Consolidated Financial Statements

For the years ended December 31, 2011, 2010 and 2009

Table of Contents

Report of Independent Auditors 3

Consolidated Balance Sheets– December 31, 2011, 2010 and 2009 4

Consolidated Statements of Income– December 31, 2011, 2010 and 2009 5

Consolidated Statements of Comprehensive Income– December 31, 2011, 2010 and 2009 6

Consolidated Statements of Shareholders' Equity– December 31, 2011, 2010 and 2009 7

Consolidated Statements of Cash flows– December 31, 2011, 2010 and 2009 8

Notes to Consolidated Financial Statements 9

April 27, 2012

Independent Auditors' Report

To the Shareholders of
Athene Holding Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Athene Holding Ltd. and its subsidiaries at December 31, 2011, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

Chartered Accountants

"PwC" refers to PricewaterhouseCoopers (a Bermuda partnership), which is a member of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

ATHENE HOLDING LTD.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	December 31, 2011	December 31, 2010	December 31, 2009
Assets			
Cash and cash equivalents	$ 493,971	$ 32,378	$ 63,476
Restricted cash	6,803	75,549	—
Fixed income securities, available for sale, at fair value (amortized cost: 2011 - $5,783,546; 2010 - $258,085; 2009 - $28,062)	5,777,104	262,027	29,316
Fixed income securities, trading at fair value	2,163,258	—	—
Equity securities - affiliated, available for sale, at fair value (cost: 2011 - $39,393; 2010 - $0; 2009 - $0)	39,393	—	—
Equity securities - non-affiliated, available for sale, at fair value (cost: 2011 - $5,232; 2010 - $150,004; 2009 - $0)	5,208	149,390	—
Mortgage loans on real estate, net of allowances	231,861	—	—
Investments in partnership interests - non-affiliated	20,496	—	—
Investments in partnership interests - affiliated	34,347	—	—
Policy loans	116,794	118	—
Funds withheld at interest	1,852,591	1,445,419	782,842
Derivative assets	64,462	23,831	—
Total cash and investments	10,806,288	1,988,712	875,634
Accrued investment income	58,440	1,848	478
Reinsurance ceded receivables	1,959,769	—	—
Deferred policy acquisition costs	225,606	172,773	144,532
Other assets	48,121	273	383
Separate account assets	17,077	—	—
Total assets	$ 13,115,301	$ 2,163,606	$ 1,021,027
Liabilities and Shareholders' Equity			
Future policy benefits	$ 1,427,107	$ 250	$ —
Interest sensitive contract liabilities	10,037,892	1,793,569	904,187
Other policy claims and benefits	53,256	—	—
Unearned revenue reserves	3,566	—	—
Accrued taxes	13,400	—	—
Deferred tax liability	30,900	—	—
Borrowings under repurchase agreements	724,853	—	—
Note payable	40,000	—	—
Derivative liabilities	22,067	—	—
Other reinsurance balances payable	18,102	1,475	—
Other liabilities	77,688	16,590	3,418
Separate account liabilities	17,077	—	—
Total liabilities	12,465,908	1,811,884	907,605
Commitments and contingent liabilities			
Note receivable	(98,000)	—	—
Non-controlling interest - Mezzanine	98,000	—	—
Shareholders' Equity:			
Share capital	65	36	15
Additional paid-in-capital	594,497	297,609	96,142
Retained earnings	50,317	50,749	16,011
Accumulated other comprehensive income	2,621	3,328	1,254
Total shareholders' equity	647,500	351,722	113,422
Non-controlling interests	1,893	—	—
Total equity	649,393	351,722	113,422
Total liabilities and equity	$ 13,115,301	$ 2,163,606	$ 1,021,027

See accompanying notes to consolidated financial statements.

ATHENE HOLDING LTD.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands)

	For the years ended December 31,		
	2011	**2010**	**2009**
Revenues:			
Investment income, net of related expenses	$ 196,831	$ 30,848	$ 5,518
Investment related (losses) gains, net:			
Other-than-temporary impairments on available for sale securities	(38,429)	—	—
Other-than-temporary impairments on available for sale securities transferred to Other Comprehensive Income	15,788	—	—
Other investment related (losses) gains, net	(27,194)	124,238	29,510
Total investment related (losses) gains, net	(49,835)	124,238	29,510
Net premiums	(1,114,858)	—	—
Annuity product charges	28,709	3,524	131
Bargain purchase gain	127,894	—	—
Other revenues	831	—	—
Total revenues	(810,428)	158,610	35,159
Benefits and Expenses:			
Claims and other policy benefits, net of ceded	(1,115,243)	250	—
Interest credited	203,749	73,751	10,153
Policy acquisition costs and other insurance expenses	29,808	16,107	1,160
Interest expense	6,649	—	—
Other operating expenses	61,509	33,764	7,835
Total benefits and expenses	(813,528)	123,872	19,148
Income from operations before income taxes and attribution to non-controlling interests	3,100	34,738	16,011
Provision for income taxes	(3,532)	—	—
Net (loss) income before attribution of non-controlling interests	(432)	34,738	16,011
Income attribution to non-controlling interests	—	—	—
Net (loss) income after attribution of non-controlling interests	$ (432)	$ 34,738	$ 16,011

See accompanying notes to consolidated financial statements.

ATHENE HOLDING LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	For the years ended December 31,		
	2011	2010	2009
Comprehensive income:			
Net (loss) income	$ (432)	$ 34,738	$ 16,011
Other comprehensive income, net of deferred tax:			
Change in unrealized investment gains	15,081	2,074	1,254
Noncredit component of other-than-temporary impairment losses, available for sale	(15,788)	—	—
Total other comprehensive (loss) income	(707)	2,074	1,254
Total comprehensive (loss) income	$ (1,139)	$ 36,812	$ 17,265

See accompanying notes to consolidated financial statements.

ATHENE HOLDING LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Share capital	Additional paid-in capital	Retained earnings	Accumulated comprehensive income (loss)	Total
Balance, January 1, 2009	$ —	$ —	$ —	$ —	$ —
Net income for the year	—	—	16,011	—	16,011
Other comprehensive income	—	—	—	1,254	1,254
Issuance of common stock, net of expenses	15	96,142	—	—	96,157
Balance, December 31, 2009	15	96,142	16,011	1,254	113,422
Net income for the year	—	—	34,738	—	34,738
Other comprehensive income	—	—	—	2,074	2,074
Issuance of common stock, net of expenses	21	201,467	—	—	201,488
Balance, December 31, 2010	36	297,609	50,749	3,328	351,722
Net loss for the year	—	—	(432)	—	(432)
Other comprehensive loss	—	—	—	(707)	(707)
Issuance of common stock, net of expenses	29	296,888	—	—	296,917
Balance, December 31, 2011	**$ 65**	**$ 594,497**	**$ 50,317**	**$ 2,621**	**$ 647,500**

See accompanying notes to consolidated financial statements.

ATHENE HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For the years ended December 31,		
	2011	2010	2009
Cash Flows from Operating Activities:			
Net (loss) income	$ (432)	$ 34,738	$ 16,011
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Accrued investment income	(8,745)	(1,370)	(478)
Deferred policy acquisition costs & unearned revenue reserves	(44,468)	(28,241)	(144,532)
Ceding commission on coinsurance	225,109	—	—
Future policy benefits, other claims and benefits and other reinsurance balances	197,362	64,124	68,414
Accrued income taxes	(13,214)	—	—
Deferred income taxes	(8,151)	—	—
Other assets and other liabilities, net	(33,773)	13,282	3,035
Amortization of net investment premiums, discounts and other	(19,058)	(3,558)	(19)
Bargain purchase recognized on acquisition	(127,896)	—	—
Non-cash changes in net investment income	(1,958)	—	—
Investment related gains (losses), net	43,253	(124,238)	(29,509)
Net cash provided by (used in) operating activities	208,029	(45,263)	(87,078)
Cash Flows from Investing Activities:			
Sales and maturities of fixed income securities	3,958,539	188,497	13,233
Purchases of fixed income securities	(6,552,732)	(410,148)	(41,124)
Sale of equity securities	149,990	—	—
Purchases of equity securities	(54,967)	(150,004)	—
Net cash settlement relating to derivatives	(77,460)	—	—
Cash invested in mortgage loans	(193,307)	—	—
Principal payments on mortgage loans	1,644	—	—
Purchase of call options	(26,171)	—	—
Maturity of call options	45,657	—	—
Cash invested in funds withheld at interest	(396,015)	(624,338)	(753,485)
Withdrawals from funds withheld at interest	31,151	67,354	—
Acquisition of subsidiaries, net of cash acquired	1,001,612	—	—
Changes in policy loans, net	3,898	(118)	—
Change in investments in partnership interests	(50,695)	—	—
Change in restricted cash	68,746	(75,549)	—
Net cash used in investing activities	(2,090,110)	(1,004,306)	(781,376)
Cash Flows from Financing Activities:			
Capital contributions	296,779	201,488	96,157
Proceeds from PLIC Surplus note	40,000	—	—
Repayment of surplus note	(398,183)	—	—
Deposits on investment-type policies and contracts	2,171,076	871,795	839,095
Withdrawals on investment-type policies and contracts	(489,944)	(44,812)	(3,322)
Proceeds from borrowings under repurchase agreements	724,853	—	—
Net changes of cash collateral posted for derivative transactions	(907)	(10,000)	—
Net cash provided by financing activities	2,343,674	1,018,471	931,930
Change in cash and cash equivalents	461,593	(31,098)	63,476
Cash and cash equivalents, beginning of period	32,378	63,476	—
Cash and cash equivalents, end of period	$ 493,971	$ 32,378	$ 63,476
Supplementary information:			
Cash paid for taxes	$ 23,964	$ —	$ —
Cash paid for interest	9,864	—	—

See accompanying notes to consolidated financial statements.

1. Organization and Corporate Structure

Athene Holding Ltd. ("AHL") and its subsidiaries (collectively, "Athene" or the "Company") provides investment type insurance products focused principally on the retirement market and whose business, through its subsidiaries, centers primarily on issuing or reinsuring fixed and equity indexed annuities. The Company was formed to be a multi-platform provider of solutions to the growing need for tax efficient savings vehicles to support retiring baby boomers.

The Company was incorporated on September 3, 2008, as an exempted company in Hamilton, Bermuda. The Company is majority owned by Apollo Life Re Ltd. ("Apollo Life"), a company incorporated in the Cayman Islands.

On the June 9, 2009, the Company incorporated Athene Life Re Ltd. ("ALRe") as a Bermuda based exempted company. ALRe's core business is fixed deferred annuity reinsurance and its primary customers are life and annuity companies. Specific liabilities reinsured include equity indexed annuities ("EIAs"), multi-year guarantees ("MYGAs"), one-year guarantee and immediate fixed annuities ("ARs"), Guaranteed Investment Contracts ("GICs") and funding agreements ("FAs"). ALRe offers quota share reinsurance of future premiums ("flow transactions") and will also reinsure closed blocks of existing business ("block transactions").

On March 5, 2010, the Company incorporated Athene Life Insurance Company ("ALIC") under the laws of the State of Indiana, as a stock life insurance company. This subsidiary is focused on the institutional funding markets including funding agreements and funding agreement-backed notes to institutional investors. ALIC became a member of the Federal Home Loan Bank of Indianapolis ("FHLBI") in November 2010 and issued its first funding agreement to the FHLBI in January 2011.

On April 29, 2011, the Company acquired Liberty Life Insurance Company ("LLIC"), a South Carolina-domiciled subsidiary of Royal Bank of Canada ("RBC"). The aggregate consideration was $504.8 million. LLIC has a $2.8 billion block of fixed and indexed annuities and a substantial footprint in the United States with insurance licenses in 49 states and the District of Columbia. As part of the transaction, LLIC entered into a coinsurance agreement with Protective Life Insurance Company ("PLIC") pursuant to which all of LLIC's life and health business was ceded to PLIC. In addition, LLIC entered into a modified coinsurance agreement with ALRe, pursuant to which LLIC ceded 75% of its annuities to ALRe. On September 30, 2011 LLIC redomiciled to become regulated by the State of Delaware.

On February 1, 2012, LLIC was renamed Athene Annuity & Life Assurance Company ("Athene Annuity"). Since the acquisition, Athene Annuity has grown its business significantly, opening a retail sales and marketing office in Wilmington, Delaware and launching a focused portfolio of fixed annuity solutions. Athene Annuity provides added flexibility with respect to reinsurance transactions by giving potential ceding companies the option of facing a U.S. Athene counterparty. Athene Annuity is rated B++ (Very Good) by A.M. Best.

On July 18, 2011, the Company acquired Investors Insurance Corp. ("IIC"), a Delaware-domiciled life insurance company, from international reinsurer SCOR Global Life U.S. Re Insurance Company ("SGLUS"), for aggregate consideration of $52.1 million. IIC has a $1.4 billion block of fixed and indexed annuities and maintains licenses in 39 states and the District of Columbia. As part of the transaction, IIC entered into a modified coinsurance agreement with ALRe pursuant to which IIC ceded 80% of its annuities to ALRe.

Effective September 30, 2011, Athene restructured its acquired businesses to create an integrated U.S. insurance platform. As part of this restructuring, (i) IIC recaptured its annuities ceded to ALRe, (ii) IIC entered into a coinsurance agreement with Athene Annuity pursuant to which IIC ceded 95% of deferred annuities (the "IIC block") to Athene Annuity and (iii) Athene Annuity entered into a modified coinsurance agreement with ALRe pursuant to which Athene Annuity retroceded 80% of the IIC block to ALRe. All of the outstanding shares of IIC were contributed by AHL to Athene Annuity effective October 1, 2011. All of the outstanding shares of ALIC were contributed by AHL to Athene Annuity effective November 1, 2011.

2. Summary of Significant Accounting Policies

(a) Consolidation and Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are utilized in the calculation of deferred policy acquisition costs, deferred sales inducements, value of business acquired, future policy benefit reserves, valuation of derivatives, including embedded derivatives on index annuity products, valuation of investments, other-than-temporary impairment of investments and valuation allowances on deferred tax assets. A description of each critical estimate is incorporated within the discussion of the related accounting policies which follow. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, both direct and indirect, subject to an ownership position greater than fifty percent, and any variable interest entities where the Company is the primary beneficiary. Entities in which the Company has an ownership position greater than twenty percent or otherwise has the ability to exercise significant influence, but less than or equal to fifty percent are reported under the equity method of accounting. The Company evaluates variable interest entities in accordance with the general accounting principles for consolidation. Intercompany balances and transactions have been eliminated.

The Company has determined that there were no subsequent events, other than as disclosed in Note 21 — "Subsequent Events", that would require disclosure or adjustments to the accompanying consolidated financial statements through the date the financial statements were issued.

(b) Investments

Fixed Income Securities
Fixed income securities, available for sale are reported at fair value and are classified as such based on the Company's lack of positive intent to hold the securities until maturity. The Company manages its investment portfolio in order to achieve strong risk adjusted returns while meeting its liquidity needs due to operations and policyholder behavior.

Unrealized gains and losses on fixed income securities classified as available for sale, less related deferred income taxes and related adjustments to deferred policy acquisition costs, if applicable, are reflected in accumulated other comprehensive income ("AOCI") in shareholders' equity on the consolidated balance sheets.

Fixed income securities, trading are reported at fair value, with changes to fair value included in other investment related gains (losses), net within the consolidated statements of income. The Company has classified these securities as trading as we are focused on maximizing the return of these specific securities and do not satisfy the intent to hold criteria.

The Company records fixed income securities on a trade date basis.

Investment income is recognized as it accrues or is legally due and is net of investment management and custody fees. Realized gains and losses on sales of investments are included in other investment related gains (losses), net, as are changes in fair value of fixed income classified as trading, noted above, and declines in fair value of fixed income classified as available for sale that are determined by the Company to be other-than-temporary ("OTTI") in nature. Realized gains and losses on investments sold are determined based on a first in first out ("FIFO") method.

The Company records amortization of premiums and discounts using the effective interest method and are reported in investment income, net of related expenses on the consolidated statements of income.

Equity Securities
Equity securities and equity securities of affiliates are classified as available for sale and are reported at fair value on the Company's consolidated balance sheets with unrealized gains and losses, net of deferred income taxes and related adjustments to deferred acquisition costs, if applicable, reflected in AOCI. Changes in fair value of equity securities that are determined by the Company to be OTTI are recorded in other investment related (losses) gains, net on the consolidated statements of income.

The Company records equity securities on a trade date basis.

Mortgage Loans on Real Estate
Mortgage loans on real estate (including mezzanine) are carried at unpaid principal balances, net of any valuation allowances. Interest income is accrued on the principal amount of the loan based on its contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. The Company accrues interest on loans until it is probable the Company will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums and discounts and prepayment fees are reported in investment income, net of related expenses in the consolidated statements of income.

A loan is considered to be impaired when, based on the current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the mortgage agreement. Valuation allowances on mortgage loans are established based upon losses expected by management to be realized in connection with future dispositions or settlement of mortgage loans, including foreclosures. The Company establishes valuation allowances for estimated impairments on an individual loan basis as of the balance sheet date. Such valuation allowances are based on the excess carrying value of the loan over the present value of expected future cash flows discounted at the loan's original effective interest rate, the value of the loan's collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or the loan's market value if the loan is being sold. Any interest accrued or received on the net carrying amount of the impaired loan will be included in investment income, net of related expenses or applied to the principal of the loan, depending on the assessment of the collectability of the loan. Loans deemed to be uncollectible or that have been foreclosed are charged off against the valuation allowances and subsequent recoveries, if any, are credited to the valuation allowances. Changes in valuation allowances are reported in other investment related gains (losses), net on the consolidated statements of income. The Company has not recorded a valuation allowance as of December 31, 2011.

The Company evaluates whether a loan modification represents a troubled debt restructuring. In a troubled debt restructuring, the Company grants concessions related to the borrower's financial difficulties. Generally, the types of concessions include: reduction of the contractual interest rate, extension of the maturity date at an interest rate lower than current market interest rates and/or a reduction of accrued interest. The Company considers the amount, timing and extent of the concession granted in determining any impairment or changes in the specific valuation allowance recorded in connection with the troubled debt restructuring. Through the continuous monitoring process, the Company may have recorded a specific valuation allowance prior to when the mortgage loan is modified in a troubled debt restructuring. Accordingly, the carrying value (after specific valuation allowance) before and after modification through a troubled debt restructuring may not change significantly, or may increase if the expected recovery is higher than the pre-modification recovery assessment. None of the loans held by the Company have experienced a troubled debt restructuring since acquisition.

Investments in partnership interests
The Company has investments in certain investment funds of both affiliates and non-affiliates of the Company that are in the form of general and limited partnerships. These investments are recorded under the equity method of accounting whereby the Company records its cost in the partnership as a partnership investment interest asset and adjusts the carrying amount to its proportion of the net asset value of the partnership according to published financial statements of each respective entity. The Company's proportionate share of partnership income is recorded to the carrying basis of its partnership interest with recognition of income or charge to the consolidated statements of income consistent with the nature and classification recognized by the respective entity. Contributions paid or partnership distributions received by the Company are recorded directly to the partnership investment or as a return of partnership capital.

Policy Loans
Policy loans are reported at the unpaid principal balance. Interest income on such loans is recorded as earned using the contractually agreed upon interest rate. These policy loans present no credit risk because the amount of the loan cannot exceed the obligation due to the policyholder or ceding company upon the death of the insured or surrender of the underlying policy. Interest income is reported in investment income, net of related expenses on the consolidated statements of income.

Funds Withheld at Interest
Funds withheld at interest represent amounts contractually withheld by ceding companies in accordance with reinsurance agreements. For agreements written on a coinsurance funds withheld basis, assets equal to the net statutory reserves are withheld and legally owned by the ceding company. Interest accrues to these assets at rates defined by the treaty terms and is settled periodically. The underlying agreements are considered to include embedded derivatives, as further discussed in this Note.

Other-Than-Temporary Impairment
The Company identifies fixed income and equity securities that could potentially have credit impairments that are other-than-temporary by monitoring changes in fair value of its securities relative to the amortized cost of those securities.

The Company reviews all securities on a case-by-case basis to determine whether an OTTI exists and whether losses should be recognized through the consolidated statements of income. The Company considers relevant facts and circumstances in evaluating whether a credit or interest rate related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuer's financial position and access to capital; and (4) for fixed income securities, the Company's intent to sell a security or whether it is more likely than not it will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, the Company's ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent the Company determines that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

Impairment losses on fixed income securities recognized in the financial statements are dependent on the facts and circumstances related to the specific security. If the Company intends to sell a security or it is more likely than not that it would be required to sell a security before the recovery of its amortized cost, less any recorded credit loss, it recognizes an other-than-temporary impairment in other investment related gains (losses), net on the consolidated statements of income for the difference between amortized cost and fair value. If the Company does not expect to recover the amortized cost basis, it does not plan to sell the security and if it is not more likely than not that it would be required to sell a security before the recovery of its amortized cost, less any recorded credit loss, the recognition of the other-than-temporary impairment is bifurcated. The Company recognizes the credit loss portion in other investment related gains (losses), net and the non-credit loss portion in AOCI.

The Company estimates the amount of the credit loss component of fixed income security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The techniques and assumptions for establishing the best estimate cash flows vary depending on the type of security.

In periods after an other-than-temporary impairment loss is recognized on a fixed income security, the Company will report the impaired security as if it had been purchased on the date it was impaired and will continue to estimate the present value of the estimated cash flows of the security. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income over the remaining term of the fixed income security in a prospective manner based on the amount and timing of estimated future cash flows.

Impairment losses on equity securities are reported in other investment related gains (losses), net on the consolidated statements of income. The cost of other invested assets is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. These impairments are included within other investment related gains (losses), net and the cost basis of the investment securities is reduced accordingly. The Company does not change the revised cost basis for subsequent recoveries in value. However, the Company adjusts the cost basis for accretion or amortization.

See Note 3 — "Investments" for additional information regarding the Company's assessment of other-than-temporary impairments on its securities.

For the entire portfolio, the Company reviews the prices on each security at every month end and ensures that the pricing policy is followed. The Company also reviews for reasonableness the valuation of the price and questions any prices that do not align with expectations.

(c) Derivative Instruments

Overview
The Company utilizes a variety of derivative instruments including swaps and options primarily to manage or hedge interest rate risk, credit risk, inflation risk, foreign currency risk, market volatility and various other market risks associated with its business or to gain exposure to specific risks that the Company believes will yield favorable risk adjusted returns. It is the Company's policy to enter into derivative contracts primarily with highly rated parties. See Note 4 – "Derivative Instruments" for additional detail on the Company's derivative positions.

Derivative contracts can be exchange traded or over-the-counter ("OTC"). Exchange-traded derivatives (futures and options) typically fall within Level 1 of the fair value hierarchy (see Note 2(d) Fair Value Measurements) depending on whether they are deemed to be actively traded or not. OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources where an understanding of the inputs utilized in arriving at the valuations is obtained. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms and specific risks inherent in the instrument as well as the availability of pricing information in the market. The models are ensured to be market standard models implemented by market professionals, and benchmarked against other sources and prices of similar securities when such is available. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, interest rate swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment. Such instruments comprise the majority of derivatives held by the Company and are typically classified within Level 2 of the fair value hierarchy.

Certain OTC derivatives trade in less liquid markets with limited pricing information, or required model inputs which are not directly market corroborated, which causes the determination of fair value for these derivatives to be inherently more subjective. Accordingly, such derivatives are classified within Level 3 of the fair value hierarchy as further discussed in Note 2(d).

Accounting and Financial Statement Presentation of Derivatives
Derivatives are carried on the Company's consolidated balance sheets in derivatives asset and liabilities, at fair value. Certain derivatives are subject to master netting provisions and reported as a net asset or liability. On the date a derivative contract is executed, the Company designates the derivative as (1) a fair value hedge, (2) a cash flow hedge, or (3) free-standing derivatives held for other risk management purposes, which primarily involve managing asset or liability risks associated with the Company's reinsurance treaties which do not qualify for hedge accounting. Free standing derivatives also include derivatives that economically hedge interest rate risk and other cash flows risks but do not qualify for hedge accounting. The Company's policy is to align the derivative income with the consolidated statements of income line item for which it relates.

Under a fair value hedge, changes in the fair value of the hedging derivative, including any amounts measured as ineffective, and changes in the fair value of the hedged item related to the designated risk being hedged, are reported within investment related gains (losses), net.

Under a cash flow hedge, changes in the fair value of the hedging derivative measured as effective are reported within AOCI and the related gains or losses on the derivative are reclassified into the consolidated statement of income when the Company's earnings are affected by the variability in cash flows of the hedged item. Changes in the fair value of the hedging instrument measured as ineffective are reported within investment related gains (losses), net.

Changes in the fair value of free-standing derivative instruments, which do not receive hedge accounting are reflected in investment related gains (losses), net, and may create volatility in the Company's consolidated statements of income from period to period.

The Company discontinues hedge accounting prospectively when: (i) it is determined that the derivative is no longer highly effective in offsetting changes in the estimated fair value or cash flows of a hedged item; (ii) the derivative expires, is sold, terminated, or exercised; (iii) the derivative is de-designated as a hedging instrument.

When hedge accounting is discontinued because it is determined that the derivative is not highly effective, the derivative continues to be carried in the consolidated balance sheets at fair value, with changes in fair value recognized in investment related gains (losses), net. The carrying value of the hedged asset or liability under a fair value hedge is no longer adjusted for changes in its estimated fair value due to the hedged risk, and the cumulative adjustment to its carrying value is amortized into income over the remaining life of the hedged item. Provided the hedged forecasted transaction occurrence is still probable, the changes in estimated fair value of derivatives recorded in other comprehensive income ("OCI") related to discontinued cash flow hedges are released into the consolidated statement of income when the Company's earnings are affected by the variability in cash flows of the hedged item.

In all other situations in which hedge accounting is discontinued, the derivative is carried at its estimated fair value in the consolidated balance sheets, with changes in its estimated fair value recognized in the current period as investment related gains (losses), net.

Hedge Documentation and Hedge Effectiveness
To qualify for hedge accounting, at the inception of the hedging relationship, the Company formally documents its risk management objective and strategy for undertaking the hedging transaction, as well as its designation of the hedge as either (i) a fair value hedge; (ii) a cash flow hedge; (iii) a foreign currency hedge; or (iv) a hedge of a net investment in a foreign operation. In this documentation, the Company sets forth how the hedging instrument is expected to hedge the designated risks related to the hedged item and sets forth the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness and the method which will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the designated hedging relationship.

Embedded Derivatives
The Company issues/reinsures certain annuity products that contain terms that are deemed to be embedded derivatives, primarily equity indexed annuities. The Company assesses contract terms to identify embedded derivatives which are required to be bifurcated under the general accounting principles for *Derivatives and Hedging*. If the contract is not reported for in its entirety at fair value and it is determined that the terms of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately.

Such embedded derivatives are carried on the consolidated balance sheets at fair value in the same line item as the host contract. Changes in the fair value of embedded derivatives associated with equity indexed annuities are reflected in interest credited on the consolidated statements of income.

Additionally, reinsurance treaties written on a modified coinsurance or funds withheld basis are subject to the general accounting principles for *Derivatives and Hedging* related to embedded derivatives. The Company's funds withheld at interest balances are primarily associated with its reinsurance treaties structured on a modified coinsurance or funds withheld basis, the majority of which were subject to the general accounting principles for *Derivatives and Hedging* related to embedded derivatives. Management believes the embedded derivative feature in each of these reinsurance treaties is similar to a total return swap on the assets held by the ceding companies. The fair value of the embedded derivatives is included in the funds withheld at interest line item on the consolidated balance sheets. The change in the fair value of the embedded derivatives is recorded in investment related gains (losses), net on the consolidated statements of income. The Company includes the change in funds withheld at interest as well as the change in the fair value of embedded derivatives in operating activities in its consolidated statements of cash flows.

(d) Fair Value Measurements

General accounting principles for *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. In compliance with these principles, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

In accordance with the general accounting principles for *Fair Value Measurements and Disclosures*, assets and liabilities recorded at fair value on the consolidated balance sheets are categorized as follows:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 — Quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

See Note 5 — "Fair Value of Financial Instruments" for further details on the Company's assets and liabilities recorded at fair value.

(e) Value of Business Acquired

The value of business acquired ("VOBA") is established upon the acquisition of blocks of insurance contracts and represents the fair value of the estimated net cash flows of the contracts at the time of acquisition. VOBA is amortized in relation to the present value of estimated gross profits for interest sensitive life and investment type policies. The carrying value is reviewed at least annually for indicators of impairment in value. VOBA was established in 2011 related to acquisition of LLIC and IIC. The Company makes an adjustment to the VOBA balance due to the effects of the OCI relating to net unrealized investment gains (loss) on available for sale securities. Changes in VOBA are recorded in the consolidated statement of income as policy acquisition costs and other insurance expenses. VOBA is recorded as a reduction to the interest sensitive contract liabilities in the consolidated balance sheets. This is due to fact that the VOBA is related to investment type contracts and is considered to be similar in nature to loan origination costs. See Note 9 for further details.

(f) Cash and Cash Equivalents

Cash and cash equivalents include deposits and short-term highly liquid investments (original maturity of less than ninety days) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(g) Deferred Policy Acquisition Costs

Costs of acquiring new business, which vary with and are primarily related to the production of new business, are not expensed but instead have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits. Such costs consist of commissions and policy issuance costs as well as certain sales inducements credited to policyholder account balances. The Company performs annual tests to establish that Deferred Policy Acquisition Costs ("DAC") remain recoverable at all times, including at issue, and if financial performance significantly deteriorates to the point where a premium deficiency exists, a cumulative charge to current operations will be recorded. No such adjustments related to DAC recoverability were made in 2011, 2010 or 2009.

Deferred costs related to interest sensitive life and investment type policies, with significant revenue streams from sources other than investment of the policyholder funds, are amortized over the lives of the policies, in relation to the present value of gross profits including investment spread margins, surrender charge income, policy administration and realized gains and losses on investments. Current and future period gross profits for equity index annuities also include the impact of amounts for the change in fair value of the derivatives and the change in fair value of the embedded derivatives. The estimates of the future gross profits are based on assumptions using accepted actuarial methods. The balances associated with the preceding amortization methodology are recorded as deferred policy acquisition costs at the consolidated balance sheets.

Deferred costs related to contracts that are determined to have investment related sources of revenues are amortized using interest method. The interest method amortizes the deferred costs by discounting the future liability cash flows at a "break even rate". The "break even rate" is solved for such that at the inception of the contract, the present value of future liability cash flows is equal to the net liability. The balances associated to this amortization methodology are reported as a reduction of the interest sensitive contract liability in the consolidated balance sheets as they are similar in nature to loan original costs.

In October 2010, the FASB amended the general accounting principles for *Financial Services – Insurance* as it relates to accounting for costs associated with acquiring or renewing insurance contracts. This amendment clarifies that only those costs that result directly from and are essential to the contract transaction and that would not have been incurred had the contract transaction not occurred can be capitalized. It also defines acquisitions costs as costs that are related directly to the successful acquisitions of new or renewal insurance contracts. The amendment is effective for fiscal years and interim periods beginning after December 15, 2011. As Athene has not issued US GAAP financial statements historically, this guidance has been applied to all years presented as the current authoritative guidance. As such, there is no impact to the financial statements as a result of the adoption of this amendment.

(h) Reinsurance

Coinsurance agreements are reported on a gross basis on our consolidated balance sheets as coinsurance deposits for the amounts recoverable from reinsurers and policyholder reserves. Product charges, interest sensitive and index product benefits and deferred acquisition costs are reported net of insurance ceded. Payables relating to the claims, benefits and expenses settled by the cedants under these agreements on behalf of the Company are reported as other reinsurance balances payables.

(i) Bad Debt Allowance For Reinsurance Receivables

The Company assesses periodically the recoverability of reinsurance receivables consisting of general and specific allowances, which it considers adequate to absorb all related losses related to ceded reinsurance on the consolidated balance sheets. The allowance for potential loss from short term reinsurance receivables is deducted from the related item in the consolidated balance sheets.

(j) Variable Interest Entities

Entities that do not have sufficient equity at risk allowing the entity to finance its activities without additional financial support or in which the equity investors, as a group, do not have the characteristic of a controlling financial interest are referred to as variable interest entities ("VIE"). A VIE is consolidated by the variable interest holder that is determined to have the controlling financial interest (primary beneficiary) as a result of having both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. The Company determines whether it is the primary beneficiary of an entity subject to consolidation based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose and the Company's relative exposure to the related risks of the VIE on the date it becomes initially involved in the VIE. The Company reassesses its VIE determination with respect to an entity on an ongoing basis. See Note 6 for additional information regarding the Company's involvement with VIEs.

(k) Note Receivable

The Company received a note, rather than cash, as a contribution for a preferred share issued. Based on the authoritative guidance, reporting the note as an asset is generally not appropriate, except in very limited circumstances where there is substantial evidence of intent and ability to pay in a reasonably short time period. The note will be fully redeemed in 2014, but payments to partially redeem the note will commence prior to that as the underlying liabilities are settled. The preferred shares are classified as mezzanine and still considered equity. Therefore the appropriate presentation for this note is to be presented as contra to the preferred stock in mezzanine section in accordance with the guidance.

(l) Borrowings Under Repurchase Agreements

The Company carries borrowings under repurchase agreement at an amount equal to the unpaid principal balance. The interest expense related to this is recorded as part of the interest expense at the consolidated statements of income. See Note 12 for additional information.

(m) Non-Controlling Interest

The Company accounts for its non-controlling interest in the shareholders' equity section of the Company's consolidated balance sheets in accordance with *Consolidations*. Net income (loss) attributable to non-controlling interests is presented separately in the Company's consolidated statements of income.

Refer to Note 7 — "Non-Controlling Interest" for more information.

(n) Separate Accounts

The Company's wholly owned subsidiary Athene Annuity utilizes separate accounts to record and account for assets and liabilities for particular lines of business. For the year ended December 31, 2011, Athene Annuity reported assets and liabilities from the following product lines into a separate account: Variable Annuities and Variable Universal Life. Athene Annuity previously sold variable annuity and variable universal life products with a non-guaranteed return. Athene Annuity stopped marketing these products. The net investment experience of these separate accounts is credited directly to the policyholder and can be positive or negative. In accordance with the products recorded within the separate account, all assets are considered legally insulated from the general account claims. The assets and liabilities of these accounts are carried at market value and are reported separately on the consolidated balance sheets.

(o) Future Policy Benefits

The Company issues contracts that are classified as long-duration. Legacy contracts include term and whole life products, accident and health and immediate annuities with life contingencies. Liabilities for long duration contracts are established using accepted actuarial methods which require the use of assumptions related to expenses, investment yields, mortality, morbidity and persistency, with a factor for adverse deviation. The assumptions are "locked in" at inception of the contract and only modified if the reserves are deemed to be inadequate. The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish policy benefits. The Company establishes premium deficiency reserves if actual and anticipated experience indicates that existing policy liabilities together with the present value of future gross premiums will not be sufficient to cover the present value of future benefits, settlement and maintenance costs and to recover unamortized acquisition costs. The premium deficiency reserve is established by a charge to income, as well as a reduction in unamortized acquisition costs and, to the extent there are no unamortized acquisition costs, an increase in future policy benefits. As of December 31, 2011, the reserve investment yield assumptions range from 5.0% to 6.0%.

Changes in future policy benefits are recorded in claims and other policy benefits on the consolidated statements of income.

Future policy benefits are not reduced for amounts ceded under coinsurance agreements which are reported as reinsurance ceded receivables on the consolidated balance sheet. See Note 10 for more information on reinsurance.

(p) Interest Sensitive Contract Liabilities

Interest sensitive life and investment type contracts include equity indexed annuities and traditional fixed annuities in the accumulation phase, funding agreements and universal life insurance. Liabilities for fixed annuities and funding agreements are carried at the account balances without reduction for potential surrender or withdrawal charges.

Equity indexed annuity contracts allow the contract holder to elect an interest rate return or an equity market component where interest credited is based on the performance of common stock market indices. The equity market option is considered an embedded derivative, similar to a call option. The benefit reserve for equity indexed annuities is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of embedded derivatives is computed based on a projection of future equity option costs discounted back to the balance sheet date and uses assumptions for volatility, interest rates and credit spreads. For contracts issued by the Company to policyholders, the embedded derivative cash flows are discounted using the Company's own credit rating. For funds withheld reinsurance contracts, the Company does not use a credit spread due to the funds being collateralized by the cedant. The host value is established at inception for the contract and accreted over the policy's life at a constant rate of interest.

The Company both issues and reinsures certain equity annuity contracts which contain guaranteed living withdrawal benefits ("GLWB"). The Company establishes future policy benefits for GLWB by estimating the expected value of withdrawal benefits in excess of the projected account balance and recognizing the excess proportionally over the accumulation period based on total expected assessments. The methods used to estimate the liabilities use assumptions about policyholder behavior, mortality, and market conditions affecting the growth of the account balance.

Changes in the interest sensitive contract liabilities are recorded in the interest credited and annuity product charges on the consolidated statements of income.

(q) Other Policy Claims and Benefits

Claims payable for incurred but not reported losses are determined using lag studies of past experience. The time lag from the date of the claim or death to when the claim is reported to the Company can vary significantly by business segment and product type, but generally averages 3-6 months for life business and 6-12 months for health business. Incurred but not reported claims are estimated on an undiscounted basis, using actuarial estimates of historical claims

expense, adjusted for current trends and conditions. These estimates are continually reviewed and the ultimate liability may vary significantly from the amount recognized, which are reflected in net income in the period in which they are determined.

Changes in other policy claims and benefits are recorded in claims and other policy benefits on the consolidated statements of income.

(r) Business Combinations

On April 29, 2011 and July 18, 2011, the Company acquired all of the outstanding shares of LLIC and IIC, respectively. The transactions were accounted for as an acquisition under the acquisition method. Accordingly, the purchase consideration was allocated to assets and liabilities based on their estimated fair value at the acquisition date. The consideration for the net assets acquired was concluded upon prior to the assessment of the fair value of the net assets at the acquisition date. Therefore, the excess of the value of the net assets acquired over the purchase consideration was recorded as gain on bargain purchase and is shown as a separate component of revenues in the Company's consolidated statements of income for the year ended December 31, 2011. LLIC's and IIC's accounting policies have been conformed to those of the Company.

(s) Earning Per Share

As discussed in Note 14 – "Share Capital", the Company has outstanding three separate classes of common stock. Basic earnings per share is computed by dividing net income by the weighted average number of common A shares outstanding for the period. Diluted earnings per share includes the effect of all dilutive potential common shares that were outstanding during the period. See Note 15 – "Earnings Per Share" for further information.

(t) Stock Plans

At December 31, 2011, the Company has a stock based compensation plan, which is described in Note 14 – "Share Capital". Stock based compensation issued under this plan vest as set forth at the time of grant. The Company recognizes compensation costs over the vesting period based on their grant date fair values subject to satisfaction of certain market and performance conditions.

Authoritative guidance requires that compensation costs be recognized for unvested stock based compensation awards over the period through the date that the employee is no longer required to provide future services to earn the award, rather than over the explicit service period. As a result, the Company has not recorded any compensation expense related to stock plans as it has been determined that no effective vesting has occurred as disclosed in Note 14.

(u) Income Taxes

Income taxes are recorded in accordance with FASB ASC Topic 740, *Income Taxes* ("FASB ASC 740"). For all years presented, we use the asset and liability method to record deferred income taxes. Accordingly, deferred income tax assets and liabilities are recognized that reflect the net tax effect, using enacted tax rates, of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for income tax purposes. Such temporary differences are primarily due to the tax basis of reserves, DAC, unrealized investment gains/losses, reinsurance related differences, embedded derivatives and net operating loss carry forwards. A valuation allowance is applied to deferred tax assets if it is more likely than not that all, or some portion, of the benefits related to the deferred tax assets will not be realized.

(v) Recognition of Revenues and Related Expenses

Revenues for annuity products include surrender and GLWB charges assessed against policyholder account balances during the period. Interest sensitive and index product benefits related to annuity products include interest credited or index credits to policyholder account balances. In addition, the change in fair value of embedded derivatives within fixed index annuity contracts is included in benefits and expenses.

For certain reinsurance transactions involving in force blocks of business, the ceding company pays a premium equal to the initial required reserve (future policy benefit). In such transactions, for income statement presentation, the Company nets the expense associated with the establishment of the reserve on the consolidated balance sheets against the premiums from the transaction.

(w) New Accounting Pronouncements

Changes to the general accounting principles are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates to the FASB Accounting Standards Codification™. Accounting standards updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's consolidated financial statements.

Basis of Presentation, Business Combinations and Consolidation
In December 2011, the FASB amended the general accounting principles for the balance sheet as it relates to the disclosures about offsetting assets and liabilities. The amendment requires disclosures about the Company's rights of offset and related arrangements associated with its financial instruments and derivative instruments. This amendment also requires the disclosure of both gross and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The amendment is effective for interim and annual reporting periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

Receivables
In April 2011, the FASB amended the general accounting principles for *Receivables* as it relates to a creditor's determination of whether a restructuring is a troubled debt restructuring. This amendment clarifies the guidance related to the creditor's evaluation of whether it has granted a concession and whether the debtor is experiencing financial difficulties. It also clarifies that the creditor is precluded from using the effective interest rate test when evaluating whether a restructuring constitutes a troubled debt restructuring. The amendment is effective for interim and annual reporting periods beginning on or after June 15, 2011, and is to be applied retrospectively to restructurings occurring on or after the beginning of the annual period of adoption. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

Transfers and Servicing
In April 2011, the FASB amended the general accounting principles for *Transfers and Servicing* as it relates to the reconsideration of effective control for repurchase agreements. This amendment removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets and also removes the collateral maintenance implementation guidance related to that criterion. The amendment is effective for interim and annual periods beginning after December 15, 2011. The adoption of this amendment is not expected to have an impact on the Company's consolidated financial statements.

Fair Value Measurements and Disclosures
In May 2011, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* as it relates to the measurement and disclosure requirements about fair value measurements. This amendment clarifies the FASB's intent about the application of existing fair value measurement requirements. It also changes particular principles and requirements for measuring fair value and for disclosing information about fair value measurements. The amendment is effective for interim and annual periods beginning after December 15, 2011. The adoption of this amendment is not expected to have an impact on the Company's consolidated financial statements other than the addition of the required disclosures.

Comprehensive Income
In June 2011, the FASB amended the general accounting principles for *Comprehensive Income* as it relates to the presentation of comprehensive income. This amendment requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in either a continuous statement of comprehensive income or in two separate but consecutive statements. The amendment does not change the items that must be reported in other comprehensive income. In December 2011, the FASB amended the general accounting principles for *Comprehensive Income* as it relates to the presentation of comprehensive income. This amendment defers the requirement to present the effects of reclassifications out of accumulated other comprehensive income on the Company's consolidated statements of income, which was required in the *Comprehensive Income* amendment made in June 2011. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of these amendments is not expected to have a material impact on the Company's consolidated financial statements other than the required disclosures.

Intangibles
In September 2011, the FASB amended the general accounting principles for *Intangibles* as it relates to how goodwill is tested for impairment. This amendment simplifies how goodwill is tested for impairment by permitting entities to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The qualitative assessment will determine if an entity needs to proceed with the two-step goodwill impairment test. This amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company has not elected early adoption and is currently evaluating the provisions of the amendment and its potential impact on its consolidated financial statements. The adoption of this amendment is not expected to have a material impact on the consolidated financial statements once adopted.

3. Investments

The Company had total cash and invested assets of $10.8 billion, $2.0 billion and $0.9 billion at December 31, 2011, 2010 and 2009, respectively as reflected in the Company's consolidated balance sheets.

Summary of invested assets:

	2011	2010	2009
Cash, cash equivalents and restricted cash	$ 500,774	$ 107,927	$ 63,476
Fixed income securities, available for sale	5,777,104	262,027	29,316
Fixed income securities, trading	2,163,258	—	—
Equity securities - affiliated, available for sale	39,393	—	—
Equity securities - non-affiliated, available for sale	5,208	149,390	—
Mortgage loans on real estate, net of allowances	231,861	—	—
Investments in partnership interests - non-affiliated	20,496	—	—
Investments in partnership interests - affiliated	34,347	—	—
Policy loans	116,794	118	—
Funds withheld at interest	1,852,591	1,445,419	782,842
Derivative assets	64,462	23,831	—
Total cash and invested assets	10,806,288	1,988,712	875,634
Derivative liabilities	(22,067)	—	—
Net cash and invested assets	**$ 10,784,221**	**$ 1,988,712**	**$ 875,634**

Fixed income securities trading represent a specific population of securities backing a block of annuity and funding agreement business acquired by the Company in the fourth quarter of 2011. These securities are reported at fair value on the consolidated balance sheets, with changes in fair value recorded as other investment related gains (losses), net in the consolidated statements of income, and are hedged by a total return swap ("TRS") with an unrelated counterparty. The swap is an economic hedge, with all investment income, realized gains and losses, and changes in fair value of the underlying assets recognized by the Company off-set by a mark to fair value on the TRS, which is reported through other investment related gains (losses) in the Company's consolidated statements of income. Cash flows resulting from activity on the referenced portfolio are settled with the counterparty under the TRS on a periodic basis. For more information on the TRS, see Note 4. Also included in fixed maturity investments trading are securities of $933.8 million held in the 2011 A4 Fund, L.P. which is consolidated in these financial statements as the Company is considered the primary beneficiary as described in Note 6.

As of December 31, 2011, included above in fixed income securities, available for sale are $17.7 million of assets on deposit with state regulatory authorities.

Investment Income, Net of Related Expenses

Major categories of investment income, net of related expenses consist of the following for the years ended December 31, 2011, 2010 and 2009.

Investment Income, Net of Related Expenses

	2011	2010	2009
Fixed income securities, available for sale	$ 144,271	$ 9,211	$ 672
Fixed income securities, trading	24,872	—	—
Equity securities - affiliated, available for sale	1,920	619	—
Mortgage loans on real estate, net of allowances	4,909	—	—
Investments in partnership interests - affiliated	921	—	—
Investments in partnership interests - non-affiliated	444	—	—
Funds withheld at interest	31,599	25,124	5,012
Policy loans	68	—	—
Investment revenue	209,004	34,954	5,684
Investment expenses	(12,173)	(4,106)	(166)
Investment income net of related expenses	**$** 196,831	$ 30,848	$ 5,518

Investment Related Gains (Losses), Net

Investment related gains (losses), net consist of the following for the years ended December 31, 2011, 2010 and 2009.

Investment Related Gains (Losses), Net

	2011	2010	2009
Fixed income securities, available for sale:			
Gain on investment activity	$ 82,687	$ 5,423	$ 205
Loss on investment activity	(32,475)	(608)	(52)
Net gains (losses)	50,212	4,815	153
OTTI, available for sale securities:			
OTTI losses on available for sale securities	(38,429)	—	—
Portion of OTTI losses recognized in AOCI	15,788	—	—
Net OTTI reflected in earnings	(22,641)	—	—
Net realized investment (losses) on trading securities	(11,391)	—	—
Derivative (losses) gains	(66,015)	119,423	29,357
Net (losses) gains	$ (49,835)	$ 124,238	$ 29,510

Proceeds from sales of available for sale fixed income securities for the years ended December 31, 2011, 2010 and 2009 were $4.0 billion, $188.5 million and $13.2 million, respectively.

Of the total OTTI losses of $38.4 million in 2011, OTTI losses on fixed income securities recognized in AOCI were $15.8 million primarily due to non-credit related factors on the value of the structured securities. The OTTI on fixed income securities that is credit related is $12.0 million in 2011. The OTTI on equity securities of $10.6 million in 2011 are due to the decline in fair value of a security issued by an affiliate of the Company. At December 31, 2011 the Company owned no non-income producing investments.

Other-Than-Temporary Impairments - Fixed Income Securities, Available for Sale

A portion of certain OTTI losses on fixed income securities, available for sale are recognized in AOCI. For these securities the net amount recognized in earnings ("credit loss impairments") represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The following table sets forth the amount of pre-tax credit loss impairments on fixed income securities, available for sale held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in AOCI, and the corresponding changes in such amounts for the years ended December 31, 2011, 2010 and 2009.

	2011	2010	2009
Balance, beginning of period	$ —	$ —	$ —
Initial impairments — credit loss OTTI recognized on securities not previously impaired	8,292	—	—
Balance, end of period	$ 8,292	$ —	$ —

Purchased credit impaired ("PCI") securities

Beginning after the first quarter of 2011, the Company purchased certain RMBS securities that had experienced deterioration in credit quality since their issuance. Management determined, based on its expectations as to the timing and amount of cash flows expected to be received, that it was probable at acquisition that the Company would not collect all contractually required payments, including both principal and interest and considering the effects of prepayments, for these PCI securities. At acquisition, the timing and amount of the undiscounted future cash flows expected to be received on each PCI security was determined based on management's best estimate using key assumptions, such as interest rates, default rates, and prepayment speeds. At acquisition, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is to be accreted into investment income, net of related expenses over their remaining lives on a level-yield basis. Additionally, the difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change, as discussed further below. On a quarterly basis, the undiscounted expected future cash flows associated with PCI securities are re-evaluated based on updates to key assumptions. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Declines in undiscounted expected future cash flows due to further credit deterioration as well as changes in the expected timing of the cash flows can result in the recognition of an other-than-temporary impairment charge, as PCI securities are subject to the Company's policy for evaluating investments for other-than-temporary impairment. Significant increases in undiscounted expected future cash flows changes are recognized prospectively as an adjustment to the accretable yield.

The following table present information on the Company's PCI securities, which are included in fixed income securities, available for sale on the consolidated balance sheets.

	As of December 31,		
	2011	2010	2009
Contractually required (principal and interest) *	$ 2,035,947	$ —	$ —
Cash flows expected to be collected *	1,375,946	—	—
Non-accretable difference	660,001	—	—
Recorded investment in acquired securities	903,803	—	—
Accretable differences	472,143	—	—
Amortized costs	903,803	—	—
Fair value	868,042	—	—

** Represents undiscounted cash flows, including both principal and interest.*

The following table represents activity for the accretable yield on PCI securities.

	For the years ended December 31,		
	2011	2010	2009
Beginning Balance	$ —	$ —	$ —
Newly purchased PCI securities, net of sales	488,700	—	—
Accretion	(16,557)	—	—
Ending Balance	$ 472,143	$ —	$ —

Fixed Income and Equity Securities Available for Sale

The following tables provide information relating to investments in fixed income securities and equity securities by asset type as of December 31, 2011, 2010 and 2009:

December 31, 2011:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Other-than-temporary impairments in AOCI
Fixed income securities, available for sale					
US government and agencies	$ 49,502	$ 5,653	$ (127)	$ 55,028	$ —
Non-US sovereign government, supranational and government related	138,998	9,531	(837)	147,692	—
Corporate	2,459,131	56,755	(21,997)	2,493,889	—
Commercial mortgage obligations	189,926	9,449	(2,196)	197,179	—
Commercial loan obligations	578,973	2,648	(22,845)	558,776	1,395
Asset-backed securities	653,399	6,785	(6,128)	654,056	—
Commercial mortgage-backed securities	30,000	2,317	(1,125)	31,192	—
Residential mortgage-backed securities	1,682,496	14,837	(59,162)	1,638,171	14,393
Other mortgage-backed securities	1,121	—	—	1,121	—
Total Fixed income securities, available for sale	5,783,546	107,975	(114,417)	5,777,104	15,788
Equity securities, available for sale	44,625	—	(24)	44,601	—
Total	$ 5,828,171	$ 107,975	$ (114,441)	$ 5,821,705	$ 15,788

December 31, 2010:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Other-than-temporary impairments in AOCI
Fixed income securities, available for sale					
US government and agencies	$ 36,900	$ 258	$ (468)	$ 36,690	$ —
Non-US sovereign government, supranational and government related	10,858	9	(152)	10,715	—
Corporate	37,641	250	(935)	36,956	—
Commercial mortgage obligations	67,461	3,977	(60)	71,378	—
Commercial loan obligations	48,053	822	(166)	48,709	—
Asset-backed securities	56,270	491	(123)	56,638	—
Residential mortgage-backed securities	902	39	—	941	—
Total Fixed income securities, available for sale	258,085	5,846	(1,904)	262,027	—
Equity securities, available for sale	150,004	—	(614)	149,390	—
Total	$ 408,089	$ 5,846	$ (2,518)	$ 411,417	$ —

December 31, 2009:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Other-than-temporary impairments in AOCI
Fixed income securities, available for sale					
US government and agencies	$ 416	$ —	$ (21)	$ 395	$ —
Non-US sovereign government, supranational					
Corporate	22,748	1,229	(10)	23,967	—
Other mortgage-backed securities	4,898	56	—	4,954	—
Total Fixed income securities, available for sale	28,062	1,285	(31)	29,316	—
Total	$ 28,062	$ 1,285	$ (31)	$ 29,316	$ —

As of December 31, 2011, there were no issuers of securities comprising more than 10% of Company's total assets.

The amortized cost and estimated fair value of fixed income securities available for sale at December 31, 2011, are shown by contractual maturity in the table below. Actual maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale:		
Due in one year or less	$ 82,977	$ 83,006
Due after one year through five years	1,022,825	1,024,498
Due after five year through ten years	1,398,987	1,384,862
Due after ten years	1,565,140	1,614,458
	4,069,929	4,106,824
Commercial mortgage backed securities	30,000	30,987
Residential mortgage backed securities	1,683,617	1,639,293
Total	$ 5,783,546	$ 5,777,104

The following is a detail of the AOCI reflected in the Company's consolidated balance sheets as of December 31, 2011, 2010, and 2009:

	2011	2010	2009
Net unrealized investment gains (losses) on available for sale fixed income securities and equity securities	$ 9,970	$ 3,328	$ 1,254
Non-credit OTTI losses in accumulated other comprehensive income	(15,788)	—	—
Adjustments for changes in amortization of value of business acquired	10,936	—	—
Foreign currency and related swap positions	2,493	—	—
Deferred income tax benefit	(4,990)	—	—
Net unrealized investment gains (losses)	$ 2,621	$ 3,328	$ 1,254

Changes in AOCI for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Investments carried at fair value:			
Fixed income and equity securities, available for sale	$ 6,642	$ 2,074	$ 1,254
Changes on noncredit related OTTI in OCI	(15,788)	—	—
Changes foreign currency and related swaps	2,493	—	—
	(6,653)	2,074	1,254
Adjustment for effect on other balance sheet accounts:			
Value of business acquired	10,936	—	—
Change in deferred tax valuation allowance	(4,990)	—	—
	5,946	—	—
Change in AOCI	$ (707)	$ 2,074	$ 1,254

Subprime and Alt-A Exposure

Following is a summary of the Company's exposure to Subprime and Alt-A loans:

Subprime exposure - by credit quality & vintage

2011				
Subprime Mortgage-backed Securities			Vintage	
	Amount	% of Total		
AAA	$ 51,224	6.7%	2007	28.1%
AA	93,477	12.2%	2006	39.7%
A	23,695	3.1%	2005 and prior	32.2%
BBB	37,321	4.9%		100.0%
BB and below	563,110	73.2%		
	$ 768,827	100.0%		
NAIC 1	$ 768,827	100.0%		

Alt-A exposure - by credit quality & vintage

2011				
% of Total Alt-A Mortgage-backed Securities			Vintage	
	Amount	% of Total		
AAA	$ 89,278	11.9%	2010	0.5%
AA	32,802	4.4%	2009	1.5%
A	18,396	2.4%	2007	15.1%
BBB	13,808	1.8%	2006	37.2%
BB and below	598,942	79.5%	2005 and prior	45.7%
	$ 753,226	100.0%		100.0%
NAIC 1	$ 717,581	95.3%		
NAIC 2	30,442	4.0%		
NAIC 3	3,650	0.5%		
NAIC 4	1,553	0.2%		
	$ 753,226	100.0%		

The Company had no exposure to subprime or Alt-A mortgage backed securities for the years ended December 31, 2010 and 2009.

As of December 31, 2011, the Company's Alt-A RMBS had a total market value of $753.2 million and unrealized losses of $30.6 million. At December 31, 2011, approximately 21% of this portfolio was rated BBB or better, of which 45.7% was from vintage 2005 and prior. The Company's sub-prime RMBS had a total market value of $768.8 million and unrealized losses of $21.7 million as of December 31, 2011. At December 31, 2011, approximately 27% of this portfolio was rated BBB or better, of which 32% was from vintage 2005 and prior. It should be noted that the Company's total market value exposure was $1.5 billion to residential mortgage backed securities backed by Subprime and Alt-A mortgages as of December 31, 2011. Of this total exposure, $774.6 million relates to trading securities which are covered by the TRS described in Note 4. As such, the Company's exposure to Subprime and Alt-A securities not covered by the TRS is $747.5 million.

Reflected in the above tables are the Company's exposures to Subprime and Alt-A credit risk broken out by traditional credit ratings and by the National Association of Insurance Commissioners ("NAIC") ratings equivalents. Traditional ratings represent the rating agency assessment of the credit rating of the investment based upon information on the lender or underlying collateral and the investor's position within the payment hierarchy of the investment structure, without regard to the price paid for the investment.

For RMBS positions, the NAIC equivalent represents a number associated with traditional agency ratings with NAIC 1 being considered the highest ratings equivalent and NAIC 6 being the lowest, representing investments in or near default. An NAIC 1 rating is equivalent to S&P rating of AAA through A-; NAIC 2 is equivalent to S&P rating of BBB+ through BBB-; NAIC 3 is equivalent to S&P rating of BB+ through BB-; and NAIC 4 is equivalent to S&P rating of B+ through B-. In determining the NAIC rating equivalents on RMBS securities, the NAIC has commissioned PIMCO to assess RMBS securities that are held by insurers. RMBS securities that are referred to the NAIC for ratings assignment by insurance companies are evaluated by PIMCO based on their structure and performance outlook and traditional agency ratings assignment. An initial NAIC rating is assigned as well as a range of breakpoints determined by PIMCO. These breakpoints represent purchase price ranges by original NAIC ratings equivalent assignments. Based on the price paid for an RMBS position, a final NAIC ratings designation is determined. 100% of the Company's subprime exposure and 95.3% of the Company's Alt-A exposure carry the highest NAIC rating. In excess of 99% of the Company's entire exposures to Subprime and Alt-A have investment grade equivalent ratings from the NAIC, when taking into account the deeply discounted purchase prices paid for these positions.

Unrealized Losses for Fixed Income Securities and Equity Securities Available for Sale

The following tables present the estimated fair values and gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, for fixed income and equity securities that have estimated fair values below amortized cost as of December 31, 2011, 2010, and 2009. These investments are presented by class of security, as well as the length of time the related market value has remained below amortized cost.

	Less than 12 months		12 months or greater		Total	
December 31, 2011:	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed income securities, available for sale:						
US government and agencies	$ 371	$ 127	$ —	$ —	$ 371	$ 127
Non-US sovereign government, supranational and government related	13,948	815	795	22	14,743	837
Corporate	550,349	20,983	12,937	1,014	563,286	21,997
Commercial mortgage obligations	50,437	1,542	4,358	654	54,795	2,196
Commercial loan obligations	464,260	22,744	7,211	101	471,471	22,845
Asset-backed securities	337,734	5,717	14,750	411	352,484	6,128
Commercial mortgage-backed securities	3,633	1,125	—	—	3,633	1,125
Residential mortgage-backed securities	1,116,608	59,162	—	—	1,116,608	59,162
Total fixed income securities	2,537,340	112,215	40,051	2,202	2,577,391	114,417
Equity securities, available for sale	208	24	—	—	208	24
Total	$ 2,537,548	$ 112,239	$ 40,051	$ 2,202	$ 2,577,599	$ 114,441

December 31, 2010:	Less than 12 months		12 months or greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed income securities, available for sale;						
US government and agencies	$ 17,998	$ 466	$ —	$ —	$ 17,998	$ 466
Non-US sovereign government, supranational and government related	9,278	152	—	—	9,278	152
Corporate	24,474	937	—	—	24,474	937
Commercial mortgage obligations	7,520	60	—	—	7,520	60
Commercial loan obligations	15,357	165	—	—	15,357	165
Asset-backed securities	33,974	124	—	—	33,974	124
Total fixed income securities	108,601	1,904	—	—	108,601	1,904
Equity securities, available for sale	149,379	614	—	—	149,379	614
Total	$ 257,980	$ 2,518	$ —	$ —	$ 257,980	$ 2,518

December 31, 2009:	Less than 12 months		12 months or greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed income securities, available for sale:						
US government and agencies	$ 395	$ 21	$ —	$ —	$ 395	$ 21
Corporate	1,269	10	—	—	1,269	10
Total Fixed income securities	1,664	31	—	—	1,664	31
Total	$ 1,664	$ 31	$ —	$ —	$ 1,664	$ 31

The unrealized losses in 2011 relate to 512 securities with a total market value of $2.5 billion and are driven primarily by changes in prevailing interest rates. Of this $2.5 billion of securities, $1.8 billion or 71% relate to securities that are considered investment grade using credit rating agencies and $0.7 billion or 29% related to securities that are considered below investment grade using credit rating agencies. Using the NAIC credit ratings equivalents, which take into account the price at which the securities are purchased as described above under the Subprime and Alt-A topic, $2.5 billion or 99% of these securities are considered investment grade and $0.01 billion or 1% are considered below investment grade.

Included in the 2011 population of securities held at a loss for less than 12 months are securities with a total estimated fair value of $2.3 billion that have been in an unrealized loss position for less than 6 consecutive months and securities with a total estimated fair value of $213.5 million that have had been in an unrealized loss position from between 6 and 12 consecutive months.

The Company's determination of whether a decline in value is other-than-temporary includes analysis of the underlying credit and the extent and duration of a decline in value. The Company's credit analysis of an investment includes determining whether the issuer is current on its contractual payments, evaluating whether it is probable that the Company will be able to collect all amounts due according to the contractual terms of the security and analyzing the overall ability of the Company to recover the amortized cost of the investment. The Company continues to consider valuation declines as a potential indicator of credit deterioration.

As of December 31, 2011, the Company does not intend to sell these fixed income securities and does not believe it is more likely than not that it will be required to sell these fixed income securities before the recovery of the fair value up to the current amortized cost of the investment, which may be maturity. However, unforeseen facts and circumstances may cause the Company to sell fixed income securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality, asset-liability management and liquidity guidelines.

Unrealized losses on non-investment grade securities are principally related to asset-backed securities, residential mortgage-backed securities and commercial mortgage-backed securities and were the result of wider credit spreads resulting from higher risk premiums since the time of initial purchase, largely due to macroeconomic conditions and credit market deterioration, including the impact of lower real estate valuations.

Mortgage Loans

Prior to 2011, the Company had no mortgage loan assets. Mortgage loans represented approximately 2.2% of the Company's cash and invested assets as of December 31, 2011. The Company makes mortgage loans on income producing properties including hotels and retail and office buildings. Loan-to-value ratios at the time of loan approval are 75% or less. The distribution of mortgage loans, gross of valuation allowances, by property type is as follows as of December 31, 2011:

	Recorded investment	Percentage of Total
Property type:		
Hotels	$ 140,410	60.6%
Retail	69,570	30.0%
Office building	9,893	4.3%
Other commercial	5,514	2.4%
Industrial	5,425	2.3%
Apartment	1,049	0.4%
	$ 231,861	100.0%
Region:		
Middle Atlantic	$ 159,435	68.8%
Central	61,118	26.4%
Mountain	3,963	1.7%
Pacific	3,556	1.5%
South Atlantic	3,519	1.5%
New England	270	0.1%
	$ 231,861	100.0%

Based on the performance of mortgage loans as of December 31, 2011, the Company has not impaired any of its mortgage loans held nor has it established an allowance for collection loss.

The following table presents the recorded investment in mortgage loans by loan to value ratio categories and debt service coverage ratio categories and estimated fair value by the indicated loan to value ratios at December 31, 2011:

	Recorded Investment						
	Debt Service Coverage Ratios				Percentage of Total	Estimated Fair value	Percentage of Total
	>1.20x	1.00x - 1.20x	<1.00x	Total			
Loan-to-value ratios:							
Less than 50%	$ 39,904	$ —	$ —	$ 39,904	17.2%	$ 39,925	17.2%
50% to 60%	72,728	—	—	72,728	31.4%	72,746	31.2%
61 to 70%	94,356	1,174	—	95,530	41.2%	96,014	41.3%
Greater than 70%	21,384	2,315	—	23,699	10.2%	23,912	10.3%
Total	$ 228,372	$ 3,489	$ —	$ 231,861	100.0%	$ 232,597	100.0%

The following table presents the recorded investment in mortgage loans according to aging category at December 31, 2011:

	Recorded Investment	Percentage of Total	Estimated Fair Value	Percentage of Total
Days past due:				
Less than 30 days	230,568	99.4%	231,294	99.4%
30 to 60 days	1,293	0.6%	1,303	0.6%
Total	231,861	100.00%	232,597	100.00%

Policy Loans

Policy loans comprised approximately 1.1%, 0.0%, 0.0% of the Company's cash and invested assets as of December 31, 2011, 2010 and 2009, respectively. Of the $116.8 million policy loans balance as of December 31, 2011, $99.0 million represents policy loans secured by account surrender values to PLIC, see

Note 10 for related note disclosures. The Company believes the fair value of policy loans approximates book value. Policy loans are funds provided to policyholders in return for a claim on the account value of the policy. The funds provided are limited to a certain percent of the account balance. The nature of policy loans is to have low default risk as the loans are fully collateralized by the value of the policy. The majority of policy loans do not have a stated maturity and the balances and accrued interest are repaid with proceeds from the policy account balance. Due to the collateralized nature of policy loans and unpredictable timing of repayments, the Company believes the fair value of policy loans approximates carrying value.

Funds Withheld at Interest
Funds withheld at interest comprised approximately 17.2%, 72.7%, 89.4% of the Company's cash and invested assets as of December 31, 2011, 2010 and 2009, respectively. Of the $1.9 billion funds withheld at interest balance as of December 31, 2011, $1.4 billion of the balance is associated with one client. For reinsurance agreements written on a coinsurance funds withheld basis, assets equal to the net statutory reserves are withheld and legally owned and managed by the ceding company and are reflected as funds withheld at interest on the Company's consolidated balance sheets. In the event of a ceding company's insolvency, the Company would need to assert a claim on the assets supporting its reserve liabilities. However, the risk of loss to the Company is mitigated by its ability to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. The embedded derivative ("ED") of the funds withheld is separated from the host contract. See Note 4 for further discussion. Interest accrues to the host at a risk free rate and the Company estimates the yield was approximately 2.3%, 2.7% and 3.3% for the years ended December 31, 2011, 2010 and 2009, respectively. The return on the underlying assets directly impact the host contract and the ED and are also affected by equity options held in the funds withheld portfolio associated with equity indexed annuity treaties. The Company is subject to the investment performance on the withheld assets, although it does not directly control them, however in each case, the ceding company has hired Athene Asset Management ("AAM"), an affiliated investment management company, as the asset manager. These assets are primarily fixed income investment securities and pose risks similar to the fixed income securities the Company owns. To mitigate this risk, the Company helps set the investment guidelines followed by the ceding company and monitors compliance.

Investments in Partnership Interests
The Company has investments of $20.5 million in non-affiliated partnerships and $34.3 million in affiliated partnerships at December 31, 2011. Included in the affiliated partnerships is the Reservoir Strategic Partners Fund Offshore, L.P. of $7.5 million, which is a VIE that is consolidated by the Company. The Company also consolidated as a VIE the 2011 A4 Fund, L.P. partnership which has investments valued at over $967 million and associated borrowings under repurchase agreements of $724.8 million. The Company did not have any partnership investments at December 31, 2010 or 2009. See Note 6 Variable Interest Entities for further information on these investments.

4. Derivative Instruments

The Company enters into derivative instruments for both risk management and investment purposes. The Company recognizes all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value with the changes in fair value of derivatives shown in the consolidated statement of income as other investment gains (losses), net. The accounting for derivatives is described in Note 2(h), "Significant Accounting Policies – Derivative Instruments." The following table presents the notional amounts and fair value of derivative instruments as of December 31, 2011, 2010 and 2009, respectively:

	December 31, 2011		December 31, 2010		December 31, 2009	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Not designated as hedging instruments:						
Interest rate swaps [1]	$ 989,899	$ (17,261)	$ 4,358,000	$ 23,831	$ —	$ —
Foreign currency swaps [1]	26,359	1,406	—	—	—	—
Total return swaps [1]	1,400,000	11,019	—	—	—	—
Equity options [1]	1,806,520	39,831	—	—	—	—
Index linked Warrants [1]	58,000	4,907	—	—	—	—
Embedded derivatives in:						
Modified coinsurance or funds withheld [2]	—	154,906	—	112,597	—	7,004
Indexed annuity products [3]	—	(534,380)	—	(224,732)	—	(165,481)
Total non-hedging derivatives	4,280,778	(339,572)	4,358,000	(88,304)	—	(158,477)
Designated as hedging instruments:						
Foreign currency swaps [1]	67,348	2,493				
Total hedging derivatives	67,348	2,493	—	—	—	—
Total Derivatives	$ 4,348,126	$ (337,079)	$ 4,358,000	$ (88,304)	$ —	$ (158,477)
Funds withheld at interest	—	154,906	—	112,597	—	7,004
Derivative assets	3,499,107	64,462	4,358,000	23,831	—	—
Interest sensitive contract liabilities	—	534,380	—	224,732	—	165,481
Derivative liabilities	849,019	22,067	—	—	—	—

(1) Included on the consolidated balance sheets in derivative financial instruments.
(2) Included on the consolidated balance sheets with the host contract in funds withheld at interest, at fair value.
(3) Included on the consolidated balance sheets with the host contract in interest-sensitive contract liabilities, at fair value.

Accounting for Derivative Instruments and Hedging Activities

As discussed below under "Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging," the Company uses various derivative instruments for risk management purposes that either do not qualify or have not been qualified for hedge accounting treatment. As of December 31, 2011, 2010 and 2009, the Company had cash flow hedges and derivative instruments that were not designated as hedging instruments. See Note 2, Summary of Significant Accounting Policies for a detailed discussion of the accounting treatment for derivative instruments, including embedded derivatives. Derivative instruments are carried at fair value.

Cash Flow Hedges

The Company designates and accounts for certain interest rate swaps, in which the cash flows are denominated in different currencies, commonly referred to as cross-currency swaps, as cash flow hedges when they meet the requirements of the general accounting principles for *Derivatives and Hedging*.

During 2011 the Company entered one cross-currency swap that was designated and accounted for as a cash flow hedge. A gain of $2.5 million was recognized in AOCI for the year ended December 31, 2011.

Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging

The Company uses various other derivative instruments for risk management purposes that either do not qualify or have not been qualified for hedge accounting treatment. The gain or loss related to the change in fair value for these derivative instruments is recognized in investment related (losses) gains, net in the consolidated statements of income, except where otherwise noted. For the year ended December 31, 2011, 2010 and 2009, the Company recognized investment related gains (losses) of ($108.3) million, $13.8 million and $0 million, respectively, related to derivatives (not including embedded derivatives) that do not qualify or have not been qualified for hedge accounting.

Interest Rate Swaps

Interest rate swaps are used by the Company primarily to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and liabilities (duration mismatches). With an interest rate swap, the Company agrees with another party to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts tied to an agreed-upon notional principal amount. These transactions are executed pursuant to master agreements that provide for a single net payment or individual gross payments at each due date.

The Company signed a stock purchase agreement ("SPA") in October 2010 to purchase LLIC. Subsequent to the SPA, the Company entered into a contingent interest rate swap to economically hedge the value of the embedded gains in the investment portfolio, until the acquisition was completed, to preserve the economics of the deal. ALRe purchased three contingent interest rate swaps and one contingent credit default swap in order to create an offset to declines in value of the underlying LLIC portfolio should interest rates or credit spreads rise from the period between signing and closing of the transaction. All of these derivatives were designated as non-qualified hedges, with gain and losses recognized in other investment related gains (losses), net in the consolidated statements of income. The economic hedges were contingent on the successful completion of the acquisition of LLIC. As these hedges would have a significant contingency adjustment if a third party counterparty wanted to trade, Athene applied an adjustment to the gross valuation of the underlying swaps to reflect this contingency. This resulted in a fair value of $24.1 million as of December 31, 2010. The day one market value for the swaps was $(53.5) million. The reason the day one value was negative was a result of the premium that was placed on the hedge by the counter party due to the contingent nature of the hedge. This day one negative value was an observable value that was used by the Company as a data point for the contingency premium for the December 31, 2010 valuation that a market participant would use. There was no new information between the date the swap agreement was entered into and December 31, 2010 that the Company believes would have caused a change in a market participant's view of the value of the contingency adjustment. The contingent swaps are not readily tradable as there is no active market for such contingent instruments. Therefore, the Company views its principal market as the investment banking market, whose participants would hypothetically be able to assume these positions if the Company were to hypothetically transfer them. If the adjustment applied would have been 120% or 80% of the best estimated adjustment, the ending value of the swap would have been $12.2 million and $35.9 million, respectively. The Company was also required to provide $10 million in cash to the counterparty as collateral. The December 31, 2011 value of the swaps was $4.8 million. There is no contingency adjustment in the December 31, 2011 value of the swaps as the contingency regarding the approval for the purchase of LLIC was removed as the business combination received regulatory approval on April 26, 2011. Following is a sensitivity analysis table of the best estimate calculation for the value of the hedge at December 31, 2010 and different valuations if different contingency adjustment calculations were applied to arrive at alternative fair market values:

December 31, 2010 valuations for LLIC Hedge	Haircut based on hedge counter-party day one valuation - best estimate	Valuation based on 120% of hedge counterparty day one valuation and adjustment on collateral equal to 120% of best estimate adjustment	Valuation based on 80% of hedge counterparty day one valuation and adjustment on collateral equal to 80% of best estimate adjustment
Valuation from counterparty as of December 31, 2010	$ 78,920	$ 78,920	$ 78,920
Market participation adjustment based on information at December 31, 2010	(53,500)	(64,200)	(42,800)
Adjusted market value	25,420	14,720	36,120
Unwind costs	(5,438)	(5,438)	(5,438)
Counterparty risk value	(151)	(151)	(151)
Net MTM	19,831	9,131	30,531
Collateral	10,000	10,000	10,000
Adjustment to value of collateral due to probability of deal not being approved	(6,000)	(7,200)	(4,800)
Net Hedge Value	$ 23,831	$ 11,931	$ 35,731

Calculation of adjustment on collateral

Possible outcomes of contingency	Probability as of December 31, 2010	Value of collateral under the outcome described	Probability weighed value of collateral	Rationale of market participant
Approval with burdensome conditions and Athene accepts burdensome conditions	20%	10,000	2,000	Note 1
Approval with burdensome conditions and Athene rejects burdensome conditions	15%	—	—	
Approval without burdensome conditions	20%	10,000	2,000	
Rejection - defacto via not being approved by April 29, 2011	23%	—	—	Note 2
Rejection - outright by SCDOI	23%	—	—	
	100%		4,000	
Original Collateral			10,000	
Adjustment			(6,000)	

Note 1: 55% probability of being approved and this probability is divided by 35% with burdensome conditions and 20% without burdensome conditions
Note 2: 45% probability of being rejected and this probability is divided evenly into the 2 possible ways rejection could occur

Another interest rate swap is part of a partnership that is a VIE and is consolidated by Athene (See Note 6). The partnership uses interest rate swaps to manage exposure to variable cash flows on portions of its borrowings under repurchase agreements. The partnership's repurchase agreements bear interest at a LIBOR-based variable rate and increases in LIBOR could negatively impact earnings. Interest rate swap agreements allow the Partnership to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure.

During the 2011, the Partnership entered into interest rate swaps with an aggregate notional balance of $849.0 million in an effort to economically hedge floating-rate interest payments due under the credit facility.

Total Return Swaps

The Company entered into two Total Return Swaps ("TRS") on certain portfolios of assets related to business acquired. Under the two TRS, the Company pays the total return assets including coupon interest income, amortization of premium, accretion of discount, realized gains and losses on sales, and other-than-temporary impairment gains and losses to the counterparty. In exchange, the Company receives LIBOR plus 70 basis points on the relevant notional amounts. These two TRS economically hedges against credit, market and foreign currency risk. The purpose of these two TRS with the counterparty is to swap all economic assets and related market and credit risks of underlying investment assets for a floating rate spread over LIBOR.

The gain on the economic hedged item attributable and the offsetting gain on the related total return swaps for the year ended December 31, 2011 was $10.6 million and $11.0 million, respectively. The years ended December 31, 2010 and 2009 did not have any total return swaps.

Foreign Currency Swaps

Foreign currency swaps are used by the Company to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets denominated in foreign currencies. With a foreign currency swap transaction, the Company agrees with another party to exchange, at specified intervals, the difference between one currency and another at a forward exchange rate calculated by reference to an agreed upon principal amount. The principal amount of each currency is exchanged at the inception and termination of the currency swap by each party.

Equity Options

Equity index options are used by the Company primarily to hedge fixed index annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index. To hedge against adverse changes in equity indices volatility, the Company enters into contracts to buy the equity index options within a limited time at a contracted price. The contracts are net settled in cash based on differentials in the indices at the time of exercise and the strike price.

Index linked Warrants

The Company purchased index linked warrants, along with zero coupon bonds, in conjunction with the issuance of funding agreements. The referenced index is based upon several well diversified underlying indices. The warrants provide Athene with commodities exposure and a credit risk component that is not included in the zero coupon bonds. Athene's potential loss on the warrants is limited to the amount that is invested.

Embedded Derivatives

The Company has certain embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance treaties structured on a modified coinsurance or funds withheld basis and indexed annuity products. For additional information regarding embedded derivatives, refer to Notes 3 and 9.

A summary of the effect of economic hedge derivatives, including embedded derivatives, on the Company's consolidated statements of income for the year ended December 31, 2011, 2010, and 2009, is as follows:

		Gain (Loss) for the year ended December 31,		
Type of Non-hedging Derivative	Income Statement Location of (Loss) Gain	2011	2010	2009
Interest rate swaps	Investment related (losses) gains, net	$ (117,497)	$ 13,831	$ —
Foreign currency swaps	Investment related (losses) gains, net	133	—	—
Total return swaps	Investment related (losses) gains, net	11,018	—	—
Equity options	Interest credited	(37,204)	—	—
Index linked Warrants	Investment related (losses) gains, net	(1,977)	—	—
Embedded derivatives in:				
Modified coinsurance or funds withheld	Investment related (losses) gains, net	42,309	105,593	29,357
Indexed annuity products	Interest credited	(14,943)	20,156	1,198
Total non-hedging derivatives		$ (118,161)	$ 139,580	$ 30,555

The most significant contribution to the overall loss in the investment related (losses) gain, net was the interest rate economic hedge of the LLIC acquisition, which amounted to approximately $(90.5) million for the year ended December 31, 2011. The equity options are included in the interest credited line of the income statement and discussed in Note 9.

Credit Risk

The Company may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. Generally, the current credit exposure of the Company's derivative contracts is limited to the fair value at the reporting date. The credit exposure of the Company's derivative transactions is represented by the fair value of contracts after consideration of any collateral received with a net positive fair value at the reporting date.

The Company manages its credit risk related to over-the-counter derivatives by entering into transactions with creditworthy counterparties, maintaining collateral arrangements and through the use of master agreements that provide for a single net payment to be made by one counterparty to another at each due date and upon termination.

The Company enters into collateral arrangements, which require the posting of collateral in connection with its derivative instruments. Collateral agreements contain attachment thresholds that vary depending on the posting party's financial strength ratings. Additionally, a decrease in the Company's financial strength rating to a specified level results in potential settlement of the derivative positions under the Company's agreements with its counterparties. As of December 31, 2011, 2010 and 2009 the Company had $12.1 million, $10.0 million and $0 million cash collateral pledged to counterparties, respectively. The receivable related to cash collateral is included in derivative financial instrument, in the consolidated balance sheets as it is netted against our year end mark-to-market on the swap.

5. Fair Value Measurements

Fair values of financial instruments have been determined by using available market information and the valuation techniques described below. Considerable judgment is often required in interpreting market data to develop estimates of fair value. The use of different assumptions or valuation techniques may have a material effect on the estimated fair value amounts. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2011, 2010 and 2009.

	December 31, 2011		December 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:						
Cash and cash equivalents	$ 500,774	$ 500,774	$ 107,927	$ 107,927	$ 63,476	$ 63,476
Fixed income securities, available for sale	5,777,104	5,777,104	262,027	262,027	29,316	29,316
Fixed income securities, trading	2,163,258	2,163,258	—	—	—	—
Equity securities - affiliated	39,393	39,393	—	—	—	—
Equity securities - non-affiliated	5,208	5,208	149,390	149,390	—	—
Mortgage loans on real estate	231,861	232,597	—	—	—	—
Policy loans	116,794	116,794	118	118	—	—
Funds withheld at interest	1,852,591	1,852,591	1,445,419	1,445,419	782,842	782,842
Derivative assets	64,462	64,462	23,831	23,831	—	—
Accrued investment income	58,440	58,440	1,848	1,848	478	478
Reinsurance ceded receivables	1,959,769	1,959,769	—	—	—	—
Separate account assets	17,077	17,077	—	—	—	—
Liabilities						
Interest - sensitive contract liabilities	10,037,892	9,959,985	1,793,569	1,970,391	904,187	743,113
Borrowings	724,853	724,853	—	—	—	—
Note payable	40,000	42,700	—	—	—	—
Derivative liabilities	22,067	22,067	—	—	—	—
Other reinsurance balances payable	18,102	18,102	1,475	1,475	—	—
Separate account liabilities	17,077	17,077	—	—	—	—

Publicly traded fixed income securities are valued based upon quoted market prices or estimates from independent pricing services, independent broker quotes and pricing matrices. Private placement fixed income securities are valued based on the credit quality and duration of marketable securities deemed comparable by the Company's investment advisor, which may be of another issuer. The Company utilizes information from third parties, such as pricing services and brokers, to assist in determining fair values for certain assets and liabilities; however, management is ultimately responsible for all fair values presented in the Company's financial statements. The fair value of mortgage loans on real estate is estimated using discounted cash flows. Substantially all of the policy loans are ceded to a reinsurer and the carrying value approximates fair value. The remaining policy loans typically carry an interest rate that is adjusted annually based on a market index and therefore carrying value approximates fair value. The carrying value of funds withheld at interest is based on the fair value of the underlying assets which are held by the ceding company. The carrying values of cash and cash equivalents and short-term investments approximate fair values due to the short-term maturities of these instruments. Derivative financial instruments included in derivative assets and derivative liabilities are reflected at fair value on the consolidated balance sheets and are principally valued using an income approach. The carrying value of limited partnership interests recognized in the consolidated balance sheets represents investments in limited partnership interests accounted for using the equity method, which do not meet the definition of financial instruments for which fair value is required to be disclosed. The carrying value for accrued investment income approximates fair value.

The carrying and fair values of interest sensitive contract liabilities reflected in the table above exclude contracts with significant mortality risk. For 2011 and 2010, the fair value of the Company's interest sensitive contract liabilities and related reinsurance ceded receivables is determined considering the embedded value of the distributable earnings. For 2009, the fair value is based on the cash surrender value of the liabilities.

Generally accepted accounting principles for *Fair Value Measurements and Disclosures* define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In accordance with these principles, valuation techniques utilized by management for invested assets and embedded derivatives reported at fair value are generally categorized into three types:

Market Approach. Market approach valuation techniques use prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables and matrix pricing. Comparables use market multiples, which might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities but comparing the securities to benchmark or comparable securities.

Income Approach. Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single discounted amount. These techniques rely on current expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models and binomial or lattice models that incorporate present value techniques.

Cost Approach. Cost approach valuation techniques are based upon the amount that, at present, would be required to replace the service capacity of an asset, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

The three approaches described above are consistent with generally accepted valuation techniques. While all three approaches are not applicable to all assets or liabilities reported at fair value, where appropriate and possible, one or more valuation techniques may be used. The selection of the valuation technique(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required. The Company performs regular analysis and review of the various techniques utilized in determining fair value to ensure that the valuation approaches utilized are appropriate and consistently applied, and that the various assumptions are reasonable. As indicated above, the Company also utilizes information from third parties, such as pricing services and brokers, to assist in determining fair values for certain assets and liabilities; however, management is ultimately responsible for all fair values presented in the Company's financial statements. The Company performs analysis and review of the information and prices received from third parties to ensure that the prices represent a reasonable estimate of the fair value. This process involves quantitative and qualitative analysis and is overseen by the Company's investment and accounting personnel. Examples of procedures performed include, but are not limited to, initial and ongoing review of third party pricing services and techniques, review of pricing trends and monitoring of recent trade information. In addition, the Company utilizes both internal and external cash flow models to analyze the reasonableness of fair values utilizing credit spread and other market assumptions, where appropriate. As a result of the analysis, if the Company determines there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly.

For invested assets reported at fair value, the Company utilizes when available, fair values based on quoted prices in active markets that are regularly and readily obtainable. Generally, these are very liquid investments and the valuation does not require management judgment. When quoted prices in active markets are not available, fair value is based on the market valuation techniques described above, primarily a combination of the market approach, including matrix pricing and the income approach. For corporate and government securities, the assumptions and inputs used by management in applying these techniques include, but are not limited to: using standard market observable inputs which are derived from, or corroborated by, market observable data including market yield curve, duration, call provisions, observable prices and spreads for similar publicly traded or privately traded issues that incorporate the credit quality and industry sector of the issuer. For private placement securities, valuation is based primarily on matrix pricing or other similar techniques using standard market inputs including spreads for actively traded and comparable securities, rating, coupon, maturity and industry.

When observable inputs are not available, the market standard valuation techniques for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation, and cannot be supported by reference to market activity. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities.

The use of different techniques, assumptions and inputs may have a material effect on the estimated fair values of the Company's securities holdings.

For the years ended December 31, 2011, 2010 and 2009, the application of market standard valuation techniques applied to similar assets and liabilities has been consistent.

Generally accepted accounting principles for *Fair Value Measurements and Disclosures* also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value as detailed in Note 2.

Level 1 - Quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets and liabilities include investment securities and derivative contracts that are traded in exchange markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or market standard valuation techniques and assumptions with significant inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Such observable inputs include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market. The Company's Level 2 assets and liabilities include investment securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose values are determined using market standard valuation techniques. This category primarily includes corporate securities, and residential and commercial mortgage-backed securities, among others. Level 2 valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs. Prices from services are validated through analytical reviews and assessment of current market activity. The Company assesses whether the inputs used by the pricing services are observable or unobservable in order to classify the assets as Level 2 or 3. The Company also values the embedded derivatives related to funds withheld interests as Level 2 due to the observable inputs relating to the underlying assets, such as market values and prevailing market interest rates.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using market standard valuation techniques described above. When observable inputs are not available, the market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. Prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered Level 2 as significant unobservable market inputs are not used to determine reasonableness. Under certain circumstances, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company would apply internally developed valuation techniques to the related assets or liabilities. Such internally developed valuation techniques include market observable data as the significant inputs, and consequently result in Level 2

designation under the hierarchy. In the event that internal valuation techniques were to include significant unobservable data, those securities would be classified as Level 3. There were no such instances of investment securities as of December 31, 2011, 2010 and 2009. The Company's embedded derivatives related to its interest sensitive contract liabilities with equity indexed products are classified in Level 3 since their values include significant unobservable inputs associated with actuarial assumptions regarding policyholder behavior.

When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest priority level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, gains and losses for such assets and liabilities categorized within Level 3 may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011, 2010 and 2009 are summarized below

		Fair Value Measurements Using:		
December 31, 2011:	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 500,774	$ 500,774	$ —	$ —
Fixed income securities, available for sale	5,777,104	—	5,777,104	—
Fixed income securities, trading	2,163,258	—	2,163,258	—
Equity securities - affiliated	39,393	39,393	—	—
Equity securities - non-affiliated	5,208	5,208	—	—
Investments in partnership interests - non-affiliated	20,496	—	20,496	—
Investments in partnership interests - affiliated	34,347	—	34,347	—
Funds withheld at interest - embedded derivative	154,906	—	154,906	—
Derivative assets	64,462	—	64,462	—
Separate account assets	17,077	—	17,077	—
Total	$ 8,777,025	$ 545,375	$ 8,231,650	$ —
Liabilities:				
Interest sensitive contract liabilities - embedded derivative	$ 534,380	$ —	$ —	$ 534,380
Derivative liabilities	22,067	—	22,067	—
Separate account liabilities	17,077	—	17,077	—
	$ 573,524	$ —	$ 39,144	$ 534,380

		Fair Value Measurements Using:		
December 31, 2010:	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 107,927	$ 107,927	$ —	$ —
Fixed income securities, available for sale	262,027	—	262,027	—
Equity securities - non-affiliated	149,390	—	149,390	—
Funds withheld at interest - embedded derivative	112,597	—	112,597	—
Derivative assets	23,831	—	23,831	—
Total	$ 655,772	$ 107,927	$ 547,845	$ —
Liabilities				
Interest - sensitive contract liabilities - embedded derivative	$ 224,733	$ —	$ —	$ 224,733
Total	$ 224,733	$ —	$ —	$ 224,733

		Fair Value Measurements Using:		
December 31, 2009:	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 63,476	$ 63,476	$ —	$ —
Fixed income securities, available for sale	29,316	—	29,316	—
Funds withheld at interest - embedded derivative	7,004	—	7,004	—
Total	$ 99,796	$ 63,476	$ 36,320	$ —
Liabilities				
Interest - sensitive contract liabilities - embedded derivative	$ 165,481	$ —	$ —	$ 165,481
	$ 165,481	$ —	$ —	$ 165,481

There were no transfers between Level 1, 2 or 3 during the years ended December 31, 2011, 2010 and 2009.

The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2011, 2010 and 2009. The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the beginning of the quarter in which the actual event or change in circumstances that caused the transfer occurs.

	For the years ended December 31,		
Interest Sensitive Contract Liabilities - Embedded Derivatives	2011	2010	2009
Beginning Balance	$ 224,733	$ 165,481	$ —
Purchases	323,354	—	—
Issuances	1,236	39,096	164,283
Earnings, net	(14,943)	20,156	1,198
Ending Balance	$ 534,380	$ 224,733	$ 165,481

The amount reported within purchases is the value of the embedded derivatives at the date of acquisition of LLIC and IIC. The amount reported within issuances is the value of the embedded derivatives at the time the contract is reinsured. The earnings, net for each period is included in the interest credited in the consolidated statements of operations.

6. Variable Interest Entities

In the normal course of business, the Company invests in alternative and specialty funds that are structured as limited partnerships that are considered to be VIEs. For many of the VIEs in which we are invested, our involvement in these entities is passive in nature and we did not arrange or establish these entities. According to the authoritative guidance, we have considered the capital structure, contractual terms, nature of the operations for these investments, and in some cases the Company is deemed to be the primary beneficiary of these variable interest entities. In those cases, the Company is required to consolidate the VIE. In all cases, the Company believes its exposure to loss with respect to these investments is limited to the investment carrying amounts reported in the Company's consolidated balance sheet and any unfunded investment commitments.

Consolidated Variable Interest Entities

In accordance with the methodology described in Note 2, Athene consolidated three VIEs under the consolidation guidance during 2011.

One of the consolidated VIEs, 2011 A4 Fund, L.P. was formed to purchase commercial mortgage-backed securities in a leveraged structure for the benefit of the limited partners. Athene is the only limited partner and receives 100% of the economics other than management fees paid to the general partner (AGRE CMBS GP II LLC), a related party. The Company does not have any voting rights as the limited partner and does not solely satisfy the power criteria to direct the activities of the VIE. Both criteria for the primary beneficiary are satisfied by the related party group. Upon considering the roles of each entity within the related party group, we have determined that Athene is the appropriate entity within the related party group that is most closely associated with the VIE and therefore should consolidate it. The investments within this partnership are classified as trading.

Another consolidated VIE, Reservoir Strategic Partners Fund Offshore, L.P. is a limited partnership that was established to invest in a third party fund. Athene owns 76% of the limited partnership interest and does not have any voting rights. The limited partnership qualifies for the specialized accounting treatment for investment companies. According to the consolidation guidance, the primary beneficiary is the entity that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. Given that the Company owns 76% of the limited partnership, Athene is deemed the primary beneficiary and will consolidate the investment. As Athene does not own 100% of the limited partnership, the portion that is not owned by Athene is recorded as non-controlling interest. This VIE did not generate any meaningful income for the non-controlling interest in 2011.

On September 29, 2011, ALRe, a direct subsidiary of AHL, formed Highland Re Ltd ("HRL"). HRL is a Bermuda special purpose insurer and a direct subsidiary of ALRe. On December 16, 2011 ALRe entered into two (2) non-proportional reinsurance agreements with HRL to cede claims risk associated with an affiliate reinsurance deal. HRL has issued Common Shares (voting), 100 % owned by ALRe, and one Preferred Share (non-voting), 100% owned by a third party, in order to capitalize HRL. The initial investment of HRL, utilizing the cash received from the sale of Preferred Share, was the purchase of a note from the buyer of the Preferred Shares. HRL is restricted from selling or transferring the note absent the occurrence of defined trigger events. The Preferred Share supports the reinsurance transaction of HRL only, and that capital is not available to AHL for any other purpose. The Preferred Share has been issued in connection with over collateralization provided by the Preferred Share buyer in a transaction with an affiliate of HRL. The Preferred Share buyer is entitled to request redemption of all or fractional portions of the Preferred Share under certain conditions during the term of the note.

ALRe's interest in HRL represents an interest in a VIE under current authoritative accounting guidance. AHL has determined that it is the primary beneficiary as it satisfies both the power and benefits criteria in that guidance. Accordingly, HRL will be consolidated in the financial statements of AHL, through its subsidiary ALRe at December 31, 2011.

With the exception of HRL, the assets of these consolidated VIEs are not available to creditors of AHL. For HRL, any residual amounts, subsequent to the satisfaction of all liabilities, will be accessible to creditors. Third party investors in these consolidated VIEs have no recourse to the assets of AHL. Below is a summary of the consolidated VIEs:

	Years ended December 31, 2011	2010	2009
Assets			
Fixed maturity securities, trading	$ 933,802	$ —	$ —
Cash and cash equivalents	26,787	—	—
Investment in partnership interests - affiliated	7,466	—	—
Accrued income	4,889	—	—
Other assets	1,928	—	—
Total Assets	974,872	—	—
Liabilities			
Borrowings under repurchase agreement	724,853	—	—
Derivative instruments	22,068	—	—
Other Liabilities	1,168	—	—
Total Liabilities	748,089	—	—
Mezzanine note	(98,000)	—	—
Non-controlling interest - Equity	98,000	—	—

Income statement results for consolidated VIEs

The following table presents income statement results from the consolidated VIEs for the years ended December 31, 2011, 2010 and 2009, respectively:

	Years ended December 31, 2011	2010	2009
Revenue			
Investment income, net of related expenses	$ 17,165	$ —	$ —
Other investment related losses, net	(20,094)	—	—
Total Revenues	(2,929)	—	—
Benefits and Expenses			
Interest expense	5,049	—	—
Other operating expenses	619	—	—
Total Benefits and Expenses	5,668	—	—
Loss for operations before income taxes	$ (8,597)	$ —	$ —

Variable Interest Entities which are not consolidated

The Company also invests in entities, considered VIEs, which are not consolidated as we have determined that Athene is not the primary beneficiary. The following table is a summary of the financial statement impact of those VIEs:

Non-consolidated VIEs:	Years ended December 31, 2011	2010	2009
Assets			
Investment in partnership interests - non-affiliated	$ 20,496	—	—
Investment in partnership interests - affiliated	26,881	—	—
Total Assets	47,377	—	—
Revenue			
Investment Income, net of related expenses	1,365	—	—
Total Revenue	1,365	—	—

7. Non-controlling Interest

In December 2011, Athene invested in a limited partnership, considered to be a VIE, that was established to invest in a third party fund. Athene is deemed the primary beneficiary and will consolidate the investment (See Note 6). As Athene does not own 100% of the limited partnership, the portion that is not owned by Athene is considered a non-controlling interest. The Company expects its ownership in the partnership to fluctuate over time. The portion of the partnership's 2011 earnings related to the third party ownership is recorded in the income attributable to non-controlling interests line items of the

Consolidated Statements of Income. The portion of the fund that is not owned by Athene is included in the equity section of the consolidated balance sheet as non-controlling interest. As previously stated, the income attributable to non-controlling interest is immaterial.

The Company has mezzanine financing associated with the Preferred shares of Highland Re (See Note 6). These shares have attributes similar to both debt and equity. Based on the terms of the agreement, the preferred shares are redeemable at the option of the buyer, subject to a calculated "floor" based on the remaining reserve balance. Since there is no mandatory redemption, the shares would not be classified as debt securities. In addition, since the buyer may be limited on how much can be redeemed, these securities should not be classified as strictly equity of the Company. Given these factors, the Company has classified the securities as mezzanine financing until such time as the shareholder has an option to redeem the securities at which point that portion would be transferred to debt. In addition, the Company has included the note receivable from the preferred shareholder associated with the transaction as a contra entry within this classification.

8. Deferred Acquisition Costs

The following reflects the amounts of policy acquisition costs deferred and amortized:

As of December 31,	2011	2010	2009
Deferred policy acquisition costs:			
Assumed	$ 225,606	$ 172,773	$ 144,532
Retroceded	—	—	—
Net	$ 225,606	$ 172,773	$ 144,532

Years ended December 31,	2011	2010	2009
Balance, beginning of the year	$ 172,773	$ 144,532	$ —
Capitalized			
Assumed	33,930	52,018	145,867
Retroceded	—	—	—
Amortized (including interest):			
Assumed	18,903	(23,777)	(1,335)
Retroceded	—	—	—
Attributed to unrealized investment gains (losses)	—	—	—
Balance, end of year	$ 225,606	$ 172,773	$ 144,532

Each reporting period, the Company updates the gross profits with actual results as part of the amortization process for interest-sensitive policies. The Company also periodically revises the key assumptions used in the calculation of the amortization of the deferred policy acquisition costs retrospectively when estimates of the current and future gross profits are revised. There were no such revisions to assumptions necessary in 2011, 2010 or 2009.

9. Reserves

The following reflects the amounts of liabilities that the Company has established as reserves for future obligations payable to policyholders and cedants:

	2011	2010	2009
Deferred annuities			
Account Balance	$ 6,170,729	$ 886,237	$ 192,176
Host component of equity index annuities	2,114,769	680,758	544,859
Embedded derivative component of equity index annuities	534,380	224,732	165,481
GLWB reserves	40,196	8,742	885
VOBA	(343,477)	—	—
Deferred acquisition cost for investment contracts	(16,166)	(6,900)	—
Unearned revenue reserves for investment contracts	13,028	—	786
Funding agreements			
Account Balance	750,876	—	—
Unearned revenue reserves for investment contracts	8,000	—	—
Universal Life			
Account Balance	765,557	—	—
Interest sensitive contract liabilities	10,037,892	1,793,569	904,187
Term life	109,438	—	—
Whole life	1,058,418	—	—
Accident and health	61,190	—	—
Immediate annuities	198,061	250	—
Future policy benefits	1,427,107	250	—
Other relating to Interest sensitive contracts	21,054	—	—
Other relating to Future policy benefits	32,202	—	—
Other policy claims and benefits	53,256	—	—
Total reserves	$ 11,518,255	$ 1,793,819	$ 904,187

As of December 31, 2011, the Company ceded $2,075.6 million of the total reserves. Refer to Note 10 Reinsurance for further details.

VOBA is recorded as a reduction to the interest sensitive contract liabilities, and has been established and amortized as follows:

VOBA Rollforward	2011	2010	2009
Balance at the beginning of year	$ —	$ —	$ —
Acquisitions	353,256	—	—
Amortization	(20,715)	—	—
Effect of unrealized gains and losses	10,936	—	—
Balance at end of year	$ 343,477	$ —	$ —

The expected amortization of VOBA for the next five years is as follows:

Years	Expected Amortization
2012	$ 47,225
2013	46,662
2014	42,373
2015	36,328
2016	28,498

10. Reinsurance

Reinsurance and retrocession treaties do not relieve the Company from its obligations directly to policyholders or direct writing companies. Failure of reinsurers or retrocessionaires to honor their obligations could result in losses to the Company. Therefore, allowances would be established if amounts were deemed uncollectible. At December 31, 2011, 2010 and 2009, no allowances were deemed necessary. The Company regularly evaluates the financial condition of its reinsurers and retrocessionaires.

The effect of reinsurance of net premiums is as follows:

	Years ended December 31,		
	2011	2010	2009
Direct	$ 143,458	$ —	$ —
Reinsurance assumed	725	—	—
Reinsurance ceded	(1,259,041)	—	—
Total	$ (1,114,858)	$ —	$ —

The effect of reinsurance on claims and other policy benefits is as follows:

	Years ended December 31,		
	2011	2010	2009
Direct	$ 121,139	$ —	$ —
Reinsurance assumed	3,465	250	—
Reinsurance ceded	(1,239,847)	—	—
Total	$ (1,115,243)	$ 250	$ —

Net premiums and claims and other policy benefits for the year ended December 31, 2011, are negative due to the Company ceding almost all of its life and health business to PLIC under a coinsurance agreement as more fully described below. The cession of the assets and liabilities is recorded through the consolidated statements of income as negative premiums and claims and other policy benefits, respectively.

Reinsurance typically provides for recapture rights on the part of the ceding company. Recapture rights permit the ceding company to reassume all or a portion of the risk formerly ceded to the reinsurer, but these rights are generally only granted upon material breach of the contract by the Company or insolvency of the Company. Recapture of business previously ceded does not affect premiums ceded prior to the recapture of such business but would reduce premiums in future periods. Additionally, some treaties require the Company to place assets in trust accounts for the benefit of the ceding entity to support their reserve credits and in some cases, in excess of their reserve credit. As of December 31, 2011, 2010 and 2009, these trusts had approximately $3.2 billion, $0 and $0, respectively, in assets. Assets placed in trust continue to be owned by the Company, but their use is restricted based on the terms of the trust agreement. To the extent that the statutory book value of the assets in a trust decline because of impairments or other reasons, the Company may be required to contribute additional assets to such trust in accordance with the terms of the trust and/or the reinsurance treaty. In addition, the assets within a trust may be subject to a pledge in favor of the applicable reinsurance company.

On April 29, 2011, the Company reinsured almost all of its life and health business to PLIC under a coinsurance agreement for a ceding commission of approximately $225.1 million. Included in the reinsurance premiums ceded above, approximately $1.1 billion represents the initial reinsurance premium paid in the form of assets transferred to the counterparty. At December 31, 2011, 2010 and 2009, the Company recognized approximately $1.6 billion, $0 and $0, respectively, in Reinsurance Ceded Receivables in the accompanying consolidated balance sheets. At December 31, 2011, PLIC maintained a trust for the benefit of the Company with a market value of assets of approximately $1.8 billion.

On December 16, 2011, the Company entered into two coinsurance agreements whereby it assumed approximately $2.5 billion of fixed annuities and approximately $0.6 billion of funding agreements and received assets equal to statutory reserves plus a ceding commission of approximately $34.2 million.

At December 31, 2011 and 2010, the Company has a receivable of approximately $2.0 billion and $0, respectively. The $2.0 billion at December 31, 2011 is largely due to ceding 100% of its life and health business to PLIC. Of this amount, approximately $1.6 billion is recoverable from PLIC and is due to actuarial reserves ceded to PLIC. There were no other reinsurance ceded receivables associated with a single reinsurer with a carrying value in excess of 5% of total assets.

The effect of reinsurance on life insurance in force is as follows:

	Direct	Assumed	Ceded	Net
December 31, 2011	$ 25,419,393	$ 5,663,726	$ 31,025,410	$ 57,709
December 31, 2010	—	—	—	—
December 31, 2009	—	—	—	—

11. Note Payable

At December 31, 2011, the Company, through ALRe, owed a note payable of $40.0million to PLIC (“ PLIC Surplus Note”) with a maturity date of April 29, 2021. The PLIC Surplus Note was issued as part of the acquisition of Athene Annuity.

Principal payments do not begin for five years, commencing on April 29, 2016. The principal is then paid annually with the final payment due on April 29, 2021. The amount of principal due each year is based on the ratio of how much of ALRe’s annuity reserves assumed from Athene Annuity are in-force at the time the annual principal payment is scheduled.

The note bears 6% interest per annum on the outstanding principal amount payable semi-annually on April 29 and October 29. Total interest expense related to the PLIC Surplus Note as for the year ended December 31, 2011 amounted to $1.6 million.

The principal and the interest payments are subordinated to all the general liabilities of ALRe and the claims of its policyholders and creditors.

12. Borrowings Under Repurchase Agreements

At December 31, 2011, the Company's borrowings had the following weighted average maturities and interest rates:

	Debt balance	Weighted Average Remaining Maturity	Weighted Average Rate
Repurchase facility borrowings	$ 724,853	4.5 years*	1.50% **

* Assumes extension options on borrowing repurchase agreement ("Facility") are exercised. See below for further discussion.
** The bank borrowings are on a floating rate basis. The Company has entered into an interest rate swap to convert these borrowings to fixed rate. The fixed rate debt cost is 3.1% at December 31, 2011.

See Note 4 Derivative instruments footnote for further discussion of the Company's interest rate hedging agreements.

At December 31, 2011, the Company's borrowings had the following remaining maturities:

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Repurchase facility borrowings	$ —	$ —	$ 724,853	$ —	$ 724,853

During 2011, the Company, through, the 2011 A4 Fund, L.P., that is fully consolidated and managed by a related party, entered into the Facility pursuant to which the partnership may borrow up to $800 million in order to finance the acquisition of commercial mortgage-backed securities originally AAA rated. The Facility has a term of three years, with two one-year extensions available at the Partnership's option, subject to certain restrictions, and upon the payment of an extension fee equal to 25 basis points on the then outstanding balance of the facility for each one-year extension. Advances under the Facility accrue interest at a per annum pricing rate equal to the sum of (i) 30 day LIBOR and (ii) a pricing margin of 1.25%. The purchase price of the CMBS is determined on a per asset basis by applying an advance rate schedule agreed upon by the partnership and the Facility provider. The Facility contains (1) affirmative and negative covenants and (2) provisions regarding events of default that, in each case, are normal and customary for similar repurchase facilities. The partnership has agreed to provide a limited bad-act guarantee of the obligations of its indirect wholly owned subsidiary under the Facility. At December 31, 2011, the partnership had $724.8 million of borrowings outstanding under the Facility. The Company did not have any borrowings outstanding at December 31, 2010 or 2009.

13. Income Taxes

Pre-tax income for the years ended December 31, 2011, 2010 and 2009 consists of the following (dollars in thousands):

	2011	2010	2009
Pre-tax income - US	$ 149,455	$ (638)	$ —
Pre-tax income - foreign	(146,355)	35,376	16,011
Total pre- tax income	$ 3,100	$ 34,738	$ 16,011

The provision for income tax expense for the years ended December 31, 2011, 2010 and 2009 consists of the following :

	2011	2010	2009
Current income tax expense:			
U.S.	$ 15,132	$ —	$ —
Foreign	—	—	—
Total current	15,132	—	—
Deferred income tax benefit:			
U.S.	(8,153)	—	—
Foreign	—	—	—
Total deferred	(8,153)	—	—
Reversal for deferred taxes resulting from intercompany reinsurance transactions	(3,447)	—	—
Total provision for income taxes	$ 3,532	$ —	$ —

Provision for income tax expense differed from the amounts computed by applying the U.S. federal income tax statutory rate of 35% to pre-tax income as a result of the following for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Tax provision at U.S. statutory rate	$ 1,085	$ 12,159	$ 5,604
Increase (decrease) in income taxes resulting from:			
Foreign tax rate differing from U.S. tax rate	51,224	(12,382)	(5,604)
Deferred tax valuation allowance	578	223	—
Bargain Purchase	(44,763)	—	—
Corporate rate changes - others	71	—	—
Prior year tax adjustment	24	—	—
Reversal for deferred taxes resulting from intercompany reinsurance taxes	(3,447)	—	—
Other and state taxes	(1,240)	—	—
Total provision for income taxes	$ 3,532	$ —	$ —
Effective tax rate	113.95%	0.00%	0.00%

Total income taxes for the years ended December 31, 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Provision for income taxes	$ 3,532	$ —	$ —
Income tax from OCI	1,528	15	—
Total income taxes provided	$ 5,060	$ 15	$ —

The tax effects of temporary differences that give rise to significant portions of the deferred income tax asset and liabilities at December 31, 2011 and 2010, are presented in the following tables:

	2011	2010
Deferred income tax asset:		
Reserve valuation differences	$ 1,672	$ —
Value of business acquired	57	—
Tax deferred acquisition costs	9,383	—
Net operating loss carryforward	3,601	—
Unrealized loss on invested assets	7,258	—
Reinsurance related differences	12,729	—
Others, net	2,325	223
Subtotal	37,025	223
Valuation Allowance	(801)	(223)
Total deferred income tax assets	36,224	—
Deferred income tax liabilities:		
Invested asset valuation differences	8,450	—
GAAP deferred acquisition costs	2,985	—
Reserve valuation differences	29,974	—
Unrealized gains on invested assets	4,974	15
Shadow VOBA	3,828	—
Embedded derivative	9,687	—
Others, net	7,226	—
Total deferred income tax liabilities	67,124	15
Net deferred income tax liabilities	$ 30,900	$ 15

As of December 31, 2011, a valuation allowance for deferred tax assets of approximately $0.8 million was provided on certain deferred tax assets of ALIC. As of December 31, 2010 a valuation allowance for deferred tax assets of approximately $223 thousand was provided on the total deferred tax assets of ALIC. The Company utilizes valuation allowances when it believes, based on the weight of the available evidence, that it is more likely than not that the deferred income taxes will not be realized.

At December 31, 2011, the Company had recognized gross deferred tax assets associated with federal and state net operating losses of approximately $3.6 million which will begin to expire in 2025. As of December 31, 2011, of the $0.8 million valuation allowance, approximately $0.6 million has been recognized to offset the deferred tax assets related to certain of ALIC's federal and state tax carry forwards that are not likely to be realized.

Under the terms of the IIC Stock Purchase Agreement between SGLUS and Athene, SGLUS and Athene made a joint Section 338(h)(10) election to treat the stock purchase as an asset purchase. However, the calculation to determine the tax basis in the assets has not been finalized. As such, the deferred tax assets/liabilities of the Company are subject to change pending completion of the calculations resulting from this election. The deferred tax asset and liability balances have been adjusted to reflect the estimated impact of this election based on the information currently available. The estimated net ending deferred tax liability of $6.6 million for IIC is included in the Others, net line item.

The Company reviews all subjective tax position in order to compute its liability for uncertain tax positions. No liability for uncertain tax positions has been recorded as the Company does not have any material items requiring establishment of or disclosure of such a reserve. Interest and penalties associated with uncertain tax positions would be recognized within the income tax expense line of the statement of income.

The Company files income tax returns with the U.S. federal government and various U.S. state governments. The Company is not subject to U.S. federal, state and foreign tax examinations by tax authorities for the years prior to 2006. Athene Annuity and IIC will file a consolidated income tax return for 2011 which will include IIC's income for the period October 1, 2011 through December 31, 2011, the portion of the year for which it was a subsidiary of Athene Annuity. IIC will file a stand-alone tax return for the period July 18, 2011 through September 30, 2011, the portion of the tax year for which it was not a subsidiary of Athene Annuity. ALIC will file a stand-alone tax return for calendar year 2011, as it is not eligible to join the life subgroup consolidated income tax return.

14. Share Capital

On July 31 and October 28, 2011, the Company increased its authorized Class A Common Shares by 10,071,880 and 36,551,578 respectively, with a par value of $0.001.

	2011		2010		2009	
	Shares	Amounts	Shares	Amounts	Shares	Amounts
Authorized share capital -$0.001 par value						
Common A shares						
At January 1 (2009 - at September 3, 2008)	40,287,580	$ 40	40,287,580	$ 40	—	$ —
Changes during the year	46,623,458	47	—	—	40,287,580	40
At December 31	86,911,038	$ 87	40,287,580	$ 40	40,287,580	$ 40
Common B shares						
At January 1	7,109,560	$ 7	7,109,560	$ 7	—	$ —
Changes during the year	—	—	—	—	7,109,560	7
At December 31	7,109,560	$ 7	7,109,560	$ 7	7,109,560	$ 7
Common C shares						
At January 1	1,100	$ —	—	$ —	—	$ —
Changes during the year	—	—	1,100	—	—	—
At December 31	1,100	$ —	1,100	$ —	—	$ —
Issued for cash share capital	2011		2010		2009	
Common A shares						
At January 1	30,215,625	$ 30	9,760,000	$ 10	—	$ —
Changes during the year	29,103,073	29	20,455,625	20	9,760,000	10
At December 31	59,318,698	$ 59	30,215,625	$ 30	9,760,000	$ 10
Common B shares						
At January 1	5,756,965	$ 6	5,189,978	$ 5	—	$ —
Changes during the year	—	—	566,987	1	5,189,978	5
At December 31	5,756,965	$ 6	5,756,965	$ 6	5,189,978	$ 5
Common C shares						
At January 1	1,100	$ —	—	$ —	—	$ —
Changes during the year	—	—	1,100	—	—	—
At December 31	1,100	$ —	1,100	$ —	—	$ —

On October 12, 2011, the Company's Board of Directors approved the sale of Class A Common Shares in connection with the Preemptive Rights Offer at a price per share equal to $11.16 (the "Per Share Price"). The Per Share Price was determined based upon 1.15 times the Company's September 30, 2011 book value.

During 2011, the Company issued 29,103,073 of Common A shares of which 13,750 shares are still unpaid and outstanding. As at December 31, 2011, the Company has a subscription receivable of $0.1 million recorded at other assets relating to outstanding capital contributions.

At year ended December 31, 2011, the Company recorded $296.9 million of additional paid-in capital, which is net of $4.5 million of advisory expenses relating to the capital call.

Athene Group Ltd. ("AGL") currently controls the Company through its ownership of 1,100 Class C common shares, which shares constitute all of the issued and outstanding voting securities. In turn, all of the issued and outstanding voting securities of AGL are owned by eleven individuals, none of whom own or hold the right to acquire ten percent (10%) or more of its voting securities. All AGL shareholders are currently employees of, or consultants to, Apollo Global Management, LLC ("Apollo"), the Company or one of their respective affiliates. Each such shareholder is entitled to vote at his or her discretion and is not subject to any voting agreement or other arrangement that would require such shareholder to vote his or her shares in any particular manner or in concert with any of the other shareholders. In addition to the Class C voting shares described above, Athene Holding also has certain issued and outstanding non-voting shares. The Class A non-voting shares of the Company are owned, directly or indirectly, by certain employees of the Company or its subsidiaries and certain co-investors managed by Apollo or its affiliates. Class A shares represent capital shares which have been purchased by the Company's investors and management. The Class B non-voting shares of the Company are owned by certain employees of or consultants to the Company or its subsidiaries. None of the holders of the Class A or Class B shares of the Company are party to any contractual arrangements that give the ability to control the Company or AGL.

The Company has a stock-based compensation plan that includes awards to employees of the Company, its subsidiaries, and AAM, a related company. Under the terms of the plan, shares vest according to the paragraphs below. However, according to the terms of the plan, the vested shares can be purchased by the

Company at the lower of a nominal cost or fair value if the employees leave without good cause before a liquidity event occurs. As a result of this substantive vesting provision, the related expense would be recognized at the time the value realization event occurs. The fair value at the grant date was determined by management utilizing a lattice model with various scenarios and applying probabilities to each of the possible outcomes.

The Company granted no Class B restricted shares during 2011, 566,987 during 2010 and 5,189,978 during 2009. The valuation of these shares granted during 2010 and 2009 is approximately $0.8 million and $5.6 million respectively.

The shares are subject to vesting as follows:

One-third of the shares (the "Tranche A Restricted Shares") are subject to time vesting in 20% increments on the 1st, 2nd, 3rd, 4th and 5th anniversaries. Vesting is accelerated if the Company experiences a liquidity event. In addition, if the Company terminates the employee's employment without cause or because of the employee's death or disability, or the employee resigns his/her employment for good reason, vesting continues during the period in which the employee continues to receive severance from the Company. In the years December 31, 2011 and 2010, 368,698 and 342,539 Tranche A Restricted Shares vested, respectively.

Two-thirds of the shares (the "Tranche B Restricted Shares") are subject to vesting on the achievement of certain performance metrics based on the cumulative capital invested in the Company by the holders of the Company's Class A shares and by the holders of AAM's Class A membership units. The percentage of Tranche B shares that vest is subject to the achievement of these performance metrics. As the performance increases, so will the percentage of shares that are eligible to become vested. If the Company's results do not satisfy the lowest level of these metrics, no Tranche B shares will vest.

In addition to the above vesting requirements, the portion of the Tranche A Restricted Shares or the Tranche B Restricted Shares, respectively, that are eligible to vest at any time is limited by the actual, cumulative capital invested in the Company by the holders of the Class A shares and in AAM by the holders of the Class A profit units. The holders of Tranche A and Tranche B shares cannot convert their shares into cash unless a liquidity event occurs which results in a 100% return of capital to the Class A shareholders. Until all of these events transpire, the Tranche A and Tranche B shareholders are not eligible to share in the earnings of the Company.

The employees will forfeit any shares which do not vest in accordance with the vesting requirements above prior to the earlier of (i) the termination of the employee's employment with the Company, (ii) a sale or liquidation of the Company or (iii) the ten year anniversary of the grant date.

Following is a table that shows the vesting of the A and B shares subject to the restrictions above:

	2011			2010			2009		
	Tranche A	Tranche B	Total	Tranche A	Tranche B	Total	Tranche A	Tranche B	Total
Non Vested									
At January 1	1,576,450	3,837,976	5,414,426	1,729,993	3,459,985	5,189,978	-	-	-
Granted during the year	-	-	-	188,996	377,991	566,987	1,729,993	3,459,985	5,189,978
Vested during the year	(368,698)	-	(368,698)	(342,539)	-	(342,539)	-	-	-
At December 31	1,207,752	3,837,976	5,045,728	1,576,450	3,837,976	5,414,426	1,729,993	3,459,985	5,189,978
Vested									
At January 1	342,539	-	342,539	-	-	-	-	-	-
Vested during the year	368,698	-	368,698	342,539	-	342,539	-	-	-
At December 31	711,237	-	711,237	342,539	-	342,539	-	-	-

15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share on net income (in thousands, except per share information):

	Years ended December 31,		
	2011	2010	2009
Earnings:			
Net income (numerator for basic and diluted calculations)	$ (432)	$ 34,738	$ 16,011
Shares:			
Weighted average outstanding shares (denominator for basic calculation)	41,434	13,728	1,621
Denominator for diluted calculation	41,434	13,728	1,621
(Loss) Earnings per share:			
Basic	$ (0.01)	$ 2.53	$ 9.88
Diluted	$ (0.01)	$ 2.53	$ 9.88

The calculation of common equivalent shares excludes the impact of the B shares as referred to Note 14, as the conditions necessary for their issuance have not been satisfied as of the end of the reporting period. For the years ended December 31, 2011, 2010 and 2009 approximately 5.8 million, 5.8 million and 5.2 million contingent shares were excluded from the calculation, respectively.

16. Statutory Requirements

The Company's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate which include Bermuda and certain states in the United States. Certain of these regulations include restrictions that limit the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities. The difference between financial statements prepared for insurance regulatory authorities and statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") vary by jurisdiction; however the primary difference is that financial statements prepared for some insurance regulatory authorities do not reflect intangibles such as deferred acquisition costs, value of business acquired, limits the amount of deferred income tax net assets, establishes reserves for invested assets, values certain invested assets at amortized cost rather than fair market value and calculates benefit reserves by defined formulaic process.

Bermuda statutory requirements
ALRe is licensed as a long term insurer under the Bermuda's Insurance Act 1978, amendments thereto and related Regulations (the "Act"). Under the Act, ALRe is required to maintain a minimum capital and surplus of $20 million as of December 31, 2011. There are no statutory restrictions on the payment of dividends from retained earnings of ALRe as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid in capital.

U.S. statutory requirements
The statutory financial statements of Athene Annuity and IIC are presented on the basis of accounting practices prescribed or permitted by the Delaware Department of Insurance ("DDOI"). The DDOI recognizes only statutory accounting practices prescribed or permitted by the state of Delaware for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under Delaware Insurance Law.

The financial statements of ALIC are presented on the basis of accounting practices prescribed or permitted by the Indiana Insurance Department ("IDOI"). The IDOI recognizes only statutory accounting practices prescribed or permitted by the state of Indiana for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under Indiana insurance law.

The maximum amount of dividends which can be paid by Delaware and Indiana domiciled insurance companies to shareholders without prior approval of the Delaware Department or the Indiana Department, as applicable, is subject to restrictions relating to statutory surplus or net gain from operations. The maximum dividend payment over a 12-month period may not, without prior approval, be paid from a source other than earned surplus or exceed the greater of the prior year's net gain from operations or 10% of policyholders' surplus.

As of December 31, 2011, the Company's U.S. subsidiaries' solvency, liquidity and risk-based capital amounts were in excess of the minimum levels required.

The following table presents, for each of the Company's subsidiaries, the statutory capital and surplus as of December 31, 2011, 2010 and 2009, and the statutory net earned income (loss) for the years ended December 31, 2011, 2010 and 2009. The amounts shown in the table are those reflected in each company's most recent statutory financial statement filings with insurance regulators:

	Statutory Capital & Surplus			Statutory Net Income (Loss)		
	2011	2010	2009	2011	2010	2009
Athene Life Re Ltd.	$ 480,818	$ 169,127	$ 108,788	$ (1,444)	$ 38,448	$ 16,083
Athene Annuity	142,572	N/A	N/A	(18,800)	N/A	N/A
IIC	36,338	N/A	N/A	10,523	N/A	N/A
ALIC	12,438	823	N/A	(1,436)	(638)	N/A

17. Related Parties

Invested assets of the Company and its subsidiaries are managed by AAM, a related investment management company based in California. Incorporated on June 9, 2009, AAM is a subsidiary of Apollo Global Management, an affiliate of Apollo Life. AAM manages approximately $10 billion of assets generated by the Company, which includes assets underlying the funds withheld at interests account ("accounts"), in a diversified portfolio of fixed income and other securities.

Certain members of the Company's management own capital and profit units of AAM.

Effective January 1, 2010, ALRe and AAM entered into an agreement which required ALRe to pay AAM a fee potentially larger than the stated management fee rate subject to a cap of 0.451% per annum based on the assets directly owned by the Company and its subsidiaries and including assets underlying the funds withheld at interests account . The actual calculation of the payment of the fee over the stated management fee was dependent on the cash flow needs of AAM.

This agreement was amended and restated effective December 1, 2011 to remove this fee with ALRe. Contemporaneously with such amendment and restatement, the Company and AAM entered into an agreement ("AHL Fee letter") which moved the potentially larger fee with cap from ALRe to the Company. This cap applied to all assets held in the Accounts. In addition, the AHL Fee letter also requires the Company to pay management fees and certain service compensation to AAM to the extent that any of the Accounts do not pay for such management fees or services directly.

Total expenses incurred by Athene and accounts in relation to AAM services for the years ended December 31, 2011, 2010 and 2009, amounts to $16.0 million, $5.4 million and $0.8 million respectively.

In addition to these fees, the Company reimburses AAM for sub advisory fees incurred by Athene and accounts. Total sub advisory expenses for the years ended December 31, 2011, 2010 and 2009, amounts to $5.5 million, $2.3 million and $0 million respectively.

Apollo Alternative Assets, L.P., Apollo Management Holdings, L.P. and Apollo Management Holdings, L.P. (collectively "AGS") charges the Company a quarterly monitoring fee of 0.50% of the capital and surplus of the Company including out of pocket expenses as compensation for Apollo's advisory and management services. In addition, at the closing of any successful merger, acquisition or similar transactions, other than any transactions consummated in the ordinary course of business, AGS charges 1.5% of the aggregate consideration for the value paid or provided to the Company in relation to such transactions. These fees were allocated and recorded at ALRe under the terms of the cost sharing agreement between the Company and ALRe. The total costs incurred for these services were $12.1 million, $9.9 million and $0.4 million for the years ended December 31, 2011, 2010 and 2009, respectively and are recorded as other operating expenses.

The Company also pays AGS a transaction fee equal to 1.5% of each capital call made during the year. Such transaction fees are reported as net of the additional paid in capital. For the years ended December 31, 2011, 2010 and 2009, transaction fees incurred amounted to $4.5 million, $3.1 million and $1.5 million.

18. Business Acquisition

On October 22, 2010 the Company entered into definitive agreement to acquire 100% of the common shares of LLIC from Royal Bank of Canada. The transaction was approved by the South Carolina Department of Insurance on April 26, 2011 and effected on April 29, 2011. Simultaneous to the purchase of LLIC, all of the life insurance business was ceded to PLIC. Also simultaneous to the purchase of LLIC, 75% of the annuity business was ceded to ALRe. The aggregate consideration paid to RBC was $504.8 million. This consideration was in the form of cash funded by the PLIC ceding commission, ALRe ceding commission and the net payment by LLIC for approximately 8.7 million of outstanding shares of its common stock. The value of business acquired by this acquisition was $389.0 million. Of this total, $262.2 million related to investment-type contracts. The value of business acquired for investment-type contacts is recognized in the interest sensitive contract liabilities of the Company's consolidated balance sheet at December 31, 2011.

There was a bargain purchase gain of $116.0 million. A significant portion of this gain resulted from a large amount of unrealized gains in the portfolio of assets backing the policyholder obligations. The aggregate consideration paid was less than the value of gains reflected in the opening equity in the balance sheet of LLIC. Typically sellers of insurance companies expect a discount on consideration paid related to unrealized gains due to the interest maintenance

reserve that insurance companies have to establish due to U.S. statutory rules if the gains are realized. Also, a discount is expected for the value of these gains due to the uncertainty around actually realizing the gains in the portfolio due to shifting interest rates from time of signing to time of approval by regulators. A second significant reason for the bargain purchase gain is due to the economic recession that started in earnest in 2008. This significantly increased the disparity between the U.S. GAAP book value and market value of insurance companies. This means that the trading value of insurance companies became significantly depressed. These environmental conditions created a general situation where less consideration was accepted.

The difference between the opening equity for LLIC of $222.6 million and the consideration paid of $504.8 million is $282.2 million. This difference is equal to the difference between the surplus note of $398.2 million and the bargain purchase gain of $116.0 million. Immediately prior to purchase, RBC completed a share redemption of $518.1 million comprised of $120.0 million of cash and the $398.2 million surplus note. This note was repaid using cash received from the reinsurance transactions noted above immediately after the reinsurance transactions were consummated. The total expenses incurred by the Company in legal, accounting and actuarial costs to buy LLIC were $0.6 million in 2010 and $14.1 million in 2011, which are part of other operating expenses in the consolidated statements of income. As discussed in the derivatives footnote, the Company entered into an interest rate swap to hedge the value of the embedded gains in the investment portfolio until the acquisition was complete to preserve the economics of the transaction. The gain on the derivatives was $13.8 million in 2010 and a loss of $90.5 million in 2011.

Following is the purchase GAAP balance sheet of LLIC as of April 29, 2011:

Total Invested Assets	$	4,910,046
Due from reinsurers: future policyholder benefits		419,208
VOBA		126,733
Other assets		128,220
Total Assets	$	5,584,207
Liabilities:		
Policyholder reserves	$	4,737,336
Policyholder amounts on deposit		66,751
Claims payable		43,594
Income taxes payable		22,176
Deferred taxes payable		32,830
Surplus note		398,183
Other liabilities		60,757
Total Liabilities		5,361,627
Shareholder's Equity:		
Common shares		1,322
APIC		105,271
Bargain purchase gain		115,987
Total Equity		222,580
Total Liabilities and Shareholder's Equity	$	5,584,207

The amounts of revenue and earnings of LLIC since the acquisition date included in the consolidated income statement for the reporting period is $(858) million and $141 million. The revenue and earnings of the combined entity for 2011 and 2010 as though the acquisition date for Athene Annuity occurred on January 1, 2010 is as follows:

		2011		2010
Pro forma revenue including LLIC (unaudited)	$	(634,573)	$	598,428
Pro forma net income including LLIC (unaudited)	$	13,623	$	52,387

On February 16, 2011, the Company entered into definitive agreement to acquire 100% of the common shares of Investors Insurance Corporation ("IIC"), a Delaware-domiciled life insurance company, from international reinsurer SCOR Global Life U.S. Re Insurance Company ("SGLUS"). The transaction was consummated on July 18, 2011. Immediately following the purchase of IIC, 80% of the annuity business was ceded to ALRe. The total expenses incurred by the Company in legal, accounting and actuarial costs to buy IIC were $0.2 million in 2010 and $8.3 million in 2011, which are reported as part of the other operating expenses at the consolidated statement of income. The aggregate consideration paid to SGLUS was $52.1 million. The total value of business acquired was $91.0 million related to investment-type contracts. The value of business acquired for investment-type contacts is recognized in the interest sensitive contract liabilities of the Company's consolidated balance sheets at December 31, 2011.

There was a bargain purchase gain of $11.9 million. This gain partially resulted from the unrealized gains in the portfolio of assets backing the policyholder obligations. However, the largest factor was due to the depressed values of market values for insurance companies as discussed above related to the acquisition of LLIC.

Following is the purchase GAAP balance sheet of Investors Insurance Corporation as of July 18, 2011:

Total Invested Assets	$	1,461,984
Other assets		44,289
	$	1,506,273
Policy benefit reserves	$	1,389,674
Claims Payable		11,436
Deferred tax liabilities		38,540
Other liabilities		2,608
Total Liabilities	$	1,442,258
Shareholder's Equity:		
Common Shares	$	2,550
Additional Paid-in Capital		49,556
Bargain purchase gain		11,909
Total Shareholder's Equity	$	64,015
Total Liabilities and Shareholder's Equity	$	1,506,273

The amounts of revenue and earnings of IIC since the acquisition date included in the consolidated income statement for the reporting period is $31 million and $18.8 million. The amount of revenue and net income that IIC would have contributed to the company is impracticable to estimate. After making every reasonable effort to do so, management is unable to provide a reasonably accurate representation of the results of IIC on a U.S. GAAP basis as SGLUS did not prepare financial statements on a stand alone U.S. GAAP basis for the IIC before the acquisition and did not maintain sufficiently detailed data to retroactively create financial statements for IIC.

19. Commitments and Contingent Liabilities

Contingent Commitments

The Company had commitments to fund investments in limited partnerships and private placement investments of $68.5 million as of December 31, 2011. The Company anticipates that the majority of its current commitments will be invested over the next five years, however, these commitments could become due any time at the request of the counterparties. Investments in non-consolidated limited partnerships are primarily carried using the equity method of accounting and are included in partnership investments in the consolidated balance sheets.

Assessments

The Company recorded a liability of $1.2 million for estimated future guaranty fund assessments as of December 31, 2011. A related guaranty funds receivable asset of $0.9 million has been recorded for estimated future premium tax credits.

Funds in Trust

In 2010, ALRe entered into a master agreement assignment with and among American Pioneer Life Insurance Company; American Progressive Life and Health Insurance Company of New York; Constitution Life Insurance Company; Pennsylvania Life Insurance Company; The Pyramid Life Insurance Company; Union Bankers Insurance Company (collectively, the “Ceding Companies”); Commonwealth Annuity and Life Insurance Company; First Allmerica Financial Life Insurance Company (the “Assigning Reinsurers”). Under this agreement, ALRe will assume the position as reinsurer under the terms and conditions of various coinsurance agreements between the Ceding Companies and the Assigning Reinsurers, with respect to the assigned policies from and after effective dates as indicated in the coinsurance agreements.

Under the coinsurance agreements, ALRe had established a reinsurance trust (“trust”) to secure all statutory reserves and liabilities for each of the Ceding Companies. The reinsurance trusts are held at State Street Bank and Trust Company and the Ceding Companies are beneficiaries of the trusts. The assets held in trust are subject to withdrawal restrictions and prior written consent of the relevant beneficiary.

As at years ended December 31, 2011 and 2010, the funds in trust included in the consolidated balance sheets are as follows:

	2011		2010		2009
Cash and cash equivalents	$	6,803	$	75,549	N/A
Fixed income securities, available for sale		168,039		122,845	N/A
Total	$	174,842	$	198,394	N/A

Leases

The Company leases office space under non-cancelable operating lease agreement, which expire at various dates. Future minimum office space annual rentals under non-cancelable operating leases at December 31, 2011 are as follows:

2012	$	522
2013		611
2013		599
2015		521
2016 and thereafter		707

All Other Contingencies

The Company has recorded a valuation allowance of $4.0 million against a total of $11.2 million pre-tax reinsurance recoverable related to purchase of IIC from SGLUS in connection with the original recapture of certain insurance liabilities. This valuation allowance stems from a dispute between IIC and SGLUS as to the amount owed related to the statutory valuation for certain annuity reserves. The Company feels this valuation adequately reflects the best estimate of the total cash flows to be received as of December 31, 2011. The Company feels this valuation allowance is adequate as a result of a verbal agreement reached with the SGLUS on April 11, 2012.

The Company is named as a defendant in various other legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the policy and contract liabilities. The Company's management believes that the resolution of those actions will not have a material effect on the on the Company's financial position or results of operations.

20. Segment Information

Athene is comprised of two direct subsidiaries that aggregate to one operating segment. As such the accounting policies of the segment are the same as those described in the Summary of Significant Accounting Policies in Note 2 of the consolidated financial statements The Company currently only writes or reinsures fixed annuity business that has policyholders located in the United States. Each subsidiary, reinsured blocks of business and the newly formed retail platform are simply sources of liabilities and are not distinct operating segments. The assets supporting these liabilities are managed as one portfolio. The strategic asset allocation of the Company’s investments are done at the consolidated level, given entity regulatory constraints.

The Company evaluates performance based on the operating results of the entire company. Investment income and the related spread generated over the cost of funds are analyzed on a company wide basis. Due to regulatory constraints, capital is monitored at the legal entity level, but strategic decisions are only made at the Athene consolidated level. All strategic decisions and resource allocations are made by the executive group of Athene.

21. Subsequent Events

Management has evaluated all subsequent events or transactions for potential recognition or disclosure through April 27, 2012, the date these consolidated financial statements were issued.

On January 5, 2012, the Company increased the size of its Board of Directors to twelve and on March 29, 2012 the Company increased the size of its Board of Directors to thirteen. In connection with the increases, the Company has appointed two additional members to the Board.

Effective February 1, 2012, Liberty Life Insurance Company changed its name to Athene Annuity & Life Assurance Company. The name change was approved by Athene Annuity’s insurance regulators in 48 states and the District of Columbia.

On March 5, 2012, the Company received an additional capital commitment of $50 million from an affiliate of one of its existing institutional investors. As of the issuance date of these financials, the Company’s undrawn capital commitments totaled $125 million.

On April 1, 2012, the Company and AAM amended and restated the AHL Fee Letter to include a requirement that the Company pay an additional amount to AAM so that AAM receives, in the aggregate, 0.40% per annum on all assets in the Accounts, with certain limited exceptions. This fee is offset by all management fees paid directly by the Accounts. The result of the amendment and restatement is to approximately double the amount of management fees paid to AAM by the Company and its subsidiaries.

The Company and certain of its subsidiaries have entered into Shared Services and Cost Sharing Agreements with AAM. Such agreements require the Company or its subsidiaries to reimburse AAM for employee costs and expenses related to executive management, risk management, legal, corporate development and other matters based on the amount of time such employees spend on such matters for the Company or its subsidiaries.

The Company had increased its commitments to fund investments in limited partnerships and private placement investments to the total amounts of $276.7 million as of the date of the issuance of these financial statements.

On April 19, 2012, Fitch reaffirmed Athene Annuity’s rating of BBB+ with stable outlook.