

## Research Update:

# Athene Holding Ltd. Upgraded To 'A-', Outlook Is Positive; Operating Entities Upgraded To 'A+', Outlook Is Stable

May 18, 2021

## Overview

- We are upgrading Athene to reflect its continued profitable growth throughout the COVID-19 pandemic, while maintaining its capital strength.
- We do not expect its upcoming merger with Apollo to significantly affect Athene's day-to-day operations.
- While we think Athene's nontraditional investment portfolio is riskier than some peers', its capital buffers can absorb potential volatility.
- The stable outlook reflects our expectation that Athene will retain its competitive position in its core markets, maintain capital adequacy at 'AA' level, and keep growing profitably in its retail and reinsurance/acquisition businesses.

## Rating Action

On May 18, 2021, S&P Global Ratings raised its financial strength and issuer credit ratings on Athene Holding Ltd.'s operating insurance entities (collectively, Athene) to 'A+' from 'A'. The outlook is stable. At the same time, we raised our rating on the holding company to 'A-' from 'BBB+'. The outlook on the holding company ratings is positive.

## Rationale

In the past 12 months, during the height of the COVID-19 pandemic and the related economic crisis, Athene continued to grow its businesses while maintaining capital strength at the 'AA' level per our capital model. We noted Athene's expansion last summer, but we were also concerned about the overall macroeconomic conditions at the time and the potential impact on any life insurance company. While the pandemic is certainly not over, we do believe there is less uncertainty than last year, especially in the U.S. given the ongoing vaccine rollout and recent

economic growth.

Our raising of Athene's financial strength and issuer credit ratings reflects the group's capital strength and balance-sheet growth. While the increased scale does not in and of itself affect our ratings, the combination of the company's profitable growth, strong earnings vis-à-vis peers, and capital position supports its credit quality.

Athene has expanded its liability profile and market share over the past few years. It was the top seller of fixed index annuities in 2020, and it expanded its funding-agreement-backed notes program, pension risk transfers, flow reinsurance, and block acquisitions. These expansions reflect the strength of Athene's business model and competitive advantage in its various spread-lending businesses. Athene has diverse geographies and sales channels, but its concentration in spread-based business lines leaves it less diversified than some peers that also sell longevity, mortality, morbidity, and/or fee-based products, and will likely limit its credit profile going forward.

We consider Athene's investment portfolio to be riskier than some peers' because it has a larger allocation to structured finance securities than most life insurers do (26% as of March 31, 2021). We believe our capital model captures the asset risk of the investments, but even if losses exceed our stressed expectations, Athene's capital buffers will likely absorb a great deal of that additional volatility.

The upcoming merger with Apollo will create a group that will be roughly split equally between asset management and insurance, on an earnings basis. Successful execution of Athene's strategy calls for it to maintain and boost its capital; and the company operates under a regulatory regime that could limit distributions to the rest of the group in times of stress. These two limitations serve to insulate Athene, to a certain extent, from the potential needs of the rest of the group, and therefore, our rating on Athene at 'A+' is two notches higher than that of the rest of the group at 'A-'. Although the merger will better align the two companies, we see no material difference in the way Athene will be managed after the merger, which further strengthens our view that our ratings are not limited by the upcoming transaction.

Since Athene's holding company's debt and preferred shares rely on cashflow from its regulated subsidiaries, our rating on it is currently two notches lower, at 'A-'. This is the standard notching we apply for Bermuda-based insurance holding companies, reflecting the structural subordination between the holding company and its operating subsidiaries. Once the merger closes, we think it will add a significant source of unregulated cashflow that the group could use to service its debt and preferred shares, reducing reliance on dividends from the regulated insurance companies.

## Outlook

The stable outlook on Athene's operating companies reflects our expectation that the company will retain its competitive position in its core markets, maintain capital adequacy at 'AA' level, and keep growing profitably in its retail and reinsurance/acquisition businesses.

The positive outlook on Athene's holding company matches the positive outlook on Apollo itself. We could raise the rating on the holding company by one notch if we upgrade Apollo to reflect the addition of Apollo's nonregulated cashflows and potential further support of the Athene's holding company's obligations and Athene's likely core status within the group.

## Downside scenario

We could lower the ratings in the next 12-24 months if: Athene's stand-alone business profile becomes significantly concentrated in retail annuities; it consistently reports weak earnings relative to peers; or capital adequacy materially worsens to below 'AA'. We could also lower the rating if Apollo's asset-management business weakens.

## Upside scenario

It is unlikely that we will raise Athene's rating over the next two years, given its concentration in spread-based businesses.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
- Criteria | Insurance | General: Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Criteria | Insurance | General: Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

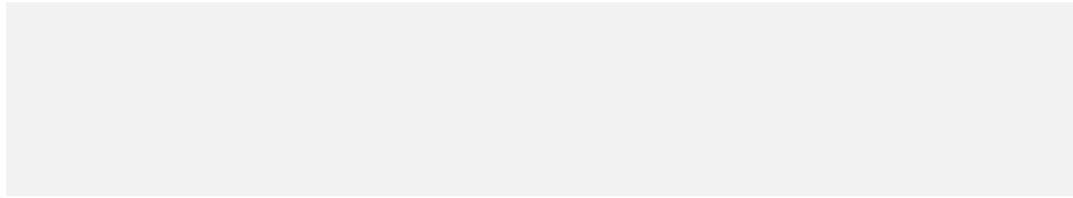
## Ratings List

Upgraded

	To	From
Athene Holding Ltd.		
Issuer Credit Rating		
Local Currency	A-/Positive/--	BBB+/Positive/--

Upgraded

	To	From
<b>ACRA</b>		
Athene Life Re Ltd.		
Athene Life Re International Ltd.		
Athene Annuity and Life Co.		
Athene Annuity & Life Assurance Co. of New York		
Athene Annuity & Life Assurance Co.		
<b>ACRA International</b>		
Issuer Credit Rating		
Local Currency	A+/Stable/--	A/Stable/--
Financial Strength Rating		
Local Currency	A+/Stable/--	A/Stable/--
<b>Athene Holding Ltd.</b>		
Senior Unsecured	A-	BBB+
Preferred Stock	BBB	BBB-
<b>Athene Global Funding</b>		
Senior Secured	A+	A



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