
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 6, 2019

**AMERICAN EQUITY
INVESTMENT LIFE HOLDING COMPANY**
(Exact Name of Registrant as Specified in its Charter)

Iowa
(State or Other Jurisdiction
of Incorporation)

001-31911
(Commission File Number)

42-1447959
(IRS Employer
Identification No.)

6000 Westown Parkway, West Des Moines, Iowa
(Address of Principal Executive Offices)

50266
(Zip Code)

(515) 221-0002
(Registrant's telephone number, including area code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition

On February 6, 2019, the registrant issued a press release announcing its financial results for the fourth quarter and year ended December 31, 2018, a copy of which is attached as Exhibit 99.1 and is incorporated herein by reference. The registrant's financial supplement for the fourth quarter and year ended December 31, 2018, is attached as Exhibit 99.2 and is incorporated herein by reference.

The information, including exhibits attached hereto, furnished under this Item 2.02 shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in this Current Report shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended, except as otherwise expressly stated in such filing.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

The following exhibits are being furnished with this Form 8-K.

<u>Exhibit Number</u>	<u>Description</u>
99.1	<u>Press release dated February 6, 2019, announcing American Equity Investment Life Holding Company's financial results for the fourth quarter and year ended December 31, 2018.</u>
99.2	<u>American Equity Investment Life Holding Company's Financial Supplement for the fourth quarter and year ended December 31, 2018.</u>

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 6, 2019

**AMERICAN EQUITY
INVESTMENT LIFE HOLDING COMPANY**

By: /s/ John M. Matovina

John M. Matovina

Chief Executive Officer and President



For more information, contact:

Steven D. Schwartz, Vice President-Investor Relations
(515) 273-3763, sschwartz@american-equity.com

FOR IMMEDIATE RELEASE

February 6, 2019

American Equity Reports Fourth Quarter and Full Year 2018 Results

Company Highlights

- Fourth quarter 2018 net income of \$53.8 million or \$0.59 per diluted common share; Full year 2018 net income of \$458.0 million or \$5.01 per diluted common share
- Fourth quarter 2018 non-GAAP operating income¹ of \$90.3 million or \$0.99 per diluted common share; Full year 2018 non-GAAP operating income¹ of \$425.7 million or \$4.66 per diluted common share
- Fourth quarter 2018 annuity sales of \$1.1 billion
- Policyholder funds under management of \$51.1 billion
- Fourth quarter 2018 investment spread of 2.56%
- Risk-based capital ratio at December 31, 2018 (after change in tax factors) of 360%
- Annual cash dividend of \$0.28 per share

WEST DES MOINES, Iowa (February 6, 2019) - American Equity Investment Life Holding Company (NYSE: AEL), a leading issuer of fixed index annuities (FIAs), today reported fourth quarter 2018 net income of \$53.8 million, or \$0.59 per diluted common share, compared to net income of \$36.8 million, or \$0.41 per diluted common share, for fourth quarter 2017. For the year ended December 31, 2018, net income was \$458.0 million, or \$5.01 per diluted common share, compared to \$174.6 million, or \$1.93 per diluted common share, for the year ended December 31, 2017.

Non-GAAP operating income¹ for the fourth quarter of 2018 was \$90.3 million, or \$0.99 per diluted common share, compared to non-GAAP operating income¹ of \$74.5 million, or \$0.82 per diluted common share, for fourth quarter 2017. For the year ended December 31, 2018, non-GAAP operating income¹ was \$425.7 million, or \$4.66 per diluted common share, compared to \$285.1 million, or \$3.16 per diluted common share, for the year ended December 31, 2017. Non-GAAP operating return on average equity excluding average AOCI¹ for the year was 18.6% based upon reported results and 15.4% excluding the impact of assumption revisions.

POLICYHOLDER FUNDS UNDER MANAGEMENT UP 1% ON \$1.1 BILLION OF SALES

Policyholder funds under management at December 31, 2018 were \$51.1 billion, a \$441 million or 1% increase from September 30, 2018. Fourth quarter sales were \$1.1 billion before coinsurance ceded and \$1.0 billion after

coinsurance ceded. Gross sales and net sales for the quarter increased 12% and 18%, respectively, from fourth quarter 2017 sales. On a sequential basis, gross and net sales increased 8% and 12%, respectively.

Total sales by independent agents for American Equity Investment Life Insurance Company (American Equity Life) increased 13% sequentially while total sales by broker-dealers and banks for Eagle Life Insurance Company (Eagle Life) decreased by \$23 million or 12% sequentially. Sales of FIAs were up 11% sequentially to \$1.1 billion driven by a 14% increase in sales for American Equity Life. FIA sales for Eagle Life of \$163 million were down \$1 million or 1% sequentially.

Commenting on sales, John Matovina, Chairman and Chief Executive Officer, said: "We experienced sequential and year-over-year increases in FIA sales in American Equity Life's independent agent channel. Our higher new money investment yields allowed us to take several actions late in the third quarter and early in the fourth quarter to enhance our competitiveness in both the accumulation and guaranteed lifetime income market segments. The launch of AssetShield on October 9th was successful; and it now joins IncomeShield as one of our two top selling products. In the fourth quarter, combined sales for AssetShield and the Choice series, our other accumulation product in the independent agent channel, were greater than total sales of Choice in the third quarter. Choice and AssetShield accounted for 38% of sales in the fourth quarter compared to 35% of sales in the third quarter. In the guaranteed lifetime income space, we improved the competitive position of the IncomeShield series and our other guaranteed income products by increasing payout factors in early October. The IncomeShield series, which was the third best-selling guaranteed lifetime income product in the independent agent channel in the third quarter, accounted for 33% of our FIA sales in the fourth quarter."

Commenting on the market environment and the outlook for FIA sales, Matovina added: "The market in each of our distribution channels continues to be challenging. However, we are pleased with our competitive positioning for both accumulation and guaranteed lifetime income products. Business activity in January 2019 was appreciably ahead of January 2018 and we are optimistic that the sales momentum we developed in the fourth quarter will continue in 2019."

Matovina continued: "In the bank channel, we are seeing meaningful sales from the large bank we referenced in our prior release and continue to expect this relationship to be a key account for Eagle Life. We are also continuing to build out our employee wholesaling model which will be a key initiative for Eagle Life in 2019. Our intent is to use our employee wholesalers to target accounts that do not use third party wholesalers and to complement our third party wholesalers when possible. When accomplished, we will be able to serve banks and broker-dealers in the manner in which they desire while lowering our distribution costs."

INVESTMENT SPREAD DECLINES ON NON-TRENDABLE ITEMS AND HIGHER COST OF MONEY

American Equity's investment spread was 2.56% for the fourth quarter of 2018 compared to 2.67% for the third quarter of 2018 and 2.75% for the fourth quarter of 2017. On a sequential basis, the average yield on invested assets decreased by 3 basis points while the cost of money rose 8 basis points.

Average yield on invested assets was 4.51% in the fourth quarter of 2018 compared to 4.54% in the third quarter of 2018. This decrease was primarily attributable to a decline in the benefit from non-trendable investment income items from 11 basis points in the third quarter to 7 basis points in the fourth quarter. The average yield on fixed income securities purchased and commercial mortgage loans funded in the fourth quarter of 2018 was 5.02% compared to 4.97% in the third quarter of 2018 and 4.61% for the first six months of 2018.

The aggregate cost of money for annuity liabilities of 1.95% in the fourth quarter of 2018 was up 8 basis points from 1.87% in the third quarter of 2018. The benefit from over hedging index linked interest obligations was 3 basis points in the fourth quarter of 2018 compared to 7 basis points in the third quarter of 2018.

Commenting on investment spread, Matovina said: "The sequential decrease in investment spread in the third quarter primarily reflected an 8 basis point decrease in the benefit from non-trendable investment income items and over-hedging. Our investment spread remained under pressure in the fourth quarter of 2018 due to the escalation of option costs for certain index strategies in the last several quarters that is recognized in the cost of money ratably over the twelve month option period. To counteract this impact, we initiated renewal rate adjustments on certain in-force policies in October in addition to the renewal rate actions we undertook in March. We have flexibility to reduce our crediting rates and could decrease our cost of money by approximately 0.63% through further reductions in renewal rates to guaranteed minimums should the cost of money not return to acceptable levels."

Matovina went on to say: "Our investment spread should benefit from the higher yields we have been obtaining on investment securities purchases and commercial mortgage loan fundings, expected increases in yields on our floating rate investments and lower option costs. While too late to affect the cost of money for the fourth quarter, we did see option costs come down significantly in December and they have remained lower in January. For all of 2018, we sold \$2.1 billion of book value of lower yielding securities, and we anticipate pursuing additional portfolio realignment opportunities in 2019. We continue to expect our portfolio yield, excluding non-trendable items, to increase in future quarters."

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This press release contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to future operations, strategies, financial results or other developments, and are subject to assumptions, risks and uncertainties. Statements such as "guidance", "expect", "anticipate", "believe", "goal", "objective", "target", "may", "should", "estimate", "projects" or similar words as well as specific projections of future results qualify as forward-looking statements. Factors that may cause our actual results to differ materially from those contemplated by these forward looking statements can be found in the company's Form 10-K filed with the Securities and Exchange Commission. Forward-looking statements speak only as of the date the statement was made and the company undertakes no obligation to update such forward-looking statements. There can be no assurance that other factors not currently anticipated by the company will not materially and adversely affect our results of operations. Investors are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf.

CONFERENCE CALL

American Equity will hold a conference call to discuss fourth quarter 2018 earnings on Thursday, February 7, 2019 at 8:00 a.m. CT. The conference call will be webcast live on the Internet. Investors and interested parties who wish to listen to the call on the Internet may do so at www.american-equity.com.

The call may also be accessed by telephone at 855-865-0606, passcode 9464918 (international callers, please dial 704-859-4382). An audio replay will be available shortly after the call on AEL's website. An audio replay will also be available via telephone through February 14, 2019 at 855-859-2056, passcode 9464918 (international callers will need to dial 404-537-3406).

ABOUT AMERICAN EQUITY

American Equity Investment Life Holding Company, through its wholly-owned operating subsidiaries, issues fixed annuity and life insurance products, with a primary emphasis on the sale of fixed index and fixed rate annuities. American Equity Investment Life Holding Company, a New York Stock Exchange Listed company (NYSE: AEL), is headquartered in West Des Moines, Iowa. For more information, please visit www.american-equity.com.

1 Use of non-GAAP financial measures is discussed in this release in the tables that follow the text of the release.

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Consolidated Statements of Operations

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Revenues:				
Premiums and other considerations	\$ 4,430	\$ 8,537	\$ 26,480	\$ 34,228
Annuity product charges	60,394	56,388	224,488	200,494
Net investment income	554,355	512,709	2,147,812	1,991,997
Change in fair value of derivatives	(1,054,281)	661,993	(777,848)	1,677,871
Net realized gains (losses) on investments, excluding other than temporary impairment ("OTTI") losses	3,097	2,719	(37,178)	10,509
OTTI losses on investments:				
Total OTTI losses	(18,980)	(2,485)	(35,005)	(2,758)
Portion of OTTI losses recognized in (from) other comprehensive income	—	(591)	(1,651)	(1,872)
Net OTTI losses recognized in operations	(18,980)	(3,076)	(36,656)	(4,630)
Loss on extinguishment of debt	—	—	—	(18,817)
Total revenues	(450,985)	1,239,270	1,547,098	3,891,652
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	7,439	10,535	39,530	43,219
Interest sensitive and index product benefits	255,700	630,905	1,610,835	2,023,668
Amortization of deferred sales inducements	(11,578)	65,885	222,201	176,612
Change in fair value of embedded derivatives	(804,026)	290,890	(1,389,491)	919,735
Interest expense on notes and loan payable	6,376	6,371	25,498	30,368
Interest expense on subordinated debentures	4,041	3,864	15,491	14,124
Amortization of deferred policy acquisition costs	(8,750)	93,716	327,991	255,964
Other operating costs and expenses	33,597	29,366	129,301	111,691
Total benefits and expenses	(517,201)	1,131,532	981,356	3,575,381
Income before income taxes	66,216	107,738	565,742	316,271
Income tax expense	12,393	70,935	107,726	141,626
Net income	\$ 53,823	\$ 36,803	\$ 458,016	\$ 174,645
Earnings per common share				
Earnings per common share	\$ 0.59	\$ 0.41	\$ 5.07	\$ 1.96
Earnings per common share - assuming dilution	\$ 0.59	\$ 0.41	\$ 5.01	\$ 1.93
Weighted average common shares outstanding (in thousands):				
Earnings per common share	90,555	89,308	90,348	88,982
Earnings per common share - assuming dilution	91,622	90,727	91,423	90,311

NON-GAAP FINANCIAL MEASURES

In addition to net income, the Company has consistently utilized non-GAAP operating income and non-GAAP operating income per common share - assuming dilution, non-GAAP financial measures commonly used in the life insurance industry, as economic measures to evaluate its financial performance. Non-GAAP operating income equals net income adjusted to eliminate the impact of items that fluctuate from quarter to quarter in a manner unrelated to core operations, and the Company believes measures excluding their impact are useful in analyzing operating trends. The most significant adjustments to arrive at non-GAAP operating income eliminate the impact of fair value accounting for the Company's fixed index annuity business. These adjustments are not economic in nature but rather impact the timing of reported results. The Company believes the combined presentation and evaluation of non-GAAP operating income together with net income provides information that may enhance an investor's understanding of its underlying results and profitability.

Reconciliation from Net Income to Non-GAAP Operating Income

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Net income (b)	\$ 53,823	\$ 36,803	\$ 458,016	\$ 174,645
Adjustments to arrive at non-GAAP operating income: (a)				
Net realized investment (gains) losses, including OTTI	9,525	(676)	45,450	(5,093)
Change in fair value of derivatives and embedded derivatives - fixed index annuities	36,186	5,463	(72,181)	121,846
Change in fair value of derivatives - debt	1,276	(1,085)	(1,892)	(1,224)
Income taxes (b)	(10,475)	34,003	(3,653)	(5,124)
Non-GAAP operating income	<u>\$ 90,335</u>	<u>\$ 74,508</u>	<u>\$ 425,740</u>	<u>\$ 285,050</u>
Per common share - assuming dilution:				
Net income	\$ 0.59	\$ 0.41	\$ 5.01	\$ 1.93
Adjustments to arrive at non-GAAP operating income:				
Net realized investment (gains) losses, including OTTI	0.10	(0.01)	0.50	(0.05)
Change in fair value of derivatives and embedded derivatives - fixed index annuities	0.40	0.06	(0.79)	1.35
Change in fair value of derivatives - debt	0.01	(0.01)	(0.02)	(0.01)
Income taxes	(0.11)	0.37	(0.04)	(0.06)
Non-GAAP operating income	<u>\$ 0.99</u>	<u>\$ 0.82</u>	<u>\$ 4.66</u>	<u>\$ 3.16</u>

(a) Adjustments to net income 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 the three months and year ended December 31, 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 and earnings per common share-assuming dilution by \$35.9 million and \$0.40 per share, respectively. The impact of Tax Reform has been excluded from non-GAAP operating income.

NON-GAAP FINANCIAL MEASURES

Average Stockholders' Equity and Return on Average Equity

Return on average equity measures how efficiently the Company generates profits from the resources provided by its net assets. Return on average equity is calculated by dividing net income and non-GAAP operating income for the trailing twelve months by average equity excluding average accumulated other comprehensive income (loss) ("AOCI"). The Company excludes AOCI because AOCI fluctuates from quarter to quarter due to unrealized changes in the fair value of available for sale investments.

	Twelve Months Ended	
	December 31, 2018	
Average Stockholders' Equity		
Average equity including average AOCI	\$	2,624,629
Average AOCI		(336,084)
Average equity excluding average AOCI	\$	2,288,545
Net income	\$	458,016
Non-GAAP operating income		425,740
Return on Average Equity Excluding Average AOCI		
Net income		20.01%
Non-GAAP operating income		18.60%

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
Financial Supplement

December 31, 2018

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
Financial Supplement - December 31, 2018
Unaudited (Dollars in thousands)

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value	\$ 45,923,727	\$ 45,372,989
Held for investment, at amortized cost	—	77,041
Mortgage loans on real estate	2,943,091	2,665,531
Derivative instruments	205,149	1,568,380
Other investments	355,531	616,764
Total investments	49,427,498	50,300,705
Cash and cash equivalents	344,396	1,434,045
Coinsurance deposits	4,954,068	4,858,289
Accrued investment income	468,729	429,008
Deferred policy acquisition costs	3,535,838	2,714,523
Deferred sales inducements	2,516,721	2,001,892
Deferred income taxes	291,169	38,147
Income taxes recoverable	26,537	—
Other assets	60,608	254,127
Total assets	<u>\$ 61,625,564</u>	<u>\$ 62,030,736</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves	\$ 57,606,009	\$ 56,142,673
Other policy funds and contract claims	270,858	282,884
Notes payable	494,591	494,093
Subordinated debentures	242,982	242,565
Amounts due under repurchase agreements	109,298	—
Income taxes payable	—	34,285
Other liabilities	502,725	1,984,079
Total liabilities	59,226,463	59,180,579
Stockholders' equity:		
Common stock	90,369	89,331
Additional paid-in capital	811,186	791,446
Accumulated other comprehensive income (loss)	(52,432)	724,599
Retained earnings	1,549,978	1,244,781
Total stockholders' equity	2,399,101	2,850,157
Total liabilities and stockholders' equity	<u>\$ 61,625,564</u>	<u>\$ 62,030,736</u>

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
Financial Supplement - December 31, 2018
Unaudited (Dollars in thousands, except per share data)
**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Revenues:				
Premiums and other considerations	\$ 4,430	\$ 8,537	\$ 26,480	\$ 34,228
Annuity product charges	60,394	56,388	224,488	200,494
Net investment income	554,355	512,709	2,147,812	1,991,997
Change in fair value of derivatives	(1,054,281)	661,993	(777,848)	1,677,871
Net realized gains (losses) on investments, excluding other than temporary impairment ("OTTI") losses	3,097	2,719	(37,178)	10,509
OTTI losses on investments:				
Total OTTI losses	(18,980)	(2,485)	(35,005)	(2,758)
Portion of OTTI losses recognized in (from) other comprehensive income	—	(591)	(1,651)	(1,872)
Net OTTI losses recognized in operations	(18,980)	(3,076)	(36,656)	(4,630)
Loss on extinguishment of debt	—	—	—	(18,817)
Total revenues	(450,985)	1,239,270	1,547,098	3,891,652
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	7,439	10,535	39,530	43,219
Interest sensitive and index product benefits	255,700	630,905	1,610,835	2,023,668
Amortization of deferred sales inducements	(11,578)	65,885	222,201	176,612
Change in fair value of embedded derivatives	(804,026)	290,890	(1,389,491)	919,735
Interest expense on notes and loan payable	6,376	6,371	25,498	30,368
Interest expense on subordinated debentures	4,041	3,864	15,491	14,124
Amortization of deferred policy acquisition costs	(8,750)	93,716	327,991	255,964
Other operating costs and expenses	33,597	29,366	129,301	111,691
Total benefits and expenses	(517,201)	1,131,532	981,356	3,575,381
Income before income taxes	66,216	107,738	565,742	316,271
Income tax expense	12,393	70,935	107,726	141,626
Net income	\$ 53,823	\$ 36,803	\$ 458,016	\$ 174,645
Earnings per common share				
Earnings per common share	\$ 0.59	\$ 0.41	\$ 5.07	\$ 1.96
Earnings per common share - assuming dilution	\$ 0.59	\$ 0.41	\$ 5.01	\$ 1.93
Weighted average common shares outstanding (in thousands):				
Earnings per common share	90,555	89,308	90,348	88,982
Earnings per common share - assuming dilution	91,622	90,727	91,423	90,311

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
Financial Supplement - December 31, 2018
Unaudited (Dollars in thousands, except per share data)

Quarterly Summary - Most Recent 5 Quarters

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Revenues:					
Traditional life insurance premiums	\$ 845	\$ 807	\$ 910	\$ 972	\$ 2,989
Life contingent immediate annuity considerations	3,585	6,433	4,847	8,081	5,548
Surrender charges	15,710	17,132	16,520	16,282	13,573
Lifetime income benefit rider fees	44,684	41,233	38,486	34,441	42,815
Net investment income	554,355	549,391	533,282	510,784	512,709
Change in fair value of derivatives	(1,054,281)	595,311	132,205	(451,083)	661,993
Net realized gains (losses) on investments, excluding OTTI	3,097	(2,196)	(38,381)	302	2,719
Net OTTI losses recognized in operations	(18,980)	(14,373)	(2,396)	(907)	(3,076)
Total revenues	(450,985)	1,193,738	685,473	118,872	1,239,270
Benefits and expenses:					
Traditional life insurance policy benefits and change in future policy benefits	731	838	981	821	1,528
Life contingent immediate annuity benefits and change in future policy benefits	6,708	9,883	8,295	11,273	9,007
Interest sensitive and index product benefits (a)	255,700	413,089	427,951	514,095	630,905
Amortization of deferred sales inducements (b)	(11,578)	55,244	78,112	100,423	65,885
Change in fair value of embedded derivatives	(804,026)	383,716	(101,949)	(867,232)	290,890
Interest expense on notes and loan payable	6,376	6,376	6,374	6,372	6,371
Interest expense on subordinated debentures	4,041	3,942	3,878	3,630	3,864
Amortization of deferred policy acquisition costs (b)	(8,750)	81,053	115,049	140,639	93,716
Other operating costs and expenses	33,597	31,924	32,540	31,240	29,366
Total benefits and expenses	(517,201)	986,065	571,231	(58,739)	1,131,532
Income before income taxes	66,216	207,673	114,242	177,611	107,738
Income tax expense (c)(d)	12,393	38,345	20,339	36,649	70,935
Net income (a)(b)(c)(d)	\$ 53,823	\$ 169,328	\$ 93,903	\$ 140,962	\$ 36,803
Earnings per common share					
Earnings per common share	\$ 0.59	\$ 1.87	\$ 1.04	\$ 1.57	\$ 0.41
Earnings per common share - assuming dilution (a)(b)(c)(d)	\$ 0.59	\$ 1.85	\$ 1.03	\$ 1.55	\$ 0.41
Weighted average common shares outstanding (thousands):					
Earnings per common share	90,555	90,486	90,327	90,017	89,308
Earnings per common share - assuming dilution	91,622	91,651	91,271	91,139	90,727

- (a) Q3 2018 includes a benefit from the revision of assumptions used in determining reserves held for lifetime income benefit riders. The impact decreased interest sensitive and index product benefits by \$53.6 million and increased net income and earnings per common share - assuming dilution by \$42.0 million and \$0.46 per share, respectively.
- (b) Q3 2018 includes a benefit from unlocking which reduced amortization of deferred sales inducements and deferred policy acquisition costs by \$21.5 million and \$30.6 million, respectively, and increased net income and earnings per common share - assuming dilution by \$40.8 million and \$0.45 per share, respectively.
- (c) Q3 2018 includes an income tax benefit from a worthless stock deduction related to a wholly-owned subsidiary which increased net income and earnings per common share - assuming dilution by \$7.4 million and \$0.08 per share, respectively.
- (d) Q4 2017 includes income tax expense related to the revaluation of our deferred tax assets and liabilities using the newly enacted federal tax rate resulting from the Tax Cuts and Jobs Act of 2017. The change in the federal income tax rate decreased net income and earnings per common share - assuming dilution by \$35.9 million and \$0.40 per share, respectively.

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In addition to net income, we have consistently utilized non-GAAP operating income and non-GAAP operating income per common share - assuming dilution, non-GAAP financial measures commonly used in the life insurance industry, as economic measures to evaluate our financial performance. Non-GAAP operating income equals net income adjusted to eliminate the impact of items that fluctuate from quarter to quarter in a manner unrelated to core operations, and we believe measures excluding their impact are useful in analyzing operating trends. The most significant adjustments to arrive at non-GAAP operating income eliminate the impact of fair value accounting for our fixed index annuity business. These adjustments are not economic in nature but rather impact the timing of reported results. We believe the combined presentation and evaluation of non-GAAP operating income together with net income provides information that may enhance an investor's understanding of our underlying results and profitability.

Reconciliation from Net Income to Non-GAAP Operating Income

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Net income (b)	\$ 53,823	\$ 36,803	\$ 458,016	\$ 174,645
Adjustments to arrive at non-GAAP operating income: (a)				
Net realized investment (gains) losses, including OTTI	9,525	(676)	45,450	(5,093)
Change in fair value of derivatives and embedded derivatives - fixed index annuities	36,186	5,463	(72,181)	121,846
Change in fair value of derivatives - debt	1,276	(1,085)	(1,892)	(1,224)
Income taxes (b)	(10,475)	34,003	(3,653)	(5,124)
Non-GAAP operating income	<u>\$ 90,335</u>	<u>\$ 74,508</u>	<u>\$ 425,740</u>	<u>\$ 285,050</u>
Per common share - assuming dilution:				
Net income	\$ 0.59	\$ 0.41	\$ 5.01	\$ 1.93
Adjustments to arrive at non-GAAP operating income:				
Net realized investment (gains) losses, including OTTI	0.10	(0.01)	0.50	(0.05)
Change in fair value of derivatives and embedded derivatives - fixed index annuities	0.40	0.06	(0.79)	1.35
Change in fair value of derivatives - debt	0.01	(0.01)	(0.02)	(0.01)
Income taxes	(0.11)	0.37	(0.04)	(0.06)
Non-GAAP operating income	<u>\$ 0.99</u>	<u>\$ 0.82</u>	<u>\$ 4.66</u>	<u>\$ 3.16</u>

(a) Adjustments to net income 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 the three months and year ended December 31, 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 and earnings per common share - assuming dilution by \$35.9 million and \$0.40 per share, respectively. The impact of Tax Reform has been excluded from non-GAAP operating income.

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Summary of Adjustments to Arrive at Non-GAAP Operating Income

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Net realized investment gains and losses, including OTTI:				
Net realized (gains) losses on investments, including OTTI	\$ 15,883	\$ 357	\$ 73,834	\$ (5,879)
Amortization of DAC and DSI	(6,358)	(1,033)	(28,384)	786
Income taxes	(2,374)	241	(12,282)	1,813
	<u>\$ 7,151</u>	<u>\$ (435)</u>	<u>\$ 33,168</u>	<u>\$ (3,280)</u>
Change in fair value of derivatives and embedded derivatives:				
Index annuities	\$ 212,253	\$ 8,174	\$ (42,394)	\$ 270,809
Interest rate caps and swap	1,276	(1,085)	(1,892)	(1,224)
Amortization of DAC and DSI	(176,067)	(2,711)	(29,787)	(148,963)
Income taxes	(8,101)	(2,170)	16,077	(42,869)
	<u>\$ 29,361</u>	<u>\$ 2,208</u>	<u>\$ (57,996)</u>	<u>\$ 77,753</u>
Worthless stock deduction:				
Income taxes	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (7,448)</u>	<u>\$ —</u>
Income taxes:				
Impact of Tax Reform	<u>\$ —</u>	<u>\$ 35,932</u>	<u>\$ —</u>	<u>\$ 35,932</u>

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Quarterly Summary - Most Recent 5 Quarters
Reconciliation from Net Income to Non-GAAP Operating Income

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Net income (a)	\$ 53,823	\$ 169,328	\$ 93,903	\$ 140,962	\$ 36,803
Adjustments to arrive at non-GAAP operating income: (b)					
Net realized investment (gains) losses, including OTTI	9,525	10,278	25,624	23	(676)
Change in fair value of derivatives and embedded derivatives - fixed index annuities	36,186	545	(30,094)	(78,818)	5,463
Change in fair value of derivatives - debt	1,276	(597)	(739)	(1,832)	(1,085)
Income taxes (a)	(10,475)	(8,491)	(2,046)	17,359	34,003
Non-GAAP operating income (c)(d)	<u>\$ 90,335</u>	<u>\$ 171,063</u>	<u>\$ 86,648</u>	<u>\$ 77,694</u>	<u>\$ 74,508</u>

Per common share - assuming dilution:

Net income (a)	\$ 0.59	\$ 1.85	\$ 1.03	\$ 1.55	\$ 0.41
Adjustments to arrive at non-GAAP operating income: (b)					
Net realized investment (gains) losses, including OTTI	0.10	0.11	0.28	—	(0.01)
Change in fair value of derivatives and embedded derivatives - fixed index annuities	0.40	0.01	(0.33)	(0.87)	0.06
Change in fair value of derivatives - debt	0.01	(0.01)	(0.01)	(0.02)	(0.01)
Income taxes (a)	(0.11)	(0.09)	(0.02)	0.19	0.37
Non-GAAP operating income (c)(d)	<u>\$ 0.99</u>	<u>\$ 1.87</u>	<u>\$ 0.95</u>	<u>\$ 0.85</u>	<u>\$ 0.82</u>

- (a) Q4 2017 includes income tax expense related to the revaluation of our deferred tax assets and liabilities using the newly 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 and earnings per common share - assuming dilution by \$35.9 million and \$0.40 per share, respectively. The impact of Tax Reform has been excluded from non-GAAP operating income.
- (b) Adjustments to net income to arrive at non-GAAP operating income are presented net of related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs where applicable.
- (c) Q3 2018 includes a benefit from the revision of assumptions used in determining reserves held for lifetime income benefit riders. The impact decreased interest sensitive and index product benefits by \$53.6 million and increased non-GAAP operating income and non-GAAP operating income per common share - assuming dilution by \$42.0 million and \$0.46 per share, respectively.
- (d) Q3 2018 includes a benefit from unlocking which reduced amortization of deferred sales inducements and deferred policy acquisition costs by \$20.5 million and \$28.7 million, respectively, and increased non-GAAP operating income and non-GAAP operating income per common share- assuming dilution by \$38.5 million and \$0.42 per share, respectively.

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Summary of Adjustments to Arrive at Non-GAAP Operating Income

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Net realized (gains) losses on investments	\$ (3,097)	\$ 2,196	\$ 38,381	\$ (302)	\$ (2,719)
Net OTTI losses recognized in operations	18,980	14,373	2,396	907	3,076
Change in fair value of derivatives	1,017,555	(408,680)	28,741	707,589	(283,801)
Increase (decrease) in total revenues	1,033,438	(392,111)	69,518	708,194	(283,444)
Amortization of deferred sales inducements	77,745	(7,219)	(9,888)	(33,212)	1,499
Change in fair value of embedded derivatives	804,026	(383,716)	101,949	867,232	(290,890)
Amortization of deferred policy acquisition costs	104,680	(11,402)	(17,334)	(45,199)	2,245
Increase (decrease) in total benefits and expenses	986,451	(402,337)	74,727	788,821	(287,146)
Increase (decrease) in income before income taxes	46,987	10,226	(5,209)	(80,627)	3,702
Increase (decrease) in income tax expense	10,475	8,491	2,046	(17,359)	(34,003)
Increase (decrease) in net income	<u>\$ 36,512</u>	<u>\$ 1,735</u>	<u>\$ (7,255)</u>	<u>\$ (63,268)</u>	<u>\$ 37,705</u>

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Capitalization/Book Value per Share

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Capitalization:					
Notes and loan payable	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Subordinated debentures payable to subsidiary trusts	247,161	247,096	247,032	246,969	246,908
Total debt	747,161	747,096	747,032	746,969	746,908
Total stockholders' equity	2,399,101	2,489,296	2,426,825	2,546,990	2,850,157
Total capitalization	3,146,262	3,236,392	3,173,857	3,293,959	3,597,065
Accumulated other comprehensive (income) loss (AOCI)	52,432	(70,288)	(180,406)	(399,982)	(724,599)
Total capitalization excluding AOCI (a)	<u>\$ 3,198,694</u>	<u>\$ 3,166,104</u>	<u>\$ 2,993,451</u>	<u>\$ 2,893,977</u>	<u>\$ 2,872,466</u>
Total stockholders' equity	\$ 2,399,101	\$ 2,489,296	\$ 2,426,825	\$ 2,546,990	\$ 2,850,157
Accumulated other comprehensive (income) loss	52,432	(70,288)	(180,406)	(399,982)	(724,599)
Total stockholders' equity excluding AOCI (a)	<u>\$ 2,451,533</u>	<u>\$ 2,419,008</u>	<u>\$ 2,246,419</u>	<u>\$ 2,147,008</u>	<u>\$ 2,125,558</u>
Common shares outstanding	90,369,229	90,277,626	90,233,346	89,983,823	89,331,087
Book Value per Share: (b)					
Book value per share including AOCI	\$ 26.55	\$ 27.57	\$ 26.89	\$ 28.30	\$ 31.91
Book value per share excluding AOCI (a)	\$ 27.13	\$ 26.80	\$ 24.90	\$ 23.86	\$ 23.79
Debt-to-Capital Ratios: (c)					
Senior debt / Total capitalization	15.6%	15.8%	16.7%	17.3%	17.4%
Adjusted debt / Total capitalization	15.6%	15.8%	16.7%	17.3%	17.4%

- (a) Total capitalization, total stockholders' equity and book value per share excluding AOCI, non-GAAP financial measures, are 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.
- (b) Book value per share including and excluding AOCI is calculated as total stockholders' equity and total stockholders' equity excluding AOCI divided by the total number of shares of common stock outstanding.
- (c) Debt-to-capital ratios are computed using total capitalization excluding AOCI. Adjusted debt includes notes and loan payable and the portion of the total subordinated debentures payable to subsidiary trusts outstanding (qualifying trust preferred securities) that exceeds 15% of total capitalization excluding AOCI.

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Spread Results

Year Ended December 31,							
2018	2017		Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
4.47%	4.46%	Average yield on invested assets	4.51%	4.54%	4.47%	4.36%	4.47%
1.87%	1.74%	Aggregate cost of money	1.95%	1.87%	1.83%	1.82%	1.72%
2.60%	2.72%	Aggregate investment spread	2.56%	2.67%	2.64%	2.54%	2.75%
Impact of:							
0.08%	0.08%	Investment yield - additional prepayment income	0.09%	0.11%	0.07%	0.03%	0.11%
0.05%	0.06%	Cost of money effect of over hedging	0.03%	0.07%	0.06%	0.02%	0.08%
\$48,104,780	\$44,798,227	Weighted average investments	\$49,258,548	\$48,466,817	\$47,795,388	\$46,898,365	\$46,031,966

Weighted average investments include fixed maturity securities at amortized cost and equity securities at cost. The numerator for average yield on invested assets includes net investment income and the tax effect of investment income that is exempt from income taxes.

Summary of Cost of Money for Deferred Annuities

Year Ended December 31,							
2018	2017		Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Included in interest sensitive and index product benefits:							
\$ 1,285,555	\$ 1,594,722	Index credits	\$ 157,999	\$ 369,011	\$ 334,605	\$ 423,940	\$ 526,200
214,166	249,898	Interest credited	53,559	52,618	52,922	55,067	59,065
Included in change in fair value of derivatives:							
(1,307,755)	(1,623,346)	Proceeds received at option expiration	(162,433)	(378,149)	(341,616)	(425,557)	(535,328)
739,558	593,990	Pro rata amortization of option cost	198,999	191,362	180,465	168,732	156,782
<u>\$ 931,524</u>	<u>\$ 815,264</u>	Cost of money for deferred annuities	<u>\$ 248,124</u>	<u>\$ 234,842</u>	<u>\$ 226,376</u>	<u>\$ 222,182</u>	<u>\$ 206,719</u>
\$ 49,855,778	\$ 46,846,995	Weighted average liability balance outstanding	\$ 50,832,984	\$ 50,273,893	\$ 49,541,746	\$ 48,774,490	\$ 48,014,427

Annuity Account Balance Rollforward

Year Ended December 31,							
2018	2017		Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
\$ 48,400,755	\$ 45,204,015	Account balances at beginning of period	\$ 50,612,519	\$ 49,935,266	\$ 49,148,224	\$ 48,400,755	\$ 47,628,099
3,967,928	3,764,984	Net deposits	1,040,857	929,480	1,066,857	930,734	874,952
179,465	216,172	Premium bonuses	44,450	41,878	49,467	43,670	41,098
1,499,721	1,844,620	Fixed interest credited and index credits	211,558	421,629	387,527	479,007	585,265
(65,644)	(54,624)	Surrender charges	(15,710)	(17,132)	(16,520)	(16,282)	(13,573)
(158,844)	(145,870)	Lifetime income benefit rider fees	(44,684)	(41,233)	(38,486)	(34,441)	(42,815)
(2,769,931)	(2,428,542)	Surrenders, withdrawals, deaths, etc.	(795,540)	(657,369)	(661,803)	(655,219)	(672,271)
<u>\$ 51,053,450</u>	<u>\$ 48,400,755</u>	Account balances at end of period	<u>\$ 51,053,450</u>	<u>\$ 50,612,519</u>	<u>\$ 49,935,266</u>	<u>\$ 49,148,224</u>	<u>\$ 48,400,755</u>

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Annuity Deposits by Product Type

Year Ended December 31,								
2018	2017		Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	
American Equity:								
\$ 3,560,881	\$ 3,390,144	Fixed index annuities	\$ 944,097	\$ 830,759	\$ 952,675	\$ 833,350	\$ 757,160	
45,636	74,829	Annual reset fixed rate annuities	5,574	8,390	15,455	16,217	18,974	
3,581	23,424	Multi-year fixed rate annuities	332	360	888	2,001	3,773	
23,813	24,946	Single premium immediate annuities	2,893	4,977	5,313	10,630	7,909	
3,633,911	3,513,343		952,896	844,486	974,331	862,198	787,816	
Eagle Life:								
660,401	576,695	Fixed index annuities	162,847	163,871	173,119	160,564	187,888	
1,555	—	Annual reset fixed rate annuities	484	450	348	273	—	
109,096	87,172	Multi-year fixed rate annuities	12,802	34,851	53,419	8,024	32,953	
771,052	663,867		176,133	199,172	226,886	168,861	220,841	
Consolidated:								
4,221,282	3,966,839	Fixed index annuities	1,106,944	994,630	1,125,794	993,914	945,048	
47,191	74,829	Annual reset fixed rate annuities	6,058	8,840	15,803	16,490	18,974	
112,677	110,596	Multi-year fixed rate annuities	13,134	35,211	54,307	10,025	36,726	
23,813	24,946	Single premium immediate annuities	2,893	4,977	5,313	10,630	7,909	
4,404,963	4,177,210	Total before coinsurance ceded	1,129,029	1,043,658	1,201,217	1,031,059	1,008,657	
413,222	387,280	Coinsurance ceded	85,279	109,201	129,047	89,695	125,796	
\$ 3,991,741	\$ 3,789,930	Net after coinsurance ceded	\$ 1,043,750	\$ 934,457	\$ 1,072,170	\$ 941,364	\$ 882,861	

Surrender Charge Protection and Account Values by Product Type

Annuity Surrender Charges and Net (of Coinsurance) Account Values at December 31, 2018:

Product Type	Surrender Charge			Net Account Value	
	Avg. Years At Issue	Avg. Years Remaining	Avg. % Remaining	Dollars in Thousands	%
Fixed Index Annuities	13.4	7.7	12.3%	\$ 48,935,622	95.9%
Annual Reset Fixed Rate Annuities	9.7	3.8	6.7%	1,503,651	2.9%
Multi-Year Fixed Rate Annuities	5.1	1.2	3.1%	614,177	1.2%
Total	13.2	7.5	12.1%	\$ 51,053,450	100.0%

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<u>Surrender Charge Percentages:</u>	Fixed Annuities Account Value	Fixed Index Annuities Account Value
No surrender charge	\$ 869,810	\$ 2,500,773
0.0% < 2.0%	6,424	185,885
2.0% < 3.0%	10,103	270,332
3.0% < 4.0%	18,386	172,239
4.0% < 5.0%	24,665	630,122
5.0% < 6.0%	51,837	1,114,055
6.0% < 7.0%	134,806	1,336,324
7.0% < 8.0%	301,560	2,915,279
8.0% < 9.0%	59,542	3,413,768
9.0% < 10.0%	38,045	3,117,947
10.0% or greater	602,650	33,278,898
	<u>\$ 2,117,828</u>	<u>\$ 48,935,622</u>

<u>Surrender Charge Expiration By Year:</u>	Fixed and Fixed Index Annuities Account Value	Weighted Average Surrender Charge
Out of Surrender Charge	\$ 3,370,583	0.00%
2019	471,112	2.45%
2020	808,067	4.13%
2021	1,303,075	5.90%
2022	1,882,010	7.16%
2023	4,658,720	8.54%
2024	5,264,984	10.30%
2025	6,023,757	10.93%
2026	5,273,614	12.24%
2027	4,373,535	13.79%
2028	4,639,583	14.41%
2029	2,921,825	17.29%
2030	2,694,631	18.15%
2031	3,274,979	18.50%
2032	2,229,780	18.99%
2033	1,149,212	19.48%
2034	713,983	19.97%
	<u>\$ 51,053,450</u>	12.05%

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<u>Credited Rate vs. Ultimate Minimum Guaranteed Rate Differential:</u>	Fixed Annuities Account Value	Fixed Index Annuities Account Value
No differential	\$ 1,032,332	\$ 1,374,337
> 0.0% - 0.25%	55,243	206,556
> 0.25% - 0.5%	244,378	3,635
> 0.5% - 1.0%	58,380	16,315
> 1.0% - 1.5%	11,314	—
1.00% ultimate guarantee - 2.40% wtd avg interest rate (a)	476,819	617,551
1.50% ultimate guarantee - 1.24% wtd avg interest rate (a)	153,245	3,596,494
2.00% ultimate guarantee - 1.86% wtd avg interest rate (a)	86,117	—
2.25% ultimate guarantee - 1.93% wtd avg interest rate (a)	—	890,774
3.00% ultimate guarantee - 2.13% wtd avg interest rate (a)	—	1,690,684
Allocated to index strategies (see tables that follow)	—	40,539,276
	<u>\$ 2,117,828</u>	<u>\$ 48,935,622</u>

(a) The minimum guaranteed interest rate for the fixed rate or the fixed rate strategy is 1.00%. The ultimate guaranteed rate is applied on less than 100% of the premium.

If all crediting rates were reduced to minimum guaranteed rates (subject to limitations imposed by ultimate minimum guaranteed rates where applicable) the weighted average crediting rate as of December 31, 2018 for fixed annuities and funds allocated to the fixed rate strategy for fixed index annuities would decrease by 0.17%.

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Annuity Liability Characteristics

FIXED INDEX ANNUITIES ACCOUNT VALUE - INDEX STRATEGIES

Annual Monthly Average and Point-to-Point with Caps

	Minimum Guaranteed Cap				
	1%	3%	4%	7%	8% +
Current Cap					
At minimum	\$ 2,049	\$ 90,706	\$ 3,014,980	\$ 76,496	\$ 181,913
1.75% - 3%	6,811,980	—	—	—	—
3% - 4%	719,521	13,216	—	—	—
4% - 5%	534,034	220,258	3,570,392	—	—
5% - 6%	501,319	179,711	39,311	—	—
6% - 7%	—	—	119	—	—
>= 7%	4,978	7,916	794	7,685	—

Annual Monthly Average and Point-to-Point with Participation Rates

	Minimum Guaranteed Participation Rate			
	10%	20% - 25%	35%	50% +
Current Participation Rate				
At minimum	\$ 732	\$ 393,066	\$ 118,325	\$ 132,868
< 20%	616,543	—	—	—
20% - 40%	916,470	174,882	—	—
40% - 60%	1,926,127	104,220	66,475	—
60% - 100%	123,617	—	—	—
> 100%	29,495	—	—	—

S&P 500 Monthly Point-to-Point - Minimum Guaranteed Monthly Cap = 1.0%

Current Cap	
At minimum	\$ 1,323,964
1.10% - 1.30%	6,937,420
1.40% - 1.60%	3,627,115
1.70% - 2.00%	1,852,066
>= 2.10%	952

Volatility Control Index

Current Asset Fee	
At Maximum	\$ —
0.75% - 1.75%	412,081
2.25% - 2.75%	899,122
3.00% - 3.50%	3,325,672
3.75% - 4.50%	794,631

If all caps and participation rates were reduced to minimum caps and participation rates and current asset fees were increased to their maximums, the cost of options would decrease by 0.75% based upon prices of options for the week ended January 15, 2019.

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Summary of Invested Assets

	December 31, 2018		December 31, 2017	
	Carrying Amount	Percent	Carrying Amount	Percent
Fixed maturity securities:				
United States Government full faith and credit	\$ 11,652	—%	\$ 11,876	—%
United States Government sponsored agencies	1,138,529	2.3%	1,305,017	2.6%
United States municipalities, states and territories	4,126,267	8.3%	4,166,812	8.3%
Foreign government obligations	230,274	0.5%	239,360	0.5%
Corporate securities	28,371,514	57.4%	29,956,012	59.6%
Residential mortgage backed securities	1,202,159	2.4%	1,105,567	2.2%
Commercial mortgage backed securities	5,379,003	10.9%	5,544,850	11.0%
Other asset backed securities	5,464,329	11.1%	3,120,536	6.2%
Total fixed maturity securities	45,923,727	92.9%	45,450,030	90.4%
Mortgage loans on real estate	2,943,091	6.0%	2,665,531	5.3%
Derivative instruments	205,149	0.4%	1,568,380	3.1%
Other investments	355,531	0.7%	616,764	1.2%
	<u>\$ 49,427,498</u>	<u>100.0%</u>	<u>\$ 50,300,705</u>	<u>100.0%</u>

Credit Quality of Fixed Maturity Securities - December 31, 2018

NAIC Designation	Carrying Amount	Percent	Rating Agency Rating	Carrying Amount	Percent
1	\$ 26,921,843	58.6%	Aaa/Aa/A	\$ 27,052,481	58.9%
2	17,528,072	38.2%	Baa	17,265,590	37.6%
3	1,269,242	2.8%	Ba	1,191,772	2.6%
4	137,991	0.3%	B	139,313	0.3%
5	19,453	—%	Caa	122,717	0.3%
6	47,126	0.1%	Ca and lower	151,854	0.3%
	<u>\$ 45,923,727</u>	<u>100.0%</u>		<u>\$ 45,923,727</u>	<u>100.0%</u>

Watch List Securities - December 31, 2018

General Description	Amortized Cost	Unrealized Gains (Losses)	Fair Value	Months Below Amortized Cost
Below investment grade				
Corporate securities:				
Consumer discretionary	\$ 52,470	\$ (10,457)	\$ 42,013	5 - 47
Energy	76,005	(18,321)	57,684	2 - 52
Industrials	562	—	562	—
Materials	3,990	1,417	5,407	—
Utilities	59,753	(6,008)	53,745	3 - 15
Other asset backed securities:				
Financials	1,693	326	2,019	—
	<u>\$ 194,473</u>	<u>\$ (33,043)</u>	<u>\$ 161,430</u>	

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Fixed Maturity Securities by Sector

	December 31, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
United States Government full faith and credit and sponsored agencies	\$ 1,220,340	\$ 1,150,181	\$ 1,320,151	\$ 1,316,893
United States municipalities, states and territories	3,880,703	4,126,267	3,804,360	4,166,812
Foreign government obligations	226,860	230,274	228,214	239,360
Corporate securities:				
Capital goods	2,491,620	2,485,845	2,405,102	2,570,734
Consumer discretionary	5,742,182	5,665,192	5,889,227	6,232,728
Energy	2,543,114	2,468,545	2,554,199	2,666,172
Financials	6,046,859	6,054,591	6,004,618	6,369,575
Industrials	302,078	298,620	283,915	291,174
Information technology	1,794,676	1,781,800	1,829,396	1,932,131
Materials	1,771,359	1,759,325	1,801,312	1,901,090
Other	999,140	1,011,396	989,641	1,052,676
Telecommunications	1,604,307	1,594,978	1,461,536	1,539,840
Transportation	1,438,723	1,428,378	1,152,637	1,218,964
Utilities	3,749,080	3,822,844	3,756,070	4,103,887
Residential mortgage backed securities:				
Government agency	604,998	636,632	628,320	668,641
Prime	420,350	434,991	269,407	282,360
Alt-A	109,275	130,536	130,757	154,566
Commercial mortgage backed securities:				
Government agency	442,287	438,063	554,514	564,400
Non-agency	5,049,984	4,940,940	4,977,408	4,980,450
Other asset backed securities:				
Auto	315,439	318,616	298,142	299,688
Financials	8,322	8,931	11,371	12,382
Industrials	217,358	216,724	243,859	251,321
Collateralized loan obligations	4,579,467	4,320,168	1,965,349	1,973,877
Military housing	438,350	464,071	433,840	461,452
Other	134,319	135,819	123,414	121,816
	<u>\$ 46,131,190</u>	<u>\$ 45,923,727</u>	<u>\$ 43,116,759</u>	<u>\$ 45,372,989</u>
Held for investment:				
Corporate security - financials	\$ —	\$ —	\$ 77,041	\$ 76,460

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Mortgage Loans on Commercial Real Estate

	December 31, 2018		December 31, 2017	
	Principal	Percent	Principal	Percent
Geographic distribution				
East	\$ 586,773	19.9%	\$ 548,067	20.5%
Middle Atlantic	168,969	5.7%	163,485	6.1%
Mountain	357,642	12.1%	308,486	11.5%
New England	9,418	0.3%	12,265	0.5%
Pacific	521,363	17.7%	466,030	17.4%
South Atlantic	694,599	23.5%	609,736	22.8%
West North Central	291,890	9.9%	324,808	12.2%
West South Central	321,810	10.9%	241,438	9.0%
	<u>\$ 2,952,464</u>	<u>100.0%</u>	<u>\$ 2,674,315</u>	<u>100.0%</u>

Property type distribution				
Office	\$ 268,932	9.1%	\$ 283,926	10.6%
Medical office	33,467	1.1%	34,338	1.3%
Retail	1,091,627	37.0%	1,040,028	38.9%
Industrial/Warehouse	762,887	25.8%	677,770	25.3%
Apartment	600,638	20.3%	462,897	17.3%
Agricultural	25,000	0.9%	—	—%
Mixed use/other	169,913	5.8%	175,356	6.6%
	<u>\$ 2,952,464</u>	<u>100.0%</u>	<u>\$ 2,674,315</u>	<u>100.0%</u>

	December 31, 2018	December 31, 2017
Credit exposure - by payment activity		
Performing	\$ 2,952,464	\$ 2,670,657
In workout	—	1,436
Delinquent	—	—
Collateral dependent	—	2,222
	<u>2,952,464</u>	<u>2,674,315</u>
Specific loan loss allowance	(229)	(1,418)
General loan loss allowance	(8,010)	(6,100)
Deferred prepayment fees	(1,134)	(1,266)
	<u>\$ 2,943,091</u>	<u>\$ 2,665,531</u>

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
Financial Supplement - December 31, 2018**Shareholder Information****Corporate Offices:**

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Inquiries:

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Common Stock and Dividend Information:

New York Stock Exchange symbol: "AEL"

	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Dividend Declared</u>
2018				
First Quarter	\$35.79	\$28.90	\$29.36	\$0.00
Second Quarter	\$37.16	\$27.06	\$36.00	\$0.00
Third Quarter	\$38.57	\$34.51	\$35.36	\$0.00
Fourth Quarter	\$36.39	\$25.27	\$27.94	\$0.28
2017				
First Quarter	\$28.00	\$21.66	\$23.63	\$0.00
Second Quarter	\$26.65	\$22.23	\$26.28	\$0.00
Third Quarter	\$29.43	\$25.43	\$29.08	\$0.00
Fourth Quarter	\$32.54	\$28.06	\$30.73	\$0.26
2016				
First Quarter	\$23.65	\$12.65	\$16.80	\$0.00
Second Quarter	\$16.96	\$12.77	\$14.25	\$0.00
Third Quarter	\$18.32	\$13.07	\$17.73	\$0.00
Fourth Quarter	\$23.41	\$15.39	\$22.54	\$0.24

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Fax: (781) 575-2723
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Annual Report and Other Information:

Shareholders may receive when available, without charge, a copy of American Equity's Annual Report, SEC filings and/or press releases by calling Steven Schwartz, Vice President-Investor Relations, at (515) 273-3763 or by visiting our website at www.american-equity.com.

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