

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number : 001-31911

**American Equity Investment Life Holding Company**

(Exact name of registrant as specified in its charter)

Iowa

(State or other jurisdiction of incorporation or organization)

42-1447959

(I.R.S. Employer Identification No.)

6000 Westown Parkway  
West Des Moines, Iowa 50266

(Address of principal executive offices, including zip code)

(515) 221-0002

(Registrant's telephone number, including area code)

Securities registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$1	AEL	New York Stock Exchange
Depository Shares, each representing a 1/1,000th interest in a share of 5.95% Fixed-Rate Reset Non-Cumulative Preferred Stock, Series A	AELPRA	New York Stock Exchange
Depository Shares, each representing a 1/1,000th interest in a share of 6.625% Fixed-Rate Reset Non-Cumulative Preferred Stock, Series B	AELPRB	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of May 6, 2021, there were 95,428,307 shares of the registrant's common stock, \$1 par value, outstanding.

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# PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

### AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share and per share data)

	March 31, 2021 (Unaudited)	December 31, 2020
<b>Assets</b>		
Investments:		
Fixed maturity securities, available for sale, at fair value (amortized cost of \$42,114,459 as of 2021 and \$42,304,736 as of 2020; allowance for credit losses of \$59,698 as of 2021 and \$64,771 as of 2020)	\$ 45,690,341	\$ 47,538,893
Mortgage loans on real estate (net of allowance for credit losses of \$28,514 as of 2021 and \$31,029 as of 2020)	4,290,602	4,165,489
Derivative instruments	1,509,892	1,310,954
Other investments	908,437	590,078
Total investments	52,399,272	53,605,414
Cash and cash equivalents	11,087,125	9,095,522
Coinsurance deposits (net of allowance for credit losses of \$2,032 as of 2021 and \$1,888 as of 2020)	4,646,406	4,844,927
Accrued investment income	410,112	398,082
Deferred policy acquisition costs	2,470,851	2,225,199
Deferred sales inducements	1,587,653	1,448,375
Income taxes recoverable	—	862
Other assets	76,247	70,198
Total assets	\$ 72,677,666	\$ 71,688,579
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Policy benefit reserves	\$ 63,519,546	\$ 62,352,882
Other policy funds and contract claims	234,468	240,904
Notes payable	495,811	495,668
Subordinated debentures	78,187	78,112
Deferred income taxes	376,895	504,000
Income taxes payable	19,599	—
Other liabilities	2,024,400	1,668,025
Total liabilities	66,748,906	65,339,591
Stockholders' equity:		
Preferred stock, Series A; par value \$1 per share; \$400,000 aggregate liquidation preference; 20,000 shares authorized; issued and outstanding: 2021 - 16,000 shares; 2020 - 16,000 shares	16	16
Preferred stock, Series B; par value \$1 per share; \$300,000 aggregate liquidation preference; 12,000 shares authorized; issued and outstanding: 2021 - 12,000 shares; 2020 - 12,000 shares	12	12
Common stock; par value \$1 per share; 200,000,000 shares authorized; issued and outstanding: 2021 - 95,482,733 shares (excluding 6,916,584 treasury shares); 2020 - 95,720,622 shares (excluding 6,516,525 treasury shares)	95,483	95,721
Additional paid-in capital	1,687,669	1,681,127
Accumulated other comprehensive income	1,505,260	2,203,557
Retained earnings	2,640,320	2,368,555
Total stockholders' equity	5,928,760	6,348,988
Total liabilities and stockholders' equity	\$ 72,677,666	\$ 71,688,579

See accompanying notes to unaudited consolidated financial statements.

**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Dollars in thousands, except per share data)  
(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Revenues:</b>		
Premiums and other considerations	\$ 13,213	\$ 7,664
Annuity product charges	60,082	59,549
Net investment income	497,190	573,318
Change in fair value of derivatives	396,305	(941,874)
Net realized losses on investments	(4,583)	(20,336)
Loss on extinguishment of debt	—	(2,024)
Total revenues	962,207	(323,703)
<b>Benefits and expenses:</b>		
Insurance policy benefits and change in future policy benefits	16,424	10,072
Interest sensitive and index product benefits	476,595	400,219
Amortization of deferred sales inducements	122,975	73,591
Change in fair value of embedded derivatives	(282,413)	(1,250,061)
Interest expense on notes payable	6,393	6,385
Interest expense on subordinated debentures	1,326	1,588
Amortization of deferred policy acquisition costs	203,823	120,702
Other operating costs and expenses	55,865	43,626
Total benefits and expenses	600,988	(593,878)
Income before income taxes	361,219	270,175
Income tax expense	78,535	27,228
Net income	282,684	242,947
Less: Preferred stock dividends	10,919	6,611
Net income available to common stockholders	\$ 271,765	\$ 236,336
Earnings per common share	\$ 2.84	\$ 2.58
Earnings per common share - assuming dilution	\$ 2.82	\$ 2.57
<b>Weighted average common shares outstanding (in thousands):</b>		
Earnings per common share	95,735	91,644
Earnings per common share - assuming dilution	96,216	92,021

*See accompanying notes to unaudited consolidated financial statements.*

## AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Dollars in thousands)  
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
Net income	\$ 282,684	\$ 242,947
Other comprehensive loss:		
Change in net unrealized investment gains/losses (1)	(880,509)	(1,472,630)
Reclassification of unrealized investment gains/losses to net income (1)	(3,411)	7,420
Other comprehensive loss before income tax	(883,920)	(1,465,210)
Income tax effect related to other comprehensive loss	185,623	307,695
Other comprehensive loss	(698,297)	(1,157,515)
Comprehensive loss	<u>\$ (415,613)</u>	<u>\$ (914,568)</u>

(1) Net of related adjustments to amortization of deferred sales inducements, deferred policy acquisition costs and policy benefit reserves

See accompanying notes to unaudited consolidated financial statements.

**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(Dollars in thousands)  
(Unaudited)

	<b>Preferred Stock</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Total Stockholders' Equity</b>
<b>For the three months ended March 31, 2021</b>						
Balance at December 31, 2020	\$ 28	\$ 95,721	\$ 1,681,127	\$ 2,203,557	\$ 2,368,555	\$ 6,348,988
Net income for period	—	—	—	—	282,684	282,684
Other comprehensive loss	—	—	—	(698,297)	—	(698,297)
Share-based compensation	—	—	4,296	—	—	4,296
Issuance of common stock	—	402	4,604	—	—	5,006
Treasury stock acquired, common	—	(640)	(2,358)	—	—	(2,998)
Dividends on preferred stock	—	—	—	—	(10,919)	(10,919)
Balance at March 31, 2021	<u>\$ 28</u>	<u>\$ 95,483</u>	<u>\$ 1,687,669</u>	<u>\$ 1,505,260</u>	<u>\$ 2,640,320</u>	<u>\$ 5,928,760</u>
	<b>Preferred Stock</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Total Stockholders' Equity</b>
<b>For the three months ended March 31, 2020</b>						
Balance at December 31, 2019	\$ 16	\$ 91,107	\$ 1,212,311	\$ 1,354,324	\$ 1,768,764	\$ 4,426,522
Net income for period	—	—	—	—	242,947	242,947
Other comprehensive loss	—	—	—	(1,157,515)	—	(1,157,515)
Share-based compensation	—	—	2,289	—	—	2,289
Issuance of common stock	—	391	864	—	—	1,255
Cumulative effect of change in accounting principle	—	—	—	—	(9,295)	(9,295)
Dividends on preferred stock	—	—	—	—	(6,611)	(6,611)
Balance at March 31, 2020	<u>\$ 16</u>	<u>\$ 91,498</u>	<u>\$ 1,215,464</u>	<u>\$ 196,809</u>	<u>\$ 1,995,805</u>	<u>\$ 3,499,592</u>

See accompanying notes to unaudited consolidated financial statements.

**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Dollars in thousands)  
(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>		
Net income	\$ 282,684	\$ 242,947
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Interest sensitive and index product benefits	476,595	400,219
Amortization of deferred sales inducements	122,975	73,591
Annuity product charges	(60,082)	(59,549)
Change in fair value of embedded derivatives	(282,413)	(1,250,061)
Change in traditional life and accident and health insurance reserves	5,374	(38)
Policy acquisition costs deferred	(97,004)	(64,444)
Amortization of deferred policy acquisition costs	203,823	120,702
Provision for depreciation and other amortization	1,518	1,082
Amortization of discounts and premiums on investments	8,097	9,802
Realized gains/losses on investments	4,583	20,336
Distributions from equity method investments	7,631	—
Change in fair value of derivatives	(396,305)	941,874
Deferred income taxes	58,514	71,427
Loss on extinguishment of debt	—	2,024
Share-based compensation	4,296	2,289
Change in accrued investment income	(12,030)	159
Change in income taxes recoverable/payable	20,461	(46,753)
Change in other assets	(1,166)	2,033
Change in other policy funds and contract claims	(7,571)	(9,488)
Change in collateral held for derivatives	236,558	(1,106,464)
Change in collateral held for securities lending	—	(489,047)
Change in other liabilities	(92,813)	(27,216)
Other	(11,844)	(125)
Net cash provided by (used in) operating activities	471,881	(1,164,700)
<b>Investing activities</b>		
Sales, maturities, or repayments of investments:		
Fixed maturity securities, available for sale	1,116,965	1,916,960
Mortgage loans on real estate	105,378	83,584
Derivative instruments	400,322	320,953
Other investments	4,189	2,980
Acquisitions of investments:		
Fixed maturity securities, available for sale	(757,301)	(956,095)
Mortgage loans on real estate	(228,049)	(315,091)
Derivative instruments	(165,390)	(181,640)
Other investments	(351,661)	(5,249)
Purchases of property, furniture and equipment	(3,724)	(10,110)
Net cash provided by investing activities	120,729	856,292



**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

**(Dollars in thousands)  
(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Financing activities</b>		
Receipts credited to annuity policyholder account balances	\$ 2,420,777	\$ 699,455
Coinurance deposits	218,987	114,531
Return of annuity policyholder account balances	(1,250,244)	(1,025,021)
Repayment of subordinated debentures	—	(81,450)
Net proceeds from amounts due under repurchase agreements	—	186,105
Acquisition of treasury stock	(2,998)	—
Proceeds from issuance of common stock, net	5,006	1,255
Change in checks in excess of cash balance	18,384	(40,149)
Preferred stock dividends	(10,919)	(6,611)
Net cash provided by (used in) financing activities	1,398,993	(151,885)
Increase (decrease) in cash and cash equivalents	1,991,603	(460,293)
Cash and cash equivalents at beginning of period	9,095,522	2,293,392
Cash and cash equivalents at end of period	<u>\$ 11,087,125</u>	<u>\$ 1,833,099</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during period for:		
Interest expense	\$ 1,250	\$ 2,523
Income taxes	—	11
Income tax refunds received	(440)	—
Non-cash operating activity:		
Deferral of sales inducements	24,850	24,552

*See accompanying notes to unaudited consolidated financial statements.*

**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2021****(Unaudited)****1. Significant Accounting Policies****Consolidation and Basis of Presentation**

The accompanying consolidated financial statements of American Equity Investment Life Holding Company ("we", "us", "our" or the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. All of the adjustments in the consolidated financial statements are normally recurring items which are necessary to present fairly our financial position and results of operations on a basis consistent with the prior audited consolidated financial statements. Operating results for the three month period ended March 31, 2021 are not necessarily indicative of the results that may be expected for any other period, including for the year ended December 31, 2021. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements requires management estimates and assumptions using subjective and complex judgments that frequently require assumptions about matters that are inherently uncertain. Our actual results could differ from these estimates.. For further information related to a description of areas of judgment and estimates and other information necessary to understand our financial position and results of operations, refer to the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2020.

**Adopted Accounting Pronouncements**

There were no accounting pronouncements that were adopted during the current period.

In June 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") that significantly changed the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model that requires these assets be presented at the net amount expected to be collected. In addition, credit losses on available for sale debt securities will be recorded through an allowance account subsequent to the adoption of this ASU. We adopted this ASU on January 1, 2020. The adoption of this ASU resulted in an increase in our mortgage loan allowance for credit losses of \$8.6 million and the recognition of an allowance for credit losses on our reinsurance recoverable/coinsurance deposits balances of \$3.2 million on the date of adoption. Retained earnings was decreased by \$9.3 million, which reflects the net of tax impact of the increase in the mortgage loan allowance for credit losses and the recognition of an allowance for credit losses on our reinsurance recoverable/coinsurance deposits balances on the date of adoption.

**New Accounting Pronouncements**

In August 2018, the FASB issued an ASU that revises certain aspects of the measurement models and disclosure requirements for long duration insurance and investment contracts. The FASB's objective in issuing this ASU is to improve, simplify, and enhance the accounting for long-duration contracts. The revisions include updating cash flow assumptions in the calculation of the liability for traditional life products, introducing the term 'market risk benefit' ("MRB") and requiring all contract features meeting the definition of an MRB to be measured at fair value, simplifying the method used to amortize deferred policy acquisition costs and deferred sales inducements to a constant basis over the expected term of the related contracts rather than based on actual and estimated gross profits and enhancing disclosure requirements. While this ASU is effective for us on January 1, 2023, the transition date (the remeasurement date) is January 1, 2021. Early adoption of this ASU is permitted. We are in the process of evaluating the impact this guidance will have on our consolidated financial statements.

## 2. Revision of Immaterial Misstatement in Prior Year Financial Statements

Management identified an error in the Company's historical financial statements as further described below. In accordance with the guidance set forth in SEC Staff Accounting Bulletin No. 99, Materiality, and SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, management concluded that the error was not material to the consolidated financial statements as presented in the Company's quarterly and annual financial statements that had been previously filed in the Company's Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. As a result, amendment of such reports is not required. The Company revised the previously issued annual consolidated financial statements for 2020 in this Form 10-Q to correct this error.

The corrected immaterial error was in the calculation of the impact of unrealized gains and losses on lifetime income benefit reserves as of December 31, 2020 determined in the first quarter of 2021. This immaterial error resulted in an increase in the lifetime income benefit reserves which are included in policy benefit reserves in the consolidated balance sheet, an increase in the deferred policy acquisition costs and deferred sales inducements and a decrease in deferred income taxes with an offsetting change in accumulated other comprehensive income which is a component of total stockholders' equity. The immaterial error had no impact on the consolidated statement of operations or consolidated statement of cash flows.

The effect of the revisions on the Company's previously issued financial statements are provided in the tables below. Amounts throughout the consolidated financial statements and notes thereto have been adjusted to incorporate the revised amounts, where applicable. The following tables reconcile selected lines from the Company's year-end December 31, 2020 consolidated balance sheet and the three months ended March 31, 2020 consolidated statement of comprehensive loss from the previously reported amounts to the revised amounts.

### Revised Consolidated Balance Sheet

	Year Ended December 31, 2020		
	As Reported	Adjustment	As Revised
	(Dollars in thousands)		
<b>Assets</b>			
Deferred policy acquisition costs	\$ 2,045,812	\$ 179,387	\$ 2,225,199
Deferred sales inducements	1,328,857	119,518	1,448,375
<b>Total assets</b>	71,389,674	298,905	71,688,579
<b>Liabilities and Stockholders' Equity</b>			
<b>Liabilities:</b>			
Policy benefit reserves	61,768,246	584,636	62,352,882
Deferred income taxes	564,003	(60,003)	504,000
<b>Total liabilities</b>	64,814,958	524,633	65,339,591
<b>Stockholders' equity:</b>			
Accumulated other comprehensive income	2,429,285	(225,728)	2,203,557
<b>Total stockholders' equity</b>	6,574,716	(225,728)	6,348,988
<b>Total liabilities and stockholders' equity</b>	71,389,674	298,905	71,688,579

### Revised Consolidated Statement of Comprehensive Loss

	Three Months Ended March 31, 2020		
	As Reported	Adjustment	As Revised
	(Dollars in thousands)		
<b>Other comprehensive loss:</b>			
Change in net unrealized investment gains/losses (1)	\$ (1,625,075)	\$ 152,445	\$ (1,472,630)
<b>Other comprehensive loss before income tax</b>	(1,617,655)	152,445	(1,465,210)
Income tax effect related to other comprehensive loss	339,708	(32,013)	307,695
<b>Other comprehensive loss</b>	(1,277,947)	120,432	(1,157,515)
<b>Comprehensive loss</b>	(1,035,000)	120,432	(914,568)

(1) Net of related adjustments to amortization of deferred sales inducements, deferred policy acquisition costs and policy benefit reserves

### 3. Fair Values of Financial Instruments

The following sets forth a comparison of the carrying amounts and fair values of our financial instruments:

	March 31, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in thousands)				
<b>Assets</b>				
Fixed maturity securities, available for sale	\$ 45,690,341	\$ 45,690,341	\$ 47,538,893	\$ 47,538,893
Mortgage loans on real estate	4,290,602	4,400,228	4,165,489	4,327,885
Derivative instruments	1,509,892	1,509,892	1,310,954	1,310,954
Other investments	908,437	908,437	590,078	590,078
Cash and cash equivalents	11,087,125	11,087,125	9,095,522	9,095,522
Coinsurance deposits	4,646,406	4,265,420	4,844,927	4,411,051
<b>Liabilities</b>				
Policy benefit reserves	62,755,460	54,495,993	61,406,599	52,928,174
Single premium immediate annuity (SPIA) benefit reserves	233,628	240,883	240,226	247,679
Notes payable	495,811	555,150	495,668	567,345
Subordinated debentures	78,187	81,039	78,112	87,951

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The objective of a fair value measurement is to determine that price for each financial instrument at each measurement date. We meet this objective using various methods of valuation that include market, income and cost approaches.

We categorize our financial instruments into three levels of fair value hierarchy based on the priority of inputs used in determining fair value. The hierarchy defines the highest priority inputs (Level 1) as quoted prices in active markets for identical assets or liabilities. The lowest priority inputs (Level 3) are our own assumptions about what a market participant would use in determining fair value such as estimated future cash flows. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. We categorize financial assets and liabilities recorded at fair value in the consolidated balance sheets as follows:

- Level 1 - Quoted prices are available in active markets for identical financial instruments as of the reporting date. We do not adjust the quoted price for these financial instruments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.
- Level 2 - Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active; and models and other valuation methodologies using inputs other than quoted prices that are observable.
- Level 3 - Models and other valuation methodologies using significant inputs that are unobservable for financial instruments and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in Level 3 are securities for which no market activity or data exists and for which we used discounted expected future cash flows with our own assumptions about what a market participant would use in determining fair value.

Transfers of securities among the levels occur at times and depend on the type of inputs used to determine fair value of each security. There were no transfers between levels during any period presented.

Our assets and liabilities which are measured at fair value on a recurring basis as of March 31, 2021 and December 31, 2020 are presented below based on the fair value hierarchy levels:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
<b>March 31, 2021</b>				
<b>Assets</b>				
Fixed maturity securities, available for sale:				
United States Government full faith and credit	\$ 38,727	\$ 33,228	\$ 5,499	\$ —
United States Government sponsored agencies	1,027,441	—	1,027,441	—
United States municipalities, states and territories	3,655,844	—	3,655,844	—
Foreign government obligations	193,944	—	193,944	—
Corporate securities	29,890,265	11	29,890,254	—
Residential mortgage backed securities	1,346,473	—	1,346,473	—
Commercial mortgage backed securities	4,177,242	—	4,177,242	—
Other asset backed securities	5,360,405	—	5,360,405	—
Other investments: equity securities	352,552	350,000	2,552	—
Derivative instruments	1,509,892	—	1,509,892	—
Cash and cash equivalents	11,087,125	11,087,125	—	—
	<u>\$ 58,639,910</u>	<u>\$ 11,470,364</u>	<u>\$ 47,169,546</u>	<u>\$ —</u>
<b>Liabilities</b>				
Fixed index annuities - embedded derivatives	<u>\$ 7,680,951</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,680,951</u>
<b>December 31, 2020</b>				
<b>Assets</b>				
Fixed maturity securities, available for sale:				
United States Government full faith and credit	\$ 39,771	\$ 33,940	\$ 5,831	\$ —
United States Government sponsored agencies	1,039,551	—	1,039,551	—
United States municipalities, states and territories	3,776,131	—	3,776,131	—
Foreign government obligations	202,706	—	202,706	—
Corporate securities	31,156,827	8	31,156,819	—
Residential mortgage backed securities	1,512,831	—	1,512,831	—
Commercial mortgage backed securities	4,261,227	—	4,261,227	—
Other asset backed securities	5,549,849	—	5,549,849	—
Derivative instruments	1,310,954	—	1,310,954	—
Cash and cash equivalents	9,095,522	9,095,522	—	—
	<u>\$ 57,945,369</u>	<u>\$ 9,129,470</u>	<u>\$ 48,815,899</u>	<u>\$ —</u>
<b>Liabilities</b>				
Fixed index annuities - embedded derivatives	<u>\$ 7,938,281</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,938,281</u>

The following methods and assumptions were used in estimating the fair values of financial instruments during the periods presented in these consolidated financial statements.

#### ***Fixed maturity securities***

The fair values of fixed maturity securities in an active and orderly market are determined by utilizing independent pricing services. The independent pricing services incorporate a variety of observable market data in their valuation techniques, including:

- reported trading prices,
- benchmark yields,
- broker-dealer quotes,
- benchmark securities,
- bids and offers,
- credit ratings,
- relative credit information, and
- other reference data.

The independent pricing services also take into account perceived market movements and sector news, as well as a security's terms and conditions, including any features specific to that issue that may influence risk and marketability. Depending on the security, the priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary.

The independent pricing services provide quoted market prices when available. Quoted prices are not always available due to market inactivity. When quoted market prices are not available, the third parties use yield data and other factors relating to instruments or securities with similar characteristics to determine fair value for securities that are not actively traded. We generally obtain one value from our primary external pricing service. In situations where a price is not available from this service, we may obtain quotes or prices from additional parties as needed. Market indices of similar rated asset class spreads are considered for valuations and broker indications of similar securities are compared. Inputs used by the broker include market information, such as yield data and other factors relating to instruments or securities with similar characteristics. Valuations and quotes obtained from third party commercial pricing services are non-binding and do not represent quotes on which one may execute the disposition of the assets.

We validate external valuations at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, comparison of the prices to a secondary pricing source, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list. Additionally, as needed we utilize discounted cash flow models or perform independent valuations on a case-by-case basis using inputs and assumptions similar to those used by the pricing services. Although we do identify differences from time to time as a result of these validation procedures, we did not make any significant adjustments as of March 31, 2021 and December 31, 2020.

#### ***Mortgage loans on real estate***

Mortgage loans on real estate are not measured at fair value on a recurring basis. The fair values of mortgage loans on real estate are calculated using discounted expected cash flows using competitive market interest rates currently being offered for similar loans. The fair values of impaired mortgage loans on real estate that we have considered to be collateral dependent are based on the fair value of the real estate collateral (based on appraised values) less estimated costs to sell. The inputs utilized to determine fair value of all mortgage loans are unobservable market data (competitive market interest rates); therefore, fair value of mortgage loans falls into Level 3 in the fair value hierarchy.

#### ***Derivative instruments***

The fair values of derivative instruments, primarily call options, are based upon the amount of cash that we will receive to settle each derivative instrument on the reporting date. These amounts are determined by our investment team using industry accepted valuation models and are adjusted for the nonperformance risk of each counterparty net of any collateral held. Inputs include market volatility and risk free interest rates and are used in income valuation techniques in arriving at a fair value for each option contract. The nonperformance risk for each counterparty is based upon its credit default swap rate. We have no performance obligations related to the call options purchased to fund our fixed index annuity policy liabilities.

#### ***Other investments***

Equity securities are the only financial instruments included in other investments that are measured at fair value on a recurring basis. The fair value for these securities are determined using the same methods discussed above for fixed maturity securities. Financial instruments included in other investments that are not measured at fair value on a recurring basis are policy loans, equity method investments and company owned life insurance ("COLI"). We have not attempted to determine the fair values associated with our policy loans, as we believe any differences between carrying values and the fair values afforded these instruments are immaterial to our consolidated financial position and, accordingly, the cost to provide such disclosure does not justify the benefit to be derived. The fair values of our equity method investments are obtained from third parties and are determined using a variety of valuation techniques, including discounted cash flow analysis, valuation multiples analysis for comparable investments and appraisal values. As the risk spread and liquidity discount are unobservable market inputs, the fair value of our equity method investments falls within Level 3 of the fair value hierarchy. The fair value of equity method investments was \$180.1 million and \$179.7 million as of March 31, 2021 and December 31, 2020, respectively. The fair value of our COLI approximates the cash surrender value of the policies and falls within Level 2 of the fair value hierarchy. The fair value of COLI was \$374.9 million and \$373.6 million as of March 31, 2021 and December 31, 2020, respectively.

#### ***Cash and cash equivalents***

Amounts reported in the consolidated balance sheets for these instruments are reported at their historical cost which approximates fair value due to the nature of the assets assigned to this category.

### ***Policy benefit reserves, coinsurance deposits and SPIA benefit reserves***

The fair values of the liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities), are stated at the cost we would incur to extinguish the liability (i.e., the cash surrender value) as these contracts are generally issued without an annuitization date. The coinsurance deposits related to the annuity benefit reserves have fair values determined in a similar fashion. For period-certain annuity benefit contracts, the fair value is determined by discounting the benefits at the interest rates currently in effect for newly issued immediate annuity contracts. We are not required to and have not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value. Policy benefit reserves, coinsurance deposits and SPIA benefit reserves are not measured at fair value on a recurring basis. All of the fair values presented within these categories fall within Level 3 of the fair value hierarchy as most of the inputs are unobservable market data.

### ***Notes payable***

The fair values of our senior unsecured notes are based upon quoted market prices and are categorized as Level 2 within the fair value hierarchy. Notes payable are not remeasured at fair value on a recurring basis.

### ***Subordinated debentures***

Fair values for subordinated debentures are estimated using discounted cash flow calculations based principally on observable inputs including our incremental borrowing rates, which reflect our credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued. These fair values are categorized as Level 2 within the fair value hierarchy. Subordinated debentures are not measured at fair value on a recurring basis.

### ***Fixed index annuities - embedded derivatives***

We estimate the fair value of the embedded derivative component of our fixed index annuity policy benefit reserves at each valuation date by (i) projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and (ii) discounting the excess of the projected contract value amounts at the applicable risk free interest rates adjusted for our nonperformance risk related to those liabilities. The projections of policy contract values are based on our best estimate assumptions for future policy growth and future policy decrements. Our best estimate assumptions for future policy growth include assumptions for the expected index credit on the next policy anniversary date which are derived from the fair values of the underlying call options purchased to fund such index credits and the expected costs of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary. The projections of minimum guaranteed contract values include the same best estimate assumptions for policy decrements as were used to project policy contract values.

Within this determination we have the following significant unobservable inputs: 1) the expected cost of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary and 2) our best estimates for future policy decrements, primarily lapse, partial withdrawal and mortality rates. As of both March 31, 2021 and December 31, 2020, we utilized an estimate of 2.10% for the expected cost of annual call options, which is based on estimated long-term account value growth and a historical review of our actual option costs.

Our best estimate assumptions for lapse, partial withdrawal and mortality rates are based on our actual experience and our outlook as to future expectations for such assumptions. These assumptions, which are consistent with the assumptions used in calculating deferred policy acquisition costs and deferred sales inducements, are reviewed on a quarterly basis and are updated as our experience develops and/or as future expectations change. The following table presents average lapse rate and partial withdrawal rate assumptions, by contract duration, used in estimating the fair value of the embedded derivative component of our fixed index annuity policy benefit reserves at each reporting date:

Contract Duration (Years)	Average Lapse Rates		Average Partial Withdrawal Rates	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
1 - 5	1.25%	1.22%	2.61%	2.63%
6 - 10	1.42%	1.50%	3.12%	3.14%
11 - 15	5.99%	5.66%	3.57%	3.58%
16 - 20	6.88%	7.08%	3.80%	3.79%
20+	7.43%	7.36%	3.64%	3.63%

Lapse rates are generally expected to increase as surrender charge percentages decrease. Lapse expectations reflect a significant increase in the year in which the surrender charge period on a contract ends.

The following table provides a reconciliation of the beginning and ending balances for our Level 3 liabilities, which are measured at fair value on a recurring basis using significant unobservable inputs for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31,	
	2021	2020
(Dollars in thousands)		
<b>Fixed index annuities - embedded derivatives</b>		
Beginning balance	\$ 7,938,281	\$ 9,624,395
Premiums less benefits	119,791	112,158
Change in fair value, net	(377,121)	(1,285,071)
Ending balance	<u>\$ 7,680,951</u>	<u>\$ 8,451,482</u>

The fair value of our fixed index annuities embedded derivatives is net of coinsurance ceded of \$631.6 million and \$655.3 million as of March 31, 2021 and December 31, 2020, respectively. Change in fair value, net for each period in our embedded derivatives is included in change in fair value of embedded derivatives in the unaudited consolidated statements of operations.

Certain derivatives embedded in our fixed index annuity contracts are our most significant financial instrument measured at fair value that are categorized as Level 3 in the fair value hierarchy. The contractual obligations for future annual index credits within our fixed index annuity contracts are treated as a "series of embedded derivatives" over the expected life of the applicable contracts. We estimate the fair value of these embedded derivatives at each valuation date by the method described above under **fixed index annuities - embedded derivatives**. The projections of minimum guaranteed contract values include the same best estimate assumptions for policy decrements as were used to project policy contract values.

The most sensitive assumption in determining policy liabilities for fixed index annuities is the rates used to discount the excess projected contract values. As indicated above, the discount rate reflects our nonperformance risk. If the discount rates used to discount the excess projected contract values at March 31, 2021, were to increase by 100 basis points, the fair value of the embedded derivatives would decrease by \$560.3 million recorded through operations as a decrease in the change in fair value of embedded derivatives and there would be a corresponding decrease of \$229.5 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as an increase in amortization of deferred policy acquisition costs and deferred sales inducements. A decrease by 100 basis points in the discount rates used to discount the excess projected contract values would increase the fair value of the embedded derivatives by \$592.7 million recorded through operations as an increase in the change in fair value of embedded derivatives and there would be a corresponding increase of \$250.6 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as a decrease in amortization of deferred policy acquisition costs and deferred sales inducements.



#### 4. Investments

At March 31, 2021 and December 31, 2020, the amortized cost and fair value of fixed maturity securities were as follows:

	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses (2)	Allowance for Credit Losses	Fair Value
(Dollars in thousands)					
<b>March 31, 2021</b>					
Fixed maturity securities, available for sale:					
United States Government full faith and credit	\$ 38,488	\$ 661	\$ (422)	\$ —	\$ 38,727
United States Government sponsored agencies	995,405	32,086	(50)	—	1,027,441
United States municipalities, states and territories	3,258,694	405,772	(5,831)	(2,791)	3,655,844
Foreign government obligations	177,075	17,081	(212)	—	193,944
Corporate securities	26,976,452	3,028,857	(59,329)	(55,715)	29,890,265
Residential mortgage backed securities	1,263,013	88,251	(3,599)	(1,192)	1,346,473
Commercial mortgage backed securities	4,019,810	190,057	(32,625)	—	4,177,242
Other asset backed securities	5,385,522	70,498	(95,615)	—	5,360,405
	<u>\$ 42,114,459</u>	<u>\$ 3,833,263</u>	<u>\$ (197,683)</u>	<u>\$ (59,698)</u>	<u>\$ 45,690,341</u>
<b>December 31, 2020</b>					
Fixed maturity securities, available for sale:					
United States Government full faith and credit	\$ 37,471	\$ 2,300	\$ —	\$ —	\$ 39,771
United States Government sponsored agencies	995,465	44,132	(46)	—	1,039,551
United States municipalities, states and territories	3,236,767	543,252	(1,044)	(2,844)	3,776,131
Foreign government obligations	177,062	25,644	—	—	202,706
Corporate securities	26,745,196	4,507,716	(35,892)	(60,193)	31,156,827
Residential mortgage backed securities	1,399,956	117,135	(2,526)	(1,734)	1,512,831
Commercial mortgage backed securities	4,119,650	206,255	(64,678)	—	4,261,227
Other asset backed securities	5,593,169	103,320	(146,640)	—	5,549,849
	<u>\$ 42,304,736</u>	<u>\$ 5,549,754</u>	<u>\$ (250,826)</u>	<u>\$ (64,771)</u>	<u>\$ 47,538,893</u>

- (1) Amortized cost excludes accrued interest receivable of \$389.2 million and \$377.5 million as of March 31, 2021 and December 31, 2020, respectively.
- (2) Gross unrealized losses are net of allowance for credit losses.

The amortized cost and fair value of fixed maturity securities at March 31, 2021, by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our mortgage and other asset backed securities provide for periodic payments throughout their lives and are shown below as separate lines.

	Available for sale	
	Amortized Cost	Fair Value
(Dollars in thousands)		
Due in one year or less	\$ 890,969	\$ 899,102
Due after one year through five years	6,970,380	7,416,931
Due after five years through ten years	7,771,264	8,448,559
Due after ten years through twenty years	9,332,336	10,859,556
Due after twenty years	6,481,165	7,182,073
	<u>31,446,114</u>	<u>34,806,221</u>
Residential mortgage backed securities	1,263,013	1,346,473
Commercial mortgage backed securities	4,019,810	4,177,242
Other asset backed securities	5,385,522	5,360,405
	<u>\$ 42,114,459</u>	<u>\$ 45,690,341</u>

Net unrealized gains on available for sale fixed maturity securities reported as a separate component of stockholders' equity were comprised of the following:

	March 31, 2021	December 31, 2020
	(Dollars in thousands)	
Net unrealized gains on available for sale fixed maturity securities	\$ 3,635,679	\$ 5,297,040
Adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements and policy benefit reserves	(1,758,810)	(2,536,251)
Deferred income tax valuation allowance reversal	22,534	22,534
Deferred income tax expense	(394,143)	(579,766)
Net unrealized gains reported as accumulated other comprehensive income	\$ 1,505,260	\$ 2,203,557

The National Association of Insurance Commissioners ("NAIC") assigns designations to fixed maturity securities. These designations range from Class 1 (highest quality) to Class 6 (lowest quality). In general, securities are assigned a designation based upon the ratings they are given by the Nationally Recognized Statistical Rating Organizations ("NRSRO's"). The NAIC designations are utilized by insurers in preparing their annual statutory statements. NAIC Class 1 and 2 designations are considered "investment grade" while NAIC Class 3 through 6 designations are considered "non-investment grade." Based on the NAIC designations, we had 97% of our fixed maturity portfolio rated investment grade at both March 31, 2021 and December 31, 2020, respectively.

The following table summarizes the credit quality, as determined by NAIC designation, of our fixed maturity portfolio as of the dates indicated:

<b>NAIC Designation</b>	<b>March 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
	<b>(Dollars in thousands)</b>			
1	\$ 23,074,878	\$ 25,301,796	\$ 23,330,149	\$ 26,564,542
2	17,431,710	18,833,794	17,312,485	19,377,013
3	1,305,190	1,310,371	1,292,124	1,299,455
4	209,974	189,560	282,049	256,651
5	40,511	27,540	29,396	16,288
6	52,196	27,280	58,533	24,944
	\$ 42,114,459	\$ 45,690,341	\$ 42,304,736	\$ 47,538,893

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 819 and 843 securities, respectively) have been in a continuous unrealized loss position, at March 31, 2021 and December 31, 2020:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses (1)	Fair Value	Unrealized Losses (1)	Fair Value	Unrealized Losses (1)
(Dollars in thousands)						
<b>March 31, 2021</b>						
Fixed maturity securities, available for sale:						
United States Government full faith and credit	\$ 22,652	\$ (422)	\$ —	\$ —	\$ 22,652	\$ (422)
United States Government sponsored agencies	159,997	(50)	—	—	159,997	(50)
United States municipalities, states and territories	232,070	(8,611)	8,110	(11)	240,180	(8,622)
Foreign government obligations	13,953	(212)	—	—	13,953	(212)
Corporate securities:						
Finance, insurance and real estate	360,414	(24,862)	—	—	360,414	(24,862)
Manufacturing, construction and mining	139,787	(4,867)	18,107	(2,045)	157,894	(6,912)
Utilities and related sectors	351,801	(14,178)	159,078	(6,697)	510,879	(20,875)
Wholesale/retail trade	121,015	(7,039)	14,720	(1,191)	135,735	(8,230)
Services, media and other	347,679	(15,635)	99,895	(38,530)	447,574	(54,165)
Residential mortgage backed securities	250,527	(2,435)	52,433	(2,356)	302,960	(4,791)
Commercial mortgage backed securities	97,296	(4,390)	493,065	(28,235)	590,361	(32,625)
Other asset backed securities	710,247	(4,576)	2,484,451	(91,039)	3,194,698	(95,615)
	<u>\$ 2,807,438</u>	<u>\$ (87,277)</u>	<u>\$ 3,329,859</u>	<u>\$ (170,104)</u>	<u>\$ 6,137,297</u>	<u>\$ (257,381)</u>
<b>December 31, 2020</b>						
Fixed maturity securities, available for sale:						
United States Government sponsored agencies	\$ 250,475	\$ (46)	\$ —	\$ —	\$ 250,475	\$ (46)
United States municipalities, states and territories	31,802	(3,887)	868	(1)	32,670	(3,888)
Corporate securities:						
Finance, insurance and real estate	109,789	(1,733)	—	—	109,789	(1,733)
Manufacturing, construction and mining	—	—	19,335	(1,384)	19,335	(1,384)
Utilities and related sectors	310,823	(27,509)	35,408	(3,628)	346,231	(31,137)
Wholesale/retail trade	65,567	(4,344)	16,000	(26)	81,567	(4,370)
Services, media and other	120,098	(11,564)	83,890	(45,897)	203,988	(57,461)
Residential mortgage backed securities	156,016	(2,384)	13,599	(1,876)	169,615	(4,260)
Commercial mortgage backed securities	934,593	(54,834)	35,153	(9,844)	969,746	(64,678)
Other asset backed securities	1,013,781	(16,607)	2,567,723	(130,033)	3,581,504	(146,640)
	<u>\$ 2,992,944</u>	<u>\$ (122,908)</u>	<u>\$ 2,771,976</u>	<u>\$ (192,689)</u>	<u>\$ 5,764,920</u>	<u>\$ (315,597)</u>

(1) Unrealized losses have not been reduced to reflect the allowance for credit losses of \$59.7 million and \$64.8 million as of March 31, 2021 and December 31, 2020, respectively.

The unrealized losses at March 31, 2021 are principally related to the the timing of the purchases of certain securities, which carry less yield than those available at March 31, 2021, and the continued impact the COVID-19 pandemic had on credit markets. Approximately 77% and 75% of the unrealized losses on fixed maturity securities shown in the above table for March 31, 2021 and December 31, 2020, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations.

We expect to recover our amortized cost on all securities except for those securities on which we recognized an allowance for credit loss. In addition, because we did not have the intent to sell fixed maturity securities with unrealized losses and it was not more likely than not that we would be required to sell these securities prior to recovery of the amortized cost, which may be maturity, we did not write down these investments to fair value through operations.

Changes in net unrealized gains/losses on investments for the three months ended March 31, 2021 and 2020 are as follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Fixed maturity securities available for sale carried at fair value	\$ (1,661,361)	\$ (2,862,408)
Adjustment for effect on other balance sheet accounts:		
Deferred policy acquisition costs, deferred sales inducements and policy benefit reserves	777,441	1,397,198
Deferred income tax asset/liability	185,623	307,695
	963,064	1,704,893
Change in net unrealized gains/losses on investments carried at fair value	\$ (698,297)	\$ (1,157,515)

Proceeds from sales of available for sale fixed maturity securities for the three months ended March 31, 2021 and 2020 were \$122.2 million and \$910.3 million, respectively. Scheduled principal repayments, calls and tenders for available for sale fixed maturity securities for the three months ended March 31, 2021 and 2020 were \$1.0 billion and \$1.0 billion, respectively.

Net realized losses on investments for the three months ended March 31, 2021 and 2020, are as follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Available for sale fixed maturity securities:		
Gross realized gains	\$ 2,367	\$ 14,238
Gross realized losses	(8,196)	(1,206)
Credit losses	(1,437)	(31,371)
	(7,266)	(18,339)
Mortgage loans on real estate:		
Decrease (increase) in allowance for credit losses	2,515	(1,997)
Gain on sale of mortgage loans	168	—
	2,683	(1,997)
	\$ (4,583)	\$ (20,336)

Realized losses on available for sale fixed maturity securities in 2021 and 2020 were realized primarily due to strategies to reposition the fixed maturity security portfolio that result in improved net investment income, credit risk or duration profiles as they pertain to our asset liability management. In addition, certain realized gains and losses on available for sale fixed maturity securities in 2020 were realized as a result of efforts to de-risk the portfolio. Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date.

We review and analyze all investments on an ongoing basis for changes in market interest rates and credit deterioration. This review process includes analyzing our ability to recover the amortized cost basis of each investment that has a fair value that is materially lower than its amortized cost and requires a high degree of management judgment and involves uncertainty. The evaluation of securities for credit loss is a quantitative and qualitative process, which is subject to risks and uncertainties.

We have a policy and process to identify securities that could potentially have credit loss. This process involves monitoring market events and other items that could impact issuers. The evaluation includes but is not limited to such factors as:

- the extent to which the fair value has been less than amortized cost or cost;
- whether the issuer is current on all payments and all contractual payments have been made as agreed;
- the remaining payment terms and the financial condition and near-term prospects of the issuer;
- the lack of ability to refinance due to liquidity problems in the credit market;
- the fair value of any underlying collateral;
- the existence of any credit protection available;
- our intent to sell and whether it is more likely than not we would be required to sell prior to recovery for debt securities;
- consideration of rating agency actions; and
- changes in estimated cash flows of mortgage and asset backed securities.

We determine whether an allowance for credit loss should be established for debt securities by assessing all facts and circumstances surrounding each security. Where the decline in fair value of debt securities is attributable to changes in market interest rates or to factors such as market volatility, liquidity and spread widening, and we anticipate recovery of all contractual or expected cash flows, we do not consider these investments to have credit loss because we do not intend to sell these investments and it is not more likely than not we will be required to sell these investments before a recovery of amortized cost, which may be maturity.

If we intend to sell a debt security or if it is more likely than not that we will be required to sell a debt security before recovery of its amortized cost basis, credit loss has occurred and the difference between amortized cost and fair value will be recognized as a loss in operations.

If we do not intend to sell and it is not more likely than not we will be required to sell the debt security but also do not expect to recover the entire amortized cost basis of the security, a credit loss would be recognized in operations for the amount of the expected credit loss. We determine the amount of expected credit loss by calculating the present value of the cash flows expected to be collected discounted at each security's acquisition yield based on our consideration of whether the security was of high credit quality at the time of acquisition. The difference between the present value of expected future cash flows and the amortized cost basis of the security is the amount of credit loss recognized in operations. The recognized credit loss is limited to the total unrealized loss on the security (i.e., the fair value floor).

The determination of the credit loss component of a mortgage backed security is based on a number of factors. The primary consideration in this evaluation process is the issuer's ability to meet current and future interest and principal payments as contractually stated at time of purchase. Our review of these securities includes an analysis of the cash flow modeling under various default scenarios considering independent third party benchmarks, the seniority of the specific tranche within the structure of the security, the composition of the collateral and the actual default, loss severity and prepayment experience exhibited. With the input of third party assumptions for default projections, loss severity and prepayment expectations, we evaluate the cash flow projections to determine whether the security is performing in accordance with its contractual obligation.

We utilize models from a leading structured product software specialist serving institutional investors. These models incorporate each security's seniority and cash flow structure. In circumstances where the analysis implies a potential for principal loss at some point in the future, we use the "best estimate" cash flow projection discounted at the security's effective yield at acquisition to determine the amount of our potential credit loss associated with this security. The discounted expected future cash flows equates to our expected recovery value. Any shortfall of the expected recovery when compared to the amortized cost of the security will be recorded as credit loss.

The determination of the credit loss component of a corporate bond is based on the underlying financial performance of the issuer and their ability to meet their contractual obligations. Considerations in our evaluation include, but are not limited to, credit rating changes, financial statement and ratio analysis, changes in management, significant changes in credit spreads, breaches of financial covenants and a review of the economic outlook for the industry and markets in which they trade. In circumstances where an issuer appears unlikely to meet its future obligation, an estimate of credit loss is determined. Credit loss is calculated using default probabilities as derived from the credit default swaps markets in conjunction with recovery rates derived from independent third party analysis or a best estimate of credit loss. This credit loss rate is then incorporated into a present value calculation based on an expected principal loss in the future discounted at the yield at the date of purchase and compared to amortized cost to determine the amount of credit loss associated with the security.

We do not measure a credit loss allowance on accrued interest receivable as we write off any accrued interest receivable balance to net investment income in a timely manner when we have concerns regarding collectability.

Amounts on available for sale fixed maturities that are deemed to be uncollectible are written off and removed from the allowance for credit loss. A write-off may also occur if we intend to sell a security or when it is more likely than not we will be required to sell the security before the recovery of its amortized cost.

The following table provides a rollforward of the allowance for credit loss:

Three Months Ended March 31, 2021						
	United States Municipalities, States and Territories	Corporate Securities	Commercial Mortgage Backed Securities	Residential Mortgage Backed Securities	Other Asset Backed Securities	Total
	(Dollars in thousands)					
Beginning balance	\$ 2,844	\$ 60,193	\$ —	\$ 1,734	\$ —	\$ 64,771
Additions for credit losses not previously recorded	—	705	—	111	—	816
Change in allowance on securities with previous allowance	(53)	1,327	—	(653)	—	621
Reduction for securities sold during the period	—	(6,510)	—	—	—	(6,510)
Ending balance	<u>\$ 2,791</u>	<u>\$ 55,715</u>	<u>\$ —</u>	<u>\$ 1,192</u>	<u>\$ —</u>	<u>\$ 59,698</u>

  

Three Months Ended March 31, 2020						
	United States Municipalities, States and Territories	Corporate Securities	Commercial Mortgage Backed Securities	Residential Mortgage Backed Securities	Other Asset Backed Securities	Total
	(Dollars in thousands)					
Beginning balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Additions for credit losses not previously recorded	—	28,332	2,491	—	548	31,371
Reduction for securities with credit losses due to intent to sell	—	—	(2,491)	—	(548)	(3,039)
Ending balance	<u>\$ —</u>	<u>\$ 28,332</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 28,332</u>

## 5. Mortgage Loans on Real Estate

Our financing receivables consist of the following three portfolio segments: commercial mortgage loans, agricultural mortgage loans and residential mortgage loans. Our mortgage loan portfolios are summarized in the following table. There were commitments outstanding of \$110.9 million at March 31, 2021.

	March 31, 2021	December 31, 2020
	(Dollars in thousands)	
Commercial mortgage loans:		
Principal outstanding	\$ 3,547,140	\$ 3,580,154
Deferred fees and costs, net	(1,213)	(1,266)
Amortized cost	3,545,927	3,578,888
Valuation allowance	(26,139)	(25,529)
Commercial mortgage loans, carrying value	3,519,788	3,553,359
Agricultural mortgage loans:		
Principal outstanding	266,269	245,807
Deferred fees and costs, net	(684)	(634)
Amortized cost	265,585	245,173
Valuation allowance	(439)	(2,130)
Agricultural mortgage loans, carrying value	265,146	243,043
Residential mortgage loans:		
Principal outstanding	496,135	366,320
Deferred fees and costs, net	1,323	925
Unamortized discounts and premiums, net	10,146	5,212
Amortized cost	507,604	372,457
Valuation allowance	(1,936)	(3,370)
Residential mortgage loans, carrying value	505,668	369,087
Mortgage loans, carrying value	<u>\$ 4,290,602</u>	<u>\$ 4,165,489</u>

Our commercial mortgage loan portfolio consists of loans collateralized by the related properties and diversified as to property type, location and loan size. Our lending policies establish limits on the amount that can be loaned to one borrower and other criteria to attempt to reduce the risk of default. The commercial mortgage loan portfolio is summarized by geographic region and property type as follows:

	March 31, 2021		December 31, 2020	
	Principal	Percent	Principal	Percent
(Dollars in thousands)				
<b>Geographic distribution</b>				
East	\$ 694,952	19.6 %	\$ 699,741	19.5 %
Middle Atlantic	277,420	7.8 %	281,971	7.9 %
Mountain	384,719	10.8 %	391,025	10.9 %
New England	24,624	0.7 %	24,774	0.7 %
Pacific	672,948	19.0 %	659,743	18.4 %
South Atlantic	828,593	23.4 %	832,739	23.3 %
West North Central	257,546	7.3 %	266,050	7.4 %
West South Central	406,338	11.4 %	424,111	11.9 %
	<u>\$ 3,547,140</u>	<u>100.0 %</u>	<u>\$ 3,580,154</u>	<u>100.0 %</u>
<b>Property type distribution</b>				
Office	\$ 294,760	8.3 %	\$ 297,065	8.3 %
Medical Office	22,072	0.6 %	20,584	0.6 %
Retail	1,153,141	32.5 %	1,187,484	33.2 %
Industrial/Warehouse	945,205	26.6 %	929,325	25.9 %
Apartment	927,945	26.2 %	939,084	26.2 %
Mixed use/Other	204,017	5.8 %	206,612	5.8 %
	<u>\$ 3,547,140</u>	<u>100.0 %</u>	<u>\$ 3,580,154</u>	<u>100.0 %</u>

Our agricultural mortgage loan portfolio consists of loans with an outstanding principal balance of \$266.3 million and \$245.8 million as of March 31, 2021 and December 31, 2020, respectively. These loans are collateralized by agricultural land and are diversified as to location within the United States. Our residential mortgage loan portfolio consists of loans with an outstanding principal balance of \$496.1 million and \$366.3 million as of March 31, 2021 and December 31, 2020, respectively. These loans are collateralized by the related properties and diversified as to location within the United States.

Mortgage loans on real estate are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Interest income is included in Net investment income on our consolidated statements of operations. Accrued interest receivable, which was \$17.0 million and \$16.6 million as of March 31, 2021 and December 31, 2020, respectively, is included in Accrued investment income on our consolidated balance sheets.

#### *Loan Valuation Allowance*

We establish a valuation allowance to provide for the risk of credit losses inherent in our mortgage loan portfolios. The valuation allowance is maintained at a level believed adequate by management to absorb estimated expected credit losses. The valuation allowance is based on amortized cost, which excludes accrued interest receivable. We do not measure a credit loss allowance on accrued interest receivable as we write off any uncollectible accrued interest receivable balances to net investment income in a timely manner. We did not charge off any uncollectible accrued interest receivable on our commercial, agricultural or residential mortgage loan portfolios for the three month period ended March 31, 2021.

The valuation allowances for each of our mortgage loan portfolios are estimated by deriving probability of default and recovery rate assumptions based on the characteristics of the loans in each portfolio, historical economic data and loss information, and current and forecasted economics conditions. Key loan characteristics impacting the estimate for our commercial mortgage loan portfolio include the current state of the borrower's credit quality, which considers factors such as loan-to-value ("LTV") and debt service coverage ("DSC") ratios, loan performance, underlying collateral type, delinquency status, time to maturity, and original credit scores. Key loan characteristics impacting the estimate for our agricultural and residential mortgage loan portfolios include delinquency status, time to maturity, original credit scores and LTV ratios.

The following table represents a rollforward of the valuation allowance on our mortgage loan portfolios:

	Three Months Ended March 31, 2021			
	Commercial	Agricultural	Residential	Total
	(Dollars in thousands)			
Beginning allowance balance	\$ (25,529)	\$ (2,130)	\$ (3,370)	\$ (31,029)
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Change in provision for credit losses	(610)	1,691	1,434	2,515
Ending allowance balance	<u>\$ (26,139)</u>	<u>\$ (439)</u>	<u>\$ (1,936)</u>	<u>\$ (28,514)</u>

Charge-offs include allowances that have been established on loans that were satisfied either by taking ownership of the collateral or by some other means such as discounted pay-off or loan sale. When ownership of the property is taken it is recorded at the lower of the loan's carrying value or the property's fair value (based on appraised values) less estimated costs to sell. The real estate owned is recorded as a component of Other investments and the loan is recorded as fully paid, with any allowance for credit loss that has been established charged off. Fair value of the real estate is determined by third party appraisal. Recoveries are situations where we have received a payment from the borrower in an amount greater than the carrying value of the loan (principal outstanding less specific allowance). We did not own any real estate during the three months ended March 31, 2021 and 2020.

#### Credit Quality Indicators

We evaluate the credit quality of our commercial and agricultural mortgage loans by analyzing LTV and DSC ratios and loan performance. We evaluate the credit quality of our residential mortgage loans by analyzing loan performance.

LTV and DSC ratios for our commercial mortgage loans are originally calculated at the time of loan origination and are updated annually for each loan using information such as rent rolls, assessment of lease maturity dates and property operating statements, which are reviewed in the context of current leasing and in place rents compared to market leasing and market rents. A DSC ratio of less than 1.0 indicates that a property's operations do not generate sufficient income to cover debt payments. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. All of our commercial mortgage loans that have a debt service coverage ratio of less than 1.0 are performing under the original contractual loan terms at March 31, 2021 and December 31, 2020.

The amortized cost of our commercial mortgage loan portfolio by LTV and DSC ratios based on the most recent information collected was as follows at March 31, 2021 and December 31, 2020 (by year of origination):

	2021		2020		2019		2018		2017		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
As of March 31, 2021:	(Dollars in thousands)													
Debt Service Coverage Ratio:														
Greater than or equal to 1.5	\$ 40,908	66 %	\$ 393,845	63 %	\$ 496,170	65 %	\$ 412,055	64 %	\$ 314,347	57 %	\$ 1,017,700	48 %	\$ 2,675,025	57 %
Greater than or equal to 1.2 and less than 1.5	13,226	69 %	130,276	67 %	212,153	70 %	94,962	73 %	123,465	67 %	162,707	57 %	736,789	66 %
Greater than or equal to 1.0 and less than 1.2	—	— %	17,490	81 %	8,958	68 %	2,744	70 %	7,495	65 %	28,608	63 %	65,295	69 %
Less than 1.0	—	— %	—	— %	37,135	65 %	1,428	88 %	10,063	80 %	20,192	61 %	68,818	66 %
Total	<u>\$ 54,134</u>	<u>67 %</u>	<u>\$ 541,611</u>	<u>64 %</u>	<u>\$ 754,416</u>	<u>66 %</u>	<u>\$ 511,189</u>	<u>65 %</u>	<u>\$ 455,370</u>	<u>60 %</u>	<u>\$ 1,229,207</u>	<u>50 %</u>	<u>\$ 3,545,927</u>	<u>59 %</u>

	2020		2019		2018		2017		2016		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
As of December 31, 2020:														
Debt Service Coverage Ratio:														
Greater than or equal to 1.5	\$ 364,574	63 %	\$ 442,370	66 %	\$ 399,193	62 %	\$ 316,738	57 %	\$ 359,321	54 %	\$ 715,706	47 %	\$ 2,597,902	57 %
Greater than or equal to 1.2 and less than 1.5	161,779	66 %	226,166	70 %	124,267	72 %	124,564	67 %	52,513	62 %	111,690	55 %	800,979	66 %
Greater than or equal to 1.0 and less than 1.2	17,638	82 %	22,917	67 %	2,769	71 %	7,597	66 %	—	— %	32,327	65 %	83,248	69 %
Less than 1.0	—	— %	64,131	58 %	1,441	89 %	10,156	80 %	—	— %	21,031	60 %	96,759	61 %
Total	<u>\$ 543,991</u>	<u>65 %</u>	<u>\$ 755,584</u>	<u>67 %</u>	<u>\$ 527,670</u>	<u>64 %</u>	<u>\$ 459,055</u>	<u>60 %</u>	<u>\$ 411,834</u>	<u>55 %</u>	<u>\$ 880,754</u>	<u>49 %</u>	<u>\$ 3,578,888</u>	<u>59 %</u>



LTV and DSC ratios for our agricultural mortgage loans are calculated at the time of loan origination and are evaluated annually for each loan using land value averages. A DSC ratio of less than 1.0 indicates that a property's operations do not generate sufficient income to cover debt payments. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. All of our agricultural mortgage loans that have a debt service coverage ratio of less than 1.0 are performing under the original contractual loan terms at March 31, 2021 and December 31, 2020.

The amortized cost of our agricultural mortgage loan portfolio by LTV and DSC ratios based on the most recent information collected was as follows at March 31, 2021 and December 31, 2020 (by year of origination):

	2021		2020		2019		2018		2017		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
As of March 31, 2021:														
Debt Service Coverage Ratio:	(Dollars in thousands)													
Greater than or equal to 1.5	\$ 12,128	39 %	\$ 80,175	53 %	\$ 11,901	49 %	\$ 25,000	11 %	\$ —	— %	\$ —	— %	\$ 129,204	43 %
Greater than or equal to 1.2 and less than 1.5	3,748	57 %	104,090	43 %	3,401	23 %	—	— %	—	— %	—	— %	111,239	43 %
Greater than or equal to 1.0 and less than 1.2	7,479	44 %	4,186	37 %	4,781	50 %	—	— %	—	— %	—	— %	16,446	44 %
Less than 1.0	—	— %	8,696	60 %	—	— %	—	— %	—	— %	—	— %	8,696	60 %
<b>Total</b>	<b>\$ 23,355</b>	<b>43 %</b>	<b>\$ 197,147</b>	<b>48 %</b>	<b>\$ 20,083</b>	<b>45 %</b>	<b>\$ 25,000</b>	<b>11 %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ 265,585</b>	<b>44 %</b>

	2020		2019		2018		2017		2016		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
As of December 31, 2020:														
Debt Service Coverage Ratio:														
Greater than or equal to 1.5	\$ 78,631	52 %	\$ 13,985	47 %	\$ 25,000	11 %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 117,616	43 %
Greater than or equal to 1.2 and less than 1.5	101,879	44 %	3,425	23 %	—	— %	—	— %	—	— %	—	— %	105,304	44 %
Greater than or equal to 1.0 and less than 1.2	4,213	37 %	6,573	43 %	—	— %	—	— %	—	— %	—	— %	10,786	41 %
Less than 1.0	11,467	48 %	—	— %	—	— %	—	— %	—	— %	—	— %	11,467	48 %
<b>Total</b>	<b>\$ 196,190</b>	<b>47 %</b>	<b>\$ 23,983</b>	<b>42 %</b>	<b>\$ 25,000</b>	<b>11 %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ 245,173</b>	<b>43 %</b>

We closely monitor loan performance for our commercial, agricultural and residential mortgage loan portfolios. Aging of financing receivables is summarized in the following table (by year of origination):

	2021	2020	2019	2018	2017	Prior	Total
<b>As of March 31, 2021:</b>	<b>(Dollars in thousands)</b>						
<b>Commercial mortgage loans</b>							
Current	\$ 54,134	\$ 541,611	\$ 754,416	\$ 511,189	\$ 455,370	\$ 1,229,207	\$ 3,545,927
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
<b>Total commercial mortgage loans</b>	<b>\$ 54,134</b>	<b>\$ 541,611</b>	<b>\$ 754,416</b>	<b>\$ 511,189</b>	<b>\$ 455,370</b>	<b>\$ 1,229,207</b>	<b>\$ 3,545,927</b>
<b>Agricultural mortgage loans</b>							
Current	\$ 23,355	\$ 197,147	\$ 20,083	\$ 25,000	\$ —	\$ —	\$ 265,585
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
<b>Total agricultural mortgage loans</b>	<b>\$ 23,355</b>	<b>\$ 197,147</b>	<b>\$ 20,083</b>	<b>\$ 25,000</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 265,585</b>
<b>Residential mortgage loans</b>							
Current	\$ 72,910	\$ 275,127	\$ 20,406	\$ —	\$ —	\$ —	\$ 368,443
30 - 59 days past due	3,600	90,607	1,981	—	—	—	96,188
60 - 89 days past due	—	37,925	2,335	—	—	—	40,260
Over 90 days past due	—	2,713	—	—	—	—	2,713
<b>Total residential mortgage loans</b>	<b>\$ 76,510</b>	<b>\$ 406,372</b>	<b>\$ 24,722</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 507,604</b>
<b>As of December 31, 2020:</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Prior</b>	<b>Total</b>
	<b>(Dollars in thousands)</b>						
<b>Commercial mortgage loans</b>							
Current	\$ 543,991	\$ 755,584	\$ 527,670	\$ 459,055	\$ 411,834	\$ 880,754	\$ 3,578,888
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
<b>Total commercial mortgage loans</b>	<b>\$ 543,991</b>	<b>\$ 755,584</b>	<b>\$ 527,670</b>	<b>\$ 459,055</b>	<b>\$ 411,834</b>	<b>\$ 880,754</b>	<b>\$ 3,578,888</b>
<b>Agricultural mortgage loans</b>							
Current	\$ 196,190	\$ 23,983	\$ 25,000	\$ —	\$ —	\$ —	\$ 245,173
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
<b>Total agricultural mortgage loans</b>	<b>\$ 196,190</b>	<b>\$ 23,983</b>	<b>\$ 25,000</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 245,173</b>
<b>Residential mortgage loans</b>							
Current	\$ 321,779	\$ 24,951	\$ —	\$ —	\$ —	\$ —	\$ 346,730
30 - 59 days past due	25,150	299	—	—	—	—	25,449
60 - 89 days past due	111	—	—	—	—	—	111
Over 90 days past due	167	—	—	—	—	—	167
<b>Total residential mortgage loans</b>	<b>\$ 347,207</b>	<b>\$ 25,250</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 372,457</b>

Commercial, agricultural and residential mortgage loans are considered delinquent when they become 60 days or more past due. When loans become more than 90 days past due they are considered nonperforming and we place them on non-accrual status and discontinue recognizing interest income. If payments are received on a delinquent loan, interest income is recognized to the extent it would have been recognized if normal principal and interest would have been received timely. If payments are received to bring a delinquent loan back to current, we will resume accruing interest income on that loan. There were three loans in non-accrual status at March 31, 2021 and one loan in non-accrual status at December 31, 2020. We recognized no interest income on loans in non-accrual status during the three months ended March 31, 2021 and 2020.

Collateral dependent loans consist of loans for which we will depend on the value of the collateral real estate to satisfy the outstanding principal of the loan. There were no collateral dependent commercial, agricultural or residential loans as of March 31, 2021 or December 31, 2020.

#### *Troubled Debt Restructuring*

A Troubled Debt Restructuring ("TDR") is a situation where we have granted a concession to a borrower for economic or legal reasons related to the borrower's financial difficulties that we would not otherwise consider. A mortgage loan that has been granted new terms, including workout terms as described previously, would be considered a TDR if it meets conditions that would indicate a borrower is experiencing financial difficulty and the new terms constitute a concession on our part. We analyze all loans where we have agreed to workout terms and all loans that we have refinanced to determine if they meet the definition of a TDR. We consider the following factors in determining whether or not a borrower is experiencing financial difficulty:

- borrower is in default,
- borrower has declared bankruptcy,
- there is growing concern about the borrower's ability to continue as a going concern,
- borrower has insufficient cash flows to service debt,
- borrower's inability to obtain funds from other sources, and
- there is a breach of financial covenants by the borrower.

If the borrower is determined to be in financial difficulty, we consider the following conditions to determine if the borrower is granted a concession:

- assets used to satisfy debt are less than our recorded investment,
- interest rate is modified,
- maturity date extension at an interest rate less than market rate,
- capitalization of interest,
- delaying principal and/or interest for a period of three months or more, and
- partial forgiveness of the balance or charge-off.

Mortgage loan workouts, refinances or restructures that are classified as TDRs are individually evaluated and measured for impairment. There were no mortgage loans that we determined to be a TDR at March 31, 2021 and December 31, 2020.

## **6. Derivative Instruments**

None of our derivatives qualify for hedge accounting, thus, any change in the fair value of the derivatives is recognized immediately in the consolidated statements of operations. The fair value of our derivative instruments, including derivative instruments embedded in fixed index annuity contracts, presented in the consolidated balance sheets are as follows:

	March 31, 2021	December 31, 2020
	(Dollars in thousands)	
Assets		
Derivative instruments		
Call options	\$ 1,509,767	\$ 1,310,954
Warrants	125	—
	<u>\$ 1,509,892</u>	<u>\$ 1,310,954</u>
Liabilities		
Policy benefit reserves - annuity products		
Fixed index annuities - embedded derivatives, net	\$ 7,680,951	\$ 7,938,281

The changes in fair value of derivatives included in the unaudited consolidated statements of operations are as follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
<b>Change in fair value of derivatives:</b>		
Call options	\$ 396,276	\$ (941,936)
Warrants	29	—
Interest rate caps	—	62
	<u>\$ 396,305</u>	<u>\$ (941,874)</u>
<b>Change in fair value of embedded derivatives:</b>		
Fixed index annuities - embedded derivatives	\$ (377,121)	\$ (1,285,071)
Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting	94,708	35,010
	<u>\$ (282,413)</u>	<u>\$ (1,250,061)</u>

The amounts presented as "Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting" represents the total change in the difference between policy benefit reserves for fixed index annuities computed under the derivative accounting standard and the long-duration contracts accounting standard at each balance sheet date, less the change in fair value of our fixed index annuities embedded derivatives that is presented as Level 3 liabilities in Note 3.

We have fixed index annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index. When fixed index annuity deposits are received, a portion of the deposit is used to purchase derivatives consisting of call options on the applicable market indices to fund the index credits due to fixed index annuity policyholders. Substantially all such call options are one year options purchased to match the funding requirements of the underlying policies. The call options are marked to fair value with the change in fair value included as a component of revenues. The change in fair value of derivatives includes the gains or losses recognized at the expiration of the option term and the changes in fair value for open positions. On the respective anniversary dates of the index policies, the index used to compute the index credit is reset and we purchase new call options to fund the next index credit. We manage the cost of these purchases through the terms of our fixed index annuities, which permit us to change caps, participation rates, and/or asset fees, subject to guaranteed minimums on each policy's anniversary date. By adjusting caps, participation rates, or asset fees, we can generally manage option costs except in cases where the contractual features would prevent further modifications.

Our strategy attempts to mitigate any potential risk of loss due to the nonperformance of the counterparties to these call options through a regular monitoring process which evaluates the program's effectiveness. We do not purchase call options that would require payment or collateral to another institution and our call options do not contain counterparty credit-risk-related contingent features. We are exposed to risk of loss in the event of nonperformance by the counterparties and, accordingly, we purchase our option contracts from multiple counterparties and evaluate the creditworthiness of all counterparties prior to purchase of the contracts. All non-exchange traded options have been purchased from nationally recognized financial institutions with a Standard and Poor's credit rating of A- or higher at the time of purchase and the maximum credit exposure to any single counterparty is subject to concentration limits. We also have credit support agreements that allow us to request the counterparty to provide collateral to us when the fair value of our exposure to the counterparty exceeds specified amounts.

The notional amount and fair value of our call options by counterparty and each counterparty's current credit rating are as follows:

Counterparty	Credit Rating (S&P)	Credit Rating (Moody's)	March 31, 2021		December 31, 2020	
			Notional Amount	Fair Value	Notional Amount	Fair Value
			(Dollars in thousands)			
Bank of America	A+	Aa2	\$ 2,919,169	\$ 113,973	\$ 2,835,420	\$ 95,378
Barclays	A	A1	5,769,640	260,349	5,710,978	277,692
Canadian Imperial Bank of Commerce	A+	Aa2	6,784,340	300,773	6,593,815	279,053
Citibank, N.A.	A+	Aa3	3,476,223	142,248	3,118,979	96,757
Credit Suisse	A+	Aa3	3,463,465	107,932	4,422,798	78,823
J.P. Morgan	A+	Aa2	3,060,678	95,835	3,600,636	54,762
Morgan Stanley	A+	Aa3	2,464,800	97,684	2,856,466	62,969
Royal Bank of Canada	AA-	A2	1,201,793	31,085	1,289,699	32,753
Societe Generale	A	A1	1,811,079	56,516	1,494,904	34,394
Truist	A	A2	2,356,648	96,021	2,375,124	96,573
Wells Fargo	A+	Aa2	4,966,960	201,085	4,848,541	196,801
Exchange traded			222,264	6,266	214,819	4,999
			<u>\$ 38,497,059</u>	<u>\$ 1,509,767</u>	<u>\$ 39,362,179</u>	<u>\$ 1,310,954</u>

As of March 31, 2021 and December 31, 2020, we held \$1.5 billion and \$1.3 billion, respectively, of cash and cash equivalents and other investments from counterparties for derivative collateral, which is included in Other liabilities on our consolidated balance sheets. This derivative collateral limits the maximum amount of economic loss due to credit risk that we would incur if parties to the call options failed completely to perform according to the terms of the contracts to \$18.3 million and \$35.1 million at March 31, 2021 and December 31, 2020, respectively.

The future index credits on our fixed index annuities are treated as a "series of embedded derivatives" over the expected life of the applicable contract. We do not purchase call options to fund the index liabilities which may arise after the next policy anniversary date. We must value both the call options and the related forward embedded options in the policies at fair value.

We entered into an interest rate swap and interest rate caps to manage interest rate risk associated with the floating rate component on certain of our subordinated debentures. See Note 10 in our Annual Report on Form 10-K for the year ended December 31, 2020 for more information on our subordinated debentures. As of March 31, 2021, all of our floating rate subordinated debentures have been redeemed and the interest rate swap and interest rate caps have been terminated. The terms of the interest rate swap provided that we paid a fixed rate of interest and received a floating rate of interest. The terms of the interest rate caps limited the three month LIBOR to 2.50%. The interest rate swap and caps were not effective hedges under accounting guidance for derivative instruments and hedging activities. Therefore, we recorded the interest rate swap and caps at fair value and any net cash payments received or paid were included in the change in fair value of derivatives in the unaudited consolidated statements of operations.

## 7. Notes Payable and Amounts Due Under Repurchase Agreements

Notes payable includes the following:

	March 31, 2021	December 31, 2020
	(Dollars in thousands)	
Senior notes due 2027		
Principal	\$ 500,000	\$ 500,000
Unamortized debt issue costs	(3,951)	(4,086)
Unamortized discount	(238)	(246)
	<u>\$ 495,811</u>	<u>\$ 495,668</u>

On June 16, 2017, we issued \$500 million aggregate principal amount of senior unsecured notes due 2027 which bear interest at 5.0% per year and will mature on June 15, 2027 (the "2027 Notes"). The 2027 Notes were issued at a \$0.3 million discount, which is being amortized over the term of the 2027 Notes using the effective interest method. Contractual interest is payable semi-annually in arrears each June 15th and December 15th. The initial transaction fees and costs totaling \$5.8 million were capitalized as deferred financing costs and are being amortized over the term of the 2027 Notes using the effective interest method.

As part of our investment strategy, we enter into securities repurchase agreements (short-term collateralized borrowings). When we do borrow cash on these repurchase agreements, we pledge collateral in the form of debt securities with fair values approximately equal to the amount due and we use the cash to purchase debt securities ahead of the time we collect the cash from selling annuity policies to avoid a lag between the investment of funds and the obligation to credit interest to policyholders. We earn investment income on the securities purchased with these borrowings at a rate in excess of the cost of these borrowings. We had no borrowings under repurchase agreements during the three months ended March 31, 2021. Such borrowings averaged \$24.6 million and the maximum amount borrowed was \$186.4 million during the three months ended March 31, 2020. The weighted average interest rate on amounts due under repurchase agreements was 1.51% for the three months ended March 31, 2020.

## 8. Commitments and Contingencies

We are occasionally involved in litigation, both as a defendant and as a plaintiff. In addition, state and federal regulatory bodies, such as state insurance departments, the Securities and Exchange Commission ("SEC") and the Department of Labor, regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws and the Employee Retirement Income Security Act of 1974, as amended.

In accordance with applicable accounting guidelines, we establish an accrued liability for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. As a litigation or regulatory matter is developing we, in conjunction with outside counsel, evaluate on an ongoing basis whether the matter presents a loss contingency that meets conditions indicating the need for accrual and/or disclosure, and if not, the matter will continue to be monitored for further developments. If and when the loss contingency related to litigation or regulatory matters is deemed to be both probable and estimable, we will establish an accrued liability with respect to that matter and will continue to monitor the matter for further developments that may affect the amount of the accrued liability.

There can be no assurance that any pending or future litigation will not have a material adverse effect on our business, financial condition, or results of operations.

In addition to our commitments to fund mortgage loans, we have unfunded commitments at March 31, 2021 to limited partnerships of \$33.5 million and to fixed maturity securities of \$14.0 million.

## 9. Earnings Per Common Share and Stockholders' Equity

### Earnings Per Common Share

The following table sets forth the computation of earnings per common share and earnings per common share - assuming dilution:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands, except per share data)	
<b>Numerator:</b>		
Net income available to common stockholders - numerator for earnings per common share	\$ 271,765	\$ 236,336
<b>Denominator:</b>		
Weighted average common shares outstanding	95,734,851	91,644,315
Effect of dilutive securities:		
Stock options and deferred compensation agreements	181,054	137,289
Restricted stock and restricted stock units	299,760	239,475
Denominator for earnings per common share - assuming dilution	96,215,665	92,021,079
Earnings per common share	\$ 2.84	\$ 2.58
Earnings per common share - assuming dilution	\$ 2.82	\$ 2.57

During the three months ended March 31, 2021, there were 100,000 options to purchase shares of our common stock outstanding, with an exercise price of \$30.50, excluded from the computation of diluted earnings per common share. During the three months ended March 31, 2020, there were 50,000 options to purchase shares of our common stock outstanding, with an exercise price of \$26.70, excluded from the computation of diluted earnings per share.

### Stockholders' Equity

On June 10, 2020, we issued 12,000 shares of 6.625% Fixed-Rate Reset Non-Cumulative Preferred Stock, Series B ("Series B") with a \$1.00 par value per share and a liquidation preference of \$25,000 per share, for aggregate net proceeds of \$290.3 million.

On November 21, 2019 we issued 16,000 shares of 5.95% Fixed-Rate Reset Non-Cumulative Preferred Stock, Series A ("Series A") with a \$1.00 par value per share and a liquidation preference of \$25,000 per share, for aggregate net proceeds of \$388.9 million.

Dividends on the Series A and Series B preferred stock are payable on a non-cumulative basis only when, as and if declared, quarterly in arrears on the first day of March, June, September and December of each year, commencing on March 1, 2020 for Series A and on December 1, 2020 for Series B. For the three months ended March 31, 2021, we paid dividends totaling \$5.9 million and \$5.0 million on the Series A preferred stock and Series B preferred stock, respectively. For the three months ended March 31, 2020, we paid dividends totaling \$6.6 million on the Series A preferred stock. The Series A and Series B preferred stock rank senior to our common stock with respect to dividends, to the extent declared, and in liquidation, to the extent of the liquidation preference. The Series A and Series B preferred stock are not subject to any mandatory redemption, sinking fund, retirement fund, purchase fund or similar provisions.

### Brookfield Asset Management Equity Investment

On October 18, 2020, we announced an agreement with Brookfield Asset Management, Inc. and its affiliated entities (collectively, "Brookfield") under which Brookfield will acquire up to a 19.9% ownership interest of common stock in the Company. The equity investment by Brookfield will take place in two stages: an initial purchase of a 9.9% equity interest at \$37.00 per share which closed on November 30, 2020 with Brookfield purchasing 9,106,042 shares, and a second purchase of up to an incremental 10.0% equity interest, at the greater value of \$37.00 per share or adjusted book value per share (excluding AOCI and the net impact of fair value accounting for derivatives and embedded derivatives). The second equity investment is subject to finalization of a proposed reinsurance transaction that has been agreed to in principle, receipt of applicable regulatory approvals and other closing conditions. Brookfield also received one seat on the Company's Board of Directors following the initial equity investment.

### Share Repurchase Program

On October 18, 2020, the Company's Board of Directors approved a \$500 million share repurchase program. The purpose of the share repurchase program is to both offset dilution from the issuance of shares to Brookfield and to institute a regular cash return program for shareholders. We started the buyback program on October 30, 2020 and have repurchased 2.0 million shares of our common stock for \$53 million in the open market as of March 31, 2021.

On November 30, 2020 we entered into an accelerated share repurchase (ASR) agreement with Citibank, N.A. to repurchase an aggregate of \$115 million of our common stock. Under the ASR agreement, we received an initial share delivery of approximately 3.5 million shares. The final settlement of 0.5 million shares, which was based on the volume-weighted average price of our common stock during the term of the transaction, less a discount and subject to customary adjustments, was delivered on February 25, 2021. The average price paid for shares repurchased under the ASR was \$28.45 per common share. The ASR agreement was determined to be an equity contract.

As of March 31, 2021, we have repurchased approximately 6.1 million shares of our common stock at an average price of \$27.63 per common share.

#### *Treasury Stock*

As of March 31, 2021, we held 6,916,584 shares of treasury stock with a carrying value of \$164.3 million. As of December 31, 2020, we held 6,516,525 shares of treasury stock with a carrying value of \$151.6 million.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis reviews our unaudited consolidated financial position at March 31, 2021, and the unaudited consolidated results of operations for the three month periods ended March 31, 2021 and 2020, and where appropriate, factors that may affect future financial performance. This analysis should be read in conjunction with our unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q, and the audited consolidated financial statements, notes thereto and selected consolidated financial data appearing in our Annual Report on Form 10-K for the year ended December 31, 2020. Interim operating results for the three months ended March 31, 2021 are not necessarily indicative of the results expected for the entire year. Preparation of financial statements requires use of management estimates and assumptions.

### Cautionary Statement Regarding Forward-Looking Information

All statements, trend analysis and other information contained in this report and elsewhere (such as in filings by us with the SEC, press releases, presentations by us or management or oral statements) may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended. Forward-looking statements give expectations or forecasts of future events and do not relate strictly to historical or current facts. They may relate to markets for our products, trends in our operations or financial results, strategic alternatives, future operations, strategies, plans, partnerships, investments, share buybacks and other financial developments. They use words and terms such as accelerate, anticipate, believe, can, could, enable, estimate, expect, improve, intend, may, migrating, model, objective, opportunity, outlook, plan, potential, project, seek, should, strategy, sustainable, target, will, would, and other words and terms of similar meaning or that are otherwise tied to future periods or future performance, in each case in all forms of speech and derivative forms, or similar words, as well as any projections of future events or results. Forward-looking statements, by their nature, are subject to a variety of , assumptions, risks, and uncertainties that could cause actual results to differ materially from the results projected. Many of these risks and uncertainties cannot be controlled by the Company. Factors that may cause our actual decisions or results to differ materially from those contemplated by these forward-looking statements include, among other things:

- general economic conditions and other factors, including prevailing interest rate levels and stock and credit market performance which may affect (among other things) our ability to sell our products, our ability to access capital resources and the costs associated therewith, the fair value of our investments, which could result in credit losses, and certain liabilities, and the lapse rate and profitability of policies;
- major public health issues, and specifically the COVID-19 pandemic and the resulting impacts on economic conditions and financial markets;
- customer response to new products and marketing initiatives;
- changes in Federal income tax laws and regulations which may affect the relative income tax advantages of our products;
- increasing competition in the sale of fixed annuities;
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products and regulation of the sale, underwriting and pricing of products; and
- the risk factors or uncertainties listed from time to time in our filings with the SEC.

For a detailed discussion of these and other factors that might affect our performance, see Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020. 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 disclosed or anticipated by the Company will not materially adversely affect our results of operations or plans. Investors are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf.

### Our Business and Profitability

We specialize in the sale of individual annuities (primarily fixed and fixed index deferred annuities) through independent marketing organizations ("IMOs"), agents, banks and broker-dealers. Fixed and fixed index annuities are an important product for Americans looking to fund their retirement needs as annuities have the ability to provide retirees a paycheck for life.

Under U.S. GAAP, premium collections for deferred annuities are reported as deposit liabilities instead of as revenues. Similarly, cash payments to policyholders are reported as decreases in the liabilities for policyholder account balances and not as expenses. Sources of revenues for products accounted for as deposit liabilities are net investment income, surrender charges assessed against policy withdrawals and fees deducted from policyholder account balances for lifetime income benefit riders, net realized gains (losses) on investments and changes in fair value of derivatives. Components of expenses for products accounted for as deposit liabilities are interest sensitive and index product benefits (primarily interest credited to account balances and changes in the liability for lifetime income benefit riders), changes in fair value of embedded derivatives, amortization of deferred sales inducements and deferred policy acquisition costs, other operating costs and expenses and income taxes.

Our profitability depends in large part upon:



- the amount of assets under our management,
- investment spreads we earn on our policyholder account balances,
- our ability to manage our investment portfolio to maximize returns and minimize risks such as interest rate changes and defaults or credit losses,
- our ability to appropriately price for lifetime income benefit riders offered on certain of our fixed rate and fixed index annuity policies,
- our ability to manage interest rates credited to policyholders and costs of the options purchased to fund the annual index credits on our fixed index annuities,
- our ability to manage the costs of acquiring new business (principally commissions paid to agents and distribution partners and bonuses credited to policyholders),
- our ability to manage our operating expenses, and
- income taxes.

We are implementing an updated strategy, referred to as AEL 2.0, after having undertaken a thorough review of our business in 2020. AEL 2.0 is designed to capitalize on the scarcity value of our annuity origination and couple it with an “open architecture” investment management platform for investing the annuity assets. Our approach to investment management is to partner with best in class investment management firms across a wide array of asset classes and capture part of the asset management value chain economics for our shareholders. This will enable AEL to operate at the intersection of both asset management and insurance. Our updated strategy focuses on four key pillars: Go-to-Market, Investment Management, Capital Structure and Foundational Capabilities.

The Go-to-Market pillar focuses on how we generate long-term client assets, referred to as policyholder funds under management, through annuity product sales. We consider our marketing capabilities and franchise to be one of our core competitive strengths. The liabilities we expect to originate will result in stable, long-term attractive funding, which we will invest to earn a spread and return over the prudent level of risk capital. American Equity Life has become one of the leading insurance companies in the IMO distribution channel over our 25-year history and can tap into a core set of loyal independent producers to originate new annuity product sales. We are focused on growing our loyal producers with one million dollars or greater of annuity product sales each year. We plan to increase our share of annuity product sales generated by IMOs and accelerate our expansion into bank, broker dealer and registered investment advisor distribution through our subsidiary, Eagle Life Insurance Company. Our strategy is to improve sales execution and enhance producer loyalty with product solutions, focused marketing campaigns, distribution analytics to enhance both sales productivity and producer engagement and new client engagement models that complement traditional physical face-to-face interactions.

The Investment Management pillar will enable the return on assets to generate adequate spread income. In an environment where risk free rates are between zero and one percent, insurers need to invest for better risk-adjusted yields than what are available in traditional fixed income securities. Our investment strategy is to look for opportunities to invest in alpha-producing specialty sub-sectors like middle market credit and sectors with contractually strong cash flows like real estate and infrastructure. Our investment management strategy includes forming partnerships with certain asset managers that will provide access to specific asset sectors, resulting in a sustainable supply of quality private investments, in addition to traditional fixed income securities. The partnerships with asset managers may include us taking an equity interest in the asset manager to create greater alignment or forming an alternate economic sharing arrangement so we benefit as our partners scale their platforms with third party assets under management.

The Capital Structure pillar is focused on greater use of reinsurance structuring to both optimize asset allocation for our balance sheet and enable American Equity Life to free up capital and become a capital-light company over time. We are working diligently to complete in 2021 the announced reinsurance partnerships with Värde Partners and Agam Capital Management, LLC and their affiliated entities (collectively, “Värde/Agam”) as well as Brookfield Asset Management Inc. and its affiliated entities (collectively, “Brookfield”) and the formation of our own reinsurance platform. These transactions will enable us to achieve three business outcomes over time: first, free up capital to potentially return to shareholders, second, redeploy capital into higher yielding alpha generating assets to grow investment income relative to new money yields in a traditional core fixed income portfolio and third, successfully demonstrating the first two outcomes will allow us to raise third-party capital into reinsurance vehicles (“side-cars”) to provide risk capital to back a portion of our existing liabilities and future sales of annuity products. This will enable us to convert from an investment spread business with our own capital at risk into a combination spread based and fee based business with externally sourced risk capital. In combination, we expect these three outcomes to generate sustained, deployable capital for shareholders and significant accretion in return on equity (“ROE”) over time.

The Foundational Capabilities pillar is focused on upgrading our operating platform to enhance the digital customer experience, create differentiation through data analytics to support the first three pillars, enhance core technology and align talent. We have maintained high quality personal service as one of our highest priorities since our inception and continue to strive for an unprecedented level of timely and accurate service to both our agents and policyholders. Examples of our high quality service include a live person answering phone calls and issuing policies within 24 hours of receiving the application if the paperwork is in good order. We believe high quality service is one of our strongest competitive advantages and the foundational capabilities pillar will look to continue to enhance our high quality service.

The combination of differentiated investment strategies and increased capital efficiency will improve annuity product competitiveness, thereby enhancing new business growth potential and further strengthening the operating platform. This will complete the virtuous cycle of the AEL 2.0 business model, having started with a strong, at scale annuity originator, that is even further strengthened by the power of the investments and capital structure pillars.

The migration towards the AEL 2.0 business model will result in 2021 being a transitional year for our financial results. We are migrating a fairly large balance sheet from a legacy core fixed income asset strategy with relatively higher asset leverage to a new asset allocation approach encompassing lower asset leverage, capital structure optimization through reinsurance and third-party capital, and utilization of alpha-producing assets to both improve sustainability of investment results in a low-interest rate environment and deliver superior, loss adjusted net yield over time. The scaling of alpha-producing assets is expected to be a multi-year journey with approximately \$2 billion of alpha-producing assets added to our investment portfolio each year.

On October 18, 2020, the Company's Board of Directors approved a \$500 million share repurchase program. The purpose of the share repurchase program is to both offset dilution from the issuance of shares to Brookfield and to institute a regular cash return program for shareholders. We started the buyback program on October 30, 2020 and entered into an accelerated share repurchase (ASR) agreement with Citibank, N.A. on November 30, 2020. As of May 6, 2021, we have repurchased approximately 6.1 million shares of our common stock at an average price of \$27.66 per common share.

On April 14, 2021, Fitch affirmed its "A-" financial strength rating on American Equity Investment Life Insurance Company and its life insurance subsidiaries, its "BBB" issuer default rating on American Equity Investment Life Holding Company and its "BBB-" senior unsecured debt ratings, and revised its outlook to "stable" from "negative" on its financial strength, issuer default and senior unsecured debt ratings.

Earnings from products accounted for as deposit liabilities are primarily generated from the excess of net investment income earned over the interest credited or the cost of providing index credits to the policyholder, or the "investment spread." Our investment spread is summarized as follows:

	Three Months Ended March 31,	
	2021	2020
Average yield on invested assets	3.58%	4.36%
Aggregate cost of money	1.58%	1.72%
Aggregate investment spread	2.00%	2.64%
Impact of:		
Investment yield - additional prepayment income	0.11%	0.06%
Cost of money benefit from over hedging	0.02%	0.05%

The cost of money for fixed index annuities and average crediting rates for fixed rate annuities are computed based upon policyholder account balances and do not include the impact of amortization of deferred sales inducements. See Critical Accounting Policies - Deferred Policy Acquisition Costs and Deferred Sales Inducements included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020. With respect to our fixed index annuities, the cost of money includes the average crediting rate on amounts allocated to the fixed rate strategy and expenses we incur to fund the annual index credits. Proceeds received upon expiration of call options purchased to fund annual index credits are recorded as part of the change in fair value of derivatives, and are largely offset by an expense for interest credited to annuity policyholder account balances. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities and Financial Condition - Derivative Instruments included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020.

The current environment of low interest rates and low yields for investments with the credit quality we prefer presents a strong headwind to achieving our target rate for investment spread. Active management of policyholder crediting rates has continued to lower the aggregate cost of money. The most recent actions include reductions to caps and crediting rates on \$29.7 billion of policyholder funds in January of 2020 and reductions to participation rates on \$4.3 billion of policyholder funds in June 2020. We expect to have flexibility to reduce our crediting rates if necessary and could decrease our cost of money by approximately 57 basis points if we reduce current rates to guaranteed minimums. Average yield on invested assets decreased primarily as a result of a higher level of cash and cash equivalent holdings during the three months ended March 31, 2021 compared to the same period in 2020. The higher level of cash and cash equivalent holdings was a result of our decision to execute a series of trades in the fourth quarter of 2020 designed to raise liquidity to fund the Värde/Agam and Brookfield block reinsurance transactions and de-risk the investment portfolio. Investment yields on fixed income securities purchased and mortgage loans funded during the first quarter of 2021 and most of 2020 were at average rates below the overall portfolio yield excluding the impact of cash and cash equivalent holdings on the overall portfolio yield. See **Net investment income**.

## Results of Operations for the Three Months Ended March 31, 2021 and 2020

Annuity deposits by product type collected during the three months ended March 31, 2021 and 2020, were as follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
American Equity Investment Life Insurance Company:		
Fixed index annuities	\$ 516,995	\$ 586,063
Annual reset fixed rate annuities	2,167	2,331
Multi-year fixed rate annuities	787,192	369
Single premium immediate annuities	13,959	5,398
	1,320,313	594,161
Eagle Life Insurance Company:		
Fixed index annuities	148,836	106,502
Annual reset fixed rate annuities	162	41
Multi-year fixed rate annuities	965,425	4,149
	1,114,423	110,692
Consolidated:		
Fixed index annuities	665,831	692,565
Annual reset fixed rate annuities	2,329	2,372
Multi-year fixed rate annuities	1,752,617	4,518
Single premium immediate annuities	13,959	5,398
Total before coinsurance ceded	2,434,736	704,853
Coinsurance ceded	3,048	17,703
Net after coinsurance ceded	\$ 2,431,688	\$ 687,150

Annuity deposits before and after coinsurance ceded increased 245% and 254%, respectively, during the first quarter of 2021 compared to the same period in 2020. The increase in sales in for the three months ended March 31, 2021 compared to the same period in 2020 was primarily driven by the sales of multi-year fixed rate annuity products introduced in 2020 at both American Equity Life and Eagle Life. We did make rate changes on these multi-year fixed rate annuity products during the later half of the first quarter of 2021 and would expect sales of such products to decrease through the rest of 2021. Although a majority of first quarter sales were in our multi-year fixed annuity products, we expect to focus our efforts for the rest of the year on the fixed index annuity product-line, especially given our recent product refreshes in that product-line. We are targeting total sales of \$5 billion to \$6 billion in 2021.

Prior to January 1, 2021, we had been ceding 80% of the annuity deposits received from certain multi-year rate guaranteed annuities and 20% of certain fixed index annuities sold by Eagle Life through broker/dealers and banks to an unaffiliated reinsurer. Beginning January 1, 2021, no new business is being ceded to the unaffiliated reinsurer which caused the decrease in coinsurance ceded premiums for the three months ended March 31, 2021 compared to the same period in 2020.

**Net income available to common stockholders** increased to \$271.8 million in the first quarter of 2021 compared to \$236.3 million for the same period in 2020.

Net income available to common stockholders for the three months ended March 31, 2021 was negatively impacted by a decrease in the aggregate investment spread as previously noted. Net income, in general, is impacted by the volume of business in force and the investment spread earned on this business. The average amount of annuity account balances outstanding (net of annuity liabilities ceded under coinsurance agreements) increased 3% to \$54.9 billion for the first quarter of 2021 compared to \$53.3 billion for the same period in 2020. Our investment spread measured in dollars was \$275.6 million for the first quarter of 2021 compared to \$339.1 million for the same period in 2020. Our investment spread has been negatively impacted by the extended low interest rate environment and by holding higher levels of cash and cash equivalents (see **Net investment income**). The higher levels of cash and cash equivalent holdings will continue until the Värde/Agam and Brookfield reinsurance transactions are executed and excess cash and cash equivalent holdings are invested. The impact of the extended low interest rate environment and higher cash and cash equivalent holdings has been partially offset by a lower aggregate cost of money due to our continued active management of new business and renewal rates. Net income available to common stockholders for the three months ended March 31, 2021 was negatively impacted an increase in other operating costs and expenses (see **Other operating costs and expenses**). We expect operating costs to trend higher over the coming quarters, as we will build out the necessary infrastructure to continue execution of the AEL 2.0 strategy and expect the level of other operating costs and expenses to fall into the high- \$40 million range post refinancing our existing AG33 redundant reserve financing facilities in 2021.

In addition, the increase in net income available to common stockholders for the three months ended March 31, 2021 was driven in part by the impact of the change in the fair value of derivatives and embedded derivatives, which fluctuates from period to period based upon changes in fair values of call options purchased to fund the annual index credits for fixed index annuities and changes in interest rates used to discount the embedded derivative liability. Net income for the three months ended March 31, 2021 was positively impacted by a net increase in the discount rates used to estimate the fair value of our embedded derivative liabilities, the impact of which was partially offset by increases in amortization of deferred policy acquisition costs and deferred sales inducements related to the change in fair value of derivatives and embedded derivatives. See **Change in fair value of derivatives**, **Change in fair value of embedded derivatives**, **Amortization of deferred sales inducements** and **Amortization of deferred policy acquisition costs**.

Net income available to common stockholders for the three months ended March 31, 2020 was positively impacted by \$30.8 million related to the provision of the Coronavirus Aid, Relief and Economic Security Act ("CARES ACT") which allowed net operating losses for 2018 through 2020 to be carried back to previous tax years in which a 35% statutory tax rate was in effect.

**Non-GAAP operating income available to common stockholders, a non-GAAP financial measure**, decreased to \$41.4 million in the first quarter of 2021 compared to \$154.1 million for the same period in 2020.

In addition to net income available to common stockholders, we have consistently utilized non-GAAP operating income available to common stockholders, a non-GAAP financial measure commonly used in the life insurance industry, as an economic measure to evaluate our financial performance. Non-GAAP operating income available to common stockholders equals net income available to common stockholders 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 available to common stockholders eliminate the impact of fair value accounting for our fixed index annuity business and 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 available to common stockholders together with net income available to common stockholders provides information that may enhance an investor's understanding of our underlying results and profitability.

Non-GAAP operating income available to common stockholders is not a substitute for net income available to common stockholders determined in accordance with GAAP. The adjustments made to derive non-GAAP operating income available to common stockholders are important to understand our overall results from operations and, if evaluated without proper context, non-GAAP operating income available to common stockholders possesses material limitations. As an example, we could produce a low level of net income available to common stockholders or a net loss available to common stockholders in a given period, despite strong operating performance, if in that period we experience significant net realized losses from our investment portfolio. We could also produce a high level of net income available to common stockholders in a given period, despite poor operating performance, if in that period we generate significant net realized gains from our investment portfolio. As an example of another limitation of non-GAAP operating income available to common stockholders, it does not include the decrease in cash flows expected to be collected as a result of credit losses on financial assets. Therefore, our management reviews net realized investment gains (losses) and analyses of our net investment income, including impacts related to credit losses, in connection with their review of our investment portfolio. In addition, our management examines net income available to common stockholders as part of their review of our overall financial results.

The adjustments made to net income available to common stockholders to arrive at non-GAAP operating income available to common stockholders for the three months ended March 31, 2021 and 2020 are set forth in the table that follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Reconciliation from net income available to common stockholders to non-GAAP operating income available to common stockholders:		
Net income available to common stockholders	\$ 271,765	\$ 236,336
Adjustments to arrive at non-GAAP operating income available to common stockholders:		
Net realized gains/losses on financial assets, including credit losses	3,516	16,349
Change in fair value of derivatives and embedded derivatives - fixed index annuities	(297,634)	(120,454)
Change in fair value of derivatives - interest rate caps and swap	—	(848)
Income taxes	63,794	22,702
Non-GAAP operating income available to common stockholders	<u>\$ 41,441</u>	<u>\$ 154,085</u>

The amounts disclosed in the reconciliation above are presented net of related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs where applicable.

The decrease in non-GAAP operating income available to common stockholders for the three months ended March 31, 2021 compared to the same period in 2020 was primarily attributable to the decrease in the aggregate investment spread as previously noted. In addition, higher amortization of deferred policy acquisition costs and deferred sales inducements and a greater increase in the liability for future benefits to be paid for lifetime income benefit riders contributed to the decrease as did an increase in other operating costs and expenses. See **Net investment income**, **Interest sensitive and index product benefits**, **Amortization of deferred sales inducements**, **Amortization of deferred policy acquisition costs** and **Other operating costs and expenses**.

In addition, non-GAAP operating income available to common stockholders for the three months ended March 31, 2020 was impacted by a \$30.8 million tax benefit from a discrete tax item related to the Coronavirus Aid, Relief, and Economic Security Act. **See Net income available to common stockholders.**

**Annuity product charges** (surrender charges assessed against policy withdrawals and fees deducted from policyholder account balances for lifetime income benefit riders) increased 1% to \$60.1 million in the first quarter of 2021 compared to \$59.5 million for the same period in 2020. The components of annuity product charges are set forth in the table that follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Surrender charges	\$ 19,481	\$ 19,705
Lifetime income benefit riders (LIBR) fees	40,601	39,844
	<u>\$ 60,082</u>	<u>\$ 59,549</u>
Withdrawals from annuity policies subject to surrender charges	\$ 260,658	\$ 194,790
Average surrender charge collected on withdrawals subject to surrender charges	7.5 %	10.1 %
Fund values on policies subject to LIBR fees	\$ 5,304,479	\$ 5,195,486
Weighted average per policy LIBR fee	0.77 %	0.77 %

The increase in annuity product charges was attributable to an increase in fees assessed for lifetime income benefit riders due to a larger volume of business in force subject to the fee compared to the prior period. The impact on surrender charges from an increase in withdrawals from annuity policies subject to surrender charges was offset by a lower average surrender charge collected on withdrawals subject to surrender charge due to a change in the surrender charge levels on policies that were surrendered during the three months ended March 31, 2021 compared to the same period in 2020. See **Interest sensitive and index product benefits** below for corresponding expense recognized on lifetime income benefit riders.

**Net investment income** decreased 13% to \$497.2 million in the first quarter of 2021 compared to \$573.3 million for the same period in 2020. The decrease was principally attributable to a decrease in average yield earned on average invested assets during the three months ended March 31, 2021 compared to the same period in 2020, partially offset by increases in our average invested assets during the three months ended March 31, 2021 compared to the same period in 2020. Average invested assets excluding derivative instruments (on an amortized cost basis) increased 6% to \$55.7 billion for the first quarter of 2021 compared to \$52.6 billion for the same period in 2020.

The average yield earned on average invested assets was 3.58% for the first quarter of 2021 compared to 4.36% for the same period in 2020. The decrease in average yield earned for the three months ended March 31, 2021 compared to the same period in 2020 was primarily attributable to an increase in our level of cash and cash equivalent holdings as previously described and investment of new premiums and portfolio cash flows during the first quarter of 2021 and most of 2020 at average rates below the overall portfolio yield, excluding the impact of cash and cash equivalent holdings on the overall portfolio yield. Cash and cash equivalents holdings average \$8.6 billion during the three months ended March 31, 2021 compared to \$0.4 billion during the three months ended March 31, 2020. As of March 31, 2021, we held approximately \$10 billion of cash and cash equivalents yielding 0.02%. We intend to hold approximately 1% to 2% of our investment portfolio in cash and cash equivalents once we are fully invested. The average yield on fixed income securities purchased and mortgage loans funded during the three months ended March 31, 2021 was 4.04%, compared to 3.49% for the same period in 2020. During the first quarter of 2021 we continued to purchase residential mortgage loans which provided a meaningful increase in purchase yields for the three months ended March 31, 2021.

**Change in fair value of derivatives** primarily consists of call options purchased to fund annual index credits on fixed index annuities. The components of change in fair value of derivatives are as follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Call options:		
Gain on option expiration	\$ 178,066	\$ 110,103
Change in unrealized gains/losses	218,210	(1,052,039)
Warrants	29	—
Interest rate caps	—	62
	<u>\$ 396,305</u>	<u>\$ (941,874)</u>

The differences between the change in fair value of derivatives between periods for call options are primarily due to the performance of the indices upon which our call options are based which impacts the fair values and changes in the fair values of those call options between periods. The change in unrealized gains/losses on call options for the three months ended March 31, 2021 compared to the same period in 2020 reflects the impact of the recovery of the equity markets subsequent to the equity markets decline in March of 2020 related to the economic uncertainty caused by the COVID-19 pandemic. A substantial portion of our call options are based upon the S&P 500 Index with the remainder based upon other equity and bond market indices. The range of index appreciation (after applicable caps, participation rates and asset fees) for options expiring during the three months ended March 31, 2021 and 2020 is as follows:

	Three Months Ended March 31,	
	2021	2020
S&P 500 Index		
Point-to-point strategy	0.0% - 42.6%	0.0% - 17.4%
Monthly average strategy	0.0% - 29.4%	0.7% - 11.9%
Monthly point-to-point strategy	0.0% - 21.7%	0.0% - 14.0%
Fixed income (bond index) strategies	0.0% - 10.0%	0.0% - 10.2%

The change in fair value of derivatives is also influenced by the aggregate cost of options purchased. The aggregate cost of options for the three months ended March 31, 2021 were lower than for the same period in 2020 as option costs generally decreased during 2020 and into 2021. The aggregate cost of options is also influenced by the amount of policyholder funds allocated to the various indices and market volatility which affects option pricing. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020.

**Net realized gains (losses) on investments** includes gains and losses on the sale of securities and other investments and credit losses on our securities and mortgage loans on real estate. Net realized gains (losses) on investments fluctuate from year to year primarily due to changes in the interest rate and economic environment and the timing of the sale of investments. See Note 4 and Note 5 to our unaudited consolidated financial statements and Financial Condition - Credit Losses for a detailed presentation of the types of investments that generated the gains (losses) as well as discussion of credit losses on our securities recognized during the periods presented and Financial Condition - Investments and Note 5 to our unaudited consolidated financial statements for discussion of credit losses recognized on mortgage loans on real estate.

Securities sold at losses are generally due to our long-term fundamental concern with the issuers' ability to meet their future financial obligations or to improve our risk or duration profiles as they pertain to our asset liability management. During the first quarter of 2020, securities were sold in order to increase our cash and cash equivalent holdings in response to the COVID-19 pandemic. Securities sold at losses are generally due to our concern with the issuers' fundamental long-term ability to meet their future financial obligations or to improve our risk or duration profiles as they pertain to our asset liability management.

**Interest sensitive and index product benefits** increased 19% to \$476.6 million in the first quarter of 2021 compared to \$400.2 million for the same period in 2020. The components of interest sensitive and index product benefits are summarized as follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Index credits on index policies	\$ 345,737	\$ 278,940
Interest credited (including changes in minimum guaranteed interest for fixed index annuities)	58,123	52,011
Lifetime income benefit riders	72,735	69,268
	<u>\$ 476,595</u>	<u>\$ 400,219</u>

The increase in index credits for the three months ended March 31, 2021 compared to the same period in 2020 was due to changes in the level of appreciation of the underlying indices (see discussion above under **Change in fair value of derivatives**) and the amount of funds allocated by policyholders to the respective index options. Total proceeds received upon expiration of the call options purchased to fund the annual index credits were \$349.1 million for the three months ended March 31, 2021, compared to \$285.3 million for the same period in 2020. The increase in interest credited for the three months ended March 31, 2021 compared to the same period in 2020 was due to an increase in sales of single premium deferred annuity products that receive a fixed rate of interest offset by a reduction in interest credited to funds allocated by policyholders to the fixed option within our fixed index annuities as a result of rate decreases primarily implemented during 2020. The changes in benefits recognized for lifetime income benefit riders for the three months ended March 31, 2021 compared to the same period in 2020 was primarily due to the impact that assumption updates made during the third quarter of 2020 had on the lifetime income benefit riders liability and the pattern of growth of the liability due to those assumption updates. Benefits recognized for lifetime income benefit riders also increased for the three months ended March 31, 2021 as compared to the same periods in 2020 due to an increase in fund value of policies with lifetime income benefit riders, which correlates to the increase in fees discussed in **Annuity product charges**.

The liability (net of coinsurance ceded) for lifetime income benefit riders was \$2.4 billion and \$2.5 billion at March 31, 2021 and December 31, 2020, respectively which includes the impact of unrealized gains and losses on available for sale securities on the liability for lifetime income benefit riders of \$397.1 million and \$584.6 million at March 31, 2021 and December 31, 2020, respectively.

**Amortization of deferred sales inducements** before gross profit adjustments increased for the three months ended March 31, 2021 compared to the same period in 2020 primarily due to the impact assumption updates made during the third quarter of 2020 had on the pattern of amortization of deferred sales inducements. Bonus products represented 75% and 77% of our net annuity account values at March 31, 2021 and March 31, 2020, respectively. The amount of amortization is affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business and amortization associated with net realized gains (losses) on investments. Fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our fixed index annuity contracts. The change in fair value of the embedded derivatives will not correspond to the change in fair value of the derivatives (purchased call options), because the purchased call options are one-year options while the options valued in the fair value of embedded derivatives cover the expected lives of the contracts which typically exceed ten years.

Amortization of deferred sales inducements is summarized as follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Amortization of deferred sales inducements before gross profit adjustments	\$ 53,187	\$ 43,908
Gross profit adjustments:		
Fair value accounting for derivatives and embedded derivatives	70,245	31,799
Net realized losses on investments	(457)	(2,116)
Amortization of deferred sales inducements after gross profit adjustments	<u>\$ 122,975</u>	<u>\$ 73,591</u>

**Change in fair value of embedded derivatives** includes changes in the fair value of our fixed index annuity embedded derivatives (see Note 6 to our unaudited consolidated financial statements). The components of change in fair value of embedded derivatives are as follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Fixed index annuities - embedded derivatives	\$ (377,121)	\$ (1,285,071)
Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting	94,708	35,010
	<u>\$ (282,413)</u>	<u>\$ (1,250,061)</u>

The change in fair value of the fixed index annuity embedded derivatives resulted from (i) changes in the expected index credits on the next policy anniversary dates, which are related to the change in fair value of the call options acquired to fund those index credits discussed above in **Change in fair value of derivatives**; (ii) changes in the expected annual cost of options we will purchase in the future to fund index credits beyond the next policy anniversary; (iii) changes in the discount rates used in estimating our embedded derivative liabilities; and (iv) the growth in the host component of the policy liability. The amounts presented as "Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting" represent the total change in the difference between policy benefit reserves for fixed index annuities computed under the derivative accounting standard and the long-duration contracts accounting standard at each balance sheet date, less the change in fair value of our fixed index annuities embedded derivative. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020.

The primary reason for the change in the change in fair value of the fixed index annuity embedded derivatives during the three months ended March 31, 2021 compared to the same period of 2020 was an increase in the expected index credits on the next policy anniversary dates resulting from increases in the fair value of the call options acquired to fund these index credits during the three months ended March 31, 2021 compared to decreases in the expected index credits resulting from decreases in the fair value of the call options acquired to fund these index credits during the three months ended March 31, 2020. These increases in the fair value of the fixed index annuity embedded derivatives for the three months ended March 31, 2021 were partially offset by a larger increase in the net discount rate during the three months ended March 31, 2021 compared to the same period of 2020. The increase in the net discount rate for the three months ended March 31, 2021 consists primarily of an increase in treasury rates. The discount rates used in estimating our embedded derivative liabilities fluctuate based on the changes in the general level of risk free interest rates and our own credit spread.



**Amortization of deferred policy acquisition costs** before gross profit adjustments increased for the three months ended March 31, 2021 compared to the same period in 2020 primarily due to the impact assumption updates made during the third quarter of 2020 had on the pattern of amortization of deferred policy acquisition costs as well as the growth in our annuity business and the deferral of policy acquisition costs incurred with respect to sales of annuity products. The amount of amortization is affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business and amortization associated with net realized gains (losses) on investments. As discussed above, fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our fixed index annuity contracts.

Amortization of deferred policy acquisition costs is summarized as follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Amortization of deferred policy acquisition costs before gross profit adjustments	\$ 78,657	\$ 66,256
Gross profit adjustments:		
Fair value accounting for derivatives and embedded derivatives	125,920	57,639
Net realized losses on investments	(754)	(3,193)
Amortization of deferred policy acquisition costs after gross profit adjustments	\$ 203,823	\$ 120,702

**Other operating costs and expenses** increased 28% to \$55.9 million in the first quarter of 2021 compared to \$43.6 million for the same periods in 2020 and are summarized as follows:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Salary and benefits	\$ 27,953	\$ 22,155
Risk charges	12,042	10,840
Other	15,870	10,631
Total other operating costs and expenses	\$ 55,865	\$ 43,626

Salary and benefits for the three months ended March 31, 2021 increased compared to the same period in 2020 as a result of an increase in salary and benefits of \$1.8 million and an increase of \$3.4 million related to expense recognized under our equity and cash incentive compensation programs ("incentive compensation programs"). The increases in salary and benefits were due to an increased number of employees related to our continued growth and implementation of AEL 2.0. The increases in expenses related to our incentive compensation programs were primarily due to an increase in the expected payouts due to a larger number of employees participating in the programs and higher potential payouts for certain employees participating in the programs.

The increase in risk charges expense for the three months ended March 31, 2021 compared to the same period in 2020 was due to an increase in the amount of excess regulatory reserves ceded to an unaffiliated reinsurer. The excess regulatory reserves ceded at March 31, 2021 and 2020 were \$1,455.0 million and \$1,225.3 million, respectively.

Other expenses increased for the three months ended March 31, 2021 compared to the same period in 2020 primarily as a result of increases in legal and consulting fees related to the implementation of AEL 2.0 and increases in depreciation and maintenance expense related to software and hardware assets.

**Income tax expense** was \$78.5 million in the first quarter of 2021 compared to \$27.2 million for the same period in 2020. The change in income tax expense was primarily due to changes in income before income taxes as well as changes in the effective income tax rates. The effective income tax rates were 21.7% and 10.1% for the three months ended March 31, 2021 and 2020, respectively.

Income tax expense and the resulting effective tax rate are based upon two components of income before income taxes ("pretax income") that are taxed at different tax rates. Life insurance income is generally taxed at an effective rate of approximately 21.5% reflecting the absence of state income taxes for substantially all of the states that the life insurance subsidiaries do business in. The income for the parent company and other non-life insurance subsidiaries (the "non-life insurance group") is generally taxed at an effective tax rate of 29.5% reflecting the combined federal / state income tax rates. The effective income tax rates resulting from the combination of the income tax provisions for the life / non-life sources of income vary from period to period based primarily on the relative size of pretax income from the two sources.



The effective tax rate for the three months ended March 31, 2021 was not significantly impacted by discrete tax items. The effective tax rate for the three months ended March 31, 2020 was impacted by a discrete tax item that provided a tax benefit of \$30.8 million related to the provision of the Coronavirus Aid, Relief, and Economic Security Act that allowed net operating losses for 2018 through 2020 to be carried back to previous tax years in which a 35% statutory tax rate was in effect. The effective income tax rate for the three months ended March 31, 2020 was also impacted by a discrete tax item related to share-based compensation that provided a tax benefit of approximately \$0.4 million. The effective income tax rates excluding the impact of discrete items were 21.7% and 21.6%, respectively, for the three months ended March 31, 2021 and 2020, respectively.

## Financial Condition

### Investments

Our investment strategy is to maintain a predominantly investment grade fixed income portfolio, provide adequate liquidity to meet our cash obligations to policyholders and others and maximize current income and total investment return through active investment management. Consistent with this strategy, our investments principally consist of fixed maturity securities and mortgage loans on real estate.

Insurance statutes regulate the type of investments that our life subsidiaries are permitted to make and limit the amount of funds that may be used for any one type of investment. In light of these statutes and regulations and our business and investment strategy, we generally seek to invest in United States government and government-sponsored agency securities, corporate securities, residential and commercial mortgage backed securities, other asset backed securities and United States municipalities, states and territories securities rated investment grade by NRSRO's or in securities of comparable investment quality, if not rated and mortgage loans on real estate.

As previously noted, as part of our AEL 2.0 investment pillar, we intend to ramp up our allocation to alpha assets by partnering with proven asset managers in our focus expansion sectors of middle market credit, real estate, infrastructure debt and agricultural loans.

The composition of our investment portfolio is summarized as follows:

	March 31, 2021		December 31, 2020	
	Carrying Amount	Percent	Carrying Amount	Percent
(Dollars in thousands)				
Fixed maturity securities:				
United States Government full faith and credit	\$ 38,727	0.1 %	\$ 39,771	0.1 %
United States Government sponsored agencies	1,027,441	1.9 %	1,039,551	1.9 %
United States municipalities, states and territories	3,655,844	7.0 %	3,776,131	7.0 %
Foreign government obligations	193,944	0.4 %	202,706	0.4 %
Corporate securities	29,890,265	57.0 %	31,156,827	58.1 %
Residential mortgage backed securities	1,346,473	2.6 %	1,512,831	2.8 %
Commercial mortgage backed securities	4,177,242	8.0 %	4,261,227	8.0 %
Other asset backed securities	5,360,405	10.2 %	5,549,849	10.4 %
Total fixed maturity securities	45,690,341	87.2 %	47,538,893	88.7 %
Mortgage loans on real estate	4,290,602	8.2 %	4,165,489	7.8 %
Derivative instruments	1,509,892	2.9 %	1,310,954	2.4 %
Other investments	908,437	1.7 %	590,078	1.1 %
	<u>\$ 52,399,272</u>	<u>100.0 %</u>	<u>\$ 53,605,414</u>	<u>100.0 %</u>

### Fixed Maturity Securities

Our fixed maturity security portfolio is managed to minimize risks such as interest rate changes and defaults or credit losses while earning a sufficient and stable return on our investments. The largest portion of our fixed maturity securities are in investment grade (NAIC designation 1 or 2) publicly traded or privately placed corporate securities.

A summary of our fixed maturity securities by NRSRO ratings is as follows:

Rating Agency Rating	March 31, 2021		December 31, 2020	
	Carrying Amount	Percent of Fixed Maturity Securities	Carrying Amount	Percent of Fixed Maturity Securities
(Dollars in thousands)				
Aaa/Aa/A	\$ 26,363,222	57.7 %	\$ 27,883,428	58.7 %
Baa	18,108,379	39.6 %	18,408,954	38.7 %
Total investment grade	44,471,601	97.3 %	46,292,382	97.4 %
Ba	972,986	2.1 %	973,581	2.0 %
B	115,164	0.3 %	122,553	0.3 %
Caa	60,977	0.1 %	61,037	0.1 %
Ca and lower	69,613	0.2 %	89,340	0.2 %
Total below investment grade	1,218,740	2.7 %	1,246,511	2.6 %
	<u>\$ 45,690,341</u>	<u>100.0 %</u>	<u>\$ 47,538,893</u>	<u>100.0 %</u>

The NAIC's Securities Valuation Office ("SVO") is responsible for the day-to-day credit quality assessment and the valuation of fixed maturity securities owned by state regulated insurance companies. The purpose of such assessment and valuation is for determining regulatory capital requirements and regulatory reporting. Insurance companies report ownership to the SVO when such securities are eligible for regulatory filings. The SVO conducts credit analysis on these securities for the purpose of assigning a NAIC designation and/or unit price. Typically, if a security has been rated by an NRSRO, the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

NAIC Designation	NRSRO Equivalent Rating
1	Aaa/Aa/A
2	Baa
3	Ba
4	B
5	Caa
6	Ca and lower

For most of the bonds held in our portfolio the NAIC designation matches the NRSRO equivalent rating. However, for certain loan-backed and structured securities, as defined by the NAIC, the NAIC rating is not always equivalent to the NRSRO rating presented in the previous table. The NAIC has adopted revised rating methodologies for certain loan-backed and structured securities comprised of non-agency residential mortgage backed securities ("RMBS") and commercial mortgage backed securities ("CMBS"). The NAIC's objective with the revised rating methodologies for these structured securities is to increase the accuracy in assessing expected losses and use the improved assessment to determine a more appropriate capital requirement for such structured securities. The revised methodologies reduce regulatory reliance on rating agencies and allow for greater regulatory input into the assumptions used to estimate expected losses from structured securities.

The use of this process by the SVO may result in certain non-agency RMBS and CMBS being assigned an NAIC designation that is higher than the equivalent NRSRO rating. The NAIC designations for non-agency RMBS and CMBS are based on security level expected losses as modeled by an independent third party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized. Evaluation of non-agency RMBS and CMBS held by insurers using the NAIC rating methodologies is performed on an annual basis.

As stated previously, our fixed maturity security portfolio is managed to minimize risks such as defaults or impairments while earning a sufficient and stable return on our investments. Our strategy has been to invest primarily in investment grade fixed maturity securities. Investment grade is NAIC 1 and 2 securities and Baa3/BBB- and better securities on the NRSRO scale. This strategy meets the objective of minimizing risk while also managing asset capital charges on a regulatory capital basis.

A summary of our fixed maturity securities by NAIC designation is as follows:

NAIC Designation	March 31, 2021				December 31, 2020			
	Amortized Cost	Fair Value	Carrying Amount	Percent of Total Carrying Amount	Amortized Cost	Fair Value	Carrying Amount	Percent of Total Carrying Amount
	(Dollars in thousands)				(Dollars in thousands)			
1	\$ 23,074,878	\$ 25,301,796	\$ 25,301,796	55.4 %	\$ 23,330,149	\$ 26,564,542	\$ 26,564,542	55.9 %
2	17,431,710	18,833,794	18,833,794	41.2 %	17,312,485	19,377,013	19,377,013	40.8 %
3	1,305,190	1,310,371	1,310,371	2.9 %	1,292,124	1,299,455	1,299,455	2.7 %
4	209,974	189,560	189,560	0.4 %	282,049	256,651	256,651	0.5 %
5	40,511	27,540	27,540	0.1 %	29,396	16,288	16,288	— %
6	52,196	27,280	27,280	— %	58,533	24,944	24,944	0.1 %
	<u>\$ 42,114,459</u>	<u>\$ 45,690,341</u>	<u>\$ 45,690,341</u>	<u>100.0 %</u>	<u>\$ 42,304,736</u>	<u>\$ 47,538,893</u>	<u>\$ 47,538,893</u>	<u>100.0 %</u>

The amortized cost and fair value of fixed maturity securities at March 31, 2021, by contractual maturity, are presented in Note 4 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

## Unrealized Losses

The amortized cost and fair value of fixed maturity securities that were in an unrealized loss position were as follows:

	Number of Securities	Amortized Cost	Unrealized Losses, Net of Allowance	Allowance for Credit Losses	Fair Value
(Dollars in thousands)					
<b>March 31, 2021</b>					
Fixed maturity securities, available for sale:					
United States Government full faith and credit	5	\$ 23,074	\$ (422)	\$ —	\$ 22,652
United States Government sponsored agencies	2	160,047	(50)	—	159,997
United States municipalities, states and territories	43	248,802	(5,831)	(2,791)	240,180
Foreign government obligations	1	14,165	(212)	—	13,953
Corporate securities:					
Finance, insurance and real estate	26	385,276	(9,931)	(14,931)	360,414
Manufacturing, construction and mining	20	164,806	(6,912)	—	157,894
Utilities and related sectors	53	531,754	(20,060)	(815)	510,879
Wholesale/retail trade	16	143,965	(8,230)	—	135,735
Services, media and other	44	501,739	(14,196)	(39,969)	447,574
Residential mortgage backed securities	65	307,751	(3,599)	(1,192)	302,960
Commercial mortgage backed securities	71	622,986	(32,625)	—	590,361
Other asset backed securities	473	3,290,313	(95,615)	—	3,194,698
	<u>819</u>	<u>\$ 6,394,678</u>	<u>\$ (197,683)</u>	<u>\$ (59,698)</u>	<u>\$ 6,137,297</u>
<b>December 31, 2020</b>					
Fixed maturity securities, available for sale:					
United States Government sponsored agencies	3	\$ 250,521	\$ (46)	\$ —	\$ 250,475
United States municipalities, states and territories	14	36,558	(1,044)	(2,844)	32,670
Corporate securities:					
Finance, insurance and real estate	11	111,522	(1,733)	—	109,789
Manufacturing, construction and mining	2	20,719	(1,384)	—	19,335
Utilities and related sectors	49	377,368	(19,141)	(11,996)	346,231
Wholesale/retail trade	12	85,937	(4,370)	—	81,567
Services, media and other	29	261,449	(9,264)	(48,197)	203,988
Residential mortgage backed securities	43	173,875	(2,526)	(1,734)	169,615
Commercial mortgage backed securities	122	1,034,424	(64,678)	—	969,746
Other asset backed securities	558	3,728,144	(146,640)	—	3,581,504
	<u>843</u>	<u>\$ 6,080,517</u>	<u>\$ (250,826)</u>	<u>\$ (64,771)</u>	<u>\$ 5,764,920</u>

The unrealized losses at March 31, 2021 are principally related to the impacts the COVID-19 pandemic has had on credit markets. Approximately 77% and 75% of the unrealized losses on fixed maturity securities shown in the above table for March 31, 2021 and December 31, 2020, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations.

The decrease in unrealized losses from December 31, 2020 to March 31, 2021 was primarily related to the increase in treasury yields during the three months ended March 31, 2021. The 10-year U.S. Treasury yields at March 31, 2021 and December 31, 2020 were 1.74% and 0.93%, respectively. The 30-year U.S. Treasury yields at March 31, 2021 and December 31, 2020 were 2.41% and 1.65%, respectively.

The following table sets forth the composition by credit quality (NAIC designation) of fixed maturity securities with gross unrealized losses:

NAIC Designation	Carrying Value of Securities with Gross Unrealized Losses	Percent of Total	Gross Unrealized Losses (1)	Percent of Total
(Dollars in thousands)				
<b>March 31, 2021</b>				
1	\$ 2,613,419	42.6 %	\$ (65,634)	33.2 %
2	2,771,856	45.2 %	(87,447)	44.2 %
3	566,492	9.2 %	(33,422)	16.9 %
4	149,453	2.4 %	(6,992)	3.6 %
5	15,540	0.3 %	(2,358)	1.2 %
6	20,537	0.3 %	(1,830)	0.9 %
	<u>\$ 6,137,297</u>	<u>100.0 %</u>	<u>\$ (197,683)</u>	<u>100.0 %</u>
<b>December 31, 2020</b>				
1	\$ 2,625,341	45.5 %	\$ (82,045)	32.7 %
2	2,286,377	39.7 %	(106,700)	42.5 %
3	650,364	11.3 %	(42,040)	16.8 %
4	178,669	3.1 %	(16,274)	6.5 %
5	4,991	0.1 %	(1,640)	0.7 %
6	19,178	0.3 %	(2,127)	0.8 %
	<u>\$ 5,764,920</u>	<u>100.0 %</u>	<u>\$ (250,826)</u>	<u>100.0 %</u>

(1) Gross unrealized losses have been adjusted to reflect the allowance for credit loss of \$59.7 million and \$64.8 million as of March 31, 2021 and December 31, 2020, respectively.

Our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 819 and 843 securities, respectively) have been in a continuous unrealized loss position at March 31, 2021 and December 31, 2020, along with a description of the factors causing the unrealized losses is presented in Note 4 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

The amortized cost and fair value of fixed maturity securities in an unrealized loss position and the number of months in a continuous unrealized loss position (fixed maturity securities that carry an NRSRO rating of BBB/Baa or higher are considered investment grade) were as follows:

	Number of Securities	Amortized Cost, Net of Allowance (1)	Fair Value	Gross Unrealized Losses, Net of Allowance (1)
(Dollars in thousands)				
<b>March 31, 2021</b>				
Fixed maturity securities, available for sale:				
Investment grade:				
Less than six months	255	\$ 2,347,083	\$ 2,303,764	\$ (43,319)
Six months or more and less than twelve months	36	384,570	372,973	(11,597)
Twelve months or greater	405	2,924,114	2,820,220	(103,894)
Total investment grade	696	5,655,767	5,496,957	(158,810)
Below investment grade:				
Less than six months	20	95,605	94,982	(623)
Six months or more and less than twelve months	13	37,954	35,719	(2,235)
Twelve months or greater	90	545,654	509,639	(36,015)
Total below investment grade	123	679,213	640,340	(38,873)
	819	\$ 6,334,980	\$ 6,137,297	\$ (197,683)
<b>December 31, 2020</b>				
Fixed maturity securities, available for sale:				
Investment grade:				
Less than six months	54	\$ 686,711	\$ 679,337	\$ (7,374)
Six months or more and less than twelve months	310	2,201,769	2,118,844	(82,925)
Twelve months or greater	338	2,400,833	2,288,755	(112,078)
Total investment grade	702	5,289,313	5,086,936	(202,377)
Below investment grade:				
Less than six months	9	48,355	47,984	(371)
Six months or more and less than twelve months	37	155,451	146,779	(8,672)
Twelve months or greater	95	522,627	483,221	(39,406)
Total below investment grade	141	726,433	677,984	(48,449)
	843	\$ 6,015,746	\$ 5,764,920	\$ (250,826)

- (1) Amortized cost and gross unrealized losses have been adjusted to reflect the allowance for credit loss of \$59.7 million and \$64.8 million as of March 31, 2021 and December 31, 2020, respectively.

The amortized cost and fair value of fixed maturity securities (excluding United States Government and United States Government sponsored agency securities) segregated by investment grade (NRSRO rating of BBB/Baa or higher) and below investment grade that had unrealized losses greater than 20% and the number of months in a continuous unrealized loss position were as follows:

	Number of Securities	Amortized Cost, Net of Allowance (1)	Fair Value	Gross Unrealized Losses, Net of Allowance (1)
(Dollars in thousands)				
<b>March 31, 2021</b>				
Investment grade:				
Less than six months	1	\$ 10,399	\$ 8,876	\$ (1,523)
Six months or more and less than twelve months	1	2,937	2,260	(677)
Twelve months or greater	—	—	—	—
Total investment grade	2	13,336	11,136	(2,200)
Below investment grade:				
Less than six months	6	32,717	32,310	(407)
Six months or more and less than twelve months	1	5,963	5,128	(835)
Twelve months or greater	6	7,320	6,290	(1,030)
Total below investment grade	13	46,000	43,728	(2,272)
	15	\$ 59,336	\$ 54,864	\$ (4,472)
<b>December 31, 2020</b>				
Investment grade:				
Less than six months	1	\$ 2,453	\$ 1,909	\$ (544)
Six months or more and less than twelve months	4	21,368	15,589	(5,779)
Twelve months or greater	—	—	—	—
Total investment grade	5	23,821	17,498	(6,323)
Below investment grade:				
Less than six months	1	5,963	4,323	(1,640)
Six months or more and less than twelve months	8	38,046	38,046	—
Twelve months or greater	5	3,875	3,062	(813)
Total below investment grade	14	47,884	45,431	(2,453)
	19	\$ 71,705	\$ 62,929	\$ (8,776)

(1) Amortized cost and gross unrealized losses have been adjusted to reflect the allowance for credit loss of \$59.7 million and \$64.8 million as of March 31, 2021 and December 31, 2020, respectively.

The amortized cost and fair value of fixed maturity securities, by contractual maturity, that were in an unrealized loss position are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our mortgage and other asset backed securities provide for periodic payments throughout their lives, and are shown below as a separate line.

	Available for sale	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
March 31, 2021		
Due in one year or less	\$ 7,957	\$ 7,571
Due after one year through five years	253,949	232,526
Due after five years through ten years	460,608	424,386
Due after ten years through twenty years	644,183	617,106
Due after twenty years	806,931	767,689
	2,173,628	2,049,278
Residential mortgage backed securities	307,751	302,960
Commercial mortgage backed securities	622,986	590,361
Other asset backed securities	3,290,313	3,194,698
	\$ 6,394,678	\$ 6,137,297
December 31, 2020		
Due in one year or less	\$ 2,324	\$ 1,864
Due after one year through five years	382,843	360,761
Due after five years through ten years	396,842	355,188
Due after ten years through twenty years	216,725	203,282
Due after twenty years	145,340	122,960
	1,144,074	1,044,055
Residential mortgage backed securities	173,875	169,615
Commercial mortgage backed securities	1,034,424	969,746
Other asset backed securities	3,728,144	3,581,504
	\$ 6,080,517	\$ 5,764,920

#### International Exposure

We hold fixed maturity securities with international exposure. As of March 31, 2021, 16% of the carrying value of our fixed maturity securities was comprised of corporate debt securities of issuers based outside of the United States and debt securities of foreign governments. All of our fixed maturity securities with international exposure are denominated in U.S. dollars. Our investment professionals analyze each holding for credit risk by economic and other factors of each country and industry. The following table presents our international exposure in our fixed maturity portfolio by country or region:

	March 31, 2021		
	Amortized Cost	Carrying Amount/ Fair Value	Percent of Total Carrying Amount
	(Dollars in thousands)		
GIIPS (1)	\$ 271,677	\$ 276,201	0.6 %
Asia/Pacific	406,325	452,295	1.0 %
Non-GIIPS Europe	2,537,325	2,784,352	6.1 %
Latin America	252,838	286,177	0.6 %
Non-U.S. North America	1,329,446	1,466,558	3.2 %
Australia & New Zealand	992,752	1,048,705	2.3 %
Other	830,336	909,932	2.0 %
	<u>\$ 6,620,699</u>	<u>\$ 7,224,220</u>	<u>15.8 %</u>

(1) Greece, Ireland, Italy, Portugal and Spain ("GIIPS"). All of our exposure in GIIPS are corporate securities with issuers domiciled in these countries. None of our foreign government obligations were held in any of these countries.



All of the securities presented in the table above are investment grade (NAIC designation of either 1 or 2), except for the following:

	March 31, 2021	
	Amortized Cost	Carrying Amount/ Fair Value
	(Dollars in thousands)	
GIIPS	\$ 62,202	\$ 49,312
Asia/Pacific	11,000	10,833
Non-GIIPS Europe	106,001	103,284
Latin America	73,716	79,071
Non-U.S. North America	64,209	63,699
Other	87,356	91,698
	<u>\$ 404,484</u>	<u>\$ 397,897</u>

#### Watch List

At each balance sheet date, we identify invested assets which have characteristics (i.e., significant unrealized losses compared to amortized cost and industry trends) creating uncertainty as to our future assessment of credit losses. As part of this assessment, we review not only a change in current price relative to its amortized cost but the issuer's current credit rating and the probability of full recovery of principal based upon the issuer's financial strength. For corporate issues, we evaluate the financial stability and quality of asset coverage for the securities relative to the term to maturity for the issues we own. For asset-backed securities, we evaluate changes in factors such as collateral performance, default rates, loss severities and expected cash flows. At March 31, 2021, the amortized cost and fair value of securities on the watch list (all fixed maturity securities) are as follows:

General Description	Number of Securities	Amortized Cost	Allowance for Credit Losses	Amortized Cost, Net of Allowance	Net Unrealized Losses, Net of Allowance	Fair Value
(Dollars in thousands)						
Corporate securities - Public securities	10	\$ 141,385	\$ (39,737)	\$ 101,648	\$ (1,816)	\$ 99,832
Corporate securities - Private placement securities	20	205,522	(15,978)	189,544	(2,137)	187,407
Residential mortgage backed securities	17	36,729	(1,192)	35,537	(1,442)	34,095
Commercial mortgage backed securities	6	69,324	—	69,324	(5,695)	63,629
Other asset backed securities	1	35,000	—	35,000	(484)	34,516
United States municipalities, states and territories	5	19,062	(2,791)	16,271	(574)	15,697
	<u>59</u>	<u>\$ 507,022</u>	<u>\$ (59,698)</u>	<u>\$ 447,324</u>	<u>\$ (12,148)</u>	<u>\$ 435,176</u>

We expect to recover the unrealized losses, net of allowances, as we did not have the intent to sell and it was not more likely than not that we would be required to sell these securities prior to recovery of the amortized cost basis, net of allowances. Our analysis of these securities and their credit performance at March 31, 2021 is as follows:

**Corporate securities - public securities:** The public corporate securities included on the watch list are primarily domestic oil drillers or securities with exposure to the travel industry. The decline in value of the securities of domestic oil drillers is due to the continuing low level of oil prices, which has caused credit metrics to continue to be under pressure. The decline in value and the heightened credit risk on the securities with exposure to the travel industry is primarily due to the impact COVID-19 has had on the travel industry.

**Corporate securities - private placement securities:** The private placement securities included on the watch list are spread across numerous industries, the most significant of which is the airlines industry. The heightened credit risk on these securities is primarily due to the impact COVID-19 has had on the travel industry.

**Residential mortgage backed securities:** The residential mortgage backed securities included on the watch list have generally experienced higher levels of stress due to the impact COVID-19 is having on the economy. While there is a heightened level of credit risk for the residential mortgage backed securities included on the watch list, we expect minimal credit losses on these securities based on our current analyses.

**Commercial mortgage backed securities:** The commercial mortgage backed securities included on the watch list have generally experienced higher levels of stress due to the impact COVID-19 is having on the economy.

**Other asset backed securities:** The decline in value of these securities, which are related to the auto rental industry, is primarily a result of the impact COVID-19 has had on the travel industry. We have not taken any credit losses on these securities as we do not expect any credit losses on the securities based on our current analyses.

**United States municipalities, states and territories:** The decline in value of these securities, which are related to senior living facilities in the Southeastern region of the United States, is primarily due to the financial strain COVID-19 is having on this industry.

### *Credit Losses*

We have a policy and process to identify securities in our investment portfolio for which we recognize credit loss. See Note 4 to our unaudited consolidated financial statements.

During the three months ended March 31, 2021, we recognized \$1.4 million of credit losses which includes \$2 million of credit losses on corporate securities partially offset by a \$0.6 million net reduction in credit losses on residential mortgage back securities.

During the three months ended March 31, 2020, we recognized credit losses of \$28.3 million on corporate securities with exposure to the offshore drilling industry. In addition, during the three months ended March 31, 2020 we recognized credit losses of \$2.5 million on commercial mortgage backed securities due to our intent to sell the securities and \$0.5 million on an asset backed security due to our intent to sell.

Several factors led us to believe that full recovery of amortized cost is not expected on the securities for which we recognized credit losses. A discussion of these factors, our policy and process to identify securities that could potentially have credit loss is presented in Note 4 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

### *Mortgage Loans on Real Estate*

Our financing receivables consist of three mortgage loan portfolio segments: commercial mortgage loans, agricultural mortgage loans and residential mortgage loans. Our commercial mortgage loan portfolio consists of mortgage loans collateralized by the related properties and diversified as to property type, location and loan size. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and other criteria to attempt to reduce the risk of default. Our agricultural mortgage loan portfolio consists of loans with an outstanding principal balance of \$266.3 million and \$245.8 million as of March 31, 2021 and December 31, 2020, respectively. These loans are collateralized by agricultural land and are diversified as to location within the United States. Our residential mortgage loan portfolio consists of loans with an outstanding principal balance of \$496.1 million and \$366.3 million as of March 31, 2021 and December 31, 2020, respectively. These loans are collateralized by the related properties and diversified as to location within the United States. Mortgage loans on real estate are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances.

At March 31, 2021 and December 31, 2020, the largest principal amount outstanding for any single commercial mortgage loan was \$27.9 million and \$34.7 million, respectively, and the average loan size was \$4.7 million and \$4.8 million, respectively. In addition, the average loan to value ratio for commercial and agricultural mortgage loans combined was 53.3% and 53.6% at March 31, 2021 and December 31, 2020, respectively, based upon the underwriting and appraisal at the time the loan was made. This loan to value is indicative of our conservative underwriting policies and practices for making mortgage loans and may not be indicative of collateral values at the current reporting date. Our current practice is to only obtain market value appraisals of the underlying collateral at the inception of the loan unless we identify indicators of impairment in our ongoing analysis of the portfolio, in which case, we either calculate a value of the collateral using a capitalization method or obtain a third party appraisal of the underlying collateral. The commercial mortgage loan portfolio is summarized by geographic region and property type in Note 5 to our unaudited consolidated financial statements in this Form 10-Q, incorporated by reference in this Item 2.

In the normal course of business, we commit to fund commercial mortgage loans up to 90 days in advance. At March 31, 2021, we had commitments to fund mortgage loans totaling \$110.9 million, with interest rates ranging from 3.21% to 5.65%. During 2021 and 2020, due to historically low interest rates, the commercial mortgage loan industry has been very competitive. This competition has resulted in a number of borrowers refinancing with other lenders. For the three months ended March 31, 2021, we received \$56.2 million in cash for loans being paid in full compared to \$45.0 million for the three months ended March 31, 2020. Some of the loans being paid off have either reached their maturity or are nearing maturity; however, some borrowers are paying the prepayment fee and refinancing at a lower rate.

See Note 5 to our unaudited consolidated financial statements, incorporated by reference, for a presentation of our valuation allowance, foreclosure activity and troubled debt restructure analysis. We have a process by which we evaluate the credit quality of each of our mortgage loans. This process utilizes each loan's loan-to-value and debt service coverage ratios as primary metrics. See Note 5 to our unaudited consolidated financial statements, incorporated by reference, for a summary of our portfolio by loan-to-value and debt service coverage ratios.

We closely monitor loan performance for our commercial, agricultural and residential mortgage loan portfolios. Commercial, agricultural and residential loans are considered nonperforming when they are 90 days or more past due. Aging of financing receivables is summarized in the following table:

	Current	30-59 days past due	60-89 days past due	Over 90 days past due	Total
<b>As of March 31, 2021:</b>					
	<b>(Dollars in thousands)</b>				
Commercial mortgage loans	\$ 3,545,927	\$ —	\$ —	\$ —	\$ 3,545,927
Agricultural mortgage loans	265,585	—	—	—	265,585
Residential mortgage loans	368,443	96,188	40,260	2,713	507,604
Total mortgage loans	<u>\$ 4,179,955</u>	<u>\$ 96,188</u>	<u>\$ 40,260</u>	<u>\$ 2,713</u>	<u>\$ 4,319,116</u>
<b>As of December 31, 2020:</b>					
Commercial mortgage loans	\$ 3,578,888	\$ —	\$ —	\$ —	\$ 3,578,888
Agricultural mortgage loans	245,173	—	—	—	245,173
Residential mortgage loans	346,730	25,449	111	167	372,457
Total mortgage loans	<u>\$ 4,170,791</u>	<u>\$ 25,449</u>	<u>\$ 111</u>	<u>\$ 167</u>	<u>\$ 4,196,518</u>

### Derivative Instruments

Our derivative instruments primarily consist of call options purchased to provide the income needed to fund the annual index credits on our fixed index annuity products. The fair value of the call options is based upon the amount of cash that would be required to settle the call options obtained from the counterparties adjusted for the nonperformance risk of the counterparty. The nonperformance risk for each counterparty is based upon its credit default swap rate. We have no performance obligations related to the call options.

None of our derivatives qualify for hedge accounting, thus, any change in the fair value of the derivatives is recognized immediately in the consolidated statements of operations. A presentation of our derivative instruments along with a discussion of the business strategy involved with our derivatives is included in Note 6 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

### Liquidity and Capital Resources

Our insurance subsidiaries generally have adequate cash flows from annuity deposits and investment income to meet their policyholder and other obligations. Net cash flows from annuity deposits and funds returned to policyholders as surrenders, withdrawals and death claims were \$1,389.5 million for the three months ended March 31, 2021 compared to \$(211.0) million for the three months ended March 31, 2020, with the increase attributable to a \$1,735.9 million increase in net annuity deposits after coinsurance and a \$135.4 million (after coinsurance) increase in funds returned to policyholders. We continue to invest the net proceeds from policyholder transactions and investment activities in high quality fixed maturity securities and mortgage loans. We have a highly liquid investment portfolio that can be used to meet policyholder and other obligations as needed. In addition, we intend to hold approximately 1% to 2% of our investment portfolio in cash and cash equivalents.

We, as the parent company, are a legal entity separate and distinct from our subsidiaries, and have no business operations. We need liquidity primarily to service our debt (senior notes and subordinated debentures issued to subsidiary trusts), pay operating expenses, and pay dividends to common and preferred stockholders. Our assets consist primarily of the capital stock and surplus notes of our subsidiaries. Accordingly, our future cash flows depend upon the availability of dividends, surplus note interest payments and other statutorily permissible payments from our subsidiaries, such as payments under our investment advisory agreements and tax allocation agreement with our subsidiaries. We expect these sources provide adequate cash flow for us to meet our current and reasonably foreseeable future obligations.

The ability of our life insurance subsidiaries to pay dividends or distributions, including surplus note payments, will be limited by applicable laws and regulations of the states in which our life insurance subsidiaries are domiciled, which subject our life insurance subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, our insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay.

Currently, American Equity Investment Life Insurance Company ("American Equity Life") may pay dividends or make other distributions without the prior approval of the Iowa Insurance Commissioner, unless such payments, together with all other such payments within the preceding twelve months, exceed the greater of (1) American Equity Life's net gain from operations for the preceding calendar year, or (2) 10% of American Equity Life's statutory capital and surplus at the preceding December 31. For 2021, up to \$372.9 million can be distributed as dividends by American Equity Life without prior approval of the Iowa Insurance Commissioner. In addition, dividends and surplus note payments may be made only out of statutory earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities in the life subsidiary's state of domicile. American Equity Life had \$2.1 billion of statutory earned surplus at March 31, 2021.

The maximum distribution permitted by law or contract is not necessarily indicative of an insurer's actual ability to pay such distributions, which may be constrained by business and regulatory considerations, such as the impact of such distributions on surplus, which could affect the insurer's ratings or competitive position, the amount of premiums that can be written and the ability to pay future dividends or make other distributions. Further, state insurance laws and regulations require that the statutory surplus of our life subsidiaries following any dividend or distribution must be reasonable in relation to their outstanding liabilities and adequate for their financial needs. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength ratings from rating agencies. Both regulators and rating agencies could become more conservative in their methodology and criteria, including increasing capital requirements for our insurance subsidiaries which, in turn, could negatively affect the cash available to us from insurance subsidiaries. As of March 31, 2021, we estimate American Equity Life has sufficient statutory capital and surplus, combined with capital available to the holding company, to maintain its insurer financial strength rating. However, this capital may not be sufficient if significant future losses are incurred or a rating agency modifies its rating criteria and access to additional capital could be limited.

The transfer of funds by American Equity Life is also restricted by a covenant in our line of credit agreement which requires American Equity Life to maintain a minimum RBC ratio of 275% and a minimum level of statutory surplus equal to the sum of 1) 80% of statutory surplus at June 30, 2016, 2) 50% of the statutory net income for each fiscal quarter ending after June 30, 2016, and 3) 50% of all capital contributed to American Equity Life after June 30, 2016. American Equity Life's RBC ratio was 372% at December 31, 2020. Under this agreement, we are also required to maintain a maximum ratio of adjusted debt to total adjusted capital of 0.35.

Cash and cash equivalents of the parent holding company at March 31, 2021, were \$495.5 million. In addition, we have a \$150 million revolving line of credit, with no borrowings outstanding, available through September 2021 for general corporate purposes of the parent company and its subsidiaries. We also have the ability to issue equity, debt or other types of securities through one or more methods of distribution. The terms of any offering would be established at the time of the offering, subject to market conditions.

### **New Accounting Pronouncements**

See Note 1 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

### **Regulatory Developments**

The U.S. Department of Labor (the "DOL") issued new guidance during the first quarter of 2021 broadening the criteria for when an advisor on ERISA or Individual Retirement Account products has a fiduciary duty to the client. Advisors who sell our products who may be fiduciaries will have more complex compliance and disclosure obligations, and as a result higher costs. In addition, to the extent the DOL requires a fiduciary institution to oversee such an advisor, we or the IMO's with whom we partner may have more complex compliance and disclosure obligations, and as a result higher costs and greater risk.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We seek to invest our available funds in a manner that will maximize shareholder value and fund future obligations to policyholders and debtors, subject to appropriate risk considerations. We seek to meet this objective through investments that: (i) consist substantially of investment grade fixed maturity securities, (ii) have projected returns which satisfy our spread targets, and (iii) have characteristics which support the underlying liabilities. Many of our products incorporate surrender charges, market interest rate adjustments or other features, including lifetime income benefit riders, to encourage persistency.

We seek to maximize the total return on our fixed maturity securities through active investment management. Accordingly, we have determined that our available for sale portfolio of fixed maturity securities is available to be sold in response to: (i) changes in market interest rates, (ii) changes in relative values of individual securities and asset sectors, (iii) changes in prepayment risks, (iv) changes in credit quality outlook for certain securities, (v) liquidity needs, and (vi) other factors.

Interest rate risk is our primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can affect the profitability of our products and the fair value of our investments. The profitability of most of our products depends on the spreads between interest yield on investments and rates credited on insurance liabilities. We have the ability to adjust crediting rates (caps, participation rates or asset fee rates for fixed index annuities) on substantially all of our annuity liabilities at least annually (subject to minimum guaranteed values). Substantially all of our annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. In addition, a significant amount of our fixed index annuity policies and many of our annual reset fixed rate deferred annuities were issued with a lifetime income benefit rider which we believe improves the persistency of such annuity products. However, competitive factors, including the impact of the level of surrenders and withdrawals, may limit our ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

A major component of our interest rate risk management program is structuring the investment portfolio with cash flow characteristics consistent with the cash flow characteristics of our insurance liabilities. We use models to simulate cash flows expected from our existing business under various interest rate scenarios. These simulations enable us to measure the potential gain or loss in fair value of our interest rate-sensitive financial instruments, to evaluate the adequacy of expected cash flows from our assets to meet the expected cash requirements of our liabilities and to determine if it is necessary to lengthen or shorten the average life and duration of our investment portfolio. The "duration" of a security is the time weighted present value of the security's expected cash flows and is used to measure a security's sensitivity to changes in interest rates. When the durations of assets and liabilities are similar, exposure to interest rate risk is minimized because a change in value of assets should be largely offset by a change in the value of liabilities.

If interest rates were to increase 10% (24 basis points) from levels at March 31, 2021, we estimate that the fair value of our fixed maturity securities would decrease by approximately \$790.0 million. The impact on stockholders' equity of such decrease (net of income taxes and certain adjustments for changes in amortization of deferred policy acquisition costs and deferred sales inducements and policy benefit reserves) would be a decrease of \$334.5 million in accumulated other comprehensive income and a decrease in stockholders' equity. The models used to estimate the impact of a 10% change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of our financial instruments indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because we actively manage our investments and liabilities, our net exposure to interest rates can vary over time. However, any such decreases in the fair value of our fixed maturity securities (unless related to credit concerns of the issuer requiring recognition of a credit loss) would generally be realized only if we were required to sell such securities at losses prior to their maturity to meet our liquidity needs, which we manage using the surrender and withdrawal provisions of our annuity contracts and through other means. See Financial Condition - Liquidity for Insurance Operations included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020 for a further discussion of the liquidity risk.

The amortized cost of fixed maturity securities that are callable at the option of the issuer, excluding securities with a make-whole provision, was \$6.3 billion as of March 31, 2021. We have reinvestment risk related to these redemptions to the extent we cannot reinvest the net proceeds in assets with credit quality and yield characteristics similar to the redeemed bonds. Such reinvestment risk typically occurs in a declining rate environment. In addition, we have \$4.1 billion of floating rate fixed maturity securities as of March 31, 2021. Generally, interest rates on these floating rate fixed maturity securities are based on the 3 month LIBOR rate and are reset quarterly. Should rates decline to levels which tighten the spread between our average portfolio yield and average cost of interest credited on annuity liabilities, we have the ability to reduce crediting rates (caps, participation rates or asset fees for fixed index annuities) on most of our annuity liabilities to maintain the spread at our targeted level. At March 31, 2021, approximately 97% of our annuity liabilities were subject to annual adjustment of the applicable crediting rates at our discretion, limited by minimum guaranteed crediting rates specified in the policies. At March 31, 2021, approximately 18% of our annuity liabilities were at minimum guaranteed crediting rates.

We purchase call options on the applicable indices to fund the annual index credits on our fixed index annuities. These options are primarily one-year instruments purchased to match the funding requirements of the underlying policies. Fair value changes associated with those investments are substantially offset by an increase or decrease in the amounts added to policyholder account balances for fixed index products. The difference between proceeds received at expiration of these options and index credits, as shown in the following table, is primarily due to under or over-hedging as a result of policyholder behavior being different than our expectations.

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Proceeds received at expiration of options related to such credits	\$ 349,119	\$ 285,263
Annual index credits to policyholders on their anniversaries	345,737	278,940

On the anniversary dates of the index policies, we purchase new one-year call options to fund the next annual index credits. The risk associated with these prospective purchases is the uncertainty of the cost, which will determine whether we are able to earn our spread on our fixed index business. We manage this risk through the terms of our fixed index annuities, which permit us to change caps, participation rates and asset fees, subject to contractual features. By modifying caps, participation rates or asset fees, we can limit option costs to budgeted amounts, except in cases where the contractual features would prevent further modifications. Based upon actuarial testing which we conduct as a part of the design of our fixed index products and on an ongoing basis, we believe the risk that contractual features would prevent us from controlling option costs is not material.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

In accordance with the Securities Exchange Act Rules 13a-15(e) and 15d-15(e), our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded the design and operation of our disclosure controls and procedures were effective as of March 31, 2021 in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

See Note 8 - Commitments and Contingencies to the unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 1, for any required disclosure.

**Item 1A. Risk Factors**

Our 2020 Annual Report on Form 10-K described our Risk Factors.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Securities**

The following table presents the amount of our share purchase activity for the periods indicated:

Period	Total Number of Shares Purchased (a) (shares)	Average Price Paid Per Share (dollars)	Total number of shares purchased as part of publicly announced program (b) (shares)	Approximate dollar value of shares that may yet be purchased under program (dollars in thousands)
January 1, 2021 - January 31, 2021	—	\$ —	—	\$ —
February 1, 2021 - February 28, 2021	550,490	\$ 28.44	541,631	\$ 335,000
March 1, 2021 - March 31, 2021	98,935	\$ 30.37	98,728	\$ 332,000
Total	649,425		640,359	

(a) Includes 9,066 shares of common stock utilized to execute certain stock incentive awards.

(b) On October 18, 2020, the Company's Board of Directors approved a \$500 million share repurchase program.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
10.1 *	<a href="#">Separation Agreement dated April 21, 2021 between American Equity Investment Life Insurance Company and Renee D. Montz</a>
10.2 *	<a href="#">Form of Employee Restricted Stock Unit Award Agreement - Performance Based Award, effective April 2021</a>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101	The following materials from American Equity Investment Life Holding Company's Quarterly Report on Form 10-Q for the period ended March 31, 2021 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Loss, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Consolidated Financial Statements.
104	The cover page from American Equity Investment Life Holding Company's Quarterly Report on Form 10-Q for the period ended March 31, 2021 formatted in iXBRL and contained in Exhibit 101.

\* Denotes management contract or compensatory plan.

## SIGNATURES

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 thereunto duly authorized.

Date: May 10, 2021

AMERICAN EQUITY INVESTMENT LIFE  
HOLDING COMPANY

By: /s/ Ted M. Johnson

Ted M. Johnson, Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)

By: /s/ Scott A. Samuelson

Scott A. Samuelson, Vice President and Chief Accounting Officer  
(Principal Accounting Officer)



## SEPARATION AGREEMENT

THIS SEPARATION AGREEMENT (this “*Agreement*”) is entered into as of April 1, 2021 between American Equity Investment Life Insurance Company (the “*Company*”) and Renee D. Montz (the “*Executive*”) (collectively, the “*Parties*”).

## WITNESSETH:

WHEREAS, Executive is separating from all positions with the Company and its respective affiliates.

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, the adequacy and sufficiency of which are hereby acknowledged, the Company and Executive agree as follows:

1. **Resignation and Termination of Employment.** Executive’s employment will be terminated and Executive hereby resigns, each effective as of the close of business on June 15, 2021 (the “*Termination Date*”), from her position and from all other positions as an officer or director of the Company and its subsidiaries and affiliates (the “*Company Group*”). During the period commencing on the date of this Agreement (the “*Transition Date*”) and ending on the Termination Date (or such earlier date as mutually agreed between the Parties), Executive shall cease to be General Counsel and Secretary and shall instead serve as Legal Advisor and shall cooperate with and assist in the orderly transition of her duties and shall diligently perform such other services reasonably consistent with her position as may be requested from time to time. Executive’s current base salary shall remain in effect, and Executive (and her eligible dependents) shall also remain eligible to participate in the Company’s applicable employee benefit plans and shall remain subject to and comply with the Company’s code of business conduct and other employment policies; provided, however, the Parties may elect to accelerate the Termination Date to any date following the Transition Date (including upon Executive’s death or disability).

2. **Payment of Accrued Amounts.** The Company shall pay to Executive the portion of her annual salary that has accrued but is unpaid as of the Termination Date not later than the second payroll date after the Termination Date. In accordance with Company policy, Executive shall be reimbursed for any outstanding business expenses.

3. **Severance Benefits.** Subject to: (a) Executive’s successful completion of the tasks within the transition plan to be developed by management (with Company approval of the completion of such transition plan not to be unreasonably withheld), (b) execution of the attached form of Waiver and Release as of the day after the Termination Date (allowing such agreement to become final and irrevocable), and (c) any other qualifications set forth herein Executive shall receive the following benefits:

(a) **Cash benefits.** The Company shall pay to Executive the sum of:

1. Executive’s monthly base salary for the number of full or partial months between the Termination Date and March 31, 2022;
2. 125% of Executive’s target incentive award for 2021, which equals \$413,000; and
3. A payment of \$15,000 for continuation of Executive’s health insurance coverage.

Payment shall commence not later than 28 days after the Termination Date in substantially equal quarterly installments ending on March 15, 2022.

(b) **Long-Term Incentive Awards.** With respect to any outstanding equity awards granted to Executive by the Company, Executive shall be eligible for continued vesting and exercisability for the maximum period allowable under each award agreement as if Executive had remained an active employee of the Company through the entire term of each award agreement issued to Executive. The respective payout amounts (if any) of such awards shall be determined in a manner consistent with that used to determine the amounts of such awards payable to active executives for such respective periods, and each such award shall be payable at the time or times such respective awards are paid to active executives and considered a separate, short-term deferral for purposes of section 409A of the Code. All such awards payable in shares shall be subject to the Company’s applicable resale restrictions, if any. The specific equity awards granted to Executive by the Company to which this subparagraph shall apply are listed in Exhibit A hereto.

(c) **Executive and Other Benefits.**

1. If Executive is entitled to any benefit under any employee benefit plan of the Company that is accrued and vested on the Termination Date and that is not expressly referred to in this Agreement, such benefit shall be provided to Executive in accordance with the terms of such employee benefit plan.

2. The Company shall reimburse Executive for reasonable fees incurred for services rendered to Executive by a professional outplacement organization selected by Executive and reasonably acceptable to the Company to provide individual outplacement services,

3. Notwithstanding anything else contained in this Agreement to the contrary, Executive acknowledges and agrees that she is not and shall not be entitled to benefits under any other severance or change in control plan, program, agreement or arrangement, and that the benefits provided under this Agreement shall be the sole and exclusive benefits to which Executive may become entitled upon her termination of employment. In the event Executive dies prior to executing the Waiver and Release (as defined below), neither she, her estate, nor any other person shall be entitled to any further compensation or benefits under this Agreement, unless and until the executor of Executive's estate (and/or such other heirs or representatives as may be requested by the Company) executes upon Company request and does not revoke such a Waiver and Release.

4. **Tax Withholding.** The Company shall deduct from the amounts payable to Executive pursuant to this Agreement the amount of all required federal, state and local withholding taxes in accordance with Executive's Form W-4 on file with the Company and all applicable social security and Medicare taxes.

5. **Waiver and Release.** Notwithstanding anything herein to the contrary, Executive's right to the payments and benefits under this Agreement shall be contingent upon Executive (a) successfully cooperating with and assisting in the orderly transition of her duties as may reasonably be requested from time to time, (b) having executed and delivered to the Company a waiver and general release agreement substantially in the form attached hereto as Exhibit B (the "*Waiver and Release*") not earlier than the Termination Date but in no event more than 21 days after the Termination Date (the "*Consideration Period*"), (c) not revoking such release in accordance with the terms of the release and (d) Executive not violating any of Executive's ongoing obligations under this Agreement including without limitation the Restrictive Covenants described below.

6. **Restrictive Covenants.**

(a) **Noncompetition.** In consideration of the payments by the Company to Executive pursuant to this Agreement, Executive hereby covenants and agrees that, while employed by the Company and for the 18-month period following the Termination Date, Executive shall not, without the prior written consent of the Company, be employed by, engaged by, or otherwise assist, either as an individual on her own or as a partner, joint venturer, employee, agent, consultant, officer, trustee, director, owner, part-owner, shareholder, or in any other capacity, directly or indirectly, with any of the following entities: Apollo Global Management, Blackstone, Brookfield (solely with respect to matters involving the Company), the Carlyle Group, KKR & Co. Inc., Paulson Investment Company, or Sixth Street Partners, or any successor, affiliate or portfolio company of such entities that competes with the Company with respect to the sale of fixed index and fixed rate annuities. The foregoing restriction shall not include the passive ownership of securities in any entity listed above and the exercise of rights appurtenant thereto, so long as such securities represent no more than two percent of the voting power of all securities of such enterprise.

(b) **Nonsolicitation.** In further consideration of the payments by the Company to Executive pursuant to this Agreement, Executive hereby covenants and agrees that, while employed by the Company and for the 18-month period following the Termination Date, Executive shall not either directly or indirectly on Executive's own behalf or in the service or on behalf of others (i) attempt to influence, persuade or induce, or assist any other person in so influencing, persuading or inducing, any employee or independent contractor of the Company Group to give up, or to not commence, employment or a business relationship with the Company Group, (ii) unless otherwise in contravention of applicable law, directly, or indirectly through direction to any third party, hire or engage, or cause to be hired or engaged, any person who is an employee or independent contractor of the Company, or (iii) attempt to influence, persuade or induce, or assist any other person in so influencing, persuading or inducing, any agent, consultant, vendor, supplier or customer of the Company Group with whom Executive has had contact within the last twenty-four months of her relationship with the Company Group or about whom Executive has confidential information to give up or not commence, a business relationship with the Company.

(c) **Nondisparagement.** The Parties agree and promise that they will not make any disparaging remarks or comments regarding Executive or the Company, its parents, affiliates and successors and its and their officers, directors, employees, agents and representatives. The Parties further agree not to post or publish any information pertaining to Executive or the Company, its officers, directors or agents on the internet or in any manner. The Parties acknowledge that if either were to violate this covenant, the aggrieved party would not have adequate damages at law and that it would be appropriate for a court to enter an injunction prohibiting any further violation; further, if either party obtains a final judgment of a court of competent jurisdiction, pursuant to which either party is determined to have breached their obligations under this covenant, the prevailing party shall be entitled to recover, in addition to any award of damages, its reasonable attorneys' fees, costs, and expenses incurred in obtaining such judgment.

(d) **Enforcement.**

1. Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 6 would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

2. In addition, the Company shall be entitled to immediately cease paying any amounts remaining due or providing any benefits to Executive pursuant to this Agreement in the event that Executive has breached any of Executive's obligations under this Section 6. In such event, the Company may require that Executive repay all cash amounts theretofore paid to Executive pursuant to this Agreement and, in such case, Executive shall promptly repay such amounts on the terms determined by the Company. Notwithstanding anything to the contrary, any outstanding equity awards (including any shares issued upon vesting of the award) shall be subject to any clawback provisions set forth in the applicable award agreement and all Equity Awards shall be subject to any clawback or recoupment policy adopted by the Board from time to time.

3. If the Company seeks a restraining order, an injunction or any other form of equitable relief, and recovers any such relief, the Company shall be entitled to recover its reasonable attorneys' fees, court costs, and other costs incurred obtaining that relief (even if other relief sought is denied). If the Company obtains a final judgment of a court of competent jurisdiction, pursuant to which Executive is determined to have breached his/her obligations under this Agreement, the Company shall be entitled to recover, in addition to any award of damages, its reasonable attorneys' fees, costs, and expenses incurred by the Company in obtaining such judgment.

4. The parties agree that the provisions of this paragraph are reasonable and necessary. Executive understands that the provisions of Sections 6(a) and 6(b) may limit Executive's ability to earn a livelihood in a business similar to the Company's business but she nevertheless agrees and hereby acknowledges that (i) such provisions do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company, (ii) such provisions contain reasonable limitations as to time and scope of activity to be restrained, (iii) such provisions are not harmful to the general public, (iv) such provisions are not unduly burdensome to Executive, and (v) the consideration provided hereunder is sufficient to compensate Executive for the restrictions contained in Sections 6(a) and 6(b). In consideration of the foregoing and in light of Executive's education, skills and abilities, Executive agrees that Executive shall not assert that, and it should not be considered that, any provisions of Sections 6(a) and 6(b) otherwise are void, voidable or unenforceable or should be voided or held unenforceable. It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in Sections 6(a) and 6(b) to be reasonable, if a judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

7. **Confidential Information.** As part of and in connection with the execution of this Agreement between Executive and the Company, Executive acknowledges her ongoing obligation (pursuant to state law, Company policies, and her ethical obligations) to keep confidential Company information confidential.

8. **Certain Tax Matters.** The parties intend for this Agreement to comply with section 409A of the Code. In the event the timing of any payment or benefit under this Agreement would result in any tax or penalty under section 409A of the Code, the Company may reasonably adjust the timing of such payment or benefit if doing so will eliminate or materially reduce such tax or penalty and amend this Agreement accordingly. Executive acknowledges that Executive has been advised to consult Executive's personal tax advisor concerning this Agreement and has not relied on the Company for tax advice.

9. **Return of Company Property.** As requested and no later than the Termination Date, Executive agrees that she shall immediately return to the Company any owned physical and electronic property or intellectual property, including but not limited to, any and all documents, files, or other materials, as well as any and all physical equipment, materials, supplies or other property of the Company.

10. **Publicity.** Executive and the Company shall work together in good faith to issue an announcement with respect to Executive's departure from the Company.

11. **Other Employment; Other Plans.** Executive shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any provision of this Agreement. The amounts payable hereunder shall not be reduced by any payments received by Executive from any other employer.

12. **Cooperation by Executive.** During the period between the Executive's Termination Date and March 15, 2022, Executive shall be reasonably available to the Company to respond to requests by it for information pertaining to or relating to matters which may be within the knowledge of Executive. Additionally, for an indefinite period of time, Executive shall not assist in the presentation or prosecution of any disputes, differences, grievances, claims, charges or complaints on behalf of any private or third party against any of the party released under this Agreement or the Waiver and Release; however, nothing herein shall be construed as prohibiting Executive from participating as required by order, law, subpoena or otherwise in any investigation, proceeding, or action initiated or pursued by any state or federal regulatory agency or body. Executive; shall cooperate fully with the Company in connection with any existing or future investigation, proceeding, dispute, claim, litigation or other proceedings brought by or against the Company, its subsidiaries or affiliates, to the extent Company reasonably deems the Executive's cooperation necessary, including truthful interviews, depositions, testimony, production or execution of documentation in any way related to such proceeding.

13. **Successors; Binding Agreement.** This Agreement shall inure to the benefit of and be binding upon the Company and its successors, and by Executive, her spouse, personal or legal representatives, executors, administrators and heirs. This Agreement, being personal, may not be assigned by Executive.

14. **Governing Law;.** This Agreement is made and entered into in the State of Iowa, and shall in all respects be interpreted, enforced and governed under the laws of Iowa. The language of all parts of this Severance Agreement and General Release shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against any of the parties.

15. **Entire Agreement.** This Agreement and the Waiver and Release constitute the entire agreement and understanding between the parties with respect to the subject matter hereof and supersede and preempt any other understandings, agreements or representations by or between the parties, written or oral, which may have related in any manner to the subject matter hereof. Executive acknowledges that the Company has made no representations regarding the tax consequences of payments under this Agreement and has had the opportunity to consult Executive's tax advisor.

16. **Counterparts.** This Agreement may be executed in two counterparts, each of which shall be deemed to be an original and both of which together shall constitute one and the same instrument.

17. **Miscellaneous.** No provision of this Agreement may be modified or waived unless such modification or waiver is agreed to in writing and executed by Executive and by a duly authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right which Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

18. **Beneficiary.** If Executive dies prior to receiving all of the amounts payable hereunder (other than amounts payable under any plan referenced in Section 3, which shall be governed by any beneficiary designation in effect thereunder) but after executing the Waiver and Release, such amounts shall be paid, except as may be otherwise expressly provided herein or in the applicable plans, to the beneficiary ("*Beneficiary*") designated with respect to this Agreement by Executive in writing to the Vice President, Corporate Compensation of the Company during her lifetime, which Executive may change from time to time by new designation filed in like manner without the consent of any Beneficiary; or if no such Beneficiary is designated, to her surviving spouse, and if there be none, to her estate.

19. **Nonalienation of Benefits.** Benefits payable under this Agreement shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, prior to actually being received by Executive, and any such attempt to dispose of any right to benefits payable hereunder shall be void.

20. **Severability.** If all or any part of this Agreement is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any portion of this Agreement not declared to be unlawful or invalid, except that in the event a determination is made that the Restrictive Covenants as applied to Executive are invalid or unenforceable in whole or in part, then this Agreement shall be void and the Company shall have no obligation to provide benefits hereunder. Any paragraph or part of a paragraph so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such paragraph or part of a paragraph to the fullest extent possible while remaining lawful and valid.

21. **Sections.** Except where otherwise indicated by the context, any reference to a “Section” shall be to a Section of this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer and Executive has executed this Agreement as of the day and year first above written.

**AMERICAN EQUITY INVESTMENT  
LIFE INSURANCE COMPANY**

By: /s/ Jennifer Bryant  
Executive Vice President  
Chief Human Resources Officer

4-1-21  
Date

**EXECUTIVE**

/s/ Renee D. Montz  
Renee D. Montz

4-1-21  
Date

**EXHIBIT A**  
**AWARD AGREEMENTS**

	<u>Target Award</u>
1. 2019 Restricted Stock Unit Agreement (Performance)	3,907 shares
2. 2019 Restricted Stock Unit Agreement (Performance)	11,721 shares
3. 2020 Restricted Stock Unit Agreement (Performance)	4,755 shares
4. 2020 Restricted Stock Unit Agreement (Performance)	14,266 shares
5. 2021 Restricted Stock Unit Agreement (Performance)	11,628 shares
6. 2019 Restricted Stock Unit Agreement (Time-Based)	977 shares
7. 2019 Restricted Stock Unit Agreement (Time-Based)	2,930 shares
8. 2020 Restricted Stock Unit Agreement (Time-Based)	1,189 shares
9. 2020 Restricted Stock Unit Agreement (Time-Based)	3,566 shares
10. 2021 Restricted Stock Unit Agreement (Time-Based)	5,814 shares
11. 2020 Stock Option Agreement (\$27.05/strike)	23,130 options
12. 2020 Stock Option Agreement (\$27.05/strike)	23,130 options
13. 2021 Stock Option Agreement (\$27.40/strike)	20,443 options

**EXHIBIT B**  
**FORM OF WAIVER AND RELEASE UNDER**  
**SEPARATION AGREEMENT**

In consideration for Executive's receiving severance benefits under the Separation Agreement, (the "*Executive*") hereby agrees as follows:

1. Executive hereby irrevocably and unconditionally releases, remises, and forever discharges the Company and each of the Company's owners, members, insurers, stockholders, agents, directors, officers, employees, representatives, attorneys, divisions, subsidiaries, affiliates, and its and their predecessors, successors, heirs, executors, administrators and assigns, and all persons acting on behalf of, by, through, under or in concert with any of them from any and all actions, causes of action, suits, debts, charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, and expenses (including attorneys' fees and costs), of any nature whatsoever, in law or equity, which she ever had, now has, or she or her heirs, executors and administrators hereafter may have, from the beginning of time to the date of Executive's execution of this Agreement, arising from, or otherwise related to, her employment relationship with the Company or the termination thereof, including, but not limited to, any claims arising from any alleged violation by the Company of any federal, state or local statutes, ordinances or common laws, including but not limited to, the Rehabilitation Act of 1973, 29 U.S.C. § 701 *et seq.*; the Americans with Disabilities Act of 1990, 42 U.S.C. § 12101 *et seq.*; Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e *et seq.*; the Age Discrimination in Employment Act, 29 U.S.C. § 621 *et seq.*, as amended by the Older Workers Benefit Protection Act; the Equal Pay Act, 29 U.S.C. § 206(d) *et seq.*; the Fair Labor Standards Act of 1938, 29 U.S.C. § 201 *et seq.*; the Family and Medical Leave Act, 29 U.S.C. § 681 *et seq.*; the Iowa Civil Rights Act of 1965, Iowa Code Chapter 216; and Iowa's Wage Payment and Collection Act, Iowa Code Chapter 91A or any other federal, state or local laws, ordinances, regulations or Executive Orders prohibiting employment discrimination. Executive also represents that Executive has not pledged, given or sold any portion of any claim discussed in this Agreement to anyone else.

2. The Parties agree, promise and covenant that neither they, nor any person, organization or any other entity acting on her behalf will file, charge, claim, sue or cause or permit to be filed, charged or claimed, any action for damages or other relief (including injunctive, declaratory, monetary relief or other) against Company, its parents, affiliates and successors and its and their officers, directors, employees, insurers, agents and representatives, involving any matter which occurred in the past up to the date of this Agreement, including any continuing effects thereof, or otherwise involving any claims, demands, causes of action, obligations, damages or liabilities which are the subject of this Agreement. Nothing in this Agreement shall be construed to prohibit Executive from filing a charge with or participating in an investigation or proceeding conducted by the EEOC, the Iowa Civil Rights Commission or a comparable state or local agency. Notwithstanding the foregoing, Executive hereby waives, releases and forever relinquishes her right to recover monetary damages in any administrative charge she may file.

3. a. Executive acknowledges and agrees that it is necessary for Company to prevent the unauthorized use and disclosure of Proprietary and Confidential Information, as defined herein. Accordingly, and in further consideration for the payment set forth in paragraph 1, Executive agrees that she will not, directly or indirectly, (i) engage in or refrain from taking any action that may in any way lead to the disclosure of any Proprietary and Confidential Information regarding Company to any third party (other than a federal or state regulatory agency or body as required pursuant to Section 12 of the Agreement), nor (ii) use any such Proprietary and Confidential Information for her own benefit. Subject to any disclosure required pursuant to Section 12 of the Agreement, Executive specifically agrees and understands that she shall not disclose or communicate to any other person or entity any Proprietary and Confidential Information acquired by her during the course of her employment with the Company.

b. For purposes of this Agreement, "Proprietary and Confidential Information" shall mean all information in any form that is proprietary and confidential to Company and shall include, but not be limited to, the following types of information: (i) corporate information, including contractual arrangements, plans, strategies, tactics, policies and resolutions; (ii) any litigation or negotiations; (iii) financial information, including cost and performance data, debt arrangement, equity structure, investors and holdings; (iv) operational information, including trade secrets, control and inspection practices, suppliers and vendors; and (v) personnel information, including personnel lists, resumes, personal data, medical information, compensation, organizational structure and performance evaluations. Proprietary and Confidential Information does not include information that is or becomes generally part of the public domain without breach of this Agreement by Executive.

c. Executive further agrees that any and all Proprietary and Confidential Information is and shall remain the sole and exclusive property of Company, as applicable, and that all physical reproductions of any nature pertaining to any Proprietary and Confidential Information, including, but not limited to, electronic medium, memoranda, notebooks, notes, data sheets and records, and any and all copies of the same, shall be returned to Company immediately.

4. Executive expressly acknowledges this Agreement is intended to include in its effect, without limitation, any and all claims concerning her employment with the Company of which Executive knows or does not know, should have known, had reason to know or suspect existed in Executive's favor at the time of execution hereof. Executive recognizes this Agreement extinguishes any such claim or claims and that she has no legal recourse, now or in the future, against the Company for any of the claims set forth herein.

5. Executive represents and certifies that she has carefully read, and fully understands, all of the provisions and effects of this Agreement. Executive further represents and certifies that she entered into this Agreement voluntarily and that neither the Company nor its agents, representatives or attorneys, made any representations concerning the terms or effects of this Agreement other than those contained herein.

6. Should any tax liability, interest or penalties occur under federal or state law or regulations as a result of the payments made pursuant to this Separation Agreement and General Release, Executive agrees to be solely responsible for, and to timely pay, Executive's portion of any and all such obligations. It is intended that any amounts payable to Executive pursuant to this Separation Agreement and General Release be exempt from Internal Revenue Code Section 409A ("Section 409A"), including, but not limited to, as a "short-term deferral" or as "severance pay" described in Treasury Regulations Sections 1.409A-1(b)(4) and 1.409A-1(b)(9)(iii), respectively. To the extent any amount payable pursuant to this Separation Agreement and General Release is subject to Section 409A, the agreement's terms and any exercise of authority or discretion by Company or Executive hereunder are intended to comply with and be construed in accordance with Section 409A.

7. This Agreement is made and entered into in the State of Iowa, and shall in all respects be interpreted, enforced and governed under the laws of Iowa without regard to any state's conflicts of laws principles. The language of all parts of this Separation Agreement and General Release shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against any of the parties.

8. Should a court declare or determine any provision of this Agreement to be illegal or invalid, the validity of the remaining parts, terms or provisions shall not be affected thereby. It is the parties' intent that the part, term or provision declared or determined to be illegal or invalid shall be deemed not to be a part of this Agreement.

9. Pursuant to the terms of the Older Workers' Benefit Protection Act and the Age Discrimination in Employment Act, Company hereby advises Executive to consult with an attorney prior to signing this Agreement. Executive acknowledges that she has had the opportunity to consult with an attorney of her choosing prior to signing this Agreement; and that she was given at least twenty-one (21) days to review and consider this Separation Agreement. This Separation Agreement waives no rights or claims that may arise after its execution.

**PLEASE READ CAREFULLY. BY SIGNING THIS DOCUMENT, YOU ARE RELEASING ALL KNOWN CLAIMS. YOU HAVE A PERIOD OF AT LEAST TWENTY-ONE (21) DAYS TO CONSIDER THIS RELEASE. IF YOU SIGN THIS TRANSITION AGREEMENT YOU WILL HAVE UP TO SEVEN (7) DAYS FOLLOWING THE DATE YOU SIGN IT TO REVOKE YOUR SIGNATURE. THE RELEASE SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THIS SEVEN (7) DAY PERIOD HAS EXPIRED.**

10. Should Executive decide to revoke this Agreement after she has signed it, Executive can do so only by delivering a written notification of her revocation, no later than the seventh day after she signs this Agreement, to: American Equity Investment Life Insurance Company, Attention: Chief Human Resources Officer, 6000 Westown Parkway, West Des Moines, IA 50266. If Executive revokes this Agreement, it shall not be effective or enforceable, and Executive will not receive the severance benefits, other than fifty dollars (\$50).

IN WITNESS WHEREOF, and intending to be legally bound hereby, Executive and the Company have executed the foregoing Agreement and General Release.

*[To be executed following Termination Date]*



## EMPLOYEE RESTRICTED STOCK UNIT AWARD AGREEMENT

This Employee Restricted Stock Unit Award Agreement (this “Agreement”), dated as of \_\_\_\_\_, 20\_\_ (the “Date of Grant”), is made by and between American Equity Investment Life Holding Company, an Iowa corporation (the “Company”), and \_\_\_\_\_ (the “Participant”). Capitalized terms not defined herein shall have the meaning ascribed to them in the American Equity Investment Life Holding Company Amended and Restated Equity Incentive Plan (the “Plan”). Except where the context indicates otherwise, references to the Company shall include any successor to the Company.

**WHEREAS**, the Company and certain Affiliates have adopted the Plan under which participants may receive restricted stock units that are subject to performance-based vesting conditions;

**WHEREAS**, the Compensation Committee of the Board of Directors of the Company (the “Committee”) recommended restricted stock units (“RSUs”) for the Participant under the Plan and the Board of Directors of the Company approved such RSUs, and pursuant to the terms of the award, the Participant shall receive the number of RSUs provided for herein;

**NOW, THEREFORE**, in consideration for the promises and the covenants of the parties contained in this Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto, for themselves, their successors and assigns, hereby agree as follows:

1. Grant of Restricted Stock Unit Award. The Company hereby grants to the Participant \_\_\_\_\_ RSUs (such number, the “Target Number” of RSUs) on the terms and conditions set forth in this Agreement and as otherwise provided in the Plan (the “Award”).
2. Restrictions. The RSUs may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered and shall be subject to a risk of forfeiture as described in Section 3 until such restrictions have lapsed in accordance with Section 3 hereof. Upon any attempt by the Participant to transfer any of the RSUs or any rights in respect of the RSUs before the lapse of such restrictions, such RSUs and all of the rights related thereto, shall be immediately forfeited by the Participant without payment of any consideration. The restrictions applicable to the RSUs shall lapse only in accordance with Section 3 hereof.
3. Vesting/Forfeiture
  - a. General. Subject to Sections 3(b)-(e) below, the restrictions applicable to the RSUs, as described in Section 2 hereof, shall lapse with respect to one-hundred percent (100%) of the RSUs at the end of the Performance Period (as defined herein).
  - b. Death/Disability/Retirement. Notwithstanding any other provisions in this Agreement to the contrary, in the event of a termination of the Participant’s employment with the Company due to the Participant’s death or Disability, or due to the Participant’s Retirement, the restrictions applicable to the RSUs, as described in Section 2 hereof, shall lapse with respect to one-hundred percent (100%) of the RSUs.
  - c. Termination other than Death/Disability/Retirement/For Cause. If, after attainment of the performance objectives, (A) the Participant’s employment ends due to a termination initiated by the Company other than For Cause or Detrimental Activity (each as defined in the Plan) or, for Participants with a Change in Control Agreement, termination is initiated by the Participant for Good Reason (as defined in the Participant’s Change in Control Agreement) and (B) the Company, has offered the Participant an agreement in connection with their separation (including, but not limited to, a Change In Control Agreement), and (C) that agreement has been fully executed and become final under applicable law, then the remaining restrictions applicable to the RSUs, as described in Section 2 hereof, shall lapse with respect to one-hundred percent (100%) of the RSUs on the date that all three of (A) through (C) above have been satisfied.
  - d. Notwithstanding any other provisions in this Agreement to the contrary, in the event of a termination of the Participant’s employment with the Company for any reason other than those listed in Section 3 (b), (c) and (e), including termination by the Company or the relevant Affiliate For Cause, the RSUs shall be forfeited at the close of business on the effective date of such termination.
  - e. Change in Control. Notwithstanding any other provisions in this Agreement to the contrary, in the event of a Change in Control, the RSUs shall be treated in accordance with Section 10.1 and Section 10.2 of the Plan.

- f. Other Termination of Service. Notwithstanding any other provisions in this Agreement to the contrary if, prior to the date on which the restrictions described in Section 2 hereof have lapsed in accordance with Section 3(a), (b), (c) (d) or (e) above, the Participant's employment with the Company shall terminate for any reason other than as described in Section 3(b), (c) or (e) herein, the RSUs shall immediately be forfeited without consideration.
4. Shareholder Rights. The RSUs are bookkeeping entries only. The Participant shall not have any privileges of a shareholder of the Company with respect to the RSUs awarded hereunder, including without limitation any right to vote shares of Common Stock underlying the RSUs or to receive dividends or other distributions in respect thereof (provided that any dividends or dividend equivalents on the RSUs shall only become payable on the same date on which the RSU from which the dividend equivalent right is derived is paid, subject to the terms hereof). All such dividend equivalent rights shall be subject to the same vesting requirements that apply to RSUs from which the dividend equivalent rights are derived.
5. Legend on Certificates. Certificates evidencing the RSUs awarded to the Participant hereunder shall bear such legends as the Company may determine in its sole discretion.
6. Securities Laws Requirements. The Company shall not be obligated to issue Common Stock to the Participant free of any restrictive legend described in Section 5 hereof or of any other restrictive legend, if such transfer, in the opinion of counsel for the Company, would violate the Securities Act of 1933, as amended (the "Securities Act") (or any other federal or state statutes having similar requirements as may be in effect at that time).
7. No Obligation to Register. The Company shall be under no obligation to register the RSUs pursuant to the Securities Act or any other federal or state securities laws.
8. Performance-Based Requirements. For the [●] year period ended [●] (the "Performance Period"), the Participant shall be credited with a number of RSUs equal to the Target Number of RSUs multiplied by a percentage that (1) will be determined by the Committee after the Performance Period based on the Company's achievement of financial performance objectives established for the Performance Period and (2) will be between 0% and 200%. The performance objectives and the methodology for establishing the number of RSUs to be credited are set forth in Exhibit A hereto. The Committee shall, following the end of the Performance Period, determine whether and the extent to which the performance objectives for the Performance Period have been satisfied and the number of RSUs to be credited to the Participant. Such determinations by the Committee shall be final and binding. Any RSUs that are not credited to the Participant in accordance with the foregoing provisions of this Section 8 shall terminate upon the date of such determinations by the Committee.
9. Timing and Manner of Payment of RSUs. As soon as practicable after (and in no case more than seventy-four days after) the end of the Performance Period (the "Payment Date"), such RSUs shall be paid by the Company delivering to the Participant a number of Shares equal to the number of RSUs that are non-forfeitable on that Payment Date (rounded down to the nearest whole share). The Company shall issue the Shares either (i) in certificate form or (ii) in book entry form, registered in the name of the Participant. Delivery of any certificates will be made to the Participant's last address reflected on the books of the Company and its Affiliates unless the Company is otherwise instructed in writing. The Participant shall not be required to pay any cash consideration for the RSUs or for any Shares received pursuant to the Award. Neither the Participant nor any of the Participant's successors, heirs, assigns or personal representatives shall have any further rights or interests in any RSUs that are so paid. Notwithstanding anything herein to the contrary, the Company shall have no obligation to issue Shares in payment of the RSUs unless such issuance and such payment shall comply with all relevant provisions of law and the requirements of any stock exchange on which the Shares are listed.
10. Payments to "Specified Employees" Under Certain Circumstances. Notwithstanding the provisions of Section 3 and Section 4 hereof, if the Grantee is deemed a "specified employee" (as such term is described in Section 409A of the Code and the treasury regulations thereunder (the "Code")) at a time when such Grantee becomes eligible for payment upon a "separation from service" with the Company or any of its Affiliates, to the extent required to avoid taxation under Section 409A of the Code, such payments shall be made to the Grantee on the date that is six (6) months following such "separation from service," or upon the Grantee's death, if earlier.
11. Taxes. The Participant understands that he or she (and not the Company) shall be responsible for any tax liability that may arise with respect to the RSUs granted under this Agreement. The Participant shall pay to the Company, or make provision satisfactory to the Company for payment of, any taxes or social insurance contributions required by law to be withheld with respect to the RSUs no later than the date of the event creating such tax liability. The Participant may satisfy the foregoing requirement by making a payment to the Company in cash or, in the Committee's discretion, such amount may be paid in whole or in part by electing to have the Company retain the Participant's Shares, with the retained Shares having a value equal to the amount of tax to be so withheld. Such Shares shall be valued at their Fair Market Value on the date of retention or delivery. If a Participant makes an election under Section 83(b) of the Code to be taxed with respect to the RSUs as of the date of transfer of the RSUs rather than as of the date or dates upon which the Participant would otherwise be taxable under

Section 83(a) of the Code, the Participant shall be required to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service.

12. Failure to Enforce Not a Waiver. The failure of the Company to enforce at any time any provision of this Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.
13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Iowa.
14. Incorporation of Plan. The Plan is hereby incorporated by reference and made a part hereof, and the RSUs and this Agreement shall be subject to all terms and conditions of the Plan and this Agreement.
15. Agreement Binding on Successors. The terms of this Agreement shall be binding upon the Participant and upon the Participant's heirs, executors, administrators, personal representatives, transferees, assignees and successors in interest, and upon the Company and its successors and assignees.
16. No Assignment. Notwithstanding anything to the contrary in this Agreement, neither this Agreement nor any rights granted herein shall be assignable by the Participant.
17. Necessary Acts. The Participant hereby agrees to perform all acts, and to execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement, including but not limited to all acts and documents related to compliance with federal and/or state securities and/or tax laws.
18. Entire Agreement. This Agreement contains the entire agreement and understanding among the parties as to the subject matter hereof.
19. Headings. Headings are used solely for the convenience of the parties and shall not be deemed to be a limitation upon or descriptive of the contents of any such Section.
20. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.
21. Amendment. The Committee may amend the terms of this Agreement prospectively or retroactively at any time, but no such amendment shall impair the rights of the Participant hereunder without his or her consent.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

**AMERICAN EQUITY INVESTMENT LIFE  
HOLDING COMPANY**

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**PARTICIPANT**

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EXHIBIT A

<u>% of Performance Award Earned</u>	<u>Threshold 50%</u>	<u>Target 100%</u>	<u>Maximum 200%</u>
[INSERT PERFORMANCE OBJECTIVES]	[INSERT LEVELS]	[INSERT LEVELS]	[INSERT LEVELS]
[INSERT PERFORMANCE OBJECTIVES]	[INSERT LEVELS]	[INSERT LEVELS]	[INSERT LEVELS]
[INSERT PERFORMANCE OBJECTIVES]	[INSERT LEVELS]	[INSERT LEVELS]	[INSERT LEVELS]

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Anant Bhalla, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Equity Investment Life Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2021

By: /s/ ANANT BHALLA  
Anant Bhalla, Chief Executive Officer and President  
(Principal Executive Officer)

1. I have reviewed this quarterly report on Form 10-Q of American Equity Investment Life Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ TED M. JOHNSON  
Ted M. Johnson, Chief Financial Officer  
(Principal Financial Officer)

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;  

and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ ANANT BHALLA  
Anant Bhalla, Chief Executive Officer and President  
(Principal Executive Officer)



1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;  

and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ TED M. JOHNSON  
Ted M. Johnson, Chief Financial Officer  
(Principal Financial Officer)