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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): **August 3, 2016**

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

Iowa
(State or Other Jurisdiction
of Incorporation)

001-31911
(Commission File Number)

42-1447959
(IRS Employer
Identification No.)

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

50266
(Zip Code)

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

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

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

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

Item 2.02 Results of Operations and Financial Condition

On August 3, 2016, the registrant issued a press release announcing its financial results for the quarter ended June 30, 2016, a copy of which is attached as Exhibit 99.1 and is incorporated herein by reference. The registrant's financial supplement for the quarter ended June 30, 2016, is attached as Exhibit 99.2 and is incorporated herein by reference.

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

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

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

Exhibit Number	Description
99.1	Press release dated August 3, 2016, announcing American Equity Investment Life Holding Company's financial results for the quarter ended June 30, 2016.
99.2	American Equity Investment Life Holding Company's Financial Supplement for the quarter ended June 30, 2016.

SIGNATURE

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

Date: August 3, 2016

**AMERICAN EQUITY
INVESTMENT LIFE HOLDING COMPANY**

By: /s/ John M. Matovina

John M. Matovina

Chief Executive Officer and President

EXHIBIT INDEX

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For more information, contact:

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

FOR IMMEDIATE RELEASE

August 3, 2016

American Equity Reports Second Quarter 2016 Results

Company Highlights

- **Second quarter 2016 net income of \$14.7 million or \$0.18 per diluted common share**
- **Second quarter 2016 operating income¹ of \$50.1 million or \$0.60 per diluted common share**
- **Second quarter 2016 annuity sales of \$2.1 billion, up 17% from second quarter 2015**
- **Policyholder funds under management of \$43.6 billion, up 2.6% from March 31, 2016**
- **Second quarter 2016 investment spread of 2.62%**
- **Operating income¹ return on average equity¹ of 10.1% (trailing twelve months)**
- **Estimated risk-based capital (RBC) ratio of 312% at June 30, 2016 compared to 336% at December 31, 2015**

WEST DES MOINES, Iowa (August 3, 2016) - American Equity Investment Life Holding Company (NYSE: AEL), a leading issuer of fixed index annuities, today reported second quarter 2016 net income of \$14.7 million, or \$0.18 per diluted common share, compared to net income of \$82.8 million, or \$1.05 per diluted common share, for second quarter 2015.

Operating income¹ for the second quarter of 2016 was \$50.1 million, or \$0.60 per diluted common share, compared to \$50.9 million, or \$0.64 per diluted common share, for second quarter 2015.

SALES EXCEED \$2 BILLION FOR THIRD CONSECUTIVE QUARTER

Second quarter sales of \$2.1 billion were up 17% from the prior year second quarter and matched first quarter 2016 sales. Net sales after coinsurance ceded for the second quarter of 2016 were \$1.5 billion, a 13% decrease from \$1.7 billion in net sales for the second quarter of 2015 and an 8% decrease from \$1.6 billion in net sales in the first quarter of 2016.

Commenting on sales, John Matovina, Chief Executive Officer and President, said: "Our second quarter sales followed a pattern similar to what we saw in the first quarter. Fixed index annuity (FIA) sales by broker-dealers and banks for Eagle Life were up modestly, but increased competition in the independent agent channel translated into an 11% sequential decrease in sales from that channel at American Equity Investment Life Insurance Company (American Equity Life). The overall decrease in FIA sales was offset by a 43% sequential increase in multi-year rate guaranteed annuity (MYGA) sales in all channels. We coinsure 80% of the premiums received from sales of MYGAs and Eagle Life's FIAs which accounts for the 8% decrease in net sales compared to the first quarter of 2016."

Matovina continued, "While gross sales in the first half of 2016 were on a record pace, we anticipate moderation of sales in the second half of the year. FIA sales in July have softened further in the independent agent channel and we've seen a bit of softening from banks and broker-dealers. Monthly sales in 2016 peaked in March and were approximately \$500 million in July compared to \$644 million in June. Similarly, American Equity Life's pending count peaked at 6,370 cases in mid-April and was down to approximately 3,500 cases at the end of July. A substantial portion of the sales and pending count decreases are from the MYGA products which are not core to American Equity Life but can have a strategic purpose in Eagle Life. Total MYGA sales in July were \$72 million compared to \$138 million in June and a peak of \$239 million in April."

Commenting on Eagle Life, Matovina added: "Expansion in the broker-dealer and bank distribution channels, two channels that represent a significant growth opportunity for FIA sales, has been a key initiative for us. This initiative has greater significance in light of the DOL conflict of interest fiduciary rule which favors sales of FIAs by broker-dealers and banks and poses significant challenges to the sales of FIAs by independent insurance agents. The new DOL rule becomes operational in April 2017 if not otherwise delayed or overturned through litigation. We formed Eagle Life to pursue these distribution opportunities and gained meaningful traction in the first half of 2016. Eagle Life now has selling agreements with 51 distributors, three more agreements than it had 90 days ago. Eagle Life's FIA sales were \$377 million in the first half of 2016 implying a realistic opportunity to double its full year 2015 FIA sales of \$371 million."

SPREAD DECLINES SLIGHTLY ON LOWER INVESTMENT YIELD

American Equity's investment spread was 2.62% for the second quarter of 2016 compared to 2.65% for the first quarter of 2016 and 2.84% for the second quarter of 2015. On a sequential basis, the average yield on invested assets declined four basis points while the cost of money declined one basis point.

Average yield on invested assets continued to be unfavorably impacted by the investment of new premiums and portfolio cash flows at rates below the portfolio rate and high cash balances. The average yield on fixed income securities purchased and commercial mortgage loans funded in the second quarter of 2016 was 3.95% compared to 4.14% in the first quarter of 2016. Average yields ranged from 3.73% - 4.03% in the prior year's quarters. The average balance for cash and short-term investments was \$1.1 billion during the quarter, compared to \$807 million in the first quarter of 2016 and \$476 million in the fourth quarter of 2015. The unfavorable impact from the aforementioned items was partially offset by fee income from bond transactions and prepayment income which added 0.04% to second quarter 2016 average yield on invested assets compared to 0.08% from such items in the first quarter of 2016.

The aggregate cost of money for annuity liabilities decreased by one basis point to 1.92% in the second quarter of 2016 compared to 1.93% in the first quarter of 2016. This decrease reflected continued reductions in crediting rates.

Commenting on investment spread, John Matovina said: "We had modest spread compression in the second quarter. Similar to the first quarter, the decrease in the cost of money from reductions in rates on our policy liabilities was less than the decrease in the average yield on investments that resulted from the investment of new premiums and portfolio cash flows in high quality investments with yields below our portfolio rate and the increase in cash and short-term investments during the quarter."

Turning to the outlook for investment spread, Matovina added: "Market conditions changed appreciably at the end of the quarter following the Brexit vote. Investment yields available since then have been significantly lower than what we were able to obtain on investment purchases in the first half of the year. We invested approximately \$875 million in July at a weighted average rate of 3.33%. Investment yields at this level will continue to put downward pressure on our investment spread and that of our competitors. We have already observed new money crediting rate and product term adjustments from several of our competitors and expect to announce changes to our new money rates and product terms in the near future. Substantially all of our previous renewal rate adjustments were implemented by the end of the second quarter and new adjustments covering \$16 - 17 billion of policyholder account values will begin on September 1, 2016. On an individual policy basis, the effect of these adjustments on the cost of money ranges from 0.10% to 0.40%. In addition, there is \$7.4 billion of policyholder account values that will be evaluated for renewal rate adjustments that would begin on December 6, 2016. These adjustments are expected to reduce the 0.52% cost of money differential between existing rates and the guaranteed minimums we had at June 30, 2016."

PHYSICAL SETTLEMENT OF EQUITY FORWARDS SUPPORTS CAPITAL ADEQUACY

As previously reported, the Company physically settled its two equity forward sales agreements on August 1st, and received \$134.7 million in net cash proceeds which were contributed to the capital and surplus of American Equity Life. On a pro forma basis, assuming the net proceeds were invested in securities with a NAIC 1 designation, the estimated RBC ratio at June 30, 2016 was 328%.

In light of the significant sales in 2015 and the first half of 2016, which were appreciably ahead of plan, during the second quarter the Company explored a reinsurance transaction with several potential reinsurance counterparties. Because the Company intended to partially fund the reinsurance transaction with cash and short-term investments, the pricing of the proposed transaction was negatively affected by the declines in investment yields following the Brexit vote in late June and the Company decided not to proceed and suspended the proposed transaction. Although the current outlook for sales has moderated, the Company is considering the issuance of additional debt within parameters that would not jeopardize its current ratings from rating agencies. Additional debt within these parameters would enhance the Company's financial flexibility and can likely be obtained on attractive terms in the current interest rate environment.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

CONFERENCE CALL

American Equity will hold a conference call to discuss second quarter 2016 earnings on Thursday, August 4, 2016 at 8:00 a.m. CDT. The conference call will be webcast live on the Internet. Investors and interested parties who wish to listen to the call on the Internet may do so at www.american-equity.com.

The call may also be accessed by telephone at 855-865-0606, passcode 47042857 (international callers, please dial 704-859-4382). An audio replay will be available shortly after the call on AEL's website. An audio replay will also be available via telephone through August 11, 2016 at 855-859-2056, passcode 47042857 (international callers will need to dial 404-537-3406).

ABOUT AMERICAN EQUITY

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

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

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Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(Dollars in thousands, except per share data)				
Revenues:				
Premiums and other considerations	\$ 11,458	\$ 10,037	\$ 18,803	\$ 17,034
Annuity product charges	41,124	32,409	77,629	61,091
Net investment income	459,830	418,176	910,656	817,845
Change in fair value of derivatives	39,099	(23,024)	(34,966)	(54,124)
Net realized gains (losses) on investments, excluding other than temporary impairment ("OTTI") losses	2,737	4,324	5,424	9,203
OTTI losses on investments:				
Total OTTI losses	(762)	—	(6,780)	(132)
Portion of OTTI losses recognized in (from) other comprehensive income	(3,684)	(828)	(3,360)	(828)
Net OTTI losses recognized in operations	(4,446)	(828)	(10,140)	(960)
Total revenues	549,802	441,094	967,406	850,089
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	13,393	12,450	22,502	21,670
Interest sensitive and index product benefits	111,121	306,141	208,792	588,966
Amortization of deferred sales inducements	30,672	75,518	58,151	86,471
Change in fair value of embedded derivatives	284,303	(219,601)	550,160	(168,388)
Interest expense on notes payable	6,882	7,354	13,762	14,693
Interest expense on subordinated debentures	3,206	3,047	6,374	6,063
Amortization of deferred policy acquisition costs	50,665	104,700	100,378	118,986
Other operating costs and expenses	26,823	24,868	53,653	45,990
Total benefits and expenses	527,065	314,477	1,013,772	714,451
Income (loss) before income taxes	22,737	126,617	(46,366)	135,638
Income tax expense (benefit)	8,029	43,772	(16,233)	46,890
Net income (loss)	\$ 14,708	\$ 82,845	\$ (30,133)	\$ 88,748
Earnings (loss) per common share	\$ 0.18	\$ 1.07	\$ (0.37)	\$ 1.15
Earnings (loss) per common share - assuming dilution	\$ 0.18	\$ 1.05	\$ (0.37)	\$ 1.12
Weighted average common shares outstanding (in thousands):				
Earnings (loss) per common share	82,517	77,237	82,323	77,140
Earnings (loss) per common share - assuming dilution	83,184	79,227	83,073	79,173

NON-GAAP FINANCIAL MEASURES

In addition to net income (loss), the Company has consistently utilized operating income and operating income per common share - assuming dilution, non-GAAP financial measures commonly used in the life insurance industry, as economic measures to evaluate its financial performance. Operating income equals net income (loss) adjusted to eliminate the impact of items that fluctuate from quarter to quarter in a manner unrelated to core operations. The most significant adjustments to arrive at operating income 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. The Company believes measures excluding their impact are useful in analyzing operating trends and the combined presentation and evaluation of operating income together with net income (loss) provides information that may enhance an investor's understanding of its underlying results and profitability.

Reconciliation from Net Income (Loss) to Operating Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(Dollars in thousands, except per share data)				
Net income (loss)	\$ 14,708	\$ 82,845	\$ (30,133)	\$ 88,748
Adjustments to arrive at operating income: (a)				
Net realized investment (gains) losses, including OTTI	605	(2,556)	1,760	(5,377)
Change in fair value of derivatives and embedded derivatives - index annuities	53,129	(44,403)	150,678	22,133
Change in fair value of derivatives and embedded derivatives - debt	768	(1,670)	3,532	171
Income taxes	(19,108)	16,729	(54,737)	(5,912)
Operating income (a non-GAAP financial measure)	<u>\$ 50,102</u>	<u>\$ 50,945</u>	<u>\$ 71,100</u>	<u>\$ 99,763</u>
Per common share - assuming dilution:				
Net income (loss)	\$ 0.18	\$ 1.05	\$ (0.37)	\$ 1.12
Adjustments to arrive at operating income:				
Anti-dilutive effect of net loss	—	—	0.01	—
Net realized investment (gains) losses, including OTTI	—	(0.04)	0.02	(0.07)
Change in fair value of derivatives and embedded derivatives - index annuities	0.64	(0.56)	1.81	0.28
Change in fair value of derivatives and embedded derivatives - debt	0.01	(0.02)	0.04	—
Income taxes	(0.23)	0.21	(0.65)	(0.07)
Operating income (a non-GAAP financial measure)	<u>\$ 0.60</u>	<u>\$ 0.64</u>	<u>\$ 0.86</u>	<u>\$ 1.26</u>

(a) Adjustments to net income (loss) to arrive at operating income are presented net of related adjustments to amortization of deferred sales inducements (DSI) and deferred policy acquisition costs (DAC) where applicable.

NON-GAAP FINANCIAL MEASURES

Average Stockholders' Equity and Return on Average Equity (Unaudited)

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

	Twelve Months Ended	
	June 30, 2016	
	(Dollars in thousands)	
Average Stockholders' Equity ¹		
Average equity including average AOCI	\$	2,300,794
Average AOCI		(641,006)
Average equity excluding average AOCI	\$	1,659,788
Net income	\$	100,949
Operating income		167,157
Return on Average Equity Excluding Average AOCI		
Net income		6.08%
Operating income		10.07%

1 - The net proceeds received from the Company's public offering of common stock in August 2015 are included in the computations of average stockholders' equity on a weighted average basis based upon the number of days they were available to the Company in the twelve month period. The weighted average amount is added to the simple average of (a) stockholders' equity at the beginning of the twelve month period and (b) stockholders' equity at the end of the twelve month period excluding the net proceeds received from the public stock offering in August 2015.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
Financial Supplement

June 30, 2016

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
Financial Supplement - June 30, 2016

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value	\$ 39,863,803	\$ 36,421,839
Held for investment, at amortized cost	76,722	76,622
Equity securities, available for sale, at fair value	7,813	7,828
Mortgage loans on real estate	2,451,375	2,435,257
Derivative instruments	576,262	337,256
Other investments	292,776	291,530
Total investments	43,268,751	39,570,332
Cash and cash equivalents	1,547,041	397,749
Coinsurance deposits	4,120,911	3,187,470
Accrued investment income	377,393	362,104
Deferred policy acquisition costs	2,417,192	2,905,136
Deferred sales inducements	1,843,672	2,232,148
Deferred income taxes	—	232,683
Income taxes recoverable	35,677	29,599
Other assets	110,691	112,171
Total assets	\$ 53,721,328	\$ 49,029,392
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves	\$ 49,432,481	\$ 45,495,431
Other policy funds and contract claims	304,827	324,850
Notes payable	393,739	393,227
Subordinated debentures	241,650	241,452
Deferred income taxes	99,194	—
Other liabilities	636,047	629,897
Total liabilities	51,107,938	47,084,857
Stockholders' equity:		
Common stock	82,279	81,354
Additional paid-in capital	636,861	630,367
Accumulated other comprehensive income	893,232	201,663
Retained earnings	1,001,018	1,031,151
Total stockholders' equity	2,613,390	1,944,535
Total liabilities and stockholders' equity	\$ 53,721,328	\$ 49,029,392

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
Financial Supplement - June 30, 2016

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Premiums and other considerations	\$ 11,458	\$ 10,037	\$ 18,803	\$ 17,034
Annuity product charges	41,124	32,409	77,629	61,091
Net investment income	459,830	418,176	910,656	817,845
Change in fair value of derivatives	39,099	(23,024)	(34,966)	(54,124)
Net realized gains (losses) on investments, excluding other than temporary impairment ("OTTI") losses	2,737	4,324	5,424	9,203
OTTI losses on investments:				
Total OTTI losses	(762)	—	(6,780)	(132)
Portion of OTTI losses recognized in (from) other comprehensive income	(3,684)	(828)	(3,360)	(828)
Net OTTI losses recognized in operations	(4,446)	(828)	(10,140)	(960)
Total revenues	549,802	441,094	967,406	850,089
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	13,393	12,450	22,502	21,670
Interest sensitive and index product benefits	111,121	306,141	208,792	588,966
Amortization of deferred sales inducements	30,672	75,518	58,151	86,471
Change in fair value of embedded derivatives	284,303	(219,601)	550,160	(168,388)
Interest expense on notes payable	6,882	7,354	13,762	14,693
Interest expense on subordinated debentures	3,206	3,047	6,374	6,063
Amortization of deferred policy acquisition costs	50,665	104,700	100,378	118,986
Other operating costs and expenses	26,823	24,868	53,653	45,990
Total benefits and expenses	527,065	314,477	1,013,772	714,451
Income (loss) before income taxes	22,737	126,617	(46,366)	135,638
Income tax expense (benefit)	8,029	43,772	(16,233)	46,890
Net income (loss)	\$ 14,708	\$ 82,845	\$ (30,133)	\$ 88,748
Earnings (loss) per common share				
Earnings (loss) per common share	\$ 0.18	\$ 1.07	\$ (0.37)	\$ 1.15
Earnings (loss) per common share - assuming dilution	\$ 0.18	\$ 1.05	\$ (0.37)	\$ 1.12
Weighted average common shares outstanding (in thousands):				
Earnings (loss) per common share	82,517	77,237	82,323	77,140
Earnings (loss) per common share - assuming dilution	83,184	79,227	83,073	79,173

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
Financial Supplement - June 30, 2016

Quarterly Summary - Most Recent 5 Quarters (Unaudited)

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
(Dollars in thousands, except per share data)					
Revenues:					
Traditional life insurance premiums	\$ 2,398	\$ 2,634	\$ 2,891	\$ 2,664	\$ 2,659
Life contingent immediate annuity considerations	9,060	4,711	7,788	5,671	7,378
Surrender charges	11,997	14,565	10,543	13,104	11,413
Lifetime income benefit rider fees	29,127	21,940	26,559	24,871	20,996
Net investment income	459,830	450,826	438,262	436,085	418,176
Change in fair value of derivatives	39,099	(74,065)	69,338	(351,360)	(23,024)
Net realized gains (losses) on investments, excluding OTTI	2,737	2,687	(151)	1,159	4,324
Net OTTI losses recognized in operations	(4,446)	(5,694)	(13,347)	(5,229)	(828)
Total revenues	549,802	417,604	541,883	126,965	441,094
Benefits and expenses:					
Traditional life insurance policy benefits and change in future policy benefits	2,177	1,545	2,044	1,730	1,971
Life contingent immediate annuity benefits and change in future policy benefits	11,216	7,564	10,785	9,229	10,479
Interest sensitive and index product benefits (b)(c)	111,121	97,671	165,622	213,465	306,141
Amortization of deferred sales inducements (a)(d)	30,672	27,479	57,112	65,807	75,518
Change in fair value of embedded derivatives	284,303	265,857	118,414	(414,724)	(219,601)
Interest expense on notes payable	6,882	6,880	6,873	7,283	7,354
Interest expense on subordinated debentures	3,206	3,168	3,101	3,075	3,047
Amortization of deferred policy acquisition costs (a)(d)	50,665	49,713	99,243	67,885	104,700
Other operating costs and expenses	26,823	26,830	25,731	24,497	24,868
Total benefits and expenses	527,065	486,707	488,925	(21,753)	314,477
Income (loss) before income taxes	22,737	(69,103)	52,958	148,718	126,617
Income tax expense (benefit)	8,029	(24,262)	19,182	51,412	43,772
Net income (loss) (a)(b)(c)(d)	\$ 14,708	\$ (44,841)	\$ 33,776	\$ 97,306	\$ 82,845
Earnings (loss) per common share					
Earnings (loss) per common share	\$ 0.18	\$ (0.55)	\$ 0.41	\$ 1.22	\$ 1.07
Earnings (loss) per common share - assuming dilution (a)(b)(c)(d)	\$ 0.18	\$ (0.55)	\$ 0.40	\$ 1.19	\$ 1.05
Weighted average common shares outstanding (in thousands):					
Earnings (loss) per common share	82,517	82,129	81,733	79,676	77,237
Earnings (loss) per common share - assuming dilution	83,184	82,961	83,851	81,559	79,227

- (a) Q1 2016 includes expense from unlocking which increased amortization of deferred sales inducements and deferred policy acquisition costs by \$17.9 million and \$26.1 million, respectively, and increased the net loss and loss per common share- assuming dilution by \$28.4 million and \$0.35 per share, respectively.
- (b) Q4 2015 includes an adjustment to reserves for living income benefit riders which reduced interest sensitive and index product benefits by \$1.9 million, which after related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs and income taxes, increased net income and earnings per common share-assuming dilution by \$0.7 million and \$0.01 per share, respectively.
- (c) Q3 2015 includes expense from the revision of assumptions used in determining reserves held for living income benefit riders. The impact increased interest sensitive and index product benefits by \$18.3 million and decreased net income and earnings per common share - assuming dilution by \$11.8 million and \$0.14 per share, respectively.
- (d) Q3 2015 includes a benefit from unlocking which reduced amortization of deferred sales inducements and deferred policy acquisition costs by \$5.6 million and \$11.0 million, respectively, and increased net income and earnings per common share- assuming dilution by \$10.7 million and \$0.13 per share, respectively.

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In addition to net income (loss), we have consistently utilized operating income and operating income per common share - assuming dilution, non-GAAP financial measures commonly used in the life insurance industry, as economic measures to evaluate our financial performance. Operating income equals net income (loss) 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 operating income 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 operating income together with net income (loss) provides information that may enhance an investor's understanding of our underlying results and profitability.

Reconciliation from Net Income (Loss) to Operating Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(Dollars in thousands, except per share data)				
Net income (loss)	\$ 14,708	\$ 82,845	\$ (30,133)	\$ 88,748
Adjustments to arrive at operating income: (a)				
Net realized investment (gains) losses, including OTTI	605	(2,556)	1,760	(5,377)
Change in fair value of derivatives and embedded derivatives - index annuities	53,129	(44,403)	150,678	22,133
Change in fair value of derivatives and embedded derivatives - debt	768	(1,670)	3,532	171
Income taxes	(19,108)	16,729	(54,737)	(5,912)
Operating income (a non-GAAP financial measure)	<u>\$ 50,102</u>	<u>\$ 50,945</u>	<u>\$ 71,100</u>	<u>\$ 99,763</u>
Per common share - assuming dilution:				
Net income (loss)	\$ 0.18	\$ 1.05	\$ (0.37)	\$ 1.12
Adjustments to arrive at operating income:				
Anti-dilutive effect of net loss	—	—	0.01	—
Net realized investment (gains) losses, including OTTI	—	(0.04)	0.02	(0.07)
Change in fair value of derivatives and embedded derivatives - index annuities	0.64	(0.56)	1.81	0.28
Change in fair value of derivatives and embedded derivatives - debt	0.01	(0.02)	0.04	—
Income taxes	(0.23)	0.21	(0.65)	(0.07)
Operating income (a non-GAAP financial measure)	<u>\$ 0.60</u>	<u>\$ 0.64</u>	<u>\$ 0.86</u>	<u>\$ 1.26</u>

(a) Adjustments to net income (loss) to arrive at operating income are presented net of related adjustments to amortization of deferred sales inducements (DSI) and deferred policy acquisition costs (DAC) where applicable.

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NON-GAAP FINANCIAL MEASURES

Summary of Adjustments to Arrive at Operating Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(Dollars in thousands)				
Net realized investment gains and losses, including OTTI:				
Net realized (gains) losses on investments, including OTTI	\$ 1,709	\$ (3,496)	\$ 4,716	\$ (8,243)
Amortization of DAC and DSI	(1,104)	940	(2,956)	2,866
Income taxes	(215)	907	(625)	1,909
	<u>\$ 390</u>	<u>\$ (1,649)</u>	<u>\$ 1,135</u>	<u>\$ (3,468)</u>
Change in fair value of derivatives and embedded derivatives:				
Index annuities	\$ 112,740	\$ (97,362)	\$ 316,324	\$ 66,286
Interest rate caps and swap	768	(1,670)	3,532	171
Amortization of DAC and DSI	(59,611)	52,959	(165,646)	(44,153)
Income taxes	(18,893)	15,822	(54,112)	(7,821)
	<u>\$ 35,004</u>	<u>\$ (30,251)</u>	<u>\$ 100,098</u>	<u>\$ 14,483</u>

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NON-GAAP FINANCIAL MEASURES

Quarterly Summary - Most Recent 5 Quarters (Unaudited)

Reconciliation from Net Income (Loss) to Operating Income

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
(Dollars in thousands, except per share data)					
Net income (loss)	\$ 14,708	\$ (44,841)	\$ 33,776	\$ 97,306	\$ 82,845
Adjustments to arrive at operating income: (a)					
Net realized investment (gains) losses, including OTTI	605	1,155	8,572	2,542	(2,556)
Change in fair value of derivatives and embedded derivatives - index annuities	53,129	97,549	17,221	(83,409)	(44,403)
Change in fair value of derivatives and embedded derivatives - debt	768	2,764	(1,449)	2,574	(1,670)
Income taxes	(19,108)	(35,629)	(7,979)	26,903	16,729
Operating income (a non-GAAP financial measure) (b)(c)(d)(e)	<u>\$ 50,102</u>	<u>\$ 20,998</u>	<u>\$ 50,141</u>	<u>\$ 45,916</u>	<u>\$ 50,945</u>
Per common share - assuming dilution:					
Net income (loss)	\$ 0.18	\$ (0.55)	\$ 0.40	\$ 1.19	\$ 1.05
Adjustments to arrive at operating income:					
Anti-dilutive effect of net loss	—	0.01	—	—	—
Net realized investment (gains) losses, including OTTI	—	0.01	0.10	0.03	(0.04)
Change in fair value of derivatives and embedded derivatives - index annuities	0.64	1.18	0.21	(1.02)	(0.56)
Change in fair value of derivatives and embedded derivatives - debt	0.01	0.03	(0.02)	0.03	(0.02)
Income taxes	(0.23)	(0.43)	(0.09)	0.33	0.21
Operating income (a non-GAAP financial measure) (b)(c)(d)(e)	<u>\$ 0.60</u>	<u>\$ 0.25</u>	<u>\$ 0.60</u>	<u>\$ 0.56</u>	<u>\$ 0.64</u>

- (a) Adjustments to net income (loss) to arrive at operating income are presented net of related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs where applicable.
- (b) Q1 2016 includes expense from unlocking which increased amortization of deferred sales inducements and deferred policy acquisition costs by \$18.1 million and \$26.3 million, respectively, and decreased operating income and operating income per common share- assuming dilution by \$28.6 million and \$0.35 per share, respectively.
- (c) Q4 2015 includes an adjustment to reserves for living income benefit riders which reduced interest sensitive and index product benefits by \$1.9 million, which after related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs and income taxes, increased operating income and operating income per common share-assuming dilution by \$0.5 million and \$0.01 per share, respectively.
- (d) Q3 2015 includes a benefit from unlocking which reduced amortization of deferred sales inducements and deferred policy acquisition costs by \$0.5 million and \$4.3 million, respectively, and increased operating income and operating income per common share- assuming dilution by \$3.1 million and \$0.04 per share, respectively.
- (e) Q3 2015 includes expense from the revision of assumptions used in determining reserves held for living income benefit riders. The impact increased interest sensitive and index product benefits by \$18.3 million and decreased operating income and operating income per common share - assuming dilution by \$11.8 million and \$0.14 per share, respectively.

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Summary of Adjustments to Arrive at Operating Income (Unaudited)

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
(Dollars in thousands)					
Net realized (gains) losses on investments	\$ (2,737)	\$ (2,687)	\$ 151	\$ (1,159)	\$ (4,324)
Net OTTI losses recognized in operations	4,446	5,694	13,347	5,229	828
Change in fair value of derivatives	(170,795)	(59,509)	(132,818)	322,406	116,627
Decrease (increase) in total revenues	(169,086)	(56,502)	(119,320)	326,476	113,131
Amortization of deferred sales inducements	28,027	48,002	(3,075)	(12,644)	(23,306)
Change in fair value of embedded derivatives	(284,303)	(265,857)	(118,414)	413,583	215,659
Amortization of deferred policy acquisition costs	32,688	59,885	(22,175)	3,830	(30,593)
Increase (decrease) in total benefits and expenses	(223,588)	(157,970)	(143,664)	404,769	161,760
Increase (decrease) in income (loss) before income taxes	54,502	101,468	24,344	(78,293)	(48,629)
Increase (decrease) in income tax expense	19,108	35,629	7,979	(26,903)	(16,729)
Increase (decrease) in net income (loss)	<u>\$ 35,394</u>	<u>\$ 65,839</u>	<u>\$ 16,365</u>	<u>\$ (51,390)</u>	<u>\$ (31,900)</u>

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Capitalization/Book Value per Share

	June 30, 2016	December 31, 2015
Capitalization:		
Notes payable	\$ 400,000	\$ 400,000
Subordinated debentures payable to subsidiary trusts	246,559	246,450
Total debt	646,559	646,450
Total stockholders' equity	2,613,390	1,944,535
Total capitalization	3,259,949	2,590,985
Accumulated other comprehensive income (AOCI)	(893,232)	(201,663)
Total capitalization excluding AOCI (a)	\$ 2,366,717	\$ 2,389,322
Total stockholders' equity	\$ 2,613,390	\$ 1,944,535
Accumulated other comprehensive income	(893,232)	(201,663)
Total stockholders' equity excluding AOCI (a)	\$ 1,720,158	\$ 1,742,872
Common shares outstanding (b)	82,293,829	81,584,091
Book Value per Share: (c)		
Book value per share including AOCI	\$ 31.76	\$ 23.83
Book value per share excluding AOCI (a)	\$ 20.90	\$ 21.36
Debt-to-Capital Ratios: (d)		
Senior debt / Total capitalization	16.9%	16.7%
Adjusted debt / Total capitalization	16.9%	16.7%

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

(b) Common shares outstanding include shares held by the NMO Deferred Compensation Trust: 2016 - 15,058 shares; 2015 - 230,012 shares

(c) Book value per share including and excluding AOCI is calculated as total stockholders' equity and total stockholders' equity excluding AOCI divided by the total number of shares of common stock outstanding.

(d) Debt-to-capital ratios are computed using total capitalization excluding AOCI. Adjusted debt includes notes payable and the portion of the total subordinated debentures payable to subsidiary trusts outstanding (qualifying trust preferred securities) that exceeds 15% of total capitalization excluding AOCI.

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Spread Results

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Average yield on invested assets	4.54%	4.78%	4.56%	4.76%
Aggregate cost of money	1.92%	1.94%	1.92%	1.96%
Aggregate investment spread	2.62%	2.84%	2.64%	2.80%
Impact of:				
Investment yield - additional prepayment income	0.04%	0.07%	0.06%	0.04%
Cost of money effect of over hedging	—%	0.07%	—%	0.06%
Weighted average investments (in thousands)	\$40,600,182	\$35,043,846	\$40,032,851	\$34,428,106

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

Summary of Cost of Money for Deferred Annuities

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(Dollars in thousands)				
Included in interest sensitive and index product benefits:				
Index credits	\$ 8,900	\$ 216,902	\$ 15,431	\$ 414,505
Interest credited	66,265	62,379	128,967	125,427
Included in change in fair value of derivatives:				
Proceeds received at option expiration	(9,308)	(222,864)	(16,050)	(425,446)
Pro rata amortization of option cost	140,477	124,709	280,243	243,510
Cost of money for deferred annuities	<u>\$ 206,334</u>	<u>\$ 181,126</u>	<u>\$ 408,591</u>	<u>\$ 357,996</u>
Weighted average liability balance outstanding (in thousands)	\$ 43,080,446	\$ 37,294,188	\$ 42,482,613	\$ 36,605,612

Annuity Account Balance Rollforward

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(Dollars in thousands)				
Account balances at beginning of period	\$ 42,519,915	\$ 36,471,034	\$ 41,249,647	\$ 35,363,041
Net deposits	1,497,701	1,719,093	3,126,454	2,921,891
Premium bonuses	88,533	125,600	196,207	219,190
Fixed interest credited and index credits	75,165	279,281	144,398	539,932
Surrender charges	(11,997)	(11,413)	(26,562)	(22,967)
Lifetime income benefit rider fees	(29,127)	(20,996)	(51,067)	(38,124)
Surrenders, withdrawals, deaths, etc.	<u>(499,212)</u>	<u>(445,256)</u>	<u>(998,099)</u>	<u>(865,620)</u>
Account balances at end of period	<u>\$ 43,640,978</u>	<u>\$ 38,117,343</u>	<u>\$ 43,640,978</u>	<u>\$ 38,117,343</u>

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Annuity Deposits by Product Type

Product Type	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
(Dollars in thousands)					
Fixed index annuities	\$ 1,525,546	\$ 1,757,193	\$ 3,213,548	\$ 2,984,433	\$ 6,791,689
Annual reset fixed rate annuities	15,866	13,137	32,571	24,187	45,182
Multi-year fixed rate annuities	550,558	17,715	935,590	87,217	214,356
Single premium immediate annuities	8,313	9,632	13,627	18,164	32,752
Total before coinsurance ceded	2,100,283	1,797,677	4,195,336	3,114,001	7,083,979
Coinsurance ceded	594,269	68,952	1,055,255	173,946	471,822
Net after coinsurance ceded	<u>\$ 1,506,014</u>	<u>\$ 1,728,725</u>	<u>\$ 3,140,081</u>	<u>\$ 2,940,055</u>	<u>\$ 6,612,157</u>

Surrender Charge Protection and Account Values by Product Type

Annuity Surrender Charges and Net (of coinsurance) Account Values at June 30, 2016:

Product Type	Surrender Charge			Net Account Value	
	Avg. Years At Issue	Avg. Years Remaining	Avg. % Remaining	Dollars in Thousands	%
Fixed Index Annuities	13.8	9.2	14.4%	\$ 41,577,829	95.3%
Annual Reset Fixed Rate Annuities	10.9	3.6	7.6%	1,413,302	3.2%
Multi-Year Fixed Rate Annuities	6.5	2.7	5.5%	649,847	1.5%
Total	13.6	8.9	14.1%	<u>\$ 43,640,978</u>	<u>100.0%</u>

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Annuity Liability Characteristics

	Fixed Annuities Account Value	Fixed Index Annuities Account Value
(Dollars in thousands)		
<u>SURRENDER CHARGE PERCENTAGES:</u>		
No surrender charge	\$ 763,539	\$ 1,491,299
0.0% < 2.0%	15,564	668,235
2.0% < 3.0%	55,011	60,759
3.0% < 4.0%	23,526	533,157
4.0% < 5.0%	69,566	87,386
5.0% < 6.0%	90,792	453,594
6.0% < 7.0%	56,279	403,825
7.0% < 8.0%	72,296	455,659
8.0% < 9.0%	69,583	1,014,355
9.0% < 10.0%	288,429	1,692,773
10.0% or greater	558,564	34,716,787
	<u>\$ 2,063,149</u>	<u>\$ 41,577,829</u>

	Fixed and Fixed Index Annuities Account Value	Weighted Average Surrender Charge
(Dollars in thousands)		
<u>SURRENDER CHARGE EXPIRATION BY YEAR:</u>		
Out of Surrender Charge	\$ 2,254,838	0.00%
2016	396,858	1.68%
2017	800,787	2.36%
2018	735,123	4.76%
2019	547,746	6.23%
2020	908,523	8.14%
2021	1,352,413	9.53%
2022	2,010,431	11.28%
2023	4,847,615	13.12%
2024	5,389,621	14.26%
2025	5,911,890	14.51%
2026	3,970,687	15.56%
2027	2,746,391	17.76%
2028	2,443,355	18.35%
2029	3,042,568	18.76%
2030	2,403,846	19.20%
2031	2,840,626	19.76%
2032	1,023,160	19.99%
2033	14,500	20.00%
	<u>\$ 43,640,978</u>	14.07%

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Annuity Liability Characteristics

	Fixed Annuities Account Value	Fixed Index Annuities Account Value
(Dollars in thousands)		
<u>CREDITED RATE VS. ULTIMATE MINIMUM GUARANTEED RATE DIFFERENTIAL:</u>		
No differential	\$ 933,858	\$ 1,178,055
› 0.0% - 0.25%	167,658	54,416
› 0.25% - 0.5%	375,438	134,007
› 0.5% - 1.0%	27,867	751,266
› 1.0% - 1.5%	1,369	1,728
› 1.5% - 2.0%	73	—
› 2.0% - 2.5%	321,105	—
1.00% ultimate guarantee - 2.75% wtd avg interest rate (a)	136,152	98,877
1.50% ultimate guarantee - 1.34% wtd avg interest rate (a)	98,295	4,570,487
2.00% ultimate guarantee - 2.24% wtd avg interest rate (a)	1,334	—
2.25% ultimate guarantee - 2.3% wtd avg interest rate (a)	—	1,272,391
3.00% ultimate guarantee - 2.51% wtd avg interest rate (a)	—	2,486,553
Allocated to index strategies (see tables that follow)	—	31,030,049
	<u>\$ 2,063,149</u>	<u>\$ 41,577,829</u>

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

If all crediting rates were reduced to minimum guaranteed rates (subject to limitations imposed by ultimate minimum guaranteed rates where applicable) the weighted average crediting rate as of June 30, 2016 for fixed annuities and funds allocated to the fixed rate strategy for fixed index annuities would decrease by 0.36%.

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Annuity Liability Characteristics

FIXED INDEX ANNUITIES ACCOUNT VALUE - INDEX STRATEGIES

Annual Monthly Average and Point-to-Point with Caps

	Minimum Guaranteed Cap				
	1%	3%	4%	7%	8% +
Current Cap	(Dollars in thousands)				
At minimum	\$ 1,677	\$ 45,773	\$ 1,678,610	\$ 49,023	\$ 229,564
1.75% - 3%	4,144,123	—	—	—	—
3% - 4%	2,659,836	58,935	—	—	—
4% - 5%	166,504	167,351	3,757,921	—	—
5% - 6%	330,868	123,226	1,928,791	—	—
6% - 7%	—	—	19	—	—
>= 7%	—	16,378	791	67,172	15,253

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

	Minimum Guaranteed Participation Rate			
	10%	20% - 25%	35%	50% +
Current Participation Rate	(Dollars in thousands)			
At minimum	\$ 434	\$ 439,864	\$ 137,912	\$ 161,339
< 20%	374,727	—	—	—
20% - 40%	749,928	204,375	—	—
40% - 60%	484,725	127,593	94,593	68
>= 60%	4,812	—	—	—

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

(Dollars in thousands)

Current Cap	
At minimum	\$ 15,967
1.20% - 1.40%	3,556,534
1.45% - 1.70%	2,897,692
1.80% - 2.00%	2,960,461
>= 2.10%	1,006,720

Volatility Control Index

(Dollars in thousands)

Current Asset Fee	
At Maximum	\$ —
0.75% - 1.75%	141,284
2.25% - 2.75%	1,217,464
3.00% - 3.50%	833,504

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If all caps and participation rates were reduced to minimum caps and participation rates and current asset fees were increased to their maximums, the cost of options would decrease by 0.59% based upon prices of options for the week ended July 26, 2016.

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Summary of Invested Assets

	June 30, 2016		December 31, 2015	
	Carrying Amount	Percent	Carrying Amount	Percent
(Dollars in thousands)				
Fixed maturity securities:				
United States Government full faith and credit	\$ 449,439	1.0%	\$ 471,256	1.3%
United States Government sponsored agencies	1,380,266	3.2%	1,398,611	3.5%
United States municipalities, states and territories	3,975,544	9.2%	3,755,367	9.5%
Foreign government obligations	253,990	0.6%	212,565	0.5%
Corporate securities	26,459,838	61.2%	23,879,016	60.3%
Residential mortgage backed securities	1,392,441	3.2%	1,462,072	3.7%
Commercial mortgage backed securities	4,735,210	10.9%	4,174,396	10.5%
Other asset backed securities	1,293,797	3.0%	1,145,178	2.9%
Total fixed maturity securities	39,940,525	92.3%	36,498,461	92.2%
Equity securities	7,813	—%	7,828	—%
Mortgage loans on real estate	2,451,375	5.7%	2,435,257	6.2%
Derivative instruments	576,262	1.3%	337,256	0.9%
Other investments	292,776	0.7%	291,530	0.7%
	<u>\$ 43,268,751</u>	<u>100.0%</u>	<u>\$ 39,570,332</u>	<u>100.0%</u>

Credit Quality of Fixed Maturity Securities - June 30, 2016

NAIC Designation	Carrying Amount	Percent	Rating Agency Rating	Carrying Amount	Percent
	(Dollars in thousands)			(Dollars in thousands)	
1	\$ 25,965,937	65.0%	Aaa/Aa/A	\$ 25,522,259	63.9%
2	12,860,194	32.2%	Baa	12,943,431	32.4%
3	980,322	2.5%	Ba	819,379	2.1%
4	107,753	0.3%	B	133,805	0.3%
5	12,180	—%	Caa	74,266	0.2%
6	14,139	—%	Ca and lower	447,385	1.1%
	<u>\$ 39,940,525</u>	<u>100.0%</u>		<u>\$ 39,940,525</u>	<u>100.0%</u>

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Watch List Securities - June 30, 2016

General Description	Amortized Cost	Unrealized Losses	Fair Value	Months Below Amortized Cost
(Dollars in thousands)				
Investment grade				
Corporate securities:				
Financials	\$ 20,000	\$ (2,568)	\$ 17,432	58
Other asset backed securities:				
Financials	2,218	(665)	1,553	63
	<u>\$ 22,218</u>	<u>\$ (3,233)</u>	<u>\$ 18,985</u>	
Below investment grade				
Corporate securities:				
Energy	\$ 45,045	\$ (12,718)	\$ 32,327	22 - 38
Materials	32,749	(9,123)	23,626	12 - 41
Industrials	4,981	(2,981)	2,000	20
Telecommunications	2,171	(1,241)	930	24
Other asset backed securities:				
Financials	4,854	(3,176)	1,678	37
	<u>\$ 89,800</u>	<u>\$ (29,239)</u>	<u>\$ 60,561</u>	
	<u><u>\$ 112,018</u></u>	<u><u>\$ (32,472)</u></u>	<u><u>\$ 79,546</u></u>	

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Fixed Maturity Securities by Sector

	June 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)				
Available for sale:				
United States Government full faith and credit and sponsored agencies	\$ 1,765,648	\$ 1,829,705	\$ 1,856,786	\$ 1,869,867
United States municipalities, states and territories	3,459,913	3,975,544	3,422,667	3,755,367
Foreign government obligations	234,382	253,990	210,953	212,565
Corporate securities:				
Consumer discretionary	2,076,303	2,239,959	1,983,595	2,012,874
Consumer staples	1,674,020	1,855,156	1,612,382	1,649,408
Energy	2,656,241	2,686,344	2,622,284	2,410,184
Financials	5,153,544	5,594,745	4,955,851	5,134,209
Health care	1,962,804	2,183,316	1,944,109	2,007,107
Industrials	3,410,412	3,706,054	3,236,836	3,295,598
Information technology	1,767,440	1,883,632	1,689,259	1,694,466
Materials	1,769,928	1,844,134	1,732,123	1,624,073
Telecommunications	569,091	610,818	543,689	547,424
Utilities	3,353,715	3,778,951	3,277,402	3,427,041
Residential mortgage backed securities:				
Government agency	675,374	769,764	687,515	741,431
Prime	395,636	414,475	474,756	493,096
Alt-A	186,624	208,202	204,714	227,545
Commercial mortgage backed securities:				
Government agency	423,594	461,360	359,273	370,966
Other	4,176,937	4,273,850	3,878,992	3,803,430
Other asset backed securities:				
Consumer discretionary	67,777	67,456	62,852	61,759
Energy	8,072	8,141	8,143	9,097
Financials	960,620	970,457	816,906	821,343
Industrials	216,986	228,024	223,414	231,678
Telecommunications	12,696	13,581	13,789	14,575
Utilities	4,971	6,138	5,420	6,726
Redeemable preferred stock - financials	—	7	—	10
	<u>\$ 36,982,728</u>	<u>\$ 39,863,803</u>	<u>\$ 35,823,710</u>	<u>\$ 36,421,839</u>
Held for investment:				
Corporate security - financials	\$ 76,722	\$ 68,542	\$ 76,622	\$ 65,377

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Fixed Maturity Securities by Sector

Energy and Metals & Mining

In the table on the previous page, oil and metals and mining exposure is reflected within the foreign government, energy, material, utilities, and industrial sectors. Our privately placed available for sale fixed maturity securities at June 30, 2016 total \$176.0 million fair value (\$183.7 million amortized cost) in Energy and \$41.7 million fair value (\$45.6 million amortized cost) in Metals & Mining and are not included in the following tables.

Sector and Subsector	June 30, 2016			
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Average Credit Rating
(Dollars in thousands)				
Energy				
Independent	\$ 499,692	\$ 494,424	\$ (5,268)	Baa
Integrated	491,459	521,976	30,517	A
Oil field services	405,207	380,973	(24,234)	Baa
Refining	104,622	108,976	4,354	Baa
Midstream	760,507	768,248	7,741	Baa
Government owned no guarantee	284,207	305,970	21,763	A
Metals & Mining	562,055	554,527	(7,528)	Baa
Total Energy and Metals & Mining	\$ 3,107,749	\$ 3,135,094	\$ 27,345	Baa

	Amortized Cost at June 30, 2016								
	Energy						Government Owned No Guarantee	Metals & Mining	Total
NRSRO Rating	Independent	Integrated	Oil field services	Refining	Midstream				
	(Dollars in thousands)								
Aaa	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Aa	—	228,196	—	—	—	—	19,912	—	248,108
A	89,477	78,798	135,821	12,104	90,864	—	214,437	76,592	698,093
Baa	363,984	149,246	176,218	92,518	635,624	—	25,262	287,890	1,730,742
Ba	32,189	35,219	64,104	—	34,019	—	—	129,879	295,410
B	14,042	—	29,064	—	—	—	24,596	54,134	121,836
Below B	—	—	—	—	—	—	—	13,560	13,560
	\$ 499,692	\$ 491,459	\$ 405,207	\$ 104,622	\$ 760,507	\$ 284,207	\$ 562,055	\$ 3,107,749	

	Fair Value at June 30, 2016								
	Energy						Government Owned No Guarantee	Metals & Mining	Total
NRSRO Rating	Independent	Integrated	Oil field services	Refining	Midstream				
	(Dollars in thousands)								
Aaa	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Aa	—	250,929	—	—	—	22,120	—	273,049	
A	95,615	82,530	149,461	12,631	98,202	238,764	82,365	759,568	
Baa	357,636	155,938	161,209	96,345	640,424	25,945	292,484	1,729,981	
Ba	28,678	32,579	50,616	—	29,622	—	125,285	266,780	
B	12,495	—	19,687	—	—	19,141	40,174	91,497	
Below B	—	—	—	—	—	—	14,219	14,219	
	\$ 494,424	\$ 521,976	\$ 380,973	\$ 108,976	\$ 768,248	\$ 305,970	\$ 554,527	\$ 3,135,094	

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Mortgage Loans on Commercial Real Estate

	June 30, 2016		December 31, 2015	
	Principal	Percent	Principal	Percent
(Dollars in thousands)				
Geographic distribution				
East	\$ 672,512	27.3%	\$ 698,113	28.5%
Middle Atlantic	160,283	6.5%	160,261	6.6%
Mountain	234,568	9.5%	252,442	10.3%
New England	12,944	0.6%	13,161	0.5%
Pacific	385,306	15.6%	355,268	14.5%
South Atlantic	472,253	19.2%	456,227	18.6%
West North Central	325,402	13.2%	313,120	12.8%
West South Central	200,144	8.1%	201,317	8.2%
	<u>\$ 2,463,412</u>	<u>100.0%</u>	<u>\$ 2,449,909</u>	<u>100.0%</u>

Property type distribution				
Office	\$ 341,209	13.9%	\$ 396,154	16.2%
Medical office	72,087	2.9%	77,438	3.2%
Retail	815,013	33.1%	790,158	32.2%
Industrial/Warehouse	690,503	28.0%	686,400	28.0%
Hotel	3,255	0.1%	3,361	0.1%
Apartment	372,459	15.1%	352,971	14.4%
Mixed use/other	168,886	6.9%	143,427	5.9%
	<u>\$ 2,463,412</u>	<u>100.0%</u>	<u>\$ 2,449,909</u>	<u>100.0%</u>

	June 30, 2016	December 31, 2015
Credit Exposure - By Payment Activity		
Performing	\$ 2,453,915	\$ 2,438,341
In workout	1,648	11,568
Delinquent	—	—
Collateral dependent	<u>7,849</u>	<u>—</u>
	2,463,412	2,449,909
Specific loan loss allowance	(4,552)	(7,842)
General loan loss allowance	(6,300)	(6,300)
Deferred prepayment fees	<u>(1,185)</u>	<u>(510)</u>
	<u>\$ 2,451,375</u>	<u>\$ 2,435,257</u>

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Shareholder Information

Corporate Offices:

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Inquiries:

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Common Stock and Dividend Information:

New York Stock Exchange symbol: "AEL"

	High	Low	Close	Dividend Declared
2016				
First Quarter	\$23.65	\$12.65	\$16.80	\$0.00
Second Quarter	\$16.96	\$12.77	\$14.25	\$0.00
2015				
First Quarter	\$29.62	\$25.46	\$29.13	\$0.00
Second Quarter	\$29.90	\$25.06	\$26.98	\$0.00
Third Quarter	\$30.02	\$22.36	\$23.31	\$0.00
Fourth Quarter	\$28.30	\$22.55	\$24.03	\$0.22
2014				
First Quarter	\$26.42	\$18.84	\$23.62	\$0.00
Second Quarter	\$25.15	\$20.97	\$24.60	\$0.00
Third Quarter	\$25.25	\$21.69	\$22.88	\$0.00
Fourth Quarter	\$29.75	\$21.36	\$29.19	\$0.20

Transfer Agent:

Computershare Trust Company, N.A.
P.O. Box 43010
Providence, RI 02940-0310
Phone: (877) 282-1169
Fax: (781) 575-2723
www.computershare.com

Annual Report and Other Information:

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

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