

# Investor Financial Overview

*June 30, 2019*



**AMERICAN EQUITY**  
INVESTMENT LIFE HOLDING COMPANY®

# Safe Harbor Statement

*We make forward-looking statements that are based on our current expectations and projections about current events. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and we are including this statement for purposes of invoking these safe harbor provisions. You can identify these statements from our use of the words “estimate,” “project,” “believe,” “intend,” “anticipate,” “expect,” “target” and similar expressions. These forward-looking statements may include, among other things:*

- statements relating to projected growth; anticipated changes in earnings, earnings per share, other financial performance measures; and management’s long-term performance goals;
- statements relating to the anticipated effects on our results of operations or our financial condition from expected developments or events;
- statements relating to our business and growth strategies, including any potential acquisitions and
- any other statements which are not historical facts.

*These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements or industry results to differ materially from our expectations of future results, performance or achievements expressed or implied by the forward-looking statements.*



# WHO WE ARE

# Company Overview

- Founded in 1995
- Headquarters: West Des Moines, IA
- 581 Employees<sup>(a)</sup>
- Market cap of \$2.3 billion<sup>(b)</sup>, public since 2003
- Principal product: fixed index annuity
- Sell primarily through independent agents
- Policyholder funds under management: \$52 billion
- AEL has been a top 3 fixed index annuity producer in the independent agent channel in 18 of the last 19 years

(a) As of June 30, 2019

(b) As of July 31, 2019

# Why Invest In American Equity?

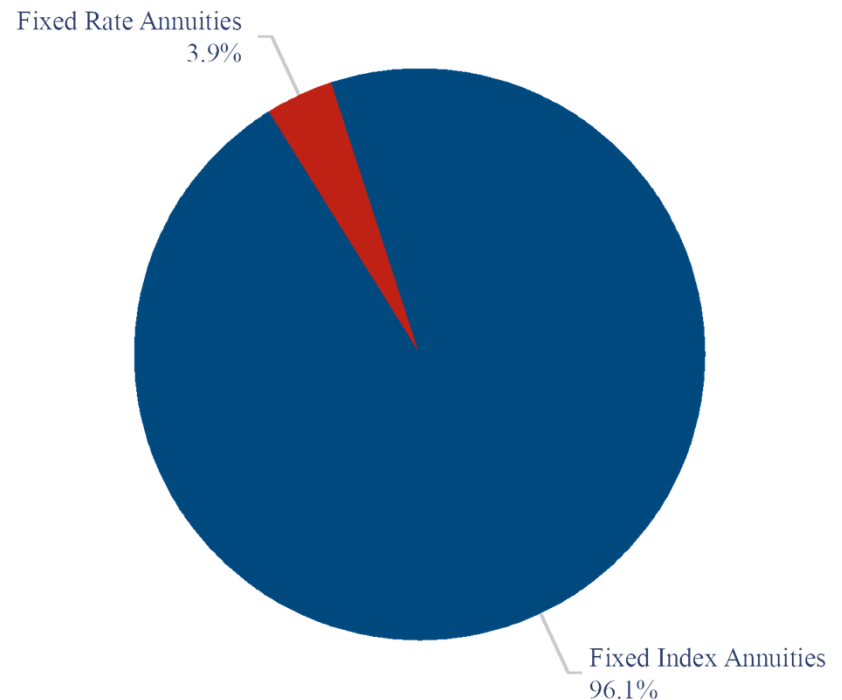
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- Driven by demographics and distribution channel expansion, fixed index annuities are a growth market in the life insurance industry
- Track record of consistent growth with 19% and 15% compounded annual growth rate in operating income and policyholder funds under management, respectively
- Average operating return on equity of 13.1% over the past 5 years
- Strong relationships in independent agent channel. Growth opportunity in bank and broker-dealer markets
- Conservative investment portfolio; highly rated and liquid

# What is a fixed index annuity?

- Fixed Indexed Annuities
  - “Interest” based on performance of equity index or traditional fixed rate up to a stated cap or participation rate
  - Index crediting funded by call options
  - Offers more upside potential than simple fixed annuities
  - Index resets annually
    - Don’t have to “make back” market losses
  - Minimum guaranteed return with no losses, unlike variable annuities
  - Riders provide opportunity for guaranteed lifetime income

**Account Value  
June 30, 2019**



**Total: \$52.4 billion**

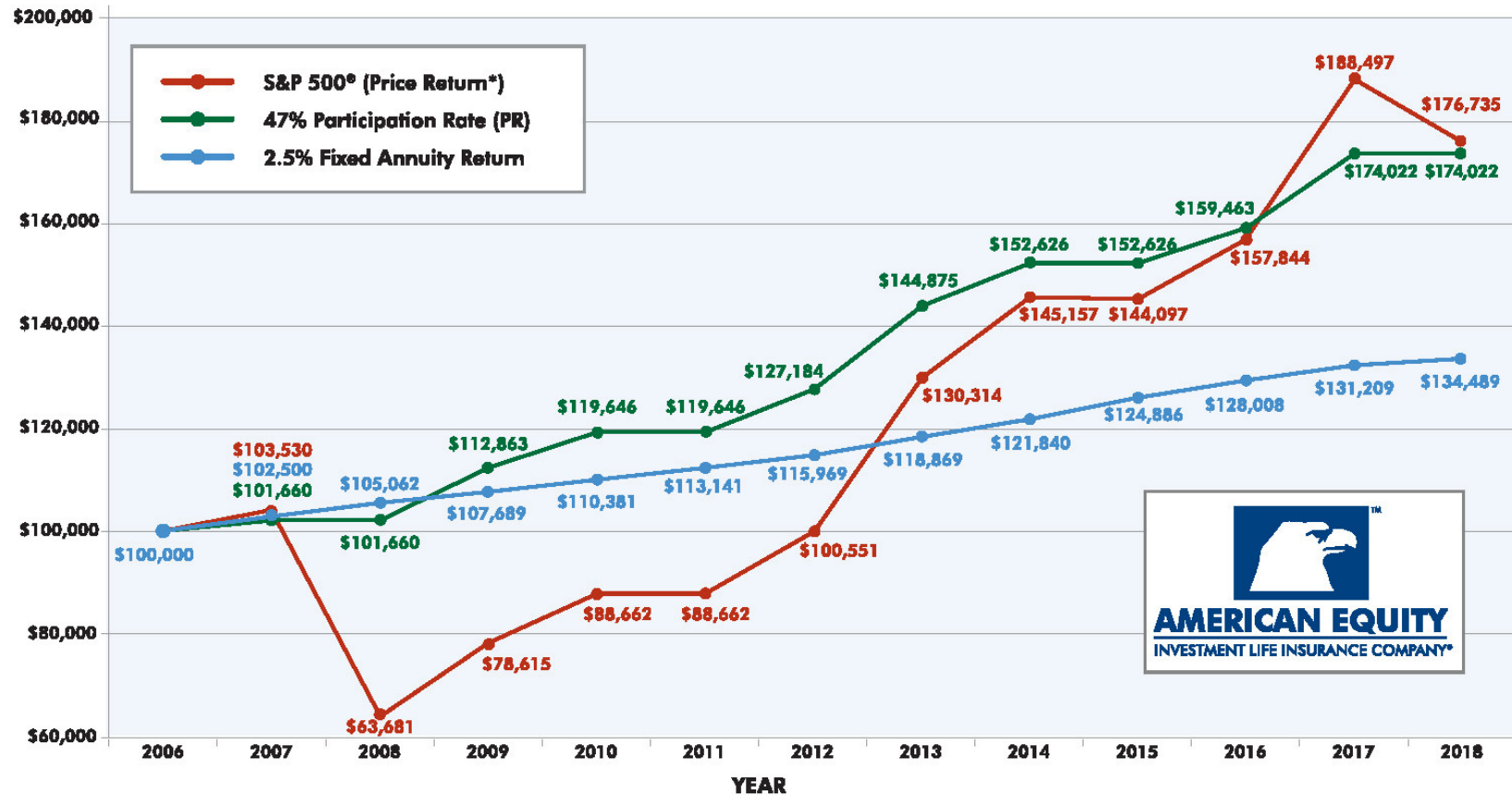
# Why Are FIAs Attractive?

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- Aging population needs retirement savings & income
  - Longevity risk favors lifetime income guarantee
  - Significant portion of American population cannot bear market risk
- Indexed annuity characteristics attracting attention
  - Low volatility of returns
  - Principal Guarantee
  - Upside potential versus straight fixed income
  - Tax deferred accumulation
  - Guaranteed lifetime income combined with continued control of account value

# Principal Protected Growth

This hypothetical demonstration assumes \$100,000 initial premium and no withdrawals taken. The 47% PR uses the annual point-to-point index method based on changes in the S&P 500® to calculate the indexed rate for each term. Hypothetical values and returns are calculated using the last business day of each year's dosing value.



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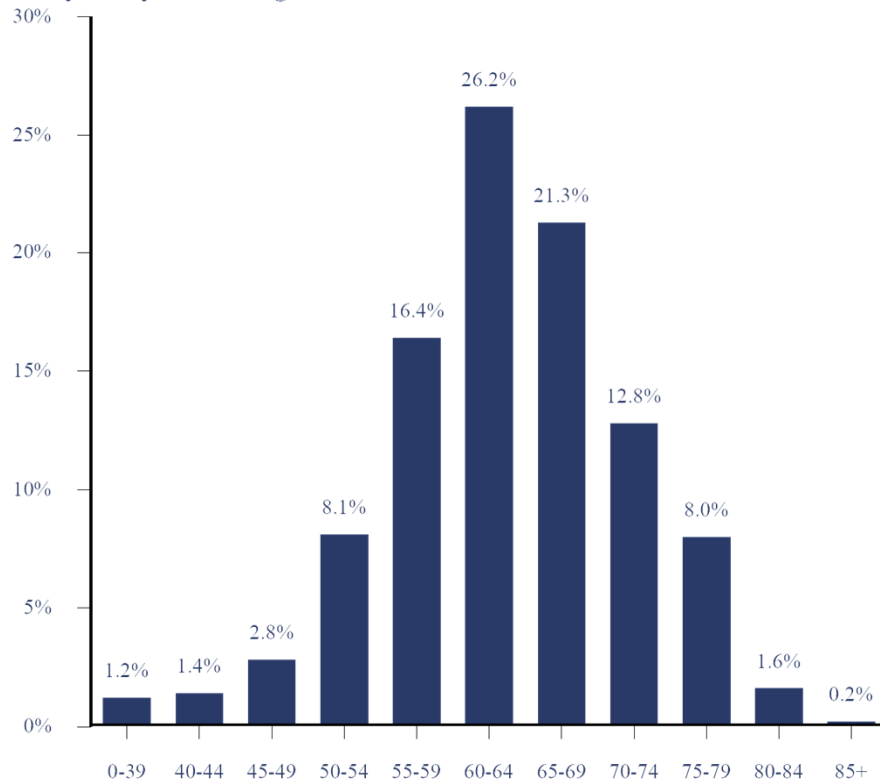


# Growing Market Demographic

- Our typical policyholder <sup>(a)</sup>
  - 63 years old
  - Average fund value of \$90,045

Percentage of Fund Value

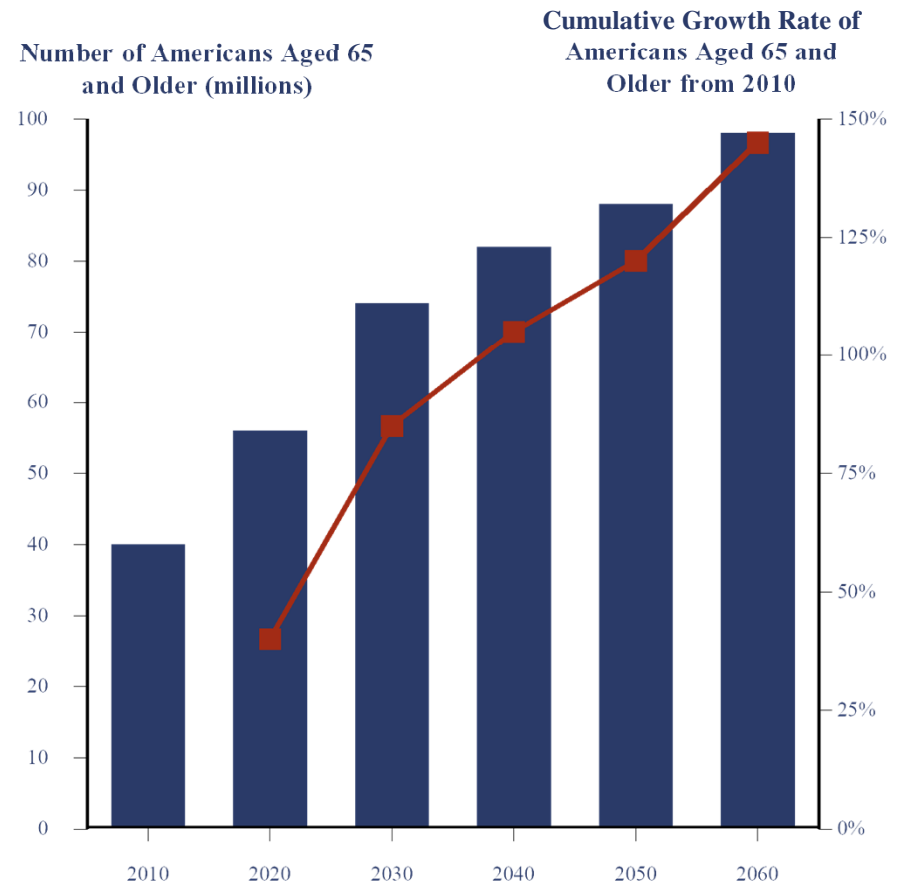
by Policyholder's Age



(a) As of June 30, 2019, American Equity Investment Life Insurance Company only data

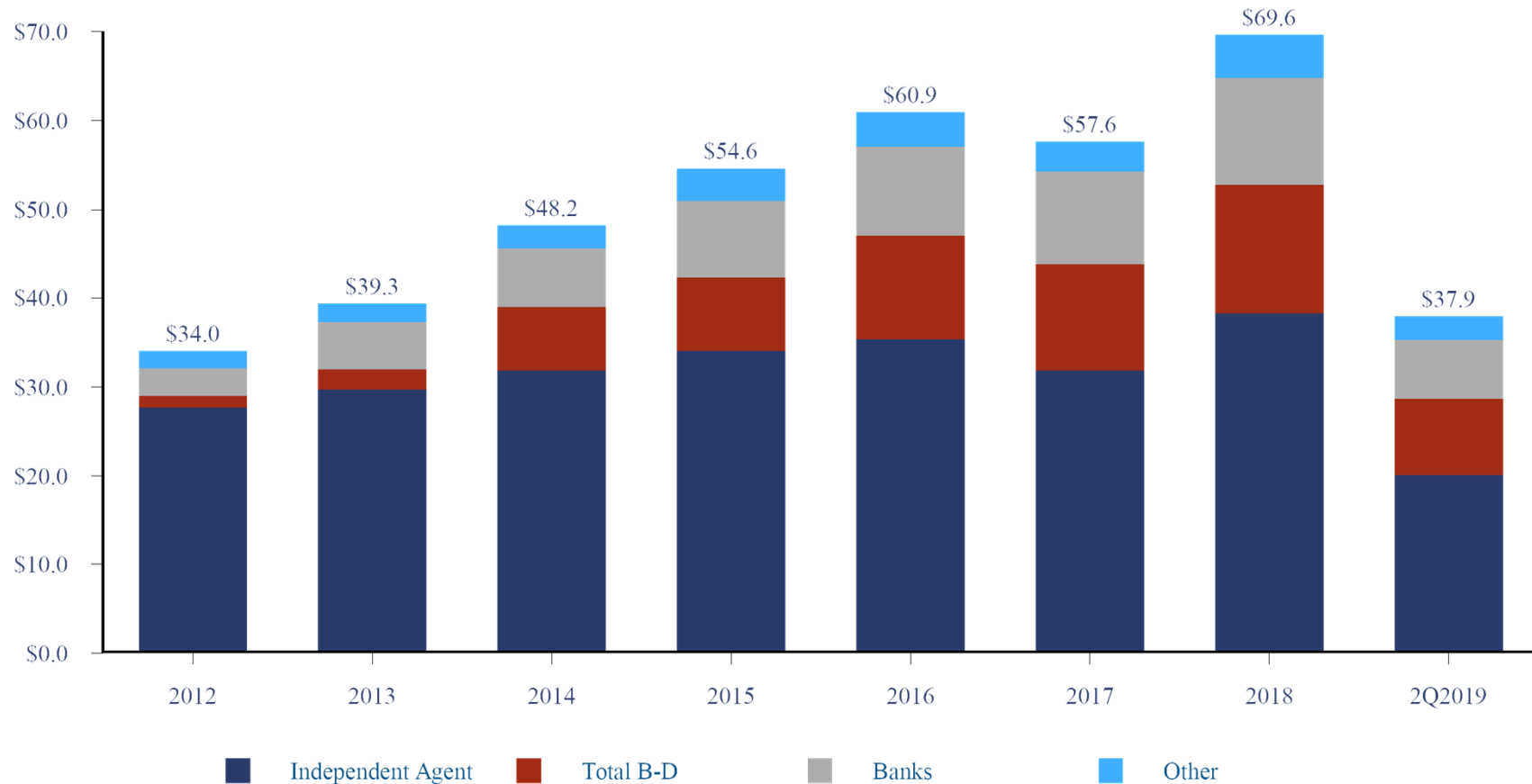
(b) Source: U.S. Census Bureau, 2014 National Projections

- Projected Growth in our Target Market <sup>(b)</sup>



# Growing Market

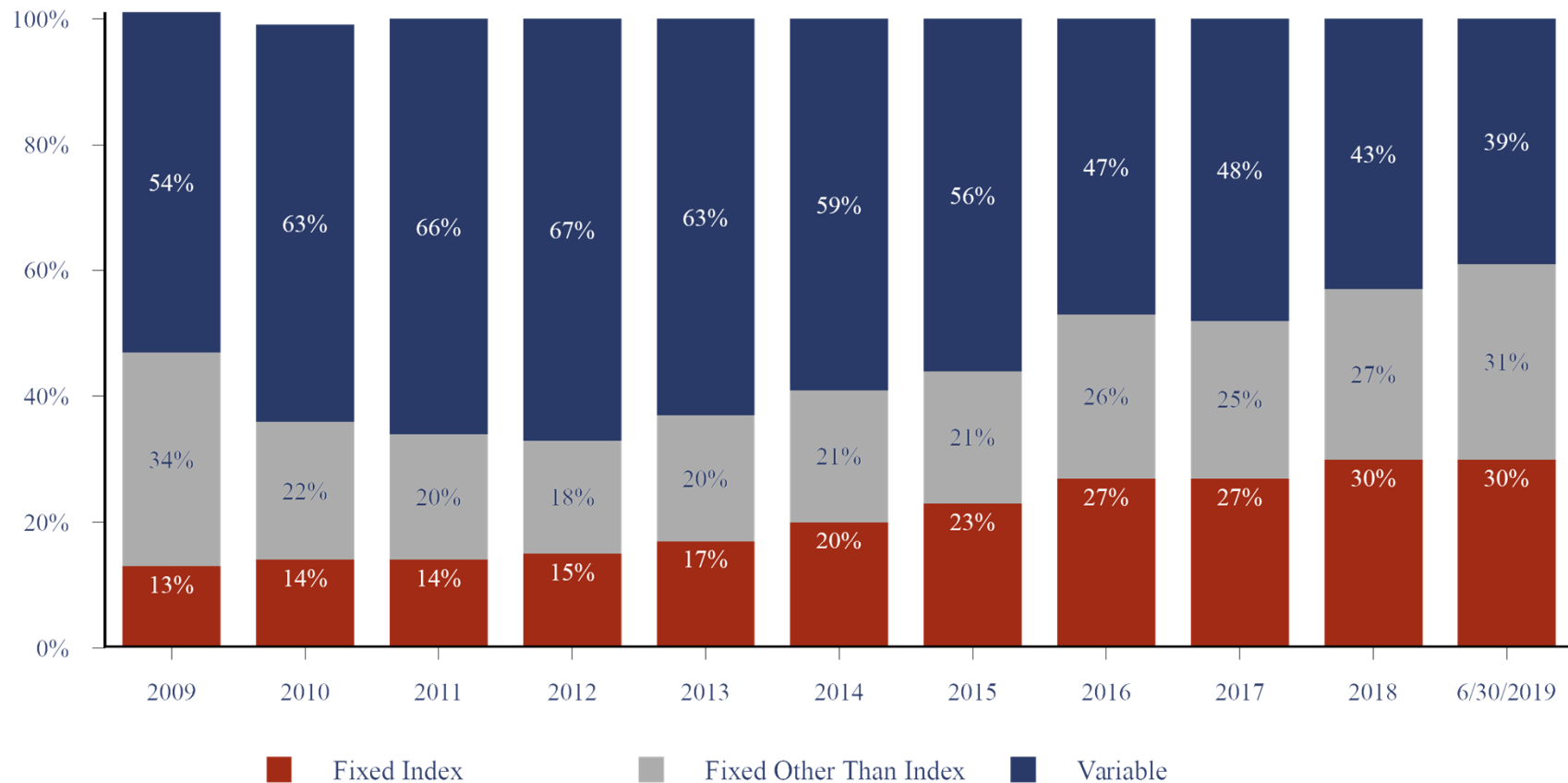
Index Annuity Sales (\$ in billions)



Source: LIMRA U.S. Individual Annuity Yearbook – 2013, 2015, LIMRA U.S. Individual Annuity Sales Survey Participant Report - 2Q2019

# Continued Room to Grow

## Annuity Market Share (Sales)



Source: LIMRA U.S. Individual Annuity Yearbook – 2009, 2015, LIMRA U.S. Individual Annuity Sales Survey Participant Report - 2Q2019

# AEL is an Industry Leader in the Independent Agent Channel

## Index Annuity Market Share (Sales) - Independent Agent Channel

2014		
1	Allianz	22.56%
2	Security Benefit	12.54%
3	American Equity	12.20%
4	EquiTrust Life	7.55%
5	Great American	5.64%

2015		
1	American Equity	18.85%
2	Allianz	15.37%
3	Athene	7.18%
4	F&G Life	5.80%
5	Great American	5.72%

2016		
1	Allianz	17.43%
2	American Equity	14.46%
3	Athene	12.81%
4	North American Co.	5.80%
5	F&G Life	5.50%

2017		
1	Athene	15.20%
2	Allianz	14.21%
3	American Equity	10.64%
4	Nationwide	9.52%
5	F&G Life	5.58%

2018		
1	Athene	16.66%
2	Allianz	15.09%
3	American Equity	9.29%
4	Nationwide	8.72%
5	F&G Life	5.96%

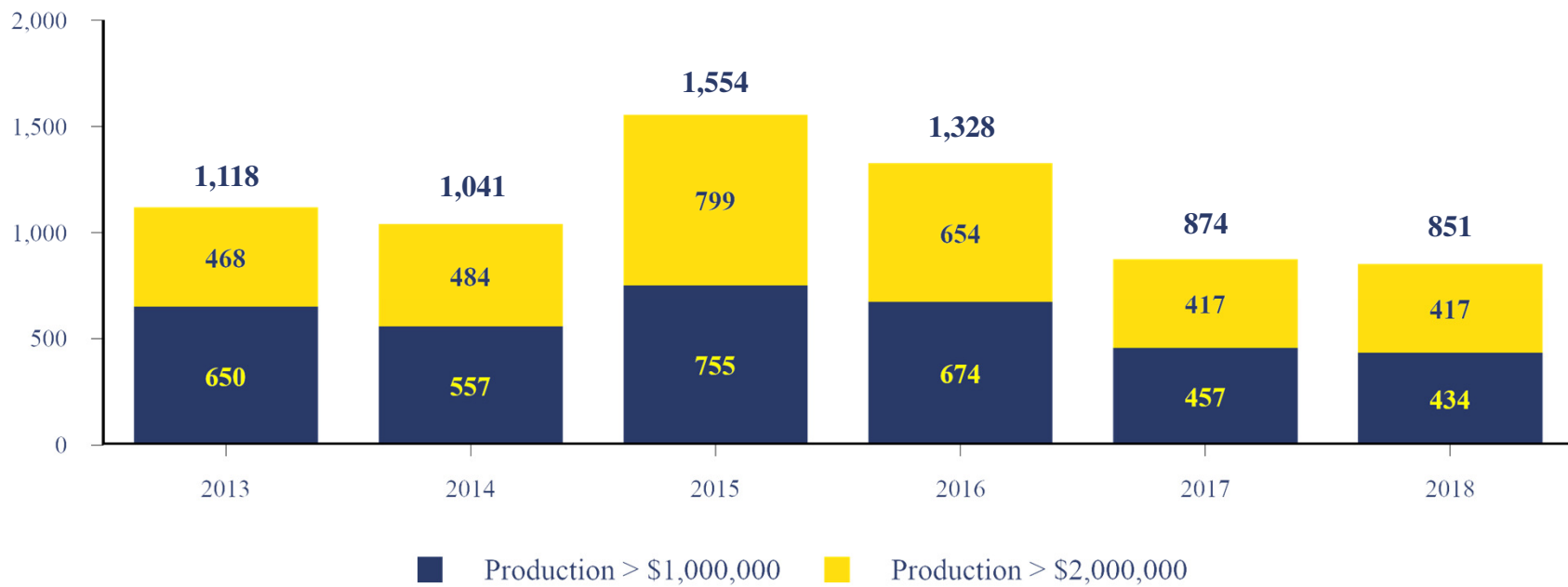
6/30/2019		
1	Athene	16.11%
2	Allianz	13.64%
3	American Equity	10.29%
4	Nationwide	8.21%
5	F&G Life	7.12%

Source: LIMRA U.S. Individual Annuity Sales Survey Participant Report - 2Q2019

# Strong Independent Agent and NMO Relationships

- Approximately 32 NMOs with nearly 24,000 independent agents, incentivized by:
  - Competitive commissions
  - Customary incentives
  - Industry leading service
  - Attractive product profile
- Focus on great agent relationships
  - Pay commissions daily
  - Phones answered by people
  - Access to senior management
  - Coinsure excess business – keep operating even when sales outpace capital

## Million Dollar Agents

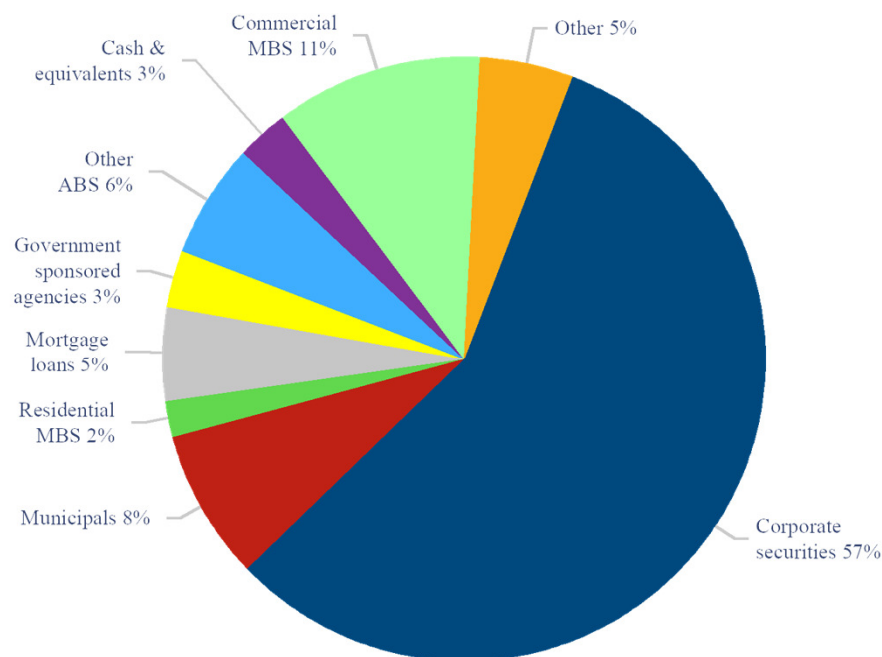




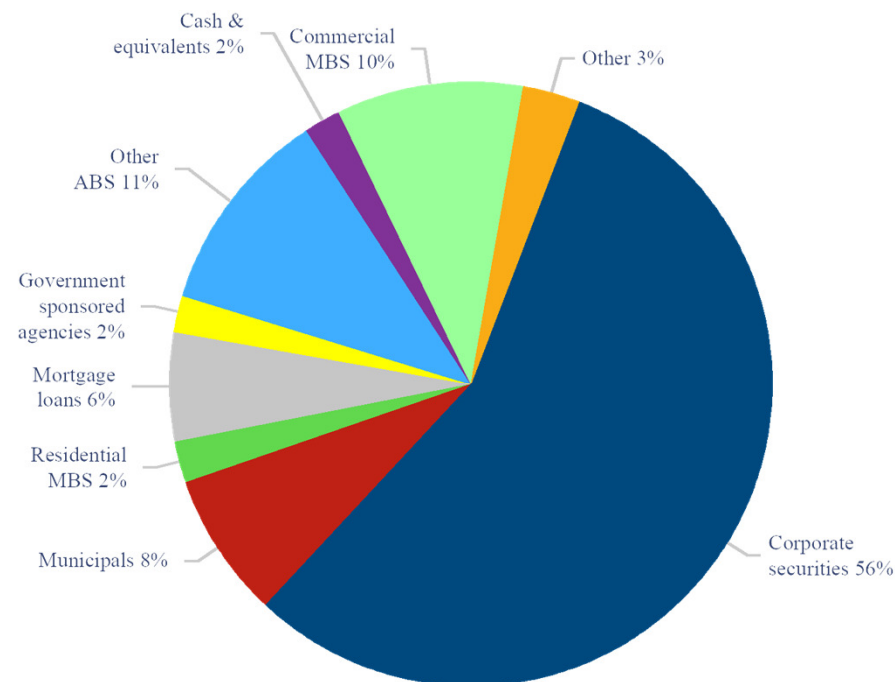
# **STRATEGIES FOR** **CONTINUED SUCCESS**

# Expansion of Investment Universe To Support Rates While Reducing Credit Risk

Cash and Invested Assets by Type  
December 31, 2017



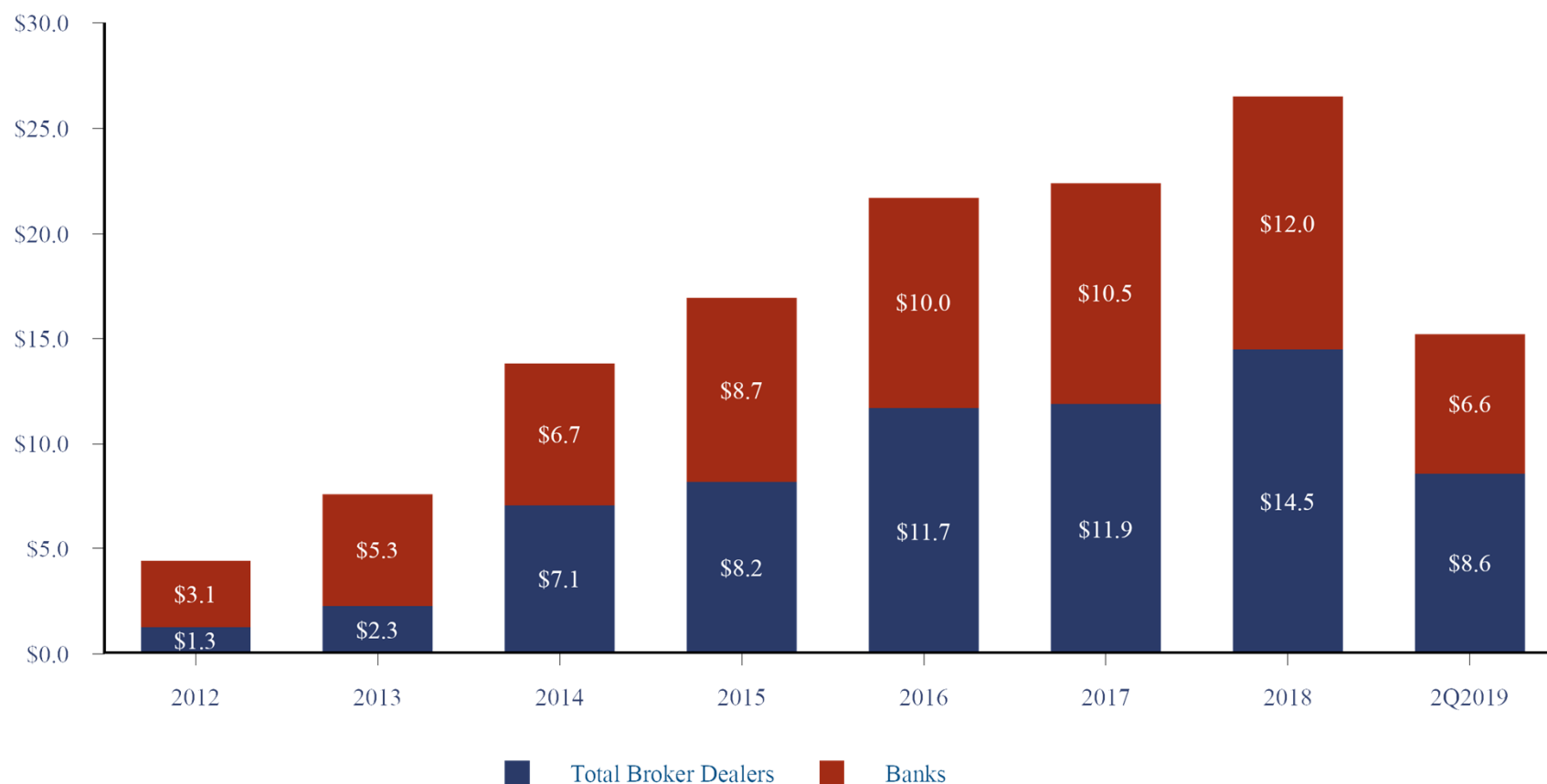
Cash and Invested Assets by Type  
June 30, 2019



- Emphasis in 2018 on increasing exposure to CLOs and reducing credit exposure
  - Completed \$2.1 billion of realignment trades in 2018 for yield pickup of ~ 170 bps
- Planned expansion to private label ABS and agriculture in 2019

# Banks and Broker Dealers Driving Industry Growth

Bank and Broker Dealer Index Annuity Sales (*\$ in billions*)



Source: LIMRA U.S. Individual Annuity Yearbook – 2013, 2015, LIMRA U.S. Individual Annuity Sales Survey Participant Report - 2Q2019



# Eagle Life: A Small but Growing Player

- Fixed index annuities under-represented in broker – dealer and bank channels
- AEL created Eagle Life to penetrate broker-dealer channel
- Small but growing player in bank & broker-dealer channels
  - 71 Selling agreements
  - 7,480 Appointed representatives
  - 10 Third party wholesalers
  - 12 Employee wholesalers

Banks - 2018	
Great American	14.5%
AIG Companies	13.2%
Symetra Financial	11.8%
PAC Life	11.2%
Global Atlantic	9.1%
AEL Companies	2.8%

Independent B-Ds - 2018	
Allianz Life	23.8%
Protective Life	12.2%
AIG Companies	10.7%
Midland National	8.3%
PAC Life	7.8%
AEL Companies	1.9%

National B-Ds - 2018	
Global Atlantic	20.8%
AIG Companies	15.9%
Nationwide	14.7%
Allianz Life	11.6%
PAC Life	11.6%
AEL Companies	3.0%

Source: LIMRA U.S. Individual Annuity Sales Survey Participant Report - 2018

# New Product Introductions

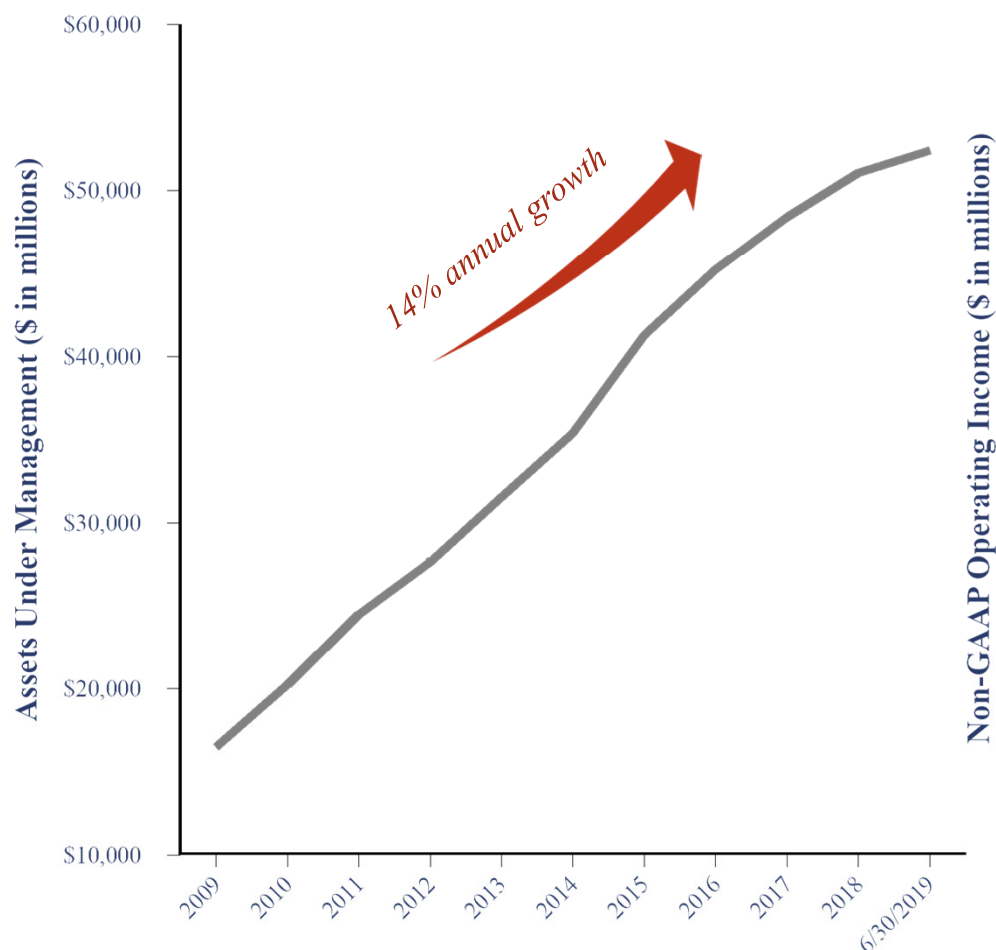
- Introduced the IncomeShield Series in March 2018
  - IncomeShield 10 was the second best selling guaranteed income product in 4Q18
- Introduced the AssetShield Series in October 2018
  - Combined with the Choice Series, accumulation products now account for roughly 40% of American Equity Life sales
- Eagle Life introduced Select Focus 5 and 7 for bank and broker-dealers
  - Banks and broker-dealers increasingly preferring shorter surrender periods
- Introduced new participation rate strategies on the S&P 500 Dividend Aristocrats DRC 5% USD Excess Return Index
  - Volatility Control allows for participation rates over 100%
  - Competes well with the most popular hybrid index strategies
- Two products slated for introduction in late 2019, early 2020



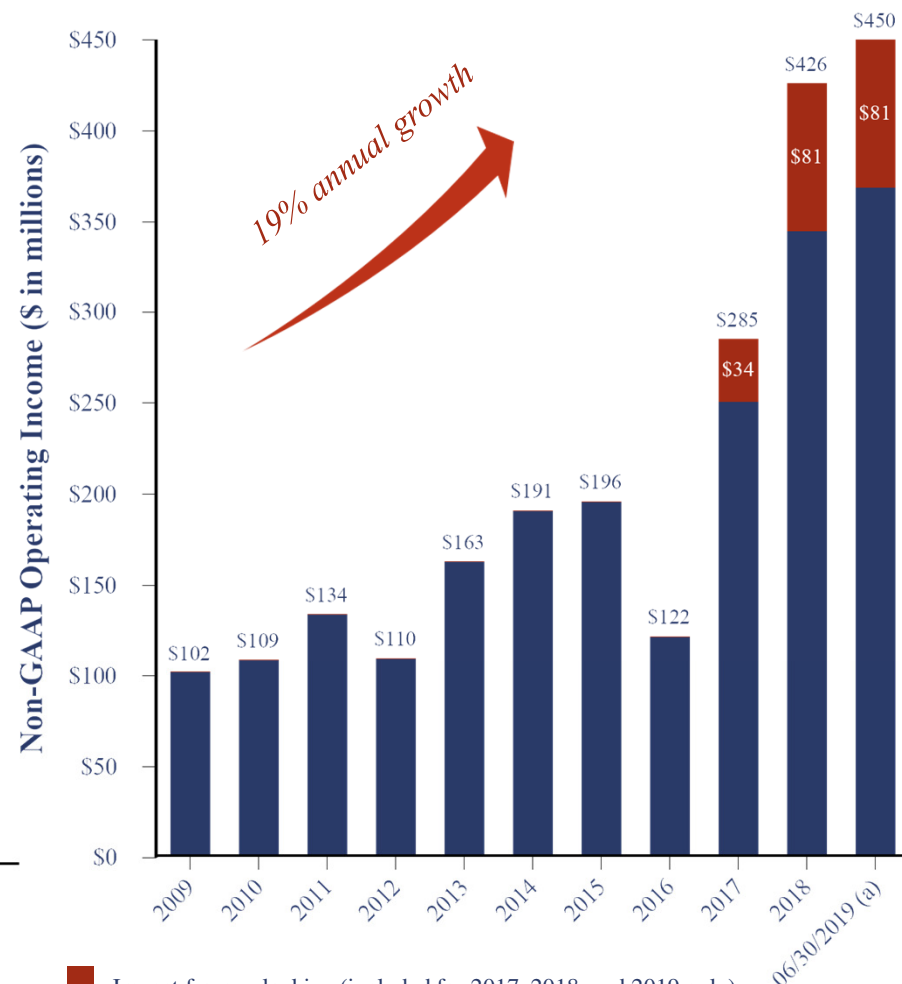
# **FINANCIAL PERFORMANCE**

# Strong Growth Over the Past Decade

Ten Year Growth of Assets Under Management



Ten Year Growth of Non-GAAP Operating Income



(a) Trailing 12 months

# Operating Results

*(\$ in millions - except per share data)*

	YTD 6/30/2019	YTD 6/30/2018	2018	2017	2016
Annuities (and life) margin:					
Before LIBR <sup>(a)</sup> assumption revision	\$ 673.2	\$ 617.0	\$ 1,258.7	\$ 1,205.5	\$ 1,039.3
LIBR <sup>(a)</sup> assumption revision impact	—	—	53.6	(21.6)	(42.0)
Interest expense	(20.0)	(20.3)	(40.4)	(45.0)	(42.6)
Loss on extinguishment of debt	—	—	—	(18.8)	—
Amortization:					
Before unlocking	(339.2)	(328.6)	(657.6)	(655.8)	(577.4)
Unlocking impact	—	—	49.2	75.0	(84.0)
Operating expenses	(75.1)	(62.1)	(126.4)	(107.5)	(102.5)
Pretax non-GAAP operating income <sup>(b)</sup>	\$ 238.9	\$ 206.0	\$ 537.1	\$ 431.8	\$ 190.8
Non-GAAP operating income <sup>(b)</sup>	\$ 189.0	\$ 164.3	\$ 425.7	\$ 285.1	\$ 122.3
Non-GAAP operating income per diluted common share <sup>(b)</sup>	\$ 2.06	\$ 1.80	\$ 4.66	\$ 3.16	\$ 1.43

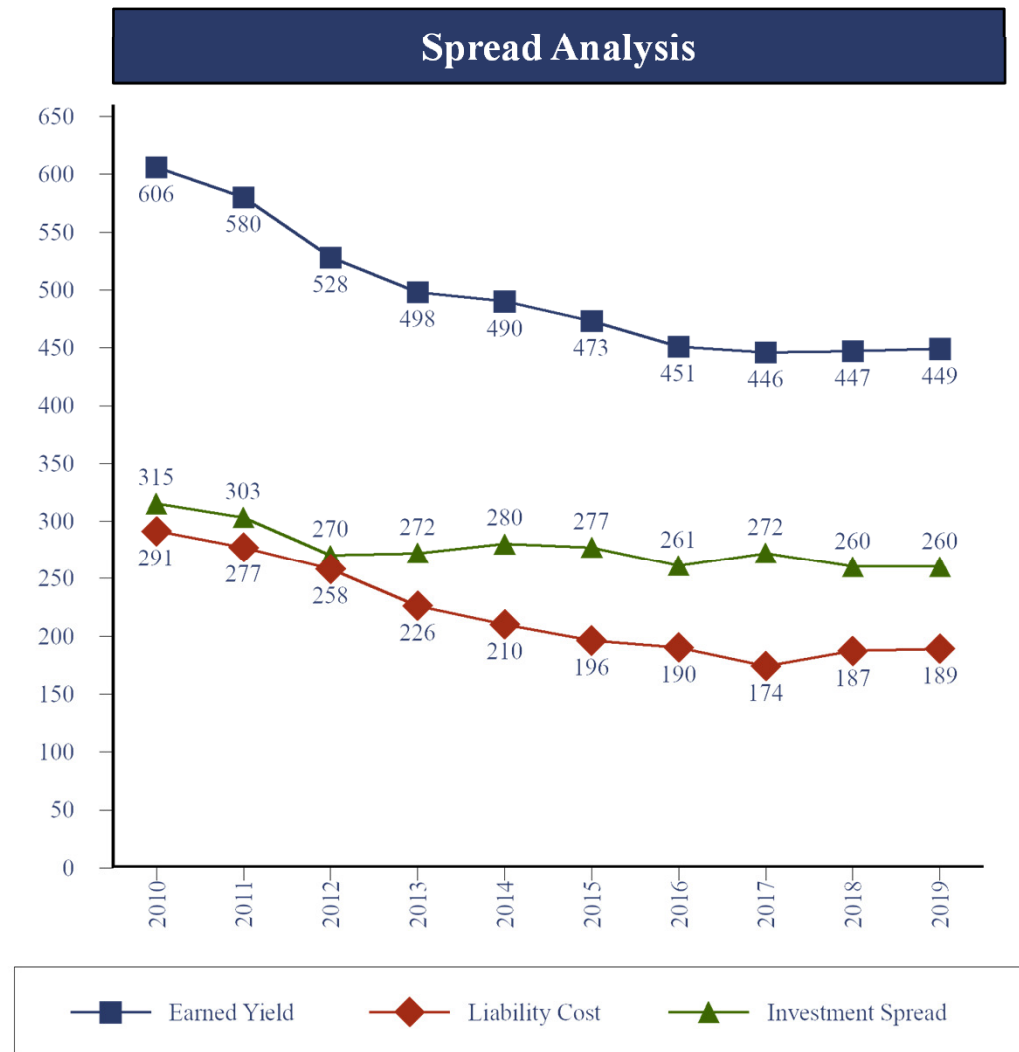
(a) Lifetime Income Benefit Riders ("LIBR")

(b) Non-GAAP pretax operating income, non-GAAP operating income and non-GAAP operating income per diluted common share are non-GAAP financial measures. Non-GAAP operating income equals net income (loss) adjusted to eliminate the impact of net realized gains and losses on investments, including net OTTI losses recognized in operations, fair value changes in derivatives and embedded derivatives, loss on extinguishment of debt, the effect of a counterparty default on expired call options and changes in litigation reserves.

# Spread Management

- Majority of our income is derived from our investment spread – the difference between the earned yield of our investments and the liability cost of our policies
- Target investment spread on new sales:
  - 270 - 310 bps<sup>(a)</sup>
  - 160 - 195 bps<sup>(b)</sup>
- Earned yield has been under pressure due to lower interest rates and higher cash balances
- Liability costs are decreasing
  - We have been reducing crediting rates prudently

(a) Bonus products  
(b) Non-bonus products



# Minimize Hedging and Counterparty Risk

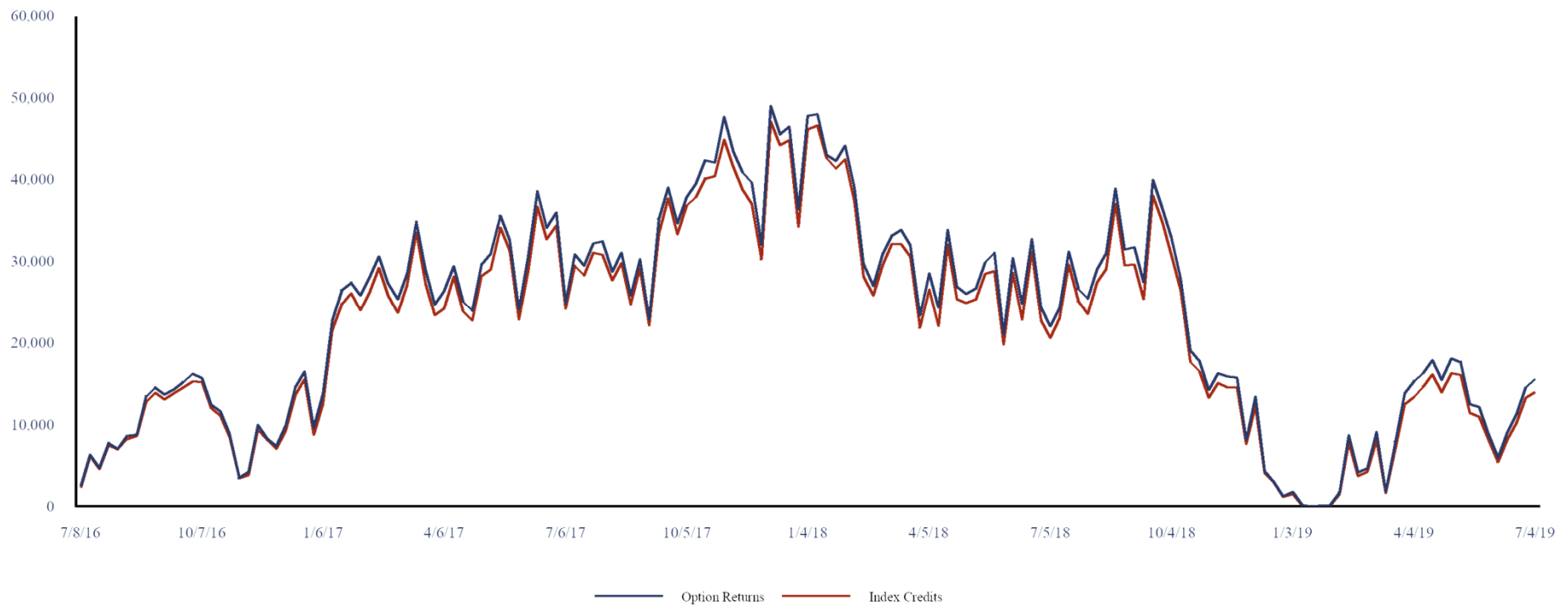
## Overview of Hedging Strategy

- One year customized call
  - Bought continuously to match inflows/renewals
  - High correlation with liability terms
  - Volume is key operational risk

## Counterparty Risk

- Approximately 10 counterparties
- All rated A- or better
- Credit support annex
- Concentration limit

Option Return vs. Index Credit (\$ in 000's)



# Surrender Charge Protection Mitigates Disintermediation Risk

- Surrenders are assumed to increase as surrender charges decrease
- 10% penalty-free withdrawals are assumed to remain level at 3% - 4% of fund values per year
- Surrender charges protect approximately 94% of annuity portfolio account value

## 2019

- Expected Surr: 2.4%
- Actual Surr: 2.2%
- Expected WD 3.1%
- Actual WD 3.1%

## 2018

- Expected Surr: 2.2%
- Actual Surr: 1.8%
- Expected WD 3.1%
- Actual WD 3.2%



# Capital Structure

(\$ in millions)

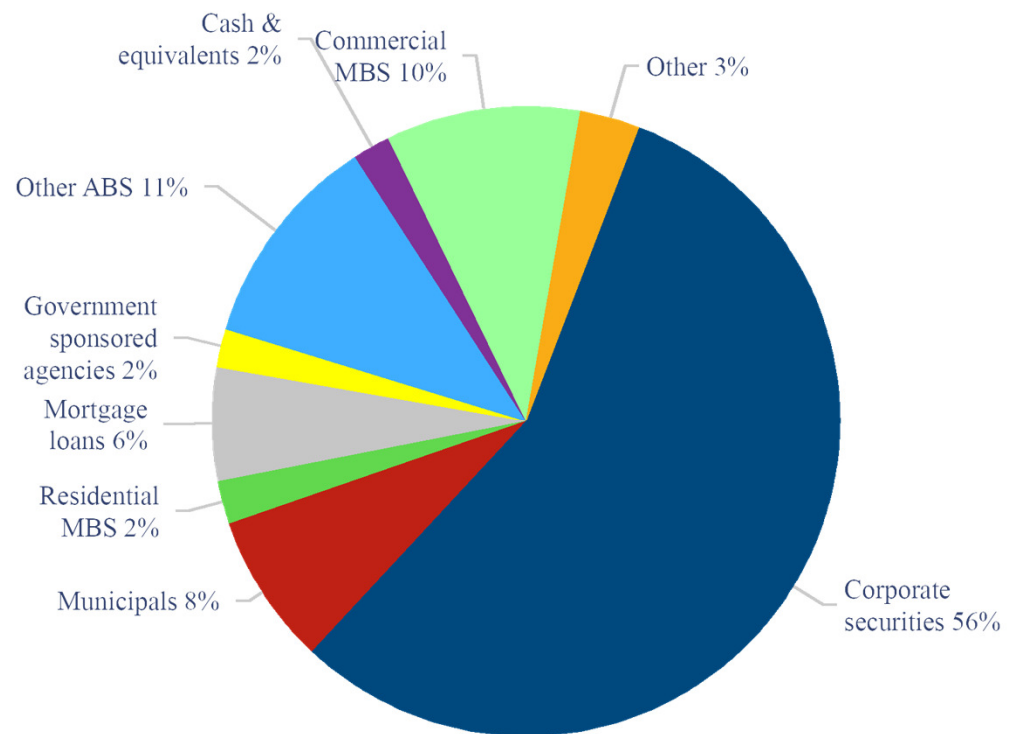
		As of December 31,	
	6/30/2019	2018	2017
Notes payable	\$ 500.0	\$ 500.0	\$ 500.0
Total subordinated debentures	247.3	247.2	246.9
Stockholders' equity excluding AOCI <sup>(a)</sup>	2,447.5	2,451.5	2,125.6
Total capitalization excluding AOCI <sup>(a)</sup>	\$ 3,194.8	\$ 3,198.7	\$ 2,872.5
Total capitalization including AOCI	\$ 4,244.8	\$ 3,146.3	\$ 3,597.1
Senior debt/total capitalization - excluding AOCI <sup>(a)</sup>	15.7%	15.6%	17.4%

(a) Total capitalization and stockholders' equity excluding AOCI are non-GAAP financial measures based on stockholders' equity excluding the effect of AOCI. Since AOCI fluctuates from quarter to quarter due to unrealized changes in the fair value of available for sale investments, we believe these non-GAAP financial measures provide useful supplemental information.

# Conservative Investment Portfolio

- Maintain / protect policyholder and stakeholder value
- Maximize investment income within risk parameters
- Minimize credit risk
- 97.2% of fixed maturity securities have NAIC 1 or NAIC 2 designation
- Manage duration and convexity

Cash and Invested Assets by Type  
June 30, 2019

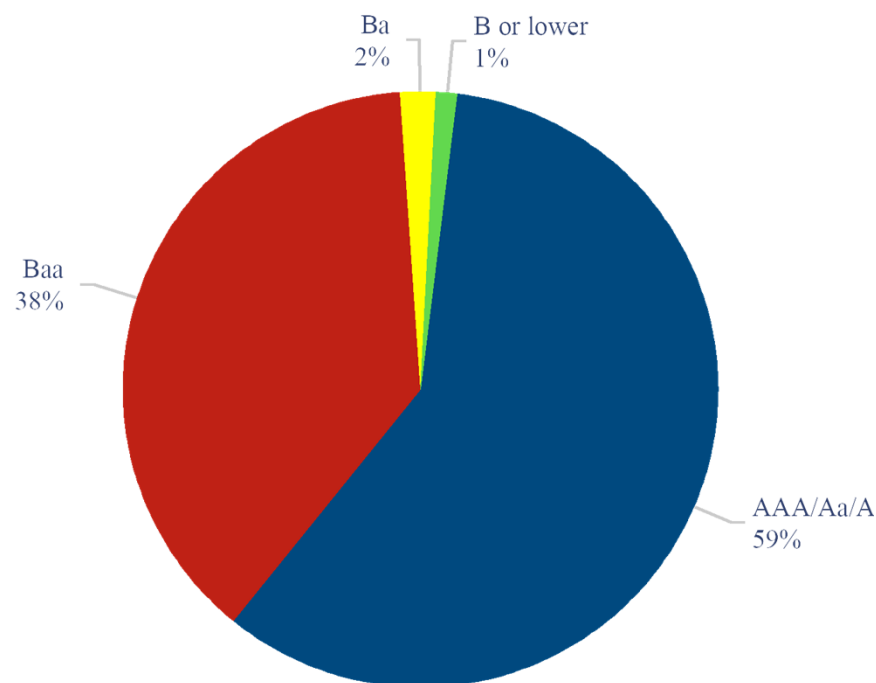


**Total: \$56.0 billion**

# Fixed Maturity Breakdown

- Overall credit quality remains high – weighted average of ‘A-’
- Diversified by sector and issuer
- Current investment watchlist comprised of \$133.7 million (amortized cost) of securities

**Fixed Maturity by Rating  
June 30, 2019**

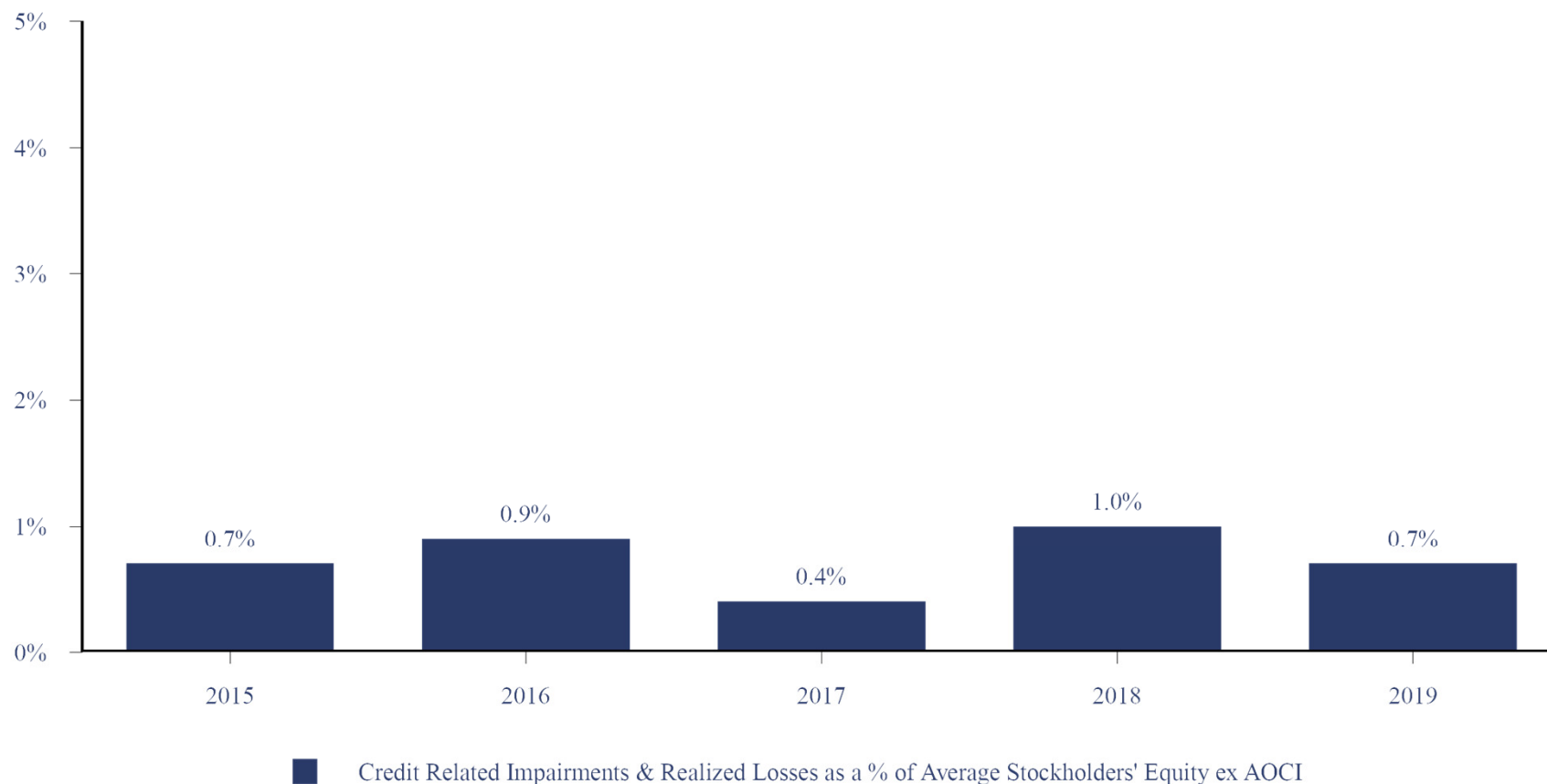


**Total: \$50.2 billion**

**97% of AEL fixed income portfolio is investment grade**

# Conservative Portfolio

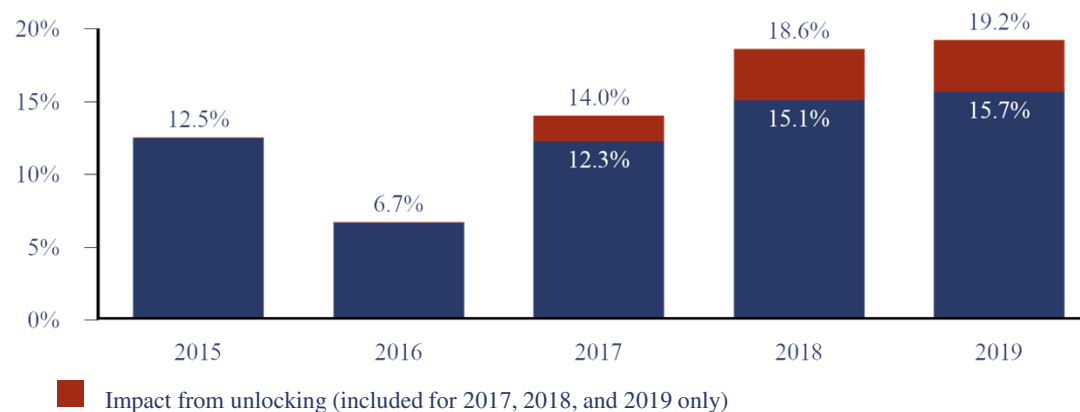
## Low Credit Related Impairment & Realized Losses



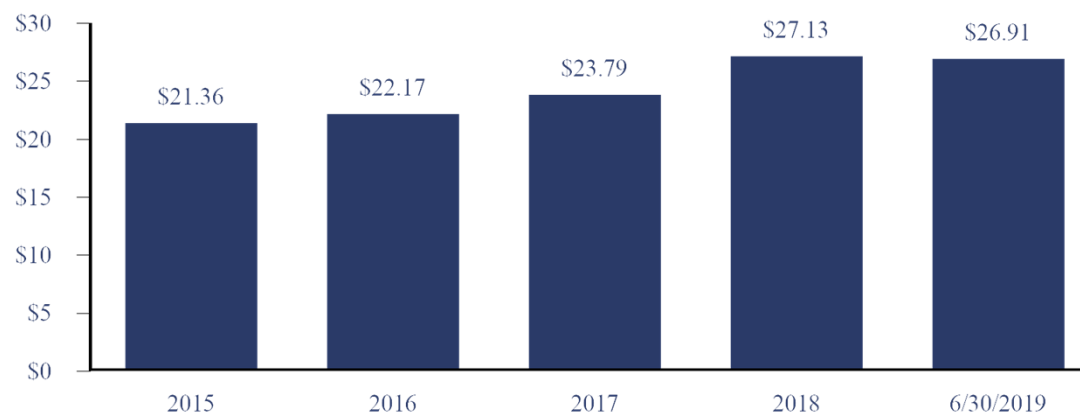
**Portfolio \$53.5 billion at June 30, 2019**

# High ROE on Growing Book Value Per Share

## Operating Return on Equity (ex. AOCI)<sup>(a)</sup>



## Book Value Per Share (ex. AOCI)



(a) Operating return on equity is a non-GAAP financial measure. Operating return on equity equals operating income divided by average stockholders' equity excluding accumulated other comprehensive income (loss).

# Concluding Remarks

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- Key Investment Thesis
  - Fixed index annuities are a growth market due to demographics, channel expansion and need for guaranteed retirement income
  - Stable, well established position in the independent agent channel with strong distribution relationships
  - Small, but growing, presence in bank and broker-dealer channels
  - Successful new product introductions
  - Conservative investment portfolio
  - Disciplined risk management



# APPENDIX

# Key Credit Strengths

## Significant Liquidity and Stable Income Generation of Operating Subsidiaries

- Multiple sources of parent company liquidity, including cash on hand, investment advisory fees, dividend capacity of subsidiaries and bank credit facility
- Increasing amounts of invested assets generating increasing investment advisory fees for holding company
- Significant dividend capacity of primary operating subsidiary (\$325.2 million in 2019)
- Since 2008, only \$10 million of dividends paid as operating company retained earnings to support business growth and holding company cash needs met through other sources

## Strong Capital Adequacy of Operating Subsidiaries

- Retain statutory earnings in operating insurance companies to support business in-force and future growth
- Total adjusted statutory capital has grown each year since 2009, from \$1.2 billion at December 31, 2009 to \$3.5 billion at December 31, 2018 (CAGR of 12.4%)
- Average RBC ratio of 348% since 2008
- At December 31, 2018, approximately \$839 million of adjusted capital in excess of the amount required to maintain an RBC of 275% (required by revolving credit facility covenants)
- Selective use of reinsurance to supplement capital base and manage certain risks

## Strong and Improving Credit Profile

- Retained earnings have supported deleveraging of company since 2008
- Stockholders equity (excluding AOCI) has grown from \$785 million at December 31, 2009 to \$2.4 billion at June 30, 2019
- Debt to capital has decreased from 44.5% at December 31, 2008 to 23.4% at June 30, 2019
- Senior debt to capital has fallen from 29.5% at December 31, 2008 to 15.7% at June 30, 2019

## Quality Balance Sheet

- Conservative investment portfolio
- Disciplined risk management



# Fiduciary/Best Interest Standards

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- On June 21, 2018, the 5th Circuit Court of Appeals issued a mandate making its March 15, 2018 opinion vacating the Department of Labor (DOL) Fiduciary Rule official
- The SEC has released a best interest standard which is applicable to all securities transactions whether qualified or non-qualified
- The Department of Labor has indicated that it may revisit the Fiduciary Rule in light of the 5th Circuit Court of Appeals decision; guidance from the DOL is expected in September 2019
- The NAIC has established a working group to consider adopting a best interest standard that would apply to annuities; the NAIC is expected to have a draft finalized by year-end
- A number of state insurance and securities departments are considering fiduciary or best interest standards

# Non-GAAP Financial Measure Reconciliations

Reconciliation from Net Income (Loss) to Non-GAAP Operating Income	Six Months Ended	Year Ended December 31,			
	June 30, 2019	2018	2017	2016	2015
Net income (loss) (b)	\$ (11,420)	\$ 458,016	\$ 174,645	\$ 83,243	\$ 219,830
Adjustments to arrive at non-GAAP operating income: (a)					
Net realized investment (gains) losses including OTTI	2,930	45,450	(5,093)	7,188	5,737
Change in fair value of derivatives and embedded derivatives – fixed index annuities	250,812	(72,181)	121,846	56,634	(44,055)
Change in fair value of derivatives – debt	1,490	(1,892)	(1,224)	(1,265)	1,296
Litigation reserve	—	—	—	(1,957)	—
Income taxes	(54,819)	(3,653)	(5,124)	(21,499)	13,012
Non-GAAP operating income	\$ 188,993	\$ 425,740	\$ 285,050	\$ 122,344	\$ 195,820

- (a) Adjustments to net income (loss) to arrive at non-GAAP operating income are presented net of related adjustments to amortization of deferred sales inducements (DSI) and deferred policy acquisition costs (DAC) where applicable.
- (b) Net income for 2017 includes income tax expense related to the revaluation of our deferred tax assets and liabilities using the new enacted federal tax rate resulting from the Tax Cuts and Jobs Act of 2017 ("Tax Reform"). The change in the federal income tax rate decreased net income by \$35.9 million. The impact of Tax Reform has been excluded from non-GAAP operating income.

## Non-GAAP Financial Measure Reconciliations (cont'd)

	Twelve Months Ended June 30,	Year Ended December 31,			
	2019	2018	2017	2016	2015
<b>Average Stockholders' Equity (1)</b>					
Average Equity including average Accumulated Other Comprehensive Income (Loss) (AOCI)	\$ 2,962,150	\$ 2,624,629	\$ 2,570,876	\$ 2,107,181	\$ 2,030,613
Average AOCI	(615,195)	(336,084)	(532,283)	(270,815)	(461,532)
Average equity excluding average AOCI	\$ 2,346,955	\$ 2,288,545	\$ 2,038,593	\$ 1,836,366	\$ 1,569,081
Net Income	\$ 211,731	\$ 458,016	\$ 174,645	\$ 83,243	\$ 219,830
Non-GAAP Operating Income	\$ 450,391	\$ 425,740	\$ 285,050	\$ 122,344	\$ 195,820
<b>Return on Average Equity Excluding Average AOCI</b>					
Net Income	9.0%	20.0%	8.6%	4.5%	14.0%
Non-GAAP Operating Income	19.2%	18.6%	14.0%	6.7%	12.5%

(1) Simple average based on stockholders' equity at beginning and end of the twelve month period.

## Non-GAAP Financial Measure Reconciliations (cont'd)

<b>Capitalization</b>	<b>As of December 31,</b>				
	<b>6/30/2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Notes and loan payable	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 400,000
Total subordinated debentures	247,294	247,161	246,908	246,671	246,450
Total debt	747,294	747,161	746,908	746,671	646,450
Total stockholders' equity	3,497,475	2,399,101	2,850,157	2,291,595	1,944,535
Total capitalization	4,244,769	3,146,262	3,597,065	3,038,266	2,590,985
AOCI	1,049,984	(52,432)	724,599	339,966	201,663
Total capitalization excluding AOCI	\$ 3,194,785	\$ 3,198,694	\$ 2,872,466	\$ 2,698,300	\$ 2,389,322
<b>Debt-to-Capital Ratios</b>					
Senior debt/total capitalization - excluding AOCI	15.7%	15.6%	17.4%	18.5%	16.7%
Total debt/total capitalization - excluding AOCI	23.4%	23.4%	26.0%	27.7%	27.1%

## Non-GAAP Financial Measure Reconciliations (cont'd)

Book Value Per Share	6/30/2019	As of December 31,			
		2018	2017	2016	2015
Total stockholders' equity	\$ 3,497,475	\$ 2,399,101	\$ 2,850,157	\$ 2,291,595	\$ 1,944,535
Accumulated other comprehensive income (loss) - AOCI	1,049,984	(52,432)	724,599	339,966	201,663
Total stockholders' equity excluding AOCI	\$ 2,447,491	\$ 2,451,533	\$ 2,125,558	\$ 1,951,629	\$ 1,742,872
Common shares outstanding	90,936,324	90,369,229	89,331,087	88,016,188	81,584,091
Book value per share including AOCI	\$ 38.46	\$ 26.55	\$ 31.91	\$ 26.04	\$ 23.83
Book value per share excluding AOCI	\$ 26.91	\$ 27.13	\$ 23.79	\$ 22.17	\$ 21.36

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