FINANCIAL CONDITION REPORT 2020

Athora Holding Ltd.

CONTENTS

SUMMARY

From 1 January 2020, Athora became subject to group regulatory supervision by the Bermuda Monetary Authority (BMA). This report is our inaugural group Financial Condition Report (FCR).

The FCR has been prepared in accordance with applicable BMA rules and guidance, which includes the Insurance (Group Supervision) Rules 2011 as amended, the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 and the Insurance (Public Disclosure) Rules 2015.

The purpose of the FCR is to provide information on the group's business and performance, governance structure, risk profile, solvency valuation and capital management. The FCR also describes significant events that have occurred subsequent to the financial year ended 31 December 2020, in order to provide a complete view of the current status of the group.

Business and performance

Athora Holding Ltd. (AHL or the Company), a limited liability company domiciled in Bermuda, is the holding company of the Athora group of companies (collectively, Athora or the group).

Athora is an insurance and reinsurance group fully focused on the European market. We are a specialised operator focusing on the large and attractive traditional life and pensions market. The group's mission is to bring more value to customers in fulfilling their long-term insurance needs. Our ambition is to become a leading provider of guaranteed life and pensions products and solutions in Europe. We operate through primary insurance businesses in the Netherlands, Belgium and Germany, and reinsurance operations in Bermuda and Ireland.

In 2020, despite challenging conditions including turbulent markets and the Covid-19 pandemic, we were able to significantly develop our group from a strategic, financial, operational and governance perspective. A highlight of the year was the acquisition of Athora Netherlands (formerly VIVAT), which allowed us to enter the Dutch market and increase our scale significantly. In 2020, we continued to refine Athora's operating model, evolve our infrastructure, and enhance our risk and capital management capabilities.

Our 2020 International Financial Reporting Standards (IFRS) results benefited from the acquisition of Athora Netherlands. As a result of the acquisition, assets under administration increased significantly by over €60 billion, and ended the year at €83 billion (2019: €15 billion). Our Dutch business was the main contributor to the significant increase in our IFRS profit for the year of €656 million (2019: €4 million).

Further details of our business and performance and significant events in 2020 are set out in section 1 of this FCR. Details of material subsequent events are set out in section 6.

Governance structure

The board of directors of AHL (the Board) is responsible for promoting Athora's long-term success. This includes setting the strategic objectives for the group, the ultimate risk appetite of the group, and monitoring management delivery of these strategic objectives within the agreed governance framework.

The Group CEO and senior executives (Management) are responsible for formalising and implementing policies, procedures, internal controls and operational mechanics to deliver the long-term strategic direction approved by the Board.

Our enterprise risk management (ERM) framework lays the foundations for managing risk throughout the group. Athora uses a forward-looking risk management system and manages individual risks through a continuous cycle of identification, assessment, management and monitoring, with regular review. We have implemented a *three lines of defence* governance model to ensure that risks are clearly identified, owned and managed.

Further details of our governance structure, including particulars of our corporate governance and risk management frameworks and solvency self-assessment process, are set out in section 2 of this FCR.

Risk profile

The objective of Athora's risk management framework is that each risk is assumed deliberately —and managed to create value for stakeholders— within our defined risk appetite and risk strategy.

Our risk appetite and risk strategy are integral parts of our business strategy. They determine how we select the risks we can control, and from which we can extract value, in line with our mission. Risk appetite and risk strategy are translated into specific policies and limits for the relevant risk types. Specific strategies apply for each risk type, but three fundamental principles apply generally:
- targeted risk selection,
- skilled risk taking and
- cohesive risk management

Athora's risk universe is a comprehensive set of risk categories and sub-categories. Risks are grouped by risk types: strategic, market, credit, liquidity, underwriting (long-term insurance), operational, compliance, tax, reputational and emerging risks.

All of our businesses use a consistent approach to facilitate a common understanding of risk, risk aggregation and reporting. We use risk appetite statements to indicate our appetite for certain risks. These are set at group level to manage the aggregated risk profile across the group.

2020 saw material changes to Athora's risk profile following the acquisition of Athora Netherlands in April. Further details of our risk profile, including a description of the risks to which the group is exposed and how we measure, monitor, manage and mitigate these risks, is set out in section 3 of this FCR.

Solvency valuation

We value our assets and liabilities on a fair value basis in accordance with the BMA's Economic Balance Sheet (EBS) valuation principles.

Section 4 of this report provides further description of the bases, methods and assumptions used in the valuation of assets, technical provisions and other liabilities used to determine the group's regulatory solvency.

Capital management

We manage capital within the constraints, preferences and requirements of our stakeholders. The primary objective of Athora's capital management process is to ensure that a strong financial position is maintained and unwanted capital volatility is minimised.

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

Our required capital, i.e., our enhanced capital requirement (ECR) is calculated using the Bermuda Solvency Capital Requirement (BSCR) model.

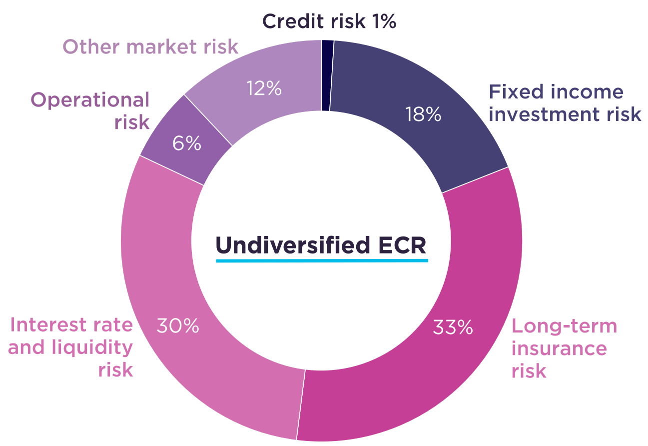
Our EBS regulatory capital position at 31 December 2020 is shown in the following table:

Capital	€m
Available statutory capital	5,888
ECR	2,435
Surplus	**3,453**
Solvency ratio	242%

The group solvency ratio at 31 December 2020 of 242% is well above the group risk appetite thresholds.

At 31 December 2020, Athora's available statutory capital on an EBS basis was €5,888 million. Within this, €5,034 million was categorised as Tier 1, the highest quality capital, mainly consisting of common share capital and share premium, statutory economic surplus, preferred shares and restricted Tier 1 notes (which are classified as Tier 1 ancillary capital). Tier 2 capital of €854 million related to three subordinated debt instruments.

The chart below shows the composition of the group's undiversified ECR by BSCR risk category[1] at 31 December 2020.



The largest components of the undiversified ECR are market risk (which includes fixed income investment risk, interest rate and liquidity risk and other market risks) and long-term insurance risk, which is the risk that the frequency or severity of insured events may be worse than expected and includes expenses risk.

Further details of our capital management objectives and policies, and our regulatory capital position at 31 December 2020 including group solvency sensitivities, are set out in section 5 of this FCR.

Outlook

Looking forward, we are now focused on supporting our management teams in the delivery of the business plan in each business unit, including asset redeployment, implementation of a very focused and effective operating model and selective growth (most notably in reinsurance and Dutch pensions).

To deliver on this, we will continue to invest in our capabilities, optimise our investments and increase operating efficiency with an unwavering focus on sound capital and risk management.

[1] Under the BSCR model, credit risk covers mainly reinsurance and receivables exposures only. Credit risk linked to investment assets is captured under 'Fixed income investment risk' within market risks. An analysis of the mapping between the BSCR risk categories and Athora's Risk Universe is set out in Appendix 2.

1. BUSINESS AND PERFORMANCE

1.1 Insurance group

1.1.1 Name and contact details

Athora Holding Ltd. (AHL), a limited liability company domiciled in Bermuda, is the holding company of the Athora group of companies.

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94 Pitts Bay Road
Pembroke HM08
Bermuda

+1 441 278 8600
https://www.athora.com

1.1.2 Business overview

Athora is an insurance and reinsurance group fully focused on the European market. We are a specialised operator focusing on the large and attractive traditional life and pensions market. Our ambition is to become a leading provider of guaranteed life and pensions products and solutions in Europe. The group's mission is to bring more value to customers in fulfilling their long-term insurance needs.

We serve the needs of individual and corporate customers that continue to demand products offering safety of returns, at a time when many operators are de-emphasising these products. We also provide innovative mergers and acquisitions (M&A) and reinsurance solutions to other insurers seeking to enhance their capital position or enact strategic change. Our business model is centred on the disciplined accumulation of stable and long-dated insurance liabilities, a differentiated approach to investments and efficient operations. These are underpinned by an effective risk management framework and a focus on long-term capital stability. We have supportive long-term shareholders and benefit from a strategic relationship with Apollo Global Management Inc. and its subsidiaries (Apollo), which allows us to leverage the scale of its asset management platform.

Our culture is founded on a clear set of values: Dare to be different, Seek simplicity, Care, and Do the right thing.

We operate through primary insurance businesses in the Netherlands, Belgium and Germany, and reinsurance operations in Bermuda and Ireland. Our three primary insurance businesses provide life insurance, investment, pensions and savings products. In the Netherlands (€66.0 billion AUA[1]) and Belgium (€8.4 billion AUA[1]), we actively write new business. Our German business unit (€4.9 billion AUA[1]) is closed to new business. Our reinsurance subsidiaries (€3.4 billion AUA[1]), Athora Life Re (Bermuda) and Athora Ireland, offer third-party capital optimisation and risk management solutions to other European life insurers, and internal reinsurance solutions to our primary insurance subsidiaries.

[1] Assets under administration (AUA) at 31 December 2020. For further details see our 2020 Annual Report which is available at https://www.Athora.com/results-and-reports

1.1.3 Significant events in the reporting period

The following significant events took place during the reporting period. Details of material subsequent events are set out in section 6.

- From 1 January 2020 the group became subject to regulatory supervision by the Bermuda Monetary Authority.
- In February, we secured equity capital commitments of €1.8 billion from new and existing shareholders, supporting the acquisition of VIVAT, the ongoing requirements of our subsidiaries and our growth strategy in Europe.
- In April, we acquired VIVAT in the Netherlands (renamed Athora Netherlands in December), which delivered immediate scale in an attractive market. Following completion of the acquisition, VIVAT's non-life business was sold to NN Group.
- In April, we reduced debt in Athora Netherlands by nearly €600 million following a tender offer on its 2.375% senior notes.
- In May, Athora Belgium successfully completed the disposal of its non-life business to Baloise.
- In October, we finalised an internal reinsurance transaction between Athora Belgium and our reinsurance subsidiaries. Athora Ireland reinsured €1 billion of legacy "high guarantee" group life pension policies, retroceding some of the portfolio to Athora Life Re.
- In December, we signed our first external reinsurance transaction. Athora Life Re and a leading life insurer in Ireland completed the largest bulk annuity purchase transaction in the Irish insurance market in 2020.

1.2 Insurance group supervisor

The Bermuda Monetary Authority (BMA, the Authority) acts as group supervisor for Athora.

BMA House
43 Victoria Street
Hamilton HM 12
Bermuda

+1 441 295 5278
https://www.bma.bm

1.3 Approved group auditor

The approved group auditor for Athora is Ernst & Young.

EY Building
Harcourt Centre
Harcourt Street
Dublin 2
Ireland

+353 1 475 0555
https://www.ey.com/en_ie

1.4 Ownership details

Athora is privately owned by a diverse group of global investors that have taken a long-term approach to their investment in Athora and have committed €4 billion of equity capital.

Our investor base, which comprises pension funds, sovereign wealth funds, family offices and financial services companies, collectively has over $2 trillion of assets under management.

Key minority shareholders

The group has three key minority shareholders: Apollo, Athene Holding Ltd. and its affiliates (Athene) and the Abu Dhabi Investment Authority and its affiliates (ADIA).

- As a co-founder of Athora, Apollo retains a strategic relationship with Athora. Apollo provides Athora with specific asset management and specialised investment expertise through its subsidiary, Apollo Asset Management Europe LLP. At 31 December 2020, Apollo has a 5.90% holding in Athora's equity share capital and has four members on Athora's board of directors.

- Athene was a co-founder of Athora, together with Apollo. Athora was a subsidiary of Athene until 1 January 2018, when Athene deconsolidated Athora through a private offering of equity securities. At 31 December 2020 Athene retains a 16.51% holding in the equity share capital of Athora and has one member on Athora's board of directors.
- At 31 December 2020, ADIA has a minority interest in Athora and has the right to select one member to Athora's board of directors and has exercised its right.

On 8 March 2021 it was announced that Apollo and Athene will merge. The deal is expected to be completed in January 2022, subject to the satisfaction of certain conditions.

1.5 Group structure

A simplified group structure as at 31 December 2020 is shown in Appendix 1.

1.6 Performance

1.6.1 Insurance business written during the reporting period

The table below sets out the group's IFRS and statutory gross earned premiums from its insurance and reinsurance activities, and by geographical region, during the reporting period.

	2020 €m	2019 €m
Insurance	1,674	459
Reinsurance accepted	127	18
	1,801	**477**
Netherlands	1,220	-
Belgium	286	293
Germany	170	169
Ireland & other	125	15
	1,801	**477**

Gross earned premiums were €1,801 million (2019: €477 million). The increase in 2020 mainly reflects a €1,220 million post-acquisition contribution from Athora Netherlands and higher inwards reinsurance premiums as a result of our first external reinsurance deal, which was completed in December.

In the Netherlands, 2020 saw a resilient performance in Life Corporate[2] products (which included products sold under the Zwitserleven brand) and there was growth in Premium Pension Institution (PPI) inflows following a shift to PPI from other pension products. However, there were lower premiums in Individual Life, reflecting a challenging marketplace. In Belgium, compared to 2019 premiums were slightly lower, with resilient performance in savings and pensions offset by lower protection premiums. In Germany, which is closed to new business, gross earned premiums were broadly stable.

1.6.2 Investment performance

Investment strategy

Athora's investment strategy is focused on matching the cashflows of our liabilities and earning attractive risk-adjusted returns, while ensuring capital stability. We benefit from our strategic relationship with Apollo, who provides a full suite of services for some of our investment portfolio.

Further details of our investment strategy are set out in the group's 2020 annual report, which can be found on our website at https://www.athora.com/results-and-reports

Asset allocation

During 2020 we continued to make progress towards target strategic asset allocations (SAA) in all our business units. We achieved resilient investment performance in challenging markets, preserving capital despite significant volatility in interest rates and spreads. Credit market conditions in 2020 also enabled the group to deploy into target assets at more attractive spreads, quality and terms.

In 2020, we were able to find attractive investment opportunities in Belgium and Germany, enabling us to benefit from favourable market movements.

[2] For most of 2020, Athora Netherlands was managed on its previous product line basis (Life Corporate, Individual Life and Asset Management). Following a strategic review in 2020, a new operating structure has been in effect from late 2020. For further details see the 2020 annual report.

Performance of investments by asset class

Investment income was €2,224 million (2019: €701 million), which included a €1,204 million post-acquisition contribution from Athora Netherlands.

Excluding the result from derivatives, investment income was €1,018 million (2019: €728 million). Compared to 2019, the increase in 2020 was mainly driven by the acquisition of Athora Netherlands and higher realised gains (partly due to the tactical repositioning of our portfolios in Belgium and Germany described above), partly offset by lower investment property income. See the table below for further details.

The result from derivatives was a credit of €1,206 million (2019: €27 million charge), mainly reflecting interest rate movements on derivatives used for asset/liability management purposes. This was partially offset in the movement in insurance provisions.

2020 €m	Financial assets at FVTPL	Available-for-sale financial assets	Loans and receivables	Investment properties	Cash and other	Total
Interest	4	310	86	-	19	419
Dividends	1	14	-	-	-	15
Rental income	-	-	-	57	-	57
Other income	(8)	8	-	-	-	(0)
Direct operating expenses	-	-	-	(19)	-	(19)
Realised revaluations	(1)	713	(1)	2	-	713
Unrealised revaluations	82	(284)	(54)	51	38	(167)
	78	**761**	**31**	**91**	**57**	**1,018**

2019 €m	Financial assets at FVTPL	Available-for-sale financial assets	Loans and receivables	Investment properties	Cash and other	Total
Interest	-	140	10	-	3	153
Dividends	-	15	-	-	-	15
Rental income	-	-	-	38	-	38
Direct operating expenses	-	-	-	(2)	-	(2)
Realised revaluations	(2)	257	4	89	-	348
Unrealised revaluations	53	13	-	110	-	176
	51	**425**	**14**	**235**	**3**	**728**

1.6.3 Details on material income and expenses incurred by the insurance group during the reporting year

Income

The group's main sources of income are from its insurance and reinsurance underwriting and investment activities. As set out in sections 1.6.1 and 1.6.2 above, during the reporting period Athora generated €1,801 million (2019: €477 million) of gross earned premiums from underwriting activities and €2,224 million (2019: €701 million) of investment income.

Investment income and expenses attributable to policyholders and third parties were €2,456 million (2019: €304 million) and a charge of €2,230 million (2019: €319 million charge) respectively.

On an IFRS basis, the group recognised a €213 million gain on the acquisition of Athora Netherlands. The consideration was lower than the fair value of net assets acquired, resulting in negative goodwill of €213 million.

Expenses

The group's main sources of expenses are net insurance benefits and claims, general administrative and other expenses, and interest expenses.

Net insurance claims and benefits, which include the movement in insurance provisions, were €2,790 million (2019: €778 million) on an IFRS basis. Within this, net paid claims were €2,757 million (2019: €646 million), which includes €2,151 million relating to Athora Netherlands post-acquisition. The net movement in insurance provisions was a charge of €33 million (2019: €132 million charge).

Other expenses were €707 million (2019: €331 million). Compared to 2019, other expenses increased in 2020 driven by €254 million from Athora Netherlands post-acquisition, higher costs relating to transaction, restructuring and integration activity, higher investment management fees and a €54 million impairment charge relating to certain assets in our available-for-sale investment portfolio. Expense management will continue to be a key focus area for the group in 2021.

Interest expense was €105 million (2019: €14 million), with the year-on-year increase mainly due to higher borrowings as a result of the acquisition of Athora Netherlands. The expense relating to Athora Netherlands' subordinated debt borrowings was €60 million (2019: n/a), which includes an IFRS amortisation charge of €15 million. Interest expense on other borrowings was €29 million (2019: €11 million), which includes interest on the €500 million senior debt raised in March 2020 that part-financed the acquisition of Athora Netherlands and a subsequent capital injection into that business. Other interest expenses of €16 million (2019: €3 million) relate to various operating liabilities, including repurchase agreements.

Further details of our IFRS results are set out in the group's 2020 annual report.

1.7 Any other material information

There is no other material information to report.

2. GOVERNANCE STRUCTURE

Athora has established a robust board, committee and management structure to oversee the business of the group. Our system of governance is appropriate for the nature, scale and complexity of risks inherent in our business and ensures compliance with applicable laws and regulations. Athora is committed to a high standard of corporate governance and has adopted Board and other governance guidelines and terms of reference as a framework. The Board has delegated certain authority to a number of management committees, each with their own terms of reference.

Athora is steered, at the direction of the Board, by the Management Executive Committee (MEC) who are responsible for formalising and implementing policies, procedures, internal controls and operational mechanics to deliver the long-term strategic direction approved by the Board.

2.1 Parent board and senior executives

2.1.1 A description of the structure of the board and senior executive, the roles, responsibilities and segregation of these responsibilities

Board and committee structure

The board of directors of AHL (the Board) is responsible for promoting Athora's long-term success. This includes setting the strategic objectives and the ultimate risk appetite of the group, and monitoring management delivery of these strategic objectives within the agreed governance framework. AHL's Board governance guidelines and group Bye-laws define the Board's duties, membership and meeting procedures.

The Group CEO and senior executives (Management) are responsible for formalising and implementing policies, procedures, internal controls and operational mechanics to deliver the long-term strategic direction approved by the Board.

To assist in fulfilling its oversight responsibilities, the Board has established six Board committees, each with their own charter. Each committee chairman reports to the Board on the committee's activities.

The purpose of each committee

Audit Committee
Oversight and monitoring of the integrity of the consolidated financial statements and financial and accounting processes; monitoring compliance with audit, internal accounting and internal controls requirements; monitoring the independent auditor's qualifications, independence and performance; and monitoring legal and regulatory compliance and ethical standards.

Compensation Committee
Oversight of the group's executive compensation programme.

Conflicts Committee
Evaluates and considers for approval certain related party transactions.

Nominating and Corporate Governance Committee
Identifies, evaluates and recommends individuals for Board and senior management appointment. Oversees the annual performance evaluation of the Board, subsidiary boards, and each of their respective committees and management.

Risk Committee
Oversight of systems and processes to identify, manage and mitigate risks. Assists the Board and its committees in fulfilling their oversight responsibilities for risk management.

Transactions Committee
Reviews and assesses material transactions (e.g. acquisitions, dispositions and certain reinsurance transactions) for recommendation to the Board.

Group executive management structure

Athora is led, at the direction of the Board, by the MEC, which is chaired by the Group CEO. The MEC is responsible for the day-to-day management and oversight of the group including implementation of Board-approved strategies at an AHL level. The MEC also provides guidance to the Athora subsidiaries.

Responsibilities are allocated individually to the following members of the MEC by functional area:

Role	MEC Member
Group Chief Executive Officer	Michele Bareggi
Group Chief Financial Officer	See footnote[1]
Group Chief Risk Officer	Lukas Ziewer
Group Head of Growth	Henrik Matsen
Group General Counsel	Ralf Schmitt
Group Chief Operating Officer	Philip Proost
Regional CEO – Germany and Belgium	Eric Viet

1 Thomas Stoddard served as interim Group CFO for the year to 9 March 2021. Anders Malmström joined as Group CFO on 1 May 2021, and will become a member of the MEC subject to regulatory approvals.

Membership of the MEC is subject to regulatory notification and meeting fitness and propriety requirements. Athora's MEC members have substantial experience in insurance and broader global financial services, as outlined in section 2.2 below.

Subsidiary governance

The responsibility for day-to-day management at the level of each of Athora's regulated subsidiaries sits with the respective board, management and (where applicable) supervisory boards of each subsidiary. Each of Athora's regulated subsidiaries has a comprehensive local governance framework. This supports the subsidiary board in oversight and monitoring of the business of the subsidiary. The board of each subsidiary has established appropriate committees (e.g., Audit Committee and Risk Committee) to assist in fulfilling its role.

2.1.2 A description of the remuneration policy and practices and performance-based criteria governing the parent board, senior executive, and employees

Athora's group remuneration policy lays out the philosophy and principles which guide how we compensate and incentivise our employees, including those whose professional activities have a material impact on the undertaking's risk profile.

We apply a total reward approach whereby we seek to drive the highest possible levels of engagement, motivation, performance and cost-effectiveness through employing the appropriate elements of compensation and benefits. We seek to:

- provide a well-balanced and, where appropriate, performance-related compensation package for employees, considering the interests of all stakeholders, relevant regulators and our corporate/social responsibilities;
- 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;
- remain competitive in all markets; and
- keep all design aspects modern and as simple as possible, allowing for efficient management and administration of all programmes.

The policy applies to all Athora employees and independent non-executive directors. In the case where there is a conflict between the group policy and a remuneration policy established and approved by a local subsidiary board, the local policy shall prevail to the extent that it relates to those individuals employed by or serving the local subsidiaries.

Employee reward

Athora aims to attract, recruit, develop and retain competent employees with the skills, knowledge and expertise to fulfil their allocated responsibilities. We seek to provide a motivational employment package, as appropriate to each role in the markets in which we operate.

All employees are required to set performance objectives, aligned ultimately to corporate objectives. Compensation and discretionary bonuses (where applicable) are based on the output of company and/or functional and/or personal performance (as applicable to the area of the business and role) and all are aligned with the interests of policyholders and shareholders.

Executive and non-executive director reward

Athora's Board Compensation Committee is responsible for the review and approval of the key terms of employment and appropriate levels of compensation for the most senior group executives.

Executive directors

The policy for executive directors is to provide a fixed and (where appropriate) a variable component to their compensation alongside employee benefits. The variable element of remuneration may comprise a short-and a long-term variable component to reward the achievement of qualitative and quantitative performance objectives.

Annual bonus plans for this group provide for a maximum target bonus of no more than 200% of the annual basic salary. There is at a minimum an annual evaluation of individual and collective performance; this forms the basis of performance-related remuneration.

Executive directors are typically eligible for participation in long-term incentive arrangements as part of a balanced and market-oriented approach to fixed and variable remuneration in line with our principles. Rewards are delivered in either shares, phantom shares and/or cash. From time to time, other additional equity incentives which are founded on equity in group entities outside of the European Union may be offered to this group.

Typically, the long-term incentive arrangements include the following characteristics, tailored according to circumstances:

- There is a total time frame of three or more years for each performance cycle.
- Incentives are aligned to specific long-term and balanced performance objectives.
- Incentives are provided as part of an appropriately balanced package between fixed and variable, short-and long-term focused remuneration as appropriate to the role and market.

- A holding period post-vesting may apply, in line with applicable regulatory expectations.

Where executive directors are also classified as *Identified*[1] they will also be subject to the variable remuneration deferral.

Independent non-executive directors (INEDs)

INEDs are typically remunerated by means of an annual base retainer fee and committee membership and/or chair fee, where applicable. In addition, fees may also be paid for attendance at meetings. The level of their remuneration is reviewed periodically by the Compensation Committee.

INEDs typically do not receive any payments linked to business performance and do not participate in incentive arrangements, unless approved by the Board. On a selective basis, INEDs may be offered the opportunity to invest in Athora shares. Such opportunities require approval by the Compensation Committee and will be compliant with all parts of the Athora remuneration policy. All INEDs are provided with Directors and Officers insurance for the period during which they undertake their duties. INEDs receive reimbursement for expenses incurred in the performance of their duties.

2.1.3 A description of the supplementary pension or early retirement schemes for members of the insurance group, parent board, its senior executives, and employees

We operate a range of pension plans aligned to local market requirements, primarily on a defined contribution basis. The maximum employer contribution is typically 10% of eligible salary, other than where mandated by local jurisdictions.

2.1.4 Any material transactions with shareholder controllers, persons who exercise significant influence, the parent board or senior executive

As explained in section 1.4, the group has three key minority shareholders. Athene, Apollo and ADIA are considered to have significant influence over the group due to representation on Athora's Board of directors and are therefore related parties of the group.

Transactions with key minority shareholders

During 2020, the group called additional equity capital of €2.8 billion which included €1.0 billion called in aggregate from Apollo, Athene and ADIA.

At 31 December 2020, Athene and Apollo have commitments to make additional equity investments in Athora of €500 million, which remain undrawn and available to the group.

The table below summarises the amount of the other material transactions with Athene and Apollo during the year and the outstanding balances at the end of the year:

€m	Income	Expenses	Payable	Receivable
2020				
Apollo	1	85	27	-
Athene	2	1	-	110
	3	**86**	**27**	**110**

Apollo has a strategic relationship with Athora and provides the group with investment management, advisory and sub-advisory services through its subsidiary, Apollo Asset Management Europe LLP. We expect the strategic relationship with Apollo to continue for the foreseeable future.

The group has leased office space in the United Kingdom. Under a sub-licence agreement, Apollo rents a floor of this space, with total annual rent payable, including service and similar costs, of €0.7 million (2019: €0.6 million) excluding VAT.

Athene has a cooperation agreement with Athora. Under this agreement, which excludes Athora Netherlands, Athene and Athora have certain rights of first refusal relating to certain reinsurance and acquisition transactions. As at 31 December 2020, Athene has not exercised its right of first refusal to reinsure liabilities ceded to Athora's insurance or reinsurance subsidiaries. In addition, Athora's subsidiaries (excluding Athora Netherlands) may from time to time purchase certain funding agreements and/or other spread instruments issued by Athene's insurance subsidiaries. At 31 December 2020 the value of funding agreements purchased by the group was €110 million (2019: €130 million).

[1] Individuals defined under the European Solvency II regime as comprising the administrative, management or supervisory body in a regulated entity; persons who effectively run the regulated undertaking or other categories of staff whose professional activities have a material impact on the undertaking's risk profile.

2.2 Fitness and propriety requirements

2.2.1 A description of the fit and proper process in assessing the parent board and senior executive

Athora uses the hiring and vetting process including recruitment and interviewing requirements to confirm fitness and propriety for the relevant role. All Board and Management appointments are subject to review by the Nominating and Corporate Governance Committee, as set out in the committee's charter.

2.2.2 A description of the professional qualifications, skills, and expertise of the parent board and its senior executives to carry out their functions

Board of directors

Our Board consists of eleven directors, including five fully independent non-executive directors (INEDs). One INED serves as chairman of both the Board and the Risk Committee and another as the chairman of the Audit Committee, the Conflicts Committee, and the Nominating and Corporate Governance Committee.

We made two changes to the Board in 2020 relating to representatives from Apollo Global Management, Inc. (together with its subsidiaries, Apollo). Martin Klein resigned in September 2020 and we approved the appointment of Scott Kleinman, Co-President of Apollo, in the same month.

Our Board has diverse management, operations, governance and oversight experience across many industries. Biographies of our Board members are set out below.

Nikolaus von Bomhard
Chair, Independent Director
Appointed 1 January 2018
Re-appointed 28 November 2018

Dr. von Bomhard serves as chairman of Athora's Board, as chair of its Risk Committee, and as a member of the Compensation, Conflicts and Transactions Committees. He served as chief executive officer of Munich Re from 2004 to 2017, having joined the company in 1985. He served as chairman of the supervisory board at both ERGO Group AG and at Munich Health Holding AG. Dr. von Bomhard served as a member of the supervisory board for Commerzbank AG and as chairman of The Geneva Association. At the end of April 2018, he was appointed chairman of the supervisory board of Deutsche Post AG. Born in Gunzenhausen, Bavaria, he completed his law studies at Ludwig-Maximilians-Universität of Munich, and he holds a doctorate from the University of Regensburg.

Debra Broek
Independent Director
Appointed 13 March 2019
Re-appointed 24 September 2019

Ms. Broek serves as a member of the Audit, Risk and Conflicts Committees. She is a professional presenter and trainer specialising in the design, development and facilitation of tailored finance and accounting training solutions to companies and accounting firms worldwide—major clients include KPMG and Grant Thornton. Since 2013, Ms. Broek has been a non-executive director of Zurich American Insurance Company and Zurich American Life Insurance Company. Previously, Ms. Broek was head of investor relations and rating agency management at Zurich Insurance Group. Prior to that, Ms. Broek held various senior roles, including: chief financial officer of Zurich Insurance Group's global life segment; member of the finance executive team and of the group finance and risk council; and chief accounting officer, managing director of the Winterthur Group. Ms. Broek is a certified public accountant and fellow of the Life Management Institute (FLMI). She holds a Bachelor of Arts in accounting and business administration from Dordt University, Iowa.

Volkert Doeksen
Independent Director
Appointed 1 January 2018
Re-appointed 24 September 2019

Mr. Doeksen serves as a member of the Conflicts Committee. He has over 25 years of investment experience. He is a senior advisor to The Carlyle Group, where he focuses specifically on large accounts as well as on new product and business development. Previously, Mr. Doeksen was a cofounder and chairman/CEO of AlpInvest Partners. Prior to that, Mr. Doeksen was a partner at Dresdner Kleinwort Benson in New York and a director at Kleinwort Benson Ltd. He also worked at Dillon Read and Morgan Stanley in London. Mr. Doeksen is a member of the supervisory boards of the Royal Concertgebouw and Koninklijke Doeksen. He is a board member of the Fulbright Center and a member of the international advisory board of Van Lanschot Kempen. Mr. Doeksen, a Dutch national, received a LL.M. from Leiden Law.

Anna Maria D'Hulster
Independent Director
Appointed 13 March 2019
Re-appointed 24 September 2019

Ms. D'Hulster serves as a member of the Audit, Risk and Conflicts Committees. Ms. D'Hulster was secretary general of The Geneva Association, the insurance industry's leading international think tank, between August 2014 and February 2019. Previously, Ms. D'Hulster held various senior roles at the Baloise Group, including head of group financial management and head of group performance management. In addition, she founded and served as chief executive officer of Baloise Life. Ms. D'Hulster covered both insurance and banking projects as a principal with Boston Consulting Group in Germany and the United States. She has been a member of the executive committee of Insurance Europe. In 2015, she was appointed non-executive director to the boards and chair of the audit committees of both CNA Europe and Hardy (Underwriting Agencies) Limited, London. Other board positions have included Deutscher Ring and Mercator Verzekeringen. Ms. D'Hulster has an MBA from INSEAD and a degree in business and engineering from the Free University of Brussels (Solvay School).

Fred Kleisner
Independent Director
Appointed 1 January 2018
Re-appointed 24 September 2019

Mr. Kleisner serves as chair of Athora's Audit, Conflicts and Nominating and Corporate Governance Committees. Mr. Kleisner, a four decade plus hotelier, corporate CEO and COO, has led successful management teams throughout the world in every aspect and sector of hospitality. He is currently an independent director of Kindred Healthcare (NYSE: KND), Ashford Hospitality Trust (NYSE: AHT) and Aimbridge Hospitality. Mr Kleisner brings extensive experience in business management and governance to his role at Athora. As a financial expert, he is the chair of the group Audit Committee and a member of each company's audit committee, as well as being a member of compensation committees, and quality and compliance committees. Mr. Kleisner graduated with a Bachelor of Arts from Michigan State University's School of Hospitality Business, and was named MSU's Industry Leader of the Year in 2004. He is currently a director, executive committee member and treasurer of the board at the IslandWood School, Bainbridge Island, WA.

Jérôme Mourgue d'Algue
Appointed 1 January 2018
Re-appointed 1 December 2020

Mr. Mourgue d'Algue is a member of the Athora Board's Compensation, Risk, Conflicts, Transactions and Nominating and Corporate Governance Committees. He previously served as a director of Athene Holding Ltd. and as a member of its risk committee. Mr. Mourgue d'Algue is the head of financial services of ADIA's private equities department, having joined in June 2012.

William Wheeler
Appointed 1 January 2018

Mr. Wheeler is a member of the Athora Board's Audit, Compensation, Risk, Transactions and Nominating and Corporate Governance Committees. Mr. Wheeler is president of Athene Holding Ltd. Prior to joining Athene, Mr. Wheeler was president of the Americas group for MetLife Inc. During his 17 years at MetLife, Mr. Wheeler assumed various executive positions, including executive vice president and chief financial officer. In addition, Mr. Wheeler served as treasurer, playing a key role in preparing MetLife to become a public company. Prior to joining MetLife, Mr. Wheeler was an investment banker at Donaldson, Lufkin & Jenrette. Mr. Wheeler has a Bachelor of Arts degree in English from Wabash College and a Master of Business Administration from Harvard Business School. He currently serves on the board of Evercore Partners Inc.

Alexander Humphreys
Appointed 13 March 2019
Re-appointed 1 December 2020

Mr. Humphreys is a member of the Athora Board's Audit Committee. Mr. Humphreys is partner at Apollo Global Management, Inc. which he joined in 2008. Prior to joining Apollo, Mr. Humphreys was at Goldman Sachs in the financial institutions mergers and acquisitions team, based in London. Mr. Humphreys serves on the boards of directors of Aspen, Catalina Holdings, Amissima and Lumileds. Mr. Humphreys has a BSc in economics from University College London.

Gernot Löhr
Appointed 1 January 2018

Mr. Löhr serves as chair of the Athora Board's Compensation and Transactions Committees and is a member of the Risk and Nominating and Corporate Governance Committees. Mr. Löhr is a senior partner at Apollo Global Management, Inc. Prior to joining Apollo, Mr. Löhr was a founding partner at Infinity Point LLC, Apollo's joint venture partner for the financial services industry. He also worked in financial services investment banking at Goldman Sachs & Co., McKinsey & Company, and B. Metzler Corporate Finance. Currently, Mr. Löhr is a member of Apollo's Management Committee and oversees Apollo's investments in the financial services sector. He serves on the boards of directors of Athene Holdings, Catalina Holdings, Aspen and BKB Bank. Mr. Löhr holds a joint master's degree in economics and engineering from the University of Karlsruhe, and a Master of Business Administration from the MIT Sloan School of Management, where he is currently a member of the MIT Sloan advisory board.

Marc Rowan
Appointed 1 January 2018

Mr. Rowan is a member of the Athora Board's Transactions Committee. Mr. Rowan is a co-founder and CEO of Apollo Global Management, Inc. Mr. Rowan currently serves on the boards of directors of Apollo Global Management, Inc, Athene Holding Ltd. and Athora. Mr. Rowan is a founding member and chairman of Youth Renewal Fund, chairman of the board of overseers of The Wharton School, and a member of the University of Pennsylvania's board of trustees. He serves on the boards of directors of Jerusalem U and several technology-oriented venture companies. Mr. Rowan graduated summa cum laude from the University of Pennsylvania's Wharton School of Business with a BS and an MBA in finance.

Scott Kleinman
Appointed 2 September 2020

Mr. Kleinman is a member of the Athora Board's Transactions Committee. Mr. Kleinman is Co-President of Apollo Global Management, Inc., sharing responsibility for all of Apollo's revenue-generating and investing business across its integrated alternative investment platform. Mr. Kleinman, who focuses on Apollo's equity and opportunistic businesses, joined Apollo in 1996, and in 2009 he was named lead partner for private equity. Prior to joining Apollo, Mr. Kleinman was a member of the investment banking division at Smith Barney Inc. Mr. Kleinman serves on the board of directors of Athene Holding Ltd.

In 2014, Mr. Kleinman founded the Kleinman Center for Energy Policy at the University of Pennsylvania. He is a member of the board of overseers at the University of Pennsylvania Stuart Weitzman School of Design. Mr. Kleinman received a BA and BS from the University of Pennsylvania and the Wharton School of Business, respectively, graduating magna cum laude, Phi Beta Kappa.

Management Executive Committee

We made the following changes to the MEC during the reporting period:

- Following the departure of Barry Cudmore as Group Chief Financial Officer in April 2020, Thomas Stoddard, formerly Group CFO of Aviva plc, was appointed to the role on an interim basis.
- In March 2021, we were pleased to announce the appointment of a permanent successor, Anders Malmström, who joined Athora on 1 May 2021 and will be come a member of the MEC subject to regulatory approvals. Mr. Malmström joins us from Equitable Holdings, Inc., where he served as CFO, and brings extensive insurance, financial and public market experience to the group.
- Following the departure of Mark Suter as Group Chief Operating Officer in July 2020, Philip Proost was appointed to the role.
- Eric Viet, Regional Chief Executive Officer for Belgium and Germany, was appointed to the MEC in June 2020.

Athora's MEC members have substantial experience in insurance and broader global financial services, as set out below:

Michele Bareggi
Group Chief Executive Officer

Michele joined Athora in September 2017 as CEO and is responsible for the coordination and direction of the Management Executive Committee and the Athora group subsidiaries. He is a member of the supervisory board of Athora Netherlands, SRLEV and Proteq.

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 J.P. Morgan and Credit Suisse First Boston. Michele holds a B.Sc. (cum laude) in economics, statistics and social sciences from Università Bocconi Milano.

Henrik Matsen
Group Head of Growth

Henrik is co-founder and Group Head of Growth, responsible for the organisation's growth strategy. Henrik oversees Athora'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 Athora Life Re, Athora Ireland plc 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. He previously worked at UBS in its Financial Institutions Group Investment Banking Division, and in FICC Structuring.

Henrik holds a B.Sc. degree from the Norwegian School of Economics and Business Administration (NHH) in Bergen, Norway.

Philip Proost
Group Chief Operating Officer

Philip is responsible for oversight of transformation and change, operations and administration, IT and integration. He joined Athora from his role as chief operating officer at B3i, an entity set up to develop a distributed ledger solution to the insurance and reinsurance industry.

Prior to this Philip performed a range of global roles including Group Chief Information & Technology Officer, Head of Global Strategic Sourcing & Shared Services, Head of CEO Office including Strategy, Head of Insurance Accounting and Reserving at Catlin Group and Equitas Reinsurance Ltd.

He has acted as an advisor and mentor to founding teams of Insurtech start-ups. Philip holds a BA in geography from the University of Durham.

Ralf Schmitt
Group General Counsel

Ralf is Group General Counsel at Athora with responsibility for legal, governance and compliance across the group. He is a member of boards including the management board of Athora Deutschland Holding GmbH & Co. KG (ADKG) and the supervisory boards of Athora Lebensversicherung AG and Athora Pensionskasse AG. He will be appointed CEO and chairman of the management board of ADKG effective from 1 July 2021.

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.

Eric Viet
Regional CEO Belgium & Germany

Eric was appointed Regional CEO – Belgium & Germany in June 2020. He is responsible for Athora's insurance operations in Belgium and Germany. He is chairman of the supervisory boards of Athora Lebensversicherung AG and Athora Pensionskasse AG in Germany, and chairman of the board of Athora Belgium SA/NV.

Eric joined Athora in March 2018, having initially worked as an advisor to Athora from June 2017 on transactions in the Belgian market. Prior to Athora, Eric was Managing Director and Global Head of Financial Institution in Global Markets at Société Générale Corporate Investment Banking (SGCIB) in London. He joined SGCIB in 2008 in the Fixed Income Global Markets as Head of Illiquid Asset Distribution. Prior to that, Eric founded Aleva Ltd in 2006, a UK pension buy-out company. From 1996 to 2006, Eric worked at JPMorgan, London as Managing Director, European Head of Insurance Pension and Head of Fixed Income for Belgium, France and Luxembourg, and previously in Paris as General Manager of J.P.Morgan & Cie S.A. in charge of Global Markets. Before JPMorgan, Eric worked at Credit Commercial de France as Head of Bond Syndication, and at Banque Indosuez in Internal Audit.

Eric holds a degree in engineering from the Ecole Polytechnique in Palaiseau, France.

Lukas Ziewer
Group Chief Risk Officer

Lukas is Group Chief Risk Officer at Athora with responsibility for risk management across the group. He is a member of the Board of Directors of Athora Lebensversicherung AG, Athora Ireland plc and Athora Lux Invest Management S.à r.l.

Lukas joined Athora in September 2018 from MetLife where he was most recently CRO for its operations in Europe, the Middle East and Africa. Prior to that he was a partner at Oliver Wyman's European insurance practice where he led the financial risk group. He has also held a number of consulting roles.

Lukas has published widely on topics such as financial risk management, economic capital, and hedging financial guarantees, and presents regularly at international industry forums and seminars.

He has an MSc in Theoretical Physics, is a qualified actuary (Aktuar DAV), and has attained professional qualifications in financial analysis (CFA) and in risk management (PRM).

2.3 Risk and capital management

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

Robust risk management is central to Athora's success as a modern insurance and reinsurance group. It is a key element of our business model and therefore risk management is the responsibility of all Athora employees. Our enterprise risk management (ERM) framework was devised to ensure that we identify, understand and assess risks against levels defined as acceptable. As we understand the risks we face, we can design and implement appropriate controls. The aim is to enable every employee to see how they contribute to the effective management of risk. Risks are managed from multiple perspectives, including economic, regulatory and accounting. The ERM framework includes risk appetite and strategy, risk governance, risk culture, risk measurement and assessment, risk management and monitoring, risk reporting and insights, and data and technology. The ERM framework lays the foundations for managing risk throughout Athora.

Athora uses a forward-looking risk management system and manages individual risks through a continuous cycle of identification, assessment, management and monitoring, with regular review.

Enterprise Risk Management Framework

Risk appetite and strategy	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 prioritisation	Risk mitigation response and action plans	Risk reporting	Data quality and governance
Risk universe	Group 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 and risk opinions	Risk motivation	Scenario analysis and stress testing	Projects and initiatives	External requirements	

Risk appetite and strategy

Athora's risk appetite and risk strategy are integral parts of our business strategy and we manage all risks with the purpose of ensuring a good customer outcome. They determine how we select the risks we can control and from which we can extract value, in line with our mission. Risk appetite and risk strategy are translated into specific policies and limits for the relevant risk types. Specific strategies apply for each risk type, but three fundamental principles apply generally:

1. Targeted risk selection

- We take on long-dated life-insurance liabilities in European markets if these can be pursued within risk appetite and provide a risk-adjusted return in line with strategy.

- Asset selection for return-seeking investments is determined by our access and opportunity to capture illiquidity premiums and credit-risk premiums.

- Risks outside risk appetite are proactively mitigated and traded out; our incentive systems discourage short-term, unrewarded risk-taking.

2. Skilled risk-taking

- Our active risk management is a core competency that helps to promote confidence in our stakeholders (including the Board, supervisors, shareholders and rating agencies).
- We only take risks for which the appropriate skills, capabilities and resources exist in the organisation.
- We measure risk on a timely and reliable basis to achieve a predictable risk profile and promote conscious trade-offs.

3. Cohesive risk management

- Risk is to be managed consistently across the business. Aggregated risk is ultimately owned at the group level.
- A core test of any successful business case and decision is the assessment of how a proposed activity fits into our risk appetite.
- We manage the fungibility of capital to increase diversification benefits and support risk-taking wherever it is value accretive.

Athora's risk universe is a comprehensive set of risk categories and sub-categories. All our businesses use a consistent approach to facilitate a common understanding of risk, risk aggregation and reporting.

We use risk appetite statements to indicate our appetite for certain risks. These are set at group level to manage the aggregated risk profile across the group. We set out qualitative risk appetite statements internally for each risk in the risk universe to provide direction as to how the risk appetite statement indicator is to be interpreted. We also use a quantitative risk appetite dashboard that shows all the limits from the risk policies in one place. We report on these qualitative and quantitative dashboards quarterly to the group Board Risk Committee.

Risk governance

Athora governs risk through: risk policies and business standards; risk oversight committees; and clear roles, responsibilities and delegated authority. Good governance ensures that directors and executives have a shared understanding of risk, appropriate to their role and responsibilities.

Specific Board committees focusing on risk provide the Board a means for understanding how best to monitor, manage and mitigate risks to which the group is exposed—in particular the forward-looking aspects relating to Athora's business strategy. This is supported by the Chief Risk Officer reporting to the Board Risk Committee.

The assignment of responsibility to key stakeholders across the group is guided by the following risk governance principles:

- risk can be allocated by category, e.g. strategic, market, credit, liquidity, etc.
- executive owners of each risk category are identified;
- executive owners are responsible for the aggregated view of that risk;
- structure and processes ensure that risks are managed within pre-defined appetite;
- management includes delegation of authority to take risks and consideration of the risk-reward balance; and
- good practice requires that each risk category has an appropriate management forum (this is not intended to imply that there should be a separate management forum for each risk category).

We have implemented a *three lines of defence* risk governance model to ensure that risks are clearly identified, owned and managed. For further information see the corporate governance section of our 2020 Annual Report.

Together with specialist functions such as compliance and actuarial, the risk management function develops and operates methodologies to identify, manage and mitigate designated types of risks. The risk management function monitors overall risks, including specific risk-types, and escalates through the system of governance any such risks that may exceed Athora's risk appetite. The risk management system is embedded in decision-making across the business, including for capital, insurance, reinsurance and investment management.

Within the Athora group at legal entity level, risk management functions/owners exist with staffing responsibilities and governance structures tailored to each entity. The business has clear ownership of risk-taking/risk-avoidance decisions, and reports to the group on appetite, decisions and outcomes.

Risk culture

Athora is committed to building and maintaining a strong risk culture, in which the collective ability to identify and understand, openly discuss, and act on our current and future risks is embedded across the business. Having a strong risk culture is seen by the Board as a key driver of the long-term sustainability and profitability of our business and is therefore relevant to all our employees. It enables ethical and responsible risk-based decisions to be made, considering the best interests of the organisation, our customers and other stakeholders over the long term.

The following critical and reinforcing elements describe the strong risk culture which we seek to have in Athora:

- a clear and well communicated risk strategy;
- collaboration and information sharing;
- rapid and "no blame" escalation of threats or concerns;
- constructive challenge of actions and preconceptions at all levels;
- visible and consistent role-modelling by senior leaders and managers; and
- incentives which encourage people to "do the right thing" in the long-term interest of the whole business.

Risk culture is measured by an annual survey. The purpose of the survey is to capture how our risk culture influences our risk management practices across business units and functions.

We seek to attract and retain the highest-quality talent in the industry. The effectiveness of Athora's risk management depends on a strong risk culture and robust risk management practices.

Risk assessment and measurement

We maintain activities that allow us to identify, assess, and quantify known and emerging risks. These processes allow us to consider the extent to which potential events may have an impact on the achievement of our objectives. Athora uses qualitative and quantitative approaches, processes and tools to identify, assess and measure risk, and determine the appropriate capital requirements. We have an emerging risk policy in place, and emerging risks are regularly considered within risk governance committees.

Risk management and monitoring

Our responses involve both business-as-usual activities and action plans where current efforts are not sufficient to reduce risk to an acceptable level. We are applying and embedding a coordinated series of processes and tools across risk management and assurance activities to test effectiveness and validate controls and mitigation activities:

- control testing—a key component of the internal control framework;
- model validation activities—includes independent validation of key models and assumptions;
- validation of material external data;
- independent review and oversight of outsourcing due diligence processes; and
- reporting of risks to the Board and relevant committees.

Monitoring of risks comprises ongoing monitoring activities in the normal course of management as well as separate evaluations. Group risk management 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.

Risk reporting and insights

The management and Board committees are part of Athora's overall governance framework for ensuring appropriate reporting and escalation of risk to their ultimate owner, the Board. Regular reporting includes a Chief Risk Officer (CRO) summary, risk landscape, risk dashboards and emerging risks, among other items.

Regulatory reports—such as the Commercial Insurers' Solvency Self-Assessment (CISSA) and Group Solvency Self-Assessment (GSSA) (BMA requirements) and Own Risk and Solvency Assessment (ORSA) (Solvency II requirement) —provide relevant information to the Board and its committees, and to management, to ensure risks are being managed and escalated appropriately. These reports also play an important role in supporting strategic decision making and strategy development.

Risk-reporting seeks to provide a comprehensive picture of risks across layers and risk types. The key focus is on delivering actionable insights from risk information and providing risk transparency.

Data and technology

Athora takes a group-wide approach using tools and processes for establishing and maintaining the confidence in and integrity of risk data and technology. We use advanced stress testing and capital modelling techniques to deliver robust and insightful risk analytics.

2.3.2 A description of how the insurance group's risk management and solvency self-assessment systems are implemented and integrated into the insurance group's operations: including strategic planning and organisational and decision-making process

Athora's Group Solvency Self-Assessment (GSSA) was first performed as part of our 31 December 2020 filing and will be completed annually as part of our risk management system. The GSSA is a governance, risk management and solvency assessment exercise with its findings documented in a report to the Board and Management Executive Committee (MEC), and submitted to the BMA annually. The objective of the GSSA is to deliver a set of processes constituting a tool for decision-making and strategic analysis for Board and management, in line with the Group Rules and the Group Solvency Rules and internal requirements.

Athora's solvency assessment processes align with the risk and capital management ambitions to withstand adverse developments, with a forward-looking view of capital deployment. Our solvency assessment process is part of a cycle of management and strategic decision-making activities, referred to as our *strategic planning cycle*. The integration of data and data quality management through this cycle is a current priority for the development of the risk management system. To complement the strategic planning cycle, the solvency assessment process also includes an analysis of the strategies for operations (including data and technology and change) and human resources. This approach roots risk and solvency assessment in the decision-making processes and provides for the impact of these assessments to feed through as changes in the strategies.

2.3.3 A description of the relationship between the solvency self-assessment, solvency needs, and capital and risk management systems of the insurance group

The solvency self-assessment provides an overview of the capital and risk management systems and their implementation at Athora. This includes the outcome of the group's stress testing and scenario analysis framework and assessment of the appropriateness of the regulatory capital requirement based on the group's economic capital framework. The solvency self-assessment concludes with an assessment of the overall solvency needs which are an input into the annual review of the Risk Appetite and Strategy Policy.

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

The GSSA report is prepared by the Group Risk function with contributions from other group functions and business units. The Board and MEC have oversight of the contributions of the group functions through the regular Board and management committees and the draft GSSA report is submitted to the Board Risk Committee for review. Oversight is also provided through the following:

- Group Risk enterprise risk management coordinates and reviews all inputs into the process; and
- Internal Audit prepares and executes an audit plan (IA Plan) annually which is approved by the Audit Committee. Internal Audit adopts a risk-based approach in the development of its IA Plan and continuously considers the planned audits in light of changes in the business, the external environment and emerging risks. The GSSA process is considered part of the audit planning process and is audited in accordance with the risk-based planning cycle.

2.4 Internal controls

2.4.1 A description of the internal control system

A system of internal controls is fundamental to the safe and sound management of the group. Effective internal controls play a critical role in helping Athora protect and enhance shareholder value by reducing the possibility of unexpected losses or damages to our reputation.

Athora 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 Board, has been adopted in order to support the group in executing robust and effective internal controls over the risks to which we are exposed in conducting our business and management activities while supporting strategic decision-making.

2.4.2 A description of how the compliance function of the insurance group is executed

Athora's compliance function is part of the second line of defence and is responsible for monitoring and reporting on compliance with laws and regulations. It is headed by a group compliance officer, who reports to the Group General Counsel and is responsible for ensuring compliance with regulatory requirements and legal obligations.

The Group Compliance Framework defines the organisational roles, responsibilities and approach to ensuring compliance with applicable laws, regulation and internal policies. The Framework sets out the key requirements which are to be adopted across the group. The Framework is owned by the Group Head of Compliance and is reviewed annually.

Athora manages compliance risk through oversight at Board and local board level in each regulated entity. This structure ensures that responsibilities for all aspects of compliance risk are appropriate and there is full visibility of compliance obligations, risks and issues. The Board receives updates on the Company's compliance activities on a quarterly basis via a standardised Group Compliance Report.

2.5 Internal audit

Internal Audit function

As the third line of defence, the Internal Audit function assists management and the Audit Committee of the AHL Board of Directors in protecting the group'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

- Prepare and execute a risk-based audit plan which is approved by the Audit Committee.

- 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 Audit Committee, 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 group and notify management and the Audit Committee 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 IA function) with sufficient knowledge, skills, experience, and professional certifications.

- Ensure management and the Audit Committee 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.

Independence and objectivity of the Internal Audit function

The Internal Audit Function is independent of senior 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, its personnel report to the Group Chief Internal Auditor (GCIA), who reports directly to the Chairman of the AHL 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 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.

2.6 Actuarial function

The actuarial function is a control function within Athora's risk management function and independently oversees the calculation of technical provisions, including the appropriateness and quality of methodologies, models, assumptions and data used in the calculation of technical provisions. As part of Athora's internal control system, the actuarial function works in close collaboration with an independent Approved Group Actuary, which is a reserved role under the Bermuda Insurance Act 1978, as amended, to provide an opinion on the group's technical provisions which is submitted as part of the annual filing to the BMA.

The group's actuarial department is led by the Group Chief Actuary and leads the calculation of technical provisions, including the appropriateness and quality of methodologies, models, assumptions and data. The actuarial department provides technical expertise and assurance to key processes across the business, such as reserving, pricing, underwriting, capital modelling and input to acquisition due diligence. In performing such activities, the Group Chief Actuary is supported by actuarial and risk professionals across the group and the local business units, operating in areas such as Actuarial Reporting, Modelling, Pricing, Reinsurance etc. The teams are structured to facilitate a wide understanding of actuarial risks within Athora's portfolios, ensure an effective peer review framework as well as providing adequate controls and governance.

The Group Chief Actuary has unrestricted access to the Board and provides actuarial advice to the Board Audit Committee through regular formal reports and presentations.

2.7 Outsourcing

2.7.1 A description of the insurance group's outsourcing policy and information on any key or important functions that have been outsourced

Athora manages external outsourcing in accordance with all applicable regulatory requirements. Our Outsourcing Policy establishes requirements to ensure that where we use an internal or external service provider, we:

- Understand and document the value of using a third party.
- Review the capability of the third party to deliver the services we require to our requirements, service levels and standards.
- Contract at a fair price with appropriate terms and conditions including obligation on the parties to comply with all legal and regulatory obligations.
- Manage the delivery of the ongoing service to monitor performance and support any required remediation.
- Meet legal and regulatory obligations in particular the identification and management

of critical or important operational functions or activities.

In particular, the policy is designed so that outsourcing of critical or important operational functions or activities does not lead to a reduction in direct management's responsibility for their successful delivery, including the quality of the service and of the control environment and governance which must be aligned to our agreed risk appetite, and that conflicts of interest are managed appropriately. Critical or important outsourcing attracts the highest level of rigour, including regulatory notification, performance and relationship reviews, regulatory compliance reviews, and risk and control assessments.

We complete due diligence for the selection of external vendors and third-party supply arrangements and manage outsourcing risk by applying a framework and standards to establish controls and governance. Where appropriate, we have entered into service level agreements, which include an obligation on the parties to comply with all legal and regulatory obligations.

We outsource many of the same activities as our peers. A range of the key or important functions outsourced include:

- IT services ranging from IT security, end-user services and data storage and includes agreements with Microsoft, T-systems and Integrity 365;
- Investments—Athora outsources management of certain parts of the group's investment portfolio to Apollo Asset Management Europe LLP and Generali, and certain investment operations functions to BNP. Athora Ireland also outsources certain asset management services to Kames Capital.

2.7.2 A description of the insurance group's material intra-group outsourcing

Alongside external service providers we also provide services from and to entities within Athora, primarily (but not exclusively) through service companies. We apply similar frameworks and standards to these services as our external service providers including formal service level authority agreements, identification of risk and process owners and monitoring of key controls.

Our material intra-group outsourcing arrangements include:

- Athora Netherlands outsources certain asset management services to ACTIAM.
- Athora Belgium outsources certain IT services to Athora Ireland Services Ltd, such as network and infrastructure, IT security, end user computing, application support, finance systems and data services.
- Our German business unit outsources certain actuarial, risk and IT services to Athora Ireland Services Ltd. IT services outsourced include network and application support, IT security, end user computing and data services.

2.8 Any other material information

There is no other material information to report.

3. RISK PROFILE

3.1 Material risks

Material risks that the insurance group is exposed to, including how these risks are measured and mitigated, and any material risk concentrations

Athora sets out the universe of risks that make up its risk profile in the Athora Risk Universe. The Risk Universe is reviewed at least annually but may be updated more frequently as new material risks arise, e.g. through new transactions or changes in the external environment.

The material risks that Athora is exposed to are described below.

Market risk

Definition

Market risk includes the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Market risk includes the following:

- Interest rate risk is the sensitivity of the values of assets, liabilities, and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.
- Currency risk is the risk of losses when currency exchange rates change. Typically, this is the case when assets and liabilities have different sensitivities to changes in exchange rates.
- Inflation risk is the sensitivity of the values of assets, liabilities, and financial instruments to changes in the term structure of inflation, or in the volatility of inflation rates.
- Equity risk is the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or in the volatility of market prices of equities.
- Spread risk is the risk emerging from any mismatch between the impact of credit-spread changes on the value of assets and the valuation of the corresponding liabilities.
- Property risk is the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or in the volatility of market prices of real estate.

Description

Athora aims to tightly limit balance sheet volatility from market risks, while pursuing returns from attractive investments. We have a low risk appetite for interest rate risk, currency risk, inflation risk and public equity risk, and a medium risk appetite for spread risk (as detailed in the credit risk section) and property risk.

Measurement and mitigation

Athora actively manages exposure to market risks with the group's Asset/Liability Management (ALM) Risk Policy which is implemented locally by the business units. The business units define thresholds for interest rate, spread and currency risk according to the risk metrics and scenarios defined in the policy. Exposures are identified, actively monitored and reported to group on a monthly basis at minimum. Athora uses regulatory frameworks and its internal risk measurement framework to monitor market risks. A group ALM working group takes place on a weekly basis for most business units with Group Risk, the Investment function and investment manager(s). The Group Risk Management Function steers and co-ordinates the overall ALM process and prompts ALM risk management actions. Any risk-limit breaches are escalated to the appropriate governance bodies for remedy and mitigation.

Material risk concentrations

Athora has a Group ALM Risk Policy and a Group Credit Concentration and Counterparty Risk Policy to manage risk concentrations via risk limits in relation to market risks. These risks are monitored by both the group and local Risk Committees and reported and/or escalated to the MEC and Board Risk Committee.

The effectiveness of these risk mitigation techniques is assessed through continual monitoring of the underlying risk profile.

Underwriting (long-term insurance) risk

Definition

Underwriting risk is the risk that the insured event occurs and is worse than expected, i.e. the risk that there are significant deviations between actual experience and actuarial assumptions. Underwriting risk includes the following:

- Mortality risk is the risk of the actual mortality rate being higher than expected.
- Longevity risk is the risk of the actual mortality rate being lower than expected.
- Morbidity/disability risk is the risk of the actual morbidity and disability rates deviating from expectations.
- Policyholder behaviour risk is the risk of the actual policyholder behaviour surrounding policy options and guarantees deviating from expectations.
- Expenses reserving risk is the risk of either the timing or amount of actual expenses incurred deviating from expectations.
- Mortality catastrophe risk is the risk of having to pay out to a large number of policyholders due to an extreme mortality event.

Description

Athora is exposed to underwriting/insurance risks as part of its business model. As Athora's business model is mainly aimed at providing a capital guarantee, the underwriting risk management is therefore focused on longevity risk as well as customer behaviour such as annuitisation. Athora has low appetite for mortality catastrophe risk and medium appetite for the other underwriting risks in the Risk Universe.

The objective of the group is to mitigate exposure to risk arising from these contracts through product design and selection; product, geographical, and individual risk diversification; thorough underwriting; and reinsurance.

Measurement and mitigation

The business units use several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

Athora assesses, monitors and controls underwriting risks to be able to adequately price and reserve for such uncertainty, and to anticipate potential future adverse deviations. This is based on several methods including:

- regular experience investigations using actuarial professional practices and available internal data, complemented by external data such as industry analysis and benchmarking reports;
- regular reporting on the performance of key underwriting risks, including sensitivity analysis, and stress and scenario testing (the evolution of these risks is monitored in case of changes in macroeconomic conditions, regulation, competitor activity or socio-economic trends); and

- implementing solutions to manage or transfer such risks where appropriate (e.g. reinsurance arrangements).

Athora Netherlands put in place additional reinsurance solutions in 2020 and Q1 2021 to mitigate some of its longevity risk and bring it within Athora's risk appetite.

Material risk concentrations

Athora manages material underwriting risk concentrations through product design and selection; product, geographical, and individual risk diversification; thorough underwriting; and reinsurance.

Credit risk

Definition

Credit risk is the risk of loss resulting from an obligor's potential inability or unwillingness to fully meet its contractual obligations.

Default and migration risk is:

- risk associated with a bond or security issuer moving from one class of risk to a new one;
- risk of material credit quality deterioration increasing the likelihood of a default and increased capital charge;
- risk that the company or individual won't be able to make required debt payments; and
- risk that an investment counterparty defaults on its payment obligations.

Description

Credit risk arises from a variety of investments considered strategic within Athora's Investment Universe, including investments into sovereign bonds, public corporate bonds, residential mortgage loans, private corporate loans, and commercial real estate debt. Athora accepts certain investment-related credit risk and is willing to take it on, subject to an appropriate risk-adjusted return on the capital employed. Athora assumes credit risks through its investment activities, via a targeted and well selected strategic asset allocation (SAA) that is assessed and reviewed regularly in line with the risk strategy. Where Athora takes on this risk, we ensure that we are adequately compensated for the risks we assume, avoid idiosyncratic concentrations, and distinguish between price and default risk from credit exposures.

To assess credit ratings, Athora considers the ratings from the three main rating agencies (Standard & Poor's, Fitch and Moody's). The table below provides information regarding the credit risk exposure of the group by classifying IFRS assets at 31 December 2020 according to the Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets within the range of AAA to BBB are classified as investment grade. Assets rated BB or below are classified as below investment grade. Athora also invests in a wide range of assets that are not rated—these tend to be loans or mortgages where credit ratings are not customary for the asset class. The credit risk on unrated assets varies and Athora assesses this through our credit underwriting process.

€m	AAA	AA	A	BBB	BB	≤ B	NR	Total
2020 Rating								
AFS - debt securities	15,439	8,953	6,808	3,705	29	21	2,985	37,940
FVTPL - debt securities	-	172	-	-	-	-	-	172
Derivative financial assets	-	4,079	2,007	186	-	-	-	6,272
Cash and cash equivalents	28	133	966	105	-	-	19	1,251
Reinsurance asset	-	111	-	-	-	-	47	158
Other receivables	-	1,011	3	4	-	47	293	1,358
Loans and advances due from banks	58	-	144	-	-	-	571	773
Loans and receivables	983	69	335	-	-	-	10,151	11,538

Measurement and mitigation

Athora ensures that investment activity and the resulting credit risk is managed to provide long-term value creation for our policyholders and stakeholders, while complying with regulatory requirements as per the prudent person principle, our risk appetite and strategy and internal financial risk policies. In this context, each investment is selected based on its specific strategic purpose, a tailored risk-return analysis and a comprehensive underwriting criteria review process. Investable assets are described in Athora's Investment Universe, with applicable risk-adjusted return profiles.

According to our Investment Governance and Oversight Policy, only assets that are Board-approved per the Athora Investment Universe are permitted. Credit concentration risk and counterparty risk are managed via our Credit Concentration and Counterparty Risk Policy. Additionally, we form our own credit risk view via an internal credit rating assessment process for all private credit investments. Similar to market risks, Athora monitors credit investment risk using both regulatory frameworks and our internal economic framework. We test risk-adjusted return appropriateness against regulatory and economic capital consumptions. This process further enhances Athora's capabilities to monitor and risk manage private credit assets.

Material risk concentrations

Athora has a Group Credit Concentration and Counterparty Risk Policy to manage risk concentrations in relation to counterparties and credit quality. These risks are monitored by both the group and local Risk Committees and reported and/or escalated to the Management Executive Committee and Board Risk Committee.

The effectiveness of these risk mitigation techniques is assessed through continual monitoring of the underlying risk profile.

Liquidity risk

Definition

Liquidity risk is the risk that Athora will not be able to meet all cash outflow obligations as they come due.

Description

All legal entities within the group are exposed to liquidity risk, however, the source and severity of liquidity risk may vary based on the nature of the entity's business activity. As such, entities assess their own sources of liquidity risk and ensure compliance with the Athora Group Liquidity Risk Policy and that liquidity management reflects all relevant risks.

The main sources of liquidity risk for the Athora entities include cash outflows related to expenses, financial and insurance obligations, derivative or similar collateral obligations and reinsurance collateral obligations. Policyholder behaviour and market risks might further cause strain on Athora's liquidity position. Athora entities identify and manage exposures to liquidity risk in accordance with the Athora Group Liquidity Risk Policy, which is adopted and implemented locally by the business units.

Measurement and mitigation

Business units define liquidity risk appetite, limits and metrics in line with the Athora Group Liquidity Risk Policy requirements. Athora's insurance entities assess their liquidity sources and needs, including under stress scenarios, over the short-, medium- and long- term against the established appetite levels of liquidity risk. Liquidity stresses are calibrated for both market and underwriting risks. Athora holding and service entities determine their liquidity risk appetite based on the forecasted annual expense spend net of any contractually agreed income.

Liquidity is actively monitored locally and reported to group on a quarterly basis at minimum. Such reporting includes liquidity positions as of point in time as well as reporting of liquidity sources and uses under stress. If a liquidity risk limit is breached, escalation procedures are in place such that local and group management are informed.

The group does not hold risk capital against liquidity risk. Liquidity risk is managed by holding an appropriate proportion of the assets in liquid form. The proportion is based on cash flow projections, stress testing and holding appropriate buffers in respect of the liquidity risks that are applicable to each entity.

The key sources of liquidity risk for AHL include increased expenses, reduced remittances from operating entities and inability to access new financing. However, the most critical liquidity risk to AHL is related to the capital support which might be required for its subsidiaries. Consequently, AHL is focused on maintaining a robust and stable liquidity profile. Liquidity resources available to AHL, in addition to cash and cash equivalents, include committed equity and a revolving credit facility. These resources constitute a significant liquidity buffer for AHL and its subsidiaries.

Material risk concentrations

Athora has a Group Liquidity Risk Policy to manage risk concentrations in relation to liquidity. These risks are monitored by both the group and local Risk Committees and reported and/or escalated to the MEC and Board Risk Committee.

The effectiveness of these risk mitigation techniques is assessed through continual monitoring of the underlying risk profile.

Operational risk

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes the following:

- IT risk is the current or prospective risk of a failure of IT systems or processes to support the daily operations of the group.
- HR risk is the risk of failures in the processes related to our human resources, including risk of unethical staff (not including fraud), inexperienced or incapable staff, training, retention and (internal) communication failures. (HR risk does not include key person risk as this is captured under talent risk.)
- Vendor risk is the risk of losses/damage due to issues with outsourcing partners and suppliers, including events such as bankruptcy, disruption of services, standards of service level agreements not upheld, and abuse of power.
- Business continuity risk is the risk of failure to continue the delivery of products or services at acceptable predefined levels following disruptive incidents.
- Business process risk is the risk that occurs through ineffective to inefficient processes.
- Distribution channels risk is the risk of failures in distribution channels, including the risk of inexperienced or incapable brokers/agents.
- Financial reporting risk is the risk of inadequacy or failures in processes, people or systems responsible for financial reporting.
- Change risk is the risk arising from the inability of the business to manage changes in a timely and controlled manner.
- Model risk is the risk of potential loss (financial loss, reputational damage) as a consequence of poor decisions that could be principally based on the output of models (due to errors in the development, implementation or use of such models).

Description

Athora has low risk appetite for financial reporting risk, model risk, HR risk, business continuity risk and business processes risk. Athora currently has medium risk appetite for distribution channels risk, IT risk, vendor risk and change risk.

Operational risk can arise from a variety of sources:

- a failure of the control environment, either internally or a third party's;
- a failure to adhere to internal policies; and
- external threats, such as a cyber attack.

Operational risks are identified through the following processes:

- risk appetite reporting, through the qualitative and quantitative risk appetite dashboards;
- risk and control self-assessments, both regular and deep dive assessments;
- risk event reporting;
- scenario analysis; and
- operational risk capital assessment.

Measurement and mitigation

In order to manage operational risk, Athora has developed the following risk policies to manage operational risk: Internal Control Framework, Operational Risk Policy, Outsourcing Risk Policy, Model Risk Policy and Data Quality Risk Policy. Risk owners have developed additional standards to further manage operational risk.

Athora has established a group level working group to monitor operational risk. This forum meets quarterly and supports the Group Risk Committee in monitoring operational risk.

We are embedding a system of internal controls to mitigate the risk of unanticipated financial loss or damage to our reputation.

We continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers, comply with regulatory, legal and financial reporting requirements, and mitigate the risks of loss or reputational damage from risk events.

Compliance risk

Definition

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation an undertaking may suffer as a result of not complying with laws, regulations and administrative provisions as applicable to its activities.

Description

Compliance risk includes the following categories:

- Financial crime: the risk that Athora does not have adequate policies and procedures with comprehensive and proportionate systems and controls in place to enable us to identify, assess, monitor and manage financial crime.
- Legal and regulatory: the risk of legal or regulatory sanctions, material financial loss or loss to reputation Athora may suffer as a result of failure to comply with laws, regulations rules and codes of conduct applicable to its business activities.
- Market integrity: the risk of losses or poor customer outcomes due to non-compliance with regulatory requirements, laws, contractual provisions, regulations, company rules and policies and failure to manage our consumer protection/conduct risk inherent in our processes.
- Employee conduct: the risk of losses due to non-compliance with the Code of Business Conduct and Ethics and underlying procedures (e.g. expense policies, gift and entertainment policies) and the whistleblowing procedure. (Excludes financial crime.)
- Privacy: the risk of losses due to unlawful processing of data of natural persons or the inability to accommodate data subject rights.

Compliance risk can arise from a variety of sources:

- a failure of the control environment;
- the pace of regulatory change may exceed the capacity of the firm to identify new requirements and make the necessary changes to systems and processes within the required time limits; and
- a lack of understanding by the business owners as to Athora's legal and policy requirements.

Measurement and mitigation

To obtain a holistic view of compliance risk, a compliance risk assessment is conducted based on both a 'top down' and 'bottom up' assessment of the compliance risks in each business unit, which incorporates consideration of several inputs. The group risk assessment includes engagement with the Board and senior management, as well as engagement with, and oversight of, business units.

The compliance risk assessment is a key process to determine the compliance risks which pose the most significant threats to the group and covers the key business activities, functions and compliance universe which fall within the scope of the Compliance Function. The risk assessment process will inform the following year's compliance annual plan and monitoring program.

The assessment process considers as many factors as possible, including the following:

- Compliance universe/compliance obligations register—compliance with new and existing regulation;
- Horizon scanning—anticipating new regulatory, social or industry trends and estimating how these will impact the business;
- System or business changes;
- Regulatory findings or enforcement;

- Compliance monitoring outcomes;
- Internal Audit findings; and
- Risk and control self-assessments.

In order to manage this risk Athora has adopted a Board-approved Group Compliance Framework. The Framework documents the policies, procedures and processes for compliance with applicable laws, rules and regulations. Athora's policies contain key requirements to ensure clarity on our compliance obligations. The Framework is supported by a Code of Business Conduct and Ethics which applies across the Athora group. This Code sets the standards of ethical business conduct expected of Athora's stakeholders and employees. Training for all employees is provided on key topics such as the Code, financial crime and privacy.

Other risks

Strategic risk

Strategic risk is the risk of deviations from the envisaged strategy and/or changes in either the external environment or business enablers requiring changes in the business model.

Strategic risks are identified through Board and management discussion about the objectives and direction of the organisation and the risks to achieving its strategic objectives. The quarterly strategic risk appetite dashboard is used to identify and discuss strategic risks with management and risks that are assessed as outside of risk appetite are reported to the AHL Risk Committee.

Strategic risks are assessed both qualitatively and quantitatively, depending on the nature of the risk and deep dive risk identification exercises are conducted on the direction of management where necessary.

Tax risk

Tax risk is the risk of incurring unplanned and/or unexpected tax liabilities, for instance, due to changes in practice or interpretation; or flawed tax advice.

Athora shows tax risk as a distinct category of risk on its Risk Universe to demonstrate its commitment to control tax risk and in response to the visible profile that tax has from both an investor and board perspective but also from a tax authority and public perspective.

Athora has no appetite for tax crimes and low appetite for tax risk in general and aims to minimise the risk of inadvertent non-compliance with tax obligations through embedding tax risk management into important decisions and day-to-day operations. Athora is committed to tax compliance that is focused on complete and timely tax filings in all jurisdictions in which we operate.

Athora has a Tax Control Framework in place which sets out how tax risk is managed.

Reputational risk

Reputational risk is the risk of potential for negative publicity, public perception or uncontrollable events to have an adverse impact on Athora's reputation.

Athora's reputation can be damaged by a wide range of causes, including data loss, regulatory changes, regulatory fines etc. To protect its reputation pro-actively, Athora has established communication approaches, media monitoring programmes and crisis media plans in each of the jurisdictions in which it operates. Marketing/customer service teams in each jurisdiction monitor customer reviews and (where applicable) customer NPS scores.

The Corporate Communications Policy adopted by the Board sets out guidelines for review of all external communication for AHL and specifies the conditions for spokespersons. Each Business Unit operates its own media monitoring, has designated its own spokesperson and has appointed communication personnel to ensure that Athora's reputation is actively monitored in that jurisdiction.

Emerging risk

An emerging risk is a newly developing or changing risk which is perceived to have a potentially significant impact on Athora's financial strength, competitive position or reputation. Emerging risk may not be fully understood yet or accounted for in traditional ways (e.g. terms and conditions, pricing, reserving or capital setting).

A key ingredient for Athora's success is the ability to navigate a dynamic risk landscape—one that changes ever more rapidly and often materialises in unexpected ways. These changes modify known risks, create new ones and open opportunities for Athora to reduce, mitigate and transfer risk.

To protect our customers and our business against undue uncertainties, Athora monitors the evolution of the risk landscape on a continuous basis and so as a central part of our foresight activities, we need to scan the horizon for future risks. This entails the implementation of a broad-based ERM framework, which includes the detection and assessment of emerging risks and thinking in scenarios. Athora maintains an emerging risk universe to monitor and manage emerging risks. The emerging risk universe is a key input in the Athora sustainability strategy.

A key emerging risk for Athora is the risk that the investments on Athora's balance sheet are exposed to the potential impact of climate change. In 2021, Athora approved a group environmental, social and governance (ESG) investment risk policy. This introduced ESG into our risk management process by ESG scoring and by monitoring ESG concentrations in our portfolio. Climate change stress testing is being implemented as per the policy.

Changes in the reporting period

2020 saw the impact of the global Covid-19 pandemic on financial markets and material changes to the group's risk profile following the acquisition of Athora Netherlands in April. 2020 also saw the introduction of a proposed update to the regulatory framework of Solvency II by way of the EIOPA Solvency II Review which has the potential to have an impact on the risk profile of the group's European business units.

Acquisition of Athora Netherlands

The acquisition of Athora Netherlands resulted in a significant increase in Athora's assets under administration and insurance obligations. Athora Netherlands is subject to prudential supervision by De Nederlandsche Bank, and the large company regime under Dutch law. Athora Netherlands put in place additional reinsurance solutions in 2020 and Q1 2021 to mitigate some of its longevity risk and bring it within Athora's risk appetite. Work is ongoing to bring asset liability management and investment risks in line with group risk appetite.

Migration of the non-life business to NN Group is on track, and risks related to this sale are being monitored.

Covid-19

Covid-19—and the associated policy response—is a dramatic, global event which had an immediate and ongoing impact on financial markets. In particular, the onset of the pandemic reinforced the trends of 'lower for longer' EUR interest rates and converging European sovereign debt spreads. In contrast, after an initial sharp increase in credit spreads and equity-market volatility, financial markets have recovered quickly and, as at the date of this report, are near the levels seen previously. Athora's investments were defensively positioned, and we cautiously benefited from the opportunities that these increased spread levels offered.

While the sharp economic shock significantly impacted the global capital markets, Athora's defensive investment positioning and solid underwriting governance contributed to our being able to weather the peak of the crisis without exposing the group to significant credit losses. Active management of the public credit portfolio helped mitigate default and migration losses during the heightened downgrade trend worldwide. Our private credit portfolio displayed only a few cases of material credit deterioration, indicating overall portfolio resilience. Credit losses were largely driven by individual, idiosyncratic assets concentrated in the most vulnerable industries, such as leisure and hospitality sectors and the consumer discretionary sector, and remained within group risk tolerance. Overall, the health of the portfolio remains robust, which is a reflection of our underwriting and risk monitoring capabilities in these asset classes.

EIOPA's Solvency II Review

EIOPA's Solvency II Review began in 2020 and Athora is closely monitoring the proposals that will enter a long negotiation process in the coming years. In line with other European insurance groups we expect an impact on liabilities given the long term nature of our liabilities and the suggested change in approach in measuring these. The group is actively monitoring the impacts of the review on our balance sheets. The new proposed approaches will be integrated into the risk measurement framework as the approval stages of this review progresses.

Brexit

To date, no significant risk has materialised for Athora arising from the UK's decision to formally leave the European Union in December 2020. From a privacy perspective, there is a risk that the UK will be classified as a 'third country', but that risk has been largely managed through existing contractual agreements, which are General Data Protection Regulation (GDPR) compliant.

3.2 Prudent person principle

How assets are invested by and on behalf of the insurance group 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. Athora considers these requirements before any investment in new assets or instruments and has an investment risk governance process to ensure constant compliance with the PPP.

Athora complies with the PPP through the implementation of the following key policies:

- Investment Governance and Oversight Policy which sets out the processes and procedures required for the governance of the investment activity, including investment information provision and new product approval process
- Credit Concentration and Counterparty Risk Policy and Use of Derivatives Policy which sets out key risk identification, risk measurement, risk monitoring and risk escalation processes, governance and thresholds which apply to the investment of the Company's assets
- ALM Risk Policy and Liquidity Risk Policy which define appropriate ALM and Liquidity risk appetite, risk limits, thresholds, and stress testing requirements, which must be observed in the investment of the Company's assets.

A comprehensive PPP-compliant investment oversight process is in place for Athora's non-publicly traded asset classes. Group Risk performs detailed analysis of new investment opportunities presented by the deal team, with particular focus on creditworthiness as well as compliance with internal policy level limits, SAA targets, appropriateness of regulatory capital application and compliance with liquidity and ALM risk targets.

The review is performed using a "Pre-Trade Investment Memorandum", which aggregates all the relevant investment information and analysis on an individual asset level. The memo includes a credit risk overview, details on legal structure, capital structure, loan terms and scenario-based projections, capital impact of the investment and quantitative assessment on expected loss.

Group Risk closely monitors execution of the strategy and credit developments of the existing portfolio by way of regular meetings with portfolio managers, maintenance of a credit watchlist, periodic performance monitoring, portfolio deep-dive sessions and review of valuation updates. In addition, Group Risk has built an internal rating process to independently evaluate the probability of default (PD) and the loss given default (LGD) for each private credit asset, which further enhances Athora's capabilities in overseeing and managing investment risk exposures.

3.3 Stress testing and sensitivity analysis

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

A key requirement under Athora's ERM framework is that Athora entities must have an appropriate risk assessment and measurement framework in place (with supporting processes).

Stress testing and scenario analysis is a key component of the risk assessment and measurement framework. Athora uses stress testing and scenario analysis to assess the resilience of its capital position by testing its ability to withstand a broad range of adverse developments, i.e. risks.

Stress testing and scenario analysis is about ensuring an effective risk management system, which is established by creating an in-depth understanding of risk drivers and risk dependencies and by preparing and defining countermeasures in the event that risks occur. By understanding the risks and appropriate countermeasures, Athora can ultimately optimise its chances of fulfilling its business strategy when subject to a number of possible scenarios, especially if these analyses provide us with a better insight into our own strengths and weaknesses.

Stress testing and scenario analysis is used to help analyse the risks to Athora's financial condition, and is fundamental to Athora's risk management system in terms of:

- informing business strategy;
- capital-planning decisions;
- identification, analysis and management of risks inherent within the business; and
- macro prudential oversight.

The purpose of stress testing and scenario analysis includes the following:

- Provide an understanding of risk profile, the nature and scale of key risks and exposures and the impact of events (moderate, substantial, severe/ extreme), which may result in significant own funds losses or materially affect the solvency ratio.
- This helps to provide a more forward-looking assessment of risk as a complement to other risk management tools and helps to overcome the limitations of reliance on historical data. Providing a forward-looking view of the impact of stresses and scenarios on the ability to meet capital requirements, therefore highlighting situations where solvency needs cannot be met and where the viability of the business may be under threat.
- Feeding into contingency planning and definition of management actions.
- Understanding the effects of emerging risks on the business model.

Supporting business decision making and strategic planning by highlighting vulnerabilities of the business model:

- setting of risk appetite and limits;
- assessing positions against risk appetite under stressed conditions to allow consideration of mitigating actions; and
- exploring the stresses which would result in Athora's solvency position becoming significantly impaired, resulting in a significant loss of available assets or damage to long term viability of the business.

Stress testing and scenario analysis forms a key part of Athora's GSSA. In particular, standalone risk scenarios are used as inputs for calculating GSSA capital and testing ongoing appropriateness of the standard formula for calculating regulatory capital requirements for business units and the group under the applicable regime (Solvency II or BMA).

Business units must perform and report to Athora on the group-wide set of stress tests and scenario analysis at least quarterly. There should at least be a refresh of stress tests performed from the previous quarter however, new stress tests should be considered if relevant after a change in risk profile.

Details of the group solvency ratio sensitivity analysis performed at 31 December 2020 are set out in section 5.3 of this FCR.

3.4 Any other material information

There is no other material information to report.

4. SOLVENCY VALUATION

This section sets out information on the valuation of the Economic Balance Sheet (EBS) for solvency purposes in accordance with Schedule XIV of the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) (Class 4 and 3B Solvency Requirement) Rules 2008.

It provides an explanation of the bases, methods and assumptions used for EBS valuation purposes for the main balance sheet categories, including an explanation where applicable, of the differences between the IFRS balance sheet and the EBS. The table below summarises the EBS as at 31 December 2020:

	EBS €m
Investments	75,660
Investment properties	1,404
Reinsurance receivables	1,051
Cash and cash equivalents	1,244
Other	1,937
Total assets	**81,296**
Insurance provisions	63,665
Insurance and reinsurance payables	1,519
Financial liabilities	8,772
Other	1,452
Total liabilities	**75,408**
Excess of assets over liabilities	**5,888**

The consolidated financial statements for Athora are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and form the basis of the EBS under the BMA capital regime.

The basis of the BMA fair valuation principle is the amount for which the assets or liabilities could be exchanged between knowledgeable and willing parties in an arm's length transaction. Under the BMA regime, certain items not fair valued under IFRS are required to be adjusted. These adjustments are described in the following sections.

Where the valuation of assets and liabilities is the same under both IFRS and EBS, a description of the valuation bases, methods and main assumptions can be found in the group's 2020 annual report and accounts (see in particular Note 1 Accounting policies and Note 24 Fair value of assets and liabilities), which is available at https://www.athora.com/results-and-reports.

4.1 Asset valuation bases

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

Investments

Investments include equities, government bonds, investment grade corporate bonds, mutual funds, loans and advances due from banks and net exposure to derivatives. All investments are measured at fair value for both EBS and

IFRS purposes, other than loans and advances from banks.

Investments are recorded at fair value using quoted market prices, where possible. For investments without an active market, pricing information is obtained using external and independent pricing services, broker quotes or valuation models. This incorporates 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 to calculate the fair value.

Under IFRS, loans and advances from banks are held at amortised cost. Under the BMA regulatory regime, loans and advances due from banks are valued at fair value.

Derivatives are held at fair value under both IFRS and on the EBS. However, the presentation is different. Under IFRS, derivative assets and derivative liabilities are presented separately, whilst under the BMA guidance, derivatives are presented net within total assets.

Intangible assets

Intangible assets recognised on the IFRS balance sheet are removed from the EBS in accordance with BMA guidance.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term liquid investments, and fixed interest deposits. The IFRS valuation is considered to approximate fair value.

Investment properties

Investment properties are property portfolios in Dutch, Belgian and German commercial and mixed-use properties. They are principally retail properties, offices, and residential properties and are held for long-term rental yields and are not occupied by the group. The IFRS valuation provides a reasonable basis for the fair valuation. Under IFRS, investment properties are measured initially at cost, including transaction costs. After initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Therefore, there are no EBS adjustments made to investment properties. The offices occupied by Athora Belgium are part of one office block. The office block is split between owner occupied and investment property. Under IFRS the owner-occupied portion is valued at cost less depreciation; under BMA guidance the owner occupied portion is fair valued.

Other

Other includes deferred tax assets, collateral held and other receivables. These are valued on an IFRS basis which is deemed a reasonable proxy for fair value, given the nature of these assets. To calculate the EBS position, prudential filters are applied to eliminate assets which do not have a readily realisable market value, such as prepaid and deferred expenses.

To calculate the EBS deferred tax asset/liabilities, the IFRS deferred tax asset/liability is adjusted to recognise the approximate impact of an increase or decrease in shareholders' funds arising from the transition from IFRS to EBS.

4.2 Technical provisions valuation bases

The valuation basis, 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.

The value of the technical provisions is calculated as the sum of the best estimate and a risk margin.

The best estimate provision (BEP) is defined as the average expected scenario. It is to be neither prudent nor optimistic. Assumptions are compared to actual experience and reviewed to consider any potential trend changes.

The risk margin represents the insurer's compensation for providing the required risk capital for the non-hedgeable risks such as longevity, lapse, expense and operational risks. A risk margin is added to the BEP to be consistent with non-liquid markets. It is defined as the cost of non-hedgeable risks, that is, a margin added to the expected present value of liability cash flows required to manage the business on an ongoing basis. It is deemed to be the present value of the cost of future economic capital requirements (based on BSCR) for non-hedgeable risks.

Technical provisions are calculated in accordance with regulatory requirements including the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011, as well as in line with professional practices.

This section provides a summary of the EBS technical provisions including the assumptions and methodologies used to derive the value of the technical provisions and the level of uncertainty in technical provisions.

Proportionality

The technical provisions are determined using appropriate data, assumptions and methods that are proportionate to the nature, scale and complexity of the risks underlying the insurance contracts.

Expert judgement

The valuation of the technical provisions requires expert judgement, notably when historical data is not sufficient to predict future trends. When necessary, expert judgements are validated within the appropriate governance and in line with professional practices and regulatory requirements.

Cashflow modelling approach

Athora utilises the actuarial cashflow projection models used in the local business units for local statutory and regulatory reporting, mainly Solvency II cash-flows in European entities.

A cash flow projection model is used to calculate BEP. This projects cash inflows and outflows required to meet obligations to policyholders over the lifetime of the policy, taking into account the undertaking's regulatory duty to treat its customers fairly.

The projection of future cash flows is performed using realistic assumptions regarding future experience. The key relevant assumptions include mortality, longevity, lapse rates and option take-up rates with allowance for any expected trends. An allowance is also made for future expenses. The table on the right sets out the material cash in/out flows.

Contract boundaries

The calculation of the best estimate provision allows for the future boundaries of the insurance contracts. A boundary exists where the insurance company has a unilateral right to terminate the contract, refuse premiums payable under the contract, stop paying claims on the policy or has the unilateral right to amend the premiums or benefits in a way that the premiums fully reflect the risks.

Financial options and guarantees

Where options and guarantees are part of the insurance contracts, a stochastic approach is used to value these options and guarantees.

Cashflows in scope for best estimate provision

The table below summarises the cashflows in scope of the liability cashflow projection models. These cashflows are provided by homogenous risk groups and the subsequent best estimate provision is calculated. This is produced in order to allocate the best estimate provision to the relevant lines of business, as required for regulatory reporting.

Cash in-flows	Cash outflows
Future policyholder premiums inside of the contract boundary	Benefit payment including: ▪ Claims payments ▪ Maturity benefits ▪ Death benefits ▪ Critical Illness benefits ▪ Surrender benefits ▪ Annuity payments ▪ Guarantee payments ▪ Profit sharing payments
Annual management charges for unit-linked business	Expenses including: ▪ Administration expenses ▪ Investment management expenses ▪ Commission payments
Claims and benefits arising from reinsurance contracts	Future reinsurance premiums and commissions
Floating leg payments on longevity swaps	Fixed leg payments on longevity swaps

Discount rates

The BEP considers the time value of money using relevant risk-free interest rate term structures with an appropriate illiquidity premium. The BMA permits the use of two methods, which are described in the BMA's guidance for Commercial Insurers and Groups (dated 30 November 2016).

- Standard approach
  utilises interest rates prescribed by the BMA which are risk free rates plus an illiquidity premium.

- Scenario based approach (SBA) utilises the actual portfolio of assets backing the liabilities to derive a best estimate liability valuation. This valuation represents the assets necessary to cover all liability cashflows included in the SBA. The valuation captures the interest rate sensitivity, and the degree of cashflow mismatch, of assets and liabilities included in the SBA.

The best estimate provision for liability cashflows that are suitable for a cashflow matching strategy is valued using the SBA. Moreover, assets used in the SBA meet eligibility criteria as prescribed by the BMA which requires the assets to be of high quality and with well-established certainty for timing of the cashflows. This is consistent with the investment strategy employed by Athora which is focused on producing stable and predictable spread generation for its diverse and expertly managed investment portfolio. The SBA requires that we project the assets assuming appropriate levels of defaults for each individual asset class and to allow for the actual fees that are expected to be incurred in deploying this investment strategy. The projection of the assets within the SBA is consistent with the current practices whereby local business units manage their asset portfolios to produce stable local solvency coverage ratios. The approach factors in planned transition to long-term strategic asset allocations. The BMA-prescribed stresses are onerous and are designed such that mismatch between assets and liabilities is penalised and is included in the best estimate.

Unit linked liabilities are also excluded as the value of the unit linked liabilities directly depends on the value of the corresponding unit linked assets.

Risk margin

The calculation of the risk margin involves projecting the non-hedgeable risks over the lifetime of the insurance business. Non-hedgeable risks are classified as insurance risks, operational risks and credit risks. The BMA guidelines state that market risk is not considered in the risk margin, where it can be assumed that the asset portfolio can be constructed to hold a risk-free portfolio. Appropriate risk drivers are used to project the non-hedgeable risks and the projected risks are aggregated using a correlation matrix at each future time point to derive the risk margin. The rate used to discount the projected non-hedgeable risks is the basic risk-free rate (floored at zero), as prescribed by the BMA.

The risk margin is calculated using a cost of capital approach. For all insurance companies the cost of capital rate used is 6%, as prescribed by the BMA.

Assumptions

The cashflows underlying the BEP are based on unbiased prevailing assumptions and take into account all future cashflows needed to settle future insurance obligations.

The table below contains the main assumptions used in the calculation of the best estimate provision.

Economic assumptions	Non-economic assumptions
Risk-free rates	Mortality rates
Credit spreads	Morbidity rates
Expense Inflation	Persistency
Tax	Annuity take-up rates
Asset volatility and correlations	Operating and investment management expenses

Economic assumptions are reviewed and calibrated quarterly. In order to derive the BEP, assumptions are made about the asset performance of the company. This requires consideration of the development of capital markets and assumptions on the company's investment strategy and asset portfolio and allocation.

Non-economic assumptions are reviewed at least annually to ensure that they remain appropriate and reflect recent experience. These assumptions are determined based on past, current, and expected future experience. Data used to set assumptions may come from both credible internal and external sources. Recent trends in the insurance book or the wider population are monitored and considered when reviewing best estimate assumptions.

Expert judgement is used, or combined with quantitative information, where there is a lack of sufficient quality data. Any expert judgement used in setting assumptions is derived from a 'fit and proper person' with the proficiency and experience necessary. These assumptions are reviewed by the group and Guidance on assumption setting is provided by the Group Chief Actuary. By following this assumption framework, Group Actuarial has oversight of all material assumption changes in local entities.

The appropriateness of the non-economic actuarial assumptions is assessed by the Group Chief Actuary as part of the reserving adequacy review.

Level of uncertainty associated with technical provisions

The best estimate provision corresponds to the probability-weighted average of future cashflows that considers the time value of money and reflects expectations of how the capital markets and the business will evolve in the future. This gives rise to inherent uncertainty in the valuation of the technical provisions.

All assumptions and estimates about future behaviour are based on management's views and predictions of future events based on current knowledge, facts, and circumstances at the valuation date. The list below sets out some of the key estimates and assumptions that underpin the value of the technical provisions and could give rise to some uncertainty in the valuation:

- Uncertainty in future policyholder behaviour—e.g. actual lapse rates being different to those expected when setting the assumptions.
- Uncertainty in the future biometric assumptions and future trends such as life expectancy.
- Change in the asset values used to determine future claims amounts and the cost of any guarantees.
- Changes in the level of risk-free interest rates which may change over time and be different to expectations at the valuation date.
- Changes in legislation relating to supervision of insurance entities or tax.

Technical provisions overview

The table below summarises Athora's technical provisions as at 31 December 2020:

Insurance Provisions	€m
Insurance provisions	47,124
Reinsurance asset	1,158
Net best estimate provisions	48,282
Risk margin	1,281
Liabilities attributable to policyholders and third parties*	14,102
	63,665

* Includes unit-linked

4.3 Recoverables from reinsurance contracts valuation bases

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

Reinsurance recoverables are calculated using the same principles as those used to calculate the gross reserves. The cashflows underlying the recoverable are based on unbiased prevailing assumptions and take into account all future cashflows needed to settle future insurance obligations.

4.4 Valuation bases, assumptions and methods of other liabilities

Financial liabilities

Financial liabilities are made up of collateral held, deposits, repurchase agreements and borrowings. Under IFRS the borrowings are valued at amortised cost. Fair value adjustments have been applied to calculate the EBS valuation.

Insurance and reinsurance payables

These payables relate to claims arising out of insurance and reinsurance operations and other operational payables. For these liabilities, the IFRS valuation policy is considered to be a close approximation to fair value, and therefore sufficient for EBS purposes.

Other

Other comprises accounts payable, accruals, tax payable, deferred tax liabilities and provision for pension obligations. IFRS valuation is considered to be a close approximation to fair value, and therefore sufficient for EBS purposes.

4.5 Any other material information

The impact of Covid-19 on the fair value of assets and economic parameters such as interest rates and credit spreads has been reflected in the financial statements. The ongoing impact of Covid-19 on lapse, paid up, mortality and morbidity rates during the course of 2020 has not been material and Covid-19 has not directly led to a change in these assumptions. Athora continues to closely monitor the development of Covid-19 and the potential implications on the fair value of assets and the assumptions used to value the liabilities.

5. CAPITAL MANAGEMENT

5.1 Eligible capital

5.1.1 A description of the capital management policy and process of the insurance group to determine capital needs for business planning, how capital is managed and any material changes during the reporting year

Athora manages capital within the constraints, preferences and requirements of our stakeholders. The primary objective of the group's capital management policy is to ensure that a strong financial position is maintained and unwanted capital volatility minimised. The group has adopted the *Athora Group Capital Management Policy* which sets out its capital management process.

The aims of the capital management policy are:

1. **Capital adequacy**: ensure a robust capitalisation of the group and of all local entities to withstand moderate, substantial and severe stress events.
2. **Capital generation:** ensure sufficient capital is available for local entities to pursue an investment and underwriting strategy that will deliver returns that meet or exceed our return on capital targets and therefore make a positive contribution to distributable capital.
3. **Financial flexibility:** provide sufficient flexibility for the group and each local entity balance sheet to take advantage of market opportunities that might arise with attractive return expectations.
4. **Efficient use of capital:** capital is deployed at any point in time to achieve adequate returns.

The group's Balance Sheet Management and Risk Committees, together with the Board, regularly consider capital assessments and projections for the group to ensure that capital is managed with continuous adherence to the group'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 group performs capital projections over the business planning period. The projections take into account the current and expected business strategy, risk profile and capital management activities. This exercise allows the Board to make an assessment of the group's current and projected solvency needs and helps trigger appropriate and timely capital management actions, where required. The capital management plan is regularly monitored and updated to reflect up to date information and the performance of the business.

Changes during the reporting period

In February 2020, we secured €1.8 billion in equity capital commitments from new and existing shareholders, bringing our total committed equity capital raised to €4 billion. During the year we called €2.8 billion of this, bringing our total issued equity capital to €3.5 billion. €500 million in equity capital commitments remain undrawn and available to the group.

Together with the proceeds from €0.5 billion of debt financing, the additional equity capital drawn was partially used to support our acquisition of Athora Netherlands and a subsequent capital injection into that business in April. It also provides ongoing support for our other subsidiaries and will enable us to continue to develop our business.

Athora's required capital is calculated using the BMA's regulatory capital requirements i.e., the enhanced capital requirement (ECR). The table below summarises Athora's capital position on an EBS basis at 31 December 2020.

Capital	€m
Available statutory capital	5,888
ECR	2,435
Surplus	**3,453**
Solvency ratio	242%

5.1.2 A description of the eligible capital of the insurance group categorised by tiers in accordance with the group rules

The BMA has a three-tiered capital system to assess the quality of capital resources that an insurance group has available to meet its capital requirements. The tiered capital system classifies all capital instruments into one of three tiers based on their 'loss absorbency' characteristics with the highest quality capital classified as Tier 1 capital and lesser quality capital classified as either Tier 2 capital or Tier 3 capital. Only Tier 1 and Tier 2 capital are admissible to cover the Minimum Margin of Solvency (MSM), whereas all tiers of capital are admissible to cover the ECR, subject to percentage admissibility limits defined by the BMA. See section 5.1.3 for further details.

At 31 December 2020, Athora's eligible capital was categorised as shown in the table below:

	€m
Tier 1	5,034
Tier 2	854
Tier 3	-
	5,888

At 31 December 2020, Athora's eligible capital was primarily categorised as Tier 1, the highest quality capital, mainly consisting of common share capital and share premium, statutory surplus, preferred shares and restricted tier 1 notes (which are classified as Tier 1 ancillary capital). At 31 December 2020, Tier 2 capital of €854 million related to three subordinated debt instruments. See Section 5.1.6 below for further details.

5.1.3 A description of the eligible capital categorised by tiers, in accordance with the Group Rules used to meet the ECR and the MSM defined in accordance with section (1) (1) of the Insurance Act

As at 31 December 2020, the group's eligible capital for its MSM and ECR was categorised as follows:

	MSM limits	ECR limits	MSM €m	ECR €m
Tier 1	80% (min)	60% (min)	5,034	5,034
Tier 2	20% (max)	40% (max)	854	854
Tier 3	-	15% (max)	-	-
			5,888	**5,888**

Under the percentage admissibility limits for the ECR defined by the BMA, at 31 December 2020 the group has unused incremental Tier 2 capacity available of €2,502 million and unused incremental Tier 3 capacity available of €1,039 million.

5.1.4 Confirmation that the insurance group's eligible capital is subject to transitional arrangements as required under the group rules

Athora has no eligible capital subject to transitional arrangements.

5.1.5 Identification of any factors of the insurance group affecting encumbrances affecting the availability and transferability of capital to meet the ECR

Under the regulatory assessment of encumbrances prescribed by the BMA, all of Athora's capital is deemed unencumbered.

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

In line with the approval received from the BMA, Athora recognises the instruments described below as Tier 1 and Tier 2 ancillary capital.

Tier 1 Ancillary capital instruments

Issuer	Instrument type	Issue date	Amount recognised
AHL	Preferred shares	27 March 2020	€384m
Athora Netherlands N.V.	Restricted Tier 1 note	19 June 2018	€245m

On 27 March 2020, Athora Holding Ltd. issued 3,750,000 preferred shares at a discount with a stated value of €100 per share. The preferred shares have a dividend rate of 8% per annum. Dividends are fully discretionary and if declared Athora can elect to pay in cash or in kind via issuance of additional preferred shares. Dividends not declared are non-cumulative. A dividend of €15 million was declared by the Board on 11 September 2020 and paid in kind by the pro rata issuance of a further 149,995 preferred shares. The preferred shares are recognised as Tier 1 Eligible Capital.

Through its subsidiary, Athora Netherlands N.V., the group has a Restricted Tier 1 note in issue with nominal value of €300 million. The note is perpetual and first callable in 2025 and each interest payment date thereafter, subject to conditions of redemption. The coupon is fixed at 7% per annum until the first call date. Athora Netherlands may at its sole and absolute discretion at any time elect to cancel any coupon payment (or part thereof) which would otherwise be payable on any payment date.

Tier 2 Ancillary capital instruments

Issuer	Instrument type	Issue date	Amount recognised
Athora Netherlands N.V.	US$575m subordinated notes	16 November 2017	€488m
SRLEV N.V.	€250m subordinated bonds	15 April 2015	€268m
SRLEV N.V.	CHF 105m perpetual bonds	19 July 2011	€98m

Athora Netherlands' $575 million perpetual subordinated notes carry a coupon fixed at 6.250% per annum until the first call date (November 2022). The notes are first callable after five years and each fifth anniversary thereafter, subject to conditions to redemption. The notes qualify as Tier 2 regulatory capital.

At 31 December 2020, SRLEV N.V.'s (a subsidiary of Athora Netherlands) €250 million subordinated bonds, with a maturity date in 2041 and a coupon of 9.000%, were classified as Tier 2 regulatory capital under the group's BMA regulatory framework. On 15 April 2021, these bonds were redeemed in full at their principal amount outstanding together with accrued and unpaid interest. Further details, including on the refinancing of these bonds, are set out in section 6.1.6.

SRLEV N.V.'s CHF105 million perpetual subordinated bonds carry a coupon of mid-swap plus 5.625% and are callable annually. The bonds qualify as Tier 2 regulatory capital.

5.1.7 Identification of differences in shareholders' equity as stated in the financial statements versus available statutory capital and surplus

The most significant differences in shareholders' equity as stated in the IFRS financial statements versus the available statutory capital and surplus are due to the impact of employing statutory based technical provision valuation techniques and the reclassification of subordinated liabilities.

The following table sets out the reconciliation of IFRS total equity to available statutory capital at 31 December 2020:

	€m
IFRS total equity	4,254
Non-admitted assets net of tax	(266)
Adjustment to EBS	
Insurance assets and liabilities valuation differences	1,663
Financial asset and liabilities valuation differences	(33)
Reclassification of subordinated liabilities	854
Net deferred tax on valuation differences	(584)
Available statutory economic capital and surplus	**5,888**

Following finalisation of the EBS, certain line items in the reconciliation above have been updated from the estimates previously reported in the group's IFRS financial statements for the year ended 31 December 2020 included in the 2020 Annual Report. There has been no impact on IFRS total equity or available statutory capital and surplus.

5.2 Regulatory capital

5.2.1 Identification of amount of the insurance group ECR and MSM at the end of the reporting period

Athora uses the BSCR Model to determine the ECR.

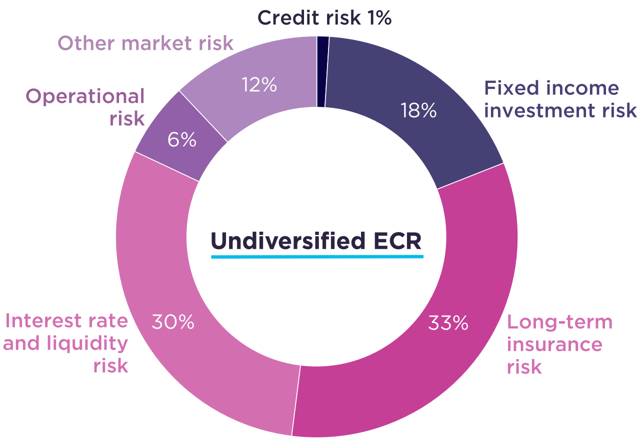
The ECR is calculated by populating the BSCR model provided by the BMA. This calculates capital requirements for market risks, credit risks, long term insurance risks and operational risks. These main risks have sub-risks, which are aggregated using correlation matrices. The sub-risks within market risks include fixed income risk, equity risk, currency risk, concentration risk and interest rate risk. The sub-risks within insurance risks include mortality, morbidity and disability, longevity, stop loss, riders, variable annuity guarantee and other long term insurance risks. As Athora does not write property and casualty (P&C) business, it has no capital requirement in respect of P&C risks.

These capital requirements are calculated by applying capital factors or stresses to the exposure. The aforementioned capital factors are prescribed by the BMA, with the exposures being populated by Athora in line with BMA guidance. The BMA correlation matrices applied are prescribed by the BMA.

At 31 December 2020 Athora's regulatory capital requirements were assessed as follows:

	€m	Ratio
MSM	1,408	418%
ECR	2,435	242%

The chart below shows the composition of the group's undiversified ECR by BSCR risk category[1] at 31 December 2020.



The most significant contribution to the total undiversified ECR comes from market risk, which accounts for 60%:

- Interest rate and liquidity risk represents 30% of the total undiversified BSCR.
- Fixed income investment risk (18% of total undiversified BSCR): captures the market risks linked to fixed-income securities (except for interest rate risks which are assessed separately) and is a core risk for Athora given our risk profile and appetite (see section 3 for further details).
- Other market risks (12% of total undiversified BSCR): comprises equity and property risks (11% of total undiversified BSCR) and concentration risk (<1% of total undiversified BSCR).

The second most significant contribution comes from long-term insurance risk, which accounts for 33% of the total undiversified BSCR and is comprised of the following sub-risks: longevity (15% of total undiversified BSCR), mortality (1% of total undiversified BSCR), morbidity and disability (<1% of total undiversified BSCR), and other insurance risks (16% of total undiversified BSCR).

Credit risk (1% of total undiversified BSCR) has a relatively low weight in the total BSCR as under the BSCR model, credit risk covers mainly reinsurance and receivables exposures only. Credit risk linked to investment assets is captured in the BSCR model under fixed income investment risk (see market risks above).

Finally, operational risk has a weight of 6% in the total undiversified BSCR, which reflects our low to medium risk appetite to this risk category (see section 3 of this FCR for further details).

5.2.2 Identification of any non-compliance by the insurance group with the MSM and the ECR

Not applicable.

5.2.3 A description of the amount and circumstances surrounding the insurance group's non-compliance, the remedial measures taken and their effectiveness

Not applicable (see 5.2.2).

5.2.4 Where the non-compliance has not been resolved, a description of the amount of the non-compliance of the insurance group at the end of the reporting year

Not applicable (see 5.2.2).

5.3 Group solvency sensitivities

Sensitivities

In addition to the examination of the best estimate scenario, Athora performs a thorough analysis of the resilience of the group's solvency ratio in alternative scenarios. As Athora's business model is sensitive to interest rate and credit spread movements, specific sensitivities are performed to ensure these features are modelled appropriately.

Interest rate risk

Due to the long-term nature of the life insurance portfolio, the group solvency ratio is sensitive to interest rate movements. Interest rate risk is defined as the sensitivity of the change in value of assets and liabilities to a given interest rate movement. This sensitivity is mitigated by the use of long-term assets and interest rate derivatives to hedge the insurance cash flows including those which have guarantees and profit-sharing. Each of Athora's operating entities implements an asset liability management hedging programme to mitigate solvency volatility linked to interest rate movements. As the majority of the group's operating entities are domiciled in the EU and operate under Solvency II, interest rate risk management is primarily designed to minimise entities' Solvency II balance sheet volatility.

[1] See Appendix 2 for a mapping between the BSCR risk categories and the categories in Athora's Risk Universe.

The group solvency ratio at 31 December 2020 of 242% is well above the group risk appetite thresholds. Athora monitors the group solvency ratio volatility linked to interest rates and will consider additional interest rate hedging to minimise the volatility of the group's solvency ratio, notably if the group solvency ratio gets closer to risk appetite thresholds.

	Solvency ratio	Solvency ratio change
FY 2020	242%	0%
Interest Rate +50bps	262%	20%
Interest Rate -50bps	225%	-17%

Spread risk

Spread risk is defined as the sensitivity of the value of assets and liabilities to changes in the level or volatility of the credit spread. The spread risk for the insurance portfolio arises in the investment portfolio, which includes loans, corporate, securitisation and government bonds that are sensitive to changes in credit spreads relative to the economic valuation of the group's liabilities. The SBA sensitivities do not assume any dampening effects and reflect only the expected impact of our own portfolio as well as the management actions expected in case of credit spread movements.

The 31 December 2020 sensitivities below illustrate the resilience of the group solvency ratio even in the event of material credit spread movements.

	Solvency ratio	Solvency ratio change
Spread +50bps	255%	13%
Spread -50bps	231%	-11%

Underwriting (long-term insurance) risk

The value of the life insurance portfolio is also sensitive to changes in the underwriting parameters used for calculating the market value of liabilities. As the group solvency ratio is mainly sensitive to interest rates and spreads, no sensitivities are currently disclosed for insurance risks.

5.4 Approved internal capital model to derive the ECR

Not applicable (see 5.2.1).

5.5 Any other material information

There is no other material information to report.

6. SUBSEQUENT EVENTS

6.1 Description of the subsequent events

6.1.1 Acquisition of real estate groups

On 7 January 2021, the group acquired controlling interests in the following three entities (including their subsidiaries):

- OXW Catalina UK Midco Ltd;
- Oxenwood Catalina Germany Holdco S.À R.L.; and
- Oxenwood Catalina Poland Holdco S.À R.L.

The activities of these groups consist exclusively of the ownership and operation of real estate. The purchase consideration of €182 million was paid in cash on 7 January 2021. A contingent consideration arrangement requires the group to pay to the vendors an amount of €5 million on extension of identified lease contracts and completion of the sale of a specified property by the prescribed period.

Due to the limited time available between the acquisition and the approval of the group's financial statements for the year ended 31 December 2020, the group is still in the process of establishing the fair value of the assets and liabilities acquired. Acquisition related costs of €7 million are included in other expenses for the year ended 31 December 2020.

6.1.2 Revolving credit facility

In February 2021, the group entered into a new €500 million unsecured revolving credit facility (RCF) with a group of credit institutions. This provides material additional liquidity resources to the group.

6.1.3 Sale of unit-linked guarantee portfolio by Athora Ireland plc

On 26 February 2021 Athora Ireland plc entered into a binding agreement for the sale of its unit-linked guarantee portfolio (ULG). On the same day, Athora Ireland plc entered into a contract to cede (retrospectively from 1 January 2021) risks not already ceded, including expense and longevity risks, that are associated with the ULG for the period to the completion date. The sale of ULG requires court and regulatory approvals and is expected to complete in late 2021.

6.1.4 Merger of key minority shareholders of AHL

On 8 March 2021, it was announced that Apollo Global Management, Inc. and Athene Holding Ltd. will merge. The deal is expected to be completed in January 2022, subject to the satisfaction of certain conditions.

6.1.5 Chief Financial Officer (CFO)

Thomas Stoddard served as interim Group CFO for the year to 9 March 2021. Anders Malmström joined as Group CFO on 1 May 2021, and will become a member of the MEC subject to regulatory approvals.

6.1.6 Refinancing of SRLEV subordinated bond

On 15 April 2021, SRLEV N.V. (SRLEV), a subsidiary of Athora Netherlands, announced the redemption of the outstanding €250 million of originally issued €400 million subordinated bonds due 2041. These bonds were redeemed in full at their principal amount outstanding together with accrued and unpaid interest.

On the same day, Athora Netherlands issued new €300 million subordinated notes. The new issuance pays an initial fixed rate coupon of 2.250% and has a 10-year maturity with a first call date at Year 5.

6.1.7 Ratings

In March 2021, AM Best upgraded the Insurer Financial Strength Ratings of Athora Life Re and Athora Ireland to A- from BBB+. The outlook is stable.

In May 2021, Fitch Ratings (Fitch) upgraded the Financial Strength Ratings of Athora Life Re, Athora Ireland and SRLEV to A- from BBB+. Fitch also upgraded the Issuer Default Ratings of AHL and Athora Netherlands to BBB+ from BBB. The rating outlook of Athora and its subsidiaries has been revised from stable to positive.

Achieving A- financial strength ratings is an important step towards meeting the group's target of 'A' range ratings.

6.2 Any other material information

There is no other material information to report.

DECLARATION

We, the Chief Executive Officer and Chief Risk Officer of Athora Holding Ltd., do hereby certify that to the best of our knowledge and belief, this Financial Condition Report fairly represents the financial condition of Athora Holding Ltd. in all material respects.

Signed: ___________________________________

Name: Michele Bareggi

Title: Group Chief Executive Officer

Date: 24 May 2021

Signed: ___________________________________

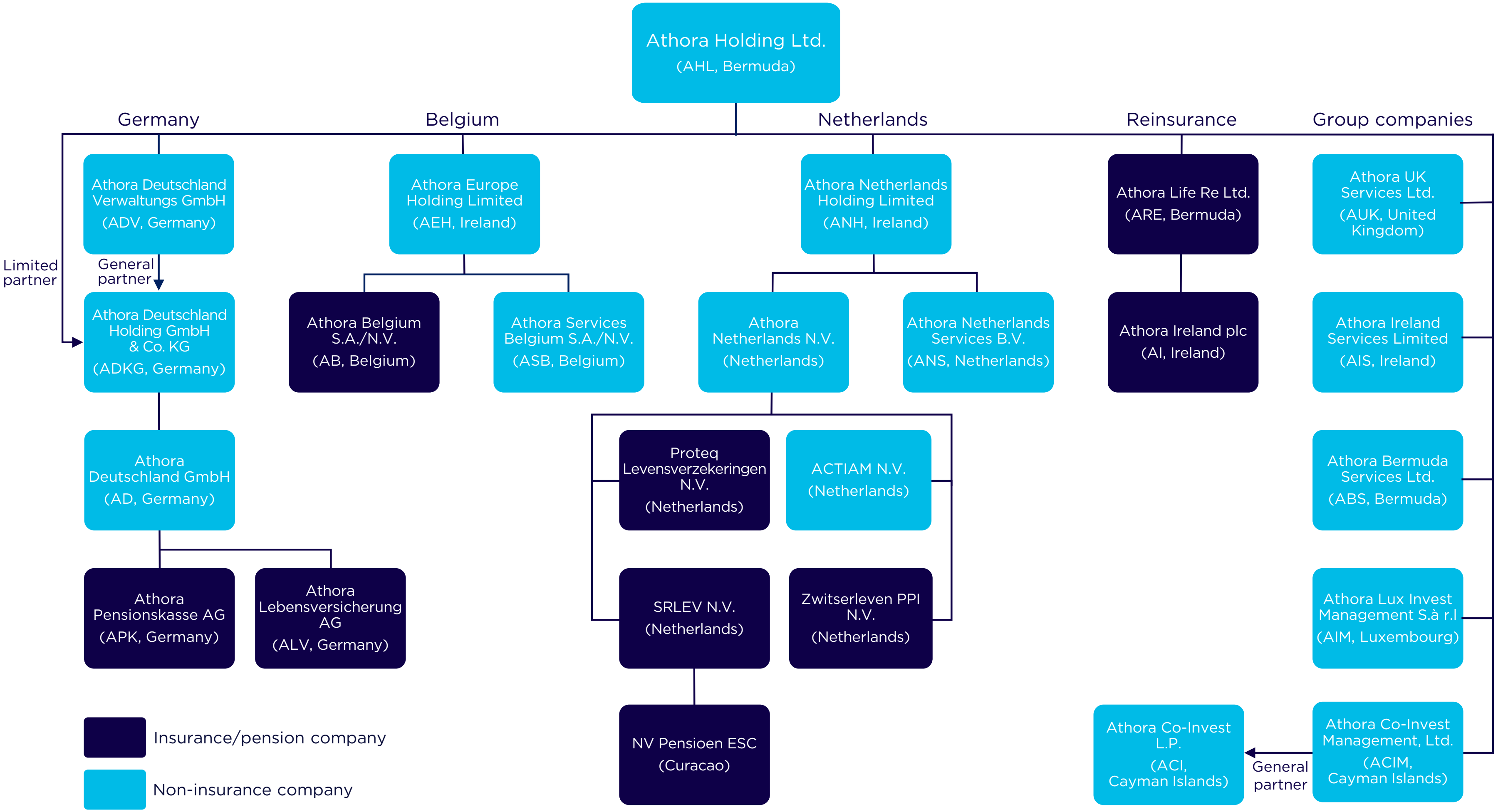
Name: Lukas Ziewer

Title: Group Chief Risk Officer

Date: 24 May 2021

ATHORA SIMPLIFIED GROUP STRUCTURE

As at 31 December 2020



APPENDIX 2

A mapping between the BSCR risk categories and the Athora Risk Universe is provided in the table below.

BSCR risk category	Athora risk category
Market risk	**Market risk**
Fixed income investment risk	Spread risk Default and migration risk
Equity investment risk	Equity risk Property risk
Interest rate and liquidity risk	Interest rate risk Liquidity risk
Currency risk	Currency risk
Concentration risk	Concentration risk
Credit risk	**Credit risk**
Long-term insurance risk	**Underwriting risk**
Mortality risk	Mortality risk
Morbidity and disability risk	Morbidity and disability risk
Longevity risk	Longevity risk
Other insurance risk	Policyholder behaviour risk Expense reserving risk
Stop loss risk Riders risk Variable annuity guarantee risk	Off-strategy underwriting risks
Operational risk	**Operational risk**

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