

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

(Mark One)

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

For the quarterly period ended September 30, 2009

☐ **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 of Incorporation)

42-1447959
(I.R.S. Employer Identification No.)

5000 Westown Parkway, Suite 440
West Des Moines, Iowa
(Address of principal executive offices)

50266
(Zip Code)

Registrant's telephone number, including area code

(515) 221-0002
(Telephone)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$1	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$1

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 504 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 and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

Shares of common stock outstanding at October 30, 2009: 58,294,559

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	September 30, 2009 (Unaudited)	December 31, 2008 (As Adjusted)
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2009 - \$11,147,379; 2008 - \$7,159,286)	\$ 11,082,957	\$ 6,629,046
Held for investment, at amortized cost (fair value: 2009 - \$1,746,033; 2008 - \$3,588,114)	1,758,747	3,604,149
Equity securities, available for sale, at fair value (cost: 2009 - \$84,512; 2008 - \$125,157)	94,076	99,552
Trading securities	371,338	—
Mortgage loans on real estate	2,375,833	2,329,824
Derivative instruments	364,041	56,588
Other investments	9,332	446
Total investments	16,056,324	12,719,605
Cash and cash equivalents	249,862	214,862
Restricted cash and short-term investments	177,149	—
Coinsurance deposits	2,010,084	1,528,981
Accrued investment income	132,621	91,756
Deferred policy acquisition costs	1,553,709	1,579,871
Deferred sales inducements	936,512	843,377
Deferred income taxes	143,773	82,409
Other assets	36,445	20,879
Total assets	\$ 21,296,479	\$ 17,081,740

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS (Continued)
(Dollars in thousands, except per share data)

	September 30, 2009 (Unaudited)	December 31, 2008 (As Adjusted)
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves:		
Traditional life and accident and health insurance products	\$ 134,490	\$ 121,914
Annuity products	18,331,332	15,687,625
Other policy funds and contract claims	110,690	111,205
Notes payable	287,697	247,750
Subordinated debentures	268,312	268,209
Amounts due under repurchase agreements	410,254	—
Funds withheld reinsurance liability	463,100	—
Income taxes payable	25,631	14,133
Other liabilities	513,689	134,060
Total liabilities	20,545,195	16,584,896
Stockholders' equity:		
Common stock, par value \$1 per share, 125,000,000 shares authorized; issued and outstanding: 2009 - 56,203,159 shares (excluding 5,936,696 treasury shares); 2008 - 50,739,355 shares (excluding 6,263,700 treasury shares)	56,203	50,739
Additional paid-in capital	406,234	376,782
Unallocated common stock held by ESOP: 2009 - 563,265 shares; 2008 - 588,312 shares	(5,930)	(6,336)
Accumulated other comprehensive income (loss)	14,011	(147,376)
Retained earnings	280,766	223,035
Total stockholders' equity	751,284	496,844
Total liabilities and stockholders' equity	\$ 21,296,479	\$ 17,081,740

See accompanying notes to unaudited consolidated financial statements.

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

Three Months Ended
September 30,

Nine Months Ended
September 30,

	2009	2008	2009	2008
		(As Adjusted)		(As Adjusted)
Revenues:				
Traditional life and accident and health insurance premiums	\$ 3,166	\$ 3,223	\$ 9,519	\$ 9,419
Annuity product charges	15,835	13,328	47,501	37,271
Net investment income	241,471	209,978	688,928	607,546
Change in fair value of derivatives	121,507	(83,753)	108,178	(314,431)
Net realized gains on investments, excluding other than temporary impairment ("OTTI") losses	5,510	2,258	10,587	3,343
OTTI losses on investments:				
Total OTTI losses	(94,216)	(61,232)	(171,668)	(94,755)
Portion of OTTI losses recognized in other comprehensive income	49,641	—	108,012	—
Net OTTI losses recognized in operations	(44,575)	(61,232)	(63,656)	(94,755)
Gain (loss) on extinguishment of debt	—	(28)	3,098	(1,356)
Total revenues	342,914	83,774	804,155	247,037
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	2,737	2,126	6,910	7,056
Interest sensitive and index product benefits	75,288	50,387	207,028	154,032
Amortization of deferred sales inducements	(8,081)	6,760	17,814	34,193
Change in fair value of embedded derivatives	259,737	(37,100)	414,636	(237,969)
Interest expense on notes payable	3,370	5,014	11,288	15,127
Interest expense on subordinated debentures	3,841	4,669	12,078	14,549
Interest expense on amounts due under repurchase agreements	100	2,698	344	7,694
Amortization of deferred policy acquisition costs	(2,972)	19,285	44,938	118,595
Other operating costs and expenses	13,961	13,549	45,305	38,550
Total benefits and expenses	347,981	67,388	760,341	151,827
Income (loss) before income taxes	(5,067)	16,386	43,814	95,210
Income tax expense (benefit)	(2,089)	28,102	11,305	55,214
Net income (loss)	<u>\$ (2,978)</u>	<u>\$ (11,716)</u>	<u>\$ 32,509</u>	<u>\$ 39,996</u>
Earnings (loss) per common share	\$ (0.05)	\$ (0.22)	\$ 0.59	\$ 0.74
Earnings (loss) per common share - assuming dilution	\$ (0.05)	\$ (0.22)	\$ 0.57	\$ 0.72

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Unallocated Common Stock Held by ESOP	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2008, as adjusted	\$ 50,739	\$ 376,782	\$ (6,336)	\$ (147,376)	\$ 223,035	\$ 496,844
Cumulative effect of noncredit OTTI, net	—	—	—	(20,094)	25,240	5,146
Other comprehensive income:						
Net income for period	—	—	—	—	32,509	32,509
Change in net unrealized investment gains/losses	—	—	—	251,689	—	251,689
Noncredit component of OTTI losses, available for sale securities, net	—	—	—	(70,208)	—	(70,208)
Other comprehensive income						213,990
Issuance of treasury stock	5	50	—	—	(18)	37
Acquisition of 12,362 shares of common stock	(12)	(40)	—	—	—	(52)
Allocation of 37,667 shares of common stock by ESOP, including excess income tax benefits	—	(114)	406	—	—	292
Share-based compensation, including excess income tax benefits	—	2,814	—	—	—	2,814
Issuance of 5,000,000 shares of common stock in exchange for notes payable	5,000	26,226	—	—	—	31,226
Issuance of 132,300 shares of common stock	132	855	—	—	—	987
Issuance of 339,015 shares of common stock under compensation plans	339	(339)	—	—	—	—
Balance at September 30, 2009	<u>\$ 56,203</u>	<u>\$ 406,234</u>	<u>\$ (5,930)</u>	<u>\$ 14,011</u>	<u>\$ 280,766</u>	<u>\$ 751,284</u>
Balance at December 31, 2007	\$ 53,556	\$ 387,302	\$ (6,781)	\$ (38,929)	\$ 216,487	\$ 611,635

Retrospective application of accounting for convertible debt	—	15,355	—	—	(5,888)	9,467
Other comprehensive loss:						
Net income for period, as adjusted	—	—	—	—	39,996	39,996
Change in net unrealized investment gains/losses	—	—	—	(104,227)	—	(104,227)
Other comprehensive loss, as adjusted						(64,231)
Acquisition of 3,734,938 shares of common stock	(3,735)	(28,875)	—	—	—	(32,610)
Allocation of 29,337 shares of common stock by ESOP, including excess income tax benefits	—	(26)	309	—	—	283
Share-based compensation, including excess income tax benefits	—	2,063	—	—	—	2,063
Issuance of 889,729 shares of common stock under compensation plans, including excess income tax benefits	890	(626)	—	—	—	264
Conversion of \$250 of subordinated debentures	31	182	—	—	—	213
Balance at September 30, 2008, as adjusted	<u>\$ 50,742</u>	<u>\$ 375,375</u>	<u>\$ (6,472)</u>	<u>\$ (143,156)</u>	<u>\$ 250,595</u>	<u>\$ 527,084</u>

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008 (As Adjusted)
Operating activities		
Net income	\$ 32,509	\$ 39,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest sensitive and index product benefits	207,028	154,032
Amortization of deferred sales inducements	17,814	34,193
Annuity product charges	(47,501)	(37,271)
Change in fair value of embedded derivatives	414,636	(237,969)
Increase in traditional life and accident and health insurance reserves	6,331	2,724
Policy acquisition costs deferred	(244,164)	(200,267)
Amortization of deferred policy acquisition costs	44,938	118,595
Provision for depreciation and other amortization	4,323	5,250
Amortization of discount and premium on investments	(160,338)	(195,443)
Trading securities purchases, sales and maturities, net	(360,418)	—
Change in restricted cash and short-term investments	(177,149)	—
Net realized gains on investments, excluding OTTI losses	(10,587)	(3,343)
Net OTTI losses recognized in operations	63,656	94,755
Change in fair value of derivatives	(109,563)	313,853
Deferred income taxes	(114,669)	57,891
Loss (gain) on extinguishment of debt	(3,098)	1,356
Share-based compensation	3,183	1,920
Change in accrued investment income	(40,865)	(16,724)
Change in income taxes payable	11,498	10,721
Change in other assets	(4,111)	50
Change in other policy funds and contract claims	(515)	(6,296)
Change in funds withheld reinsurance liability	452,180	—
Change in other liabilities	276,056	12,200
Other	(2,010)	(309)
Net cash provided by operating activities	<u>259,164</u>	<u>149,914</u>
Investing activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities - available for sale	2,236,834	1,094,762
Fixed maturity securities - held for investment	1,918,418	955,560
Equity securities - available for sale	11,778	12,211
Mortgage loans on real estate	87,898	91,446
Derivative instruments	6,534	29,323
Acquisition of investments:		
Fixed maturity securities - available for sale	(5,987,086)	(2,575,652)
Equity securities - available for sale	—	(102,881)
Mortgage loans on real estate	(149,624)	(418,293)

Derivative instruments	(189,424)	(221,702)
Policy loans	(28)	(10)
Purchases of property, furniture and equipment	(1,001)	(176)
Net cash used in investing activities	(2,065,701)	(1,135,412)

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008 (As Adjusted)
Financing activities		
Receipts credited to annuity policyholder account balances	\$ 2,777,615	\$ 1,735,001
Coinsurance deposits	(371,897)	132,761
Return of annuity policyholder account balances	(1,038,657)	(975,384)
Financing fees incurred and deferred	(320)	—
Proceeds from notes payable	75,000	40,000
Repayments of notes payable	(3,082)	(35,353)
Increase in amounts due under repurchase agreements	410,254	115,914
Acquisition of common stock	(34)	(27,051)
Excess tax benefits realized from share-based compensation plans	63	197
Proceeds from issuance of common stock	987	219
Change in checks in excess of cash balance	(8,404)	(2,302)
Other	12	—
Net cash provided by financing activities	1,841,537	984,002
Increase (decrease) in cash and cash equivalents	35,000	(1,496)
Cash and cash equivalents at beginning of period	214,862	18,888
Cash and cash equivalents at end of period	<u>\$ 249,862</u>	<u>\$ 17,392</u>
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest expense	\$ 19,669	\$ 30,228
Income taxes	117,850	—
Non-cash operating activity:		
Deferral of sales inducements	229,739	145,595
Non-cash investing activity:		
Real estate acquired in satisfaction of mortgage loans	8,949	—
Non-cash financing activities:		
Conversion of subordinated debentures	—	213
Stock acquired in satisfaction of obligations	—	5,559
Stock issued in extinguishment of debt	31,250	—

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)

1. Organization and Significant Accounting Policies

Consolidation and Basis of Presentation

The accompanying consolidated financial statements of American Equity Investment Life Holding Company (“we”, “us” or “our”) 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. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements. The consolidated financial statements reflect all adjustments, consisting only of normal 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 and nine month periods ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements requires the use of management 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, 2008.

Reclassifications have been made to prior period financial statements to conform with the September 30, 2009 presentation. See Adopted Accounting Pronouncements for impact of new accounting guidance on prior period financial statements.

Restricted Cash and Short-Term Investments

We consider all cash and short term investments held that we are legally restricted from using in our normal operations and investing activities as restricted cash. The restricted cash at September 30, 2009 is cash and short term investments held in trust as funds withheld in connection with coinsurance agreements.

Adopted Accounting Pronouncements

On January 1, 2009, we adopted accounting standards that enhance the required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how an entity uses derivative instruments and how derivative instruments and related hedged items are accounted for and affect an entity's financial position, financial performance and cash flows. The adoption of these disclosure requirements did not have a material impact on our financial position or results of operations as it impacts financial statement disclosure only.

In April 2009, the Financial Accounting Standards Board ("FASB") issued further guidance on the recognition and presentation of other than temporary impairments. This guidance amends the other than temporary impairment guidance for debt securities only to make the guidance more operational and to expand the presentation and disclosure of other than temporary impairments on debt and equity securities in the financial statements. This guidance requires management to determine cash flows expected to be collected on each debt security for which an other than temporary impairment is being recognized. In accordance with this guidance, the reporting entity shall allocate its other than temporary impairments on debt securities between credit and noncredit components with the noncredit portion of the other than temporary impairments recognized as a component of other comprehensive income (loss) and the credit loss portion included in operations. Credit loss is defined as the amount that the amortized cost basis of the impaired security exceeds the present value of cash flows

expected to be collected. This guidance also requires a cumulative effect adjustment to the opening balance of retained earnings and accumulated other comprehensive income (loss) in the period of adoption for other than temporary impairments on debt securities recognized in prior periods which are still held as investments at the date of adoption. This guidance was effective for interim and annual reporting periods ending after June 15, 2009; however, early application was permitted. We elected to adopt these accounting standards effective January 1, 2009. The cumulative effect adjustment as of January 1, 2009 increased retained earnings by \$25.2 million and decreased accumulated other comprehensive income by \$20.1 million.

In April 2009, the FASB issued additional guidance for estimating fair value of financial instruments including investment securities when the volume and level of activity for the asset or liability have significantly decreased, as well as guidance on identifying circumstances that indicate a transaction is not orderly. This guidance was effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively, with early adoption permitted. We elected to adopt this guidance as of January 1, 2009, and it did not have a material impact on our consolidated financial statements.

On January 1, 2009, we adopted and applied retrospectively to all periods presented an accounting standard for convertible debt instruments that may be settled in whole or in part with cash. This standard specifies that issuers of such instruments should separately account for the liability component and the equity component represented by the embedded conversion option in a manner that will reflect the issuer's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Upon settlement, the issuer shall allocate consideration transferred and transaction costs incurred to the extinguishment of the liability component and the reacquisition of the equity component.

In December 2004, we issued \$260 million of contingent convertible senior notes with a fixed rate of 5.25% and a maturity date of December 6, 2024. On the date of issuance bifurcation of these notes into a debt component and an equity component is required. The difference between the fair value of the debt component at the date of issuance and the initial proceeds at the date of issuance is recorded as a component of equity. The fair value of the notes without the embedded conversion option (liability component) at the date of issuance was \$221.4 million. The fair value of the embedded conversion option (equity component) at the date of issuance was \$39.1 million. The fair value of the equity component at issuance has been recorded as a debt discount to the notes, with a corresponding increase to additional paid-in capital, net of income tax. The debt discount is being amortized over the expected life of the debt.

The following summarizes the effects of the retrospective adoption of the accounting for convertible debt on the balance sheet, statements of operations and earnings per share:

	December 31, 2008		
	As Originally Reported	Adjustments	As Adjusted
	(Dollars in thousands)		
Deferred income taxes	\$ 85,700	\$ (3,291)	\$ 82,409
Other assets	23,661	(2,782)	20,879
Total assets	17,087,813	(6,073)	17,081,740
Notes payable	258,462	(10,712)	247,750
Total liabilities	16,595,608	(10,712)	16,584,896
Additional paid-in capital	361,427	15,355	376,782
Retained earnings	233,751	(10,716)	223,035
Total stockholders' equity	492,205	4,639	496,844

Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
As Originally Reported	Adjustments	As Adjusted	As Originally Reported	Adjustments	As Adjusted

	(Dollars in thousands, except per share data)					
Gain (loss) on extinguishment of debt ⁽¹⁾	\$ 59	\$ (87)	\$ (28)	\$ 242	\$ (1,598)	\$ (1,356)
Interest expense on notes payable	3,881	1,133	5,014	11,732	3,395	15,127
Income tax expense	28,608	(506)	28,102	57,286	(2,072)	55,214
Net income (loss)	(11,002)	(714)	(11,716)	42,917	(2,921)	39,996
Earnings per common share	\$ (0.21)	\$ (0.01)	\$ (0.22)	\$ 0.79	\$ (0.05)	\$ 0.74
Earnings per common share - assuming dilution	\$ (0.21)	\$ (0.01)	\$ (0.22)	\$ 0.77	\$ (0.05)	\$ 0.72

⁽¹⁾ the gain on extinguishment of debt was originally reported as part of other operating costs and expenses in the consolidated statements of operations for the three and nine months ended September 30, 2008.

In May 2009, the FASB issued an accounting standard that requires reporting entities to recognize in their financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing those financial statements. In addition, a reporting entity shall disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. These requirements were effective for periods ending after June 15, 2009. Accordingly, we adopted the subsequent event reporting requirements effective June 30, 2009 and it did not have a material effect on our consolidated financial statements.

In April 2009, the FASB issued disclosure guidance that requires disclosures about fair value of financial instruments within the scope of existing standards for interim reporting periods as well as in annual financial statements. This guidance also requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments in financial statements on an interim and annual basis and to highlight any changes from prior periods and was effective for financial statements issued for interim and annual periods ending after June 15, 2009. We adopted these disclosure requirements as of and for the periods ended June 30, 2009.

New Accounting Pronouncements

In June 2009, the FASB amended accounting standards for transfers and servicing of financial assets and extinguishments of liabilities. The new standards removes the concept of a qualifying special-purpose entity ("QSPE") from existing standards and removes the exception of QSPE's from consolidation requirements. Additionally, more stringent conditions for reporting a transfer of a portion of a financial asset as a sale were created, derecognition criteria was clarified, how retained interests are initially measured was revised, the guaranteed mortgage securitization recharacterization provisions were removed and disclosure requirements were added. This standard must be applied as of the beginning of our first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. We are currently assessing the impact of this standard.

In June 2009, the FASB issued amendments to the accounting standards for consolidation of variable interest entities. The new standard replaces the quantitative-based risks and rewards calculation of existing standards for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with a primarily qualitative approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impacts the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This amendment is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. We are currently assessing the impact of this standard.

In September 2009, the FASB issued an accounting standards update that allows for net asset value per share to be used as a means to estimate fair value for an investment if the fair value of that investment is not readily determinable. Investments that qualify are those that calculate a net asset value per share or its equivalent as of the investor's measurement date. This standard is effective for interim and annual periods ending after December 15, 2009, with early application permitted. We are currently assessing the impact of this accounting standards update.

In August 2009, the FASB issued an accounting standards update that amends the fair value measurement of liabilities. The update provides clarification that in circumstances in which a quoted price in an active market for

the identical liability is not available, a reporting entity is required to measure fair value using the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique that is consistent with the principles of fair value. This guidance is effective for the first reporting period beginning after issuance, which will be our three months and year ending December 31, 2009. We are currently assessing the impact of this accounting standards update.

2. Other Comprehensive Income (Loss)

Other comprehensive income (loss) is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Net income (loss)	\$ (2,978)	\$ (11,716)	\$ 32,509	\$ 39,996
Change in net unrealized investment gains/losses	171,044	(54,731)	251,689	(104,227)
Noncredit component of OTTI losses, available for sale securities, net	(32,267)	—	(70,208)	—
	<u>\$ 135,799</u>	<u>\$ (66,447)</u>	<u>\$ 213,990</u>	<u>\$ (64,231)</u>

3. Fair Values of Financial Instruments

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 for use of inputs in determining fair value. The hierarchy defines the highest priority inputs (Level 1) as quoted prices in active markets for identical assets. 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. 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. The types of financial instruments included in Level 1 are listed equities, United States treasuries and non-interest bearing cash. 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. The types of financial instruments included in Level 2 are U.S. Government sponsored agency securities, corporate preferred securities, corporate bonds and mortgage and asset backed securities.

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.

We used the following valuation techniques in estimating the fair values of financial instruments:

I. Fair values of fixed maturity securities are obtained primarily from a broker who starts by obtaining a price from an independent pricing source and adjusts for observable data. These prices from the independent broker undergo

evaluation by our internal investment professionals. We generally obtain one price per security, which is compared to relevant credit information, perceived market movements and sector news. Market indices of similar rated asset class spreads are considered for valuations and broker indications of similar securities are compared. Inputs used by both the broker and the pricing service include market information, such as yield data and other factors relating to instruments or securities with similar characteristics. If the issuer has had trades in similar debt outstanding but not necessarily the same rank in the capital structure, spread information is used to support fair value. If discrepancies are identified, additional quotes are obtained and the quote that best reflects a fair value exit price at the reporting date is selected. In the case of private placement bonds, the broker typically starts with a price of a publicly traded bond of an entity that is comparable to size and financial position of the issuer of the private bond. The broker adjusts the price for factors such as marketability and risk factors specific to each security.

II. Amounts reported as fair value of embedded derivatives are estimated by projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and discounting the excess of the projected contract value amounts. The projections of the policy contract values are based on best estimate assumptions for future policy growth and future policy decrements. 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 that will be purchased 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. Increases or decreases in the fair value of embedded derivatives generally correspond to increases or decreases in the fair values of call options purchased to fund the annual index credits and changes in the discount rates used to discount the excess of the projected policy contract values over the projected minimum guaranteed contract values. The fair value of the embedded derivatives includes an adjustment through the discount rate for our non performance risk.

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 review the prices received from the independent brokers to ensure that the prices represent a reasonable estimate of fair value. This process involves quantitative and qualitative analysis and is administered by our investment department. This review process includes, but is not limited to, initial and on-going review of methodologies used by the independent broker, review of pricing statistics and trends, back testing recent trades, comparing prices to those obtained from other third party pricing services, reviewing cash flow activity in the subsequent period, monitoring credit rating upgrades and downgrades and monitoring of trading volumes. Most all of the information used by the pricing service and the independent broker can be corroborated by our procedures of investigating market data and tying that data to the facts utilized by the broker.

The fixed income markets in 2008 and early 2009 experienced a period of extreme volatility and limited market liquidity conditions, which affected a broad range of asset classes and sectors. In addition, there were credit downgrade events and an increased probability of default for many fixed income instruments. These volatile market conditions increased the difficulty of valuing certain instruments as trading was less frequent and/or market data was less observable. There were certain instruments that were in active markets with significant observable data that became illiquid due to the current financial environment or market conditions. As a result, certain valuations require greater estimation and judgment as well as valuation methods which are more complex. These values may not ultimately be realizable in a market transaction, and such values may change very rapidly as market conditions change and valuation assumptions are modified.

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 and trading securities: The fair values of fixed maturity securities and trading securities are obtained from third parties and are based on quoted market prices when 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.

Equity securities: The fair values of equity securities are based on quoted market prices.

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Mortgage loans on real estate: The fair values of mortgage loans on real estate are calculated using discounted expected cash flows using current competitive market interest rates currently being offered for similar loans.

Derivative instruments: The fair values of our derivative instruments are based upon the amount of cash that we will receive to settle each derivative instrument on the reporting date. These amounts are obtained from each of the counterparties and are adjusted for the non-performance risk of each counterparty net of any collateral held. The non-performance 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 index annuity policy liabilities.

Other investments: Other investments is comprised of policy loans and real estate held for sale. We have not attempted to determine the fair values associated with our policy loans, as management believes any differences between carrying value and the fair values afforded these instruments are immaterial to our financial position and, accordingly, the cost to provide such disclosure is not worth the benefit to be derived. The fair value of our real estate held for sale was determined by estimating the net operating income of the commercial rental property and dividing that by a current market capitalization rate.

Cash and cash equivalents and restricted cash: 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.

Annuity policy benefit reserves and coinsurance deposits: 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). The coinsurance deposits related to the annuity benefit reserves have fair values determined in a similar fashion. 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.

Notes payable and amounts due under repurchase agreements: The fair value of the contingent convertible senior notes is based upon quoted market prices. Fair values for other notes payable with fixed interest rates are estimated by discounting expected cash flows using current market interest rates currently being offered for similar securities. The amounts reported in the consolidated balance sheets for short term indebtedness under repurchase agreements with variable interest rates approximate their fair values.

Subordinated debentures: The carrying amount of subordinated debentures with variable interest rates reported in the consolidated balance sheets approximates fair value. Fair values for subordinated debentures with fixed interest rates are estimated by discounting expected cash flows using current market interest rates currently being offered for similar securities.

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

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in thousands)				
Assets				
Fixed maturity securities:				
Available for sale	\$ 11,082,957	\$ 11,082,957	\$ 6,629,046	\$ 6,629,046
Held for investment	1,758,747	1,746,033	3,604,149	3,588,114
Equity securities, available for sale	94,076	94,076	99,552	99,552
Mortgage loans on real estate	2,375,833	2,338,065	2,329,824	2,284,583
Derivative instruments	364,041	364,041	56,588	56,588
Trading securities	371,338	371,338	—	—
Other investments	9,332	9,332	446	446
Cash and cash equivalents	249,862	249,862	214,862	214,862
Restricted cash and short-term investments	177,149	177,149	—	—
Coinsurance deposits	2,010,084	1,726,909	1,528,981	1,366,149
Liabilities				
Annuity benefit reserves	18,331,332	15,539,193	15,687,625	13,391,244
Notes payable	287,697	285,661	247,750	193,267
Subordinated debentures	268,312	208,256	268,209	248,283
Amounts due under repurchase agreements	410,254	410,254	—	—
Interest rate swaps	2,227	2,227	—	—

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Our assets and liabilities which are measured at fair value on a recurring basis as of September 30, 2009 and December 31, 2008 are presented below based on the fair value hierarchy levels:

Total Fair Value	Quoted Prices in Active	Significant Other Observable	Significant Unobservable Inputs (Level 3)
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	Markets (Level 1)		Inputs (Level 2)					
	(Dollars in thousands)							
September 30, 2009								
Assets								
Fixed maturity securities:								
Available for sale:								
United States Government full faith and credit	\$	3,292	\$	2,585	\$	707	\$	—
United States Government sponsored agencies		4,224,437		—		4,224,437		—
U.S. states, territories and political subdivisions		305,128		—		305,128		—
Corporate securities		3,966,748		69,502		3,879,464		17,782
Mortgage and asset backed securities		2,583,351		—		2,580,704		2,647
Equity securities, available for sale: finance, insurance and real estate		94,073		85,665		8,408		—
Trading securities		371,338		—		371,338		—
Derivative instruments		364,041		—		364,041		—
Cash and cash equivalents		249,862		249,862		—		—
Restricted cash and short-term investments		177,149		177,149		—		—
	\$	12,339,419	\$	584,763	\$	11,734,227	\$	20,429
Liabilities								
Interest rate swaps	\$	2,227	\$	—	\$	2,227	\$	—
Index annuities-embedded derivatives		1,248,912		—		—		1,248,912
	\$	1,251,139	\$	—	\$	2,227	\$	1,248,912

December 31, 2008

Assets								
Fixed maturity securities:								
Available for sale:								
United States Government full faith and credit	\$	22,050	\$	3,404	\$	18,646	\$	—
United States Government sponsored agencies		3,104,853		—		3,104,853		—
Corporate securities		1,688,869		84,946		1,586,174		17,749
Mortgage and asset backed securities		1,813,274		—		1,810,941		2,333
Equity securities, available for sale: finance, insurance and real estate		99,552		84,554		14,998		—
Derivative instruments		56,588		—		56,588		—
Cash and cash equivalents		214,862		214,862		—		—
	\$	7,000,048	\$	387,766	\$	6,592,200	\$	20,082
Liabilities								
Index annuities-embedded derivatives	\$	998,015	\$	—	\$	—	\$	998,015

The following tables provide a reconciliation of the beginning and ending balances for our Level 3 assets and liabilities, which are measured at fair value on a recurring basis using significant unobservable inputs for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Available for sale securities				
Beginning balance	\$ 19,140	\$ 19,099	\$ 20,082	\$ —
Transfers in to or out of Level 3	—	2,364	—	29,398
Disposals	(52)	—	(126)	—
Total gains (losses) (unrealized/realized):				
Included in other comprehensive income	1,628	(4,664)	1,586	(4,664)
Net OTTI losses recognized in operations	(287)	—	(1,113)	(7,935)
	<u>\$ 20,429</u>	<u>\$ 16,799</u>	<u>\$ 20,429</u>	<u>\$ 16,799</u>
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Index annuities-embedded derivatives				
Beginning balance	\$ 1,050,769	\$ 1,168,050	\$ 998,015	\$ 1,432,746
Reinsurance adjustment	(14,567)	—	(14,567)	—
Premiums less benefits	2,377	2,478	(2,464)	71,463
Change in unrealized losses (gains), net	210,333	(102,533)	267,928	(436,214)
	<u>\$ 1,248,912</u>	<u>\$ 1,067,995</u>	<u>\$ 1,248,912</u>	<u>\$ 1,067,995</u>

Change in unrealized losses (gains), net for each period in our embedded derivatives are included in change in fair value of embedded derivatives in the consolidated statements of operations.

4. Investments

At September 30, 2009 and December 31, 2008, the amortized cost and fair value of fixed maturity securities and equity securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
September 30, 2009				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	\$ 3,000	\$ 292	\$ —	\$ 3,292
United States Government sponsored agencies	4,233,286	13,345	(22,195)	4,224,436
U.S. states, territories and political subdivisions	287,926	17,245	(42)	305,129
Corporate securities	3,737,905	314,766	(85,923)	3,966,748
Mortgage and asset backed securities	2,885,262	58,010	(359,920)	2,583,352
	<u>\$ 11,147,379</u>	<u>\$ 403,658</u>	<u>\$ (468,080)</u>	<u>\$ 11,082,957</u>
Held for investment:				
United States Government sponsored agencies	\$ 1,683,131	\$ 5,682	\$ (136)	\$ 1,688,677
Corporate security	75,616	—	(18,260)	57,356
	<u>\$ 1,758,747</u>	<u>\$ 5,682</u>	<u>\$ (18,396)</u>	<u>\$ 1,746,033</u>
Equity securities, available for sale:				
Finance, insurance and real estate	<u>\$ 84,512</u>	<u>\$ 13,411</u>	<u>\$ (3,847)</u>	<u>\$ 94,076</u>
December 31, 2008				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	\$ 21,664	\$ 515	\$ (129)	\$ 22,050
United States Government sponsored agencies	3,090,458	15,528	(1,133)	3,104,853
Corporate securities	1,951,308	14,939	(277,378)	1,688,869
Mortgage and asset backed securities	2,095,856	6,055	(288,637)	1,813,274
	<u>\$ 7,159,286</u>	<u>\$ 37,037</u>	<u>\$ (567,277)</u>	<u>\$ 6,629,046</u>
Held for investment:				
United States Government sponsored agencies	\$ 3,528,628	\$ 6,421	\$ (4,984)	\$ 3,530,065
Corporate security	75,521	—	(17,472)	58,049
	<u>\$ 3,604,149</u>	<u>\$ 6,421</u>	<u>\$ (22,456)</u>	<u>\$ 3,588,114</u>
Equity securities, available for sale:				
Finance, insurance and real estate	<u>\$ 125,157</u>	<u>\$ 373</u>	<u>\$ (25,978)</u>	<u>\$ 99,552</u>

During the nine months ended September 30, 2009 and 2008, we received \$3.6 billion and \$1.5 billion, respectively, in net redemption proceeds related to calls of our callable United States Government sponsored agency securities, of which \$1.9 billion and \$1.0 billion, respectively, were classified as held for investment. We reinvested the proceeds from these redemptions primarily in United States Government sponsored agency securities, corporate securities and mortgage backed securities classified as available for sale. At September 30, 2009, 50% of our fixed income securities have call features and 8% were subject to call redemption. Another 9% will become subject to call redemption through December 31, 2009.

The amortized cost and fair value of fixed maturity securities at September 30, 2009, 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 asset backed securities provide for periodic payments throughout their lives and are shown below as a separate line.

	Available for sale		Held for investment	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)				
Due in one year or less	\$ 26,586	\$ 25,896	\$ —	\$ —
Due after one year through five years	399,912	417,416	—	—
Due after five years through ten years	1,445,204	1,573,290	—	—
Due after ten years through twenty years	1,831,095	1,852,315	555,000	555,981
Due after twenty years	4,559,320	4,630,688	1,203,747	1,190,052
	8,262,117	8,499,605	1,758,747	1,746,033
Mortgage and asset backed securities	2,885,262	2,583,352	—	—
	<u>\$ 11,147,379</u>	<u>\$ 11,082,957</u>	<u>\$ 1,758,747</u>	<u>\$ 1,746,033</u>

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

	September 30, 2009	December 31, 2008
(Dollars in thousands)		
Net unrealized losses on available for sale fixed maturity securities and equity securities	\$ (54,859)	\$ (555,845)

Adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements	28,965	329,113
Deferred tax valuation allowance reversal	30,842	—
Deferred income tax asset	9,063	79,356
Net unrealized losses reported as accumulated other comprehensive income (loss)	<u>\$ 14,011</u>	<u>\$ (147,376)</u>

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”. We had 90% and 96% of our fixed maturity portfolio rated investment grade at September 30, 2009 and December 31, 2008, respectively.

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

NAIC Designation	NRSRO Equivalent Credit Rating	September 30, 2009		December 31, 2008	
		Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)					
1	Aaa/Aa/A	\$ 9,104,618	\$ 9,226,240	\$ 8,764,338	\$ 8,512,209
2	Baa	2,221,614	2,325,360	1,509,399	1,292,303
3	Ba	343,704	293,539	276,519	208,122
4	B	210,541	185,126	140,754	135,989
5	Caa and lower	689,830	548,962	35,391	31,375
6	In or near default	335,819	249,763	37,034	37,162
		<u>\$ 12,906,126</u>	<u>\$ 12,828,990</u>	<u>\$ 10,763,435</u>	<u>\$ 10,217,160</u>

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The following tables show our investments’ gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 280 and 394 securities, respectively) have been in a continuous unrealized loss position, at September 30, 2009 and December 31, 2008:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
September 30, 2009						
Fixed maturity securities:						
Available for sale:						
United States Government sponsored agencies	\$ 1,451,941	\$ (22,195)	\$ —	\$ —	\$ 1,451,941	\$ (22,195)
U.S. states, territories and political subdivisions	8,433	(42)	—	—	8,433	(42)
Corporate securities:						
Finance, insurance and real estate	58,283	(6,729)	265,006	(40,040)	323,289	(46,769)
Manufacturing, construction and mining	68,579	(4,263)	97,692	(10,943)	166,271	(15,206)
Utilities and related sectors	36,888	(1,933)	83,243	(9,383)	120,131	(11,316)
Wholesale/retail trade	35,258	(1,090)	52,812	(6,162)	88,070	(7,252)
Services, media and other	—	—	71,535	(5,380)	71,535	(5,380)
Mortgage and asset backed securities	256,466	(27,243)	1,164,958	(332,677)	1,421,424	(359,920)
	<u>\$ 1,915,848</u>	<u>\$ (63,495)</u>	<u>\$ 1,735,246</u>	<u>\$ (404,585)</u>	<u>\$ 3,651,094</u>	<u>\$ (468,080)</u>
Held for investment:						
United States Government sponsored agencies	\$ —	\$ —	\$ 149,864	\$ (136)	\$ 149,864	\$ (136)
Corporate security:						
Finance, insurance and real estate	—	—	57,356	(18,260)	57,356	(18,260)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 207,220</u>	<u>\$ (18,396)</u>	<u>\$ 207,220</u>	<u>\$ (18,396)</u>
Equity securities, available for sale:						
Finance, insurance and real estate	<u>\$ 3,050</u>	<u>\$ (118)</u>	<u>\$ 35,271</u>	<u>\$ (3,729)</u>	<u>\$ 38,321</u>	<u>\$ (3,847)</u>

December 31, 2008

Fixed maturity securities:

Available for sale:						
United States Government full faith and credit	\$ —	\$ —	\$ 18,645	\$ (129)	\$ 18,645	\$ (129)
United States Government sponsored agencies	60,475	(57)	298,925	(1,076)	359,400	(1,133)
Corporate securities:						
Finance, insurance and real estate	205,148	(44,478)	146,226	(46,761)	351,374	(91,239)
Manufacturing, construction and mining	294,428	(37,589)	65,578	(27,978)	360,006	(65,567)

Utilities and related sectors	192,110	(22,816)	116,173	(32,307)	308,283	(55,123)
Wholesale/retail trade	120,056	(16,557)	11,825	(9,680)	131,881	(26,237)
Services, media and other	119,297	(22,425)	79,664	(16,787)	198,961	(39,212)
Mortgage and asset backed securities	1,117,973	(221,480)	297,442	(67,157)	1,415,415	(288,637)
	<u>\$ 2,109,487</u>	<u>\$ (365,402)</u>	<u>\$ 1,034,478</u>	<u>\$ (201,875)</u>	<u>\$ 3,143,965</u>	<u>\$ (567,277)</u>
Held for investment:						
United States Government sponsored agencies	\$ —	\$ —	\$ 360,016	\$ (4,984)	\$ 360,016	\$ (4,984)
Corporate security:						
Finance, insurance and real estate	—	—	58,049	(17,472)	58,049	(17,472)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 418,065</u>	<u>\$ (22,456)</u>	<u>\$ 418,065</u>	<u>\$ (22,456)</u>
Equity securities, available for sale:						
Finance, insurance and real estate	<u>\$ 30,093</u>	<u>\$ (14,360)</u>	<u>\$ 20,358</u>	<u>\$ (11,618)</u>	<u>\$ 50,451</u>	<u>\$ (25,978)</u>

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The following is a description of the factors causing the temporary unrealized losses by investment category as of September 30, 2009:

United States Government sponsored agencies and U.S. states, territories and political subdivisions: These securities are relatively long in duration, making the value of such securities sensitive to changes in market interest rates. During the last nine months spreads on agency securities have improved; however, long term interest rates have risen by a greater amount. These securities carry yields less than those available at September 30, 2009 as the result of these rising interest rates.

Corporate securities: The unrealized losses in these securities are due partially to a rise in interest rates in 2009 as well as the continuation in wider than historic credit spreads. While credit spreads have improved on a recovering economy, several industries remain at much wider spreads, such as financials and economic sensitive issuers. As the result of wider spreads, these issues carry yields less than those available in the market as of September 30, 2009.

Mortgage and asset backed securities: At September 30, 2009, we had no exposure to subprime mortgage-backed securities. All of our mortgage-backed securities are pools of residential mortgage loans. Substantially all of the securities that we own are in the highest rated tranche of the pool in which they are structured and are not subordinated to any other tranche. Our "Alt-A" mortgage-backed securities are comprised of 36 securities with a total amortized cost basis of \$536.4 million and a fair value of \$402.5 million. Fair values of residential mortgage-backed securities have continued at prices significantly less than amortized cost as spreads in this sector have not improved like other sectors of the fixed income market. With the uncertainty of future foreclosures and high delinquencies on residential mortgages, these security prices will likely remain below our cost basis until the housing market conditions improve.

Equity securities: The unrealized losses on equity securities, which are primarily investment grade perpetual preferred stocks with exposure to REITS, investment banks and finance companies, are due to the instability in the financial markets and a further deterioration in the economy. All of the equity securities in an unrealized loss position for 12 months or more are investment grade perpetual preferred stocks that are absent credit deterioration. A deepening recession due to tight credit markets and a difficult housing market have raised concerns in regard to earnings and dividend stability in many companies which directly affect the values of these securities.

Where the decline in market 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 be other than temporarily impaired 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. For equity securities, we recognize an impairment charge in the period in which we do not have the intent and ability to hold the securities until recovery of cost or we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period of time on a security-by-security basis based upon consideration of all the evidence available to us, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed 18 months from the date of impairment for perpetual preferred securities for which there is evidence of deterioration in credit of the issuer and common equity securities. For perpetual preferred securities absent evidence of a deterioration in credit of the issuer we apply an impairment model, including an anticipated recovery period, similar to a debt security. For equity securities we measure impairment charges based upon the difference between the book value of a security and its fair value.

Approximately 36% of the unrealized losses on fixed maturity securities shown in the above table for September 30, 2009 are on securities that are rated investment grade, defined as being the highest two NAIC designations. Approximately 64% of the unrealized losses on fixed maturity securities shown in the above table for September 30, 2009 are on securities rated below investment grade. All of the fixed maturity securities with unrealized losses are current with respect to the payment of principal and interest.

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Changes in net unrealized losses on investments for the nine months ended September 30, 2009 and 2008 are as follows:

	September 30,	
	2009	2008
	(Dollars in thousands)	
Fixed maturity securities held for investment carried at amortized cost	<u>\$ 3,321</u>	<u>\$ 44,389</u>
Investments carried at fair value:		
Fixed maturity securities, available for sale	\$ 465,818	\$ (346,486)
Equity securities, available for sale	35,169	(8,427)
	<u>500,987</u>	<u>(354,913)</u>
Adjustment for effect on other balance sheet accounts:		
Deferred policy acquisition costs and deferred sales inducements	(300,148)	202,376
Change in deferred tax valuation allowance	30,842	(5,078)

Deferred income tax asset	(70,294)	53,388
	(339,600)	250,686
Decrease (increase) in net unrealized losses on investments carried at fair value	\$ 161,387	\$ (104,227)

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Net realized gains on investments, excluding other than temporary impairment losses for the three and nine months ended September 30, 2009 and 2008 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(Dollars in thousands)				
Available for sale fixed maturity securities:				
Gross realized gains	\$ 10,334	\$ 2,228	\$ 16,461	\$ 3,371
Gross realized losses	(2,619)	(170)	(2,672)	(283)
	7,715	2,058	13,789	3,088
Equity securities:				
Gross realized gains	3,279	200	3,282	255
	3,279	200	3,282	255
Mortgage loans on real estate:				
Impairment losses	(5,484)	—	(6,484)	—
	\$ 5,510	\$ 2,258	\$ 10,587	\$ 3,343

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 or cost basis of each investment that has a fair value that is materially lower than its amortized cost or cost and requires a high degree of management judgment and involves uncertainty. The evaluation of securities for other than temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties.

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

- our assessment in the case of equity securities including perpetual preferred stocks with credit deterioration that the security cannot recover to cost in a reasonable period of time;
- the length of time and 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;

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- 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;
- our intent and ability to retain equity securities for a period of time sufficient to allow for recovery;
- consideration of rating agency actions; and
- changes in estimated cash flows of and mortgage and asset backed securities.

We determine whether other than temporary impairment losses should be recognized for debt and equity securities by assessing all facts and circumstances surrounding the security. Other than temporary impairment losses on equity securities are recognized in operations. 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, other than temporary impairment 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, an impairment loss would be recognized in operations in the amount of the expected credit loss. We calculate the present value of the cash flows expected to be collected. 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 remaining amount of the other than temporary impairment is recognized in other comprehensive income.

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 the 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 the credit loss component of other than temporary impairment.

The cash flow modeling is performed on a security-by-security basis and incorporates actual cash flows on the mortgage-backed securities through the current period, as well as the projection of remaining cash flows using a number of assumptions including default rates, prepayment rates and loss severity rates. The default curves we use are tailored to the Prime or Alt-A mortgage-backed securities that we own, which assume lower default rates and loss severity for Prime

securities versus Alt-A securities. These default curves are scaled higher or lower depending on factors such as current underlying mortgage loan performance, rating agency loss projections, loan to value ratios, geographic diversity, as well as other appropriate considerations. The default curves generally assume lower loss levels for older vintage securities versus more recent vintage securities, which reflects the decline in underwriting standards over the years.

The following table presents the range of significant assumptions used to determine the credit loss component of other than temporary impairments we have recognized on mortgage-backed securities which are all senior level tranches within the structure of the securities:

Sector	Vintage	Discount Rate		Default Rate		Loss Severity	
		Min	Max	Min	Max	Min	Max
Prime	2005	7.7%	7.7%	7%	7%	50%	50%
	2006	6.5%	9.2%	8%	14%	35%	55%
	2007	5.8%	7.9%	10%	31%	40%	50%
Alt-A	2005	5.6%	8.7%	10%	16%	10%	55%
	2006	6.0%	7.3%	18%	27%	50%	60%
	2007	6.2%	7.4%	15%	52%	45%	70%

The determination of the credit loss component of a corporate bond (including redeemable preferred stocks) 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, large 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, or the security's price decline is deemed other than temporary, 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.

The following table summarizes other than temporary impairments by asset type:

	Three Months Ended September 30, 2009			Three Months Ended September 30, 2008
	Total Other Than Temporary Losses	Included in Other Comprehensive Income	Net Impairment Losses in Operations	Impairment Losses in Operations
(Dollars in thousands)				
Fixed maturity securities:				
Available for sale:				
Corporate securities	\$ (3,830)	\$ (2,953)	\$ (6,783)	\$ (15,848)
Residential mortgage-backed securities	(78,712)	52,594	(26,118)	—
Equity securities, available for sale	(11,674)	—	(11,674)	(45,384)
	<u>\$ (94,216)</u>	<u>\$ 49,641</u>	<u>\$ (44,575)</u>	<u>\$ (61,232)</u>
	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008
	Total Other Than Temporary Losses	Included in Other Comprehensive Income	Net Impairment Losses in Operations	Impairment Losses in Operations
(Dollars in thousands)				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	\$ (245)	\$ —	\$ (245)	\$ —
Corporate securities	(9,785)	(2,756)	(12,541)	(33,673)
Residential mortgage-backed securities	(140,454)	110,768	(29,686)	(3,249)
Equity securities, available for sale	(21,184)	—	(21,184)	(57,833)
	<u>\$ (171,668)</u>	<u>\$ 108,012</u>	<u>\$ (63,656)</u>	<u>\$ (94,755)</u>

The cumulative portion of other than temporary impairments determined to be credit losses which have been recognized in operations for debt securities are summarized as follows:

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
(Dollars in thousands)		
Cumulative credit loss at beginning of period	\$ (43,554)	\$ (34,229)
Credit losses on securities for which an other than temporary impairment was not previously recognized	(6,015)	(13,083)
Additional credit losses on securities for which an other than temporary impairment was previously recognized	(26,887)	(29,389)
Losses included in beginning balance on securities sold during the period	5,210	5,455
	<u>\$ (71,246)</u>	<u>\$ (71,246)</u>

The following table summarizes the cumulative noncredit portion of OTTI and the change in fair value since recognition of OTTI, both of which were recognized in other comprehensive income, by major type of security for securities that are part of our investment portfolio at September 30, 2009:

	September 30, 2009 Amortized Cost	OTTI Recognized in Other Comprehensive Income	Change in Fair Value Since OTTI was Recognized	September 30, 2009 Fair Value
	(Dollars in thousands)			
Corporate securities	\$ 35,725	\$ (12,982)	\$ 7,426	\$ 30,169
Residential mortgage-backed securities	701,034	(180,224)	8,353	529,163
Equity securities:				
Finance, insurance and real estate	37,227	—	13,168	50,395
	<u>\$ 773,986</u>	<u>\$ (193,206)</u>	<u>\$ 28,947</u>	<u>\$ 609,727</u>

Trading securities consist of fixed maturity and equity securities in designated portfolios, which support funds withheld reinsurance arrangements. Investment results for these portfolios, including gains and losses from sales, are passed directly to the reinsurer pursuant to contractual terms of the reinsurance arrangements. Trading securities are carried at fair value and changes in fair value are recorded as changes in the funds withheld reinsurance liability, as the funds withheld are being held on deposit to support the amount of reinsurance recoverable. The fair value of our trading securities is determined in the same manner as our securities classified as available for sale.

Trading securities at fair value retained in connection with reinsurance arrangements consisted of the following:

	September 30, 2009	December 31, 2008
	(Dollars in thousands)	
United States Government sponsored agencies	\$ 3,517	\$ —
U.S. states, territories and political subdivisions	24,763	—
Corporate securities	66,841	—
Mortgage-backed securities	229,334	—
Equity securities	46,883	—
Total trading securities	<u>\$ 371,338</u>	<u>\$ —</u>

5. Mortgage Loans on Real Estate

Our mortgage loan portfolio totaled \$2.4 billion and \$2.3 billion at September 30, 2009 and December 31, 2008, respectively, with commitments outstanding of \$31.5 million at September 30, 2009. The portfolio consists of commercial 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 reduce the risk of default. The mortgage loan portfolio is summarized by geographic region and property type as follows:

	September 30, 2009		December 31, 2008	
	Carrying Amount	Percent	Carrying Amount	Percent
	(Dollars in thousands)			
Geographic distribution				
East	\$ 541,057	22.7%	\$ 537,303	23.1%
Middle Atlantic	165,905	7.0%	161,222	6.9%
Mountain	379,368	16.0%	386,988	16.6%
New England	44,953	1.9%	44,517	1.9%
Pacific	208,349	8.8%	194,301	8.3%
South Atlantic	443,566	18.6%	421,507	18.1%
West North Central	410,342	17.3%	397,375	17.1%
West South Central	182,293	7.7%	186,611	8.0%
	<u>\$ 2,375,833</u>	<u>100.0%</u>	<u>\$ 2,329,824</u>	<u>100.0%</u>
Property type distribution				
Office	\$ 651,572	27.4%	\$ 655,278	28.1%
Medical Office	141,016	5.9%	142,409	6.1%
Retail	546,014	23.0%	551,172	23.7%
Industrial/Warehouse	583,588	24.6%	552,012	23.7%
Hotel	156,146	6.6%	154,671	6.6%
Apartment	119,163	5.0%	111,933	4.8%
Mixed use/other	178,334	7.5%	162,349	7.0%
	<u>\$ 2,375,833</u>	<u>100.0%</u>	<u>\$ 2,329,824</u>	<u>100.0%</u>

As of September 30, 2009, we have two mortgage loans that we completed foreclosure proceedings and obtained the underlying collateral which we are accounting for as real estate held for sale. The principal balance outstanding on the loans at the dates of foreclosure was \$8.9 million and no loss was recognized since the fair value of the properties acquired less the estimated costs to sell exceeds the amounts outstanding on the loan. We have five mortgage loans with a total outstanding balance of \$14.6 million that were in default and we have commenced foreclosure proceedings.

We evaluate our mortgage loan portfolio for the purpose of determining the need to establish a loan loss reserve. We accomplish this by specific identification of impaired loans and the measurement of an estimated loss for each individual loan identified. In addition, we analyze the mortgage loan portfolio for the need of a general loan allowance for probable losses on all other loans. The amount of the general loan allowance is based upon management's evaluation of the collectability of the loan portfolio, historical loss experience, delinquencies, credit concentrations, underwriting standards and national and local economic conditions. Based upon this process and analysis, we have determined that no general loan loss allowance was necessary. A mortgage loan is impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We recorded impairment losses of \$5.5 million and \$6.5 million during the three and nine months ended September 30, 2009, respectively, on specific mortgage loans with a total outstanding balance of \$12.5 million and \$18.4 million during the three and nine months ended September 30, 2009, respectively, for which principal amounts outstanding exceed the fair value of the collateral real estate less projected costs to sell the properties.

A summary of impaired commercial mortgage loans as of September 30, 2009 and December 31, 2008 is as follows:

	September 30, 2009	December 31, 2008
	(Dollars in thousands)	
Impaired mortgage loans with allowances for losses	\$ 18,384	\$ —
Impaired mortgage loans with no allowance for losses	58,862	20,983
Allowance for probable loan losses	(6,484)	—
Net carrying value of impaired mortgage loans	<u>\$ 70,762</u>	<u>\$ 20,983</u>

Mortgage loans summarized in the preceding table represent all loans that we are either not currently collecting, or those we feel it is probable we will not be able to collect, all amounts due according to the contractual terms of the loan agreements. We have not recognized an allowance on any of our impaired mortgage loans for which the present value of our expected future cash flows have not decreased. Should the delinquency rate or loss performance of our commercial mortgage loan portfolio increase significantly, the increase could have an adverse effect on our results.

6. Derivative Instruments

We recognize all derivative instruments as assets or liabilities in the consolidated balance sheets at fair value. 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 index annuity contracts, presented in the consolidated balance sheets are as follows:

	September 30, 2009	December 31, 2008
	(Dollars in thousands)	
ASSETS		
Derivative instruments		
Call options	\$ 364,041	\$ 58,358
Interest rate swaps	—	(1,770)
	<u>\$ 364,041</u>	<u>\$ 56,588</u>
LIABILITIES		
Policy benefit reserves - annuity products		
Index annuities-embedded derivatives	\$ 1,248,912	\$ 998,015
Other liabilities		
Interest rate swaps	2,227	—
	<u>\$ 1,251,139</u>	<u>\$ 998,015</u>

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(Dollars in thousands)			
Change in fair value of derivatives:				
Call options	\$ 123,121	\$ (83,598)	\$ 110,019	\$ (313,987)
Interest rate swaps	(1,614)	(155)	(1,841)	(444)
	<u>\$ 121,507</u>	<u>\$ (83,753)</u>	<u>\$ 108,178</u>	<u>\$ (314,431)</u>
Change in fair value of embedded derivatives:				
Index annuities	\$ 259,737	\$ (37,100)	\$ 414,636	\$ (237,969)

We have 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 index annuity premiums are received, a portion of

the premium is used to purchase derivatives consisting of call options on the applicable market indices to fund the index credits due to 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 or upon early termination and the changes in fair value for open positions. On the respective anniversary dates of the index policies, the index used to compute the annual index credit is reset and we purchase new one-year call options to fund the next annual index credit. We manage the cost of these purchases through the terms of our 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 under these agreements through a regular monitoring process which evaluates the program's effectiveness. We do not bear derivative related risk with our 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 of these options had 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 with several counterparties 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 maximum amount of 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 are as follows:

Counterparty	September 30, 2009			December 31, 2008	
	Credit Rating	Notional Amount	Fair Value	Notional Amount	Fair Value
(Dollars in thousands)					
Bank of America	A+	\$ 218,490	\$ 4,360	\$ 2,184,932	\$ 4,593
BNP Paribas	AA	1,729,500	92,316	1,410,092	16,533
Lehman	NR	1,437	—	1,353,837	—
Bank of New York	AA-	152,150	7,820	641,405	3,541
Credit Suisse	A+	2,875,154	106,778	613,333	9,380
Barclays	AA-	254,793	10,599	694,967	13,618
SunTrust	A-	498,375	26,534	484,101	4,263
Wells Fargo (Wachovia)	AA	664,702	41,460	338,790	16
J.P. Morgan	AA-	1,234,280	74,174	312,943	6,296
Citi	NA	—	—	83,315	118
Others	NR	51	—	73,679	—
		<u>\$ 7,628,932</u>	<u>\$ 364,041</u>	<u>\$ 8,191,394</u>	<u>\$ 58,358</u>

As of September 30, 2009 we are holding \$228.1 million of cash and cash equivalents received from counterparties for derivative collateral.

We had unsecured counterparty exposure in connection with options purchased from affiliates of Lehman Brothers ("Lehman") which declared bankruptcy during the third quarter of 2008. Except for a few options involving immaterial amounts, all options purchased from affiliates of Lehman have expired as of September 30, 2009. The amount of option proceeds due on expired options purchased from Lehman that we did not receive payment on was \$2.6 million for the third quarter of 2009 and \$12.0 million for the nine months ended September 30, 2009. No amount has been recognized for any recovery of these amounts that may result from our claim in Lehman's bankruptcy proceedings.

The future annual index credits on our 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 have entered into interest rate swaps to manage interest rate risk associated with the floating rate component on certain of our subordinated debentures and amounts outstanding under our revolving line of credit. See notes 8 and 9 in our Annual Report on Form 10-K for the year ended December 31, 2008 for more information on our revolving line of credit and subordinated debentures. The terms of the interest rate swaps provide that we pay a fixed rate of interest and receive a floating rate of interest. The interest rate swaps are not effective hedges. Therefore, we record the interest rate swaps at fair value and any net cash payments received or paid are included in the change in fair value of derivatives in the consolidated statements of operations.

Details regarding the interest rate swaps are as follows:

Maturity Date	Notional Amount	Receive Rate	Pay Rate	Counterparty	September 30, 2009	December 31, 2008
					Fair Value	Fair Value
(Dollars in thousands)						
April 29, 2009	\$ 20,000	*LIBOR	4.94%	Bank of America	\$ —	\$ (257)
December 15, 2009	20,000	*LIBOR	4.93%	Bank of America	(234)	(719)
September 15, 2010	20,000	*LIBOR (a)	5.19%	Bank of America	(189)	(325)
April 7, 2011	20,000	*LIBOR (a)	5.23%	Bank of America	(331)	(469)
October 15, 2011	15,000	**LIBOR	1.54%	SunTrust	(141)	—
October 31, 2011	30,000	**LIBOR	1.51%	SunTrust	(231)	—
October 31, 2011	30,000	**LIBOR	1.61%	SunTrust	(299)	—
October 31, 2011	30,000	**LIBOR	1.77%	SunTrust	(802)	—
	\$ 185,000				\$ (2,227)	\$ (1,770)

* - three month London Interbank Offered Rate

** - one month London Interbank Offered Rate
(a) - subject to a floor of 4.25%

7. Reinsurance

Effective July 1, 2009, we entered into two funds withheld coinsurance agreements with Athene Life Re Ltd. (“Athene”), a Bermuda life reinsurer. One agreement cedes 20% of certain of our index annuities issued from January 1, 2009, through December 31, 2009. The other agreement cedes 80% of our multi-year rate guaranteed annuities issued on or after July 1, 2009.

Coinsurance deposits (aggregate policy benefit reserves transferred to Athene under these agreements) were \$577.3 million at September 30, 2009. We remain liable to policyholders with respect to the policy liabilities ceded to Athene should Athene fail to meet the obligations it has reinsured. The annuity deposits that have been ceded to Athene are being held by us on a funds withheld basis. The funds withheld are presented in our consolidated balance sheet as trading securities and restricted cash with a corresponding funds withheld reinsurance liability that represents the fair value of the funds withheld. The balance due under these agreements with Athene was \$9.8 million at September 30, 2009 and represents the fair value of call options held by the Company to fund index credits related to the ceded business net of cash due from Athene related to monthly settlements of policy activity.

8. Income Taxes

In 2008, we recorded a valuation allowance of \$34.5 million on deferred income tax assets related to capital loss carryforwards and other than temporary impairments on investment securities, as utilization of the income tax benefits from a portion of these items was not more likely than not due to the fact that we had insufficient future taxable income from capital gain sources. The valuation allowance was eliminated in 2009 due to an increase in anticipated future taxable income from capital gain sources, which resulted from an increase in unrealized gains on securities in our available for sale investment portfolio which may be sold as part of a tax planning strategy to generate capital gains to offset capital losses.

The effective tax rate for the third quarter of 2009 was more than the applicable statutory federal income tax rate of 35% primarily due to state income tax benefits attributable to losses in the non-life subgroup. The effective tax rate for the nine months ended September 30, 2009 was less than the applicable statutory federal income tax rate of 35% primarily due to a decrease in the deferred tax valuation allowance for capital loss carryforwards and other than temporary impairments on investment securities which decreased income tax expense for the first quarter of 2009 by \$3.6 million. The remainder of the deferred tax valuation allowance of \$30.9 million was eliminated in the second quarter of 2009 and was recognized in accumulated other comprehensive income. The effective tax rates for the 2008 periods were more than the applicable statutory federal income tax rate of 35% primarily due to the establishment of a deferred tax valuation allowance for deferred income tax assets related to capital loss carryforwards and other than temporary impairments on investment securities which increased income tax expense in the 2008 periods by \$22.5 million.

9. Contingent Convertible Senior Notes

In December 2004, we issued \$260.0 million of contingent convertible senior notes due December 6, 2024. The notes are unsecured and bear interest at a fixed rate of 5.25% per annum. Interest is payable semi-annually in arrears on June 6 and December 6 of each year, beginning June 6, 2005. In addition to regular interest on the notes, beginning with the six-month interest period ending June 6, 2012, we will also pay contingent interest under certain conditions at a rate of 0.5% per annum based on the average trading price of the notes during a specified period.

The notes are accounted for separately as a liability component and an equity component in the consolidated balance sheets. The liability component and equity component are as follows:

	September 30, 2009	December 31, 2008 (As Adjusted)
	(Dollars in thousands)	
Notes payable:		
Principal amount of liability component	\$ 144,766	\$ 181,924
Unamortized discount	(8,097)	(13,284)
Net carrying amount of liability component	<u>\$ 136,669</u>	<u>\$ 168,640</u>
Additional paid-in capital:		
Carrying amount of equity component	<u>\$ 22,637</u>	<u>\$ 22,637</u>

The discount is being amortized over the expected life of the notes, which is December 15, 2011, the date at which we may redeem the notes or the holders may require us to repurchase the notes. The effective interest rate on the notes is 8.5%. The interest cost recognized in operations, inclusive of the 5.25% coupon and amortization of the discount and debt issue costs, recognized for the three months and nine months ended September 30, 2009 was \$2.9 million and \$9.7 million, respectively and \$1.2 million and \$10.5 million for the same periods in 2008.

The notes are convertible at the holders’ option prior to the maturity date into cash and shares of our common stock under the following conditions:

- during any fiscal quarter, if the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the fiscal quarter preceding the quarter in which the conversion occurs is more than 120% of the conversion price of the notes in effect on that 30th trading day;
- we have called the notes for redemption and the redemption has not yet occurred; or
- upon the occurrence of specified corporate transactions.

Holders may convert any outstanding notes into cash and shares of our common stock at a conversion price per share of \$14.24. This represents a conversion rate of approximately 70.2 shares of common stock per \$1,000 in principal amount of notes (the “conversion rate”). Subject to certain exceptions described in the indenture covering these notes, at the time the notes are tendered for conversion, the value (the “conversion value”) of the cash and shares of our common stock, if any, to be received by a holder converting \$1,000 principal amount of the notes will be determined by multiplying the conversion rate by the “ten day average closing stock price”, which equals the average of the closing per share prices of our common stock on the New York Stock Exchange on the ten

consecutive trading days beginning on the second trading day following the day the notes are submitted for conversion. We will deliver the conversion value to holders as follows: (1) an amount in cash (the “principal return”) equal to the lesser of (a) the aggregate conversion value of the notes to be converted and (b) the aggregate principal amount of the notes to be converted, and (2) if the aggregate conversion value of the notes to be converted is greater than the principal return, an amount in shares (the “net shares”) equal to such aggregate conversion value less the principal return (the “net share amount”) and (3) an amount in cash in lieu of fractional shares of common stock. The number of net shares to be paid will be determined by dividing the net share amount by the ten day average closing stock price.

We may redeem some or all of the notes at any time on or after December 15, 2011. In addition, the holders may require us to repurchase all or a portion of their notes on December 15, 2011, 2014 and 2019 and upon a change in control, as defined in the indenture governing the notes, holders may require us to repurchase all or a portion of their notes for a period of time after the change in control. The redemption price or repurchase price shall be payable in cash and equal to 100% of the principal amount of the notes plus accrued and unpaid interest (contingent interest and liquidated damages, if any) up to but not including the date of redemption or repurchase. We reacquired \$34.0 million of the notes during the nine months ended September 30, 2008. In connection with those debt extinguishments, we recognized losses of \$1.4 million for the nine months ended September 30, 2008.

In May 2009, we exchanged five million shares of our common stock for \$37.2 million of the 5.25% contingent convertible senior notes. The transaction was settled with the fair value of the common stock exchanged at \$6.25 per share totaling \$31.3 million. The notes that were extinguished carried an unamortized debt issue costs of \$0.4 million and an unamortized debt discount of \$2.4 million. No value of the consideration was allocated to the reacquisition of the equity component. Therefore, a \$3.1 million gain on extinguishment of debt was recorded for the amount that the carrying value of the notes extinguished exceeded the fair value of the consideration transferred to the holder of the notes.

The notes are senior unsecured obligations and rank equally in right of payment with all existing and future senior indebtedness and senior to any existing and future subordinated indebtedness. The notes effectively rank junior in right of payment to any existing and future secured indebtedness to the extent of the value of the assets securing such secured indebtedness. The notes are structurally subordinated to all liabilities of our subsidiaries.

We are required to include the dilutive effect of the contingent convertible senior notes in our diluted earnings per share calculation. Because the notes include a mandatory cash settlement feature for the principal amount, incremental dilutive shares will only exist when the average fair value of our common stock for a reporting period exceeds the conversion price per share of \$14.24.

10. Contingencies

We are occasionally involved in litigation, both as a defendant and as a plaintiff. In addition, state regulatory bodies, such as state insurance departments, the Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Authority (“FINRA”), the Department of Labor, and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, the Employee Retirement Income Security Act of 1974, as amended, and laws governing the activities of broker-dealers.

During the fourth quarter of 2007 we received a formal request for information from the staff of the Division of Enforcement (the “Staff”) of the SEC concerning certain transactions between American Equity and American Equity Investment Service Company (“Service Company”) in 2003, 2004 and 2005. We have cooperated fully in providing information and documentation to the Staff throughout the course of its investigation. On May 4, 2009, American Equity, our Chairman and our Chief Executive Officer and President received a Wells Notice from the Staff in connection with this investigation. The Wells Notice provides notification that the Staff intends to recommend to the SEC that it bring a civil action against the recipients for possible violations of the federal securities laws and related rules. A Wells Notice does not itself initiate litigation, nor is it a finding of wrongdoing by us or any individual. According to discussions with the SEC Staff and our understanding of the scope of the investigation, the Wells Notice relates to disclosures in our 2004, 2005 and 2006 proxy statements and statements made during our third quarter 2005 earnings conference call concerning the effects of transactions involving the Service Company, the last of which was completed almost four years ago. Beginning in 1999, our public securities filings contained extensive disclosures related to Service Company transactions, including the effect of each such transaction on our consolidated financial statements. Based on our own investigation and the facts disclosed to us during the course of the SEC investigation, we believe these proxy statements accurately disclosed all material information, and strongly disagree with the Staff’s recommendation on this matter. We will continue to pursue a potential resolution of this matter before the Staff makes its formal recommendation to the SEC and will vigorously defend any action brought by the SEC, but we cannot predict the outcome or timing of this matter.

In recent years, companies in the life insurance and annuity business have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices and similar claims. We are currently a

defendant in two purported class action lawsuits alleging improper sales practices and similar claims as described below. It is often not possible to determine the ultimate outcome of pending legal proceedings or to provide reasonable ranges of potential losses with any degree of certainty. The lawsuits referred to below are in very preliminary stages and we do not have sufficient information to make an assessment of the plaintiffs’ claims for liability or damages. The plaintiffs are seeking undefined amounts of damages or other relief, including punitive damages, which are difficult to quantify and cannot be estimated based on the information currently available. We do not believe that these lawsuits, including those discussed below, will have a material adverse effect on our financial position, results of operations or cash flows. However, there can be no assurance that such litigation, or any future litigation, will not have a material adverse effect on our business, financial condition, or results of operations.

We are a defendant in two cases seeking class action status, including (i) *Stephens v. American Equity Investment Life Insurance Company, et. al.*, in the San Luis Obispo Superior Court, San Francisco, California (complaint filed November 29, 2004) (the “SLO Case”) and (ii) *McCormack, et al. v. American Equity Investment Life Insurance Company, et al.*, in the United States District Court for the Central District of California, Western Division and *Anagnostis v. American Equity, et al.*, coordinated in the Central District, entitled, *In re American Equity Annuity Practices and Sales Litigation* (complaint filed September 7, 2005) (the “Los Angeles Case”).

The plaintiffs in the SLO Case seek to represent a class of individuals who are California residents and who either purchased their annuity from us through a co-defendant marketing organization or who purchased one of a defined set of particular annuities issued by us. The named plaintiffs in this case are: Chalys

M. Stephens and John P. Stephens. Plaintiffs seek injunctive relief and restitution on behalf of all class members under California Business & Professions Code section 17200 et seq.; compensatory damages for breach of contract and breach of fiduciary duty; other pecuniary damages under California Civil Code section 1750 and California Welfare & Institutions Codes section 15600 et seq.; and punitive damages under common law causes of action for fraud and breach of the covenant of good faith and fair dealing. On November 3, 2008, the court issued an order certifying the class. We are vigorously defending the underlying allegations and are seeking to decertify a portion of the class and may seek to decertify the entire class after further discovery into the merits of the case.

The Los Angeles Case is a consolidated action involving several lawsuits filed by individuals, and the individuals are seeking class action status for a national class of purchasers of annuities issued by us. The named plaintiffs in this consolidated case are Bernard McCormack, Gust Anagnostis by and through Gary S. Anagnostis and Robert C. Anagnostis, Regina Bush by and through Sharon Schipiour, Lenice Mathews by and through Mary Ann Maclean and George Miller. The allegations generally attack the suitability of sales of deferred annuity products to persons over the age of 65. The plaintiffs seek recessionary and injunctive relief including restitution and disgorgement of profits on behalf of all class members under California Business & Professions Code section 17200 et seq. and Racketeer Influenced and Corrupt Organizations Act; compensatory damages for breach of fiduciary duty and aiding and abetting of breach of fiduciary duty; unjust enrichment and constructive trust; and other pecuniary damages under California Civil Code section 1750 and California Welfare & Institutions Codes section 15600 et seq. We are vigorously defending against both class action status as well as the underlying claims.

11. Sale of Our Common Stock

On August 20, 2009, we entered into distribution agreements with Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC (“FPK”) and Sandler O’Neill & Partners, L.P. Under the distribution agreements, we can offer and sell shares of our common stock up to an aggregate offering price of \$50,000,000. From August 20, 2009 through September 30, 2009, we sold 132,300 shares of our common stock at an average price of \$8.26 per share, resulting in gross proceeds to us of \$1.09 million. The aggregate net proceeds from such sales were \$0.99 million after deducting related expenses, including \$30,036 in gross sales commissions paid to FPK.

12. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(Dollars in thousands, except per share data)				
Numerator:				
Net income (loss) - numerator for earnings (loss) per common share	\$ (2,978)	\$ (11,716)	\$ 32,509	\$ 39,996
Interest on convertible subordinated debentures (net of income tax benefit)	259	259	777	783
Numerator for earnings (loss) per common share - assuming dilution	<u>\$ (2,719)</u>	<u>\$ (11,457)</u>	<u>\$ 33,286</u>	<u>\$ 40,779</u>
Denominator:				
Weighted average common shares outstanding ⁽¹⁾	58,029,697	52,916,026	55,462,097	54,075,275
Effect of dilutive securities:				
Convertible subordinated debentures	2,734,528	2,761,318	2,734,528	2,763,899
Stock options and deferred compensation agreements	68,410	158,028	34,501	113,662
Denominator for earnings (loss) per common share - assuming dilution	<u>60,832,635</u>	<u>55,835,372</u>	<u>58,231,126</u>	<u>56,952,836</u>
Earnings (loss) per common share	\$ (0.05)	\$ (0.22)	\$ 0.59	\$ 0.74
Earnings (loss) per common share - assuming dilution	\$ (0.05)	\$ (0.22)	\$ 0.57	\$ 0.72

⁽¹⁾ Weighted average common shares outstanding include shares vested under the NMO Deferred Compensation Plan and exclude unallocated shares held by the ESOP.

Options to purchase shares of our common stock that were outstanding during the respective periods indicated but were not included in the computation of diluted earnings (loss) per share because the options’ exercise price was greater than the average market price of the common shares are as follows:

Period	Number of Shares	Range of Exercise Prices
Three months ended September 30, 2009	1,769,489	\$8.67 - \$14.34
Nine months ended September 30, 2009	2,389,289	\$6.96 - \$14.34
Three months ended September 30, 2008	1,207,239	\$9.00 - \$14.34
Nine months ended September 30, 2008	1,224,739	\$8.67 - \$14.34

13. Subsequent Events

We evaluated subsequent events through November 9, 2009, which is the date the consolidated financial statements were issued.

Management's discussion and analysis reviews our unaudited consolidated financial position at September 30, 2009, and the unaudited consolidated results of operations for the three and nine month periods ended September 30, 2009 and 2008, 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, 2008. All prior period amounts are presented as adjusted due to the adoption of Financial Accounting Standards Board ("FASB") guidance for accounting for convertible debt instruments that may be settled partially or totally in cash upon conversion.

All statements, trend analyses and other information contained in this report and elsewhere (such as in filings by us with the Securities and Exchange Commission ("SEC"), press releases, presentations by us or our management or oral statements) relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," and other similar expressions, constitute forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors 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 impairments and other than temporary impairments, and certain liabilities, and the lapse rate and profitability of policies;
- 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 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 "Risk Factors" in Part II, Item 1A and Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008.

Overview

We specialize in the sale of individual annuities (primarily deferred annuities) and, to a lesser extent, we also sell life insurance policies. Under U.S. generally accepted accounting principles ("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 and other charges deducted from the account balances of policyholders in connection with withdrawals, realized gains and losses on investments and changes in fair value of derivatives. Components of expenses for products accounted for as deposit liabilities are interest credited to account balances, changes in fair value of embedded derivatives, amortization of deferred policy acquisition costs and deferred sales inducements, other operating costs and expenses and income taxes.

Annuity deposits by product type collected during the three months and nine months ended September 30, 2009 and 2008, were as follows:

Product Type	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(Dollars in thousands)				
Fixed index annuities:				
Index strategies	\$ 434,233	\$ 315,915	\$ 1,163,375	\$ 1,040,534
Fixed strategy	482,034	247,122	1,462,926	669,052
	916,267	563,037	2,626,301	1,709,586
Fixed rate annuities:				
Single-year rate guaranteed	37,462	7,379	76,878	21,350
Multi-year rate guaranteed	26,255	1,422	74,436	4,065
	63,717	8,801	151,314	25,415
Total before coinsurance ceded	979,984	571,838	2,777,615	1,735,001
Coinsurance ceded	514,031	178	514,620	1,149
Net after coinsurance ceded	\$ 465,953	\$ 571,660	\$ 2,262,995	\$ 1,733,852

Annuity deposits before coinsurance ceded increased 71% during the three months ended September 30, 2009 compared to the same period in 2008, and 60% during the nine months ended September 30, 2009 compared to the same period in 2008. We attribute these increases to several factors, including our continued strong relationships with our national marketing organizations and field force of licensed, independent insurance agents, the increased attractiveness of safe money products in volatile markets, lower interest rates on competing products such as bank certificates of deposit and product enhancements including a new generation of guaranteed income withdrawal benefit riders. In addition, we have benefitted during the first nine months of 2009 from the actions of several significant competitors who have restricted their capacity to accept new business. The extent to which this trend will be sustained in future periods is uncertain. While we have the capital resources to accept more business than was sold in 2008, our capacity is not unlimited and sales growth must be matched with available capital resources to maintain desired financial strength ratings from credit rating agencies and in particular, A.M. Best Company. Toward this end, effective June 1, 2009, we restructured our payment of commissions to agents on new sales by reducing the amount of commission paid at the time of sale but providing for additional commission payments on the first and second anniversaries of the date a policy was issued. This change will initially increase our statutory earnings and capital and surplus and our capacity to accept new business. It is uncertain what impact the change will have on the agents' willingness to sell business for us. During the second quarter of 2009 we also amended one of our reinsurance agreements with Hannover Life Reassurance Company of America to include certain policy forms that were not in existence in 2005 when the agreement was executed. This amendment increased the statutory reinsurance reserve credit by approximately \$37.4 million at June 30, 2009. Effective July 1, 2009 we entered into two reinsurance arrangements with a newly formed reinsurance company to reinsure on a funds withheld coinsurance basis 20% of the annuity deposits received in 2009 from our two top selling index annuity products and 80% of the annuity deposits received after June 30, 2009 from a multi-year rate guaranteed fixed annuity product. Our objective with these agreements is to manage our new business growth to a maximum of \$3 billion of net annuity

deposits for 2009. These reinsurance arrangements resulted in the significant increases in coinsurance ceded annuity deposits for the 2009 periods in the table above.

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:

	Nine Months Ended September 30,	
	2009	2008
Average yield on invested assets	6.32%	6.18%
Cost of money:		
Aggregate	3.29%	3.45%
Cost of money for index annuities	3.27%	3.46%
Average crediting rate for fixed rate annuities:		
Annually adjustable	3.26%	3.26%
Multi-year rate guaranteed	3.90%	3.90%
Investment spread:		
Aggregate	3.03%	2.73%
Index annuities	3.05%	2.72%
Fixed rate annuities:		
Annually adjustable	3.06%	2.92%
Multi-year rate guaranteed	2.42%	2.28%

The cost of money for 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 included in our Annual Report on Form 10-K for the year ended December 31, 2008. With respect to our index annuities, the cost of money includes the average crediting rate on amounts allocated to the fixed rate strategy, expenses we incur to fund the annual index credits and where applicable, minimum guaranteed interest credited. Proceeds received upon expiration or early termination 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 - Derivative Instruments - Index Products included in Management’s Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2008.

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 impairment of assets, our ability to manage interest rates credited to policyholders and costs of the options purchased to fund the annual index credits on our index annuities, our ability to manage the costs of acquiring new business (principally commissions to agents and bonuses credited to policyholders) and our ability to manage our operating expenses.

Results of Operations

Three and Nine Months Ended September 30, 2009 and 2008

Net income (loss) decreased 75% to \$(3.0) million for the third quarter of 2009 and decreased 19% to \$32.5 million for the nine months ended September 30, 2009 compared to \$(11.7) million and \$40.0 million for the same periods in 2008. Net income for the nine months ended September 30, 2008 includes the impact of the adoption of the fair value measurement accounting standards as discussed below. Net income for the nine months ended September 30, 2009 includes the impact of applying the FASB guidance for recognition and presentation of other than temporary impairments that was released in April 2009 as discussed below.

Net income has been positively impacted by the growth in the volume of business in force and the investment spread earned on this business. Average annuity account values outstanding increased 14% for the third quarter of 2009 and 13% for the nine months ended September 30, 2009 compared to the same periods in 2008. Our investment spread measured on a percentage basis was 3.13% for the third quarter of 2009 and 3.03% for the nine months ended September 30, 2009 compared to 2.83% and 2.73% for the same periods in 2008. The increase in

investment spread resulted from a higher investment yield earned on average assets due to higher yield on investments purchased throughout 2008 and during the first nine months of 2009 and a lower aggregate cost of money on our index annuities. The lower cost of money for index annuities during 2009 was due to adjustments we made throughout 2007 to caps, participation rates and asset fees to manage the cost of options purchased to fund the annual index credits. The benefit from these adjustments was not fully recognized until the fourth quarter of 2008.

The comparability of the amounts is significantly impacted by net realized gains on investments, net other than temporary impairment (“OTTI”) losses recognized in operations, gain (loss) on extinguishment of debt and the impact of fair value accounting for index annuity derivatives and embedded derivatives. We estimate that these items increased (decreased) net income as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(Dollars in thousands)				
Net realized gains and net impairment losses on investments				
recognized in operations	\$ (11,491)	\$ (39,222)	\$ (10,954)	\$ (49,140)

Gain (loss) on extinguishment of debt	—	(16)	1,812	(793)
Change in fair value of index annuity derivatives and embedded derivatives	(18,162)	5,507	(27,007)	33,093

Net realized gains on investments and net impairment losses recognized in operations fluctuate from period to period based upon changes in the interest rate and economic environment and the timing of the sale of investments or the recognition of other than temporary impairments. We adopted the FASB guidance for recognition and presentation of other than temporary impairments that was released in April 2009 on January 1, 2009, which amended the determination of the amount of other than temporary impairments recognized in the statement of operations resulting in the noncredit portion of other than temporary impairments being recognized in accumulated other comprehensive income for debt securities that we do not intend to sell and it is not more likely than not we will be required to sell but also do not expect to recover the entire amortized cost basis of the security. The amounts disclosed above are net of related reductions in amortization of deferred sales inducements and deferred policy acquisition costs and income taxes. The net loss for the nine months ended September 30, 2009 includes a benefit of \$3.6 million for the reduction of the deferred tax valuation allowance related to other than temporary impairments.

Amounts attributable to fair value accounting for index annuity derivatives and embedded derivatives fluctuate from period to period based upon changes in fair values of call options purchased to fund annual index credits for index annuities and changes in the interest rates used to discount the embedded derivative liabilities. The amounts disclosed above are net of related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs and income taxes. The significant changes in the impact from this item disclosed above relate primarily to changes in the interest rates used to discount the embedded derivative liabilities. Pursuant to fair value measurements accounting standards adopted prospectively on January 1, 2008, the discount rates are based on risk-free interest rates adjusted for our non performance risk. These rates decreased materially in the three months and nine months ended September 30, 2009 resulting in decreases in net income for those periods. Prior to the adoption of the fair value measurements accounting standards, the discount rates used were risk-free interest rates without adjustment for our non performance risk. The change to discount rates including our non performance risk resulted in a decrease in policy benefit reserves on January 1, 2008 of \$150.6 million. The net income impact of this decrease in reserves net of related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs and income taxes was \$40.7 million.

We periodically revise assumptions used in the computations of amortization of deferred sales inducements and deferred policy acquisition costs, as applicable, through an “unlocking” process. Revisions are made based upon historical results and our best estimates of future experience. The impact of unlocking is recorded in the current period as an increase or decrease in amortization of the respective balances. The unlocking process can take place at any time as needs dictate. See Critical Accounting Policies - Deferred Policy Acquisition Costs and Deferred Sales Inducements included in Management’s Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2008.

There was no unlocking necessary during the 2009 periods and the three months ended September 30, 2008. The impact of unlocking for the nine months ended September 30, 2008 was a \$2.2 million decrease in the amortization of deferred sales inducements and a \$4.6 million increase in amortization of deferred policy acquisition costs for a net

increase in amortization of \$2.4 million. The impact of unlocking is primarily due to the impact of actual surrender experience on certain older business, offset in part by increases in the estimates of projected future interest margins and reductions in the estimates of projected future policy maintenance expenses.

Annuity product charges (surrender charges assessed against policy withdrawals and fees deducted from policyholder account balances for living income benefit riders) increased 19% to \$15.8 million for the third quarter of 2009 and 27% to \$47.5 million for the nine months ended September 30, 2009 compared to \$13.3 million and \$37.3 million for the same periods in 2008. Product charges for the three months and nine months ended September 30, 2009 include \$1.7 million and \$3.0 million, respectively, of fees deducted from policyholder account balances for living income benefit riders. Surrender charges fluctuate from period to period based upon policyholder behavior and have generally increased during the 2009 periods consistent with growth in the volume of business in force.

Net investment income increased 15% to \$241.5 million in the third quarter of 2009 and 13% to \$688.9 million for the nine months ended September 30, 2009 compared to \$210.0 million and \$607.5 million for the same periods in 2008. These increases were principally attributable to the growth in our annuity business and corresponding increases in our invested assets and the average yield earned on investments. Average invested assets (on an amortized cost basis) excluding derivative instruments increased 12% to \$15.1 billion in the third quarter of 2009 and 11% to \$14.5 billion for the nine months ended September 30, 2009 compared to \$13.6 billions and \$13.1 billion for the same periods in 2008. The average yield earned on average invested assets was 6.38% in the third quarter of 2009 and 6.32% for the nine months ended September 30, 2009 compared to 6.20% and 6.18% for the same periods in 2008. The increase in the yield earned on average invested assets was attributable to higher yields on investments purchased throughout 2008 and during the nine months ended September 30, 2009.

Change in fair value of derivatives (principally call options purchased to fund annual index credits on index annuities) is affected by the performance of the indices upon which our options are based and the aggregate cost of options purchased. The components of change in fair value of derivatives are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(Dollars in thousands)				
Call options:				
Loss on option expiration	\$ (65,118)	\$ (75,062)	\$ (197,182)	\$ (196,265)
Change in unrealized gain (loss)	188,239	(8,536)	307,201	(117,722)
Interest rate swaps	(1,614)	(155)	(1,841)	(444)
	<u>\$ 121,507</u>	<u>\$ (83,753)</u>	<u>\$ 108,178</u>	<u>\$ (314,431)</u>

The differences between the change in fair value of derivatives between years are primarily due to the performance of the indices upon which our call options are based. 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 for options expiring during the three months and nine months ended September 30, 2009 and 2008 is as follows:

	September 30,		September 30,	
	2009	2008	2009	2008
S&P 500 Index				
Point-to-point strategy	0.0% - 0.0%	0.0% - 0.0%	0.0% - 0.0%	0.0% - 2.6%
Monthly average strategy	0.0% - 0.0%	0.0% - 0.0%	0.0% - 0.0%	0.0% - 6.4%
Monthly point-to-point strategy	0.0% - 0.0%	0.0% - 0.0%	0.0% - 0.0%	0.0% - 0.0%
Lehman Brothers U.S. Aggregate and U.S. Treasury indices 4.2% - 6.3%	6.0% - 6.4%	4.5% - 10.8%	1.6% - 6.4%	4.5% - 12.6%

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Actual amounts credited to policyholder account balances may be less than the index appreciation due to contractual features in the index annuity policies (caps, participation rates and asset fees) which allow us to manage the cost of the options purchased to fund the annual index credits. The change in fair value of derivatives is also influenced by the aggregate cost of options purchased. The aggregate cost of options has increased primarily due to an increased amount of index annuities in force. 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. Costs for options purchased during the nine months ended September 30, 2009 decreased compared to the same period in 2008 due to adjustments to caps, participation rates and asset fees. See Critical Accounting Policies - Derivative Instruments - Index Products included in Management's Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2008.

We had unsecured counterparty exposure in connection with options purchased from affiliates of Lehman Brothers ("Lehman") which declared bankruptcy during the third quarter of 2008. Except for a few options involving immaterial amounts, all options purchased from affiliates of Lehman have expired as of September 30, 2009. The amount of option proceeds due on expired options purchased from Lehman that we did not receive payment on was \$2.6 million for the third quarter of 2009 and \$12.0 million for the nine months ended September 30, 2009. No amount has been recognized for any recovery of these amounts that may result from our claim in Lehman's bankruptcy proceedings.

Net realized gains on investments, excluding OTTI losses include gains and losses on the sale of securities and impairment losses on mortgage loans on real estate and fluctuate from year to year due to changes in the interest rate and economic environment and the timing of the sale of investments. The components of net realized gains on investments for the three months and nine months ended September 30, 2009 and 2008 are set forth in the table that follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Available for sale fixed maturity securities:				
Gross realized gains	\$ 9,340	\$ 2,228	\$ 15,467	\$ 3,371
Gross realized losses	(1,625)	(170)	(1,678)	(283)
	7,715	2,058	13,789	3,088
Equity securities:				
Gross realized gains	3,279	200	3,282	255
	3,279	200	3,282	255
Mortgage loans on real estate:				
Impairment losses	(5,484)	—	(6,484)	—
	\$ 5,510	\$ 2,258	\$ 10,587	\$ 3,343

Gross realized gains have increased in the 2009 periods due to tax planning strategies to generate taxable capital gains that will permit deduction of capital losses for income tax purposes. Gross realized losses in the 2009 periods primarily relate to two securities that experienced credit events in the three months ended September 30, 2009 resulting in the decision to sell the securities at a loss. See Financial Condition — Investments for additional discussion of impairment losses recognized on mortgage loans on real estate.

Net OTTI losses recognized in operations decreased 27% to \$44.6 million in the third quarter of 2009 and 33% to \$63.7 million for the nine months ended September 30, 2009 compared to \$61.2 million and \$94.8 million for the same periods in 2008. See Financial Condition - Investments for additional discussion of write downs of securities for other than temporary impairments.

Gain (loss) on extinguishment of debt includes a \$3.1 million gain on an exchange of five million shares of our common stock for \$37.2 million of our 5.25% contingent convertible senior notes in May 2009. The fair value of our common stock exchanged totaled \$31.3 million and the notes extinguished carried unamortized debt issue costs and debt discount totaling \$2.8 million. We used \$32.3 million in cash, of which \$0.4 million was assigned to reacquire the equity component of the debt, to extinguish \$34.0 million of our 5.25% contingent convertible senior notes that carried unamortized debt discount and debt issue costs totaling \$3.5 million during the nine months ended September 30, 2008. The 2008 transactions resulted in losses on extinguishment of debt of \$1.4 million for nine months ended September 30, 2008.

Interest sensitive and index product benefits increased 49% to \$75.3 million in the third quarter of 2009 and 34%

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to \$207.0 million for the nine months ended September 30, 2009 compared to \$50.4 million and \$154.0 million for the same periods in 2008. The components of interest credited to account balances are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Index credits on index policies	\$ 7,740	\$ 5,047	\$ 25,259	\$ 29,264

Interest credited (including changes in minimum guaranteed interest for index annuities)	65,897	45,340	178,794	124,768
Living income benefit rider	1,651	—	2,975	—
	<u>\$ 75,288</u>	<u>\$ 50,387</u>	<u>\$ 207,028</u>	<u>\$ 154,032</u>

The changes in index credits were attributable to changes in the 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 \$0.7 million and \$5.7 million for the three months and nine months ended September 30, 2009, respectively, compared to \$4.4 million and \$25.6 million for the same periods in 2008. Proceeds for the 2009 periods were adversely affected by the Lehman defaults as discussed above. The increase in interest credited was due to an increase in the average amount of annuity liabilities outstanding receiving a fixed rate of interest and an increase in minimum guaranteed interest for index annuities. The increase in minimum guaranteed interest for index annuities is directly attributable to the weak equity market performance during prior periods which resulted in smaller index credits. The average amount of annuity liabilities outstanding (net of annuity liabilities ceded under coinsurance agreements) increased 13% during the nine months ended September 30, 2009 to \$15.1 billion from \$13.3 billion during the same period in 2008.

Amortization of deferred sales inducements decreased to \$(8.1) million in the third quarter of 2009 and 48% to \$17.8 million for the nine months ended September 30, 2009 compared to \$6.8 million and \$34.2 million for the same periods in 2008. The 2008 periods include the impact of unlocking discussed above. In general, amortization of deferred sales inducements has been increasing each period due to growth in our annuity business and the deferral of sales inducements incurred with respect to sales of premium bonus annuity products. Bonus products represented 94% and 92% of our total annuity deposits during the nine months ended September 30, 2009 and 2008, respectively. The anticipated increase in amortization from these factors has been affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our index annuity business and amortization associated with the net realized gains on investments and net OTTI losses recognized in operations.

Fair value accounting for derivatives and embedded derivatives utilized in our index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our index annuity contracts. The change in fair value of the embedded derivatives will not correspond to the change in fair value of 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 life of the contracts which typically exceed ten years. The gross profit adjustments resulting from fair value accounting for derivatives and embedded derivatives utilized in our index annuity business decreased amortization by \$19.7 million in the third quarter of 2009 and \$25.1 million for the nine months ended September 30, 2009 compared to increases of \$6.9 million and \$20.1 million for the same periods in 2008. The gross profit adjustments from net realized gains on investments and net OTTI losses recognized in operations decreased amortization by \$8.6 million in the third quarter of 2009 and \$12.4 million for the nine months ended September 30, 2009 compared to decreases of \$13.5 million and \$19.8 million for the same periods in 2008. Excluding the amortization amounts attributable to fair value accounting for derivatives and embedded derivatives and net realized gains on investments and net OTTI losses recognized in operations, amortization would have been \$20.2 million and \$55.3 million for the three months and nine months ended September 30, 2009, respectively, compared to \$13.4 million and \$33.9 million for the same periods in 2008. See Critical Accounting Policies - Deferred Policy Acquisition Costs and Deferred Sales Inducements included in Management's Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Change in fair value of embedded derivatives was an increase of \$259.7 million in the third quarter of 2009 and \$414.6 million for the nine months ended September 30, 2009 compared to decreases of \$37.1 million and \$238.0

million for the same periods in 2008. These changes 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 these index credits discussed above in change in fair value of derivatives; (ii) changes in discount rates used in estimating our liability for policy growth; (iii) changes in estimates of expected costs of annual call options that will be purchased in the future to fund index credits beyond the next policy anniversary; and (iv) the growth in the host component of the policy liability. See Critical Accounting Policies - Derivative Instruments - Index Products included in Management's Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2008. The primary reasons for the significant increases in the fair values of embedded derivatives for the three months and nine months ended September 30, 2009 were decreases in the discount rates used in estimating our liability for policy growth and increases in the expected index credits on the next policy anniversary dates which correlated with the change in fair value of derivatives discussed above. The primary reasons for the significant decrease in the fair value of the embedded derivatives for the nine months ended September 30, 2008 were increases in the discount rates used in estimating our liability for policy growth and a decrease in our estimate of the expected future cost of annual call options. The increase in the discount rates to reflect our non performance risk upon the adoption of the fair value measurements accounting requirements on January 1, 2008 as discussed above decreased the fair value of embedded derivatives by \$150.6 million and the decrease in the estimate of future option costs decreased the fair value of the embedded derivatives for 2008 by \$51.6 million.

Interest expense on notes payable decreased 33% to \$3.4 million in the third quarter of 2009 and 25% to \$11.3 million for the nine months ended September 30, 2009 compared to \$5.0 million and \$15.1 million for the same periods in 2008. These decreases were primarily attributable to the retirement of \$78.1 million principal amount of our 5.25% contingent convertible notes during 2008 and extinguishment of \$37.2 million principal amount of our 5.25% contingent convertible senior notes through the exchange of five million shares of our common stock in the second quarter of 2009. This decrease in interest expense on notes payable was offset in part by interest on borrowings under our revolving line of credit, which had a weighted average interest rate of 1.70% and 4.07% for the nine months ended September 30, 2009 and 2008, respectively. The average borrowings outstanding under the line of credit were \$100.9 million and \$24.5 million for the nine months ended September 30, 2009 and 2008, respectively.

Interest expense on subordinated debentures decreased 18% to \$3.8 million in the third quarter of 2009 and 17% to \$12.1 million for the nine months ended September 30, 2009 compared to \$4.7 million and \$14.5 million for the same periods in 2008. These decreases were primarily due to decreases in the weighted average interest rates on the outstanding subordinated debentures which were 5.92% and 7.16% for the nine months ended September 30, 2009 and 2008, respectively. The weighted average interest rates have decreased because \$149.0 million principal amount of the subordinated debentures have a floating rate of interest based upon the three month London Interbank Offered Rate. See Financial Condition - Liabilities in Management's Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Interest expense on amounts due under repurchase agreements decreased 96% to \$0.1 million in the third quarter of 2009 and 96% to \$0.3 million for the nine months ended September 30, 2009 compared to \$2.7 million and \$7.7 million for the same periods in 2008. These decreases were principally due to decreases in the borrowings outstanding and decreases in the weighted average interest rates on amounts borrowed. Weighted average interest rates were

0.31% for the third quarter of 2009 and 0.41% for the nine months ended September 30, 2009 compared to 2.26% and 2.58% for the same periods in 2008, and average borrowings outstanding were \$128.7 million for the third quarter of 2009 and \$112.4 million for the nine months ended September 30, 2009 compared to \$472.9 million and \$397.3 million for the same periods in 2008.

Amortization of deferred policy acquisition costs decreased 115% to \$(3.0) million in the third quarter of 2009 and 62% to \$44.9 million for the nine months ended September 30, 2009 compared to \$19.3 million and \$118.6 million for the same periods in 2008. The 2008 periods include the impact of unlocking discussed above. In general, amortization of deferred policy acquisition costs has been increasing each period due to the growth in our annuity business and the deferral of policy acquisition costs incurred with respect to sales of annuity products. The anticipated increase in amortization from these factors has been affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our index annuity business and amortization associated with net realized gains on investments and net OTTI losses recognized in operations.

As discussed above, fair value accounting for derivatives and embedded derivatives utilized in our index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our index annuity contracts. The gross profit adjustments resulting from fair value accounting for derivatives and embedded derivatives utilized in our index annuity business decreased amortization by \$31.8 million in the third quarter of 2009 and \$56.1 million for the nine months ended September 30, 2009 compared to increases of \$5.7 million and \$49.9 million for the same periods in 2008. The gross profit adjustments from net realized gains on investments and net OTTI losses recognized in operations decreased amortization by \$12.7 million

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in the third quarter of 2009 and \$18.1 million for the nine months ended September 30, 2009 compared to decreases of \$19.6 million and \$30.3 million for the same periods in 2008. Excluding the amortization amounts attributable to fair value accounting for derivatives and embedded derivatives and net realized gains on investments and net OTTI losses recognized in operations, amortization for the third quarter of 2009 would have been \$41.5 million and \$119.1 million for the nine months ended September 30, 2009 compared to \$33.1 million and \$99.0 million for the same periods in 2008.

Other operating costs and expenses increased 3% to \$14.0 million in the third quarter of 2009 and 18% to \$45.3 million for the nine months ended September 30, 2009 compared to \$13.5 million and \$38.6 million for the same periods in 2008. These increases were principally attributable to increases in salaries and benefits of \$0.6 million for the third quarter of 2009 and \$3.1 million for the nine months ended September 30, 2009, increases in risk charges on reinsurance of \$0.9 million for the third quarter of 2009 and \$2.9 million for the nine months ended September 30, 2009, increases in general overhead costs of \$0.9 million for the third quarter of 2009 and \$1.6 million for the 9 months ended September 30, 2009 offset by decreases in legal costs of \$2.2 million for the third quarter of 2009 and \$1.8 million for the nine months ended September 30, 2009. The increase in salaries and benefits for the third quarter of 2009 and the nine months ended September 30, 2009 was primarily due to an increase in the number of employees due to the growth in our business. Also, we recorded post employment benefit expense of \$1.2 million during the second quarter of 2009 related to a post employment benefit agreement with our Chairman, David J. Noble which was approved by our board of directors on June 4, 2009. The increases in risk charges on reinsurance were due to a reinsurance treaty entered into on December 31, 2008 and the expansion of the inforce business covered under an existing reinsurance treaty during the second quarter of 2009. The increases in general overhead costs were due to the growth in our business from increased sales. The decreases in legal expense are primarily related to a decrease in the cost of defense related to ongoing litigation.

Income tax expense decreased 107% to \$(2.1) million in the third quarter of 2009 and 80% to \$11.3 million for the nine months ended September 30, 2009 compared to \$28.1 million and \$55.2 million for the same periods in 2008. These changes were primarily related to changes in income before income taxes and the impact of changes in the valuation allowance for deferred income tax assets related to capital loss carryforwards and other than temporary impairments on investment securities. The effective tax rates were 41.2% for the third quarter of 2009 and 25.8% for the nine months ended September 30, 2009 compared to 171.5% and 58.0% for the same periods in 2008. The effective tax rate for the third quarter of 2009 was more than the applicable statutory federal income tax rate of 35% primarily due to state income tax benefits attributable to losses in the non-life subgroup. The effective tax rate for the nine months ended September 30, 2009 was less than the applicable statutory federal income tax rate of 35% primarily due to a decrease in the deferred tax valuation allowance established in 2008 for capital loss carryforwards and other than temporary impairments which decreased income tax expense for the first quarter of 2009 by \$3.6 million. This decrease was primarily due to an increase in anticipated future taxable income from capital gain sources which resulted from an increase in unrealized gains on available for sale investment securities which may be sold as part of a tax planning strategy to generate capital gains to offset capital losses. The effective tax rates for the 2008 periods were more than the applicable statutory federal income tax rate of 35% primarily due to the establishment of a deferred tax valuation allowance for deferred income tax assets related to capital loss carryforwards and other than temporary impairments on investment securities which increased income tax expense in the 2008 periods by \$22.5 million.

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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, mortgage loans on real estate and short-term investments.

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 and corporate securities rated investment grade by established nationally recognized rating organizations or in securities of comparable investment quality, if not rated and mortgage loans on real estate.

The composition of our investment portfolio is summarized as follows:

September 30, 2009		December 31, 2008	
Carrying Amount	Percent	Carrying Amount	Percent
(Dollars in thousands)			

Fixed maturity securities:				
United States Government full faith and credit	\$	3,292	—	\$ 22,050 0.2%
United States Government sponsored agencies		5,907,567	36.8%	6,633,481 52.1%
U.S. states, territories and political subdivisions		305,129	1.9%	—
Corporate securities		4,042,364	25.2%	1,764,390 13.9%
Mortgage and asset backed securities		2,583,352	16.1%	1,813,274 14.3%
Total fixed maturity securities		12,841,704	80.0%	10,233,195 80.5%
Equity securities		94,076	0.6%	99,552 0.8%
Trading securities		371,338	2.3%	—
Mortgage loans on real estate		2,375,833	14.7%	2,329,824 18.3%
Derivative instruments		364,041	2.3%	56,588 0.4%
Other investments		9,332	0.1%	446 —
	\$	16,056,324	100.0%	\$ 12,719,605 100.0%

During the nine months ended September 30, 2009 and 2008, we received \$3.6 billion and \$1.5 billion, respectively, in net redemption proceeds related to calls of our callable United States Government sponsored agency securities, of which \$1.9 billion and \$1.0 billion, respectively, were classified as held for investment. We reinvested the proceeds from these redemptions primarily in United States Government sponsored agency securities, corporate fixed maturity securities and mortgage-backed securities classified as available for sale. At September 30, 2009, 50% of our fixed income securities have call features and 8% were subject to call redemption. Another 9% will become subject to call redemption through December 31, 2009.

Trading securities consist of fixed maturity and equity securities in designated portfolios, which support funds withheld reinsurance arrangements. Investment results for these portfolios, including gains and losses from sales, are passed directly to the reinsurer pursuant to contractual terms of the reinsurance arrangements. Trading securities are carried at fair value and changes in fair value are recorded as changes in the funds withheld reinsurance liability, as the funds withheld are being held on deposit to support the amount of reinsurance recoverable. The fair value of our trading securities is determined in the same manner as our securities classified as available for sale.

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A summary of our mortgage and asset backed portfolios by collateral type split by those that are rated investment grade and those that are rated below investment grade based upon NRSRO designation, as well as summarized information on securities for which we have recognized OTTI:

	September 30, 2009			December 31, 2008		
	Amortized Cost	Fair Value	Percent of Fixed Maturity Securities	Amortized Cost	Fair Value	Percent of Fixed Maturity Securities
	(Dollars in thousands)			(Dollars in thousands)		
Investment grade						
Government agency	69,740	73,882	0.6%	72,959	74,923	0.7%
Prime	1,423,232	1,400,202	10.9%	1,382,684	1,198,272	11.7%
Alt-A	129,687	99,906	0.8%	357,059	280,182	2.7%
Non-mortgage	14,400	13,283	0.1%	16,841	15,764	0.2%
	1,637,059	1,587,273	12.4%	1,829,543	1,569,141	15.3%
Below investment grade						
Prime	514,938	441,717	3.4%	67,945	53,189	0.5%
Prime (OTTI has been recognized)	326,505	251,771	2.0%	12,519	12,519	0.1%
Alt-A	32,231	25,199	0.2%	32,524	25,100	0.2%
Alt-A (OTTI has been recognized)	374,529	277,392	2.2%	153,325	153,325	1.5%
	1,248,203	996,079	7.8%	266,313	244,133	2.4%
	2,885,262	2,583,352	20.1%	2,095,856	1,813,274	17.7%

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The table below presents our fixed maturity securities by NAIC designation and the equivalent ratings of the nationally recognized securities rating organizations.

NAIC Designation	Rating Agency	September 30, 2009		December 31, 2008	
		Carrying Amount	Percent	Carrying Amount	Percent
		(Dollars in thousands)			
1	Aaa/Aa/A	\$ 9,220,694	71.8%	\$ 8,510,772	83.2%
2	Baa	2,325,360	18.1%	1,292,303	12.6%
Total investment grade		11,546,054	89.9%	9,803,075	95.8%
3	Ba	311,799	2.4%	225,594	2.2%
4	B	185,126	1.4%	135,989	1.3%
5	Caa and lower	548,962	4.4%	31,375	0.3%
6	In or near default	249,763	1.9%	37,162	0.4%
Total below investment grade		1,295,650	10.1%	430,120	4.2%
		\$ 12,841,704	100.0%	\$ 10,233,195	100.0%

We have experienced credit deterioration in our fixed maturity portfolio which primarily occurred during the first nine months of 2009 and the fourth quarter of 2008 on mortgage-backed securities and financial sector securities due to the global financial crisis.

The amortized cost and fair value of fixed maturity securities 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 asset backed securities provide for periodic payments throughout their lives and are shown below as a separate line.

	Available for sale		Held for investment	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)				
September 30, 2009				
Due in one year or less	\$ 26,586	\$ 25,896	\$ —	\$ —
Due after one year through five years	399,912	417,416	—	—
Due after five years through ten years	1,445,204	1,573,290	—	—
Due after ten years through twenty years	1,831,095	1,852,315	555,000	555,981
Due after twenty years	4,559,320	4,630,688	1,203,747	1,190,052
	8,262,117	8,499,605	1,758,747	1,746,033
Mortgage and asset backed securities	2,885,262	2,583,352	—	—
	<u>\$ 11,147,379</u>	<u>\$ 11,082,957</u>	<u>\$ 1,758,747</u>	<u>\$ 1,746,033</u>
December 31, 2008				
Due after one year through five years	\$ 313,611	\$ 282,869	\$ —	\$ —
Due after five years through ten years	797,903	728,597	—	—
Due after ten years through twenty years	2,259,873	2,211,963	805,170	801,384
Due after twenty years	1,692,043	1,592,343	2,798,979	2,786,730
	5,063,430	4,815,772	3,604,149	3,588,114
Mortgage and asset backed securities	2,095,856	1,813,274	—	—
	<u>\$ 7,159,286</u>	<u>\$ 6,629,046</u>	<u>\$ 3,604,149</u>	<u>\$ 3,588,114</u>

At September 30, 2009 and December 31, 2008, the amortized cost and fair value of fixed maturity securities and equity securities that were in an unrealized loss position were as follows:

	Number of Securities	Amortized Cost	Unrealized Losses	Fair Value
(Dollars in thousands)				
September 30, 2009				
Fixed maturity securities, available for sale:				
United States Government sponsored agencies	10	\$ 1,474,136	\$ (22,195)	\$ 1,451,941
U.S. states, territories and political subdivisions	1	8,475	(42)	8,433
Corporate securities:				
Finance, insurance and real estate	60	370,058	(46,769)	323,289
Manufacturing, construction and mining	25	181,477	(15,206)	166,271
Utilities and related sectors	17	131,447	(11,316)	120,131
Wholesale/retail trade	19	95,322	(7,252)	88,070
Services, media and other	15	76,915	(5,380)	71,535
Mortgage and asset backed securities	115	1,781,344	(359,920)	1,421,424
	<u>262</u>	<u>\$ 4,119,174</u>	<u>\$ (468,080)</u>	<u>\$ 3,651,094</u>
Fixed maturity securities, held for investment:				
United States Government sponsored agencies	1	\$ 150,000	\$ (136)	\$ 149,864
Corporate security:				
Finance, insurance and real estate	1	75,616	(18,260)	57,356
	<u>2</u>	<u>\$ 225,616</u>	<u>\$ (18,396)</u>	<u>\$ 207,220</u>
Equity securities, available for sale:				
Finance, insurance and real estate	16	\$ 42,168	\$ (3,847)	\$ 38,321
December 31, 2008				
Fixed maturity securities, available for sale:				
United States Government full faith and credit	1	\$ 18,774	\$ (129)	\$ 18,645
United States Government sponsored agencies	9	360,533	(1,133)	359,400
Corporate securities:				
Finance, insurance and real estate	67	442,613	(91,239)	351,374
Manufacturing, construction and mining	57	425,573	(65,567)	360,006
Utilities and related sectors	61	363,406	(55,123)	308,283
Wholesale/retail trade	26	158,118	(26,237)	131,881
Services, media and other	41	238,173	(39,212)	198,961
Mortgage and asset backed securities	101	1,704,052	(288,637)	1,415,415
	<u>363</u>	<u>\$ 3,711,242</u>	<u>\$ (567,277)</u>	<u>\$ 3,143,965</u>
Fixed maturity securities, held for investment:				
United States Government sponsored agencies	4	\$ 365,000	\$ (4,984)	\$ 360,016
Corporate security:				
Finance, insurance and real estate	1	75,521	(17,472)	58,049
	<u>5</u>	<u>\$ 440,521</u>	<u>\$ (22,456)</u>	<u>\$ 418,065</u>

Equity securities, available for sale:

Finance, insurance and real estate	26	\$ 76,429	\$ (25,978)	\$ 50,451
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Unrealized losses decreased \$125.4 million from \$615.7 million at December 31, 2008 to \$490.3 million at September 30, 2009. On January 1, 2009, we increased unrealized losses by \$83.9 million due to the cumulative adjustment to reclassify the noncredit portion of OTTI recognized at December 31, 2008, by adopting the FASB's guidance issued in April 2009 for bifurcating credit and noncredit portions of OTTI between earnings and other comprehensive income/loss. We have decreased unrealized losses by \$63.7 million by recognizing OTTI losses on equity securities totaling \$21.2 million and by recognizing \$42.5 million of credit OTTI losses on debt securities for the nine months ended September 30, 2009. The remaining decrease in unrealized losses was due to improving market conditions that resulted in higher fair values of many of our corporate securities.

The following table sets forth the composition by credit quality (NAIC designation and the equivalent ratings of a nationally recognized securities rating organization) of fixed maturity securities with gross unrealized losses:

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NAIC Designation	Rating Agency	Carrying Value of Securities with Gross Unrealized Losses	Percent of Total	Gross Unrealized Losses	Percent of Total
(Dollars in thousands)					
September 30, 2009					
1	Aaa/Aa/A	\$ 2,240,667	57.8%	\$ (112,686)	23.2%
2	Baa	513,149	13.2%	(63,069)	13.0%
Total investment grade		2,753,816	71.0%	(175,755)	36.2%
3	Ba	252,455	6.5%	(51,744)	10.6%
4	B	143,032	3.7%	(29,170)	6.0%
5	Caa and lower	482,275	12.5%	(142,623)	29.3%
6	In or near default	245,132	6.3%	(87,184)	17.9%
Total below investment grade		1,122,894	29.0%	(310,721)	63.8%
		<u>\$ 3,876,710</u>	<u>100.0%</u>	<u>\$ (486,476)</u>	<u>100.0%</u>
December 31, 2008					
1	Aaa/Aa/A	\$ 2,235,159	62.3%	\$ (289,300)	49.1%
2	Baa	1,110,279	31.0%	(223,225)	37.9%
Total investment grade		3,345,438	93.3%	(512,525)	86.9%
3	Ba	224,003	6.2%	(68,397)	11.6%
4	B	7,953	0.2%	(4,765)	0.8%
5	Caa and lower	5,472	0.2%	(4,016)	0.7%
6	In or near default	1,620	—	(30)	—
Total below investment grade		239,048	6.7%	(77,208)	13.1%
		<u>\$ 3,584,486</u>	<u>100.0%</u>	<u>\$ (589,733)</u>	<u>100.0%</u>

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The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 280 and 394 securities, respectively) have been in a continuous unrealized loss position, at September 30, 2009 and December 31, 2008:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2009						
(Dollars in thousands)						
Fixed maturity securities:						
Available for sale:						
United States Government sponsored agencies	\$ 1,451,941	\$ (22,195)	\$ —	\$ —	\$ 1,451,941	\$ (22,195)
U.S. states, territories and political subdivisions	8,433	(42)	—	—	8,433	(42)
Corporate securities:						
Finance, insurance and real estate	58,283	(6,729)	265,006	(40,040)	323,289	(46,769)
Manufacturing, construction and mining	68,579	(4,263)	97,692	(10,943)	166,271	(15,206)
Utilities and related sectors	36,888	(1,933)	83,243	(9,383)	120,131	(11,316)
Wholesale/retail trade	35,258	(1,090)	52,812	(6,162)	88,070	(7,252)
Services, media and other	—	—	71,535	(5,380)	71,535	(5,380)
Mortgage and asset backed securities	256,466	(27,243)	1,164,958	(332,677)	1,421,424	(359,920)
	<u>\$ 1,915,848</u>	<u>\$ (63,495)</u>	<u>\$ 1,735,246</u>	<u>\$ (404,585)</u>	<u>\$ 3,651,094</u>	<u>\$ (468,080)</u>
Held for investment:						
United States Government	\$ —	\$ —	\$ 149,864	\$ (136)	\$ 149,864	\$ (136)

sponsored agencies							
Corporate security:							
Finance, insurance and real estate	—	—	57,356	(18,260)	57,356	(18,260)	
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 207,220</u>	<u>\$ (18,396)</u>	<u>\$ 207,220</u>	<u>\$ (18,396)</u>	
Equity securities, available for sale:							
Finance, insurance and real estate	<u>\$ 3,050</u>	<u>\$ (118)</u>	<u>\$ 35,271</u>	<u>\$ (3,729)</u>	<u>\$ 38,321</u>	<u>\$ (3,847)</u>	
December 31, 2008							
Fixed maturity securities:							
Available for sale:							
United States Government full faith and credit	\$ —	\$ —	\$ 18,645	\$ (129)	\$ 18,645	\$ (129)	
United States Government sponsored agencies	60,475	(57)	298,925	(1,076)	359,400	(1,133)	
Corporate securities:							
Finance, insurance and real estate	205,148	(44,478)	146,226	(46,761)	351,374	(91,239)	
Manufacturing, construction and mining	294,428	(37,589)	65,578	(27,978)	360,006	(65,567)	
Utilities and related sectors	192,110	(22,816)	116,173	(32,307)	308,283	(55,123)	
Wholesale/retail trade	120,056	(16,557)	11,825	(9,680)	131,881	(26,237)	
Services, media and other	119,297	(22,425)	79,664	(16,787)	198,961	(39,212)	
Mortgage and asset backed securities	1,117,973	(221,480)	297,442	(67,157)	1,415,415	(288,637)	
	<u>\$ 2,109,487</u>	<u>\$ (365,402)</u>	<u>\$ 1,034,478</u>	<u>\$ (201,875)</u>	<u>\$ 3,143,965</u>	<u>\$ (567,277)</u>	
Held for investment:							
United States Government sponsored agencies	\$ —	\$ —	\$ 360,016	\$ (4,984)	\$ 360,016	\$ (4,984)	
Corporate security:							
Finance, insurance and real estate	—	—	58,049	(17,472)	58,049	(17,472)	
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 418,065</u>	<u>\$ (22,456)</u>	<u>\$ 418,065</u>	<u>\$ (22,456)</u>	
Equity securities, available for sale:							
Finance, insurance and real estate	<u>\$ 30,093</u>	<u>\$ (14,360)</u>	<u>\$ 20,358</u>	<u>\$ (11,618)</u>	<u>\$ 50,451</u>	<u>\$ (25,978)</u>	

The following is a description of the factors causing the unrealized losses by investment category as of September 30, 2009:

United States Government sponsored agencies and U.S. states, territories and political subdivisions: These securities are relatively long in duration, making the value of such securities sensitive to changes in market interest rates. During the last six months spreads on agency securities have improved; however, long term interest rates have risen by a greater amount. These securities carry yields less than those available at September 30, 2009 as the result of these rising interest rates.

Corporate securities: The unrealized losses in these securities are due partially to a rise in interest rates in 2009 as well as the continuation in wider than historic credit spreads. While credit spreads have improved on a recovering economy, several industries remain at much wider spreads, such as financials and economic sensitive issuers. As the result of wider spreads, these issues carry yields less than those available in the market as of September 30, 2009.

Mortgage and asset backed securities: At September 30, 2009, we had no exposure to subprime mortgage-backed securities. All of our mortgage-backed securities are pools of residential mortgage loans. Substantially all of the securities that we own are in the most senior tranche of the pool in which they are structured and are not subordinated to any other tranche. Our "Alt-A" mortgage-backed securities are comprised of 36 securities with a total amortized cost basis of \$536.4 million and a fair value of \$402.5 million. Fair values of residential mortgage-backed securities have continued at prices significantly less than amortized cost as spreads in this sector have not improved like other sectors of the fixed income market. With the uncertainty of future foreclosures and high delinquencies on residential mortgages, these security prices will likely remain below our cost basis until the housing market conditions improve.

Equity securities: The unrealized losses on equity securities, which are primarily investment grade perpetual preferred stocks with exposure to REITS, investment banks and finance companies, are due to the instability in the financial markets and a further deterioration in the economy. All of the equity securities in an unrealized loss position for 12 months or more are investment grade perpetual preferred stocks that are absent credit deterioration. A deepening recession due to tight credit markets and a difficult housing market have raised concerns in regard to earnings and dividend stability in many companies which directly affect the values of these securities.

Where the decline in market 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 be other than temporarily impaired because we do not intend to sell these investments and it is not more likely than not we will be required to sell these securities before a recovery of amortized cost, which may be maturity. For equity securities, we recognize an impairment charge in the period in which we do not have the intent or ability to hold the securities until a recovery of cost or we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period of time on a security-by-security basis based upon consideration of all the evidence available to us, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed 18 months from the date of impairment for perpetual preferred securities for which there is evidence of deterioration in credit of the issuer and common equity securities. For perpetual preferred securities absent evidence of a deterioration in credit of the issuer we apply an impairment model, including an anticipated recovery period, similar to a debt security. For equity securities we measure impairment charges based upon the difference between the book value of a security and its fair value.

At September 30, 2009 and December 31, 2008, the amortized cost and fair value of fixed maturity securities and equity securities in an unrealized loss position and the number of months in an unrealized loss position were as follows:

	Number of Securities	Amortized Cost	Fair Value	Gross Unrealized Losses
(Dollars in thousands)				
September 30, 2009				
Fixed maturity securities:				
Investment grade:				
Less than six months	16	\$ 158,901	\$ 152,552	\$ (6,349)
Six months or more and less than twelve months	35	1,688,168	1,656,041	(32,127)
Twelve months or greater	101	1,082,365	945,087	(137,278)
Total investment grade	152	2,929,434	2,753,680	(175,754)
Below investment grade:				
Less than six months	2	28,296	25,740	(2,556)
Six months or more and less than twelve months	15	103,978	81,515	(22,463)
Twelve months or greater	95	1,283,082	997,379	(285,703)
Total below investment grade	112	1,415,356	1,104,634	(310,722)
Equity securities:				
Less than six months	3	2,962	2,851	(111)
Six months or more and less than twelve months	1	206	199	(7)
Twelve months or greater	12	39,000	35,271	(3,729)
Total equity securities	16	42,168	38,321	(3,847)
	280	\$ 4,386,958	\$ 3,896,635	\$ (490,323)
December 31, 2008				
Fixed maturity securities:				
Investment grade:				
Less than six months	101	\$ 923,551	\$ 856,068	\$ (67,483)
Six months or more and less than twelve months	135	1,397,316	1,132,870	(264,446)
Twelve months or greater	104	1,532,112	1,351,515	(180,597)
Total investment grade	340	3,852,979	3,340,453	(512,526)
Below investment grade:				
Less than six months	4	27,862	23,378	(4,484)
Six months or more and less than twelve months	13	126,163	97,172	(28,991)
Twelve months or greater	11	144,759	101,027	(43,732)
Total below investment grade	28	298,784	221,577	(77,207)
Equity securities:				
Less than six months	10	23,454	17,635	(5,819)
Six months or more and less than twelve months	8	21,000	12,459	(8,541)
Twelve months or greater	8	31,975	20,357	(11,618)
Total equity securities	26	76,429	50,451	(25,978)
	394	\$ 4,228,192	\$ 3,612,481	\$ (615,711)

At September 30, 2009 and December 31, 2008, the amortized cost and estimated fair value of fixed maturity securities (excluding United States Government and United States Government sponsored agency securities) and equity securities that had unrealized losses greater than 20% and the number of months in an unrealized loss position greater than 20% were as follows:

	Number of Securities	Amortized Cost	Carrying Value	Gross Unrealized Losses
(Dollars in thousands)				
September 30, 2009				
Investment grade:				
Less than six months	2	\$ 76,040	\$ 59,212	\$ (16,828)
Six months or more and less than twelve months	11	153,436	114,027	(39,409)
Twelve months or greater	3	10,471	7,344	(3,127)
Total investment grade	16	239,947	180,583	(59,364)
Below investment grade:				
Less than six months	2	40,220	30,593	(9,627)
Six months or more and less than twelve months	36	521,178	375,652	(145,526)
Twelve months or greater	25	307,820	223,433	(84,387)
Total below investment grade	63	869,218	629,678	(239,540)
Equity securities:				
Less than six months	—	—	—	—
Six months or more and less than twelve months	—	—	—	—
Twelve months or greater	—	—	—	—
Total equity securities	—	—	—	—
	79	\$ 1,109,165	\$ 810,261	\$ (298,904)

December 31, 2008

Investment grade:				
Less than six months	98	\$ 840,309	\$ 614,000	\$ (226,309)
Six months or more and less than twelve months	18	99,216	65,679	(33,537)
Twelve months or greater	—	—	—	—
Total investment grade	116	939,525	679,679	(259,846)
Below investment grade:				
Less than six months	17	152,936	104,729	(48,207)
Six months or more and less than twelve months	2	10,497	4,159	(6,338)
Twelve months or greater	—	—	—	—
Total below investment grade	19	163,433	108,888	(54,545)
Equity securities:				
Less than six months	17	44,321	27,562	(16,759)
Six months or more and less than twelve months	3	8,000	4,642	(3,358)
Twelve months or greater	—	—	—	—
Total equity securities	20	52,321	32,204	(20,117)
	155	\$ 1,155,279	\$ 820,771	\$ (334,508)

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The amortized cost and fair value of fixed maturity securities at September 30, 2009 and December 31, 2008, 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 asset backed securities provide for periodic payments throughout their lives, and are shown below as a separate line.

	Available for sale		Held for investment	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)				
September 30, 2009				
Due in one year or less	\$ 16,227	\$ 15,522	\$ —	\$ —
Due after one year through five years	100,009	91,469	—	—
Due after five years through ten years	138,555	128,270	—	—
Due after ten years through twenty years	233,814	212,154	150,000	149,864
Due after twenty years	1,849,225	1,782,255	75,616	57,356
	2,337,830	2,229,670	225,616	207,220
Mortgage and asset backed securities	1,781,344	1,421,424	—	—
	<u>\$ 4,119,174</u>	<u>\$ 3,651,094</u>	<u>\$ 225,616</u>	<u>\$ 207,220</u>

December 31, 2008

Due after one year through five years	\$ 270,261	\$ 237,628	\$ —	\$ —
Due after five years through ten years	616,498	540,629	—	—
Due after ten years through twenty years	559,594	501,542	365,000	360,016
Due after twenty years	560,837	448,751	75,521	58,049
	2,007,190	1,728,550	440,521	418,065
Mortgage and asset backed securities	1,704,052	1,415,415	—	—
	<u>\$ 3,711,242</u>	<u>\$ 3,143,965</u>	<u>\$ 440,521</u>	<u>\$ 418,065</u>

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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 an other than temporary impairment. As part of this assessment we review not only a change in current price relative to its amortized cost but the issuer's/security's current credit rating and the probability of full recovery of principal based upon the issuer's financial strength and/or collateral performance. Specifically 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 residential mortgage backed securities we evaluate the current delinquencies relative to credit enhancements, credit loss severity and trends in mortgage default rates. Securities which have a 25% or greater change in market price relative to its amortized cost and/or has a possibility of a loss of principal will be included on a list which is referred to as our watch list. We exclude from this list securities with unrealized losses which are related to market movements in interest rates and which have no factors indicating that such unrealized losses may be other than temporary as we do not intend to sell these securities and it is more likely than not we will not have to sell these securities before a recovery is realized. At September 30, 2009, the amortized cost and fair value of securities on the watch list are as follows:

General Description	Number of Securities	Amortized Cost	Unrealized Gains/(Losses)	Fair Value	Months in Continuous Unrealized Loss Position	Months Unrealized Losses Greater Than 20%
(Dollars in thousands)						
Investment grade						
Corporate bonds:						
Finance	1	\$ 9,984	\$ (734)	\$ 9,250	17	—
Insurance	2	9,537	(2,134)	7,403	28 - 31	16
Perpetual preferred stocks:						
Insurance	1	3,000	(780)	2,220	—	—
	4	22,521	(3,648)	18,873		

Below investment grade

Corporate bonds:						
Finance	4	22,181	(3,505)	18,676	17 - 30	0 - 20
Insurance	3	19,664	(4,519)	15,145	—	—
Retail	1	10,490	(2,990)	7,500	50 - 52	20
Consumer staple	1	9,274	(1,591)	7,683	40	—
Home building	1	4,970	(195)	4,775	49	—
Mining	1	7,248	(806)	6,442	29	—
Mortgage-backed securities	31	569,035	(111,250)	457,785	3 - 51	0 - 12
Redeemable preferred stocks:						
Finance	4	17,000	(3,567)	13,433	16 - 49	0 - 16
	46	659,862	(128,423)	531,439		
	50	\$ 682,383	\$ (132,071)	\$ 550,312		

Our analysis of these securities that we have determined are temporarily impaired and their credit performance at September 30, 2009 is as follows:

Finance and Insurance: The decline in value of these corporate bonds and preferred stocks is due to the continued wide spreads as a result of the ongoing concerns relating to capital, asset quality and earnings stability due to the recent financial crisis. While these issuers have had their financial position and profitability weakened by the credit and liquidity crisis, we have determined that these securities were not other than temporarily impaired due to our evaluation of the operating performance and the credit worthiness of each individual issuer.

Retail: We own a bond issued by a U.S. retail company. The decline in value of this bond relates to a recent debt-financed share repurchase combined with a weakening economy which has led to a decrease in sales. We have determined that this security was not other than temporarily impaired due to the issuer's very strong market position and a consistent history of strong operating performance.

Consumer Staple: The decline in value of this bond was due to a reduction in the company's capital position during 2007 due to non-recurring write-offs related to the refinancing of debt and the correction of improper accounting practices. We have determined that this security was not other than temporarily impaired due to the issuer's strong operating performance, decreased outstanding debt through the sale of assets and improved access to liquidity through new credit facilities.

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Home Building: This bond has been affected by the deterioration in demand for new homes, decreases in new and existing home prices, mortgage credit availability and excessive housing inventory. We have determined that this security was not other than temporarily impaired based upon the issuer's cash position and access to liquidity through existing credit facilities which will allow them to operate effectively through these economic conditions.

Mining: The decline in fair value of this bond is related to increased debt levels during 2008 due to several acquisitions during the year combined with the lower coal prices due to lower global demand. We have determined that this security was not other than temporarily impaired due to implemented work force reductions, capital expenditure reductions and elimination of its dividend to reduce its debt level.

Mortgage-backed securities: The decline in fair value of these mortgage-backed securities is due to imbalances in supply and demand for mortgage-backed securities, increased foreclosures and bankruptcies and projections of potential future losses. We have determined that these securities were not other than temporarily impaired due to our analysis of future cash flows.

The securities on the watch list are current with respect to payments of principal and interest. We do not intend to sell these securities and it is more likely than not we will not have to sell these securities before recovery of their amortized cost and, as such, there were no other than temporary impairments on these securities at September 30, 2009.

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We recognized other than temporary impairments and additional credit losses on a number of securities for which we have previously recognized OTTI as follows:

General Description	Three Months Ended September 30, 2009				Three Months Ended September 30, 2008	
	Number of Securities	Other Than Temporary Impairments	Portion Recognized in Comprehensive Income	Net Impairment Losses Recognized in Operations	Number of Securities	Other Than Temporary Impairments
(Dollars in thousands)						
Corporate bonds:						
Finance	1	\$ (3,619)	\$ (2,257)	\$ (5,876)	3	\$ (8,283)
Insurance	1	(211)	(696)	(907)	2	(4,415)
Media	—	—	—	—	1	(3,150)
Mortgage-backed securities	47	(78,712)	52,594	(26,118)	—	—
Common & preferred stocks:						
Finance	1	(10,182)	—	(10,182)	4	(41,339)
Insurance	2	(1,492)	—	(1,492)	—	—
Real estate	—	—	—	—	3	(4,045)
	52	\$ (94,216)	\$ 49,641	\$ (44,575)	13	\$ (61,232)
Nine Months Ended September 30, 2009					Nine Months Ended September 30, 2008	

General Description	Number of Securities	Other Than Temporary Impairments	Portion Recognized in Comprehensive Income	Net Impairment Losses Recognized in Operations	Number of Securities	Other Than Temporary Impairments
(Dollars in thousands)						
United States Government full faith and credit	1	\$ (245)	\$ —	\$ (245)	—	\$ —
Corporate bonds:						
Finance	3	(8,388)	(1,521)	(9,909)	4	(9,267)
Insurance	2	(641)	(1,165)	(1,806)	3	(10,397)
Home building	3	(756)	(70)	(826)	4	(9,352)
Media	—	—	—	0	1	(3,150)
Mortgage-backed securities	49	(140,454)	110,768	(29,686)	2	(3,249)
Common & preferred stocks:						
Finance	7	(18,292)	—	(18,292)	6	(43,467)
Insurance	2	(1,492)	—	(1,492)	1	(1,507)
Real estate	2	(1,400)	—	(1,400)	8	(14,366)
	<u>69</u>	<u>\$ (171,668)</u>	<u>\$ 108,012</u>	<u>\$ (63,656)</u>	<u>29</u>	<u>\$ (94,755)</u>

Several factors have led us to believe that full recovery of amortized cost will not be expected. These include, but are not limited to: (i) a significant change in the operating performance of a company; (ii) a material change in the expected contractual obligation of an issuer; (iii) a significant change in ratings as defined by the NRSRO; and (iv) the time frame in which a recovery to amortized cost may occur.

Deterioration of the issuers' credit worthiness and liquidity profile were major factors in leading us to make the determination that other than temporary impairments were present in our corporate bonds and common and preferred stocks. Our analysis demonstrated that we could not expect a recovery of our cost basis within our expected holding period for debt securities or within a reasonable period of time for equity securities.

In the case of mortgage-backed securities, we considered the ratings downgrades, increased default projections, actual defaults, and expected cash flow projections to determine that other than temporary impairments were present. We continue to monitor the cash flows and economics surrounding these securities to determine changes in expected future cash flows.

In making the decisions to write down the securities described above, we considered whether the factors leading to those write downs impacted any other securities held in our portfolio. In cases where we determined that a decline in value was related to an industry-wide concern, we considered the impact of such concern on all securities we held within that industry classification.

The following table is a summary of securities that are a part of our investment portfolio at September 30, 2009 and for which at any time during our holding period we have recognized OTTI and the activity since recognizing OTTI:

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	Number of Securities	Amortized Cost Prior to OTTI	OTTI Recognized in Operations	Return of Principal Since OTTI was Recognized	Premium Amortization/Discount Accretion Since OTTI was Recognized	September 30, 2009 Amortized Cost
(Dollars in thousands)						
Corporate securities	10	\$ 60,610	\$ (24,609)	\$ (35)	\$ (241)	\$ 35,725
Residential mortgage-backed securities	53	750,622	(36,956)	(12,847)	215	701,034
Equity securities: finance, insurance and real estate	23	120,974	(83,398)	(350)	—	37,227
	<u>86</u>	<u>\$ 932,206</u>	<u>\$ (144,963)</u>	<u>\$ (13,232)</u>	<u>\$ (26)</u>	<u>\$ 773,986</u>

The following table summarizes the cumulative noncredit portion of OTTI and the change in fair value since recognition of OTTI, both of which were recognized in other comprehensive income, by major type of security for securities that are part of our investment portfolio at September 30, 2009:

	September 30, 2009 Amortized Cost	OTTI Recognized in Other Comprehensive Income	Change in Fair Value Since OTTI was Recognized	September 30, 2009 Fair Value
(Dollars in thousands)				
Corporate securities	\$ 35,725	\$ (12,982)	\$ 7,426	\$ 30,169
Residential mortgage-backed securities	701,034	(180,224)	8,353	529,163
Equity securities: Finance, insurance and real estate	37,227	—	13,168	50,395
	<u>\$ 773,986</u>	<u>\$ (193,206)</u>	<u>\$ 28,947</u>	<u>\$ 609,727</u>

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 reduce the risk of default. The commercial mortgage loan portfolio is summarized by geographic region and property type as follows:

Geographic distribution	September 30, 2009		December 31, 2008	
	Carrying Amount	Percent	Carrying Amount	Percent
East	\$ 541,057	22.7%	\$ 537,303	23.1%
Middle Atlantic	165,905	7.0%	161,222	6.9%
Mountain	379,368	16.0%	386,988	16.6%

New England	44,953	1.9%	44,517	1.9%
Pacific	208,349	8.8%	194,301	8.3%
South Atlantic	443,566	18.6%	421,507	18.1%
West North Central	410,342	17.3%	397,375	17.1%
West South Central	182,293	7.7%	186,611	8.0%
	<u>\$ 2,375,833</u>	<u>100.0%</u>	<u>\$ 2,329,824</u>	<u>100.0%</u>
Property type distribution				
Office	\$ 651,572	27.4%	\$ 655,278	28.1%
Medical Office	141,016	5.9%	142,409	6.1%
Retail	546,014	23.0%	551,172	23.7%
Industrial/Warehouse	583,588	24.6%	552,012	23.7%
Hotel	156,146	6.6%	154,671	6.6%
Apartment	119,163	5.0%	111,933	4.8%
Mixed use/other	178,334	7.5%	162,349	7.0%
	<u>\$ 2,375,833</u>	<u>100.0%</u>	<u>\$ 2,329,824</u>	<u>100.0%</u>

Our commercial mortgage loans on real estate are reported at cost, adjusted for amortization of premiums and accrual of discounts. The average loan to value ratio for the overall portfolio was 56.7% and 58.6% and the average loan size was \$2.4 million (987 loans) and \$2.6 million (912 loans) at September 30, 2009 and December 31, 2008, respectively. The loan to value ratio is calculated using the underwriting and appraisal at the time the loan was made. We have the contractual ability to pursue full personal recourse on 12.7% of the loans and partial personal recourse on 34.8% of the loans, and master leases provide us recourse against the principals of the borrowing entity on 11.4% of the loans. In the normal course of business, we commit to fund commercial mortgage loans up to 90 days in advance. At September 30, 2009, we had commitments to fund commercial mortgage loans totaling \$31.5 million, with fixed interest rates ranging from 7.0% to 7.3%.

During 2009 we completed the foreclosure of two loans with a total principal balance at the time of foreclosure of \$8.9 million. No impairments were recognized upon foreclosure as the fair values of the properties less the estimated costs to sell exceeded the outstanding mortgage loan balances and accordingly, the real estate was assigned a value equal to the outstanding loan balance. The foreclosed properties are being accounted for as "real estate held for sale" as we are committed to a plan of marketing and selling the properties within twelve months of acquisition. Real estate held for sale is carried at the lower of cost or fair value, less projected costs to sell. We would establish a valuation allowance for the amount that our carrying value exceeds the property's fair value, less projected selling costs, if such an occurrence would ever arise.

At September 30, 2009, we have foreclosure proceedings in process on five commercial mortgage loans with a total outstanding balance of \$14.6 million that were in default and twenty commercial mortgage loans with an outstanding principal balance of \$58.9 million (2% of the commercial mortgage loan portfolio) have been given "workout" terms which generally allow for interest only payments or the capitalization of interest for a specified period of time.

We evaluate our mortgage loan portfolio for the establishment of a loan loss reserve by specific identification of impaired loans and the measurement of an estimated loss for each individual loan identified and an analysis of the mortgage loan portfolio for the need for a general loan allowance for probable losses on all other loans. If we determine that the value of any specific mortgage loan is impaired, the carrying amount of the mortgage loan will be reduced to its fair value, based upon the present value of expected future cash flows from the loan discounted at the loan's effective interest rate, or the fair value of the underlying collateral. The amount of the general loan allowance is based upon management's evaluation of the collectability of the loan portfolio, historical loss experience, delinquencies, credit concentrations, underwriting standards and national and local economic conditions. Based upon this process and analysis, no general loan loss allowance, was necessary. A mortgage loan is impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We recorded impairment losses of \$5.5 million and \$6.5 million during the three and nine months ended September 30, 2009 on specific mortgage loans with a total outstanding balance of \$12.5 and \$18.4 million for which principal amounts outstanding exceed the fair value of the real estate collateral less projected costs to sell the properties. A summary of impaired commercial mortgage loans as of September 30, 2009 and December 31, 2008 is as follows:

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	September 30, 2009	December 31, 2008
	(Dollars in thousands)	
Impaired mortgage loans with allowances for losses	\$ 18,384	—
Impaired mortgage loans with no allowance for losses	58,862	20,983
Allowance for probable loan losses	(6,484)	—
Net carrying value of impaired mortgage loans	<u>\$ 70,762</u>	<u>\$ 20,983</u>

Mortgage loans summarized in the preceding table represent all loans that we are either not currently collecting, or those we feel it is probable we will not be able to collect, all amounts due according to the contractual terms of the loan agreement. We have not recognized an allowance on any of our impaired mortgage loans for which the present value of our expected future cash flows have not decreased.

Liquidity and Capital Resources

Our insurance subsidiaries continue to 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 \$1.4 billion in the nine months ended September 30, 2009 compared to \$0.9 billion for the nine months ended September 30, 2008 with the increase primarily attributable to the \$0.5 billion increase in net annuity deposits collected reported above under Overview. We continue to invest the net proceeds from policyholder transactions and investment activities in high quality fixed maturity securities and fixed rate commercial mortgage loans. As reported above under Financial Condition - Investment, during the nine months ended September 30, 2009 we experienced a significant amount of calls of United States Government sponsored agency securities. We have been reinvesting the proceeds from the called securities in investment grade fixed maturity securities and mortgage-backed securities with yields that meet our investment spread objectives. Our ability to continue to reinvest the proceeds from called securities in assets with acceptable credit quality and yield characteristics similar to the called securities will be dependent on future market conditions.

We, as the parent company, are a legal entity separate and distinct from our subsidiaries, and have no direct business operations of our own. Our parent company 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. The ability to pay such dividends and to make such other payments will be limited by applicable laws and regulations of the states in which our subsidiaries are domiciled, which subject our 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. 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 A.M. Best Company. Given recent economic events that have affected the insurance industry, 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.

The statutory capital and surplus of our life insurance subsidiaries at September 30, 2009 was \$1.1 billion. American Equity Investment Life Insurance Company (“American Equity Life”) made surplus note interest payments to us of \$3.1 million during the nine months ended September 30, 2009. For the remainder of 2009, up to \$98.3 million can be distributed by American Equity Life as dividends under applicable laws and regulations without prior regulatory approval. Dividends may be made only out of earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities. American Equity Life had \$168.4 million of statutory earned surplus at September 30, 2009.

During the second quarter of 2009, we extinguished \$37.2 million of our 5.25% contingent convertible senior notes by issuing five million shares of our common stock to the holder of these notes. This transaction resulted in increasing our equity by \$33.1 million and reducing our liabilities by \$32.7 million.

During 2009, we have borrowed \$75.0 million under our revolving line of credit and used the proceeds to make \$75.0 million in capital contributions to American Equity Life. The capital contributions will assist this subsidiary in maintaining adequate statutory capital and surplus should new annuity sales continue at an accelerated pace in subsequent periods. We also have the ability to issue equity, debt or other types of securities through one or more methods of distribution under a currently effective shelf registration statement on Form S-3. The terms of any offering

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would be established at the time of the offering, subject to market conditions.

On August 20, 2009, we entered into distribution agreements with Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC (“FPK”) and Sandler O’Neill & Partners, L.P. Under the distribution agreements, we can offer and sell shares of our common stock up to an aggregate offering price of \$50,000,000. From August 20, 2009 through September 30, 2009, we sold 132,300 shares of our common stock at an average price of \$8.26 per share, resulting in gross proceeds to us of \$1.09 million. The aggregate net proceeds from such sales were \$0.99 million after deducting related expenses, including \$30,036 in gross sales commissions paid to FPK.

The transfer of funds by American Equity Life is also restricted by a covenant in our revolving line of credit which requires American Equity Life to maintain a minimum risk-based capital ratio of 200%.

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New Accounting Pronouncements

In June 2009, the FASB amended accounting standards for transfers and servicing of financial assets and extinguishments of liabilities. The new standards removes the concept of a qualifying special-purpose entity (“QSPE”) from existing standards and removes the exception of QSPE’s from consolidation requirements. Additionally, more stringent conditions for reporting a transfer of a portion of a financial asset as a sale were created, derecognition criteria was clarified, how retained interests are initially measured was revised, the guaranteed mortgage securitization recharacterization provisions were removed and disclosure requirements were added. This standard must be applied as of the beginning of our first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. We are currently assessing the impact of this standard.

In June 2009, the FASB issued amendments to the accounting standards for consolidation of variable interest entities. The new standard replaces the quantitative-based risks and rewards calculation of existing standards for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with a primarily qualitative approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impacts the entity’s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This amendment is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. We are currently assessing the impact of this standard.

In September 2009, the FASB issued an accounting standards update that allows for net asset value per share to be used as a means to estimate fair value for an investment if the fair value of that investment is not readily determinable. Investments that qualify are those that calculate a net asset value per share or its equivalent as of the investor’s measurement date. This standard is effective for interim and annual periods ending after December 15, 2009, with early application permitted. We are currently assessing the impact of this accounting standards update.

In August 2009, the FASB issued an accounting standards update that amends the fair value measurement of liabilities. The update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique that is consistent with the principles of fair value. This guidance is effective for the first reporting period beginning after issuance, which will be our three months and year ending December 31, 2009. We are currently assessing the impact of this accounting standards update.

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 predominately 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 to encourage persistency.

We seek to maximize the total return on our available for sale investments 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. An OTTI shall be considered to have occurred when we sell, or have an intention to sell, available for sale securities in an unrealized loss position. If we do not intend to sell a debt security, we consider all available evidence to make an assessment of whether it is more likely than not that we will be required to sell the security before the recovery of its amortized cost basis. If it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, an OTTI will be considered to have occurred. We have a portfolio of held for investment securities which principally consists of long duration bonds issued by U.S. government agencies. These securities are purchased to secure long-term yields which meet our spread targets and support the underlying liabilities.

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, the fair value of our investments, and the amount of interest we pay on our floating rate subordinated debentures. Our floating rate trust preferred securities issued by Trust III, IV, VII, VIII, IX, X, XI (beginning on December 31, 2010) and XII bear interest at the three month LIBOR plus 3.50% - 4.00%. Our outstanding balance of floating rate trust preferred securities was \$144.5 million at September 30, 2009, of which \$60 million had been swapped to fixed rates (see note 9 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008). The applicable interest rate on our borrowings under our revolving line of credit is floating at LIBOR plus 0.80% or the greater of prime rate or federal funds rate plus 0.50%, as elected by us. In 2009, we swapped the floating interest rate to fixed rates of \$150.0 million of the borrowings outstanding on our revolving line of credit (see note 8 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.) 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 index annuities) on substantially all of our annuity liabilities at least annually (subject to minimum guaranteed values). In addition, substantially all of our annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. 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 computer 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% (41 basis points) from levels at September 30, 2009, we estimate that the fair value of our fixed maturity securities would decrease by approximately \$408.7 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) would be a decrease of \$103.9 million in the accumulated other comprehensive income and a decrease to stockholders’ equity. The computer 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 an other than temporary impairment) 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, 2008.

At September 30, 2009, 50% of our fixed income securities have call features and 8% were subject to call redemption. Another 9% will become subject to call redemption through December 31, 2009. During the nine months ended September 30, 2009 and 2008, we received \$3.6 billion and \$1.5 billion, respectively, in net redemption proceeds related to the exercise of such call options. 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. Should rates decline to levels which tighten the spread between our average portfolio yield and average cost of interest credited on our annuity liabilities, we have the ability to reduce crediting rates (caps, participation rates or asset fees for index annuities) on most of our annuity liabilities to maintain the spread at our targeted level. At September 30, 2009, approximately 98% 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

With respect to our index annuities, we purchase call options on the applicable indices to fund the annual index credits on such 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 index products. For the nine months ended September 30, 2009 and 2008, the annual index credits to policyholders on their anniversaries were \$25.3 million and \$29.3 million, respectively. Proceeds received at expiration of these options were \$5.7 million and \$25.6 million for the nine months ended September 30, 2009 and 2008, respectively. Proceeds for 2009 were adversely affected by \$12.0 million in proceeds not received from affiliates of Lehman Brothers which declared bankruptcy in the third quarter of 2008. The difference between proceeds received at expiration or gains recognized upon early termination of these options and index credits is primarily due to credits attributable to minimum guaranteed interest self funded by us.

Within our hedging process we purchase options out of the money to the extent of anticipated minimum guaranteed interest on index policies. 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 index business. We manage this risk through the terms of our 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 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 and 15d-15, 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 that the design and operation of our disclosure controls and procedures were effective as of September 30, 2009 in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act.

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

During the fourth quarter of 2007 we received a formal request for information from the staff of the Division of Enforcement (the "Staff") of the SEC concerning certain transactions between American Equity and American Equity Investment Service Company ("Service Company") in 2003, 2004 and 2005. We have cooperated fully in providing information and documentation to the Staff throughout the course of its investigation. On May 4, 2009, American Equity, our Chairman and our Chief Executive Officer and President received a Wells Notice from the Staff in connection with this investigation. The Wells Notice provides notification that the Staff intends to recommend to the SEC that it bring a civil action against the recipients for possible violations of the federal securities laws and related rules. A Wells Notice does not itself initiate litigation, nor is it a finding of wrongdoing by us or any individual. According to discussions with the SEC Staff and our understanding of the scope of the investigation, the Wells Notice relates to disclosures in our 2004, 2005 and 2006 proxy statements and statements made during our third quarter 2005 earnings conference call concerning the effects of transactions involving the Service Company, the last of which was completed almost four years ago. Beginning in 1999, our public securities filings contained extensive disclosures related to Service Company transactions, including the effect of each such transaction on our consolidated financial statements. Based on our own investigation and the facts disclosed to us during the course of the SEC investigation, we believe these proxy statements accurately disclosed all material information, and strongly disagree with the Staff's recommendation on this matter. We will continue to pursue a potential resolution of this matter before the Staff makes its formal recommendation to the SEC and will vigorously defend any action brought by the SEC, but we cannot predict the outcome or timing of this matter.

In recent years, companies in the life insurance and annuity business have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices and similar claims. We are currently a defendant in two purported class action lawsuits alleging improper sales practices and similar claims as described below. It is often not possible to determine the ultimate outcome of pending legal proceedings or to provide reasonable ranges of

potential losses with any degree of certainty. The lawsuits referred to below are in very preliminary stages and we do not have sufficient information to make an assessment of the plaintiffs' claims for liability or damages. The plaintiffs are seeking undefined amounts of damages or other relief, including punitive damages, which are difficult to quantify and cannot be estimated based on the information currently available. We do not believe that these lawsuits, including those discussed below, will have a material adverse effect on our financial position, results of operations or cash flows. However, there can be no assurance that such litigation, or any future litigation, will not have a material adverse effect on our business, financial condition, or results of operations.

We are a defendant in two cases seeking class action status, including (i) *Stephens v. American Equity Investment Life Insurance Company, et al.*, in the San Luis Obispo Superior Court, San Francisco, California (complaint filed November 29, 2004) (the "SLO Case") and (ii) *McCormack, et al. v. American Equity Investment Life Insurance Company, et al.*, in the United States District Court for the Central District of California, Western Division and *Anagnostis v. American Equity, et al.*, coordinated in the Central District, entitled, *In re American Equity Annuity Practices and Sales Litigation* (complaint filed September 7, 2005) (the "Los Angeles Case").

The plaintiffs in the SLO Case seeks to represent a class of individuals who are California residents and who either purchased their annuity from us through a co-defendant marketing organization or who purchased one of a defined set of particular annuities issued by us. The named plaintiffs in this case are: Chalys M. Stephens and John P. Stephens. Plaintiffs seek injunctive relief and restitution on behalf of all class members under California Business & Professions Code section 17200 et seq.; compensatory damages for breach of contract and breach of fiduciary duty; other pecuniary damages under California Civil Code section 1750 and California Welfare & Institutions Codes section 15600 et seq.; and punitive damages under common law causes of action for fraud and breach of the covenant of good faith and fair dealing. On November 3, 2008, the court issued an order certifying the class. We are vigorously defending the underlying allegations and are seeking to decertify a portion of the class and may seek to decertify the entire class after further discovery into the merits of the case.

The Los Angeles Case is a consolidated action involving several lawsuits filed by individuals, and the individuals are seeking class action status for a national class of purchasers of annuities issued by us. The named plaintiffs in this consolidated case are Bernard McCormack, Gust Anagnostis by and through Gary S. Anagnostis and Robert C. Anagnostis, Regina Bush by and through Sharon Schipiour, Lenice Mathews by and through Mary Ann Maclean and George Miller. The allegations generally attack the suitability of sales of deferred annuity products to persons over the age of 65. The plaintiffs seek recessionary and injunctive relief including restitution and disgorgement of profits on behalf of all class members under California Business & Professions Code section 17200 et seq. and Racketeer Influenced and Corrupt Organizations Act; compensatory damages for breach of fiduciary duty and aiding and abetting of breach of fiduciary duty; unjust enrichment and constructive trust; and other pecuniary damages under California Civil Code section 1750 and California Welfare & Institutions Codes section 15600 et seq. We are vigorously defending against both class action status as well as the underlying claims.

Item 1A. Risk Factors

The following risk factors represent material updates and additions to the risk factors previously disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2008. The risk factors below should be read in conjunction with the Risk Factors and other information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

We continue to be adversely affected by the overall deterioration in debt and equity markets caused by the recessionary economic environment. These adverse conditions could continue to have a negative impact on our financial position and operations.

Current conditions in the financial markets and credit system in the United States and throughout the world have resulted in deteriorated asset values and illiquid and inactive markets for certain types of securities and commercial mortgage loans on real estate. We have experienced uncommon levels of other than temporary impairments and rating downgrades of securities in our investment portfolio for the last four quarters of operations. At the same time we are experiencing record production in annuity sales. The combination of ratings downgrades on some of our investment portfolio and record production has resulted in pressure on our capital position.

If market conditions continue to deteriorate, it may result in additional ratings downgrades and other than temporary

impairments on our fixed maturity and equity securities and impairments on our commercial mortgage loans. This may result in us needing to raise additional capital to sustain our current business in force and new sales of our annuity products, which may be difficult under current market conditions. If capital is available, it may be at terms that are not favorable to us. If we are unable to raise adequate capital, we may be required to limit growth in sales of our annuity products.

Changes in state and federal regulation may affect our profitability.

We are subject to regulation under applicable insurance statutes, including insurance holding company statutes, in the various states in which our life insurance subsidiaries transact business. Our life insurance subsidiaries are domiciled in New York and Iowa. We are currently licensed to sell our products in 50 states and the District of Columbia. Insurance regulation is intended to provide safeguards for policyholders rather than to protect shareholders of insurance companies or their holding companies.

Regulators oversee matters relating to trade practices, policy forms, claims practices, guaranty funds, types and amounts of investments, reserve adequacy, insurer solvency, minimum amounts of capital and surplus, transactions with related parties, changes in control and payment of dividends. As increased scrutiny has been placed upon the insurance regulatory framework, a number of state legislatures have considered or enacted legislative proposals that alter, and in many cases increase, state authority to regulate insurance companies and holding company systems.

State insurance regulators and the NAIC continually reexamine existing laws and regulations and may impose changes in the future. Currently, there are proposed statutory accounting pronouncements that could potentially have a significant impact on our level of statutory capital and surplus.

Our life insurance subsidiaries are subject to the NAIC's RBC requirements which are intended to be used by insurance regulators as an early warning tool to identify deteriorating or weakly capitalized insurance companies for the purpose of initiating regulatory action. Our life insurance subsidiaries also may be required, under solvency or guaranty laws of most states in which they do business, to pay assessments up to certain prescribed limits to fund policyholder losses or liabilities for insolvent insurance companies.

Although the federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation, securities regulation and federal taxation, can significantly affect the insurance business. In addition, legislation has been introduced in Congress which could result in the federal government assuming some role in the regulation of the insurance industry.

On December 17, 2008, the SEC voted to approve Rule 151A, which would apply federal securities oversight to index annuities issued on or after January 12, 2011. Along with several other parties, we filed a petition for judicial review of this rule seeking to have it overturned. The court issued its decision in this case on July 21, 2009 and remanded Rule 151A to the SEC for further consideration of the effect of the Rule on efficiency, capital formation and competition. However, the court upheld the SEC's authority under the Securities Act of 1933 to regulate our fixed index products if the SEC properly adopts the Rule after consideration of such effects. Further steps in this litigation are uncertain at this time. In addition, legislation has been introduced in the U.S. House of Representatives and the U.S. Senate that would negate Rule 151A. Whether and when such bills may be enacted into law is also uncertain. Should these efforts to defeat Rule 151A be unsuccessful, costs of compliance with Rule 151A will be substantial and will include, among other things: (i) the costs of registering one or more index annuities; (ii) the annual costs of printing and mailing prospectuses to policyholders; (iii) the costs of expanding the operations of our broker dealer subsidiary; (iv) the costs of establishing relationships with other broker dealers; and (v) the costs of compensating broker dealers in connection with product sales. In addition, we believe a portion of our sales agents would choose not to become licensed to sell SEC registered products, which could lead to a substantial decline in new annuity deposits unless we are successful in developing new insurance products they want to sell.

The regulatory framework at the state and federal level applicable to our insurance products is evolving. The changing regulatory framework could affect the design of such products and our ability to sell certain products. Any changes in these laws and regulations could materially and adversely affect our business, financial condition or results of operations.

During the fourth quarter of 2007 we received a formal request for information from the staff of the Division of Enforcement (the “Staff”) of the SEC concerning certain transactions between American Equity and the Service Company in 2003, 2004 and 2005, and we cooperated fully in providing information and documentation to the Staff throughout the course of its investigation. On May 4, 2009, American Equity, our Chairman and our Chief Executive Officer and President received a Wells Notice from the Staff in connection with this investigation. The Wells Notice provides notification that the Staff intends to recommend to the SEC that it bring a civil action against the recipients for possible violations of the federal securities laws and related rules. A Wells Notice does not itself initiate litigation, nor is it a finding of wrongdoing by us or any individual. According to discussions with the SEC Staff and our understanding of the scope of the investigation, the Wells Notice relates to disclosures in our 2004, 2005 and 2006 proxy statements and statements made during our third quarter 2005 earnings conference call concerning the transactions involving the Service Company, the last of which was completed almost four years ago. Based on our own investigation and the facts disclosed to us during the course of the SEC investigation, we believe these proxy statements accurately disclosed all material information, and strongly disagree with the Staff’s recommendation on this matter. We will continue to pursue a potential resolution of this matter before the Staff makes its formal recommendation to the SEC and will vigorously defend any action brought by the SEC, but we cannot predict the outcome or timing of this matter and an adverse resolution could have a material adverse effect on our business, financial condition and results of operations.

Item 2. Unregistered Sales of Securities and Use of Proceeds

There were no issuer purchases of equity securities for the quarter ended September 30, 2009.

We have a Rabbi Trust, the NMO Deferred Compensation Trust, which purchases our common shares to fund the amount of shares earned by our agents under the NMO Deferred Compensation Plan. At September 30, 2009, agents had earned 83,351 shares which had vested but had not yet been purchased and contributed to the Rabbi Trust.

In addition, we have a share repurchase program under which we are authorized to purchase up to 10,000,000 shares of our common stock. As of September 30, 2009, we have repurchased 3,845,296 shares of our common stock under this program. We suspended the repurchase of our common stock under this program in August of 2008.

The maximum number of shares that may yet be purchased under these plans is 6,238,055 at September 30, 2009.

Item 6. Exhibits

10.29	Coinurance Agreement effective July 1, 2009, between American Equity Investment Life Insurance Company and Athene Life Re Ltd (Treaty #070109)
10.30	Coinurance Agreement effective July 1, 2009, between American Equity Investment Life Insurance Company and Athene Life Re Ltd (Treaty #08042009)
12.1	Ratio of Earnings to Fixed Charges
31.1	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
31.2	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
32.1	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
32.2	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

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: November 9, 2009

AMERICAN EQUITY INVESTMENT LIFE
HOLDING COMPANY

By: /s/ Wendy L. Carlson
Wendy L. Carlson, President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ John M. Matovina
John M. Matovina, Vice Chairman,
Chief Financial Officer and Treasurer
(Principal Financial Officer)

By: /s/ Ted M. Johnson
Ted M. Johnson, Vice President - Controller
(Principal Accounting Officer)

COINSURANCE AGREEMENT

between

ATHENE LIFE RE LTD.

and

AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY

effective as of July 1, 2009

Treaty Number 070109

(CD Annuity Transaction)

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COINSURANCE AGREEMENT

This COINSURANCE AGREEMENT (the “Agreement”), effective as of July 1, 2009, is made by and between AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY, an insurance company organized under the laws of the State of Iowa (the “Ceding Company”) and ATHENE LIFE RE LTD., a reinsurance company organized under the laws of Bermuda (the “Reinsurer”).

WITNESSETH:

WHEREAS, the Ceding Company desires to cede and the Reinsurer desires to accept a specified quota share of the Reinsured Policies (as defined below) subject to the terms, conditions and limitations contained herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, the Ceding Company and the Reinsurer hereby agree as follows:

ARTICLE I

GENERAL PROVISIONS

Section 1.01 Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

“Action” shall mean any claim, action, suit, arbitration or proceeding by or before any governmental authority.

“Administration Fee” shall have the meaning specified in Section 4.02.

“Affiliate” shall mean, with respect to any person, any other person that directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such specified person; provided, that “control” (including, with correlative meanings, “controlled by” and “under common control with”), as used with respect to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement or otherwise.

“Agreement” shall have the meaning specified in the Preamble hereto.

“Authorized Representative” shall have the meaning specified in Section 15.01(a).

“Business Day” shall mean any day other than a Saturday, Sunday or any other day on which banking institutions are authorized or required by law or executive order to close in Des Moines, Iowa or Hamilton, Bermuda.

“C-4 Risk Charge” shall have the meaning specified in Section 5.01.

“Ceded Reserves” shall have the meaning set forth in Section 9.01.

“Ceding Company” shall have the meaning specified in the Preamble hereto.

“Claims” shall have the meaning specified in Section 7.01.

“Commissions” shall have the meaning specified in Section 4.01.

“Contested Claim” shall have the meaning specified in Section 7.02(b).

“Effective Date” shall mean July 1, 2009.

“Embedded Value” shall mean the present value of (a) projected future investment earnings on the Ceded Reserves, determined based on the asset portfolio as of the date as of which the calculation is made, minus (b) the Quota Share of projected future Claims, minus (c) future Policy Expenses, each determined (i) from the date as of which the calculation is made to the date on which no Reinsured Policy is projected to be outstanding, (ii) based on the pricing assumptions and policy decrements for the Reinsured Policies and Reinsured Liabilities as used by the Ceding Company and the Reinsurer on the

Effective Date and (iii) based on a discount rate equal to ten percent (10%); provided, however, that the Embedded Value shall in no event be less than zero (0).

“Embedded Value Report” shall have the meaning specified in Section 11.03(c).

“Excluded Liabilities” shall mean (i) Extra-Contractual Obligations, (ii) any liabilities other than liabilities related to partial surrenders, full surrenders, death claims, annuity payouts under Supplementary Contracts or other contractual benefits under the Reinsured Policies and (iii) any *ex gratia* payments made by the Ceding Company (*i.e.*, payments the Ceding Company is not required to make under the terms of the Reinsured Policies).

“Extra-Contractual Obligations” shall mean any liabilities or obligations not arising under the express terms and conditions of, or in excess of the applicable policy limits of, the Reinsured Policies, including liabilities or obligations for fines, penalties, taxes, fees, forfeitures, compensatory damages, and punitive, special, treble, bad faith, tort, exemplary or other forms of extra-contractual damages awarded against or paid by the Ceding Company, which liabilities or obligations arise from any act, error or omission committed by the Ceding Company, whether or not intentional, negligent, in bad faith or otherwise relating to (i) the form, marketing, sale, underwriting, production, issuance, cancellation or administration of the Reinsured Policies, (ii) the investigation, defense, trial, settlement or handling of claims, benefits or payments under the Reinsured Policies, (iii) the failure to pay, the delay in payment, or errors in calculating or administering the payment of benefits, claims or any other amounts due or alleged to be due under or in connection with the Reinsured Policies, or (iv) the failure of the Reinsured Policies to qualify for their intended tax status.

“Factual Information” shall have the meaning specified in Section 17.01(d).

“Funds Withheld Account” shall have the meaning specified in Section 9.02(a).

“Funds Withheld Adjustment” shall mean, as of any date of determination, an amount equal to (a) Ceded Reserves minus (b) the Statutory Carrying Value of assets held in the Funds Withheld Account minus (c) the market value of assets held in any Reinsurance Trust minus (d) the amount available under outstanding Letters of Credit minus (e) any amounts due and unpaid by the Ceding Company under Sections 8.03(a), (b) or (c).

“Funds Withheld Amount” shall mean, as of the relevant date of determination, the Statutory Carrying Value of all assets deposited in the Funds Withheld Account.

“Funds Withheld Excess Withdrawals” shall have the meaning specified in Section 9.03(f).

“Gross Reserves” shall mean the gross reserves of the Ceding Company in respect of the Reinsured Policies, as determined in accordance with Section 9.01.

“Guaranty Fund Assessment” shall mean an assessment or similar charge arising on account of or in connection with participation, whether voluntary or involuntary, in any guaranty association or comparable entity established or governed by any state or other jurisdiction.

“IMR” shall mean the interest maintenance liability reserve with respect to the assets in the Funds Withheld Account determined in accordance with SAP, consisting of after-tax unamortized deferred gains and losses in respect of such assets.

“Initial Deposit Amount” shall mean \$3,050,000.00.

“Investment Management Agreement” shall have the meaning specified in Section 9.07(a).

“Investment Manager” shall have the meaning specified in Section 9.07(a).

“Letter of Credit” shall have the meaning specified in Section 9.02(c).

“Letter of Credit Excess Withdrawal” shall have the meaning specified in Section 9.05(c).

“Material Adverse Effect” shall mean, with respect to either the Ceding Company or the Reinsurer, a material adverse effect upon (a) the business, operations, properties, financial condition, prospects or assets of such party, (b) the ability of such party to perform and comply with its obligations hereunder, (c) the validity, legality or enforceability of this Agreement, or (d) the timing or amount of the cash flows attributable to the business reinsured under this Agreement.

“Monthly Accounting Period” shall have the meaning specified in Section 8.01(a).

“Monthly Accounting Report” shall have the meaning specified in Section 8.01(a).

“Monthly Net Settlement Amount” shall have the meaning specified in Section 8.03(b).

“Net Settlement Amount” shall mean the Monthly Net Settlement Amount or the Quarterly Net Settlement Amount, as applicable.

“Non-Payment Event” shall have the meaning specified in Section 11.02(b).

“Non-Public Personal Information” shall have the meaning specified in Section 18.10(c).

“Objection Notice” shall have the meaning specified in Section 9.03(h).

“Permitted Assets” shall mean cash, securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners and qualifying as admitted assets of the Ceding Company under the applicable laws of the State of Iowa, or any other form of security acceptable to the Iowa Insurance Commissioner, or any combination of the above.

“Permits” shall have the meaning specified in Section 17.01(g).

“Person” shall mean and include an individual, a corporation, a partnership, an association, a trust, an unincorporated organization or a government or political subdivision thereof.

“Policy Expenses” shall have the meaning specified in Section 4.02.

“Policy Issuance Fee” shall have the meaning specified in Section 4.01.

“Premium Tax” shall have the meaning specified in Section 16.02.

“Proprietary Information” shall have the meaning specified in Section 18.10(b).

“Qualified U.S. Financial Institution” shall mean an institution that is (a) organized or licensed under the laws of the United States or any state of the United States; (b) is regulated, supervised and examined by federal or state authorities having regulatory authority over banks and trust companies; and (c) has been determined by either the Iowa Insurance Commissioner, or the securities valuation office of the National Association of Insurance Commissioners, to meet such standards of financial condition and standing as are considered necessary and appropriate to regulate the quality of financial institutions whose letters of credit will be acceptable to the Iowa Insurance Commissioner.

“Quarterly Accounting Period” shall have the meaning specified in Section 8.01(b).

“Quarterly Accounting Report” shall have the meaning specified in Section 8.01(b).

“Quarterly Net Settlement Amount” shall have the meaning specified in Section 8.03(c).

“Quota Share” shall be eighty percent (80%).

“Receiver” shall have the meaning specified in Section 11.03(a).

“Reinsurance Premiums” shall have the meaning specified in Section 3.01.

“Reinsurance Trust” shall have the meaning specified in Section 9.02(b).

“Reinsurance Trust Excess Withdrawals” shall have the meaning specified in Section 9.04(f).

“Reinsured Liabilities” shall mean the liabilities of the Ceding Company that relate to partial surrenders, full surrenders, death claims, annuity payouts under Supplementary Contracts and other contractual benefits, in each case, under the Reinsured Policies; provided that in no case shall “Reinsured Liabilities” include any Excluded Liabilities.

“Reinsured Policies” shall mean all single premium deferred annuity contracts on the policy forms listed on Schedule I, including any amendments, riders or endorsements attached thereto and all Supplementary Contracts, written by the Ceding Company on or following the Effective Date through, but excluding, the date this Agreement is terminated.

“Reinsured Policies Report” shall have the meaning specified in Section 8.01(c).

“Reinsurer” shall have the meaning specified in the Preamble hereto.

“Renewal Commissions” shall have the meaning specified in Section 4.03.

“SAP” shall mean the statutory accounting principles and practices prescribed or permitted for Iowa life insurance companies by the Iowa Insurance Division.

“Similar Policy Form” shall have the meaning specified in Section 2.01(d).

“Statutory Carrying Value” shall mean, with respect to any asset held by the Ceding Company in the Funds Withheld Account, as of the relevant date of determination, the amount permitted to be carried by the Ceding Company as an admitted asset consistent with SAP, as such amount is adjusted in accordance with Section 9.03(h).

“Supplementary Contracts” shall mean all supplementary contracts, whether with or without life contingencies, issued by the Ceding Company in exchange for a Reinsured Policy.

“Terminal Accounting Period” shall have the meaning specified in Section 8.01(b).

“Termination Effective Date” shall mean the date on which the liability of the Reinsurer with respect to all of the Reinsured Policies is terminated pursuant to Section 11.02(b), (c) or (d) or the effective date of the rejection of this Agreement by any Receiver.

“Underwriting Guidelines” shall mean the underwriting guidelines set forth in Schedule II, as amended in accordance with Section 2.02(b).

Section 1.02 Other Definitional Provisions.

- (a) For purposes of this Agreement, the words “hereof,” “herein,” “hereby” and other words of similar import refer to this Agreement as a whole, including all Schedules and Exhibits to this Agreement, unless otherwise indicated.
- (b) Whenever the singular is used herein, the same shall include the plural, and whenever the plural is used herein, the same shall include the singular, where appropriate.
- (c) The term “including” means “including but not limited to.”
- (d) Whenever used in this Agreement, the masculine gender shall include the feminine and neutral genders and vice versa.
- (e) The Schedules and Exhibits hereto are hereby incorporated by reference into the body of this Agreement.
- (f) All references herein to Articles, Sections, Subsections, Paragraphs, Exhibits and Schedules shall be deemed references to Articles and Sections and Subsections and Paragraphs of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require.
- (g) All terms defined in this Agreement shall have the defined meaning when used in any Schedule, Exhibit, certificate, report or other documents attached hereto or made or delivered pursuant hereto unless otherwise defined therein.

ARTICLE II

COVERAGE

Section 2.01 Scope of Coverage.

- (a) This Agreement shall be effective as of 12:01 A.M. on the Effective Date.
- (b) This Agreement is an agreement for indemnity reinsurance made solely between the Ceding Company and the Reinsurer.
- (c) Subject to the terms, conditions and limits of this Agreement (including the exclusion from coverage of Excluded Liabilities), the Ceding Company shall automatically cede and the Reinsurer shall automatically reinsure the Quota Share of the Reinsured Liabilities.
- (d) The Ceding Company shall deliver notice to the Reinsurer ten (10) Business Days prior to issuing contracts on policy forms that are substantially similar to the forms set forth on Schedule I or issuing contracts providing substantially similar economic benefits to policyholders as to be provided by the Reinsured Policies (each a “Similar Policy Form”). The Reinsurer shall have the right to amend Schedule I to add any Similar Policy Form to Schedule I and include contracts on any Similar Policy Form as Reinsured Policies under this

Agreement. The Ceding Company shall provide to the Reinsurer any additional information relating to any Similar Policy Form or contracts written on any Similar Policy Form as is reasonably requested by the Reinsurer from time to time.

- (e) Subject to the terms, conditions and limits of this Agreement (including the exclusion from coverage of Excluded Liabilities and excluding the investment performance of the assets in the Funds Withheld Account), the Reinsurer shall follow the fortunes of the Ceding Company, and to that end the Reinsurer’s liability for the Reinsured Policies shall be identical to that of the Ceding Company and shall be subject to the same risks, terms, conditions, interpretations, waivers, modifications, alterations and cancellations as the respective insurances of the Ceding Company, subject in each case to the Ceding Company’s duty to adhere to the Underwriting Guidelines and its obligations pursuant to Article X.

- (f) Notwithstanding anything to the contrary herein, the Reinsurer shall not be liable for any Excluded Liabilities.

Section 2.02 Underwriting of Policies Subject to Reinsurance.

- (a) The Reinsurer shall only be required to automatically reinsure policies which have been underwritten in accordance with the Underwriting Guidelines.
- (b) The Ceding Company shall not, without the prior written consent of the Reinsurer, make any changes to the Underwriting Guidelines which are material to the business reinsured under this Agreement. Any policies written by the Ceding Company after any such changes are made to the Underwriting Guidelines without the prior written consent of the Reinsurer shall only be Reinsured Policies hereunder if the Reinsurer consents to including such policies as Reinsured Policies.

Section 2.03 Retention. The Ceding Company shall retain, net and unreinsured, at its own risk and liability, twenty percent (20%) of the liabilities with respect to each of the Reinsured Policies, and the Ceding Company shall not transfer, assign, convey, reinsure or otherwise dispose of its share of the liabilities with respect to the Reinsured Policies without the prior written consent of the Reinsurer; provided that the Ceding Company may reinsure any or all of such retention to a wholly-owned subsidiary of the Ceding Company if: (a) such wholly-owned subsidiary of the Ceding Company is contractually required to retain such amounts at its own risk and liability without the benefit of reinsurance and (b) the Ceding Company continues to provide all claim

management and administration services with respect to such policies retained by such wholly-owned subsidiary of the Ceding Company in accordance with Article X.

Section 2.04 Policy Changes.

- (a) The Ceding Company will not, without the prior written consent of the Reinsurer, terminate, amend, modify or waive any provision or provisions of the Reinsured Policies which are material to the business reinsured under this Agreement.
- (b) Any such terminations, amendments, modifications or waivers made without the prior written consent of the Reinsurer shall be disregarded for purposes of this

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Agreement, and the reinsurance with respect to the affected policy will continue as if such termination, amendment, modification or waiver had not been made.

Section 2.05 Reinstatement of Surrendered Policies. If a Reinsured Policy that has been surrendered is reinstated according to its terms and the Ceding Company's reinstatement policies, the Reinsurer will, upon notification, automatically reinstate the reinsurance with respect to such Reinsured Policy; provided, that, to the extent that the reinstatement of such Reinsured Policy requires payment of premiums in arrears or reimbursement of claims paid, the Ceding Company shall pay to the Reinsurer all Reinsurance Premiums in arrears and the Quota Share of all reimbursements of Claims paid on such Reinsured Policy.

Section 2.06 Misstatement of Fact. In the event of a change in the amount payable under a Reinsured Policy due to a misstatement in fact, the Reinsurer's liability with respect to such Reinsured Policy will change proportionately. The Reinsured Policy will be rewritten from commencement on the basis of the adjusted amounts using premiums and such other terms based on the correct facts, and the proper adjustment for the difference in Reinsurance Premiums, without interest, will be made.

Section 2.07 Credited Rates and Non-Guaranteed Elements. The Ceding Company will be responsible for determining credited interest rates and other non-guaranteed elements of the Reinsured Policies; provided, that the Reinsurer may provide recommendations regarding credited interest rates and other non-guaranteed elements of the Reinsured Policies to the Ceding Company and, if so provided, the Ceding Company will not unreasonably take actions that contravene such recommendations and the Ceding Company may not change the credited interest rate or any other non-guaranteed elements on existing Reinsured Policies without the Reinsurer's consent.

Section 2.08 Programs of Internal Replacement. The Ceding Company shall not solicit, or allow its Affiliates to solicit, directly or indirectly, policy holders of the Reinsured Policies in connection with any program of internal replacement. The term "program of internal replacement" means any program sponsored or supported by the Ceding Company or any of its Affiliates that is offered to a class of policy owners and in which a Reinsured Policy or a portion of a Reinsured Policy is exchanged for another policy that is written by the Ceding Company or any Affiliate of the Ceding Company or any successor or assignee of any of them.

ARTICLE III

REINSURED PREMIUMS

Section 3.01 Reinsurance Premiums. The payment of Reinsurance Premiums is a condition precedent to the liability of the Reinsurer under this Agreement. The Ceding Company shall pay to the Reinsurer the Quota Share of the gross premiums received by the Ceding Company with respect to the Reinsured Policies (the "Reinsurance Premiums"). Such Reinsurance Premiums shall be payable in accordance with Section 8.03.

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ARTICLE IV

POLICY EXPENSES

Section 4.01 Commissions and Policy Issuance Fee. In connection with the issuance of each Reinsured Policy, the Reinsurer shall pay to the Ceding Company an expense allowance related to such Reinsured Policy in an amount equal to (a) the Quota Share of commissions paid by the Ceding Company in connection with the sale of such Reinsured Policy, which amount shall not exceed three and one-half percent (3.50%) of the initial premium of such Reinsured Policy (the "Commissions") plus (b) a per policy issuance fee equal to the Quota Share of \$145 (the "Policy Issuance Fee").

Section 4.02 Administration Fee. On a monthly basis, the Reinsurer shall pay to the Ceding Company an expense allowance related to all Reinsured Policies (the "Administration Fee" and, together with the Commissions and the Policy Issuance Fees, the "Policy Expenses") in an amount equal to the Quota Share of (a) \$3.00 multiplied by (b) (i) the number of Reinsured Policies in force on the first day of the relevant month plus the number of Reinsured Policies in force on the last day of the relevant month, divided by (ii) two (2). A three percent (3%) per annum inflation factor will be added to the Administration Fee commencing on the first anniversary of this Agreement. The Policy Expenses shall be payable by the Reinsurer to the Ceding Company in accordance with Section 8.03.

Section 4.03 Renewal Commissions. The Reinsurer shall pay its Quota Share of any renewal commissions paid by the Ceding Company for any Reinsured Policies (the "Renewal Commissions"); provided that the Reinsurer has agreed in writing to the payment of such Renewal Commissions prior to the payment thereof by the Ceding Company. Such Renewal Commissions shall be payable in accordance with Section 8.03.

ARTICLE V

C-4 RISK CHARGE

Section 5.01 C-4 Risk Charge. The Reinsurer will reimburse the Ceding Company for the economic cost of funding the statutory risk-based-capital associated with C-4 Risk (the “C-4 Risk Charge”) quarterly in an amount equal to 23 basis points per annum (0.23%) multiplied by the average of Ceded Reserves during the relevant quarterly period. The C-4 Risk Charge shall be payable in accordance with Section 8.03.

ARTICLE VI

GUARANTY FUND ASSESSMENTS

Section 6.01 Guaranty Fund Assessments. The Reinsurer shall reimburse the Ceding Company for the Quota Share of any Guaranty Fund Assessments paid by the Ceding Company with respect to any Reinsured Policy. To the extent there is any recovery of Guaranty Fund Assessments paid by the Reinsurer, the Ceding Company shall promptly pay the Quota Share of such recovery to the Reinsurer.

ARTICLE VII

CLAIMS

Section 7.01 Claims Payment. Subject to Section 7.02, the Reinsurer shall pay to the Ceding Company the Quota Share of the Claims paid by the Ceding Company in accordance with Section 8.03. “Claims” will consist of claims, net of applicable surrender charges and market value adjustments, if any, for benefits related to partial surrenders, full surrenders, death claims, annuity payouts under Supplementary Contracts and other contractual benefits under the Reinsured Policies. Claims shall not include annuitizations under the Reinsured Policies, any Excluded Liabilities or any liabilities other than the Reinsured Liabilities.

Section 7.02 Claims Settlement.

(a) The Ceding Company is responsible for the settlement of Claims in accordance with Article X, applicable law and policy terms.

(b) The Ceding Company will notify the Reinsurer promptly of its intention to investigate, contest, compromise or litigate any Claim involving a Reinsured Policy (any such claim, a “Contested Claim”). The Ceding Company will provide the Reinsurer all relevant information and documents, as such become available, pertaining to Contested Claims and will promptly report any developments during the Reinsurer’s review.

(c) Subject to Section 2.01(f) relating to Excluded Liabilities, the Reinsurer will reimburse the Ceding Company for its Quota Share of the reasonable expenses of any contest or compromise of a Claim, and will share in the reduction of liability in the same proportion. If the Reinsurer so elects, it may discharge its liability with respect to any Contested Claim by paying to the Ceding Company its Quota Share of such Claim as originally presented to the Ceding Company and, thereafter, will have no obligation to the Ceding Company for reimbursement of expenses related to the contest of such Claim and will not share in any subsequent reduction in liability relating to such Claim.

(d) If the Reinsurer does not elect to discharge its liability with respect to any Contested Claim as set forth in Section 7.02(c), the Ceding Company will promptly advise the Reinsurer of all significant developments, including notice of legal proceedings (including, but not limited to, consumer complaints or actions by governmental authorities) initiated in connection with such Contested Claim.

Section 7.03 Recoveries. Subject to Section 7.02(c), if the Ceding Company obtains any recoveries in respect of a Claim paid by it in accordance with the terms of any Reinsured Policy, the Ceding Company shall promptly pay to the Reinsurer the Quota Share of such recoveries.

ARTICLE VIII

REPORTING AND SETTLEMENTS

Section 8.01 Ceding Company Reporting.

(a) Within eight (8) Business Days following the end of each calendar month other than a calendar month following which a Quarterly Accounting Report will be delivered under Section 8.01(b), the Ceding Company shall deliver to the Reinsurer an accounting report (a “Monthly Accounting Report”) substantially in the form set forth in Exhibit A for the immediately preceding calendar month (a “Monthly Accounting Period”).

(b) Within eight (8) Business Days following the end of each calendar quarter and any Termination Effective Date, the Ceding Company shall deliver to the Reinsurer an accounting report (a “Quarterly Accounting Report”) substantially in the form set forth in Exhibit B for the immediately preceding calendar quarter (a “Quarterly Accounting Period”) or, in the case of termination, the period from the end of the immediately preceding Quarterly Accounting Period to the date on which this Agreement is terminated (the “Terminal Accounting Period”), as applicable.

(c) Within eight (8) Business Days following the end of each Monthly Accounting Period, the Ceding Company shall deliver to the Reinsurer a report of the Reinsured Policies (a “Reinsured Policies Report”) substantially in the form set forth in Exhibit C and *seriatim* information with respect to each of the Reinsured Policies which shall be redacted such that it does not include information identifiable to an individual policyholder.

(d) The Ceding Company shall deliver to the Reinsurer (i) a copy of its unaudited annual statement (Blue Book) within eight (8) Business Days following the filing thereof with the Iowa Insurance Division but no later than March 1 of each year, (ii) a copy of its audited annual statutory financial statements within eight (8) Business Days following the filing thereof with the Iowa Insurance Division but no later than June 1 of each year, (iii) a copy of its unaudited quarterly statutory financial statements within eight (8) Business Days following the filing thereof with the Iowa Insurance

Division but no later than forty-five (45) calendar days after the end of each calendar quarter, (iv) a copy of the audited annual financial statements of American Equity Investment Life Holding Co. within eight (8) Business Days following the filing thereof with the United States Securities and Exchange Commission but no later than March 31 of each year and (v) a copy of the unaudited quarterly financial statements of American Equity Investment Life Holding Co. within eight (8) Business Days following the filing thereof with the United States Securities and Exchange Commission but no later than May 31, August 31 and November 30 of each year, as applicable.

(e) Upon request, the Ceding Company will promptly provide the Reinsurer with any additional information related to the Reinsured Policies which the Reinsurer requires in order to complete its financial statements.

(f) The Ceding Company acknowledges that timely and correct compliance with the reporting requirements of this Agreement are a material element of the Ceding

Company's responsibilities hereunder and an important basis of the Reinsurer's ability to reinsure the risks hereunder. Consistent and material non-compliance with reporting requirements, including extended delays, will constitute a material breach of the terms of this Agreement.

Section 8.02 Reinsurer Reporting. The Reinsurer shall deliver to the Ceding Company (a) a copy of its audited annual statutory financial statements or unaudited annual statutory financial statements, in each case, within eight (8) Business Days following the filing thereof with the Bermuda Monetary Authority, which filing is due by April 30 of each year, and (b) a copy of its unaudited quarterly statutory financial statements within eight (8) Business Days after the completion thereof but no later than sixty (60) calendar days after the end of each quarter.

Section 8.03 Settlements.

(a) Until such time that credit for reinsurance is not provided through the Funds Withheld Account as specified in Section 9.02(a), a daily settlement amount shall be calculated on each Business Day by the Ceding Company on the basis of Reinsurance Premiums with respect to Reinsured Policies issued during the previous Business Day, Commissions and Policy Issuance Fees with respect to Reinsured Policies issued during the previous Business Day and Claims paid by the Ceding Company during the previous Business Day. On each Business Day, the Ceding Company shall effectuate the payment of such daily settlement amount by (i) depositing such Reinsurance Premiums, net of any Commissions and Policy Issuance Fees then due, into the Funds Withheld Account and (ii) withdrawing the Quota Share of such Claims from the Funds Withheld Account.

(b) The net balance payable under this Agreement for each Monthly Accounting Period (as set forth in the applicable Monthly Accounting Report, the "Monthly Net Settlement Amount") shall be payable as follows:

- (i) if the Monthly Net Settlement Amount indicated in the Monthly Accounting Report is positive, the Ceding Company shall deposit such amount into the Funds Withheld Account, or, if a Funds Withheld Account is not being used to provide credit for reinsurance, pay such amount to the Reinsurer, on the date of delivery of the Monthly Accounting Report to the Reinsurer; or
- (ii) if the Monthly Net Settlement Amount indicated in the Monthly Accounting Report is negative, the Ceding Company shall withdraw the absolute value of such negative amount from the Funds Withheld Account on the date that is five (5) Business Days following the delivery of the Monthly Accounting Report to the Reinsurer; provided, that if the absolute value of such negative Monthly Net Settlement Amount is greater than the Statutory Carrying Value of the assets in the Funds Withheld Account as of the last day of the relevant Monthly Accounting Period, then the Reinsurer shall pay the amount of such difference to the Ceding Company no later than eight (8) Business Days after the receipt by the Reinsurer of the applicable Monthly Accounting Report.

(c) The net balance payable under this Agreement for each Quarterly Accounting Period and any Terminal Accounting Period (as set forth in the applicable Quarterly Accounting Report, the "Quarterly Net Settlement Amount") shall be payable as follows:

- (i) if the Quarterly Net Settlement Amount indicated in the Quarterly Accounting Report is positive, the Ceding Company shall deposit such amount into the Funds Withheld Account, or, if a Funds Withheld Account is not being used to provide credit for reinsurance, pay such amount to the Reinsurer, on the date of delivery of the Quarterly Accounting Report to the Reinsurer; and
- (ii) if the Quarterly Net Settlement Amount indicated in the Quarterly Accounting Report is negative, the Ceding Company shall withdraw the absolute value of such negative amount from the Funds Withheld Account on the date that is five (5) Business Days following the delivery of the Quarterly Accounting Report to the Reinsurer; provided, that if the absolute value of such negative Quarterly Net Settlement Amount is greater than the Statutory Carrying Value of the assets in the Funds Withheld Account as of the last day of the relevant Quarterly Accounting Period, then the Reinsurer shall pay the amount of such difference to the Ceding Company no later than eight (8) Business Days after the receipt by the Reinsurer of the applicable Quarterly Accounting Report.

(d) The Funds Withheld Adjustment payable under this Agreement for each Quarterly Accounting Period and any Terminal Accounting Period (as set forth in the applicable Quarterly Accounting Report) shall be payable as follows:

- (i) if the Funds Withheld Adjustment is positive, the Reinsurer shall deposit Permitted Assets with a Statutory Carrying Value equal to such positive amount into the Funds Withheld Account no later than eight (8) Business Days after the receipt by the Reinsurer of the applicable Quarterly Accounting Report; provided that, if credit for reinsurance is being provided through a Reinsurance Trust or a Letter of Credit pursuant to Section 9.02, the Reinsurer may satisfy its obligations pursuant to this Section 8.03(d)(i) by depositing Permitted Assets with a market value equal to such positive amount in a Reinsurance Trust or providing a Letter of Credit with an available amount equal to such positive amount, in each case, no later than eight (8) Business Days after the receipt by the Reinsurer of the applicable Quarterly Accounting Report;

(ii) if the Funds Withheld Adjustment is negative, on the date of delivery of the Quarterly Accounting Report, the Ceding Company shall withdraw the absolute value of such negative amount from the Funds Withheld Account and pay the absolute value of such negative amount to the Reinsurer; provided, that, if the absolute value of such negative amount is greater than the Statutory Carrying Value of the assets held in the Funds Withheld Account, the Ceding Company shall permit the Reinsurer to withdraw assets from any Reinsurance Trust and/or reduce the available amount of any Letter of Credit in an amount equal to the absolute value of such negative amount.

(e) Any amount due under this Agreement shall be paid by wire transfer of immediately available funds to the account or accounts designated by the recipient.

ARTICLE IX

CREDIT FOR REINSURANCE

Section 9.01 Reserves. The Reinsurer shall establish reserves in respect of the Reinsured Policies (the “Ceded Reserves”) in an amount equal to the Quota Share of the Gross Reserves. The Gross Reserves shall be calculated in good faith on a *seriatim* basis by the Ceding Company in accordance with SAP, using the highest valuation interest rates permitted under SAP guidelines for the liabilities ceded. In no event shall Gross Reserves include (a) additional actuarial reserves (as used in connection with SAP), if any, established by the Ceding Company as a result of its annual cash flow testing, (b) any asset valuation reserves (as used in connection with SAP) established by the Ceding Company, or (c) any other reserve not directly attributable to specific Reinsured Policies.

Section 9.02 Form of Security. The Reinsurer shall ensure that the Ceding Company will receive credit for the reinsurance effected hereunder on its statutory financial statements filed in the State of Iowa and all other states in which it must file statutory financial statements. In order to provide the Ceding Company with such credit for reinsurance for the Ceded Reserves, the Reinsurer shall:

- (a) request the Ceding Company to establish a segregated account (the “Funds Withheld Account”), pursuant to a trust agreement attached as Exhibit D, with a Qualified United States Financial Institution meeting the requirements set forth in Section 9.03;
- (b) establish a United States trust account (a “Reinsurance Trust”) (naming the Reinsurer as the grantor and the Ceding Company as the beneficiary) with a Qualified United States Financial Institution meeting the requirements set forth in Section 9.04;
- (c) cause to remain in full force and effect one or more letters of credit (each, a “Letter of Credit”) meeting the requirements set forth in Section 9.05;
- (d) utilize any other method permitted by the Iowa Insurance Division (including becoming licensed as a life insurance company in the State of Iowa); or
- (e) provide a combination of items (a), (b), (c) and (d) above.

The Reinsurer shall determine the method by which the Reinsurer provides credit for reinsurance hereunder for the Ceded Reserves, as long as such method is set forth in this Section 9.02; provided, that any election by the Reinsurer to secure its obligations hereunder for the Ceded Reserves through the use of any method other than that set forth in Section 9.02(a) shall be subject to the consent of the Ceding Company (such consent not to be unreasonably withheld); provided, further, no consent of the Ceding Company shall be required if the Ceding Company is in breach of any provision of this Agreement and such breach has not been cured within fifteen (15) Business Days after the Reinsurer has provided notice of such breach to the Ceding Company. If the relevant laws or regulations of the State of Iowa are amended or there is a change in legal status by either the Ceding Company or the Reinsurer subsequent to the Effective Date of this Agreement, and if, as a result of such change, a different amount or a different type of security is necessary to maintain the Ceding Company’s credit for reinsurance, the Reinsurer

may, subject to the consent of the Ceding Company (such consent not to be unreasonably withheld), adjust the amount of security or change the type of security to comply with the revised requirements. Such adjustments may include reducing the security in or terminating in its entirety the Funds Withheld Account, any Reinsurance Trust or any Letter of Credit. The Reinsurer and the Ceding Company will cooperate in good faith to effectuate this provision. Furthermore, in the event at any time the Funds Withheld Account, any Reinsurance Trust or any Letter of Credit becomes unnecessary in order for the Ceding Company to receive credit for reinsurance under this Agreement, the Ceding Company and the Reinsurer shall cooperate in good faith to terminate the Funds Withheld Account, any Reinsurance Trust or any Letter of Credit, and all other terms and conditions of this Agreement shall remain in full force and effect.

Section 9.03 Funds Withheld Account.

- (a) On August 18, 2009, the Ceding Company deposited Permitted Assets with a Statutory Carrying Value, as of the date of such deposit, equal to the Initial Deposit Amount in the Funds Withheld Account.
- (b) The Funds Withheld Amount so held in the Funds Withheld Account shall increase or decrease at the end of each Business Day, Monthly Accounting Period and Quarterly Accounting Period based on the settlement procedures set forth in Section 8.03.
- (c) The Ceding Company shall establish and maintain an account payable to the Reinsurer on its statutory books and records in the amount of the Funds Withheld Amount. The assets constituting the Funds Withheld Amount shall be invested in and consist only of Permitted Assets and shall be valued according to their Statutory Carrying Value.

(d) The Funds Withheld Account shall remain in effect for as long as the Reinsurer has outstanding obligations under this Agreement, until the Reinsurer effectuates the provision of all of the reinsurance credit required to be provided to the Ceding Company hereunder through the use of any method other than the method set forth in Section 9.02(a) or until earlier terminated by mutual agreement. The Funds Withheld Account shall be established and maintained by the Ceding Company exclusively for the purposes set forth in this Agreement.

(e) Notwithstanding any other provision hereof, assets held in the Funds Withheld Account may be withdrawn by the Ceding Company at any time and shall be utilized and applied by the Ceding Company or any of its successors in interest by operation of law, including any liquidator, rehabilitator, receiver or conservator of the Ceding Company, without diminution because of insolvency on the part of the Ceding Company or the Reinsurer, only for the following purposes:

(i) to reimburse the Ceding Company for the Quota Share of premiums which are returned to the owners of the Reinsured Policies because of cancellations of such Reinsured Policies;

(ii) to reimburse the Ceding Company for the Quota Share of Claims paid pursuant to the provisions of the Reinsured Policies;

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(iii) to pay any other amounts which the Ceding Company claims are due under this Agreement; and

(iv) to pay any Net Settlement Amount or Funds Withheld Adjustment due from the Ceding Company to the Reinsurer.

Notwithstanding the foregoing, other than withdrawals made by the Ceding Company for the purpose of effectuating the payment of daily settlement amounts under Section 8.03(a), the Ceding Company shall only withdraw funds from the Funds Withheld Account upon providing the Reinsurer with written notice at least five (5) Business Days prior to such withdrawal.

(f) The Ceding Company shall promptly return to the Funds Withheld Account any assets withdrawn in excess of the actual amounts required in paragraphs (i) through (iv) immediately above or any amounts that are subsequently determined not to be due under paragraph (iii) immediately above (“Funds Withheld Excess Withdrawals”). The Ceding Company shall also pay interest on any Funds Withheld Excess Withdrawals at a rate equal to the portfolio yield on the assets in the Funds Withheld Account for the calendar quarter immediately preceding the date of determination from and including the date of withdrawal to but excluding the date on which the Funds Withheld Excess Withdrawal is returned to the Funds Withheld Account. Any Funds Withheld Excess Withdrawals shall be held by the Ceding Company or any successor in interest of the Ceding Company in trust for the benefit of the Reinsurer and shall at all times be maintained separate and apart from any assets of the Ceding Company, for the sole purposes described in paragraphs (i) through (iv) immediately above.

(g) The Ceding Company and the Reinsurer agree that any IMR required to be maintained with respect to assets in the Funds Withheld Account shall be ceded to and held by the Reinsurer and the Ceding Company shall have no obligation to establish any IMR related to such assets. Any IMR with respect to assets in the Funds Withheld Account shall be calculated by the Reinsurer.

(h) Determinations of statutory impairments of assets held in the Funds Withheld Account which are made by the Ceding Company will be subject to the consent of the Reinsurer (such consent not to be unreasonably withheld). Notwithstanding Article XIV, any disagreements with respect to the determinations of statutory impairments of assets held in the Funds Withheld Account shall be subject to this Section 9.03(h). The Ceding Company shall promptly notify the Reinsurer in writing if the Ceding Company determines that any assets held in the Funds Withheld Account have become impaired for purposes of determining Statutory Carrying Value. Such notice shall describe any such assets, the reason for the impairment and the effect on Statutory Carrying Value of such assets. The Reinsurer shall have ten (10) Business Days to provide written notice of its withholding of consent (the “Objection Notice”) to any such impairment to the Ceding Company and if the Reinsurer fails to provide such Objection Notice to the Ceding Company within such time period, the Reinsurer shall be deemed to have consented to such impairment. During the ten (10) Business Days immediately following the delivery of an Objection Notice, the Ceding Company and the Reinsurer will seek in good faith to resolve any disputes as to the determination or calculation of statutory impairments of assets held in the Funds Withheld Account, and in the event such dispute is the result of the Ceding Company’s independent auditor’s determination or calculation of statutory impairments of assets

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held in the Funds Withheld Account, the Ceding Company agrees to reasonably cooperate with the Reinsurer in presenting facts and evidence to such independent auditor in appealing such determination or calculation. In the event that a dispute as to the determination or calculation of statutory impairments of assets held in the Funds Withheld Account is not resolved within five (5) calendar days prior to the date on which the Ceding Company is required to file a statutory financial statement with an applicable insurance regulator, then the parties shall use reasonable efforts and work together in good faith to resolve such dispute prior to the date on which the Ceding Company is required to file the relevant statutory financial statement with the relevant insurance regulator, and if the parties are unable to resolve such dispute prior to such date, then the Ceding Company may use its independent auditor’s good faith calculation of statutory impairments for purposes of preparing its statutory financial statements. Except as otherwise set forth in this Section 9.03(h), no statutory impairment that is subject to dispute pursuant to this Section 9.03(h) shall be effective prior to the resolution of such dispute.

(i) Subject to Section 9.02, in the event that the Reinsurer elects to provide the Ceding Company with reinsurance credit through the use of any method other than the method set forth in Section 9.02(a), the Ceding Company shall transfer assets from the Funds Withheld Account to the Reinsurer with a Statutory Carrying Value equal to any reinsurance credit provided under such alternative methods; provided, that the Ceding Company and the Reinsurer shall reasonably agree upon the assets to be transferred and the Ceding Company and the Reinsurer shall attempt to ensure that the market value to book value ratio of the assets so transferred is substantially the same as the market value to book value ratio of the assets held in the Funds Withheld Account immediately prior to such transfer.

(j) The Reinsurer shall bear the administrative costs and expenses related to the establishment and maintenance of the Funds Withheld Account, including the fees of any investment manager appointed pursuant to Section 9.07. The Ceding Company shall promptly forward to the Reinsurer any invoice it receives relating to such costs and expenses. On the eighth (8th) Business Day following the date on which it delivers such invoice to the

Reinsurer, the Ceding Company shall authorize the withdrawal of the amount of such costs and expenses from the Funds Withheld Account; provided that if such amount is greater than the Statutory Carrying Value of the assets in the Funds Withheld Account, then the Reinsurer shall pay the amount of such difference to the Ceding Company no later than eight (8) Business Days following the delivery of such invoice to the Reinsurer.

Section 9.04 Reinsurance Trust.

(a) Any trust agreement establishing a Reinsurance Trust for the benefit of the Ceding Company shall comply in all respects with the statutes and regulations of the State of Iowa.

(b) The assets deposited in such Reinsurance Trust shall (i) be valued according to their current fair market value and (ii) consist only of Permitted Assets.

(c) Prior to depositing assets with the trustee, the Reinsurer shall execute assignments, endorsements in blank or transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the Ceding Company, or the trustee upon

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the direction of the Ceding Company, may whenever necessary negotiate any such assets without consent or signature from the Reinsurer or any other entity.

(d) All settlements of account under such a trust agreement between the Ceding Company and the Reinsurer shall be made in cash or its equivalent.

(e) Notwithstanding any other provision hereof, assets in any Reinsurance Trust may be withdrawn by the Ceding Company at any time and shall be utilized and applied by the Ceding Company or any of its successors in interest by operation of law, including any liquidator, rehabilitator, receiver or conservator of the Ceding Company, without diminution because of insolvency on the part of the Ceding Company or the Reinsurer, only for the following purposes:

(i) to reimburse the Ceding Company for the Quota Share of premiums which are returned to the owners of the Reinsured Policies because of cancellations of such Reinsured Policies;

(ii) to reimburse the Ceding Company for the Quota Share of Claims paid pursuant to the provisions of the Reinsured Policies;

(iii) to fund an account with the Ceding Company (when combined with any Funds Withheld Amount and amounts available under Letters of Credit pursuant to Section 8.03) in an amount at least equal to the Ceding Company's deduction for reinsurance ceded on Ceded Reserves;

(iv) to pay any other amounts which the Ceding Company claims are due under this Agreement; and

(v) to pay any Net Settlement Amount or Funds Withheld Adjustment due from the Ceding Company to the Reinsurer.

Notwithstanding the foregoing, the Ceding Company shall not withdraw funds from any Reinsurance Trust until the expiration of any payment periods accorded the Reinsurer under Section 8.03, and then only upon providing the Reinsurer with written notice at least five (5) Business Days prior to such withdrawal.

(f) The Ceding Company shall promptly return to the Reinsurance Trust any assets withdrawn in excess of the actual amounts required in paragraphs (i) through (v) immediately above or any amounts that are subsequently determined not to be due under paragraph (iv) immediately above ("Reinsurance Trust Excess Withdrawals"). The Ceding Company shall also pay interest on any Reinsurance Trust Excess Withdrawals at a rate equal to six percent (6%) per annum from and including the date of withdrawal to but excluding the date on which the Reinsurance Trust Excess Withdrawal is returned to the Reinsurance Trust. Any Reinsurance Trust assets withdrawn by the Ceding Company, including any Reinsurance Trust Excess Withdrawals, shall be held by the Ceding Company or any successor in interest of the Ceding Company in trust for the benefit of the Reinsurer and shall at all times be maintained separate and apart from any assets of the Ceding Company, for the sole purposes described in paragraphs (i) through (v) immediately above.

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(g) The Reinsurer may seek the approval of the Ceding Company (which approval shall not be unreasonably or arbitrarily withheld or delayed) to withdraw from the Reinsurance Trust all or any part of the assets contained therein and transfer such assets to the Reinsurer, provided that:

(i) the Reinsurer shall, at the time of such withdrawal, replace the withdrawn assets with other qualified assets having a market value at least equal to the market value of the assets withdrawn; or

(ii) after such withdrawals and transfers, the market value of the assets held in the Reinsurance Trust is no less than 102% of (A) Ceded Reserves minus (B) the book value of assets in the Funds Withheld Account, if any, minus (C) the amount available under Letters of Credit pursuant to Section 9.05.

(h) The Reinsurer shall bear the administrative costs and expenses related to the establishment and maintenance of the Reinsurance Trust, including the fees of any investment manager appointed pursuant to Section 9.07.

Section 9.05 Letters of Credit.

(a) Each Letter of Credit shall be clean, irrevocable, unconditional, “evergreen” and issued or confirmed by a Qualified United States Financial Institution for the benefit of the Ceding Company.

(b) Notwithstanding any other provision hereof, any Letters of Credit may be drawn upon in full or in part at any time and shall be utilized and applied by the Ceding Company or any of its successors in interest by operation of law, including any liquidator, rehabilitator, receiver or conservator of the Ceding Company, without diminution because of insolvency on the part of the Ceding Company or the Reinsurer, only for the following purposes:

- (i) to reimburse the Ceding Company for the Quota Share of premiums which are returned to the owners of the Reinsured Policies because of cancellations of such Reinsured Policies;
- (ii) to reimburse the Ceding Company for the Quota Share of Claims paid pursuant to the provisions of the Reinsured Policies;
- (iii) to fund an account with the Ceding Company (when combined with any Funds Withheld Amount, the market value of any assets held in a Reinsurance Trust pursuant to Section 9.04 and any undrawn amounts available under Letters of Credit pursuant to this Section 9.05) in an amount at least equal to the Ceding Company’s deduction for reinsurance ceded on Ceded Reserves;
- (iv) to pay any other amounts which the Ceding Company claims are due under this Agreement; and
- (v) to pay any Net Settlement Amount or Funds Withheld Adjustment due from the Ceding Company to the Reinsurer.

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Notwithstanding the foregoing, the Ceding Company shall not draw upon any Letter of Credit until the expiration of any payment periods accorded the Reinsurer under Section 8.03, and then only upon providing the Reinsurer with written notice at least five (5) Business Days prior to such draw.

(c) The Ceding Company shall promptly return to the Reinsurer any amounts withdrawn in excess of the actual amounts required in paragraphs (i) through (v) immediately above or any amounts that are subsequently determined not to be due under paragraph (iv) immediately above (“Letter of Credit Excess Withdrawals”). The Ceding Company shall also pay interest on any Letter of Credit Excess Withdrawals at a rate equal to six percent (6%) per annum from and including the date of withdrawal to but excluding the date of return to the Reinsurer. Any amounts withdrawn under a Letter of Credit, including any Letter of Credit Excess Withdrawals, shall be held by the Ceding Company or any successor in interest of the Ceding Company in trust for the benefit of the Reinsurer and shall at all times be maintained separate and apart from any assets of the Ceding Company, for the sole purposes described in paragraphs (i) through (v) immediately above.

Section 9.06 Priority of Withdrawal. Notwithstanding any other provision of this Agreement:

- (a) the Ceding Company and its successors in interest shall only withdraw assets from the Reinsurance Trust to the extent the sum of (i) the then-current Funds Withheld Amount plus (ii) the Funds Withheld Excess Withdrawals has been reduced to zero; and
- (b) the Ceding Company and its successors in interest shall only draw upon Letters of Credit to the extent the sum of (i) the then-current Funds Withheld Amount plus (ii) the Funds Withheld Excess Withdrawals plus (iii) the then-current market value of the assets held in the Reinsurance Trust plus (iv) the Reinsurance Trust Excess Withdrawals has been reduced to zero.

Section 9.07 Investment Management.

(a) Pursuant to an investment management agreement attached as Exhibit E (the “Investment Management Agreement”), Athene Asset Management, LLC has been appointed as investment manager to provide investment management services with respect to the assets held in the Funds Withheld Account (the “Investment Manager”). The Ceding Company shall not remove or replace the Investment Manager without the prior written consent of the Reinsurer; provided that the Ceding Company may, in its sole discretion, remove the Investment Manager in the event that the Investment Manager is no longer an Affiliate of the Reinsurer. In the event that the Investment Manager is removed or resigns, the Ceding Company shall appoint a replacement investment manager as directed by the Reinsurer; provided that, if the Investment Manager is removed because it is no longer an Affiliate of the Reinsurer, then the replacement investment manager shall be selected by the Reinsurer but shall be subject to the consent of the Ceding Company (which consent shall not be unreasonably withheld). The replacement investment manager shall accept its appointment by entering into an investment management agreement in a form acceptable to the Ceding Company and the Reinsurer, and substantially similar to the Investment Management Agreement. The Reinsurer shall appoint Athene Asset

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Management, LLC as investment manager to provide investment management services with respect to the assets held in any Reinsurance Trust established under this Agreement.

(b) The Reinsurer shall indemnify the Ceding Company for any loss, liability or damage resulting from any claim brought against the Ceding Company by the counterparty to, and arising out of, any swap, future, option or other derivative transaction which is executed by the Investment Manager in the Ceding Company’s name in accordance with the Investment Management Agreement.

ARTICLE X

ADMINISTRATION

Section 10.01 Policy Administration. The Ceding Company shall provide all required, necessary and appropriate claims, administrative and other services, including reporting under Article VIII, with respect to the Reinsured Policies. The Ceding Company shall use reasonable care in its

underwriting, administration and claims practices with respect to the Reinsured Policies and in administering and performing its duties under this Agreement and such practices, administration and performance shall (a) be consistent with the Ceding Company's existing practices, administration and performance and the Underwriting Guidelines; (b) conform with law; (c) not be fraudulent and (d) be no less favorable than those used by the Ceding Company with respect to other policies of the Ceding Company not reinsured by the Reinsurer. The Ceding Company shall not outsource any underwriting functions, administrative functions or claims administration with respect to the Reinsured Policies or this Agreement without the prior written consent of the Reinsurer. If the Reinsurer consents to any such outsourcing, the Ceding Company shall secure the Reinsurer's right to audit and inspect the party performing such outsourced services.

Section 10.02 Record Keeping.

(a) The Ceding Company shall maintain all records and correspondence for services performed by the Ceding Company hereunder relating to the Reinsured Policies in accordance with industry standards of insurance record keeping. In addition, such records shall be made available for examination, audit, and inspection by the department of insurance of any State within whose jurisdiction the Ceding Company or the Reinsurer operates. The Ceding Company and the Reinsurer further agree that in the event of the termination of this Agreement, any such records in the possession of the Reinsurer shall promptly be duplicated and forwarded to the Ceding Company unless otherwise instructed.

(b) The Ceding Company shall establish and maintain an adequate system of internal controls and procedures for financial reporting relating to the Reinsured Policies including associated documentation and shall make such documentation available for examination and inspection by the Reinsurer. All reports provided by the Ceding Company pursuant to Article VIII shall be prepared in accordance with such system and procedures and shall be consistent with the Ceding Company's books and records.

ARTICLE XI

TERM AND TERMINATION

Section 11.01 Duration of Agreement. Subject to Section 11.02, this Agreement is unlimited as to its duration.

Section 11.02 Termination.

(a) Termination by Reinsurer. The Reinsurer may, in its sole discretion, terminate this Agreement as to the reinsurance of new policies by providing thirty (30) calendar days prior written notice to the Ceding Company. All then in force Reinsured Policies will remain Reinsured Policies until the expiration thereof. During the thirty (30) calendar day notification period, the Ceding Company will continue to cede and the Reinsurer will continue to accept policies covered under the terms of this Agreement.

(b) Termination for Non-Payment. Either party may terminate this Agreement as to all Reinsured Policies if the other party fails to pay any amounts due under this Agreement within thirty (30) calendar days following written notice of non-payment from the non-defaulting party (a "Non-Payment Event"); provided, that reinsurance that is terminated due to non-payment by the Ceding Company may be reinstated by the Ceding Company, subject to the Reinsurer's approval, within sixty (60) calendar days of the date of termination, and upon payment of all amounts in arrears including any interest accrued thereon; provided, further, that the Reinsurer shall have no liability for the payment of any Claims under the Reinsured Policies that are incurred between the date of termination and the date of the reinstatement of the reinsurance.

(c) Termination for Material Breach. In addition to all other rights and remedies available under this Agreement, either party may terminate this Agreement as to all Reinsurance Policies by providing the other party with a minimum of thirty (30) calendar days prior written notice in the event the other party commits a material breach of any provision of this Agreement, which notice shall specify the nature of such material breach. The breaching party shall have twenty (20) calendar days from the date of the breaching party's receipt of the foregoing notice to cure such material breach to the reasonable satisfaction of the non-breaching party. If the breach is cured, the other party shall provide written notice to the curing party that the breach has been adequately cured. In the event the breaching party fails to cure the material breach within such twenty (20) calendar day period, then, at the option of the non-breaching party and upon notice, this Agreement will terminate upon expiration of the thirty (30) calendar day notice period. Notwithstanding the foregoing, the parties shall cooperate with each other to effect a cure of any breach of the terms of this Agreement.

(d) Termination for Insolvency of Reinsurer. The Ceding Company may terminate this Agreement as to all Reinsured Policies in the event that the Reinsurer becomes insolvent (as set forth in Article XV) by promptly providing the Reinsurer or its Authorized Representative with written notice of termination, to be effective as of the date on which the Reinsurer's insolvency is established by the authority responsible for such determination. Any

requirement for a notification period prior to the termination of this Agreement shall not apply under such circumstances.

Section 11.03 Termination Payment.

(a) In the event that this Agreement is terminated as to all Reinsured Policies (including if this Agreement is rejected by any liquidator, receiver, rehabilitator, trustee or similar person acting on behalf of the Ceding Company (a "Receiver")), a net accounting and settlement as to any balance due under this Agreement will be undertaken by the Ceding Company in accordance with Article VIII. In addition, on the date of delivery of the Quarterly Accounting Report related to such termination, the Ceding Company shall transfer all assets in the Funds Withheld Account to the Reinsurer, and the Reinsurer will pay to the Ceding Company, within fifteen (15) Business Days after receipt of the Quarterly Accounting Report, an amount equal to the Ceded Reserves as of the Termination Effective Date.

(b) The Reinsurer's right to terminate the reinsurance provided hereunder will not prejudice its right to collect premiums, and applicable interest as specified in Section 18.02, for the period during which such reinsurance was in force, through and including any notice period.

(c) If this Agreement is terminated by the Reinsurer as a result of a Non-Payment Event or other material breach by the Ceding Company or is rejected by a Receiver of the Ceding Company, the Ceding Company will provide to the Reinsurer within forty-five (45) calendar days after the Termination Effective Date, a written report which documents the Ceding Company's good faith calculation of the Embedded Value as of the Termination Effective Date (the "Embedded Value Report") and will pay an amount equal to the Embedded Value to the Reinsurer upon delivery of such notice. The Ceding Company will provide the Reinsurer with reasonable access to knowledgeable personnel to promptly assist in the evaluation of such calculation. Within thirty (30) calendar days after receipt of the Embedded Value Report, the Reinsurer shall notify the Ceding Company in writing if the Reinsurer disagrees with the Ceding Company's calculation of the Embedded Value. During the ten (10) Business Days immediately following the delivery of such notice of disagreement, the Ceding Company and the Reinsurer will seek in good faith to resolve any disputes as to such calculation. Notwithstanding Article XIV of this Agreement, any and all disputes as to the calculation of the Embedded Value that have not been resolved during such ten (10) Business Day period shall be submitted to an independent actuarial firm reasonably agreed to by each of the Ceding Company and the Reinsurer for review and determination. The parties shall instruct the independent actuarial firm to render its decision as to the appropriate calculation of the Embedded Value within thirty (30) calendar days after the submission of the matter for its review (or as soon thereafter as possible). The parties agree that the arbitration conducted by the independent actuarial firm shall be a "baseball arbitration". As such, the independent actuarial firm shall evaluate which of the parties' two calculations of the Embedded Value is more reasonable in light of the evidence provided by both parties in connection with their respective submissions to the independent actuarial firm. The independent actuarial firm shall select one and only one of the calculations of the Embedded Value submitted by the two parties. The independent actuarial firm's decision shall be final and binding upon each of the Ceding Company and the Reinsurer. In the event that the amount of the Embedded Value (as such Embedded Value is agreed to by the parties or

finally determined by the independent actuarial firm) exceeds the amount of the Embedded Value payment made by the Ceding Company to the Reinsurer pursuant to the first sentence of this Section 11.03(c), then the Ceding Company shall pay the amount of such difference to the Reinsurer within two (2) Business Days following the date on which the Embedded Value is agreed to by the parties or finally determined by the independent actuarial firm. All fees and expenses relating to the work performed by the independent actuarial firm pursuant to this Section 11.03(c) shall be shared equally between the Ceding Company and the Reinsurer.

Section 11.04 Survival. All provisions of this Agreement will survive any termination of this Agreement to the extent necessary to carry out its purpose.

ARTICLE XII

RECAPTURE

Section 12.01 Recapture. The Reinsured Policies may not be recaptured.

ARTICLE XIII

ERRORS AND OMISSIONS

Section 13.01 Errors and Omissions.

(a) Any unintentional or accidental failure to comply with the terms of this Agreement which can be shown to be the result of an oversight or clerical error relating to the administration of reinsurance by either party will not constitute a breach of this Agreement. Upon discovery, the error will be promptly corrected so that both parties are restored to the position they would have occupied had the oversight or clerical error not occurred. In the event a payment is corrected, the party receiving the payment shall be entitled to interest in accordance with Section 18.02. Should it not be possible to restore both parties to this position, the party responsible for the oversight or clerical error will be responsible for any resulting liabilities and expenses.

(b) If the Ceding Company has failed to cede reinsurance as provided under this Agreement or has failed to comply with reporting requirements with respect to business ceded hereunder, the Reinsurer may require the Ceding Company to audit its records for similar errors and take reasonable actions necessary to correct errors and avoid similar errors. Failing prompt correction, the Reinsurer may limit its liability to the correctly reported Reinsured Policies.

ARTICLE XIV

DISPUTE RESOLUTION

Section 14.01 Negotiation.

(a) Within fifteen (15) calendar days after the Reinsurer or the Ceding Company has given the other party written notification of a specific dispute arising out of or relating to this Agreement, each party will appoint a designated officer of its company to attempt to resolve such dispute. The officers will meet at a mutually agreeable location as soon as reasonably possible and as often as reasonably necessary in order to gather and furnish the other with all appropriate and relevant information concerning the dispute. The officers will discuss the matter in dispute and will negotiate in good faith without the necessity of formal arbitration proceedings. During the negotiation process, all reasonable requests made by one officer to the other for information will be honored. The specific format for such discussions will be decided by the designated officers.

(b) If the officers cannot resolve the dispute within thirty (30) calendar days of their first meeting, the dispute will be submitted to formal arbitration pursuant to Section 14.02, unless the parties agree in writing to extend the negotiation period for an additional thirty (30) calendar days.

Section 14.02 Arbitration.

(a) It is the intention of the Reinsurer and the Ceding Company that the customs and practices of the insurance and reinsurance industry will be given full effect in the operation and interpretation of this Agreement. The parties agree to act in all matters with the utmost good faith. However, if the Reinsurer and the Ceding Company cannot mutually resolve a dispute that arises out of or relates to this Agreement, including, without limitation, the validity of this Agreement, and the dispute cannot be resolved through the negotiation process, then, except as otherwise provided in Section 9.03(h) (relating to statutory impairments of assets held in the Funds Withheld Account), and Section 11.03(c) (relating to the Embedded Value of the Reinsured Policies), the dispute will be finally settled by arbitration in accordance with the provisions of this Section 14.02.

(b) To initiate arbitration, either the Ceding Company or the Reinsurer will notify the other party by certified mail of its desire to arbitrate, stating the nature of the dispute and the remedy sought.

(c) Any arbitration pursuant to this Section 14.02 will be conducted before a panel of three arbitrators who will be current or former officers of life insurance or life reinsurance companies other than the parties to this Agreement, their Affiliates or subsidiaries, or other professionals with experience in life insurance or reinsurance, provided that such professionals shall not have performed services for either party within the previous five (5) years. Each of the arbitrators will be familiar with the prevailing customs and practices for reinsurance in the life insurance and life reinsurance industry in the United States. Each of the parties will appoint one arbitrator and the two so appointed will select the third arbitrator who shall be independent and impartial. If either party refuses or fails to appoint an arbitrator within sixty (60) calendar days after the other party has given written notice to such party of its arbitrator appointment, the party that has given notice may appoint the second arbitrator. If the two arbitrators do not agree on a third arbitrator within thirty (30) calendar days of the appointment of the second arbitrator, then the third arbitrator shall be selected by the ARIAS-

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U.S. Umpire Selection Procedure (available at www.ARIAS-US.org), subject to the arbitrator qualification requirements of this paragraph.

(d) Each arbitration hearing under this Agreement will be held on the date set by the arbitrators at a mutually agreed upon location. In no event will this date be later than six (6) months after the appointment of the third arbitrator. As soon as possible, the arbitrators will establish arbitration procedures as warranted by the facts and issues of the particular case. Notwithstanding Section 18.17, the arbitration and this Section 14.02 shall be governed by Title 9 (Arbitration) of the United States Code.

(e) The arbitrators will base their decision on the terms and conditions of this Agreement and the customs and practices of the insurance and reinsurance industries rather than on strict interpretation of the law. The decision of the arbitrators will be made by majority rule and will be final and binding on both parties, unless (i) the decision was procured by corruption, fraud or other undue means; (ii) there was evident partiality by an arbitrator or corruption in any of the arbitrators or misconduct prejudicing the rights of any party; or (iii) the arbitrators exceeded their powers. Subject to the preceding sentence, neither party may seek judicial review of the decision of the arbitrators. The arbitrators shall enter an award which shall do justice between the parties and the award shall be supported by written opinion. The parties agree that the federal courts in the State of Iowa, or the state courts of such state, have jurisdiction to hear any matter relating to compelling arbitration or enforcing the judgment of an arbitral panel, and the parties hereby consent to such jurisdiction. Each party hereby waives, to the fullest extent permitted by law, any objection it may now or hereafter have to the laying of such venue, or any claim that a proceeding has been brought in an inconvenient forum. In addition, the Ceding Company and Reinsurer hereby consent to service of process out of such courts at the addresses set forth in Section 18.06.

(f) Unless the arbitrators decide otherwise, each party will bear the expense of its own arbitration activities, including its appointed arbitrator and any outside attorney and witness fees. The parties will jointly bear the expense of the third arbitrator.

(g) Waiver of Trial by Jury. THE REINSURER AND THE CEDING COMPANY HEREBY WAIVE ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY MATTER ARISING OUT OF OR RELATING TO THIS AGREEMENT.

ARTICLE XV

INSOLVENCY

Section 15.01 Insolvency.

(a) A party to this Agreement will be deemed "insolvent" when it:

(i) applies for or consents to the appointment of a receiver, rehabilitator, conservator, liquidator or statutory successor (the "Authorized Representative") of its properties or assets;

(ii) is adjudicated as bankrupt or insolvent;

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(iii) files or consents to the filing of a petition in bankruptcy, seeks reorganization or an arrangement with creditors or takes advantage of any bankruptcy, dissolution, liquidation, rehabilitation, conservation or similar law or statute; or

(iv) becomes the subject of an order to rehabilitate or an order to liquidate as defined by the insurance code of the jurisdiction of the party's domicile.

(b) In the event of the insolvency of either party, the rights or remedies of this Agreement will remain in full force and effect.

(c) Insolvency of the Ceding Company. In the event of the insolvency of the Ceding Company:

(i) The reinsurance provided under this Agreement will be payable by the Reinsurer directly to the Ceding Company or its Authorized Representative, without diminution because of such insolvency, on the basis of the reported claims allowed against the Ceding Company by any court of competent jurisdiction or by the Authorized Representative having authority to allow such claims.

(ii) The Reinsurer will be liable only for benefits reinsured as benefits become due under the terms of the Reinsured Policies and will not be or become liable for any amounts or reserves to be held by the Ceding Company as to the Reinsured Policies or for any damages or payments resulting from the termination or restructuring of the Reinsured Policies that are not otherwise expressly covered by this Agreement. The Ceding Company or its Authorized Representative will give written notice to the Reinsurer of all pending Claims against the Ceding Company on any Reinsured Policies within a reasonable time after filing in the insolvency proceedings. While a Claim is pending, the Reinsurer may investigate such Claim and interpose, at its own expense, in the proceedings where the Claim is to be adjudicated, any defense or defenses which it may deem available to the Ceding Company or its Authorized Representative.

(iii) The expense incurred by the Reinsurer will be chargeable, subject to court approval, against the Ceding Company as part of the expense of its insolvency proceedings to the extent of a proportionate share of the benefit which may accrue to the Ceding Company solely as a result of the defense undertaken by the Reinsurer. Where two or more reinsurers are involved in the same Claim and a majority in interest elect to interpose a defense to such Claim, the expense will be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by the Ceding Company.

ARTICLE XVI

TAXES

Section 16.01 Taxes. No taxes, allowances, or expense will be paid by the Reinsurer to the Ceding Company for any Reinsured Policy, except as specifically referred to in this Agreement.

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Section 16.02 Premium Tax. The Reinsurer shall reimburse the Ceding Company for the Quota Share of any premium tax ("Premium Tax") paid by the Ceding Company with respect to a Reinsured Policy in respect of the annuitization of such Reinsured Policy, which reimbursement will reflect any credit received by the Ceding Company resulting from any Guaranty Fund Assessments paid by the Reinsurer. Such Premium Taxes shall be payable in accordance with Section 8.03.

Section 16.03 Excise Tax. In the event that any excise tax is due with respect to any Reinsurance Premium due from the Ceding Company to the Reinsurer under this Agreement, the Ceding Company shall pay the entire amount of such excise tax. The Reinsurer shall reimburse the Ceding Company for any such excise tax paid by the Ceding Company in accordance with Section 8.03.

ARTICLE XVII

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 17.01 Representations and Warranties of the Ceding Company. The Ceding Company hereby represents and warrants to the Reinsurer as follows:

(a) Organization and Qualification. The Ceding Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Iowa and has all requisite corporate power and authority to operate its business as now conducted, and is duly qualified as a foreign corporation to do business, and, to the extent legally applicable, is in good standing, in each jurisdiction where the character of its owned, operated or leased properties or the nature of its activities makes such qualification necessary, except for failures to be so qualified or be in good standing that, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the Ceding Company's ability to perform its obligations under this Agreement.

(b) Authorization. The Ceding Company has all requisite corporate power to enter into, consummate the transactions contemplated by and carry out its obligations under, this Agreement. The execution and delivery by the Ceding Company of this Agreement, and the consummation by the Ceding Company of the transactions contemplated by, and the performance by the Ceding Company of its obligations under, this Agreement have been duly authorized by all requisite corporate action on the part of the Ceding Company. This Agreement has been duly executed and delivered by the Ceding Company, and (assuming due authorization, execution and delivery by the Reinsurer) this Agreement constitutes the legal, valid and binding obligation of the Ceding Company, enforceable against it in accordance with its terms, subject to the effect of any applicable bankruptcy, reorganization, insolvency, moratorium, or similar laws relating to or affecting creditors' rights generally.

(c) No Conflict. The execution, delivery and performance by the Ceding Company of, and the consummation by the Ceding Company of the transactions contemplated by, this Agreement do not and will not (i) violate or conflict with the organizational documents of the Ceding Company, (ii) conflict with or violate any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any governmental authority

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applicable to the Ceding Company or by which it or its properties or assets is bound or subject, or (iii) result in any breach of, or constitute a default (or event which, with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, acceleration or cancellation of, any agreement, lease, note, bond, loan or credit agreement, mortgage, indenture or other instrument, obligation or contract of any kind to which the Ceding Company or any of its subsidiaries is a party or by which the Ceding Company or any of its subsidiaries or any of their respective properties or assets is bound or affected, except, in the case of clause (iii), any such conflicts, violations, breaches, loss of contractual benefits, defaults or

rights that, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the Ceding Company's ability to perform its obligations under this Agreement.

(d) Factual Information Relating to the Reinsured Policies. The information relating to the business reinsured under this Agreement that was supplied by or on behalf of the Ceding Company to the Reinsurer or any of the Reinsurer's representatives in connection with this Agreement (such information, the "Factual Information"), as of the date supplied (or if later corrected or supplemented prior to the date hereof, as of the date corrected or supplemented), did not contain any untrue statement of a material fact or omit to state any material fact necessary to make such Factual Information, taken as a whole, not misleading in light of the circumstances under which the statements contained therein were made, and was otherwise complete and accurate in all material respects. The Factual Information was compiled in a commercially reasonable manner given its intended purpose. The Underwriting Guidelines provided to the Reinsurer by the Ceding Company were complete and accurate when disclosed and there has been no material change in the Underwriting Guidelines since the date disclosed.

(e) Solvency. The Ceding Company is and will be Solvent on a statutory basis immediately after giving effect to this Agreement. For the purposes of this Section 17.01(e), "Solvent" means that: (i) the aggregate assets of the Ceding Company are greater than the aggregate liabilities of the Ceding Company, in each case determined in accordance with SAP; (ii) the Ceding Company does not intend to, and does not believe that it will, incur debts or other liabilities beyond its ability to pay such debts and other liabilities as they come due and (iii) the Ceding Company is not engaged in a business or transaction, and does not contemplate engaging in a business or transaction, for which the Ceding Company's assets would constitute unreasonably insufficient capital.

(f) Accuracy of Books and Records. The Ceding Company maintains records relating to the Reinsured Policies, and implements administrative and operating procedures with respect to such records, and keeps and maintains all material documents, books and records reasonably necessary for the maintenance of the Reinsured Policies, which documents, books and records are complete and accurate in all material respects, with the utmost good faith and with the skill, diligence and expertise that would reasonably be expected from qualified personnel performing such duties in like circumstances.

(g) Governmental Licenses. The Ceding Company has all licenses, certificates of authority or other similar certificates, registrations, franchises, permits, approvals or other similar authorizations issued by governmental authorities (collectively, "Permits") necessary to conduct its business as currently conducted, except in such cases where the failure

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to have a Permit has not had and would not reasonably be expected to have a Material Adverse Effect with respect to the Ceding Company. All Permits that are material to the conduct of the Ceding Company's business are valid and in full force and effect. The Ceding Company is not subject to any pending Action or, to the knowledge of the Ceding Company, any threatened Action that seeks the revocation, suspension, termination, modification or impairment of any Permit that, if successful, would reasonably be expected to have, or with the passage of time become, a Material Adverse Effect with respect to the Ceding Company.

(h) Financial Statements. The Ceding Company has provided to the Reinsurer a copy of its audited statutory financial statements as of the end of the most recent calendar year and its unaudited statutory financial statements as of the end of the most recent calendar quarter for which the Ceding Company's statutory financial statements have been prepared and as were provided by the Ceding Company to the Iowa Insurance Division. Except as disclosed in such financial statements (including in the notes thereto), such financial statements have been prepared in all material respects in accordance with SAP applied on a consistent basis during the period involved and present fairly, in all material respects, the statutory financial position and results of operations of the Ceding Company as of their respective dates or for the respective periods covered thereby.

(i) No Material Adverse Effect. Since the last statutory financial statements of the Ceding Company and any Securities Exchange Commission filings made by the parent entity of the Ceding Company, there has not occurred any event or events that, individually or in the aggregate, has or have had or would be reasonably expected to have a Material Adverse Effect with respect to the Ceding Company.

Section 17.02 Covenants of the Ceding Company.

(a) Investigations. To the extent permitted by applicable law or regulation, the Ceding Company will notify the Reinsurer immediately, in writing, of any and all investigations of the Ceding Company conducted by any federal or state governmental authority commencing after the date hereof, other than routine state insurance department examinations.

(b) Statutory Accounting Principles. The Ceding Company will prepare its financial statements as required by, and in accordance with, SAP.

(c) Existence; Conduct of Business. The Ceding Company will do or cause to be done all things reasonably necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business.

(d) Compliance with Law. The Ceding Company will comply with all statutes, laws, ordinances, rules, regulations, judgments, decrees, orders, injunctions, writs, permits, or licenses of any governmental authority applicable to the Ceding Company or by which it or its properties or assets is bound or subject, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Ceding Company's ability to perform its obligations under this Agreement.

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(e) Restriction on Liens. The Ceding Company shall not create, incur, assume or suffer to exist any liens on the assets in the Funds Withheld Account owned on the date of this Agreement or hereafter acquired, or on any interest therein or the proceeds thereof.

(f) Governmental Notices. The Ceding Company shall provide the Reinsurer, within five (5) Business Days after receipt thereof, copies of any written notice or report from any governmental authority with respect to the business reinsured under this Agreement and a written summary of

any material oral communication with any governmental authority with respect to the business reinsured under this Agreement.

Section 17.03 Representations and Warranties of the Reinsurer. The Reinsurer hereby represents and warrants to the Ceding Company as follows:

(a) Organization and Qualification. The Reinsurer is a corporation duly incorporated, validly existing and in good standing under the laws of Bermuda and has all requisite corporate power and authority to operate its business as now conducted, and is duly qualified as a foreign corporation to do business, and, to the extent legally applicable, is in good standing, in each jurisdiction where the character of its owned, operated or leased properties or the nature of its activities makes such qualification necessary, except for failures to be so qualified or be in good standing that, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the Reinsurer's ability to perform its obligations under this Agreement.

(b) Authorization. The Reinsurer has all requisite corporate power to enter into, consummate the transactions contemplated by and carry out its obligations under, this Agreement. The execution and delivery by the Reinsurer of this Agreement, and the consummation by the Reinsurer of the transactions contemplated by, and the performance by the Reinsurer of its obligations under, this Agreement have been duly authorized by all requisite corporate action on the part of the Reinsurer. This Agreement has been duly executed and delivered by the Reinsurer, and (assuming due authorization, execution and delivery by the Ceding Company) this Agreement constitutes the legal, valid and binding obligation of the Reinsurer, enforceable against it in accordance with its terms, subject to the effect of any applicable bankruptcy, reorganization, insolvency, moratorium, or similar laws relating to or affecting creditors' rights generally.

(c) No Conflict. The execution, delivery and performance by the Reinsurer of, and the consummation by the Reinsurer of the transactions contemplated by, this Agreement do not and will not (i) violate or conflict with the organizational documents of the Reinsurer, (ii) conflict with or violate any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any governmental authority applicable to the Reinsurer or by which it or its properties or assets is bound or subject, or (iii) result in any breach of, or constitute a default (or event which, with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, acceleration or cancellation of, any agreement, lease, note, bond, loan or credit agreement, mortgage, indenture or other instrument, obligation or contract of any kind to which the Reinsurer or any of its subsidiaries is a party or by which the Reinsurer or any of its subsidiaries or any of their respective properties or assets is bound or affected, except, in the case of clause (iii), any such

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conflicts, violations, breaches, loss of contractual benefits, defaults or rights that, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the Reinsurer's ability to perform its obligations under this Agreement.

(d) Solvency. The Reinsurer is and will be Solvent on a statutory basis immediately after giving effect to this Agreement. For the purposes of this Section 17.03(d), "Solvent" means that: (i) the aggregate assets of the Reinsurer are greater than the aggregate liabilities of the Reinsurer, in each case determined in accordance with the regulations promulgated by the Bermuda Monetary Authority; (ii) the Reinsurer does not intend to, and does not believe that it will, incur debts or other liabilities beyond its ability to pay such debts and other liabilities as they come due and (iii) the Reinsurer is not engaged in a business or transaction, and does not contemplate engaging in a business or transaction, for which the Reinsurer's assets would constitute unreasonably insufficient capital.

(e) Accuracy of Books and Records. The Reinsurer maintains records and implements administrative and operating procedures with respect to such records, and keeps and maintains all material documents, books and records reasonably necessary in the ordinary course of business, which documents, books and records are complete and accurate in all material respects, with the utmost good faith and with the skill, diligence and expertise that would reasonably be expected from qualified personnel performing such duties in like circumstances.

(f) Governmental Licenses. The Reinsurer has all Permits necessary to conduct its business as currently conducted, except in such cases where the failure to have a Permit has not had and would not reasonably be expected to have a Material Adverse Effect with respect to the Reinsurer. All Permits that are material to the conduct of the Reinsurer's business are valid and in full force and effect. The Reinsurer is not subject to any pending Action or, to the knowledge of the Reinsurer, any threatened Action that seeks the revocation, suspension, termination, modification or impairment of any Permit that, if successful, would reasonably be expected to have, or with the passage of time become, a Material Adverse Effect with respect to the Reinsurer.

(g) No Material Adverse Effect. Since July 15, 2009, there has not occurred any event or events that, individually or in the aggregate, has or have had or would be reasonably expected to have a Material Adverse Effect with respect to the Reinsurer.

Section 17.04 Covenants of the Reinsurer.

(a) Existence; Conduct of Business. The Reinsurer will do or cause to be done all things reasonably necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business.

(b) Compliance with Law. The Reinsurer will comply with all statutes, laws, ordinances, rules, regulations, judgments, decrees, orders, injunctions, writs, permits, or licenses of any governmental authority applicable to the Reinsurer or by which it or its properties or assets is bound or subject, except where the failure to do so, individually or in the aggregate,

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would not reasonably be expected to have a material adverse effect on the Reinsurer's ability to perform its obligations under this Agreement.

ARTICLE XVIII

MISCELLANEOUS

Section 18.01 Currency. All payments due under this Agreement will be made in U.S. Dollars.

Section 18.02 Interest. All amounts due and payable by the Ceding Company or the Reinsurer under this Agreement that remain unpaid for more than fifteen (15) calendar days from the date due hereunder will incur interest from the date due hereunder. Except as otherwise set forth in this Agreement, such interest shall accrue at a rate equal to six percent (6%), calculated on a 30/360 basis.

Section 18.03 Right of Setoff and Recoupment.

(a) Each of the Ceding Company and the Reinsurer shall have, and may exercise at any time and from time to time, the right to setoff or recoup any undisputed balance or balances, whether on account of Reinsurance Premiums, allowances, credits, Claims or otherwise, due from one party to the other under this Agreement and may setoff or recoup such balance or balances against any balance or balances due to the former from the latter under this Agreement.

(b) The rights provided under this Section 18.03 are in addition to any rights of setoff that may exist at common law. The parties' setoff rights may be enforced notwithstanding any other provision of this Agreement including, without limitation, the provisions of Article XV.

Section 18.04 No Third Party Beneficiaries. This Agreement is an indemnity reinsurance agreement solely between the Ceding Company and the Reinsurer. The acceptance of risks under this Agreement by the Reinsurer will create no right or legal relation between the Reinsurer and the insured, owner, beneficiary, or assignee of any insurance policy of the Ceding Company. In addition, nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third party to any party to this Agreement.

Section 18.05 Amendment. This Agreement may not be changed or modified or in any way amended except by a written instrument duly executed by the proper officers of both parties to this Agreement and any change or modification to this Agreement will be null and void unless made by amendment to this Agreement and duly executed by the proper officers of both parties to this Agreement.

Section 18.06 Notices. All demands, notices, reports and other communications provided for herein shall be delivered by the following means: (i) hand delivery, (ii) overnight courier service (e.g., FedEx, Airborne Express, or DHL); (iii) registered or certified U.S. mail, postage prepaid and return receipt requested; or (iv) facsimile transmission or e-mail provided that the fax or e-mail is confirmed by delivery using one of the three methods identified in

clauses (i) through (iii). All such demands, notices, reports and other communications shall be delivered to the parties as follows:

if to the Ceding Company:

American Equity Investment Life Insurance Company
5000 Westown Parkway, Suite 440
West Des Moines, Iowa 50266
Attention: Wendy Carlson
Telephone: (515) 457-1824
Facsimile: (515) 221-0744
Email: wcarlson@american-equity.com

if to the Reinsurer:

Athene Life Re Ltd.
44 Church Street
Hamilton HM 12, Bermuda
Attention: President and General Counsel
Telephone: (441) 279-8412
Facsimile: (441) 279-8401
Email: cgillis@athenelifere.bm; tshanafelt@athenelifere.bm

with a copy to

Sidley Austin LLP
One South Dearborn Street
Chicago, Illinois 60603
Attention: Perry Shwachman
Telephone: (312) 853-7061
Facsimile: (312) 853-7036
Email: pshwachman@sidley.com

Either party hereto may change the names or addresses where notice is to be given by providing notice to the other party of such change in accordance with this Section 18.06.

If either party hereto becomes aware of any change in applicable law restricting the transmission of notices or other information in accordance with the foregoing, such party shall notify the other party hereto of such change in law and such resulting restriction.

Section 18.07 Consent to Jurisdiction. Subject to the terms and conditions of Article XIV, the Reinsurer agrees that in the event of the failure of the Reinsurer to perform its obligations under the terms of this Agreement, the Reinsurer, at the request of the Ceding Company, shall (a) submit to the jurisdiction of any court of competent jurisdiction in any state of the United States, (b) comply with all requirements necessary to give such court

Section 18.08 Service of Process. The Reinsurer hereby designates the Iowa Insurance Commissioner as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Ceding Company. A copy of any such process shall be delivered to the Reinsurer in accordance with Section 18.06. This Section 18.08 is not intended to conflict with or override Article XIV.

Section 18.09 Inspection of Records.

(a) Upon giving at least five (5) Business Days' prior written notice, the Reinsurer, or its duly authorized representatives, will have the right to audit, examine and copy, during regular business hours, at the home office of the Ceding Company, any and all books, records, statements, correspondence, reports, and other documents that relate to the Reinsured Policies or this Agreement, subject to the confidentiality provisions contained in this Agreement. In the event the Reinsurer exercises its inspection rights, the Ceding Company must provide a reasonable work space for such audit, examination or copying, cooperate fully and faithfully, and produce any and all materials reasonably requested to be produced, subject to confidentiality provisions contained in this Agreement. The expenses related to any two such inspections in any calendar year shall be borne by the Ceding Company; provided that if any breach of this Agreement by the Ceding Company has occurred, the expenses relating to all such inspections shall be borne by the Ceding Company.

(b) The Reinsurer's right of access as specified above will survive until all of the Reinsurer's obligations under this Agreement have terminated or been fully discharged.

Section 18.10 Confidentiality.

(a) The parties will keep confidential and not disclose or make competitive use of any shared Proprietary Information, as defined below, unless:

(i) The information becomes publicly available or is obtained other than through unauthorized disclosure by the party seeking to disclose or use such information;

(ii) The information is independently developed by the recipient;

(iii) The disclosure is required by law, provided that, if applicable, the party required to make such disclosure will allow the other party to seek an appropriate protective order.

"Proprietary Information" includes, but is not limited to, underwriting manuals and guidelines, applications, contract forms, agent lists and premium rates and allowances of the Reinsurer and the Ceding Company, but shall not include the existence of this Agreement and the identity of the parties. Additionally, Proprietary Information may be shared by either party on a need-to-know basis with its officers, directors, employees, Affiliates, third party service providers, auditors, consultants or retrocessionaires, or in connection with the dispute process specified in this Agreement.

(b) In addition, the Reinsurer and its representatives and service providers will protect the confidentiality and security of Non-Public Personal Information, as defined below, by:

(i) holding all Non-Public Personal Information in strict confidence;

(ii) maintaining appropriate measures that are designed to protect the security, integrity and confidentiality of Non-Public Personal Information;

(iii) disclosing and using Non-Public Personal Information received under this Agreement for purposes of carrying out the Reinsurer's obligations under this Agreement, for purposes of retrocession, or as may be required or permitted by law.

"Non-Public Personal Information" is personally identifiable medical, financial, and other personal information about proposed, current and former applicants, policy owners, contract holders, insureds, annuitants, claimants, and beneficiaries of Reinsured Policies or contracts issued by the Ceding Company, and their representatives, that is not publicly available. Non-Public Personal Information does not include de-identified personal data, *i.e.*, information that does not identify, or could not reasonably be associated with, an individual.

Section 18.11 Successors. This Agreement will be binding upon the parties hereto and their respective successors and assigns including any Authorized Representative of either party. Neither party may effect any novation of this Agreement without the other party's prior written consent.

Section 18.12 Entire Agreement. This Agreement and the Exhibits hereto constitute the entire agreement between the parties with respect to the business reinsured hereunder and supersede any and all prior representations, warranties, prior agreements or understandings between the parties pertaining to the subject matter of this Agreement. There are no understandings between the parties other than as expressed in this Agreement and the Exhibits hereto. In the event of any express conflict between this Agreement and the Exhibits hereto, the Exhibits hereto will control.

Section 18.13 Severability. Determination that any provision of this Agreement is invalid or unenforceable will not affect or impair the validity or the enforceability of the remaining provisions of this Agreement.

Section 18.14 Construction. This Agreement will be construed and administered without regard to authorship and without any presumption or rule of construction in favor of either party. This Agreement is between sophisticated parties, each of which has reviewed this Agreement and is fully knowledgeable about its terms and conditions.

Section 18.15 Non-Waiver. Neither the failure nor any delay on the part of the Ceding Company or the Reinsurer to exercise any right, remedy, power, or privilege under this Agreement shall operate as a waiver thereof. No single or partial exercise of any right, remedy, power or privilege shall preclude the further exercise of that right, remedy, power or privilege or the exercise of any other right, remedy, power or privilege. No waiver of any right, remedy, power or privilege with respect to any occurrence shall be construed as a waiver of that right, remedy,

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power or privilege with respect to any other occurrence. No prior transaction or dealing between the parties will establish any custom, sage or precedent waiving or modifying any provision of this Agreement. No waiver shall be effective unless it is in writing and signed by the party granting the waiver.

Section 18.16 Further Assurances. From time to time, as and when requested by a party hereto, the other party hereto shall execute and deliver all such documents and instruments and shall take all actions as may be reasonably necessary to consummate the transactions contemplated by this Agreement.

Section 18.17 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Iowa without giving effect to any principles of conflicts of law thereof that are not mandatorily applicable by law and would permit or require the application of the laws of another jurisdiction.

Section 18.18 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. When this Agreement has been fully executed by the Ceding Company and the Reinsurer, it will become effective as of the Effective Date.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed effective as of the Effective Date.

TREATY NUMBER 070109

AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY

By: /s/ Wendy L. Carlson

Title: EVP

Date: October 14, 2009

ATHENE LIFE RE LTD.

By: /s/ Frank L. Gillis

Title: CEO

Date: October 14, 2009

SCHEDULE I

REINSURED POLICY FORMS

SPDA-MYGA

SCHEDULE II

UNDERWRITING GUIDELINES

To be promptly provided by the Ceding Company following the execution of this Agreement.

MONTHLY ACCOUNTING REPORT

For the Monthly Accounting Period ending on _____

Section 1: Policy cash flows to/(from) Ceding Company (gross)

	Premium	
	Less: Returned Premium	()
(A)	TOTAL Premium	
	Penalty Free Withdrawals	
	Full and Partial Surrenders	
	Death Claims	
	Annuity Payments on Supplementary Contracts	
	Other	
(B)	TOTAL Claims	
	Initial Commissions Paid	
	Less: Commissions Recovered on Returned Premium	()
	Renewal Commissions Paid	
	Policy Issuance Fees (policies issued x \$145)	
(C)	TOTAL Commissions and Policy Issuance Fees	

Section 2: Policy cash flows due to/(owed from) Reinsurer

	Net Policy Cash Flows (A - B - C)	
	x Quota Share	x 80.0%
(D)	Reinsurer's share of Net Policy Cash Flows	
	Premiums transferred to FW Account in period	
	Claims withdrawn from FW Account in period	
	Commissions and Policy Issuance Fees withdrawn from FW Account in period	
(E)	Net Policy Cash Flows transferred to/(from) Reinsurer	
(F)	Policy Cash Flows due to/(owed from) Reinsurer (D-E)	

Section 3: Monthly Expenses owed from Reinsurer

	Administration Fees (average policies in force x \$3)	
	Premium Taxes (gross taxes paid x 80.0%)	
	Guaranty Fund Assessments (gross assessments x 80.0%)	
	Excise Taxes Paid	
(G)	Monthly Expenses owed from Reinsurer	
(H)	Monthly Net Settlement Amount (F-G)	

QUARTERLY ACCOUNTING REPORT

For the Quarterly Accounting Period ending on _____

Section 1: Ceded Reserves

(A)	Ceded Reserves for Deferred Annuities at Beginning of Quarter	
	Increase due to Policies Issued in Quarter	
	Increase due to Tabular Interest	
	Decrease from Penalty Free Withdrawals	()
	Decrease from Full and Partial Surrenders	()
	Decrease from Death Claims	()
	Decrease from Annuity Payments	()
	Other Increases / (Decreases)	
(B)	Change in Ceded Reserves for Deferred Annuities	
(C)	Ceded Reserves for Deferred Annuities at End of Quarter (A + B)	
(D)	Ceded Reserves for Immediate Annuities at Beginning of Quarter	
	Increase due to Supplementary Contracts Issued	
	Increase due to Tabular Interest	
	Decrease from Annuity Payments on SCs	()
	Other Increases / (Decreases)	

(E)	Change in Ceded Reserves for Immediate Annuities	
(F)	Ceded Reserves for Immediate Annuities at End of Quarter (D + E)	
(G)	TOTAL Ceded Reserves at End of Quarter (C + F)	
Section 2: Quarterly Net Settlement Amount		
(H)	C4 Risk Charge ((A + D + G) x 0.5 x (.0023 /4))	
(I)	Quarterly Net Settlement Amount (H)	
<hr/>		
Section 3: Funds Withheld Account		
(J)	Book Value of Assets at Beginning of Quarter	
	Premiums transferred into FW Account	
	Claims withdrawn from FW Account	()
	Commissions withdrawn from FW Account	()
	Policy Issuance Fees withdrawn from FW Account	()
	Renewal Commissions withdrawn from FW Account	()
(K)	TOTAL Increases / (Decreases) from Policy Cash Flows	
	Administration Fees withdrawn from FW Account	
	Premium Taxes withdrawn from FW Account	
	Guaranty Fund Assessments withdrawn from FW Account	
	Excise Taxes withdrawn from FW Account	
(L)	TOTAL Decreases from Monthly Expenses	
	Interest Income Received (Coupons)	
	Change in Accrued Interest	
	Accretion of Discount / (Amortization of Premium)	
(M)	TOTAL Net Investment Income	
(N)	Realized Gains / (Losses)	
(O)	Statutory Impairments Realized	
(P)	Default Losses Realized	
(Q)	Cash or other assets transferred (to) / from Reinsurer	
(R)	Expenses relating to FW Account and Reinsurance Trust	
(S)	Book Value of Assets at End of Quarter (J + K - L + M +/- N - O - P +/- Q - R)	
Section 4: Calculation of Funds Withheld Adjustment		
(T)	TOTAL Ceded Reserves (G)	
(U)	Statutory Carrying Value of Assets in the Funds Withheld Account (S)	
(V)	Market Value of Assets in any Reinsurance Trust	
(W)	Amount Available under Outstanding Letters of Credit	
(X)	Amounts due but unpaid by Ceding Company under <u>Section 8.03(a),(b) or (c)</u> .	
(Y)	Funds Withheld Adjustment due from/(to) Reinsurer (T - (U + V + W + X))	

REINSURED POLICIES REPORT

To be promptly provided by the Ceding Company following the execution of this Agreement.

TRUST AGREEMENT

See attached.

EXHIBIT E

INVESTMENT MANAGEMENT AGREEMENT

See attached.

COINSURANCE AGREEMENT**between****ATHENE LIFE RE LTD.****and****AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY****effective as of July 1, 2009****Treaty Number 08042009****(Index Annuity Transaction)****TABLE OF CONTENTS**

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- I. Investment Management Agreement

COINSURANCE AGREEMENT

This COINSURANCE AGREEMENT (the “Agreement”), effective as of July 1, 2009, is made by and between AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY, an insurance company organized under the laws of the State of Iowa (the “Ceding Company”) and ATHENE LIFE RE LTD., a reinsurance company organized under the laws of Bermuda (the “Reinsurer”).

WITNESSETH:

WHEREAS, the Ceding Company desires to cede and the Reinsurer desires to accept a specified quota share of the Reinsured Policies (as defined below) subject to the terms, conditions and limitations contained herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, the Ceding Company and the Reinsurer hereby agree as follows:

ARTICLE I

GENERAL PROVISIONS

Section 1.01 Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

“Action” shall mean any claim, action, suit, arbitration or proceeding by or before any governmental authority.

“Administration Fee” shall have the meaning specified in Section 4.03.

“Affiliate” shall mean, with respect to any person, any other person that directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such specified person; provided, that “control” (including, with correlative meanings, “controlled by” and “under common control with”), as used with respect to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement or otherwise.

“Agreement” shall have the meaning specified in the Preamble hereto.

“Annuitization Payments” shall have the meaning specified in Section 8.04.

“Annuitization” shall have the meaning specified in Section 8.04.

“Assigned Hedge Costs Amount” shall mean, with respect to each Hedge, an amount equal to the Assigned Hedge Interest Proportion of the gross actual direct acquisition costs paid by the Ceding Company for such Hedge. For the avoidance of doubt, the Assigned Hedge Costs

Amount shall be determined without regard to any netting of amounts between the Ceding Company and the relevant Hedge Counterparty.

“Assigned Hedge Interest Proportion” shall have the meaning specified in Section 7.01(a).

“Assigned Hedge Proceeds Amount” shall mean, with respect to each Hedge and for each applicable Weekly Hedging Proceeds Period, an amount equal to the Assigned Hedge Interest Proportion of any amounts paid or payable by the relevant Hedge Counterparty during such Weekly Hedging Proceeds Period in accordance with the provisions of such Hedge, including upon an early exercise of a Hedge by the Ceding Company, without regard to any termination of such Hedge other than a termination by the Ceding Company resulting from the insolvency of such Hedge Counterparty; provided that if such Hedge Counterparty fails to make any such payments because it is insolvent (as defined in Section 16.01(a)), then the applicable Assigned Hedge Proceeds Amount shall be an amount equal to the Assigned Hedge Interest Proportion of the gross amount actually received by the Ceding Company with respect to such Hedge during such Weekly Hedging Proceeds Period. For the avoidance of doubt, the Assigned Hedge Proceeds Amount shall not be less than zero and in all cases (including with respect to the immediately preceding proviso) shall be determined without regard to any netting of amounts between the Ceding Company and the relevant Hedge Counterparty.

“Authorized Representative” shall have the meaning specified in Section 16.01(a).

“Business Day” shall mean any day other than a Saturday, Sunday or any other day on which banking institutions are authorized or required by law or executive order to close in Des Moines, Iowa or Hamilton, Bermuda.

“C-4 Risk Charge” shall have the meaning specified in Section 5.01.

“Ceded Reserves” shall have the meaning set forth in Section 10.01.

“Ceding Company” shall have the meaning specified in the Preamble hereto.

“Claims” shall have the meaning specified in Section 8.01.

“Commissions” shall have the meaning specified in Section 4.01.

“Contested Claim” shall have the meaning specified in Section 8.02(b).

“Effective Date” shall mean July 1, 2009.

“Embedded Value” shall mean the present value of (a) projected future investment earnings on the Ceded Reserves, determined based on the asset portfolio as of the date as of which the calculation is made, minus (b) the Quota Share of projected future Claims, minus (c) future Policy Expenses, each determined (i) from the date as of which the calculation is made to the date on which no Reinsured Policy is projected to be outstanding, (ii) based on the pricing assumptions and policy decrements for the Reinsured Policies and Reinsured Liabilities as used by the Ceding Company and the Reinsurer on the Effective Date and (iii) based on a discount

rate equal to ten percent (10%); provided, however, that the Embedded Value shall in no event be less than zero (0).

“Embedded Value Report” shall have the meaning specified in Section 12.03(c).

“Excluded Liabilities” shall mean (i) Extra-Contractual Obligations, (ii) any liabilities other than liabilities related to partial surrenders, full surrenders, death claims or other contractual benefits under the Reinsured Policies, provided that, in connection with any Annuityizations, the Reinsurer shall only be liable for the applicable Annuityization Payment, and all payments made by the Ceding Company with respect to any Reinsured Policy or any associated Supplementary Contract following the Annuityization of such Reinsured Policy shall be an Excluded Liability and (iii) any *ex gratia* payments made by the Ceding Company (i.e., payments the Ceding Company is not required to make under the terms of the Reinsured Policies).

“Extra-Contractual Obligations” shall mean any liabilities or obligations not arising under the express terms and conditions of, or in excess of the applicable policy limits of, the Reinsured Policies, including liabilities or obligations for fines, penalties, taxes, fees, forfeitures, compensatory damages, and punitive, special, treble, bad faith, tort, exemplary or other forms of extra-contractual damages awarded against or paid by the Ceding Company, which liabilities or obligations arise from any act, error or omission committed by the Ceding Company, whether or not intentional, negligent, in bad faith or otherwise relating to (i) the form, marketing, sale, underwriting, production, issuance, cancellation or administration of the Reinsured Policies, (ii) the investigation, defense, trial, settlement or handling of claims, benefits or payments under the Reinsured Policies, (iii) the failure to pay, the delay in payment, or errors in calculating or administering the payment of benefits, claims or any other amounts due or alleged to be due under or in connection with the Reinsured Policies, or (iv) the failure of the Reinsured Policies to qualify for their intended tax status.

“Factual Information” shall have the meaning specified in Section 18.01(d).

“Final Date” shall mean December 31, 2009.

“Funds Withheld Account” shall have the meaning specified in Section 10.02(a).

“Funds Withheld Adjustment” shall mean, as of any date of determination, an amount equal to (a) Ceded Reserves minus (b) the Statutory Carrying Value of assets held in the Funds Withheld Account minus (c) the market value of assets held in any Reinsurance Trust minus (d) the amount available under outstanding Letters of Credit minus (e) any amounts due and unpaid by the Ceding Company under Section 9.03(a), (b), (c) or (e).

“Funds Withheld Amount” shall mean, as of the relevant date of determination, the Statutory Carrying Value of all assets deposited in the Funds Withheld Account.

“Funds Withheld Excess Withdrawals” shall have the meaning specified in Section 10.03(f).

“Gross Reserves” shall mean the gross reserves of the Ceding Company in respect of the Reinsured Policies, as determined in accordance with Section 10.01.

“Guaranty Fund Assessment” shall mean an assessment or similar charge arising on account of or in connection with participation, whether voluntary or involuntary, in any guaranty association or comparable entity established or governed by any state or other jurisdiction.

“Hedge Counterparty” shall mean, with respect to each Hedge, the counterparty of the Ceding Company with respect to such Hedge.

“Hedges” shall have the meaning specified in Section 7.01(a).

“Hedging Effectiveness Report” shall have the meaning specified in Section 9.01(f).

“Hedging Procedures” shall mean the hedging procedures set forth in Schedule III, as amended in accordance with Section 7.02.

“IMR” shall mean the interest maintenance liability reserve with respect to the assets in the Funds Withheld Account determined in accordance with SAP, consisting of after-tax unamortized deferred gains and losses in respect of such assets.

“Initial Deposit Amount” shall have the meaning specified in Section 10.03(a).

“Investment Management Agreement” shall have the meaning specified in Section 10.07(a).

“Investment Manager” shall have the meaning specified in Section 10.07(a).

“Letter of Credit” shall have the meaning specified in Section 10.02(c).

“Letter of Credit Excess Withdrawal” shall have the meaning specified in Section 10.05(c).

“Marketing Fee” shall have the meaning specified in Section 4.01.

“Material Adverse Effect” shall mean, with respect to either the Ceding Company or the Reinsurer, a material adverse effect upon (a) the business, operations, properties, financial condition, prospects or assets of such party, (b) the ability of such party to perform and comply with its obligations hereunder, (c) the validity, legality or enforceability of this Agreement, or (d) the timing or amount of the cash flows attributable to the business reinsured under this Agreement.

“Monthly Accounting Period” shall have the meaning specified in Section 9.01(a).

“Monthly Accounting Report” shall have the meaning specified in Section 9.01(a).

“Monthly Net Settlement Amount” shall have the meaning specified in Section 9.03(b).

“Net Settlement Amount” shall mean the Monthly Net Settlement Amount or the Quarterly Net Settlement Amount, as applicable.

“Non-Payment Event” shall have the meaning specified in Section 12.02(b).

“Non-Public Personal Information” shall have the meaning specified in Section 19.10(c).

“Objection Notice” shall have the meaning specified in Section 10.03(h).

“Permitted Assets” shall mean cash, securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners and qualifying as admitted assets of the Ceding Company under the applicable laws of the State of Iowa, or any other form of security acceptable to the Iowa Insurance Commissioner, or any combination of the above.

“Permits” shall have the meaning specified in Section 18.01(g).

“Person” shall mean and include an individual, a corporation, a partnership, an association, a trust, an unincorporated organization or a government or political subdivision thereof.

“Policy Expenses” shall have the meaning specified in Section 4.03.

“Policy Issuance Fee” shall have the meaning specified in Section 4.01.

“Policy Recapture Effective Date” shall have the meaning specified in Section 13.01.

“Premium Tax” shall have the meaning specified in Section 17.02.

“Pricing Methodology” shall mean the pricing methodology in effect on the Effective Date, as may be amended in accordance with Section 2.02(b), which is employed by the Ceding Company to establish initial and renewal interest rates, including non-guaranteed elements, for the equity index annuities issued by the Ceding Company, a copy of which is set forth in Schedule II.

“Proprietary Information” shall have the meaning specified in Section 19.10(b).

“Qualified U.S. Financial Institution” shall mean an institution that is (a) organized or licensed under the laws of the United States or any state of the United States; (b) is regulated, supervised and examined by federal or state authorities having regulatory authority over banks and trust companies; and (c) has been determined by either the Iowa Insurance Commissioner, or the securities valuation office of the National Association of Insurance Commissioners, to meet such standards of financial condition and standing as are considered necessary and appropriate to regulate the quality of financial institutions whose letters of credit will be acceptable to the Iowa Insurance Commissioner.

“Quarterly Accounting Period” shall have the meaning specified in Section 9.01(b).

“Quarterly Accounting Report” shall have the meaning specified in Section 9.01(b).

“Quarterly Net Settlement Amount” shall have the meaning specified in Section 9.03(c).

“Quota Share” shall be twenty percent (20%).

“Receiver” shall have the meaning specified in Section 12.03(a).

“Reinsurance Premiums” shall have the meaning specified in Section 3.01.

“Reinsurance Trust” shall have the meaning specified in Section 10.02(b).

“Reinsurance Trust Excess Withdrawals” shall have the meaning specified in Section 10.04(f).

“Reinsured Liabilities” shall mean the liabilities of the Ceding Company that relate to partial surrenders, full surrenders, death claims, Annuitization Payments as provided in Section 8.04 and other contractual benefits, in each case, under the Reinsured Policies; provided that in no case shall “Reinsured Liabilities” include any Excluded Liabilities.

“Reinsured Policies” shall mean all deferred annuity contracts on the policy forms listed on Schedule I, including any amendments, riders or endorsements attached thereto, written by the Ceding Company on or following the Start Date through, and including, the Final Date and, with respect to such deferred annuity contracts written by the Ceding Company prior to the Effective Date, are in force as of the close of business on the Effective Date; provided, that “Reinsured Policies” shall not include any Supplementary Contracts or any deferred annuity contracts that have been (a) subject to an Annuitization in accordance with Section 8.04 or (b) recaptured by the Ceding Company in accordance with Section 13.01.

“Reinsured Policies Report” shall have the meaning specified in Section 9.01(c).

“Reinsurer” shall have the meaning specified in the Preamble hereto.

“Renewal Commissions” shall have the meaning specified in Section 4.02.

“SAP” shall mean the statutory accounting principles and practices prescribed or permitted for Iowa life insurance companies by the Iowa Insurance Division.

“Similar Policy Form” shall have the meaning specified in Section 2.01(d).

“Start Date” shall mean January 1, 2009.

“Statutory Carrying Value” shall mean, with respect to any asset held by the Ceding Company in the Funds Withheld Account, as of the relevant date of determination, the amount permitted to be carried by the Ceding Company as an admitted asset consistent with SAP, as such amount is adjusted in accordance with Section 10.03(h).

“Supplementary Contracts” shall mean all supplementary contracts, whether with or without life contingencies, issued by the Ceding Company in exchange for a Reinsured Policy.

“Terminal Accounting Period” shall have the meaning specified in Section 9.01(b).

“Termination Effective Date” shall mean the date on which the liability of the Reinsurer with respect to all of the Reinsured Policies is terminated pursuant to Section 12.02(b), (c) or (d) or the effective date of the rejection of this Agreement by any Receiver.

“U.S. GAAP” means accounting principles generally accepted in the United States.

“Weekly Assigned Hedge Costs Settlement Amount” shall have the meaning specified in Section 9.03(e).

“Weekly Assigned Hedge Proceeds Settlement Amount” shall have the meaning specified in Section 9.03(e).

“Weekly Hedging Acquisition Period” shall have the meaning specified in Section 9.01(d).

“Weekly Hedging Acquisition Report” shall have the meaning specified in Section 9.01(d).

“Weekly Hedging Proceeds Period” shall have the meaning specified in Section 9.01(d).

“Weekly Hedging Proceeds Report” shall have the meaning specified in Section 9.01(d).

Section 1.02 Other Definitional Provisions.

- (a) For purposes of this Agreement, the words “hereof,” “herein,” “hereby” and other words of similar import refer to this Agreement as a whole, including all Schedules and Exhibits to this Agreement, unless otherwise indicated.
- (b) Whenever the singular is used herein, the same shall include the plural, and whenever the plural is used herein, the same shall include the singular, where appropriate.
- (c) The term “including” means “including but not limited to.”
- (d) Whenever used in this Agreement, the masculine gender shall include the feminine and neutral genders and vice versa.
- (e) The Schedules and Exhibits hereto are hereby incorporated by reference into the body of this Agreement.
- (f) All references herein to Articles, Sections, Subsections, Paragraphs, Exhibits and Schedules shall be deemed references to Articles and Sections and Subsections and Paragraphs of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require.
- (g) All terms defined in this Agreement shall have the defined meaning when used in any Schedule, Exhibit, certificate, report or other documents attached hereto or made or delivered pursuant hereto unless otherwise defined therein.

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ARTICLE II

COVERAGE

Section 2.01 Scope of Coverage.

- (a) This Agreement shall be effective as of 12:01 A.M. on the Effective Date.
- (b) This Agreement is an agreement for indemnity reinsurance made solely between the Ceding Company and the Reinsurer.
- (c) Subject to the terms, conditions and limits of this Agreement (including the exclusion from coverage of Excluded Liabilities), the Ceding Company shall automatically cede and the Reinsurer shall automatically reinsure the Quota Share of the Reinsured Liabilities.
- (d) The Ceding Company shall deliver notice to the Reinsurer ten (10) Business Days prior to issuing contracts on policy forms that are substantially similar to the forms set forth on Schedule I or issuing contracts providing substantially similar economic benefits to policyholders as to be provided by the Reinsured Policies (each a “Similar Policy Form”). The Reinsurer shall have the right to amend Schedule I to add any Similar Policy Form to Schedule I and include contracts on any Similar Policy Form as Reinsured Policies under this Agreement. The Ceding Company shall provide to the Reinsurer any additional information relating to any Similar Policy Form or contracts written on any Similar Policy Form as is reasonably requested by the Reinsurer from time to time.
- (e) Subject to the terms, conditions and limits of this Agreement (including the exclusion from coverage of Excluded Liabilities and excluding the investment performance of the assets in the Funds Withheld Account), the Reinsurer shall follow the fortunes of the Ceding Company, and to that end the Reinsurer’s liability for the Reinsured Policies shall be identical to that of the Ceding Company and shall be subject to the same risks, terms, conditions, interpretations, waivers, modifications, alterations and cancellations as the respective insurances of the Ceding Company, subject in each case to the Ceding Company’s duty to adhere to the Hedging Procedures, the Pricing Methodology and its obligations pursuant to Article XI.
- (f) Notwithstanding anything to the contrary herein, the Reinsurer shall not be liable for any Excluded Liabilities.

Section 2.02 Underwriting of Policies Subject to Reinsurance.

- (a) The Reinsurer shall only be required to automatically reinsure policies which have been underwritten in accordance with the Pricing Methodology.
- (b) The Ceding Company shall not, without the prior written consent of the Reinsurer, make any changes to the Pricing Methodology as it relates to the Reinsured Policies which are material to the business reinsured under this Agreement. Any policies written by the Ceding Company after any such changes are made to the Pricing Methodology without the prior

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written consent of the Reinsurer shall only be Reinsured Policies hereunder if the Reinsurer consents to including such policies as Reinsured Policies.

Section 2.03 Retention. The Ceding Company shall retain, net and unreinsured, at its own risk and liability, eighty percent (80%) of the liabilities with respect to each of the Reinsured Policies, and the Ceding Company shall not transfer, assign, convey, reinsure or otherwise dispose of its share of the liabilities with respect to the Reinsured Policies without the prior written consent of the Reinsurer, which consent shall not be unreasonably withheld; provided that the Ceding Company may reinsure any or all of such retention to a wholly-owned subsidiary of the Ceding Company if: (a) such wholly-owned subsidiary of the Ceding Company is contractually required to retain such amounts at its own risk and liability without the benefit of

reinsurance and (b) the Ceding Company continues to provide all claim management and administration services with respect to such policies retained by such wholly-owned subsidiary of the Ceding Company in accordance with Article XI.

Section 2.04 Policy Changes.

(a) The Ceding Company will not, without the prior written consent of the Reinsurer, terminate, amend, modify or waive any provision or provisions of the Reinsured Policies which are material to the business reinsured under this Agreement.

(b) Any such terminations, amendments, modifications or waivers made without the prior written consent of the Reinsurer shall be disregarded for purposes of this Agreement, and the reinsurance with respect to the affected policy will continue as if such termination, amendment, modification or waiver had not been made.

Section 2.05 Reinstatement of Surrendered Policies. If a Reinsured Policy that has been surrendered is reinstated according to its terms and the Ceding Company's reinstatement policies, the Reinsurer will, upon notification, automatically reinstate the reinsurance with respect to such Reinsured Policy; provided, that, to the extent that the reinstatement of such Reinsured Policy requires payment of premiums in arrears or reimbursement of claims paid, the Ceding Company shall pay to the Reinsurer all Reinsurance Premiums in arrears and the Quota Share of all reimbursements of Claims paid on such Reinsured Policy.

Section 2.06 Misstatement of Fact. In the event of a change in the amount payable under a Reinsured Policy due to a misstatement in fact, the Reinsurer's liability with respect to such Reinsured Policy will change proportionately. The Reinsured Policy will be rewritten from commencement on the basis of the adjusted amounts using premiums and such other terms based on the correct facts, and the proper adjustment for the difference in Reinsurance Premiums, without interest, will be made.

Section 2.07 Programs of Internal Replacement. The Ceding Company shall not solicit, or allow its Affiliates to solicit, directly or indirectly, policy holders of the Reinsured Policies in connection with any program of internal replacement. The term "program of internal replacement" means any program sponsored or supported by the Ceding Company or any of its Affiliates that is offered to a class of policy owners and in which a Reinsured Policy or a portion

of a Reinsured Policy is exchanged for another policy that is written by the Ceding Company or any Affiliate of the Ceding Company or any successor or assignee of any of them.

ARTICLE III

REINSURED PREMIUMS

Section 3.01 Reinsurance Premiums. The payment of Reinsurance Premiums is a condition precedent to the liability of the Reinsurer under this Agreement. The Ceding Company shall pay to the Reinsurer the Quota Share of the gross premiums received by the Ceding Company with respect to the Reinsured Policies (the "Reinsurance Premiums"). Such Reinsurance Premiums shall be payable in accordance with Section 9.03.

ARTICLE IV

POLICY EXPENSES

Section 4.01 Commissions, Marketing Fee and Policy Issuance Fee. In connection with the issuance of each Reinsured Policy, the Reinsurer shall pay to the Ceding Company an expense allowance related to such Reinsured Policy in an amount equal to (a) the Quota Share of initial commissions set forth on Schedule IV multiplied by gross premiums received by the Ceding Company with respect to such Reinsured Policy (the "Commissions") plus (b) a marketing expense allowance equal to the Quota Share of one percent (1.00%) of gross premiums received by the Ceding Company upon the issuance of such Reinsured Policy (the "Marketing Fee") plus (c) a per policy issuance fee equal to the Quota Share of \$250 (the "Policy Issuance Fee").

Section 4.02 Renewal Commissions. Subject to the terms set forth on Schedule IV, upon the renewal dates set forth on Schedule IV, the Reinsurer shall pay to the Ceding Company the Quota Share of the respective renewal commissions set forth on Schedule IV multiplied by gross premiums received by the Ceding Company upon the original issuance of such Reinsured Policy (the "Renewal Commissions").

Section 4.03 Administration Fee. On a monthly basis, the Reinsurer shall pay to the Ceding Company an expense allowance related to all Reinsured Policies (the "Administration Fee" and, together with the Commissions, the Marketing Fees, the Policy Issuance Fees and the Renewal Commissions, the "Policy Expenses") in an amount equal to the Quota Share of (a) \$4.00 multiplied by (b) (i) the number of Reinsured Policies in force on the first day of the relevant month plus the number of Reinsured Policies in force on the last day of the relevant month, divided by (ii) two (2). A three percent (3%) per annum inflation factor will be added to the Administration Fee commencing on the first anniversary of this Agreement. The Policy Expenses shall be payable by the Reinsurer to the Ceding Company in accordance with Section 9.03.

ARTICLE V

C-4 RISK CHARGE

Section 5.01 C-4 Risk Charge. The Reinsurer will reimburse the Ceding Company for the economic cost of funding the statutory risk-based-capital associated with C-4 Risk (the "C-4 Risk Charge") quarterly in an amount equal to 17 basis points per annum (0.17%) multiplied by the average of Ceded Reserves during the relevant quarterly period. The C-4 Risk Charge shall be payable in accordance with Section 9.03.

ARTICLE VI

GUARANTY FUND ASSESSMENTS

Section 6.01 Guaranty Fund Assessments. The Reinsurer shall reimburse the Ceding Company for the Quota Share of any Guaranty Fund Assessments paid by the Ceding Company with respect to any Reinsured Policy. To the extent there is any recovery of Guaranty Fund Assessments paid by the Reinsurer, the Ceding Company shall promptly pay the Quota Share of such recovery to the Reinsurer.

ARTICLE VII

HEDGING

Section 7.01 Acquisition of Hedges; Payments.

(a) In accordance with the Hedging Procedures, the Ceding Company shall purchase derivatives in connection with the Reinsured Policies (the “Hedges”), primarily in the form of equity index call options, to hedge the index risk associated with the Reinsured Policies. The Ceding Company shall assign to the Reinsurer a fractional interest in the gross proceeds in respect of the Hedges purchased in an amount sufficient to hedge the index risk associated with the Quota Share of the Reinsured Policies (such fractional interest, the “Assigned Hedge Interest Proportion”). Such assignment shall occur automatically, without further action on the part of either party to this Agreement, upon the purchase by the Ceding Company of any Hedge in accordance with the Hedging Procedures or, in the case of any Hedges entered into prior to the date hereof, as of the date hereof.

(b) The Ceding Company shall pay to the Reinsurer any Assigned Hedge Proceeds Amounts, and the Reinsurer shall pay to the Ceding Company any Assigned Hedge Costs Amounts, in each case, in accordance with Section 9.03. The Ceding Company shall act as the agent for the Reinsurer in making payments and collecting proceeds with respect to the Assigned Hedge Interest Proportion of each Hedge.

(c) For the avoidance of doubt, in the event that there are Assigned Hedge Proceeds Amounts with respect to a Hedge for a Weekly Hedging Proceeds Period and the Ceding Company fails to make a corresponding Weekly Assigned Hedge Proceeds Settlement Amount payment, the Reinsurer shall have the right to setoff the amount of such payment against any amounts owed to the Ceding Company hereunder.

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Section 7.02 Hedging Standards.

(a) The Ceding Company shall use reasonable care in its hedging activities with respect to the Reinsured Policies, and such activities shall be (i) consistent with the Hedging Procedures, (ii) consistent with the Ceding Company’s hedging strategies with respect to index annuity contracts issued by the Ceding Company, including with respect to counterparty exposure, and (iii) no less favorable than the hedging activities used by the Ceding Company with respect to index annuity contracts issued by the Ceding Company that are not Reinsured Policies. In addition, the Ceding Company shall not treat the Hedges in any respect in a manner that is different than the manner in which it treats the hedges it enters into with respect to index annuity contracts issued by the Ceding Company that are not Reinsured Policies.

(b) The Ceding Company shall not, without the prior written consent of the Reinsurer, (i) make any changes to the Hedging Procedures as they relate to hedging the Reinsurer’s risk hereunder or (ii) assign or otherwise transfer any interest or obligation in or under any Hedge.

(c) The Ceding Company shall consult with the Reinsurer with respect to the selection of counterparties for the Hedges.

ARTICLE VIII

CLAIMS AND ANNUITIZATIONS

Section 8.01 Claims Payment. Subject to Section 8.02, the Reinsurer shall pay to the Ceding Company the Quota Share of the Claims paid by the Ceding Company in accordance with Section 9.03. “Claims” will consist of claims, net of applicable surrender charges, if any, for benefits related to partial surrenders, full surrenders, death claims and other contractual benefits under the Reinsured Policies and incurred on or after the Effective Date. Claims shall not include any Annuity Payments, Excluded Liabilities or any liabilities other than the Reinsured Liabilities.

Section 8.02 Claims Settlement.

(a) The Ceding Company is responsible for the settlement of Claims in accordance with Article XI, applicable law and policy terms.

(b) The Ceding Company will notify the Reinsurer promptly of its intention to investigate, contest, compromise or litigate any Claim involving a Reinsured Policy (any such claim, a “Contested Claim”). The Ceding Company will provide the Reinsurer all relevant information and documents, as such become available, pertaining to Contested Claims and will promptly report any developments during the Reinsurer’s review.

(c) Subject to Section 2.01(f) relating to Excluded Liabilities, the Reinsurer will reimburse the Ceding Company for its Quota Share of the reasonable expenses of any contest or compromise of a Claim, and will share in the reduction of liability in the same proportion. If the Reinsurer so elects, it may discharge its liability with respect to any Contested Claim by paying to the Ceding Company its Quota Share of such Claim as originally presented

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to the Ceding Company and, thereafter, will have no obligation to the Ceding Company for reimbursement of expenses related to the contest of such Claim and will not share in any subsequent reduction in liability relating to such Claim.

(d) If the Reinsurer does not elect to discharge its liability with respect to any Contested Claim as set forth in Section 8.02(c), the Ceding Company will promptly advise the Reinsurer of all significant developments, including notice of legal proceedings (including, but not limited to, consumer complaints or actions by governmental authorities) initiated in connection with such Contested Claim.

Section 8.03 Recoveries. Subject to Section 8.02(c), if the Ceding Company obtains any recoveries in respect of a Claim paid by it in accordance with the terms of any Reinsured Policy, the Ceding Company shall promptly pay to the Reinsurer the Quota Share of such recoveries.

Section 8.04 Annuitizations. In the event that a Reinsured Policy is annuitized under the contract provisions of such policy (each an "Annuitization"), the Ceding Company shall convert such Reinsured Policy to one or more Supplementary Contracts. At the time of such conversion, the Reinsurer shall pay to the Ceding Company an amount equal to the Quota Share of the policy surrender value of such Reinsured Policy as of the time of the conversion (an "Annuitization Payment") in accordance with Section 9.03. Upon the Annuitization of a Reinsured Policy, the deferred annuity contract, including any amendments, riders or endorsements attached thereto and any associated Supplementary Contracts, comprising such Reinsured Policy shall cease to be a Reinsured Policy under this Agreement, and, with the exception of the Annuitization Payment described in this Section 8.04, the Reinsurer will have no further liability with respect to such deferred annuity contract, any amendments, riders or endorsements attached thereto or any associated Supplementary Contracts.

ARTICLE IX

REPORTING AND SETTLEMENTS

Section 9.01 Ceding Company Reporting.

(a) Within eight (8) Business Days following the end of each calendar month other than a calendar month following which a Quarterly Accounting Report will be delivered under Section 9.01(b), the Ceding Company shall deliver to the Reinsurer an accounting report (a "Monthly Accounting Report") substantially in the form set forth in Exhibit A for the immediately preceding calendar month (a "Monthly Accounting Period").

(b) Within eight (8) Business Days following the end of each calendar quarter and any Termination Effective Date, the Ceding Company shall deliver to the Reinsurer an accounting report (a "Quarterly Accounting Report") substantially in the form set forth in Exhibit B for the immediately preceding calendar quarter (a "Quarterly Accounting Period") or, in the case of termination, the period from the end of the immediately preceding Quarterly Accounting Period to the date on which this Agreement is terminated (the "Terminal Accounting Period"), as applicable.

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(c) Within eight (8) Business Days following the end of each Monthly Accounting Period, the Ceding Company shall deliver to the Reinsurer a report of the Reinsured Policies (a "Reinsured Policies Report") substantially in the form set forth in Exhibit C and *seriatim* information with respect to each of the Reinsured Policies which shall be redacted such that it does not include information identifiable to an individual policyholder.

(d) On the Business Day immediately preceding the last Business Day of each calendar week, the Ceding Company shall deliver to the Reinsurer a report (a "Weekly Hedging Acquisition Report") substantially in the form set forth in Exhibit D for such calendar week (a "Weekly Hedging Acquisition Period"). On the second (2nd) Business Day of each calendar week, the Ceding Company shall deliver to the Reinsurer a report (a "Weekly Hedging Proceeds Report") substantially in the form set forth in Exhibit E for the immediately preceding calendar week (a "Weekly Hedging Proceeds Period").

(e) Within eight (8) Business Days following the end of each Monthly Accounting Period, the Ceding Company shall deliver to the Reinsurer a report of the Hedges in substantially the form set forth in Exhibit F.

(f) Within three (3) Business Days following the preparation thereof by the Ceding Company, and at least once for each Quarterly Accounting Period (which shall be delivered no later than twenty-five (25) calendar days following the end of the relevant Quarterly Accounting Period), the Ceding Company shall deliver to the Reinsurer a report (the "Hedging Effectiveness Report") substantially in the form of Exhibit G which demonstrates the effectiveness of the Hedges on an aggregate basis as a hedge against the index risk associated with the Quota Share of the Reinsured Policies. Upon the reasonable request of the Reinsurer, the Ceding Company shall (i) make available to the Reinsurer employees and officers of the Ceding Company knowledgeable about the Hedges and the Hedging Effectiveness Report and (ii) provide to the Reinsurer information related to the Hedges or the Hedging Effectiveness Report.

(g) The Ceding Company shall deliver to the Reinsurer (i) a copy of its unaudited annual statement (Blue Book) within eight (8) Business Days following the filing thereof with the Iowa Insurance Division but no later than March 1 of each year, (ii) a copy of its audited annual statutory financial statements within eight (8) Business Days following the filing thereof with the Iowa Insurance Division but no later than June 1 of each year, (iii) a copy of its unaudited quarterly statutory financial statements within eight (8) Business Days following the filing thereof with the Iowa Insurance Division but no later than forty-five (45) calendar days after the end of each calendar quarter, (iv) a copy of the audited annual financial statements of American Equity Investment Life Holding Co. within eight (8) Business Days following the filing thereof with the United States Securities and Exchange Commission but no later than March 31 of each year and (v) a copy of the unaudited quarterly financial statements of American Equity Investment Life Holding Co. within eight (8) Business Days following the filing thereof with the United States Securities and Exchange Commission but no later than May 31, August 31 and November 30 of each year, as applicable.

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(h) Upon request, the Ceding Company will promptly provide the Reinsurer with any additional information related to the Reinsured Policies which the Reinsurer requires in order to complete its financial statements.

(i) The Ceding Company acknowledges that timely and correct compliance with the reporting requirements of this Agreement are a material element of the Ceding Company's responsibilities hereunder and an important basis of the Reinsurer's ability to reinsure the risks hereunder.

Consistent and material non-compliance with reporting requirements, including extended delays, will constitute a material breach of the terms of this Agreement.

Section 9.02 Reinsurer Reporting. The Reinsurer shall deliver to the Ceding Company (a) a copy of its audited annual statutory financial statements or unaudited annual statutory financial statements, in each case, within eight (8) Business Days following the filing thereof with the Bermuda Monetary Authority, which filing is due by April 30 of each year, and (b) a copy of its unaudited quarterly statutory financial statements within eight (8) Business Days after the completion thereof but no later than sixty (60) calendar days after the end of each quarter.

Section 9.03 Settlements.

(a) Until such time that credit for reinsurance is not provided through the Funds Withheld Account as specified in Section 10.02(a), a daily settlement amount shall be calculated on each Business Day by the Ceding Company on the basis of Reinsurance Premiums received with respect to Reinsured Policies issued during the previous Business Day, Commissions, Marketing Fees and Policy Issuance Fees with respect to Reinsured Policies issued during the previous Business Day, Renewal Commissions with respect to Reinsured Policies whose renewal dates (as determined in accordance with Schedule IV) occurred during the previous Business Day, Claims paid by the Ceding Company during the previous Business Day and Annuity Payments with respect to Annuities occurring during the previous Business Day. On each Business Day, the Ceding Company shall effectuate the payment of such daily settlement amount by (i) depositing such Reinsurance Premiums, net of any Commissions, Marketing Fees, Policy Issuance Fees and Renewal Commissions then due, into the Funds Withheld Account and (ii) withdrawing the Annuity Payments and the Quota Share of such Claims from the Funds Withheld Account.

(b) The net balance payable under this Agreement for each Monthly Accounting Period (as set forth in the applicable Monthly Accounting Report, the "Monthly Net Settlement Amount") shall be payable as follows:

(i) if the Monthly Net Settlement Amount indicated in the Monthly Accounting Report is positive, the Ceding Company shall deposit such amount into the Funds Withheld Account, or, if a Funds Withheld Account is not being used to provide credit for reinsurance, pay such amount to the Reinsurer, on the date of delivery of the Monthly Accounting Report to the Reinsurer; or

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(ii) if the Monthly Net Settlement Amount indicated in the Monthly Accounting Report is negative, the Ceding Company shall withdraw the absolute value of such negative amount from the Funds Withheld Account on the date that is five (5) Business Days following the delivery of the Monthly Accounting Report to the Reinsurer; provided, that if the absolute value of such negative Monthly Net Settlement Amount is greater than the Statutory Carrying Value of the assets in the Funds Withheld Account as of the last day of the relevant Monthly Accounting Period, then the Reinsurer shall pay the amount of such difference to the Ceding Company no later than eight (8) Business Days after the receipt by the Reinsurer of the applicable Monthly Accounting Report.

(c) The net balance payable under this Agreement for each Quarterly Accounting Period and any Terminal Accounting Period (as set forth in the applicable Quarterly Accounting Report, the "Quarterly Net Settlement Amount") shall be payable as follows:

(i) if the Quarterly Net Settlement Amount indicated in the Quarterly Accounting Report is positive, the Ceding Company shall deposit such amount into the Funds Withheld Account, or, if a Funds Withheld Account is not being used to provide credit for reinsurance, pay such amount to the Reinsurer, on the date of delivery of the Quarterly Accounting Report to the Reinsurer; and

(ii) if the Quarterly Net Settlement Amount indicated in the Quarterly Accounting Report is negative, the Ceding Company shall withdraw the absolute value of such negative amount from the Funds Withheld Account on the date that is five (5) Business Days following the delivery of the Quarterly Accounting Report to the Reinsurer; provided, that if the absolute value of such negative Quarterly Net Settlement Amount is greater than the Statutory Carrying Value of the assets in the Funds Withheld Account as of the last day of the relevant Quarterly Accounting Period, then the Reinsurer shall pay the amount of such difference to the Ceding Company no later than eight (8) Business Days after the receipt by the Reinsurer of the applicable Quarterly Accounting Report.

(d) The Funds Withheld Adjustment payable under this Agreement for each Quarterly Accounting Period and any Terminal Accounting Period (as set forth in the applicable Quarterly Accounting Report) shall be payable as follows:

(i) if the Funds Withheld Adjustment is positive, the Reinsurer shall deposit Permitted Assets with a Statutory Carrying Value equal to such positive amount into the Funds Withheld Account no later than eight (8) Business Days after the receipt by the Reinsurer of the applicable Quarterly Accounting Report; provided that, if credit for reinsurance is being provided through a Reinsurance Trust or a Letter of Credit pursuant to Section 10.02, the Reinsurer may satisfy its obligations pursuant to this Section 9.03(d)(i) by depositing Permitted Assets with a market value equal to such positive amount in a Reinsurance Trust or providing a Letter of Credit with an available amount equal to such positive amount, in each case, no later than eight (8) Business Days after the receipt by the Reinsurer of the applicable Quarterly Accounting Report;

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(ii) if the Funds Withheld Adjustment is negative, on the date of delivery of the Quarterly Accounting Report, the Ceding Company shall withdraw the absolute value of such negative amount from the Funds Withheld Account and pay the absolute value of such negative amount to the Reinsurer; provided, that, if the absolute value of such negative amount is greater than the Statutory Carrying Value of the assets held in the Funds Withheld Account, the Ceding Company shall permit the Reinsurer to withdraw assets from any Reinsurance Trust and/or reduce the available amount of any Letter of Credit in an amount equal to the absolute value of such negative amount.

(e) The aggregate Assigned Hedge Costs Amount payable under this Agreement for each Weekly Hedging Acquisition Period (as set forth in the applicable Weekly Hedging Acquisition Report, the "Weekly Assigned Hedge Costs Settlement Amount") and the aggregate Assigned Hedge Proceeds Amount payable under this Agreement for each Weekly Hedging Proceeds Period (as set forth in the applicable Weekly Hedging Proceeds Report, the "Weekly Assigned Hedge Proceeds Settlement Amount") shall be payable as follows:

(i) the Ceding Company shall withdraw the Weekly Assigned Hedge Costs Settlement Amount from the Funds Withheld Account on the Business Day immediately following the day on which the applicable Weekly Hedging Acquisition Report is delivered; provided, that if the Weekly Assigned Hedge Costs Settlement Amount is greater than the Statutory Carrying Value of the assets in the Funds Withheld Account as of such date, then the Reinsurer shall pay the amount of such difference to the Ceding Company no later than eight (8) Business Days after the receipt by the Reinsurer of the applicable Weekly Hedging Acquisition Report; and

(ii) the Ceding Company shall deposit the Weekly Assigned Hedge Proceeds Settlement Amount into the Funds Withheld Account, or, if a Funds Withheld Account is not being used to provide credit for reinsurance, pay such amount to the Reinsurer, on the Business Day immediately following the day on which the applicable Weekly Hedging Proceeds Report is delivered.

(f) Any amount due under this Agreement shall be paid by wire transfer of immediately available funds to the account or accounts designated by the recipient.

ARTICLE X

CREDIT FOR REINSURANCE

Section 10.01 Reserves. The Reinsurer shall establish reserves in respect of the Reinsured Policies (the "Ceded Reserves") in an amount equal to the Quota Share of the Gross Reserves. The Gross Reserves shall be calculated in good faith on a *seriatim* basis by the Ceding Company in accordance with SAP, using the highest valuation interest rates permitted under SAP guidelines for the liabilities ceded. In no event shall Gross Reserves include (a) additional actuarial reserves (as used in connection with SAP), if any, established by the Ceding Company as a result of its annual cash flow testing, (b) any asset valuation reserves (as used in connection with SAP) established by the Ceding Company, or (c) any other reserve not directly attributable to specific Reinsured Policies.

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Section 10.02 Form of Security. The Reinsurer shall ensure that the Ceding Company will receive credit for the reinsurance effected hereunder on its statutory financial statements filed in the State of Iowa and all other states in which it must file statutory financial statements. In order to provide the Ceding Company with such credit for reinsurance for the Ceded Reserves, the Reinsurer shall:

(a) request the Ceding Company to establish a segregated account (the "Funds Withheld Account"), pursuant to a trust agreement attached as Exhibit H, with a Qualified United States Financial Institution meeting the requirements set forth in Section 10.03;

(b) establish a United States trust account (a "Reinsurance Trust") (naming the Reinsurer as the grantor and the Ceding Company as the beneficiary) with a Qualified United States Financial Institution meeting the requirements set forth in Section 10.04;

(c) cause to remain in full force and effect one or more letters of credit (each, a "Letter of Credit") meeting the requirements set forth in Section 10.05;

(d) utilize any other method permitted by the Iowa Insurance Division (including becoming licensed as a life insurance company in the State of Iowa); or

(e) provide a combination of items (a), (b), (c) and (d) above.

The Reinsurer shall determine the method by which the Reinsurer provides credit for reinsurance hereunder for the Ceded Reserves, as long as such method is set forth in this Section 10.02; provided, that any election by the Reinsurer to secure its obligations hereunder for the Ceded Reserves through the use of any method other than that set forth in Section 10.02(a) shall be subject to the consent of the Ceding Company (such consent not to be unreasonably withheld); provided, further, no consent of the Ceding Company shall be required if the Ceding Company is in breach of any provision of this Agreement and such breach has not been cured within fifteen (15) Business Days after the Reinsurer has provided notice of such breach to the Ceding Company. If the relevant laws or regulations of the State of Iowa are amended or there is a change in legal status by either the Ceding Company or the Reinsurer subsequent to the Effective Date of this Agreement, and if, as a result of such change, a different amount or a different type of security is necessary to maintain the Ceding Company's credit for reinsurance, the Reinsurer may, subject to the consent of the Ceding Company (such consent not to be unreasonably withheld), adjust the amount of security or change the type of security to comply with the revised requirements. Such adjustments may include reducing the security in or terminating in its entirety the Funds Withheld Account, any Reinsurance Trust or any Letter of Credit. The Reinsurer and the Ceding Company will cooperate in good faith to effectuate this provision. Furthermore, in the event at any time the Funds Withheld Account, any Reinsurance Trust or any Letter of Credit becomes unnecessary in order for the Ceding Company to receive credit for reinsurance under this Agreement, the Ceding Company and the Reinsurer shall cooperate in good faith to terminate the Funds Withheld Account, any Reinsurance Trust or any Letter of Credit, and all other terms and conditions of this Agreement shall remain in full force and effect.

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Section 10.03 Funds Withheld Account.

(a) On August 18, 2009, the Ceding Company deposited Permitted Assets with a Statutory Carrying Value, as of the date of such deposit, equal to \$346,950,000 in the Funds Withheld Account, and on September 4, 2009, the Ceding Company deposited Permitted Assets with a Statutory Carrying Value, as of the date of such deposit, equal to \$39,103,148.31 in the Funds Withheld Account (the aggregate of such deposits, the "Initial Deposit Amount"). The parties acknowledge that interest shall be payable by the Ceding Company to the Reinsurer on such Initial Deposit Amount at a rate equal to six and three-tenths percent (6.30%) per annum from and including January 1, 2009 to and excluding September 1, 2009; provided that, for the purpose of calculating such interest amount, the Reinsurance Premiums, net of Policy Expenses, with respect to each Reinsured Policy issued prior to September 1, 2009 shall be deemed (i) to have been received by the Ceding Company on the fifteenth (15th) day of the calendar month in which such Reinsured Policy was issued and (ii) not to have been deposited in the Funds Withheld Account.

(b) The Funds Withheld Amount so held in the Funds Withheld Account shall increase or decrease at the end of each Business Day, Monthly Accounting Period and each Quarterly Accounting Period based on the settlement procedures set forth in Section 9.03.

(c) The Ceding Company shall establish and maintain an account payable to the Reinsurer on its statutory books and records in the amount of the Funds Withheld Amount. The assets constituting the Funds Withheld Amount shall be invested in and consist only of Permitted Assets and shall be valued according to their Statutory Carrying Value.

(d) The Funds Withheld Account shall remain in effect for as long as the Reinsurer has outstanding obligations under this Agreement, until the Reinsurer effectuates the provision of all of the reinsurance credit required to be provided to the Ceding Company hereunder through the use of any method other than the method set forth in Section 10.02(a) or until earlier terminated by mutual agreement. The Funds Withheld Account shall be established and maintained by the Ceding Company exclusively for the purposes set forth in this Agreement.

(e) Notwithstanding any other provision hereof, assets held in the Funds Withheld Account may be withdrawn by the Ceding Company at any time and shall be utilized and applied by the Ceding Company or any of its successors in interest by operation of law, including any liquidator, rehabilitator, receiver or conservator of the Ceding Company, without diminution because of insolvency on the part of the Ceding Company or the Reinsurer, only for the following purposes:

(i) to reimburse the Ceding Company for the Quota Share of premiums which are returned to the owners of the Reinsured Policies because of cancellations of such Reinsured Policies;

(ii) to reimburse the Ceding Company for Annuitization Payments and the Quota Share of Claims paid pursuant to the provisions of the Reinsured Policies;

(iii) to pay any other amounts which the Ceding Company claims are due under this Agreement; and

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(iv) to pay any Net Settlement Amount, Funds Withheld Adjustment or Weekly Assigned Hedge Proceeds Settlement Amount due from the Ceding Company to the Reinsurer.

Notwithstanding the foregoing, other than withdrawals made by the Ceding Company for the purpose of effectuating the payment of daily settlement amounts under Section 9.03(a), the Ceding Company shall only withdraw funds from the Funds Withheld Account upon providing the Reinsurer with written notice at least five (5) Business Days prior to such withdrawal.

(f) The Ceding Company shall promptly return to the Funds Withheld Account any assets withdrawn in excess of the actual amounts required in paragraphs (i) through (iv) immediately above or any amounts that are subsequently determined not to be due under paragraph (iii) immediately above ("Funds Withheld Excess Withdrawals"). The Ceding Company shall also pay interest on any Funds Withheld Excess Withdrawals at a rate equal to the portfolio yield on the assets in the Funds Withheld Account for the calendar quarter immediately preceding the date of determination from and including the date of withdrawal to but excluding the date on which the Funds Withheld Excess Withdrawal is returned to the Funds Withheld Account. Any Funds Withheld Excess Withdrawals shall be held by the Ceding Company or any successor in interest of the Ceding Company in trust for the benefit of the Reinsurer and shall at all times be maintained separate and apart from any assets of the Ceding Company, for the sole purposes described in paragraphs (i) through (iv) immediately above.

(g) The Ceding Company and the Reinsurer agree that any IMR required to be maintained with respect to assets in the Funds Withheld Account shall be ceded to and held by the Reinsurer and the Ceding Company shall have no obligation to establish any IMR related to such assets. Any IMR with respect to assets in the Funds Withheld Account shall be calculated by the Reinsurer.

(h) Determinations of statutory impairments of assets held in the Funds Withheld Account which are made by the Ceding Company will be subject to the consent of the Reinsurer (such consent not to be unreasonably withheld). Notwithstanding Article XV, any disagreements with respect to the determinations of statutory impairments of assets held in the Funds Withheld Account shall be subject to this Section 10.03(h). The Ceding Company shall promptly notify the Reinsurer in writing if the Ceding Company determines that any assets held in the Funds Withheld Account have become impaired for purposes of determining Statutory Carrying Value. Such notice shall describe any such assets, the reason for the impairment and the effect on Statutory Carrying Value of such assets. The Reinsurer shall have ten (10) Business Days to provide written notice of its withholding of consent (the "Objection Notice") to any such impairment to the Ceding Company and if the Reinsurer fails to provide such Objection Notice to the Ceding Company within such time period, the Reinsurer shall be deemed to have consented to such impairment. During the ten (10) Business Days immediately following the delivery of an Objection Notice, the Ceding Company and the Reinsurer will seek in good faith to resolve any disputes as to the determination or calculation of statutory impairments of assets held in the Funds Withheld Account, and in the event such dispute is the result of the Ceding Company's independent auditor's determination or calculation of statutory impairments of assets held in the Funds Withheld Account, the Ceding Company agrees to reasonably cooperate with the Reinsurer in presenting facts and evidence to such independent auditor in appealing such

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determination or calculation. In the event that a dispute as to the determination or calculation of statutory impairments of assets held in the Funds Withheld Account is not resolved within five (5) calendar days prior to the date on which the Ceding Company is required to file a statutory financial statement with an applicable insurance regulator, then the parties shall use reasonable efforts and work together in good faith to resolve such dispute prior to the date on which the Ceding Company is required to file the relevant statutory financial statement with the relevant insurance regulator, and if the parties are unable to resolve such dispute prior to such date, then the Ceding Company may use its independent auditor's good faith calculation of statutory impairments for purposes of preparing its statutory financial statements. Except as otherwise set forth in this Section 10.03(h), no statutory impairment that is subject to dispute pursuant to this Section 10.03(h) shall be effective prior to the resolution of such dispute.

(i) Subject to Section 10.02, in the event that the Reinsurer elects to provide the Ceding Company with reinsurance credit through the use of any method other than the method set forth in Section 10.02(a), the Ceding Company shall transfer assets from the Funds Withheld Account to the Reinsurer with a Statutory Carrying Value equal to any reinsurance credit provided under such alternative methods; provided, that the Ceding Company and the Reinsurer shall reasonably agree upon the assets to be transferred and the Ceding Company and the Reinsurer shall attempt to ensure that the market value to book value ratio of the assets so transferred is substantially the same as the market value to book value ratio of the assets held in the Funds Withheld Account immediately prior to such transfer.

(j) The Reinsurer shall bear the administrative costs and expenses related to the establishment and maintenance of the Funds Withheld Account, including the fees of any investment manager appointed pursuant to Section 10.07. The Ceding Company shall promptly forward to the Reinsurer any invoice it receives relating to such costs and expenses. On the eighth (8th) Business Day following the date on which it delivers such invoice to the Reinsurer, the Ceding Company shall authorize the withdrawal of the amount of such costs and expenses from the Funds Withheld Account; provided that if such amount is greater than the Statutory Carrying Value of the assets in the Funds Withheld Account, then the Reinsurer shall pay the amount of such difference to the Ceding Company no later than eight (8) Business Days following the delivery of such invoice to the Reinsurer.

Section 10.04 Reinsurance Trust.

(a) Any trust agreement establishing a Reinsurance Trust for the benefit of the Ceding Company shall comply in all respects with the statutes and regulations of the State of Iowa.

(b) The assets deposited in such Reinsurance Trust shall (i) be valued according to their current fair market value and (ii) consist only of Permitted Assets.

(c) Prior to depositing assets with the trustee, the Reinsurer shall execute assignments, endorsements in blank or transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the Ceding Company, or the trustee upon the direction of the Ceding Company, may whenever necessary negotiate any such assets without consent or signature from the Reinsurer or any other entity.

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(d) All settlements of account under such a trust agreement between the Ceding Company and the Reinsurer shall be made in cash or its equivalent.

(e) Notwithstanding any other provision hereof, assets in any Reinsurance Trust may be withdrawn by the Ceding Company at any time and shall be utilized and applied by the Ceding Company or any of its successors in interest by operation of law, including any liquidator, rehabilitator, receiver or conservator of the Ceding Company, without diminution because of insolvency on the part of the Ceding Company or the Reinsurer, only for the following purposes:

(i) to reimburse the Ceding Company for the Quota Share of premiums which are returned to the owners of the Reinsured Policies because of cancellations of such Reinsured Policies;

(ii) to reimburse the Ceding Company for Annuitization Payments and the Quota Share of Claims paid pursuant to the provisions of the Reinsured Policies;

(iii) to fund an account with the Ceding Company (when combined with any Funds Withheld Amount and amounts available under Letters of Credit pursuant to Section 10.05) in an amount at least equal to the Ceding Company's deduction for reinsurance ceded on Ceded Reserves;

(iv) to pay any other amounts which the Ceding Company claims are due under this Agreement; and

(v) to pay any Net Settlement Amount, Funds Withheld Adjustment or Weekly Assigned Hedge Proceeds Settlement Amount due from the Ceding Company to the Reinsurer.

Notwithstanding the foregoing, the Ceding Company shall not withdraw funds from any Reinsurance Trust until the expiration of any payment periods accorded the Reinsurer under Section 9.03, and then only upon providing the Reinsurer with written notice at least five (5) Business Days prior to such withdrawal.

(f) The Ceding Company shall promptly return to the Reinsurance Trust any assets withdrawn in excess of the actual amounts required in paragraphs (i) through (v) immediately above or any amounts that are subsequently determined not to be due under paragraph (iv) immediately above ("Reinsurance Trust Excess Withdrawals"). The Ceding Company shall also pay interest on any Reinsurance Trust Excess Withdrawals at a rate equal to six percent (6%) per annum from and including the date of withdrawal to but excluding the date on which the Reinsurance Trust Excess Withdrawal is returned to the Reinsurance Trust. Any Reinsurance Trust assets withdrawn by the Ceding Company, including any Reinsurance Trust Excess Withdrawals, shall be held by the Ceding Company or any successor in interest of the Ceding Company in trust for the benefit of the Reinsurer and shall at all times be maintained separate and apart from any assets of the Ceding Company, for the sole purposes described in paragraphs (i) through (v) immediately above.

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(g) The Reinsurer may seek the approval of the Ceding Company (which approval shall not be unreasonably or arbitrarily withheld or delayed) to withdraw from the Reinsurance Trust all or any part of the assets contained therein and transfer such assets to the Reinsurer, provided that:

(i) the Reinsurer shall, at the time of such withdrawal, replace the withdrawn assets with other qualified assets having a market value at least equal to the market value of the assets withdrawn; or

(ii) after such withdrawals and transfers, the market value of the assets held in the Reinsurance Trust is no less than 102% of (A) Ceded Reserves minus (B) the book value of assets in the Funds Withheld Account, if any, minus (C) the amount available under Letters of Credit pursuant to Section 10.05.

(h) The Reinsurer shall bear the administrative costs and expenses related to the establishment and maintenance of the Reinsurance Trust, including the fees of any investment manager appointed pursuant to Section 10.07.

Section 10.05 Letters of Credit.

(a) Each Letter of Credit shall be clean, irrevocable, unconditional, “evergreen” and issued or confirmed by a Qualified United States Financial Institution for the benefit of the Ceding Company.

(b) Notwithstanding any other provision hereof, any Letters of Credit may be drawn upon in full or in part at any time and shall be utilized and applied by the Ceding Company or any of its successors in interest by operation of law, including any liquidator, rehabilitator, receiver or conservator of the Ceding Company, without diminution because of insolvency on the part of the Ceding Company or the Reinsurer, only for the following purposes:

(i) to reimburse the Ceding Company for the Quota Share of premiums which are returned to the owners of the Reinsured Policies because of cancellations of such Reinsured Policies;

(ii) to reimburse the Ceding Company for Annuitization Payments and the Quota Share of Claims paid pursuant to the provisions of the Reinsured Policies;

(iii) to fund an account with the Ceding Company (when combined with any Funds Withheld Amount, the market value of any assets held in a Reinsurance Trust pursuant to Section 10.04 and any undrawn amounts available under Letters of Credit pursuant to this Section 10.05) in an amount at least equal to the Ceding Company’s deduction for reinsurance ceded on Ceded Reserves;

(iv) to pay any other amounts which the Ceding Company claims are due under this Agreement; and

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(v) to pay any Net Settlement Amount, Funds Withheld Adjustment or Weekly Assigned Hedge Proceeds Settlement Amount due from the Ceding Company to the Reinsurer.

Notwithstanding the foregoing, the Ceding Company shall not draw upon any Letter of Credit until the expiration of any payment periods accorded the Reinsurer under Section 9.03, and then only upon providing the Reinsurer with written notice at least five (5) Business Days prior to such draw.

(c) The Ceding Company shall promptly return to the Reinsurer any amounts withdrawn in excess of the actual amounts required in paragraphs (i) through (v) immediately above or any amounts that are subsequently determined not to be due under paragraph (iv) immediately above (“Letter of Credit Excess Withdrawals”). The Ceding Company shall also pay interest on any Letter of Credit Excess Withdrawals at a rate equal to six percent (6%) per annum from and including the date of withdrawal to but excluding the date of return to the Reinsurer. Any amounts withdrawn under a Letter of Credit, including any Letter of Credit Excess Withdrawals, shall be held by the Ceding Company or any successor in interest of the Ceding Company in trust for the benefit of the Reinsurer and shall at all times be maintained separate and apart from any assets of the Ceding Company, for the sole purposes described in paragraphs (i) through (v) immediately above.

Section 10.06 Priority of Withdrawal. Notwithstanding any other provision of this Agreement:

(a) the Ceding Company and its successors in interest shall only withdraw assets from the Reinsurance Trust to the extent the sum of (i) the then-current Funds Withheld Amount plus (ii) the Funds Withheld Excess Withdrawals has been reduced to zero; and

(b) the Ceding Company and its successors in interest shall only draw upon Letters of Credit to the extent the sum of (i) the then-current Funds Withheld Amount plus (ii) the Funds Withheld Excess Withdrawals plus (iii) the then-current market value of the assets held in the Reinsurance Trust plus (iv) the Reinsurance Trust Excess Withdrawals has been reduced to zero.

Section 10.07 Investment Management.

(a) Pursuant to an investment management agreement attached as Exhibit I (the “Investment Management Agreement”), Athene Asset Management, LLC has been appointed as investment manager to provide investment management services with respect to the assets held in the Funds Withheld Account (the “Investment Manager”). The Ceding Company shall not remove or replace the Investment Manager without the prior written consent of the Reinsurer; provided that the Ceding Company may, in its sole discretion, remove the Investment Manager in the event that the Investment Manager is no longer an Affiliate of the Reinsurer. In the event that the Investment Manager is removed or resigns, the Ceding Company shall appoint a replacement investment manager as directed by the Reinsurer; provided that, if the Investment Manager is removed because it is no longer an Affiliate of the Reinsurer, then the replacement investment manager shall be selected by the Reinsurer but shall be subject to the consent of the

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Ceding Company (which consent shall not be unreasonably withheld). The replacement investment manager shall accept its appointment by entering into an investment management agreement in a form acceptable to the Ceding Company and the Reinsurer, and substantially similar to the Investment Management Agreement. The Reinsurer shall appoint Athene Asset Management, LLC as investment manager to provide investment management services with respect to the assets held in any Reinsurance Trust established under this Agreement.

(b) The Reinsurer shall indemnify the Ceding Company for any loss, liability or damage resulting from any claim brought against the Ceding Company by the counterparty to, and arising out of, any swap, future, option or other derivative transaction which is executed by the Investment Manager in the Ceding Company's name in accordance with the Investment Management Agreement.

ARTICLE XI

ADMINISTRATION

Section 11.01 Policy Administration. The Ceding Company shall provide all required, necessary and appropriate claims, administrative and other services, including reporting under Article IX, with respect to the Reinsured Policies and Hedges. The Ceding Company shall use reasonable care in its underwriting, administration and claims practices with respect to the Reinsured Policies and in administering and performing its duties under this Agreement and such practices, administration and performance shall (a) be consistent with the Ceding Company's existing practices, administration and performance, the Pricing Methodology and the Hedging Procedures; (b) conform with law; (c) not be fraudulent and (d) be no less favorable than those used by the Ceding Company with respect to other policies of the Ceding Company not reinsured by the Reinsurer. The Ceding Company shall not outsource any underwriting functions, administrative functions or claims administration with respect to the Reinsured Policies or this Agreement without the prior written consent of the Reinsurer. If the Reinsurer consents to any such outsourcing, the Ceding Company shall secure the Reinsurer's right to audit and inspect the party performing such outsourced services.

Section 11.02 Record Keeping.

(a) The Ceding Company shall maintain all records and correspondence for services performed by the Ceding Company hereunder relating to the Reinsured Policies in accordance with industry standards of insurance record keeping. In addition, such records shall be made available for examination, audit, and inspection by the department of insurance of any State within whose jurisdiction the Ceding Company or the Reinsurer operates. The Ceding Company and the Reinsurer further agree that in the event of the termination of this Agreement, any such records in the possession of the Reinsurer shall promptly be duplicated and forwarded to the Ceding Company unless otherwise instructed.

(b) The Ceding Company shall establish and maintain an adequate system of internal controls and procedures for financial reporting relating to the Reinsured Policies and Hedges including associated documentation and shall make such documentation available for examination and inspection by the Reinsurer. All reports provided by the Ceding Company

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pursuant to Article IX shall be prepared in accordance with such system and procedures and shall be consistent with the Ceding Company's books and records.

ARTICLE XII

TERM AND TERMINATION

Section 12.01 Duration of Agreement. Subject to Section 12.02, this Agreement is unlimited as to its duration.

Section 12.02 Termination.

(a) Termination on the Final Date. This Agreement shall automatically terminate as to the reinsurance of new policies on the Final Date. Subject to Sections 8.04, 12.02 and 13.01, all Reinsured Policies in force as of the Final Date will remain Reinsured Policies until the expiration thereof and the Reinsurer shall remain liable thereon.

(b) Termination for Non-Payment. Either party may terminate this Agreement as to all Reinsured Policies if the other party fails to pay any amounts due under this Agreement within thirty (30) calendar days following written notice of non-payment from the non-defaulting party (a "Non-Payment Event"); provided, that reinsurance that is terminated due to non-payment by the Ceding Company may be reinstated by the Ceding Company, subject to the Reinsurer's approval, within sixty (60) calendar days of the date of termination, and upon payment of all amounts in arrears including any interest accrued thereon; provided, further, that the Reinsurer shall have no liability for the payment of any Claims under the Reinsured Policies that are incurred, or any Annuity Payments with respect to Annuity Payments that occur, between the date of termination and the date of the reinstatement of the reinsurance.

(c) Termination for Material Breach. In addition to all other rights and remedies available under this Agreement, either party may terminate this Agreement as to all Reinsurance Policies by providing the other party with a minimum of thirty (30) calendar days prior written notice in the event the other party commits a material breach of any provision of this Agreement, which notice shall specify the nature of such material breach. The breaching party shall have twenty (20) calendar days from the date of the breaching party's receipt of the foregoing notice to cure such material breach to the reasonable satisfaction of the non-breaching party. If the breach is cured, the other party shall provide written notice to the curing party that the breach has been adequately cured. In the event the breaching party fails to cure the material breach within such twenty (20) calendar day period, then, at the option of the non-breaching party and upon notice, this Agreement will terminate upon expiration of the thirty (30) calendar day notice period. Notwithstanding the foregoing, the parties shall cooperate with each other to effect a cure of any breach of the terms of this Agreement.

(d) Termination for Insolvency of Reinsurer. The Ceding Company may terminate this Agreement as to all Reinsured Policies in the event that the Reinsurer becomes insolvent (as set forth in Article XVI) by promptly providing the Reinsurer or its Authorized Representative with written notice of termination, to be effective as of the date on which the Reinsurer's insolvency is established by the authority responsible for such determination. Any

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requirement for a notification period prior to the termination of this Agreement shall not apply under such circumstances.

(a) In the event that this Agreement is terminated as to all Reinsured Policies (including if this Agreement is rejected by any liquidator, receiver, rehabilitator, trustee or similar person acting on behalf of the Ceding Company (a “Receiver”)), a net accounting and settlement as to any balance due under this Agreement will be undertaken by the Ceding Company in accordance with Article IX. In addition, on the date of delivery of the Quarterly Accounting Report related to such termination, the Ceding Company shall transfer all assets in the Funds Withheld Account to the Reinsurer, and the Reinsurer will pay to the Ceding Company, within fifteen (15) Business Days after receipt of the Quarterly Accounting Report, an amount equal to the Ceded Reserves as of the Termination Effective Date.

(b) The Reinsurer’s right to terminate the reinsurance provided hereunder will not prejudice its right to collect premiums, and applicable interest as specified in Section 19.02, for the period during which such reinsurance was in force, through and including any notice period.

(c) If this Agreement is terminated by the Reinsurer as a result of a Non-Payment Event or other material breach by the Ceding Company or is rejected by a Receiver of the Ceding Company, the Ceding Company will provide to the Reinsurer within forty-five (45) calendar days after the Termination Effective Date, a written report which documents the Ceding Company’s good faith calculation of the Embedded Value as of the Termination Effective Date (the “Embedded Value Report”) and will pay an amount equal to the Embedded Value to the Reinsurer upon delivery of such notice. The Ceding Company will provide the Reinsurer with reasonable access to knowledgeable personnel to promptly assist in the evaluation of such calculation. Within thirty (30) calendar days after receipt of the Embedded Value Report, the Reinsurer shall notify the Ceding Company in writing if the Reinsurer disagrees with the Ceding Company’s calculation of the Embedded Value. During the ten (10) Business Days immediately following the delivery of such notice of disagreement, the Ceding Company and the Reinsurer will seek in good faith to resolve any disputes as to such calculation. Notwithstanding Article XV of this Agreement, any and all disputes as to the calculation of the Embedded Value that have not been resolved during such ten (10) Business Day period shall be submitted to an independent actuarial firm reasonably agreed to by each of the Ceding Company and the Reinsurer for review and determination. The parties shall instruct the independent actuarial firm to render its decision as to the appropriate calculation of the Embedded Value within thirty (30) calendar days after the submission of the matter for its review (or as soon thereafter as possible). The parties agree that the arbitration conducted by the independent actuarial firm shall be a “baseball arbitration”. As such, the independent actuarial firm shall evaluate which of the parties’ two calculations of the Embedded Value is more reasonable in light of the evidence provided by both parties in connection with their respective submissions to the independent actuarial firm. The independent actuarial firm shall select one and only one of the calculations of the Embedded Value submitted by the two parties. The independent actuarial firm’s decision shall be final and binding upon each of the Ceding Company and the Reinsurer. In the event that the amount of the Embedded Value (as such Embedded Value is agreed to by the parties or

finally determined by the independent actuarial firm) exceeds the amount of the Embedded Value payment made by the Ceding Company to the Reinsurer pursuant to the first sentence of this Section 12.03(c), then the Ceding Company shall pay the amount of such difference to the Reinsurer within two (2) Business Days following the date on which the Embedded Value is agreed to by the parties or finally determined by the independent actuarial firm. All fees and expenses relating to the work performed by the independent actuarial firm pursuant to this Section 12.03(c) shall be shared equally between the Ceding Company and the Reinsurer.

Section 12.04 Survival. All provisions of this Agreement will survive any termination of this Agreement to the extent necessary to carry out its purpose.

ARTICLE XIII

RECAPTURE

Section 13.01 Recapture. The Ceding Company may recapture each Reinsured Policy on the date that is the last day of the calendar month following the seventh (7th) yearly anniversary of the date of issuance of each such Reinsured Policy (with respect to each such Reinsured Policy, the “Policy Recapture Effective Date”); provided that (a) (i) with respect to Reinsured Policies issued prior to the Effective Date, the Ceding Company has notified the Reinsurer in writing of such election no later than October 15, 2015, or (ii) with respect to the Reinsured Policies issued on or following the Effective Date, the Ceding Company has notified the Reinsurer in writing of such election no later than January 15, 2016 and (b) the Reinsurer has consented in writing to such recapture (such consent not to be unreasonably withheld) within ten (10) Business Days following its receipt of notice of such election from the Ceding Company. Any such election may only be made with respect to all Reinsured Policies and may not be made on a policy-by-policy basis. Any election to recapture by the Ceding Company and consent thereto of the Reinsurer shall each be irrevocable once made and will be binding on the relevant party. If recapture is effective pursuant to this Section 13.01, (i) upon the Policy Recapture Effective Date with respect to a Reinsured Policy, the deferred annuity contract, including any amendments, riders or endorsements attached thereto, comprising such Reinsured Policy shall cease to be a Reinsured Policy under this Agreement and (ii) the Monthly Accounting Report or Quarterly Accounting Report, as applicable, first to be delivered pursuant to Section 9.01 after the applicable Policy Recapture Effective Date will reflect the Ceded Reserves with respect to Reinsured Policies recaptured as of the relevant Policy Recapture Effective Date in accordance with Section 9.03.

ARTICLE XIV

ERRORS AND OMISSIONS

Section 14.01 Errors and Omissions.

(a) Any unintentional or accidental failure to comply with the terms of this Agreement which can be shown to be the result of an oversight or clerical error relating to the administration of reinsurance by either party will not constitute a breach of this Agreement.

Upon discovery, the error will be promptly corrected so that both parties are restored to the position they would have occupied had the oversight or clerical error not occurred. In the event a payment is corrected, the party receiving the payment shall be entitled to interest in accordance with Section 19.02. Should it not be possible to restore both parties to this position, the party responsible for the oversight or clerical error will be responsible for any resulting liabilities and expenses.

(b) If the Ceding Company has failed to cede reinsurance as provided under this Agreement or has failed to comply with reporting requirements with respect to business ceded hereunder, the Reinsurer may require the Ceding Company to audit its records for similar errors and take reasonable actions necessary to correct errors and avoid similar errors. Failing prompt correction, the Reinsurer may limit its liability to the correctly reported Reinsured Policies.

ARTICLE XV

DISPUTE RESOLUTION

Section 15.01 Negotiation.

(a) Within fifteen (15) calendar days after the Reinsurer or the Ceding Company has given the other party written notification of a specific dispute arising out of or relating to this Agreement, each party will appoint a designated officer of its company to attempt to resolve such dispute. The officers will meet at a mutually agreeable location as soon as reasonably possible and as often as reasonably necessary in order to gather and furnish the other with all appropriate and relevant information concerning the dispute. The officers will discuss the matter in dispute and will negotiate in good faith without the necessity of formal arbitration proceedings. During the negotiation process, all reasonable requests made by one officer to the other for information will be honored. The specific format for such discussions will be decided by the designated officers.

(b) If the officers cannot resolve the dispute within thirty (30) calendar days of their first meeting, the dispute will be submitted to formal arbitration pursuant to Section 15.02, unless the parties agree in writing to extend the negotiation period for an additional thirty (30) calendar days.

Section 15.02 Arbitration.

(a) It is the intention of the Reinsurer and the Ceding Company that the customs and practices of the insurance and reinsurance industry will be given full effect in the operation and interpretation of this Agreement. The parties agree to act in all matters with the utmost good faith. However, if the Reinsurer and the Ceding Company cannot mutually resolve a dispute that arises out of or relates to this Agreement, including, without limitation, the validity of this Agreement, and the dispute cannot be resolved through the negotiation process, then, except as otherwise provided in Section 10.03(h) (relating to statutory impairments of assets held in the Funds Withheld Account), and Section 12.03(c) (relating to the Embedded Value of the

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Reinsured Policies), the dispute will be finally settled by arbitration in accordance with the provisions of this Section 15.02.

(b) To initiate arbitration, either the Ceding Company or the Reinsurer will notify the other party by certified mail of its desire to arbitrate, stating the nature of the dispute and the remedy sought.

(c) Any arbitration pursuant to this Section 15.02 will be conducted before a panel of three arbitrators who will be current or former officers of life insurance or life reinsurance companies other than the parties to this Agreement, their Affiliates or subsidiaries, or other professionals with experience in life insurance or reinsurance, provided that such professionals shall not have performed services for either party within the previous five (5) years. Each of the arbitrators will be familiar with the prevailing customs and practices for reinsurance in the life insurance and life reinsurance industry in the United States. Each of the parties will appoint one arbitrator and the two so appointed will select the third arbitrator who shall be independent and impartial. If either party refuses or fails to appoint an arbitrator within sixty (60) calendar days after the other party has given written notice to such party of its arbitrator appointment, the party that has given notice may appoint the second arbitrator. If the two arbitrators do not agree on a third arbitrator within thirty (30) calendar days of the appointment of the second arbitrator, then the third arbitrator shall be selected by the ARIAS-U.S. Umpire Selection Procedure (available at www.ARIAS-US.org), subject to the arbitrator qualification requirements of this paragraph.

(d) Each arbitration hearing under this Agreement will be held on the date set by the arbitrators at a mutually agreed upon location. In no event will this date be later than six (6) months after the appointment of the third arbitrator. As soon as possible, the arbitrators will establish arbitration procedures as warranted by the facts and issues of the particular case. Notwithstanding Section 19.17, the arbitration and this Section 15.02 shall be governed by Title 9 (Arbitration) of the United States Code.

(e) The arbitrators will base their decision on the terms and conditions of this Agreement and the customs and practices of the insurance and reinsurance industries rather than on strict interpretation of the law. The decision of the arbitrators will be made by majority rule and will be final and binding on both parties, unless (i) the decision was procured by corruption, fraud or other undue means; (ii) there was evident partiality by an arbitrator or corruption in any of the arbitrators or misconduct prejudicing the rights of any party; or (iii) the arbitrators exceeded their powers. Subject to the preceding sentence, neither party may seek judicial review of the decision of the arbitrators. The arbitrators shall enter an award which shall do justice between the parties and the award shall be supported by written opinion. The parties agree that the federal courts in the State of Iowa, or the state courts of such state, have jurisdiction to hear any matter relating to compelling arbitration or enforcing the judgment of an arbitral panel, and the parties hereby consent to such jurisdiction. Each party hereby waives, to the fullest extent permitted by law, any objection it may now or hereafter have to the laying of such venue, or any claim that a proceeding has been brought in an inconvenient forum. In addition, the Ceding Company and Reinsurer hereby consent to service of process out of such courts at the addresses set forth in Section 19.06.

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(f) Unless the arbitrators decide otherwise, each party will bear the expense of its own arbitration activities, including its appointed arbitrator and any outside attorney and witness fees. The parties will jointly bear the expense of the third arbitrator.

(g) Waiver of Trial by Jury. THE REINSURER AND THE CEDING COMPANY HEREBY WAIVE ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY MATTER ARISING OUT OF OR RELATING TO THIS AGREEMENT.

ARTICLE XVI

INSOLVENCY

Section 16.01 Insolvency.

(a) A party to this Agreement will be deemed “insolvent” when it:

(i) applies for or consents to the appointment of a receiver, rehabilitator, conservator, liquidator or statutory successor (the “Authorized Representative”) of its properties or assets;

(ii) is adjudicated as bankrupt or insolvent;

(iii) files or consents to the filing of a petition in bankruptcy, seeks reorganization or an arrangement with creditors or takes advantage of any bankruptcy, dissolution, liquidation, rehabilitation, conservation or similar law or statute; or

(iv) becomes the subject of an order to rehabilitate or an order to liquidate as defined by the insurance code of the jurisdiction of the party’s domicile.

(b) In the event of the insolvency of either party, the rights or remedies of this Agreement will remain in full force and effect.

(c) Insolvency of the Ceding Company. In the event of the insolvency of the Ceding Company:

(i) The reinsurance provided under this Agreement will be payable by the Reinsurer directly to the Ceding Company or its Authorized Representative, without diminution because of such insolvency, on the basis of the reported claims allowed against the Ceding Company by any court of competent jurisdiction or by the Authorized Representative having authority to allow such claims.

(ii) The Reinsurer will be liable only for benefits reinsured as benefits become due under the terms of the Reinsured Policies and will not be or become liable for any amounts or reserves to be held by the Ceding Company as to the Reinsured Policies or for any damages or payments resulting from the termination or restructuring of the Reinsured Policies that are not otherwise expressly covered by this Agreement. The Ceding Company or its Authorized Representative will give written notice to the Reinsurer of all pending Claims against the Ceding Company on any Reinsured Policies

within a reasonable time after filing in the insolvency proceedings. While a Claim is pending, the Reinsurer may investigate such Claim and interpose, at its own expense, in the proceedings where the Claim is to be adjudicated, any defense or defenses which it may deem available to the Ceding Company or its Authorized Representative.

(iii) The expense incurred by the Reinsurer will be chargeable, subject to court approval, against the Ceding Company as part of the expense of its insolvency proceedings to the extent of a proportionate share of the benefit which may accrue to the Ceding Company solely as a result of the defense undertaken by the Reinsurer. Where two or more reinsurers are involved in the same Claim and a majority in interest elect to interpose a defense to such Claim, the expense will be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by the Ceding Company.

ARTICLE XVII

TAXES

Section 17.01 Taxes. No taxes, allowances, or expense will be paid by the Reinsurer to the Ceding Company for any Reinsured Policy, except as specifically referred to in this Agreement.

Section 17.02 Premium Tax. The Reinsurer shall reimburse the Ceding Company for the Quota Share of any premium tax (“Premium Tax”) paid by the Ceding Company with respect to a Reinsured Policy in respect of the Annuitization of such Reinsured Policy, which reimbursement will reflect any credit received by the Ceding Company resulting from any Guaranty Fund Assessments paid by the Reinsurer. Such Premium Taxes shall be payable in accordance with Section 9.03.

Section 17.03 Excise Tax. In the event that any excise tax is due with respect to any Reinsurance Premium due from the Ceding Company to the Reinsurer under this Agreement, the Ceding Company shall pay the entire amount of such excise tax. The Reinsurer shall reimburse the Ceding Company for any such excise tax paid by the Ceding Company in accordance with Section 9.03.

ARTICLE XVIII

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 18.01 Representations and Warranties of the Ceding Company. The Ceding Company hereby represents and warrants to the Reinsurer as follows:

(a) Organization and Qualification. The Ceding Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Iowa and has all requisite corporate power and authority to operate its business as now conducted, and is duly qualified as a

be so qualified or be in good standing that, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the Ceding Company's ability to perform its obligations under this Agreement.

(b) Authorization. The Ceding Company has all requisite corporate power to enter into, consummate the transactions contemplated by and carry out its obligations under, this Agreement. The execution and delivery by the Ceding Company of this Agreement, and the consummation by the Ceding Company of the transactions contemplated by, and the performance by the Ceding Company of its obligations under, this Agreement have been duly authorized by all requisite corporate action on the part of the Ceding Company. This Agreement has been duly executed and delivered by the Ceding Company, and (assuming due authorization, execution and delivery by the Reinsurer) this Agreement constitutes the legal, valid and binding obligation of the Ceding Company, enforceable against it in accordance with its terms, subject to the effect of any applicable bankruptcy, reorganization, insolvency, moratorium, or similar laws relating to or affecting creditors' rights generally.

(c) No Conflict. The execution, delivery and performance by the Ceding Company of, and the consummation by the Ceding Company of the transactions contemplated by, this Agreement do not and will not (i) violate or conflict with the organizational documents of the Ceding Company, (ii) conflict with or violate any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any governmental authority applicable to the Ceding Company or by which it or its properties or assets is bound or subject, or (iii) result in any breach of, or constitute a default (or event which, with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, acceleration or cancellation of, any agreement, lease, note, bond, loan or credit agreement, mortgage, indenture or other instrument, obligation or contract of any kind to which the Ceding Company or any of its subsidiaries is a party or by which the Ceding Company or any of its subsidiaries or any of their respective properties or assets is bound or affected, except, in the case of clause (iii), any such conflicts, violations, breaches, loss of contractual benefits, defaults or rights that, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the Ceding Company's ability to perform its obligations under this Agreement.

(d) Factual Information Relating to the Reinsured Policies. The information relating to the business reinsured under this Agreement that was supplied by or on behalf of the Ceding Company to the Reinsurer or any of the Reinsurer's representatives in connection with this Agreement (such information, the "Factual Information"), as of the date supplied (or if later corrected or supplemented prior to the date hereof, as of the date corrected or supplemented), did not contain any untrue statement of a material fact or omit to state any material fact necessary to make such Factual Information, taken as a whole, not misleading in light of the circumstances under which the statements contained therein were made, and was otherwise complete and accurate in all material respects. The Factual Information was compiled in a commercially reasonable manner given its intended purpose. The Pricing Methodology and the Hedging Procedures provided to the Reinsurer by the Ceding Company were complete and accurate when disclosed and there has been no material change in either the Pricing Methodology or the Hedging Procedures since the date disclosed.

(e) Solvency. The Ceding Company is and will be Solvent on a statutory basis immediately after giving effect to this Agreement. For the purposes of this Section 18.01(e), "Solvent" means that: (i) the aggregate assets of the Ceding Company are greater than the aggregate liabilities of the Ceding Company, in each case determined in accordance with SAP; (ii) the Ceding Company does not intend to, and does not believe that it will, incur debts or other liabilities beyond its ability to pay such debts and other liabilities as they come due and (iii) the Ceding Company is not engaged in a business or transaction, and does not contemplate engaging in a business or transaction, for which the Ceding Company's assets would constitute unreasonably insufficient capital.

(f) Accuracy of Books and Records. The Ceding Company maintains records relating to the Reinsured Policies and the Hedges, and implements administrative and operating procedures with respect to such records, and keeps and maintains all material documents, books and records reasonably necessary for the maintenance of the Reinsured Policies and the Hedges, which documents, books and records are complete and accurate in all material respects, with the utmost good faith and with the skill, diligence and expertise that would reasonably be expected from qualified personnel performing such duties in like circumstances.

(g) Governmental Licenses. The Ceding Company has all licenses, certificates of authority or other similar certificates, registrations, franchises, permits, approvals or other similar authorizations issued by governmental authorities (collectively, "Permits") necessary to conduct its business as currently conducted, except in such cases where the failure to have a Permit has not had and would not reasonably be expected to have a Material Adverse Effect with respect to the Ceding Company. All Permits that are material to the conduct of the Ceding Company's business are valid and in full force and effect. The Ceding Company is not subject to any pending Action or, to the knowledge of the Ceding Company, any threatened Action that seeks the revocation, suspension, termination, modification or impairment of any Permit that, if successful, would reasonably be expected to have, or with the passage of time become, a Material Adverse Effect with respect to the Ceding Company.

(h) Financial Statements. The Ceding Company has provided to the Reinsurer a copy of its audited statutory financial statements as of the end of the most recent calendar year and its unaudited statutory financial statements as of the end of the most recent calendar quarter for which the Ceding Company's statutory financial statements have been prepared and as were provided by the Ceding Company to the Iowa Insurance Division. Except as disclosed in such financial statements (including in the notes thereto), such financial statements have been prepared in all material respects in accordance with SAP applied on a consistent basis during the period involved and present fairly, in all material respects, the statutory financial position and results of operations of the Ceding Company as of their respective dates or for the respective periods covered thereby.

(i) No Material Adverse Effect. Since the last statutory financial statements of the Ceding Company and any Securities Exchange Commission filings made by the parent entity of the Ceding Company, there has not occurred any event or events that, individually or in the aggregate, has or have had or would be reasonably expected to have a Material Adverse Effect with respect to the Ceding Company.

Section 18.02 Covenants of the Ceding Company.

- (a) Investigations. To the extent permitted by applicable law or regulation, the Ceding Company will notify the Reinsurer immediately, in writing, of any and all investigations of the Ceding Company conducted by any federal or state governmental authority commencing after the date hereof, other than routine state insurance department examinations.
- (b) Statutory Accounting Principles. The Ceding Company will prepare its financial statements as required by, and in accordance with, SAP.
- (c) Existence; Conduct of Business. The Ceding Company will do or cause to be done all things reasonably necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business.
- (d) Compliance with Law. The Ceding Company will comply with all statutes, laws, ordinances, rules, regulations, judgments, decrees, orders, injunctions, writs, permits, or licenses of any governmental authority applicable to the Ceding Company or by which it or its properties or assets is bound or subject, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Ceding Company's ability to perform its obligations under this Agreement.
- (e) Restriction on Liens. The Ceding Company shall not create, incur, assume or suffer to exist any liens on the assets in the Funds Withheld Account owned on the date of this Agreement or hereafter acquired, or on any interest therein or the proceeds thereof.
- (f) Governmental Notices. The Ceding Company shall provide the Reinsurer, within five (5) Business Days after receipt thereof, copies of any written notice or report from any governmental authority with respect to the business reinsured under this Agreement and a written summary of any material oral communication with any governmental authority with respect to the business reinsured under this Agreement.

Section 18.03 Representations and Warranties of the Reinsurer. The Reinsurer hereby represents and warrants to the Ceding Company as follows:

- (a) Organization and Qualification. The Reinsurer is a corporation duly incorporated, validly existing and in good standing under the laws of Bermuda and has all requisite corporate power and authority to operate its business as now conducted, and is duly qualified as a foreign corporation to do business, and, to the extent legally applicable, is in good standing, in each jurisdiction where the character of its owned, operated or leased properties or the nature of its activities makes such qualification necessary, except for failures to be so qualified or be in good standing that, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the Reinsurer's ability to perform its obligations under this Agreement.
- (b) Authorization. The Reinsurer has all requisite corporate power to enter into, consummate the transactions contemplated by and carry out its obligations under, this Agreement. The execution and delivery by the Reinsurer of this Agreement, and the

consummation by the Reinsurer of the transactions contemplated by, and the performance by the Reinsurer of its obligations under, this Agreement have been duly authorized by all requisite corporate action on the part of the Reinsurer. This Agreement has been duly executed and delivered by the Reinsurer, and (assuming due authorization, execution and delivery by the Ceding Company) this Agreement constitutes the legal, valid and binding obligation of the Reinsurer, enforceable against it in accordance with its terms, subject to the effect of any applicable bankruptcy, reorganization, insolvency, moratorium, or similar laws relating to or affecting creditors' rights generally.

- (c) No Conflict. The execution, delivery and performance by the Reinsurer of, and the consummation by the Reinsurer of the transactions contemplated by, this Agreement do not and will not (i) violate or conflict with the organizational documents of the Reinsurer, (ii) conflict with or violate any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any governmental authority applicable to the Reinsurer or by which it or its properties or assets is bound or subject, or (iii) result in any breach of, or constitute a default (or event which, with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, acceleration or cancellation of, any agreement, lease, note, bond, loan or credit agreement, mortgage, indenture or other instrument, obligation or contract of any kind to which the Reinsurer or any of its subsidiaries is a party or by which the Reinsurer or any of its subsidiaries or any of their respective properties or assets is bound or affected, except, in the case of clause (iii), any such conflicts, violations, breaches, loss of contractual benefits, defaults or rights that, individually or in the aggregate, do not have, and would not reasonably be expected to have, a material adverse effect on the Reinsurer's ability to perform its obligations under this Agreement.
- (d) Solvency. The Reinsurer is and will be Solvent on a statutory basis immediately after giving effect to this Agreement. For the purposes of this Section 18.03(d), "Solvent" means that: (i) the aggregate assets of the Reinsurer are greater than the aggregate liabilities of the Reinsurer, in each case determined in accordance with the regulations promulgated by the Bermuda Monetary Authority; (ii) the Reinsurer does not intend to, and does not believe that it will, incur debts or other liabilities beyond its ability to pay such debts and other liabilities as they come due and (iii) the Reinsurer is not engaged in a business or transaction, and does not contemplate engaging in a business or transaction, for which the Reinsurer's assets would constitute unreasonably insufficient capital.
- (e) Accuracy of Books and Records. The Reinsurer maintains records and implements administrative and operating procedures with respect to such records, and keeps and maintains all material documents, books and records reasonably necessary in the ordinary course of business, which documents, books and records are complete and accurate in all material respects, with the utmost good faith and with the skill, diligence and expertise that would reasonably be expected from qualified personnel performing such duties in like circumstances.
- (f) Governmental Licenses. The Reinsurer has all Permits necessary to conduct its business as currently conducted, except in such cases where the failure to have a Permit has not had and would not reasonably be expected to have a Material Adverse Effect with respect to the Reinsurer. All Permits that are material to the conduct of the Reinsurer's business are valid and in full force and effect. The Reinsurer is not subject to any pending Action or, to

the knowledge of the Reinsurer, any threatened Action that seeks the revocation, suspension, termination, modification or impairment of any Permit that, if successful, would reasonably be expected to have, or with the passage of time become, a Material Adverse Effect with respect to the Reinsurer.

(g) No Material Adverse Effect. Since July 15, 2009, there has not occurred any event or events that, individually or in the aggregate, has or have had or would be reasonably expected to have a Material Adverse Effect with respect to the Reinsurer.

Section 18.04 Covenants of the Reinsurer.

(a) Existence; Conduct of Business. The Reinsurer will do or cause to be done all things reasonably necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business.

(b) Compliance with Law. The Reinsurer will comply with all statutes, laws, ordinances, rules, regulations, judgments, decrees, orders, injunctions, writs, permits, or licenses of any governmental authority applicable to the Reinsurer or by which it or its properties or assets is bound or subject, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Reinsurer's ability to perform its obligations under this Agreement.

ARTICLE XIX

MISCELLANEOUS

Section 19.01 Currency. All payments due under this Agreement will be made in U.S. Dollars.

Section 19.02 Interest. All amounts due and payable by the Ceding Company or the Reinsurer under this Agreement that remain unpaid for more than fifteen (15) calendar days from the date due hereunder will incur interest from the date due hereunder. Except as otherwise set forth in this Agreement, such interest shall accrue at a rate equal to six percent (6%), calculated on a 30/360 basis.

Section 19.03 Right of Setoff and Recoupment.

(a) Each of the Ceding Company and the Reinsurer shall have, and may exercise at any time and from time to time, the right to setoff or recoup any undisputed balance or balances, whether on account of Reinsurance Premiums, allowances, credits, Claims, Annuitizations or otherwise, due from one party to the other under this Agreement and may setoff or recoup such balance or balances against any balance or balances due to the former from the latter under this Agreement.

(b) The rights provided under this Section 19.03 are in addition to any rights of setoff that may exist at common law. The parties' setoff rights may be enforced

notwithstanding any other provision of this Agreement including, without limitation, the provisions of Article XVI.

Section 19.04 No Third Party Beneficiaries. This Agreement is an indemnity reinsurance agreement solely between the Ceding Company and the Reinsurer. The acceptance of risks under this Agreement by the Reinsurer will create no right or legal relation between the Reinsurer and the insured, owner, beneficiary, or assignee of any insurance policy of the Ceding Company. In addition, nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third party to any party to this Agreement.

Section 19.05 Amendment. This Agreement may not be changed or modified or in any way amended except by a written instrument duly executed by the proper officers of both parties to this Agreement and any change or modification to this Agreement will be null and void unless made by amendment to this Agreement and duly executed by the proper officers of both parties to this Agreement.

Section 19.06 Notices. All demands, notices, reports and other communications provided for herein shall be delivered by the following means: (i) hand delivery, (ii) overnight courier service (*e.g.*, FedEx, Airborne Express, or DHL); (iii) registered or certified U.S. mail, postage prepaid and return receipt requested; or (iv) facsimile transmission or e-mail provided that the fax or e-mail is confirmed by delivery using one of the three methods identified in clauses (i) through (iii). All such demands, notices, reports and other communications shall be delivered to the parties as follows:

if to the Ceding Company:

American Equity Investment Life Insurance Company
5000 Westown Parkway, Suite 440
West Des Moines, Iowa 50266
Attention: Wendy Carlson
Telephone: (515) 457-1824
Facsimile: (515) 221-0744
Email: wcarlson@american-equity.com

if to the Reinsurer:

Athene Life Re Ltd.
44 Church Street
Hamilton HM 12, Bermuda
Attention: President and General Counsel

with a copy to

Sidley Austin LLP
One South Dearborn Street
Chicago, Illinois 60603
Attention: Perry Shwachman
Telephone: (312) 853-7061
Facsimile: (312) 853-7036
Email: pshwachman@sidley.com

Either party hereto may change the names or addresses where notice is to be given by providing notice to the other party of such change in accordance with this Section 19.06.

If either party hereto becomes aware of any change in applicable law restricting the transmission of notices or other information in accordance with the foregoing, such party shall notify the other party hereto of such change in law and such resulting restriction.

Section 19.07 Consent to Jurisdiction. Subject to the terms and conditions of Article XV, the Reinsurer agrees that in the event of the failure of the Reinsurer to perform its obligations under the terms of this Agreement, the Reinsurer, at the request of the Ceding Company, shall (a) submit to the jurisdiction of any court of competent jurisdiction in any state of the United States, (b) comply with all requirements necessary to give such court jurisdiction, and (c) abide by the final decision of such court or of any appellate court in the event of an appeal. This Section 19.07 is not intended to conflict with or override Article XV.

Section 19.08 Service of Process. The Reinsurer hereby designates the Iowa Insurance Commissioner as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Ceding Company. A copy of any such process shall be delivered to the Reinsurer in accordance with Section 19.06. This Section 19.08 is not intended to conflict with or override Article XV.

Section 19.09 Inspection of Records.

(a) Upon giving at least five (5) Business Days' prior written notice, the Reinsurer, or its duly authorized representatives, will have the right to audit, examine and copy, during regular business hours, at the home office of the Ceding Company, any and all books, records, statements, correspondence, reports, and other documents that relate to the Reinsured Policies, the Hedges or this Agreement, subject to the confidentiality provisions contained in this Agreement. In the event the Reinsurer exercises its inspection rights, the Ceding Company must provide a reasonable work space for such audit, examination or copying, cooperate fully and faithfully, and produce any and all materials reasonably requested to be produced, subject to confidentiality provisions contained in this Agreement. The expenses related to any two such inspections in any calendar year shall be borne by the Ceding Company; provided that if any breach of this Agreement by the Ceding Company has occurred, the expenses relating to all such inspections shall be borne by the Ceding Company.

(b) The Reinsurer's right of access as specified above will survive until all of the Reinsurer's obligations under this Agreement have terminated or been fully discharged.

Section 19.10 Confidentiality.

(a) The parties will keep confidential and not disclose or make competitive use of any shared Proprietary Information, as defined below, unless:

(i) The information becomes publicly available or is obtained other than through unauthorized disclosure by the party seeking to disclose or use such information;

(ii) The information is independently developed by the recipient;

(iii) The disclosure is required by law, provided that, if applicable, the party required to make such disclosure will allow the other party to seek an appropriate protective order.

"Proprietary Information" includes, but is not limited to, underwriting manuals and guidelines, applications, contract forms, agent lists and premium rates and allowances of the Reinsurer and the Ceding Company, but shall not include the existence of this Agreement and the identity of the parties. Additionally, Proprietary Information may be shared by either party on a need-to-know basis with its officers, directors, employees, Affiliates, third party service providers, auditors, consultants or retrocessionaires, or in connection with the dispute process specified in this Agreement.

(b) In addition, the Reinsurer and its representatives and service providers will protect the confidentiality and security of Non-Public Personal Information, as defined below, by:

(i) holding all Non-Public Personal Information in strict confidence;

(ii) maintaining appropriate measures that are designed to protect the security, integrity and confidentiality of Non-Public Personal Information;

(iii) disclosing and using Non-Public Personal Information received under this Agreement for purposes of carrying out the Reinsurer's obligations under this Agreement, for purposes of retrocession, or as may be required or permitted by law.

"Non-Public Personal Information" is personally identifiable medical, financial, and other personal information about proposed, current and former applicants, policy owners, contract holders, insureds, annuitants, claimants, and beneficiaries of Reinsured Policies or contracts issued by the Ceding Company, and their representatives, that is not publicly available. Non-Public Personal Information does not include de-identified personal data, *i.e.*, information that does not identify, or could not reasonably be associated with, an individual.

Section 19.11 Successors. This Agreement will be binding upon the parties hereto and their respective successors and assigns including any Authorized Representative of either party. Neither party may effect any novation of this Agreement without the other party's prior written consent.

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Section 19.12 Entire Agreement. This Agreement and the Exhibits hereto constitute the entire agreement between the parties with respect to the business reinsured hereunder and supersede any and all prior representations, warranties, prior agreements or understandings between the parties pertaining to the subject matter of this Agreement. There are no understandings between the parties other than as expressed in this Agreement and the Exhibits hereto. In the event of any express conflict between this Agreement and the Exhibits hereto, the Exhibits hereto will control.

Section 19.13 Severability. Determination that any provision of this Agreement is invalid or unenforceable will not affect or impair the validity or the enforceability of the remaining provisions of this Agreement.

Section 19.14 Construction. This Agreement will be construed and administered without regard to authorship and without any presumption or rule of construction in favor of either party. This Agreement is between sophisticated parties, each of which has reviewed this Agreement and is fully knowledgeable about its terms and conditions.

Section 19.15 Non-Waiver. Neither the failure nor any delay on the part of the Ceding Company or the Reinsurer to exercise any right, remedy, power, or privilege under this Agreement shall operate as a waiver thereof. No single or partial exercise of any right, remedy, power or privilege shall preclude the further exercise of that right, remedy, power or privilege or the exercise of any other right, remedy, power or privilege. No waiver of any right, remedy, power or privilege with respect to any occurrence shall be construed as a waiver of that right, remedy, power or privilege with respect to any other occurrence. No prior transaction or dealing between the parties will establish any custom, sage or precedent waiving or modifying any provision of this Agreement. No waiver shall be effective unless it is in writing and signed by the party granting the waiver.

Section 19.16 Further Assurances. From time to time, as and when requested by a party hereto, the other party hereto shall execute and deliver all such documents and instruments and shall take all actions as may be reasonably necessary to consummate the transactions contemplated by this Agreement.

Section 19.17 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Iowa without giving effect to any principles of conflicts of law thereof that are not mandatorily applicable by law and would permit or require the application of the laws of another jurisdiction.

Section 19.18 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. When this Agreement has been fully executed by the Ceding Company and the Reinsurer, it will become effective as of the Effective Date.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed effective as of the Effective Date.

TREATY NUMBER 08042009

AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY

By: /s/ Wendy L. Carlson

Title: EVP

Date: November 2, 2009

ATHENE LIFE RE LTD.

By: /s/ Frank L. Gillis

Title: CEO

Date: November 2, 2009

REINSURED POLICY FORMS

Retirement Gold

Bonus Gold

PRICING METHODOLOGY

To be promptly provided by the Ceding Company following the execution of this Agreement.

HEDGING PROCEDURES

To be promptly provided by the Ceding Company following the execution of this Agreement.

COMMISSIONS

To be promptly provided by the Ceding Company following the execution of this Agreement.

MONTHLY ACCOUNTING REPORT

For the Monthly Accounting Period ending on _____

Section 1: Policy cash flows to/(from) Ceding Company (gross).

	Premium	
	Less: Returned Premium	(_____)
(A)	TOTAL Premium	_____
	Penalty Free Withdrawals	_____
	Full and Partial Surrenders	_____
	Death Claims	_____
	Other	_____
(B)	TOTAL Claims	_____
(C)	Annuity Payments	_____
	Initial Commissions Paid	_____
	Less: Commissions Recovered on Returned Premium	(_____)
	Renewal Commissions Paid	_____
	Marketing Fees	_____
	Policy Issuance Fees (_____ policies issued x \$250)	_____
(D)	TOTAL Commissions, Renewal Commissions, Marketing Fees and Policy Issuance Fees	_____

Section 2: Policy cash flows due to/(owed from) Reinsurer

	Net Policy Cash Flows (A – B – C – D)	
	x Quota Share	x 20.0%
(E)	Reinsurer's share of Net Policy Cash Flows	_____
	Premiums transferred to FW Account in period	_____
	Claims withdrawn from FW Account in period	_____

	Commissions and Policy Issuance Fees withdrawn from FW Account in period	
(F)	Net Policy Cash Flows transferred to/(from) Reinsurer	
(G)	Policy Cash Flows due to/(owed from) Reinsurer (E-F)	
Section 3: Monthly Expenses owed from Reinsurer		
	Administration Fees (average policies in force x \$4.00)	
	Premium Taxes (gross taxes paid x 20.0%)	
	Guaranty Fund Assessments (gross assessments x 20.0%)	
	Excise Taxes Paid	
(H)	Monthly Expenses owed from Reinsurer	

Section 4: Ceded Reserves owed to Ceding Company

(I)	Ceded Reserves owed to Ceding Company in connection with the recapture of Reinsured Policies during period	
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Section 5: Hedging Settlement Amounts due to/(owed from) Reinsurer

	Weekly Assigned Hedge Proceeds Settlement Amounts transferred to FW Account in period	
	Weekly Assigned Hedge Costs Settlement Amounts withdrawn from FW Account in period	
(J)	Net Hedging Settlement Amounts transferred to/(from) Reinsurer	
(K)	Monthly Net Settlement Amount (G – H – I – J)	

EXHIBIT B

QUARTERLY ACCOUNTING REPORT

For the Quarterly Accounting Period ending on _____

Section 1: Ceded Reserves

(A)	Ceded Reserves for Deferred Annuities at Beginning of Quarter	
	Increase due to Policies Issued in Quarter	
	Increase due to Tabular Interest	
	Decrease from Penalty Free Withdrawals	()
	Decrease from Full and Partial Surrenders	()
	Decrease from Death Claims	()
	Decrease from Annuitizations	()
	Decrease from Recaptures	()
	Other Increases / (Decreases)	
(B)	Change in Ceded Reserves for Deferred Annuities	
(C)	Ceded Reserves for Deferred Annuities at End of Quarter (A + B)	
(D)	Ceded Reserves for Immediate Annuities at Beginning of Quarter	
	Increase due to Tabular Interest	
	Increase from Annuitizations	
	Decrease from Annuity Payments on SCs	()
	Decrease from Recaptures	()
	Other Increases / (Decreases)	
(E)	Change in Ceded Reserves for Immediate Annuities	
(F)	Ceded Reserves for Immediate Annuities at End of Quarter (D + E)	
(G)	TOTAL Ceded Reserves at End of Quarter (C + F)	

Section 2: Quarterly Net Settlement Amount

(H)	C4 Risk Charge ((A + D + G) x 0.5 x (.0017 /4))	
(I)	Quarterly Net Settlement Amount (H)	

Section 3: Funds Withheld Account

(J)	Book Value of Assets at Beginning of Quarter	
	Premiums transferred into FW Account	
	Claims withdrawn from FW Account	()

	Annuity Payments withdrawn from FW Account	()	
	Commissions withdrawn from FW Account	()	
	Renewal Commissions withdrawn from FW Account	()	
	Marketing Fees withdrawn from FW Account	()	
	Policy Issuance Fees withdrawn from FW Account	()	
(K)	TOTAL Increases / (Decreases) from Policy Cash Flows		
	Administration Fees withdrawn from FW Account		
	Premium Taxes withdrawn from FW Account		
	Guaranty Fund Assessments withdrawn from FW Account		
	Excise Taxes withdrawn from FW Account		
(L)	TOTAL Decreases from Monthly Expenses		
(M)	Ceded Reserves relating to Recaptures withdrawn from FW Account		
	Weekly Assigned Hedge Proceeds Settlement Amounts transferred to FW Account in period		
	Weekly Assigned Hedge Costs Settlement Amounts withdrawn from FW Account in period		
(N)	TOTAL Increases / (Decreases) from Hedging Settlement Amounts		
	Interest Income Received (Coupons)		
	Change in Accrued Interest		
	Accretion of Discount / (Amortization of Premium)		
(O)	TOTAL Net Investment Income		
(P)	Realized Gains / (Losses)		
(Q)	Statutory Impairments Realized		
(R)	Default Losses Realized		
(S)	Cash or other assets transferred (to) / from Reinsurer		
(T)	Expenses relating to FW Account and Reinsurance Trust		
(U)	Book Value of Assets at End of Quarter (J + K – L – M +/- N + O +/- P – Q – R +/- S – T)		
Section 4: Calculation of Funds Withheld Adjustment			
(V)	TOTAL Ceded Reserves (G)		
(W)	Statutory Carrying Value of Assets in the Funds Withheld Account (U)		
(X)	Market Value of Assets in any Reinsurance Trust		
(Y)	Amount Available under Outstanding Letters of Credit		
(Z)	Amounts due but unpaid by Ceding Company under <u>Section 9.03(a), (b), (c) or (e)</u>		
(AA)	Funds Withheld Adjustment due from/(to) Reinsurer (V – (W + X + Y + Z))		

EXHIBIT C

REINSURED POLICIES REPORT

See attached.

EXHIBIT D

WEEKLY HEDGING ACQUISITION REPORT

See attached.

EXHIBIT E

WEEKLY HEDGING PROCEEDS REPORT

See attached.

EXHIBIT F

HEDGES REPORT

See attached.

EXHIBIT G

HEDGING EFFECTIVENESS REPORT

See attached.

EXHIBIT H

TRUST AGREEMENT

See attached.

EXHIBIT I

INVESTMENT MANAGEMENT AGREEMENT

See attached.

Ratio of Earnings to Fixed Charges

	Nine Months Ended September 30, 2009	Year Ended December 31,				
		2008	2007	2006	2005	2004
	(Dollars in thousands)					
Consolidated income before income taxes and minority interests	\$ 43,814	\$ 77,053	\$ 38,144	\$ 116,029	\$ 66,736	\$ 69,166
Interest sensitive and index product benefits and amortization of deferred sales inducements	221,867	235,836	571,917	429,062	311,479	309,034
Interest expense on notes payable	11,288	19,773	20,916	21,278	20,482	2,673
Interest expense on subordinated debentures	12,078	19,445	22,520	21,354	14,145	9,609
Interest expense on amounts due under repurchase agreements and other interest expense	344	8,207	15,926	32,931	11,280	3,148
Interest portion of rental expense	361	459	468	431	388	344
Consolidated earnings	<u>\$ 289,752</u>	<u>\$ 360,773</u>	<u>\$ 669,891</u>	<u>\$ 621,085</u>	<u>\$ 424,510</u>	<u>\$ 393,974</u>
Interest sensitive and index product benefits and amortization of deferred sales inducements	\$ 221,867	\$ 235,836	\$ 571,917	\$ 429,062	\$ 311,479	\$ 309,034
Interest expense on notes payable	11,288	19,773	20,916	21,278	20,482	2,673
Interest expense on subordinated debentures	12,078	19,445	22,520	21,354	14,145	9,609
Interest expense on amounts due under repurchase agreements and other interest expense	344	8,207	15,926	32,931	11,280	3,148
Interest portion of rental expense	361	459	468	431	388	344
Combined fixed charges	<u>\$ 245,938</u>	<u>\$ 283,720</u>	<u>\$ 631,747</u>	<u>\$ 505,056</u>	<u>\$ 357,774</u>	<u>\$ 324,808</u>
Ratio of consolidated earnings to fixed charges	<u>1.2</u>	<u>1.3</u>	<u>1.1</u>	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>
Ratio of consolidated earnings to fixed charges, both excluding interest credited to account balances and amortization of deferred sales inducements	<u>2.8</u>	<u>2.6</u>	<u>1.6</u>	<u>2.5</u>	<u>2.4</u>	<u>5.4</u>

On January 1, 2009, we adopted and applied retrospectively to all periods presented an accounting standard for convertible debt instruments that may be settled in whole or in part in cash. Our contingent convertible senior notes that fall within the scope of this accounting standard were issued by us in December 2004.

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

I, Wendy L. Carlson, 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 we 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 quarterly 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 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, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - 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: November 9, 2009

By: /s/ Wendy L. Carlson

Wendy L. Carlson, President and Chief Executive Officer
(Principal Executive Officer)

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

I, John M. Matovina, 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 we 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 quarterly 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 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, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - 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: November 9, 2009

By: /s/ John M. Matovina

John M. Matovina, Vice Chairman,
Chief Financial Officer and Treasurer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of American Equity Investment Life Holding Company (the "Company") on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Wendy L. Carlson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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.

Date: November 9, 2009

By: /s/ Wendy L. Carlson
Wendy L. Carlson, President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of American Equity Investment Life Holding Company (the "Company") on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, John M. Matovina, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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.

Date: November 9, 2009

By: /s/ John M. Matovina
John M. Matovina, Vice Chairman,
Chief Financial Officer and Treasurer
(Principal Financial Officer)