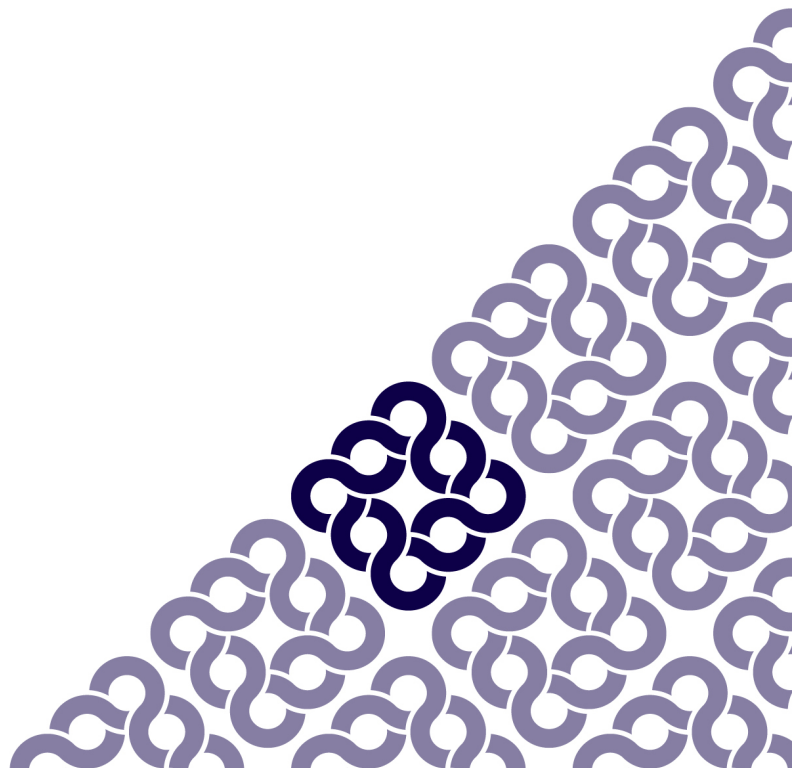




# **ATHORA LIFE RE LTD.**

**Financial Condition Report**  
**31 December 2020**



**Athora Life Re Ltd. Financial Condition Report**  
For the twelve (12) months ending 31 December 2020

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## 1. EXECUTIVE SUMMARY

Athora Life Re Ltd. (“**ARE**” or the “**Company**”) was incorporated under the laws of Bermuda on 4 April 2017 under its previous name, NewRe Life Re Ltd., and changed to its current name effective 7 September 2017. ARE is registered as a Class E long-term insurer under the Insurance Act 1978, as amended, and related rules and regulations (the “**Insurance Act**”) and is supervised by the Bermuda Monetary Authority (the “**Authority**”).

This Financial Condition Report has been prepared in accordance with the Insurance (Public Disclosure) Rules 2015. It provides information on ARE’s business and performance, system of governance, risk profile and capital management.

### 1.1. Business and Performance

ARE is a wholly-owned subsidiary of Athora Holding Ltd. (previously known as AGER Bermuda Holding Ltd.), a Bermuda holding company (“**Athora Holding**” or “**Parent**”) which is an insurance group supervised by the Authority. In January 2018, Athora Holding deconsolidated from Athene Holding Ltd. (“**Athene Holding**”) becoming its own insurance group, of which ARE forms a part. Athora Holding, through its subsidiaries in Bermuda, Ireland, Germany, Belgium and Netherlands (collectively the “**Athora Group**”), is a specialist solutions provider in the European insurance market. ARE is the Designated Insurer appointed by the Authority as the lead insurer and administrative point of contact within the Athora Group, through whom the Group is required to fulfil its regulatory reporting and compliance obligations.

ARE is a Bermuda-based reinsurance carrier that provides innovative and creative capital optimisation and risk management solutions to European life insurers. It offers reinsurance solutions to insurers to free up capital, management capacities and operating resources, and enhance policyholder value.

On 3 April 2018, ARE acquired Aegon Ireland plc (now known as Athora Ireland plc (“**Athora Ireland**”)) from Aegon N.V. Athora Ireland, as a direct subsidiary of ARE, supports ARE’s strategy to provide reinsurance solutions across the European insurance market.

ARE and Athora Ireland have been assigned the following credit ratings by A.M. Best<sup>1</sup> and Fitch Ratings<sup>2</sup>:

	A.M. Best	Fitch
<b>Athora Life Re Ltd.</b>	A-	BBB+
	Outlook: Stable	Outlook: Stable
	03/2021	12/2020
<b>Athora Ireland plc</b>	A-	BBB+
	Outlook: Stable	Outlook: Stable
	03/2021	12/2020

The Company produces its financial statements in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board and adopted by the European Union, and reported a pre-tax loss of €4.7m at 31 December 2020, compared with a pre-tax loss

<sup>1</sup> For the latest rating, access [www.ambest.com](http://www.ambest.com).

<sup>2</sup> Fitch’s ratings and analysis reflect the ability of an insurer to meet its policyholder, reinsurance and contract holder obligations on a timely basis.

of €20.8m at 31 December 2019, with losses in 2020 due to ARE operating below its target scale, reflecting ARE's early stage of growth.

## **1.2. System of Governance**

ARE is committed to a high standard of corporate governance and has adopted governance guidelines as a framework to provide effective governance over the affairs of the Company under the direction of the Company's Board of Directors (the "**Board**", each a "**Director**"), and in compliance with applicable laws and regulations, the Company's Bye-laws and other corporate governance documents of the Company.

The Company is satisfied that the system of governance remains fit for purpose and appropriate for the nature, scale and complexity of risks inherent in its business.

## **1.3. Risk Profile**

The Company faces a number of risks which are external in nature, primarily financial market risks and underwriting risks. Other risks arise from internal factors, such as inadequate systems or processes. Both external and internal risks can affect the Company's operations, its earnings, the value of its investments, or the sale of its products.

The Company's risk management framework defines the tools, policies and processes used to measure and manage risks, and to help guide the development of ARE's desired risk profile. The risk management and control systems are designed to ensure that these risks are managed effectively and efficiently in a way that is aligned with the Company's risk strategy.

## **1.4. Solvency Valuation**

The Company has valued its assets and liabilities on a market consistent basis, i.e., using information which is market observable where possible in accordance with EBS valuation principles. During the reporting period, the Company did not make any material changes to the recognition, valuation bases or estimation techniques used for its asset valuation.

## **1.5. Capital Management**

The Company manages capital on an economic basis within the constraints and requirements of its external stakeholders. The primary objective of the Company's capital management process is to ensure that a strong financial position is maintained, and capital volatility is minimised. The Capital Management Policy outlines the capital management process.

The Capital and Investment Committee, and the Risk Committee, together with the Board, regularly consider capital assessments and projections for the Company to ensure that capital is managed with continuous adherence to the Company's principles around capital adequacy, financial flexibility and the efficient use of capital.

The Company's required capital is calculated using the regulatory capital requirements i.e., the Enhanced Capital Requirement ("**ECR**") which is calculated using the Bermuda Statutory Capital Requirement ("**BSCR**") model. The table below summaries the Company's capital position.

€ '000	2020	2019
Available Capital	282,683	215,778
ECR	86,180	94,682
Solvency Ratio	328%	228%

The reduction in Capital requirements over the period is primarily due to lower fixed income investment risk, driven by a strengthening in the average credit quality of the fixed income asset portfolio.

## 2. BUSINESS AND PERFORMANCE

### 2.1 Name of the Insurer

Athora Life Re Ltd.  
Ideation House, First Floor  
94 Pitts Bay Road  
Pembroke HM 08, Bermuda

### 2.2 Insurance Supervisor

Bermuda Monetary Authority  
BMA House  
43 Victoria Street  
Hamilton HM 12, Bermuda

### 2.3 Approved Auditor

EY Bermuda Ltd.  
3 Bermudiana Road  
Hamilton, HM08  
Bermuda

### 2.4 Ownership details

ARE is a wholly owned subsidiary of Athora Holding, which is the Athora Group's parent company headquartered in Bermuda. Athora Holding's shareholder base is comprised of high-quality, long-term minded global institutional investors.

### 2.5 Group structure

The Athora Group structure is shown in **Appendix 1**.

### 2.6 Insurance business written by business segment and by geographical region during the reporting period

Geographical distribution of business written for the reporting period.

€ '000	2020	2019
<i>Gross Premium Written - Belgium</i>	1,073,421	
<i>Gross Premium Written - Ireland</i>	117,674	
<i>Gross Premium Written - Germany</i>	12,813	9,091
<i>Gross Premium Written - Other</i>	7,109	7,801
<b>Total Gross Premium Written</b>	<b>1,211,017</b>	<b>16,892</b>
<i>Net Premium Written - Belgium</i>	1,073,421	
<i>Net Premium Written - Ireland</i>	117,674	
<i>Net Premium Written - Germany</i>	12,813	9,091

<i>Net Premium Written - Other</i>	<i>(16,304)</i>	<i>(18,916)</i>
<b>Total Net Premium Written</b>	<b>1,187,604</b>	<b>(9,825)</b>

## **2.7 Performance of investments, by asset class and details on material income and expenses incurred during the reporting period**

### **2.7.1 Investment performance**

The table below details the Company's investment return as reported in the Company's 2020 and 2019 audited financial statements. The change in investment income over the period is driven by a reduction in fair value gains. There were large fair value gains in 2019 due to a material drop in interest rates which was not repeated in 2020.

<b>€ '000</b>	<b>2020</b>	<b>2019</b>
Interest income on financial assets	8,605	7,780
Realised gains/(losses)	1,684	5,135
Impairment losses	-	(5,743)
Fair value gains/(losses)	647	13,321
Other investment income	3,829	2,663
<b>Total Investment Return</b>	<b>14,765</b>	<b>23,157</b>

### **2.7.2 Material income and expenses**

The Company derives its revenues primarily from premiums on reinsurance contracts and investment income generated from its investment portfolio. The Company's expenses consist largely of acquisition expenses, investment expenses and general administrative expenses.

For further details, see the Company's audited financial statements for the reporting period.

## **2.8 Any other material information**

There is no further material information to note regarding the Company's business and performance.

### 3. GOVERNANCE STRUCTURE

The Company has established a system of governance that is appropriate for the nature, scale and complexity of risks inherent in its business. The Company’s governance framework is set out in its Bye-laws, Board Governance Guidelines and committee’s terms of reference. The Company’s governance structure emulates its Parent’s corporate governance framework. This governance framework operates a ‘Three Lines of Defence’ structure to ensure appropriate segregation of responsibilities.

The Board is responsible for the sound and prudent oversight of the Company and for the overall governance of the Company’s business and strategic objectives. The Company’s Bye-laws and Board Governance Guidelines define the duties, membership and meeting procedures of the Board. The Company has established a number of management committees (each with their own terms of reference) that provide oversight, review, challenge and monitoring of business and operational activities.

#### The purpose of each of the management committees

Committee	Membership	Responsibilities
<b>Reinsurance and Operations Committee (“AROC”)</b>	<ul style="list-style-type: none"> <li>▪ CEO</li> <li>▪ CFRO</li> <li>▪ Chief Actuary</li> <li>▪ General Counsel</li> <li>▪ Chief Reinsurance Marketing Actuary</li> </ul>	Oversees all reinsurance opportunities and recommends new reinsurance transactions to the Board and all material operational matters relating to ARE. AROC also provides senior management oversight of the operations of the business. AROC meets monthly and as needed.
<b>Risk Committee (“ARC”)</b>	<ul style="list-style-type: none"> <li>▪ CEO</li> <li>▪ CFRO</li> <li>▪ General Counsel</li> <li>▪ Athora Group CRO</li> <li>▪ Group Enterprise Risk Management</li> </ul>	Oversees the development of risk strategy for ARE and integration with the Athora Group strategy. ARC is responsible for the development and ongoing maintenance of an effective risk management system and has risk oversight of all key functions within ARE (i.e., Finance, Actuarial, Legal and Compliance and Operations). ARC provides a documented opinion on all recommendations submitted to the Board by any of the ARE’s other management committees. ARC meets quarterly and as needed.
<b>Capital and Investment Management Committee (“CIC”)</b>	<ul style="list-style-type: none"> <li>▪ CEO</li> <li>▪ CFRO</li> <li>▪ Chief Actuary</li> <li>▪ Athora Group Senior Director, Reinsurance, Capital and Balance Sheet Management<sup>3</sup></li> </ul>	Reviews and monitors ARE’s capital requirements and capital management, and optimises ARE’s balance sheet regarding capital and cash generation within the limits of solvency, liquidity, rating agency capital and ARE’s risk appetite. CIC provides strategy and direction regarding the investment activity of ARE and makes recommendations to the ARE Board on such matters. CIC meets quarterly and as needed.

<sup>3</sup> During the year Group Head of Balance Sheet Management was replaced by Group Senior Director, Reinsurance, Capital and Balance Sheet Management.



### **3.1 Board and Senior Executives**

#### **3.1.1 A description of the structure of the board and senior executive, the roles, responsibilities and segregation of these responsibilities**

The business and affairs of the Company are overseen by its Board as the primary policy-making body of the Company, taking into account Athora Group-wide policies and procedures established by the Parent's board of directors. While the Company's business is managed under the direction of the Board, the chief/senior executives of the Company ("**Management**") are responsible for overseeing the day-to-day operations of the Company and adopting, formalising and implementing policies, procedures, internal controls and operational mechanics in order to effect the long-term strategic direction of the Company.

The Board currently comprises of four (4) Directors. Each Director is appointed based on several factors, including relevant qualifications, industry experience and technical expertise. The Board's responsibilities are outlined in the Company's Bye-laws and its Board Governance Guidelines.

Management assists the Board with its oversight responsibilities regarding the Company's business activities. Management is responsible for the execution of the Company's strategic plans and objectives and for the effective execution of the roles and responsibilities of their respective functions.

Management comprises five (5) primary officers: Chief Executive Officer; General Counsel and Chief Compliance Officer; Chief Actuary; Chief Reinsurance Marketing Actuary and Chief Financial and Risk Officer. Only one (1) member of the Board, the Chief Executive Officer, is directly involved with the day-to-day management of the Company.

#### **3.1.2 A description of remuneration policy and practices and performance-based criteria governing the board, senior executive and employees**

##### **Remuneration Policy and Executive Compensation**

The Company has adopted the Athora Group Remuneration Policy which set forth the Group's philosophy and principles for how and the structure under which it compensates and incentivises its employees, including persons who effectively run the regulated undertaking or hold other key functions and other categories of staff whose professional activities have a material impact on the undertaking's risk profile. The Athora Group's remuneration program seeks to, among other things, align the interests of management and staff with the overall business strategy, incorporating the risk management strategy, internal controls, values and the longer-term interests of the Group and its subsidiaries and provide a well-balanced and, where appropriate, a performance-related compensation package for employees, considering the interests of all stakeholders, relevant regulations, and corporate/social responsibilities.

The Athora Holding Compensation Committee is responsible for the review and approval of the terms of employment and appropriate levels of compensation for all senior executives within the Athora Group.

### **Director Compensation**

In order to avoid any misperceptions between compensation and fiduciary responsibilities, members of Management are not additionally compensated for their roles as members of the Board.

The Company paid its independent non-executive director a base retainer fee until his resignation. Non-executive directors do not receive any payments linked to ARE's performance and do not participate in any of Athora Group's incentive schemes.

### **Staff Compensation**

The Company aims to attract, recruit, develop and retain competent employees with the skills, knowledge and expertise to fulfil their allocated responsibilities and seeks to provide a motivational employment package, as appropriate to each role and to the markets in which we operate, which seeks to drive high levels of individual, team and collective engagement. All employees are required to set performance objectives, aligned to corporate objectives. Compensation and discretionary bonus are based on the output of annual appraisals and aligned with the interests of policyholders and shareholders.

#### **3.1.3 A description of the supplementary pension or early retirement schemes for members, the board and senior executive**

The Company has a pension scheme and provides all employees with pension benefits through a defined contribution pension program. The Company does not have any early retirement schemes.

#### **3.1.4 Any material transactions with shareholder controllers, persons who exercise significant influence, the board or senior executive**

Apollo Global Management, Inc. ("**Apollo**") and Athene Holding Ltd. ("**Athene**") are key minority shareholders in Athora Holding and the Company is party to or indirectly benefits from, certain service, advisory and cooperation agreements with Athene and/or Apollo (or their respective affiliates).

#### **Apollo**

The Company has entered into an investment management agreement with Apollo Asset Management Europe LLP ("**AAME**"), an affiliate of Apollo. AAME provides the Company with specific asset management and specialised investment expertise that includes asset liability management ("**ALM**") strategies to evaluate, source and manage investments originated by Apollo.

#### **Athene**

In connection with the deconsolidation of Athora Holding from Athene, Athora Holding entered into a cooperation agreement with Athene, pursuant to which, among other things, Athene (or a subsidiary thereof) has the right to reinsure, on mutually agreed terms, an agreed percentage of the spread business written or reinsured by any insurance or reinsurance company owned or acquired by the Athora Group, which includes ARE.

## **3.2 Fitness and Propriety Requirements**

### **3.2.1 A description of the fit and proper process in assessing the board and senior executive**

The Company maintains a hiring and vetting process in order to confirm fitness and propriety for relevant roles in line with the Authority's prudential regime for regulated entities, which includes consideration as to whether the person has relevant experience, skills and knowledge to fulfil the particular duties and responsibilities of the position.

The Athora Holding Nominating and Corporate Governance Committee oversees the process of assessing the fitness and propriety of all board members within the Athora Group, including ARE's Board. Board members are selected based on their extensive experience and knowledge of (re)insurance and financial services.

The Athora Holding Management Executive Committee ensures that key roles performed within the Athora Group are identified and filled by senior executives who are demonstrably qualified for the role. The Board approves its senior executives upon being satisfied that they possess the appropriate experience, skill levels and degrees of specialisation.

In addition, the Company has adopted the Athora Group Fit & Proper Policy which sets out the principles to be applied when assessing whether individuals are fit and proper and aims to provide guidelines to ensure procedures to assess the fitness and propriety of individuals to describe situations that give rise to a reassessment of the fit and proper requirements and ensure notifications will be provide to the Authority of any changes in the identity of those persons who run the business or who are responsible for key functions of the Company.

### **3.2.2 A description of the professional qualifications, skills, and expertise of the board and senior executives to carry out their functions**

#### **A. ARE's Board of Directors**

##### **Henrik Matsen**

Chair

Henrik is co-founder and Group Head of Growth of Athora Holding, responsible for the organisation's growth strategy. A member of the Group Management Executive Committee, he oversees Athora Group's reinsurance and pension risk transfer business and all M&A activities and he coordinates new business product development and distribution. He is a member of the Boards of Directors of the Company, Athora Ireland and Athora Belgium SA/NV. Henrik was a co-founder and director of RMR Advisors Ltd, an investment and advisory firm which provided insurance-related advisory services to Apollo, Athene and their affiliates from 2012 until the creation of Athora. Henrik holds a BSc degree from the Norwegian School of Economics & Business Administration (NHH) in Bergen, Norway.

##### **Amy Ponnampalam**

Amy is a Director of the Company and its Chief Executive Officer. She was previously Head of Corporate Projects for Legal & General Plc in London responsible for leading the execution of a range of strategic projects relating to the global strategy for Legal & General Retirement. Prior

to Legal & General, she was the Chief Risk Officer and Corporate Actuary for Hannover Life Reassurance Bermuda Ltd in Bermuda where she was responsible for a range of strategic, operational and technical initiatives. Previously Amy worked in London as a life actuarial consultant with Ernst & Young and Grant Thornton, specialising in UK capital management. Amy is a Fellow of the Institute and Faculty of Actuaries and has a Bachelor of Actuarial Science from The London School of Economics.

#### **Ralf Schmitt**

Appointed 28 April 2020

Ralf is a Director of the Company and is Group General Counsel at Athora Holding with responsibility for legal and compliance across the group. He is Member of the Management Board at Athora Deutschland Holding GmbH & Co. KG as well as a Member of the Athora Belgium SA/NV Boards of Directors. Ralf has more than 13 years of experience in corporate M&A at international law firms such as DLA Piper and Dewey & LeBoeuf and within the Investment Banking division of Citigroup. A German qualified lawyer, Ralf also holds an honours degree from Frankfurt's Goethe University.

#### **Christopher Harding**

Appointed 28 April 2020

Chris is a Senior Director in Athora's Group Balance Sheet Management team, with broad experience across corporate finance, financial markets, M&A, life (re)insurance, regulatory and rating capital frameworks. Chris has over 13 years of banking and insurance experience with a focus on both debt and equity capital markets, M&A and insurance solutions transactions. In his current role, Chris' responsibilities include ownership of both internal and external financing arrangements for the Athora Group, structuring and supporting group eligible capital instruments, including regulatory engagement on eligible capital instruments, management of group liquidity resources, responsibility for Athora Group credit ratings with Fitch and A.M. Best, supporting Group capital management activity, providing transaction structuring support for M&A and reinsurance transactions in relation to corporate structure and financing Chris brings relevant corporate finance and complex transaction structuring experience to the Board of Directors, in addition to a strong understanding of collateral and asset liquidity risk. Chris also brings insight into global regulatory developments for capital and liquidity management, as well as a first-hand understanding of the Athora Group Rating Agency position.

#### **Tab Shanafelt**

Independent Director

Resigned 1 October 2020

Tab was a Director of the Company until his resignation on 1 October 2020. Tab previously served as General Counsel of Athene Life Re Ltd. Prior to joining Athene Life Re, he served as the Managing Director-Principal at Bear, Stearns & Co. ("BSC") from 1998 to 2008. He served the Structured Equity Products Group where he was part of a newly formed team focused on insurance-linked products. As a member of BSC's Insurance Solution Group, he helped to design solutions specific to the challenges faced by its insurance sector clients. He joined BSC in 1998 to create and head the Global Transaction Management Group. Previously, Tab worked for over ten years in a management capacity within the legal departments of Hyundai Capital Services and Nomura Securities International. He has a Bachelor of Science in Political Science from

American University in Washington D.C, a J.D. from Pace University School of Law in New York City, and is admitted to the Bar in New York and Connecticut.

### **Mark Suter**

Resigned 28 April 2020

Mark was a Director of the Company until his resignation on 28 April 2020. Mark is the Athora Group Chief Operating Officer at Athora Holding, responsible for oversight of operations, IT, integration, communications and administration. He is also a Member of the Management Board for Athene Deutschland Holding and Vice Chairman of the Supervisory Board for ALV. Mark was previously Executive Vice President and Chief Integration Officer of Athene Holding Ltd. Prior to that, he co-founded and was a senior executive of Countrywide Bank, which grew to \$95bn in assets and was the 11th largest national bank in the US. Mark also managed a \$1 billion distressed mortgage portfolio for an affiliate of Blackrock from 2008 to 2009 and was a management consultant in the banking and insurance industry from 1995 to 2000. He is a member of the Supervisory Board of EVO Banco, S.A.U. Mark has a Bachelor of Science in Economics, cum laude, from the Wharton School of the University of Pennsylvania.

### **Michele Bareggi**

Resigned 28 April 2020

Michele was a Director of the Company until his resignation on 28 April 2020. Michele is the Athora Group Chief Executive Officer. He is responsible for the coordination and direction of the Management Executive Committee and the Athora Group subsidiaries. He is the Chairman of the Management Board of Athene Deutschland Holding GmbH & Co. KG and also member of the Athora Ireland Boards of Directors. Michele was formerly Managing Director and Head of Morgan Stanley's European Insurance and Pensions business as well as being responsible for Morgan Stanley's reinsurance operations globally. He joined Morgan Stanley in 2010 and also led the Fixed Income Capital Markets division in Italy. Prior to joining Morgan Stanley, he was employed by Nomura Holdings, Inc. from 2008 to 2010, where he co-ran the Insurance business for Europe, Japan and Asia. From 2003 to 2008, he worked with Lehman Brothers Holdings Inc. where he held various senior roles covering Italian and other European Insurance companies on the asset-side as well as capital management, DCM/ECM and reinsurance solutions. Before joining Lehman Brothers, he held senior roles at JPMorgan and Credit Suisse First Boston. Michele holds a B.Sc. (cum laude) in Economics, Statistics and Social Sciences from Università Bocconi Milano.

## **B. ARE's Management**

### **Amy Ponnampalam**

Chief Executive Officer

See biography above.

### **Joelina Redden**

General Counsel, Chief Compliance Officer and Corporate Secretary

Joelina is the General Counsel and Chief Compliance Officer of the Company. Prior to joining ARE, she was Vice President and Associate General Counsel at Allied World Assurance Company, Ltd from 2014 to 2018 where she was responsible for corporate, compliance and regulatory

matters for Allied World's Bermuda companies and served as underwriting counsel for professional lines, M&A and trade credit. Prior to Allied World, Joelina was Counsel, Corporate and Commercial, in the Insurance Team of Appleby (Bermuda) Limited where she advised on a broad range of (re)insurance matters, including insurance incorporations, (re)insurance regulatory and matters transactions, public and private offerings, restructuring and acquisitions and mergers. Joelina holds a Postgraduate Diploma in Law from City, University of London, England, a Postgraduate Diploma in Legal Practice from BPP Law School, London, England and a Bachelor of Arts (cum laude) from Saints Mary's University, Halifax, Canada. Joelina has been a member of the Bermuda Bar Association since 2002.

### **Ken Sennewald**

Chief Reinsurance Marketing Actuary

Ken is Chief Reinsurance Marketing Actuary at the Company and is responsible for third-party and internal reinsurance. Ken was previously with Hannover Life Re Bermuda where he was responsible for the marketing, structuring and implementation of structured reinsurance solutions, as well as for general business development. He has wide-ranging experience in traditional and non-traditional reinsurance worldwide with extensive technical knowledge and solid understanding of actuarial and financial concepts. Ken holds a Ph.D. in Economics and a master's degree in Financial Mathematics from Dresden University of Technology, as well as a bachelor's degree in Mathematics from Université Caen Normandie. He is a Fellow of the German Actuarial Society.

### **Neil Snyman**

Chief Financial and Risk Officer

Neil joined June 2020 as the Chief Financial and Risk Officer at Athora Life Re. Neil is responsible for Finance, Investments, Balance Sheet Management and Risk oversight. Prior to joining Athora he was Head of Liability Driven Investment at Aviva with the responsibility of portfolio management of the shareholder assets of the company with the primary objective of constructing capital efficient portfolios. He has wide ranging experience across consulting, banking and asset management focused on asset and capital management initiatives within the insurance industry. Neil holds a MSc in Applied Mathematics from Christchurch College, Oxford. He is a fellow of the Institute of Actuaries.

### **Wendy Yu**

Chief Actuary

Wendy is the Chief Actuary of the Company responsible for the pricing of reinsurance transactions and corporate actuarial matters. She was previously the VP, Global Acquisitions for RGA providing technical expertise for due diligence pricing activities. Prior to RGA, Wendy was the AVP, Investment Strategy developing investment strategies for insurance businesses in order to optimise investment returns. Wendy has a Bachelor of Mathematics, Honors Actuarial Science with a Computer Science Minor. She holds MAAA and FSA designations from the Society of Actuaries.

### 3.3 Risk Management and Solvency Assessment

#### 3.3.1 A description of the risk management process and procedures to effectively identify, measure, manage and report on risk exposures

The ARE risk framework interfaces directly with the Athora Group’s Enterprise Risk Management (ERM) framework and is comprised of:








##### A System of Governance:

- ARE’s committee structure is embedded within the Athora Group Governance Framework.
- ARE is subject to Athora Group policies and guidelines and develops its own specific policies where necessary.

While the Board retains overall responsibility for approving the ARE risk framework, the ARC is charged with developing and overseeing compliance with the risk framework.

The ARE risk framework interfaces directly with the Athora Group’s Enterprise Risk Management (“ERM”) framework. As part of the Athora Group ERM framework risk need to be identified, understood, and assessed (against levels defined as acceptable) before the right controls can be designed and implemented. Risks are managed from multiple perspectives, including economic, regulatory and accounting. The ERM Framework includes Risk Strategy and Appetite, Risk Governance, Risk Culture, Risk Measurement and Assessment, Risk Management and Monitoring, Risk Reporting and Insights and Data and Technology.

The following graphic sets out these components.

 Risk Strategy and Appetite	 Risk Governance	 Risk Culture	 Risk Assessment and Measurement	 Risk Management and Monitoring	 Risk Reporting and Insights	 Data and Technology
Linkage to corporate strategy	Board Oversight and Committees	Risk Organisation	Risk Identification, Assessment and Prioritization	Risk Mitigation, Response and Action Plans	Risk Reporting	Data Quality and Governance
Risk Universe	Company Risk Operating Structure	Risk Competence	Quantitative Methods and Modeling	Testing, Validation and Assurance	Business/Operational Requirements	Risk Analytics
Risk Appetite Statements	Roles and Responsibilities	Risk Relationships	Risk Aggregation, Correlation and Concentration	Monitoring	Board and Senior Management Requirements	Technology Enablement
	Risk Policies	Risk Motivation	Scenario Analysis and Stress Testing	Projects and Initiatives	External Requirements	

##### A Risk Strategy and Appetite:

The Risk Strategy and Appetite is an integral part of the business strategy and determines how ARE selects risks it can control and extract value from in line with its strategy. ARE’s risk strategy encompasses the following core pillars:

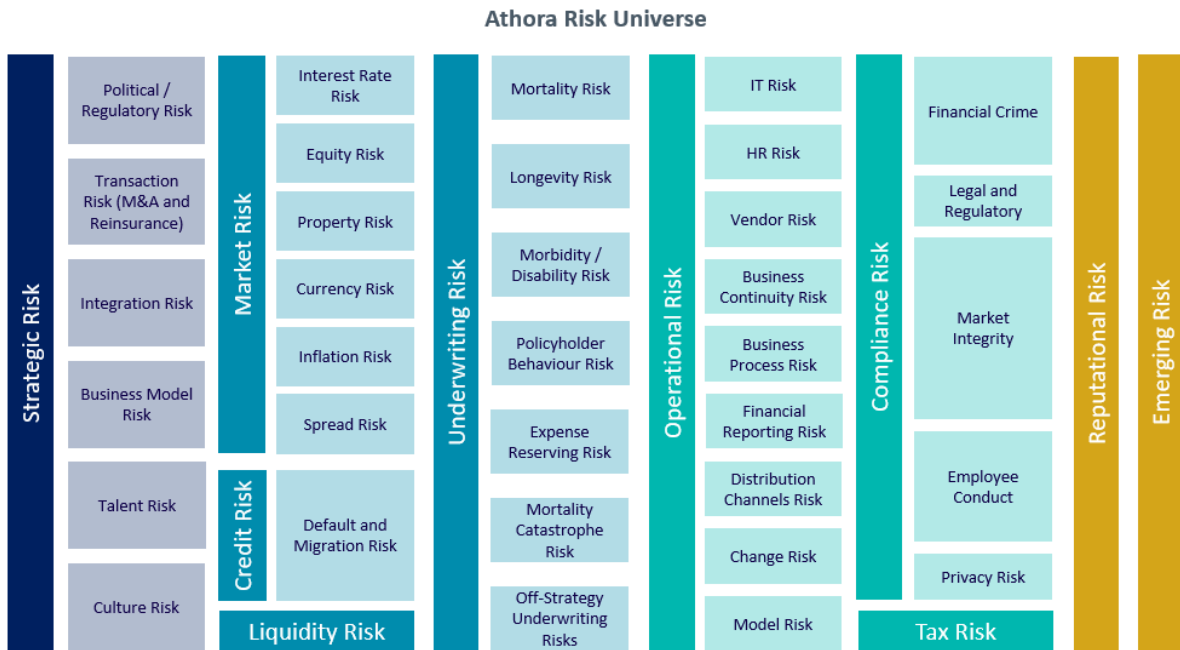
- **Risk Identification** – assessment of all material risks facing the business

- **Risk Appetite** – a definition of appetite for risk taking and risk controlling for each material risk
- **Risk Monitoring** – a system of stress and scenario testing to assess ARE’s resilience to risk, covering internally defined stress testing, regulatory stress testing, and reverse stress testing.

The risk strategy is reviewed annually but expected to remain stable over time. Risk Strategy and Appetite is translated into specific Risk Policies and Limits for the relevant risk types, which set out the policy objectives, requirements, the roles and responsibilities, as well as the required processes and controls for each risk.

### Risk Identification

Risk identification requires a rigorous assessment of the business to determine the universe of risks to which the business is exposed. The risk universe is shown below:



### Risk Appetite

Risk appetite defines ARE’s appetite for risk taking/risk controlling by applying the risk strategy to the universe of risk that Athora is exposed to. A traffic light system is used to define ARE’s risk appetite:

#### Risk Appetite Statement Indicator

**None** 

- No acceptance of these risks
- Focus efforts on removing entirely and design our business model to actively avoid exposure, where deemed required, even at significant cost



- Any such risk fully mitigated/ hedged away

**Low**


- Seek to remove exposure or accept very limited exposure
- Aggressively pursue risk mitigation/hedging options
- Closely monitor both inherent and residual risk levels

**Medium**


- Targeted pursuit of certain risks
- Acceptance of large risks where mitigation options are unavailable or not economically viable.
- Will tactically engage in limited risk-specific mitigation/hedging

**High**


- Actively pursue risks and retain majority of exposure.
- These risks tend to drive our business performance and we believe we have a strategic advantage in retaining and managing

***Risk monitoring***

Monitoring of risks comprises both ongoing monitoring activities in the normal course of management and separate evaluations. There is regular reporting of monitoring activities to the ARC and Board. Group Risk provides guidance on quarterly monitoring in line with the Risk Strategy and Appetite and Risk Tolerances and Limits set out in the Risk Policies. Consistent monitoring across the Group allows for aggregation and active monitoring of risks at Group level.

**3.3.2 A description of how the risk management and solvency self-assessment systems are implemented and integrated into the insurer’s operations; including strategic planning and organisational and decision-making process**

ARE’s risk management and solvency self-assessment is embodied in the Commercial Insurer’s Solvency Self Assessment (“**CISSA**”) regulatory requirement in Bermuda. CISSA capital is defined as *the amount of capital the Company has determined, that is required to achieve its strategic goals upon undertaking an assessment of all material (reasonably foreseeable) risks arising from its operations or operational environment.*

The CISSA is implemented and integrated into the Company’s operations as follows:

**Strategic Planning**

CISSA capital is used in assessing the attractiveness of new markets or risks. CISSA capital is assessed for all new reinsurance transactions and, as such, provides ARE with an indicator of the relative attractiveness of transactions. In addition to this, a subset of the stresses used in the CISSA are considered in the pricing approval process.

### **Annual Business Planning**

ARE's annual business planning is driven primarily by assumed volumes of new reinsurance transactions, where it is assumed that the level of capital committed to new transactions is equal to the level of CISSA capital. In collaboration with the Athora Group Balance Sheet Management function, ARE delivers an annual capital plan which considers the level of CISSA capital required over the following three years. Capital planning is a tool which continues to be developed by the Athora Group and will be a key input in the management of Group capital.

### **Setting Risk Limits**

ARE's risk limits are identified and defined through the risk policies which are established as part of the CISSA process. This covers limits and thresholds for investment and credit risk, operational risk, ALM risk and liquidity risk. ARE will continue to expand its universe of risk limits as business volume grow.

### **Defining Risk Appetite**

ARE's risk appetite is defined under the CISSA Policy and is reviewed as part of the annual CISSA process.

### **Evaluation of Capital Adequacy**

CISSA capital is central to ARE's Capital Management Policy and is the key internal measure of capital adequacy.

### **Allocation of Capital to Business Segments and Lines of Business**

ARE in collaboration with the Athora Group Balance Sheet Management function, is in the process of designing a methodology for the appraisal of inforce business, using an economic value creation framework.

It is expected that the allocation of CISSA capital to individual reinsurance transactions (in accordance with the capital allocation assumed when pricing reinsurance transactions) will be part of this framework.

### **Capital Management**

Marginal return on CISSA capital is reported to the Athora Group Risk and Capital Committee on a quarterly basis and is a key driver of the management of Athora Group capital.

### **Determination of Rates of Return for Pricing and Underwriting Guidelines**

ARE's Reinsurance Pricing Policy targets IRR with respect to CISSA capital allocated to individual transactions as part of the ARE pricing methodology.

### **Reinsurance Purchase**

In assessing the cost-benefit of retrocession of unwanted risks, ARE reviews the impact on the return on CISSA capital.

### **Determination of Investment Policies and Strategies**

ARE's strategic asset allocation is optimised to achieve a target return on CISSA capital.

### **Meeting Regulatory Requirements**

The CISSA is the primary framework for the development and adoption of risk policies which are required to meet regulatory requirements. The reference to EBS and BSCR in the definition of CISSA capital also ensure alignment between the level of CISSA capital and the regulatory capital requirement.

### **Improving Credit Rating**

The CISSA provides demonstrable progress in ARE's ability to write and prudently manage reinsurance business as set out in its business plan and strategy. This includes the set up of a governance framework, internal capital adequacy assessment, and stress and scenario testing. These factors all contribute to ARE's ability to secure and maintain an investment grade credit rating.

### **Assessing risk adjusted product profitability**

ARE in collaboration with the Athora Group Balance Sheet Management function, is in the process of designing a methodology for the appraisal of inforce business, using an economic value creation framework. It is expected that the allocation of CISSA capital to individual reinsurance transactions (in accordance with the capital allocation assumed when pricing reinsurance transactions) will be part of this framework, and the measure of profitability will be aligned to return on CISSA capital.

### **3.3.3 A description of the relationship between the solvency self-assessment, solvency needs, and capital and risk management systems**

See above (section 3.3.2).

### **3.3.4 A description of the solvency self-assessment approval process including the level of oversight and independent verification by the board and senior executives**

ARE's CISSA policy is owned by the ARC and is reviewed and presented to the Board for approval at least annually.

## **3.4 Internal Controls**

### **3.4.1 A description of the internal control system**

A system of internal controls is fundamental to the safe and sound management of the Company and the Athora Group. Effective internal controls play a critical role in helping the Group protect and enhance shareholder value by reducing the possibility of unexpected losses or damages to its reputation. Athora Group has an Internal Control Framework ("ICF") Policy describing the system of internal controls and uses it to mitigate the risk of unexpected events. The ICF is based on key principles of Governance, Roles and Responsibilities, Risk Identification and Assessment, Control Activities, Testing and Assurance, Monitoring and Reporting and Skills, Resources and Tools. The ICF, established by the Athora Holding Board, has been adopted in

order to support the Athora Group in executing robust and effective internal controls over the risks to which it is exposed in conducting its business and management activities while supporting strategic decision-making. The Company is developing its ICF in line with the Athora Group ICF Policy.

#### **3.4.2 A description of how the compliance function is executed**

The compliance function is responsible for monitoring and reporting on compliance with laws and regulations. The Company's compliance function is headed by the Chief Compliance Officer, who is responsible for ensuring compliance with regulatory requirements and legal obligations as a Bermuda regulated entity. The Chief Compliance Officer provides quarterly updates to the Board and the ARC on the Company's compliance activities. In addition the Chief Compliance Officer provides a quarterly compliance report to the Group Head of Compliance. The Parent's board of directors monitors the Athora Group's compliance function.

### **3.5 Internal Audit**

#### **3.5.1 Internal Audit Function**

As part of the third line of defence, the Internal Audit Function assists Management and the Board in protecting the Company's assets, reputation and sustainability by independently and objectively evaluating the effectiveness of internal controls, risk management and governance processes.

Internal Audit's main tasks and responsibilities are:

- Prepare and execute a risk-based audit plan which is approved by the Board.
- Identify, and agree with management, opportunities to improve internal controls, risk management and governance processes and verify that such improvements are implemented within a reasonable period of time.
- Issue periodic reports to management and the Board, summarising the progress and results of the annual audit plan, as well as on the sufficiency of Internal Audit resources.
- Assist in the investigation of any significant suspected fraudulent activities within the organisation and notify management and the Board, of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organisation at a reasonable overall cost.
- Coordinate and work together with other control and monitoring functions (e.g. Risk Management, Compliance and external auditors).
- Execute audits on the functioning of the first and second line of defence.
- Maintain a professional audit staff (of an adequate size relative to the size and nature of the organisation and the remit of the Internal Audit function) with sufficient knowledge, skills, experience, and professional certifications.
- Ensure the Board and Management are kept informed of emerging trends and successful practices in internal auditing.
- Ensure the audit work conforms to the Institute of Internal Auditors or other regulatory bodies and Athora Group standards.
- Ensure the principles of integrity, objectivity, confidentiality and competency are applied and upheld.

### **3.5.2 Independence and objectivity of the Internal Audit function**

The Internal Audit Function, which is outsourced to Athora Ireland Services Limited is independent of Management, which has responsibility for the first and second lines of defence, and is therefore able to provide independent assurance opinions on the effectiveness of the systems of internal control, risk management and governance.

To provide for the independence of Internal Audit, the Head of Internal Audit reports to the Chair of the Board and to the Athora Group Chief Internal Auditor ('GCI A'). The GCI A reports directly to the Chairman of the Athora Holding Audit Committee and administratively to the Athora Group Chief Executive Officer.

Internal Audit executes its duties freely and objectively in accordance with the Institute of Internal Auditors' International Standards for the Professional Practices of Internal Audit, including the Code of Ethics, as well as with Athora Group's policies and procedures. Internal Audit avoids any conflicts of interest and accesses the expertise and knowledge necessary to undertake work in respect of specialist business functions.

### **3.6 Actuarial Function**

ARE's Chief Actuary is responsible for monitoring information concerning the liabilities of the Company and has oversight responsibilities for the Company's underwriting processes, actuarial reporting and actuarial staff functions. ARE's Actuarial Function comprises an actuarial team in Bermuda who are supported by the Athora Group's actuarial services team in Ireland, as well as external actuaries from consulting firms.

The Chief Actuary and Actuarial Team are responsible for:

- setting and monitoring statutory reserves for ARE
- setting and monitoring the Economic Balance Sheet Best Estimate Liabilities for ARE
- using the Best Estimate Liabilities to develop the Risk Margin
- underwriting and pricing functions relating to writing reinsurance business

ARE's Approved Actuary reviews and provides an actuarial opinion on ARE's Economic Balance Sheet Technical Provisions, in accordance with the Insurance Act.

### **3.7 Outsourcing**

#### **3.7.1 A description of the outsourcing policy and information on any key or important functions that have been outsourced**

The Company manages external outsourcing in accordance with all applicable regulatory requirements. All material outsourcing activities and the selection of external vendors and third-party supply arrangements are reviewed by the Company's Legal and Compliance Team and approved by the AROC and, if appropriate, by the Board, in accordance with the Delegation of Authority Policy and Authorities Schedule and other relevant policies.

The Company outsources its investment management function to AAME which provides specific asset management and specialised investment expertise that includes ALM strategies to evaluate, source and manage investments originated by Apollo.

### **3.7.2 A description of material intra-group outsourcing**

The Company has access to support functions from entities within the Athora Group through intra-group services agreements. These agreements provide support for certain functions, such as risk management, legal and compliance, finance and accounting, IT and internal audit. All material intra-group outsourcing functions are reviewed by the Athora Group's Legal and Compliance Team, as well as by the Parent's Management Executive Committee.

## 4. RISK PROFILE

### 4.1 Material risks that the insurer is exposed to, including how these risks are measured and any material changes that have occurred during the reporting period

The Company manages risk for the benefit of its customers and other stakeholders. The Company is exposed to a range of underwriting, operational and financial risks. The risk management and control systems are designed to ensure that these risks are managed effectively and efficiently in a way that is aligned with the Company's strategy.

As part of the CISSA process all material risks are assessed. An important aspect of this is stress and scenario testing. Key sensitivities are reflected in this section.

Risk	Description	Mitigation/measurement
<b>Longevity risk</b>	Longevity risk is assumed through the reinsurance of annuity business. Longevity risk may be due to trend, base level, or catastrophe.	Underwriting processes include use of expert judgement, industry data, and stress testing.
<b>Policyholder behaviour risk</b>	Policyholder behaviour risk is due to variability in lapse rates or annuity take-up rates on reinsured annuity and endowment business.	Underwriting processes include use of expert judgement, industry data, and stress testing.
<b>Fixed income risk</b>	Fixed income risk is the risk of default, downgrade, or spread widening on ARE's fixed income assets.	Bespoke asset selection and underwriting processes to minimise systemic fixed income risk. Credit and Counterparty Concentration Risk Policy controls exposure limits.
<b>Interest rate and liquidity risk</b>	Interest rate and liquidity risk is the risk of mismatches between asset and liability cash flows on reinsured business.	Tight duration mismatch limits are defined in the Investment and Credit Risk Policy. Liquidity risk is managed through liquidity stress testing.
<b>Equity risk</b>	Equity risk is the risk of reductions in equity values and alternative investments.	Bespoke asset selection and underwriting processes to minimise systemic equity risk. Investment and Credit Risk Policy controls exposure limits.
<b>Operational risk</b>	Operational risk arises from ARE's business processes, systems, and people.	Managed through operational risk reporting and compliance with Operational Risk policies.

There has been no change to the material risks over the period as described in the above table.

#### **4.2 How risks are mitigated including the methods used and the process to monitor the effectiveness of these methods**

See table above at Section 4.1.

#### **4.3 Material risk concentrations**

The Company has a Credit and Counterparty Concentration Risk Management Policy to manage risk concentrations in relation to counterparties and credit quality. These risks are monitored by both the ARC and CIC and reported to the Board.

#### **4.4 How assets are invested in accordance with the prudent person principle as stated in Paragraph 5.1.2 of the Code**

The 'prudent person principle' ("PPP") requires that companies only invest in assets and instruments whose risks they can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs. The Company considers these requirements before any investment in new assets or instruments, with a PPP checklist in place which sets out the following steps:

- Athora Pre-Trade Investment Memorandum: acts as an assessment template for PPP requirements at each individual asset class level.
- Regular Pipeline discussion between first and second line: adds further transparency into new investments and work as pre-screening tool for deal flow management and asset sourcing.
- Monthly Asset Deep Dive: covers discussion on significant market developments, asset class specific consideration and watch-listing credit.

The Company complies with the prudent person principle through the implementation of the following key policies:

- Credit and Counterparty Concentration Risk Policy: sets out a system of limits and thresholds which apply to the investment of the Company's assets; and
- ALM and Liquidity Risk Policy: defines ALM limits, thresholds, and stress testing requirements, which must be observed in the investment of the Company's assets.

Minimum requirements to be met are also set by Athora Group for all Athora subsidiaries, with strict standards applied to meet local prudential requirements. Compliance with the prudent person principles is reviewed annually across the Group.

#### **4.5 The stress testing and sensitivity analysis to assess material risks, including the methods and assumptions used, and the outcomes**

##### ***Underwriting Stress Tests***

ARE has developed a set of underwriting stress tests which provide Management with an understanding of the sensitivity of the balance sheet to underwriting risks. The stress tests are reviewed at least annually by Management, ARC and Athora Group Risk Management Function. The underwriting stresses are designed to reflect the key underwriting risks to which ARE's in-force business is exposed. These underwriting scenarios only affect the long-term insurance liabilities.



The underwriting stresses are applied as instantaneous shocks to ARE's best estimate assumptions at the relevant reporting period. For 2020, the following underwriting stress tests were applied:

Scenario	Available Capital	ECR	Solvency Ratio	Change in Solvency Ratio
Base	282,683	86,180	328%	
Decrease of 20% in Lapse Rates	270,807	86,193	314%	(14%)
Decrease of 10% in Mortality Rates	262,181	86,193	304%	(24%)
150% Annuity Take Up Rate	273,043	86,188	317%	(11%)
Expenses Increase by 10%	277,263	86,195	322%	(6%)

- **Decrease of 20% in lapse rates:** Lapse rates are decreased by 20%, which means that policies remain in force for longer, resulting in higher expected payments and therefore an increase in Technical Provisions.
- **Decrease of 10% in base mortality rates:** Base mortality rates are reduced by 10% which has the effect of increasing the level of Technical Provisions required across all treaties.
- **50% Increase in annuity take up rate:** The annuity take-up rate on deferred annuities assumed in the calculation of reserves is increased by 50%. This has the effect of increasing the proportion of deferred annuities which take up the in-payment annuity option upon retirement, which results in an increase to Technical Provisions.
- **Increase in Expenses of 10%:** Expense assumptions are increased by 10% which results in an increase to Technical Provisions.

### **Financial Market Stress Tests**

The Company utilises stress tests that have been developed by the Athora Group Risk Function. These tests provide Management with an understanding of the sensitivity of the balance sheet to market risks. The stress tests are reviewed at least annually by Management, ARC and Athora Group Risk Management Function. The stresses are designed to reflect the market risks to which Company's balance sheet is exposed.

The stresses are applied as instantaneous shocks to the Company's balance sheet at the relevant reporting period. The key 2020 market stresses are set out in the table below:

Scenario	Available Capital	ECR	Solvency Ratio	Change in Solvency Ratio
Base	282,683	86,180	328%	
Broad Market Stress	219,213	82,053	267%	(61%)
Interest rates down	294,776	90,603	325%	(3%)
Interest rates up	272,705	82,586	330%	2%

- **Broad Market Stress:** This scenario represents a scenario in which both equity and credit markets suffer losses combined with a 50bps fall in interest rate. This scenario has been calibrated to represent a 1-in-40-year event.
- **Interest rates down:** This scenario shows the impact of a reduction in interest rates, calibrated to a 1-in-200-year event, which is broadly equivalent to a decrease of 100bps.
- **Interest rates up:** This scenario shows the impact of a rise in interest rates, calibrated to a 1-in-200-year event, which is broadly equivalent to an increase of 100bps.

#### **4.6 Any other material information**

There is no other material information to note in relation to the Company's risk profile.

## 5. SOLVENCY VALUATION

### 5.1 The valuation bases, assumptions and methods used to derive the value of each asset class

ARE has considered the valuation principles outlined by the Authority's *Guidance Note for Statutory Reporting Regime* for the reporting period's statutory filing. The Company's economic valuation principles are to measure assets on a fair value basis. The table below summarises the assets held on the EBS balance sheet:

€ '000	2020	2019
Cash and Cash Equivalents	399,112	287,795
Investments and funds held by ceding reinsurers	2,016,717	741,857
Reinsurance Balances Receivable	1,050,272	1,219,117
Assets held for index/unit-linked contracts	790,141	994,656
Other Assets	33,884	31,979
<b>Total Assets</b>	<b>4,290,126</b>	<b>3,275,403</b>

During the reporting period, the Company did not make any material changes to the recognition and valuation bases used for assets, or to estimation techniques employed. The fair value principles used for assets are as follows:

#### ***Cash and cash equivalents***

Cash and cash equivalents include liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and a maturity date of less than 90 days.

#### ***Shareholder financial assets***

- Fixed maturity***  
 Fixed maturity securities are recorded at fair value using quoted market prices, where possible. For marketable securities without an active market, pricing information is obtained from several commercial pricing services. 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.
- Loans and receivables***  
 Loans and receivables are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.
- Investment in Associates***  
 The Company has invested in three Athora Luxembourg Funds through AAME.

- **Assets held for index-linked and unit-linked contracts**

Assets held for index-linked and unit-linked contracts are valued at fair value. The fair value of financial assets traded in active markets is determined by reference to quoted market bid prices. For financial instruments where there is no active market, the fair value is determined by using other appropriate valuation techniques. The unit-linked assets correspond to the variable annuity policies within Athora Ireland.

- **Reinsurance assets**

Reinsurance balances receivable are recorded at amounts expected to be received. The reinsurance outwards corresponds to the reinsurance of variable annuity guarantees by Athora Ireland.

## **5.2 The valuation bases, assumptions and methods used to derive the value of Technical Provisions and the amount of the best estimate. The amount of the risk margin as well as the level of uncertainty to determine the value of the Technical Provisions should be included**

ARE's Approved Actuary reviews and provides an actuarial opinion on ARE's Economic Balance Sheet Technical Provisions, in accordance with the Insurance Act.

The table below summarises the Company's Technical Provisions. The reinsurance outwards corresponds to the reinsurance of the variable annuity business within Athora Ireland.

€ '000	2020	2019
Best Estimate Policy Reserves	1,495,114	372,377
Reinsurance Recoverable	(63,766)	6,368
Risk Margin	13,101	6,228

### ***EBS Best Estimate Liabilities***

In general, the best estimate reserves are calculated at a policy level using a deterministic gross premium valuation approach (i.e., reserves are calculated as the present value of future claims plus future expenses less present value of future premiums). A slight difference exists for the best estimate reserves for the Athora Ireland liabilities, which have been assessed using a stochastic approach.

For Athora Ireland, a stochastic approach is adopted, where best estimate reserves are calculated at a policy level using a deterministic gross premium valuation approach under a number of stochastic scenarios. The scenarios are generated using an economic scenario generator developed by Athora Ireland for this purpose.

For ARE's reinsurance exposure, premium, claim and expense (maintenance expenses and the expenses associated with servicing the treaty) cashflows are determined using actuarial modelling software on latest internal best-estimate assumptions. These cashflows are then used under the scenario-based approach for the valuation of the Best Estimate Liability.

### ***EBS Risk Margin***

EBS Technical Provisions include a risk margin, in addition to the best estimate liabilities, to reflect the uncertainty associated with the probability-weighted cashflows. While in principle, the best estimate

reflects the amount required on average to meet policyholder obligations and associated insurer expenses, the insurer will also need to hold additional funds to meet those situations where cashflows exceed those expected. The risk margin is intended to reflect the compensation that the insurer needs to bear this risk.

The key aspects of the risk margin calculation are as follows:

- A 6% cost-of-capital rate is used,
- The calculation reflects the regulatory capital requirements i.e., the ECR,
- The risks included within the BSCR for the risk margin calculation are insurance risk, counterparty credit risk and operational risk. There is no requirement to include market risk on the basis that an asset portfolio can be constructed that will act as a hedge against market risk, and
- The calculation uses the risk-free discount curve specified by the Authority, with the Euro curve being used.

The calculation of the risk margin requires a projection of the BSCR for the period needed to run-off the insurance liabilities. A guidance note issued by the Authority in 2016 outlines a number of simplified approaches that may be adopted in order to project the BSCR required for the risk margin. ARE has used one of the simplified approaches, which is to approximate the individual risk module capital charges using an appropriate run-off proxy. ARE use projected best estimate reserves as the run-off proxy, using the components of the aggregate reserves that best align to the risk module in question.

### **5.3 A description of recoverables from reinsurance contracts, including special purpose insurers and other risk transfer mechanisms**

Athora Ireland has executed a modified coinsurance agreement with New Reinsurance Company Ltd. to reinsure most of the risks associated with its variable annuity book of business.

### **5.4 The valuation bases, assumptions and methods used to derive the value of other liabilities**

Similar to the valuation principles for assets, the Company's liabilities follow the valuation principles outlined by the Authority's "*Guidance Note for Statutory Reporting Regime*" which values liabilities on a fair value basis.

### **5.5 Any other material information**

There is no further material information regarding valuation for solvency purposes.

## 6. CAPITAL MANAGEMENT

### 6.1 Eligible Capital

#### 6.1.1 A description of the capital management policy and process to determine capital needs for business planning, how capital is managed and any material changes during the reporting period

The Company manages capital on an economic basis within the constraints and requirements of its external stakeholders. The primary objective of the Company's capital management process is to ensure that a strong financial position is maintained, and that capital volatility is minimised. The Company has adopted a Capital Management Policy outlining its capital management process.

The Capital Management and Risk Committees, together with the Board, regularly consider capital assessments and projections for the Company to ensure that capital is managed with continuous adherence to the Company's principles around capital adequacy, financial flexibility, and the efficient use of capital.

A capital management plan is prepared, at least annually, for which the Company performs capital projections over the business planning period. The projections allow for the current and expected business strategy, risk profile and capital management activities. The current time horizon used for business planning is usually three years. This exercise allows the Board to assess the Company's current and projected solvency needs and helps trigger appropriate and timely capital management actions. The capital management plan is regularly monitored and updated to reflect up to date information and the performance of the business.

The Company's required capital is calculated using the regulatory capital requirements, i.e., the ECR. The table below summaries the Company's capital position.

€ '000	2020	2019
Available Capital	282,683	215,778
ECR	86,180	94,682
Solvency Ratio	328%	228%

**6.1.2 A description of the eligible capital categorised by tiers in accordance with the Eligible Capital Rules**

Available capital must be adjusted to reflect, where applicable, the limited accessibility of the assets. At the end of the reporting period, the Company’s Eligible Capital was categorised as Tier 1. This means that 100% of the available capital can be used to support the ECR.

**Eligible capital**

€ '000	2020	2019
Tier 1	282,683	215,566
Tier 2	-	-
Tier 3	-	-

**6.1.3 A description of the eligible capital categorised by tiers, in accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement and the Minimum Margin of Solvency (“MSM”) defined in accordance with Section (1)(1) of the Insurance Act**

See Section 6.1.2.

**6.1.4 Confirmation that eligible capital is subject to transitional arrangements as required under the Eligible Capital Rules**

The Company has no eligible capital subject to transitional arrangements.

**6.1.5 Identification of any factors affecting encumbrances affecting the availability and transferability of capital to meet the ECR**

Under the regulatory assessment of encumbrances prescribed by the Authority, all the Company’s capital is deemed unencumbered.

**6.1.6 Identification of ancillary capital instruments that have been approved by the Authority**

The Company has no ancillary capital instruments.

**6.1.7 Identification of differences in shareholder’s equity as stated in the financial statements versus available statutory capital and surplus**

Significant differences between IFRS shareholder equity and available statutory capital and surplus include the reduction in available statutory capital for intangible assets.

## 6.2 Regulatory Capital Requirements

### 6.2.1 Identification of amount of the ECR and MSM at the end of the reporting period

As of 31 December 2020, the Company's regulatory capital requirements were assessed as follows:

€ '000	2020	2019
MSM	26,803	23,670
ECR	86,180	94,682

### 6.2.2 Identification of any non-compliance with the MSM and the ECR

At the end of the reporting period the Company is compliant with the MSM and ECR.

### 6.2.3 A description of the amount and circumstances surrounding the non-compliance, the remedial measures taken and their effectiveness

Not applicable (see 6.2.2).

### 6.2.4 Where the non-compliance has not been resolved, a description of the amount of the non-compliance at the end of the reporting period

Not applicable (see 6.2.2).

## 6.3 Approved Internal Capital Model used to derive the ECR

The Company has not applied to use an internal capital model in the calculation of the ECR.




## 7. SUBSEQUENT EVENTS

A.M. Best upgraded the Financial Strength Rating to A- (Excellent) from B++ (Good) of the Company and its subsidiary, Athora Ireland effective 19 March 2021. The outlook of these ratings is stable. Achieving the A- rating for the reinsurance carriers is an important step in the delivery of Athora Group's target to achieve 'A' range ratings for its key operating entities. The improved ratings profile of the Company and Athora Ireland is also supportive of Athora Group's third-party reinsurance activity.

On 26 February 2021, an agreement was reached between Athora Ireland and Monument Re to reinsure, and ultimately transfer, AI's Variable Annuity portfolio. The reinsurance transaction went live as of 26 February and it is intended that a formal portfolio transfer will complete in advance of 31 December 2021, subject to appropriate regulatory and court approval. No adjustment for this transaction has been made in ARE's 31 December 2020 results. Initial estimates indicate that the impact on ARE's solvency position is expected to be broadly neutral.

## DECLARATION

To the best of our knowledge and belief this financial condition report fairly represents the financial condition of the Athora Life Re Ltd. in all material respects.

Signed:   
Name: Amy Ponnampalam  
Position: Chief Executive Officer  
Date: 29 April 2021

Signed:   
Name: Neil Snyman  
Position: Chief Financial and Risk Officer  
Date: 29 April 2021

Appendix 1

ATHORA LIFE RE LTD. GROUP

