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PRESENTATION

Operator

Welcome to American Equity Investment Life Holding Company's First Quarter 2016 Conference Call. At this time, for opening remarks and introduction, I would like to turn the call over to Julie LaFollette, Director of Investor Relations.

Julie LaFollette - *American Equity Investment Life Holding Company - Director, IR*

Good morning, and welcome to American Equity Investment Life Holding Company's conference call to discuss first quarter 2016 earnings. Our earnings release and financial supplement can be found on our website at www.american-equity.com. Presenting on today's call are John Matovina, Chief Executive Officer; Ted Johnson, Chief Financial Officer; Ron Grensteiner, President of the Life Company.

Some of the comments made during this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. There are number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Factors that could cause the actual results to differ materially are discussed in detail in our most recent filings with the SEC. An audio replay will be available on our website shortly after today's call.

It is now my pleasure to introduce John Matovina.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Thank you, Julie. Good morning everyone and welcome to our call. I think the best way to sum up first quarter financial results is we had a mixture of pluses and minuses. Highlights in the three key areas that drive our earnings and financial performance can be summarized as follows and first key measure is growing invested assets or policyholder funds under management.

First quarter sales were strong at $2.1 billion gross, and $1.6 billion net, after coinsurance ceded and those sales contributed to a 16.6% increase in our policyholder funds under management for the past year. Of course, the other side of robust sales activity is capital adequacy and Ted will have more on that in his comments a bit later.

Our second key measure is generating a higher level of operating earnings on that growing earnings base. So if you exclude the impact of our DAC unlocking, our first quarter operating earnings of $49.6 million or $0.60 per diluted share were 2% higher than first quarter of 2015 on a dollar basis and 3% less on a per share basis, and quite simply, the benefit from earning investment spread on a larger policyholder funds under management was offset by a 12 basis point decline in the investment spread from 2.77% to 2.65% and as we've been saying for a number of quarters now, low interest rates do remain a headwind to the operating earnings and the investment spread.

The lower per share result reflects a 5% increase in diluted shares, which is attributable to last summer's equity offering. On a trailing 12-month basis, we had an operating return on average equity of 10.6%. If you exclude the effects of DAC unlocking in this year's first quarter and last year's third quarter that would be in that trailing 12-month period, the number was 13.1%.

And then the final key performance measure is minimizing impairment losses in our investment portfolio. We don't want to give back the operating earnings to poor quality investments. We did have one substantive impairment in the first quarter, but overall, as has been the case for a number of quarters now, our annualized impairment losses after tax and tax affects were quite low and that for this quarter they were 0.4% of our average equity.

I think more importantly though on the credit quality issue, recovery in energy and commodity prices I think has diminished the concerns over exposure to investments in energy, metals and mining sectors. And of course, as we all know, I think getting out of the quarter and into post quarter in that, the DOL did release its final conflict of interest fiduciary rule and the related prohibited transaction exemptions earlier this month, most retirement market participants found the rule and the final PTEs to be more workable for them than was originally proposed. And of course, the notable exception was fixed-indexed annuity products, which were included in securities products in the more onerous Best Interest Contract Exemption rather than PTE 84-24 in the final rule.

The unexpected change in the treatment of fixed-indexed annuities in the final rule and the related prohibited transaction exemptions do cast a cloud over our future growth rate, and more importantly though, if the rule is not overturned or modified, the final rule or final PTEs will limit access to fixed-indexed annuity insurance products that more and more Americans find the right solution for their retirement savings and retirement income needs. I have some additional comments on the DOL rule later after Ron's remarks on sales and competition.

So now, let me turn the call over to Ted for more comments on our first quarter financial results.

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Thank you, John. Our operating income of $21 million for the first quarter was 57% lower than first quarter 2015 operating income of $48.8 million. This decrease was entirely due to revisions to assumptions for deferred policy acquisition cost and deferred sales inducements. As Jon commented, excluding the impact of these assumption revisions, our operating income of $49.6 million for the first quarter was up slightly compared to first quarter 2015 operating income of $48.8 million.

Historically, our unlocking of DAC and deferred sales inducements has occurred in the third quarter of each year. However, as we have stated in the past, unlocking is not limited to a specified period and we must compare the assumptions in our DAC and deferred sales inducement models to actual results each reporting period and determine if we need to revise future assumptions. The difference between our actual investment spread results compared to what was estimated in our DAC and DSI models for the two most recent quarters let us to the conclusion that revisions of future period investment spread assumptions was necessary.

Future spread assumptions were reduced resulting in a reduction in future estimated gross profits, a decrease in the DAC and deferred sales inducement assets and an increase in amortization expense. This resulted in a decrease to operating income for the quarter of $28.6 million or

$0.35 per diluted share. Our investment spread for the first quarter was 2.65% compared to 2.67% last quarter and 2.77% for the first quarter of 2015.

On a sequential basis, the average yield on invested assets declined 4 basis points, while the cost of money declined 2 basis points. Average yield on invested assets continue to be favorably impacted by non-trendable items and unfavorably impacted by the investment of new premiums and portfolio cash flows at rates below the portfolio rate and higher cash balances. Fee income from bond transactions and prepayment income added 8 basis points to average yield on invested assets for the first quarter compared to 7 basis points for such items in the fourth quarter of 2015.

Adjusting for the effect of non-trendable items which also included holding more cash and short-term investments this quarter than last quarter, the average yield on invested assets fell by 3 basis points compared to last quarter. The average yield on fixed income securities purchased and commercial mortgage loans funded this quarter was 4.14% compared to average yields ranging from 3.73% to 4.03% in the four quarters of 2015.

The aggregate cost of money for annuity liabilities was 1.93% for the quarter compared to 1.95% last quarter. This decrease reflected continuing reductions in crediting rates, but the effect from rate reductions was partially offset by 1 basis point decrease in the benefit from overhedging the obligations for index linked interest from 1 basis points last quarter to zero basis points this quarter.

We have been counteracting the impact of lower investment yields by reducing the rates on our policy liabilities, but the impact on the cost of money from these reductions is less than the impact on average yield on invested assets from investment purchases. We continue to have flexibility to reduce our crediting rates if necessary and could decrease our cost of money by approximately 52 basis points through further reductions in renewal rates to guaranteed minimums should the investment yields currently available to us persist.

Other operating cost and expenses were $26.8 million for the first quarter compared to $25.7 million for the fourth quarter of 2015 and $21.1 million for the first quarter of 2015. The decrease in operating expenses compared to the first quarter of 2015 was primarily due to a $3.7 million increase in salary and benefit expense and $1.9 million of additional reinsurance risk charge expense due to the growth in our policyholder liabilities subject to our reinsurance agreement pursuant to which we cede off excess regulatory reserves to an unaffiliated reinsurer.

The increase in salary and benefits includes $2.2 million attributable to an increase in the number of employees, one-time expense related to the execution of a retirement agreement with Mr. Noble, our Executive Chairman and a decrease in salary expense related to a deferred compensation liability that is based upon the fair value of our common stock.

Our risk-based capital ratio is at 320% at the end of first quarter, down from 336% at the end of last quarter. Continued growth together with ratings drift for several securities in the energy, metals and mining sectors accounted for the decrease in RBC this quarter. We estimate that downgrades of these securities reduced our RBC ratio by 5 points.

Net sales last year were 10% ahead of the level we contemplated in the capital planning for our 2015 equity offering, and net sales for 2016 may exceed the level contemplated last summer. Based on sales experience, we intend to physically settle the two forward sales agreements from our August 2015 equity offering later this year and receive approximately $135 million in net proceeds from the issuance of an additional 5.6 million shares of our common stock. On a pro forma basis, assuming the net proceeds were invested in securities with a NAIC 1 designation, the estimated RBC ratio at March 31 would have been 337%.

Our capital planning in conjunction with the 2015 equity offering included two alternatives for maintaining an adequate regulatory capital should sales growth outpace the capital generated by the initial net proceeds from the equity offering and the net proceeds available from the forward sales agreements. And while the recently issued DOL conflict of interest fiduciary rule makes the 2017 sales outlook uncertain, it would not be prudent for the Company to manage its regulatory capital, assuming the current level of sales is significantly disrupted by the DOL rule.

The two alternatives for regulatory capital include reinsurance solutions and issuing additional debt. The Company will be exploring reinsurance solutions with several potential reinsurance counterparties. However, there is no assurance that reinsurance discussions will produce a reinsurance solution on terms acceptable to the Company. In the absence of a reinsurance solution, the Company would consider raising capital through the issuance of additional debt within the parameters that would not jeopardize the Company's current ratings from rating agencies.

Now I will turn the call over to Ron to talk about sales and production.

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

Thank you, Ted. Good morning, everyone. And as John reported, first quarter gross sales were $2.1 billion, a 59% increase over the first quarter of 2015 and we nearly matched our all-time record of $2.14 billion set in the fourth quarter of 2015. Net sales after reinsurance ceded were $1.6 billion, a 35% increase in net sales over the first quarter of last year, but a 16% decrease in net sales from the fourth quarter of 2015.

Our success at Eagle Life combined with reinsurance ceded is creating some unique dynamics within the American Equity group of companies, and the first quarter was a good indicator of that. Here is the breakdown. American Equity Life's first quarter gross sales of $1.6 billion declined by 13% when compared to the fourth quarter of 2015. Eagle Life, however, had a 102% increase to $416 million in gross sales when compared to the fourth quarter of last year. So, mixing that 80% of Eagle Life sales are coinsured as well as 80% of American Equity Life's multi-year guaranteed annuity premium and the final result was $1.6 billion of net sales in the first quarter of this year. Overall, it was a very strong quarter.

We did anticipate that American Equity Life's first quarter FIA sales would moderate due to adjustments to our lifetime income benefit rider that were effective January 1. For most of 2015, our lifetime income benefit rider had the highest guaranteed benefits for many of the income planning scenarios, as some of our competitors exited the market or reduced their sales targets. This gave us an opportunity to introduce new producers to our American Equity Life products and service culture, as well as win back some producers who left for what they thought were greener pastures.

Since the adjustments to our lifetime income benefit rider, our guaranteed income is no longer the highest, but it is still very competitive depending on gender, age and deferral period. As predicted, the competition has re-emerged in the first quarter and is fierce with ultra-competitive products attempting to win back their producers.

Thinking about the philosophy that Dave Noble laid out for us 20 years ago, our intention was not to always have the highest rates or compensation but to always be competitive. We would excel through quality relationships and providing excellent customer service and this has certainly been a very successful recipe.

We did introduce a new indexing lifetime income benefit rider this month. Instead of a guaranteed roll up interest rate on the income account value or benefit base, the interest rate credited is the same as the interest rate credited to the contract value mark times a multiple. This is appealing for those seeking higher income potential in today's low interest rate environment. It's still a little too early to determine the popularity of the new feature but preliminary interest levels look good. We'll talk a whole lot more about this in the next quarter.

Turning to Eagle Life, as I mentioned earlier, sales grew by 102% to $416 million compared to the fourth quarter. That's just $89 million short of Eagle Life's total sales for all of 2015. Eagle Life has a fresh story with simple, transparent products and the support experience and consistency of American Equity Life in the FIA market. Opening new opportunities with the competitive multi-year guaranteed annuity product than pivoting to FIA's once they experience our special service culture has been a winning strategy in financial institutions.

Today, Eagle Life is selling annuities to 48 distributors with seven that were added in the first quarter of this year. We have four, what I call, anchor distributors with another four who are sending us meaningful production. When considering the American Equity group of companies, Eagle Life has the number two and the number six sales ranked distributors within the American Equity group of companies, plus the four anchor distributors are all in the top 16 group-wide.

Pending for American Equity Life averaged 5,541 for the first quarter, the highest pending count of 7,300 was on [January 4], as the applications flooded into beat the December 31 deadline before changes to the guaranteed lifetime income benefit rider took effect. Pending one year ago was 4,968. Today, it's 5,764. Pending for Eagle Life one year ago was 50, today it's 511 and the average pending count for Eagle Life in the first quarter was 392.

Finally, a few comments about technology. Two years ago, our IT area was busy administering the enterprise and did not have the resources to be forward-thinking and creative. Since then, we hired 25 IT professionals to expand our technology capabilities. We have made great strides and I believe we have surpassed our competitors' ability to service producers and policyholders. Today we are within reach of issuing annuity policies real-time. We will have the capability to accept applications, score suitably and issue policies electronically within minutes. This is an important distinction, particularly for Eagle Life.

As the Company is growing to the next level, it's important to improve our efficiencies and allow technology to do some of the work. Also, think about the fact that smart phones are only 10 years old, yet nearly everyone has one. What will technology look like in the next 10 years and how will we be conducting our business? American Equity is uniquely positioned to take advantage of our technological advancements by being a leader in personal and electronic customer service.

And with that, I'll turn the call back over to John.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Thank you, Ron and Ted. So turning back to the deal, I presume everybody has read our press release and saw that the comments that we made there. So I won't bother repeating the tone of those comments about our disappointment in what the rules did, but I think getting to the comments in the press release about our analysis of the final rule, and expected actions going forward, summarizing those three put points, there are numerous obstacles in the best interest contract exemption for independent agent distribution channel, and in our view, the BICE was not drafted to be workable for independent agent distribution of fixed-indexed annuities.

If it becomes operational for a fixed-indexed annuities, we would look to partially mitigate the disruptive impact on our sales growth by updating and expanding our menu of traditional declared rate annuities that will offer lifetime income riders and other features in the products that we would have available would meet PTE 84-24 definition of a fixed rate annuity contract.

Thinking in terms of broker-dealer channel, our view there is, there is a smaller threat to the sale of fixed-indexed annuities. That outcome will depend upon how broker dealers in banks decide that they want to operate in a post-fiduciary environment. We anticipate that may broker dealers and banks will continue to sell the product, although we know that there may be some seeking changes in the compensation and/or product design to meet their compliance obligations and of course, we are certainly aware that parties are considering litigation options and strategies and we would not be surprised if lawsuits are not filed sometime in the future.

So getting back to American Equity, while the final rule for prohibited transactions from the DOL bring uncertainty to our future long-term growth rate, we are excited and optimistic about the outlook for the remainder of 2016. We have a solid foundation in independent insurance agent distribution channel and the diversification of our distribution into broker-dealers and banks has excellent momentum.

While low interest rates remain a headwind to our spread management, we remain proactive in managing our liability rates and as we've said on previous occasions, we've had a lot of success because we follow a few very simple basic principles, and that we offer attractive products with principal protection and guaranteed lifetime income that meets the needs of Americans preparing for or enjoying retirement, and a DOL rule doesn't change that Americans still need the products that we have available.

We have great relationships with our distribution partners. We are consistent in our business practices and we have a very dedicated group of employees here in our home office that provide excellent service to our distribution partners and policyholders each and every day. And those attributes have served us well for 20 years and will continue to guide our approach to the fixed-indexed annuity market.

So, thank you for your time and attention this morning. We'll now turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Randy Binner, FBR.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

I wanted to ask you a question about your comments that the BICE is not workable for independent insurance agents, that channel and is more workable under Eagle Life, and the broker dealer and bank channels. So I'm just interested specifically, what makes it less workable or unworkable for independent advisers or insurance agents and what makes it more potentially workable in the bank and broker-dealer channel?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Those comments come from, I guess, the observation that in the independent agent distribution channel, the supervisory financial institution signing the BICE contract is going to be -- would need to be the insurance company, and we see the obligations for oversight of agents there perhaps creating legal -- creating legal exposure that one we're very likely not interested in.

We also have serious questions about whether or not we could exercise the proper oversight of those agents, given that they are independent and could be selling for multiple distributors. So, how are we going to exercise oversight of an agent selling an Allianz policy, and certainly, our reading of BICE indicates that, that might be expected of us.

In the bank broker-dealer side, that financial institution that has that oversight responsibility is going to be the broker-dealer for the bank and we're going to be the product provider. So, they will be addressing the liability exposure and determining whether or not they want fixed-indexed annuities in the product mix that they have available for their advisors to sell.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

So, in the bank scenario there, as the product provider, are you -- is that also the same as the financial institution that has to take liability on basically the rider private action [and the Baker], does that mean that you don't take that?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

That means, we do not sign the best interest contract in the bank and our broker dealer distribution, but it's our view we would be expected to -- we would be the signatory to that contract for independent agent distribution.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

So then, going back to independent agent distribution, does that mean that the wholesaler or the marketing organization is not a signer of that BICE contract?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Based upon our reading of the rule, Randy, the national marketing organizations were not identified as a party that could be a financial institution, as that term is defined. I think there is language in there that says they could apply to be a financial institution, but they are not -- they are not granted that status automatically the way broker dealers are, the way insurance companies are.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

Would they want to have that designation?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

I can't speak for any of them. You'd have to ask them whether they would or they wouldn't.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

Okay.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

We certainly will be asking them that as we go along, but I think -- as I say, I can't speak for them. We're not anticipating that we'll get a highly favorable response from them on that.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

So, to the extent that the rule doesn't change and certainly, even if there is a legal challenge across the industry, the rule effectively goes into place in April 2017, so a little less than a year from now. Does that mean you're not offering any products through the -- if it doesn't change, could you offer any product, even a lower commissioned simpler product through the independent channel or is the risk of not being able to supervise those independent advisors too great?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Right now, we think the risk is too great. That doesn't mean that over the course of 12 months, discussions might evolve and we might come up with something, but that's the current view. Also, in that assumption, will independent agents be willing to sell lower commission products, don't know what they test there.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

Okay. I'm sure the other guys have questions, but I had a couple housekeeping things, fast real quick. What was the stock expense item that you mentioned in the opening comments? I missed that, I apologize.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Go ahead, Ted. The variable comp and deferred comp.

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Part of the other compensation is, there is some of our deferred compensation that's a liability that's tied to the fair value of our common stock. So this period since with the decrease and stock price liability went down.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

Understood. And then, but that's -- is that purely balance sheet or is that go through the other expense line?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

That goes through operating expenses. It's a variable liability based upon that we have to mark to market to what are the market value of our stock is each reporting period.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

And then real quick, just popped out, the commercial loan yields are actually higher than they have been. Could someone speak to what the dynamic there is that you're able to get better yield? I assume that's the same better yield on the same risk, is that the case what's going on out there on that?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Yes, that's the case. When you looked at -- in the first quarter, when you look at the CMBS market, we had some dislocation there in terms of spreads. We were able to deploy assets into the commercial mortgage loans at spreads that had typically been a little bit wider than what we had been able to do in previous quarters.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

So, the dislocation to CMBS market has actually, that's transferring to real like commercial [loans]?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Randy's question was the whole loans.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

The direct commercial loans that we do. Yes, there is somewhat of a connection between the two. As CMBS becomes more attractive, less people are going to put money into direct commercial loans as an alternative. So we were able to get some higher spreads. We are not -- our underwriting standards have not changed. They're still very tight. We were just able to find some quality loans that fit our book. We were able to get some larger size loans too than we typically have which helps on the volume side.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

Are you saying that because CMBS was dislocated, more institution money went there. So there is less institution money competing with you all on commercial loans?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

That's kind of what we felt in the market. When you see spreads on CMBS quite not as much as they did, you have to look at your alternatives at least on the institutional side and we felt that we had opportunities in direct commercial loans to put some money to work there, and we thought we were meeting our obligation on our CMBS allocation.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

CMBS is not that much tighter though, is it?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Yes, it has come in from (inaudible), absolutely.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

Okay. John, got ahead.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

I'm not sure what your source of references is but what I remember seeing is our commercial loans were [423 in the fourth quarter and 429] in the first quarter. So there really wasn't that much of the difference on the whole loans that we originated in terms of rate we got. And nobody across the table for me is disputing my facts at the moment.

Randy Binner - *Friedman, Billings, Ramsey & Co., Inc. - Analyst*

But it's actually yields that's better, because we have -- mostly, the yields have just been getting worse for a while. So, anyway, thanks for the responses.

Operator

Mark Hughes, SunTrust.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Interested to hear Ron talk about technology, which allow you to issue policies on almost automatically, do a very quick suitability analysis. Why are you so afraid of doing your own central suitability/fiduciary analysis of the potential policyholders?

You're talking about independent agents that are state licensed. To the extent that they misbehave, I think you could probably pick that up pretty quickly, but you will be doing your own independent analysis of policyholders and if you sign the agreement, and if you've done your own independent analysis and the independent agents bring you prospects that you then underwrite yourself, what am I missing?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

The fiduciary liability goes far beyond the suitability of an individual case, Mark, it's all the conduct that agent does. So, for instance, if he is representing Allianz and American Equity and perhaps other carriers, a reading of the fiduciary obligation would say that he's supposed to look among the menu of fixed-indexed annuities he has available and decide which one is truly in the best interest of his prospective policyholder without regard to any other considerations.

We're not going to see any of that, but we're going to be responsible under the contract for overseeing it, and in fact, we're going to end up -- in that case, if he picked American Equity and let's say picked it for all of the right reasons that he complied with his obligations, we still would be responsible for what he did and all we're going to see in our review is the application that comes to us and we are going to evaluate it under the suitability standards that we have for issuing policies, but it's impractical for us to oversee his conduct and know how he conducted his sales activities.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

I guess, (inaudible) of the rule is that with you being the counterparty signing the fiduciary agreement that it's your conduct that's at risk. The enforceability has to do with your conduct. The references to the agents within the enforceability section are minimal. They don't really refer to the agents. It really is focused on the financial institution. So, is that clearly stated that you're going to be responsible for all of the behavior, the selection that's done by the agents, when the agents really are not discussed in the (multiple speakers) action?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

I think the agents are and I think we clearly are responsible for their conduct. I know one of the trade organizations was applauding the final rule because the agents or the financial advisors in the securities world under the final rule were not obligated to sign the contract as they were in the proposal, but that still did not remove them of their fiduciary obligations and it did not remove the party above them from their oversight responsibility, and if you think through what you're asking, if that's all it was, the DOL, the rule would have no teeth in it from the standpoint of enforcement. If all the DOL could do was coming after us or lawyers could come after us for our conduct, certainly, we feel more comfortable about our own conduct, but where the weak link is, is that we're responsible for the agent conduct and as I say, activities that we will be unaware of how they're operating.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

It seems like a very low risk that an agent would have had the potential to sell a marginally superior product to this individual based on the suite that they've got in front of them, they sold it to AEL, you did your centralized underwriting and you get sued down the road because they've got access to that agent's data to show that they didn't act in the best interest of the individual, they're not going to be collecting all that individual agent data and then evaluating it and then going after you as the fiduciary, that seems like a unlikely scenario.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

You're right. They'll create a class action for multiple agents rather than individual agents, because that's where all the money is. And they'll start with one agent as an example and say there is -- I don't want to pave the way for the --

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Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

The agent is not going to be sued. The enforcement is not going to be on the agent. So that seems very, I would say, speculative but I'll move on from there. How about on crediting rates? You've been slowly reducing crediting rates. Is there any plan to be a little more active on that front?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

We are at the tail end of some adjustments that were put in place a year ago and are gearing up for the next round of adjustments and those will likely be coming on stream in the very near future.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

We made some adjustments to new money rates earlier this month. They were fairly modest, but then the renewal rates are getting teed up.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Right. Ted, can you talk in just a general terms about what we need to see in terms of spread in order to avoid another DAC charge in the near or intermediate term? Is this current spread okay? Does it have to widen out? What needs to happen in order to avoid this next time?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

We readjusted our spread assumptions, so that our current spread assumption in the model, if we continue in the near-term future at the spread we are at, we are okay. We have graded up though. We have made an assumption that the spread will grade up back to ultimate over a five-year period of time, but in the near term, if our spread stays around where we're at right now, we should be okay.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

The other operating costs look a little elevated in the quarter. You say they were reduced by some adjustments for the stock comp expense. Where there any other things in there that pushed up the other operating expenses?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Are you doing this quarter compared to last quarter sequentially?

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Either sequentially or year-over-year.

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Sequentially, the two driving factors for the increase in operating expenses, one, risk charges, risk charges on the reinsurance agreement where we cede off excess reserves, that was up $600,000 sequentially from the fourth quarter, and then salaries and benefits were up $900,000 from the fourth quarter due to a variety of reasons. There are couple of different reasons. And there were some miscellaneous that went the other way that net down to the $1.1 million increase.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

All right. And one final thing on the DOL. Would that not argue for more alignment with independent agents with a limited number of carriers, assuming the agents want to continue to sell these things which I assume they do, wouldn't they be willing to open the books and follow tighter procedures with a smaller number of carriers? Could that not be beneficial?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

That is a possibility. When we certainly are talking about -- we are aware that we have some agents, they are independent, but they devote a substantial amount of their premium or provide a substantial amount of their premium to American Equity and there probably are other agents in the business who operate the same way with other carriers.

So that is something we are certainly taking about, but we also know these guys, they like being independent, and so how do you turn an independent into a captive or I don't want to use the term carrier, but how do you formalize that relationship to where they're still not your employee but we can make them fit under the best interest contract exemptions and take on our obligations upon signing a contract.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

They may appreciate being independent but they probably like to sell these products and I'm sure, there'd be a lot of enthusiasm on both sides to do it. Okay, all right. Appreciate the answers.

Operator

Steven Schwartz, Raymond James.

Steven Schwartz - *Raymond James & Associates, Inc. - Analyst*

A couple of follow-ups first. Jeff, I heard your voice there. Could you talk to what new money rates have been so far in the second quarter, money investment rates?

Jeff Lorenzen - *American Equity Investment Life Holding Company - EVP & CIO*

It's been a little faster, right out of the gate here just because of volume on corporates. We're going to be just under 4% is probably where we're going to be. We do have some agencies purchased in there as some cash holding prices but is probably where we're going to be. Our goal really is to be north of that 4% as we go through the quarter. That's what we're targeting toward. We have some additional asset classes that we're exploring that we think will allow us to mitigate some of the cash drag that we've had over the last several quarters.

Steven Schwartz - *Raymond James & Associates, Inc. - Analyst*

And then, John, on the DOL, you mentioned in your written comments a number of organizations you're considering launching lawsuits. Your issue is very specific, much more [so than] probably Chamber of Commerce, for example or SIFMA. I'm wondering -- you were willing to do something back in 2009 with the SEC Rule 151A. Are you willing to do something on your own this time around?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

We didn't do it on our own last time.

Steven Schwartz - *Raymond James & Associates, Inc. - Analyst*

You did lead it?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

We're not going to give you any prognostications of what we will or won't do but we certainly are active in litigation conversations.

Steven Schwartz - *Raymond James & Associates, Inc. - Analyst*

That's good enough. And then, Ted, just a numbers question. If you were to -- actually, a follow-up. What's your definition of near-term, Ted, when you said that spreads, where they are near term, that's not a problem.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

I said probably in the near-term would be in the next three to four quarters.

Steven Schwartz - *Raymond James & Associates, Inc. - Analyst*

Next three to four quarters, okay, I probably missed that. Okay, and then just backing out the adjustments, it would look like the K-factor was a bit higher than it had been in the past on the DAC and the DSI amortization. These higher level, should that continue given the actions that were taken and the new assumptions?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

I would expect that, that will continue.

Operator

Erik Bass, Citigroup.

Erik Bass - *Citigroup Global Markets, Inc. - Analyst*

I guess, if you could talk competitively, how you think you stack up in the broker dealer and bank channels given that you're up against some larger insurers that may already be on the platform selling VAs or other products?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

I think we stack up quite well in that particular channel. There are some different companies that we compete with in the banks and the broker-dealers than we do in the independent channel, but as we compare our products and our caps and compensation and all of those things, I think we're right in the hunt. I think we actually have maybe even a little bit of advantage in that the Eagle Life name is a fresh name and has a good brand and so we're getting some good traction.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

I'd add to Ron's comments, Erik, that some of those bigger companies, we're probably not necessarily trying to compete with them and get into the big warehouses. It's our goal to be in the smaller shops, although I am aware that there are some larger opportunities that could come our way and we could get on the shelf, but we're not necessarily targeting the same places where those much larger companies would be.

Erik Bass - *Citigroup Global Markets, Inc. - Analyst*

Got it. And from your perspective, is there any difference in profitability in either the broker dealer channel or in offering fixed annuities with lifetime income riders as opposed to fixed-indexed annuities?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

We're looking at product pricing with comparable levels of return.

Erik Bass - *Citigroup Global Markets, Inc. - Analyst*

Is it your sense from your comments that the DOL impact on sales will really start being felt in 2017. And I guess, are you contemplating any changes to product design, commissions, Gold Eagle or anything that would take effect this year?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

I don't anticipate anything changing this year and I think you're right, it's April of 2017. I don't see why it wouldn't be business as usual up through that point. We do know from BICE or 84-24 that incentive compensation is not permissible. So we're exploring how we deal with our Gold Eagle program, but conclusion on that is still a ways off.

Erik Bass - *Citigroup Global Markets, Inc. - Analyst*

Got it. And then, final thing, just wondering if you could help us think about how to estimate the value of your in-force block, and I guess, not looking for a specific number, but what are the sources of potential cash flow and how should we think about the level of statutory earnings that are generated just from the in-force if you took away the strain of new sales?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

It's the calculation of looking at the existing block of business at the point that you time you're doing it and making assumptions what future income is going to be and discounting that back to your period of time, there is --

Erik Bass - *Citigroup Global Markets, Inc. - Analyst*

Got it. I guess, right, the building blocks would be existing statutory capital or surplus, any redundant reserves if you felt like there was a redundant reserve on a statutory basis and then your statutory earnings, correct?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Correct.

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Although, I think theoretically people do that on a cash flow versus statutory earnings, which the cash flows would in effect wipe out your redundant reserves over time.

Erik Bass - *Citigroup Global Markets, Inc. - Analyst*

It would be incorporated within the cash flow, right.

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Yes.

Erik Bass - *Citigroup Global Markets, Inc. - Analyst*

Got it.

Operator

John Barnidge, Sandler O'Neill.

John Barnidge - *Sandler O'Neill & Partners, L.P. - Analyst*

When we think of the MIGA business in the bank and broker-dealer channel, how should we think of the profitability of these products as compared to your bread and butter fixed-indexed annuity products?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Right now, the profitability between what we currently sell in the bank and broker-dealer channel and the independent channel, we have the same profitability targets.

John Barnidge - *Sandler O'Neill & Partners, L.P. - Analyst*

Okay. And then, given uncertainty around the DOL for the independent agent channel and how it will play out necessarily, would it be reasonable to assume that there will be quite a lot of MIGA sold into the bank and broker-dealer channel in the meantime and in an attempt to really grow that segment before the deal overall kicks into effect?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

We've always said or have always said that one of the ways to get your foot in the door in the bank channel has been on leading with a MIGA product and we continue to do that. Now, 80% of that MIGA product is ceded off to a reinsurance counterparty, but we have, and Ron can probably comment further, have been seeing success in regards to within the banks of that getting our foot in the door, showing them our service culture and getting them familiar with the Company and that has led then to them switching over to selling FIAs.

Operator

(Operator Instructions) Kenneth Lee, RBC Capital.

Kenneth Lee - *RBC Capital Markets, LLC - Analyst*

Just had a question in terms of the sales expectations for this year, it sounds as if expectations are going to be much higher than what you guys originally felt last year. Would this be mainly a function of you think accelerated sales ahead of the DOL fiduciary effective date or is there something else that's driving that?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

At this point in time, there is no evidence of anything like that. And I guess, I don't know that we would necessarily expect any acceleration into this year from the DOL activities.

Kenneth Lee - *RBC Capital Markets, LLC - Analyst*

Okay. And then, also in terms of the -- just wanted to ask you a follow-up question in regards to the DAC unlock, what was sort of like the major driver that changed the assumption? Was this like the macro environment, the yield, what drove the whole change that they've made the change in the assumptions? Thanks.

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Every quarter, we're required to look at what actual results are compared to what was estimated within the DAC and DSI models, and we look at that every quarter and we look at all of our assumptions and we have thresholds. And the last two quarters, we saw that actual results compared to the model for interest spread were different and they were different enough at a level that made us have to go back and rethink what our future assumptions were going to be or if they needed to be changed and we made a determination that we needed to change those. So every quarter, we're looking at actual versus estimated results, we're looking at our assumptions and looking at and deciding whether or not we need to change those future assumptions and it was just the actual results that we saw on the last two quarters indicated to us, we needed to make a change.

Kenneth Lee - *RBC Capital Markets, LLC - Analyst*

Would it be fair to say, perhaps the new money yield that came in a little bit lower than prior expectations due to (inaudible) credit spread tightening, would that be a fair statement?

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Yes, it certainly is true I think that new money yields probably were lower than was expected probably our future expectation of where interest rates might go and Fed increases changed during that period of time, and so, that has affected our actual results and our future assumptions.

Kenneth Lee - *RBC Capital Markets, LLC - Analyst*

Okay, great. And I just had one more question. This is just in regard to the cash drag from increase in cash and short-term investments held in the quarter. I think this is similar to what was highlighted last quarter. Is there any reason -- I was on the assumption it's more like a timing issue last quarter, but wondering if there is something else that's driving it this quarter? Thanks.

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

No, it's still a little bit of a timing issue, it's a combination of robust sales and what is available to us to invest in the market, and it has been challenging to find securities that meet our risk parameters and our yield targets to put into the portfolio.

Operator

Pablo Singzon, JP Morgan.

Pablo Singzon II - *JP Morgan - Analyst*

The first question is for Ted on spread margin. It seems like they will continue to decrease, given just where new money yields are and where the cost of money is heading. Is there an absolute level below which you would become more aggressive on pricing rate actions? And I guess related to that, are you assuming a similar decreasing pattern in your [current Zack] model? That's the first question.

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

When we made our determination of where to take spreads within the model and what our future assumptions are, we are also having discussions about what our future rate adjustments will be on the renewal block. And so those are all taken into consideration already when we make that estimate.

And as John pointed out, we do have rate adjustments that are going to be teed up, we haven't come to the final conclusion on what those are, but that was all taken into consideration in setting the spread assumptions within the DAC model. We believe where we set it and where we have a grading too and that all was taken into consideration, what our capacity is to adjust future rates -- future renewal rates when making those assumptions.

Pablo Singzon II - *JP Morgan - Analyst*

Okay. Philosophically, is there an absolute level of spreads which you would define more aggressively or you sort of adjust depending on where the markets are and where investment opportunities are?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

At this point in time, no, there is no absolute level where we would adjust more aggressively, I don't think. We're still mindful in rate adjustments of the reputation of the company -- balancing reputation and treatment of policyholders with returns to shareholders. So, it is somewhat of a balancing act to evaluate -- fair treatment of policyholders but also developing appropriate margins.

Pablo Singzon II - *JP Morgan - Analyst*

Okay, thanks. (inaudible). So, I think for broker-dealers in the general sense, it seems to be that bigger organizations are better equipped to deal with the DOL. Do you think that's true for larger IMOs, and then thinking about IMOs that are establishing their own RIAs or even broker-dealers that are even building out their own compliance infrastructure? Just wanted to get your thoughts on that and maybe your exposure to (inaudible)?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

Certainly, I think, if IMOs, NMOs have interest in creating an RIA platform, yes, the larger organizations are going to find that an easier thing to do than smaller organizations.

Pablo Singzon II - *JP Morgan - Analyst*

Are you seeing more of that already, or is it too early to tell?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

It's probably a little too early to tell. Certainly, we are aware of some that are looking at that or do have -- already have those platforms but to the level of sophistication of what those are and where they're at in that process, we do not know.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

One I know of has the RIA platform, but they don't run their fixed-indexed annuities through that platform. They do it for other money management. So they would have to evaluate how they're going to bring fixed-indexed annuity distribution under the entire platform.

Pablo Singzon II - *JP Morgan - Analyst*

Okay. But conceivably, the bigger IMOs are able, I guess, shift or adapt to DOL, then conceivably they could continue selling FIAs, right? Is that -- you think that's a (technical difficulty) assessment?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Conceivably, yes, they would adapt to be the larger organizations that may able to adapt to the new DOL.

Ted Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

And if they're motivated and willing to do that, we certainly will be working with them to have product available for them to sell.

Pablo Singzon II - *JP Morgan - Analyst*

And related to that, so there has been some commentary from broker-dealers about passing on part of the DOL combined expenses to product manufacturers and I know you referenced some of that in your comments but I just want to get, I guess, additional thoughts on that, and maybe even putting aside independent agents but thinking about banks and broker-dealers, right, they were incurring combined expenses and, I guess, how will that affect your ability to sell-through them and maybe the cost that you'll have to bear as part of that relationship.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

I really can't give you an answer on that yet. We're not -- have not had any specific discussions that would give us any insight into how that might play out.

Pablo Singzon II - *JP Morgan - Analyst*

Okay. And then switching to that also, it seems like what you're saying is that you're assuming no major disruption in sales before the applicability date in April 2017. Is it fair to assume then that most of equity for proceeds will be used to support sales this year? Is that a fair assumption?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Our intention would be that if we draw down the $135 million, that would all be contributed to the life subsidiary to support sales.

Pablo Singzon II - *JP Morgan - Analyst*

Right, and it'll be mostly sales this year, right?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Correct.

Pablo Singzon II - *JP Morgan - Analyst*

Okay, all right. And then, just the last question, so, seems like the RBC impact from energy downgrades, seems like they still are worse than your previous guidance. Can you just please comment on that, what happened and if your (technical difficulty) have changed?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Sure. We had $478 million of securities within the metals and mining and energy sectors that drifted in ratings. A $151 million of that went from an NAIC one to two, so it stayed with an investment-grade. We had about $238 million that moved from two to three, so it went from investment-grade to below-investment grade, and then there is about $89 million that was in below-investment grade that moved lower. So that total there was the 5 basis points effect that we had.

As we look out into the future, we see about $100 million of securities that potentially could be -- it depends on what the SVO does, the rating agencies have acted on those securities, but the SVO haven't done anything with them yet and moving them in NAIC ratings. If those move, that would be another, a basis point.

We don't expect -- where oil prices are right now, we're not expecting more downgrades. Now in a stressed scenario, if we look out, we would maybe identify another $220 million of securities in a stress scenario that could receive some level of a downgrade, and we estimate that as two points of RBC. So we have -- right now out there, we've got this other three point that could happen, but again, two of that is under a stress scenario.

Operator

Mark Hughes, SunTrust.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Your reading of the DOL rule, could you continue to distribute through independent agents through 2018 or is April 2017 where you would think that the -- you would be more at risk?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Our reading -- I know there are certain compliance things that don't kick in [till] 2018 but I think our reading at the moment is that, you have to be operationally compliant by April of 2017.

Jeff Lorenzen - *American Equity Investment Life Holding Company - EVP & CIO*

The effective date.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Right.

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Meaning, you have to be -- the agents have to be operating in the best -- the financial advisors who are selling -- ever selling the product has to be operating in the best interest. You have to be meeting reasonable compensation, those kinds of things are kick in April 17.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Right. And John, I think I heard you say that if the NMOs were willing to sell the products, you'd be willing to work with them to have product to sell, is that right?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

If they converted to RIAs and became the financial institution, that really makes not any different than a broker-dealer at least in terms of the relationship under the fiduciary standard because as an RIA, they are an identified financial institution taking on the fiduciary obligation in the contract, and they would be the signatory to the contract with whatever policies those agents contracted underneath themselves.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Right, understood. Ron, you talked about the four anchored distributors, four with I think meaningful volume within Eagle Life. If we think about 12 months from now, what you think those numbers will look like?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

Well, we always want more, how above that? We're always developing and cultivating those relationships and of those four anchor accounts, one of them has been with us for a substantial period and the other three are relatively new and are doing quite well. So, we could even see more robust sales from them.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

They're based on what you see developing, relationships you're working on the pipeline, how does the pipeline compare now to where it might have been, 12 or 18 months ago?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Investment Life Insurance Company*

We have more relationships in the pipeline than we did 12 months ago.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Okay. And then the pivot to FIAs, where you sell the MIGA product, is that developing? Do you see a meaningful shift to FIAs or is that still in the planning stage?

John Matovina - *American Equity Investment Life Holding Company - President & CEO*

Well, we're seeing some good success with that already, Mark. We have the MIGA product out. It's kind of the door opener and once we have that relationship established and they start to sample some of our excellent service, that pivot to FIAs is working. As we look at the mix at Eagle Life business, it's probably about 55% multi-year and 45% FIA. So, I think that's a pretty healthy combination at Eagle Life, given that the MIGA product is the door opener.

Operator

Thank you. At this time, I'm showing no further questions. I like to turn the call back over to Julie LaFollette, Director of Investor Relations, for any final remark.

Julie LaFollette - *American Equity Investment Life Holding Company - Director, IR*

Thank you for your interest in American Equity and for participating in today's call. Should you have any follow-up questions, please feel free to contact us.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone have a great day.
