, privately negotiated transactions or otherwise. Any such repurchases will be dependent upon several factors, including our liquidity requirements, contractual restrictions, general market conditions and applicable regulatory, legal and accounting factors. Whether or not we repurchase any of our other securities and the size and timing of any such repurchases will be determined at our discretion.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**Balance Sheet and Other Arrangements****Balance Sheet Arrangements***Contractual Obligations*

The following table summarizes estimated future payments on our contractual obligations as of June 30, 2020:

<i>(In millions)</i>	Payments Due by Period				
	Total	2020	2021-2022	2023-2024	2025 and thereafter
Interest sensitive contract liabilities	\$ 135,537	\$ 12,068	\$ 28,963	\$ 24,019	\$ 70,487
Future policy benefits	24,596	499	1,020	1,055	22,022
Other policy claims and benefits	124	124	—	—	—
Dividends payable to policyholders	112	5	10	9	88
Long-term debt ¹	2,138	36	144	144	1,814
Securities to repurchase ²	1,672	1,016	26	26	604
Total	\$ 164,179	\$ 13,748	\$ 30,163	\$ 25,253	\$ 95,015

¹ The obligations for long-term debt payments include contractual maturities of principal and estimated future interest payments based on the terms of the debt agreements, as described in Note 8 – Debt to the condensed consolidated financial statements.

² The obligations for securities to repurchase payments include contractual maturities of principal and estimated future interest payments based on the terms of the agreements.

We also have other obligations related to collateral on derivatives, investment fund commitments and funds withheld liabilities which have not been included in the above table as the timing and amount of each of the return on the collateral, the fulfillment of the commitments and the funds withheld liabilities are uncertain. See Note 12 – Commitments and Contingencies to the condensed consolidated financial statements for further discussion on the investment fund commitments.

Other

In the normal course of business, we invest in various investment funds which are considered VIEs, and we consolidate a VIE when we are considered the primary beneficiary of the entity. For further discussion of our involvement with VIEs, see Note 4 – Variable Interest Entities to the condensed consolidated financial statements.

Off Balance Sheet Arrangements

None.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Estimates and Judgments

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Amounts based on such estimates involve numerous assumptions subject to varying and potentially significant degrees of judgment and uncertainty, particularly related to the future performance of the underlying business, and will likely change in the future as additional information becomes available. Critical estimates and assumptions are evaluated on an ongoing basis based on historical developments, market conditions, industry trends and other information that is reasonable under the circumstances. There can be no assurance that actual results will conform to estimates and assumptions and that reported results of operations will not be materially affected by the need to make future accounting adjustments to reflect periodic changes in these estimates and assumptions, particularly as more information about the extent to which COVID-19 and the resulting impact on economic conditions and the financial markets become known. Critical accounting estimates are impacted significantly by our methods, judgments and assumptions used in the preparation of the consolidated financial statements and should be read in conjunction with our significant accounting policies described in *Note 1 – Business, Basis of Presentation and Significant Accounting Policies* to the consolidated financial statements of our 2019 Annual Report. The most critical accounting estimates and judgments include those used in determining:

- fair value of investments;
- credit loss allowances;
- future policy benefit reserves;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs, deferred sales inducements and value of business acquired;
- consolidation of VIEs; and
- valuation allowances on deferred tax assets.

Except as described below, the above critical accounting estimates and judgments are discussed in detail in *Part II—Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates and Judgments* of our 2019 Annual Report. Due to the adoption of CECL in the first quarter 2020 and the significance of the Jackson National reinsurance transaction in the second quarter 2020, the following updates and replaces the substantively similar information provided in the 2019 Annual Report.

See *Note 1 – Business, Basis of Presentation and Significant Accounting Policies* to the condensed consolidated financial statements for adoption of new and future accounting pronouncements.

Investments

Credit Loss Allowances

Establishing allowances for expected credit losses is a quantitative and qualitative process, which is subject to risks and uncertainties and involves significant estimates and judgments by management. Changes in the estimates and judgments used in such analysis can have a significant impact on our consolidated results of operations.

The allowance for expected credit losses on assets held at amortized cost and off-balance sheet credit exposures is established utilizing quantitative modeling. Key inputs into the model include data pertaining to the characteristics of the assets, historical losses and current market conditions. Additionally, the model incorporates management's expectations around future economic conditions and macroeconomic forecasts over a reasonable and supportable forecast period, after which the model reverts to historical averages. For residential mortgage loans, key loan characteristics impacting the estimate include among others: time to maturity, delinquency status, original credit scores and loan-to-value ratios. Key macroeconomic variables include unemployment rates and the housing price index. For commercial mortgage loans, key loan characteristics impacting the estimate include among others: time to maturity, delinquency status, loan-to-value ratios and debt service coverage ratios. Key macroeconomic variables include unemployment rates, rent growth, capitalization rates, and the housing price index. These inputs, the reasonable and supportable forecast period, and reversion to historical average technique are subject to a formal governance and review process by management. Additionally, management considers qualitative adjustments to the model output to the extent that any relevant information regarding the collectability of the asset is available and not already considered in the quantitative model. If we determine that a financial asset has become collateral dependent, which we determine to occur when foreclosure is probable, the allowance is measured as the difference between amortized cost and the fair value of the collateral, less any expected costs to sell.

We evaluate AFS securities with a fair value that has declined below amortized cost to determine how the decline in fair value should be recognized. If we determine, based on the facts and circumstances related to the specific security, that 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, any existing allowance for credit losses is reversed and the amortized cost of the security is written down to fair value. If neither of these conditions exist, we evaluate whether the decline in fair value has resulted from a credit loss or other factors.

For non-structured AFS securities, we qualitatively consider relevant facts and circumstances in evaluating whether a decline below fair value is credit-related. Relevant facts and circumstances include but are not limited to: (1) the extent to which the fair value is less than amortized cost; (2) changes in agency credit ratings, (3) adverse conditions related to the security's industry or geographical area, (4) failure to make scheduled payments, and (5) other known changes in the financial condition of the issuer or quality of any underlying collateral or credit enhancements.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

For structured AFS securities meeting the definition of beneficial interests, the qualitative assessment is bypassed, and any securities having experienced a decline in fair value below amortized cost is subject solely to a quantitative analysis.

If upon completion of this analysis it is determined that a potential credit loss exists, an allowance for expected credit losses is established equal to the amount by which the present value of expected cash flows is less than amortized cost, limited by the amount by which fair value is less than amortized cost. A 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. A 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 expected cash flows are discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete a structured security. For securities with a contractual interest rate that varies based on changes in an independent factor, such as an index or rate, the effective interest rate is calculated based on the factor as it changes over the life of the security. Inherently under the discounted cash flow model, both the timing and amount of cash flows affect the measurement of the allowance for expected credit losses.

Future Policy Benefits—Liabilities for Guaranteed Living Withdrawal Benefits and Guaranteed Minimum Death Benefits

As of June 30, 2020, the GLWB and GMDB liability balance, including the impacts of shadow adjustments, totaled \$4.5 billion. The increase (decrease) to the GLWB and GMDB liability balance, including the impacts of shadow adjustments from hypothetical changes in projected assessments, changes in the discount rate and annual equity growth is summarized as follows:

<i>(In millions)</i>	June 30, 2020	
+10% assessments	\$	(147)
-10% assessments		164
+100 bps discount rate		143
-100 bps discount rate		(167)
1% higher annual equity growth		(46)
1% lower annual equity growth		44

Derivatives—Valuation of Embedded Derivatives on FIAs

As of June 30, 2020, we had embedded derivative liabilities classified as Level 3 in the fair value hierarchy of \$11.1 billion. The increase (decrease) to the embedded derivatives on FIA products from hypothetical changes in discount rates is summarized as follows:

<i>(In millions)</i>	June 30, 2020	
+100 bps discount rate	\$	(921)
-100 bps discount rate		944

Deferred Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired—As of June 30, 2020, DAC, DSI and VOBA totaled \$5.5 billion. The increases (decreases) to DAC, DSI and VOBA from hypothetical changes in estimated future gross profits and the embedded derivative discount rate are summarized as follows:

<i>(In millions)</i>	June 30, 2020				
	DAC	DSI	VOBA	Total	
+10% estimated future gross profits	\$ 127	\$ 30	\$ 54	\$	211
-10% estimated future gross profits	(147)	(35)	(59)		(241)
+100 bps discount rate	(151)	(55)	(39)		(245)
-100 bps discount rate	161	58	37		256

Item 3. Quantitative and Qualitative Disclosures About Market Risks

We regularly analyze our exposure to market risks, which reflect potential losses in value due to credit and counterparty risk, interest rate risk, currency risk, commodity price risk and equity price risk. As a result of that analysis, we have determined that we are primarily exposed to credit risk, interest rate risk and equity price risk. A description of our market risk exposures, including strategies used to manage our exposure to market risk, may be found under *Part II—Item 7A. Quantitative and Qualitative Disclosures About Market Risk* of the 2019 Annual Report.

There have been no material changes to our market risk exposures from those previously disclosed in the 2019 Annual Report, except as described below. The following updates and replaces the information provided in the 2019 Annual Report:

Sensitivities

Interest Rate Risk

We assess interest rate exposures for financial assets and financial liabilities 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 June 30, 2020, we estimate a net decrease to our point-in-time pre-tax income from changes in the fair value of these financial instruments of \$491 million. The net change in fair value for these financial instruments would directly impact the current period gross profits and assessments used in the calculations of DAC, DSI, and VOBA amortization and changes to rider reserves, resulting in an offsetting increase to our pre-tax income of \$68 million. If there were a similar parallel increase in interest rates from levels as of December 31, 2019, we estimate a net decrease to our point-in-time pre-tax income from changes in the fair value of these financial instruments of \$179 million with an offsetting increase to pre-tax income of \$53 million from DAC, DSI, and VOBA amortization and changes in rider reserves. The increased sensitivity to point-in-time pre-tax income from changes in the fair value of financial instruments in the estimated outcome as of June 30, 2020, when compared to December 31, 2019, was driven by the June 2020 Jackson reinsurance transaction, which substantially increased our exposure to reinsurance unrealized gains and losses that are included in our pre-tax income. The financial instruments included in the sensitivity analysis are carried at fair value and changes in fair value are recognized in earnings. These financial instruments include derivative instruments, embedded derivatives and certain fixed maturity securities. The sensitivity analysis excludes those financial instruments carried at fair value for which changes in fair value are recognized in equity, such as AFS fixed maturity securities.

Assuming a 25 basis points increase in interest rates persists for a 12-month period, the estimated impact to adjusted operating income is expected to be relatively unchanged from the sensitivities shown in Part II-Item 7A. Quantitative and Qualitative Disclosures About Market Risk of the 2019 Annual Report, as there were minimal floating rate assets added as a part of the Jackson reinsurance transaction. 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.

Public Equity Risk

Assuming all other factors are constant, we estimate that a decline in public equity market prices of 10% would be relatively unchanged from the sensitivities shown in *Part II—Item 7A. Quantitative and Qualitative Disclosures About Market Risk* of the 2019 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have carried out an evaluation, as of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at attaining the level of reasonable assurance noted above.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the quarter ended June 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to litigation arising in the ordinary course of our business, including litigation principally relating to our FIA business. We cannot assure you that our insurance coverage will be adequate to cover all liabilities arising out of such claims. The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. There is significant judgment required in assessing both the probability of an adverse outcome and the determination as to whether an exposure can be reasonably estimated. In management's opinion, the ultimate disposition of any current legal proceeding or claim brought against us will not have a material effect on our financial condition, results of operations or cash flows. Litigation is, however, inherently uncertain and an adverse outcome from such litigation could have a material effect on the operating results of a particular reporting period.

From time to time, in the ordinary course of business and like others in the insurance and financial services industries, we receive requests for information from government agencies in connection with such agencies' regulatory or investigatory authority. Such requests can include financial or market conduct examinations, subpoenas or demand letters for documents to assist the government in audits or investigations. We and each of our U.S. insurance subsidiaries review such requests and notices and take appropriate action. We have been subject to certain requests for information and investigations in the past and could be subject to them in the future.

For a description of certain legal proceedings affecting us, see *Note 12 – Commitments and Contingencies – Litigation, Claims and Assessments* to the condensed consolidated financial statements.

Item 1A. Risk Factors

The following should be read in conjunction with, and supplement and amend, the factors that may affect our business or operations described in *Part I–Item 1A. Risk Factors* of our 2019 Annual Report. Other than as described in this Item 1A, there have been no material changes to our risk factors from the risk factors previously disclosed in our 2019 Annual Report.

Certain metrics discussed in this section are based on management view and therefore may not correspond to amounts disclosed in our condensed consolidated financial statements or the notes thereto. For example, investment figures cited represent our invested assets, which include assets held by cedants that correspond to liabilities ceded to us. We believe that these metrics provide the most comprehensive view of our risk exposures. See *Part I–Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations–Key Operating and Non-GAAP Measures–Net Invested Assets* for further discussion.

The following updates and supplements the risk factors described in our 2019 Annual Report:

Major public health issues, and specifically the pandemic caused by the spread of COVID-19, could have an adverse impact on our financial condition, results of operations, liquidity, cash flows and other aspects of our business.

We are closely monitoring developments related to the COVID-19 pandemic to assess its impact on our business. While still evolving, the COVID-19 pandemic has caused significant economic and financial turmoil both in the U.S. and around the world. At this time, it is not possible to estimate how long it will take to halt the spread of the virus or the longer term-effects that the COVID-19 pandemic could have on our business. The extent to which the COVID-19 pandemic impacts our business, results of operations, financial condition, liquidity or prospects will depend on future developments which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and the actions taken to contain or address its impact, and may cause us to revisit or revise estimates of future earnings or other guidance we have previously provided to the markets. In particular, certain projected financial information previously provided to our shareholders in connection with our recent share issuance transaction with Apollo may as a result of the impact from the COVID-19 pandemic materially differ from our actual results, and should not be relied upon.

While we have implemented risk management and contingency plans and taken preventive measures and other precautions, no predictions of specific scenarios can be made with respect to the COVID-19 pandemic and such measures may not adequately predict the impact on our business from such events. Currently, we are in the process of executing our employee repopulation plan. While we have taken measures to reduce the risk of transmission among employees, including implementing social distancing measures and face covering and contact tracing protocols, our efforts may prove ineffective. Should our efforts prove ineffective or should the virus continue to spread in the communities in which we operate, we may deem it appropriate to extend or re-implement remote work arrangements. An extended period of remote work arrangements could strain our business continuity plans, introduce operational risk, including but not limited to cybersecurity risks, and impair our ability to manage our business. We also outsource certain critical business activities to third parties. As a result, we rely upon the successful implementation and execution of the business continuity and repopulation planning of such entities in the current environment. While we closely monitor the business continuity activities of these third parties, successful implementation and execution of their business continuity and repopulation strategies are largely outside our control. If one or more of the third parties to whom we outsource certain critical business activities experience operational failures as a result of the impacts from the spread of COVID-19, or claim that they cannot perform due to a force majeure, it may have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flows.

With one exception, each of the Non-U.S. Companies (as defined below) currently intends to operate in a manner that will not cause it to be subject to current U.S. federal income taxation on its net income, and certain of them intend to be UK tax resident by reason of having their central management and control exercised in the UK. However, our directors and personnel reside in various jurisdictions and often must travel to carry out their duties in accordance with such intended tax positions. Travel restrictions imposed as a result of the COVID-19 pandemic have limited, and may continue to limit, such travel. While we have implemented contingency plans to mitigate the impact of such travel restrictions, no assurances can be provided that we will not become subject to greater tax liabilities than anticipated due to restrictions on the ability of our directors and personnel to carry out their activities from the intended jurisdictions.

Increased economic uncertainty and increased unemployment resulting from the economic impacts of the spread of COVID-19 may also result in policyholders seeking sources of liquidity and withdrawing at rates greater than we previously expected. If policyholder lapse and surrender rates significantly exceed our expectations, it could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flows. Measures undertaken to combat the spread of COVID-19, including social distancing practices and stay at home orders, as well as increased economic uncertainty, have resulted in a difficult sales environment for the origination of new policies. These factors have had a significant impact on the IMO channel, which benefits from a high degree of customer interaction. Should these conditions persist or worsen, we may see further declines in our retail sales and/or flow reinsurance volumes. In addition, such events or conditions could result in a decrease in economic activity in large geographic areas, adversely affecting our business within such geographic areas and/or adversely affecting the general economic climate.

The effects of the spread of COVID-19 on economic conditions and the financial markets may trigger or exacerbate the market risk discussed elsewhere in this report and in our 2019 Annual Report. Specifically, our investment portfolio (and, namely, the valuations of invested assets we hold) has been, and may continue to be, adversely affected. Moreover, changes in interest rates, reduced liquidity or a continued slowdown in the U.S. or in global economic conditions may also adversely affect the values of and cash flows generated by these assets. Within our investment portfolio, there is exposure to certain segments of the economy that have been disproportionately affected by the spread of COVID-19, including but not limited to, aviation, real estate (including CMLs, triple net lease investments, RMLs, CMBS, RMBS and related servicer investments), retail, hospitality, energy and financial services. These investments are subject to increased credit or valuation risk, which could ultimately result in increased investment losses. Our investments in mortgages and mortgage-backed securities have been and could further be negatively affected by delays or failures of borrowers to make payments of principal and interest when due and delays and moratoriums on foreclosures and enforcement actions with respect to delinquent or defaulted mortgages imposed by governmental authorities. Further, extreme market volatility may leave us unable to react to market events in a prudent manner consistent with our historical investment practices in dealing with more orderly markets. Market dislocations, decreases in observable market activity or unavailability of information, in each case, arising from the spread of COVID-19, may restrict our access to key inputs used to derive certain estimates and assumptions made in connection with financial reporting or otherwise, including estimates and changes in long term macro-economic assumptions relating to accounting for the allowance for credit losses. Restricted access to such inputs may make our financial statement balances and estimates and assumptions used to run our business subject to greater variability and subjectivity.

While governmental and non-governmental organizations are engaging in efforts to combat the spread and severity of the COVID-19 pandemic and related public health issues, these measures may not be effective. We also cannot predict how legal and regulatory responses to concerns about the COVID-19 pandemic and related public health issues will impact our business. Such events or conditions could result in additional regulation or restrictions affecting the conduct of our business in the future.

As a financial services company, we are exposed to liquidity risk, which is the risk that we are unable to meet near-term obligations as they come due.

Liquidity risk is a manifestation of events that are driven by other risk types (e.g. market, policyholder behavior, operational). A liquidity shortfall may arise in the event of insufficient funding sources or an immediate and significant need for cash or collateral. In addition, it is possible that expected liquidity sources, such as our credit agreement, may be unavailable or inadequate to satisfy the liquidity demands described below. In particular, the spread of COVID-19 has introduced tremendous volatility into the financial markets and may restrict the liquidity sources available to us and further may result in an increase of our liquidity demands.

We have four primary sources of liquidity exposure and associated drivers that trigger material liquidity demand. Those sources are:

- Collateral market exposure: Abrupt changes to interest rate, equity, and/or currency markets, such as that experienced during the six months ended June 30, 2020, have and may further increase collateral requirements to counterparties and may create liquidity risk. As of June 30, 2020, we had collateral with a value of \$3.8 billion pledged to third-parties.
- Asset liability mismatch: There are liquidity risks associated with liabilities coming due prior to the matching asset cash flows. Structural maturities mismatch can occur in activities such as securities lending, where the liabilities are effectively overnight open transactions or otherwise short-term in nature and may be used to fund longer-term assets. We also face potential liquidity risks from unexpected cash demands due to severe mortality, policyholder withdrawals or lapse events. If such events were to occur, we may face unexpectedly high levels of claim payments to policyholders.
- Funding availability: We have availed ourselves of the financial markets for funding (such as through the issuance of senior notes, securities lending and repurchase arrangements and other forms of borrowing in the capital markets). These sources might not be available during times of stress, or may only be available on unfavorable terms, which can result in a decrease in our profitability and a significant reduction in our financial flexibility.

- **Funding commitments:** We are contractually obligated to fund capital calls of or otherwise make investments in certain entities. These obligations may become due at any time upon counterparty request. Substantial economic stress, such as that brought about by COVID-19, may accelerate the timing and increase the frequency of capital calls. To the extent that a significant amount of such obligations becomes due at any given time, it may give rise to liquidity risk. As of June 30, 2020, we had commitments to make investments in the amount of \$5.1 billion, excluding commitments of third-party cedants to investees associated with assets backing obligations reinsured to us.

If a material liquidity demand is triggered and we are unable to satisfy the demand with the sources of liquidity readily available to us, it may have a material adverse impact on our business, financial condition, results of operations, liquidity and cash flows.

See *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources* for a discussion of our liquidity and sources and uses of liquidity, including information about legal and regulatory limits on the ability of our subsidiaries to pay dividends.

The following updates and replaces the final paragraph of the similarly named risk factor in our 2019 Annual Report:

Uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR after 2021 may adversely affect the value of our investment portfolio, our ability to achieve our hedging objectives and our ability to issue funding agreements bearing a floating rate of interest.

To manage the uncertainty surrounding the discontinuation of LIBOR, we have established a six-phase plan. Our plan is subject to change as we gain additional information. We have created an Executive Steering Committee composed of senior executives to coordinate and oversee execution of our plan. To the extent that management effort and attention is focused on other matters, such as responding to the risk posed by COVID-19, successfully completing all of the phases of our plan prior to the discontinuation of LIBOR could become more difficult. Although we expect that we will be successful at completing all the phases of our plan prior to the discontinuation of LIBOR, we can provide no assurance at this time. Failure to complete all phases of our plan prior to the discontinuation of LIBOR may have a material adverse effect on our business, financial position, results of operations and cash flows. See *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Industry Trends and Competition-Discontinuation of LIBOR* for further discussion.

Our most significant LIBOR exposure area as it relates to legacy contracts is our portfolio of floating rate investments tied to LIBOR. As of June 30, 2020, \$19.7 billion or 73% of the notional value of our contracts tied to LIBOR extending beyond 2021 were contracts relating to investments within our investment portfolio. As our asset manager, Apollo manages the relationship with relevant market participants, including investees and trustees; negotiates and maintains the relevant investment documentation; and inputs key information, such as interest rates, into systems integrated with our financial reporting system. We are therefore reliant upon Apollo to complete important functions in the LIBOR transition process as it relates to our investment portfolio, including negotiating for relevant fallbacks, where appropriate, and inputting the appropriate replacement interest rates into the applicable information systems in advance of LIBOR's transition. Should Apollo fail to timely complete all of its responsibilities prior to the discontinuation of LIBOR, it could have an adverse impact on our results of operations and ability to timely report accurate financial information.

The following updates and replaces, in their entirety, the similarly named risk factors in our 2019 Annual Report:

Our investment portfolio may be subject to concentration risk, particularly with respect to single issuers, including MidCap, AmeriHome, Athora and PK AirFinance; industries, including financial services; and asset classes, including real estate.

Concentration risk arises from exposure to significant asset defaults of a single issuer, industry or class of securities, based on economic conditions, geography or as a result of adverse regulatory or court decisions. When an investor's assets are concentrated and that particular asset or class of assets experiences significant defaults, the default of such assets could threaten the investor's financial condition, results of operations and cash flows. Our most significant potential exposures to concentration risk of single issuers are our investments in MidCap, a provider of revolving and term debt facilities to middle market companies in North America and Europe; A-A Mortgage and its indirect investment in AmeriHome, a mortgage lender and mortgage servicer; Athora, an insurance holding company focused on the European life insurance market; and PK AirFinance, a provider and arranger of loans principally to airlines and aircraft leasing companies secured by commercial aircraft.

As of June 30, 2020, our exposure, including loaned amounts, to MidCap was \$923 million, which represented 0.7% of our net invested assets and 6.3% of total Athene Holding Ltd. shareholders' equity. As of June 30, 2020, our exposure to A-A Mortgage was \$730 million, which represented 0.5% of our net invested assets and 5.0% of total Athene Holding Ltd. shareholders' equity. As of June 30, 2020, our exposure to Athora was \$501 million, which represented 0.4% of our net invested assets and 3.4% of total Athene Holding Ltd. shareholders' equity. As of June 30, 2020, our exposure to securitizations of loans originated by PK AirFinance, net of amounts attributable to noncontrolling interest, was \$1.2 billion, which represented 0.9% of our net invested assets and 8.2% of total Athene Holding Ltd. shareholders' equity.

Given our significant exposure to these issuers, we are subject to the idiosyncratic risk inherent in their business. For example:

- AmeriHome relies upon a servicer to perform servicing operations on the loans for which it has mortgage servicing rights. If the servicer were to experience financial distress or fail to provide adequate or timely services, AmeriHome may have difficulty finding another servicer to perform servicing operations and may experience a significant decline in its financial performance. Such risks may be heightened in the current economic environment. In addition, mortgage servicers are obligated to advance certain amounts not paid by borrowers, including amounts arising from the forbearance of certain payments as mandated by the CARES Act. AmeriHome may require significant liquidity in order to make these advances and adequate sources of liquidity could be unavailable to AmeriHome to satisfy these obligations.
- As a life insurer, Athora is subject to credit risk with respect to its investment portfolio and mortality risk with respect to its product liabilities, each of which may be exacerbated by unforeseen events, including but not limited to the spread of the COVID-19 pandemic. Further, Athora has significant European operations, which expose it to volatile economic conditions and risks relating to European member countries and withdrawals thereof, such as the UK. In addition, Athora is subject to multiple legal and regulatory regimes that may hinder or prevent it from achieving its business objectives.
- Our investment in the PK AirFinance securitization of loans is subject to risks to the aircraft and airline industries generally, and specifically in connection with the decrease in air travel as a result of the spread of COVID-19, which has resulted in delinquent loan payments and has likely resulted in a reduction in aircraft valuations. While our investment is supported by significant equity subordination provided by borrowers, if borrowers default on their loans, PK AirFinance may pursue foreclosure and re-market the related aircraft or may restructure the defaulted loans. To the extent that the proceeds from any such restructuring or re-marketing were not sufficient to satisfy the corresponding principal balance in the securitization, significant losses on our investment could be recognized, beginning with the equity tranche of the securitization that we hold.

To the extent that we suffer a significant loss on our investment in MidCap, A-A Mortgage, Athora or the securities issued by PK AirFinance, our financial condition, results of operations and cash flows could be adversely affected.

MidCap, AmeriHome and PK AirFinance are nonbank lenders focused on providing financing to individuals or entities. As a result, through these investments, we have significant exposure to credit risk, which has increased as a result of the economic conditions brought about by the spread of COVID-19. As a result of the current economic environment, certain of our investees in this sector have experienced a decrease in origination volumes and may experience increased credit and/or liquidity risk as borrowers defer loan payments or default on their obligations. To the extent that the current downturn causes a deterioration in the creditworthiness of the counterparties of such investees or adversely affects the securitization market for the loans originated by these entities, we may suffer significant losses on our investments in these entities and our financial condition, results of operations and cash flows could be adversely affected. In addition to the concentration risk arising from our investments in single issuers within the nonbank lending sector of the financial services industry, we have significant exposure to the financial services industry more broadly as a result of the composition of investments in our investment portfolio. As of June 30, 2020, 13% of our net invested assets were invested in issuers within the financial services industry, excluding CLOs. The current economic downturn or any further macroeconomic, regulatory or other changes having an adverse impact on the financial services industry more broadly, could have a material and adverse effect on our business, financial condition, results of operations and cash flows.

As of June 30, 2020, 24% of our net invested assets were invested in real estate-related assets. Any significant decline in the value of real estate generally or the occurrence of any of the risks described above with respect to our real estate-related investments could materially and adversely affect our financial condition and results of operations.

The BEAT may significantly increase our tax liability.

The Tax Act introduced a new tax called the BEAT. The BEAT operates as a minimum tax and is generally calculated as a percentage (10% in 2019 – 2025, and 12.5% in 2026 and thereafter) of the “modified taxable income” of an “applicable taxpayer.” Modified taxable income is calculated by adding back to a taxpayer’s regular taxable income the amount of certain “base erosion tax benefits” with respect to certain payments made to foreign affiliates of the taxpayer, as well as the “base erosion percentage” of any net operating loss deductions. The BEAT applies for a taxable year only to the extent it exceeds a taxpayer’s regular corporate income tax liability for such year (determined without regard to certain tax credits).

Certain of our reinsurance agreements require our U.S. subsidiaries (including any non-U.S. subsidiaries subject to U.S. federal income taxation) to pay or accrue substantial amounts to our non-U.S. reinsurance subsidiaries that would be characterized as “base erosion payments” with respect to which there are “base erosion tax benefits.” However, in certain types of reinsurance transactions, it is not clear whether any amounts paid or accrued by non-U.S. reinsurance entities would be netted against amounts paid or accrued to such entities for purposes of calculating the “base erosion payments” and “base erosion tax benefits.”

In light of the possibility of material additional tax cost to our U.S. subsidiaries and the lack of clear guidance regarding the appropriate method by which to compute the BEAT, we have undertaken certain actions intended to mitigate the potential effect of the BEAT on our results of operations. Such actions may have adverse consequences to our business, such as subjecting income in respect of our affiliate reinsurance to a layer of withholding tax of up to 30%, which would not have been payable under our prior structure. There can be no assurances that our efforts to mitigate the BEAT will be successful, and our consideration of any further actions may be expensive and time consuming. In addition, we have been, and may continue to be, required to take action before the uncertainty regarding the BEAT is resolved, and accordingly any action we take may, in hindsight, prove to have been unnecessary, ineffective or counterproductive.

The application of the BEAT to our reinsurance arrangements could be affected by further legislative action (including possibly a “technical corrections” bill), administrative guidance or court decisions, any of which could have retroactive effect. In addition, tax authorities may disagree with our BEAT calculations, or the interpretations on which those calculations are based, and assess additional taxes, interest and penalties, and the uncertainty regarding the correct interpretation of the BEAT may make such disagreements more likely. We will establish our tax provision in accordance with GAAP.

However, there can be no assurance that this provision will accurately reflect the amount of federal income tax that we ultimately pay, as that amount could differ materially from the estimate. There may be material adverse consequences to our business if tax authorities successfully challenge our BEAT calculations, in light of the uncertainties described above.

In addition, we have made estimates regarding the effective tax rate we expect to experience, which take into account the impacts of federal income tax and the BEAT. The determination of each such figure, or range of figures, involves numerous estimates and assumptions, including estimates and assumptions regarding our BEAT calculations. Such estimates and assumptions may prove incorrect. To the extent that actual experience differs from the estimates and assumptions inherent in our projections, our future effective tax rate may deviate materially from the estimates provided and our financial condition and results of operations may be materially less favorable than are implied by the projections provided.

AHL or its non-U.S. subsidiaries may be subject to U.S. federal income taxation in an amount greater than expected.

AHL and certain of its subsidiaries are treated as foreign corporations under the Internal Revenue Code (such subsidiaries, the Non-U.S. Subsidiaries, and together with AHL, the Non-U.S. Companies). Any Non-U.S. Company that is considered to be engaged in a trade or business in the U.S. generally will be subject to U.S. federal income taxation on a net basis on its income that is effectively connected with such U.S. trade or business (including branch profits tax on the portion of its earnings and profits that is attributable to such income), unless otherwise provided under an applicable income tax treaty. In addition, a Non-U.S. Company generally will be subject to U.S. federal income taxation on a gross basis on certain U.S.-source income, and certain premiums earned on insurance with respect to U.S. risks, that are not effectively connected with a U.S. trade or business, unless otherwise provided under an applicable income tax treaty.

With one exception, each of the Non-U.S. Companies currently intends to operate in a manner that will not cause it to be treated as being engaged in a trade or business within the U.S. However, the enactment of the BEAT, the reduction of the federal income tax rate applicable to corporations included in the Tax Act and other factors may cause some or all of the Non-U.S. Companies to conduct business differently. Moreover, there is considerable uncertainty as to when a foreign corporation is engaged in a trade or business within the United States, as the law is unclear and the determination is highly factual and must be made annually, and therefore there can be no assurance that the IRS will not successfully contend that a Non-U.S. Company that does not intend to be treated as engaged in a trade or business in the U.S. is nonetheless so engaged. If any such Non-U.S. Company is treated as engaged in a trade or business in the U.S., it may incur greater tax costs than expected on any income not exempt from taxation under an applicable income tax treaty, which could have a material adverse effect on our financial condition, results of operations and cash flows.

AHL is a UK tax resident and expects to qualify for the benefits of the income tax treaty between the U.S. and the UK (UK Treaty) because its Class A common shares are listed and regularly traded on the NYSE. In addition, certain of the Non-U.S. Subsidiaries are UK tax residents (together with AHL, the UK Resident Companies) and expect to qualify for the benefits of the UK Treaty by reason of being subsidiaries of AHL or by reason of satisfying an ownership and base erosion test. Accordingly, our UK Resident Companies are expected to qualify for certain exemptions from, or reduced rates of, the U.S. taxes described above that are provided for by the UK Treaty. However, there can be no assurances that our UK Resident Companies will continue to qualify for treaty benefits or satisfy all of the requirements for the tax exemptions and reductions they intend to claim. If any of our UK Resident Companies fails to qualify for such benefits or satisfy such requirements, it may incur greater tax costs than expected, which could have a material adverse effect on our financial condition, results of operations and cash flows.

U.S. persons who own our equity securities may be subject to U.S. federal income taxation at ordinary income rates on our undistributed earnings and profits.

For any taxable year in which a Non-U.S. Company is treated as a controlled foreign corporation (CFC), a “10% U.S. Shareholder” of the Non-U.S. Company that held our equity securities directly or indirectly through non-U.S. entities as of the last day in such taxable year that the Non-U.S. Company was a CFC would generally be required to include in gross income as ordinary income its pro rata share of the Non-U.S. Company’s income, regardless of whether that income was actually distributed to such U.S. person (with certain adjustments). A “10% U.S. Shareholder” of an entity treated as a foreign corporation for U.S. federal income tax purposes is a U.S. person who owns (directly, indirectly through non-U.S. entities or constructively) 10% or more of the total value of all classes of shares of the corporation or 10% or more of the total combined voting power of all classes of voting shares of the corporation. Any U.S. person that owns (or is treated as owning) 10% or more of the value of AHL should consult with their tax advisor regarding their investment in AHL.

In general, a non-U.S. corporation is a CFC if 10% U.S. Shareholders, in the aggregate, own (or are treated as owning) stock of the non-U.S. corporation possessing more than 50% of the voting power or value of such corporation’s stock. However, this threshold is lowered to 25% for purposes of taking into account the insurance income of a non-U.S. corporation. Further, special rules apply for purposes of taking into account any related person insurance income (RPII) of a non-U.S. corporation, as described below.

In addition, if a U.S. person disposes of shares in a non-U.S. corporation and the U.S. person owned (directly, indirectly through non-U.S. entities or constructively) 10% or more of the total combined voting power of the voting stock of the corporation at any time when the corporation was a CFC during the five-year period ending on the date of disposition, any gain from the disposition will generally be treated as a dividend to the extent of the U.S. person's share of the corporation's undistributed earnings and profits that were accumulated during the period or periods that the U.S. person owned the shares while the corporation was a CFC (with certain adjustments). Also, a U.S. person may be required to comply with specified reporting requirements, regardless of the number of shares owned.

We do not believe that AHL is a CFC. However, we believe that all of the Non-U.S. Subsidiaries are CFCs, except that we believe ALRe is a CFC only for purposes of taking into account certain insurance income. Specifically, the Tax Act eliminated the prohibition on "downward attribution" from non-U.S. persons to U.S. persons under former Section 958(b)(4) of the Code for purposes of determining constructive stock ownership under the CFC rules. As a result, our U.S. subsidiaries are deemed to own all of the stock of the Non-U.S. Subsidiaries (other than ALRe) for CFC purposes. Further, we believe that 10% U.S. Shareholders of ALRe collectively own more than 25%, but less than 50%, of the vote and value of ALRe by reason of downward attribution from certain of our direct or indirect shareholders. The legislative history under the Tax Act indicates that this change in law was not intended to cause a foreign corporation to be treated as a CFC with respect to a 10% U.S. Shareholder that is not related to the U.S. persons receiving such downward attribution. However, it is not clear whether a court would interpret the change made by the Tax Act in a manner consistent with such indicated intent. Moreover, no assurances can be provided that any of the Non-U.S. Companies would not be a CFC, even without regard to the downward attribution of stock from non-U.S. persons to U.S. persons, as such classification depends upon the identity and relationships of the beneficial owners of our equity securities, over which we have limited knowledge and control. Accordingly, any U.S. person that owns (or is treated as owning) 10% or more of the voting power or value of AHL should consult with their tax advisor regarding their investment in AHL.

U.S. persons who own our equity securities may be subject to U.S. federal income taxation at ordinary income rates on a disproportionate share of our undistributed earnings and profits attributable to RPII.

If any of the Non-U.S. Companies is treated as recognizing RPII in a taxable year and is also treated as a CFC for such taxable year, each U.S. person that owns our equity securities directly or indirectly through non-U.S. entities as of the last day in such taxable year must generally include in gross income its pro rata share of the RPII, determined as if the RPII were distributed proportionately only to all such U.S. persons, regardless of whether that income is distributed (with certain adjustments). For this purpose, a Non-U.S. Company generally will be treated as a CFC if U.S. persons in the aggregate are treated as owning (directly or indirectly through non-U.S. entities) 25% or more of the total voting power or value of the Non-U.S. Company's stock at any time during the taxable year. We believe that the Non-U.S. Companies are treated as CFCs for this purpose, based on the current ownership of our equity securities.

RPII generally is any income of a non-U.S. corporation attributable to insuring or reinsuring risks of a U.S. person that owns (or is treated as owning) stock of such non-U.S. corporation, or risks of a person that is "related" to such a U.S. person. For this purpose, (1) a person is "related" to another person if such person "controls," or is "controlled" by, such other person, or if both are "controlled" by the same persons, and (2) "control" of a corporation means ownership (or deemed ownership) of stock possessing more than 50% of the total voting power or value of such corporation's stock and "control" of a partnership, trust or estate for U.S. federal income tax purposes means ownership (or deemed ownership) of more than 50% by value of the beneficial interests in such partnership, trust or estate.

The Non-U.S. Companies that are insurance enterprises (the "Non-U.S. Insurance Companies") may derive income that is considered RPII. We believe that an exception under the RPII rules for CFCs with *de minimis* RPII currently applies to such Non-U.S. Insurance Companies, such that U.S. persons are not required to include any RPII in their gross income with respect to any of the Non-U.S. Companies. However, AGM and its affiliates and related parties own a substantial number of our Class A common shares, have rights to acquire additional Class A common shares and hold proxies to vote Class A common shares owned by certain of our employees. Further, Athene and AGM may have considerable overlap in ownership. If it is determined that AGM controls Athene, or that the same persons control both Athene and AGM through owning (or being treated as owning) more than 50% of the vote or value of both Athene and AGM, substantially all of the income of the Non-U.S. Insurance Companies derived from the reinsurance of affiliates likely will constitute RPII. This would trigger the adverse RPII consequences described above to all U.S. persons that hold our equity securities directly or indirectly through non-U.S. entities and could have a material adverse effect on the value of their investment in our equity securities.

Our bye-laws currently limit to 9.9% the voting power of AHL owned by persons who, together with their affiliates, beneficially own more than 9.9% of the voting power of AHL, subject to exemptions authorized by our board of directors (the "9.9% Voting Cutback"). If the 9.9% Voting Cutback is applicable to any person, excess voting power generally will be reallocated to all other Class A common shares, including those held by AGM and its affiliates. Further, the voting power of Class A common shares that are owned (or treated as owned) by certain persons who own (or are treated as owning) any AGM stock would also be reallocated to all other Class A common shares, including those held by AGM and its affiliates. Our bye-laws limit these reallocations of voting power so that AGM, and any person or persons who control AGM, would not own (or be treated as owning) more than 49.9% of the total voting power of our stock if they do not own (and are not treated as owning) more than 50% of the total value of our stock. These rules are intended to prevent any such reallocation of voting power from causing AGM to be considered to control us or to be controlled by the same persons who control us for purposes of the RPII provisions. However, because the relevant attribution rules are complex and there is no definitive legal authority on whether these voting provisions are effective for these purposes, there can be no assurance that this will be the case.

Our bye-laws also generally provide that no person (nor certain direct or indirect beneficial owners or related persons to such person) who owns our equity securities may acquire any shares of AGM or otherwise make any investment that would cause such person, or any other person that is a U.S. person, to own (or be treated as owning) more than 50% of the vote or value of our equity securities. Any holder of our equity securities that violates this restriction may be required, at the discretion of our board of directors, to sell its equity securities or take any other reasonable action that our board of directors deems necessary. However, this restriction does not apply to members of the Apollo Group.

We have only a limited ability to determine whether any of the Non-U.S. Insurance Companies is treated as recognizing RPII in a taxable year, the amount of any such RPII or any U.S. person's share of such RPII, and to obtain the information necessary to accurately make such determinations or fully enforce the voting provisions and ownership restrictions described above. We will take reasonable steps to obtain such information, but there can be no assurances that such steps will be adequate or that we will be successful in this regard. Accordingly, no assurances can be provided that the adverse RPII consequences described above will not apply to all U.S. persons that hold our equity securities directly or indirectly through non-U.S. entities.

The following updates and replaces, in its entirety, the risk factor entitled *Our bye-laws contain provisions that cause a holder of Class A common shares to lose the right to vote the shares if the holder owns an equity interest in Apollo, AP Alternative Assets, L.P. (AAA) or certain other entities* in our 2019 Annual Report:

Our bye-laws contain provisions that may cause a holder of Class A common shares to lose the right to vote the shares if the holder or certain connected persons own an equity interest in AGM.

Our bye-laws contain a voting restriction that can result in any "Restricted Common Shares" having no right to vote. A holder's Class A common shares are considered "Restricted Common Shares" if and when the holder or any person who is considered to indirectly or constructively own any of the holder's shares (other than certain members of the Apollo Group) owns (directly, indirectly or constructively) any stock of AGM. This voting restriction applies only if there is a person who (together with its affiliates) beneficially owns Class A common shares that would, absent the voting adjustments in our bye-laws, possess more than 9.9% of the total voting power of our Class A common shares and who has not received the consent of at least 70% (75% after March 31, 2021) of our board of directors to exceed such voting threshold. This voting restriction does not affect the transferability of Class A common shares and will not apply after any date identified as the "Restriction Termination Date" by at least 70% (75% after March 31, 2021) of our board of directors.

The following updates and replaces, in their entirety, the similarly named risk factors in our 2019 Annual Report:

Our bye-laws contain provisions that could discourage takeovers and business combinations that our shareholders might consider in their best interests, including provisions that prevent a holder of Class A common shares from having a significant stake in Athene.

Our bye-laws include certain provisions that could have the effect of delaying, deferring, preventing or rendering more difficult a change of control that holders of our Class A common shares might consider in their best interests. For example, our bye-laws contain voting adjustments that may reduce the votes of a holder's Class A common shares to the extent necessary to prevent any person (together with its affiliates) from beneficially owning Class A common shares having more than 9.9% of the total voting power of our Class A common shares, unless such person has received the consent of at least 70% (75% after March 31, 2021) of our board of directors to exceed such threshold. In addition, if the votes of any Class A common shares are required to be reduced pursuant to these adjustments, the votes of all Class A common shares that are "Restricted Common Shares" generally are reduced to zero. The votes of all Class A common shares that did not suffer a reduction in votes are then increased, pro rata based on their then current voting power, in an aggregate amount equal to the aggregate reduction in votes under the voting adjustments described above, except that the increase in votes of any Class A common share is limited to the extent necessary to avoid triggering further voting reductions and to avoid creating a "RPII Control Group," as defined in our bye-laws. Such adjustments, if implicated, would result in some Class A common shares having more than one vote per share. Therefore, a shareholder's voting rights may increase above 5% of the aggregate voting power of our Class A common shares, even if the shareholder holds fewer than 5% of our Class A common shares, thereby possibly resulting in the shareholder becoming a reporting person subject to Schedule 13D or 13G filing requirements under the Exchange Act. These requirements could discourage any potential investment in our Class A common shares. In addition, our board of directors is classified into three classes of directors, with directors of each class serving staggered three-year terms. Any change in the number of directors is required by our bye-laws to be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class or from the removal of a director will hold such directorship for a term that coincides with the remaining term of that class. Moreover, our bye-laws require specific advance notice procedures and other protocols for holders of common shares to make shareholder proposals and nominate directors. Among other requirements, a shareholder must meet the minimum requirements for eligible shareholders to submit shareholder proposals under Rule 14a-8 of the Exchange Act, and submit specific information and make specific undertakings in relation to the shareholder proposal or director nomination.

Any or all of these provisions could prevent holders of our Class A common shares from receiving the benefit from any premium to the market price of our Class A common shares offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of any of these provisions could adversely affect the prevailing market price of our Class A common shares if they were viewed as discouraging takeover attempts in the future.

Future sales of common shares by existing shareholders could cause our share price to decline.

Sales of substantial amounts of our Class A common shares in the public market, or the perception that these sales could occur, could cause the market price of our Class A common shares to decline. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

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We have filed registration statements on Form S-8 under the Securities Act to register the Class A common shares to be issued under our 2017 employee stock purchase plan (ESPP) and our equity compensation plans and, as a result, all Class A common shares acquired upon the purchase of shares under our ESPP and the vesting of share awards or the exercise of stock options granted under our equity compensation plans will also be freely tradeable under the Securities Act, subject to the terms of any lock-up agreements, unless purchased by our affiliates. As of June 30, 2020, 6.0 million common shares are reserved for future issuances under our ESPP and equity incentive plans, in the aggregate. In addition, we have filed a registration statement on Form S-3 under the Securities Act to register the Class A common shares to be issued upon the exercise of warrants, which were issued in exchange for a portion of our previously outstanding Class M common shares. Upon exercise, the Class A common shares will be freely tradeable under the Securities Act, subject to the terms of any lock-up agreements, unless held by our affiliates. As of June 30, 2020, 8.4 million common shares are registered for resale in connection with the exercise of warrants. The issuance of any of the foregoing shares or their subsequent sale may cause our share price to decline.

Pursuant to the shareholders agreement among us and certain members of the Apollo group that was entered into in connection with the share issuance transaction with Apollo, AGM and certain of its affiliates agreed not to directly or indirectly transfer any Class A common share prior to February 28, 2023, subject to certain exceptions (Apollo Lock-up). As of June 30, 2020, there were more than 50 million shares subject to the Apollo Lock-up. When the Apollo Lock-up ends, the market price of our common shares could decline if the holders of those shares sell them or are perceived by the market as intending to sell them. Furthermore, Apollo has the right to require, subject to the expiration or waiver of the Apollo Lock-up, us to register Class A common shares for resale in certain circumstances pursuant to the registration rights agreements we have entered into with Apollo.

In the future, we may issue additional common shares or other equity or debt securities convertible into or exercisable or exchangeable for Class A common shares in connection with a financing, strategic investment, litigation settlement or employee arrangement or otherwise. Any of these issuances could result in substantial dilution to our existing shareholders and could cause the trading price of our Class A common shares to decline.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Securities

Purchases of common stock made by or on behalf of us or our affiliates during the three months ended June 30, 2020 are set forth below:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced programs ¹	(d) Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs ¹
April 1 – April 30, 2020	—	\$ —	—	\$ 321,408,033
May 1 – May 31, 2020	—	\$ —	—	\$ 321,408,033
June 1 – June 30, 2020	—	\$ —	—	\$ 321,408,033

¹ Prior to October 28, 2019, we had announced approvals by our board of directors for \$967 million of aggregate repurchases under our share repurchase program. Amounts authorized for repurchase under those approvals had been fully used prior to March 31, 2020. On October 28, 2019, we announced that our board of directors had approved an additional \$600 million authorization for the repurchase of our Class A common shares. The remaining authorization does not have a definitive expiration date, but may be terminated at any time at the sole discretion of our board of directors. See Note 10 – Equity to the condensed consolidated financial statements for more information.

Purchases of depositary shares made by or on behalf of us or our affiliates during the three months ended June 30, 2020:

Period	(a) Total number of shares purchased ¹	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced programs ²	(d) Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs ²
April 1 – April 30, 2020	—	\$ —	—	\$ —
May 1 – May 31, 2020	—	\$ —	—	\$ —
June 1 – June 30, 2020	80,000	\$ 25.00	—	\$ —

¹ Purchases relate to certain executive officers or members of our board of directors as our affiliates.

² As of June 30, 2020, our board of directors had not authorized any purchases of depositary shares in connection with a publicly announced plan or program.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
4.1	Certificate of Designations of 6.375% Fixed-Rate Reset Perpetual Non-Cumulative Preference Shares, Series C (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on June 11, 2020).
4.2	Form of Share Certificate evidencing 6.375% Fixed-Rate Reset Perpetual Non-Cumulative Preference Share, Series C (incorporated by reference to Exhibit 4.2 to the Form 8-K filed on June 11, 2020).
4.3	Deposit Agreement, dated June 11, 2020, between the Company and Computershare Inc. and Computershare Trust Company, N.A., collectively, and the holders from time to time of the Depository Receipts (incorporated by reference to Exhibit 4.3 to the Form 8-K filed on June 11, 2020).
4.4	Form of Depository Receipt (included in Exhibit 4.3 and incorporated by reference to Exhibit 4.3 to the Form 8-K filed on June 11, 2020).
10.1	Coinsurance Agreement, dated as of June 18, 2020, between Jackson National Life Insurance Company and Athene Life Re Ltd.
31.1	Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ATHENE HOLDING LTD.

Date: August 5, 2020

/s/ Martin P. Klein

Martin P. Klein

Executive Vice President and Chief Financial Officer
(principal financial officer and duly authorized signatory)

COINSURANCE AGREEMENT

dated as of June 18, 2020

between

JACKSON NATIONAL LIFE INSURANCE COMPANY

and

ATHENE LIFE RE LTD.

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PRELIMINARY STATEMENTS

A. Upon the terms and subject to the conditions set forth herein, the Cedant wishes to cede to the Reinsurer, and the Reinsurer wishes to accept and reinsure, on a funds withheld coinsurance basis, the Reinsured Liabilities (as defined below); and

B. Simultaneously with the execution and delivery of this Agreement, (i) the Reinsurer, as grantor, the Cedant, as beneficiary, and Citibank, N.A., as trustee (the “Trustee”), have entered into that certain Trust Agreement, attached as Exhibit A (the “Trust Agreement”), pursuant to which the Reinsurer shall establish a Trust Account (as defined below) to collateralize certain of its obligations to the Cedant in respect of the Reinsured Liabilities, and (ii) the Reinsurer, as grantor, the Cedant, as the secured party, and the Trustee, as securities intermediary (the “Securities Intermediary”), have entered into that certain Security and Control Agreement, attached as Exhibit B (the “Security and Control Agreement”), pursuant to which the Reinsurer shall grant to the Cedant, and the Cedant shall perfect, a first ranking priority security interest in the Collateral (as defined below).

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the parties to this Agreement agree as follows:

ARTICLE I DEFINITIONS

Section 1.01 Definitions. Capitalized terms used in this Agreement have the meanings specified or referred to in this Section 1.01.

“Action” means any claim, action, suit, litigation, arbitration, examination, investigation or proceeding by or before any Governmental Authority or arbitrator or arbitration panel or similar Person or body.

“Actual Ceding Commission” shall have the meaning set forth in Section 3.05(a).

“Actual Initial Premium” shall have the meaning set forth in Section 3.05(a).

“Actuarial Analysis” means the actuarial analysis prepared by Milliman, dated April 5, 2020 and titled “Actuarial Analysis of Jackson National Life Insurance Company and Affiliates as of December 31, 2019 - Update.”

“Additional Letter of Credit Amount” means, as of any date of determination, an amount equal to the Maximum Additional Letter of Credit Amount, as may be reduced in accordance with Section 9.08(a).

“Additional Letter of Credit Percentage” means an amount, expressed as a percentage, equal to \$383,000,000 *divided by* an amount equal to the reserves as of the Effective Time, as finally determined in accordance with Section 3.05.

“Additional LOC Costs” shall have the meaning set forth in Section 9.08(c).

“Additional LOC Increase Amount” shall have the meaning set forth in Section 9.08(b).

“Additional LOC Increase Request” shall have the meaning set forth in Section 9.08(b).

“Administrative Services” shall have the meaning set forth in Section 8.01.

“Affiliate” means, with respect to any specified Person, any other Person that, at the time of determination, directly or indirectly through one or more intermediaries, Controls, is Controlled by or is under common Control with such specified Person.

“AGM” means Apollo Global Management, Inc.

“Agreed Bases” shall have the meaning set forth in Section 3.05(b).

“Agreement” shall have the meaning set forth in the Preamble.

“Analytical Information” shall have the meaning set forth in Section 16.01(g)(ii).

“Annual Reinsurer Financial Statements” shall have the meaning set forth in Section 16.03(h).

“Annual SAP Financial Statements” shall have the meaning set forth in Section 16.01(j).

“BEAT Event” shall have the meaning set forth in Section 13.04(d).

“Benefit Payments” means all liabilities and obligations of the Cedant for contractual benefits under the Subject Annuities, pursuant to the terms and conditions of, and subject to the limitations set forth in, the Subject Annuities, including, without duplication, (a) all claims, surrender amounts, partial surrender amounts, partial withdrawal amounts, benefits, annuitizations, policy loans and other contractual benefits and (b) interest on benefits in respect of the Subject Annuities; provided, that in no event shall “Benefit Payments” include any Excluded Liabilities.

“Bermuda Insurance Act” means the Bermuda Insurance Act 1978, as amended, and the rules and regulations promulgated thereunder.

“Boxed Assets” shall have the meaning set forth in Section 16.02(g).

“Brooke Holdco” means Brooke (Holdco) Inc., a Delaware corporation and the indirect parent of the Cedant.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in Lansing, Michigan, New York, New York or Hamilton, Bermuda are required or authorized by Law to remain closed.

“Cause Event” shall have the meaning set forth in Section 6.02(b).

“Cedant” shall have the meaning set forth in the Preamble.

“Cedant Books and Records” means originals or copies of all records and all other data and information (in whatever form or medium maintained) in the possession, custody or control of the Cedant to the extent related to the Subject Annuities or the Reinsured Liabilities, including (a) administrative records, (b) claim records, (c) contract files, (d) sales records, (e) reinsurance records, (f) underwriting records, (g) accounting (including investment accounting) records and (h) actuarial reports, analyses and memoranda; provided, however, that in no event shall “Cedant Books and Records” include (i) Tax returns and Tax records and all other data and information with respect to Taxes (other than with respect to premium taxes, excise taxes and similar Taxes), (ii) files, records, data and information with respect to the employees of the Cedant and its Affiliates, (iii) records, data and information with respect to any employee benefit plan established, maintained or contributed to by the Cedant or its Affiliates, (iv) any materials prepared for the boards of directors of the Cedant or its Affiliates, (v) any corporate minute books, stock records or similar corporate records of the Cedant or its Affiliates, (vi) any materials that are legally privileged, it being understood that the Cedant shall use commercially reasonable efforts to obtain waivers or make other arrangements that would enable any such item to be accessed by the Reinsurer without impinging on the ability to assert such privilege, (vii) consolidated regulatory filings made by the Cedant and its Affiliates and any correspondence with Governmental Authorities not relating to the Subject Annuities or the Reinsured Liabilities, (viii) corporate books and records of Prudential or its Affiliates other than the Cedant or (ix) any internal drafts, opinions, valuations, correspondence or other materials produced by, or provided between or among, the Cedant and its Affiliates or Representatives with respect to the negotiation or valuation of the transactions contemplated pursuant to the Investment Agreement.

“Cedant Domiciliary State” means the Cedant’s state of domicile from time to time; provided, that, for purposes of this Agreement, in no event shall the Cedant Domiciliary State be the State of New York.

“Cedant Extra-Contractual Obligations” means all Extra-Contractual Obligations other than Reinsurer Extra-Contractual Obligations.

“Cedant Indemnitee” means the Cedant, each of its subsidiaries and Affiliates, and its and their respective officers, directors, employees, agents, successors and assigns.

“Cedant Quarterly Report” shall have the meaning set forth in Section 5.02(b).

“Cedant SAP” means the statutory accounting principles and practices prescribed by the insurance regulator of the Cedant Domiciliary State with respect to life insurance companies domiciled therein.

“Ceded IMR” means, as of any date of determination, an amount equal to the greater of (a) (i) the portion of the Effective Date IMR that remains unamortized as of such date *plus* (ii) the interest maintenance reserve relating to the assets maintained in or, with respect to the Boxed Assets and the Transferred Notes, allocated to the Funds Withheld Account, determined in accordance with Cedant SAP, consisting of the after-tax unamortized deferred gains and losses in respect of the assets maintained in or, with respect to the Boxed Assets and the Transferred Notes, allocated to the Funds Withheld Account, that is created on or following the Closing Date that is unamortized as of such date and (b) zero (0).

“Ceding Commission” means an amount equal to \$1,250,000,000 *minus* the Hedge Adjustment Amount.

“Credited and Indexed Rates” shall have the meaning set forth in Schedule 2.03.

“Closing Agreement” shall have the meaning set forth in Section 15.01(b).

“Closing Date” means the date on which this Agreement is executed and delivered by the Cedant and the Reinsurer.

“CML” means any Initial Funds Withheld Asset that is an individual mortgage loan, promissory note, or Section 504 Loan.

“Code” means the United States Internal Revenue Code of 1986.

“Collateral” shall have the meaning set forth in the Security and Control Agreement.

“Comparable Transaction” shall have the meaning set forth in Section 10.06(a).

“Comparable Triggering Event” shall have the meaning set forth in Section 10.06(a).

“Confidential Information” means all information and materials of any kind, whether oral or recorded in any medium, concerning the Disclosing Party or any of its Affiliates, obtained directly or indirectly from the Disclosing Party or any of its Affiliates or Representatives in connection with the transactions contemplated by this Agreement, the Trust Agreement and the Security and Control Agreement, except information which (a) is or becomes generally available to the public other than as a result of disclosure by the Receiving Party or its Representatives in violation of the terms of this Agreement or any other confidentiality or non-disclosure obligation binding on the Receiving Party or its Affiliates, (b) becomes available to the Receiving Party on a non-confidential basis from a third party not affiliated with the Receiving Party other than the Disclosing Party or its Representatives not known by the Receiving Party to be in breach of an obligation of confidentiality to the other party, (c) is independently developed by the Receiving Party without the use or benefit of any information that would otherwise be Confidential Information or without violating any of the Receiving Party’s obligations under this Agreement or any other confidentiality or non-disclosure obligation binding on the Receiving Party or its Affiliates or (d) was information already in the possession of the Receiving Party and which was not subject to any obligation to keep such information confidential; provided, that the identity of the parties and the existence of this Agreement shall not be considered “Confidential Information” hereunder.

“Contested Claim” shall have the meaning set forth in Section 8.03(b).

“Control” means, with respect to any Person, the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise. Control shall be presumed to exist if any Person, directly or indirectly, owns, controls, holds the power to vote or holds proxies representing ten percent (10%) or more of the voting securities of any other Person. The terms “Controlled,” “Controlled by,” “under common Control with” and “Controlling” shall have correlative meanings.

“Custodian” shall have the meaning set forth in Section 6.02(a).

“Customers” means policyholders, contractholders, insureds, annuitants and beneficiaries, as applicable.

“Data Room” means the “Project Star” electronic data room established and maintained by Intralinks.

“Disclosing Party” shall have the meaning set forth in Section 18.16.

“Discretionary Elements” means any terms or features of a Subject Annuity that are subject to change at the election of the Cedant or that are otherwise within the discretion of the Cedant, including caps, spreads, participation rates, renewal credited interest rates and other interest crediting adjustments.

“ECR Ratio” shall have the meaning set forth in Section 10.05(a).

“ECR Recapture Event” shall have the meaning set forth in Section 13.04(a).

“ECR Triggering Event” shall have the meaning set forth in Section 10.02(b).

“Effective Date IMR” means \$59,630,250.32, which the parties acknowledge and agree represents the interest maintenance reserve in respect of the Initial Funds Withheld Assets as of the Effective Time, determined in accordance with Cedant SAP, prior to any redeployment of the Initial Funds Withheld Assets on or following the Closing Date.

“Effective Time” means 12:00:01 a.m. Michigan time on June 1, 2020.

“Estimated Ceding Commission” shall have the meaning set forth in Section 3.03(a).

“Estimated Initial Premium” shall have the meaning set forth in Section 3.03(a).

“Estimated Recapture Asset Report” shall have the meaning set forth in Section 14.01(a).

“Estimated Recapture Payment” shall have the meaning set forth in Section 14.01(a).

“Estimated Recapture Payment Statement” shall have the meaning set forth in Section 14.01(a).

“Estimated Settlement Statement” shall have the meaning set forth in Section 3.03(a).

“Excess Capital Loss” shall have the meaning set forth in Section 15.03.

“Excess Loss Payment” means, for any applicable tax year, a payment of an amount equal to (a) A*B divided by (b) 1-B, where:

“A” = the Excess Capital Loss for such year; and

“B” = the United States federal corporate income tax rate in effect as of the last day of such year.

“Excluded Liabilities” means (a) any Cedant Extra-Contractual Obligations and (b) any liabilities resulting from any change to the terms of any Subject Annuity after the Effective Time in violation of Section 2.07.

“Expense Allowance” shall have the meaning set forth in Section 4.01.

“Expense Allowance Withholding Event” shall have the meaning set forth in Section 4.02.

“Extra-Contractual Obligations” means all liabilities or obligations and any other related expenses (including attorneys’ fees), other than those incurred under the express terms and conditions and within the limits of the Subject Annuities, whether to Customers, Governmental Authorities or any other Person, arising out of or relating to the Subject Annuities, including consequential, exemplary, punitive, compensatory, incidental, treble, bad faith, special, statutory or regulatory damages (or interest, fines, penalties, taxes, fees, forfeitures or similar charges of a penal or disciplinary nature), or any other form of extra-contractual damages or liability relating to the Subject Annuities, including those that arise from any alleged or actual act, error or omission (whether or not intentional, negligent, in bad faith or otherwise) relating to (a) the form, marketing, underwriting, production, sale, issuance, cancellation or administration of the Subject Annuities, (b) the investigation, defense, trial, settlement or handling of claims, benefits or payments arising out of, under or with respect to the Subject Annuities, (c) the failure to pay, or the delay in payment, of benefits, claims or any other amounts due or alleged to be due under or in connection with the Subject Annuities or errors in calculating or administering the payment of, benefits, claims or any other amounts due or alleged to be due under or in connection with the Subject Annuities, (d) the failure of any Subject Annuity to provide to the purchaser, policyholder or intended beneficiary thereof with the Tax treatment under the Code either that was purported to apply in materials provided by the issuer of such Subject Annuity, in each case at the time of its issuance (or any subsequent modification of such Subject Annuity) or for which such Subject Annuity was designed to qualify at the time of issuance (or subsequent modification), (e) any tax, penalty or interest imposed in respect of any withholding or reporting obligation of the Cedant in respect of taxes with respect to the Subject Annuities or (f) any other *ex gratia* payments made by the Cedant (*i.e.*, payments the Cedant is not required to make under the terms of the Subject Annuities).

“Factual Information” shall have the meaning set forth in Section 16.01(g)(i).

“Fair Market Value” means (a) with respect to cash, as at any date of determination, the amount thereof and (b) with respect to an asset other than cash, the amount at which such asset could be bought or sold in a current transaction between willing parties other than in a forced or liquidation sale as of such date of determination; provided, that the Fair Market Value of any asset held in the OC Account shall be determined by the Reinsurer in accordance with Schedule 1.01(f).

“Final Recapture Asset Report” means the Proposed Recapture Asset Report, as finalized pursuant to the procedures set forth in Section 14.03.

“Final Recapture Payment Amount” means the Recapture Payment Amount set forth in the Final Recapture Payment Statement.

“Final Recapture Payment Statement” means the Proposed Recapture Payment Statement, as finalized pursuant to the procedures set forth in Section 14.03.

“Final Terminal Settlement Statement” means the Proposed Terminal Settlement Statement, as finalized pursuant to the procedures set forth in Section 14.03.

“Final Reinsurer Asset Report” means the Proposed Reinsurer Asset Report, as finalized pursuant to the procedures set forth in Section 14.03.

“First Level Consultation and Escalation Procedure” shall have the meaning set forth in Section 8.02(a).

“First Level Representatives” shall have the meaning set forth in Section 8.02(a).

“Funds Withheld Account” shall have the meaning set forth in Section 6.02(a).

“Funds Withheld Account Adjustment” shall have the meaning set forth in Section 5.04(b).

“Funds Withheld Account Adjustment Statement” shall have the meaning set forth in Section 5.02(b).

“Funds Withheld Balance” shall have the meaning set forth in Section 5.02(b).

“Funds Withheld Excess Withdrawals” shall have the meaning set forth in Section 6.02(e).

“Funds Withheld Investment Guidelines” means (a) prior to the occurrence of a Triggering Event, the Investment Guidelines attached as Exhibit C-1 (as amended from time to time in writing by mutual agreement of the Cedant and the Reinsurer) and (b) during the continuation of a Triggering Event, such Investment Guidelines to be amended as set forth on Exhibit C-2 (as amended from time to time in writing by mutual agreement of the Cedant and the Reinsurer).

“Funds Withheld Loss” shall have the meaning set forth in Section 15.03.

“Funds Withheld Percentage” means one hundred percent (100%).

“Funds Withheld Permitted Investments” means investments of the type permitted under the Funds Withheld Investment Guidelines.

“Funds Withheld Reserves” means, as of any date of determination, an amount equal to (a) the Funds Withheld Percentage *multiplied by* (b) the Reserves as of such date of determination.

“Governmental Authority” means any United States or non-United States federal, state or local or any supra-national, political subdivision, governmental, legislative, tax, regulatory or administrative authority, instrumentality, agency, body or commission, self-regulatory organization or any court, tribunal, or judicial or arbitral body.

“Hedge Adjustment Amount” means, as of any date of determination, an amount equal to the greater of (a) (i) “A”, *minus* (ii) the product of “B” *multiplied by* “C”, and (b) zero (0); where:

“A” = with respect to any hedges reflected in the Reference Hedge Portfolio, an amount equal to the value of the hedges in the Reference Hedge Portfolio as of 4:00 p.m. Eastern Time on the Closing Date;

“B” = 2.53%; and

“C” = the aggregate indexed account value as of the Effective Time for all Subject Annuities that are fixed indexed annuities calculated as the sum of the “Notional” column in the “Details” tab in the Reference Hedge Portfolio.

For purposes of determining “A” above, the value of the hedges in the Reference Hedge Portfolio as of the Closing Date will be calculated in the same manner as the “value” column as set forth in the “Details” tab in the Reference Hedge Portfolio with a lapse factor of 100%. As of June 11, 2020, the Hedge Adjustment Amount was \$18,866,726.

“Hedge Collateral Account” means, collectively, the separate subaccounts of the Trust Account established in accordance with the Trust Agreement to hold any variation margin collateral posted by the applicable Hedge Counterparty in favor of the Reinsurer in respect of the Reinsurer Hedges.

“Hedge Collateral Assignment Agreement” shall have the meaning set forth in Section 6.01(b).

“Hedge Counterparty” shall have the meaning set forth in Section 6.01(b).

“Indemnified Party” means, as the context requires, (a) a Reinsurer Indemnitee, as it may be entitled to any indemnification payment from the Cedant pursuant to Section 17.02, or (b) a Cedant Indemnitee, as it may be entitled to any indemnification payment from the Reinsurer pursuant to Section 17.03.

“Indemnifying Party” means, as the context requires, (a) the Cedant, as it may have liability for any indemnification payment to a Reinsurer Indemnitee pursuant to Section 17.02, or (b) the Reinsurer, as it may have liability for any indemnification payment to a Cedant Indemnitee pursuant to Section 17.03.

“Independent Accountant” means a jointly selected partner or senior employee at BDO USA LLP or, if such Person is unwilling or unable to serve, a jointly selected partner or senior employee at a nationally recognized accounting firm, which such firm (a) has appropriate actuarial and accounting experience, (b) is not the auditor or independent accounting firm of Athene Holding Ltd. or any of its subsidiaries or the Cedant or any of its Affiliates and (c) is otherwise independent and impartial; provided, however, that if the parties are unable to select such accounting firm within twenty (20) Business Days of being notified that such Person is unwilling or unable to serve, either party may request the American Arbitration Association’s International Centre for Dispute Resolution to appoint within ten (10) Business Days from the date of such request, or as soon as practicable thereafter, a partner or senior employee at a nationally recognized accounting firm that is not the auditor

or independent accounting firm of Athene Holding Ltd. or any of its subsidiaries or the Cedant or any of its Affiliates, who is a certified public accountant and who is independent and impartial, to be the Independent Accountant.

“Independent Expert” shall have the meaning set forth in Section 8.02(b).

“Initial Funds Withheld Account Adjustment Statement” has the meaning set forth in Section 3.04(a).

“Initial Funds Withheld Assets” shall have the meaning set forth in Section 3.03(a).

“Initial Premium” shall have the meaning set forth in Section 3.01(b).

“Initial Premium Adjustment” shall have the meaning set forth in Section 3.05(h).

“Insolvency Event” means, with respect to any Person, the occurrence of any of the following events, acts, occurrences or conditions, whether such event, act, occurrence or condition is voluntary or involuntary or results from the operation of law or pursuant to or as a result of compliance by any Person with any judgment, decree, order, rule or regulation of any Governmental Authority: (a) such Person commences a voluntary case concerning itself under any insolvency laws, makes a proposal or makes notice of intention to make a proposal or otherwise commences any other proceeding under any bankruptcy, rehabilitation, liquidation, conservation, dissolution, reorganization, arrangement, adjustment of debt, relief of debtors, insolvency or similar law of any applicable jurisdiction whether now or hereafter in effect relating to such Person (any of the foregoing, an “Insolvency Proceeding”); (b) an involuntary Insolvency Proceeding is commenced against such Person; (c) a receiver, trustee, interim receiver, receiver and manager, liquidator or rehabilitator is appointed for, or takes charge of, all or substantially all of the property of such Person; (d) any order for relief or other order approving any such case or proceeding is entered; (e) such Person is adjudicated insolvent or bankrupt; (f) such Person suffers any appointment of any receiver, trustee, interim receiver, receiver and manager, custodian, rehabilitator or the like for it or any substantial part of its property, which appointment continues undischarged or unstayed for a period of thirty (30) days; (g) such Person makes a general assignment for the benefit of creditors; (h) such Person fails to pay, or states that it is unable to pay, or is unable to pay, its debts generally as they become due; (i) such Person calls a meeting of its creditors with a view of arranging a composition or adjustment of its debts; (j) such Person, by any act or failure to act, consents to, approves of or acquiesces in any of the foregoing; or (k) any corporate action is taken by such Person for the purpose of effecting any of the foregoing items (a) through (j).

“Interest Rate” means the greater of (a) the annual yield rate, on the date to which the 90-Day Treasury Rate relates, of actively traded U.S. Treasury securities having a remaining duration to maturity of three (3) months, as such rate is published under “Treasury Constant Maturities” in Federal Reserve Statistical Release H.15(519) and (b) zero (0).

“Interim Funds Withheld Account Adjustment” shall have the meaning set forth in Section 3.04(a).

“Interim Settlement Date” shall have the meaning set forth in Section 3.04(a).

“Interim Settlement Date Funds Withheld Balance” means (a) the Statutory Book Value as of the Effective Time of the Initial Funds Withheld Assets held in or, with respect to the Boxed Assets and the Transferred Notes, allocated to the Funds Withheld Account as of the Interim Settlement Date *plus* (b) the aggregate amount of any cash held in the Funds Withheld Account as of the Interim Settlement Date *plus* (c) the Statutory Book Value as of the Interim Settlement Date of any Funds Withheld Permitted Investments (other than the Initial Funds Withheld Assets) held in the Funds Withheld Account as of the Interim Settlement Date.

“Investment Agreement” means that certain Investment Agreement between Brooke Holdco and the Reinsurer, dated as of June 18, 2020.

“Investment Management Agreement” shall have the meaning set forth in Section 6.02(b).

“Investment Manager” shall have the meaning set forth in Section 6.02(b).

“IPO” means a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, demerger, spin-off, split-off, direct listing, or other similar transaction that results in the public listing of any equity securities or any equity securities of a direct or indirect parent of Brooke Holdco (other than Prudential).

“IRS” shall have the meaning set forth in Section 15.01(b).

“Law” means any United States or non-United States federal, state or local statute, law, ordinance, regulation, code, governmental order or other requirement, rule or administrative interpretation enacted, promulgated, issued, enforced or entered by any Governmental Authority.

“Letter of Credit” shall have the meaning set forth in Section 9.05.

“Letter of Credit Excess Draws” shall have the meaning set forth in Section 9.07.

“Level One Negotiations” shall have the meaning set forth in Section 5.03(a).

“Level Two Negotiations” shall have the meaning set forth in Section 5.03(a).

“LOC Provider” means any provider of a Letter of Credit that is set forth on the “List of Qualified U.S. Financial Institutions” established and maintained by the National Association of Insurance Commissioners and reasonably satisfactory to the Cedant and the Reinsurer; provided, that the Cedant shall be permitted to consider, among other things, the Cedant’s overall credit exposure with respect to such proposed LOC Provider in determining whether such proposed LOC Provider is satisfactory.

“Losses” means any damages, losses, claims, demands, actions, suits, proceedings, payments, judgments, Taxes and out-of-pocket costs and expenses (including reasonable legal fees) and costs and expenses of investigating or contesting any of the foregoing.

“Maximum Additional Letter of Credit Amount” means, as of any date of determination, the Additional Letter of Credit Percentage *multiplied by* the Reserves as of such date of determination.

“Milliman” means Milliman, Inc.

“Minimum Threshold Amount” means an amount equal to five million dollars (\$5,000,000).

“Net Settlement Amount” shall have the meaning set forth in Section 5.02(b).

“New Domiciliary State” has the meaning set forth in Section 16.04(e).

“Non-Public Personal Information” shall have the meaning set forth in Section 18.16(b).

“Notes” shall have the meaning set forth in Section 16.02(f).

“Notice of Cessation of Exclusive Control” shall have the meaning set forth in the Security and Control Agreement.

“Objecting Party” shall have the meaning set forth in Section 5.03(a).

“OC Account” means, collectively, all of the subaccounts of the Trust Account other than the Hedge Collateral Accounts.

“OC Account Investment Guidelines” means (a) prior to the occurrence of a Triggering Event, the Investment Guidelines attached as Exhibit D-1 (as amended from time to time in writing by mutual agreement of the Cedant and the Reinsurer) and (b) during the continuation of a Triggering Event, such Investment Guidelines to be amended as set forth on Exhibit D-2 (as amended from time to time in writing by mutual agreement of the Cedant and the Reinsurer).

“OC Account Permitted Investments” means investments of the type permitted under the OC Account Investment Guidelines.

“Permits” shall have the meaning set forth in Section 16.01(e).

“Person” means any natural person, general or limited partnership, corporation, limited liability company, limited liability partnership, firm, association or organization or other legal entity.

“Premiums” means all premiums, considerations, deposits, payments, policy fees, policy loan principal and interest and other amounts received by the Cedant in respect of the Subject Annuities.

“Pro Forma Recapture Report” shall have the meaning set forth in Section 14.01(a).

“Product Tax Rules” means the Tax Laws with respect to (a) the requirements for the Subject Annuities to qualify for certain Tax treatment and (b) the Tax reporting and withholding applicable to the Subject Annuities. For the avoidance of doubt, “Product Tax Rules” include section 72 of the Code and the Treasury Regulations promulgated thereunder, and related administrative guidance and judicial interpretations.

“Proposed Recapture Asset Report” shall have the meaning set forth in Section 14.02.

“Proposed Recapture Payment Statement” shall have the meaning set forth in Section 14.02.

“Proposed Reinsurer Asset Report” shall have the meaning set forth in Section 14.02.

“Proposed Terminal Settlement Statement” shall have the meaning set forth in Section 14.03(a).

“Prudential” means Prudential plc.

“Quarterly Accounting Period” means each calendar-quarter period ending after the Effective Time and prior to the termination of this Agreement; provided that (a) the initial Quarterly Accounting Period shall commence at the Effective Time and (b) the final Quarterly Accounting Period shall commence on the first day of the applicable calendar quarter and end on the Termination Date.

“Quarterly Reports” means the Cedant Quarterly Report and the Reinsurer Quarterly Asset Report.

“Quarterly Settlement Dispute Representative” means, in the case of the Cedant, the individual set forth on Schedule 1.01(a) and, in the case of the Reinsurer, the individual set forth on Schedule 1.01(b); provided, however, that either party may, as to its own Quarterly Settlement Dispute Representative, designate a new Quarterly Settlement Dispute Representative at any time upon notice to the other party.

“RBC Ratio” shall have the meaning set forth in Section 10.05(a).

“RBC Recapture Event” shall have the meaning set forth in Section 13.04(a).

“RBC Triggering Event” shall have the meaning set forth in Section 10.02(b).

“Recapture Closing Date” shall have the meaning set forth in Section 13.03(b).

“Recapture Effective Time” means 12:00:01 a.m. Michigan time on the first day of the calendar quarter in which the Recapture Closing Date occurs.

“Recapture Event” shall have the meaning set forth in Section 13.04.

“Recapture Notice” means any notice of recapture provided in accordance with Section 14.03(a).

“Recapture Payment Adjustment” shall have the meaning set forth in Section 14.03(g).

“Recapture Payment Amount” means the amount of the payment due to the Cedant in respect of the recapture of the Reinsured Liabilities equal to the sum of (a) the Reserves as of the Recapture Effective Time *plus* (b) the Triggering Event IMR as of the Recapture Effective Time, *minus* (c) the Unamortized Ceding Commission as of the Recapture Effective Time.

“Recapture Payment Statement” means, as applicable, the Estimated Recapture Payment Statement, the Proposed Recapture Payment Statement or the Final Recapture Payment Statement.

“Recapture Review Period” shall have the meaning specified in Section 14.03(a).

“Receiving Party” shall have the meaning set forth in Section 18.16(a).

“Reconciliation Statement” shall have the meaning set forth in Section 3.05(a).

“Reconciliation Statement Objection” shall have the meaning set forth in Section 3.05(b).

“Recoverables” shall have the meaning set forth in Section 3.06.

“Reference File” means, collectively, the excel files titled “03.31.2020 FIA Infor v6.xlsx” and “Fixed Annuity Detail 03-31-2020.xlsx”.

“Reference Hedge Portfolio” means the hypothetical hedge portfolio set forth in the excel file referenced on Schedule 1.01(g).

“Regulatory Action” shall have the meaning set forth in Section 8.03(b).

“Reinsurance Credit Event” shall have the meaning set forth in Section 10.01.

“Reinsured Liabilities” means (a) Benefit Payments, (b) guaranty fund assessments payable by the Cedant to the extent relating to premiums received by the Cedant with respect to the Subject Annuities and (c) Reinsurer Extra-Contractual Obligations; provided, that in no event shall “Reinsured Liabilities” include any Excluded Liabilities.

“Reinsurer” shall have the meaning set forth in the Preamble.

“Reinsurer BEAT Event” means a BEAT Event resulting from a breach by the Reinsurer of its covenant set forth in Section 15.02(d).

“Reinsurer Books and Records” means originals or copies of all records and all other data and information (in whatever form or medium maintained) in the possession, custody or control of the Reinsurer to the extent related to the Subject Annuities, the Reinsured Liabilities or the assets held in the Trust Account; provided, however, that in no event shall “Reinsurer Books and Records” include (a) Tax returns and Tax records and all other data and information with respect to Taxes (other than with respect to premium taxes, excise taxes and similar Taxes), (b) files, records, data and information with respect to the employees of the Reinsurer and its Affiliates, (c) records, data and information with respect to any employee benefit plan established, maintained or contributed to by the Reinsurer or its Affiliates, (d) any materials prepared for the boards of directors of the Reinsurer or its Affiliates, (e) any corporate minute books, stock records or similar corporate records of the Cedant or its Affiliates, (f) any materials that are legally privileged, it being understood that the Reinsurer shall use commercially reasonable efforts to obtain waivers or make other arrangements that would enable any such item to be accessed by the Cedant without impinging on the ability to assert such privilege, (g) consolidated regulatory filings made by the Reinsurer and its Affiliates and any correspondence with Governmental Authorities not relating to the Subject Annuities or the Reinsured Liabilities or (h) any internal drafts, opinions, valuations, correspondence or other materials produced by, or provided between or among, the Reinsurer and its Affiliates or Representatives with respect to the negotiation or valuation of the transactions contemplated pursuant to the Investment Agreement.

“Reinsurer Extra-Contractual Obligations” means all Extra-Contractual Obligations relating to the Subject Annuities to the extent caused by or arising from any act or omission of the Reinsurer or any of its Affiliates.

“Reinsurer Financial Statements” shall have the meaning set forth in Section 16.03(h).

“Reinsurer Hedges” shall have the meaning set forth in Section 6.01(b).

“Reinsurer Indemnitees” means the Reinsurer, each of its subsidiaries and Affiliates, and its and their respective officers, directors, employees, agents, successors and assigns.

“Reinsurer Quarterly Asset Report” shall have the meaning set forth in Section 5.01(a).

“Reinsurer SAP” means the statutory accounting principles and practices prescribed by the Bermuda Monetary Authority applicable to Bermuda long-term Class E insurance companies.

“Reinsurer Termination Event” means any failure by the Cedant (or any successor by operation of law of the Cedant, including, but not limited to, any receiver, liquidator, rehabilitator, conservator or similar Person of the Cedant) to pay any material undisputed amount due to the Reinsurer under this Agreement payable by the Cedant and such failure has not been cured within forty-five (45) days after written notice thereof from the Reinsurer.

“Reinsurer Termination Notice” shall have the meaning set forth in Section 13.06.

“Related Party” means a “related party” within the meaning of Section 59(A)(g) of the Code.

“Representatives” of a Person means the directors, officers, employees, advisors, agents, stockholders, limited partners, equityholders, consultants, independent accountants, investment bankers, counsel or other representatives of such Person and of such Person’s Affiliates.

“Representatives of Senior Management” means, in the case of the Cedant, the individuals set forth on Schedule 1.01(c) and, in the case of the Reinsurer, the individuals set forth on Schedule 1.01(d); provided, however, that either party may, as to its own Representative of Senior Management, designate a new Representative of Senior Management at any time upon notice to the other party.

“Required Balance Statement” shall have the meaning set forth in Section 5.02(b).

“Required Trust Balance” means, as of any date of determination, an amount equal to (a) (i) the Required Trust Percentage *multiplied by* (ii) (A) the Reserves as of such date of determination (as set forth in the report delivered by the Cedant to the Reinsurer pursuant to Section 5.02(b)), *plus* (B) (x) prior to the occurrence of a Triggering Event, the Ceded IMR (as set forth in the report delivered by the Cedant to the Reinsurer pursuant to Section 5.02(b)) and (y) during the continuance of a Triggering Event, the Triggering Event IMR (as set forth in the report delivered by the Cedant to the Reinsurer pursuant to Section 5.02(b)), *minus* (b) the Maximum Additional Letter of Credit Amount, *minus* (c) the aggregate purchase cost as of such date of determination of any in-force Reinsurer Hedges (as set forth in the report delivered by the Reinsurer to the Cedant pursuant to Section 5.01(c)), *minus* (d) an amount equal to the excess of (i) the aggregate face amount of any Letters of Credit as of such date of determination *over* (ii) the Additional Letter of Credit Amount as of such date of determination, *minus* (e) the Funds Withheld Balance, *minus* (f) the aggregate remaining unamortized balance of all Excess Loss Payments, if any, as of such date of determination.

“Required Trust Percentage” means (a) prior to the occurrence of a Triggering Event, ninety-nine percent (99%) and (b) during the continuation of a Triggering Event, one hundred and one percent (101%).

“Reserves” means, as of any date of determination, an amount equal to, with respect to the Subject Annuities, the aggregate statutory reserves, as of such date of determination, maintained by the Cedant in respect of the Reinsured Liabilities (without regard to the transactions contemplated by this Agreement) for purposes of its statutory financial statements, determined in accordance with Cedant SAP in a manner consistent with the Cedant’s historical practices utilizing reserving methods and assumptions for applying Cedant SAP which are consistent with

the methods and assumptions utilized by the Cedant to prepare the Reference File; provided that in the event that, following a required change in Cedant SAP that occurs after the Closing Date, any deviation from such historical practices, methods and assumptions for applying Cedant SAP is required in order to comply with Cedant SAP, the Cedant and the Reinsurer shall cooperate in good faith to update such practices, methods and assumptions to minimize the impact of such change in Cedant SAP, provided that any such updated practices, methods and assumptions comply with Cedant SAP; provided, further, that, in no event will the Reserves include (a) additional actuarial reserves (as used in connection with Cedant SAP), if any, established by the Cedant as a result of any asset adequacy analysis or cash flow testing, (b) any asset valuation reserves (as used in connection with Cedant SAP) established by the Cedant, (c) any interest maintenance reserve (as used in connection with Cedant SAP) established by the Cedant or (d) any voluntary or other discretionary reserves, or any other reserve not directly attributable to specific Subject Annuities.

“Retrocession Confidentiality Obligations” shall have the meaning set forth in Section 18.16(a).

“Review Period” shall have the meaning set forth in Section 3.05(b).

“SAP Financial Statements” shall have the meaning set forth in Section 16.01(j).

“Second Level Consultation and Escalation Procedure” shall have the meaning set forth in Section 8.02(a).

“Second Level Representatives” shall have the meaning set forth in Section 8.02(a).

“Securities Intermediary” shall have the meaning set forth in the Recitals.

“Security and Control Agreement” shall have the meaning set forth in the Recitals.

“Servicing Agreements” shall have the meaning set forth in Section 16.01(o)(ii).

“Settlement Statement” shall have the meaning set forth in Section 5.02(b).

“Solvency Ratio Reporting Period” shall have the meaning set forth in Section 10.05(b).

“Statement of Objection” shall have the meaning set forth in Section 14.03(a).

“Statutory Book Value” means, as of any date of determination, (a) with respect to any cash or asset in the Funds Withheld Account, the carrying value of the subject asset as of such date of determination for purposes of the Cedant’s statutory financial statements, determined in accordance with Cedant SAP and (b) with respect to any cash or asset in the OC Account, the carrying value of the subject asset as of such date of determination for purposes of the Reinsurer’s statutory financial statements, determined in accordance with Reinsurer SAP.

“Subject Annuities” means (a) all fixed annuity and fixed indexed annuity policies, contracts, binders or slips written by the Cedant prior to the Effective Time that are listed in the excel files referenced on Schedule 1.01(e) and in-force as of the Effective Time, including any riders and any supplements, endorsements or amendments thereto, and extensions thereof, as of the Effective Time, and (b) all supplementary contracts issued by the Cedant on or following the Effective Time upon the annuitization of any annuity contract referenced in clause (a).

“Surrender Charge Period” shall have the meaning set forth in Schedule 2.03.

“Tax” or “Taxes” means all income, premium, alternative minimum, accumulated earnings, personal holding company, capital stock, gross receipts, value added, registration, premium, retaliatory, customs duties, severance, environmental, real property, personal property, ad valorem, occupancy, license, occupation, social security, disability, unemployment, workers’ compensation, estimated, excise, gross receipts, ad valorem, sales, use, employment, franchise, profits, gains, transfer, payroll, stamp taxes or any other taxes (whether payable directly or by withholding) imposed by any Tax Authority in each case, together with any interest and any penalties thereon or additional amounts with respect thereto; provided that any guaranty fund assessment or escheatment obligation shall not be treated as a Tax.

“Tax Authority” means any Governmental Authority having jurisdiction over the assessment, determination, collection or imposition of any Tax.

“Tax Treaty” shall have the meaning set forth in Section 15.01(b).

“Termination Date” shall have the meaning set forth in Section 13.01.

“Third Party Claim” shall have the meaning set forth in Section 17.04(a).

“Transferred Notes” shall have the meaning set forth in Section 16.02(f).

“Triggering Event” shall have the meaning set forth in Section 10.02.

“Triggering Event IMR” means, as of any date of determination, an amount equal to the greater of (a) (i) the portion of the Effective Date IMR that remains unamortized as of such date plus (ii) the interest maintenance reserve relating to the assets maintained in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account, determined in accordance with Cedant SAP, consisting of the pre-tax unamortized deferred gains and losses in respect of the assets maintained in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account, that is created on or following the Closing Date that is unamortized as of such date and (b) zero (0).

“Trust Account” shall have the meaning set forth in Section 9.01.

“Trust Agreement” shall have the meaning set forth in the Recitals, as such agreement may be amended from time to time by the parties.

“Trustee” shall have the meaning set forth in the Recitals.

“Unamortized Ceding Commission” means an amount equal to the product of the Ceding Commission multiplied by a fraction, the numerator of which is (a) twenty (20) minus (b) the full number of years that have elapsed from the Effective Time to the Recapture Effective Time and the denominator of which is twenty (20).

“Unfunded LOC Amount” shall have the meaning set forth in Section 9.05.

“Withheld Expense Allowance” shall have the meaning set forth in Section 4.02.

ARTICLE II REINSURANCE OF REINSURED LIABILITIES

Section 2.01 Plan of Reinsurance. Subject to the terms and conditions of this Agreement, as of the Effective Time, the Cedant hereby cedes to the Reinsurer, and the Reinsurer hereby accepts and agrees to assume and reinsure, on a combined funds withheld coinsurance and coinsurance basis, one hundred percent (100%) of the Reinsured Liabilities. The reinsurance effected under this Agreement shall be maintained in force, without reduction, unless such reinsurance is terminated as provided herein.

Section 2.02 Follow the Fortunes. Subject to the terms and conditions of this Agreement, the Reinsurer’s liability under this Agreement shall attach simultaneously with that of the Cedant under the Subject Annuities and the Reinsured Liabilities, and the Reinsurer’s liability under this Agreement shall be subject in all respects to the same terms, rates, conditions, interpretations, waivers, proportion of premiums paid to the Cedant without any deductions for brokerage, and to the same modifications, alterations, terminations, recaptures and cancellations, as the respective Subject Annuities and Reinsured Liabilities to which liability under this Agreement attaches, the true intent of this Agreement being that the Reinsurer shall, subject to the terms, conditions and limits of this Agreement, follow the fortunes of the Cedant under the Subject Annuities, and the Reinsurer shall be bound, without limitation, by all payments and settlements under the Subject Annuities entered into by or on behalf of the Cedant, subject in each case to the Cedant’s duty to discharge its obligations in accordance with the terms of this Agreement, including with respect to the exercise of any defenses, set-offs and counterclaims to which the Cedant would be entitled with respect to the Reinsured Liabilities.

Section 2.03 Discretionary Elements. The Cedant shall establish all Discretionary Elements in respect of the Subject Annuities taking into account the recommendations of the Reinsurer. The Reinsurer will be permitted to provide recommendations to the Cedant regarding the Discretionary Elements and, if so provided, the Cedant shall not unreasonably take any actions that contravene such recommendations and shall promptly incorporate such recommendations to the extent they comply with applicable Law and the terms of the Subject Annuities; provided, that it shall be deemed unreasonable for the Cedant to take any actions that contravene, or to fail to incorporate, any such recommendation to the extent that such recommendation provides for Discretionary Elements that are consistent with the policy with respect to Discretionary Elements reflected on Schedule 2.03 attached hereto. If the Cedant takes any actions that contravene such recommendations or otherwise fails to incorporate such recommendations, it shall promptly notify the Reinsurer in writing thereof.

Section 2.04 Ultimate Authority. Except as otherwise provided herein, and subject to the terms and conditions hereof, the Cedant shall retain the ultimate authority to make all final decisions with respect to the administration of the Subject Annuities.

Section 2.05 Reinstatement of Subject Annuities. Upon the reinstatement of any surrendered Subject Annuity, which reinstatement is in accordance with the terms and conditions of such Subject Annuity, the Reinsurer shall, upon receipt of written notice thereof from the Cedant, (a) automatically reinsure the Reinsured Liabilities arising out of or relating to such reinstated Subject Annuity as set forth in Section 2.01 and (b) be entitled to receive all Recoverables relating to such reinstated Subject Annuity.

Section 2.06 Restriction on Retrocession. The Reinsurer may only retrocede, in the aggregate, an amount less than twenty-five percent (25%) of the Reinsured Liabilities to a Person either (a) with a financial strength rating at least equal to “A2,” “A” or “A” from two (2) or more of Moody’s Investors Service, Inc., A.M. Best Ratings Services, Fitch Ratings Inc. and Standard & Poor’s Financial Services LLC, respectively, or (b) approved in writing by the Cedant prior to such retrocession (such approval not to be unreasonably withheld, conditioned or delayed); provided, however, that no such restriction on retrocession shall apply to retrocessions to an Affiliate of the Reinsurer.

Section 2.07 Policy Changes. The Cedant shall not, without the prior written consent of the Reinsurer, terminate, amend, modify or waive any provision or provisions of the Subject Annuities, except to the extent required by applicable Law or the terms of the Subject Annuities; provided that any termination, amendment, modification or waiver of any provision or provisions of the Subject Annuities that results from any election by a Customer of a Subject Annuity pursuant to a term or feature of such Subject Annuity shall not be considered a termination, amendment, modification or waiver for purposes of this Section 2.07. Any such terminations, amendments, modifications or waivers made without the prior written consent of the Reinsurer shall be disregarded for purposes of this Agreement, and the reinsurance with respect to the affected policy will continue as if such termination, amendment, modification or waiver had not been made.

Section 2.08 Programs of Internal Replacement. Without the prior written consent of the Reinsurer, the Cedant shall not solicit, or allow any of its Affiliates to solicit, directly or indirectly, Customers of the Subject Annuities in connection with any program of internal replacement. A "program of internal replacement" means any program sponsored or supported by the Cedant or any of its Affiliates that is offered to all or a class of Customers and in which a Subject Annuity or a portion of a Subject Annuity is targeted for replacement by, or exchange for, another policy that is written by the Cedant or any Affiliate of the Cedant, or any successor or assignee of any of them; provided, however, that, for the avoidance of doubt, any program executed by any of the Cedant's distribution channels without sponsorship or support from the Cedant, regardless of the effects thereof on the Subject Annuities, shall not constitute a "program of internal replacement." In the event that the Reinsurer reasonably determines that any such program executed by any of the Cedant's distribution channels has occurred, then the Reinsurer may provide notice to the Cedant of the Reinsurer's desire to reinsure annuity contracts issued pursuant to any such program. Upon receipt of the Reinsurer's notice thereof, the Cedant shall discuss with the Reinsurer in good faith providing the opportunity for the Reinsurer to reinsure any annuity contracts that are issued by the Cedant or any of its Affiliates in replacement of, or in exchange for, a Subject Annuity or a portion of a Subject Annuity in connection with any such program on terms mutually agreeable to the Reinsurer and the Cedant. For the avoidance of doubt, the Cedant shall have no obligation to monitor whether any such program is being executed by any of the Cedant's distribution channels.

Section 2.09 Misstatement of Fact. In the event of a change in the amount payable under a Subject Annuity due to a misstatement of fact, the Reinsurer's liability with respect to such Subject Annuity will change proportionately. Such Subject Annuity will be rewritten from commencement on the basis of the adjusted amounts using premiums and such other terms based on the correct facts, and the proper adjustment for the difference in Premiums, without interest, will be made.

Section 2.10 Conservation Program. Upon the request of the Reinsurer, the Cedant shall reasonably cooperate and discuss in good faith the development and implementation of a conservation program with respect to the Subject Annuities. All costs, expenses and fees associated with any such conservation program shall be borne by the Reinsurer.

Section 2.11 IMR. The Cedant and the Reinsurer agree that the Ceded IMR shall be ceded to the Reinsurer.

Section 2.12 Valuation of Liabilities. The Cedant shall be responsible for calculating the Reserves and the tax reserves with respect to the Subject Annuities. Except to the extent required to comply with changes to applicable Law, the Cedant shall not modify or change its valuation methodology or basis for valuation, including valuation interest rates or mortality assumptions, in respect of the Subject Annuities without the prior written consent of the Reinsurer.

ARTICLE III REINSURANCE PREMIUM; CEDING COMMISSION

Section 3.01 Initial Premium.

(a) The Initial Premium shall be payable by the Cedant to the Reinsurer on the Closing Date. The payment of the Initial Premium is a condition precedent to the liability of the Reinsurer under this Agreement. The Cedant's obligation to pay the Initial Premium to the Reinsurer shall be satisfied on the Closing Date in accordance with Section 3.03(b). The Initial Premium and the components thereof shall be subject to adjustment following the Closing Date in accordance with Section 3.05.

(b) The "Initial Premium" shall be an amount equal to:

(i) the aggregate statutory reserves, as of the Effective Time, in respect of the Reinsured Liabilities (without regard to the transactions contemplated by this Agreement), determined in a manner consistent with the Cedant's historical practices utilizing reserving methods and assumptions for applying Cedant SAP which are consistent with the reserving methods and assumptions utilized by the Cedant to prepare the Reference File; *plus*

(ii) the Effective Date IMR.

Section 3.02 Ceding Commission. The Ceding Commission shall be payable by the Reinsurer to the Cedant on the Closing Date. The Reinsurer's obligation to pay the Ceding Commission to the Cedant shall be satisfied on the Closing Date in accordance with Section 3.03(b). The payment of the Ceding Commission shall be subject to adjustment following the Closing Date in accordance with Section 3.05.

Section 3.03 Closing Date Net Settlement.

(a) Prior to the date hereof, the Cedant has delivered to the Reinsurer a statement (the "Estimated Settlement Statement") setting forth (i) the Cedant's good faith calculation of (A) the amount of the Initial Premium, calculated on an estimated basis as of the Closing Date (such amount, the "Estimated Initial Premium") and (B) the Ceding Commission calculated using the Hedge Adjustment Amount calculated on an estimated basis as of June 11, 2020 (the "Estimated Ceding Commission") and (ii) a list of the assets to be deposited into the Funds Withheld Account or otherwise allocated to the Funds Withheld Account on the Closing Date pursuant to Section 3.03(b) (the "Initial Funds Withheld Assets"), and the Cedant's good faith calculation of the Statutory Book Value of each such asset as of the Effective Time (inclusive of accrued interest).

(b) On the Closing Date, in satisfaction of the Cedant's obligation to pay the Initial Premium to the Reinsurer and the Reinsurer's obligation to pay the Ceding Commission to the Cedant, the Cedant shall transfer Initial Funds Withheld Assets into the Funds Withheld Account (or, with respect to the Boxed Assets and the Transferred Notes, allocate such Initial Funds Withheld Assets to the Funds Withheld Account pursuant to Section 16.02(f) or (g), as applicable) with an aggregate Statutory Book Value (inclusive of accrued interest) as of the Effective Time equal to (i) the Estimated Initial Premium *minus* (ii) the Estimated Ceding Commission.

Section 3.04 Initial Funds Withheld Account Adjustment; Initial OC Account Funding.

(a) On the fifth (5th) Business Day following the Closing Date (the "Interim Settlement Date"), the parties shall conduct an initial Funds Withheld Account Adjustment as of such date (the "Interim Funds Withheld Account Adjustment"). The Interim Funds Withheld Account Adjustment shall be calculated and reported to the Reinsurer by the Cedant substantially in the form attached hereto as Schedule 3.04(a) (the "Initial Funds Withheld Account Adjustment Statement"), and such amount shall be payable as follows:

(i) if the Funds Withheld Reserves as of the Effective Time *minus* the Interim Settlement Date Funds Withheld Balance is positive, then the Reinsurer shall pay to the Cedant for immediate allocation to the Funds Withheld Account an amount equal to such positive amount; or

(ii) if the Funds Withheld Reserves as of the Effective Time *minus* the Interim Settlement Date Funds Withheld Balance is negative, then the Cedant shall withdraw cash or assets selected by the Reinsurer with a Statutory Book Value equal to the absolute value of such negative amount from the Funds Withheld Account and transfer to (A) the OC Account, on behalf of the Reinsurer, cash or assets with a Fair Market Value equal to the Required Trust Balance as of the Closing Date and (B) the Reinsurer, any such cash or assets not transferred to the OC Account.

(b) If the Fair Market Value of the assets transferred to the OC Account by the Cedant pursuant to Section 3.04(a)(ii)(A) is less than the Required Trust Balance as of the Closing Date, then on the Interim Settlement Date, the Reinsurer shall deposit into the OC Account OC Account Permitted Investments with a Statutory Book Value equal such deficiency.

Section 3.05 Post-Closing Adjustment.

(a) Within sixty (60) days following the Closing Date, the Cedant shall deliver to the Reinsurer a statement (the "Reconciliation Statement") prepared in good faith by the Cedant in the same form as the Estimated Settlement Statement setting forth the Cedant's good faith calculation of (i) the actual amount of the Initial Premium (such amount, the "Actual Initial Premium") and (ii) the actual Ceding Commission calculated using the actual Hedge Adjustment Amount as of the Closing Date (the "Actual Ceding Commission").

(b) Following receipt of the Reconciliation Statement, the Reinsurer shall have sixty (60) days (the "Review Period") to review such Reconciliation Statement. In connection with the review of the Reconciliation Statement, the Cedant shall provide, and shall cause its Affiliates to provide, the Reinsurer and its Representatives, upon the request of the Reinsurer, reasonable access to the Cedant Books and Records and all work papers and supporting detail prepared by the Cedant and its Representatives and advisors in connection with the preparation of the Reconciliation Statement and make reasonably available to the Reinsurer and its Representatives personnel of the Cedant and its Affiliates that have been involved in the preparation of the Reconciliation Statement. If the Reinsurer has accepted the Reconciliation Statement in writing or has not given written notice to the Cedant setting forth any objection to the Reconciliation Statement (a "Reconciliation Statement Objection") prior to the expiration of the Review Period, then the Reconciliation Statement shall be final and binding upon the parties. The Reinsurer may only object to a Reconciliation Statement on the basis of (i) mathematical error, (ii) the Actual Initial Premium not being determined in accordance with the terms hereof, including the definition of "Initial Premium" or (iii) the Actual Ceding Commission not being determined in accordance with the terms hereof, including the definitions of "Ceding Commission" and "Hedge Adjustment Amount" (collectively, the "Agreed Bases"). If the Reinsurer delivers a Reconciliation Statement Objection to the Reconciliation Statement prior to the expiration of the Review Period, then the parties shall attempt to amicably resolve any such objection within thirty (30) days following receipt by the Cedant of the Reconciliation Statement Objection.

(c) If any such objections are resolved in writing by the parties, then such resolutions shall be final and binding upon the parties and shall be incorporated into the Reconciliation Statement. If any such objections are not resolved in writing within thirty (30) days following receipt by the Reinsurer of the Reconciliation Statement, then the parties shall submit any such objections which remain unresolved to the Independent Accountant.

(d) Within ten (10) Business Days of the appointment of the Independent Accountant, the Cedant shall provide the Independent Accountant with a copy of the Reconciliation Statement (as modified by any adjustments agreed to in writing by the parties pursuant to [Section 3.05\(c\)](#)), and the Reinsurer and the Cedant shall each prepare and deliver to the Independent Accountant a written report of such line item or items remaining in dispute, which report shall set forth the specific dollar amount proposed by such party for each such item or items and a detailed explanation of the basis and rationale for such party's positions.

(e) The Independent Accountant shall thereafter finally determine the manner in which such disputed item or items shall be treated in the Reconciliation Statement and issue a written award including a reasonably detailed accounting of any required change to the Reconciliation Statement. In making its determination, the Independent Accountant shall (i) consider only those items that are (A) identified in the Reconciliation Statement Objection as in dispute and (B) were not resolved in writing by the Reinsurer and the Cedant, (ii) base its determination solely on such reports submitted by the Reinsurer and the Cedant and the Agreed Bases and not on the basis of an independent review, (iii) not assign a value to any item greater than the greatest value for such item claimed by either the Reinsurer in the Reconciliation Statement Objection or the Cedant in the Reconciliation Statement, or less than the smallest value for such item claimed by either the Reinsurer in the Reconciliation Statement Objection or the Cedant in the Reconciliation Statement, as applicable, and (iv) barring exceptional circumstances, make its determination within thirty (30) days of its appointment; provided that the failure of the Independent Accountant to make its determination in such thirty (30) day period shall not be grounds to defend against or object to the enforcement of such determination.

(f) Each of the Reinsurer and the Cedant agree to enter into a customary engagement letter with the Independent Accountant. The Reinsurer and the Cedant shall reasonably cooperate with the Independent Accountant and shall provide, upon the request of the Independent Accountant, any non-privileged information and documentation, including any actuaries' or accountants' work papers or internal reserving papers, files and models, and make reasonably available to the Independent Accountant personnel of the Cedant and its Affiliates, on the one hand, and the Reinsurer and its Affiliates, on the other hand, in each case that have been involved in the preparation of the Reconciliation Statement; provided, however, that the independent actuaries or accountants of the Reinsurer or the Cedant shall not be obligated to make any working papers available to the Independent Accountant unless and until the Independent Accountant has signed a customary confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent actuaries or accountants, as applicable. Any such information and documentation provided by the Reinsurer or the Cedant to the Independent Accountant shall concurrently be provided to the other party to the extent not already so provided; provided, however, that the independent actuaries or accountants of the Reinsurer or the Cedant shall not be obligated to make any working papers available to the other party unless and until the other party has signed a customary confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent actuaries or accountants, as applicable. Neither party shall disclose to the Independent Accountant, and the Independent Accountant shall not consider for any purpose, any settlement discussions or settlement offer made by either party with respect to any objection under this [Section 3.05](#) unless otherwise agreed in writing by both parties.

(g) The determination by the Independent Accountant of the Actual Initial Premium and the Actual Ceding Commission shall be final and binding upon the parties; provided, however, that within three (3) Business Days after the transmittal of the Independent Accountant's award, either party may request in writing to the Independent Accountant, with a copy thereof provided to the other party in accordance with [Section 18.02](#), with such request solely limited to the Independent Accountant correcting any clerical, typographical or arithmetic errors in such award. The other party shall have three (3) Business Days to respond to the Independent Accountant in writing to such request, with a copy thereof provided to the other party in accordance with [Section 18.02](#). The Independent Accountant shall dispose of such request, if no response was received during such three (3) Business Day period from the other party, within five (5) Business Days after receiving such request or, if such a response was received during such period, within three (3) Business Days of its receipt of such a response. The determinations by the Independent Accountant shall be an expert determination under Michigan Law governing expert determination and appraisal proceedings. Either party hereto may petition any court identified in [Section 18.08](#) to reduce such decision to judgment. One-half of all fees, costs and expenses of retaining the Independent Accountant shall be borne by the Reinsurer and one-half of such fees, costs and expenses of retaining the Independent Accountant shall be borne by the Cedant. For the avoidance of doubt, the Independent Accountant shall act as an expert, not as an arbitrator, and neither the determination of the Independent Accountant, nor this agreement to submit to the determination of the Independent Accountant, shall be subject to or governed by the Federal Arbitration Act, 9 U.S.C. § 1 et seq., or any state arbitration Law or regime.

(h) The "Initial Premium Adjustment" shall be an amount equal to (i) (A) the amount of the Actual Initial Premium, as finalized pursuant to the procedures set forth in this [Section 3.05](#), *minus* (B) the Estimated Initial Premium, *minus* (ii) (A) the Actual Ceding Commission, as finalized pursuant to the procedures set forth in this [Section 3.05](#), *minus* (B) the Estimated Ceding Commission. If the Initial Premium Adjustment is positive, then the Cedant shall deposit into the Funds Withheld Account an amount of cash equal to the Initial Premium Adjustment within five (5) Business Days following the final determination of the Actual Initial Premium in accordance with the procedures set forth in this [Section 3.05](#), together with an amount of interest on the Initial Premium Adjustment calculated at the Interest Rate for the period from the Closing Date to, but not including, the date of payment. If the Initial Premium Adjustment is negative, then the Cedant shall be permitted to withdraw from the Funds Withheld Account an amount of cash or, if sufficient cash is not available in the Funds Withheld Account, assets with a Fair Market Value equal to the absolute value of the Initial Premium Adjustment within five (5) Business Days following the final determination of the Actual Initial Premium in accordance with the procedures set forth in this [Section 3.05](#), together with an amount of interest on the absolute value of the Initial Premium Adjustment calculated at the Interest Rate for the period from the Closing Date to, but not including, the date of payment.

Section 3.06 Ongoing Liabilities of Cedant. The Reinsurer shall be entitled to receive, in accordance with the settlement procedures set forth in [Article V](#), one hundred percent (100%) of all Premiums in respect of the Subject Annuities and any and all other collections and recoveries relating to the Reinsured Liabilities and the Subject Annuities, in each case, to the extent received by or on behalf of the Cedant after the Effective Time (the "Recoverables").

Section 3.07 Ongoing Liabilities of ReinsurerSection 3.07 Ongoing Liabilities of Reinsurer2. From and after the Effective Time, the Reinsurer shall indemnify the Cedant, in accordance with the settlement procedures set forth in Article V, for the Reinsured Liabilities.

ARTICLE IV EXPENSE ALLOWANCE

Section 4.01 Expense Allowance. From and after the Effective Time, the Cedant shall be entitled to an expense allowance (the "Expense Allowance"), which Expense Allowance shall be paid to the Cedant in accordance with the settlement procedures set forth in Article V and calculated in accordance with Schedule 4.01. The Reinsurer shall not be liable for any other allowances or expenses with respect to the Subject Annuities except as set forth in the definition of "Reinsured Liabilities".

Section 4.02 Reinsurer's Right to Withhold. Notwithstanding anything to the contrary set forth in Section 4.01, in the event that any issue, question or concern is identified with respect to the Cedant's (or any third-party administrator's or agent's) performance of the Administrative Services and such issue, question or concern has not been resolved pursuant to the procedures set forth in Section 8.02(a) and has resulted in a pattern and practice of materially deficient performance of the Administrative Services by the Cedant (or such third-party administrator or agent) that has caused or would reasonably be expected to cause the Reinsurer to sustain economic damages in an aggregate amount, together with economic damages in respect of all issues, questions or concerns that remain unresolved under Section 8.02(a) in excess of the Minimum Threshold Amount, other than any issue, question or concern that is the subject of a pending dispute pursuant to Section 5.03 (each, an "Expense Allowance Withholding Event"), the Reinsurer shall have the right to withhold an amount of the Expense Allowance payable to the Cedant pursuant to Section 4.01 equal to the amount of economic damages sustained as a result of such materially deficient performance (the "Withheld Expense Allowance"). The Reinsurer shall have the right to withhold any Withheld Expense Allowance with respect to each Quarterly Accounting Period during the continuance of the applicable Expense Allowance Withholding Event, and upon an Expense Allowance Withholding Event no longer continuing, the Reinsurer shall pay (i) to the Cedant the amount, if any, by which the Withheld Expense Allowance exceeded the economic damages actually sustained by the Reinsurer as a result of such materially deficient performance and (ii) the full amount of the Expense Allowance to the Cedant beginning in the subsequent Quarterly Accounting Period in accordance with Section 5.04.

ARTICLE V

ACCOUNTING, SETTLEMENT AND REPORTING

Section 5.01 Reinsurer Reporting.

(a) Within ten (10) Business Days after the end of each Quarterly Accounting Period, the Reinsurer shall deliver to the Cedant a report (the "Reinsurer Quarterly Asset Report") in the form of, and containing for such Quarterly Accounting Period the information reflected in, Schedule 5.01(a), including (a) a listing of each OC Account Permitted Investment on deposit in the OC Account, (b) the Statutory Book Value and the Fair Market Value of such OC Account Permitted Investments, both on an asset-by-asset basis and an aggregate basis, and (c) a listing of each Reinsurer Hedge and the purchase cost of the Reinsurer Hedges, both on an asset-by-asset and an aggregate basis.

(b) Within ten (10) Business Days following the end of each Quarterly Accounting Period, the Reinsurer shall deliver to the Cedant a report setting forth, with respect to structured credit assets held in the Funds Withheld Account, projected cash flows provided by the Investment Manager or book value calculations prepared by the Reinsurer, which shall be used by the Cedant in connection with the preparation of the Cedant Quarterly Report for such Quarterly Accounting Period.

(c) The Reinsurer shall provide the Cedant with an estimated calculation of its ECR Ratio and its RBC Ratio, each in accordance with Section 10.05.

(d) Upon request, the Reinsurer will promptly provide the Cedant with any additional information related to the reinsurance being provided hereunder that the Cedant may reasonably request in connection with the preparation of its financial statements.

Section 5.02 Cedant Reporting.

(a) The Cedant shall deliver to the Reinsurer a monthly report (i) within five (5) Business Days following the end of each calendar month, a report of the Subject Annuities in a form mutually agreed by the Reinsurer and the Cedant, which shall include, among other things, a roll-forward of policy count, account values and Reserves with respect to the Subject Annuities and (ii) within three (3) Business Days following the end of each calendar month, a report containing seriatim information identified on Schedule 5.02(a)(ii) with respect to each of the Subject Annuities, which shall be redacted such that it does not include information identifiable to an individual Customer.

(b) Within ten (10) Business Days after the end of each Quarterly Accounting Period, the Cedant shall deliver to the Reinsurer a report (the "Cedant Quarterly Report") in the form of, and containing for such Quarterly Accounting Period the information reflected in, Schedule 5.02(b), including (i) a statement (the "Settlement Statement"), in the form of Schedule 5.02(b)(i), which shall set forth (A) calculations of the net amounts due to the Reinsurer from the Cedant or to the Cedant from the Reinsurer, as applicable for the applicable Quarterly Accounting Period (the "Net Settlement Amount"), which, for the avoidance of doubt, shall take into account any amounts directly discharged by or on behalf of the Cedant by means of withdrawal from the Funds Withheld Account in accordance with Section 6.02(c) and shall include

(1) Recoverables received by or on behalf of the Cedant or its Affiliates during such Quarterly Accounting Period, (2) Reinsured Liabilities actually paid by Cedant during such Quarterly Accounting Period, (3) the Expense Allowance in respect of such Quarterly Accounting Period and (4) any Excess Loss Payment or amortization thereof and (B) the Statutory Book Value of the Funds Withheld Permitted Investments held in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account as of the end of such Quarterly Accounting Period, both on an asset-by-asset basis and an aggregate basis and reflecting any realized investment results on the assets held in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account for the current Quarterly Accounting Period (such aggregate Statutory Book Value, the “Funds Withheld Balance”), the Funds Withheld Reserves as of the end of such Quarterly Accounting Period and the Funds Withheld Account Adjustment for such Quarterly Accounting Period, (ii) a statement (the “Required Balance Statement”), in the form of Schedule 5.02(b)(ii), which shall set forth the Required Trust Balance as of the end of such Quarterly Accounting Period, (iii) a report of the assets held in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account and an investment accounting report, in the form of Schedule 5.02(b)(iii), which shall include holdings, book value roll-forward and income reports, in each case on a CUSIP level (based on, with respect to structured credit assets, cash flows provided by the Investment Manager or book value calculations provided by the Reinsurer pursuant to Section 5.01(b)) and (iv) a report setting forth a calculation of the Ceded IMR and the Triggering Event IMR.

(c) Within fifteen (15) Business Days following the end of each Quarterly Accounting Period, the Cedant shall provide to the Reinsurer a copy of any log of Customer complaints maintained by or on behalf of the Cedant relating to the Subject Annuities.

(d) No later than 4:00 p.m. Eastern Time on each Business Day on which the Cedant withdraws cash from the Funds Withheld Account to pay, or to reimburse the Cedant for the payment of, Benefit Payments, the Cedant shall provide written notice of the net withdrawal amount thereof to the Reinsurer.

(e) The Cedant shall deliver to the Reinsurer the information identified on Schedule 5.02(e) in accordance with the terms thereof. The parties shall from time to time amend Schedule 5.02(e), as necessary to ensure the adequacy of reporting thereunder.

(f) Upon request, the Cedant will, within a reasonable time frame, promptly provide the Reinsurer with any additional information related to the Subject Annuities and the transactions contemplated by this Agreement that the Reinsurer may reasonably request in connection with the preparation of its financial statements. The Reinsurer will identify and communicate any such requests to the Cedant sufficiently in advance of any required deadlines, to the extent practicable, such that the applicable information and timing for the provision thereof can be mutually agreed by the parties.

Section 5.03 Dispute Resolution.

(a) If the Cedant has any good faith objection to the calculation of any valuation set forth in any Reinsurer Quarterly Asset Report or the Reinsurer has any good faith objection to any item or items in any Cedant Quarterly Report, the Cedant or the Reinsurer, as applicable (in such capacity, the “Objecting Party”), shall deliver to the other party written notice thereof, together with reasonable supporting detail concerning the Objecting Party’s objection within thirty (30) days after its receipt of the applicable Quarterly Report. The parties hereby acknowledge and agree that their respective ability to object to Quarterly Reports in accordance with this Section 5.03 is exclusive of all other rights of the parties to challenge such Quarterly Reports. If a notice of objection in respect of a Quarterly Report is provided by an Objecting Party to the other party, the Quarterly Settlement Dispute Representatives of each of the Cedant and the Reinsurer shall attempt in good faith to resolve any such objections between themselves, which negotiations shall be conducted within ten (10) Business Days following the delivery of a notice of objection (“Level One Negotiations”). If an objection is so resolved between the Cedant and the Reinsurer, then the applicable Quarterly Report shall be amended as agreed in writing between the parties. If such Quarterly Settlement Dispute Representatives are unable to resolve any such objections within ten (10) Business Days after the parties have commenced Level One Negotiations, then such objections shall be referred to the Representatives of Senior Management for resolution (“Level Two Negotiations”).

(b) If the parties are unable to reach resolution on a Quarterly Report pursuant to Section 5.03(a) within ten (10) Business Days after the parties have commenced Level Two Negotiations, either party may submit the dispute to the Independent Accountant. The parties shall instruct the Independent Accountant to limit its review to matters objected to by the Objecting Party and not resolved by written agreement of the parties, and the decision of such Independent Accountant with respect to any such dispute shall be (i) in the case of an objection by the Cedant, compliant with the definition of Statutory Book Value or Fair Market Value, as applicable, and (ii) in all cases, (A) final and binding on the parties, (B) within the range of the parties’ dispute and (C) incorporated into the applicable Quarterly Report; provided, however, that the Cedant or the Reinsurer may request that the Independent Accountant correct any clerical, typographical or computational errors in its decision within three (3) Business Days of the delivery of such decision to such party.

(c) The fees of such Independent Accountant shall be borne equally by the parties.

(d) Each party agrees to enter into a customary engagement letter with the Independent Accountant. Each party shall reasonably cooperate with the Independent Accountant and shall provide, upon the request of the Independent Accountant, any non-privileged information and documentation, including any actuaries’ or accountants’ work papers or internal actuarial or accounting records or reserving papers, files and models, and make reasonably available to the Independent Accountant such personnel that have been involved in the preparation of the Cedant Quarterly Report, the Reinsurer Quarterly Asset Report or the notice of objection, as applicable; provided, however, that the independent actuaries or accountants of each party shall not be obligated to make any working papers available to the Independent Accountant unless and until the Independent Accountant has signed a customary confidentiality and hold harmless agreement relating to such access to

working papers in form and substance reasonably acceptable to such independent actuaries or accountants, as applicable. Any such information and documentation provided by the parties to the Independent Accountant shall concurrently be provided to the other party to the extent not already so provided; provided, however, that the independent actuaries or accountants of each party shall not be obligated to make any working papers available to the other party unless and until the other party has signed a customary confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent actuaries or accountants, as applicable. Without limitation of the foregoing, in connection with the review of a Reinsurer Quarterly Asset Report, a Cedant Quarterly Report or a dispute relating to any of the foregoing, each party shall provide, and shall cause its Affiliates to provide, to the other party, upon the request of such other party, reasonable access to the Cedant Books and Records or the Reinsurer Books and Records (as applicable) and all work papers and supporting detail prepared by such party and its Representatives and advisors in connection with the preparation of a Quarterly Report or a Cedant Quarterly Report (as applicable) or a dispute relating to any of the foregoing, and make reasonably available to the requesting party personnel that have been involved in the preparation of the Reinsurer Quarterly Asset Report or Cedant Quarterly Report (as applicable) or a dispute relating to any of the foregoing.

(e) A party's obligation to make payment pursuant to Section 5.04 or, in the case of the Reinsurer, to make a deposit to the OC Account pursuant to Section 9.02, to the extent such payment amount or deposit amount is not in dispute, shall become due on the date specified in such Sections, irrespective of the pendency of any dispute initiated pursuant to this Section 5.03. Any disputed amounts that are subsequently determined to be due shall be paid or deposited with interest calculated thereon at the Interest Rate from the date such payment or deposit would have been due if not disputed to the date of payment or deposit. Any amounts paid by a party pursuant to Section 5.04 that are subsequently determined not to be due shall be refunded to such party with interest calculated thereon at the Interest Rate from the date of payment thereof to the date prior to the date of refund.

Section 5.04 Quarterly Settlement Payments; Funds Withheld Account Adjustments; Delayed Payments.

(a) The Net Settlement Amount payable under this Agreement shall be calculated by the Cedant and reported to the Reinsurer in the Cedant Quarterly Report delivered with respect to such Quarterly Accounting Period. Each Net Settlement Amount shall be payable as follows:

(i) if the Net Settlement Amount as shown on the Settlement Statement is a positive amount, then the Cedant shall deposit cash equal to such amount into the Funds Withheld Account; or

(ii) if the Net Settlement Amount as shown on the Settlement Statement is a negative amount, then the Cedant shall withdraw from the Funds Withheld Account cash equal to the absolute value of such amount; provided, that if that the absolute value of such negative Net Settlement Amount is greater than the cash in the Funds Withheld Account as of the time of withdrawal, then the Reinsurer shall pay the amount of such difference to the Cedant in cash no later than five (5) Business Days after receipt by the Reinsurer of written notice of such deficiency.

(b) The Funds Withheld Account Adjustment payable under this Agreement shall be calculated by the Cedant and reported to the Reinsurer in the Cedant Quarterly Report delivered with respect to such Quarterly Accounting Period. Each Funds Withheld Account Adjustment shall be payable as follows:

(i) if the Funds Withheld Account Adjustment reflected in the Funds Withheld Account Adjustment Statement for the applicable Quarterly Accounting Period is positive, then the Reinsurer shall pay to the Cedant for immediate deposit into the Funds Withheld Account an amount equal to the Funds Withheld Account Adjustment; or

(ii) if the Funds Withheld Account Adjustment reflected in the Funds Withheld Account Adjustment Statement for the applicable Quarterly Accounting Period is negative, then the Cedant shall withdraw cash or assets selected by the Reinsurer with a Statutory Book Value equal to the absolute value of the Funds Withheld Account Adjustment from the Funds Withheld Account and transfer such cash or assets to the Reinsurer.

For purposes hereof, "Funds Withheld Account Adjustment" shall mean, as of any date of determination, an amount equal to (a) the Funds Withheld Reserves as of such date, *minus* (b) the Funds Withheld Balance as of such date, *minus* (c) any Net Settlement Amounts due and unpaid by the Cedant as of such date.

(c) Any payment, withdrawal, transfer or crediting of amounts required under this Section 5.04 shall be made within five (5) Business Days following the date of the delivery of the applicable Cedant Quarterly Report. If there is a delayed settlement of any payment due under this Section 5.04, interest will accrue on such overdue payment at the Interest Rate until settlement is made. For purposes of this Section 5.04, a payment will be considered overdue, and such interest will begin to accrue, on the first day immediately following the date such payment is due and a payment shall be deemed to be due hereunder on the last date on which such payment may be timely made under the applicable provision.

Section 5.05 Offset and Recoupment Rights. Any undisputed debits or credits incurred on and after the Effective Time in favor of or against either the Cedant or the Reinsurer with respect to this Agreement between the parties are deemed mutual debits or credits, as the case may be, and, to the extent permitted under applicable Law, shall be set off and recouped, and only the net balance shall be

allowed or paid. This Section 5.05 shall apply to the fullest extent permitted by applicable Law notwithstanding the initiation or commencement of a liquidation, insolvency, rehabilitation, conservation, supervision or similar proceeding by or against the Cedant or the Reinsurer.

Section 5.06 No Set-off Against Other Agreements. Notwithstanding anything to the contrary in this Agreement, each of the parties acknowledges and agrees that it shall have no right hereunder or pursuant to applicable Law to offset any amounts due or owing (or to become due or owing) following the Effective Time to the other party under this Agreement against any amounts due or owing by such other party or any of its Affiliates under any other agreement, contract or understanding.

ARTICLE VI HEDGING; FUNDS WITHHELD ACCOUNT

Section 6.01 Hedging.

(a) The Reinsurer shall be responsible for hedging the index risk and other risks associated with the Subject Annuities.

(b) From and after the date hereof, if the Reinsurer intends to acquire any fully paid derivatives for the purpose of hedging the index risk associated with the Subject Annuities with a derivatives counterparty (each, a "Hedge Counterparty") with respect to which the Reinsurer and the Cedant have not already entered into a Hedge Assignment Agreement, then the Reinsurer shall provide the Cedant with a copy of the applicable "ISDA Master Agreement" (as defined in the Hedge Collateral Assignment Agreement) and, provided that such ISDA Master Agreement permits the Reinsurer to enter into only derivatives transactions thereunder that are fully paid by the Reinsurer and such ISDA Master Agreement includes: (i) a mark-to-market, optional termination clause providing for each such derivatives transaction to automatically terminate one (1) Business Day following notice from either Cedant or Reinsurer to the Hedge Counterparty that the Cedant has elected to recapture all of the Reinsured Liabilities in accordance with the terms hereunder, (ii) a "fully prepaid transaction" clause that prohibits the Hedge Counterparty from terminating the derivatives transactions under such ISDA Master Agreement due to an "Event of Default" or "Termination Event" with respect to the Reinsurer under the ISDA Master Agreement (except that, if required by a Hedge Counterparty, the ISDA Master Agreement may permit (x) termination under Section 5(a)(iii) of the ISDA Master Agreement with respect to a failure by Reinsurer to return posted collateral to the Hedge Counterparty and (y) termination under Section 5(b)(i) of the ISDA Master Agreement with respect to an illegality with respect to the ISDA Master Agreement or any transaction thereunder), then the parties shall promptly enter into a hedge collateral assignment agreement, substantially in the form attached hereto as Exhibit F, together with such changes as are reasonably required by the applicable Hedge Counterparty thereto and consented to by the Cedant and the Reinsurer (which consent shall not be unreasonably withheld, conditioned or delayed) (the "Hedge Collateral Assignment Agreement"), pursuant to which the Reinsurer shall collaterally assign, for the benefit of the Cedant, as additional collateral to secure the Reinsured Liabilities, all of the Reinsurer's beneficial interest, in to or under the "Hedge Agreements" (as defined in the Hedge Collateral Assignment Agreement) (any such fully paid derivatives, the "Reinsurer Hedges"), including posted collateral, any and all payments, disbursements, distributions, or proceeds therein. The Reinsurer shall deposit (or cause to be deposited) into the OC Account any such payments, disbursements, distributions or proceeds (other than posted collateral) payable in respect of the Reinsurer Hedges. The Reinsurer shall cause each Hedge Counterparty to deposit any collateral posted by such Hedge Counterparty in respect of a Reinsurer Hedge into the applicable Hedge Collateral Account.

Section 6.02 Funds Withheld Account.

(a) From and after the Effective Time, the Cedant shall establish and maintain on its books and records a funds withheld account, which, from and after the Closing Date, shall consist of two (2) segregated custody accounts (collectively, the "Funds Withheld Account") with The Bank of New York Mellon (the "Custodian") (i) which shall (A) be clearly designated as a segregated funds withheld account on the books and records (and in the information systems) of the Cedant and (B) be separate and apart from the general and other accounts of the Cedant (ii) into which the Initial Funds Withheld Assets shall be deposited or, solely with respect to the Boxed Assets and the Transferred Notes, allocated on the Closing Date in accordance with Section 3.03(b). The assets held in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account shall be invested in and consist only of Funds Withheld Permitted Investments and shall be valued, for the purposes of this Agreement, according to their Statutory Book Value. In accordance with Cedant SAP, the Cedant elects to cede to the Reinsurer all capital gains and losses in respect of the Initial Funds Withheld Assets from and after the Effective Time and any other assets held in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account from and after the Closing Date.

(b) The Cedant shall retain, maintain, control and own all assets in the Funds Withheld Account. The assets in the Funds Withheld Account shall be managed in accordance with the Funds Withheld Investment Guidelines by Apollo Insurance Solutions Group LP as initial investment manager to provide investment management services with respect to the assets maintained in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account (the "Investment Manager") appointed by the Cedant pursuant to an investment management agreement in the form attached as Exhibit E (the "Investment Management Agreement"). If the Cedant and the Reinsurer agree to any amendments, modifications or changes to the Funds Withheld Investment Guidelines, then the Cedant shall instruct the Investment Manager to comply with such amendments, modifications or changes in writing in accordance with the terms of the Investment Management Agreement. The Cedant shall not propose any additional limitations (including with respect to asset allocations) on the assets maintained in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account without the prior written consent of the Reinsurer. The Cedant shall not amend, modify or change the terms of the Investment Management Agreement, including the investment guidelines attached thereto, or remove or replace the Investment Manager, without the prior written consent of the Reinsurer; provided that the Cedant may, upon not less than thirty (30) days' prior written notice to the Reinsurer upon the occurrence of a Cause Event, require the Reinsurer to identify a replacement investment manager that is reasonably satisfactory to the Cedant. For purposes hereof, a "Cause Event"

shall mean (i) a material violation by the Investment Manager of applicable Law which has or would reasonably be expected to have a material adverse impact on the Cedant or the Funds Withheld Account or (ii) the Investment Manager's fraud, gross negligence or willful misconduct in performing or failing to perform any of its obligations under this Agreement. In the event that the Investment Manager is removed in accordance with the immediately preceding sentence or resigns, the Cedant shall appoint a replacement investment manager as designated by the Reinsurer. The replacement investment manager shall accept its appointment by entering into an investment management agreement in a form reasonably acceptable to the Cedant and the Reinsurer, and substantially similar to the Investment Management Agreement.

(c) The Reinsurer shall bear the administrative costs and expenses related to the establishment and maintenance of the Funds Withheld Account, including the fees of the Custodian to the extent relating to the Funds Withheld Account, the fees of any investment manager appointed pursuant to Section 6.02(b) (including any sub-investment manager appointed in accordance with the Investment Management Agreement) and any licensing fees to the extent solely relating to the management of the assets maintained in the Funds Withheld Account. The Cedant shall promptly forward to the Reinsurer any invoice it receives relating to such costs and expenses.

(d) The Cedant shall have the right to withdraw cash from the Funds Withheld Account, and such cash so withdrawn shall be utilized and applied by the Cedant (or any successor by operation of law of the Cedant, including any liquidator, rehabilitator, receiver or conservator of the Cedant), without diminution because of any insolvency, rehabilitation, conservatorship or comparable status on the part of the Cedant or the Reinsurer, only as follows:

- (i) to pay or reimburse the Cedant for any Benefit Payments paid by the Cedant;
- (ii) to pay any Net Settlement Amounts in accordance with Section 5.04(a); and
- (iii) to pay any Funds Withheld Account Adjustment to the Reinsurer in accordance with Section 5.04(b).

Notwithstanding the foregoing, if the amount of cash to be withdrawn from the Funds Withheld Account in accordance with this Section 6.02(d) is less than the amount of cash maintained in the Funds Withheld Account as of such date, then the Cedant shall notify the Reinsurer of such shortfall and the Reinsurer shall, within two (2) Business Days of its receipt of notice from the Cedant, (A) deposit additional cash into the Funds Withheld Account at least equal to such shortfall or (B) pay to the Cedant an amount in cash equal to such shortfall. Notwithstanding anything to the contrary in this Section 6.02(d), the Cedant may, subject to and in accordance with Section 5.04(b)(ii), withdraw non-cash assets from the Funds Withheld Account to pay any Funds Withheld Account Adjustment to the Reinsurer.

(e) The Cedant shall promptly return to the Funds Withheld Account any assets, including investment income and other distributions received on such assets, withdrawn in excess of the actual amounts required in paragraphs (i) through (iii) immediately above or any amounts that are subsequently determined not to be due under such paragraphs (such withdrawals, "Funds Withheld Excess Withdrawals"). The Cedant shall also pay interest on any Funds Withheld Excess Withdrawals, calculated at the Interest Rate from and including the date of withdrawal to but excluding the date on which the Funds Withheld Excess Withdrawal is returned to the Funds Withheld Account. Any Funds Withheld Excess Withdrawals, including any investment income and other distributions and interest in respect thereof, shall at all times be held by the Cedant (or any successor by operation of law of the Cedant, including any liquidator, rehabilitator, receiver or conservator of the Cedant) in trust for the benefit of the Reinsurer and shall at all times be maintained separate and apart from any assets of the Cedant, for the sole purpose of funding the payments and reimbursements described in this Section 6.02.

(f) Determinations of statutory impairments of assets maintained in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account shall be made by the Cedant and shall be (i) based upon the statutory rules and guidelines and the impairment policy used by the Cedant and its auditors for purposes of calculating statutory impairments reflected in the Cedant's statutory financial statements and (ii) subject to consultation between the Reinsurer and the Cedant. The Cedant shall promptly notify the Reinsurer in writing if the Cedant determines that any assets maintained in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account have become impaired for purposes of determining Statutory Book Value. Such notice shall describe any such assets, the reason for the impairment and the effect on the Statutory Book Value of such assets. The Cedant shall provide to the Reinsurer any information relating to the assets maintained in the Funds Withheld Account reasonably requested by the Reinsurer from time to time to confirm that statutory impairments have been implemented in accordance with the terms of this Agreement.

(g) The performance of the Initial Funds Withheld Assets from the Effective Time through the Closing Date and, thereafter, the assets maintained in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account, including all investment income paid or accrued, investment gains or losses, asset hedge gains or losses, defaults and/or statutory impairments, will inure to the sole benefit or cost of the Reinsurer, and any such investment income or gains realized will be deposited into the Funds Withheld Account.

(h) The Cedant shall promptly forward to the Reinsurer, copies of any statements or notices received by the Cedant to the extent relating to the Funds Withheld Account.

ARTICLE VII ACCESS

Section 7.01 Right of Inspection and Audit. The Cedant shall maintain the Cedant Books and Records (a) in accordance with any and all applicable Laws and (b) with a degree of care and diligence similar to that used for its other businesses for its own account and in accordance with its internal record retention procedures and policies for its other businesses for its own account. Not more than once per calendar year, at reasonable times, for a reasonable duration and with not less than fifteen (15) Business Days' prior notice to the Cedant, the Reinsurer or its Representatives, at the Reinsurer's sole cost and expense, shall have (i) the right to inspect and audit the Cedant Books and Records, including as pertains to the payment of Reinsured Liabilities and the administration of the Subject Annuities and (ii) access to appropriate personnel of the Cedant; provided, however, that such audit shall not unreasonably interfere with the business and operations of the Cedant; provided, further, however, that the Cedant shall not be required to make available to the Reinsurer or its Representatives any document or information if the Cedant determines, in its reasonable judgment, that doing so would violate applicable Law or a contract or obligation of confidentiality owing to a non-Affiliated Person, jeopardize the protection of an attorney-client, attorney work product or other similar protection, privilege or immunity, or expose such party to liability for disclosure of sensitive or personal information, it being understood that the Cedant shall use commercially reasonable efforts to obtain waivers or make other arrangements that would enable any such item to be accessed by the Reinsurer or its Representatives without contravening applicable Law or obligation, destroying such privilege or exposing the Cedant to such liability. The Cedant shall use commercially reasonable efforts to respond to reasonable follow-up requests with respect to such inspection or audit following the conclusion of such inspection or audit. Without limitation of the foregoing, to the extent that the Cedant engages any third-party administrator in connection with the administration of the Subject Annuities, the Cedant shall provide (and ensure that such third-party administrator provides) the Reinsurer and its Representatives (x) access to the books, records and personnel of such third-party administrator to enable the Reinsurer or its Representatives to audit such third-party administrator and (y) the ability to review and monitor any activities relating to the conversion of the Subject Annuities and Administrative Services to any such third-party provider, in each case to the extent not inconsistent with the Cedant's audit rights as respects such third-party administrator.

Section 7.02 Internal Controls. The Cedant shall establish and maintain an adequate system of internal controls and procedures for financial reporting relating to the Subject Annuities, including associated documentation, and shall make such documentation available for examination and inspection by the Reinsurer or its Representatives. All reports provided by the Cedant pursuant to Article V shall be prepared in accordance with such system and procedures and shall be consistent with the Cedant's books and records.

ARTICLE VIII ADMINISTRATION

Section 8.01 Administration. From and after the Closing Date, the Cedant shall provide all required, necessary and appropriate administrative and related services with respect to the Subject Annuities, including the billing and collection of any Recoverables and the administration of Benefit Payments (collectively, the "Administrative Services"). The Cedant agrees to perform the Administrative Services (a) in all material respects in accordance with the respective terms of the Subject Annuities, (b) in good faith and with the skill, diligence and expertise that would reasonably be expected from experienced and qualified personnel performing such duties in like circumstances, (c) in a manner consistent in all material respects with the standard of care employed by the Cedant in the performance of such services for other similar businesses for its account and (d) in accordance with applicable Law. In consideration for the administration to be provided by the Cedant, and subject to Section 4.02, the Reinsurer shall pay the Cedant the Expense Allowance in accordance with the settlement procedures set forth in to Article V. The Cedant shall not transfer, assign, delegate or subcontract the performance of any of the Administrative Services to a third party without the prior written consent of the Reinsurer (which consent shall not be unreasonably withheld, conditioned or delayed); provided that the Cedant may transfer, assign, delegate or subcontract the performance of any of the Administrative Services to (x) any Affiliate or (y) to any third-party administrator that the Cedant for itself or its Affiliates transfers, assigns, delegates or subcontracts the provision or furnishing of any particular administrative or related services for an amount of its other businesses on its own account that is not *de minimis*. In the event that the Cedant transfers, assigns, delegates or subcontracts the provision or furnishing of all administrative or related services for all of its other businesses on its own account to a third-party administrator, the Cedant shall also transfer the administration of the Subject Annuities to such third-party administrator. Without limiting the foregoing, (i) no transfer, assignment, delegation or subcontracting of the performance of Administrative Services shall relieve the Cedant from any of its obligations hereunder, and (ii) the Cedant shall remain responsible for all obligations or liabilities of such transferee, assignee, delegee or subcontractor with respect to the performance of the obligations hereunder as if performed by the Cedant.

Section 8.02 Consultation and Escalation Procedures

(a) Each of the Cedant and the Reinsurer shall designate a representative responsible for the oversight of the Cedant's (or any third-party administrator's or agent's) performance of the Administrative Services (collectively, the "First Level Representatives"). The initial First Level Representatives of each of the parties is set forth on Schedule 8.02(a)(i), which First Level Representatives may be changed from time to time upon notice to the other Party pursuant to Section 18.02. If requested by the Reinsurer, within thirty (30) days following the date of such request, the First Level Representatives shall convene (in person, telephonically or by such other means as may allow the First Level Representatives to hear and understand each other) to discuss the Administrative Services performed by the Cedant (or any third-party administrator or agent) (the "First Level Consultation and Escalation Procedure"). To the extent any issue, question or concern is identified by a First Level Representative of either the Cedant or the Reinsurer during the First Level Consultation and Escalation Procedure, such First Level Representative shall work in good faith with its counterpart at the other party to seek to resolve the applicable issue, question or concern. To the extent that the First Level Representatives of the Cedant and the Reinsurer are unable to resolve such issue, question or concern within twenty (20) days of the commencement of the First Level Consultation and Escalation Procedure, as specified in the immediately preceding sentence,

either party may, upon delivery of notice to the other party, elevate the issue, question or concern to a senior manager of each of the Cedant and the Reinsurer, as applicable, in each case, with responsibility for administration (each, a “Second Level Representative”). The initial Second Level Representatives of each of the parties is set forth on Schedule 8.02(a)(ii), which Second Level Representatives may be changed from time to time upon delivery of notice to the other Party pursuant to Section 18.02. Such Second Level Representatives shall confer within ten (10) days of delivery or receipt, as applicable, of a notice of the type specified in the immediately preceding sentence, or at such other time as such Second Level Representatives may mutually agree, and shall seek to resolve such issue, question or concern in an expeditious and equitable manner (the “Second Level Consultation and Escalation Procedure”). To the extent that the Second Level Representatives of Cedant and Reinsurer are unable to resolve such issue, question or concern within ten (10) days of the commencement of the Second Level Consultation and Escalation Procedure, as specified in the immediately preceding sentence and such issue, question or concern has resulted in a pattern and practice of materially deficient performance of the Administrative Services by the Cedant that has caused or would reasonably be expected to cause the Reinsurer to sustain economic damages in an aggregate amount together with economic damages in respect of all issues, questions or concerns that remain unresolved under this Section 8.02(a) in excess of the Minimum Threshold Amount, the Reinsurer may withhold the Withheld Expense Allowance pursuant to Section 4.02.

(b) If the parties are unable to reach resolution with respect to such performance of Administrative Services within ten (10) days after the parties have commenced the Second Level Consultation and Escalation Procedure, then either party may submit the dispute to a neutral, mutually agreeable third party that is a current or former officer of a life insurance or life reinsurance company (other than the parties to this Agreement or their Affiliates) or other professional with experience in life insurance or reinsurance; provided, that such professional shall not have performed services for either party or their respective Affiliates within the previous five (5) years (the “Independent Expert”). The parties shall instruct the Independent Expert to (i) limit its review to matters that are the subject of the Second Level Consultation and Escalation Procedures and not resolved in accordance with Section 8.02(a) and (ii) make its determination with thirty (30) days after such dispute is submitted to the Independent Accountant. The decision of such Independent Expert with respect to any such matters shall be in all cases final and binding on the parties. The Cedant shall, at its sole cost and expense, as soon as reasonably practicable following the Independent Expert’s determination thereof, implement any requirements the Independent Expert determines are necessary in order to resolve such dispute with respect to such performance of Administrative Services.

(c) The fees of such Independent Expert shall be borne equally by the parties.

(d) Each party agrees to enter into a customary engagement letter with the Independent Expert. Each party shall reasonably cooperate with the Independent Expert and shall provide, upon the request of the Independent Expert, any non-privileged information and documentation, including any actuaries’ or accountants’ work papers or internal actuarial or accounting records or reserving papers, files and models, and make reasonably available to the Independent Expert applicable personnel; provided, however, that the independent actuaries or accountants of each party shall not be obligated to make any working papers available to the Independent Expert unless and until the Independent Expert has signed a customary confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent actuaries or accountants, as applicable. Any such information and documentation provided by the parties to the Independent Expert shall concurrently be provided to the other party to the extent not already so provided; provided, however, that the independent actuaries or accountants of each party shall not be obligated to make any working papers available to the other party unless and until the other party has signed a customary confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent actuaries or accountants, as applicable. Without limitation of the foregoing, in connection with the any such dispute relating to any of the foregoing, each party shall provide, and shall cause its Affiliates to provide, to the other party, upon the request of such other party, reasonable access to the Cedant Books and Records or the Reinsurer Books and Records (as applicable) and all work papers and supporting detail prepared by such party and its Representatives and advisors in connection with such dispute.

Section 8.03 Claims Settlement.

(a) The Cedant is responsible for the settlement of claims with respect to the Reinsured Liabilities in accordance with this Article VIII.

(b) The Cedant will notify the Reinsurer promptly of its intention to investigate, contest, compromise or litigate any claim involving a Subject Annuity (any such claim, a “Contested Claim”). Subject to Section 8.03(c), (i) the Reinsurer will not participate in the contest, compromise, litigation, arbitration or defense of any Contested Claim, (ii) the Reinsurer will have no obligation to the Cedant for reimbursement of expenses related to the contest, compromise, litigation, arbitration or defense of such Contested Claim and will not share in any subsequent reduction in liability relating to such Contested Claim and (iii) the Reinsurer shall discharge its liability with respect to any Contested Claim by paying to the Cedant the amount of such Contested Claim as originally presented to the Cedant.

(c) The Reinsurer may elect to participate with the Cedant in the contest, compromise, litigation, arbitration or defense of any Contested Claim by delivering written notice thereof to the Cedant within fifteen (15) Business Days following the Reinsurer’s receipt of notice of such Contested Claim. If the Reinsurer so elects to participate with the Cedant in any contest, compromise, litigation, arbitration or defense of any Contested Claim, (i) the Cedant will promptly advise the Reinsurer of all significant developments, including notice of legal or arbitral proceedings (including consumer complaints or Actions by Governmental Authorities) initiated in connection with such Contested Claim, (ii) the Reinsurer will reimburse the Cedant for the reasonable expenses of any contest, compromise, litigation, arbitration or defense of a Contested Claim, and will share in the reduction of liability in the same proportion, and (iii) if the Cedant obtains any recoveries in respect of a Contested Claim paid by it in accordance with the terms of any Subject Annuity, the Cedant shall promptly pay to the Reinsurer all such recoveries.

Section 8.04 Governmental Notices and Investigations.

(a) The Cedant shall provide the Reinsurer, within ten (10) Business Days after receipt thereof, copies of any written notice or report from any Governmental Authority with respect to the business reinsured under this Agreement and a written summary of any oral communication with any Governmental Authority with respect to the business reinsured under this Agreement, in each case, if the subject of such notice, report or communication would, or would reasonably be expected to, adversely affect in any material respect the Reinsurer's rights or economic interests in respect of the Subject Annuities.

(b) To the extent permitted by applicable Law or regulation, the Cedant shall promptly notify the Reinsurer, in writing, of any and all pending or threatened in writing investigations, inquiries or examinations of the Cedant related to the Subject Annuities by any Governmental Authority commencing after the Closing Date, other than routine State insurance department examinations that do not relate to the business reinsured pursuant to this Agreement or would not otherwise reasonably be expected to adversely affect in any material respect the Subject Annuities or the performance by the Cedant of its obligations under this Agreement (a "Regulatory Action"). At the Reinsurer's request, the Cedant shall provide the Reinsurer with a report of any Regulatory Actions, summarizing the nature of any such Regulatory Actions, the alleged actions or omissions, if any, giving rise to such Regulatory Actions and copies of any files or other documents that the Reinsurer may reasonably request in connection with its review of such Regulatory Action, other than any such files, documents and other information that is legally privileged, it being understood that the Cedant shall use commercially reasonable efforts to obtain waivers or make other arrangements that would enable any such item to be accessed by the Reinsurer without impinging on the ability to assert such privilege.

Section 8.05 Litigation. The Cedant shall promptly notify the Reinsurer of any Action (other than a Regulatory Action) that is material or that constitutes a class Action, in each case that is initiated or threatened in writing relating to the Subject Annuities or any Reinsured Liabilities. Upon the request of the Reinsurer, the Cedant shall promptly furnish to the Reinsurer copies of all pleadings, motions, memoranda or other information relating to such Action, other than such pleadings, motions, memoranda or other information that is legally privileged, it being understood that the Cedant shall use commercially reasonable efforts to obtain waivers or make other arrangements that would enable any such item to be accessed by the Reinsurer without impinging on the ability to assert such privilege.

**ARTICLE IX
TRUST ACCOUNT; LETTER OF CREDIT**

Section 9.01 Establishment of Trust Account. In accordance with the Trust Agreement attached hereto as Exhibit A, the Reinsurer, as grantor, has established a trust account comprising the OC Account and the Hedge Collateral Accounts (the "Trust Account") with the Trustee, naming the Cedant as sole beneficiary thereof. The initial funding of the OC Account shall be effected in accordance with Section 3.04. Pursuant to the terms of the Trust Agreement, the assets in the OC Account, including the residual interest therein, shall be held in trust by the Trustee for the sole and exclusive benefit of the Cedant as security for the payment of the Reinsurer's obligations to the Cedant under this Agreement. Pursuant to the terms of the Security and Control Agreement attached hereto as Exhibit B, a first priority security interest in the Collateral in favor of the Cedant shall be granted by the Reinsurer and perfected by the Cedant. During the term of the Trust Agreement, the Reinsurer shall not, and shall direct the Trustee not to, grant or cause to be created in favor of any third person any security interest whatsoever in any of the assets in the OC Accounts or in the residual interest therein.

Section 9.02 Cedant Withdrawals.

(a) The Cedant shall have the right to withdraw assets from the OC Account only in the event of, and assets so withdrawn from the OC Account shall be utilized and applied by the Cedant (or any successor by operation of law of the Cedant, including, but not limited to, any liquidator, rehabilitator, receiver or conservator of the Cedant), without diminution because of any insolvency, rehabilitation, conservatorship or comparable status on the part of the Cedant or the Reinsurer only to pay or reimburse the Cedant for, any undisputed amounts due from the Reinsurer under the terms of this Agreement (including in respect of undisputed Reinsured Liabilities or undisputed amounts of the Expense Allowance), which amounts have not been paid by the Reinsurer within ten (10) Business Days following the applicable date of payment set forth hereunder.

(b) The Cedant shall return to the OC Account, within five (5) Business Days, assets withdrawn in excess of all amounts due under this Section 9.02, or assets that are subsequently determined not to be due. The Cedant shall also pay interest on such excess, calculated at the Interest Rate from and including the date of withdrawal to but excluding the date on which such excess is returned to the OC Account. Any such excess amount, including any investment income and other distributions and interest in respect thereof, shall at all times be held by the Cedant (or any successor by operation of law of the Cedant, including any liquidator, rehabilitator, receiver or conservator of the Cedant) in trust for the benefit of the Reinsurer and shall at all times be maintained separate and apart from any assets of the Cedant, for the sole purpose of funding the payments and reimbursements described in this Section 9.02.

Section 9.03 OC Account Settlements. Within five (5) Business Days following the delivery of the Required Balance Statement for a Quarterly Accounting Period:

(a) if the aggregate Statutory Book Value of the OC Account Permitted Investments on deposit in the OC Account (as reflected in the Reinsurer Quarterly Asset Report for such Quarterly Accounting Period) is less than the Required Trust Balance (as reflected in the Required Balance Statement for such Quarterly Accounting Period), then the Reinsurer shall deposit OC Account Permitted Investments in the OC Account with an aggregate Statutory Book Value at least equal to such shortfall; and

(b) if the aggregate Statutory Book Value of the OC Account Permitted Investments on deposit in the OC Account (as reflected in the Reinsurer Quarterly Asset Report for such Quarterly Accounting Period) is greater than the Required Trust Balance (as reflected in the Required Balance Statement for such Quarterly Accounting Period), then the Reinsurer may, in accordance with the procedures set forth in the Trust Agreement, withdraw assets from the OC Account with an aggregate Statutory Book Value not greater than the excess determined pursuant to this [Section 9.03\(b\)](#).

Section 9.04 [OC Account Substitutions](#). In addition to the withdrawal rights set forth above, the Reinsurer shall be permitted at any time to substitute all or any part of the assets in the OC Account with other OC Account Permitted Investments having an aggregate Statutory Book Value equal to or exceeding the aggregate Statutory Book Value of the substituted assets; provided, however, that at the time of any such substitution, the Fair Market Value of any OC Account Permitted Investment being deposited into the OC Account in connection with any substitution shall be equal to or greater than the Fair Market Value of the substituted asset.

Section 9.05 [Letters of Credit](#). The Reinsurer shall be permitted to satisfy all or any portion of its overcollateralization requirement hereunder by obtaining one or more letters of credit from any LOC Provider for the benefit of the Cedant in a form reasonably satisfactory to the Cedant (each, a "[Letter of Credit](#)"). Subject to [Sections 9.06](#) and [9.08](#), all costs, expenses and fees associated with Letters of Credit shall be borne by the Reinsurer. Cedant shall not be permitted to draw upon a Letter of Credit except to the extent that both (i) the Reinsurer fails to pay any amounts due under this Agreement within ten (10) days following its receipt of written notice of non-payment from the Cedant and (ii) the sum of (A) the then-current Fair Market Value of the assets held in the OC Account *plus* (B) any excess withdrawals from the OC Account in excess of the amount permitted under this Agreement has been reduced to zero (0). In the event the Cedant is so permitted to draw upon a Letter of Credit, any such draw shall be *pro rata* among all Letters of Credit; provided that if any LOC Provider fails to fund its *pro rata* portion of such permitted draw (the "[Unfunded LOC Amount](#)"), the Cedant shall be permitted to draw the Unfunded LOC Amount *pro rata* among the Letters of Credit from other LOC Providers.

Section 9.06 [Letter of Credit Reductions](#). Subject to [Section 9.08](#), upon the request of the Reinsurer, the Cedant shall cooperate with any reasonable request by the Reinsurer to reduce the face amount of any Letter of Credit, on a quarterly basis following the delivery of the Required Balance Statement, and shall promptly take such actions as may be reasonably required by any LOC Provider, including delivering any certificate, providing any consent or acknowledgement and returning any then-current Letter of Credit to the applicable LOC Provider in exchange for a new Letter of Credit reflecting such reduced amount, to enable such reduction; provided, that if the Cedant does not take such actions reasonably required by an LOC Provider to enable such reduction, then the Cedant shall reimburse the Reinsurer for any fees and commissions payable by the Reinsurer to any LOC Provider with respect to a Letter of Credit that exceed the amount of fees and commissions that would have been payable by the Reinsurer to such LOC Provider with respect to such Letter of Credit if it had been so reduced; provided, further, that the Cedant shall not be required to take any such actions if, after giving effect to such reduction, the Statutory Book Value of the assets maintained in the OC Account would be less than the Required Trust Balance.

Section 9.07 [Excess Draws](#). The Cedant shall promptly return to the applicable LOC Provider any amounts drawn on a Letter of Credit in excess of the actual amounts permitted in [Section 9.05](#) or any amounts that are subsequently determined not to be due under [Section 9.05](#) ("[Letter of Credit Excess Draws](#)"); provided, that the Cedant shall return such Letter of Credit Excess Draws to the Reinsurer if the Reinsurer notifies the Cedant that the Reinsurer has repaid such Letter of Credit Excess Draws to such LOC Provider and provides evidence of such repayment reasonably satisfactory to the Cedant. The Cedant shall also pay interest on any Letter of Credit Excess Draws together with interest accrued at the Interest Rate from and including the date of such Letter of Credit Excess Draw to but excluding the date of return to the Reinsurer. Any amounts drawn on a Letter of Credit, including any Letter of Credit Excess Draws, shall be held by the Cedant or any successor in interest of the Cedant in trust for the benefit of the Reinsurer and shall at all times be maintained separate and apart from any assets of the Cedant, for the sole purposes described in [Section 9.05](#).

Section 9.08 [Additional Letter of Credit Amount](#).

(a) The Reinsurer shall obtain, within five (5) Business Days following the Closing Date, one or more Letters of Credit for the benefit of the Cedant in an aggregate face amount at least equal to the Additional Letter of Credit Amount in order to provide collateral in respect of the Reinsurer's obligations to the Cedant in respect of the Reinsured Liabilities. Thereafter, the Reinsurer shall use commercially reasonable efforts to maintain such Letters of Credit in an aggregate face amount at least equal to the Additional Letter of Credit Amount. The Cedant shall be permitted to reduce the Additional Letter of Credit Amount on a quarterly basis by providing the Reinsurer written notice thereof no later than five (5) Business Days prior to the end of each Quarterly Accounting Period, which reduction shall be effective as of the first day of the immediately succeeding Quarterly Accounting Period. In connection with any such request, the Cedant shall cooperate with the Reinsurer to reduce any Letters of Credit supporting the Additional Letter of Credit Amount in accordance with [Section 9.06](#).

(b) In the event that there has been a reduction to the Additional Letter of Credit Amount in accordance with [Section 9.08\(a\)](#), the Cedant shall be permitted to request the Reinsurer to procure one or more Letters of Credit in an aggregate face amount up to the excess of the Maximum Additional Letter of Credit Amount over the outstanding Additional Letter of Credit Amount (the amount of increase so requested, the "[Additional LOC Increase Amount](#)") by providing the Reinsurer written notice thereof (an "[Additional LOC Increase Request](#)"). Upon receipt of any Additional LOC Increase Request, the Reinsurer shall use commercially reasonable efforts to obtain as promptly as reasonably practicable one or more additional Letters of Credit to support the Additional LOC Increase Amount at a cost acceptable to the Cedant; provided the Reinsurer shall not enter into any Letter of Credit supporting the Additional LOC Increase Amount without the prior written consent of the Cedant. For the avoidance of doubt, in no event shall the Additional Letter of Credit Amount exceed the Maximum Additional Letter of Credit Amount.

(c) The Cedant shall reimburse the Reinsurer on a quarterly basis, in accordance with Section 5.04, for the Cedant's share of the fees and expenses payable by the Reinsurer in connection with any Letters of Credit supporting the Additional Letter of Credit Amount (the "Additional LOC Costs"). The Additional LOC Costs with respect to any Quarterly Accounting Period shall be an amount equal to (i) with respect to all Additional Letters of Credit other than those supporting the Additional LOC Increase Amount, seventy-five (75) basis points of the Additional Letter of Credit Amount *divided by* four (4) and (ii) with respect to the Letters of Credit supporting the Additional LOC Increase Amount, the fees and expenses payable by the Reinsurer in connection with such Letters of Credit.

ARTICLE X REINSURANCE CREDIT; TRIGGERING EVENTS

Section 10.01 Credit for Reinsurance. The parties intend that the Cedant be able to obtain full statutory financial statement credit for the reinsurance provided by this Agreement throughout the entire term of this Agreement. The Reinsurer shall promptly notify the Cedant in writing of any event with respect to the Reinsurer (including any change in the ratings of the Reinsurer) or change in its Permits that, if continuing as of the end of any financial statement period, would be reasonably likely to result in the Cedant being unable to take full statutory financial statement credit in the Cedant Domiciliary State for the reinsurance provided by this Agreement. The Cedant shall promptly notify the Reinsurer in writing of the occurrence of any other event or circumstance that has caused or will cause the Cedant to no longer receive such credit for reinsurance, which notice shall describe in reasonable detail the event or development requiring such notice. For purposes hereof, any event, change or other circumstance that has caused or will cause the Cedant to no longer receive such credit for reinsurance shall hereinafter be referred to as a "Reinsurance Credit Event." Upon the occurrence of any Reinsurance Credit Event, the Reinsurer, at its own expense, shall, within twenty (20) Business Days following the occurrence of such event or, if earlier, five (5) Business Days prior to the end of the calendar quarter during which such event occurs, take all steps necessary to comply with all applicable Laws so as to permit the Cedant to obtain full credit for the reinsurance provided by this Agreement in the Cedant Domiciliary State throughout the entire term of this Agreement to the extent credit is not otherwise available under applicable Law, including the posting of letters of credit, establishing a credit for reinsurance trust, depositing additional assets in the Funds Withheld Account or providing other acceptable security in accordance with the terms hereof, it being understood that the Reinsurer shall have the sole discretion to elect among the methods available to it in order to maintain such credit for reinsurance; provided, however, that if such event occurs within five (5) Business Days prior to the end of a calendar quarter, then the Reinsurer shall take such action not later than the earlier of two (2) Business Days following the occurrence of such event and the end of such calendar quarter. Without limiting the generality of the foregoing, if any such event is the result of a downgrade of the Reinsurer's ratings, then the Reinsurer shall adjust the amount of security provided hereunder to the extent necessary to satisfy the aggregate minimum collateral requirements that are necessary for the Cedant to cure the applicable Reinsurance Credit Event, which aggregate minimum collateral requirements as of the date hereof are set forth on Schedule 10.01. The Reinsurer and the Cedant shall cooperate in good faith to effectuate this provision. Notwithstanding anything contained in this Section 10.01 to the contrary, in the event that (a) there is a repeal of or amendment or other modification to the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111-203, H.R. 4173) that would authorize a Governmental Authority in any jurisdiction of the United States where the Cedant is licensed to transact business (other than the State of New York) to apply the applicable rules for credit for reinsurance in such jurisdiction to the Cedant and (b) the Cedant reasonably determines following consultation with the Reinsurer that it is obligated under applicable Law to comply with such rules in order to receive statutory financial statement credit in any such jurisdiction, then the Reinsurer shall take all steps necessary to enable the Cedant to obtain full statutory financial statement credit for the reinsurance provided by this Agreement in any such jurisdiction in addition to, and to the same extent as, the Cedant Domiciliary State.

Section 10.02 Triggering Event. For purposes of the Agreement, "Triggering Event" means each of the following:

- (a) an Insolvency Event of the Reinsurer;
- (b) the earlier to occur of (i) the Reinsurer's ECR Ratio as set forth in the report delivered pursuant to Section 5.01(c) is less than one hundred and thirty-five percent (135%) as of the end of any Solvency Ratio Reporting Period (an "ECR Triggering Event") and such ECR Triggering Event is continuing at the end of the next succeeding calendar quarter or (ii) the Reinsurer's RBC Ratio as set forth in the report delivered pursuant to Section 5.01(c) is less than two hundred and fifty percent (250%) as of the end of any Solvency Ratio Reporting Period (an "RBC Triggering Event") and such RBC Triggering Event is continuing at the end of the next succeeding calendar quarter;
- (c) a Reinsurance Credit Event occurs and is continuing (i) for more than twenty (20) Business Days following the occurrence of such Reinsurance Credit Event or, if earlier, (ii) (A) subject to clause (B), five (5) Business Days prior to the end of the calendar quarter during which such Reinsurance Credit Event occurred or (B) in the event that the Reinsurance Credit Event occurs within the five (5) Business Days prior to the end of the calendar quarter during which such Reinsurance Credit Event occurred, the earlier of (x) two (2) Business Days following the occurrence of such Reinsurance Credit Event and (y) the end of such calendar quarter;
- (d) the Reinsurer fails to fund the OC Account for any material undisputed amounts required to be deposited therein by the Reinsurer in accordance with the terms of this Agreement or the Trust Agreement or to pay the Cedant any material undisputed amount due under this Agreement or the Trust Agreement and such failure continues for thirty (30) days after written notice thereof from the Cedant;
- (e) the Reinsurer's breach of its covenants and obligations under Section 10.06; and
- (f) any Comparable Triggering Event.

Section 10.03 Notice of Triggering Event; Required Trust Balance Top Up.

(a) The Reinsurer shall provide notice to the Cedant promptly and in reasonable detail upon becoming aware of any Triggering Event.

(b) Within five (5) Business Days following the occurrence of a Triggering Event, if the aggregate Statutory Book Value of the OC Account Permitted Investments on deposit in the OC Account as of the date of such Triggering Event is less than the Required Trust Balance then in effect as a result of such Triggering Event, then the Reinsurer shall deposit OC Account Permitted Investments in the OC Account with an aggregate Statutory Book Value at least equal to such shortfall.

Section 10.04 Cure of Triggering Event. A Triggering Event shall cease to be continuing upon such time as such Triggering Event is cured by the Reinsurer as set forth in this Section 10.04. Upon any such cure by the Reinsurer, the Cedant shall deliver promptly deliver to the Trustee a "Triggering Event Cure Certification" (as defined in the Trust Agreement). Following the occurrence of a Triggering Event, such Triggering Event shall be deemed cured, as applicable, upon the occurrence of the following, as applicable:

(a) with respect to the Triggering Event set forth in Section 10.02(b), both (i) the Reinsurer's ECR Ratio being one hundred and thirty-five percent (135%) or higher and (ii) the Reinsurer's RBC Ratio being two hundred and fifty percent (250%) or higher, for two (2) consecutive calendar quarters, as determined and reported pursuant to Section 10.05;

(b) with respect to the Triggering Event set forth in Section 10.02(c), the Cedant is able to obtain full statutory financial statement credit for the reinsurance provided by this Agreement as contemplated by Section 10.01;

(c) with respect to the Triggering Event set forth in Section 10.02(d), the Reinsurer's funding, in full, of the OC Account in accordance with the requirements hereof and of the Trust Agreement and paying, in full, all material undisputed amounts due under this Agreement and the Trust Agreement. In the event that the Reinsurer has cured the Triggering Event set forth in Section 10.02(d) in accordance with this Section 10.04(c), the Cedant shall deliver the Notice of Cessation of Exclusive Control to the Securities Intermediary pursuant to the terms of the Security and Control Agreement.

Section 10.05 ECR Ratio; RBC Ratio.

(a) As used in this Agreement, (i) the term "ECR Ratio" means the Reinsurer's available statutory economic capital and surplus as a percentage of its enhanced capital requirement under the Bermuda Insurance Act or the equivalent measure at the applicable date of determination as determined under the applicable Law of the Reinsurer's jurisdiction of domicile then in effect and using the Reinsurer's existing methodologies in respect of the calculation thereof and (ii) the term "RBC Ratio" means the Reinsurer's company action level risk based capital ratio or the equivalent measure at the applicable date of determination, as determined using the Reinsurer's methodologies used to calculate the Reinsurer's RBC Ratio as publicly disclosed by Athene Holding Ltd. in its annual Form 10-K for the immediately preceding calendar year.

(b) Within sixty (60) days following the end of each calendar quarter (each, a "Solvency Ratio Reporting Period"), the Reinsurer shall provide the Cedant with (i) an estimate of the Reinsurer's ECR Ratio and (ii) an estimate of the Reinsurer's RBC Ratio, each together with reasonable supporting detail in respect of such calculations, and make officers of the Reinsurer available for discussions with the Cedant with respect to such calculations.

(c) In the event that, following the date hereof, there is a change in Law relating to the factors, formulae and framework used to calculate ECR Ratios or RBC Ratios from those in effect at the Effective Time, the parties will work together in good faith to adjust the ECR Ratios or RBC Ratios, as applicable, reflected in the Triggering Event set forth in Section 10.02(b) and Recapture Events set forth in Section 13.04(a) to ensure that they are reasonably equivalent to those in effect as of the Effective Time, including in respect of the buffer between such ratios and regulatory requirements.

Section 10.06 Comparable Triggering Events.

(a) In the event that the Reinsurer consummates a reinsurance transaction with a third party that is reasonably comparable to the transactions contemplated by this Agreement (a "Comparable Transaction") in which it agrees to a collateral or recapture triggering event related to its financial strength or claims-paying ability rating assigned to the Reinsurer by a nationally recognized statistical ratings organization (a "Comparable Triggering Event"), such Comparable Triggering Event shall automatically be deemed to be included in this Agreement, as set forth in Section 10.02(f) and Section 13.04(g), as applicable, without any action by the parties hereto required. The Reinsurer shall promptly notify the Cedant in the event that it consummates a Comparable Transaction that includes a Comparable Triggering Event.

(b) Within ten (10) Business Days following the end of each calendar quarter, the Reinsurer shall deliver to the Cedant a certification duly executed by a senior officer of the Reinsurer certifying, as of the applicable quarter-end, as to whether a Comparable Triggering Event exists.

**ARTICLE XI
ERRORS AND OMISSIONS**

Section 11.01 OversightsSection 11.01 Oversights2. Inadvertent delays, oversights, errors or omissions made in connection with this Agreement or any transaction hereunder shall not relieve either party from any liability which would have attached had such delay, error or omission not occurred. The parties shall nevertheless cooperate in good faith to rectify any such delay, oversight, error or omission as soon as practicable after discovery. Subject to the foregoing, if the failure of either party to comply with any provision of this Agreement is unintentional or the result of a misunderstanding or oversight, the parties shall cause such failure to be promptly rectified such that both parties shall be restored as closely as possible to the positions that they would have occupied had such error or oversight not occurred. Nothing in this Section 11.01 shall reduce the obligation of the Reinsurer with respect to any Reinsurer Extra-Contractual Obligations or the Cedant with respect to any Cedant Extra-Contractual Obligations.

**ARTICLE XII
INSOLVENCY**

Section 12.01 Insolvency of Cedant.

(a) In the event of the insolvency of the Cedant, all reinsurance made, ceded, renewed or otherwise becoming effective under this Agreement shall be payable by the Reinsurer to the Cedant, its liquidator, receiver or statutory successor on the basis of the liability of the Cedant under the Subject Annuities reinsured hereunder without diminution because of any insolvency, rehabilitation, conservatorship or comparable status of the Cedant, except to the extent this Agreement specifically provides for another payee of such reinsurance in the event of an insolvency of the Cedant.

(b) It is agreed and understood, however, that in the event of the insolvency of the Cedant, the liquidator, receiver or statutory successor of the Cedant shall give written notice of the pendency of a claim against the Cedant in connection with the Subject Annuities within a reasonable period of time after such claim is filed in the Insolvency Proceedings and that, during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to the Cedant or its liquidator, receiver or statutory successor. It is further understood that the expense thus incurred by the Reinsurer shall be chargeable, subject to court approval, against the Cedant as part of the expenses of liquidation to the extent of a proportionate share of the benefit which may accrue to the Cedant solely as a result of the defense undertaken by the Reinsurer.

Section 12.02 Insolvency of Reinsurer. In the event of the insolvency of the Reinsurer, all amounts due but not paid to the Reinsurer by the Cedant on such date under this Agreement, regardless of the date on which they became due, and all amounts which become due to the Reinsurer by the Cedant after that date under this Agreement may be retained by the Cedant and set off against the amounts due by the Reinsurer under this Agreement, whether they were due before the insolvency or became due after. The balance only, if any, shall be payable by the Cedant to the Reinsurer at the expiry of all liability under this Agreement.

**ARTICLE XIII
DURATION AND TERMINATION**

Section 13.01 Duration. This Agreement shall commence at the Effective Time and continue in force until the termination date (the "Termination Date"), which shall occur at such time as (a) the Cedant's liability with respect to all Subject Annuities reinsured hereunder is terminated and the Cedant has received payments which discharge such liability in full in accordance with the provisions of this Agreement, (b) this Agreement is terminated by the mutual written consent of the Reinsurer and the Cedant, (c) the Recapture Closing Date occurs or (d) the Reinsurer terminates this Agreement pursuant to Section 13.06. Neither party shall be permitted to recapture, or cause a recapture of, the Reinsured Liabilities except in accordance with Section 13.03 and Section 13.06.

Section 13.02 Survival. Notwithstanding the other provisions of this Article XIII, the terms and conditions of this Article XIII, Article XVII and Article XVIII (and Article I to the extent relating thereto) shall remain in full force and effect after the termination of this Agreement.

Section 13.03 Recapture.

(a) Following the occurrence of a Recapture Event, as described in Section 13.04, the Cedant shall have the unilateral right, exercisable in its sole discretion, to recapture all of the Reinsured Liabilities ceded hereunder by providing the Reinsurer with written notice of its intent to effect such recapture (the "Recapture Notice"). In no event shall the Cedant recapture, pursuant to this Section 13.03, any proportion of the Reinsured Liabilities that is less than all of the Reinsured Liabilities reinsured hereunder.

(b) Any recapture pursuant to Section 13.03(a) shall be effective as of the Recapture Effective Time and completed on the date provided for in the Recapture Notice (the "Recapture Closing Date"); provided that the Recapture Closing Date is at least five (5) Business Days following the delivery of such Recapture Notice, but in no event later than thirty (30) Business Days following the delivery of the Recapture Notice.

(c) The Cedant's rights to recapture the Reinsured Liabilities ceded hereunder are in addition to any other right or remedy provided under this Agreement, or now or hereafter existing at law, and the failure to exercise any recapture rights shall not be deemed as a waiver or relinquishment by the Cedant of any of its other rights or remedies.

Section 13.04 Recapture Event. For purposes of this Agreement, "Recapture Event" means each of the following:

(a) the earlier to occur of (i) the Reinsurer's ECR Ratio is less than one hundred and twenty percent (120%) as of the end of any Solvency Ratio Reporting Period (an "ECR Recapture Event") and such ECR Recapture Event is continuing at the end of the next succeeding calendar quarter or (ii) the Reinsurer's RBC Ratio as set forth in the report delivered pursuant to Section 5.01(c) is less than two hundred percent (200%) as of the end of any Solvency Ratio Reporting Period (an "RBC Recapture Event") and such RBC Recapture Event is continuing at the end of the next succeeding calendar quarter;

(b) a Reinsurance Credit Event occurs and is continuing (i) for more than twenty (20) Business Days following the occurrence of such Reinsurance Credit Event or (ii) (A) subject to clause (B), five (5) Business Days prior to the end of the calendar quarter during which such Reinsurance Credit Event occurred or (B) in the event that the Reinsurance Credit Event occurs within the five (5) Business Days prior to the end of the calendar quarter during which such Reinsurance Credit Event occurred, the earlier of (x) two (2) Business Days following the occurrence of such Reinsurance Credit Event and (y) the end of such calendar quarter;

(c) the Reinsurer fails to fund the OC Account for any material undisputed amounts required to be deposited therein by the Reinsurer in accordance with the terms of this Agreement or the Trust Agreement or to pay the Cedant any material undisputed amount due under this Agreement or the Trust Agreement and such failure continues for thirty (30) days after written notice thereof from the Cedant;

(d) the Cedant is required (or will with the passage of time be required) to make a material payment of a base erosion minimum tax amount (as defined under Section 59A(b) of the Code) (a "BEAT Event") unless (i) such BEAT Event is cured in accordance with Section 15.02(f) within forty-five (45) days of the provision of the notice described in Section 15.02(e) (or for any cure that is effected by transferring an investment managed by a third party for which a transfer within such time period is not permitted, on or prior to the end of the calendar quarter ending after the provision of such notice) or (ii) in the case of (A) a Reinsurer BEAT Event or (B) a BEAT Event that is not a Reinsurer BEAT Event and in respect of which the Reinsurer has breached its obligations set forth in Section 15.02(f), the Reinsurer agrees to indemnify the Cedant for any additional Tax under Section 59A(a) of the Code by reason of the Reinsurer being treated as a Related Party with respect to the Cedant;

(e) an Insolvency Event with respect to the Reinsurer;

(f) the Reinsurer's breach of its covenants and obligations under Section 10.06; and

(g) any Comparable Triggering Event.

Section 13.05 Notice of Recapture Event. The Reinsurer shall provide notice to the Cedant promptly and in reasonable detail upon becoming aware of any Recapture Event.

Section 13.06 Reinsurer Termination. Upon the occurrence of a Reinsurer Termination Event, the Reinsurer shall have the right (but not the obligation) to terminate this Agreement in its entirety, in which case the Cedant shall recapture all of the Reinsured Liabilities ceded hereunder, by providing the Cedant with written notice of its intent to effect such a termination and recapture (the "Reinsurer Termination Notice"). Any such termination shall be effective as of the Recapture Effective Time and completed on the date provided for in the Reinsurer Termination Notice; provided, that the Recapture Closing Date is at least five (5) Business Days following the delivery of such Recapture Notice, but in no event later than thirty (30) Business Days following the delivery of the Recapture Notice.

Section 13.07 Termination Fee. In the event that the Agreement is terminated by the Cedant, and the Reinsured Liabilities are recaptured in full as a result of (a) a Recapture Event that is a Reinsurer BEAT Event or (b) a Recapture Event that is not (i) a BEAT Event or (ii) a Reinsurance Credit Event resulting from any redomestication of the Cedant to another state prior to the date the Reinsurer is certified by the applicable Governmental Authority as a "certified reinsurer" in such state, then the Reinsurer shall pay to the Cedant, on the Recapture Closing Date, an amount as liquidated damages equal to the product of the Ceding Commission *multiplied by* a fraction, the numerator of which is (i) twenty (20) *minus* (ii) the full number of years that have elapsed from the Effective Time to the Recapture Effective Time and the denominator of which is twenty (20), provided that, in the event that the Agreement is terminated by the Cedant, and the Reinsured Liabilities are recaptured in full as a result of a BEAT Event that is not a Reinsurer BEAT Event and in respect of which the Reinsurer has breached its obligations set forth in Section 15.02(f), Reinsurer shall pay to the Cedant an amount as liquidated damages equal to 20% of such product.

ARTICLE XIV
TERMINAL ACCOUNTING AND SETTLEMENT

Section 14.01 Terminal Accounting.

(a) At least five (5) Business Days prior to the anticipated Recapture Closing Date, the Cedant shall deliver to the Reinsurer (i) a statement (such statement, the "Estimated Recapture Payment Statement") prepared in accordance with Cedant SAP and in the same form as the pro forma recapture report in respect of the Reinsured Liabilities ceded hereunder set forth on Schedule 14.01(a) (the "Pro Forma Recapture Report") setting forth the Cedant's estimate of the Recapture Payment Amount (as calculated in part based upon the most recent Cedant Quarterly Report delivered pursuant to Article V) as of the Recapture Effective Time (the "Estimated Recapture Payment"), (ii) a report (such report, the "Estimated Recapture Asset Report") prepared in accordance with Cedant SAP, setting forth the Statutory Book Value of the assets in the Funds Withheld Account (as calculated based in part upon the most recent Cedant Quarterly Report delivered pursuant to Article V) and (iii) a Cedant Quarterly Report setting forth the information required to be reported therein as of the Recapture Effective Time.

(b) On the Recapture Closing Date, (i) the Net Settlement Amount and the Funds Withheld Account Adjustment set forth in the Estimated Recapture Payment Statement will be paid in accordance with Sections 5.04(a) and (b), respectively, and (ii) after giving effect to the payment of such Net Settlement Amount and Funds Withheld Account Adjustment, an amount equal to the Estimated Recapture Payment shall be due from the Reinsurer to the Cedant. The Cedant shall withdraw from the Funds Withheld Account assets with an estimated aggregate Statutory Book Value equal to the Estimated Recapture Payment. If the aggregate estimated Statutory Book Value assets in the Funds Withheld Account as of the Recapture Effective Time is less than the Estimated Recapture Payment, then the Reinsurer shall transfer to the Cedant cash or other Funds Withheld Permitted Investments with a Fair Market Value equal to such shortfall on the Recapture Closing Date. If the aggregate estimated Statutory Book Value assets in the Funds Withheld Account as of the Recapture Effective Time is greater than the Estimated Recapture Payment, then the Cedant shall transfer to the Reinsurer cash or other Funds Withheld Account assets with a Statutory Book Value equal to such excess, which shall be withdrawn by the Cedant and transferred to the Reinsurer on the Recapture Closing Date; provided, that the Reinsurer shall select such assets to be so withdrawn (A) if such recapture is a result of (1) a BEAT Event that is not a Reinsurer BEAT Event or (2) a Reinsurance Credit Event resulting from any redomestication of the Cedant to another state prior to the date the Reinsurer is certified by the applicable Governmental Authority as a "certified reinsurer" in such state or (B) if such recapture is a result of a termination of this Agreement by the Reinsurer as a result of a Reinsurer Termination Event. Following the settlement between the parties of the Estimated Recapture Payment, (x) all assets in the Funds Withheld Account shall continue to be retained by the Cedant, and the Funds Withheld Account shall be terminated, (y) all assets in the OC Account shall be released to the Reinsurer, and the OC Account shall be terminated and (z) the Cedant shall return all Letters of Credit to the applicable LOC Provider.

(c) The payments contemplated by Section 14.01(b) shall be subject to adjustment after the Recapture Closing Date in accordance with Section 14.02.

Section 14.02 Proposed Recapture Payment Statement. Within sixty (60) days following the Recapture Closing Date, the Cedant shall prepare and deliver to the Reinsurer (a) statements, in the form of the Settlement Statement and the Funds Withheld Account Adjustment Statement, setting forth a calculation of the Net Settlement Amount and the Funds Withheld Account Adjustment as of the Recapture Effective Time (the "Proposed Terminal Settlement Statement"), (b) in accordance with Cedant SAP and in the same form as the Pro Forma Recapture Report, a statement setting forth a calculation of the Recapture Payment Amount as of the Recapture Effective Time, determined after giving event to the payment of the Net Settlement Amount and the Funds Withheld Account Adjustment set forth in the Proposed Terminal Settlement Statement, (the "Proposed Recapture Payment Statement"), (c) a calculation of the aggregate Statutory Book Value of the assets withdrawn and retained by the Cedant from the Funds Withheld Account pursuant to Section 14.01(b) on the Recapture Closing Date (the "Proposed Recapture Asset Report") and (d) a calculation of the aggregate Fair Market Value of the assets transferred by the Reinsurer to the Cedant pursuant to Section 14.01(b) on the Recapture Closing Date (the "Proposed Reinsurer Asset Report").

Section 14.03 Changes to Proposed Recapture Payment Statement.

(a) Following receipt of the Proposed Recapture Payment Statement, the Proposed Recapture Asset Report and Proposed Reinsurer Asset Report, the Reinsurer shall have sixty (60) days (the "Recapture Review Period") to review such Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report and Proposed Reinsurer Asset Report. In connection with the review of the Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report and Proposed Reinsurer Asset Report, the Cedant shall provide, and shall cause its Affiliates to provide, the Reinsurer and its Representatives, upon the request of the Reinsurer, reasonable access to the Cedant Books and Records and all work papers and supporting detail prepared by the Cedant and its Representatives and advisors in connection with the preparation of the Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report and the Proposed Reinsurer Asset Report and make reasonably available to the Reinsurer and its Representatives personnel of the Cedant and its Affiliates that have been involved in the preparation of the Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report or the Proposed Reinsurer Asset Report. If the Reinsurer has accepted the Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report and Proposed Reinsurer Asset Report in writing or has not given written notice to the Cedant setting forth any objection to the Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report or Proposed Reinsurer Asset Report (a "Statement of Objection") prior to the expiration of the Recapture Review Period, then the Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report and Proposed Reinsurer Asset Report shall be final and binding upon the parties. If the Reinsurer delivers a Statement of Objection to the Proposed Terminal Settlement Statement, the Proposed

Recapture Payment Statement, the Proposed Recapture Asset Report or the Proposed Reinsurer Asset Report prior to the expiration of the Recapture Review Period, then the parties shall attempt to amicably resolve any such objection within thirty (30) days following receipt by the Cedant of the Statement of Objection.

(b) If any such objections are resolved in writing by the parties, then such resolutions shall be final and binding upon the parties and shall be incorporated into the Final Terminal Settlement Statement, Final Recapture Payment Statement, Final Recapture Asset Report or Final Reinsurer Asset Report, as applicable. If any such objections are not resolved in writing within thirty (30) days following receipt by the Reinsurer of the Proposed Recapture Payment Statement, the Proposed Recapture Asset Report and the Proposed Reinsurer Asset Report, then the parties shall submit any such objections which remain unresolved to the Independent Accountant.

(c) Within ten (10) Business Days of the appointment of the Independent Accountant, the Cedant shall provide the Independent Accountant with a copy of the Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report or Proposed Reinsurer Asset Report, as applicable (in each case as modified by any adjustments agreed to in writing by the parties pursuant to [Section 14.03\(b\)](#)), and the Reinsurer and the Cedant shall each prepare and deliver to the Independent Accountant a written report of such line item or items remaining in dispute, which report shall set forth the specific dollar amount proposed by such party for each such item or items and a detailed explanation of the basis and rationale for such party's positions.

(d) The Independent Accountant shall thereafter finally determine the manner in which such disputed item or items shall be treated in the Final Terminal Settlement Statement, Final Recapture Payment Statement, Final Recapture Asset Report or Proposed Reinsurer Asset Report, as applicable, and issue a written award including a reasonably detailed accounting of any required change to the Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report or Proposed Reinsurer Asset Report, as applicable. In making its determination, the Independent Accountant shall (i) consider only those items that are (A) identified in the Statement of Objection as in dispute and (B) were not resolved in writing by the Reinsurer and the Cedant, (ii) base its determination solely on such reports submitted by the Reinsurer and the Cedant and Cedant SAP and not on the basis of an independent review, (iii) not assign a value to any item greater than the greatest value for such item claimed by either the Reinsurer in the Statement of Objection or the Cedant in the Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report or Proposed Reinsurer Asset Report, as applicable, or less than the smallest value for such item claimed by either the Reinsurer in the Statement of Objection or the Cedant in the Proposed Terminal Settlement Statement, Proposed Recapture Payment Statement, Proposed Recapture Asset Report or Proposed Reinsurer Asset Report, as applicable, and (iv) barring exceptional circumstances, make its determination within thirty (30) days of its appointment; provided that the failure of the Independent Accountant to make its determination in such thirty (30) day period shall not be grounds to defend against or object to the enforcement of such determination.

(e) Each of the Reinsurer and the Cedant agree to enter into a customary engagement letter with the Independent Accountant. The Reinsurer and the Cedant shall reasonably cooperate with the Independent Accountant and shall provide, upon the request of the Independent Accountant, any non-privileged information and documentation, including any actuaries' or accountants' work papers or internal reserving papers, files and models, and make reasonably available to the Independent Accountant personnel of the Cedant and its Affiliates, on the one hand, and the Reinsurer and its Affiliates, on the other hand, in each case that have been involved in the preparation of the Proposed Terminal Settlement Statement, the Proposed Recapture Payment Statement, the Proposed Recapture Asset Report, the Proposed Reinsurer Asset Report or the Statement of Objection, as applicable; provided, however, that the independent actuaries or accountants of the Reinsurer or the Cedant shall not be obligated to make any working papers available to the Independent Accountant unless and until the Independent Accountant has signed a customary confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent actuaries or accountants, as applicable. Any such information and documentation provided by the Reinsurer or the Cedant to the Independent Accountant shall concurrently be provided to the other party to the extent not already so provided; provided, however, that the independent actuaries or accountants of the Reinsurer or the Cedant shall not be obligated to make any working papers available to the other party unless and until the other party has signed a customary confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent actuaries or accountants, as applicable. Neither party shall disclose to the Independent Accountant, and the Independent Accountant shall not consider for any purpose, any settlement discussions or settlement offer made by either party with respect to any objection under this [Section 14.03](#) unless otherwise agreed in writing by both parties.

(f) The determination by the Independent Accountant shall be final and binding upon the parties and shall be deemed the Final Terminal Settlement Statement, the Final Recapture Payment Statement, the Final Recapture Asset Report or the Final Reinsurer Asset Report, as applicable; provided, however, that within three (3) Business Days after the transmittal of the Independent Accountant's award, either party may request in writing to the Independent Accountant, with a copy thereof provided to the other party in accordance with [Section 18.02](#), with such request solely limited to the Independent Accountant correcting any clerical, typographical or arithmetic errors in such award. The other party shall have three (3) Business Days to respond to the Independent Accountant in writing to such request, with a copy thereof provided to the other party in accordance with [Section 18.02](#). The Independent Accountant shall dispose of such request, if no response was received during such three (3) Business Day period from the other party, within five (5) Business Days after receiving such request or, if such a response was received during such period, within three (3) Business Days of its receipt of such a response. The determinations by the Independent Accountant shall be an expert determination under Michigan Law governing expert determination and appraisal proceedings. Either party hereto may petition any court identified in [Section 18.08](#) to reduce such decision to judgment. One-half of all fees, costs and expenses of retaining the Independent Accountant shall be borne by the Reinsurer and one-half of such fees, costs and expenses of retaining the Independent Accountant shall be borne by the Cedant. For the avoidance of doubt, the Independent Accountant shall act as an expert, not as an arbitrator, and neither the determination of the Independent Accountant, nor this agreement to submit to the determination of the Independent Accountant, shall be subject to or governed by the Federal Arbitration Act, 9 U.S.C. § 1 et seq., or any state arbitration Law or regime.

(g) The “Recapture Payment Adjustment” shall be an amount equal to (i) *plus* (ii) *plus* (iii), where the values for (i), (ii) and (iii) shall be determined as follows:

(i) the Final Recapture Payment Amount *minus* Estimated Recapture Payment Amount;

(ii) the Statutory Book Value of the Funds Withheld Account assets withdrawn from the Funds Withheld Account by the Cedant in accordance with Section 14.01(b), as set forth in the Estimated Recapture Asset Report *minus* the Statutory Book Value of the Funds Withheld Account assets withdrawn from the Funds Withheld Account by Cedant in accordance with Section 14.01(b), as set forth in the Final Recapture Asset Report; and

(iii) the Fair Market Value set forth in the Proposed Reinsurer Asset Report *minus* the Fair Market Value set forth in the Final Reinsurer Asset Report.

(h) No later than five (5) Business Days after the determination of the Recapture Payment Adjustment pursuant to this Section 14.03, (i) if the Recapture Payment Adjustment is positive, then the Reinsurer shall transfer cash in an amount equal to such positive amount *plus* interest on such amount accrued at the Interest Rate from the Recapture Closing Date to the date of payment and (ii) if the Recapture Payment Adjustment is negative, then the Cedant shall transfer cash in an amount equal to the absolute value of such negative amount *plus* interest on such amount accrued at the Interest Rate on such amount from the Recapture Closing Date to the date of payment.

(i) All cash required to be transferred pursuant to this Article XIV shall be transferred by wire transfer of immediately available funds.

ARTICLE XV TAX

Section 15.01 Excise and Withholding Tax.

(a) The Cedant and the Reinsurer agree that any excise Tax, including under section 4371 of the Code or withholding Tax, including under sections 1441 or 1471 of the Code that, in each case, is required by Law (or in respect of which the Cedant receives notice that such Tax has been assessed) in respect of any amount paid to or accrued by the Reinsurer under this Agreement shall be deducted or withheld from the applicable payment (or settled in accordance with Article V), and any such amount shall be treated for all purposes of this Agreement as having been paid to the Reinsurer. The Reinsurer shall indemnify the Cedant for any excise or withholding Taxes assessed in respect of amounts paid to or accrued by the Reinsurer under this Agreement, including interest and penalties imposed in connection with such Taxes, but excluding any interest and penalties imposed that are attributable to the Cedant’s failure to pay when due any such Taxes that it has deducted or withheld from the Reinsurer. Any refunds of such amounts shall be for the Reinsurer’s account. Cedant shall use commercially reasonable efforts to obtain any such refunds, provided that the Reinsurer shall reimburse Cedant for any out-of-pocket expenses incurred by the Cedant in seeking such refunds and provide Cedant with such information and cooperation as the Cedant reasonably requests in connection therewith.

(b) The Reinsurer has, on or before the date of this Agreement, delivered to the Cedant (i) a correct, complete and executed W-8BEN-E establishing exemption from withholding under Section 1471 of the Code and certifying that the Reinsurer is a resident of the United Kingdom within the meaning of the income tax treaty between the United States and the United Kingdom (the “Tax Treaty”) and meets the limitation on benefits requirements of the Tax Treaty as of the date hereof, and (ii) a copy of the closing agreement entered into between the Reinsurer and the U.S. Internal Revenue Service (the “IRS”) pursuant to IRS Revenue Procedure 2003-78, as amended by IRS Revenue Procedure 2015-46 (the “Closing Agreement”), which Closing Agreement the Cedant is permitted to rely upon for purposes of section 3 of IRS Revenue Procedure 2003-78. The Reinsurer represents that, as of the date of this Agreement, the Reinsurer is eligible for exemption from excise tax imposed under section 4371 of the Code pursuant to the Tax Treaty with respect to payments of premium pursuant to this Agreement. The Reinsurer shall provide or otherwise make available updated tax forms and documentation, upon the Cedant’s reasonable request. In the event that the Reinsurer determines that it fails to qualify for exemption from excise tax pursuant to the Tax Treaty and the Closing Agreement, Reinsurer shall promptly notify Cedant in writing.

(c) The Cedant acknowledges and agrees that, assuming the Reinsurer delivers the certifications and copy of the Closing Agreement and based on Reinsurer’s representation in Section 15.01(b), the payments contemplated by this Agreement are not subject to any excise or withholding tax as of the date hereof. If the Cedant determines that a deduction or withholding for any Tax is required under Law, (i) the Cedant shall promptly notify the Reinsurer of such determination, (ii) the Cedant and the Reinsurer shall discuss in good faith whether any such excise or withholding Tax is legally required to be withheld or deducted, (iii) in the event a deduction or withholding is legally required, the Cedant and the Reinsurer shall negotiate in good faith to determine mutually acceptable changes to the terms of this Agreement (and any related transaction agreements), the structure of the reinsurance contemplated by this Agreement, the identity of the Reinsurer under this Agreement or any other commercially reasonable changes within the control of the parties, in each case, that reduce or eliminate the amount of such excise or withholding Tax required to be so withheld, provided that in all cases the Cedant shall be entitled to withhold and pay any excise or withholding Tax to the extent required by applicable Law.

Section 15.02 Base Erosion and Anti-Abuse Tax.

(a) For purposes of this Section 15.02, “Control” as used in the defined term “Affiliate” shall be presumed to exist only if any Person, directly or indirectly, owns, controls, holds the power to vote or holds proxies representing fifty percent (50%) or more of the voting securities of any other Person.

(b) The Reinsurer represents that, as of the date hereof, to its knowledge, the Reinsurer, AGM and their Affiliates do not own any stock or other equity interests in Brooke Holdco, either directly or by attribution under Section 59A(g)(3) of the Code (but in making such determination under Section 59A(g)(3) of the Code, ignoring all attribution under Section 318 of the Code, other than Section 318(a)(2)).

(c) Each of the Reinsurer and the Cedant represents that, as of the date hereof, to its knowledge, the Reinsurer is not a “related person” within the meaning of Section 59A(g) (1) of the Code with respect to the Cedant.

(d) For so long as this Agreement is in effect, the Reinsurer shall not, and shall not permit its Affiliates, or permit any of AGM or its Affiliates when acting on behalf of Reinsurer or its Affiliates, to: (A) acquire additional shares of stock or other equity interests in Brooke Holdco, Prudential or the registered issuer in any IPO involving Brooke Holdco, that when taken together with the shares of Brooke Holdco acquired pursuant to the Investment Agreement, would cause the Reinsurer or its Affiliates to own (directly or by attribution under Section 59A(g) (3) of the Code), in the aggregate, stock or other equity interests possessing 24% or more of the voting power or the value of Brooke Holdco or (B) other than the transactions contemplated by the Investment Agreement, make any investment, or enter into any transaction, (including transactions entered into and investments made pursuant to the Investment Management Agreement) if at the time the Reinsurer, AGM or their Affiliates become bound to make such investment or enter into such transaction, the Reinsurer, AGM or such Affiliate has actual knowledge that such investment or transaction would cause the Reinsurer to be treated as a Related Party with respect to the Cedant, including, in the case of investments in an entity managed by AGM or its Affiliates, actual knowledge after reasonable review of information actually within the possession of Reinsurer or AGM regarding such potential investment.

(e) In the event that the Cedant or the Reinsurer reasonably believes the Reinsurer is, or is reasonably likely to be treated as, a Related Party with respect to the Cedant that would require the Cedant (or with the passage of time will require the Cedant) to make a material payment of a base erosion minimum tax amount (as defined under Section 59A(b) of the Code) in respect of the transaction contemplated by this Agreement, the Cedant or its Affiliates, or the Reinsurer or its Affiliates, as applicable, shall promptly provide the other party notice of such conclusion and the basis therefor.

(f) Following receipt of the notice provided by a party in Section 15.02(e), the Reinsurer and the Cedant shall (i) work together in good faith to determine (A) whether the Reinsurer is a Related Party with respect to the Cedant, and (B) whether the structure or ownership interests or investments of the Reinsurer, the Cedant or their Affiliates can be altered or the reinsurance arrangements can be restructured or any other action can be taken that could reasonably be expected to reduce the amount of the base erosion minimum tax amount imposed on the Cedant under Section 59A of the Code to an immaterial amount or cause the Reinsurer not to be treated as a Related Party with respect to the Cedant, and (ii) (A) use, (B) cause each of its Affiliates to use, and (C) in the case of Reinsurer, cause AGM and its Affiliates to use, commercially reasonable efforts to carry out mitigation steps identified in sub-clause (B) of clause (i) hereof as being reasonably likely to reduce the amount of the base erosion minimum tax amount imposed on the Cedant under Section 59A of the Code to an immaterial amount or cause the Reinsurer not to be treated as a Related Party with respect to the Cedant.

(g) The failure to take any action required pursuant to this Section 15.02 shall not constitute a default or acceleration of any obligations of the other party under this Agreement, and the sole remedy of the Cedant or the Reinsurer in respect of this Section 15.02 shall be the exercise of the recapture rights relating to the Recapture Event described in Section 13.04(d) and the payment of liquidated damages described in Section 13.07 unless Reinsurer elects to provide indemnification pursuant to Section 13.04(d).

Section 15.03 Funds Withheld Investments. Within six (6) months following the end of each tax year, the Cedant shall prepare a calculation of the net capital gain or loss with respect to the assets held in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account for U.S. federal income tax purposes (any such net capital loss, the “Funds Withheld Loss”). The Reinsurer shall provide any information reasonably requested by the Cedant in connection with calculating the Funds Withheld Loss. The Cedant shall provide the Reinsurer with the details of such calculation and any supporting work papers reasonably requested by the Reinsurer, and the parties shall cooperate in good faith to resolve any disagreements. If the Funds Withheld Loss for any tax year, reduced by (i) the amount of consolidated net capital gain (within the meaning of Section 1.1502-22(a) of the Treasury Regulations) of the affiliated group filing consolidated federal income tax returns of which the Cedant is a member (calculated without regard to items of capital gain or loss attributable to assets held in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account, and including only those items of capital gain which are eligible to be offset by items of capital loss attributable to the assets in or, with respect to the Boxed Assets and the Transferred Notes, allocated to, the Funds Withheld Account for such year), and (ii) prior year capital gains of such affiliated group against which any consolidated net capital loss carryback that includes items comprising the Funds Withheld Loss can be offset pursuant to applicable law, provided that items described in clauses (i) and (ii) shall be taken into account only to the extent such items are available for offset, taking into account all other items of income, gain, loss or deduction of such affiliated group, determined on a “with and without basis,” (an “Excess Capital Loss”) is greater than \$25 million, then the Reinsurer shall make an additional payment to the Cedant in an amount equal to the Excess Loss Payment. Any Excess Loss Payment will be amortized by annual offsetting payments by the Cedant to the Reinsurer in equal installments for the five (5) succeeding tax years. All Excess Loss Payments and related amortization payments will be included in the relevant Net Settlement Amounts following each determination. The Reinsurer and the Cedant will discuss in good faith the tax profile of current and proposed investments

held in or allocated to or to be held in or allocated to the Funds Withheld Account and potential dispositions thereof on a quarterly basis. The Cedant will provide the Reinsurer with tax basis and other information reasonably requested by the Reinsurer in connection with such discussions.

ARTICLE XVI REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 16.01 Representations and Warranties of the Cedant. The Cedant hereby represents and warrants to the Reinsurer, as of the Effective Time and as of the Closing Date, as follows:

(a) Organization and Qualification. The Cedant (i) is a corporation duly incorporated, validly existing and in good standing under the Laws of the State of Michigan, (ii) is duly qualified as a foreign corporation to do business and is in good standing in each jurisdiction where the character of its owned, operated or leased properties or the nature of its activities makes such qualification necessary and (iii) has the requisite corporate power and authority to operate its business as now conducted, except where the failures to be so qualified, individually or in the aggregate, would not reasonably be expected to have, a material adverse effect on the Cedant's ability to perform its obligations under this Agreement.

(b) Authorization. The Cedant has all requisite corporate or other power to enter into, consummate the transactions contemplated by, and carry out its obligations under, this Agreement. The execution and delivery by the Cedant of this Agreement, the Trust Agreement and the Security and Control Agreement and the consummation by the Cedant of the transactions contemplated by, and the performance by the Cedant of its obligations under, this Agreement, the Trust Agreement and the Security and Control Agreement has been duly authorized by all requisite corporate action on the part of the Cedant. Each of this Agreement, the Trust Agreement and the Security and Control Agreement has been duly executed and delivered by the Cedant, and this Agreement, the Trust Agreement and the Security and Control Agreement (assuming due authorization, execution and delivery by the Reinsurer) constitute the legal, valid and binding obligations of the Cedant, enforceable against it in accordance with its terms, subject to the effect of any applicable bankruptcy, reorganization, insolvency, moratorium, rehabilitation, liquidation, fraudulent conveyance or similar Laws relating to or affecting creditors' rights generally and subject, as to enforceability, to the effect of general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(c) No Conflict. Except as may result from any facts or circumstances solely relating to the Reinsurer or its Affiliates (as opposed to any third party), the execution, delivery and performance by the Cedant of, and the consummation by it of the transactions contemplated by, this Agreement does not (i) violate or conflict with the organizational documents of the Cedant, (ii) violate or conflict with any Law applicable to the Cedant or by which it or any of its properties or assets is bound or subject, or (iii) result in any breach of, or constitute a default (or event which, with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, acceleration, impairment, alteration or cancellation of, or result in the creation of any lien on any of the assets, rights or properties of the Cedant pursuant to, or result in any acceleration of remedies, penalties or material increase or decrease in an amount payable or an obligation or benefit under, any material note, bond, mortgage, indenture or contract to which the Cedant is a party or by which any of such assets or properties is bound, or subject, except, in the case of clauses (ii) or (iii), any such conflicts, violations, breaches, defaults, rights or liens that, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the Cedant's ability to perform its obligations under this Agreement.

(d) Consents and Approvals. Except as may result from any facts or circumstances solely relating to the Reinsurer or its Affiliates (as opposed to any third party), the execution and delivery by the Cedant of this Agreement, and the performance by the Cedant of, and the consummation by the Cedant of the transactions contemplated by, this Agreement does not require any governmental approval to be obtained or made by the Cedant, except for such governmental approvals, the failure of which to be obtained or made has not had, and would not reasonably be expected to have, a material adverse effect on the Cedant's ability to perform its obligations under this Agreement.

(e) Governmental Licenses. The Cedant owns, holds or possesses all governmental approvals, qualifications, registrations, consents, licenses, permits, certificates or authorizations that are necessary for it to conduct its business and to own or use its assets and properties, as such business, assets and properties are conducted, owned and used on the date hereof (collectively, the "Permits") except where the failure to hold such Permit, individually or in the aggregate, would not reasonably be expected to adversely affect in any material respect the Subject Annuities or the Cedant's ability to perform its obligations under this Agreement. Except as would not be reasonably expected to adversely affect in any material respect the Subject Annuities or the Cedant's ability to perform its obligations under this Agreement (i) all of the Cedant's Permits that are material to the conduct of the Cedant's business are valid and in full force and effect, (ii) the Cedant is not in default or violation, in any material respect, of any of its Permits and (iii) the Cedant is not the subject of any pending or, to the knowledge of the Cedant, threatened Action that seeks the revocation, suspension, limitation, termination, modification, cancellation, impairment or non-renewal of any of its Permits. None of the Cedant's material Permits will be subject to revocation, suspension, limitation, termination, modification, cancellation, impairment or non-renewal as a result of the consummation of the transactions contemplated hereby.

(f) Actuarial Analysis. The Cedant has delivered to the Reinsurer a complete and correct copy of the Actuarial Analysis. As of the date hereof Milliman has not furnished to the Cedant or any of its Affiliates any other addenda, supplements or modifications to the Actuarial Analysis. As of the date hereof, Milliman has not notified the Cedant or any of its Affiliates that the Actuarial Analysis is inaccurate in any material respect. The factual information and data provided by the Cedant and its Affiliates in writing to Milliman in connection with the preparation of the Actuarial Analysis, including the actuarial analysis that is described in Schedule 16.01(f), and the seriatim data, sensitivity runs, memoranda, in each case to the extent related to the Subject Annuities, to the knowledge of the Cedant (i) was derived from the books and records of the Cedant, (ii) was generated from the same underlying sources and systems that were utilized by the Cedant and its

applicable Affiliates to prepare the SAP Financial Statements to the extent applicable, (iii) was based upon an accurate inventory of in force Subject Annuities that, at the time of preparation, was complete and correct in all material respects and (iv) was accurate in all material respects as of the date so provided. Notwithstanding the foregoing, the Cedant does not guarantee the projected results included in the Actuarial Analysis, or make any representation or warranty in this [Section 16.01\(f\)](#) or in any other provision of this Agreement (other than, solely with respect to (A) below, [Section 16.01\(k\)](#)) (A) with respect to any assumption in the Actuarial Analysis (including as to future mortality, policyholder behavior, expense, investment experience and other actuarial factors with respect to the Subject Annuities or its associated Reinsured Liabilities or assets) or (B) to the effect that the projected profits set forth in the Actuarial Analysis will be realized.

(g) [Factual Information Relating to the Subject Annuities](#).

(i) The information that was supplied by or on behalf of the Cedant to the Reinsurer or any of its Representatives that is described in [Schedule 16.01\(g\)\(i\)](#) (such information, the “[Factual Information](#)”), as of the date supplied (or if later corrected or supplemented prior to the Closing Date, as of the date corrected or supplemented), taken as a whole, did not contain or reflect any material inaccuracies or omissions in factual data concerning the Subject Annuities or the Reinsured Liabilities.

(ii) The calculations and methodologies contained in the pdf file located at 5.8.1.2 of the Data Room were used by the Cedant for purposes of calculating its Standard and Poor’s rating agency capital levels as of December 31, 2019.

(h) [Solvency](#). Immediately after giving effect to this Agreement, no Insolvency Event will have occurred with respect to the Cedant.

(i) [Accuracy of Books and Records](#). The Cedant Books and Records (i) have been maintained in all material respects in accordance with applicable Law, sound business practices and with a degree of care and diligence similar to that used for the Cedant’s other businesses for its own account and in accordance with its internal record retention procedures and policies for its other business and (ii) are in material compliance with any and all record keeping maintenance requirements in all applicable Subject Annuities.

(j) [Financial Statements](#). The Cedant has provided to the Reinsurer true, complete and correct copies of (i) the annual statement and audited Cedant SAP financial statements, including the related footnotes, as of and for the year ended December 31, 2019 (the “[Annual SAP Financial Statements](#)”) and (ii) the quarterly statement as of and for the calendar quarter ended March 31, 2020 (together with the Annual SAP Financial Statements, “[SAP Financial Statements](#)”) of the Cedant. The SAP Financial Statements (A) have been prepared in all material respects in accordance with Cedant SAP applied consistently throughout the periods involved (except as described in the notes thereto), and (B) present fairly, in all material respects, the statutory financial position and results of operations of the Cedant as of their respective dates and for the respective periods covered thereby in accordance with Cedant SAP, subject in the case of the quarterly financial statements referred to above, normal year-end adjustments that are not material, individually or in the aggregate. No material deficiency has been asserted by any Governmental Authority with respect to any of the SAP Financial Statements.

(k) [Reserves](#).

(i) The Reserves reflected in the SAP Financial Statements and the reserves reflected in the calculation of the Initial Premium (A) were determined in all material respects in accordance with generally accepted actuarial standards consistently applied (except as otherwise noted in the SAP Financial Statements) and were fairly stated in accordance with sound actuarial provisions in effect as of the date of such SAP Financial Statements, (B) were based on actuarial assumptions that produced reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions and (C) satisfied the requirements of applicable Law and Cedant SAP in all material respects, except as otherwise noted in such SAP Financial Statements and notes thereto included in such SAP Financial Statements.

(ii) The reserves reflected in the calculation of the Initial Premium were determined in a manner consistent with the Cedant’s historical practices utilizing reserving methods and assumptions for applying Cedant SAP which are consistent with the reserving methods and assumptions utilized by the Cedant to prepare the Reference File.

(l) [Compliance with Laws](#). All of the Subject Annuities have been issued in compliance in all material respects with all applicable Laws. All policy forms, riders, amendments and endorsements on which any Subject Annuity has been issued have, and all marketing materials, brochures, illustrations and certificates used in connection with the sale and issuance of the Subject Annuities have, to the extent required by applicable Law, been filed with and approved by all applicable Governmental Authorities and otherwise comply in all material respects with all applicable Laws.

(m) [Insurance Regulatory Matters](#). The Cedant has made available to the Reinsurer complete and correct (i) copies of all material reports and registrations (including registrations as a member of an insurance holding company system and risk based capital reports) and any supplements or amendments thereto filed since January 1, 2018 by the Cedant with respect to the Subject Annuities with applicable Governmental Authorities, (ii) copies of all financial examination and market conduct examination reports of all applicable Governmental Authorities with respect to the Subject Annuities issued since January 1, 2018 and (iii) copies of all other material correspondence, orders, inquiries and other materials relating to the Subject Annuities received from or delivered to any insurance regulator, including those relating to the Cedant’s accounting, actuarial, reporting and claims-handling practices, since January 1, 2018, or that are in effect as of the date hereof. The Cedant is not, as of the date hereof, subject to any pending financial or market conduct examination by any applicable Governmental

Authorities with respect to the Subject Annuities. The Cedant has made available to the Reinsurer complete and correct copies of all material policy forms in respect of the Subject Annuities.

(n) Litigation. There are no Actions relating to the Subject Annuities (other than Actions relating to the Subject Annuities that involve ordinary course claims under the applicable Subject Annuity) pending or, to the knowledge of the Cedant, threatened in writing against the Cedant that (i) would reasonably be expected to adversely affect in any material respect the Subject Annuities or the ability of the Cedant to perform its obligations under this Agreement or (ii) constitute a class Action, whether or not a class has been certified. There are no Actions pending or, to the knowledge of the Cedant, threatened against the Cedant or any of its Affiliates that question the validity of, or seek injunctive relief with respect to, this Agreement or the right of the Cedant to enter into this Agreement.

(o) Investment Assets.

(i) The Cedant has valid title to all of the Initial Funds Withheld Assets, free and clear of any liens, pledges or other encumbrances.

(ii) The Cedant has made available to the Reinsurer accurate and complete copies of all of documents, agreements and instruments (and all modifications and amendments thereto) evidencing, securing, executed and/or delivered in connection with the CMLs, including, without limitation, title insurance policies and surveys. The Cedant has made available to the Reinsurer accurate and complete copies of the loan servicing agreements with respect to the CMLs with respect to the servicing of each CML (the "Servicing Agreements").

(iii) Neither the Cedant nor any of its Affiliates has received written notice that any of the CMLs is in default in any payment of principal, distributions, interest, dividends or any other material payment or performance obligation thereunder. To the knowledge of the Cedant, there is no default under, or any breach of, any representations, agreements or covenants in respect of, or under any contractual arrangement relating to, any of the CMLs or under any of the Servicing Agreements, and the Cedant has not waived any material default in respect of or under any contractual arrangement relating to the CMLs or under any of the Servicing Agreements.

(iv) There are no material outstanding commitments, options, put agreements or other arrangements relating to the CMLs to which the Cedant may be subject upon or after the Closing Date.

(v) None of the CMLs are subject to any restructuring, work-out or forbearance arrangement (including, without limitation, any deferral or waiver of scheduled payments), and the Cedant has not requested from any counterparty or borrower thereunder (and no counterparty or borrower has requested) any restructuring, work-out or forbearance arrangement with respect thereto (including, without limitation, any deferral or waiver of scheduled payments).

(p) Tax Treatment of Subject Annuities. The Tax treatment of each Subject Annuity is not, and since the time of issuance or subsequent modification has not been, less favorable to the purchaser, policyholder or intended beneficiaries thereof, than the Tax treatment under the Code either that was purported to apply in written materials provided by the issuer of such Subject Annuity, in each case at the time of its issuance (or any subsequent modification of such Subject Annuity) or for which such Subject Annuity was designed to qualify at the time of issuance (or subsequent modification), in each case except where the failure to have such Tax treatment, individually or in the aggregate, is not, and would not reasonably be expected to be, material to the issuer of any such Subject Annuity. Neither the Cedant or any of its Affiliates has entered into any agreement or is involved in any discussions or negotiations with any Tax Authority regarding the failure of any Subject Annuities to meet the requirements of the Product Tax Rules. Neither the Cedant or any of its Affiliates is a party to, or has received written notice of, any federal, state, local or foreign audits or other administrative or judicial actions with regard to the Tax treatment of any Subject Annuities or of any claims by the purchasers, holders or intended beneficiaries of the Subject Annuities regarding the Tax treatment of (i) the Subject Annuities or (ii) any plan or arrangement in connection with which such Subject Annuities were purchased or have been administered.

(q) NO OTHER REPRESENTATIONS OR WARRANTIES, NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS AGREEMENT, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS SECTION 16.01. NEITHER THE CEDANT NOR ANY OTHER PERSON MAKES ANY OTHER EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY WITH RESPECT TO THE CEDANT, THE SUBJECT ANNUITIES, THE REINSURED LIABILITIES OR THE ASSETS AND PROPERTIES OF THE CEDANT, AND THE CEDANT DISCLAIMS ANY OTHER REPRESENTATIONS, WARRANTIES, FORECASTS, PROJECTIONS, STATEMENTS OR INFORMATION, WHETHER MADE BY THE CEDANT OR ANY OF ITS AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, PRODUCERS OR REPRESENTATIVES. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, EXCEPT AS EXPRESSLY SET FORTH IN THIS ARTICLE XVI, NO REPRESENTATION OR WARRANTY HAS BEEN OR IS BEING MADE WITH RESPECT TO ANY PROJECTIONS, FORECASTS, BUSINESS PLANS, ESTIMATES OR BUDGETS DELIVERED OR MADE AVAILABLE TO THE REINSURER OR ANY OTHER PERSON.

Section 16.02 Covenants of the Cedant.

- (a) Statutory Accounting Principles. The Cedant shall prepare its financial statements as required by, and in accordance with, Cedant SAP.
- (b) Existence; Conduct of Business. The Cedant shall do or cause to be done all things reasonably necessary to preserve, renew and keep in full force and effect its legal existence and the rights, Permits, privileges and franchises material to the conduct of its business, in each case to the extent related to the Subject Annuities. The Cedant shall not undertake or consummate any transaction involving an insurance division or insurance business transfer if such insurance division or insurance business transfer would have the effect of (i) transferring or otherwise isolating the Subject Annuities into any Person (including the Cedant) that does not also contain a material portion of other business written or assumed by the Cedant or (ii) transferring some, but not all, of the Subject Annuities to any Person, in each case, without the prior written consent of the Reinsurer (which consent shall not be unreasonably withheld, conditioned or delayed).
- (c) Compliance with Law. The Cedant shall comply with all Laws of, governmental orders of, or Permits issued by, any Governmental Authority applicable to the Cedant or by which it or its properties or assets is bound or subject, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to adversely affect in any material respect the Subject Annuities or the Cedant's ability to perform its obligations under this Agreement.
- (d) Restriction on Liens. The Cedant shall not create, incur, assume or suffer to exist any liens on the assets in the Funds Withheld Account (whether owned on the date of this Agreement or hereafter acquired), or on any interest therein or the proceeds thereof.
- (e) Redomestication. The Cedant shall not redomesticate from the State of Michigan to a state where the Reinsurer is not certified as a "certified reinsurer" without providing at least seventy-five (75) days' prior notice of its intent to so redomesticate to the Reinsurer.
- (f) Note Splitting. For any notes or other certificated assets comprising the Initial Funds Withheld Assets ("Notes") with respect to which the Cedant's entire position will not be transferred into the Funds Withheld Account, the Cedant shall within a commercially reasonable timeframe after the Closing Date (which shall not exceed 90 days following the date hereof), (i) execute and deliver all documents or instruments as is necessary to effect the split, issuance and re-registration of any Notes in the name of the Cedant's nominee (or in the name of the Cedant if registering in the name of the nominee is not commercially reasonable) and in the amount which is set forth on Schedule 16.02(f) (the "Transferred Notes"), and (ii) deliver such Transferred Notes to the custodian of the Funds Withheld Account on behalf of the Funds Withheld Account. The Transferred Notes will not be transferred into the Funds Withheld Account on the Closing Date and instead will be allocated to the Funds Withheld Account on the books and records of the Cedant as of the Closing Date. The Cedant agrees to (i) notify and forward to the Reinsurer (or the Investment Manager on behalf of the Reinsurer) all interest or principal payments, amendments, notices, corporate actions and other matters respecting the Transferred Notes promptly upon receipt by the Cedant and (ii) prior to such split, reissuance and re-registration, follow all instructions of the Reinsurer (or the Investment Manager on behalf of the Reinsurer) with respect to investment management-related activities in respect of such Transferred Notes, including with respect to any voting, sale or reporting thereof. The Cedant shall further cooperate with the Reinsurer (or the Investment Manager on behalf of the Reinsurer) to the extent reasonably necessary in connection with any matters respecting the Transferred Notes.
- (g) Boxed Assets. With respect to the assets set forth on Schedule 16.02(g) (the "Boxed Assets"), which will not be transferred into the Funds Withheld Account at the Closing Date and instead will be allocated to the Funds Withheld Account on the books and records of the Cedant as of the Closing Date, the Cedant shall follow all instructions of the Reinsurer (or the Investment Manager on behalf of the Reinsurer) with respect to investment management-related activities and decisions in respect of such Boxed Assets, including (i) executing and delivering all documents or instruments as is necessary to effect the liquidation or unwind of such Boxed Assets and (ii) delivering any proceeds from the liquidation or unwind of such Boxed Assets to the custodian of the Funds Withheld Account on behalf of the Funds Withheld Account. Any such instructions shall be provided by Instant Bloomberg message or any other mutually acceptable method of providing instructions. The Reinsurer (or the Investment Manager on behalf of the Reinsurer) shall use commercially reasonable efforts to liquidate and unwind the Boxed Assets no later than June 30, 2020; provided that the Reinsurer (or the Investment Manager on behalf of the Reinsurer) shall provide instructions such that the liquidation is completed no later than July 15, 2020. Prior to such liquidation and unwind, the Cedant agrees to forward to the custodian of the Funds Withheld Account on behalf of the Funds Withheld Account all payments, posted collateral, disbursements, distributions, or proceeds in respect of the Boxed Assets promptly upon receipt by the Cedant or any of its custodians. The Cedant shall use commercially reasonable efforts, at the direction of the Reinsurer (or the Investment Manager on behalf of the Reinsurer), to liquidate and unwind each treasury security comprising the Boxed Assets and the related derivatives transaction concurrently. The Cedant shall further cooperate with the Reinsurer (or the Investment Manager on behalf of the Reinsurer) to the extent reasonably necessary in connection with any matters respecting the Boxed Assets. For the avoidance of doubt, the interest maintenance reserve, consisting of after-tax unamortized deferred gains and losses, created as a result of the liquidation and unwind of the Boxed Assets shall be determined on a net basis taking into account the difference between the aggregate net after-tax proceeds received by the Cedant or any of its custodians from the liquidation and unwind of each treasury security and related derivatives transaction comprising the Boxed Assets and the aggregate Statutory Book Value of such treasury security and related derivatives transaction as of the date of such liquidation and unwind.
- (h) Additional Documentation. The Cedant shall deliver to the Reinsurer or the Investment Manager the documentation described on Schedule 16.02(h) relating to the Initial Funds Withheld Assets within the timeframes specified therein to the extent that such documentation is in the possession of, or otherwise available to, the Cedant and its Affiliates.
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Section 16.03 Representations and Warranties of the Reinsurer. The Reinsurer hereby represents and warrants to the Cedant, as of the Effective Time and as of the Closing Date, as follows:

(a) Organization and Qualification. The Reinsurer (i) is a Bermuda exempted company duly incorporated, validly existing and in good standing under the Laws of Bermuda, (ii) is duly qualified as a foreign corporation to do business and is in good standing in each jurisdiction where the character of its owned, operated or leased properties or the nature of its activities makes such qualification necessary and (iii) has the requisite corporate or other power and authority to operate its business as now conducted, except where the failures to be so qualified, individually or in the aggregate, would not reasonably be expected to have, a material adverse effect on the Reinsurer's ability to perform its obligations under this Agreement.

(b) Authorization. The Reinsurer has all requisite corporate or other power to enter into, consummate the transactions contemplated by, and carry out its obligations under, this Agreement. The execution and delivery by the Reinsurer of this Agreement, the Trust Agreement and the Security and Control Agreement and the consummation by the Reinsurer of the transactions contemplated by, and the performance by the Reinsurer of its obligations under, this Agreement, the Trust Agreement and the Security and Control Agreement has been duly authorized by all requisite corporate or other action on the part of the Reinsurer. Each of this Agreement, the Trust Agreement and the Security and Control Agreement has been duly executed and delivered by the Reinsurer, and this Agreement, the Trust Agreement and the Security and Control Agreement (assuming due authorization, execution and delivery by the Cedant) constitute the legal, valid and binding obligations of the Reinsurer, enforceable against it in accordance with its terms, subject to the effect of any applicable bankruptcy, reorganization, insolvency, moratorium, rehabilitation, liquidation, fraudulent conveyance or similar Laws relating to or affecting creditors' rights generally and subject, as to enforceability, to the effect of general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(c) No Conflict. Except as may result from any facts or circumstances solely relating to the Cedant or its Affiliates (as opposed to any third party), the execution, delivery and performance by the Reinsurer of, and the consummation by it of the transactions contemplated by, this Agreement does not (i) violate or conflict with the organizational documents of the Reinsurer, (ii) violate or conflict with any Law applicable to the Reinsurer or by which it or any of its properties or assets is bound or subject or (iii) result in any breach of, or constitute a default (or event which, with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, acceleration, impairment, alteration or cancellation of, or result in the creation of any lien on any of the assets, rights or properties of the Reinsurer pursuant to, or result in any acceleration of remedies, penalties or material increase or decrease in an amount payable or an obligation or benefit under, any material note, bond, mortgage, indenture or contract to which the Reinsurer or any of its subsidiaries is a party or by which any of such assets or properties is bound or subject, except, in the case of clauses (ii) or (iii), any such conflicts, violations, breaches, defaults, rights or liens that, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the Reinsurer's ability to perform its obligations under this Agreement.

(d) Consents and Approvals. Except as may result from any facts or circumstances solely relating to the Cedant or its Affiliates (as opposed to any third party), the execution and delivery by the Reinsurer of this Agreement, and the performance by the Reinsurer of, and the consummation by the Reinsurer of the transactions contemplated by, this Agreement does not require any governmental approval to be obtained or made by the Reinsurer, except for such governmental approvals, the failure of which to be obtained or made has not had, and would not reasonably be expected to have, a material adverse effect on the Reinsurer's ability to perform its obligations under this Agreement.

(e) Governmental Licenses. The Reinsurer owns, holds or possesses all Permits that are necessary for it to conduct its business and to own or use its assets and properties, as such business, assets and properties are conducted, owned and used on the date hereof and to execute and deliver, and perform its obligations under, this Agreement, except where the failure to hold such Permit, individually or in the aggregate, has not had and would not reasonably be expected to adversely affect in any material respect the ability of the Reinsurer to perform its obligations under this Agreement. Except as would not be reasonably expected to adversely affect in any material respect the Reinsurer's ability to perform its obligations under this Agreement (i) all of the Reinsurer's Permits that are material to the conduct of the Reinsurer's business are valid and in full force and effect, (ii) the Reinsurer is not in default or violation, in any material respect, of any of its Permits and (iii) the Reinsurer is not the subject of any pending or, to the knowledge of the Reinsurer, threatened Action that seeks the revocation, suspension, limitation, termination, modification, cancellation, impairment or non-renewal of any of its Permits. None of the Reinsurer's Permits will be subject to revocation, suspension, limitation, termination, modification, cancellation, impairment or non-renewal as a result of the consummation of the transactions contemplated hereby.

(f) Solvency. Immediately after giving effect to this Agreement, no Insolvency Event will have occurred with respect to the Reinsurer.

(g) Accuracy of Books and Records. The Reinsurer Books and Records have been maintained in all material respects in accordance with applicable Law and sound business practices.

(h) Financial Statements. The Reinsurer has provided to the Cedant true, complete and correct copies of (i) the annual statement and audited Reinsurer SAP financial statements, including the related footnotes, as of and for the year ended December 31, 2019 (the "Annual Reinsurer Financial Statements") and (ii) the unaudited quarterly statements as of and for the calendar quarter ended March 31, 2020 (together with the Annual Reinsurer Financial Statements, "Reinsurer Financial Statements") of the Cedant. The Reinsurer Financial Statements (A) have been prepared in all material respects in accordance with Reinsurer SAP applied consistently throughout the periods involved (except as described in the notes thereto), and (B) present fairly, in all material respects, the statutory financial position and results of operations of the

Reinsurer as of their respective dates and for the respective periods covered thereby in accordance with Reinsurer SAP, subject in the case of the quarterly financial statements referred to above, normal year-end adjustments that are not material, individually or in the aggregate. No material deficiency has been asserted by any Governmental Authority with respect to any of the Reinsurer Financial Statements.

(i) Certified Reinsurer. As of the date hereof, the Reinsurer has been certified by the Michigan Department of Insurance and Financial Services as a “certified reinsurer” in the State of Michigan pursuant to Mich. Admin. Code R 500.1131.

Section 16.04 Covenants of the Reinsurer

(a) Statutory Accounting Principles. The Reinsurer will prepare its financial statements as required by, and in accordance with, Reinsurer SAP.

(b) Existence; Conduct of Business. The Reinsurer will do or cause to be done all things reasonably necessary to preserve, renew and keep in full force and effect its legal existence and the rights, Permits, privileges and franchises material to the conduct of its business.

(c) Compliance with Law. The Reinsurer will comply with all Laws of, or Permits issued by, any Governmental Authority applicable to the Reinsurer or by which it or its properties or assets is bound or subject, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to adversely affect in any material respect the Reinsurer’s ability to perform its obligations under this Agreement.

(d) Governmental Notices. The Reinsurer shall provide the Cedant, within five (5) Business Days after receipt thereof, copies of any written notice or report from any Governmental Authority with respect to the business reinsured under this Agreement and a written summary of any material oral communication with any Governmental Authority with respect to the business reinsured under this Agreement.

(e) Certified Reinsurer. The Reinsurer will do or cause to be done all things reasonably necessary to maintain its status as a “certified reinsurer” in the State of Michigan pursuant to Mich. Admin. Code R 500.1131. In the event that the Cedant notifies the Reinsurer of its intent to redomesticate from the State of Michigan to a state where the Reinsurer is not certified as a “certified reinsurer” (the “New Domiciliary State”), the Reinsurer shall use commercially reasonable efforts to become certified as a “certified reinsurer” in the New Domiciliary State and to otherwise cooperate with the Cedant in connection with any such proposed redomestication.

**ARTICLE XVII
SURVIVAL; INDEMNIFICATION; CERTAIN REMEDIES**

Section 17.01 Survival. The representations, warranties, covenants and agreements of the parties hereto contained in or made pursuant to this Agreement shall survive in full force and effect until the date that is eighteen (18) months after the Closing Date, at which time they shall terminate (and no claims shall be made for indemnification under Section 17.02 or Section 17.03 thereafter); provided, however, that (a) the representations and warranties set forth in Section 16.01(a), 16.01(b), 16.01(c), 16.01(o)(i), 16.03(a), 16.03(b) and 16.03(c) shall survive indefinitely and (b) the covenants and agreements that by their terms apply or are to be performed in whole or in part after the Closing Date shall survive for the period provided in such covenants and agreements, if any, or until fully performed.

Section 17.02 Indemnification by the Cedant

(a) After the Closing Date and subject to this Article XVII, the Cedant shall indemnify, defend and hold harmless the Reinsurer Indemnitees against, and reimburse the Reinsurer Indemnitees for, all Losses that the Reinsurer Indemnitees may at any time suffer or incur, or become subject to as a result of or in connection with the breach or inaccuracy of any representation or warranty set forth in Section 16.01.

(b) Notwithstanding anything to the contrary contained herein, the Cedant shall not be required to indemnify, defend or hold harmless the Reinsurer Indemnitees against, or reimburse the Reinsurer Indemnitees for, any Losses pursuant to Section 17.02(a): (i) with respect to any claim (or series of related claims arising from similar underlying facts, events or circumstances) unless such claim (or series of related claims) involves Losses in excess of \$25,000 (nor shall any such claim or series of related claims that does not meet such \$25,000 threshold be applied to or considered for purposes of calculating the aggregate amount of the Reinsurer Indemnitees’ Losses for which the Cedant has responsibility under clause (ii) of Section 17.02(b) below); (ii) until the aggregate amount of the Reinsurer Indemnitees’ Losses under Section 17.02(a) exceeds \$25,000,000, after which the Cedant shall be obligated for all the Reinsurer Indemnitee’s Losses under Section 17.02(a) that are in excess of \$25,000,000, but only if such excess Losses arise with respect to any claim (or series of related claims) that involves Losses in excess of \$25,000; and (iii) in a cumulative aggregate amount exceeding \$175,000,000. For purposes of determining whether the threshold set forth in clause (iii) of this Section 17.02(b) has been met or exceeded, any amount paid by the Cedant or any of its Affiliates for Losses pursuant to Section 17.02(a) shall be taken into account. For the avoidance of doubt, (A) the limitations set forth in this Section 17.02(b) shall not apply to the representations and warranties set forth in Sections 16.01(a), 16.01(b), 16.01(c), and 16.01(o)(i) and (B) the limitations set forth in Section 17.02(b)(i) and Section 17.02(b)(ii) shall not apply to the representation and warranty set forth in Section 16.01(k)(ii).

(c) If, prior to the Closing Date, the Cedant provided an email or other written notice, other than any email, communication or other document contained in the Data Room, to an individual listed on Schedule 17.02(c) specifically identifying inaccurate

information that is a breach of a representation or warranty of the Cedant contained in this Agreement, then the Reinsurer shall be deemed to have waived such breach solely to the extent of such specifically identified inaccurate information which resulted in such breach (and not with respect to any other potential breach of such representation or warranty or any other representation or warranty), and the Reinsurer and the other Reinsurer Indemnitees shall not be entitled to indemnification pursuant to [Section 17.02\(a\)](#) to sue for Losses as a result of such inaccurate information which resulted in such breach.

Section 17.03 [Indemnification by the Reinsurer](#). After the Closing Date and subject to this [Article XVII](#), the Reinsurer shall indemnify, defend and hold harmless the Cedant Indemnitees against, and reimburse the Cedant Indemnitees for, all Losses that the Cedant Indemnitees may at any time suffer or incur, or become subject to:

- (a) as a result of or in connection with the breach or inaccuracy of any representation or warranty set forth in [Section 16.03](#); or
- (b) as a result of or in connection with the breach or failure by any retrocessionaire to perform such retrocessionaire's Retrocession Confidentiality Obligations.

Notwithstanding anything to the contrary contained herein, the Reinsurer shall not be required to indemnify, defend or hold harmless the Cedant Indemnitees against, or reimburse the Cedant Indemnitees for, any Losses pursuant to [Section 17.03\(a\)](#): (i) with respect to any claim (or series of related claims arising from similar underlying facts, events or circumstances) unless such claim (or series of related claims) involves Losses in excess of \$25,000 (nor shall any such claim or series of related claims that does not meet such \$25,000 threshold be applied to or considered for purposes of calculating the aggregate amount of the Cedant Indemnitees' Losses for which the Reinsurer has responsibility under clause (ii) of this [Section 17.03](#)); (ii) until the aggregate amount of the Cedant Indemnitees' Losses under [Section 17.03\(a\)](#) exceeds \$25,000,000, after which the Reinsurer shall be obligated for all the Cedant Indemnitee's Losses under [Section 17.03\(a\)](#) that are in excess of \$25,000,000, but only if such excess Losses arise with respect to any claim (or series of related claims) that involves Losses in excess of \$25,000; and (iii) in a cumulative aggregate amount exceeding \$175,000,000. For purposes of determining whether the threshold set forth in clause (iii) of this [Section 17.03](#) has been met or exceeded, any amount paid by the Reinsurer or any of its Affiliates for Losses pursuant to [Section 17.03\(a\)](#) shall be taken into account. For the avoidance of doubt, the limitations set forth in this [Section 17.03](#) shall not apply to the representations and warranties set forth in [Sections 16.03\(a\)](#), [16.03\(b\)](#) and [16.03\(c\)](#).

Section 17.04 [Claims Procedure](#).

(a) [Notification by the Indemnified Party](#). If any Indemnified Party becomes aware of any fact, matter or circumstance that may give rise to a claim for indemnification under this [Article XVII](#), the Indemnified Party shall (at its own expense) promptly notify the Indemnifying Party in writing of any claim in respect of which indemnity may be sought under this [Article XVII](#), including any pending or threatened claim or demand against the Indemnified Party by a third party that the Indemnified Party has determined has given or could reasonably give rise to a right of indemnification under this Agreement (including a pending or threatened claim or demand asserted by a third party against the Indemnified Party, a "[Third Party Claim](#)"), setting out the details of the claim, the provisions under this Agreement on which such claim is based, its estimate of the amount of Losses to the extent ascertainable which are, or are to be, the subject of the claim and such other information (to the extent reasonably available) as is reasonably necessary to enable the Indemnifying Party to assess the merits of the potential claim; provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this [Article XVII](#) or otherwise affect the rights of any Indemnified Party except to the extent that the Indemnifying Party is actually prejudiced by such failure. The parties agree that (i) in this [Article XVII](#) they intend to shorten, in the case of the limited survival periods specified in [Section 17.01](#), the applicable statute of limitations period with respect to certain indemnification claims hereunder, (ii) notices for claims for indemnification in respect of a breach of a representation, warranty, covenant or agreement must be delivered prior to the expiration of the applicable survival period specified in [Section 17.01](#) for such representation, warranty, covenant or agreement and (iii) any claims for indemnification for which notice is not delivered prior to the expiration of the applicable survival period set forth in [Section 17.01](#) shall be expressly barred and are hereby waived; provided, further, that if, prior to such applicable date, a party hereto shall have notified the other party hereto in accordance with the requirements of this [Section 17.04\(a\)](#) of a claim for indemnification under this [Article XVII](#) (whether or not formal legal action shall have been commenced based upon such claim), such claim shall continue to be subject to indemnification in accordance with this [Article XVII](#) notwithstanding the passing of such applicable date.

(b) [Cooperation by the Indemnified Party](#). The Indemnified Party shall reasonably cooperate with and assist the Indemnifying Party in determining the validity of any claim for indemnity by the Indemnified Party and in defending against a Third Party Claim.

(c) The Indemnified Party shall not settle, compromise or consent to the entry of any judgment with respect to any Third Party Claim or demand for which it is seeking indemnification from the Indemnifying Party or admit to any liability with respect to such Third Party Claim or demand without the prior written consent of the Indemnifying Party (which shall not be unreasonably withheld, conditioned or delayed). Notwithstanding anything to the contrary contained in this [Article XVII](#), no Indemnifying Party shall have any liability under this [Article XVII](#) for any Losses arising out of or in connection with any Third Party Claim that is settled or compromised by an Indemnified Party without the consent of such Indemnifying Party.

(d) [Assumption of Defense of a Third Party Claim](#). Upon receipt of a notice of a claim for indemnity from an Indemnified Party pursuant to [Section 17.04\(a\)](#) in respect of a Third Party Claim, the Indemnifying Party may, by notice to the Indemnified Party delivered within thirty (30) Business Days of the receipt of notice of such Third Party Claim, assume the defense and control of any Third

Party Claim, with its own counsel and at its own expense, but shall allow the Indemnified Party to have a reasonable opportunity to participate in the defense of such Third Party Claim with its own counsel and at its own expense. The Indemnifying Party shall be liable for the fees and expenses of counsel employed by the Indemnified Party (i) for any period during which the Indemnifying Party has not assumed the defense of a Third Party Claim and (ii) in connection with any claim where, based on the advice of outside counsel, a conflict in interest between the Indemnifying Party and the Indemnified Party exists. The Indemnifying Party shall not, without the prior written consent of the Indemnified Party (which shall not be unreasonably withheld, conditioned or delayed), consent to a settlement, compromise or discharge of, or the entry of any judgment arising from, any Third Party Claim, unless such settlement, compromise, discharge or entry of any judgment provides only for the payment of monetary damages (and does not impose any injunctive relief or otherwise impose any conditions or restrictions on the Indemnified Party) and does not involve any finding or admission of any violation of Law or rights of any Person, admission of any wrongdoing, fault or culpability by the Indemnified Party, and the Indemnifying Party shall obtain, as a condition of any settlement, compromise, discharge, entry of judgment (if applicable), or other resolution, a complete and unconditional release of each Indemnified Party from any and all liabilities in respect of such Third Party Claim. If the Indemnifying Party is controlling a defense of a Third Party Claim in accordance with this Article XVII and fails to defend diligently the action or proceeding after notifying the Indemnified Party of its assumption of the defense of such Third Party Claim, the Indemnified Party may assume such defense, and the reasonable and documented fees of its attorneys will be covered by the indemnity provided for in this Article XVII upon determination of the Indemnifying Party's indemnity obligations. Notwithstanding anything to the contrary in this Section 17.04, the Indemnified Party (and not the Indemnifying Party) shall have the exclusive right to assume the defense and control of any Third Party Claim if (A) the Indemnified Party in good faith determines that the nature of the Third Party Claim is such that it would reasonably be expected to involve criminal liability being imposed on any Indemnified Party or its Affiliates, (B) such Third Party Claim seeks an injunction or other equitable relief against any Indemnified Party or (C) such Third Party Claim is initiated by a Governmental Authority; provided that if such Third Party Claim seeks an injunction or equitable relief against the Indemnified Party that can be separated from a related claim for money damages, the Indemnifying Party may only be entitled to assume control of the defense of such Third Party Claim for money damages.

(e) In the event any Indemnifying Party receives a notice of a claim for indemnity from an Indemnified Party pursuant to Section 17.04(a) that does not involve a Third Party Claim, the Indemnifying Party shall notify the Indemnified Party within thirty (30) Business Days following its receipt of such notice whether the Indemnifying Party disputes its liability to the Indemnified Party under this Article XVII.

Section 17.05 Payment. In the event a claim for indemnification under this Article XVII has been finally determined, the amount of such final determination shall be paid by the Indemnifying Party to the Indemnified Party on demand in immediately available funds. Any claim, action, suit, arbitration or proceeding by or before any Governmental Authority or arbitral body, and the liability for and amount of damages therefor, shall be deemed to be "finally determined" for purposes of this Article XVII when the parties hereto have so determined by mutual agreement or, if disputed, when a final non-appealable governmental order has been entered into with respect to such claim, action, suit, arbitration or proceeding.

Section 17.06 Treatment of Indemnification Payments. To the fullest extent permitted under applicable Law, for all purposes (including Tax purposes), the parties hereto shall treat any payment made under Section 17.02 or Section 17.03 as an adjustment to the Ceding Commission.

Section 17.07 Provisions. No Indemnifying Party shall be liable under this Article VII in respect of any Loss to the extent that the amount of such Loss is expressly reflected in the calculation of the Initial Premium Adjustment.

Section 17.08 Exclusive Remedies. Each party hereto acknowledges and agrees that, other than in the case of actual fraud by a party to this Agreement in the making of a representation or warranty herein or willful breach by any party hereto (a) subject to Section 3.05, the indemnification provisions of this Article XVII shall be the sole and exclusive monetary remedies of the parties hereto for any breach of the representations or warranties contained in this Agreement; and (b) notwithstanding anything to the contrary contained herein, no breach of any representation or warranty contained herein shall give rise to any right on the part of any party hereto to rescind this Agreement or any of the transactions contemplated hereby.

Section 17.09 Damages. The Cedant and the Reinsurer agree that with respect to each indemnification obligation set forth in this Article XVII, in no event shall an Indemnifying Party have any liability to an Indemnified Party for: (a) any punitive damages except to the extent paid to a third party and (b) special, consequential or indirect damages, in each case, to the extent not the reasonably foreseeable result of any breach by the Indemnifying Party of a representation and warranty or covenant contained in this Agreement. For purposes of determining whether a breach of any representation or warranty made in this Agreement has occurred, and for calculating the amount of any Loss under this Article XVII, each representation and warranty contained in this Agreement shall be read without regard to any "materiality," "material adverse effect" or other similar qualification contained in or otherwise applicable to such representation or warranty.

Section 17.10 Right to Recover.

(a) If the Indemnifying Party is liable to pay an amount in discharge of any claim under this Agreement and the Indemnified Party recovers or is entitled to recover (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates the Indemnified Party (in whole or in part) in respect of the Losses which is the subject matter of the claim, then the Indemnified Party shall take such actions (at the Indemnifying Party's sole cost and expense) as may be reasonably requested by the Indemnifying Party to enforce recovery against the third party and any actual recovery (less any reasonable costs and expenses incurred in

obtaining such recovery) shall reduce or satisfy, as the case may be, such claim to the extent of such recovery. Notwithstanding the foregoing, no party shall be required to act or forbear to act under this Section 17.10 if such act or forbearance, as applicable, could prejudice such Person's ability to prosecute a claim against the Indemnifying Party or any right hereunder in the reasonable judgment of such party, as applicable.

(b) If an Indemnifying Party has paid an amount in discharge of any claim under this Agreement and the Indemnified Party recovers or is entitled to recover (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates the Indemnified Party (in whole or in part) in respect of the Loss which is the subject matter of the claim, then the Indemnified Party shall take such actions (at the Indemnifying Party's sole cost and expense) as may be reasonably requested by the Indemnifying Party to enforce such recovery and shall, or shall procure that the Indemnified Party shall pay to the Indemnifying Party, as soon as practicable after receipt an amount equal to (i) any sum recovered from the third party in respect of such claim less any reasonable costs and expenses incurred in obtaining such recovery or (ii) if less, the amount previously paid by the Indemnifying Party to the Indemnified Party.

(c) This Section 17.10 shall apply to the indemnity provided under this Section 17 and to the Cedant in respect of the Reinsurer's indemnification obligations under Section 13.04(d) and Section 15.01(a).

Section 17.11 Double Claims. No Indemnified Party shall be entitled to recover from an Indemnifying Party under this Article XVII for the same Losses more than once (notwithstanding that such Loss may result from breaches of multiple provisions of this Agreement).

ARTICLE XVIII GENERAL PROVISIONS

Section 18.01 Expenses. Except as may be otherwise specified in this Agreement, all costs and expenses, including fees and disbursements of counsel, and financial advisers, incurred in connection with this Agreement, the Trust Agreement and the Security and Control Agreement and the transactions contemplated hereby and thereby shall be paid by the Person incurring such costs and expenses.

Section 18.02 Notices. All notices, requests, consents, claims, demands and other communications under this Agreement shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service, by electronic mail with receipt confirmed or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses, or at such other address for a party as shall be specified in a notice given in accordance with this Section 18.02:

(a) if to the Cedant:

Jackson National Life Insurance Company
1 Corporate Way
Lansing, Michigan 48951
Attention: Kenneth H. Stewart and Thomas P. Hyatte
E-mail: ken.stewart@jackson.com and thomas.hyatte@jackson.com
with a copy to:

Debevoise & Plimpton LLP
919 Third Avenue
New York, New York 10022
Attention: Nicholas F. Potter and Marilyn A. Lion
E-mail: nfpotter@debevoise.com and malion@debevoise.com

(b) if to the Reinsurer:

Athene Life Re Ltd.
Chesney House
96 Pitts Bay Road
Hamilton, HM 08 Bermuda

Attention: Chief Financial Officer; General Counsel

Telephone: 441-279-8400

Email: JACnotices@athene.bm

with a copy to:

Sidley Austin LLP
1 South Dearborn
Chicago, IL 60603
Attention: Perry J. Shwachman and Jeremy C. Watson
Telephone: 312-853-7061 and 312-853-7576
E-mail: pshwachman@sidley.com and jcwatson@sidley.com

Section 18.03 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced under any Law or as a matter of public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties to this Agreement shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated by this Agreement be consummated as originally contemplated to the greatest extent possible.

Section 18.04 Entire Agreement. This Agreement (including all exhibits and schedules hereto), the Trust Agreement and the Security and Control Agreement and any other documents delivered pursuant hereto or thereto constitute the entire agreement of the parties hereto and their respective Affiliates with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, both written and oral, between or on behalf of the Reinsurer and its Affiliates, on the one hand, and the Cedant and its Affiliates, on the other hand, with respect to the subject matter hereof and thereof.

Section 18.05 Assignment. This Agreement shall not be assigned by either party hereto without the prior written consent of the other party. Any attempted assignment in violation of this Section 18.05 shall be void. This Agreement shall be binding upon, shall inure to the benefit of, and shall be enforceable by, the parties hereto and their permitted successors and assigns.

Section 18.06 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties to this Agreement and their permitted successors and assigns and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 18.07 Amendment. No provision of this Agreement may be amended, supplemented or modified except by a written instrument signed by the parties hereto.

Section 18.08 Submission to Jurisdiction.

(a) Subject to Section 3.05, Section 5.03, Section 8.02 and Section 14.03, the Reinsurer and the Cedant each irrevocably and unconditionally submit for itself and its property in any Action arising out of or relating to this Agreement, the transactions contemplated hereby, the formation, breach, termination or validity of this Agreement or the recognition and enforcement of any judgment in respect of this Agreement or the enforcement of any decision of the Independent Accountant pursuant to Section 3.05, Section 5.03 or Section 14.03 or the Independent Expert pursuant to Section 8.02, to the exclusive jurisdiction of the courts of the State of Michigan sitting in Ingham County, the federal courts for the Southern Division of the Western District of Michigan and appellate courts having jurisdiction of appeals from any of the foregoing, and all claims in respect of any such Action shall be heard and determined in such Michigan courts or, to the extent permitted by Law, in such federal court.

(b) Any such Action may and shall be brought in such courts and each of the Reinsurer and the Cedant irrevocably and unconditionally waives any objection that it may now or hereafter have to the venue or jurisdiction of any such Action in any such court or that such Action was brought in an inconvenient court and shall not plead or claim the same.

(c) Service of process in any Action may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party at its address as provided in Section 18.02.

(d) Nothing in this Agreement shall affect the right to effect service of process in any other manner permitted by the Laws of the State of Michigan.

(e) Nothing in this Section 18.08 is intended to conflict with or override Section 3.05, Section 5.03, Section 8.02 or Section 14.03.

Section 18.09 Governing Law. This Agreement, and the formation, termination or validity of any part of this Agreement shall in all respects be governed by, and construed in accordance with, the Laws of the State of Michigan, without regard to any conflict of laws principles.

Section 18.10 Waiver of Jury Trial. EACH PARTY HERETO IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, OR ITS PERFORMANCE UNDER OR THE ENFORCEMENT OF THIS AGREEMENT.

Section 18.11 Specific Performance. The parties agree that irreparable damage would occur in the event that any of the covenants or obligations contained in this Agreement are not performed in accordance with their specific terms or were otherwise breached. Accordingly, each of the parties hereto shall be entitled to injunctive or other equitable relief to prevent or cure any breach by the other parties of its covenants or obligations contained in this Agreement and to specifically enforce such covenants and obligations in any court referenced in Section 18.08 having jurisdiction, such remedy being in addition to any other remedy to which any party may be entitled at law or in equity. The parties acknowledge and agree that, in the event that the other parties seek an injunction or injunctions to prevent breaches of this Agreement or to enforce specifically the terms and provisions of this Agreement, the party seeking an injunction will not be required to provide any bond or other security in connection with any such order or injunction.

Section 18.12 Waivers. Any term or provision of this Agreement may be waived, or the time for its performance may be extended, in writing at any time by the party entitled to the benefit thereof. Any such waiver shall be validly and sufficiently authorized for the purposes of this Agreement if, as to any party, it is authorized in writing by an authorized Representative of such party. The failure of any party hereto to enforce at any time any provision of this Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any preceding or subsequent breach.

Section 18.13 Rules of Construction. Interpretation of this Agreement shall be governed by the following rules of construction: (a) words in the singular shall be held to include the plural and vice versa, and words of one gender shall be held to include the other gender as the context requires; (b) references to Articles, Sections, paragraphs, Exhibits and Schedules are references to the Articles, Sections, paragraphs, Exhibits and Schedules to this Agreement unless otherwise specified; (c) references to "\$" shall mean United States dollars; (d) the word "including" and words of similar import when used in this Agreement shall mean "including without limiting the generality of the foregoing," unless otherwise specified; (e) the table of contents, articles, titles and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement; (f) this Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing any instrument to be drafted; (g) the Schedules and Exhibits referred to herein shall be construed with and as an integral part of this Agreement to the same extent as if they were set forth verbatim herein; (h) unless the context otherwise requires, the words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole, and not to any particular provision of this Agreement; (i) all terms defined in this Agreement shall have the defined meanings when used in any, certificate or other document made or delivered pursuant hereto unless otherwise defined therein; (j) any agreement or instrument defined or referred to herein or any agreement or instrument that is referred to herein means such agreement or instrument as from time to time amended, modified or supplemented, including by waiver or consent, and references to all attachments thereto and instruments incorporated therein; (k) any statement that a document has been "delivered," "provided" or "made available" to the Reinsurer means that such document has been uploaded to the Data Room not later than three (3) Business Days prior to the date of this Agreement; (l) any statute or regulation referred to herein means such statute or regulation as amended, modified, supplemented or replaced from time to time (and, in the case of any statute, includes any rules and regulations promulgated under such statute), and references to any section of any statute or regulation include any successor to such section; (m) all time periods within or following which any payment is to be made or act to be done shall be calculated by excluding the date on which the period commences and including the date on which the period ends and by extending the period to the first succeeding Business Day if the last day of the period is not a Business Day; (n) references to any Person include such Person's predecessors or successors, whether by merger, consolidation, amalgamation, reorganization or otherwise; and (o) references to any contract (including this Agreement) or organizational document are to the contract or organizational document as amended, modified, supplemented or replaced from time to time, unless otherwise stated.

Section 18.14 Counterparts. This Agreement may be executed by the parties to this Agreement in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or electronic mail shall be as effective as delivery of a manually executed counterpart of this Agreement.

Section 18.15 Duty of Utmost Good Faith. With respect to the reinsurance relationships and transactions among the parties and their Affiliates contemplated by this Agreement, each party absolutely and irrevocably waives resort to the duty of "utmost good faith" or any similar principle.

Section 18.16 Treatment of Confidential Information.

(a) The Cedant and the Reinsurer (each, the "Receiving Party") hereby covenant and agree, each on behalf of itself and on behalf of its Affiliates, that from and following the Closing Date, (i) subject to clause (ii) of this Section 18.16(a), the Receiving Party will, and will cause its respective Affiliates and Representatives to, use any Confidential Information of the other party and its Affiliates (the "Disclosing Party") solely in connection with the transactions contemplated by this Agreement, the Trust Agreement and the Security and Control Agreement and (ii) the Receiving Party will not, and will not permit its respective Affiliates to, disclose, give, sell or divulge any Confidential Information of the Disclosing Party for any purpose or permit its Representatives to do the same, except that each Receiving Party may disclose such Confidential Information or portions thereof (A) if legally compelled to do so, (B) to the extent necessary for the performance of such

Receiving Party's obligations under this Agreement, the Trust Agreement and the Security and Control Agreement, (C) to the extent necessary for the enforcement of the rights of such Receiving Party and its Affiliates under this Agreement, the Trust Agreement and the Security and Control Agreement, (D) as required in connection with any retrocession of the Reinsured Liabilities permitted under this Agreement, (E) to those of such Receiving Party's Affiliates, and to their respective Representatives in each case who need to know such information for the foregoing purposes or (F) as required under any applicable Law, any rules or regulations of any applicable stock exchange, or by any Governmental Authority; provided, in the case of clause (D), that (i) the Receiving Party may only disclose such Confidential Information in connection with any retrocession to a counterparty that is bound by confidentiality obligations in respect of such Confidential Information that are at least as stringent as the confidentiality obligations of the Receiving Party under this Agreement (the "Retrocession Confidentiality Obligations") and (ii) the Receiving Party shall take all steps necessary, at the Receiving Party's sole expense, to enforce its rights in respect of such Retrocession Confidentiality Obligations. If the Receiving Party or its Affiliates, or any of their respective Representatives become legally compelled or required by applicable Law or Governmental Authority to disclose any Confidential Information, the Receiving Party, to the extent practicable and allowed under applicable Law, shall provide the Disclosing Party with prompt written notice of such requirement so that the Disclosing Party may seek a protective order or other remedy or waive compliance with this Section 18.16. In the event that such protective order or other remedy is not obtained, or the Disclosing Party waives compliance with this Section 18.16, the Receiving Party or its Affiliates, as applicable, shall furnish only that portion of Confidential Information which it reasonably believes is legally required to be provided and exercise its commercially reasonable efforts to obtain assurances that appropriate confidential treatment will be accorded such Confidential Information. Notwithstanding anything in this Section 18.16 to the contrary, the parties acknowledge and agree that each party may share any Confidential Information of the other party with (A) any Governmental Authority charged with the supervision of insurance companies or (B) the Internal Revenue Service or any other taxing authority as each party deems necessary or advisable in its good faith judgment.

(b) The Cedant shall not provide to the Reinsurer, and the Reinsurer shall have no right to access, any Non-Public Personal Information, as defined below, except to the extent necessary for purposes of administration of this Agreement. The Reinsurer and its Representatives and service providers will protect the confidentiality and security of any Non-Public Personal Information provided to it hereunder by:

(i) holding all Non-Public Personal Information in strict confidence;

(ii) maintaining appropriate measures that are designed to protect the security, integrity and confidentiality of Non-Public Personal Information; and

(iii) disclosing and using Non-Public Personal Information received under this Agreement only for purposes of carrying out the Reinsurer's obligations under this Agreement, for purposes of retrocession as permitted hereunder, or as may be required or permitted by Law.

"Non-Public Personal Information" is personally identifiable medical, financial and other personal information about proposed, current and former applicants, Customers, policy owners, contract holders, insureds, annuitants, claimants and beneficiaries of Subject Annuities or contracts issued by the Cedant, and its Representatives. Non-Public Personal Information does not include de-identified personal data, *i.e.*, information that does not identify, or could not reasonably be associated with, an individual.

Section 18.17 Service of Process. The Reinsurer hereby designates the Director of the Michigan Department of Insurance and Financial Services as its true and lawful attorney upon whom may be served any lawful process in any Action instituted by or on behalf of the Cedant and submits to the jurisdiction of any court of competent jurisdiction in the State of Michigan in connection with such Action. The Reinsurer shall comply with all requirements necessary to give such court jurisdiction, and shall abide by the final decision of such court or of any appellate court in the event of an appeal. A copy of any such process shall be delivered to the Reinsurer in accordance with Section 18.02.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereby execute this Agreement as of the date first set forth above.

JACKSON NATIONAL LIFE INSURANCE COMPANY

By: /s/ Kenneth H. Stewart
Name: Kenneth H. Stewart
Title: Executive VP, Corporate Development

ATHENE LIFE RE LTD.

By: /s/ Adam Laing
Name: Adam Laing
Title: Chief Financial Officer

[Signature Page to the Coinsurance Agreement]

Exhibits

The exhibits hereto have been omitted pursuant to Regulation S-K Item 601(a)(5). A list of all omitted exhibits can be found within the table of contents to this Agreement on page iii.

Schedules

The schedules hereto have been omitted pursuant to Regulation S-K Item 601(a)(5). A list of all omitted schedules can be found within the table of contents to this Agreement on page iv.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY OF 2002

I, James R. Belardi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Athene Holding Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ James R. Belardi

James R. Belardi

Chairman, Chief Executive Officer and Chief Investment Officer
(principal executive officer)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY OF 2002

I, Martin P. Klein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Athene Holding Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ Martin P. Klein

Martin P. Klein
Executive Vice President and Chief Financial Officer
(principal financial officer)

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY OF 2002

I, James R. Belardi, certify that Athene Holding Ltd.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Athene Holding Ltd.

Date: August 5, 2020

/s/ James R. Belardi

James R. Belardi

Chairman, Chief Executive Officer and Chief Investment Officer
(principal executive officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY OF 2002

I, Martin P. Klein, certify that Athene Holding Ltd.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Athene Holding Ltd.

Date: August 5, 2020

/s/ Martin P. Klein

Martin P. Klein

Executive Vice President and Chief Financial Officer

(principal financial officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.