



RATING ACTION COMMENTARY

Fitch Upgrades Athene's Ratings to 'A+'; Outlook Stable

Thu 19 May, 2022 - 5:16 PM ET

Fitch Ratings - Chicago - 19 May 2022: Fitch Ratings has upgraded the Insurer Financial Strength (IFS) ratings of Athene Annuity & Life Assurance Company, Athene Annuity and Life Company, Athene Annuity & Life Assurance Company of New York, and Athene Life Re Ltd. (collectively referred to as Athene) to 'A+' from 'A' (Strong). At the same time, Fitch has also upgraded the Long-Term Issuer Default Rating (IDR) of Athene Holding Ltd. (Athene) to 'A-' from 'BBB+'. The Rating Outlook for Athene and subsidiaries is Stable.

KEY RATING DRIVERS

Today's rating action reflects improvement in Athene's company profile, which has been bolstered through organic and inorganic growth across multiple product lines and geographies, while the company's earnings and capital have remained in line with Fitch's expectations. Notably, Athene maintains leading market positions in several core markets as of YE 2021 and benefits from material competitive advantages and significant operating scale. Fitch Ratings' view also considers the company's history of strong execution of inorganic growth.

The Stable Outlook reflects the company's very strong financial performance and strong capitalization, offset somewhat by investment and asset risk and exposure to movements in interest rates and asset price volatility. The rating also continues to reflect Fitch's view that the merger with Apollo Global Management, which closed in early 2022, is broadly neutral from a credit perspective.

Athene's earnings continued to be very strong and 2021 results were bolstered by strong asset returns and continued growth in core product lines. The company's earnings are primarily driven by interest margins on spread-based products, and Fitch expects that rising interest rates will benefit earnings, although a rapid rise in interest rates or severely depressed economic environment could add near-term volatility. Fitch expects Athene's profitability metrics to remain in line with rating expectations in 2022.

Fitch considers Athene's overall risk-adjusted capitalization to be strong, and the company's capital position is expected to remain at or above the 'Very Strong' level as measured by Prism. Additional non-risk adjusted measures also compare favorably with rating expectations. Athene maintains modest financial leverage relative to both peers and the broader industry, and the Fitch calculated financial leverage ratio was 13% as of YE 2021. Additionally, Fitch views the company as having strong financial flexibility, including a strong liquidity position with sufficient sources of contingent capital.

ATH's investment portfolio is somewhat more exposed to market volatility than the broader life industry, although Fitch notes that the company's portfolio continues to perform well, with only minimal reported impairments. Fitch takes a cautious view of ATH's position in lower quality commercial mortgage loans and structured assets, as Fitch expects those asset classes could generate credit impairments or material unrealized losses in a stressed economic environment. Positively, Fitch notes that ATH has a high level of expertise in managing those assets and the company remains well matched from a duration perspective and would not be expected to be a forced seller during times of market volatility.

Athene's asset/liability and liquidity management are considered strong driven by the company's well-matched assets and liabilities and strong cash flow testing results. Fitch views Athene's exposure to interest rate risk to be above average, driven primarily by its concentration in spread-based businesses. As a result, the company is exposed to both sustained low interest rates, which negatively affect interest margins over time, and interest rate spikes, which may expose the company to disintermediation. Further, ATH remains exposed to material dislocations in markets, given the composition of its investment portfolio.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Further positive rating actions are unlikely over the near term absent a material change in Fitch's view of Athene's company profile. Further rating sensitivities that could lead to a positive rating action over the long term include:

- Maintaining a PRISM model score in the upper half of the 'Very Strong' category;
- Strong investment performance as evidenced by relatively minimal credit impairments and ability of the company to absorb price volatility stemming from its illiquid holdings;
- GAAP based fixed-charge coverage maintained above 10x;
- GAAP based operating ROE above 12%.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Prism score below 'Very Strong';
- Large acquisitions that are either outside of Athene's historical risk preference and expertise or add materially to the company's operating or financial leverage;
- Deterioration in asset performance as evidenced by increased impairments or increased price volatility leading to realized losses in a stressed market environment;
- Deterioration in Athene's operating performance, resulting in a ROE below 9%;
- GAAP based fixed-charge coverage below 8.0x.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Athene Co-Invest Reinsurance Affiliate International Ltd.	Ins Fin Str A+ Rating Outlook Stable Upgrade	A Rating Outlook Positive
Athene Co-Invest Reinsurance Affiliate 1A Ltd.	Ins Fin Str A+ Rating Outlook Stable Upgrade	A Rating Outlook Positive
Athene Life Re Ltd.	Ins Fin Str A+ Rating Outlook Stable Upgrade	A Rating Outlook Positive
Athene Global Funding		
senior secured	LT A+ Upgrade	A

senior secured	LT	A+	Upgrade	A
Athene Annuity & Life Assurance Company	Ins Fin Str		A+ Rating Outlook Stable Upgrade	A Rating Outlook Positive
Athene Life Re International Ltd.	Ins Fin Str		A+ Rating Outlook Stable Upgrade	A Rating Outlook Positive
Athene Annuity & Life Assurance Company of New York	Ins Fin Str		A+ Rating Outlook Stable Upgrade	A Rating Outlook Positive
Athene Annuity and Life Company	Ins Fin Str		A+ Rating Outlook Stable Upgrade	A Rating Outlook Positive

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FITCH RATINGS ANALYSTS

Douglas Baker

Director

Primary Rating Analyst

+1 312 368 3207

douglas.baker@fitchratings.com

Fitch Ratings, Inc.

One North Wacker Drive Chicago, IL 60606

Jack Rosen

Director

Secondary Rating Analyst

+1 212 612 7881

jack.rosen@fitchratings.com

Brian Schneider, CPA, CPCU, ARe
Senior Director
Committee Chairperson
+1 312 606 2321
brian.schneider@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism U.S. Life Insurance Capital Model, v1.2.1-2019 (1)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

Athene Annuity & Life Assurance Company	EU Endorsed, UK Endorsed
Athene Annuity & Life Assurance Company of New York	EU Endorsed, UK Endorsed
Athene Annuity and Life Company	EU Endorsed, UK Endorsed
Athene Co-Invest Reinsurance Affiliate 1A Ltd.	EU Endorsed, UK Endorsed
Athene Co-Invest Reinsurance Affiliate 1B Ltd.	EU Endorsed, UK Endorsed
Athene Co-Invest Reinsurance Affiliate International Ltd.	EU Endorsed, UK Endorsed
Athene Global Funding	EU Endorsed, UK Endorsed
Athene Holding Ltd.	EU Endorsed, UK Endorsed
Athene Life Re International Ltd.	EU Endorsed, UK Endorsed
Athene Life Re Ltd.	EU Endorsed, UK Endorsed

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