



Consolidated Financial Statements
Years ended 2021 and 2020

ATHENE LIFE RE LTD.
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April 27, 2022

Report of Independent Auditors

To the Board of Directors and Shareholders of Athene Life Re Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Athene Life Re Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of equity and consolidated statements of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement



resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Priscilla Home Coopers Ltd.

Chartered Professional Accountants

ATHENE LIFE RE LTD.
Consolidated Balance Sheets

	December 31,	
	2021	2020
<i>(In millions)</i>		
Assets		
Investments		
Available-for-sale securities, at fair value (amortized cost: 2021 - \$6,920 and 2020 - \$75,093; allowance for credit losses: 2021 - \$7 and 2020 - \$104)	\$ 6,986	\$ 81,758
Trading securities, at fair value	26	2,093
Equity securities, at fair value (portion at fair value: 2021 - \$815 and 2020 - \$331)	814	532
Mortgage loans (allowance for credit losses: 2021 - \$17 and 2020 - \$232; portion at fair value: 2021 - \$0 and 2020 - \$19; consolidated variable interest entities: 2021 - \$0 and 2020 - \$1,800)	389	15,264
Investment funds (portion at fair value: 2021 - \$0 and 2020 - \$161)	205	803
Policy loans	—	369
Funds withheld at interest (portion at fair value: 2021 - \$840 and 2020 - \$1,990)	65,234	49,588
Derivative assets	477	3,507
Short-term investments (portion at fair value: 2021 - \$0 and 2020 - \$221)	—	222
Other investments (allowance for credit losses: 2021 - \$0 and 2020 - \$3; portion at fair value: 2021 - \$0 and 2020 - \$105)	—	572
Total investments	74,131	154,708
Cash and cash equivalents (consolidated variable interest entities: 2021 - \$100 and 2020 - \$0)	1,757	7,278
Restricted cash	533	692
Investments in related parties		
Available-for-sale securities, at fair value (amortized cost: 2021 - \$641 and 2020 - \$6,445; allowance for credit losses: 2021 - \$0 and 2020 - \$1)	650	6,520
Trading securities, at fair value	142	1,529
Equity securities, at fair value	—	72
Mortgage loans (allowance for credit losses: 2021 - \$1 and 2020 - \$14; consolidated variable interest entities: 2021 - \$231 and 2020 - \$0)	384	674
Investment funds (portion at fair value: 2021 - \$251 and 2020 - \$1,410; consolidated variable interest entities: 2021 - \$251 and 2020 - \$0)	1,612	4,575
Funds withheld at interest (portion at fair value: 2021 - \$0 and 2020 - \$862)	—	13,030
Other investments (allowance for credit losses: 2021 - \$0 and 2020 - \$4)	30	468
Intercompany notes receivable (consolidated variable interest entities: 2021 - \$0 and 2020 - \$6)	—	61
Accrued investment income (related party: 2021 - \$5 and 2020 - \$38)	54	887
Reinsurance recoverable (portion at fair value: 2021 - \$0 and 2020 - \$2,100)	—	4,848
Deferred acquisition costs, deferred sales inducements and value of business acquired	555	4,906
Other assets (consolidated variable interest entities: 2021 - \$18 and 2020 - \$1)	1,710	1,205
Total assets	\$ 81,558	\$ 201,453

(Continued)

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Balance Sheets

	December 31, 2021	December 31, 2020
<i>(In millions, except per share data)</i>		
Liabilities and Equity		
Liabilities		
Interest sensitive contract liabilities (related party: 2021 - \$0 and 2020 – \$14,150; portion at fair value: 2021 - \$2,068 and 2020 – \$14,181)	\$ 49,942	\$ 144,566
Future policy benefits (related party: 2021 - \$0 and 2020 – \$1,610; portion at fair value: 2021 - \$0 and 2020 – \$2,376)	15,877	29,258
Other policy claims and benefits (related party: 2021 - \$0 and 2020 – \$2)	—	130
Dividends payable to policyholders	—	110
Related party notes payable	—	1,393
Derivative liabilities	60	262
Payables for collateral on derivatives and securities to repurchase	1,016	3,801
Funds withheld liability (portion at fair value: 2021 - \$0 and 2020 – \$59)	—	452
Other liabilities (related party: 2021 - \$94 and 2020 – \$76; portion at fair value: 2021 - \$4,179 and 2020 - \$0; consolidated variable interest entities: 2021 - \$140 and 2020 – \$134)	4,936	1,988
Total liabilities	71,831	181,960
Equity		
Common stock – par value: 2021 - \$0.01 per share and 2020 - \$1 per share; authorized: 2021 - 300,000,000 shares and 2020 – 3,000,000 shares; issued and outstanding: 2021 - 242,300,000 shares and 2020 – 2,420,000 shares	2	2
Additional paid-in capital	3,726	5,930
Retained earnings	3,957	8,169
Accumulated other comprehensive income (related party: 2021 - \$11 and 2020 – \$(59))	63	3,909
Total Athene Life Re Ltd. shareholders' equity	7,748	18,010
Noncontrolling interests	1,979	1,483
Total shareholders' equity	9,727	19,493
Total liabilities and equity	\$ 81,558	\$ 201,453

(Concluded)

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Income

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
Revenues		
Premiums (related party: 2021 - \$298 and 2020 – \$322)	\$ 14,263	\$ 5,963
Product charges (related party: 2021 - \$43 and 2020 – \$51)	621	571
Net investment income (related party investment income: 2021 - \$1,660 and 2020 – \$903; consolidated variable interest entities: 2021 - \$70 and 2020 – \$51; and related party investment expense: 2021 - \$0 and 2020 – \$486)	7,089	4,747
Investment related gains (losses) (related party: 2021 - \$92 and 2020 – \$802; and consolidated variable interest entities: 2021 - \$(11) and 2020 – \$22)	4,037	3,457
Other revenues	64	37
Total revenues	26,074	14,775
Benefits and expenses		
Interest sensitive contract benefits (related party: 2021 - \$392 and 2020 – \$295)	4,442	3,891
Amortization of deferred sales inducements	198	66
Future policy and other policy benefits (related party: 2021 - \$365 and 2020 – \$405)	15,734	7,187
Amortization of deferred acquisition costs and value of business acquired	632	521
Dividends to policyholders	27	38
Policy and other operating expenses (related party: 2021 - \$10 and 2020 – \$11)	870	732
Total benefits and expenses	21,903	12,435
Income before income taxes	4,171	2,340
Income tax expense	378	286
Net income	3,793	2,054
Less: Net income (loss) attributable to (from) noncontrolling interests	(120)	453
Net income attributable to Athene Life Re Ltd. shareholders	\$ 3,913	\$ 1,601

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Comprehensive Income

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
Net income	\$ 3,793	\$ 2,054
Other comprehensive income (loss), before tax		
Unrealized investment gains (losses) on available for sale securities	(2,525)	2,228
Unrealized gains (losses) on hedging instruments	—	(104)
Foreign currency translation and other adjustments	570	5
Other comprehensive income (loss), before tax	(1,955)	2,129
Income tax expense (benefit) related to other comprehensive income (loss)	(371)	413
Other comprehensive income (loss)	(1,584)	1,716
Comprehensive income	2,209	3,770
Less: Comprehensive income (loss) attributable to noncontrolling interests	(208)	540
Comprehensive income attributable to Athene Life Re Ltd. shareholders	\$ 2,417	\$ 3,230

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Equity

<i>(In millions)</i>	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Athene Life Re Ltd. shareholders' equity	Noncontrolling interests	Total shareholders' equity
Balance at December 31, 2019	\$ 2	\$ 5,042	\$ 6,685	\$ 2,286	\$ 14,015	\$ 751	\$ 14,766
Adoption of accounting standard	—	—	(117)	(6)	(123)	(2)	(125)
Net income	—	—	1,601	—	1,601	453	2,054
Other comprehensive income	—	—	—	1,629	1,629	87	1,716
Stock-based compensation	—	15	—	—	15	—	15
Return of capital	—	(47)	—	—	(47)	—	(47)
Contribution from parent	—	920	—	—	920	—	920
Contributions from noncontrolling interests	—	—	—	—	—	240	240
Distributions to noncontrolling interests	—	—	—	—	—	(46)	(46)
Balance at December 31, 2020	2	5,930	8,169	3,909	18,010	1,483	19,493
Net income	—	—	3,913	—	3,913	(120)	3,793
Other comprehensive loss	—	—	—	(1,496)	(1,496)	(88)	(1,584)
Stock-based compensation	—	26	—	—	26	—	26
Dividend to parent	—	—	(450)	—	(450)	—	(450)
Contribution from parent	—	300	—	—	300	—	300
Distributions to parent	—	(2,530)	(7,675)	(2,350)	(12,555)	—	(12,555)
Contributions from noncontrolling interests	—	—	—	—	—	758	758
Other changes in equity of noncontrolling interests	—	—	—	—	—	(54)	(54)
Balance at December 31, 2021	<u>\$ 2</u>	<u>\$ 3,726</u>	<u>\$ 3,957</u>	<u>\$ 63</u>	<u>\$ 7,748</u>	<u>\$ 1,979</u>	<u>\$ 9,727</u>

See accompanying notes to consolidated financial statements

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ATHENE LIFE RE LTD.

Consolidated Statements of Cash Flows

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
Cash flows from operating activities		
Net income	\$ 3,793	\$ 2,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred acquisition costs and value of business acquired	632	521
Amortization of deferred sales inducements	198	66
Amortization of net investment premiums, discounts and other (related party: 2021 - \$(18) and 2021 - \$(7))	(197)	(209)
Payment at inception of coinsurance agreement	—	(723)
Net investment (income) loss (related party: 2021 - \$(1,346) and 2020 - \$(485); consolidated variable interest entities: 2021 - \$(41) and 2020 - \$(29))	(1,425)	(274)
Net recognized (gains) losses on investments and derivatives (related party: 2021 - \$(148) and 2020 - \$(28); consolidated variable interest entities: 2021 - \$27 and 2020 - \$6)	(3,488)	(744)
Deferred income tax expense (benefit)	(25)	180
Stock-based compensation	19	18
Changes in operating assets and liabilities:		
Accrued investment income (related party: 2021 - \$(18) and 2020 - \$(13); consolidated variable interest entities: 2021 - \$0 and 2020 - \$(6))	(68)	(128)
Policy acquisition costs deferred	(698)	(632)
Interest sensitive contract liabilities (related party: 2021 - \$398 and 2020 - \$276)	3,357	3,347
Future policy benefits, other policy claims and benefits, dividend payable to policyholders and reinsurance recoverable (related party: 2021 - \$246 and 2020 - \$291)	8,743	3,247
Current income tax recoverable	53	(55)
Funds withheld assets and liabilities (related party: 2021 - \$(496) and 2020 - \$(902))	(723)	(2,326)
Other assets and liabilities (variable interest entities: 2021 - \$0 and 2020 - \$(418))	364	(70)
Intercompany items	(2)	(2)
Consolidated variable interest entities related:		
Net investment (income) loss (related party: 2021 - \$(7) and 2020 - \$0)	(39)	—
Net recognized (gains) losses on investments and derivatives (related party: 2021 - \$(31) and 2020 - \$0)	27	—
Other operating activities, net	9	—
Net cash provided by operating activities	10,530	4,270

(Continued)

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Cash Flows

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
Cash flows from investing activities		
Sales, maturities and repayments of:		
Available-for-sale securities (related party: 2021 - \$2,040 and 2020 – \$284)	\$ 28,582	\$ 11,346
Trading securities (related party: 2021 - \$76 and 2020 – \$31)	201	170
Equity securities (related party: 2021 - \$12 and 2020 – \$5)	209	820
Mortgage loans (related party: 2021 - \$16 and 2020 – \$12)	2,900	2,162
Investment funds (related party: 2021 - \$1,433 and 2020 – \$691)	1,823	788
Derivative instruments and other invested assets (related party: 2021 - \$330 and 2020 – \$0)	5,185	2,505
Short term investments (related party: 2021 - \$2,732 and 2020 – \$28)	3,125	868
Purchases of:		
Available-for-sale securities (related party: 2021 - \$(6,057) and 2020 – \$3)	(47,109)	(23,330)
Trading securities (related party: 2021 - \$(267) and 2020 – \$(278))	(489)	(341)
Equity securities (related party: 2021 - \$(46) and 2020 – \$(19))	(761)	(1,362)
Mortgage loans (related party: 2021 - \$(918) and 2020 – \$(61))	(11,131)	(4,091)
Investment Funds (related party: 2021 - \$(3,134) and 2020 – \$(1,827))	(3,801)	(1,082)
Derivative instruments and other investment assets (related party: 2021 - \$(75) and 2020 – \$0)	(3,636)	(1,879)
Short-term investments- (related party: 2021 - \$(2,734) and 2020 – \$(28))	(3,045)	(617)
Disposition of subsidiaries to parent	(6,741)	—
Cash settlement of derivatives	233	—
Net changes of cash collateral posted for derivative transactions	87	—
Policy loans, net	48	—
Other investing activities, net	(240)	(197)
Proceeds from note receivable - related party	(104)	778
Investment in note receivable	—	(740)
Issuances of loans to subsidiaries	—	237
Receipts on loans to subsidiaries	—	(50)
Net cash used in investing activities	(34,664)	(14,015)

(Continued)
See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.
Consolidated Statements of Cash Flows

(In millions)	Years ended December 31,	
	2021	2020
Cash flows from financing activities		
Capital contributions	\$ 300	\$ 920
Proceeds from short-term debt	(238)	—
Repayment of short-term debt	80	(75)
Deposits on investment-type policies and contracts (related party: 2021 - \$82 and 2020 – \$86)	21,447	18,836
Withdrawals on investment-type policies and contracts (related party: 2021 - \$(420) and 2020 – \$(382))	(7,042)	(7,068)
Withdrawals for coinsurance agreements on investment-type contracts	75	66
Payments for coinsurance agreements on investment-type contracts, net	(84)	(93)
Consolidated variable interest entities related:		
Proceeds from borrowings	279	—
Repayment on borrowings	(15)	—
Net change in cash collateral posted for derivative transactions	3,173	545
Dividends paid	(450)	—
Capital contributions from noncontrolling interests	758	240
Capital distributions to noncontrolling interests	—	(47)
Other financing activities, net	121	133
Intercompany items	50	(85)
Net cash provided by financing activities	18,454	13,372
Effect of exchange rate changes on cash and cash equivalents	—	—
Net increase (decrease) in cash and cash equivalents	(5,680)	3,627
Cash and cash equivalents at beginning of year ¹	7,970	4,343
Cash and cash equivalents at end of year ¹	\$ 2,290	\$ 7,970
Supplementary information		
Cash paid for taxes	\$ 192	\$ 168
Cash paid for interest	25	36
Non-cash transactions		
Deposits on investment-type policies and contracts through reinsurance agreements (related party: 2021 - \$330 and 2020 – \$344)	2,103	30,172
Withdrawals on investment-type policies and contracts through reinsurance agreements (related party: 2021 - \$1,532 and 2020 – \$1,435)	8,098	5,010
Investments received from settlements on reinsurance agreements	124	53
Investments received from settlements on related party reinsurance agreements	41	—
Investments received from pension risk transfer premiums	4,971	2,364
Investments exchanged for related party investments	139	516
Reduction in investments and other assets and liabilities relating to reinsurance	—	4,298
Investment interests provided in exchange for extinguishment of loan to subsidiary	(1,206)	—
Assets contributed to consolidated VIEs	169	—
Ceding commission on reinsurance agreements settled in investments	—	(1,206)
Related party investments received in exchange for the issuance of ATH shares	—	1,147

¹ Includes cash and cash equivalents, restricted cash, and cash and cash equivalents of consolidated variable interest entities.

(Concluded)

See accompanying notes to consolidated financial statements

ATHENE LIFE RE LTD.

Notes to Consolidated Financial Statements

1. Business, Basis of Presentation and Significant Accounting Policies

Athene Life Re Ltd. (ALRe), a Bermuda exempted company, together with its subsidiaries (collectively, we, our, us, or the Company), is a leading retirement services company. We conduct business primarily through the following consolidated subsidiaries:

- Our non-U.S. reinsurance subsidiaries, to which ALRe's other insurance subsidiaries and third-party ceding companies directly and indirectly reinsure a portion of their liabilities, including Athene Annuity Re Ltd. (AARE); and
- Athene USA Corporation, an Iowa corporation (together with its subsidiaries, Athene USA), which primarily issues retirement savings products. On December 31, 2021, the Company transferred its shares in Athene USA to Athene Asset Holding Ltd. (AAH), a Bermuda exempted company. Following the transfer, Athene USA ceased to be a consolidated subsidiary.

Prior to December 21, 2021, ALRe was wholly owned by Athene Holding Ltd. (AHL), a Bermuda exempted company, whose Class A common shares were listed on the New York Stock Exchange (symbol: ATH). On December 21, 2021, AHL entered into an agreement and plan of contribution and exchange ("Contribution Agreement"), by and among AHL, AAH, and the Company. Pursuant to the Contribution Agreement, AHL transferred its shares in the Company in exchange for AAH common shares. As a result, the Company is wholly owned by AAH.

Consolidation and Basis of Presentation—Our consolidated financial statements include our wholly owned subsidiaries and investees in which we hold a controlling financial interest, including variable interest entities (VIEs). Investees in which we do not hold a controlling financial interest, but have the ability to exercise significant influence over operating and financing decisions, other than investments for which we have elected the fair value option, are accounted for under the equity method. Intercompany balances and transactions have been eliminated.

For entities that are consolidated, but not wholly 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.

We report investments in related parties separately, as further described in the accounting policies that follow.

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual experience could materially differ from these estimates and assumptions. Our principal estimates impact:

- fair value of investments;
- impairment of investments and allowances for expected credit losses;
- derivatives valuation, including embedded derivatives;
- deferred acquisition costs (DAC), deferred sales inducements (DSI) and value of business acquired (VOBA);
- future policy benefit reserves; and
- valuation allowances on deferred tax assets.

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

Restructure—On December 20, 2021, the Company transferred its shares in Athene AOG Holding I Ltd., a Bermuda exempted company, to AHL, as part of the repayment of the \$1,206 million loan note and capital contribution between the Company and AHL. The pretax profit of Athene AOG Holding I Ltd., including its consolidated subsidiaries, was \$865 million for the year ended December 31, 2021.

On December 31, 2021, the Company transferred its shares in Athene USA to AAH in connection with the consummation of the Contribution Agreement and as part of the capital contribution between the Company and AAH. The pretax profit of Athene USA, including its consolidated subsidiaries, was \$628 million for the year ended December 31, 2021.

The transfer of shares related to the restructure were accounted for as disposals of long lived assets and were distributed at their respective carrying values as of the share transfer date.

Summary of Significant Accounting Policies

Investments

Fixed Maturity Securities – Fixed maturity securities includes bonds, collateralized loan obligations (CLO), asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and redeemable preferred stock. We classify fixed maturity securities as available-for-sale (AFS) or trading at the time of purchase and subsequently carry them at fair value. Fair value hierarchy and valuation methodologies are discussed in *Note 5 – Fair Value*. Classification is dependent on a variety of factors including our expected holding period, election of the fair value option and asset and liability matching.

ATHENE LIFE RE LTD.

Notes to Consolidated Financial Statements

AFS Securities – AFS securities are held at fair value on the consolidated balance sheets with unrealized gains and losses, net of allowances for expected credit losses, tax and adjustments to DAC, DSI, VOBA and future policy benefits, if applicable, generally reflected in accumulated other comprehensive income (loss) (AOCI) on the consolidated balance sheets. Unrealized gains or losses relating to identified risks within AFS securities in fair value hedging relationships are reflected in investment related gains (losses) on the consolidated statements of income.

Trading Securities – We elected the fair value option for certain fixed maturity securities. These fixed maturity securities are classified as trading, with changes to fair value included in investment related gains (losses) on the consolidated statements of income. Although the securities are classified as trading, the trading activity related to these investments is primarily focused on asset and liability matching activities and is not intended to be an income strategy based on active trading. As such, the activity related to these investments on the consolidated statements of cash flows is classified as investing activities.

We generally record security transactions on a trade date basis, with any unsettled trades recorded in other assets or other liabilities on the consolidated balance sheets. Bank loans, private placements and investment funds are recorded on settlement date basis.

Equity Securities – Equity securities includes common stock, mutual funds and non-redeemable preferred stock. Equity securities with readily determinable fair values are carried at fair value with subsequent changes in fair value recognized in net income. We have elected to account for certain equity securities without readily determinable fair values that do not qualify for the practical expedient to estimate fair values based on net asset value (NAV) per share (or its equivalent) at cost less impairment, subject to adjustments based on observable price changes in orderly transactions for identical or similar investments of the same issuer.

Purchased Credit Deteriorated (PCD) Investments – We purchase certain structured securities, primarily 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.

Purchased Credit Impaired (PCI) Investments – Prior to January 1, 2020, certain securities purchased with deterioration in credit quality since their issuance were accounted for as PCI investments. The difference between the undiscounted expected future cash flows of the PCI investment and the recorded investment represented the initial accretable yield, which was accreted into investment income, net of related expenses, over its remaining life on a level-yield basis. The difference between the contractually required payments on the PCI investment and the undiscounted expected future cash flows represented the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference could change. PCI investments are presented on the consolidated financial statements consistent with AFS securities or mortgage loans depending on the underlying investment. Quarterly, we evaluated the undiscounted expected future cash flows associated with PCI investments based on updates to key assumptions.

Mortgage Loans – Mortgage loans are primarily stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of allowances for expected credit losses. Interest income is accrued on the principal amount of the loan based on its contractual interest rate. We record amortization of premiums and discounts using the effective yield method and contractual cash flows on the underlying loan. We accrue interest on loans until it is probable we will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income on the consolidated statements of income. We have also elected the fair value option on a portion of our mortgage loans.

Investment Funds – We invest in certain non-fixed income, alternative investments in the form of limited partnerships or similar legal structures (investment funds). For investment funds in which we do not hold a controlling financial interest, and therefore are not required to consolidate, we typically account for these investments using the equity method, where the cost is recorded as an investment in the fund, or we have elected the fair value option. Adjustments to the carrying amount reflect our pro rata ownership percentage of the operating results as indicated by NAV in the investment fund financial statements, which can be on a lag of up to three months when investee information is not received in a timely manner.

We record our proportionate share of investment fund income within net investment income on the consolidated statements of income. Contributions paid or distributions received by us are recorded directly to the investment fund balance as an increase to carrying value or as a return of capital, respectively.

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Policy Loans – Policy loans are funds provided to policyholders in return for a claim on the policyholder's account balance. The funds provided are limited to a specified percentage of the account balance. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policyholder's account balance. Policy loans are reported at the unpaid principal balance. Interest income is recorded as earned using the contract interest rate and is reported in net investment income on the consolidated statements of income.

Funds Withheld at Interest – Funds withheld at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with funds withheld coinsurance (funds withheld) and modified coinsurance (modco) reinsurance agreements in which we are the reinsurer. Generally, assets equal to statutory reserves are withheld and legally owned by the ceding company, and any excess or shortfall is settled periodically. The underlying agreements contain embedded derivatives as discussed below.

Short-term Investments – Short-term investments consists of financial instruments with maturities of greater than three months but less than twelve months when purchased. Short-term debt securities are accounted for as trading or AFS consistent with our policies for those investments. Short-term loans are carried at amortized cost. Fair values are determined consistent with methodologies described in *Note 5 – Fair Value* for the respective investment type.

Other Investments – Other investments includes, but is not limited to, term loans collateralized by mortgages on residential and commercial real estate. Mortgage collateralized term loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of allowances for expected credit losses. Interest income is accrued on the principal amount of the loan based on its contractual interest rate. We record amortization of premiums and discounts using the effective interest method and contractual cash flows on the underlying loan. We accrue interest on loans until it is probable we will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums and discounts, and prepayment and other fees are reported in net investment income on the consolidated statements of income.

Securities Repurchase and Reverse Repurchase Agreements – Securities repurchase and reverse repurchase transactions involve the temporary exchange of securities for cash or other collateral of equivalent value, with agreement to redeliver a like quantity of the same or similar securities at a future date and at a fixed and determinable price. We evaluate transfers of securities under these agreements to repurchase or resell to determine whether they satisfy the criteria for accounting treatment as secured borrowing or lending arrangements. Agreements not meeting the criteria would require recognition of the transferred securities as sales or purchases, with related forward repurchase or resale commitments. All of our securities repurchase transactions are accounted for as secured borrowings and are included in payables for collateral on derivatives and securities to repurchase on the consolidated balance sheets. Earnings from investing activities related to the cash received under our securities repurchase arrangements are included in net investment income on the consolidated statements of income. The associated borrowing cost is included in policy and other operating expenses on the consolidated statements of income. The investments purchased in reverse repurchase agreements, which represent collateral on a secured lending arrangement, are not reflected in our consolidated balance sheets; however, the secured lending arrangement is recorded as a short-term investment for the principal amount loaned under the agreement.

Investment Income – We recognize investment income as it accrues or is legally due, net of investment management and custody fees. Investment income on fixed maturity securities includes coupon interest, as well as the amortization of any premium and the accretion of any discount. Investment income on equity securities represents dividend income and preferred coupons interest. Realized gains and losses on sales of investments are included in investment related gains (losses) on the consolidated statements of income. Realized gains and losses on investments sold are determined based on a first-in first-out method.

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 the point at which 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.

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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 consolidated statements of income. Credit loss expense for reinsurance assets held at amortized cost is recorded through policy and other operating expenses on the consolidated statements of income.

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 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 consolidated statements of income.

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 consolidated statements of income.

We also have certain off-balance sheet credit exposures for which we establish a liability for expected credit losses. These exposures primarily relate to commitments to fund commercial or residential mortgage loans that are not unconditionally cancellable. 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 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 consolidated statements of income.

Credit Losses – Available-for-Sale Securities – 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 expected 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.

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 expected 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 consolidated statements of income. All changes in the allowance for expected credit losses are recorded through credit loss expense within investment related gains (losses) on the consolidated statements of income.

We have elected to present accrued interest receivable separately in accrued investment income on the 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 consolidated statements of income.

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 consolidated statements of income.

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Derivative Instruments—We invest in derivatives to hedge the risks experienced in our ongoing operations, such as equity, interest rate and cash flow risks, or for other risk management purposes, which primarily involve managing liability risks associated with our indexed annuity products and reinsurance agreements. Derivatives are financial instruments with values that are derived from interest rates, foreign exchange rates, financial indices or other combinations of an underlying and notional. Derivative assets and liabilities are carried at fair value on the consolidated balance sheets. We elect to present any derivatives subject to master netting provisions as a gross asset or liability and gross of collateral. Disclosures regarding balance sheet presentation of derivatives subject to master netting agreements are discussed in *Note 3 – Derivative Instruments*. We may designate derivatives as cash flow, fair value or net investment hedges.

Hedge Documentation and Hedge Effectiveness – To qualify for hedge accounting, at the inception of the hedging relationship, we formally document our designation of the hedge as a cash flow, fair value or net investment hedge and our risk management objective and strategy for undertaking the hedging transaction. In this documentation, we identify how the hedging instrument is expected to hedge the designated risks related to the hedged item and the method that will be used to retrospectively and prospectively assess the hedge effectiveness and the method which will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the hedge accounting relationship.

For a cash flow hedge, all changes in the fair value of the hedging derivative are reported within AOCI and the related gains or losses on the derivative are reclassified into the consolidated statements of income when the cash flows of the hedged item affect earnings.

For a fair value hedge, changes in the fair value of the hedging derivative and changes in the fair value of the hedged item related to the designated risk being hedged are reported on the consolidated statements of income according to the nature of the risk being hedged. Additionally, changes in the fair value of amounts excluded from the assessment of effectiveness are recorded in AOCI and amortized into income over the life of the hedge accounting relationship.

For a net investment hedge, changes in the fair value of the hedging derivative are reported within AOCI to offset the translation adjustments for subsidiaries with functional currencies other than US dollar.

We discontinue hedge accounting prospectively when: (1) we determine the derivative is no longer highly effective in offsetting changes in the estimated cash flows or fair value of a hedged item; (2) the derivative expires, is sold, terminated, or exercised; or (3) the derivative is de-designated as a hedging instrument. When hedge accounting is discontinued, the derivative continues to be carried on the consolidated balance sheets at fair value, with changes in fair value recognized in investment related gains (losses) on the consolidated statements of income.

For a derivative not designated as a hedge, changes in the derivative's fair value and any income received or paid on derivatives at the settlement date are included in investment related gains (losses) on the consolidated statements of income.

Embedded Derivatives – We issue and reinsure products, primarily fixed indexed annuity products, or purchase investments that contain embedded derivatives. If we determine the embedded derivative has economic characteristics not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately, unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as the entire contract is carried at fair value with all related gains and losses recognized in investment related gains (losses) on the consolidated statements of income. Embedded derivatives are carried on the consolidated balance sheets at fair value in the same line item as the host contract.

Fixed indexed annuity, index-linked variable annuity and indexed universal life insurance contracts allow the policyholder to elect a fixed interest rate return or an equity market component for which interest credited is based on the performance of certain stock market indices. The equity market option is an embedded derivative. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of the embedded derivatives is computed as the present value of benefits attributable to the excess of the projected policy contract values over the projected minimum guaranteed contract values. The projections of policy contract values are based on assumptions for future policy growth, which include assumptions for expected index credits on the next policy anniversary date, future equity option costs, volatility, interest rates and policyholder behavior assumptions including lapses and the use of benefit riders. The projections of minimum guaranteed contract values include the same assumptions for policyholder behavior as were used to project policy contract values. The embedded derivative cash flows are discounted using a rate that reflects our own credit rating. The host contract is established at contract inception as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. The host contract accretion rate is updated each quarter so that the present value of actual and expected guaranteed cash flows is equal to the initial host value. Changes in the fair value of embedded derivatives associated with fixed indexed annuities, index-linked variable annuities and indexed universal life insurance contracts are included in interest sensitive contract benefits on the consolidated statements of income.

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Additionally, reinsurance agreements written on a funds withheld or modco basis contain embedded derivatives. We have determined that the right to receive or obligation to pay the total return on the assets supporting the funds withheld at interest or funds withheld liability, respectively, represents a total return swap with a floating rate leg. The fair value of embedded derivatives on funds withheld and modco agreements is computed as the unrealized gain (loss) on the underlying assets and is included within funds withheld at interest and funds withheld liability on the consolidated balance sheets for assumed and ceded agreements, respectively. The change in the fair value of the embedded derivatives is recorded in investment related gains (losses) on the consolidated statements of income. Assumed and ceded earnings from funds withheld at interest, funds withheld liability and changes in the fair value of embedded derivatives are reported in operating activities on the consolidated statements of cash flows. Contributions to and withdrawals from funds withheld at interest and funds withheld liability are reported in operating activities on the consolidated statements of cash flows.

Variable Interest Entities—An entity that does not have sufficient equity to finance its activities without additional financial support, or in which the equity investors, as a group, do not have the characteristics typically afforded to common shareholders is a VIE. The determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and may require significant judgment. Our investment funds typically qualify as VIEs and are evaluated for consolidation under the VIE model.

We are required to consolidate a VIE if we are the primary beneficiary, defined as the variable interest holder with both the power to direct the activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE. We determine whether we are the primary beneficiary of an entity based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose and our relative exposure to the related risks of the VIE. Since affiliates of Apollo Global Management, Inc. (AGM and, together with its subsidiaries, Apollo), a related party, are the decision makers in certain of the investment funds, we and a member of our related party group may together have the characteristics of the primary beneficiary of an investment fund. In this situation, we have concluded we are not under common control, as defined by GAAP, with the related party, and therefore we do not consolidate because the related party, whom is the decision maker, holds a significant indirect financial interest in the investee through its ownership interest in us. We reassess the VIE and primary beneficiary determinations on an ongoing basis.

For entities that we do not consolidate but can exercise significant influence over the entities' operating and financing decisions, we record our investment under the equity method. If we do not consolidate and do not have significant influence, generally on investment funds in which we own a less than 3% interest, we elect the fair value option.

See *Note 4 – Variable Interest Entities* for discussion of our interest in entities that meet the definition of a VIE.

Reinsurance—We assume and cede insurance and investment contracts under coinsurance, funds withheld and modco. We follow reinsurance accounting for transactions that provide indemnification against loss or liability relating to insurance risk (risk transfer). To meet risk transfer requirements, a reinsurance agreement must transfer insurance risk arising from uncertainties about both underwriting and timing risks. Cessions under reinsurance do not discharge our obligations as the primary insurer, unless the requirements of assumption reinsurance have been met. We generally have the right of offset on reinsurance contracts, but have elected to present reinsurance settlement amounts due to and from us on a gross basis.

Assets and liabilities assumed or ceded under coinsurance, funds withheld, or modco are presented gross on the consolidated balance sheets. For investment contracts, the change in assumed and ceded reserves are presented net in interest sensitive contract benefits on the consolidated statements of income. For insurance contracts, the change in assumed and ceded reserves and benefits are presented net in future policy and other policy benefits on the consolidated statements of income. Assumed or ceded premiums are included in premiums on the consolidated statements of income.

Accounting for reinsurance requires the use of assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. We attempt to minimize our counterparty credit risk through the structuring of the terms of our reinsurance agreements, including the use of trusts, and we monitor credit ratings of counterparties for signs of declining credit quality. When a ceding company does not report information on a timely basis, we record accruals based on the best available information at the time, which includes the reinsurance agreement terms and historical experience. We periodically compare actual and anticipated experience to the assumptions used to establish reinsurance assets and liabilities. See *Note 6 – Reinsurance* for more information.

Funds Withheld and ModCo – For business assumed or ceded on a funds withheld or modco basis, a funds withheld segregated portfolio, comprised of invested assets and other assets is maintained by the ceding entity, which is sufficient to support the current balance of statutory reserves. The fair value of the funds withheld is recorded as a funds withheld asset or liability and any excess or shortfall in relation to statutory reserves is settled periodically.

Cash and Cash Equivalents—Cash and cash equivalents include deposits and short-term highly liquid investments with an original maturity of less than 90 days from the date of acquisition. Amounts included are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Restricted Cash—Restricted cash primarily consists of cash and cash equivalents held in funds in trust as part of certain coinsurance agreements to secure statutory reserves and liabilities of the coinsured parties. Restricted cash is reported separately on the consolidated balance sheets, but is included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the consolidated statements of cash flows.

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Investments in Related Parties—Investments in related parties and associated earnings, other comprehensive income and cash flows are separately identified on the consolidated financial statements and accounted for consistently with the policies described above for each category of investment. Investments in related parties are primarily comprised of investments over which Apollo can exercise significant influence.

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

Deferred Acquisition Costs and Deferred Sales Inducements – Costs related directly to the successful acquisition of new, or renewal of, insurance or investment contracts are deferred to the extent they are recoverable from future premiums or gross profits. These costs consist of commissions and policy issuance costs, as well as sales inducements credited to policyholder account balances, and are included in deferred acquisition costs, deferred sales inducements and value of business acquired on the consolidated balance sheets. We perform periodic tests, including at issuance, to determine if the deferred costs are recoverable. If we determine that the deferred costs are not recoverable, we record a cumulative charge to the current period.

Deferred costs related to universal life-type policies and investment contracts with significant revenue streams from sources other than investment of the policyholder funds are amortized over the lives of the policies, based upon the proportion of the present value of actual and expected deferred costs to the present value of actual and expected gross profits to be earned over the life of the policies. Gross profits include investment spread margins, surrender charge income, policy administration charges and expenses, changes in the guaranteed lifetime withdrawal benefit (GLWB) and guaranteed minimum death benefit (GMDB) reserves and realized gains and losses on investments. Current period gross profits for fixed indexed annuities also include the change in fair value of both freestanding and embedded derivatives. Estimates of the expected gross profits and margins are based on assumptions using accepted actuarial methods related to policyholder behavior, including lapses and the utilization of benefit riders, mortality, yields on investments supporting the liabilities, future interest credited amounts (including indexed related credited amounts on fixed indexed annuity products), and other policy changes as applicable, and the level of expenses necessary to maintain the policies over their expected lives. Each reporting period, we update estimated gross profits with actual gross profits as part of the amortization process and adjust the DAC and DSI balances due to the other comprehensive income (OCI) effects of unrealized investment gains and losses on AFS securities. We also periodically revise the key assumptions used in the amortization calculation, which results in revisions to the estimated future gross profits. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Deferred costs related to investment contracts without significant revenue streams from sources other than investment of the policyholder funds are amortized using the effective interest method. The effective interest method amortizes the deferred costs by discounting the future liability cash flows at a break-even rate. The break-even rate is solved for such that the present value of future liability cash flows is equal to the net liability at the inception of the contract.

Value of Business Acquired – We establish VOBA for blocks of insurance contracts acquired through the acquisition of insurance entities. We record the fair value of the liabilities assumed in two components: reserves and VOBA. Reserves are established using our best estimate assumptions consistent with the policies described below for future policy benefits and interest sensitive contract liabilities. VOBA is the difference between the fair value of the liabilities and the reserves. VOBA can be either positive or negative. Any negative VOBA is recorded to the same financial statement line on the consolidated balance sheets as the associated reserves. Positive VOBA is recorded in deferred acquisition costs, deferred sales inducements and value of business acquired on the consolidated balance sheets. We perform periodic tests to determine if the VOBA remains recoverable. If we determine that VOBA is not recoverable, we record a cumulative charge to the current period.

VOBA associated with investment contracts without significant revenue streams from sources other than investment of the policyholder funds is amortized using the effective interest method. VOBA associated with immediate annuity contracts classified as long duration contracts is amortized at a constant rate in relation to net policyholder liabilities. For universal life-type policies and investment contracts with significant revenue streams from sources other than investment of policyholder funds, VOBA is amortized in relation to the present value of estimated gross profits using methods consistent with those used to amortize DAC and DSI. Negative VOBA is amortized at a constant rate in relation to applicable net policyholder liabilities.

See Note 7 – *Deferred Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired* for further discussion.

Liability for Investment Contracts Held at Fair Value — For liabilities for investment contracts, we have elected to apply the fair value option. We used an actuarial appraisal method to measure the fair value of the investment contracts. An actuarial appraisal method is based on the value of projected profits (net of required capital) using market-based assumptions. The significant unobservable inputs used in the actuarial appraisal method are the valuation rate, cost of capital rate, required capital percentage and return on net invested assets. Liability for investment contracts held at fair value are included in other liabilities on the balance sheets.

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Financial Instruments Held at Fair Value — We elected to apply the fair value option to account for certain financial instruments. The fair value was determined using principals consistent with the pricing of a total return swap. The significant unobservable inputs used in the fair value measurement of the financial instrument are valuation rate for the fixed funding agreement portfolio, credited rate for floating rate funding agreement portfolio and book yield on fixed income portion of funding agreement portfolio. Financial instruments held at fair value are recorded in other assets on the balance sheets. The change in fair value of financial instruments held at fair value is recorded in investment related gains (losses) on the statements of income.

Interest Sensitive Contract Liabilities—Universal life-type policies and investment contracts include fixed indexed and traditional fixed annuities in the accumulation phase, funding agreements, universal life insurance, fixed indexed universal life insurance, and immediate annuities without significant mortality risk (which includes pension group annuities without life contingencies). We carry liabilities for fixed annuities, universal life insurance, and funding agreements at the account balances without reduction for potential surrender or withdrawal charges, except for a block of universal life business ceded to Global Atlantic Financial Group Limited (together with its subsidiaries, Global Atlantic) which we carry at fair value. Liabilities for immediate annuities without significant mortality risk are calculated as the present value of future liability cash flows and policy maintenance expenses discounted at contractual interest rates. For a discussion regarding our indexed products, refer above to the embedded derivative discussion.

Changes in the interest sensitive contract liabilities, excluding deposits and withdrawals, are recorded in interest sensitive contract benefits or product charges on the consolidated statements of income. Interest sensitive contract liabilities are not reduced for amounts ceded under reinsurance agreements which are reported as reinsurance recoverable on the consolidated balance sheets. See the reinsurance accounting policy discussed in *–Reinsurance* above and *Note 6 – Reinsurance* for more information on reinsurance.

Future Policy Benefits—We issue contracts classified as long-duration, which includes term and whole life, accident and health, disability, and deferred and immediate annuities with life contingencies (which includes pension group annuities with life contingencies). Liabilities for non-participating long-duration contracts are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yields, mortality, morbidity and persistency, with a provision for adverse deviation, at the date of issue or acquisition. As of December 31, 2021, the reserve investment yield assumptions for non-participating contracts range from 2.3% to 5.4% and are specific to our expected earned rate on the asset portfolio supporting the reserves. We base other key assumptions, such as mortality and morbidity, on industry standard data adjusted to align with actual company experience, if necessary.

For long-duration contracts, the assumptions are locked in at contract inception and only modified if we deem the reserves to be inadequate. We periodically review actual and anticipated experience compared to the assumptions used to establish policy benefits. If the net GAAP liability (gross reserves less DAC, DSI and VOBA) is less than the gross premium liability, impairment is deemed to have occurred, and the DAC, DSI and VOBA asset balances are reduced until the net GAAP liability is equal to the gross premium liability. If the DAC, DSI and VOBA asset balances are completely written off and the net GAAP liability is still less than the gross premium liability, then an additional liability is recorded to arrive at the gross premium liability.

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

Future policy benefits includes liabilities for no-lapse guarantees on universal life insurance and fixed indexed universal life insurance. We establish future policy benefits for no-lapse guarantees by estimating the expected value of death benefits paid after policyholder account balances have been exhausted. We recognize these benefits proportionally over the life of the contracts based on total actual and expected assessments. The methods we use to estimate the liabilities have assumptions about policyholder behavior, mortality, expected yield on investments supporting the liability, and market conditions affecting policyholder account balance growth.

For the liabilities associated with GLWB and GMDB riders and no-lapse guarantees, each reporting period, we update expected excess benefits and assessments with actual excess benefits and assessments and adjust the liability balances due to the OCI effects of unrealized investment gains and losses on AFS securities. We also periodically revise the key assumptions used in the calculation of the liabilities which results in revisions to the expected excess benefits and assessments. The effects of changes in assumptions are recorded as unlocking in the period in which the changes are made.

Changes in future policy benefits other than the adjustment for the OCI effects of unrealized investment gains and losses on AFS securities, are recorded in future policy and other policy benefits on the consolidated statements of income. Future policy benefits are not reduced for amounts ceded under reinsurance agreements which are reported as reinsurance recoverable on the consolidated balance sheets. See the reinsurance accounting policy discussed in *–Reinsurance* above and *Note 6 – Reinsurance* for more information on reinsurance.

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Closed Block Business—We established closed blocks of policies in connection with the reorganization of two predecessor subsidiaries from mutual companies to stock companies, collectively referred to as the Closed Blocks, and individually referred to as the AmerUs Life Insurance Company (AmerUs) closed block (AmerUs Closed Block) and the Indianapolis Life Insurance Company (ILICO) closed block (ILICO Closed Block). Insurance policies which had a dividend scale in effect as of each closed block establishment date were included in the respective closed block. The Closed Blocks were designed to give reasonable assurance to owners of insurance policies included therein that, after the reorganization, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization, if the experience underlying such scales and crediting continued. The assets, including related revenue, allocated to the Closed Blocks will accrue solely to the benefit of the policyholders included in the Closed Blocks until they no longer exist. A policyholder dividend obligation is required to be established for earnings in the Closed Blocks that are not available to the shareholders. We have elected the fair value option for the AmerUs Closed Block and the ILICO Closed Block. See *Note 8 – Closed Block* for more information on the Closed Blocks.

Other Policy Claims and Benefits—Other policy claims and benefits include amounts payable relating to in course of settlements (ICOS) and incurred but not reported (IBNR) liabilities associated with interest sensitive contract liabilities and future policy benefits. For traditional life and universal life policies, ICOS claim liabilities are established when we are notified of the death of the policyholder but the claim has not been paid as of the reporting date. For immediate annuities and supplemental contracts, ICOS claim liabilities are established to accrue suspended benefit payments between the date of notification of death and the date of verification of death.

We determine IBNR claim liabilities using studies of past experience. The time that elapses from the death or claim date to when the claim is reported to us can vary significantly by product type, but generally ranges between one to six months for life business. We estimate IBNR claims on an undiscounted basis, using actuarial estimates of historical claims expense, adjusted for current trends and conditions. These estimates are continually reviewed and the ultimate liability may vary significantly from the amount recognized.

Dividends Payable to Policyholders—Participating policies entitle the policyholders to receive dividends based on actual interest, mortality, morbidity and expense experience for the year. Dividends are distributed to the policyholders through annual or terminal dividends which the board of directors of the applicable insurance subsidiary approves. As of December 31, 2021 and 2020, 10% of life policies, inclusive of ceded policies, were participating, and the related liability is recorded in dividends payable to policyholders on the consolidated balance sheets. Premiums related to participating policies represented 32% and 32% of total life insurance direct premiums and deposits for the years ended December 31, 2021, and 2020, respectively.

Policyholder dividend liabilities are recorded in dividends payable to policyholders on the consolidated balance sheets and policyholder dividends are recorded in dividends to policyholders on the consolidated statements of income.

Foreign Currency—The accounts of foreign-based subsidiaries and equity method investments are measured using their functional currency. Revenue and expenses of these subsidiaries are translated into US dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. For the equity method investments, our proportionate share of the investee's income is translated into US dollars at the average exchange rate for the period and our investment is translated using the exchange rate as of the end of the reporting period. The resulting translation adjustments are included in equity as a component of AOCI. Gains or losses arising from transactions denominated in a currency other than the functional currency of the entity that is party to the transaction are included in net income. The impacts of any non-US dollar denominated AFS securities are included in AOCI along with the change in its fair value unless in a fair value hedging relationship as discussed in *-Derivative Instruments* above.

Recognition of Revenues and Related Expenses—Revenues for universal life-type policies and investment contracts, including surrender and market value adjustments, costs of insurance, policy administration, GMD, GLWB and no-lapse guarantee charges, are earned when assessed against policyholder account balances during the period. Interest credited to policyholder account balances and the change in fair value of embedded derivatives within fixed indexed annuity contracts is included in interest sensitive contract benefits on the consolidated statements of income.

Premiums for long-duration contracts, including products with fixed and guaranteed premiums and benefits, are recognized as revenue when due from policyholders. When premiums are due over a significantly shorter period than the period over which benefits are provided, such as immediate annuities with life contingencies (which includes pension group annuities), a deferred profit liability is established equal to the excess of the gross premium over the net premium. The deferred profit liability is recognized in future policy benefits on the consolidated balance sheets and amortized into income in a constant relationship to the benefit reserve through future policy and other policy benefits on the consolidated statements of income.

All insurance related revenue is reported net of reinsurance ceded.

Income Taxes—We compute income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial statement carrying amounts and the tax basis of our assets and liabilities using estimated tax rates expected to be in effect for the year in which the differences are expected to reverse. Such temporary differences are primarily due to the tax basis of reserves, DAC, VOBA, unrealized investment gains/losses, reinsurance related differences, embedded derivatives and net operating loss carryforwards. Changes in deferred income tax assets and liabilities associated with components of OCI are recorded directly to OCI. We evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that it is more likely than not that some portion of the tax benefit will not be realized. We adjust the valuation allowance if, based on our evaluation, there is a change in the amount of deferred income tax assets that are deemed more-likely-than-not to be realized.

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Changes in deferred tax assets and liabilities attributable to changes in enacted income tax rates are recorded through net income in the period of enactment. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the relevant taxing authorities, based on the technical merits of our position. For those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. We recognize any income tax interest and penalties in income tax expense.

See *Note 11 – Income Taxes* for discussion on withholding taxes for undistributed earnings of subsidiaries.

Reclassifications— In order to align with current year presentation, the prior year portion at fair value parenthetical disclosure on the balance sheet for investments in related parties - investment funds has been updated from \$2,119 million to \$1,410 million.

Adopted Accounting Pronouncements

Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs (ASU 2020-08)

The amendments in this update clarify that callable debt securities should be reevaluated each reporting period to determine if the amortized cost exceeds the amount repayable by the issuer at the next earliest call date and, if so, the excess should be amortized to the next call date. We adopted this update January 1, 2021 on a prospective basis for existing or newly purchased callable debt securities. The adoption of this update did not have a material effect on our consolidated financial statements.

Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (ASU 2020-01)

The amendments in this update are related to certain equity securities without a readily determinable fair value that apply the measurement alternative to measure based on cost, minus impairment, if any, adjusted for any observable price changes in orderly transactions of identical or similar investments of the same issuer. The amendment clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative immediately before applying or upon discontinuing the equity method. The amendment further clarifies that for the purpose of applying accounting for certain forward contracts or purchased options, an entity should not consider whether the underlying securities would be accounted for under the equity method or the fair value option upon settlement or exercise. We adopted this update on a prospective basis effective January 1, 2021. This update did not have a material effect 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 adopted this update January 1, 2021 and applied certain aspects of the update retrospectively while other aspects were applied on a modified retrospective basis. 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 2020-11, 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 GLWB and 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.

We are required to adopt these updates 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.

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Notes to Consolidated Financial Statements
2. Investments

AFS Securities—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:

	December 31, 2021				
<i>(In millions)</i>	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS securities					
US government and agencies	\$ 1	\$ —	\$ —	\$ —	\$ 1
US state, municipal and political subdivisions	33	—	4	—	37
Foreign governments	91	—	2	(1)	92
Corporate	3,227	—	98	(39)	3,286
CLO	1,829	—	3	(28)	1,804
ABS	642	—	8	(2)	648
CMBS	88	—	3	(1)	90
RMBS	1,009	(7)	35	(9)	1,028
Total AFS securities	6,920	(7)	153	(80)	6,986
AFS securities – related party					
Corporate	186	—	4	—	190
CLO	214	—	—	(4)	210
ABS	241	—	9	—	250
Total AFS securities – related party	641	—	13	(4)	650
Total AFS securities including related party	\$ 7,561	\$ (7)	\$ 166	\$ (84)	\$ 7,636

	December 31, 2020				
<i>(In millions)</i>	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS securities					
US government and agencies	\$ 349	\$ —	\$ 3	\$ (1)	\$ 351
US state, municipal and political subdivisions	864	—	169	—	1,033
Foreign governments	330	—	38	—	368
Corporate	50,930	(6)	6,264	(99)	57,089
CLO	9,631	(1)	145	(207)	9,568
ABS	4,258	(6)	140	(123)	4,269
CMBS	2,163	(11)	86	(71)	2,167
RMBS	6,568	(80)	447	(22)	6,913
Total AFS securities	75,093	(104)	7,292	(523)	81,758
AFS securities – related party					
Corporate	213	—	2	—	215
CLO	1,511	(1)	23	(13)	1,520
ABS	4,721	—	94	(30)	4,785
Total AFS securities – related party	6,445	(1)	119	(43)	6,520
Total AFS securities including related party	\$ 81,538	\$ (105)	\$ 7,411	\$ (566)	\$ 88,278

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

(In millions)	December 31, 2021	
	Amortized Cost	Fair Value
AFS securities		
Due in one year or less	\$ 19	\$ 19
Due after one year through five years	483	500
Due after five years through ten years	1,171	1,183
Due after ten years	1,680	1,714
CLO, ABS, CMBS and RMBS	3,567	3,570
Total AFS securities	6,920	6,986
AFS securities – related party		
Due after one year through five years	—	—
Due after five years through ten years	40	42
Due after ten years	146	148
CLO and ABS	455	460
Total AFS securities – related party	641	650
Total AFS securities including related party	\$ 7,561	\$ 7,636

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)	December 31, 2021					
	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						
US government and agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
US state, municipal and political subdivisions	1	—	—	—	1	—
Foreign governments	37	(1)	—	—	37	(1)
Corporate	1,431	(36)	22	(1)	1,453	(37)
CLO	921	(19)	386	(8)	1,307	(27)
ABS	265	(1)	16	(1)	281	(2)
CMBS	23	—	5	—	28	—
RMBS	45	—	158	(2)	203	(2)
Total AFS securities	2,723	(57)	587	(12)	3,310	(69)
AFS securities – related party						
CLO	88	(3)	43	(1)	131	(4)
ABS	68	—	—	—	68	—
Total AFS securities – related party	156	(3)	43	(1)	199	(4)
Total AFS securities including related party	\$ 2,879	\$ (60)	\$ 630	\$ (13)	\$ 3,509	\$ (73)

ATHENE LIFE RE LTD.
Notes to Consolidated Financial Statements

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, 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						
US government and agencies	\$ 31	\$ (1)	\$ —	\$ —	\$ 31	\$ (1)
US state, municipal and political subdivisions	10	—	6	—	16	—
Foreign governments	2	—	—	—	2	—
Corporate	2,178	(63)	249	(24)	2,427	(87)
CLO	1,649	(32)	3,179	(167)	4,828	(199)
ABS	1,169	(73)	84	(18)	1,253	(91)
CMBS	710	(37)	48	(13)	758	(50)
RMBS	548	(11)	37	(2)	585	(13)
Total AFS securities	6,297	(217)	3,603	(224)	9,900	(441)
AFS securities – related party						
CLO	336	(3)	232	(10)	568	(13)
ABS	1,012	(30)	—	—	1,012	(30)
Total AFS securities – related party	1,348	(33)	232	(10)	1,580	(43)
Total AFS securities including related party	\$ 7,645	\$ (250)	\$ 3,835	\$ (234)	\$ 11,480	\$ (484)

The following summarizes the number of AFS securities that were in an unrealized loss position, including related party, for which an allowance for credit losses has not been recorded:

	December 31, 2021	
	Unrealized loss position	Unrealized loss position 12 months or more
AFS securities	594	114
AFS securities – related party	14	2

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)	Year ended December 31, 2021						
	Additions			Reductions		Additions (reductions) to previously impaired securities	Ending Balance
	Beginning balance	Initial credit losses	Initial credit losses on PCD securities	Securities sold during the period	Distributions to parent		
AFS securities							
Corporate	\$ 6	\$ 3	\$ —	\$ (7)	\$ —	\$ (2)	—
CLO	1	7	—	(1)	—	(7)	—
ABS	6	5	—	(2)	(17)	8	—
CMBS	10	4	—	—	(3)	(11)	—
RMBS	80	2	25	(20)	(96)	16	7
Total AFS securities	103	21	25	(30)	(116)	4	7
AFS securities – related party, CLO	1	5	—	(1)	—	(5)	—
Total AFS securities including related party	\$ 104	\$ 26	\$ 25	\$ (31)	\$ (116)	\$ (1)	\$ 7

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	Year ended December 31, 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	
<i>(In millions)</i>						
AFS securities						
Corporate	\$ —	\$ 44	\$ —	\$ (14)	\$ (24)	\$ 6
CLO	—	1	—	—	—	1
ABS	—	7	—	—	(1)	6
CMBS	—	24	—	(1)	(13)	10
RMBS	17	50	67	(17)	(37)	80
Total AFS securities	17	126	67	(32)	(75)	103
AFS securities – related party, CLO	—	2	—	(1)	—	1
Total AFS securities including related party	<u>\$ 17</u>	<u>\$ 128</u>	<u>\$ 67</u>	<u>\$ (33)</u>	<u>\$ (75)</u>	<u>\$ 104</u>

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

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
AFS securities	\$ 3,639	\$ 3,194
Trading securities	261	192
Equity securities	19	14
Mortgage loans	801	704
Investment funds	1,825	637
Funds withheld at interest	795	273
Other	334	230
Investment revenue	7,674	5,244
Investment expenses	(585)	(497)
Net investment income	<u>\$ 7,089</u>	<u>\$ 4,747</u>

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

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
AFS securities		
Gross realized gains on investment activity	\$ 920	\$ 539
Gross realized losses on investment activity	(625)	(351)
Net realized investment gains on AFS securities	295	188
Net recognized investment gains (losses) on trading securities	(71)	33
Net recognized investment gains (losses) on equity securities	237	(218)
Derivative gains (losses)	3,382	3,606
Provision for credit losses	53	(90)
Other gains (losses)	141	(62)
Investment related gains	<u>\$ 4,037</u>	<u>\$ 3,457</u>

Proceeds from sales of AFS securities were \$11,065 million and \$7,903 million for the years ended December 31, 2021 and 2020, respectively.

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The following table summarizes the change in unrealized gains (losses) on trading and equity securities, including related party and consolidated VIEs, we held as of the respective year end:

(In millions)	Years ended December 31,	
	2021	2020
Trading securities	\$ (3)	\$ 130
Trading securities – related party	(11)	(37)
Equity securities	188	(9)
Equity securities – related party	—	—

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)	Year ended December 31, 2021	
	Fixed maturity securities	Mortgage loans
Purchase price	\$ —	\$ —
Allowance for credit losses at acquisition	2	—
Discount (premiums) attributable to other factors	(2)	—
Par value	\$ —	\$ —

(In millions)	Year ended December 31, 2020	
	Fixed maturity securities	Mortgage loans
Purchase price	\$ 254	\$ 524
Allowance for credit losses at acquisition	67	7
Discount (premiums) attributable to other factors	36	(13)
Par value	\$ 357	\$ 518

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

(In millions)	December 31, 2021					
	Remaining Contractual Maturity					
	Overnight and continuous	Less than 30 days	30-90 days	91 days to 1 year	Greater than 1 year	Total
	\$	\$	\$	\$	\$	\$
Payables for repurchase agreements ¹	—	501	—	—	—	501

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

(In millions)	December 31, 2020					
	Remaining Contractual Maturity					
	Overnight and continuous	Less than 30 days	30-90 days	91 days to 1 year	Greater than 1 year	Total
	\$	\$	\$	\$	\$	\$
Payables for repurchase agreements ¹	—	—	—	—	598	598

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

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

(In millions)	December 31,			
	2021		2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AFS securities - Corporate	\$ 516	\$ 523	\$ 559	\$ 644

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

<i>(In millions)</i>	December 31,	
	2021	2020
Commercial mortgage loans	\$ 385	\$ 11,383
Commercial mortgage loans under development	—	232
Total commercial mortgage loans	385	11,615
Allowance for credit losses on commercial mortgage loans	(1)	(167)
Commercial mortgage loans, net of allowances	384	11,448
Residential mortgage loans	406	4,569
Allowance for credit losses on residential mortgage loans	(17)	(79)
Residential mortgage loans, net of allowances	389	4,490
Mortgage loans, net of allowances	\$ 773	\$ 15,938

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>	December 31,			
	2021		2020	
	Net Carrying Value	Percentage of Total	Net Carrying Value	Percentage of Total
Property type				
Office building	\$ 119	30.9 %	\$ 3,589	31.4 %
Retail	—	— %	2,083	18.2 %
Apartment	—	— %	2,441	21.3 %
Hotels	—	— %	1,294	11.3 %
Industrial	35	9.1 %	1,362	11.9 %
Other commercial	231	60.0 %	679	5.9 %
Total commercial mortgage loans	\$ 385	100.0 %	\$ 11,448	100.0 %
US Region				
East North Central	\$ —	— %	\$ 1,209	10.5 %
East South Central	—	— %	402	3.5 %
Middle Atlantic	—	— %	3,069	26.8 %
Mountain	—	— %	487	4.2 %
New England	—	— %	350	3.1 %
Pacific	—	— %	2,746	24.0 %
South Atlantic	119	30.9 %	1,773	15.5 %
West North Central	—	— %	145	1.3 %
West South Central	35	9.1 %	640	5.6 %
Total US Region	154	40.0 %	10,821	94.5 %
International Region	231	60.0 %	627	5.5 %
Total commercial mortgage loans	\$ 385	100.0 %	\$ 11,448	100.0 %

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:

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	December 31,	
	2021	2020
US States		
California	— %	24.8 %
Florida	— %	13.3 %
Texas	— %	4.4 %
New York	— %	6.2 %
Other ¹	— %	36.7 %
Total US residential mortgage loan percentage	— %	85.4 %
International		
Ireland	83.9 %	12.9 %
Other ²	16.1 %	1.7 %
Total International residential mortgage loan percentage	100.0 %	14.6 %
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 are summarized as follows:

(In millions)	Year ended December 31, 2021			
	Commercial Mortgage	Residential Mortgage	Other Investments	Total
Beginning balance	\$ 167	\$ 79	\$ 7	\$ 253
Provision (reversal) for expected credit losses	1	(15)	(7)	(21)
Initial credit losses on PCD loans	—	6	—	6
Loans charged-off	—	(1)	—	(1)
Distribution to parent	(167)	(52)	—	(219)
Ending balance	\$ 1	\$ 17	\$ —	\$ 18

(In millions)	Year ended December 31, 2020			
	Commercial Mortgage	Residential Mortgage	Other Investments	Total
Beginning balance	\$ 10	\$ 1	\$ —	\$ 11
Adoption of accounting standard	167	43	11	221
Provision (reversal) for expected credit losses	(10)	29	(4)	15
Initial credit losses on PCD loans	—	7	—	7
Loans charged-off	—	(1)	—	(1)
Ending balance	\$ 167	\$ 79	\$ 7	\$ 253

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 December 31, 2021, our reasonable and supportable forecast period was one year, after which, we revert to the 20-year or greater historical average over one year.

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 December 31, 2021, 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.

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 13 – Related Parties* for further information on the related party loans.

ATHENE LIFE RE LTD.
Notes to Consolidated Financial Statements
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.

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

(In millions)	December 31, 2021						Total
	2021	2020	2019	2018	2017	Prior	
Current (less than 30 days past due)	\$ —	\$ 66	\$ —	\$ —	\$ —	\$ 208	\$ 274
30 to 59 days past due	—	—	—	—	—	66	66
60 to 89 days past due	—	—	—	—	—	63	63
90 days or more past due	—	—	—	—	—	3	3
Total residential mortgages	\$ —	\$ 66	\$ —	\$ —	\$ —	\$ 340	\$ 406

(In millions)	December 31, 2020 ¹						Total
	2020	2019	2018	2017	2016	Prior	
Current (less than 30 days past due)	\$ 274	\$ 68	\$ 845	\$ 72	\$ 7	\$ 2,993	\$ 4,259
30 to 59 days past due	28	1	3	—	—	121	153
60 to 89 days past due	2	—	1	—	—	47	50
90 days or more past due	—	8	5	—	—	94	107
Total residential mortgages	\$ 304	\$ 77	\$ 854	\$ 72	\$ 7	\$ 3,255	\$ 4,569

¹ Previously reported amounts have been revised to correct a misstatement, which was not material, in the classification of residential mortgage loans by origination year.

As of December 31, 2021 and 2020, we had \$3 million and \$108 million, respectively, of residential mortgage loans that were 90-days or more past due and are accruing interest.

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

(In millions)	December 31, 2021	December 31, 2020
Beginning amortized cost of residential mortgage loans in non-accrual status	\$ 108	\$ 67
Ending amortized cost of residential mortgage loans in non-accrual status	3	108
Amortized cost of residential mortgage loans in non-accrual status without a related allowance for credit losses	—	13

During the years ended December 31, 2021 and 2020, we recognized \$7 million and \$5 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)	December 31, 2021						Total
	2021	2020	2019	2018	2017	Prior	
Current (less than 30 days past due)	\$ 385	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 385
30 to 59 days past due	—	—	—	—	—	—	—
90 days or more past due	—	—	—	—	—	—	—
Total commercial mortgages	\$ 385	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 385

(In millions)	December 31, 2020						Total
	2020	2019	2018	2017	2016	Prior	
Current (less than 30 days past due)	\$ 1,913	\$ 4,400	\$ 2,617	\$ 987	\$ 130	\$ 1,452	\$ 11,499
30 to 59 days past due	—	20	45	25	—	5	95
90 days or more past due	—	—	—	—	—	21	21
Total commercial mortgages	\$ 1,913	\$ 4,420	\$ 2,662	\$ 1,012	\$ 130	\$ 1,478	\$ 11,615

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As of December 31, 2021 and 2020, none of our commercial loans were 30 days or more past due.

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

<i>(In millions)</i>	December 31, 2021	December 31, 2020
Beginning amortized cost of commercial mortgage loans in non-accrual status	\$ 38	\$ —
Ending amortized cost of commercial mortgage loans in non-accrual status	—	38
Amortized cost of commercial mortgage loans in non-accrual status without a related allowance for credit losses	—	—

During the years ended December 31, 2021 and 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 National Association of Insurance Commissioners (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:

<i>(In millions)</i>	December 31, 2021						
	2021	2020	2019	2018	2017	Prior	Total
Less than 50%	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
50% to 59%	—	—	—	—	—	—	—
60% to 69%	173	—	—	—	—	—	173
70% to 79%	212	—	—	—	—	—	212
80% to 99%	—	—	—	—	—	—	—
100% or greater	—	—	—	—	—	—	—
Commercial mortgage loans	\$ 385	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 385

<i>(In millions)</i>	December 31, 2020						
	2020	2019	2018	2017	2016	Prior	Total
Less than 50%	\$ 431	\$ 600	\$ 201	\$ 152	\$ 44	\$ 1,153	\$ 2,581
50% to 59%	315	1,320	765	300	40	147	2,887
60% to 69%	583	1,988	1,222	440	46	106	4,385
70% to 79%	478	485	375	95	—	13	1,446
80% to 99%	—	—	—	25	—	21	46
100% or greater	—	—	—	—	—	38	38
Commercial mortgage loans	\$ 1,807	\$ 4,393	\$ 2,563	\$ 1,012	\$ 130	\$ 1,478	\$ 11,383

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>	December 31, 2021						
	2021	2020	2019	2018	2017	Prior	Total
Greater than 1.20x	\$ 328	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 328
1.00x – 1.20x	57	—	—	—	—	—	57
Less than 1.00x	—	—	—	—	—	—	—
Commercial mortgage loans	\$ 385	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 385

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	December 31, 2020						
(In millions)	2020	2019	2018	2017	2016	Prior	Total
Greater than 1.20x	\$ 1,274	\$ 2,964	\$ 2,440	\$ 846	\$ 129	\$ 1,369	\$ 9,022
1.00x – 1.20x	533	1,122	36	70	1	101	1,863
Less than 1.00x	—	307	87	96	—	8	498
Commercial mortgage loans	\$ 1,807	\$ 4,393	\$ 2,563	\$ 1,012	\$ 130	\$ 1,478	\$ 11,383

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, which are discussed further in *Note 4 – Variable Interest Entities*. Our investment funds do not specify timing of distributions on the funds’ underlying assets.

The following summarizes our investment funds, including related party:

	December 31,			
	2021		2020	
(In millions, except for percentages)	Carrying value	Percent of total	Carrying value	Percent of total
Investment funds				
Real estate	\$ 112	54.5 %	\$ 348	43.3 %
Credit funds	29	14.3 %	107	13.3 %
Private equity	40	19.5 %	267	33.3 %
Real assets	24	11.7 %	81	10.1 %
Total investment funds	205	100.0 %	803	100.0 %
Investment funds – related parties				
Differentiated investments				
AmeriHome Mortgage Company, LLC (AmeriHome) ²	—	— %	444	9.7 %
Catalina Holdings Ltd. (Catalina)	441	32.5 %	334	7.3 %
Venerable Holdings, Inc. (Venerable) ²	219	16.1 %	123	2.7 %
Other	237	17.4 %	279	6.1 %
Total differentiated investments	897	66.0 %	1,180	25.8 %
Real estate	373	27.4 %	828	18.1 %
Credit funds	11	0.8 %	375	8.2 %
Private equity	52	3.8 %	473	10.3 %
Real assets	28	2.0 %	173	3.8 %
Natural resources	—	— %	113	2.5 %
Public equities	—	— %	109	2.4 %
Investment in Apollo ¹	—	— %	1,324	28.9 %
Total investment funds – related parties	1,361	100.0 %	4,575	100.0 %
Investment funds – assets of consolidated variable interest entities				
Real assets	251		—	
Total investment funds including related party	\$ 1,817		\$ 5,378	

¹ See further discussion on MidCap, Venerable and our investment in Apollo in Note 13 – Related Parties.

² Our AmeriHome investment is held indirectly through A-A Mortgage Opportunities, L.P. (A-A Mortgage). See further discussion on A-A Mortgage and AmeriHome in Note 13 – Related Parties.

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Notes to Consolidated Financial Statements

Summarized Ownership of Investment Funds—The following is the aggregated summarized financial information of equity method investees, including those for which we elected the fair value option and would otherwise be accounted for as an equity method investment, and may be presented on a lag due to the availability of financial information from the investee:

(In millions)	December 31,	
	2021	2020
Assets	\$ 9,241	\$ 31,480
Liabilities	514	15,651
Equity	8,727	15,829

(In millions)	Years ended December 31,	
	2021	2020
Net income	\$ 2,123	\$ 1,316

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

(In millions)	December 31,	
	2021	2020
Ownership Percentage		
100%	\$ 70	\$ 717
50% – 99%	218	678
3% – 49%	768	2,412
Equity method investment funds	<u>\$ 1,056</u>	<u>\$ 3,807</u>

The following table presents the carrying value by ownership percentage of investment funds held at fair value, either due to election of the fair value option or requirement, including related party investment funds:

(In millions)	December 31,	
	2021	2020
Ownership Percentage		
100%	\$ 193	\$ —
50% - 99%	58	28
3% – 49%	—	1,400
Less than 3%	—	143
Fair value investment funds	<u>\$ 251</u>	<u>\$ 1,571</u>

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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Notes to Consolidated Financial Statements

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

(In millions)	December 31,			
	2021		2020	
	Carrying Value	Maximum Loss Exposure	Carrying Value	Maximum Loss Exposure
Investment funds	\$ 205	\$ 279	\$ 803	\$ 1,266
Investment in related parties – investment funds	1,612	2,463	4,575	6,975
Investment in fixed maturity securities	3,383	3,382	23,325	23,022
Investment in related parties – fixed maturity securities	602	619	7,834	8,127
Investment in related parties – equity securities	—	—	72	72
Total non-consolidated investments	<u>\$ 5,802</u>	<u>\$ 6,743</u>	<u>\$ 36,609</u>	<u>\$ 39,462</u>

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.

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 consolidated statements of income. The change in the embedded derivative in our reinsurance agreements, which is similar to a total return swap on the income generated by the underlying assets held by the ceding companies, is recorded in investment related gains (losses). Although we do not directly control the underlying investments in the funds withheld at interest, in each instance the ceding company has hired Apollo Insurance Group Solutions LLC (ISG) to manage the withheld assets in accordance with our investment guidelines.

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

(In millions, except percentages)	December 31,			
	2021		2020	
	Carrying value	Percent of total	Carrying value	Percent of total
Fixed maturity securities				
US government and agencies	\$ 123	0.2 %	\$ —	— %
US state, municipal and political subdivisions	415	0.6 %	513	0.8 %
Foreign governments	713	1.1 %	301	0.5 %
Corporate	30,877	47.3 %	34,996	55.9 %
CLO	6,378	9.8 %	5,912	9.4 %
ABS	9,940	15.2 %	5,212	8.3 %
CMBS	1,912	2.9 %	2,374	3.8 %
RMBS	1,648	2.5 %	2,270	3.6 %
Equity securities	238	0.4 %	119	0.2 %
Mortgage loans	9,310	14.3 %	8,201	13.1 %
Investment funds	2,223	3.4 %	1,155	1.8 %
Derivative assets	369	0.6 %	219	0.3 %
Short-term investments	110	0.2 %	608	1.0 %
Other Investments	99	0.1 %	15	— %
Cash and cash equivalents	1,295	2.0 %	952	1.5 %
Other assets and liabilities	(416)	(0.6)%	(229)	(0.4)%
Total funds withheld at interest, including related party	<u>\$ 65,234</u>	<u>100.0 %</u>	<u>\$ 62,618</u>	<u>100.0 %</u>

ATHENE LIFE RE LTD.
Notes to Consolidated Financial Statements
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 1 – Business, Basis of Presentation and Significant Accounting Policies* for a description of our accounting policies for derivatives and *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)	December 31,					
	2021			2020		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as hedges						
Foreign currency swaps	360	\$ 7	\$ 4	4,222	\$ 116	\$ 182
Foreign currency forwards	482	13	—	1,969	2	9
Foreign currency forwards on net investments	113	—	2	102	—	1
Total derivatives designated as hedges		20	6		118	192
Derivatives not designated as hedges						
Equity options	13,300	408	4	53,666	3,210	23
Futures	3	11	—	24	58	2
Total return swaps	9	—	—	97	6	—
Foreign currency swaps	358	14	1	1,510	97	—
Interest rate swaps	471	4	—	324	—	2
Credit default swaps	—	—	—	10	—	4
Foreign currency forwards	2,993	20	49	2,890	18	39
Embedded derivatives						
Funds withheld including related party		840	—		2,852	59
Interest sensitive contract liabilities		—	2,068		—	12,873
Total derivatives not designated as hedges		1,297	2,122		6,241	13,002
Total derivatives		\$ 1,317	\$ 2,128		\$ 6,359	\$ 13,194

Derivatives Designated as Hedges

Foreign currency swaps – We use foreign currency swaps to convert foreign currency denominated cash flows of an investment to US 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 March 2052. During the years ended December 31, 2021 and 2020, we had foreign currency swap losses of \$255 million and \$106 million, respectively, recorded in OCI. There were no amounts reclassified to income and no amounts deemed ineffective during the years ended December 31, 2021 or 2020. As of December 31, 2021, 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.

The following represents the carrying amount and the cumulative fair value hedging adjustments included in the hedged assets or liabilities:

(In millions)	December 31,			
	2021		2020	
	Carrying amount of the hedged assets or liabilities	Cumulative amount of fair value hedging gains (losses)	Carrying amount of the hedged assets or liabilities	Cumulative amount of fair value hedging gains (losses)
AFS securities – Foreign currency forwards	\$ 4,224	\$ (136)	\$ 1,857	\$ 122
Mortgage loans – Foreign currency forwards	1,686	(44)	—	—
Interest sensitive contract liabilities				
Foreign currency forwards	—	—	65	(1)
Foreign currency interest rate swaps	2,773	121	—	—
Interest rate swaps	500	—	—	—

ATHENE LIFE RE LTD.
Notes to Consolidated Financial Statements

The following is a summary of the gains (losses) related to the derivatives and related hedged items in fair value hedge relationships:

				Amounts Excluded	
(In millions)	Derivatives	Hedged Items	Net	Recognized in income through amortization approach	Recognized in income through changes in fair value
Year ended December 31, 2021					
Investment related gains (losses)					
Foreign currency forwards	\$ 426	\$ (444)	\$ (18)	\$ 21	\$ 16
Foreign currency interest rate swaps	(102)	99	(3)	—	—
Interest rate swaps	(1)	1	—	—	—
Interest sensitive contract liabilities					
Foreign currency interest rate swaps	\$ 23	\$ (21)	\$ 2	\$ —	\$ —
Year ended December 31, 2020					
Investment related gains (losses) – Foreign currency forwards	\$ (125)	\$ 122	\$ (3)	\$ (2)	\$ —
Interest sensitive contract benefits – Foreign currency forwards	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 US dollar. We assess hedge effectiveness based on the changes in forward rates. During the years ended December 31, 2021 and 2020, these derivatives had gains of \$1 million and of \$2 million, respectively, which are included in foreign currency translation and other adjustments on the consolidated statements of comprehensive income. As of December 31, 2021 and 2020, the cumulative foreign currency translation recorded in AOCI related to these net investment hedges was losses of \$1 million and \$0 million, respectively. There were no amounts deemed ineffective for the years ended December 31, 2021 and 2020.

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 modco or funds withheld basis and indexed annuity products.

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.

ATHENE LIFE RE LTD.
Notes to Consolidated Financial Statements

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

(In millions)	Years ended December 31,	
	2021	2020
Equity options	\$ 2,452	\$ 820
Futures	81	124
Swaps	(97)	114
Foreign currency forwards	(26)	(88)
Embedded derivatives on funds withheld	597	2,753
Amounts recognized in investment related gains (losses)	3,007	3,723
Embedded derivatives in indexed annuity products ¹	(1,451)	(1,384)
Total net gains on derivatives not designated as hedges	\$ 1,556	\$ 2,339

¹ Included in interest sensitive contract benefits on the consolidated statements of income.

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 consolidated balance sheets		Net amount	Off-balance sheet securities collateral ³	Net amount after securities collateral
		Financial instruments ²	Collateral received/pledged			
December 31, 2021						
Derivative assets	\$ 477	\$ (37)	\$ (515)	\$ (75)	\$ —	\$ (75)
Derivative liabilities	(60)	37	8	(15)	—	(15)
December 31, 2020						
Derivative assets	\$ 3,507	\$ (155)	\$ (3,196)	\$ 156	\$ (46)	\$ 110
Derivative liabilities	(262)	155	124	17	—	17

¹ The gross amounts of recognized derivative assets and derivative liabilities are reported on the consolidated balance sheets. As of December 31, 2021 and 2020, 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 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.

Certain derivative instruments contain provisions for credit-related events, such as downgrades in our credit ratings or for a negative credit event of a credit default swap's reference entity. If a credit event were to occur, we may be required to settle an outstanding liability. The following is a summary of our exposure to credit-related events:

(In millions)	December 31,	
	2021	2020
Fair value of derivative liabilities with credit related provisions	\$ 3	\$ 4
Maximum exposure for credit default swaps	10	10

As of December 31, 2021 and 2020, no additional collateral would be required if a default or termination event were to occur.

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4. Variable Interest Entities

As of December 31, 2021, we consolidate the following primary VIEs:

- A-A Debt Euro Investment Fund (Lux) SCSP and A-A Euro Investment Fund (Lux) SCSP (collectively, A-A Euro)
- A-A SPN-9 (ASREII - ACRASP), L.P. and A-A SPN-9 (ASREII - ALRESP), L.P. (collectively, A-A SPN-9)

The following summarizes the investments of these consolidated VIEs:

	December 31,
<i>(In millions)</i>	2021
Investment funds	
A-A SPN-9	194
A-A Euro	57

We consolidated Hamlet Securitization Trust 2020-CRE1 (Hamlet) during the year ended December 31, 2020. Hamlet was formed to securitize a portion of our commercial mortgage loan portfolio as CMBS securities held by AHL subsidiaries and third-party cedant portfolios.

Securitization of these commercial mortgage loans allows retention of 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 were conducted on our behalf, we were the primary beneficiary. Additionally, as Hamlet is in the form of a trust, the commercial mortgage loan assets were included in the pledged assets and funds in trust table in *Note 15 – Commitments and Contingencies*. On December 31, 2021 we distributed our interest in Hamlet to AHL, as part of the reorganization, and no longer consolidate Hamlet.

A-A SPN-9 is comprised of limited partnership entities that invest in an underlying investment fund. We are a limited partner in these entities and receive a significant portion of the economic benefits and losses, other than management fees and carried interest, as applicable, paid to the general partner in each entity, which are Apollo affiliates and related parties. We do not have any direct voting rights as a limited partner at the A-A SPN-9 level, but we do have an ability to dissolve the underlying investment that results in dissolution of the entities. Therefore, as we have a unilateral ability to ultimately dissolve the entities and also receive a significant portion of the economics of each of the entities, we are deemed to be the primary beneficiary of the VIEs.

A-A Euro are investment funds formed to purchase investments in European real estate. We are both the general partner and a limited partner in the entities and receive a significant portion of their economic benefits and losses. As the general partner, we hired an Apollo affiliate as the related party investment manager who receives management fees and service fees, as applicable. As we control these entities and receive a significant portion of the economic benefits and losses, we are deemed to be the primary beneficiary of the VIE.

No arrangement exists requiring us to provide additional funding in excess of our committed capital investment, liquidity, or the funding of losses or an increase to our loss exposure in excess of our investment in any of the consolidated VIEs.

We consolidated the following VIEs during the year ended December 31, 2019:

- 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);
- ALR Aircraft Investment Ireland Limited (ALR) and
- Entities included under our agreement to purchase funds managed by Apollo entities (Strategic Partnership). See *Note 14 – Related Parties* for further discussion on the Strategic Partnership.

We were the only limited partner or holder of profit participating notes in these investment funds and received all of the economic benefits and losses, other than management fees and carried interest, as applicable, paid to the general partner in each entity, or a related entity, which are related parties. We did not have any voting rights as limited partner and, as the limited partner or holder of profit participating notes, did not solely satisfy the power criteria to direct the activities that significantly impact the economics of the VIE. However, the criteria for the primary beneficiary were satisfied by our related party group and, because substantially all of the activities were conducted on our behalf, we consolidated the investment funds.

CoInvest VI, CoInvest VII and CoInvest Other were formed to make investments, including co-investments alongside private equity funds sponsored by Apollo. Investments held by CoInvest VI, CoInvest VII and CoInvest Other were related party investments because Apollo affiliates exercised significant influence over the management or operations of the investees. We received our interests in CoInvest VI, CoInvest VII and CoInvest Other as part of a contribution agreement in 2012 with AAA Guarantor – Athene, L.P. (AAA Investor) and its subsidiary, Apollo Life Re Ltd., in order to provide a capital base to support future acquisitions.

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Notes to Consolidated Financial Statements

During 2020, as a result of the AGM share transaction discussed further in *Note 14 – Related Parties*, we reassessed the consolidation conclusions for the following VIEs, which are managed by Apollo affiliates:

- CoInvest VI;
- CoInvest VII;
- CoInvest Other; and
- Entities included under the Strategic Partnership.

Following the AGM share transaction, we determined that we are no longer the primary beneficiary of CoInvest VI, CoInvest VII, CoInvest Other and the Strategic Partnership, 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 of these previously consolidated VIEs, as the deconsolidated VIEs accounted for their assets and liabilities at fair value. The investments remaining from the deconsolidated VIEs are included at NAV in related party investment funds on the consolidated balance sheets.

ALR was formed to invest in a joint venture that provides airplane lease financing to a major commercial airline. During 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. Our carrying value reflects our pro rata ownership percentage as indicated by NAV in the investment fund financial statements, which we may adjust if we determine NAV is not calculated consistent with investment company fair value principles. 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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Notes to Consolidated Financial Statements

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

(In millions)	December 31, 2021				
	Total	NAV	Level 1	Level 2	Level 3
Assets					
AFS securities					
US government and agencies	\$ 2	\$ —	\$ 2	\$ —	\$ —
US state, municipal and political subdivisions	37	—	—	37	—
Foreign governments	91	—	—	91	—
Corporate	3,286	—	—	3,232	54
CLO	1,803	—	—	1,803	—
ABS	648	—	—	423	225
CMBS	91	—	—	91	—
RMBS	1,028	—	—	1,028	—
Total AFS securities	6,986	—	2	6,705	279
Trading securities					
CMBS	1	—	—	1	—
RMBS	25	—	—	25	—
Total trading securities	26	—	—	26	—
Equity securities	815	—	49	365	401
Funds withheld at interest – embedded derivative	840	—	—	—	840
Derivative assets	477	—	11	466	—
Cash and cash equivalents	1,757	—	1,757	—	—
Restricted cash	533	—	533	—	—
Investments in related parties					
AFS securities					
Corporate	190	—	—	42	148
CLO	210	—	—	159	51
ABS	250	—	—	24	226
Total AFS securities – related party	650	—	—	225	425
Trading securities					
CLO	26	—	—	—	26
ABS	116	—	—	—	116
Total trading securities – related party	142	—	—	—	142
Financial instrument held at fair value - related party	104	—	—	—	104
Investment funds	251	—	—	—	251
Total assets measured at fair value	\$ 12,581	\$ —	\$ 2,352	\$ 7,787	\$ 2,442
Liabilities					
Interest sensitive contract liabilities - embedded derivative	\$ 2,068	\$ —	\$ —	\$ —	\$ 2,068
Derivative liabilities	60	—	—	60	—
Liability for investment contracts held at fair value - related party	4,179	—	—	—	4,179
Total liabilities measured at fair value	\$ 6,307	\$ —	\$ —	\$ 60	\$ 6,247

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Notes to Consolidated Financial Statements

(In millions)	December 31, 2020				
	Total	NAV	Level 1	Level 2	Level 3
Assets					
AFS securities					
US government and agencies	\$ 351	\$ —	\$ 332	\$ 19	\$ —
US state, municipal and political subdivisions	1,033	—	—	999	34
Foreign governments	368	—	—	366	2
Corporate	57,089	—	—	56,311	778
CLO	9,568	—	—	9,360	208
ABS	4,269	—	—	3,469	800
CMBS	2,167	—	—	2,124	43
RMBS	6,913	—	—	6,913	—
Total AFS securities	81,758	—	332	79,561	1,865
Trading securities					
US government and agencies	6	—	3	3	—
US state, municipal and political subdivisions	106	—	—	106	—
Corporate	1,578	—	—	1,578	—
CLO	4	—	—	—	4
ABS	128	—	—	93	35
CMBS	52	—	—	52	—
RMBS	219	—	—	172	47
Total trading securities	2,093	—	3	2,004	86
Equity securities	331	—	57	263	11
Mortgage loans	19	—	—	—	19
Investment funds	161	144	—	—	17
Funds withheld at interest – embedded derivative	1,990	—	—	—	1,990
Derivative assets	3,503	—	58	3,445	—
Short-term investments	221	—	146	73	2
Other investments	105	—	—	105	—
Cash and cash equivalents	7,278	—	7,278	—	—
Restricted cash	692	—	692	—	—
Investments in related parties					
AFS securities					
Corporate	215	—	—	20	195
CLO	1,520	—	—	1,520	—
ABS	4,785	—	—	676	4,109
Total AFS securities – related party	6,520	—	—	2,216	4,304
Trading securities					
CLO	54	—	—	4	50
ABS	1,475	—	—	—	1,475
Total trading securities – related party	1,529	—	—	4	1,525
Equity securities	72	—	—	—	72
Investment funds ¹	1,410	86	—	—	1,324
Funds withheld at interest – embedded derivative	862	—	—	—	862
Reinsurance recoverable	2,100	—	—	—	2,100
Total assets measured at fair value	\$ 110,644	\$ 230	\$ 8,566	\$ 87,671	\$ 14,177

(Continued)

ATHENE LIFE RE LTD.
Notes to Consolidated Financial Statements

(In millions)	December 31, 2020				
	Total	NAV	Level 1	Level 2	Level 3
Liabilities					
Interest sensitive contract liabilities					
Embedded derivative	\$ 12,873	\$ —	\$ —	\$ —	\$ 12,873
Universal life benefits	1,308	—	—	—	1,308
Future policy benefits					
AmerUs Closed Block	1,600	—	—	—	1,600
ILICO Closed Block and life benefits	776	—	—	—	776
Derivative liabilities	262	—	2	256	4
Funds withheld liability – embedded derivative	59	—	—	—	59
Total liabilities measured at fair value	\$ 16,878	\$ —	\$ 2	\$ 256	\$ 16,620

¹ Previously reported amounts have been revised to correct misstatements, which were not material.

(Concluded)

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 US and non-US corporate bonds, US 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: discount rates, 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.

ATHENE LIFE RE LTD.
Notes to Consolidated Financial Statements

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.

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.

Liability for Investment Contracts Held at Fair Value – For liabilities for investment contracts we have elected to apply the fair value option. We used an actuarial appraisal method to measure the fair value of the investment contracts. The valuations include significant unobservable inputs associated with economic assumptions and actuarial assumptions. Liability for Investment Contracts Held at Fair Value are classified as Level 3.

Financial Instrument Held at Fair Value — We elected to apply the fair value option to account for certain financial instruments. The fair value was determined using principals consistent with the pricing of a total return swap. The valuations include significant unobservable inputs associated with economic assumptions and actuarial assumptions. Financial Instruments held at fair value 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:

(In millions)	Years ended December 31,	
	2021	2020
Trading securities	\$ (71)	\$ 33
Investment funds	798	295
Future policy benefits	80	(54)
Total gains (losses)	\$ 807	\$ 274

Gains and losses on trading securities are recorded in investment related gains (losses) on the consolidated statements of income. 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 consolidated statements of income. Gains and losses related to investment funds, including related party investment funds, are recorded in net investment income on the consolidated statements of income. We record the change in fair value of future policy benefits to future policy and other policy benefits on the consolidated statements of income.

The following summarizes information for fair value option mortgage loans:

(In millions)	December 31,	
	2021	2020
Unpaid principal balance	\$ —	\$ 17
Mark to fair value	—	2
Fair value	\$ —	\$ 19

There were no fair value option mortgage loans 90 days or more past due as of December 31, 2021 and 2020.

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Level 3 Financial Instruments—The following are reconciliations for 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:

		Year ended December 31, 2021										
		Total realized and unrealized gains (losses)									Total gains (losses) included in earnings ¹	Total gains (losses) included in OCI ¹
(In millions)		Beginning balance	Included in income	Included in OCI	Net purchases, issuances, sales and settlements	Net transfers in (out)	Dis-tributions to parent	Ending balance				
Assets												
AFS securities												
US state, municipal and political subdivisions	\$	34	\$	—	\$	—	\$	—	\$	(34)	\$	—
Foreign governments		2		—		—		—		(2)		—
Corporate		778		—		35		—		(759)	54	—
CLO		208		—		(1)		—		(207)	—	—
ABS		800		—		224		(1)		(798)	225	—
CMBS		43		—		—		—		(43)	—	—
Trading securities												
CLO		4		—		—		—		(4)	—	—
ABS		35		—		—		—		(35)	—	—
RMBS		47		(3)		3		—		(47)	—	—
Equity securities		11		—		401		—		(11)	401	—
Mortgage loans		19		—		—		—		(19)	—	—
Investment funds		17		(27)		148	109	—		(247)	—	(27)
Funds withheld at interest – embedded derivative		1,990		(1,150)		—		—		—	840	—
Short-term investments		2		—		—		—		(2)	—	—
Investments in related parties												
AFS securities												
Corporate		195		2		—		146		—	—	—
CLO		—		—		—		51		—	51	—
ABS		4,109		2		(6)		(294)		—	(3,585)	226
Trading securities												
CLO		50		(8)		—		6		—	(22)	26
ABS		1,475		(8)		—		22		—	(1,373)	116
Equity securities		72		—		—		—		—	(72)	—
Financial instrument held at fair value		—		—		—		—		104	104	—
Investment funds		1,324		825		—		1,031		—	(2,929)	251
Funds withheld at interest – embedded derivative		862		(284)		—		—		—	(578)	—
Reinsurance recoverable		2,100		(109)		—		—		—	(1,991)	—
Total Level 3 assets	\$	14,177	\$	(760)	\$	(6)	\$	1,772	\$	108	\$ (12,849)	\$ 2,442
											\$ 793	\$ 37

(Continued)

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Year ended December 31, 2021

	Year ended December 31, 2017									
	Total realized and unrealized gains (losses)									
	Beginning balance	Included in income	Included in OCI	Net purchases, issuances, sales and settlements	Net transfers in (out)	Dis- tributions to parent	Ending balance	Total gains (losses) included in earnings ¹	Total gains (losses) included in OCI ¹	
(In millions)										
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	\$ (12,873)	\$ (1,451)	\$ —	\$ (583)	\$ —	\$ 12,839	\$ (2,068)	\$ —	\$ —	
Universal life benefits	(1,308)	73	—	—	—	1,235	—	—	—	
Future policy benefits							—			
AmerUs Closed Block	(1,600)	80	—	—	—	1,520	—	—	—	
ILICO Closed Block and life benefits	(776)	34	—	—	—	742	—	—	—	
Derivative liabilities	(4)	—	—	—	—	4	—	—	—	
Funds withheld liability - embedded derivative	(59)	—	—	—	—	59	—	—	—	
Liability for investment contracts held at fair value - related party	—	—	—	—	—	(4,179)	(4,179)			
Total Level 3 liabilities	\$ (16,620)	\$ (1,264)	\$ —	\$ (583)	\$ —	\$ 12,220	\$ (6,247)	\$ —	\$ —	

¹ Related to instruments held at end of period.

(Concluded)

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		Year ended December 31, 2020								
		Total realized and unrealized gains (losses)								
(In millions)		Beginning balance	Included in income	Included in OCI	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	
Assets										
AFS securities										
US state, municipal and political subdivisions	\$	40	\$ —	\$ —	\$ (6)	\$ —	\$ 34	\$ —	\$ —	
Foreign governments		—	—	—	2	—	2	—	—	
Corporate		725	10	5	10	28	778	—	5	
CLO		121	—	—	109	(22)	208	—	—	
ABS		1,374	20	(48)	(282)	(264)	800	—	(47)	
CMBS		47	(4)	(6)	(5)	11	43	—	(4)	
Trading securities										
CLO		6	(2)	—	—	—	4	—	—	
ABS		—	—	—	35	—	35	—	—	
RMBS		52	(9)	—	—	4	47	2	—	
Equity securities		3	3	—	5	—	11	3	—	
Mortgage loans		27	—	—	(8)	—	19	—	—	
Investment funds		22	(5)	—	—	—	17	(5)	—	
Funds withheld at interest – embedded derivative		769	1,221	—	—	—	1,990	—	—	
Short-term investments		41	—	—	(39)	—	2	—	—	
Investments in related parties										
AFS securities										
Corporate ²		—	—	—	195	—	195	—	—	
ABS		2,324	24	37	1,889	(165)	4,109	—	37	
Trading securities										
CLO		38	(13)	—	14	11	50	(9)	—	
ABS		711	(13)	—	777	—	1,475	(14)	—	
Equity securities		58	2	—	12	—	72	1	—	
Investment funds ²		—	177	—	1,147	—	1,324	1	—	
Funds withheld at interest – embedded derivative		594	268	—	—	—	862	—	—	
Reinsurance recoverable		1,821	279	—	—	—	2,100	—	—	
Total Level 3 assets	\$	8,773	\$ 1,958	\$ (12)	\$ 3,855	\$ (397)	\$ 14,177	\$ (21)	\$ (9)	
Liabilities										
Interest sensitive contract liabilities										
Embedded derivative	\$	(10,942)	\$ (1,384)	\$ —	\$ (547)	\$ —	\$ (12,873)	\$ —	\$ —	
Universal life benefits		(1,050)	(258)	—	—	—	(1,308)	—	—	
Future policy benefits										
AmerUs Closed Block		(1,546)	(54)	—	—	—	(1,600)	—	—	
ILICO Closed Block and life benefits		(755)	(21)	—	—	—	(776)	—	—	
Derivative liabilities		(3)	(1)	—	—	—	(4)	—	—	
Funds withheld liability - embedded derivative		—	—	—	(59)	—	(59)	—	—	
Total Level 3 liabilities	\$	(14,296)	\$ (1,718)	\$ —	\$ (606)	\$ —	\$ (16,620)	\$ —	\$ —	

¹ Related to instruments held at end of period.

² Previously reported amounts have been revised to correct misstatements, which were not material.

ATHENE LIFE RE LTD.
Notes to Consolidated Financial Statements

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

(In millions)	Year ended December 31, 2021							
	Purchases	Issuances	Sales	Settlements	Net purchases, issuances, sales and settlements	Transfers in	Transfers out	Net transfers in (out)
Assets								
AFS securities								
Corporate	\$ 35	\$ —	\$ —	\$ —	\$ 35	\$ —	\$ —	\$ —
CLO	—	—	—	(1)	(1)	—	—	—
ABS	224	—	—	—	224	—	(1)	(1)
Trading securities								
RMBS	—	—	—	3	3	—	—	—
Equity securities	400	—	—	1	401	—	—	—
Investment funds	285	—	(137)	—	148	109	—	109
Investments in related parties								
AFS securities								
Corporate	146	—	—	—	146	—	—	—
CLO	51	—	—	—	51	—	—	—
ABS	16	—	(308)	(2)	(294)	—	—	—
Trading securities								
CLO	13	—	—	(7)	6	—	—	—
ABS	137	—	(115)	—	22	—	—	—
Investment funds	1,031	—	—	—	1,031	—	—	—
Total Level 3 assets	\$ 2,338	\$ —	\$ (560)	\$ (6)	\$ 1,772	\$ 109	\$ (1)	\$ 108
Liabilities								
Interest sensitive contract liabilities								
— embedded derivative	\$ —	\$ (1,474)	\$ —	\$ 891	\$ (583)	\$ —	\$ —	\$ —
Total Level 3 liabilities	\$ —	\$ (1,474)	\$ —	\$ 891	\$ (583)	\$ —	\$ —	\$ —

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(In millions)	Year ended December 31, 2020							
	Purchases	Issuances	Sales	Settlements	Net purchases, issuances, sales and settlements	Transfers in	Transfers out	Net transfers in (out)
Assets								
AFS securities								
US state, municipal and political subdivisions	\$ —	\$ —	\$ (5)	\$ (1)	\$ (6)	\$ —	\$ —	\$ —
Corporate	177	—	—	(166)	11	69	(41)	28
CLO	145	—	(7)	(28)	110	—	(22)	(22)
ABS	128	—	—	(410)	(282)	7	(271)	(264)
CMBS	—	—	(4)	(1)	(5)	11	—	11
RMBS	—	—	—	—	—	—	—	—
Trading securities								
CLO	—	—	—	—	—	—	—	—
ABS	35	—	—	—	35	—	—	—
RMBS	—	—	—	—	—	5	(1)	4
Equity securities	10	—	—	(5)	5	—	—	—
Mortgage loans	—	—	—	(8)	(8)	—	—	—
Short-term investments	3	—	(7)	(35)	(39)	—	—	—
Investments in related parties								
AFS securities								
Corporate ¹	195	—	—	—	195	—	—	—
ABS	2,156	—	(5)	(262)	1,889	—	(165)	(165)
Trading securities								
CLO	27	—	(13)	—	14	15	(4)	11
ABS	802	—	(10)	(15)	777	—	—	—
Equity securities	18	—	(1)	(5)	12	—	—	—
Investment funds ¹	1,222	—	(75)	—	1,147	—	—	—
Total Level 3 assets	\$ 4,918	\$ —	\$ (127)	\$ (936)	\$ 3,855	\$ 107	\$ (504)	\$ (397)
Liabilities								
Interest sensitive contract liabilities – embedded derivative	\$ —	\$ (1,188)	\$ —	\$ 641	\$ (547)	\$ —	\$ —	\$ —
Total Level 3 liabilities	\$ —	\$ (1,188)	\$ —	\$ 641	\$ (547)	\$ —	\$ —	\$ —

¹ Previously reported amounts have been revised to correct misstatements, which were not material.

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, discounted cash flow models are used to calculate the fair value. The discount rate is a significant unobservable input because the credit spread includes adjustments made to the base rate. The base rate represents a market comparable rate for securities with similar characteristics. This excludes assets for which fair value is provided by independent broker-quotes, but includes assets for which fair value is provided by affiliated 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 US 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.

Liability for Investment Contracts Held at Fair Value – For liabilities for investment contracts, we have elected to apply the fair value option. We used an actuarial appraisal method to measure the fair value of the investment contracts. An actuarial appraisal method is based on the value of projected profits (net of required capital) using market-based assumptions. The significant unobservable inputs used in the actuarial appraisal method are the valuation rate, cost of capital rate, required capital percentage and return on net invested assets.

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Financial Instruments Held at Fair Value — We elected to apply the fair value option to account for certain financial instruments. The fair value was determined using principals consistent with the pricing of a total return swap. The significant unobservable inputs used in the fair value measurement of the financial instrument are valuation rate for the fixed funding agreement portfolio, credited rate for floating rate funding agreement portfolio and book yield on fixed income portion of funding agreement portfolio.

The following summarizes the unobservable inputs for AFS and trading securities, financial instruments held at fair value, the embedded derivatives of fixed indexed annuities, and the liability for investment contracts held at fair value:

	December 31, 2021						
(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	\$ 272	Discounted cash flow	Discount	6.4 %	12 %	7.4 % ¹	Decrease
Financial instrument held at fair value - related party	\$ 104	Discounted cash flows	Valuation rate	1.8 % –	4.9 %	3.1 %	Increase
			Credited rate	1.0 % –	2.0 %	1.5 %	Increase
			Book yield	0.0 % –	12.0 %	3.2 %	Decrease
Interest sensitive contract liabilities – fixed indexed annuities embedded derivatives	\$ 2,068	Option budget method	Nonperformance risk	0.1 % –	1.0 %	0.6% ²	Decrease
			Option budget	0.4 % –	3.4 %	1.9% ³	Increase
			Surrender rate	5.9 % –	10.7 %	8.0% ⁴	Decrease
Liability for investment contracts held at fair value - related party	\$ 4,179	Actuarial appraisal method	Discount rate	0.7 % –	11.3 %	3.6 %	Decrease
			Return on net invested assets	3.6 % –	3.9 %	3.8 %	Increase
			Required capital	0.1 % –	7.0 %	0.4 %	Decrease
			Hurdle rate	11.0 % –	11.0 %	11.0 %	Decrease
	December 31, 2020						
(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	\$ 5,858	Discounted cash flow	Discount	1.7 %	35.0 %	4.6 % ¹	Decrease
Interest sensitive contract liabilities – fixed indexed annuities embedded derivatives	\$ 12,873	Option budget method	Non-performance risk	0.0 % –	1.1 %	0.5 % ²	Decrease
			Option budget	0.6 % –	3.5 %	1.9% ³	Increase
			Surrender rate	5.3 % –	9.5 %	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.

Financial Instruments Without Readily Determinable Fair Values—We had elected the measurement alternative for certain equity securities that did not have a readily determinable fair value. The equity securities were held at cost less impairment. As of December 31, 2021, these equity securities no longer qualified for the measurement alternative and are measured at fair value. As of December 31, 2020, the carrying amount of the equity securities was \$202 million, with a cumulative impairment of \$231 million.

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

(In millions)	December 31, 2021					
	Carrying Value	Fair Value	NAV	Level 1	Level 2	Level 3
Financial assets						
Mortgage loans	\$ 389	\$ 377	\$ —	\$ —	\$ —	\$ 377
Investment funds	205	205	205	—	—	—
Funds withheld at interest	64,394	64,394	—	—	—	64,394
Investments in related parties						
Mortgage loans	385	384	—	—	—	384
Investment funds	1,361	1,361	1,361	—	—	—
Other investments	30	30	—	—	—	30
Total financial assets not carried at fair value	\$ 66,764	\$ 66,751	\$ 1,566	\$ —	\$ —	\$ 65,185
Financial liabilities						
Interest sensitive contract liabilities	\$ 41,327	\$ 41,442	\$ —	\$ —	\$ —	\$ 41,442
Total financial liabilities not carried at fair value	\$ 41,327	\$ 41,442	\$ —	\$ —	\$ —	\$ 41,442

(In millions)	December 31, 2020					
	Carrying Value	Fair Value	NAV	Level 1	Level 2	Level 3
Financial assets						
Mortgage loans	\$ 15,245	\$ 15,811	\$ —	\$ —	\$ —	\$ 15,811
Investment funds	642	642	642	—	—	—
Policy loans	369	369	—	—	369	—
Funds withheld at interest	47,598	47,598	—	—	—	47,598
Other investments	467	471	—	—	—	471
Investments in related parties						
Mortgage loans	674	694	—	—	—	694
Investment funds	3,165	3,165	3,165	—	—	—
Funds withheld at interest	12,168	12,168	—	—	—	12,168
Other investments	468	499	—	—	—	499
Total financial assets not carried at fair value	\$ 80,796	\$ 81,417	\$ 3,807	\$ —	\$ 369	\$ 77,241
Financial liabilities						
Interest sensitive contract liabilities	\$ 94,685	\$ 98,945	\$ —	\$ —	\$ —	\$ 98,945
Funds withheld liability	393	393	—	—	393	—
Total financial liabilities not carried at fair value	\$ 95,078	\$ 99,338	\$ —	\$ —	\$ 393	\$ 98,945

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 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.

Other investments – The fair value of 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.

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6. Reinsurance

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

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
Premiums		
Direct	\$ 13,990	\$ 5,691
Reinsurance assumed	388	413
Reinsurance ceded	(115)	(141)
Total premiums	<u>\$ 14,263</u>	<u>\$ 5,963</u>
Future policy and other policy benefits		
Direct	\$ 15,482	\$ 7,016
Reinsurance assumed	503	522
Reinsurance ceded	(251)	(351)
Total future policy and other policy benefits	<u>\$ 15,734</u>	<u>\$ 7,187</u>

Reinsurance typically provides for recapture rights on the part of the ceding company for certain events of default. Additionally, some agreements require us to place assets in trust accounts for the benefit of the ceding entity. The required minimum assets are equal to or greater than statutory reserves, as defined by the agreement, and were \$0 million and \$6,538 million as of December 31, 2021 and 2020, respectively. Although we own the assets placed in trust, their use is restricted based on the trust agreement terms. If the statutory book value of the assets, or in certain cases fair value, in a trust declines because of impairments or other reasons, we may be required to contribute additional assets to the trust. In addition, the assets within a trust may be subject to a pledge in favor of the applicable reinsurance company.

Reinsurance transactions

We have entered into various coinsurance and modco agreements to reinsure blocks of fixed deferred and fixed indexed and pension group annuities. The following summarizes those agreements at inception:

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
Liabilities assumed	\$ —	\$ 27,439
Less: Assets received	—	28,805
Net cost of reinsurance	<u>\$ —</u>	<u>\$ (1,366)</u>
Unearned revenue reserve ¹	\$ —	\$ (1,366)
Deferred profit liability ²	—	—
Net cost of reinsurance	<u>\$ —</u>	<u>\$ (1,366)</u>

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

² Included within future policy benefits on the 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. The deferred profit liability balance is amortized over the life of the reinsurance agreement on a constant relationship to the benefit reserves.

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Certain of these reinsurance agreements were with related parties. See *Note 13 – Related Parties* for further information.

Effective July 1, 2020, we restructured our reinsurance agreement with Mass Mutual Life Insurance Company (MassMutual). MassMutual recaptured the existing coinsurance agreement and we immediately entered into a new funds withheld coinsurance agreement. As a result, we recorded a \$5,021 million increase in funds withheld at interest and a corresponding decrease in assets, primarily consisting of investments and cash.

Reinsurance Recoverables—The following summarizes our reinsurance recoverable from the following:

(In millions)	December 31,	
	2021	2020
Global Atlantic	\$ —	\$ 3,108
Protective	—	1,558
Other ¹	—	182
Reinsurance recoverable	\$ —	\$ 4,848

¹ Represents all other reinsurers, with no single reinsurer having a carrying value in excess of 5% of total recoverable.

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

The following represents a rollforward of DAC, DSI and 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	633	178	—	811
Unlocking	(36)	(13)	(11)	(60)
Amortization	(414)	(53)	(60)	(527)
Impact of unrealized investment (gains) losses	(233)	(80)	(35)	(348)
Balance at December 31, 2020	3,236	857	813	4,906
Additions	698	265	—	963
Unlocking	(18)	(16)	24	(10)
Amortization	(483)	(182)	(155)	(820)
Impact of unrealized investment (gains) losses	182	54	87	323
Distribution of subsidiaries to parent	(3,084)	(954)	(769)	(4,807)
Balance at December 31, 2021	<u>\$ 531</u>	<u>\$ 24</u>	<u>\$ —</u>	<u>\$ 555</u>

8. Closed Block

We pay guaranteed benefits under all policies included in the Closed Blocks. In the event the performance of the Closed Blocks' assets is insufficient to maintain dividend scales and interest credits, we may reduce the policyholder dividend scales. In the event dividends have been reduced to zero and the Closed Blocks' assets remain insufficient to fund the Closed Blocks' guaranteed benefits, we would use assets supporting open block policies or surplus to meet the contractual benefits of the Closed Blocks' policyholders. The ILICO Closed Block has been ceded to Global Atlantic. Therefore, Global Atlantic would be required to provide funding for any asset insufficiency related to the ILICO Closed Block. Additionally, the AmerUs Closed Block has a letter of credit and tail risk reinsurance agreement in place that limits our exposure to potential asset insufficiency.

We elected the fair value option for the AmerUs Closed Block. The fair value of liabilities of the AmerUs Closed Block was derived at election as the sum of the fair value of the AmerUs Closed Block assets plus our cost of capital in the AmerUs Closed Block. The cost of capital was then determined to be the present value of the projected release of required capital and future after tax earnings 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. At each reporting period, we record the fair value of the AmerUs Closed Block by adjusting the change in liabilities, exclusive of the cost of capital, to equal the change in assets. We do not record additional policyholder dividend obligations, as there are no future GAAP earnings available to the policyholders.

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The excess of the fair value of the liabilities over the fair value of the assets represents our cost of capital in the AmerUs Closed Block. The maximum amount of future earnings from the assets and liabilities of the AmerUs Closed Block is represented by the reduction in the cost of capital in future years based on the operations of the AmerUs Closed Block and recalculation of the cost of capital each reporting period.

On December 31, 2021 all assets and liabilities associated with the Closed Blocks were distributed as part of the reorganization.

Summarized financial information of the AmerUs Closed Block is presented below.

<i>(In millions)</i>	December 31,	
	2021	2020
Liabilities		
Future policy benefits	\$ —	\$ 1,600
Other policy claims and benefits	—	15
Dividends payable to policyholders	—	84
Total liabilities	—	1,699
Assets		
Trading securities	—	1,431
Mortgage loans, net of allowances	—	19
Policy loans	—	124
Total investments	—	1,574
Cash and cash equivalents	—	35
Accrued investment income	—	44
Reinsurance recoverable	—	16
Other assets	—	2
Total assets	—	1,671
Maximum future earnings to be recognized from AmerUs Closed Block	\$ —	\$ 28

The following represents the contribution from AmerUs Closed Block.

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
Revenues		
Premiums	\$ 42	\$ 48
Net investment income	68	71
Investment related gains (losses)	(61)	99
Total revenues	49	218
Benefits and Expenses		
Future policy and other policy benefits	24	177
Dividends to policyholders	27	38
Total benefits and expenses	51	215
Contribution (to) from AmerUs Closed Block before income taxes	(2)	3
Income tax expense (benefit)	2	1
Contribution (to) from AmerUs Closed Block, net of income taxes	\$ (4)	\$ 2

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9. Debt

Credit Facility—We have a revolving credit agreement with Citibank, N.A. as administrative agent, which matures on December 3, 2024, subject to up to two one-year extensions (Credit Facility). The borrowing capacity under the Credit Facility is \$1.25 billion, with potential increases up to \$1.75 billion. In connection with the Credit Facility, AHL and AUSA guaranteed all of the obligations of AHL, ALRe, Athene Annuity Re Ltd. (AARE) and Athene USA under this facility, and ALRe and AARE guaranteed certain of the obligations of AHL, ALRe, AARE and AUSA under this facility. The Credit Facility contains various standard covenants with which we must comply, including the following:

1. Consolidated debt to capitalization ratio of not greater than 35%;
2. Minimum consolidated net worth of no less than \$7.3 billion; and
3. Restrictions on our ability to incur debt and liens, in each case with certain exceptions.

As of December 31, 2021 and 2020, we had no amounts outstanding under the Credit Facility and were in compliance with all covenants under the facility.

Interest accrues on outstanding borrowings at either the Eurodollar Rate (as defined in the Credit Facility) plus a margin or a base rate plus a margin, with the applicable margin varying based on AHL's Debt Rating (as defined in the Credit Facility). The Credit Facility has a commitment fee that is determined by reference to AHL's Debt Rating, and ranges from 0.10% to 0.30% of the undrawn commitment. As of December 31, 2021 and 2020, the commitment fee was 0.15% of the undrawn commitment.

10. Equity

Common Stock—On February 9, 2021 the Company subdivided its authorised share capital from \$3,000,000, comprised of 3,000,000 common shares of par value \$1.00 each, into \$3,000,000 comprised of 300,000,000 common shares of par value \$0.01 each. We have one class of common stock, which represents 100% of the total voting power, and is beneficially owned by AAH as of December 31, 2021. We have an authorised share capital of \$3,000,000 comprised of 300,000,000 shares of par value \$0.01 each, of which 242,300,000 have been issued to AAH.

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

<i>(In millions)</i>	Unrealized investment gains (losses) on AFS securities without a credit allowance ²	Unrealized investment gains (losses) on AFS securities with a credit allowance ²	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	3,108	—	(879)	61	(4)	2,286
Adoption of accounting standards	4	(4)	(6)	—	—	(6)
Other comprehensive income (loss) before reclassifications	3,182	(61)	(634)	(104)	5	2,388
Less: Reclassification adjustments for gains (losses) realized in net income ¹	353	—	(94)	—	—	259
Less: Income tax expense (benefit)	566	(12)	(115)	(26)	—	413
Less: Other comprehensive income attributable to NCI	73	—	—	7	7	87
Balance at December 31, 2020	5,302	(53)	(1,310)	(24)	(6)	3,909
Other comprehensive income (loss) before reclassifications	(3,230)	52	605	14	570	(1,989)
Less: Reclassification adjustments for gains (losses) realized in net income ¹	(65)	—	17	14	—	(34)
Less: Income tax expense (benefit)	(558)	10	123	54	—	(371)
Less: Other comprehensive income attributable to NCI	(814)	—	226	6	494	(88)
Less: Distribution to parent	3,447	—	(1,071)	(26)	—	2,350
Balance at December 31, 2021	<u>\$ 62</u>	<u>\$ (11)</u>	<u>\$ —</u>	<u>\$ (58)</u>	<u>\$ 70</u>	<u>\$ 63</u>

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

² Previously reported amounts for the year ending December 31, 2020 have been revised to correct a misstatement, which was not material, in the classification of balances and changes attributable to AFS securities with and without credit allowances.

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11. Income Taxes

Income tax expense consists of the following:

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
Current	\$ 412	\$ 108
Deferred	(34)	178
Income tax expense	\$ 378	\$ 286

Income tax expense was calculated based on the following income (loss) before income taxes by jurisdiction:

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
Bermuda	\$ 2,667	\$ 984
US	774	1,083
United Kingdom	730	273
Income before income taxes	\$ 4,171	\$ 2,340

The expected tax provision computed on pre-tax income at the weighted average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. Statutory tax rates of 0%, 21% and 19% have been used for Bermuda, the US, and the United Kingdom (UK), respectively, for the years ended December 31, 2021, and 2020. A reconciliation of the difference between the expected tax provision at the weighted average tax rate and income tax expense (benefit) is as follows:

<i>(In millions, except for percentages)</i>	Years ended December 31,	
	2021	2020
Expected tax provision computed on pre-tax income at weighted average income tax rate	\$ 304	\$ 279
Increase (decrease) in income taxes resulting from:		
Deferred tax valuation allowance	(14)	—
Prior year true-up	5	(2)
Corporate owned life insurance	52	(6)
Stock compensation expense	2	—
State taxes and other	29	15
Income tax expense	\$ 378	\$ 286
Effective tax rate	9 %	12 %

Total income taxes were as follows:

<i>(In millions)</i>	Years ended December 31,	
	2021	2020
Income tax expense	\$ 378	\$ 286
Income tax expense (benefit) from OCI	(371)	413
Total income tax expense (benefit)	\$ 7	\$ 699

Current income tax recoverable and deferred tax assets are included in other assets on the consolidated balance sheets, and current income tax payable and deferred tax liabilities are included in other liabilities on the consolidated balance sheets. Current and deferred income tax assets and liabilities were as follows:

<i>(In millions)</i>	December 31,	
	2021	2020
Current income tax recoverable	\$ 14	\$ 55
Current income tax payable	2	2
Net current income tax recoverable (payable)	\$ 12	\$ 53
Deferred tax assets	\$ 14	\$ 1,790
Deferred tax liabilities	104	2,762
Net deferred tax liabilities	\$ (90)	\$ (972)

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Deferred income tax assets and liabilities consisted of the following:

(In millions)	December 31,	
	2021	2020
Deferred tax assets		
Insurance liabilities	\$ —	\$ 1,723
Investments, including derivatives	1	—
Net operating and capital loss carryforwards	13	75
Employee benefits	—	20
Other	—	22
Total deferred tax assets	14	1,840
Valuation allowance	—	(50)
Deferred tax assets, net of valuation allowance	14	1,790
Deferred tax liabilities		
Insurance liabilities	100	—
Investments, including derivatives	—	998
Net unrealized gains on AFS	—	997
DAC, DSI and VOBA	4	767
Total deferred tax liabilities	104	2,762
Net deferred tax liabilities	\$ (90)	\$ (972)

As of December 31, 2021, we have gross deferred tax assets associated with US federal and state net operating losses of \$64 million, which will begin to expire in 2042.

The valuation allowance consists of the following:

(In millions)	December 31,	
	2021	2020
US federal and state net operating losses and other deferred tax assets	\$ —	\$ 50
Total valuation allowance	\$ —	\$ 50

ALRe and its Bermuda subsidiaries file protective US income tax returns and its US subsidiaries file income tax returns with the US federal government and various US state governments. AADE is not subject to US federal and state examinations by tax authorities for years prior to 2013, while Athene Annuity & Life Assurance Company of New York (AANY) is not subject to examinations for years prior to 2015. The Internal Revenue Service is currently auditing the 2013 consolidated tax return filed by Athene USA, is conducting a limited scope audit of the 2015 consolidated tax return filed by AADE, and is auditing the 2017 consolidated tax return filed by AADE. No material adverse proposed adjustments have been issued with respect to any examination.

Under current Bermuda law, we are not required to pay any taxes in Bermuda on either income or capital gains. We have received an undertaking from the Bermuda Minister of Finance that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

12. Statutory Requirements

Our insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdiction in which they operate including Bermuda. Certain regulations include restrictions that limit the dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities. The differences between financial statements prepared for insurance regulatory authorities and GAAP financial statements vary by jurisdiction.

Bermuda statutory requirements—ALRe and Athene Co-Invest Reinsurance Affiliate 1A Ltd. (ACRA 1A) are each licensed by the Bermuda Monetary Authority (BMA) as long-term insurers and are subject to the Insurance Act 1978, as amended (Bermuda Insurance Act) and regulations promulgated thereunder. The BMA implemented the Economic Balance Sheet (EBS) framework into the Bermuda Solvency Capital Requirement (BSCR), which was granted equivalence to the European Union's Directive (2009/138/EC) (Solvency II).

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Under the Bermuda Insurance Act, long-term insurers are required to maintain minimum statutory capital and surplus to meet the minimum margin of solvency (MMS) and minimum economic statutory capital and surplus (EBS capital and surplus) to meet the Enhanced Capital Requirement (ECR). For our Class C reinsurer, ACRA 1A, MMS is equal to the greater of \$500,000, 1.5% of the total statutory assets or 25% of ECR. For our Class E reinsurer, ALRe, MMS is equal to the greater of \$8 million, 2% of the first \$500 million of statutory assets plus 1.5% of statutory assets above \$500 million or 25% of ECR. For each class, the ECR is calculated based on a risk-based capital model where risk factor charges are applied to the EBS. The ECR is floored at the MMS. As of December 31, 2021, our Bermuda subsidiaries were in excess of the minimum levels required. For our Bermuda reinsurance subsidiaries, the ECR is the binding regulatory constraint. The following represents the EBS capital and surplus and BSCR ratios:

(In millions)	EBS capital & surplus*		BSCR ratio*	
	December 31,		December 31,	
	2021	2020	2021	2020
ALRe	\$ 14,651	\$ 17,168	209 %	252 %
ACRA 1A	3,872	2,916	183 %	231 %

*EBS capital and surplus and the BSCR ratio represent best estimates as at the time of reporting. Changes are expected between disclosed figures and final BSCR as filed.

Under the EBS framework, statutory financial statements are generally equivalent to GAAP financial statements, with the exception of permitted practices granted by the BMA. Our Bermuda subsidiaries have permission in the statutory financial statements to use amortized cost instead of fair value as the basis for certain investments. Additionally, our Bermuda subsidiaries use US statutory reserving principles for the calculation of insurance reserves instead of GAAP, subject to the reserves being proved adequate based on cash flow testing. The following represents the effect of the permitted practices to the statutory financial statements:

(In millions)	December 31, 2021	
	ALRe	ACRA 1A
Change to capital and surplus due to permitted practices	\$ 2,096	\$ 980
Change to statutory net income due to permitted practices	(635)	599

Under the Bermuda Insurance Act, our Bermuda subsidiaries are 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 the companies' respective board of directors and its principal representative in Bermuda sign and submit to the BMA an affidavit attesting that a dividend in excess of this amount would not cause the subsidiary to fail to meet its relevant margins. In certain instances, the Bermuda subsidiary 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, and further subject to meeting the MMS and ECR requirements, a Bermuda subsidiary is permitted to distribute up to the sum of 100% of statutory surplus and an amount less than 15% of statutory capital. Distributions in excess of this amount require the approval of the BMA. The following represents the maximum distribution our Bermuda subsidiaries would be permitted to remit to its parent without the need for prior approval:

(In millions)	December 31,	
	2021	2020
ALRe	\$ 7,649	\$ 9,972
ACRA 1A	1,933	1,592

Statutory capital and surplus and net income (loss)—The following table presents, for each of our primary insurance subsidiaries, the statutory capital and surplus and the statutory net income (loss), based on the most recent statutory financial statements to be filed with insurance regulators:

(In millions)	Statutory capital & surplus		Statutory net income (loss)	
	December 31,		Years ended December 31,	
	2021	2020	2021	2020
ALRe	\$ 11,823	\$ 13,519	\$ 3,278	\$ 1,544
ACRA 1A	4,187	2,718	293	1,522

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13. Related Parties

Unsecured Revolving Notes Receivable—ALRe has unsecured revolving notes agreement with AHL and Athene Life Re International Ltd. (ALREI).

The unsecured revolving note receivable from AHL has a borrowing capacity of \$2 billion. As of December 31, 2021 and 2020, the unsecured note receivable had an outstanding balance of \$158 million and \$0 million, respectively. Interest accrues at a fixed rate of 2.29% per year and has a maturity date of December 15, 2028.

The unsecured revolving note receivable from ALREI has a borrowing capacity of \$500 million and had an outstanding balance of \$54 million and \$54 million as of December 31, 2021 and 2020, respectively. Interest accrues at 3 month LIBOR rate on principal plus applicable margin of 41 bps and a maturity date of December 11, 2024, or earlier at ALRe's request.

Unsecured Revolving Note Payable—In addition to the unsecured revolving notes receivable described above, ALRe has an unsecured revolving note agreement with AHL and ALREI.

The unsecured revolving note payable to AHL permits ALRe to borrow up to \$2 billion with interest accrues at a fixed rate of 2.29% per year and has a maturity date of December 15, 2028, or earlier at AHL's request. As of December 31, 2021 and 2020, the revolving note payable had no outstanding balance. Additionally, ALRe had an unsecured note payable to AHL, which was settled in December 2021. The unsecured note payable had an outstanding balance of \$1,206 million as of December 31, 2020.

The unsecured revolving note payable to ALREI permits ALRe to borrow up to \$500 million as of December 31, 2021 and 2020, with interest accrues at 3 month LIBOR rate on principal plus applicable margin of 41 bps and a maturity date of December 11, 2024, or earlier at ALREI's request. As of December 31, 2021 and 2020, the revolving note payable had no outstanding balance.

Apollo

Fee structure – Substantially all of our investments are managed by Apollo. Apollo provides us a full suite of services that includes: direct investment management; asset sourcing and allocation; mergers and acquisition sourcing, execution and asset diligence; and strategic support and advice. Apollo also provides certain operational support services for our investment portfolio including investment compliance, tax, legal and risk management support.

Apollo has extensive experience managing our investment portfolio and its knowledge of our liability profile enables it to tailor an asset management strategy to fit our specific needs. This strategy has proven responsive to changing market conditions and focuses on earning incremental yield by taking liquidity risk and complexity risk, rather than assuming solely credit risk. Our partnership has enabled us to take advantage of investment opportunities that would likely not otherwise have been available to us.

Under our fee agreement with Apollo, we pay Apollo a base management fee of (1) 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) as of 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 (2) 0.15% per year of the amount, if any, 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, subject to certain adjustments. Additionally, we pay a sub-allocation fee based on specified asset class tiers ranging from 0.065% to 0.70% of the market value, with the higher percentages in this range for asset classes that are designed to have more alpha generating abilities.

For the years ended December 31, 2021 and 2020, we incurred management fees, inclusive of the base and sub-allocation fees, of \$592 million, and \$490 million, respectively. Management fees are included within net investment income on the consolidated statements of income. As of December 31, 2021 and 2020, management fees payable were \$59 million and \$41 million, respectively, and are included in other liabilities on the consolidated balance sheets. Such amounts include fees incurred attributable to ACRA including 100% of the noncontrolling interest in ACRA. In addition to the assets on our 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 – AHL's bye-laws currently provide that, with respect to IMAs covering assets backing reserves and surplus in ACRA, whether from internal reinsurance, third-party reinsurance, or inorganic transactions, among us or any of our subsidiaries, on the one hand, and ISG, on the other hand, we will not terminate any such IMA with Apollo other than at specified termination dates and with relevant board approvals of independent directors and written notice.

Governance – AHL has a management investment committee, which includes members of senior management and reports to the risk committee of AHL's 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.

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Prior to AHL's merger with AGM on January 1, 2022, a significant voting interest in AHL was held by shareholders who are members of the Apollo Group. James Belardi, AHL's Chief Executive Officer, also serves as a member of the board of directors and an executive officer of AGM, and, as Chief Executive Officer of ISG, receives compensation from ISG for services he provides. Mr. Belardi also owns a 5% profit interest in ISG and in connection with such interest receives a specified percentage of other fee streams earned by Apollo from us, including sub-allocation fees. Additionally, six of the sixteen 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, AHL's bye-laws require them to maintain a conflicts committee comprised solely of directors who are not general partners, directors (other than independent directors of AGM), managers, officers or employees of any member of the Apollo Group. The conflicts committee reviews and approves material transactions between AHL and the Apollo Group, subject to certain exceptions.

Other related party transactions

A-A Mortgage – We had an equity method investment of \$444 million as of December 31, 2020, in A-A Mortgage, which previously held an investment in AmeriHome. In 2021, Apollo and Athene sold AmeriHome to a subsidiary of Western Alliance Bancorporation and we recognized \$182 million of revenue from the premium of the platform sale, net of carry and transaction expenses. We have a loan purchase agreement with AmeriHome, which survived the sale. 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 purchased \$0 million and \$169 million of residential mortgage loans under this agreement during the years ended December 31, 2021 and 2020, respectively. Additionally, as of December 31, 2020, we held \$360 million of investments issued by AmeriHome or AmeriHome affiliates as related party AFS securities on the consolidated balance sheets. On December 31, 2021 all investments in MidCap were distributed as part of the reorganization.

MidCap – We have multiple investments in MidCap including profit participating notes, senior unsecured notes and redeemable preferred stock, which are included in related party AFS or trading securities on the consolidated balance sheets. We also had advanced amounts to MidCap under a subordinated debt facility, which was included in related party other investments on the consolidated balance sheets. During the second quarter of 2021, the principal balance of the MidCap subordinated debt facility of \$330 million was repaid and we received \$19 million as a result of the early repayment.

The following summarizes these investments in MidCap:

(In millions)	December 31,	
	2021	2020
Profit participating notes	\$ —	\$ 534
Senior unsecured notes	—	—
Redeemable preferred stock	—	77
Subordinated debt facility	—	328
Total investment in MidCap	\$ —	\$ 939

Additionally, we held ABS and CLO securities issued by MidCap affiliates of \$630 million as of December 31, 2020, which are included in related party AFS securities on the consolidated balance sheet.

On December 31, 2021 all investments in MidCap were distributed as part of the reorganization.

Venerable – We have coinsurance and modco agreements with Venerable Insurance and Annuity Company (VIAC). VIAC is a related party due to our minority equity investment in its holding company's parent, VA Capital, which was \$219 million and \$123 million as of December 31, 2021 and 2020, respectively. The minority equity investment in VA Capital is included in related party investment funds on the 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 III Management, LLC (Crestview) and Reverence Capital Partners L.P. (Reverence), and is the parent of Venerable, which is the parent of VIAC.

On June 1, 2021, Apollo Hybrid Value Fund, L.P., AA Direct, L.P. and certain entities affiliated with Athora, collectively through an acquisition vehicle, AP Violet, L.P. (AP Violet), along with Crestview and Reverence agreed to acquire a portion of the minority equity investment in VA Capital from us and Apollo. As a result, during the year ended December 31, 2021, we sold portions of our equity investment for \$124 million, of which \$25 million was deferred consideration, to Crestview, Reverence and AP Violet.

We also have term loans receivable from Venerable due in 2033, which are included in related party other investments on the consolidated balance sheets. The loans are held at the principal balance less allowances and were \$222 million and \$145 million as of December 31, 2021 and 2020, respectively. While management views the overall transactions with Venerable as favorable to us, the stated interest rate of 6.257% on the initial term loan to Venerable represented a below-market interest rate, and management considered such rate as part of its evaluation and pricing of the reinsurance transactions.

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Strategic Partnership – We have an agreement pursuant to which we may invest up to \$2.875 billion 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 December 31, 2021 and 2020, we had \$415 million and \$214 million, respectively, of investments under the Strategic Partnership and these investments are typically included in related party investment funds on the consolidated balance sheets.

PK AirFinance – We have an investment in PK AirFinance (PK), an aviation lending business with a portfolio of loans (Aviation Loans). The Aviation Loans are generally fully secured by aircraft leases and aircraft. Apollo owns 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, the Aviation Loans are securitized by an SPV for which Apollo acts as ABS manager (ABS-SPV). The ABS-SPV issues tranches of senior notes and subordinated notes, which are secured by the Aviation Loans. As of December 31, 2021 and 2020, our investment in securitizations of loans originated by PK was \$1,401 million and \$1,373 million, respectively, and are included in related party AFS or trading securities on the consolidated balance sheets. We also have commitments to make additional investment in securitizations of loans originated by PK of \$1,224 million as of December 31, 2021.

Apollo/Athene Dedicated Investment Program (ADIP) – Our subsidiary, Athene Co-Invest Reinsurance Affiliate Holding Ltd. (together with its subsidiaries, ACRA) is partially owned by ADIP, which is managed by AGM. ALRe currently holds 36.55% of the economic interests in ACRA, with ADIP holding the remaining 63.45%. During the year ended December 31, 2021, we received capital contributions of \$758 million and \$240 million, respectively, from ADIP and paid dividends of \$0 million and \$46 million, respectively, to ADIP.

Apollo Share Exchange and Related Transactions – On February 28, 2020, AHL closed a strategic transaction with AGM and certain affiliates of AGM which collectively comprise the Apollo Operating Group (AOG), pursuant to which ALRe issued an unsecured revolving note payable of \$1,206 million to AHL for an investment in Apollo of 29,154,519 newly issued AOG units valued at \$1.1 billion.

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 December 31, 2021 and 2020, we held \$113 million and \$72 million, respectively, of preferred shares, which are included in related party equity securities on the consolidated balance sheets. In the fourth quarter of 2019, AA Infrastructure issued \$267 million of ABS securities as a return of capital on the preferred shares. As of December 31, 2021 and 2020, we held AA Infrastructure ABS securities of \$586 million and \$420 million, respectively, which are included in related party trading securities on the consolidated balance sheets. We also have commitments to make additional investments in AA Infrastructure of \$0 million as of December 31, 2021.

14. 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 \$2,048 million and \$7,166 million as of December 31, 2021 and 2020, 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.

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

(In millions)	December 31,	
	2021	2020
AFS securities	\$ 1,001	\$ 8,946
Trading securities	1	60
Equity securities	—	26
Mortgage loans	—	5,028
Investment funds	—	68
Derivative assets	2	107
Short-term investments	—	52
Other investments	—	105
Restricted cash	533	692
Total restricted assets	\$ 1,537	\$ 15,084

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

Letters of Credit—We have undrawn letters of credit totaling \$1,375 million as of December 31, 2021. These letters of credit were issued for our reinsurance program and expire between May 22, 2023 and December 10, 2023.

Litigation, Claims and Assessments

Corporate-owned Life Insurance (COLI) Matter – In 2000 and 2001, two insurance companies which were subsequently merged into AAIA, purchased broad based variable COLI policies from American General Life Insurance Company (American General). 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 proceeded 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 were to have been deemed effective, the purported changes to the policies could have impaired AAIA’s ability to access the value of guarantees associated with the policies. The parties engaged in discovery as well as discussions concerning whether the matter can be resolved without further litigation and, at the request of the parties, on August 11, 2021, the court entered an Amended Scheduling Order setting the trial date for June 2023. On December 27, 2021, the parties agreed in principle to a settlement, pursuant to which we will be able to surrender the policies at any time and receive proceeds within six months. During the year ended December 31, 2021, we recorded an impairment of the COLI asset of \$53 million, and an adjustment to deferred tax liabilities of \$47 million, to reflect the terms of the settlement. On December 31, 2021 all assets and liabilities associated with the COLI policies were distributed as part of the reorganization.

Regulatory Matters – From 2015 to 2018, our US insurance subsidiaries 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.

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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 (TDI), indicating, in each case, that the respective regulator planned to undertake a market conduct examination or enforcement proceeding of the applicable US 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 entered into consent orders with several state regulators, including the NYSDFS, the CDI and the TDI, to resolve underlying matters in the respective 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.

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.

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.

Note 15 – Subsequent Events

The Company has evaluated the impact of subsequent events through April 26, 2022, the date at which the consolidated financial statements were available to be issued.

Athene/Apollo Merger - On March 8, 2021, AHL entered into an Agreement and Plan of Merger (“Merger Agreement”), by and among AHL, AGM, Tango Holdings, Inc. (“HoldCo”), Blue Merger Sub, Ltd. (“AHL Merger Sub”) and Green Merger Sub, Inc. (“AGM Merger Sub”). AHL and AGM agreed, subject to the terms and conditions of the Merger Agreement, to effect an all-stock merger transaction to combine their respective businesses by: (1) AGM merging with AGM Merger Sub, with AGM surviving such merger as a direct wholly owned subsidiary of HoldCo (“AGM Merger”), (2) AHL merging with AHL Merger Sub, with AHL surviving such merger as a direct wholly owned subsidiary of HoldCo (together with the AGM Merger, the “Mergers”), and (3) as of the effective time of the Mergers (“Effective Time”) changing the name of HoldCo to be Apollo Global Management, Inc.

On January 1, 2022, the Mergers were completed and AHL became a direct wholly owned subsidiary of AGM. Each issued and outstanding AHL Class A common share (other than AHL Class A common shares held by AHL Merger Sub, the Apollo Operating Group comprised of AGM and certain of AGM’s affiliates or their respective direct or indirect wholly owned subsidiaries of AHL) was converted automatically into 1.149 shares of AGM common shares and any cash paid in lieu of fractional AGM common shares. In connection with the Mergers, AGM issued to AHL Class A common shareholders 158.2 million AGM common shares in exchange for 137.6 million AHL Class A common shares that were issued and outstanding as of the acquisition date, exclusive of the 54.6 million shares previously held by AGM immediately before the acquisition date.

Subsequent to the Merger, on January 5, 2022 AOG Holding I Ltd. was distributed to AGM.

Restructure—On January 3, 2022, following the transactions contemplated by the Contribution Agreement and the Merger Agreement, AAH entered into an agreement to undergo a series of restructuring transactions (“Restructure Agreement”), by and among AAH, AUSA, AARe and the Company. Pursuant to the Restructure Agreement, AAH transferred 100% of its shareholding in the Company to AUSA.

On January 4, 2022, immediately following the transfer, AUSA transferred 100% of its shareholding in the Company to AARe. As a result, the Company will be ultimately wholly owned by AARe. Subsequently, AARe transferred 100% of its ownership in Athene Annuity Re II Ltd. (AARe II), a Bermuda exempted Company, to the Company. Therefore, AARe II will be a wholly owned subsidiary of the Company.

The Company reinsures U.S. pension risk transfer business from AARe on a modified coinsurance (modco) basis. In March and April of 2022, \$2,146 million of US pension risk transfer business was added to the existing modco agreement with AARe.

As of June 2021, the Company started to reinsure funding agreement backed notes from AARe on a modco basis. During January and March of 2022, three funding agreement transactions were reinsured with premiums of \$1,516 million.

As of January 1, 2022, the Company started to reinsure Retail business from AARe on a modco basis.