

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from _____ to _____

Commission File Number : 001-31911

American Equity Investment Life Holding Company

(Exact name of registrant as specified in its charter)

Iowa

(State or other jurisdiction of incorporation or organization)

42-1447959

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

6000 Westown Parkway

West Des Moines, Iowa 50266

(Address of principal executive offices, including zip code)

(515) 221-0002

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

As of November 3, 2022, there were 85,702,260 shares of the registrant's common stock, \$1 par value, outstanding.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share and per share data)

	September 30, 2022	December 31, 2021
	(Unaudited)	
Assets		
Investments:		
Fixed maturity securities, available for sale, at fair value (amortized cost of \$46,505,721 as of 2022 and \$46,999,183 as of 2021; allowance for credit losses of \$4,920 as of 2022 and \$2,846 as of 2021)	\$ 41,087,911	\$ 51,305,943
Mortgage loans on real estate (net of allowance for credit losses of \$35,604 as of 2022 and \$24,024 as of 2021)	6,601,445	5,687,998
Real estate investments related to consolidated variable interest entities	897,673	337,939
Derivative instruments	196,656	1,277,480
Other investments (2022 and 2021 include \$577,445 and \$168,711 related to consolidated variable interest entities)	2,636,152	1,767,144
Total investments	51,419,837	60,376,504
Cash and cash equivalents (2022 and 2021 include \$32,677 and \$23,763 related to consolidated variable interest entities)	1,808,132	4,508,982
Coinurance deposits (net of allowance for credit losses of \$7,729 as of 2022 and \$2,264 as of 2021)	8,848,418	8,850,608
Accrued investment income (2022 and 2021 include \$2,085 and \$3 related to consolidated variable interest entities)	516,649	445,097
Deferred policy acquisition costs	3,878,343	2,222,769
Deferred sales inducements	2,649,102	1,546,073
Deferred income taxes	246,492	—
Income taxes recoverable	103,838	166,586
Other assets (2022 and 2021 include \$10,381 and \$1,524 related to consolidated variable interest entities)	714,186	232,490
Total assets	\$ 70,184,997	\$ 78,349,109
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves	\$ 61,137,017	\$ 65,477,778
Other policy funds and contract claims	266,425	226,844
Notes and loan payable	794,831	496,250
Subordinated debentures	78,668	78,421
Deferred income taxes	—	541,972
Funds withheld for reinsurance liabilities	3,235,894	3,124,740
Other liabilities (2022 and 2021 include \$133,213 and \$20,168 related to consolidated variable interest entities)	1,461,534	2,079,977
Total liabilities	66,974,369	72,025,982
Stockholders' equity:		
Preferred stock, Series A; par value \$1 per share; \$400,000 aggregate liquidation preference; 20,000 shares authorized; issued and outstanding: 2022 and 2021 - 16,000 shares	16	16
Preferred stock, Series B; par value \$1 per share; \$300,000 aggregate liquidation preference; 12,000 shares authorized; issued and outstanding: 2022 and 2021 - 12,000 shares	12	12
Common stock; par value \$1 per share; 200,000,000 shares authorized; issued and outstanding: 2022 - 85,966,505 shares (excluding 23,432,644 treasury shares); 2021 - 92,513,517 shares (excluding 9,936,715 treasury shares)	85,967	92,514
Additional paid-in capital	1,362,022	1,614,374
Accumulated other comprehensive income (loss)	(2,214,388)	1,848,789
Retained earnings	3,974,069	2,767,422
Total stockholders' equity attributable to American Equity Investment Life Holding Company	3,207,698	6,323,127
Noncontrolling interests	2,930	—
Total stockholders' equity	3,210,628	6,323,127
Total liabilities and stockholders' equity	\$ 70,184,997	\$ 78,349,109

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues:				
Premiums and other considerations	\$ 2,839	\$ 15,841	\$ 16,748	\$ 43,649
Annuity product charges	60,819	58,480	168,688	182,321
Net investment income	609,737	526,366	1,769,468	1,522,876
Change in fair value of derivatives	(176,671)	(70,701)	(1,160,371)	826,484
Net realized gains (losses) on investments	(15,860)	4,933	(62,259)	(2,764)
Other revenue	10,989	7,644	28,773	7,644
Total revenues	491,853	542,563	761,047	2,580,210
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	5,707	18,756	25,436	51,008
Interest sensitive and index product benefits	121,890	817,014	729,407	2,106,590
Amortization of deferred sales inducements	127,784	(17,172)	361,775	93,283
Change in fair value of embedded derivatives	(415,374)	(536,404)	(2,695,007)	(545,104)
Interest expense on notes payable	8,984	6,535	21,870	19,322
Interest expense on subordinated debentures	1,333	1,342	3,996	3,994
Amortization of deferred policy acquisition costs	183,182	(1,588)	550,962	185,329
Other operating costs and expenses	59,532	56,518	177,575	177,433
Total benefits and expenses	93,038	345,001	(823,986)	2,091,855
Income before income taxes	398,815	197,562	1,585,033	488,355
Income tax expense	86,214	44,697	345,633	107,500
Net income	312,601	152,865	1,239,400	380,855
Less: Net income (loss) available to noncontrolling interests	1	—	(3)	—
Net income available to American Equity Investment Life Holding Company stockholders	312,600	152,865	1,239,403	380,855
Less: Preferred stock dividends	10,918	10,918	32,756	32,756
Net income available to American Equity Investment Life Holding Company common stockholders	\$ 301,682	\$ 141,947	\$ 1,206,647	\$ 348,099
Earnings per common share	\$ 3.44	\$ 1.53	\$ 13.07	\$ 3.69
Earnings per common share - assuming dilution	\$ 3.41	\$ 1.53	\$ 12.94	\$ 3.67
Weighted average common shares outstanding (in thousands):				
Earnings per common share	87,707	92,478	92,339	94,326
Earnings per common share - assuming dilution	88,581	93,044	93,270	94,867

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 312,601	\$ 152,865	\$ 1,239,400	\$ 380,855
Other comprehensive loss:				
Change in net unrealized investment gains/losses (1)	(1,041,342)	(85,990)	(5,129,980)	(308,740)
Reclassification of unrealized investment gains/losses to net income (1)	(4,768)	1,260	(16,913)	(3,391)
Other comprehensive loss before income tax	(1,046,110)	(84,730)	(5,146,893)	(312,131)
Income tax effect related to other comprehensive loss	219,690	17,793	1,083,716	65,548
Other comprehensive loss	(826,420)	(66,937)	(4,063,177)	(246,583)
Comprehensive income (loss)	<u>\$ (513,819)</u>	<u>\$ 85,928</u>	<u>\$ (2,823,777)</u>	<u>\$ 134,272</u>

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

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest	Total Stockholders' Equity
For the three months ended September 30, 2022							
Balance at June 30, 2022	\$ 28	\$ 90,169	\$ 1,507,601	\$ (1,387,968)	\$ 3,672,387	\$ 1,169	\$ 3,883,386
Net income for period	—	—	—	—	312,600	1	312,601
Other comprehensive loss	—	—	—	(826,420)	—	—	(826,420)
Share-based compensation	—	—	4,288	—	—	—	4,288
Issuance of common stock	—	19	—	—	—	—	19
Treasury stock acquired, common	—	(4,221)	(149,867)	—	—	—	(154,088)
Dividends on preferred stock	—	—	—	—	(10,918)	—	(10,918)
Contributions from noncontrolling interests	—	—	—	—	—	1,760	1,760
Balance at September 30, 2022	<u>\$ 28</u>	<u>\$ 85,967</u>	<u>\$ 1,362,022</u>	<u>\$ (2,214,388)</u>	<u>\$ 3,974,069</u>	<u>\$ 2,930</u>	<u>\$ 3,210,628</u>
	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest	Total Stockholders' Equity
For the three months ended September 30, 2021							
Balance at June 30, 2021	\$ 28	\$ 92,554	\$ 1,604,535	\$ 2,023,911	\$ 2,574,707	\$ —	\$ 6,295,735
Net income for period	—	—	—	—	152,865	—	152,865
Other comprehensive loss	—	—	—	(66,937)	—	—	(66,937)
Share-based compensation	—	—	6,109	—	—	—	6,109
Issuance of common stock	—	—	(306)	—	—	—	(306)
Treasury stock acquired, common	—	(41)	(1,299)	—	—	—	(1,340)
Dividends on preferred stock	—	—	—	—	(10,918)	—	(10,918)
Balance at September 30, 2021	<u>\$ 28</u>	<u>\$ 92,513</u>	<u>\$ 1,609,039</u>	<u>\$ 1,956,974</u>	<u>\$ 2,716,654</u>	<u>\$ —</u>	<u>\$ 6,375,208</u>

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Total Stockholders' Equity
For the nine months ended September 30, 2022							
Balance at December 31, 2021	\$ 28	\$ 92,514	\$ 1,614,374	\$ 1,848,789	\$ 2,767,422	\$ —	\$ 6,323,127
Net income (loss) for period	—	—	—	—	1,239,403	(3)	1,239,400
Other comprehensive loss	—	—	—	(4,063,177)	—	—	(4,063,177)
Share-based compensation	—	—	10,708	—	—	—	10,708
Issuance of common stock	—	7,071	245,790	—	—	—	252,861
Treasury stock acquired, common	—	(13,618)	(508,850)	—	—	—	(522,468)
Dividends on preferred stock	—	—	—	—	(32,756)	—	(32,756)
Contributions from noncontrolling interests	—	—	—	—	—	2,933	2,933
Balance at September 30, 2022	<u>\$ 28</u>	<u>\$ 85,967</u>	<u>\$ 1,362,022</u>	<u>\$ (2,214,388)</u>	<u>\$ 3,974,069</u>	<u>\$ 2,930</u>	<u>\$ 3,210,628</u>
For the nine months ended September 30, 2021							
Balance at December 31, 2020	\$ 28	\$ 95,721	\$ 1,681,127	\$ 2,203,557	\$ 2,368,555	\$ —	\$ 6,348,988
Net income for period	—	—	—	—	380,855	—	380,855
Other comprehensive loss	—	—	—	(246,583)	—	—	(246,583)
Share-based compensation	—	—	19,265	—	—	—	19,265
Issuance of common stock	—	459	4,395	—	—	—	4,854
Treasury stock acquired, common	—	(3,667)	(95,748)	—	—	—	(99,415)
Dividends on preferred stock	—	—	—	—	(32,756)	—	(32,756)
Balance at September 30, 2021	<u>\$ 28</u>	<u>\$ 92,513</u>	<u>\$ 1,609,039</u>	<u>\$ 1,956,974</u>	<u>\$ 2,716,654</u>	<u>\$ —</u>	<u>\$ 6,375,208</u>

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
Operating activities		
Net income	\$ 1,239,400	\$ 380,855
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest sensitive and index product benefits	729,407	2,106,590
Amortization of deferred sales inducements	361,775	93,283
Annuity product charges	(168,688)	(182,321)
Change in fair value of embedded derivatives	(2,695,007)	(545,104)
Change in traditional life and accident and health insurance reserves	(21,494)	19,487
Policy acquisition costs deferred	(146,498)	(243,711)
Amortization of deferred policy acquisition costs	550,962	185,329
Provision for depreciation and other amortization	12,845	3,985
Amortization of discounts and premiums on investments	637	18,438
Realized gains/losses on investments	62,259	2,764
Distributions from equity method investments	5,098	10,697
Change in fair value of derivatives	1,160,371	(826,484)
Deferred income taxes	295,252	(12,276)
Share-based compensation	10,708	19,265
Change in accrued investment income	(71,552)	(15,288)
Change in income taxes recoverable/payable	62,748	40,340
Change in other assets	(39,988)	(2,003)
Change in other policy funds and contract claims	35,328	(15,971)
Change in collateral held for derivatives	(905,799)	(170,371)
Change in funds withheld from reinsurers	629,251	—
Change in other liabilities	174,671	(141,230)
Other	(156,591)	(88,983)
Net cash provided by operating activities	<u>1,125,095</u>	<u>637,291</u>
Investing activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities, available for sale	5,136,412	3,295,774
Mortgage loans on real estate	1,572,420	500,140
Derivative instruments	577,772	1,741,357
Other investments	440,079	12,008
Acquisitions of investments:		
Fixed maturity securities, available for sale	(5,238,533)	(2,283,419)
Mortgage loans on real estate	(2,408,977)	(621,002)
Real estate investments acquired	(611,881)	(259,262)
Derivative instruments	(586,804)	(547,006)
Other investments	(1,123,295)	(422,070)
Purchases of property, furniture and equipment	(34,215)	(15,060)
Net cash provided by (used in) investing activities	<u>(2,277,022)</u>	<u>1,401,460</u>

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
Financing activities		
Receipts credited to annuity policyholder account balances	\$ 2,416,692	\$ 4,879,283
Coinsurance deposits	(241,746)	683,829
Return of annuity policyholder account balances	(3,724,169)	(3,861,391)
Repayment of loan payable	(1,875)	—
Proceeds from issuance of loan payable	300,000	—
Acquisition of treasury stock	(522,468)	(99,415)
Proceeds from issuance of common stock, net	252,861	4,854
Change in checks in excess of cash balance	4,538	(23,884)
Dividends paid on preferred stock	(32,756)	(32,756)
Net cash provided by (used in) financing activities	(1,548,923)	1,550,520
Increase (decrease) in cash and cash equivalents	(2,700,850)	3,589,271
Cash and cash equivalents at beginning of period	4,508,982	9,095,522
Cash and cash equivalents at end of period	<u>\$ 1,808,132</u>	<u>\$ 12,684,793</u>
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest expense	\$ 16,250	\$ 15,000
Income taxes	4,873	80,169
Income tax refunds received	17,187	—
Non-cash operating activity:		
Deferral of sales inducements	74,074	71,683

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2022****(Unaudited)****1. Significant Accounting Policies****Consolidation and Basis of Presentation**

The accompanying consolidated financial statements of American Equity Investment Life Holding Company ("we", "us", "our" or the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. The consolidated financial statements include variable interest entities ("VIE") in which we are the primary beneficiary. All of the adjustments in the consolidated financial statements are 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 and nine month periods ended September 30, 2022 are not necessarily indicative of the results that may be expected for any other period, including for the year ended December 31, 2022. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements requires management estimates and assumptions using subjective and complex judgments that frequently require assumptions about matters that are inherently uncertain. Our actual results could differ from these estimates. For further information related to a description of areas of judgment and estimates and other information necessary to understand our financial position and results of operations, refer to the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Federal Home Loan Bank

During the first quarter of 2022, American Equity Investment Life Insurance Company ("American Equity Life") became a member of the Federal Home Loan Bank ("FHLB") which provides access to collateralized borrowings and other FHLB products. We may also issue funding agreements to the FHLB. Both the collateralized borrowings and funding agreements require us to pledge qualified assets as collateral. Obligations arising from funding agreements are used in investment spread activities and reported in Other policy funds and contract claims on the Consolidated Balance Sheets. See *Note 8 - Commitments and Contingencies* for more information on the funding agreements issued. Entering into FHLB membership, borrowings and funding agreements requires the ownership of FHLB stock and the pledge of assets as collateral. See *Note 2 - Fair Value of Financial Instruments* and *Note 8 - Commitments and Contingencies* for more information on the common stock purchased and assets pledged as collateral.

Derivative Instruments

During the second quarter of 2022, we entered into interest rate swaps which were designated as fair value hedges. A fair value hedge is a hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk. The accounting for a fair value hedge is determined at hedge inception. Hedge accounting can be applied if, at inception, and throughout the hedging period, the changes in the fair value of the derivative are highly effective at offsetting the changes in fair value of the hedged asset, liability or unrecognized firm commitment that are attributable to the risk being hedged. When hedge accounting is applied, the change in fair value of the hedged asset, liability or unrecognized firm commitment attributable to the hedged risk are reported in the same line item in the Consolidated Statements of Operations as the changes in fair value of the derivative instrument. For fair value hedges of fixed maturity securities, the change in fair value attributable to the risk being hedged is recognized in the Change in fair value of derivatives line item of the Consolidated Statements of Operations. For any change in fair value of our interest rate swaps that are excluded from hedge effectiveness, we have elected to recognize the change immediately in earnings rather than amortizing over the life of the hedge.

At hedge inception, we formally document our risk management objective and strategy for entering into hedging relationships for any fair value hedge. We also quantitatively test for hedge effectiveness using statistical regression analysis on both a prospective and retrospective basis. The results of the testing determine whether we have a highly effective hedging relationship and can apply hedge accounting.

Adopted Accounting Pronouncements

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

New Accounting Pronouncements

In August 2018, the FASB issued an ASU that revises certain aspects of the measurement models and disclosure requirements for long duration insurance and investment contracts. The FASB's objective in issuing this ASU is to improve, simplify, and enhance the accounting for long-duration contracts. The revisions include updating cash flow assumptions in the calculation of the liability for traditional life products, introducing the term 'market risk benefit' ("MRB") and requiring all contract features meeting the definition of an MRB to be measured at fair value with the change in fair value recognized in net income excluding the change in fair value related to our own-credit risk which is recognized in AOCI and simplifying the method used to amortize deferred policy acquisition costs and deferred sales inducements to a constant level basis over the expected term of the related contracts rather than based on actual and estimated gross profits and enhancing disclosure requirements. While this ASU is effective for us January 1, 2023, the transition date (the remeasurement date) is January 1, 2021. We will adopt the guidance on a modified retrospective basis related to the future policy benefit and deferred acquisition costs. The guidance for market risk benefits will be applied retrospectively.

While we continue to evaluate the impact of adopting this standard, we expect the adoption to have a material impact to our financial condition, results of operations, statements of cash flows, and disclosures. The estimated impact to stockholders' equity at January 1, 2021 is an increase between \$1.5 billion and \$2.0 billion, with most of this impact reflected in accumulated other comprehensive income ("AOCI"). The impact to retained earnings is expected to be less than \$100.0 million.

The most significant drivers of the transition adjustment include changes related to MRBs including the impacts of our own-credit risk adjustment and removal of the deferred acquisition cost, deferred sales inducement, and policy benefit reserve balances recorded in AOCI related to changes in unrealized appreciation (depreciation) on available for sale fixed maturity securities.

We have created a governance framework and implementation plan for the adoption of this standard. We have designed and have started implementing internal controls related to the new processes created as part of implementing the updated standard. We will continue to refine the controls through the implementation date.

2. Fair Values of Financial Instruments

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

	September 30, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in thousands)				
Assets				
Fixed maturity securities, available for sale	\$ 41,087,911	\$ 41,087,911	\$ 51,305,943	\$ 51,305,943
Mortgage loans on real estate	6,601,445	6,159,905	5,687,998	5,867,227
Real estate investments	897,673	897,673	337,939	337,939
Derivative instruments	196,656	196,656	1,277,480	1,277,480
Other investments	2,636,152	2,694,152	1,767,144	1,767,144
Cash and cash equivalents	1,808,132	1,808,132	4,508,982	4,508,982
Coinurance deposits	8,848,418	8,342,351	8,850,608	7,938,292
Liabilities				
Policy benefit reserves	60,756,774	56,012,323	65,076,041	56,375,076
Single premium immediate annuity (SPIA) benefit reserves	215,902	225,088	226,207	235,891
Other policy funds - FHLB	50,000	50,000	—	—
Notes and loan payable	794,831	774,625	496,250	569,485
Subordinated debentures	78,668	80,056	78,421	93,721

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

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

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

Transfers of securities among the levels occur at times and depend on the type of inputs used to determine fair value of each security.

Our assets and liabilities which are measured at fair value on a recurring basis as of September 30, 2022 and December 31, 2021 are presented below based on the fair value hierarchy levels:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
September 30, 2022				
Assets				
Fixed maturity securities, available for sale:				
U.S. Government and agencies	\$ 169,538	\$ 26,075	\$ 143,463	\$ —
States, municipalities and territories	4,042,890	—	4,042,890	—
Foreign corporate securities and foreign governments	859,063	—	859,063	—
Corporate securities	26,894,108	—	26,574,576	319,532
Residential mortgage backed securities	1,372,741	—	1,372,741	—
Commercial mortgage backed securities	3,706,960	—	3,706,960	—
Other asset backed securities	4,042,611	—	3,944,366	98,245
Other investments	783,904	5,003	778,901	—
Real estate investments	897,673	—	—	897,673
Derivative instruments	196,656	—	196,656	—
Cash and cash equivalents	1,808,132	1,808,132	—	—
	<u>\$ 44,774,276</u>	<u>\$ 1,839,210</u>	<u>\$ 41,619,616</u>	<u>\$ 1,315,450</u>
Liabilities				
Funds withheld liability - embedded derivative	\$ (520,458)	\$ —	\$ —	\$ (520,458)
Fixed index annuities - embedded derivatives	5,257,042	—	—	5,257,042
	<u>\$ 4,736,584</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,736,584</u>
December 31, 2021				
Assets				
Fixed maturity securities, available for sale:				
U.S. Government and agencies	\$ 1,078,746	\$ 32,737	\$ 1,046,009	\$ —
States, municipalities and territories	3,927,201	—	3,927,201	—
Foreign corporate securities and foreign governments	402,545	—	402,545	—
Corporate securities	34,660,234	32,700	34,627,534	—
Residential mortgage backed securities	1,125,049	—	1,125,049	—
Commercial mortgage backed securities	4,840,311	—	4,840,311	—
Other asset backed securities	5,271,857	—	5,271,857	—
Other investments	12,226	—	5,877	6,349
Real estate investments	337,939	—	—	337,939
Derivative instruments	1,277,480	—	1,277,480	—
Cash and cash equivalents	4,508,982	4,508,982	—	—
	<u>\$ 57,442,570</u>	<u>\$ 4,574,419</u>	<u>\$ 52,523,863</u>	<u>\$ 344,288</u>
Liabilities				
Funds withheld liability - embedded derivative	\$ (2,362)	\$ —	\$ (2,362)	\$ —
Fixed index annuities - embedded derivatives	7,964,961	—	—	7,964,961
	<u>\$ 7,962,599</u>	<u>\$ —</u>	<u>\$ (2,362)</u>	<u>\$ 7,964,961</u>

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

Fixed maturity securities

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

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

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

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

We validate external valuations at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, comparison of the prices to a secondary pricing source, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list. Additionally, as needed we utilize discounted cash flow models or perform independent valuations on a case-by-case basis using inputs and assumptions similar to those used by the pricing services. Although we do identify differences from time to time as a result of these validation procedures, we did not make any significant adjustments as of September 30, 2022 and December 31, 2021.

Mortgage loans on real estate

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

Real estate investments

The fair values of residential real estate investments are initially calculated based on the cost to purchase the properties and subsequently calculated based on a discounted cash flow methodology. Under the discounted cash flow method, net operating income is forecasted assuming a 10-year hold period commencing as of the valuation date. An additional year is forecasted in order to determine the residual sale price at the end of the hold period, using a residual (terminal) capitalization rate. The significant inputs into the fair value calculation under the discounted cash flow method include the residual capitalization rate and discount rate. These inputs are unobservable market data; therefore, fair value of residential real estate investments falls into Level 3 in the fair value hierarchy. At September 30, 2022, the residual capitalization rates used in the fair value calculations ranged from 4.75% to 6.50% with an average rate of 4.97%. At September 30, 2022, the discount rates used in the fair value calculations ranged from 6.00% to 7.75% with an average rate of 6.73%.

Derivative instruments

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

The fair values of our pay fixed/receive float interest rate swaps are determined using internal valuation models that generate discounted expected future cash flows by constructing a projected Secured Overnight Financing Rate (SOFR) curve over the term of the swap.

Other investments

Equity securities and short-term debt securities with maturities of greater than three months but less than twelve months when purchased are the only financial instruments included in other investments that are measured at fair value on a recurring basis. The fair value for these investments are determined using the same methods discussed above for fixed maturity securities. Financial instruments included in other investments that are not measured at fair value on a recurring basis are FHLB common stock, equity method investments, short-term loans, collateral loans, company owned life insurance ("COLI") and a consolidated variable interest entity. FHLB common stock is carried at cost which approximates fair value. FHLB common stock was \$12.0 million as of September 30, 2022 and falls within Level 2 of the fair value hierarchy. The fair values for most of our equity method investments are obtained from third parties and are determined using a variety of valuation techniques, including discounted cash flow analysis, valuation multiples analysis for comparable investments and appraisal values. As the risk spread and liquidity discount are unobservable market inputs, the fair value of our equity method investments falls within Level 3 of the fair value hierarchy. The fair value for one of our equity method investments is based on earnings multiples derived by comparing valuations of similar entities relative to earnings data. The fair value of this equity method investment falls within Level 3 of the fair value hierarchy. The fair value of equity method investments was \$1,083.5 million and \$520.1 million as of September 30, 2022 and December 31, 2021, respectively. Due to the short-term nature of the investments, the fair value of a portion of our short-term loans approximates the carrying value. The fair value of short-term loans was \$237.5 million and \$320.0 million as of September 30, 2022 and December 31, 2021, respectively. Our short-term loans fall within Level 2 of the fair value hierarchy. For our collateral loans, we have concluded the fair value approximates carrying value and falls within Level 2 of the fair value hierarchy. The fair value of collateral loans was \$64.6 million and \$0 as of September 30, 2022 and December 31, 2021, respectively. The fair value of our COLI approximates the cash surrender value of the policies and falls within Level 2 of the fair value hierarchy. The fair value of COLI was \$394.6 million and \$384.3 million as of September 30, 2022 and December 31, 2021, respectively. Our consolidated variable interest entity is an investment in one investment company real estate fund that invests in operating entities which hold multifamily real estate properties. The fair value of our variable interest entity was \$56.6 million as of September 30, 2022 and falls within Level 3 of the fair value hierarchy. The fair value was obtained from a third party and is based on the fair value of the underlying real estate held by the various operating entities. The real estate is initially calculated based on the cost to purchase the properties and subsequently calculated based on a discounted cash flow methodology. Based on the timing of the purchases, the fair value as of September 30, 2022 was based on cost.

Cash and cash equivalents

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

Policy benefit reserves, coinsurance deposits and SPIA benefit reserves

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

Other policy funds - FHLB

The fair values of the Company's funding agreements with the FHLB are estimated using discounted cash flow calculations based on interest rates currently being offered for similar agreements with similar maturities.

Notes and loan payable

The fair values of our senior unsecured notes are based upon quoted market prices. The fair value of our term loan is equal to the principal amount outstanding as we borrowed the funds under this agreement on July 6, 2022. Both of these are categorized as Level 2 within the fair value hierarchy, and remeasured at fair value on a recurring basis.

Subordinated debentures

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

Funds withheld liability - embedded derivative

We estimate the fair value of the embedded derivative based on the fair value of the assets supporting the funds withheld payable under modified coinsurance reinsurance agreements. The fair value of the embedded derivative is classified as Level 3 based on valuation methods used for the assets held supporting the reinsurance agreements.

Fixed index annuities - embedded derivatives

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

Within this determination we have the following significant unobservable inputs: 1) the expected cost of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary and 2) our best estimates for future policy decrements, primarily lapse, partial withdrawal and mortality rates. As of September 30, 2022 and December 31, 2021, we utilized an estimate of 2.40% and 2.10%, respectively, for the expected cost of annual call options, which is based on estimated long-term account value growth and a historical review of our actual option costs.

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

Contract Duration (Years)	Average Lapse Rates		Average Partial Withdrawal Rates	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
1 - 5	2.17%	3.04%	1.86%	2.19%
6 - 10	3.24%	2.84%	1.97%	2.26%
11 - 15	3.76%	4.47%	1.88%	2.14%
16 - 20	8.02%	8.93%	2.88%	1.33%
20+	4.90%	4.93%	1.79%	—%

Lapse rates are generally expected to increase as surrender charge percentages decrease for policies without a lifetime income benefit rider. Lapse expectations reflect a significant increase in the year in which the surrender charge period on a contract ends.

The following table provides a reconciliation of the beginning and ending balances for our Level 3 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, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Fixed maturity securities, available for sale - Corporate securities				
Beginning balance	\$ 77,726	\$ —	\$ —	\$ —
Transfers in	241,878	—	319,604	—
Total realized/unrealized gains (losses):				
Included in net income	—	—	—	—
Included in other comprehensive income (loss)	(72)	—	(72)	—
Ending balance	<u>\$ 319,532</u>	<u>\$ —</u>	<u>\$ 319,532</u>	<u>\$ —</u>
Fixed maturity securities, available for sale - Other asset backed securities				
Beginning balance	\$ 64,550	\$ —	\$ —	\$ —
Transfers in	37,151	—	101,701	—
Total realized/unrealized gains (losses):				
Included in net income	—	—	—	—
Included in other comprehensive income (loss)	(3,456)	—	(3,456)	—
Ending balance	<u>\$ 98,245</u>	<u>\$ —</u>	<u>\$ 98,245</u>	<u>\$ —</u>
Other investments				
Beginning balance	\$ —	\$ —	\$ 6,349	\$ —
Transfers in	—	6,349	—	6,349
Transfers out	—	—	(3,867)	—
Total realized/unrealized gains (losses):				
Included in net income	—	—	(2,482)	—
Included in other comprehensive income (loss)	—	—	—	—
Ending balance	<u>\$ —</u>	<u>\$ 6,349</u>	<u>\$ —</u>	<u>\$ 6,349</u>
Real estate investments				
Beginning balance	\$ 672,475	\$ 258,237	\$ 337,939	\$ —
Purchases and sales, net	250,062	1,025	553,628	259,262
Change in fair value	(24,864)	—	6,106	—
Ending balance	<u>\$ 897,673</u>	<u>\$ 259,262</u>	<u>\$ 897,673</u>	<u>\$ 259,262</u>
Funds withheld liability - embedded derivative				
Beginning balance	\$ —	\$ —	\$ —	\$ —
Transfers in	(520,458)	—	(520,458)	—
Change in fair value	—	—	—	—
Ending balance	<u>\$ (520,458)</u>	<u>\$ —</u>	<u>\$ (520,458)</u>	<u>\$ —</u>
Fixed index annuities - embedded derivatives				
Beginning balance	\$ 5,836,312	\$ 8,384,764	\$ 7,964,961	\$ 7,938,281
Premiums less benefits	(92,242)	365,474	(28,759)	1,062,994
Change in fair value, net	(466,244)	(681,509)	(2,658,376)	(932,546)
Reserve release related to in-force ceded reinsurance	(20,784)	(520,889)	(20,784)	(520,889)
Ending balance	<u>\$ 5,257,042</u>	<u>\$ 7,547,840</u>	<u>\$ 5,257,042</u>	<u>\$ 7,547,840</u>

Transfers into Level 3 during the three and nine months ended September 30, 2022 were the result of changes in observable pricing information for certain fixed maturity securities.

The fair value of our fixed index annuities embedded derivatives is net of coinsurance ceded of \$733.5 million and \$1,245.0 million as of September 30, 2022 and December 31, 2021, respectively. Change in fair value, net for each period in our embedded derivatives is included in Change in fair value of embedded derivatives in the unaudited Consolidated Statements of Operations.

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

The most sensitive assumption in determining policy liabilities for fixed index annuities is the rates used to discount the excess projected contract values. As indicated above, the discount rate reflects our nonperformance risk. If the discount rates used to discount the excess projected contract values at September 30, 2022, were to increase by 100 basis points, the fair value of the embedded derivatives would decrease by \$356.0 million recorded through operations as a decrease in the change in fair value of embedded derivatives and there would be a corresponding decrease of \$127.5 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as an increase in amortization of deferred policy acquisition costs and deferred sales inducements. A decrease by 100 basis points in the discount rates used to discount the excess projected contract values would increase the fair value of the embedded derivatives by \$408.0 million recorded through operations as an increase in the change in fair value of embedded derivatives and there would be a corresponding increase of \$148.4 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as a decrease in amortization of deferred policy acquisition costs and deferred sales inducements.

3. Investments

At September 30, 2022 and December 31, 2021, the amortized cost and fair value of fixed maturity securities were as follows:

	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses (2)	Allowance for Credit Losses	Fair Value
(Dollars in thousands)					
September 30, 2022					
Fixed maturity securities, available for sale:					
U.S. Government and agencies	\$ 172,754	\$ 322	\$ (3,538)	\$ —	\$ 169,538
States, municipalities and territories	4,558,007	42,882	(557,999)	—	4,042,890
Foreign corporate securities and foreign governments	941,787	15,982	(98,706)	—	859,063
Corporate securities	30,804,074	185,050	(4,091,802)	(3,214)	26,894,108
Residential mortgage backed securities	1,465,458	16,369	(107,380)	(1,706)	1,372,741
Commercial mortgage backed securities	4,076,549	1,046	(370,635)	—	3,706,960
Other asset backed securities	4,487,092	226	(444,707)	—	4,042,611
	<u>\$ 46,505,721</u>	<u>\$ 261,877</u>	<u>\$ (5,674,767)</u>	<u>\$ (4,920)</u>	<u>\$ 41,087,911</u>
December 31, 2021					
Fixed maturity securities, available for sale:					
U.S. Government and agencies	\$ 1,046,029	\$ 32,841	\$ (124)	\$ —	\$ 1,078,746
States, municipalities and territories	3,495,563	437,456	(3,042)	(2,776)	3,927,201
Foreign corporate securities and foreign governments	380,646	22,742	(843)	—	402,545
Corporate securities	31,084,629	3,614,047	(38,442)	—	34,660,234
Residential mortgage backed securities	1,056,778	70,434	(2,093)	(70)	1,125,049
Commercial mortgage backed securities	4,708,878	149,152	(17,719)	—	4,840,311
Other asset backed securities	5,226,660	95,304	(50,107)	—	5,271,857
	<u>\$ 46,999,183</u>	<u>\$ 4,421,976</u>	<u>\$ (112,370)</u>	<u>\$ (2,846)</u>	<u>\$ 51,305,943</u>

(1) Amortized cost excludes accrued interest receivable of \$460.6 million and \$400.7 million as of September 30, 2022 and December 31, 2021, respectively.

(2) Gross unrealized losses are net of allowance for credit losses.

The amortized cost and fair value of fixed maturity securities at September 30, 2022, by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our mortgage and other asset backed securities provide for periodic payments throughout their lives and are shown below as separate lines.

	Available for sale	
	Amortized Cost	Fair Value
(Dollars in thousands)		
Due in one year or less	\$ 1,581,856	\$ 1,578,652
Due after one year through five years	7,181,216	6,887,037
Due after five years through ten years	6,387,291	5,789,381
Due after ten years through twenty years	10,872,828	9,794,223
Due after twenty years	10,453,431	7,916,306
	<u>36,476,622</u>	<u>31,965,599</u>
Residential mortgage backed securities	1,465,458	1,372,741
Commercial mortgage backed securities	4,076,549	3,706,960
Other asset backed securities	4,487,092	4,042,611
	<u>\$ 46,505,721</u>	<u>\$ 41,087,911</u>

Net unrealized gains (losses) on investments reported as a separate component of stockholders' equity were comprised of the following:

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Net unrealized gains (losses) on investments	\$ (5,425,373)	\$ 4,309,606
Adjustments for assumed changes in amortization of deferred policy acquisition costs, deferred sales inducements and policy benefit reserves	2,594,217	(1,993,869)
Deferred income tax valuation allowance reversal	22,534	22,534
Deferred income tax expense	594,234	(489,482)
Net unrealized gains (losses) reported as accumulated other comprehensive income (loss)	<u>\$ (2,214,388)</u>	<u>\$ 1,848,789</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." Based on the NAIC designations, we had 98% of our fixed maturity portfolio rated investment grade at both September 30, 2022 and December 31, 2021, respectively.

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

NAIC Designation	September 30, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
1	\$ 27,008,700	\$ 24,082,858	\$ 26,157,531	\$ 28,785,839
2	18,703,067	16,342,207	19,758,594	21,396,020
3	625,554	533,923	909,311	941,210
4	95,833	82,402	133,070	147,160
5	56,835	37,389	16,496	15,357
6	15,732	9,132	24,181	20,357
	<u>\$ 46,505,721</u>	<u>\$ 41,087,911</u>	<u>\$ 46,999,183</u>	<u>\$ 51,305,943</u>

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 4,404 and 1,427 securities, respectively) have been in a continuous unrealized loss position, at September 30, 2022 and December 31, 2021:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses (1)	Fair Value	Unrealized Losses (1)	Fair Value	Unrealized Losses (1)
(Dollars in thousands)						
September 30, 2022						
Fixed maturity securities, available for sale:						
U.S. Government and agencies	\$ 132,334	\$ (3,538)	\$ —	\$ —	\$ 132,334	\$ (3,538)
States, municipalities and territories	2,890,984	(556,773)	2,572	(1,226)	2,893,556	(557,999)
Foreign corporate securities and foreign governments	634,949	(96,583)	3,163	(2,123)	638,112	(98,706)
Corporate securities	22,263,446	(4,055,115)	94,985	(39,901)	22,358,431	(4,095,016)
Residential mortgage backed securities	1,080,905	(102,854)	37,416	(6,232)	1,118,321	(109,086)
Commercial mortgage backed securities	3,562,772	(361,686)	42,624	(8,949)	3,605,396	(370,635)
Other asset backed securities	2,577,355	(219,730)	1,413,364	(224,977)	3,990,719	(444,707)
	<u>\$ 33,142,745</u>	<u>\$ (5,396,279)</u>	<u>\$ 1,594,124</u>	<u>\$ (283,408)</u>	<u>\$ 34,736,869</u>	<u>\$ (5,679,687)</u>
December 31, 2021						
Fixed maturity securities, available for sale:						
U.S. Government and agencies	\$ 760,977	\$ (124)	\$ —	\$ —	\$ 760,977	\$ (124)
States, municipalities and territories	168,942	(2,468)	15,711	(3,350)	184,653	(5,818)
Foreign corporate securities and foreign governments	42,861	(843)	—	—	42,861	(843)
Corporate securities	2,375,603	(30,070)	116,819	(8,372)	2,492,422	(38,442)
Residential mortgage backed securities	250,964	(1,408)	26,917	(755)	277,881	(2,163)
Commercial mortgage backed securities	784,464	(5,500)	142,224	(12,219)	926,688	(17,719)
Other asset backed securities	1,351,324	(11,345)	1,771,182	(38,762)	3,122,506	(50,107)
	<u>\$ 5,735,135</u>	<u>\$ (51,758)</u>	<u>\$ 2,072,853</u>	<u>\$ (63,458)</u>	<u>\$ 7,807,988</u>	<u>\$ (115,216)</u>

(1) Unrealized losses have not been reduced to reflect the allowance for credit losses of \$4.9 million and \$2.8 million as of September 30, 2022 and December 31, 2021, respectively.

The unrealized losses at September 30, 2022 are principally related to the timing of the purchases of certain securities, which carry less yield than those available at September 30, 2022. Approximately 98% and 85% of the unrealized losses on fixed maturity securities shown in the above table for September 30, 2022 and December 31, 2021, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations.

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

Changes in net unrealized gains/losses on investments for the three and nine months ended September 30, 2022 and 2021 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Fixed maturity securities available for sale carried at fair value	\$ (2,277,217)	\$ (327,223)	\$ (9,734,979)	\$ (802,409)
Adjustment for effect on other balance sheet accounts:				
Deferred policy acquisition costs, deferred sales inducements and policy benefit reserves	1,231,107	242,493	4,588,086	490,278
Deferred income tax asset/liability	219,690	17,793	1,083,716	65,548
	<u>1,450,797</u>	<u>260,286</u>	<u>5,671,802</u>	<u>555,826</u>
Change in net unrealized gains/losses on investments carried at fair value	<u>\$ (826,420)</u>	<u>\$ (66,937)</u>	<u>\$ (4,063,177)</u>	<u>\$ (246,583)</u>

Proceeds from sales of available for sale fixed maturity securities for the nine months ended September 30, 2022 and 2021 were \$3.2 billion and \$446.4 million, respectively. Scheduled principal repayments, calls and tenders for available for sale fixed maturity securities for the nine months ended September 30, 2022 and 2021 were \$2.0 billion and \$2.8 billion, respectively.

Net realized gains (losses) on investments for the three and nine months ended September 30, 2022 and 2021, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Available for sale fixed maturity securities:				
Gross realized gains	\$ 23,978	\$ 1,001	\$ 27,950	\$ 7,430
Gross realized losses	(33,881)	—	(59,940)	(16,147)
Net credit loss (provision) release	(1,487)	84	(14,341)	(93)
	(11,390)	1,085	(46,331)	(8,810)
Mortgage loans on real estate:				
Decrease (increase) in allowance for credit losses	(4,716)	5,023	(13,309)	9,471
Recovery of specific allowance	1,086	—	1,315	—
Loss on sale of mortgage loans	(840)	(1,175)	(3,934)	(3,425)
	(4,470)	3,848	(15,928)	6,046
	<u>\$ (15,860)</u>	<u>\$ 4,933</u>	<u>\$ (62,259)</u>	<u>\$ (2,764)</u>

Realized losses on available for sale fixed maturity securities in 2022 and 2021 were realized primarily due to strategies to reposition the fixed maturity security portfolio that result in improved net investment income, credit risk or duration profiles as they pertain to our asset liability management. Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date.

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

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

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

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

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

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

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

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

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

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

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

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

Three Months Ended September 30, 2022				
	States, Municipalities and Territories	Corporate Securities	Residential Mortgage Backed Securities	Total
(Dollars in thousands)				
Beginning balance	\$ 1,834	\$ 3,743	\$ 610	\$ 6,187
Additions for credit losses not previously recorded	—	—	439	439
Change in allowance on securities with previous allowance	(1,834)	(529)	657	(1,706)
Reduction for securities sold during the period	—	—	—	—
Write-offs charged against the allowance	—	—	—	—
Recoveries of amounts previously written off	—	—	—	—
Ending balance	\$ —	\$ 3,214	\$ 1,706	\$ 4,920

Three Months Ended September 30, 2021				
	States, Municipalities and Territories	Corporate Securities	Residential Mortgage Backed Securities	Total
(Dollars in thousands)				
Beginning balance	\$ 3,347	\$ 10,723	\$ 120	\$ 14,190
Additions for credit losses not previously recorded	—	—	296	296
Change in allowance on securities with previous allowance	(575)	315	—	(260)
Reduction for securities sold during the period	—	—	—	—
Write-offs charged against the allowance	—	(10,032)	—	(10,032)
Recoveries of amounts previously written off	—	—	(120)	(120)
Ending balance	\$ 2,772	\$ 1,006	\$ 296	\$ 4,074

Nine Months Ended September 30, 2022				
	States, Municipalities and Territories	Corporate Securities	Residential Mortgage Backed Securities	Total
(Dollars in thousands)				
Beginning balance	\$ 2,776	\$ —	\$ 70	\$ 2,846
Additions for credit losses not previously recorded	—	3,825	1,070	4,895
Change in allowance on securities with previous allowance	(2,776)	(611)	994	(2,393)
Reduction for securities sold during the period	—	—	(428)	(428)
Write-offs charged against the allowance	—	—	—	—
Recoveries of amounts previously written off	—	—	—	—
Ending balance	\$ —	\$ 3,214	\$ 1,706	\$ 4,920

Nine Months Ended September 30, 2021				
	States, Municipalities and Territories	Corporate Securities	Residential Mortgage Backed Securities	Total
(Dollars in thousands)				
Beginning balance	\$ 2,844	\$ 60,193	\$ 1,734	\$ 64,771
Additions for credit losses not previously recorded	—	705	407	1,112
Change in allowance on securities with previous allowance	(72)	1,240	(631)	537
Reduction for securities sold during the period	—	(50,758)	—	(50,758)
Write-offs charged against the allowance	—	(10,032)	—	(10,032)
Recoveries of amounts previously written off	—	(342)	(1,214)	(1,556)
Ending balance	\$ 2,772	\$ 1,006	\$ 296	\$ 4,074

4. Mortgage Loans on Real Estate

Our financing receivables consist of the following three portfolio segments: commercial mortgage loans, agricultural mortgage loans and residential mortgage loans. Our mortgage loan portfolios are summarized in the following table. There were commitments outstanding of \$367.3 million at September 30, 2022.

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Commercial mortgage loans:		
Principal outstanding	\$ 3,589,852	\$ 3,633,131
Deferred fees and costs, net	(6,260)	(4,629)
Amortized cost	3,583,592	3,628,502
Valuation allowance	(23,613)	(17,926)
Commercial mortgage loans, carrying value	3,559,979	3,610,576
Agricultural mortgage loans:		
Principal outstanding	582,518	408,135
Deferred fees and costs, net	(1,723)	(1,136)
Amortized cost	580,795	406,999
Valuation allowance	(810)	(519)
Agricultural mortgage loans, carrying value	579,985	406,480
Residential mortgage loans:		
Principal outstanding	2,423,962	1,652,910
Deferred fees and costs, net	1,441	1,468
Unamortized discounts and premiums, net	47,259	22,143
Amortized cost	2,472,662	1,676,521
Valuation allowance	(11,181)	(5,579)
Residential mortgage loans, carrying value	2,461,481	1,670,942
Mortgage loans, carrying value	\$ 6,601,445	\$ 5,687,998

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

	September 30, 2022		December 31, 2021	
	Principal	Percent	Principal	Percent
(Dollars in thousands)				
Geographic distribution				
East	\$ 522,913	14.6 %	\$ 614,406	16.9 %
Middle Atlantic	281,685	7.8 %	293,494	8.1 %
Mountain	425,348	11.9 %	452,818	12.5 %
New England	63,831	1.8 %	60,172	1.6 %
Pacific	864,749	24.1 %	863,879	23.8 %
South Atlantic	927,915	25.8 %	785,679	21.6 %
West North Central	209,532	5.8 %	235,864	6.5 %
West South Central	293,879	8.2 %	326,819	9.0 %
	<u>\$ 3,589,852</u>	<u>100.0 %</u>	<u>\$ 3,633,131</u>	<u>100.0 %</u>
Property type distribution				
Office	\$ 388,414	10.8 %	\$ 315,374	8.7 %
Medical Office	10,408	0.3 %	10,827	0.3 %
Retail	913,201	25.4 %	1,016,101	28.0 %
Industrial/Warehouse	861,547	24.0 %	924,779	25.4 %
Apartment	923,717	25.7 %	864,580	23.8 %
Hotel	286,271	8.0 %	283,500	7.8 %
Mixed Use/Other	206,294	5.8 %	217,970	6.0 %
	<u>\$ 3,589,852</u>	<u>100.0 %</u>	<u>\$ 3,633,131</u>	<u>100.0 %</u>

Our agricultural mortgage loan portfolio consists of loans with an outstanding principal balance of \$582.5 million and \$408.1 million as of September 30, 2022 and December 31, 2021, respectively. These loans are collateralized by agricultural land and are diversified as to location within the United States. Our residential mortgage loan portfolio consists of loans with an outstanding principal balance of \$2.4 billion and \$1.7 billion as of September 30, 2022 and December 31, 2021, respectively. These loans are collateralized by the related properties and diversified as to location within the United States.

Mortgage loans on real estate are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Interest income is included in Net investment income on our Consolidated Statements of Operations. Accrued interest receivable, which was \$47.1 million and \$37.0 million as of September 30, 2022 and December 31, 2021, respectively, is included in Accrued investment income on our Consolidated Balance Sheets.

Loan Valuation Allowance

We establish a valuation allowance to provide for the risk of credit losses inherent in our mortgage loan portfolios. The valuation allowance is maintained at a level believed adequate by management to absorb estimated expected credit losses. The valuation allowance is based on amortized cost, which excludes accrued interest receivable. We do not measure a credit loss allowance on accrued interest receivable as we write off any uncollectible accrued interest receivable balances to net investment income in a timely manner. We did not charge off any uncollectible accrued interest receivable on our commercial, agricultural or residential mortgage loan portfolios for the three and nine month periods ended September 30, 2022 or 2021, respectively.

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

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

	Three Months Ended September 30, 2022			
	Commercial	Agricultural	Residential	Total
	(Dollars in thousands)			
Beginning allowance balance	\$ (24,244)	\$ (664)	\$ (7,480)	\$ (32,388)
Charge-offs	414	—	—	414
Recoveries	1,086	—	—	1,086
Change in provision for credit losses	(869)	(146)	(3,701)	(4,716)
Ending allowance balance	<u>\$ (23,613)</u>	<u>\$ (810)</u>	<u>\$ (11,181)</u>	<u>\$ (35,604)</u>

	Three Months Ended September 30, 2021			
	Commercial	Agricultural	Residential	Total
	(Dollars in thousands)			
Beginning allowance balance	\$ (22,498)	\$ (454)	\$ (3,629)	\$ (26,581)
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Change in provision for credit losses	4,808	(174)	389	5,023
Ending allowance balance	<u>\$ (17,690)</u>	<u>\$ (628)</u>	<u>\$ (3,240)</u>	<u>\$ (21,558)</u>

	Nine Months Ended September 30, 2022			
	Commercial	Agricultural	Residential	Total
	(Dollars in thousands)			
Beginning allowance balance	\$ (17,926)	\$ (519)	\$ (5,579)	\$ (24,024)
Charge-offs	414	—	—	414
Recoveries	1,315	—	—	1,315
Change in provision for credit losses	(7,416)	(291)	(5,602)	(13,309)
Ending allowance balance	<u>\$ (23,613)</u>	<u>\$ (810)</u>	<u>\$ (11,181)</u>	<u>\$ (35,604)</u>

	Nine Months Ended September 30, 2021			
	Commercial	Agricultural	Residential	Total
	(Dollars in thousands)			
Beginning allowance balance	\$ (25,529)	\$ (2,130)	\$ (3,370)	\$ (31,029)
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Change in provision for credit losses	7,839	1,502	130	9,471
Ending allowance balance	<u>\$ (17,690)</u>	<u>\$ (628)</u>	<u>\$ (3,240)</u>	<u>\$ (21,558)</u>

Charge-offs include allowances that have been established on loans that were satisfied either by taking ownership of the collateral or by some other means such as discounted pay-off or loan sale. When ownership of the property is taken it is recorded at the lower of the loan's carrying value or the property's fair value (based on appraised values) less estimated costs to sell. The real estate owned is recorded as a component of Other investments and the loan is recorded as fully paid, with any allowance for credit loss that has been established charged off. Fair value of the real estate is determined by third party appraisal. There is no real estate held in Other investments as of September 30, 2022 or December 31, 2021. Recoveries are situations where we have received a payment from the borrower in an amount greater than the carrying value of the loan (principal outstanding less specific allowance).

Credit Quality Indicators

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

LTV and DSC ratios for our commercial mortgage loans are originally calculated at the time of loan origination and are updated annually for each loan using information such as rent rolls, assessment of lease maturity dates and property operating statements, which are reviewed in the context of current leasing and in place rents compared to market leasing and market rents. A DSC ratio of less than 1.0 indicates that a property's operations do not generate sufficient income to cover debt payments. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. All of our commercial mortgage loans that have a debt service coverage ratio of less than 1.0 are performing under the original contractual loan terms at September 30, 2022 and December 31, 2021.

The amortized cost of our commercial mortgage loan portfolio by LTV and DSC ratios based on the most recent information collected was as follows at September 30, 2022 and December 31, 2021 (by year of origination):

	2022		2021		2020		2019		2018		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
As of September 30, 2022:														
Debt Service Coverage Ratio:	(Dollars in thousands)													
Greater than or equal to 1.5	\$ 231,027	64 %	\$ 258,232	61 %	\$ 441,541	57 %	\$ 439,473	59 %	\$ 333,748	54 %	\$ 840,846	45 %	\$ 2,544,867	54 %
Greater than or equal to 1.2 and less than 1.5	6,486	70 %	124,082	56 %	28,910	61 %	116,762	67 %	73,807	69 %	147,784	60 %	497,831	62 %
Greater than or equal to 1.0 and less than 1.2	100,177	52 %	211,637	43 %	18,268	80 %	39,603	74 %	10,404	76 %	60,019	47 %	440,108	51 %
Less than 1.0	53,437	54 %	—	— %	—	— %	6,153	61 %	13,119	73 %	28,077	67 %	100,786	61 %
Total	\$ 391,127	60 %	\$ 593,951	53 %	\$ 488,719	58 %	\$ 601,991	61 %	\$ 431,078	58 %	\$ 1,076,726	47 %	\$ 3,583,592	55 %

	2021		2020		2019		2018		2017		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
As of December 31, 2021:														
Debt Service Coverage Ratio:														
Greater than or equal to 1.5	\$ 260,623	64 %	\$ 454,828	60 %	\$ 464,059	61 %	\$ 344,170	58 %	\$ 246,854	52 %	\$ 758,494	45 %	\$ 2,529,028	55 %
Greater than or equal to 1.2 and less than 1.5	12,836	67 %	58,960	66 %	128,301	70 %	89,293	66 %	135,818	66 %	129,833	57 %	555,041	65 %
Greater than or equal to 1.0 and less than 1.2	318,636	45 %	17,762	82 %	69,684	72 %	11,937	75 %	6,343	60 %	42,125	58 %	466,487	53 %
Less than 1.0	—	— %	3,289	61 %	26,147	63 %	14,051	76 %	13,385	73 %	21,074	54 %	77,946	65 %
Total	\$ 592,095	54 %	\$ 534,839	61 %	\$ 688,191	64 %	\$ 459,451	60 %	\$ 402,400	58 %	\$ 951,526	47 %	\$ 3,628,502	56 %

LTV and DSC ratios for our agricultural mortgage loans are calculated at the time of loan origination and are evaluated annually for each loan using land value averages. A DSC ratio of less than 1.0 indicates that a property's operations do not generate sufficient income to cover debt payments. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. All of our agricultural mortgage loans that have a debt service coverage ratio of less than 1.0 are performing under the original contractual loan terms at September 30, 2022 and December 31, 2021.

The amortized cost of our agricultural mortgage loan portfolio by LTV and DSC ratios based on the most recent information collected was as follows at September 30, 2022 and December 31, 2021 (by year of origination):

	2022		2021		2020		2019		2018		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
As of September 30, 2022:														
Debt Service Coverage Ratio:	(Dollars in thousands)													
Greater than or equal to 1.5	\$ 85,660	48 %	\$ 54,509	51 %	\$ 83,847	67 %	\$ 1,421	42 %	\$ 34,000	42 %	—	— %	\$ 259,437	54 %
Greater than or equal to 1.2 and less than 1.5	96,443	54 %	96,648	54 %	99,008	42 %	4,347	18 %	—	— %	—	— %	296,446	50 %
Greater than or equal to 1.0 and less than 1.2	6,813	74 %	7,356	43 %	4,042	36 %	—	— %	—	— %	—	— %	18,211	53 %
Less than 1.0	—	— %	—	— %	6,701	46 %	—	— %	—	— %	—	— %	6,701	46 %
Total	\$ 188,916	52 %	\$ 158,513	53 %	\$ 193,598	53 %	\$ 5,768	24 %	\$ 34,000	42 %	—	— %	\$ 580,795	52 %

	2021		2020		2019		2018		2017		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
As of December 31, 2021:														
Debt Service Coverage Ratio:														
Greater than or equal to 1.5	\$ 62,548	54 %	\$ 80,919	56 %	\$ 11,645	49 %	\$ 25,000	11 %	—	— %	—	— %	\$ 180,112	49 %
Greater than or equal to 1.2 and less than 1.5	95,738	55 %	102,958	43 %	3,335	22 %	—	— %	—	— %	—	— %	202,031	48 %
Greater than or equal to 1.0 and less than 1.2	7,478	44 %	4,092	36 %	4,734	50 %	—	— %	—	— %	—	— %	16,304	44 %
Less than 1.0	—	— %	8,552	59 %	—	— %	—	— %	—	— %	—	— %	8,552	59 %
Total	\$ 165,764	54 %	\$ 196,521	49 %	\$ 19,714	45 %	\$ 25,000	11 %	—	— %	—	— %	\$ 406,999	48 %

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

	2022	2021	2020	2019	2018	Prior	Total
As of September 30, 2022:							
(Dollars in thousands)							
Commercial mortgage loans							
Current	\$ 391,127	\$ 593,951	\$ 488,719	\$ 601,991	\$ 431,078	\$ 1,076,726	\$ 3,583,592
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
Total commercial mortgage loans	\$ 391,127	\$ 593,951	\$ 488,719	\$ 601,991	\$ 431,078	\$ 1,076,726	\$ 3,583,592
Agricultural mortgage loans							
Current	\$ 188,916	\$ 158,513	\$ 190,463	\$ 5,768	\$ 34,000	\$ —	\$ 577,660
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	3,135	—	—	—	3,135
Total agricultural mortgage loans	\$ 188,916	\$ 158,513	\$ 193,598	\$ 5,768	\$ 34,000	\$ —	\$ 580,795
Residential mortgage loans							
Current	\$ 1,457,896	\$ 672,371	\$ 233,185	\$ 31,457	\$ 1,710	\$ 417	\$ 2,397,036
30 - 59 days past due	15,049	9,384	6,443	1,645	767	—	33,288
60 - 89 days past due	3,298	440	4,641	—	2,029	—	10,408
Over 90 days past due	2,917	22,550	6,463	—	—	—	31,930
Total residential mortgage loans	\$ 1,479,160	\$ 704,745	\$ 250,732	\$ 33,102	\$ 4,506	\$ 417	\$ 2,472,662
As of December 31, 2021:							
(Dollars in thousands)							
Commercial mortgage loans							
Current	\$ 592,095	\$ 534,839	\$ 688,191	\$ 459,451	\$ 402,400	\$ 951,526	\$ 3,628,502
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
Total commercial mortgage loans	\$ 592,095	\$ 534,839	\$ 688,191	\$ 459,451	\$ 402,400	\$ 951,526	\$ 3,628,502
Agricultural mortgage loans							
Current	\$ 165,764	\$ 196,521	\$ 19,714	\$ 25,000	\$ —	\$ —	\$ 406,999
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
Total agricultural mortgage loans	\$ 165,764	\$ 196,521	\$ 19,714	\$ 25,000	\$ —	\$ —	\$ 406,999
Residential mortgage loans							
Current	\$ 1,092,438	\$ 454,532	\$ 67,380	\$ 16,898	\$ 751	\$ —	\$ 1,631,999
30 - 59 days past due	10,284	12,363	11,373	427	—	—	34,447
60 - 89 days past due	1,838	1,090	102	—	—	—	3,030
Over 90 days past due	679	5,459	907	—	—	—	7,045
Total residential mortgage loans	\$ 1,105,239	\$ 473,444	\$ 79,762	\$ 17,325	\$ 751	\$ —	\$ 1,676,521

Commercial, agricultural and residential mortgage loans are considered nonperforming when they become 90 days or more past due. When loans become nonperforming, we place them on non-accrual status and discontinue recognizing interest income. If payments are received on a nonperforming loan, interest income is recognized to the extent it would have been recognized if normal principal and interest would have been received timely. If payments are received to bring a nonperforming loan back to less than 90 days past due, we will resume accruing interest income on that loan. There were 68 loans in non-accrual status at September 30, 2022 and 13 loans in non-accrual status at December 31, 2021. During the three and nine months ended September 30, 2022 we recognized \$0 and \$546 thousand, respectively, in interest income on loans which were in non-accrual status at the respective period end. During the three and nine months ended September 30, 2021 we recognized \$3 thousand and \$36 thousand in interest income on loans which were in non-accrual status at the respective period end.

Troubled Debt Restructuring

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

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

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

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

Mortgage loan workouts, refinances or restructures that are classified as TDRs are individually evaluated and measured for impairment. There were no mortgage loans that we determined to be a TDR at September 30, 2022 and December 31, 2021.

5. Variable Interest Entities

We have relationships with various types of entities which may be VIEs. Certain VIEs are consolidated in our financial results.

Consolidated Variable Interest Entities

We are invested in three investment company real estate limited partnerships which own various limited liability companies that invest in residential real estate properties. These entities are VIE's as the legal entities equity investors have insufficient equity at risk and lack of power to direct the activities that most significantly impact the economic performance. We determined we are the primary beneficiary as a result of our power to control the entities through our significant ownership. Due to the nature of these real estate investments, the investments balance will fluctuate based on changes in the fair value of the properties as well as when purchases and sales of properties are made.

We are invested in one limited liability company that invests in operating entities which hold multifamily real estate properties. The entity is a VIE and we have determined we are the primary beneficiary as a result of our power to control the entity through our significant ownership. The investment balance, which represents an equity interest in the limited liability company, fluctuates based on changes in the fair value of the properties and the performance of the operating entities.

We are invested in two limited partnership feeder funds which each invest in a separate limited partnership fund. One fund holds infrastructure credit assets and the other holds tech-centric middle-market loans. In both cases, the feeder fund limited partnerships are VIEs, and we determined we are the primary beneficiary as a result of our significant ownership of the limited partnerships and our obligation to absorb losses or receive benefits from the VIEs. We have consolidated the assets and liabilities of the limited partnerships, which primarily consist of an equity interest in a limited partnership.

The carrying amounts of our consolidated VIE assets, which can only be used to settle obligations of the consolidated VIEs, and liabilities of consolidated VIEs for which creditors do not have recourse were as follows:

	September 30, 2022		December 31, 2021	
	Total Assets	Total Liabilities	Total Assets	Total Liabilities
(Dollars in thousands)				
Real estate investments	\$ 940,600	\$ 133,040	\$ 363,229	\$ 20,168
Real estate investment funds	58,612	113	—	—
Limited partnership funds	521,049	60	168,711	—
	<u>\$ 1,520,261</u>	<u>\$ 133,213</u>	<u>\$ 531,940</u>	<u>\$ 20,168</u>

Unconsolidated Variable Interest Entities

We provided debt funding to special purpose vehicles, which is used to acquire and hold loans made to middle market companies. These legal entities are deemed VIEs because there is insufficient equity at risk. We have determined we are not the primary beneficiary as we do not control the activities that most significantly impact the economic performance of the VIEs. Our investments in these VIEs are reported in Fixed maturity securities, available for sale in the Consolidated Balance Sheets.

We provided funding to a limited partnership which purchased a residential business purpose loan originator. The limited partnership was deemed a VIE, however, we are not the primary beneficiary due to our lack of control of the limited partnership. Our investment in this VIE is reported in Other investments in the Consolidated Balance Sheets.

The carrying value and maximum loss exposure for our unconsolidated VIEs were as follows:

	September 30, 2022		December 31, 2021	
	Asset Carrying Value	Maximum Exposure to Loss	Asset Carrying Value	Maximum Exposure to Loss
(Dollars in thousands)				
Fixed maturity securities, available for sale	\$ 482,134	\$ 482,134	\$ 459,681	\$ 459,681
Other investments	260,766	260,766	345,000	345,000

6. Derivative Instruments

We use derivative instruments to manage risks. We have derivatives that are designated as hedging instruments and others that are not designated as hedging instruments. Any change in the fair value of the derivatives is recognized immediately in the Consolidated Statements of Operations.

The notional and fair values of our derivative instruments, including derivative instruments embedded in fixed index annuity contracts, presented in the Consolidated Balance Sheets are as follows:

	September 30, 2022		December 31, 2021	
	Notional	Fair Value	Notional	Fair Value
(Dollars in thousands)				
Derivatives designated as hedging instruments				
Assets				
Derivative instruments				
Interest rate swaps	\$ 408,369	\$ 32,620	\$ —	\$ —
Derivatives not designated as hedging instruments				
Assets				
Derivative instruments				
Call options	\$ 39,388,067	\$ 162,869	\$ 40,091,353	\$ 1,276,574
Warrants	2,020	1,167	2,020	906
	\$ 39,390,087	\$ 164,036	\$ 40,093,373	\$ 1,277,480
Liabilities				
Policy benefit reserves - annuity products				
Fixed index annuities - embedded derivatives, net		\$ 5,257,042		\$ 7,964,961
Funds withheld for reinsurance liabilities				
Reinsurance related embedded derivative		(520,458)		(2,362)
		\$ 4,736,584		\$ 7,962,599

Derivatives Designated as Hedging Instruments

We use interest rate swaps that are designated and accounted for as fair value hedges to protect a portfolio of fixed-rate fixed maturity securities against changes in fair value due to changes in interest rates. Our interest rate swap contracts allow us to pay a fixed rate and receive a floating rate utilizing the Secured Overnight Financing Rate at specified intervals based on a notional amount. Interest rate swaps are carried at fair value and presented as Derivative instruments on the Consolidated Balance Sheets.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the portion of the derivative instrument included in the assessment of hedge effectiveness and the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in the same line item in the Consolidated Statements of Operations. The change in unrealized gain or loss attributable to interest rate changes on the fixed maturity securities that are designated as part of the hedge are reclassified out of Accumulated other comprehensive income (loss) into Change in fair value of derivatives in the Consolidated Statements of Operations. The remaining change in unrealized gain or loss on the hedged item not associated with the risk being hedged is recognized as a component of Other comprehensive income.

The following represents the amortized cost and cumulative fair value hedging adjustments included in the hedged assets:

Line Item in the Consolidated Balance Sheets in Which Hedged Item is Included	Amortized Cost of Hedged Item		Cumulative Amount of Fair Value Basis Adjustment Gain (Loss)	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Fixed maturities, available for sale:				
Current hedging relationships	\$ 353,384	\$ —	\$ (37,508)	\$ —
Discontinued hedging relationships	2,986,309	—	(209,565)	—

The following represents a summary of the gains (losses) related to the derivatives and hedged items that qualify for fair value hedge accounting:

	Derivative	Hedged Item	Net	Amount Excluded: Recognized in Income Immediately
For the three months ended September 30, 2022				
Interest rate swaps	\$ 188,667	\$ (214,414)	\$ (25,747)	\$ 11,301
For the three months ended September 30, 2021				
Interest rate swaps	\$ —	\$ —	\$ —	\$ —
For the nine months ended September 30, 2022				
Interest rate swaps	\$ 215,438	\$ (247,507)	\$ (32,069)	\$ 13,957
For the nine months ended September 30, 2021				
Interest rate swaps	\$ —	\$ —	\$ —	\$ —

Derivatives Not Designated as Hedging Instruments

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

The changes in fair value of derivatives not designated as hedging instruments included in the Consolidated Statements of Operations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Change in fair value of derivatives:				
Call options	\$ (162,308)	\$ (71,688)	\$ (1,142,521)	\$ 825,381
Warrants	83	987	262	1,103
Interest rate swaps	11,301	—	13,957	—
	<u>\$ (150,924)</u>	<u>\$ (70,701)</u>	<u>\$ (1,128,302)</u>	<u>\$ 826,484</u>
Change in fair value of embedded derivatives:				
Fixed index annuities - embedded derivatives	\$ (466,244)	\$ (681,509)	\$ (2,658,376)	\$ (932,546)
Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting	167,100	145,105	481,465	387,442
Reinsurance related embedded derivative	(116,230)	—	(518,096)	—
	<u>\$ (415,374)</u>	<u>\$ (536,404)</u>	<u>\$ (2,695,007)</u>	<u>\$ (545,104)</u>

The amounts presented as "Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting" represents the total change in the difference between policy benefit reserves for fixed index annuities computed under the derivative accounting standard and the long-duration contracts accounting standard at each balance sheet date, less the change in fair value of our fixed index annuities embedded derivatives that is presented as Level 3 liabilities in *Note 2 - Fair Values of Financial Instruments*.

Derivative Exposure

We attempt to mitigate potential risk of loss due to the nonperformance of the counterparties through a regular monitoring process which evaluates the program's effectiveness. We do not purchase derivative instruments that would require payment or collateral to another institution and our derivative instruments 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 derivative instruments from multiple counterparties and evaluate the creditworthiness of all counterparties prior to purchase of the contracts. All non-exchange traded derivative instruments have been purchased from nationally recognized financial institutions with a Standard and Poor's credit rating of A- or higher at the time of purchase and the maximum credit exposure to any single counterparty is subject to concentration limits. Both our call options and interest rate swaps fall under the same credit support agreements with each counterparty that allow us to request the counterparty to provide collateral to us when the fair value of our exposure to the counterparty exceeds specified amounts.

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

Counterparty	Credit Rating (S&P)	Credit Rating (Moody's)	September 30, 2022		December 31, 2021	
			Notional Amount	Fair Value	Notional Amount	Fair Value
			(Dollars in thousands)			
Bank of America	A+	Aa2	\$ 3,974,765	\$ 9,672	\$ 3,556,256	\$ 99,229
Barclays	A	A1	3,929,194	19,776	4,213,658	157,865
Canadian Imperial Bank of Commerce	A+	Aa2	3,397,705	20,004	3,956,329	141,540
Citibank, N.A.	A+	Aa3	3,311,681	14,324	3,190,833	115,860
Credit Suisse	A	A2	2,052,678	9,822	3,716,868	113,295
J.P. Morgan	A+	Aa2	6,143,105	22,155	4,482,832	105,899
Morgan Stanley	A+	Aa3	3,339,897	33,714	2,223,743	47,950
Royal Bank of Canada	AA-	A1	4,077,826	19,787	3,567,972	100,472
Societe Generale	A	A1	2,000,609	7,917	2,548,072	86,494
Truist	A	A2	1,910,413	9,248	2,547,808	94,924
Wells Fargo	A+	Aa2	5,425,371	28,331	5,820,381	206,403
Exchange traded			233,192	739	266,601	6,643
			\$ 39,796,436	\$ 195,489	\$ 40,091,353	\$ 1,276,574

As of September 30, 2022 and December 31, 2021, we held \$0.4 billion and \$1.3 billion, respectively, of cash and cash equivalents and other investments from counterparties for derivative collateral, which is included in Other liabilities on our Consolidated Balance Sheets. This derivative collateral limits the maximum amount of economic loss due to credit risk that we would incur if the counterparties failed completely to perform according to the terms of the contracts to \$6.8 million and \$8.5 million at September 30, 2022 and December 31, 2021, respectively.

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

We cede certain fixed index annuity product liabilities to a third party reinsurer on a modified coinsurance basis which results in an embedded derivative. The obligation to pay the total return on the assets supporting liabilities associated with this reinsurance agreement represents a total return swap. The fair value of the total return swap is based on the unrealized gains and losses of the underlying assets held in the modified coinsurance portfolio. The reinsurance related embedded derivative is reported in Funds withheld for reinsurance liabilities on the Consolidated Balance Sheets and the change in the fair value of the embedded derivative is reported in Change in fair value of embedded derivatives on the Consolidated Statements of Operations.

7. Notes and Loan Payable

Notes and loan payable includes the following:

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Senior notes due 2027		
Principal	\$ 500,000	\$ 500,000
Unamortized debt issue costs	(3,107)	(3,537)
Unamortized discount	(187)	(213)
Term loan due 2027		
Principal	300,000	—
Principal paydown	(1,875)	—
	<u>\$ 794,831</u>	<u>\$ 496,250</u>

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

On February 15, 2022, we entered into a five-year, \$300 million unsecured delayed draw term loan credit agreement. On July 6, 2022, we borrowed \$300 million under this agreement. We will pay a floating rate of interest on the term loan utilizing SOFR adjusted for a credit spread. The term loan matures on February 15, 2027 and is amortizing at 2.5% annually for the first three years and 5.0% for the last two years.

8. Commitments and Contingencies

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

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

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

In addition to our commitments to fund mortgage loans, we have unfunded commitments at September 30, 2022 to limited partnerships of \$1.5 billion and to fixed maturity securities of \$9.5 million.

Through our FHLB membership, we have issued funding agreements to the FHLB in exchange for cash advances. As of September 30, 2022, we had \$50.0 million of FHLB funding agreements outstanding. We are required to provide collateral in excess of the funding agreement amounts outstanding. The fixed maturity security investments pledged for collateral had a fair value of \$1.2 billion at September 30, 2022.

9. Earnings Per Common Share and Stockholders' Equity

Earnings Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands, except per share data)				
Numerator:				
Net income available to common stockholders - numerator for earnings per common share	\$ 301,682	\$ 141,947	\$ 1,206,647	\$ 348,099
Denominator:				
Weighted average common shares outstanding	87,707,426	92,478,154	92,338,919	94,325,984
Effect of dilutive securities:				
Stock options and deferred compensation agreements	452,321	237,076	517,490	224,519
Restricted stock and restricted stock units	421,391	328,430	413,106	316,897
Denominator for earnings per common share - assuming dilution	88,581,138	93,043,660	93,269,515	94,867,400
Earnings per common share	\$ 3.44	\$ 1.53	\$ 13.07	\$ 3.69
Earnings per common share - assuming dilution	\$ 3.41	\$ 1.53	\$ 12.94	\$ 3.67

There were no options to purchase shares of our common stock outstanding excluded from the computation of diluted earnings per common share during the three and nine months ended September 30, 2022, as the exercise price of all options outstanding was less than the average market price of our common shares. During the three months ended September 30, 2021, there were 336,598 options to purchase shares of our common stock outstanding, with an exercise price of \$31.31 - \$32.58, excluded from the computation of diluted earnings per common share. During the nine months ended September 30, 2021, there were 226,598 options to purchase shares of our common stock outstanding, with an exercise price of \$31.63 - \$32.58, excluded from the computation of diluted earnings per common share.

Stockholders' Equity

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

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

Dividends on the Series A and Series B preferred stock are payable on a non-cumulative basis only when, as and if declared, quarterly in arrears on the first day of March, June, September and December of each year, commencing on March 1, 2020 for Series A and on December 1, 2020 for Series B. For the three and nine months ended September 30, 2022 and 2021, we paid dividends totaling \$5.9 million and \$17.8 million on the Series A preferred stock and \$5.0 million and \$14.9 million on the Series B preferred stock, respectively. The Series A and Series B preferred stock rank senior to our common stock with respect to dividends, to the extent declared, and in liquidation, to the extent of the liquidation preference. The Series A and Series B preferred stock are not subject to any mandatory redemption, sinking fund, retirement fund, purchase fund or similar provisions.

Brookfield Asset Management Equity Investment

On October 18, 2020, we announced an agreement with Brookfield Asset Management, Inc. and its affiliated entities (collectively, "Brookfield") under which Brookfield would acquire up to a 19.9% ownership interest of common stock in the Company. The equity investment by Brookfield took place in two stages: an initial purchase of a 9.9% equity interest at \$37.00 per share which closed on November 30, 2020 with Brookfield purchasing 9,106,042 shares, and a second purchase of an additional 6,775,000 shares which were issued to Brookfield at \$37.33 per share in January of 2022, resulting in total ownership of approximately 16%. Brookfield also received the right to nominate one candidate for the Company's Board of Directors following the initial equity investment.

Share Repurchase Program

On October 18, 2020, the Company's Board of Directors approved a \$500 million share repurchase program. On November 19, 2021, the Company's Board of Directors authorized the repurchase of an additional \$500 million of Company common stock. The purpose of the share repurchase program is to both offset dilution from the issuance of shares to Brookfield and to institute a regular cash return program for shareholders.

From the 2020 inception of the share repurchase program through September 30, 2022, we have repurchased approximately 22.7 million shares of our common stock at an average price of \$34.63 per common share, including 13.6 million shares repurchased during the nine months ended September 30, 2022. As of September 30, 2022, we had \$213 million remaining under our share repurchase program.

Treasury Stock

As of September 30, 2022, we held 23,432,644 shares of treasury stock with a carrying value of \$780.2 million. As of December 31, 2021, we held 9,936,715 shares of treasury stock with a carrying value of \$260.6 million.

10. Subsequent Events

Effective October 1, 2022, American Equity Life entered into a reinsurance agreement with an unaffiliated reinsurer AeBe ISA LTD, a Bermuda exempted company affiliated with 26North Holdings LP, that is an incorporated segregated account licensed as a Class E reinsurer. Under the agreement, American Equity ceded \$4.3 billion of certain in-force fixed indexed and fixed rate annuity product liabilities and has the option in the future to cede liabilities of certain single premium fixed deferred annuities, or policies as otherwise agreed to by the parties issued after the treaty effective date, at risk adjusted pricing terms that may be acceptable to American Equity Life at that time. Under the agreement, these liabilities will be ceded 75% on a funds withheld coinsurance basis and 25% on a coinsurance basis.

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

Management's discussion and analysis reviews our unaudited consolidated financial position at September 30, 2022, and the unaudited consolidated results of operations for the three and nine month periods ended September 30, 2022 and 2021, 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, 2021. Interim operating results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results expected for the entire year. Preparation of financial statements requires use of management estimates and assumptions.

Cautionary Statement Regarding Forward-Looking Information

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

- results differing from assumptions, estimates, and models.
- interest rate condition changes.
- investment losses or failures to grow as quickly as expected due to market, credit, liquidity, concentration, default, and other risks.
- option costs increases.
- counterparty credit risks.
- third parties service-provider failures to perform or to comply with legal or regulatory requirements.
- poor attraction and retention of customers or distributors due to competitors' greater resources, broader array of products, and higher ratings.
- information technology and communication systems failures or security breaches.
- credit or financial strength downgrades.
- inability to raise additional capital to support our business and sustain our growth on favorable terms.
- U.S. and global capital market and economic deterioration due to major public health issues, including the COVID-19 pandemic, political or social developments, or otherwise.
- failure to authorize and pay dividends on our preferred stock.
- subsidiaries' inability to pay dividends or make other payments to us.
- failure at reinsurance, investment management, or third-party capital arrangements.
- failure to prevent excessive risk-taking.
- failure of policies and procedures to protect from operational risks.
- increased litigation, regulatory examinations, and tax audits.
- changes to laws, regulations, accounting, and benchmarking standards.
- takeover or combination delays or deterrence by laws, corporate governance documents, or change-in-control agreements.
- effects of climate changes, or responses to it.
- failure of efforts to meet environmental, social, and governance standards and to enhance sustainability.

For a detailed discussion of these and other factors that might affect our performance, see Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 and any disclosure in Item 1A of our Quarterly Reports on Form 10-Q. Forward-looking statements speak only as of the date the statement was made and the Company undertakes no obligation to update such forward-looking statements. There can be no assurance that other factors not currently disclosed or anticipated by the Company will not materially adversely affect our results of operations or plans. Investors are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf.

Our Business and Profitability

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

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

Our profitability depends in large part upon:

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

While the business looks considerably different today than it did when it was started back in 1995, the themes have been consistent. We offer our customers simple fixed and fixed index annuity products, which we primarily sell through independent insurance agents in the IMO distribution channel. We have consistently been a leader in the IMO market. We benefit from two secular trends: the demographic trends of people retiring or getting close to retirement who want to accumulate wealth through index based investing while protecting their principal and the need of retirees and pre-retirees to have a way to deaccumulate their wealth into income for life. A traditional brokerage based equity bond portfolio can't really meet these unique needs, but a fixed index annuity can as part of a holistic financial plan. Finally, there is a scarcity value to what we do: that is originating billions of dollars of annuity funding each year at scale from the IMO channel, which is generally longer term funding than that achieved through sales in the bank and broker dealer channel.

In the past decade, the fixed and fixed index annuity market has seen many new entrants and as a result has become more competitive. Adding to that, low interest rates have made it more difficult for traditional, core investment grade fixed income asset allocations to support return expectations on annuity liabilities.

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

During the first nine months of 2022, we continued to make significant progress in the execution of the AEL 2.0 strategy. Key areas of progress include the following:

- We continued to increase our allocation of investments to private assets. As of September 30, 2022, approximately \$10.0 billion or 18.4% of our investment portfolio consisted of private assets.
- We executed an agreement with North End Re (Cayman) SPC ("North End Re"), a wholly owned subsidiary of Brookfield Reinsurance to expand our income products that will fund the additional \$6 billion in capacity that exists under the reinsurance treaty signed with North End Re in 2021.
- American Equity Life ranked #1 annuity provider for Customer Satisfaction among Annuity Providers in the J.D. Power 2022 U.S. Individual Annuity Study.
- We repurchased 13.6 million shares of Company common stock at an average price of \$38.37.
- We established a new five-year credit agreement for \$300 million in unsecured delayed draw term loan commitments. This agreement is part of our plans for access to liquidity for general corporate purposes as we continue to implement AEL 2.0. In July 2022, we borrowed \$300 million under the unsecured delayed draw term loan and are using the proceeds for general corporate purposes.
- During the third quarter of 2022, we made an equity investment in 26North Holdings LP, a multi-asset investment platform founded and led by Josh Harris. Over time, we believe this may present AEL an attractive opportunity to source assets in private credit and private equity that aligns well with an insurer's balance sheet and risk profile.

- Effective October 1, 2022, we entered into a reinsurance agreement to cede 100% of certain 2008 and 2010 fixed index and fixed rate annuity policies, totaling \$4.3 billion of GAAP reserves, with AeBe ISA LTD, a Bermuda exempted company which is an incorporated segregated account licensed as a Class E reinsurer and is affiliated with 26North Holdings LP. 26North Holdings LP will provide asset management services to the reinsurance entity. Additionally, Agam Capital, an insurance risk, regulatory oversight, and liability consulting firm with offices in Bermuda, US and India, will provide liability management services to the reinsurance entity. We estimate the initial capital release from the execution of the agreement to be in excess of \$250 million while the impact to 2023 operating earnings is expected to be immaterial. Additionally, under the agreement, we have the optionality to cede up to \$525 million of single premium fixed deferred annuities in a given calendar year, subject to risk adjusted pricing terms that are acceptable to American Equity at that time. See *Note 10 – Subsequent Events* for more information.

In the next few years, we expect to migrate to a capital efficient business model with increased fee-like earnings. We will scale our investments into higher returning private assets, grow reinsured liabilities to side-cars to grow return on asset earnings, and write new business that converts us from the traditional spread based return on equity model to a “fee like” return on assets model through reinsurance.

During the first quarter of 2022, an additional 6,775,000 shares were issued to Brookfield at \$37.33 per share, the Company's adjusted book value as of September 30, 2021. The additional issuance increased Brookfield's total combined ownership to approximately 16% of the Company's common stock at the time of issuance.

On October 18, 2020, the Company's Board of Directors approved a \$500 million share repurchase program. On November 19, 2021, the Company's Board of Directors authorized the repurchase of an additional \$500 million of Company common stock. The purpose of the share repurchase program is to both offset dilution from the issuance of shares to Brookfield and to institute a regular capital return program for shareholders. From the 2020 inception of the share repurchase program through September 30, 2022, we have repurchased approximately 22.7 million shares of our common stock at an average price of \$34.63 per common share.

On April 29, 2022, Fitch affirmed its "A-" financial strength rating on American Equity Investment Life Insurance Company and its life insurance subsidiaries, its "BBB" issuer default rating on American Equity Investment Life Holding Company and its "BBB-" senior unsecured debt ratings, and revised its outlook to "stable" from "negative" on its financial strength, issuer default and senior unsecured debt ratings.

On September 9, 2022, A.M. Best affirmed its "A-" financial strength rating on American Equity Investment Life Insurance Company and its subsidiaries, American Equity Investment Life Insurance Company of New York and Eagle Life Insurance Company, its "bbb-" long-term issuer credit rating of American Equity Investment Life Holding Company, its "bbb-" senior unsecured debt ratings, and its "bb" perpetual, non-cumulative preferred stock ratings. The outlook for these credit ratings of "stable" was also affirmed by A.M. Best on September 9, 2022.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Average yield on invested assets	4.48%	3.91%	4.33%	3.71%
Aggregate cost of money	1.75%	1.51%	1.69%	1.55%
Aggregate investment spread	2.73%	2.40%	2.64%	2.16%
Impact of:				
Investment yield - additional prepayment income	0.03%	0.12%	0.04%	0.11%
Cost of money benefit from over hedging	—%	0.08%	0.02%	0.05%

The cost of money for fixed index annuities and average crediting rates for fixed rate annuities are computed based upon policyholder account balances and do not include the impact of amortization of deferred sales inducements. See Critical Accounting Policies - Deferred Policy Acquisition Costs and Deferred Sales Inducements included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2021. With respect to our fixed index annuities, the cost of money includes the average crediting rate on amounts allocated to the fixed rate strategy and expenses we incur to fund the annual index credits. Proceeds received upon expiration of call options purchased to fund annual index credits are recorded as part of the change in fair value of derivatives, and are largely offset by an expense for interest credited to annuity policyholder account balances. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities and Financial Condition - Derivative Instruments included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2021.

Average yields on invested assets increased primarily as a result of strong returns on partnerships and other mark to market assets, lower average cash balances and the ramp in private assets partly offset by lower prepayment income. See **Net investment income**. The aggregate cost of money increased primarily due to increases in options costs as compared to prior periods. We have the flexibility to reduce our crediting rates if necessary and could decrease our cost of money by approximately 74 basis points if we reduce current rates to guaranteed minimums.

Results of Operations for the Three and Nine Months Ended September 30, 2022 and 2021

Annuity deposits by product type collected during the three and nine months ended September 30, 2022 and 2021, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
American Equity Investment Life Insurance Company:				
Fixed index annuities	\$ 627,444	\$ 727,641	\$ 2,055,120	\$ 1,947,241
Annual reset fixed rate annuities	1,271	1,462	3,473	5,285
Multi-year fixed rate annuities	4,465	14,196	7,295	849,062
Single premium immediate annuities	1,915	16,282	18,441	45,671
	635,095	759,581	2,084,329	2,847,259
Eagle Life Insurance Company:				
Fixed index annuities	102,379	187,611	333,507	520,967
Annual reset fixed rate annuities	143	—	150	337
Multi-year fixed rate annuities	14,684	362,769	17,147	1,556,391
	117,206	550,380	350,804	2,077,695
Consolidated:				
Fixed index annuities	729,823	915,252	2,388,627	2,468,208
Annual reset fixed rate annuities	1,414	1,462	3,623	5,622
Multi-year fixed rate annuities	19,149	376,965	24,442	2,405,453
Single premium immediate annuities	1,915	16,282	18,441	45,671
Total before coinsurance ceded	752,301	1,309,961	2,435,133	4,924,954
Coinsurance ceded	253,446	203,218	682,461	209,968
Net after coinsurance ceded	\$ 498,855	\$ 1,106,743	\$ 1,752,672	\$ 4,714,986

Annuity deposits before and after coinsurance ceded decreased 43% and 55%, respectively, during the third quarter of 2022 compared to the same period in 2021 and decreased 51% and 63%, respectively, during the nine months ended September 30, 2022 compared to the same period in 2021. The decreases in sales for the three and nine months ended September 30, 2022 compared to the same periods in 2021 were primarily driven by a reduction in sales of multi-year fixed rate annuity products at both American Equity Life and Eagle Life, which is in line with our 2022 sales strategy of focusing on sales of fixed index annuities. The decreases in sales of fixed index annuities for the three and nine months ended September 30, 2022 compared to the same periods in 2021 was driven by our choice to maintain operational discipline over chasing the market as interest rates fluctuated.

Effective July 1, 2021, we ceded 100% of an in-force block of fixed index annuities and began ceding 75% of certain fixed index annuities issued after July 1, 2021 to North End Re, which caused the increase in coinsurance ceded premiums for the three and nine months ended September 30, 2022 compared to the same periods in 2021.

Net income available to common stockholders increased to \$301.7 million in the third quarter of 2022 and increased to \$1,206.6 million for the nine months ended September 30, 2022 compared to \$141.9 million and \$348.1 million for the same periods in 2021.

The increase in net income available to common stockholders for the three months ended September 30, 2022 was driven primarily by an increase in net investment income and decrease in interest sensitive and index product benefits. These changes were partially offset by a decrease in the change in fair value of derivatives, an increase in amortization of deferred sales inducements and deferred policy acquisition costs, and an increase in the change in fair value of embedded derivatives.

The increase in net income available to common stockholders for the nine months ended September 30, 2022 was driven primarily by an increase in net investment income, a decrease in the change in fair value of embedded derivatives and a decrease in interest sensitive and index product benefits. These changes were partially offset by a decrease in the change in fair value of derivatives and increase in amortization of deferred sales inducements and deferred policy acquisition costs.

Net income available to common stockholders for the three and nine months ended September 30, 2022 was positively impacted by an increase in the aggregate investment spread as previously noted. Net income, in general, is impacted by the volume of business in force and the investment spread earned on this business. The average amount of annuity account balances outstanding (net of annuity liabilities ceded under coinsurance agreements) decreased 0.6% to \$52.3 billion for the third quarter of 2022 and 3.3% to \$52.8 billion for the nine months ended September 30, 2022 compared to \$52.6 billion and \$54.6 billion for the same periods in 2021. Our investment spread measured in dollars was \$382.7 million for the third quarter of 2022 and \$1,091.7 million for the nine months ended September 30, 2022 compared to \$323.2 million and \$876.0 million for the same periods in 2021. Investment income for the three and nine months ended September 30, 2022 was positively impacted by strong returns on partnerships and other mark to market assets, the benefit from higher short-term interest rates, lower cash balances and an increase in allocation to higher yielding privately sourced assets (see **Net investment income**). The volume of cash and cash equivalent holdings decreased in the fourth quarter of 2021 and the first quarter of 2022 with the execution of the reinsurance treaty with North End Re and the investment of cash balances above our target levels.

Net income was also impacted by the change in fair value of derivatives and embedded derivatives, which fluctuates from period to period based upon changes in fair values of call options purchased to fund the annual index credits for fixed index annuities and changes in interest rates used to discount the embedded derivative liability. Net income for the three and nine months ended September 30, 2022 was positively impacted by decreases in expected index credits on the next policy anniversary dates resulting from decreases in the fair value of the call options acquired to fund these index credits and net increases in the discount rates used to estimate the fair value of our embedded derivative liabilities, the impacts of which were partially offset by decreases in the change in fair value of derivatives and increases in amortization of deferred policy acquisition costs and deferred sales inducements related to changes in fair value of derivatives and embedded derivatives. See discussion below for the drivers of changes in net income as a result of actuarial assumption updates. See **Change in fair value of derivatives**, **Change in fair value of embedded derivatives**, **Amortization of deferred sales inducements** and **Amortization of deferred policy acquisition costs**.

We periodically update the key assumptions used in the calculation of amortization of deferred policy acquisition costs and deferred sales inducements retrospectively through an unlocking process when estimates of current or future gross profits/margins (including the impact of realized investment gains and losses) to be realized from a group of products are revised. In addition, we periodically update the assumptions used in determining the liability for lifetime income benefit riders and the embedded derivative component of our fixed index annuity policy benefit reserves as experience develops that is different from our assumptions.

Net income available to common stockholders for the 2022 and 2021 periods includes effects from updates to assumptions as follows:

	Three and Nine Months Ended September 30,	
	2022	2021
	(Dollars in thousands)	
Increase (decrease) in amortization of deferred sales inducements	\$ 45,682	\$ (51,412)
Increase (decrease) in amortization of deferred policy acquisition costs	56,853	(52,602)
(Decrease) increase in interest sensitive and index product benefits	(53,042)	233,178
Decrease in change in fair value of embedded derivatives	(94,770)	(125,752)
Effect on net income available to common stockholders	35,543	(2,678)

We review these assumptions quarterly and as a result of these reviews, we made updates to assumptions in the third quarter of 2022 and 2021.

The most significant assumption updates made in the third quarter of 2022 were to investment spread assumptions, including the net investment earned rate and crediting rate on policies, lapse rate and partial withdrawal assumptions, and lifetime income benefit rider utilization assumptions.

We updated our assumption for net investment spread for American Equity Life to remain steady at 2.60% through an eight-year reversion period. We increased our long-term net investment earned rate assumption by 40 basis points with an assumption of 4.25% in the near term increasing to 5.00% over the eight-year reversion period, and we increased our long-term crediting/discount rate assumption by 30 basis points with an assumption of 1.65% in the near term increasing to 2.40% over the eight year reversion period. In addition, we adjusted the grading of the discount rate assumption in the embedded derivative calculation. This change results in an increase in expected future gross profits and therefore a slight increase in the deferred policy acquisition costs and deferred sales inducements balances. This also results in a decrease in the liability for lifetime income benefit riders due to a higher discount rate and a decrease in the fair value of the embedded derivative due to the grading of the crediting rate assumption.

We updated lapse rate and partial withdrawal assumptions based on actual historical experience. We refreshed lapse tables based on five years of lapse experience and implemented a 1% lapse floor. For policies with a lifetime income benefit rider that does not charge a fee, we increased the lapse rates. For policies with a lifetime income benefit rider that has been utilized, we decreased the lapse rates. We expanded our partial withdrawal assumptions to include scalars in our assumptions during the surrender charge period, shock period, and post-shock period. This resulted in partial withdrawals extending beyond the surrender charge period. The net impact of the lapse rate and partial withdrawal assumptions resulted in a decrease in expected future gross profits and a decrease in the deferred policy acquisition costs and deferred sales inducements balances. The net impact of these changes resulted in an increase in the liability for lifetime income benefit riders due to higher excess claims and lower gross profits and increased the fair value of the embedded derivative due to lower overall lapses and partial withdrawals.

We updated our lifetime income benefit rider utilization assumption structure to capture policyholder characteristics at a more granular level. This resulted in an increase in the number of policies utilizing and increased the excess claims. The impact of this change results in an increase in the liability for lifetime income benefit riders, an increase in the fair value of the embedded derivative, and an increase in the deferred policy acquisition costs and deferred sales inducements balances.

The most significant assumption updates made in the third quarter of 2021 were to investment spread assumptions, including the net investment earned rate and crediting rate on policies, lifetime income benefit rider utilization assumptions, mortality assumptions, and lapse rate assumptions as discussed below.

Due to the continued low interest rate environment, we updated our assumption for investment spread for American Equity Life to 2.25% in the near term and increasing to 2.50% over an eight-year reversion period and our assumption for crediting/discount rate to 1.55% increasing

to 2.10% over an eight-year reversion period. Prior to these assumption updates, our long-term assumption for aggregate investment spread was at 2.60% at then end of an eight-year reversion period, with a near term crediting/discount rate of 1.90% increasing to 2.10% over an eight-year reversion period. The assumption change to decrease aggregate investment spread resulted in lower expected future gross profits as compared to previous estimates and a decrease in the balances of deferred policy acquisition costs and deferred sales inducements.

We updated lapse rate and mortality assumptions based on historical experience. For certain annuity products without a lifetime income benefit rider, the lapse rate assumption was increased in more recent cohorts to reflect higher lapses on policies with a market value adjustment ("MVA") feature. For other annuity products with a lifetime income benefit rider, the population was bifurcated based on whether policies had utilized the rider. For those policies which had utilized the rider, the lapse rate assumption was decreased in later durations. The overall mortality assumption was lowered to reflect historical experience. The net impact of the updates to the lapse rate and mortality assumptions resulted in higher expected future gross profits as compared to previous estimates and an increase in the balances of deferred policy acquisition costs and deferred sales inducements. The net impact of the updates to lapse rate and mortality assumptions resulted in an increase in the liability for lifetime income benefit riders due to a greater amount of expected benefit payments in excess of account values.

We updated the lifetime income benefit rider utilization assumption based on historical experience. The ultimate utilization assumption was lowered for policies with a fee rider and certain policies with a no-fee rider. In addition, the utilization assumption was changed to reflect seasonality with higher utilization rates during the first quarter of each year. The net impact of the updates to the utilization assumption resulted in a decrease in the liability for lifetime income benefit riders due to a lower amount of expected benefits payments due to lower expected utilization. The net impact of the updates to the utilization assumption resulted in higher expected future gross profits as compared to previous estimates and an increase in the balances of deferred policy acquisition costs and deferred sales inducements.

The most significant assumption update to the calculation of the fair value of the embedded derivative component of our fixed index annuity policy benefit reserve in the third quarter of 2021 was the change in lapse rate assumptions discussed above. The net impact of the updates to the lapse rate assumption resulted in a decrease in the embedded derivative component of our fixed index annuity policy benefit reserves as less funds ultimately qualify for excess benefits.

Non-GAAP operating income available to common stockholders, a non-GAAP financial measure, increased to \$114.0 million in the third quarter of 2022 and increased to \$295.0 million for the nine months ended September 30, 2022 compared to \$79.5 million and \$214.7 million for the same periods in 2021.

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

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

The adjustments made to net income available to common stockholders to arrive at non-GAAP operating income available to common stockholders for the three and nine months ended September 30, 2022 and 2021 are set forth in the table that follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Reconciliation from net income available to common stockholders to non-GAAP operating income available to common stockholders:				
Net income available to American Equity Investment Life Holding Company common stockholders	\$ 301,682	\$ 141,947	\$ 1,206,647	\$ 348,099
Adjustments to arrive at non-GAAP operating income available to common stockholders:				
Net realized (gains) losses on financial assets, including credit losses	9,738	(3,900)	51,595	2,528
Change in fair value of derivatives and embedded derivatives	(248,823)	(75,879)	(1,219,322)	(172,746)
Income taxes	51,403	17,285	256,120	36,801
Non-GAAP operating income available to common stockholders	<u>\$ 114,000</u>	<u>\$ 79,453</u>	<u>\$ 295,040</u>	<u>\$ 214,682</u>

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

Non-GAAP operating income available to common stockholders for the 2022 and 2021 periods includes effects from updates to assumptions as follows:

	Three and Nine Months Ended September 30,	
	2022	2021
(Dollars in thousands)		
Increase (decrease) in amortization of deferred sales inducements	\$ 8,670	\$ (73,791)
Increase (decrease) in amortization of deferred policy acquisition costs	10,520	(87,029)
(Decrease) increase in interest sensitive and index product benefits	(53,042)	233,178
Effect on non-GAAP operating income available to common stockholders	26,572	(56,801)

The impact to net income available to common stockholders and non-GAAP operating income available to common stockholders from assumption updates varies due to the impact of fair value accounting for our fixed index annuity business as non-GAAP operating income available to common stockholders eliminates the impact of fair value accounting for our fixed index annuity business. While the assumption updates made during 2022 and 2021 were consistently applied, the impact to net income available to common stockholders and non-GAAP operating income available to common stockholders varies due to different amortization rates being applied to gross profit adjustments included in the valuation.

The changes in non-GAAP operating income available to common stockholders for the three and nine months ended September 30, 2022 compared to the same periods in 2021 were primarily a result of the impact of assumption updates as previously noted. Non-GAAP operating income available to common stockholders adjusted for the impact of updates to assumptions for the three and nine months months ended September 30, 2022 decreased compared to the same periods in 2021. The decrease is primarily due an increase in the liability for lifetime income benefit riders, higher amortization of deferred policy acquisition costs and deferred sales inducements and higher interest credited to policyholders partially offset by higher investment income. **See Net income available to common stockholders.**

Annuity product charges (surrender charges assessed against policy withdrawals and fees deducted from policyholder account balances for lifetime income benefit riders) increased 4% to \$60.8 million in the third quarter of 2022 and decreased 7% to \$168.7 million for the nine months ended September 30, 2022 compared to \$58.5 million and \$182.3 million for the same periods in 2021. The components of annuity product charges are set forth in the table that follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Surrender charges	\$ 19,783	\$ 16,481	\$ 50,669	\$ 54,019
Lifetime income benefit riders (LIBR) fees	41,036	41,999	118,019	128,302
	<u>\$ 60,819</u>	<u>\$ 58,480</u>	<u>\$ 168,688</u>	<u>\$ 182,321</u>
Withdrawals from annuity policies subject to surrender charges	\$ 328,503	\$ 313,557	\$ 785,956	\$ 875,046
Average surrender charge collected on withdrawals subject to surrender charges	6.0 %	5.3 %	6.4 %	6.2 %
Fund values on policies subject to LIBR fees	\$ 5,061,814	\$ 5,260,739	\$ 14,820,475	\$ 16,563,433
Weighted average per policy LIBR fee	0.81 %	0.80 %	0.80 %	0.77 %

The increase in annuity product charges for the three months ended September 30, 2022 compared to the same period in 2021 was attributable to increases in withdrawals from annuity policies subject to surrender charges partially offset by decreases in fees assessed for lifetime income benefit riders due to a smaller volume of business in force subject to the fee. The decrease in annuity product charges for the nine months ended September 30, 2022 compared to the same period in 2021 was attributable to decreases in withdrawals from annuity policies subject to surrender charges and decreases in fees assessed for lifetime income benefit riders due to a smaller volume of business in force subject to the fee. The smaller volume of business subject to the fee is primarily due to the execution of the North End Re reinsurance treaty which was effective on July 1, 2021. See **Interest sensitive and index product benefits** below for corresponding expense recognized on lifetime income benefit riders.

Net investment income increased 16% to \$609.7 million in the third quarter of 2022 and 16% to \$1,769.5 million for the nine months ended September 30, 2022 compared to \$526.4 million and \$1,522.9 million for the same periods in 2021. The increases were principally attributable to increases in the average yield earned on average invested assets during the three and nine months ended September 30, 2022 compared to the same periods in 2021. Average invested assets excluding derivative instruments (on an amortized cost basis) increased 1% to \$54.4 billion for the third quarter of 2022 and decreased 1% to \$54.6 billion for the nine months ended September 30, 2022 compared to \$53.8 billion and \$54.9 billion for the same periods in 2021.

The average yield earned on average invested assets was 4.48% for the third quarter of 2022 and 4.33% for the nine months ended September 30, 2022 compared to 3.91% and 3.71% for the same periods in 2021. The increases in yield earned on average invested assets for the three and nine months ended September 30, 2022 compared to the same periods in 2021 were primarily due to strong returns on partnerships and other mark to market assets, the benefit from higher short-term interest rates, lower average cash balances and an increase private assets partly offset by lower prepayment income. Cash and cash equivalents holdings averaged \$650 million during the three months ended September 30, 2022, compared to \$6.9 billion during the three months ended September 30, 2021. As of September 30, 2022, we held approximately \$761 million of cash and cash equivalents in our investment portfolios which is within our stated target portfolio allocation of 1% to 2% of our investment portfolio in cash and cash equivalents.

The expected return on investments purchased during the three and nine months ended September 30, 2022 was 6.42% and 4.46%, net of third-party investment management expenses, including \$1.3 billion of privately sourced assets with an expected return of 6.50% and \$3.6 billion of privately sourced assets with an expected return of 5.80% for the three and nine months ended September 30, 2022, respectively. The expected return on investments purchased during the three and nine months ended September 30, 2021 was 4.63% and 4.07%, net of third-party investment management expenses.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Call options:				
Gain on option expiration	\$ (151,540)	\$ 346,674	\$ (146,530)	\$ 1,058,152
Change in unrealized gains/losses	(10,768)	(418,362)	(995,991)	(232,771)
Warrants	83	987	262	1,103
Interest rate swaps	(14,446)	—	(18,112)	—
	<u>\$ (176,671)</u>	<u>\$ (70,701)</u>	<u>\$ (1,160,371)</u>	<u>\$ 826,484</u>

The differences between the change in fair value of derivatives between periods for call options are primarily due to the performance of the indices upon which our call options are based which impacts the level of gains on call option expirations, the fair values of those call options and changes in the fair values of those call options between periods. The changes in gain on option expiration and unrealized gains/losses on call options for the three and nine months ended September 30, 2022 compared to the same periods in 2021 are due to equity market performance for the three and nine months ended September 30, 2022 compared to the same periods in 2021. A substantial portion of our call options are based upon the S&P 500 Index with the remainder based upon other equity and bond market indices. The range of index appreciation (after applicable caps, participation rates and asset fees) for options expiring during the three and nine months ended September 30, 2022 and 2021 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
S&P 500 Index				
Point-to-point strategy	0.0% - 0.0%	1.0% - 17.6%	0.0% - 12.50%	0.0% - 42.6%
Monthly average strategy	0.0% - 1.8%	1.0% - 12.2%	0.0% - 8.6%	0.0% - 29.4%
Monthly point-to-point strategy	0.0% - 0.0%	0.4% - 20.2%	0.0% - 12.9%	0.0% - 21.7%
Volatility control index point-to-point strategy	0.0% - 0.0%	0.0% - 8.3%	0.0% - 7.3%	0.0% - 9.7%
Fixed income (bond index) strategies	0.0% - 6.0%	0.0% - 4.7%	0.0% - 6.5%	0.0% - 10.0%

The change in fair value of derivatives is also influenced by the aggregate cost of options purchased. The aggregate cost of options for the three and nine months ended September 30, 2022 was higher than for the same periods in 2021 as option costs increased during the first three quarters of 2022 compared to the same periods of 2021. The aggregate cost of options is also influenced by the amount of policyholder funds allocated to the various indices and market volatility which affects option pricing. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2021.

Net realized gains (losses) on investments includes gains and losses on the sale of securities and other investments and changes in allowances for credit losses on our securities and mortgage loans on real estate. Net realized gains (losses) on investments fluctuate from year to year primarily due to changes in the interest rate and economic environment and the timing of the sale of investments. See *Note 3 - Investments* and *Note 4 - Mortgage Loans on Real Estate* to our unaudited consolidated financial statements and Financial Condition - Credit Losses for a detailed presentation of the types of investments that generated the gains (losses) as well as discussion of credit losses on our securities recognized during the periods presented and Financial Condition - Investments and *Note 4 - Mortgage Loans on Real Estate* to our unaudited consolidated financial statements for discussion of credit losses recognized on mortgage loans on real estate.

Securities sold at losses are generally due to our long-term fundamental concern with the issuers' ability to meet their future financial obligations or to improve our risk or duration profiles as they pertain to our asset liability management.

Other revenue increased 44% to \$11.0 million in the third quarter of 2022 and 276% to \$28.8 million for the nine months ended September 30, 2022 compared to \$7.6 million and \$7.6 million for the same periods in 2021. The components of other revenue are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Asset liability management fees	\$ 3,298	\$ 2,682	\$ 9,224	\$ 2,682
Amortization of deferred gain	7,691	4,962	19,549	4,962
	<u>\$ 10,989</u>	<u>\$ 7,644</u>	<u>\$ 28,773</u>	<u>\$ 7,644</u>

The increases in other revenue for the three and nine months ended September 30, 2022 compared to the same periods in 2021 were due to the increase in business ceded under the North End Re reinsurance treaty which was effective July 1, 2021.

Interest sensitive and index product benefits decreased 85% to \$121.9 million in the third quarter of 2022 and 65% to \$729.4 million for the nine months ended September 30, 2022 compared to \$817.0 million and \$2.1 billion for the same periods in 2021. The components of interest sensitive and index product benefits are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Index credits on index policies	\$ 4,648	\$ 475,292	\$ 301,431	\$ 1,535,320
Interest credited (including changes in minimum guaranteed interest for fixed index annuities)	65,687	65,637	197,167	188,279
Lifetime income benefit riders	51,555	276,085	230,809	382,991
	<u>\$ 121,890</u>	<u>\$ 817,014</u>	<u>\$ 729,407</u>	<u>\$ 2,106,590</u>

The decreases in index credits for the three and nine months ended September 30, 2022 compared to the same periods in 2021 were due to changes in the level of appreciation of the underlying indices (see discussion above under **Change in fair value of derivatives**) and the amount of funds allocated by policyholders to the respective index options. Total proceeds received upon expiration of the call options purchased to fund the annual index credits were \$4.9 million and \$308.1 million for the three and nine months ended September 30, 2022, compared to \$489.9 million and \$1,559.5 million for the same periods in 2021. The increases in interest credited for the three and nine months ended September 30, 2022 compared to the same periods in 2021 were due to increases in single premium deferred annuity products that receive a fixed rate of interest partially offset by a reduction in interest credited to funds allocated to the fixed option within our fixed index annuities due to a decrease in the net average balance allocated to the fixed option. The decreases in benefits recognized for lifetime income benefit riders for the three and nine months ended September 30, 2022 compared to the same periods in 2021 were primarily due to the impact of assumption updates made during the third quarter of 2022 compared to assumption updates made during the third quarter of 2021 partially offset by the impacts on the calculation of the lifetime income benefit rider reserve of actual results compared to expected results for items such as lifetime income benefit rider election rates and the level of index credits. The net impact of updating expected results with actual results led to increases in the lifetime income benefit rider reserve for the three and nine months ended September 30, 2022 compared to decreases in the same periods in 2021.

The liability (net of coinsurance ceded) for lifetime income benefit riders was \$1.9 billion and \$2.8 billion at September 30, 2022 and December 31, 2021, respectively which includes the impact of unrealized gains and losses on available for sale securities on the liability for lifetime income benefit riders of \$(627.9) million and \$482.8 million at September 30, 2022 and December 31, 2021, respectively.

Amortization of deferred sales inducements is based on historical, current and future expected gross profits. The changes in amortization from period to period are the result of differences in actual gross profits compared to expected or modeled gross profits and changes to the underlying business. The increases in amortization before and after gross profit adjustments for the three and nine months ended September 30, 2022 compared to the same periods in 2021 were primarily due to the impact of assumption updates made during the third quarter of 2022 as compared to the impact of assumption updates made during the third quarter of 2021. See **Net income available to common stockholders** and **Non-GAAP operating income available to common stockholders** above for discussion of the impact of assumption updates for the three and nine months ended September 30, 2022 and 2021. In addition, amortization of deferred sales inducements for the three and nine months ended September 30, 2022 increased due to increases in actual gross profits for the three and nine months ended September 30, 2022 as compared to the same periods in 2021. Bonus products represented 67% of our net annuity account values at both September 30, 2022 and September 30, 2021, respectively. The amount of amortization is affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business and amortization associated with net realized gains (losses) on investments. Fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our fixed index annuity contracts. The change in fair value of the embedded derivatives will not correspond to the change in fair value of the derivatives (purchased call options), because the purchased call options are one-year options while the options valued in the fair value of embedded derivatives cover the expected lives of the contracts which typically exceed ten years.

Amortization of deferred sales inducements is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Amortization of deferred sales inducements before gross profit adjustments	\$ 68,137	\$ (34,854)	\$ 174,588	\$ 57,887
Gross profit adjustments:				
Fair value accounting for derivatives and embedded derivatives	61,729	17,613	191,890	35,752
Net realized gains (losses) on investments	(2,082)	69	(4,703)	(356)
Amortization of deferred sales inducements after gross profit adjustments	<u>\$ 127,784</u>	<u>\$ (17,172)</u>	<u>\$ 361,775</u>	<u>\$ 93,283</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Fixed index annuities - embedded derivatives	\$ (466,244)	\$ (681,509)	\$ (2,658,376)	\$ (932,546)
Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting	167,100	145,105	481,465	387,442
Reinsurance related embedded derivative	(116,230)	—	(518,096)	—
	<u>\$ (415,374)</u>	<u>\$ (536,404)</u>	<u>\$ (2,695,007)</u>	<u>\$ (545,104)</u>

The change in fair value of the fixed index annuity embedded derivatives resulted from (i) changes in the expected index credits on the next policy anniversary dates, which are related to the change in fair value of the call options acquired to fund those index credits discussed above in **Change in fair value of derivatives**; (ii) changes in the expected annual cost of options we will purchase in the future to fund index credits beyond the next policy anniversary; (iii) changes in the discount rates used in estimating our embedded derivative liabilities; and (iv) the growth in the host component of the policy liability. The amounts presented as "Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting" represent the total change in the difference between policy benefit reserves for fixed index annuities computed under the derivative accounting standard and the long-duration contracts accounting standard at each balance sheet date, less the change in fair value of our fixed index annuities embedded derivative. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2021.

The primary reasons for the increase in the change in fair value of the fixed index annuity embedded derivatives during the three months ended September 30, 2022 compared to the same period of 2021 was due to decreases in the fair value of the call options acquired to fund the index credits partially offset by larger increases in the net discount rates used in the calculation during the three months ended September 2022 compared to the same period in 2021. The primary reasons for the decrease in the change in fair value of the fixed index annuity embedded derivatives during the nine months ended September 30, 2022 compared to the same period of 2021 were due to decreases in expected index credits on the next policy anniversary dates resulting from decreases in the fair value of the call options acquired to fund the index credits during the nine months ended September 30, 2022 compared to increases in the expected index credits resulting from increases in the fair value of the call options acquired to fund these index credits during the nine months ended September 30, 2021 and larger increases in the net discount rates used in the calculation during the nine months ended September 30, 2022 compared to the same period in 2021. The discount rates used in estimating our embedded derivative liabilities fluctuate based on the changes in the general level of risk free interest rates and our own credit spread.

The reinsurance agreement executed in 2021 with North End Re to cede certain fixed index annuity product liabilities on a modified coinsurance basis contains an embedded derivative. The fair value of this embedded derivative is based on the unrealized gains and losses of the underlying assets held in the modified coinsurance portfolio which decreased during the three and nine months ended September 30, 2022. See *Note 6 - Derivative Instruments* for discussion on this embedded derivative.

Amortization of deferred policy acquisition costs is based on historical, current and future expected gross profits. The changes in amortization from period to period are the result of differences in actual gross profits compared to expected or modeled gross profits and changes to the underlying business. The increases in amortization after gross profit adjustments for the three and nine months ended September 30, 2022 compared to the same periods in 2021 were primarily due to the impact of assumption updates made during the third quarter of 2022 as compared to the impact of assumption updates made during the third quarter of 2021. See **Net income available to common stockholders** and **Non-GAAP operating income available to common stockholders** above for discussion of the impact of assumption updates for the three and nine months ended September 30, 2022 and 2021. In addition, amortization of deferred policy acquisition costs for the three and nine months ended September 30, 2022 increased due to increases in actual gross profits for the three and nine months ended September 30, 2022 as compared to the same periods in 2021. The amount of amortization is affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business and amortization associated with net realized gains (losses) on investments. As discussed above, fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our fixed index annuity contracts.

Amortization of deferred policy acquisition costs is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Amortization of deferred policy acquisition costs before gross profit adjustments	\$ 96,321	\$ (33,190)	\$ 251,088	\$ 106,963
Gross profit adjustments:				
Fair value accounting for derivatives and embedded derivatives	90,399	31,582	307,759	79,107
Net realized gains (losses) on investments	(3,538)	20	(7,885)	(741)
Amortization of deferred policy acquisition costs after gross profit adjustments	\$ 183,182	\$ (1,588)	\$ 550,962	\$ 185,329

Other operating costs and expenses increased 5% to \$59.5 million in the third quarter of 2022 and 0.1% to \$177.6 million for the nine months ended September 30, 2022 compared to \$56.5 million and \$177.4 million for the same periods in 2021 and are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Salary and benefits	\$ 46,185	\$ 33,733	\$ 115,432	\$ 97,441
Other	13,347	22,785	62,143	79,992
Total other operating costs and expenses	\$ 59,532	\$ 56,518	\$ 177,575	\$ 177,433

Salary and benefits increased \$12.5 million for the three months ended September 30, 2022 and increased \$18.0 million for the nine months ended September 30, 2022, respectively, compared to the same periods in 2021. The increases in salary and benefits were primarily due to an increased number of employees related to our continued growth and implementation of AEL 2.0 as well as increases in the expense recognized under our equity and cash incentive compensation programs ("incentive compensation programs"). The increases in expenses related to our incentive compensation programs were primarily due to new compensation programs and increases in the expected payouts due to a larger number of employees participating in the programs.

Other expenses decreased for the three and nine months ended September 30, 2022 compared to the same periods in 2021. The decreases is primarily related to a decrease in risk charges expense for the three and nine months ended September 30, 2022 due to the recapture of an existing reinsurance agreement which was replaced with a new agreement with a lower risk charge.

We expect the level of other operating costs and expenses to settle into the \$60 million per quarter range for the foreseeable future as we continue to execute on the AEL 2.0 strategy.

Income tax expense was \$86.2 million in the third quarter of 2022 and \$345.6 million for the nine months ended September 30, 2022 compared to \$44.7 million and \$107.5 million for the same periods in 2021. The changes in income tax expense were primarily due to changes in income before income taxes as well as changes in the effective income tax rates. The effective income tax rates for the three and nine months ended September 30, 2022 were 21.6% and 21.8%, respectively, and 22.6% and 22.0% for the same periods in 2021, respectively.

Income tax expense and the resulting effective tax rate are based upon two components of income before income taxes ("pretax income") that are taxed at different tax rates. Life insurance income is generally taxed at a statutory rate of approximately 21.5% reflecting the absence of state income taxes for substantially all of the states that the life insurance subsidiaries do business in. The income (loss) for the parent company and other non-life insurance subsidiaries (the "non-life insurance group") is generally taxed at a statutory tax rate of 28.7% reflecting the combined federal and state income tax rates. The effective income tax rates resulting from the combination of the income tax provisions for the life and non-life sources of income (loss) vary from period to period based primarily on the relative size of pretax income from the two sources.

Financial Condition

Investments

Our investment strategy is to maximize current income and total investment return through active management while maintaining a responsible asset allocation strategy containing high credit quality investments and providing adequate liquidity to meet our cash obligations to policyholders and others. Our investment strategy is also reflective of insurance statutes, which regulate the type of investments that our life subsidiaries are permitted to make and which limit the amount of funds that may be used for any one type of investment.

As previously noted, as part of our AEL 2.0 investment pillar, we intend to ramp up our allocation to private assets in part by partnering with proven asset managers in our focus expansion sectors of commercial real estate, residential real estate including mortgages and single family rental homes, infrastructure debt and equity, middle market lending and lending to revenue, technology and software sector companies.

The composition of our investment portfolio is summarized as follows:

	September 30, 2022		December 31, 2021	
	Carrying Amount	Percent	Carrying Amount	Percent
(Dollars in thousands)				
Fixed maturity securities:				
U.S. Government and agencies	\$ 169,538	0.3 %	\$ 1,078,746	1.9 %
States, municipalities and territories	4,042,851	8.3 %	3,758,761	6.5 %
Foreign corporate securities and foreign governments	837,199	1.7 %	375,097	0.6 %
Corporate securities	25,333,341	52.2 %	32,631,189	57.0 %
Residential mortgage backed securities	1,372,741	2.8 %	1,125,049	2.0 %
Commercial mortgage backed securities	3,471,595	7.2 %	4,682,900	8.2 %
Other asset backed securities	3,889,475	8.0 %	5,146,567	9.0 %
Total fixed maturity securities	39,116,740	80.5 %	48,798,309	85.2 %
Mortgage loans on real estate	6,452,614	13.3 %	5,650,480	9.9 %
Real estate investments	897,673	1.9 %	337,939	0.6 %
Derivative instruments	196,656	0.4 %	1,277,480	2.2 %
Other investments	1,881,117	3.9 %	1,210,464	2.1 %
	48,544,800	100.0 %	57,274,672	100.0 %
Modified coinsurance investments	2,875,037		3,101,832	
	\$ 51,419,837		\$ 60,376,504	

Fixed Maturity Securities

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

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

Rating Agency Rating	September 30, 2022		December 31, 2021	
	Carrying Amount	Percent of Fixed Maturity Securities	Carrying Amount	Percent of Fixed Maturity Securities
(Dollars in thousands)				
Aaa/Aa/A	\$ 23,217,697	59.4 %	\$ 27,496,506	56.4 %
Baa	15,217,776	38.9 %	20,147,369	41.3 %
Total investment grade	38,435,473	98.3 %	47,643,875	97.7 %
Ba	537,358	1.4 %	930,321	1.9 %
B	81,178	0.2 %	117,989	0.2 %
Caa	19,176	— %	39,354	0.1 %
Ca and lower	43,555	0.1 %	66,770	0.1 %
Total below investment grade	681,267	1.7 %	1,154,434	2.3 %
	39,116,740	100.0 %	48,798,309	100.0 %
Modified coinsurance investments	1,971,171		2,507,634	
	\$ 41,087,911		\$ 51,305,943	

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

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

The NAIC introduced 20 NAIC designation modifiers that are applied to each NAIC designation to determine a security's NAIC designation category. New risk-based capital charges for each of the 20 designated categories for reporting were effective beginning December 31, 2021.

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

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

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

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

NAIC Designation	September 30, 2022				December 31, 2021			
	Amortized Cost	Fair Value	Carrying Amount	Percent of Total Carrying Amount	Amortized Cost	Fair Value	Carrying Amount	Percent of Total Carrying Amount
	(Dollars in thousands)				(Dollars in thousands)			
1	\$ 26,172,397	\$ 23,405,353	\$ 23,405,353	59.8 %	\$ 25,378,938	\$ 28,006,835	\$ 28,006,835	57.4 %
2	17,054,329	15,048,575	15,048,575	38.5 %	18,028,077	19,667,529	19,667,529	40.3 %
3	625,491	533,889	533,889	1.4 %	909,173	941,071	941,071	2.0 %
4	95,833	82,402	82,402	0.2 %	133,070	147,160	147,160	0.3 %
5	56,835	37,389	37,389	0.1 %	16,496	15,357	15,357	— %
6	15,732	9,132	9,132	— %	24,181	20,357	20,357	— %
	44,020,617	39,116,740	39,116,740	100.0 %	44,489,935	48,798,309	48,798,309	100.0 %
Modified coinsurance investments	2,485,104	1,971,171	1,971,171		2,509,248	2,507,634	2,507,634	
	<u>\$ 46,505,721</u>	<u>\$ 41,087,911</u>	<u>\$ 41,087,911</u>		<u>\$ 46,999,183</u>	<u>\$ 51,305,943</u>	<u>\$ 51,305,943</u>	

The amortized cost and fair value of fixed maturity securities at September 30, 2022, by contractual maturity, are presented in *Note 3 - Investments* to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

Unrealized Losses

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

	Number of Securities	Amortized Cost	Unrealized Losses, Net of Allowance	Allowance for Credit Losses	Fair Value
(Dollars in thousands)					
September 30, 2022					
Fixed maturity securities, available for sale:					
U.S. Government and agencies	22	\$ 135,872	\$ (3,538)	\$ —	\$ 132,334
States, municipalities and territories	543	3,451,495	(557,979)	—	2,893,516
Foreign corporate securities and foreign governments	47	704,538	(88,291)	—	616,247
Corporate securities	2,190	24,469,309	(3,617,452)	(3,214)	20,848,643
Residential mortgage backed securities	211	1,227,407	(107,380)	(1,706)	1,118,321
Commercial mortgage backed securities	333	3,749,244	(350,984)	—	3,398,260
Other asset backed securities	512	4,298,995	(434,913)	—	3,864,082
	3,858	38,036,860	(5,160,537)	(4,920)	32,871,403
Modified coinsurance investments	546	2,379,696	(514,230)	—	1,865,466
	4,404	\$ 40,416,556	\$ (5,674,767)	\$ (4,920)	\$ 34,736,869
December 31, 2021					
Fixed maturity securities, available for sale:					
U.S. Government and agencies	8	\$ 761,102	\$ (124)	\$ —	\$ 760,978
States, municipalities and territories	42	173,106	(2,485)	(2,776)	167,845
Foreign corporate securities and foreign governments	3	34,673	(801)	—	33,872
Corporate securities	176	1,433,317	(26,035)	—	1,407,282
Residential mortgage backed securities	74	280,044	(2,093)	(70)	277,881
Commercial mortgage backed securities	89	795,405	(16,553)	—	778,852
Other asset backed securities	577	3,118,385	(50,018)	—	3,068,367
	969	6,596,032	(98,109)	(2,846)	6,495,077
Modified coinsurance investments	458	1,327,173	(14,261)	—	1,312,912
	1,427	\$ 7,923,205	\$ (112,370)	\$ (2,846)	\$ 7,807,989

The unrealized losses at September 30, 2022 are principally related to the timing of the purchases of certain securities, which carry less yield than those available at September 30, 2022. Approximately 98% and 83% of the unrealized losses on fixed maturity securities shown in the above table for September 30, 2022 and December 31, 2021, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations.

The increase in unrealized losses from December 31, 2021 to September 30, 2022 was primarily due to an increase in treasury yields during the nine months ended September 30, 2022. The 10-year U.S. Treasury yields at September 30, 2022 and December 31, 2021 were 3.83% and 1.52%, respectively. The 30-year U.S. Treasury yields at September 30, 2022 and December 31, 2021 were 3.79% and 1.90%, respectively. In addition, credit spreads widened during the nine months ended September 30, 2022 which also contributed to the increase in unrealized losses.

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

NAIC Designation	Carrying Value of Securities with Gross Unrealized Losses	Percent of Total	Gross Unrealized Losses (1)	Percent of Total
(Dollars in thousands)				
September 30, 2022				
1	\$ 19,297,462	58.7 %	\$ (2,963,943)	57.4 %
2	12,921,595	39.3 %	(2,068,225)	40.1 %
3	528,329	1.6 %	(91,652)	1.8 %
4	82,402	0.3 %	(13,399)	0.2 %
5	37,389	0.1 %	(19,446)	0.4 %
6	4,226	— %	(3,872)	0.1 %
	32,871,403	100.0 %	(5,160,537)	100.0 %
Modified coinsurance investments	1,865,466		(514,230)	
	<u>\$ 34,736,869</u>		<u>\$ (5,674,767)</u>	
December 31, 2021				
1	\$ 3,825,403	58.9 %	\$ (33,823)	34.4 %
2	2,233,761	34.4 %	(47,154)	48.1 %
3	376,933	5.8 %	(13,723)	14.0 %
4	33,229	0.5 %	(1,083)	1.1 %
5	9,506	0.1 %	(1,140)	1.2 %
6	16,244	0.3 %	(1,186)	1.2 %
	6,495,076	100.0 %	(98,109)	100.0 %
Modified coinsurance investments	1,312,912		(14,261)	
	<u>\$ 7,807,988</u>		<u>\$ (112,370)</u>	

(1) Gross unrealized losses have been adjusted to reflect the allowance for credit loss of \$4.9 million and \$2.8 million as of September 30, 2022 and December 31, 2021, respectively.

Our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2022 and December 31, 2021, along with a description of the factors causing the unrealized losses is presented in *Note 3 - Investments* to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

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

	Number of Securities	Amortized Cost, Net of Allowance (1)	Fair Value	Gross Unrealized Losses, Net of Allowance (1)
(Dollars in thousands)				
September 30, 2022				
Fixed maturity securities, available for sale:				
Investment grade:				
Less than six months	2,144	\$ 21,076,070	\$ 19,100,398	\$ (1,975,672)
Six months or more and less than twelve months	1,421	14,604,340	11,766,243	(2,838,097)
Twelve months or greater	203	1,570,815	1,352,416	(218,399)
Total investment grade	3,768	37,251,225	32,219,057	(5,032,168)
Below investment grade:				
Less than six months	29	283,399	261,229	(22,170)
Six months or more and less than twelve months	17	191,756	149,410	(42,346)
Twelve months or greater	44	305,560	241,707	(63,853)
Total below investment grade	90	780,715	652,346	(128,369)
	3,858	38,031,940	32,871,403	(5,160,537)
Modified coinsurance investments	546	2,379,696	1,865,466	(514,230)
	4,404	\$ 40,411,636	\$ 34,736,869	\$ (5,674,767)
December 31, 2021				
Fixed maturity securities, available for sale:				
Investment grade:				
Less than six months	567	\$ 4,255,321	\$ 4,223,368	\$ (31,953)
Six months or more and less than twelve months	39	132,110	130,156	(1,954)
Twelve months or greater	281	1,752,779	1,705,640	(47,139)
Total investment grade	887	6,140,210	6,059,164	(81,046)
Below investment grade:				
Less than six months	11	43,745	42,994	(751)
Six months or more and less than twelve months	7	28,544	25,706	(2,838)
Twelve months or greater	64	380,686	367,213	(13,473)
Total below investment grade	82	452,975	435,913	(17,062)
	969	6,593,185	6,495,077	(98,108)
Modified coinsurance investments	458	1,327,173	1,312,912	(14,261)
	1,427	\$ 7,920,358	\$ 7,807,989	\$ (112,369)

(1) Amortized cost and gross unrealized losses have been adjusted to reflect the allowance for credit loss of \$4.9 million and \$2.8 million as of September 30, 2022 and December 31, 2021, respectively.

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

	Number of Securities	Amortized Cost, Net of Allowance (1)	Fair Value	Gross Unrealized Losses, Net of Allowance (1)
(Dollars in thousands)				
September 30, 2022				
Investment grade:				
Less than six months	520	\$ 6,597,167	\$ 4,938,395	\$ (1,658,772)
Six months or more and less than twelve months	170	2,605,917	1,724,697	(881,220)
Twelve months or greater	—	—	—	—
Total investment grade	690	9,203,084	6,663,092	(2,539,992)
Below investment grade:				
Less than six months	19	167,439	125,371	(42,068)
Six months or more and less than twelve months	3	74,254	47,505	(26,749)
Twelve months or greater	—	—	—	—
Total below investment grade	22	241,693	172,876	(68,817)
	712	9,444,777	6,835,968	(2,608,809)
Modified coinsurance investments	393	1,314,991	895,510	(419,481)
	1,105	\$ 10,759,768	\$ 7,731,478	\$ (3,028,290)
December 31, 2021				
Investment grade:				
Less than six months	—	\$ —	\$ —	\$ —
Six months or more and less than twelve months	—	—	—	—
Twelve months or greater	—	—	—	—
Total investment grade	—	—	—	—
Below investment grade:				
Less than six months	—	—	—	—
Six months or more and less than twelve months	—	—	—	—
Twelve months or greater	—	—	—	—
Total below investment grade	—	—	—	—
Modified coinsurance investments	—	—	—	—
	—	\$ —	\$ —	\$ —

(1) Amortized cost and gross unrealized losses have been adjusted to reflect the allowance for credit loss of \$4.9 million and \$2.8 million as of September 30, 2022 and December 31, 2021, respectively.

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

	Available for sale	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
September 30, 2022		
Due in one year or less	\$ 866,870	\$ 862,205
Due after one year through five years	5,113,322	4,845,079
Due after five years through ten years	5,155,334	4,575,984
Due after ten years through twenty years	8,157,911	6,984,806
Due after twenty years	9,467,777	7,222,666
	28,761,214	24,490,740
Residential mortgage backed securities	1,227,407	1,118,321
Commercial mortgage backed securities	3,749,244	3,398,260
Other asset backed securities	4,298,995	3,864,082
	38,036,860	32,871,403
Modified coinsurance investments	2,379,696	1,865,466
	\$ 40,416,556	\$ 34,736,869
December 31, 2021		
Due in one year or less	\$ 762,035	\$ 761,590
Due after one year through five years	49,668	46,687
Due after five years through ten years	476,811	467,284
Due after ten years through twenty years	443,909	435,589
Due after twenty years	669,775	658,827
	2,402,198	2,369,977
Residential mortgage backed securities	280,044	277,881
Commercial mortgage backed securities	795,405	778,852
Other asset backed securities	3,118,385	3,068,367
	6,596,032	6,495,077
Modified coinsurance investments	1,327,173	1,312,912
	\$ 7,923,205	\$ 7,807,989

International Exposure

We hold fixed maturity securities with international exposure. As of September 30, 2022, 16.0% of the carrying value of our fixed maturity securities was comprised of corporate debt securities of issuers based outside of the United States and debt securities of foreign governments. Our fixed maturity securities with international exposure are primarily denominated in U.S. dollars. Our investment professionals analyze each holding for credit risk by economic and other factors of each country and industry. The following table presents our international exposure in our fixed maturity portfolio by country or region:

	September 30, 2022		
	Amortized Cost	Carrying Amount/ Fair Value	Percent of Total Carrying Amount
	(Dollars in thousands)		
Europe	\$ 2,761,905	\$ 2,430,776	6.2 %
Asia/Pacific	539,417	470,917	1.2 %
Latin America	334,845	277,222	0.7 %
Non-U.S. North America	1,468,350	1,315,808	3.4 %
Australia & New Zealand	999,655	900,881	2.3 %
Other	971,584	870,042	2.2 %
	7,075,756	6,265,646	16.0 %
Modified coinsurance investments	665,788	525,563	
	<u>\$ 7,741,544</u>	<u>\$ 6,791,209</u>	

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

	September 30, 2022	
	Amortized Cost	Carrying Amount/ Fair Value
	(Dollars in thousands)	
Europe	\$ 122,217	\$ 105,719
Asia/Pacific	68	55
Latin America	45,586	38,712
Non-U.S. North America	41,027	36,667
Australia & New Zealand	276	223
Other	117,014	89,254
	326,188	270,630
Modified coinsurance investments	—	—
	<u>\$ 326,188</u>	<u>\$ 270,630</u>

Watch List

At each balance sheet date, we identify invested assets which have characteristics (i.e., significant unrealized losses compared to amortized cost and industry trends) creating uncertainty as to our future assessment of credit losses. As part of this assessment, we review not only a change in current price relative to its amortized cost but the issuer's current credit rating and the probability of full recovery of principal based upon the issuer's financial strength. For corporate issuers, we evaluate the financial stability and quality of asset coverage for the securities relative to the term to maturity for the issues we own. For asset-backed securities, we evaluate changes in factors such as collateral performance, default rates, loss severities and expected cash flows. At September 30, 2022, the amortized cost and fair value of securities on the watch list (all fixed maturity securities) are as follows:

General Description	Number of Securities	Amortized Cost	Allowance for Credit Losses	Amortized Cost, Net of Allowance	Net Unrealized Losses, Net of Allowance	Fair Value
(Dollars in thousands)						
Corporate securities - Public securities	5	\$ 12,974	\$ —	\$ 12,974	\$ (90)	\$ 12,884
Corporate securities - Private placement securities	1	10,646	(3,214)	7,432	(3,296)	4,136
Residential mortgage backed securities	19	29,207	(1,706)	27,501	(1,441)	26,060
Commercial mortgage backed securities	5	39,734	—	39,734	(2,353)	37,381
Other asset backed securities	1	2,835	—	2,835	(38)	2,797
Collateralized loan obligations	14	66,435	—	66,435	(13,634)	52,801
	45	\$ 161,831	\$ (4,920)	\$ 156,911	\$ (20,852)	\$ 136,059

We expect to recover the unrealized losses, net of allowances, as we do not have the intent to sell and it is not more likely than not that we would be required to sell these securities prior to recovery of the amortized cost basis, net of allowances. Our analysis of these securities and their credit performance at September 30, 2022 is as follows:

Corporate securities: The corporate securities included on the watch list primarily include a security in the utilities industry that is under financial stress due to the impact of power outages and a security in the retail market which is in an unrealized loss position and for which we have the intent to sell as part of our risk reduction effort.

Structured securities: The structured securities included on the watch list have generally experienced higher levels of stress due to the impact COVID-19 had on the economy. In addition, certain securities are included on the watch list as they are in an unrealized loss position and we have the intent to sell as part of our risk reduction effort.

Credit Losses

We have a policy and process to identify securities in our investment portfolio for which we recognize credit loss. See *Note 3 - Investments* to our unaudited consolidated financial statements.

During the three months ended September 30, 2022, we recognized \$1.5 million of credit losses which includes \$3.0 million of credit losses on structured securities primarily due to our intent to sell such securities as of September 30, 2022 and \$0.3 million of credit losses on corporate securities primarily due to our intent to sell such securities as of September 30, 2022 partially offset by a \$1.8 million net reduction in credit losses on certain other securities primarily due to revised financial outlook on securities related to senior living facilities in the Southeastern region of the United States driven in part by a restructuring of its debt facilities. During the nine months ended September 30, 2022, we recognized \$14.3 million of credit losses which includes \$10.3 million of credit losses on structured securities primarily due to our intent to sell such securities and \$6.1 million of credit losses on corporate securities due to \$3.3 million of credit losses on a security and \$2.8 million of credit losses on securities due to our intent to sell such securities as of June 30, 2022 partially offset by \$2.1 reduction in credit losses primarily due to revised financial outlook on securities related to senior living facilities in the Southeastern region of the United States driven in part by a restructuring of its debt facilities.

During the three months ended September 30, 2021, we recognized a benefit related to a reduction in the allowance for credit losses for our fixed maturity securities of \$0.1 million which included recoveries on municipal securities partially offset by additional credit losses realized on corporate securities and residential mortgage backed securities. During the nine months ended September 30, 2021, we recognized credit losses of \$0.1 million which included net credit losses realized on corporate securities partially offset by net recoveries on municipal securities and residential mortgage backed securities.

Several factors led us to believe that full recovery of amortized cost is not expected on the securities for which we recognized credit losses. A discussion of these factors, our policy and process to identify securities that could potentially have credit loss is presented in *Note 3 - Investments* to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

Mortgage Loans on Real Estate

Our financing receivables consist of three mortgage loan portfolio segments: commercial mortgage loans, agricultural mortgage loans and residential mortgage loans. Our commercial mortgage loan portfolio consists of loans with an outstanding principal balance of \$3.6 billion and \$3.6 billion as of September 30, 2022 and December 31, 2021, respectively. This portfolio consists of mortgage loans collateralized by the related properties and diversified as to property type, location and loan size. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and other criteria to attempt to reduce the risk of default. Our agricultural mortgage loan portfolio consists of loans with an outstanding principal balance of \$582.5 million and \$408.1 million as of September 30, 2022 and December 31, 2021, respectively. These loans are collateralized by agricultural land and are diversified as to location within the United States. Our residential mortgage loan portfolio consists of loans with an outstanding principal balance of \$2.4 billion and \$1.7 billion as of September 30, 2022 and December 31, 2021, respectively. These loans are collateralized by the related properties and diversified as to location within the United States. Mortgage loans on real estate are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances.

At September 30, 2022 and December 31, 2021, the largest principal amount outstanding for any single commercial mortgage loan was \$84.3 million and \$81.5 million, respectively, and the average loan size was \$5.8 million and \$5.3 million, respectively. In addition, the average loan-to-value ratio for commercial and agricultural mortgage loans combined was 51.8% and 52.3% at September 30, 2022 and December 31, 2021, respectively, based upon the underwriting and appraisal at the time the loan was made. This loan-to-value ratio is indicative of our conservative underwriting policies and practices for originating mortgage loans and may not be indicative of collateral values at the current reporting date. Our current practice is to only obtain market value appraisals of the underlying collateral at the inception of the loan unless we identify indicators of impairment in our ongoing analysis of the portfolio, in which case, we either calculate a value of the collateral using a capitalization method or obtain a third party appraisal of the underlying collateral. The commercial mortgage loan portfolio is summarized by geographic region and property type in *Note 4 - Mortgage Loans on Real Estate* to our unaudited consolidated financial statements in this Form 10-Q, incorporated by reference in this Item 2.

In the normal course of business, we commit to fund mortgage loans up to 90 days in advance. At September 30, 2022, we had commitments to fund commercial mortgage loans totaling \$98.8 million, with interest rates ranging from 5.36% to 6.72%. During 2022 and 2021, due to historically low interest rates, the commercial mortgage loan industry has been very competitive. This competition has resulted in a number of borrowers refinancing with other lenders. For the nine months ended September 30, 2022, we received \$380.8 million in cash for loans being paid in full compared to \$250.3 million for the nine months ended September 30, 2021. Some of the loans being paid off have either reached their maturity or are nearing maturity; however, some borrowers are paying the prepayment fee and refinancing at a lower rate. As September 30, 2022, we had commitments to fund agricultural mortgage loans totaling \$10.2 million with interest rates ranging from 5.56% to 5.56%, and had commitments to fund residential mortgage loans totaling \$258.3 million with interest rates ranging from 7.00% to 12.00%.

See *Note 4 - Mortgage Loans on Real Estate* to our unaudited consolidated financial statements, incorporated by reference, for a presentation of our valuation allowance, foreclosure activity and troubled debt restructure analysis. We have a process by which we evaluate the credit quality of each of our mortgage loans. This process utilizes each loan's loan-to-value and debt service coverage ratios as primary metrics. See *Note 4 - Mortgage Loans on Real Estate* to our unaudited consolidated financial statements, incorporated by reference, for a summary of our portfolio by loan-to-value and debt service coverage ratios.

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

	Current	30-59 days past due	60-89 days past due	Over 90 days past due	Total
As of September 30, 2022:	(Dollars in thousands)				
Commercial mortgage loans	\$ 3,583,592	\$ —	\$ —	\$ —	\$ 3,583,592
Agricultural mortgage loans	577,660	—	—	3,135	580,795
Residential mortgage loans	2,397,036	33,288	10,408	31,930	2,472,662
Total mortgage loans	<u>\$ 6,558,288</u>	<u>\$ 33,288</u>	<u>\$ 10,408</u>	<u>\$ 35,065</u>	<u>\$ 6,637,049</u>
As of December 31, 2021:					
Commercial mortgage loans	\$ 3,628,502	\$ —	\$ —	\$ —	\$ 3,628,502
Agricultural mortgage loans	406,999	—	—	—	406,999
Residential mortgage loans	1,631,999	34,447	3,030	7,045	1,676,521
Total mortgage loans	<u>\$ 5,667,500</u>	<u>\$ 34,447</u>	<u>\$ 3,030</u>	<u>\$ 7,045</u>	<u>\$ 5,712,022</u>

Derivative Instruments

Our derivative instruments consist of call options purchased to provide the income needed to fund the annual index credits on our fixed index annuity products and interest rate swaps used to hedge against changes in fair value due to changes in interest rates. The fair value of the call options is based upon the amount of cash that would be required to settle the call options obtained from the counterparties adjusted for the nonperformance risk of the counterparty. The nonperformance risk for each counterparty is based upon its credit default swap rate. We have no performance obligations related to the call options. The fair value of the pay fixed/receive float interest rate swaps are determined using internal valuation models that generate discounted expected future cash flows by constructing a projected Secure Overnight Financing Rate (SOFR) curve over the term of the swap.

Our interest rate swaps qualify for hedge accounting and our call options do not qualify for hedge accounting. Any change in the fair value of the derivatives is recognized immediately in the consolidated statements of operations. A presentation of our derivative instruments along with a discussion of the business strategy involved with our derivatives for both our derivatives designated as hedging instruments and our derivatives not designated as hedging instruments is included in *Note 6 - Derivative Instruments* to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

Liquidity and Capital Resources

Our insurance subsidiaries generally have adequate cash flows from annuity deposits and investment income to meet their policyholder and other obligations. Net cash flows from annuity deposits and funds returned to policyholders as surrenders, withdrawals and death claims were \$(1,331.0) million for the nine months ended September 30, 2022 compared to \$1,567.7 million for the nine months ended September 30, 2021, with the decrease attributable to a \$2,935.1 million decrease in net annuity deposits after coinsurance and a \$36.3 million (after coinsurance) decrease in funds returned to policyholders. We continue to invest the net proceeds from policyholder transactions and investment activities in high quality fixed maturity securities and mortgage loans. We have a highly liquid investment portfolio that can be used to meet policyholder and other obligations as needed. In addition, we intend to hold approximately 1% to 2% of our investment portfolio in cash and cash equivalents.

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

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

Currently, American Equity Life may pay dividends or make other distributions without the prior approval of the Iowa Insurance Commissioner, unless such payments, together with all other such payments within the preceding twelve months, exceed the greater of (1) American Equity Life's net gain from operations for the preceding calendar year, or (2) 10% of American Equity Life's statutory capital and surplus at the preceding December 31. For 2022, up to \$407.9 million can yet be distributed as dividends by American Equity Life without prior approval of the Iowa Insurance Commissioner. In addition, dividends and surplus note payments may be made only out of statutory earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities in the life subsidiary's state of domicile. American Equity Life had \$2.6 billion of statutory earned surplus at September 30, 2022.

The maximum distribution permitted by law or contract is not necessarily indicative of an insurer's actual ability to pay such distributions, which may be constrained by business and regulatory considerations, such as the impact of such distributions on surplus, which could affect the insurer's ratings or competitive position, the amount of premiums that can be written and the ability to pay future dividends or make other distributions. Further, state insurance laws and regulations require that the statutory surplus of our life subsidiaries following any dividend or distribution must be reasonable in relation to their outstanding liabilities and adequate for their financial needs. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength ratings from rating agencies. Both regulators and rating agencies could become more conservative in their methodology and criteria, including increasing capital requirements for our insurance subsidiaries which, in turn, could negatively affect the cash available to us from insurance subsidiaries. As of September 30, 2022, we estimate American Equity Life has sufficient statutory capital and surplus, combined with capital available to the holding company, to maintain its insurer financial strength rating. However, this capital may not be sufficient if significant future losses are incurred or a rating agency modifies its rating criteria and access to additional capital could be limited.

Cash and cash equivalents of the parent holding company at September 30, 2022, were \$318.8 million. We also have the ability to issue equity, debt or other types of securities through one or more methods of distribution. The terms of any offering would be established at the time of the offering, subject to market conditions.

In January 2022, American Equity Life became a member of the Federal Home Loan Bank of Des Moines ("FHLB") which provides access to collateralized borrowings and other FHLB products. We may also issue funding agreements to the FHLB. Both the collateralized borrowings and funding agreements require us to pledge qualified assets as collateral. Obligations arising from funding agreements, which totaled \$50.0 million as of September 30, 2022 are used in investment spread activities.

New Accounting Pronouncements

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

Regulatory Developments

General Scope of Insurance Regulation

We expect to review our Bermuda captive reinsurers' governance and risk oversight structure in light of regulatory changes to codes of conduct, and may make certain enhancements.

Investments Regulation

The Iowa Insurance Division has proposed changes to Iowa law on admitted assets to conform Iowa law more closely to NAIC models in some respects. For example, it would change the amount of some assets an insurer could include as admitted. If the legislature enacts these changes, we would review and reconfigure our investments in light of the new requirements and the challenges and opportunities they pose. We do not expect legislative action, if any, until at least 2023.

Financial Strength Ratings

Standard & Poor's ("S&P") has withdrawn its insurance company capital analysis proposal to discount the value of certain assets that have no rating.

Side Car Related Regulation

As we continue to develop and implement third-party capital reinsurance, such as "side cars," we expect to manage additional related regulatory requirements in areas such as employment and labor, governance, reinsurance, securities, and tax. We expect the scope of these requirements and our management strategies to be clearer as our planning and execution continue to progress.

Privacy and Cybersecurity

The SEC has proposed new cybersecurity disclosure rules for public companies. Under the proposed rule, registrants would have to disclose information about material cybersecurity incidents on a Current Report on Form 8-K within four days of concluding that the incident is material, and update that disclosure at points of its analysis and response to the incident. Registrants would also have to disclose aspects of cybersecurity risk management annually, including governance processes and Board and management responsibilities, and director cybersecurity expertise.

Other State and NAIC Regulatory Developments

In addition, the NAIC is reviewing how insurers' varieties of affiliate agreements, holding company structures, and forms of public or private ownership may affect insurers' financial stability.

Other U.S. Federal Initiatives

In August 2022, the U.S. amended its internal revenue code to impose a 15% "corporate alternative minimum tax" based on net income, subject to some adjustments. At this time, we do not expect that we will be liable under this tax for 2022.

The SEC has proposed new climate-related disclosure rules for public companies. Among other things, the proposed rules would require registrant disclosure on (1) governance of climate-related risks; (2) climate-related impacts on strategy, business model and outlook; (3) climate-related risk management; (4) greenhouse gas ("GHG") emissions; and (5) any internal carbon price or climate-related targets and goals. Large accelerated filers, such as us, would also have to obtain attestation by an independent third party of certain of their GHG emissions metrics. The proposed rules would also require registrants to include climate-related financial statement metrics (which would consist of disaggregated climate-related impacts on existing financial statement line items) and related disclosures in a note to audited financial statements, subject to adequate internal controls and to audit by an independent registered public accounting firm. Depending on the ultimate rules the SEC adopts, the cost and other impacts of such a rule on us may be significant.

The SEC has proposed new rules related to trading plans under Rule 10b5-1. The rules would require a registrant 30-day "cooling off" period between plan adoption and the first transaction under the plan; limit registrants to a single plan for a class of securities, such as common stock, at any given time. The SEC has also proposed new daily registrant disclosure of securities repurchases. Depending on the ultimate rules the SEC adopts, the cost and other impacts of such rules on us may be significant.

Accounting for Long Duration Insurance and Investment Contracts

See *Note 1 - Significant Accounting Policies* to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated here by reference.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

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

If interest rates were to increase 10% (38 basis points) from levels at September 30, 2022, we estimate that the fair value of our fixed maturity securities would decrease by approximately \$1,083.4 million. The impact on stockholders' equity of such decrease (net of income taxes and certain adjustments for changes in amortization of deferred policy acquisition costs and deferred sales inducements and policy benefit reserves) would be a decrease of \$396.9 million in accumulated other comprehensive income and a decrease in stockholders' equity. The models used to estimate the impact of a 10% change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of our financial instruments indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because we actively manage our investments and liabilities, our net exposure to interest rates can vary over time. However, any such decreases in the fair value of our fixed maturity securities (unless related to credit concerns of the issuer requiring recognition of a credit loss) would generally be realized only if we were required to sell such securities at losses prior to their maturity to meet our liquidity needs, which we manage using the surrender and withdrawal provisions of our annuity contracts and through other means. See Financial Condition - Liquidity for Insurance Operations included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2021 for a further discussion of the liquidity risk.

The amortized cost of fixed maturity securities that are callable at the option of the issuer, excluding securities with a make-whole provision, was \$2.3 billion as of September 30, 2022. We have reinvestment risk related to these redemptions to the extent we cannot reinvest the net proceeds in assets with credit quality and yield characteristics similar to the redeemed bonds. Such reinvestment risk typically occurs in a declining rate environment. In addition, we have \$5.3 billion of floating rate investments as of September 30, 2022. The majority of these investments are based on the 3 month LIBOR rate and are reset quarterly. Should rates decline to levels which tighten the spread between our average portfolio yield and average cost of interest credited on annuity liabilities, we have the ability to reduce crediting rates (caps, participation rates or asset fees for fixed index annuities) on most of our annuity liabilities to maintain the spread at our targeted level. At September 30, 2022, approximately 92% of our annuity liabilities were subject to annual adjustment of the applicable crediting rates at our discretion, limited by minimum guaranteed crediting rates specified in the policies. At September 30, 2022, approximately 18% of our annuity liabilities were at minimum guaranteed crediting rates.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Proceeds received at expiration of options related to such credits	\$ 4,865	\$ 489,902	\$ 308,072	\$ 1,559,495
Annual index credits to policyholders on their anniversaries	4,648	475,292	301,431	1,535,320

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with the Securities Exchange Act Rules 13a-15(e) and 15d-15(e), our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded the design and operation of our disclosure controls and procedures were effective as of September 30, 2022 in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We describe certain factors that may affect our business or operations under "Risk Factors" in Part I, Item 1A, of our 2021 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In January 2022, we issued 6,775,000 shares of our common stock to Brookfield Asset Management Reinsurance Partners Ltd. (together with its affiliates, "Brookfield Reinsurance") at \$37.33 per share, our adjusted book value as of September 30, 2021. The issuance was exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 4(a)(2) of the Securities Act. Brookfield Reinsurance represented to us that it is an "accredited investor" as defined in Rule 501 of the Securities Act and that it is acquiring the common stock for investment purposes and not with a view to, or for sale in connection with, any distribution thereof.

Issuer Purchases of Securities

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

Period	Total Number of Shares Purchased (shares)	Average Price Paid Per Share (dollars)	Total Number of Shares Purchased as Part of Publicly Announced Program (a) (shares)	Approximate Dollar Value of Shares That May Yet Be Purchased Under Program (dollars in thousands)
July 1, 2022 - July 31, 2022	2,364,678	\$ 35.86	2,364,678	\$ 282,410
August 1, 2022 - August 31, 2022	446,850	\$ 37.48	446,850	\$ 265,663
September 1, 2022 - September 30, 2022	1,409,452	\$ 37.28	1,409,452	\$ 213,116
Total	4,220,980		4,220,980	

(a) On October 18, 2020, the Company's Board of Directors approved a \$500 million share repurchase program. On November 19, 2021, the Company's Board of Directors authorized the repurchase of an additional \$500 million of Company common stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

On November 8, 2022, Sachin Shah resigned from the American Equity Investment Life Holding Company Board of Directors effective the same day. Mr. Shah's resignation letter, which is filed as an exhibit to this report, expresses disagreements with the company.

Item 6. Exhibits

Note Regarding Reliance on Statements in Our Contracts and Other Exhibits: We include agreements and other exhibits to this report to provide information regarding their terms and not to provide any other factual or disclosure information about us, our subsidiaries or affiliates, or the other parties to the agreements, or for any other purpose. The agreements and other exhibits may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement or other arrangement and (i) should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) have in many cases been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement; (iii) may apply standards of materiality in a way that is different from what may be viewed as material to investors; and (iv) were made only as of the date of the applicable agreement or other exhibit, or such other date or dates as may be specified in the document and are subject to more recent developments. Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit Number	Description
10.1	American Equity Life Employee Indemnification Plan, dated as of September 8, 2022
10.2	Form of 2022 Time-Based Employee Restricted Stock Unit Award Agreement (Three-Year Ratable) under the American Equity Investment Life Holding Company Amended and Restated Equity Incentive Plan
10.3	Offer Letter effective August 2, 2022 between American Equity Investment Life Insurance Company and Nicholas Volpe
17.1	Sachin Shah Letter of Resignation from the American Equity Investment Life Holding Company Board of Directors, dated November 8, 2022
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
101	The following materials from American Equity Investment Life Holding Company's Quarterly Report on Form 10-Q for the period ended September 30, 2022 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Consolidated Financial Statements.
104	The cover page from American Equity Investment Life Holding Company's Quarterly Report on Form 10-Q for the period ended September 30, 2022 formatted in iXBRL and contained in Exhibit 101.

* Denotes management contract or compensatory plan.

SIGNATURES

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

Date: November 8, 2022

AMERICAN EQUITY INVESTMENT LIFE
HOLDING COMPANY

By: /s/ Dewayne Lummus
Dewayne Lummus
Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer and Duly Authorized Officer)

American Equity Life Employee Indemnification Plan
(note: see the Appendix for definitions of capitalized terms.)

1. What is the purpose of the Plan?

Through the Plan, the Company will pay or reimburse AEL Employees' Expenses related to certain Legal Actions brought against them because of their services to AEL.

2. Who is covered by the Plan?

AEL Employees are covered by the Plan.

3. When is a Legal Action covered by the Plan?

A Legal Action brought against an Employee is covered when the Employee's conduct was in good faith and the Employee reasonably believed the Employee's conduct was in the best interests of AEL (or, in the case of an AEL employee benefit plan, in the interests of the participants in or beneficiaries of the plan as required by ERISA), except for incidences where, in the Company's discretion it is determined that the Employee engaged in an intentional violation of criminal law, lied or made misrepresentations in an internal or external investigation of the situation giving rise to the Legal Action and that lie or misrepresentation was, in the Company's view, material to the investigation of the matter. Additionally, a Legal Action is not covered by the Plan to the extent doing so is prohibited by Iowa law or other law.

4. When must an Employee tell the Company about a Legal Action?

- An Employee must notify the Company's Chief Legal Officer in writing (which may include electronic communications) of a Legal Action as soon as reasonably practicable, and in any case within 10 days of receiving written notice of a Legal Action.
- To the extent the Employee does not so notify the Company in a timely manner, and the Chief Legal Officer determines in good faith that the Employee's failure to do so has materially harmed AEL's interests (including substantially increasing the likelihood or amount of Expenses that the Plan may cover), the Chief Legal Officer may reasonably and proportionately limit the Employee's rights under the Plan.
- However, this provision will not apply to the extent the Company, through one of its officers, had actual knowledge of the Legal Action against the Employee.

5. When will the Company pay or reimburse an Employee's Expenses for a Legal Action that is not yet finally resolved?

- The Company will pay or reimburse an Employee's Expenses if, and so long as, the Company's Chief Legal Officer determines in good faith that the Legal Action appears substantially likely to be covered by the Plan. The Chief Legal Officer will make such an initial determination within 10 days of an Employee request.
- However, the Chief Legal Officer may later determine in good faith that the Legal Action no longer appears to be substantially likely to be covered by the Plan. In that case, the Company will stop paying or reimbursing Expenses until the Legal Action is finally resolved (see "When will the Company pay an Employee's Expenses for a Legal Action that is finally resolved?").
- In order to receive any advance payment or reimbursement of Expenses, an Employee must sign a promise to repay any amounts the Company pays to the Employee or on the Employee's behalf should the Plan or law require it (see "When must an Employee repay any Expenses to the Company?").

6. Who chooses an Employee's attorney or other service providers for a Legal Action?

If, and as long as, the Company is paying an Employee's Expenses, the Chief Legal Officer may designate the Employee's attorney and other providers of goods and services, who may or may not be Employees or have other relationships with AEL. That same attorney or service provider may be the same attorney or service provider that is defending AEL in the same Legal Action, to the extent AEL is also a party. If, in fact, the Employee believes that their interests in the litigation diverge from AEL's such that independent counsel for the Employee must be engaged, then it is in the sole discretion of the Chief Legal Officer to weigh the merits of that argument put forth by the Employee and to choose that separate counsel for the Employee, if such separate counsel is deemed necessary.

7. Does an Employee have to cooperate with AEL during a Legal Action?

Yes, as a condition of retaining rights under the Plan, the Employee and any representative or attorney of the Employee must cooperate with AEL in the conduct of the Legal Action. This includes providing relevant information to AEL on a timely basis to the extent permissible by law, being truthful and not misleading in communications with AEL at all times and to others during the Legal Action, and otherwise as reasonably determined in good faith by the Chief Legal Officer.

8. When may an Employee settle a Legal Action covered by the Plan?

- An Employee may settle a Legal Action covered by the Plan to the extent authorized as reasonably determined in good faith by the Chief Legal Officer. An Employee does not retain any rights under this Plan if the Employee settles a Legal Action without such authorization.
- The Chief Legal Officer is not required to authorize any settlement that the Chief Legal Officer reasonably determines in good faith creates a conflict of interest between the Employee and AEL.
- An Employee does not retain any rights under this Plan if the Employee declines to settle a Legal Action on terms that involve no or de minimis pecuniary cost to the Employee and that require no admission of fault, wrong-doing, or liability by the Employee.

9. When must an Employee repay any Expenses to the Company?

If, following the final resolution of a Legal Action, the Chief Legal Officer reasonably determines in good faith that a Legal Action was not covered by the Plan, the Employee shall repay any Expenses the Company has paid.

10. When will the Company pay an Employee's Expenses for a Legal Action that is finally resolved?

If, following the final resolution of a Legal Action, the Chief Legal Officer reasonably determines in good faith that a Legal Action was covered by the Plan, the Company will pay the Employee any Expenses it has not yet paid.

11. Is this Plan an enforceable agreement?

Yes, this Plan is enforceable as a contract between the Company and an Employee and is governed by Iowa law without regard to choice-of-law principles.

12. When was the Plan effective?

The Plan was effective with respect to alleged acts or omissions on or after September 8, 2022.

13. What if an Employee acts to enforce rights under this Plan?

If an employee acts to enforce the Employee's rights under this Plan, and upon final resolution is successful on the merits with respect to any material aspect of such action, the Company shall reimburse the Employee's Expenses on the same basis as if the action was a Legal Action covered by the Plan.

14. Are Company paid or reimbursed Expenses taxable?

The Company must report Expenses as taxable income, and withhold for taxes or other items, as the Chief Legal Officer determines necessary or appropriate under law. The Employee must report Expenses as taxable income as required by law.

15. How can the Plan be amended?

The Company's Board of Directors may authorize a Company officer to amend or terminate the Plan. No amendment or termination of the Plan will eliminate or impair any Employee rights under the Plan with respect to an alleged act or omission that took place prior to the amendment or termination.

16. Does the Plan preclude an Employee from exercising any other rights?

No, the Employee retains and may exercise any rights under law or under an agreement separate from this Plan.

17. Does the Plan preclude or require any Company action otherwise consistent with the Plan?

No, the Company may or may not take other actions consistent with the Plan. For example, the Company may purchase any insurance for its benefit or that of others, or enter into agreements otherwise providing for indemnification with or for the benefit of any person, consistent with law.

Appendix to American Equity Life Employee Indemnification Plan - Definitions

“AEL” means the Company and each of its affiliates, as defined under SEC Rule 12b-2, and any employee benefit plan sponsored by the Company or any of its affiliates for the benefit of any Employee.

“Chief Legal Officer” means the Chief Legal Officer of the Company or such officer’s designee or delegate. Where the Chief Legal Officer has or may have rights or interests under the Plan as an Employee, the Chief Executive Officer of the Company shall perform each of the responsibilities and authority of the Chief Legal Officer under the Plan. Where the Chief Executive Officer of the Company has or may have rights or interests under the Plan as an Employee (i.e., is not a Company director), the non-Employee Chairman of the Company Board of Directors (or, if none, the Lead Director; or, if none, the longest-serving independent director) shall perform each of the responsibilities and authority of the Chief Legal Officer under the Plan.

“Company” means the American Equity Investment Life Holding Company, an Iowa corporation.

“Derivative Actions” mean any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, arbitral, or investigative and whether formal or informal, brought by a non-AEL person, but on behalf of or in the name of an AEL person, against an Employee because that individual is Employee, that is not authorized by the Company Board of Directors or a committee thereof.

“Employee” means an individual who is or was employed by AEL (i.e., actually paid via an AEL payroll system with taxes and other items withheld on employee basis) at the time of an alleged act or omission materially related to a Legal Action covered by the Plan. It includes an Employee’s estate or other personal representative with respect to an Employee during the Employee’s life. It does not include anyone in service for any other non-AEL organization, corporation, joint venture, trust, employee benefit plan, or other entity. No one who is a Company director, including anyone who would otherwise be an Employee, is an Employee.

“Expenses” are costs actually and reasonably incurred by an Employee for services actually rendered or goods actually received that are necessary or reasonably appropriate in connection with a Legal Action (such as attorney’s fees, cost of expert witness or consultants, other litigation-related services, court costs) and amounts an Employee personally incurs in settlement (the extent authorized as reasonably determined in good faith by the Chief Legal Officer) or to satisfy an adverse judgment of a Legal Action. Expenses do not include amounts to settle or satisfy an adverse judgment in a Derivative Action, as required by Iowa law.

“Legal Actions” include any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, arbitral, or investigative and whether formal or informal, brought against an Employee (including but not limited to providing information, documents, or otherwise as a third party) because that individual is or was an Employee. Legal Actions include those brought because the Employee is or was providing services to an AEL entity in an employment, officer, director, trustee, or agent. Legal Actions do not include those Employee brings against AEL (except to the extent covered by “What if an Employee takes

action to enforce rights under this Plan?”) or that Employee brings against any other person, or that AEL brings against the Employee (except for Derivative Actions, as provided under the Plan).

“Plan” means the American Equity Life Employee Indemnification Plan.

**EMPLOYEE RESTRICTED STOCK UNIT
AWARD AGREEMENT**

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

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

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

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

1. Grant of Restricted Stock Unit Award; Change in Control. The Company hereby grants to the Participant [[SHARESGRANTED]] RSUs (such number, the “Number” of RSUs) on the terms and conditions set forth in this Agreement and as otherwise provided in the Plan (the “Award”). Notwithstanding any other provisions in this Agreement to the contrary, in the event of a Change in Control, the RSUs shall be treated in accordance with Section 10.1 and Section 10.2 of the Plan.
2. Restrictions. The RSUs may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered and shall be subject to a risk of forfeiture as described in Section 3 hereof until such restrictions have lapsed in accordance with Section 3 hereof. Upon any attempt by the Participant to transfer any of the RSUs or any rights in respect of the RSUs before the lapse of such restrictions, such RSUs and all of the rights related thereto, shall be immediately forfeited by the Participant without payment of any consideration. The restrictions applicable to the RSUs shall lapse only in accordance with Section 3 hereof.
3. Vesting/Forfeiture
 - a. General. Subject to Sections 3(b) - (e) hereof, the restrictions applicable to the RSUs, as described in Section 2 hereof, shall lapse with respect to one-third (1/3) of the RSUs on each of the first (1st), second (2^d), and third (3^d) anniversaries of the Date of Grant. The period from Date of Grant until the date the last restrictions lapse in accordance with this Section 3(a) is the “Restriction Period.”
 - b. Participant Violation of Terms; Termination For Cause or Detrimental Activity. If, during the Restriction Period, as determined at any time in the discretion of the Company or an Affiliate, the Participant violated any of the Participant’s obligations under this Agreement, including those provided by Section 9 hereof, or the Participant violated any of the Participant’s obligations under

any separation agreement, or Participant's actions qualify or qualified for a Termination For Cause or Detrimental Activity (each as defined in the Plan), then no RSUs will be due the Participant from the Company.

- c. Death/Disability/Retirement During Restriction Period. Subject to Section 3(b) hereof, in the event of a Termination during the Restriction Period due to the Participant's death or Disability, or due to the Participant's Retirement, the restrictions applicable to the RSUs, as described in Section 2 hereof, whose restrictions have not yet lapsed shall lapse.
 - d. [reserved].
 - e. Other Termination During Restriction Period. If, during the Restriction Period and prior to an event described in Section 3(b) - (d) hereof, Termination occurs for any reason, the RSUs whose restrictions have not yet lapsed shall immediately be forfeited without consideration.
4. Shareholder Rights. The RSUs are bookkeeping entries only. The Participant shall not have any privileges of a shareholder of the Company with respect to the RSUs awarded hereunder, including without limitation any right to vote shares of Common Stock underlying the RSUs or to receive dividends or other distributions in respect thereof (provided that any dividends or dividend equivalents on the RSUs shall only become payable on the same date on which the RSU from which the dividend equivalent right is derived is paid, subject to the terms hereof). All such dividend equivalent rights shall be subject to the same vesting requirements that apply to RSUs from which the dividend equivalent rights are derived.
5. Legend on Certificates. Certificates evidencing the RSUs awarded to the Participant hereunder shall bear such legends as the Company may determine in its sole discretion.
6. Securities Laws Requirements. The Company shall not be obligated to issue Common Stock to the Participant free of any restrictive legend described in Section 5 hereof or of any other restrictive legend, if such transfer, in the opinion of counsel for the Company, would violate the Securities Act of 1933, as amended (the "Securities Act") (or any other federal or state statutes having similar requirements as may be in effect at that time).
7. No Obligation to Register. The Company shall be under no obligation to register the RSUs pursuant to the Securities Act or any other federal or state securities laws.
8. [reserved].
9. Non-Solicitation of Employees and Others. Participant agrees that from the Date of Grant until the completion of all payments (whether Shares or Cash) pursuant to this Agreement, Participant will not solicit any employee, customer, vendor, consultant, Independent Marketing Organization (or individual affiliate with any such organizations) of the Company or any Affiliate to end, reduce the time or scope of, decline to renew, or decline to extend the sales or other business volume, time, or scope of such relationship. Participant also agrees that from the Date of Grant until the end of twelve (12) months following Termination, Participant will not, without the prior written consent of the Company, and to the extent such consent is limited or conditioned, be employed by, engaged by, or otherwise assist, either as an individual or as a partner, joint venturer, employee, agent, consultant, officer, trustee, director, owner, part-owner, shareholder (except for less than 1% ownership of the

common stock of a publicly-traded company), or in any other capacity, directly or indirectly, providing the same or similar activities, skills, experience, or expertise Participant performed for the Company and its Affiliates to any entities that the Company identifies as a competitor in its Compensation Discussion and Analysis publicly disclosed to the U.S. Securities and Exchange Commission within twelve (12) months on or prior to Termination. These prohibitions shall apply to each entity and its parents, subsidiaries, affiliates, or agents, or any entity with 9.9% or greater direct or indirect economic interest in any of them.

10. Timing and Manner of Payment of RSUs.

- a. Subject to Section 3 hereof, and except as otherwise provided in this Section 10 hereof, as soon as practicable after (and in no case more than seventy-four days after) the lapse of restrictions with respect to any RSUs (the "Payment Date"), such RSUs whose restrictions have lapsed shall be paid by the Company delivering to the Participant a number of Shares equal to the number of RSUs whose restrictions have lapsed and that are non-forfeitable on that Payment Date (rounded down to the nearest whole share). The Company shall issue the Shares either (i) in certificate form or (ii) in book entry form, registered in the name of the Participant. Delivery of any certificates will be made to the Participant's last address reflected on the books of the Company and its Affiliates unless the Company is otherwise instructed in writing. The Participant shall not be required to pay any cash consideration for the RSUs or for any Shares received pursuant to the Award. Neither the Participant nor any of the Participant's successors, heirs, assigns or personal representatives shall have any further rights or interests in any RSUs that are so paid. Notwithstanding anything herein to the contrary, the Company shall have no obligation to issue Shares in payment of the RSUs unless such issuance and such payment shall comply with all relevant provisions of law and the requirements of any stock exchange on which the Shares are listed.
- b. If, after the Restriction Period, as determined at any time in the discretion of the Company or an Affiliate, the Participant violated any of the Participant's obligations under this Agreement, including those provided by Section 9 hereof, or the Participant violated any of the Participant's obligations under any separation agreement, or Participant's actions qualify or qualified for a Termination For Cause or Detrimental Activity (each as defined in the Plan), then no RSUs will be due the Participant from the Company.

11. Payments to "Specified Employees" Under Certain Circumstances. Notwithstanding the provisions of Section 3 and Section 4 hereof, if the Grantee is deemed a "specified employee" (as such term is described in Section 409A of the Code and the treasury regulations thereunder (the "Code")) at a time when such Grantee becomes eligible for payment upon a "separation from service" with the Company or any of its Affiliates, to the extent required to avoid taxation under Section 409A of the Code, such payments shall be made to the Grantee on the date that is six (6) months following such "separation from service," or upon the Grantee's death, if earlier.

12. Taxes. The Participant understands that he or she (and not the Company or any Affiliate) shall be responsible for any tax liability that may arise with respect to the RSUs granted under this Agreement. The Participant shall pay to the Company, or make provision satisfactory to the Company for payment of, any taxes or social insurance contributions required by law to be withheld with respect to the RSUs no later than the date of the event creating such tax liability. The Participant may satisfy the foregoing requirement by making a payment to the Company in cash or, in the Committee's discretion, such

amount may be paid in whole or in part by electing to have the Company retain the Participant's Shares, with the retained Shares having a value equal to the amount of tax to be so withheld. Such Shares shall be valued at their Fair Market Value on the date of retention or delivery. If a Participant makes an election under Section 83(b) of the Code to be taxed with respect to the RSUs as of the date of transfer of the RSUs rather than as of the date or dates upon which the Participant would otherwise be taxable under Section 83(a) of the Code, the Participant shall be required to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service.

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

[Remainder of page intentionally left blank.]

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

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

By: /s/ [name]
[name]
[title]

PARTICIPANT

[[FIRSTNAME]], [[LASTNAME]]
[[SIGNATURE]]
[[SIGNATURE_DATE]]



June 13, 2022

Nicholas Volpe
[REDACTED]

Dear Nicholas,

On behalf of American Equity Investment Life Insurance Company, I am pleased to confirm our verbal offer of employment. This offer is to join our company on Tuesday, August 2nd, 2022 as Chief Technology Officer reporting to Anant Bhalla.

Our offer to you includes an annual salary of \$400,000 per year (\$33,333 per month). This position is exempt. A performance evaluation will be conducted in January, 2023 and annually thereafter. In addition to base salary, we are offering a one-time sign on bonus of \$250,000, minus applicable taxes, payable to you in cash as soon as administratively possible following your start date. Should you leave the company at any time, prior to the second anniversary date of this payment, you will be required to pay back the gross amount of the sign-on bonus.

This offer also includes your participation in our Short-Term Incentive Plan and Long-Term Incentive Plan. Short-Term Incentive Plan opportunity is a target bonus of 70% of your base salary and a maximum of 140% of your base salary. The actual bonus to be paid under this incentive plan is based upon certain annual company performance metrics and personal goals. The amount of the bonus you will receive for 2022 will be prorated based upon your start date. You will also be recommended to the Board of Directors in March 2023 for a Long-Term Incentive equal to 100% of your salary, and you will continue to be eligible to receive long-term incentive awards each year thereafter. Your long-term incentive award will include Performance-based Restricted Stock Units, Time-Based Restricted Stock Units and Deferred Long-Term Incentive Cash. Further details will be provided upon grant.

To facilitate your transition to the Company, effective with your start date you will receive a long-term equity inducement award comprised of a grant of time-based restricted stock units with an aggregate value of \$450,000, subject to a graded vesting schedule with 1/3 of the award vesting on each of your first, second and third anniversaries. These awards will be subject to the terms set forth in the award agreement as well as the equity incentive plan under which they are granted.

As discussed in the verbal offer of employment, you will be eligible to participate in other compensation programs appropriate to this position. All of our other company benefits are available to you in accordance with the plan details.

This offer is subject to the successful passing of a background investigation. AEL requires written acceptance of this offer within 48 hours. Upon acceptance of our offer, please electronically sign this letter below. If you have any questions about this offer, please contact Megan Kohler, Manager, Talent Acquisition at [REDACTED]. You are encouraged to keep a copy for your records, or we can provide one upon request.

We are excited to make this opportunity available to you and know that you will find joining our company to be a rewarding event in your career.

Best regards,

Megan Kohler
Manager, Talent Acquisition

Accepted by: /s/ Nicholas Volpe

Date: 6/13/2022

American Equity Investment Life Insurance Company®

P.O. Box 71216 • Des Moines, IA 50325 • 1-888-221-1234 • 515-221-0002 • 515-221-9947(Fax) • www.american-equity.com

November 8, 2022

The Chairman
American Equity Investment Life Holding Company
6000 Westown Parkway
West Des Moines, IA 50266

Dear David:

I hereby tender my resignation as a member of the Board of Directors (the “Board”) of American Equity Investment Life Holding Company (the “Company”), effective immediately.

It is clear based on recent events that there has been a fundamental change in the strategic direction of the Company, and that change in my view represents a material departure from the AEL 2.0 strategy. As previously communicated, neither I nor Brookfield Reinsurance can support this change in strategy as being in the best interests of the Company, its policyholders or its shareholders.

For the time being, Brookfield Reinsurance will not exercise its rights under the Investment Agreement to designate a replacement director to the Board.

Sincerely,

/s/ Sachin Shah
Sachin Shah

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

I, Anant Bhalla, certify that:

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

Date: November 8, 2022

By: /s/ Anant Bhalla

Anant Bhalla

Chief Executive Officer and President

(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, Axel Andre, certify that:

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

Date: November 8, 2022

By: /s/ Axel Andre

Axel Andre

Chief Financial Officer and Executive Vice President

(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, 2022 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Anant Bhalla, Chief Executive Officer and President 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 8, 2022

By: /s/ Anant Bhalla
Anant Bhalla
Chief Executive Officer and President
(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, 2022 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Axel Andre, Chief Financial Officer and Executive Vice President 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 8, 2022

By: /s/ Axel Andre

Axel Andre

Chief Financial Officer and Executive Vice President

(Principal Financial Officer)