

**REPORT ON EXAMINATION**  
**OF THE**  
**ATHENE LIFE INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2013**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2013 of the

**ATHENE LIFE INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: \_\_\_\_\_

Date: May 18, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 18th day of May, 2015.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION  
OF THE  
ATHENE LIFE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2013

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 18th day of May, 2015

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## **SALUTATION**

April 24, 2015

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 14.016, dated January 29, 2014, an Association examination has been made of the affairs, financial condition and management of the

### **ATHENE LIFE INSURANCE COMPANY**

hereinafter referred to as “Company” or “ALIC” incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The examination was conducted at the main administrative office of a Company affiliate, located at 400 Brookfield Parkway, Greenville, South Carolina 29607. The report of this examination is submitted herewith.

## **SCOPE OF EXAMINATION**

We have performed our multi-state examination of Athene Life Insurance Company. This was the first examination of the Company since its incorporation on March 5, 2010. This examination covers the period since that date through December 31, 2013, and including any material transactions and/or events noted as occurring subsequent to December 31, 2013.

This examination was conducted in accordance with the 2014 *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (NAIC Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires the examiners to perform an examination to evaluate the financial condition and identify prospective risks of the Company. In doing so, the examiners reviewed corporate governance, identified inherent risks of the Company and evaluated the controls and procedures used to mitigate the identified risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and applicable annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Company's external auditor, PricewaterhouseCoopers LLP (PwC), made available for review, all work papers pertinent to its audit of the Company's financial statements for the year ended December 31, 2013. Certain work papers prepared by the external accounting firm were incorporated into the examiners' work papers if deemed appropriate and in accordance with the NAIC Handbook.

In addition to items hereinafter incorporated as a part of this report, the following were reviewed without exception and made part of the work papers of this examination.

Fidelity Bond and Other Insurance  
Pensions, Stock Ownership and Insurance Plans  
NAIC Ratios  
Legal Actions  
All Asset & Liability items not mentioned

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material adjustments to the Company's financial statements. Please refer to the summary of recommendations section of this report for examination findings.

## **COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS**

There were no prior exam reporting findings as this was the first examination of the Company.

## **SUBSEQUENT EVENTS**

The following material subsequent events occurred, requiring disclosure in this examination report. Please refer to the summary of recommendations section of this report for examination findings.

### **Common Capital Stock and Paid-in Surplus**

On January 21, 2014, the Company received a capital contribution of \$56,600,000 from its parent, Athene Annuity & Life Assurance Company.

### **Intercompany Agreements**

Subsequent to December 31, 2013, the Company entered into and/or amended the following intercompany agreement:

#### ***Credit and Guarantee Agreement***

Effective January 22, 2014, the Company entered into a Credit and Guarantee Agreement with Athene Holding Ltd., Barclays Bank PLC, Citigroup Global Market, Inc., and Royal Bank

of Canada (RBC) Capital Markets. The Agreement provides that Athene Holding will guarantee certain obligations of the Company in connection with the Company's receipt of credit from the various Lenders under the Credit and Guarantee Agreement. The total credit commitment from the Lenders to the Company under the Agreement is equal to \$75,000,000, and Athene Holding will guarantee all loans made under such commitment, along with interest, charges, expenses, fees, indemnities and other amounts payable by the Company under any loan document entered into pursuant to the Credit and Guarantee Agreement. On July 25, 2014, the Company entered into Amendment No.1 to the Credit and Guarantee Agreement, pursuant to which the lenders temporarily waived certain covenants and modified certain reporting requirements.

### **COMPANY HISTORY**

The Company was incorporated on March 5, 2010 under the laws of the State of Indiana as Athene Life Insurance Company, and was wholly owned by Athene Holding Ltd.

On November 1, 2011, Athene Holding Ltd. contributed 100% of the common stock of the Company to Athene Annuity & Life Assurance Company, an affiliate, formerly known as Liberty Life Insurance Company.

On November 5, 2012, the Company redomesticated from the State of Indiana to the State of Delaware.

As of December 31, 2013, the Company was wholly owned by Athene Annuity & Life Insurance Company, a Delaware insurance company (AA-DE), which in turn was wholly owned by Athene USA Corporation, an Iowa corporation (AUSA), which was wholly owned by Athene Holding Ltd., a Bermuda exempted company (AHL). AHL's common shares are comprised of the following:

- (i) Class A common shares (the “Class A Shares”), which are owned by (a) any person acquiring an equity interest in AHL who is not a member of the group of entities consisting of Apollo Global Management, LLC, a Delaware limited liability company (AGM), its affiliates and/or funds managed by AGM or its affiliates (such group of entities, collectively, the “Apollo Group”) and (b) certain members of AHL’s management, and which, in the aggregate, account for 55% of the voting power of AHL’s equity; provided, that the voting power of each individual holder of Class A Shares (collectively with its affiliates) is capped at 9.9% of the voting power of AHL’s equity.
- (ii) Class B common shares (the “Class B Shares”), which are controlled by the Apollo Group, and which, in the aggregate, account for 45% of the voting power of AHL’s equity, and vote on a cumulative basis; and
- (iii) Class M common shares (the “Class M Shares”), which are non-voting incentive compensation shares, convertible into Class A Shares upon the satisfaction of certain conditions, and which are owned by certain members of AHL’s management.

AGM is a publicly traded company that is managed, operated and controlled by AGM Management, LLC, a Delaware limited liability company (“AGM Management”) and BRH Holdings GP, Ltd., a Cayman Islands company (BRH). Each of AGM Management and BRH are wholly-owned, managed and controlled, directly or indirectly by three individuals. The three individuals who control AGM and BRH are Leon Black, Chief Executive Officer and Chairman of the Board of Directors of AGM, Joshua Harris, Senior Managing Director and member of the Board of Directors of AGM, and Marc Rowan, Senior Managing Director and member of the Board of Directors of AGM (the “Controlling Individuals”).

The Controlling Individuals, through their ownership of BRH, beneficially own the Class B shares of AGM, which has majority voting control over all matters requiring the approval of shareholders of AGM. As of December 31, 2013, the Class B shares of AGM represented 69.3% of the total voting power of all AGM shares entitled to vote. AGM and the Controlling individuals are considered the ultimate controlling persons of the Company within the insurance holding company system.

The Company is authorized as a stock insurer. The Company is authorized to transact the business of life, including annuities, variable annuities, variable life and credit life as defined in 18 Del. C. §902 "Life insurance" defined.

### **CAPITALIZATION**

#### **Common Capital Stock and Paid-in Surplus**

The Certificate of Incorporation provides that the Company has 5,000 shares of common stock authorized, all of which are issued and outstanding, at \$200 par value per share. The capital represented by the 5,000 shares of common stock issued and outstanding is \$1,000,000.

As of December 31, 2013, all outstanding shares of the Company's common stock were owned by the Parent, Athene Annuity & Life Assurance Company.

During the period under examination, the Company received the following contributions from the Parent:

2010	\$	3,601,078	<sup>1</sup>
2011	\$	10,920,238	<sup>2</sup>
2012	\$	4,884,325	<sup>3</sup>
2013	\$	-	<sup>4</sup>

- (1) The Company received capital contributions from its parent, AHL on June 23, 2010, August 10, 2010 and October 6, 2010 in the amounts of \$2,001,832, \$500,000 and \$1,099,246 respectively, totaling \$3,601,078 which included a common stock contribution of \$1,000,000.
- (2) The Company received capital contributions from its parent, AHL on January 10, 2011, February 7, 2011 and February 17, 2011 in the amounts of \$10,825,000, \$47,619 and \$47,619 respectively, totaling \$10,920,238 for 2011.
- (3) The Company received additional paid in capital in the form of bonds (\$884,325) and cash (\$4,000,000) from its parent, Athene Annuity & Life Assurance Company on January 23, 2012.
- (4) The Company received no capital contributions in 2013.

## **Dividends**

No dividends were paid during the examination period under review.

## **Surplus Notes**

As of December 31, 2013, the Company had no surplus notes.

## **Borrowed Money**

As of December 31, 2013, the Company had no borrowed money.

## **CORPORATE RECORDS**

The recorded minutes of the sole shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del. C. §1304 “Authorization; record of investments”.

A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C) made by and on behalf of the Company for 2013 revealed that the Company had materially complied with 18 Del. C. §5004 and 18 Del. Admin. Code 1801.

## **MANAGEMENT AND CONTROL**

### **Stockholder**

Article II of the Company’s amended bylaws states that annual meetings of the stockholders shall be held at such a place (within or without the State of Delaware), date and

hour as shall be designated in the notice thereof, except that, to the extent permitted by applicable law, no annual meeting need be held if all actions, including the election of Directors, required by the General Corporation Laws of the State of Delaware required to be taken at a stockholders' annual meeting are taken by written consent in lieu of meeting pursuant to Section 9 of Article II. Rather than holding a meeting in place, the Board may determine that a meeting shall be held solely by means of remote communication. The annual meeting of the stockholders is for the election of Directors and for the transaction of such other business as may properly come before the meeting. Special meetings of stockholders for any purpose may be called by the Board, the Chairman of the Board, the President, or a stockholder or stockholders of record holding at least ten percent (10%) of all shares of the Corporation entitled to vote at the meeting. Stockholders holding a majority in voting power of the shares of the Corporation issued, outstanding and entitled to be voted at the meeting shall be present in person or by proxy in order to constitute a quorum for the transaction of business. Except as provided in the Certificate of Incorporation, each holder of voting shares is entitled to one vote in person or by proxy for each share of the Corporation held. Shares of the Corporation belonging to the Corporation or another corporation, if a majority of the shares entitled to vote in the election of Directors of such other corporate is held by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes. Stockholders shall not have the right to cumulate their votes for the election of Directors. Except as otherwise provided by law or by the Certificate of Incorporation, any action required or permitted to be taken at any annual or special shareholder meeting may be taken without a meeting, without prior notice and without a vote if a consent in writing is signed by all of the shareholders entitled to vote.

## **Board of Directors**

Article III of the Company's amended and restated bylaws states that the business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The Board shall exercise all powers of the Corporation and do such lawful acts not prohibited by law, the Certificate of Incorporation, Operating Guidelines or the bylaws. The Board shall consist of no less than five (5) or more than six (6) members, and cumulative voting for Directors is prohibited pursuant to the bylaws. Directors need not be stockholders or citizens or residents of the United States of America. The Corporation shall have at least one member of the Board who is deemed independent pursuant to Section 2 of Article III of the bylaws. The Board shall be elected at the annual meeting of stockholders and each Director shall be elected to hold office until the next succeeding annual meeting and until his successor is elected and qualified or until his earlier death, resignation or removal. A failure to have an Independent Director at any time will not constitute a default under or be deemed a failure to comply with the Corporation's Operating Guidelines or the bylaws, provided that no action may be taken on behalf of the Corporation that requires the affirmative vote of all Independent Directors, until at least one Independent Director has been appointed to the Board.

At December 31, 2013, the members of the Board of Directors together with their principal business affiliations were as follows:

<b>Name and Location</b>	<b>Principal Occupation</b>
James Richard Belardi Manhattan Beach, California	Chief Executive Officer and Chief Investment Officer, Athene Asset Management, L.P. and Athene Holding Ltd.
Ronald Lynn Broughton Indianapolis, Indiana	Owner RL Broughton, CPA
Stephen Eric Cernich Louisville, Kentucky	Executive Vice President, Corporate Development Athene Life Insurance Company

Matthew Russell Michelini  
New York, New York

Principal  
Apollo Management Holdings, L.P.

Imran Mohsin Siddiqui  
New York, New York

Senior Partner  
Apollo Global Management

Jeremy Russell Vessels  
Louisville, Kentucky

Vice President, Corporate Development  
Athene Life Insurance Company

(1) The above individuals were reappointed to the Board of Directors of the Company effective February 5, 2014.

The minutes of the meetings of the shareholders and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers, and approval of investment transactions were also noted.

### **Committees**

Article IV of the amended and restated bylaws states that the Board of Directors, by resolution passed by a majority of the whole Board, may designate committees of the Board, each such committee consisting of two or more directors. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee. The Board shall have the power to change the members of any such committee at any time, to fill vacancies and to discharge any such committee, either with or without cause, at any time. At least a majority of the meetings of any designated committees must be conducted in the State of Indiana. For this purpose, “conducted in the State of Indiana” means that at least two (2) members are physically present in the State of Indiana during such meetings.

As of November 12, 2012, the Board had designated an Audit Committee, consisting of four (4) members of the Board, one of which was deemed independent. It was noted that from March 5, 2010 to April 28, 2011, the Board served as the Audit Committee of the Company.

From April 29, 2011 to November 11, 2012, the Audit Committee of AHL fulfilled these duties.

As of December 31, 2013, the following directors were members of the Audit Committee:

<b>Name and Location</b>	<b>Principal Occupation</b>
Ronald Lynn Broughton Indianapolis, Indiana	Owner RL Broughton, CPA
Stephen Eric Cernich Louisville, Kentucky	Executive Vice President, Corporate Development Athene Life Insurance Company
Matthew Russell Michelini New York, New York	Principal Apollo Management Holdings, L.P.
Jeremy Russell Vessels Louisville, Kentucky	Vice President, Corporate Development Athene Life Insurance Company

(1) As of July 31, 2014, an Audit Committee Chair had not been appointed.

## **Officers**

Article V of the amended and restated bylaws states that the company's executive officers shall consist of a President, who may or may not also be the Chief Executive Officer, a Treasurer and a Secretary, and such Vice Presidents, Assistant Secretaries, and Assistant Treasurers or other officers as may be elected by the Board of Directors. Any two or more offices may be held by the same person. Officers need not be stockholders of the Corporation or citizens or residents of the United States of America. Each officer shall hold office until the next annual meeting and until their successor is elected, their earlier death or their earlier resignation or removal. All officers and agents elected or appointed by the Board shall be subject to removal at any time by the Board with or without cause. The Chief Executive Officer, if one is appointed, shall be a member of the Board. The President shall be a member of the Board, and shall be the Chief Executive Officer of the Corporation if there is no other Chief Executive Officer. The salaries of the officers shall be fixed from time to time by the Board, except that the Board may delegate to any person or committee the power to fix the salaries or other

compensation of the officers. No officer shall be prevented from receiving such salary by reason of the fact that they are also a Director of the Corporation.

At December 31, 2013, the Company's principal officers and their respective titles were as follows:

<b>Name</b>	<b>Principal Occupation</b>
James Richard Belardi	President
David Christopher Attaway	Treasurer
John Leonard Golden	Secretary
Stephen Eric Cernich	Executive Vice President, Corporate Development
Stuart Shawn Smith <sup>1</sup>	Appointed Actuary

(1) On June 30, 2014, Mr. Smith resigned from the Company, but remained the appointed actuary through a Third Party contract. Subsequently, on July 25, 2014, Mr. Duncan Szeto was designated as the Appointed Actuary.

In addition to the above officers, additional Vice Presidents, Assistant Vice Presidents and other assistant officers were also appointed.

Changes in Directors and Officers occurred during the period under review. As required pursuant to 18 Del. C. §4919, proper notification was provided to the Insurance Department.

### **Conflicts of Interest**

The Company maintains a formal written Code of Conduct and Business Ethics ("Code"), which sets out minimum standards of ethical conduct that applies to all employees, officers and directors. Incorporated into the Code is the conflict of interest policy. Each year, all officers, directors and employees are required to complete an annual training course on the Code, re-affirming their commitment to comply with the Code and reporting any Code breaches of which they are aware. The Compliance Department within Legal reviews and provides an annual report to the Audit Committee concerning the compliance with the Code, as required by the Company's Risk Management Policies.

In accordance with the Delaware Insurance Department Examination Handbook, Section 12, a review of the Company's annual Code acknowledgement for officers, directors and key

employees was performed for the purpose of identifying anyone with a felony conviction involving dishonesty or a breach of trust. There was no indication of any criminal conviction in any of the responses reviewed.

A review of conflicts of interest disclosure process was conducted. It was noted during this review that the three external Directors of the Company had not completed the annual Code training/certification for 2013. Therefore,

**It is recommended that the Company ensure all officers, directors and key employees perform an annual conflict of interest certification, and the Company maintain such records in accordance with 18 Del. C. §320(c), in support of “Part 1 - Common Interrogatories – Board of Directors,” question 18 of the “General Interrogatories” of the Annual Statement.**

#### **Articles of Incorporation and bylaws**

The Company was incorporated on March 5, 2010 under the Laws of the State of Indiana.

On February 24, 2011 and January 24, 2012, the Company amended its Articles of Incorporation to change its principal mailing address.

On November 5, 2012, the Company redomesticated from the State of Indiana to the State of Delaware. The Company filed a Certificate of Conversion, and Articles of Incorporation on November 5, 2012, as part of the redomestication process. No amendments have been made to the Articles of Incorporation since the Company's redomestication.

Upon redomestication from the State of Indiana to the State of Delaware on November 5, 2012, the Company amended and restated its bylaws to comply with Delaware Insurance Laws and Regulations. No amendments have been made to the bylaws since the Company's redomestication.

## HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001(5) “Insurance Holding Company System”. The Company’s Holding Company Registration Statements were timely filed with the Delaware Insurance Department for the years under examination for which the Company was a Delaware domestic. The immediate parent of the Company at December 31, 2013 was Athene Annuity & Life Assurance Company. The Company had no direct subsidiaries as of December 31, 2013.

### Organization Chart

The following abbreviated presentation of the holding company system reflects the identities and interrelationships between the Company, its Parent, affiliated insurers and other members of the holding company system as of December 31, 2013:

<u>Company</u>	<u>Domicile</u> % <u>own</u>
[Ultimate controlling persons and intermediate holders] <sup>(1)</sup>	
Athene Holding Ltd. <sup>(1)</sup>	Bermuda
Athene Life Re Ltd.	Bermuda 100%
Highland Re Ltd.	Bermuda 100%
Athene USA Corporation	Iowa 100%
Athene Annuity & Life Assurance Company	Delaware 100%
<b>Athene Life Insurance Company</b>	Delaware 100%
Presidential Life LLC	Delaware 100%
P.L. Assigned Services, Inc.	New York 100%
Aviva Life and Annuity Company <sup>(2) (3)</sup>	Iowa 100%
Structured Annuity Reinsurance Company	Iowa 100%
Aviva Re USA IV, Inc.	Vermont 100%
Athene Annuity & Life Assurance Company of New York	New York 100%
Aviva Life Assurance Company of New York <sup>(4)</sup>	New York 100%

(1) The authorized shares of Athene Holding Ltd. (AHL) consist of Class A shares, Class B shares, Class M-1 shares and Class M-2 shares. The Class A shares represent 55% of AHL’s total outstanding vote in the aggregate, and as of December 31, 2013 shares of such class were owned by individuals who are employed by or are directors of AHL or Athene Asset Management, L.P. (AAM), the investment manager of AHL and its insurance company subsidiaries. No one holder of Class A shares (together with its affiliates) may control in excess of 9.9% of the total outstanding vote of AHL (and if such holder, together with its affiliates, would control in excess of 9.9% of AHL’s outstanding vote, then such holder’s vote is reduced to 9.9% and the vote reduced is then voted by the other holders in such class on a pro rata basis).

The Class B shares, which vote on a cumulative basis, represent 45% of AHL’s total outstanding vote in the aggregate. The owners of the Class B shares are Apollo Global Management, LLC (AGM), AGM affiliates and investment funds whose general partner is owned, directly or indirectly, by AGM.

The Class M-1 shares and Class M-2 shares are nonvoting. These shares are owned by certain employees of AHL, its subsidiaries and/or AAM, and represent shares provided to management for incentive compensation purposes.

AGM is managed, operated and controlled by AGM Management, LLC, a Delaware limited liability company (“AGM Management”), and BRH Holdings GP, Ltd., a Cayman Islands company (BRH). Each of AGM Management and BRH are wholly-owned, managed and controlled, directly or indirectly by three individuals: Leon Black, Chief Executive Officer and Chairman of the Board of Directors of AGM, Joshua Harris, Senior Managing Director and member of the Board of Directors of AGM, and Marc Rowan, Senior Managing Director and member of the Board of Directors of AGM (the “Controlling Individuals”).

The Controlling Individuals, through their ownership of BRH, beneficially own the Class B shares of AGM, which has majority voting control over all matters requiring the approval of shareholders of AGM. As of December 31, 2013, the Class B shares of AGM represented 69.3% of the total voting power of all AGM shares entitled to vote.

AGM and the Controlling Individuals are considered the ultimate controlling persons of AHL’s insurance company subsidiaries within the insurance holding company system.

- (2) Aviva Life and Annuity Company changed its name to Athene Annuity and Life Company (AAIA) effective March 3, 2014.
- (3) Excludes certain non-insurance company subsidiaries.
- (4) Aviva Life Assurance Company of New York changed its name to Athene Life Insurance Company of New York (ALICNY) effective March 3, 2014.

## **INTERCOMPANY AGREEMENTS**

The Company was party to several intercompany agreements, which were disclosed in the Form B filings with the Delaware Insurance Department.

The Company is party to agreements with affiliates, which were entered into during the period covered by this examination, and remain in effect as of December 31, 2013. These agreements are summarized as follows:

### **Amended and Restated Investment Management Agreement**

Effective November 5, 2012, and as amended January 1, 2013, the Company entered into an Amended and Restated Investment Management Agreement with Athene Asset Management, LLC (AAM). Under the terms of the agreement, AAM will act as the investment manager for the assets in one or more accounts as designated by the Company, including the investment and reinvestment of assets in the Account in accordance with the Insurance Laws and Regulations of the State of Delaware and the operating guidelines as set forth in the Amended & Restated Agreement. AAM, and any officer or other individual or entity so designated by any officer of

AAM, will have authority to execute any and all documents and instruments which it may deem appropriate regarding the acquisition, holding or disposition of any of the Account assets. AAM will furnish the Company with reports relating to the Account as the Company reasonably requires. The Company will pay AAM a monthly management fee equal to the applicable Management Fee Rate of the month-end net asset value of the Account, calculated and paid monthly in arrears. The Company will also pay or reimburse AAM for the Sub-Manager Fees and any costs in connection with Account Expenses paid by AAM on the Company's behalf. The Company will pay the fees to AAM within 10 business days following receipt by the Company of an invoice from AAM for any such fees.

#### **Shared Services and Cost Sharing Agreement**

Effective October 2, 2013, and as amended October 2, 2013, the Company entered into a Shared Services and Cost Sharing Agreement with Athene Holding Ltd. (AHL), Athene USA Corporation (AUSA), Athene Life Re Ltd. (ALRe), Athene Annuity & Life Assurance Company (AA-DE), Investors Insurance Corporation (IIC), Aviva Life and Annuity Company (ALAC), Structured Annuity Reinsurance Company (STAR), Aviva Re USA IV, Inc. (AUSAIV), and Athene Asset Management LLC (AAM). The Agreement provides that each party to the Agreement will make available to the other parties certain personnel and/or resources in connection with the performance of certain services as described within the Shared Services Agreement. Any party may both provide and receive services under the Agreement with respect to different services, and any party may (directly or through its subsidiaries) provide services to one or more parties to the Agreement.

The services available from service providers includes, producer management, reinsurance and underwriting, human resources, transportation, legal, facilities management, tax,

audit services, communications, printing and supplies, telecommunications, mail and delivery, information technology, executive/strategic and operations management, records, sales and market development, compliance, administration services, product management, actuarial and corporate valuation, financial services and accounting, accounts payable and treasury, mergers, acquisitions and divestitures, risk management, and shareholder activities.

### **Fee Agreement (Pledge Fee Letter)**

Effective September 2, 2011, the Company entered into a Pledge Fee Letter with AA-DE. Under terms of the letter, the Company agrees that it will, for so long as the Pledge Documents are in effect, pay to AA-DE a pledge fee equal to \$50,000 per year, payable in quarterly installments on the last business day of each calendar quarter and upon termination of the Pledge Documents; provided however, that the quarterly installment of the Pledge Fee for the initial quarterly period and any quarterly period during which the Pledge Documents were in effect during such quarter. The Company further agrees to reimburse AA-DE for any of its out-of-pocket expenses incurred in connection with the performance by AA-DE of its obligations under the Pledge Documents promptly upon AA-DE's request.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

As of December 31, 2013, the Company was licensed in two (2) states, Delaware and Indiana. The Company is authorized as a stock insurer to transact the business of life, including annuities, variable life, variable annuities and credit life insurance as defined in 18 Del. C. §902 "Life insurance" in the State of Delaware. The Company is licensed to write Class I Life and Annuities in the state of Indiana.

The principal office facilities of the Company are located in New Albany, Indiana.

## **Plan of Operation**

The Company's plan of operations is to issue funding agreements directly to institutional investors, including the Federal Home Loan Bank of Indianapolis ("FHLBI"), and to issue funding agreements supporting funding-agreement backed notes. The Company uses the proceeds of the funding agreements to invest in a diversified portfolio of high quality assets.

The Company did not have any direct written premiums as of December 31, 2013.

## *Reinsurance*

The Company may at any time and from time to time reinsure all or any part of the issued and outstanding funding agreements to an affiliated or third party reinsurer. Any reinsurance agreement must follow specified criteria as set forth in the Company's Operating Guidelines. No default by the Reinsurer under any Reinsurance Agreement shall relieve ALIC from the performance of any of its obligations under any funding agreement it has issued.

## **Ratings**

As of February 2014, the Company was rated "AA-" by Standard & Poors. The Company does not have any other ratings.

## **GROWTH OF THE COMPANY**

The following information was extracted from copies of the Company's filed Annual Statements, for each year indicated.

<u>Year</u>	Net Admitted <u>Assets</u>	<u>Total Liabilities</u>	Total Capital and Surplus	Premiums and Annuity <u>Considerations</u>	Deposit-Type <u>Funds</u>	Net Income/ <u>(Loss)</u>
2013	\$ 195,827,065	\$ 176,956,995	\$ 18,870,070	\$ -	\$ 142,994,375	\$ 1,123,619
2012	188,050,229	170,362,462	17,687,767	-	140,749,355	352,006
2011	174,717,320	162,279,403	12,437,918	-	138,602,384	(1,435,637)
2010	1,320,609	497,834	822,774	-	-	(637,812)

- (1) Schedule does not include adjustments as a result of the prior or current examinations
- (2) The balances for 2012 were pulled from the 2013 Annual Statement Prior Year column, as the Company determined several items were incorrectly presented in the 2012 Annual Statement.
- (3) For comparative purposes, only the calculation and documentation of fluctuations in growth of the Company from 2011-2013 was performed as the Company commenced business in 2010. The Company did not write any business and did not have any premium data for the year ended December 31, 2010.

From year-end 2011 to year-end 2013, net admitted assets have increased by \$21.1 million or 12.1% while total liabilities increased by \$14.7 million or 9%. The overall increase in both Net Admitted Assets and Total Liabilities is a result of the Company issuing funding agreements in 2011, resulting in \$150 million in deposits. Funding agreements were issued to the Federal Home Loan Bank of Indianapolis (FHLBI) for a total of \$100 million on January 21, 2011 and \$50 million to UBS AG (UBS) September 2, 2011. The Company did not issue additional funding agreements in 2012 or 2013. In June 2011, the Company entered into a modified coinsurance agreement (MODCO) with ALRe to reinsure 100% of the Company's funding agreements. The Company's MODCO receivable assets increased by \$6.5 million from 2012 to 2013, due to a higher administrative allowance and ceded interest expenses on deposit-type contracts. In addition to the aforementioned impacting Net Admitted Assets, cash increased from \$1.5 million to \$18.4 million from 2012 to 2013 due to divesting in certain residential mortgage backed securities (RMBS) with the Federal Home Loan Bank of Indianapolis (FHLBI) over 2013.

The Company's liabilities increased primarily due to an increase in policy reserves and MODCO payable. Additionally, deposit-type funds have increased by \$4.4 million or 3.2% from 2011 to 2013.

During the examination period, total capital and surplus increased \$6.4 million or 51.7%. This increase was primarily attributable to capital contributions from the Company's former

parent, as well as the Company's current parent. The Company received capital contributions totaling \$10.9 million during 2011 and \$4.8 million during 2012.

The Company did not have any premiums and annuity considerations throughout the entire examination period of 2010 to 2013.

The Company's net income has increased by approximately \$2.6 million from December 31, 2011 to December 31, 2013. The Company incurred losses for the years 2010-2011, as the Company continued to establish itself in its domicile state of Indiana. Commissions and expense allowances increased by \$0.9 million during 2013 due to the Company's third revised MODCO Agreement allowing for the ceding of expenses incurred in 2013 related to a credit facility agreement and an increased MODCO administrative fee rate.

### **LOSS EXPERIENCE**

Reserves and contract claims as of December 31, 2013 and December 31, 2012 were as follows:

	Aggr. Reserves for <u>Life Contracts</u>	Aggr. Reserves for Accident and <u>Health Contracts</u>	Liability for Deposit Type <u>Contracts</u>	Contract Claims: <u>Life</u>	Contract Claims: <u>Accident and Health</u>
December 31, 2013	\$ -	\$ -	\$ 142,994,375	\$ -	\$ -
December 31, 2012	-	-	<u>140,749,355</u>	-	-
Increase (Decrease)	\$ -	\$ -	\$ 2,245,020	\$ -	\$ -

The Company only issues funding agreements, which are reported as deposit type contracts for annual statement purposes, and as such do not have claim reserves. Policy reserves for deposit type contracts were higher in 2013 compared to 2012 because on a statutory basis, reserves are held at a discounted present value and grow toward the principal balance over time. As of December 31, 2013, the Company had issued four funding agreements totaling \$150 million.

## **REINSURANCE**

The Company had the following reinsurance program and material agreement in effect as of December 31, 2013:

### **Assumed**

The Company does not assume any reinsurance.

### **Ceded**

Effective January 1, 2011, the Company entered into a MODCO reinsurance agreement with ALRe to reinsure 100% of the Company's funding agreements. Effective June 1, 2011, the MODCO agreement was amended to allow for an increased administrative fee. Effective October 1, 2012, concurrent with the Company's redomestication from the State of Indiana to the State of Delaware, the MODCO agreement was again amended to allow for an increased administrative fee. Effective December 1, 2013, the MODCO agreement was amended to allow for the administrative fee to include the ceding of expenses related to the Company's compliance with its Operating Guidelines.

### **Reinsurance Contract Review**

A review was performed of significant reinsurance contracts put into place during the examination period for compliance with 18 Del. Admin Code §1000, NAIC Guidelines and SSAPs. No exceptions were noted.

## **ACCOUNTS AND RECORDS**

### **Accounting System and Information**

The accounts and records reviewed during the examination included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer and

accounting systems, organizational structure, and the information processing structure. The Company's computerized accounts and records are maintained at outsourced vendors in Greenville, SC; Suwanee, GA; Toronto, Canada; Princeton, NJ; Lincoln, NB; and Chicago, IL. The Company's non-computerized records are maintained in Lincoln, NB; Greenville, SC; Atlanta, GA; and El Segundo, CA. The Company utilizes Windows, Linux and IBM server X based operating systems to process data.

It was noted that there is a migration project in place to move IT operations that have not been outsourced and are located at the Company's offices in Greenville, SC to the corporate data center in Des Moines, IA. The migration is expected to be completed mid-2015.

A high-level assessment of the internal control structure and process for the Company's accounting and computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review did not reveal any material deficiencies in the Company's internal control structure.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company's external accounting firm, PwC, reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the December 31, 2013 financial statements. No significant or qualifying material deficiencies were found to exist in the design or operation of the internal control structure. The Company's records are also subject to review by Athene's Internal Audit Department.

### **Independent Accountants**

The Company's financial statements were audited each year by the external audit firm PwC of Atlanta, Georgia, with the exception of 2010. For audit year 2010, the Company

received an audit waiver from filing Audited Financials from the Indiana Department of Insurance. The examiners reviewed the audited statutory financial statements for the years 2011, 2012 and 2013. For all years under review, PwC issued an unqualified opinion.

The examiners reviewed PwC’s 2012 and 2013 work papers, and incorporated their work and findings as deemed pertinent to the current examination.

### **Actuarial Opinion**

The Company’s loss reserves and related actuarial items were reviewed by Stuart Smith, ASA, MAAA, who issued a statement of actuarial opinion based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet were fairly stated and met the requirements of the insurance laws of the State of Delaware.

### **STATUTORY DEPOSITS**

The following statutory deposits were on file with the following states:

State	Deposits For the Benefit of All Policyholders		All Other Special Deposits	
	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Delaware	\$108,123	\$113,760		
Indiana			1,091,564	1,169,015
<b>TOTAL DEPOSITS</b>	<b>\$108,123</b>	<b>\$113,760</b>	<b>\$1,091,564</b>	<b>\$1,169,015</b>

## **FINANCIAL STATEMENTS**

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2013, as determined by this examination, along with supporting exhibits as detailed below:

### General Account:

- Assets
- Liabilities, Surplus and Other Funds
- Summary of Operations
- Capital and Surplus Account
- Reconciliation of Capital and Surplus for the Examination Period
- Schedule of Examination Adjustments

The narratives on the individual accounts, with the exception of the reserve related balances, are presented on an “exception basis” in the Notes to the Financial Statements section of this report.

**Assets**  
**As of December 31, 2013**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 157,144,875	\$	\$ 157,144,875	
Stocks:				
Common stocks	5,000,000		5,000,000	
Cash, cash equivalents and short-term investments	18,368,501		18,368,501	
Investment income due and accrued	894,274		894,274	
Reinsurance:				
Other amounts receivable under reinsurance contracts	14,293,646		14,293,646	-
Current federal and foreign income tax recoverable and interest thereon	22,000		22,000	
Net deferred tax asset	194,409	90,640	103,769	
Aggregate write-ins for other than invested assets	32,853	32,853	-	
Total assets excluding Separate Accounts	<u>\$ 195,950,558</u>	<u>\$ 123,493</u>	<u>\$ 195,827,065</u>	
From Separate Accounts		-	-	
Total	<u><u>\$ 195,950,558</u></u>	<u><u>\$ 123,493</u></u>	<u><u>\$ 195,827,065</u></u>	

**Liabilities, Surplus and Other Funds  
As of December 31, 2013**

		<u>Notes</u>
Liability for deposit type contracts	\$ 142,994,375	1
Contract liabilities not included elsewhere:		
Other amounts payable on reinsurance	32,788,875	
Interest maintenance reserve	190,337	
General expenses due or accrued	514,250	
Miscellaneous liabilities:		
Asset valuation reserve	433,917	
Payable to parent, subsidiaries and affiliates	35,241	
Total liabilities excluding Separate Accounts	<u>\$ 176,956,995</u>	
From Separate Accounts Statement	-	
Total Liabilities	<u>\$ 176,956,995</u>	
Common capital stock	1,000,000	
Gross paid-in and contributed surplus	18,405,640	
Unassigned funds	(535,570)	
Surplus	<u>\$ 18,870,070</u>	
Total Liabilities, Capital and Surplus	<u>\$ 195,827,065</u>	

**Summary of Operations  
As of December 31, 2013**

Premiums and annuity considerations for life and accident and health contracts	\$ -
Consideration for supplementary contracts with life contingencies	-
Net investment income	6,172,558
Amortization of Interest Maintenance Reserve	21,418
Commissions and expense allowances on reinsurance ceded	1,979,616
Reserve adjustments on reinsurance ceded	806,600
Totals	<u>\$ 8,980,192</u>
Death benefits	\$ -
Annuity benefits	-
Disability benefits and benefits under accident and health contracts	-
Surrender benefits and withdrawals for life contracts	-
Interest and adjustments on contract or deposit-type contract funds	6,691,938
Totals	<u>\$ 6,691,938</u>
Commissions on premiums, annuity considerations and deposit-type contracts funds	\$ -
Commissions and expense allowances on reinsurance assumed	-
General insurance expenses	1,180,032
Insurance taxes, licenses and fees, excluding federal income taxes	43,577
Totals	<u>\$ 7,915,547</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$ 1,064,645
Dividend to policyholders	-
Net gain from operations after dividends to policyholders and before federal income taxes	1,064,645
Federal and foreign income taxes incurred	(52,994)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	1,117,639
Net realized capital gains (losses)	5,980
Net Income	<u>\$ 1,123,619</u>

**Capital and Surplus Account  
As of December 31, 2013**

Capital and surplus, December 31, prior year	\$	17,687,769
Net income (Loss)		1,123,619
Change in net deferred income tax		194,409
Change in nonadmitted assets		(123,493)
Change in asset valuation reserve		(100,839)
Surplus adjustment		
Change in surplus as a result of reinsurance		88,605
Net change in capital and surplus for the year		<u>1,182,301</u>
<b>Change as a result of December 31, 2013 examination</b>		<u>0</u>
Capital and surplus, December 31, current year	\$	<u><u>18,870,070</u></u>

**Reconciliation of Capital and Surplus  
From December 31, 2009 to December 31, 2013**

Capital and Surplus, December 31, 2009	\$	<u>-</u>
Net income		(597,824)
Additions:		
Change in net deferred income tax		993,411
Surplus adjustment: Paid-in		18,405,640
Surplus adjustment: Change in surplus as a result of reinsurance		223,509
Aggregate write-ins for gains and losses in surplus		28,859
Total Additions		<u>19,651,419</u>
Deductions		
Change in non-admitted assets		(922,495)
Change in asset valuation reserve		(261,030)
Capital changes: Paid in		1,000,000
Total Deductions		<u>(183,525)</u>
Capital and Surplus, December 31, 2013	\$	<u><u>18,870,070</u></u>

## SCHEDULE OF EXAMINATION ADJUSTMENTS

There were no examination adjustments.

## NOTES TO FINANCIAL STATEMENTS

### **Assets – General Account**

No financial adjustments noted.

### **Liabilities – General Account**

(1) Liability for deposit-type contracts (\$142,994,375)

The above-captioned amount, which is the same as that reported by the Company in its 2013 Annual Statement, is reported on Page 3, Line 3 and in Exhibit 7, line 14. The liability is shown in column 2 of Exhibit 7 (Guaranteed Interest Contracts) and consists of four funding agreements issued in 2011, which do not involve life contingencies.

Reserves were reviewed for compliance with standard valuation laws, applicable National Association of Insurance Commissioners (NAIC) Actuarial Guidelines and Model Regulations.

The Company's appointed actuary provided details of the reserve computations for these contracts, which the Consulting Actuary reviewed and verified. The Consulting Actuary also reviewed the reserve trend since 2011, which shows an aggregate steady increase of about 1.6% per year. The Consulting Actuary reviewed and verified the reserve calculation for all four funding agreements.

In addition, it was noted that the business was 100% ceded on a modified-coinsurance basis to ALRe, with the Company retaining no risk. The Consulting Actuary reconciled ceded reserves from Exhibits 7 to the Annual Statement Schedule S – Part 3 – Sections 1 & 2. No

exceptions were noted. The financial examiners performed testing of reinsurance treaties for ceded business by reviewing the Company’s one ceding contract to ALRe as shown in Schedule S. The Company provided sufficient documentation to verify the reserve amounts were correct. No exceptions were noted.

The four funding agreements include a 7-year amortizing agreement maturing in 2018, and 5, 8 and 10 year bullet bond type payments maturing in 2016, 2019 and 2021, respectively. The valuation interest rates used were between 4.75% and 5.00%. None of the contracts had non-guaranteed contract provisions. The assets supporting these funding agreements are as follows:

<u>Asset Class</u>	<u>Book Value</u> <u>(millions)</u>	<u>Rating</u>
Agency Residential Mortgage Backed Securities	\$ 109.9	AA+
Corporate Bonds	47.2	BBB+
Common Stock	5.0	
Cash	2.1	
Treasury Bonds	0.1	AA +
Total	<u>164.3</u>	

The appointed actuary provided the average rating, without specifying the sources. The Consulting Actuary reviewed the NAIC rating of the bond holdings reported in the annual statement: 7% were exempt, 77% were rated NAIC-1 and the remaining 16% were rated NAIC-2.

The market value of these securities was \$170.7 million or approximately 104% of the book value. Based on the credit quality and market to book value ratio, the Consulting Actuary had no concerns with the quality of assets backing the funding agreements.

With 100% of the insurance risk transferred to ALRe, the only risk retained is related to investment performance. Under all seven of the New York 7 scenarios (NY-7), the ending surplus was positive. There were no interim results of significant concern.

Based on the above analysis, the Consulting Actuary concluded that the liability for deposit type contracts as reported by the Company on Page 3, Line 3 and in Exhibit 7, Line 14 of the December 31, 2013 Annual Statement appears fairly stated. It has been accepted for examination purposes.

### **SUMMARY OF RECOMMENDATIONS**

**It is recommended that the Company ensure all officers, directors and key employees perform an annual conflict of interest certification, and the Company maintain such records in accordance with 18 Del. C. §320(c), in support of “Part 1 – Common Interrogatories – Board of Directors,” question 18 of the “General Interrogatories” of the Annual Statement. (Management and Control – Conflicts of Interest, page 13)**

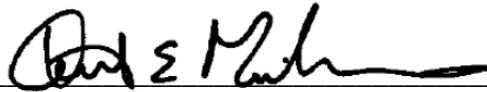
## CONCLUSION

The following schedule shows a comparison of the results from the December 31, 2013 examination to the December 31, 2010 Annual Statement, with changes between:

<u>Description</u>	<u>December 31, 2010</u>	<u>December 31, 2013</u>	<u>Increase (Decrease)</u>
Assets	\$ 1,320,609	\$ 195,827,065	\$ 194,506,456
Liabilities	\$ 497,834	\$ 176,956,995	\$ 176,459,161
Common capital stock	1,000,000	1,000,000	-
Aggregate Write-in for other than special surplus funds	-	-	-
Surplus notes	-	-	-
Gross paid in and contributed surplus	2,601,078	18,405,640	15,804,562
Unassigned funds (surplus)	(2,778,304)	(535,570)	2,242,734
Total Capital and Surplus	822,774	18,870,070	18,047,296
Total Liabilities, Capital and Surplus	\$ 1,320,608	\$ 195,827,065	\$ 194,506,457

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, PwC, and the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,



Keith E. Misenheimer, CFE, ALMI, CFE  
Examiner-In-Charge  
Delaware Insurance Department