

Rating Action: Moody's affirms Global Atlantic's ratings; outlook changed to positive

9 July 2020

New York, July 9, 2020 – Moody's Investors Service has affirmed the Baa3 senior unsecured debt rating of Global Atlantic (Fin) Company and the A3 insurance financial strength (IFS) of its primary life and annuity operating entities (see below for a complete rating list). The outlook has been changed to positive from stable following the announcement by Global Atlantic and KKR & Co. Inc. of a transaction in which KKR will acquire Global Atlantic.

RATINGS RATIONALE

On July 8, 2020 KKR & Co. Inc. and Global Atlantic announced the signing of a transaction whereby KKR will acquire Global Atlantic for 1.0x book value as of closing. The transaction is expected to close in early 2021, subject to regulatory and shareholder approval, and other customary closing conditions. After closing, Global Atlantic will continue to operate as a separate business with its existing brands and management team.

The affirmation of Global Atlantic's ratings is based on the company's improving business profile, reflecting its growing and increasingly diversified footprint in the life insurance industry. Global Atlantic's success in its retail insurance platform, which includes annuities, preneed, and life insurance, is augmented by its strong institutional business, including block, flow and pension risk transfer reinsurance. Moody's expects that Global Atlantic will maintain its strict focus on profitability and continue to generate consistently strong returns on capital (ROC) while maintaining good capital levels through the coronavirus pandemic. The rating agency noted that the company's strengths are tempered by the rapid expansion of the annuity business, investment risk, as well as disintermediation risk and related ALM complexities.

The change in outlook to positive from stable reflects Moody's view that the transaction with KKR will provide Global Atlantic access to capital and improve the company's business profile over the long term. While the implied support by KKR provides some benefit, it is not enough to lift the standalone rating of Global Atlantic. However, Global Atlantic's ownership by KKR should help Global Atlantic grow and manage its business over time. Specifically, the transaction will help support Global Atlantic's growth as a result of increased access to capital and will strengthen the company's distribution due to KKR's relationships with financial institutions. The positive outlook reflects the expectation that asset risk will not increase as a result of KKR becoming the investment manager. The positive outlook also reflects Global Atlantic's consistent profitability and improvement in its market position achieved growing its distribution reach through both its retail and institutional channels. The company has also become less reliant on bank financing and demonstrated increased access to capital markets.

Moody's believes that the coronavirus-driven economic downturn and ultra-low interest rates will stress most aspects of life insurers' financials, including those of Global Atlantic. This includes sales, investment income, reserves and capital adequacy. Most life insurers, including Global Atlantic, start with healthy capital and asset quality to weather this storm over the near term, but these conditions will weaken their creditworthiness if they persist.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

According to Moody's, the following factors could lead to an upgrade of Global Atlantic's ratings: 1) successful execution of transaction and realization of potential revenue synergies; 2) no material changes to the company's business strategy or risk profile; 3) NAIC company action level (CAL) risk based capital (RBC) ratio consistently remains above 400%, after adjusting for captive reinsurers; and 4) profitable premium growth is maintained and well balanced between life insurance and annuities.

Given Global Atlantic has a positive outlook, a downgrade is unlikely. However, the following could result in the outlook returning to stable from positive: 1) transaction is unsuccessful or revenue synergies do not materialize; 2) increased risk profile or growth appetite, including another material acquisition; 3) reduced profitability of Global Atlantic with ROC falling below 10% (consolidated GAAP); 4) a decline in the NAIC CAL RBC ratio to below 400%; or 5) adjusted financial leverage consistently above 25% (consolidated GAAP).

RATING ACTIONS

The following ratings were affirmed:

Accordia Life and Annuity Company: insurance financial strength rating at A3;

Commonwealth Annuity and Life Insurance Company: insurance financial strength rating at A3;

First Allmerica Financial Life Insurance Company: insurance financial strength rating at A3;

Forethought Life Insurance Company: insurance financial strength rating at A3;

Global Atlantic (Fin) Company: long term issuer rating at Baa3; senior unsecured debt rating at Baa3; subordinated debt rating at Ba1 (hyb);

Forethought Financial Group, Inc. [assumed by Global Atlantic (Fin) Company]: senior unsecured debt rating at Baa3.

OUTLOOK ACTIONS

Accordia Life and Annuity Company: outlook changed to positive from stable;

Commonwealth Annuity and Life Insurance Company: outlook changed to positive from stable;

First Allmerica Financial Life Insurance Company: outlook changed to positive from stable;

Forethought Life Insurance Company: outlook changed to positive from stable;

Global Atlantic (Fin) Company: outlook changed to positive from stable.

The principal methodology used in these ratings was Life Insurers Methodology published in November 2019 and is available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187348. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Commonwealth Annuity and Life Insurance Company, the primary life operating company of Global Atlantic, reported a statutory net loss of \$44 million for the first three months of 2020. As of March 31, 2020, Commonwealth Annuity and Life Insurance Company reported capital and surplus of \$3.2 billion and statutory assets of \$23.6 billion.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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