

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

(Mark One)

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

For the fiscal year ended December 31, 2002

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 : 0-25985

American Equity Investment Life Holding Company

(Exact name of registrant as specified in its charter)

Iowa
(State of Incorporation)

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

5000 Westown Parkway, Suite 440
West Des Moines, Iowa 50266
(Address of principal executive offices)

(515) 221-0002
(Telephone)

Securities registered pursuant to Section 12(b) of the Act: None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant: No public market exists nor has active trading occurred.

Shares of common stock outstanding as of February 28, 2003: 14,438,452

Documents incorporated by reference: Portions of the registrant's definitive proxy statement for the annual meeting of shareholders to be held June 5, 2003 are incorporated by reference into Part III of this report.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Part I

ITEM 1. BUSINESS

General

American Equity Investment Life Holding Company (we, us or the Company) was formed on December 15, 1995 to develop, market, issue and administer annuities and life insurance through our insurance subsidiaries. We are a full service underwriter of a broad array of annuity and insurance products. Our business consists primarily of the sale of fixed rate and equity index annuities, which constitutes one business segment. Our business strategy is to focus on our annuity business and earn predictable returns by managing investment spreads and investment risk.

On June 5, 2001, we formed a New York domiciled insurance company named American Equity Investment Life Insurance Company of New York. We have licensing authority to sell insurance and annuities in 46 states and the District of Columbia.

Annuity Market Overview

Our target market includes the group of individuals ages 45-75 who are seeking to accumulate tax-deferred savings. We believe that significant growth opportunities exist for annuity products because of favorable demographic and economic trends. According to the U.S. Census Bureau, there were 35 million Americans age 65 and older in 2000, representing 12% of the U.S. population. By 2030, this sector of the population is expected to increase to 22% of the total population. Our products are particularly attractive to this group as a result of the guarantee of principal, competitive rates of credited interest, tax-deferred growth and alternative payout options.

According to the Life Insurance Marketing and Research Association, sales of individual annuities were \$185.3 billion in 2001 and \$190.5 billion in 2000. In 2001 (last year in which actual data is available), fixed annuity sales, which include equity index and fixed rate annuities, increased 41% to \$74.3 billion from \$52.7 billion in 2000. Sales of equity index annuities grew to \$6.8 billion in 2001, an increase of 24% from \$5.5 billion in 2000. Further, from 1997 through 2001, equity index annuities sales have grown from \$3 billion in 1997 to \$6.8 billion in 2001. We believe equity index annuities, which have a crediting rate linked to the change in various indices, appeal to purchasers interested in participating in gains linked to equity markets without the risk of loss of principal. Our wide range of fixed rate annuity products has enabled us to enjoy favorable growth during volatile equity and bond markets.

Products

We market equity index annuities, fixed rate annuities, a variable annuity, and life insurance. Premiums and deposits (after cancellations and net of reinsurance) collected in 2002, 2001, and 2000, by product category, were as follows:

Product Type	Year ended December 31,		
	2002	2001	2000
	(Dollars in thousands, net of reinsurance)		
Equity Index Annuities:			
Index Strategies	\$ 523,224	\$ 431,571	\$ 596,863
Fixed Strategy	370,496	156,553	37,030
Total Equity Index Annuities	893,720	588,124	633,893
Fixed Rate Annuities	380,772	279,598	203,276
Multi-Year Rate Guaranteed Annuities	322,856	1,139,160	6,171
Life Insurance	12,958	12,349	10,169
Accident and Health	706	792	865
Variable Annuities	83	15	3,895
	\$ 1,611,095	\$ 2,020,038	\$ 858,269

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Premiums and deposits (after cancellations and before reinsurance) collected in 2002, 2001, and 2000, by product category, were as follows:

Product Type	Year ended December 31,		
	2002	2001	2000
	(Dollars in thousands, before reinsurance)		
Equity Index Annuities			
Index Strategies	\$ 867,880	\$ 656,731	\$ 596,863
Fixed Strategy	614,549	237,824	37,030
Total Equity Index Annuities	1,482,429	894,555	633,893
Fixed Rate Annuities	629,945	391,470	203,276
Multi-Year Rate Guaranteed Annuities	322,856	1,139,160	6,171
Life Insurance	12,958	12,349	10,169
Accident and Health	706	792	865
Variable Annuities	83	15	3,895
	\$ 2,448,977	\$ 2,438,341	\$ 858,269

Fixed Rate Annuities. Fixed rate annuities include single premium deferred annuities ("SPDAs"), flexible premium deferred annuities ("FPDAs") and single premium immediate annuities ("SPIAs"). A SPDA generally involves the tax-deferred accumulation of interest on a single premium paid by the policyholder. After a number of years, as specified in the annuity contract, the annuitant may elect to take the proceeds of the annuity either in a single payment or in a series of payments for life, for a fixed number of years, or for a combination of these payment options. We introduced two new types of SPDAs in December 2000, under which the annual crediting rate is guaranteed for either a three-year or a five-year period. We suspended the sales of these three-year and five-year SPDAs in November of 2002. FPDAs are similar to SPDAs, except that the FPDA allows additional deposits in varying amounts by the policyholder without a new application.

Our SPDAs and FPDAs (excluding the multi-year rate guaranteed products) generally have an interest rate (the "crediting rate") that is guaranteed by us for the first policy year. After the first policy year, we have the discretionary ability to change the crediting rate once annually to any rate at or above a guaranteed minimum rate. The guaranteed rate on our non-multi-year rate guaranteed policies in force and new issues ranges from 3% to 4%. The guaranteed rate on our multi-year rate guaranteed policies in force ranges from 3.05% to 6.5% for the three-year rate guarantee product and 3.25% to 7.0% for the five-year rate guarantee product. The initial crediting rate is largely a function of the interest rate we can earn on invested assets acquired with new annuity deposits and the rates offered on similar products by our competitors. For subsequent adjustments to crediting rates, we take into account the yield on our investment portfolio, annuity surrender assumptions, competitive industry pricing and crediting rate history for particular groups of annuity policies with similar characteristics.

Approximately 70.2% and 21.9% of our fixed rate annuity sales in 2002 and 2001, respectively, were "bonus" products. The initial crediting rate on these products specifies a bonus crediting rate ranging from 1% to 7% of the annuity deposit. After the first year, the bonus interest portion of the initial crediting rate is automatically discontinued, and the renewal crediting rate is established. Generally, there is a compensating adjustment in the commission paid to the agent to offset the first year interest bonus. In all situations, we obtain an acknowledgment from the policyholder, upon policy issuance, that a specified portion of the first year interest will not be paid in renewal years. As of December 31, 2002, crediting rates on our outstanding SPDAs and FPDAs generally ranged from 3.05% to 7.0% excluding interest bonuses guaranteed for the first year. The average crediting rate on SPDAs and FPDAs including interest bonuses at December 31, 2002 was 5.65%, and the average crediting rate on those products excluding bonuses was 4.99%.

The policyholder is typically permitted to withdraw all or a part of the premium paid, plus accrued interest credited to the account (the "accumulation value"), subject to the assessment of a surrender charge for withdrawals in excess of specified limits. Most of our SPDAs and FPDAs provide for penalty-free withdrawals of up to 10% of the accumulation value each year after the first year, subject to limitations. Withdrawals in excess of allowable penalty-free amounts are assessed a surrender charge during a penalty period which generally ranges from three to fifteen years after the date the policy is issued. This surrender charge is initially 9% to 25% of the accumulation value and generally decreases by approximately one to two percentage points per year during the surrender charge period. At December 31, 2002, approximately 99.9% of our annuity liabilities were subject to penalty upon surrender, with a weighted average remaining surrender charge period of 8.7 years and a weighted average surrender charge rate of 12.21%. Surrender charges are set at levels to protect us from loss on early terminations and to reduce the likelihood of policyholders

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terminating their policies during periods of increasing interest rates. This practice lengthens the effective duration of the policy liabilities and enhances our ability to maintain profitability on such policies.

Our SPIAs are designed to provide a series of periodic payments for a fixed period of time or for life, according to the policyholder's choice at the time of issue. The amounts, frequency, and length of time of the payments are fixed at the outset of the annuity contract. SPIAs are often purchased by persons at or near retirement age who desire a steady stream of payments over a future period of years. The implicit interest rate on SPIAs is based on market conditions when the policy is issued. The implicit interest rate on our outstanding SPIAs averaged 4.93% at December 31, 2002.

Equity Index Annuities. Equity index annuities allow purchasers to earn investment returns linked to equity index appreciation without the risk of loss of their principal. Several of these products allow the purchaser to transfer funds once annually among several different income crediting strategies, including one or more index-based strategies, a traditional fixed rate strategy and/or a multi-year rate guaranteed strategy.

The annuity contract value is equal to the premiums paid as increased for returns which are based upon a percentage (the "participation rate") of the annual appreciation (based in certain situations on monthly averages) in a recognized index or benchmark. The participation rate, which we may reset annually, generally varies among the equity index products from 60% to 100%. Some of the products also have an "asset fee" ranging from 1% to 4%, which is deducted from the interest to be credited. The asset fees may be adjusted annually by us, subject to stated maximums. In addition, some products apply an overall maximum limit (or "cap"), ranging from 9% to 13%, on the amount of annual interest the policyholder may earn in any one contract year, and the applicable cap also may be adjusted annually subject to stated minimums. The minimum guaranteed contract values are equal to 80% to 100% of the premium collected plus interest credited at an annual rate of 3%. We purchase call options on the applicable indices as an investment to provide the income needed to fund the amount of the annual appreciation required to be credited on the equity index products. The setting of the participation rates, asset fees and caps is a function of the interest rate we can earn on the invested assets acquired with annuity fund deposits, cost of call options and features offered on similar products by our competitors. Approximately 30.8% and 26.5% of our equity index annuity sales in 2002 and 2001, respectively, were "premium bonus" products. The initial annuity deposit on these policies is increased at issuance by the specified premium bonus ranging from 3% to 6%. Generally, there is a compensating adjustment in the commission paid to the agent to offset the premium bonus.

The annuities provide for penalty-free withdrawals of up to 10% of premium or accumulation value (depending on the product) in each year after the first year of the annuity's term. Other withdrawals are subject to a surrender charge ranging initially from 9% to 25% over a surrender period of from five to fifteen years. During the applicable surrender charge period, the surrender charges on some equity index products remain level, while on other equity index products, the surrender charges decline by one to two percentage points per year. After a number of years, as specified in the annuity contract, the annuitant may elect to take the proceeds of the annuity either in a single payment or in a series of payments for life, for a fixed number of years, a combination of these payment options, or re-enter into a new contract term.

Variable Annuities. Variable annuities differ from equity index and fixed rate annuities in that the policyholder, rather than the insurance company, bears the investment risk and the policyholder's rate of return is dependent upon the performance of the particular investment option selected by the policyholder. Profits on variable annuities are derived from the fees charged to contract owners rather than from the investment spread.

In December 1997, we entered into a strategic alliance with Farm Bureau Life Insurance Company ("Farm Bureau") for the development, marketing and administration of variable annuity products. This alliance, which consists of the reinsurance and related administrative agreements discussed hereafter, enabled us to introduce variable products into our product line. An affiliate of Farm Bureau provides the administrative support necessary to manage this business, and is paid an administrative fee for those services. We share in 30% of the risks, costs and operating results of these products through the reinsurance arrangement. See the discussion under "Reinsurance" for additional information regarding this arrangement as well as Farm Bureau's beneficial ownership of our common stock.

Life Insurance. These products include traditional ordinary and term, universal life and other interest-sensitive life insurance products. We have approximately \$2.2 billion of life insurance in force. We acquired this business from American Life and Casualty Insurance Company in 1995. We intend to continue offering a complete line of life insurance products for individual and group markets. Premiums related to this business accounted for 5% and 7% of the revenues in 2002 and 2001, respectively.

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Investments

Investment activities are an integral part of our business, and net investment income is a significant component of our total revenues. Profitability of many of our products is significantly affected by spreads between interest yields on investments and rates credited on annuity liabilities. Although substantially all credited rates on non-multi-year rate guaranteed SPDAs and FPDAs may be changed annually, subject to minimum guarantees, changes in crediting rates may not be sufficient to maintain targeted investment spreads in all economic and market environments. In addition, competition and other factors, including the potential for increases in surrenders and withdrawals, may limit our ability to adjust or to maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions. For the year ended December 31, 2002, the average yield, computed on the average amortized cost basis of our investment portfolio, was 6.91%; the weighted average cost of our liabilities at December 31, 2002, excluding interest bonuses guaranteed for the first year of the annuity contract, was 4.63%.

We manage the equity-based component of our equity index annuities by purchasing call options on the applicable indices to fund the annual index credits on these annuities and by adjusting the participation rates, asset fee rates and other product features to reflect the change in the cost of such options (which varies based on market conditions). All of such options are purchased to fund the index credits on our equity index annuities at their respective anniversary dates, and new options are purchased at each of the anniversary dates to fund the next annual index credits.

For additional information regarding the composition of our investment portfolio and our interest rate risk management, see Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk, and Note 3 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Marketing

We market our products through a variable cost brokerage distribution network. We emphasize high quality service to our agents and policyholders along with the payment of commissions to our agents on a daily basis or a twice a week basis. We believe this has been significant in building excellent relationships with our existing agency force.

We have recruited approximately 41,000 independent agents and agencies through December 31, 2002, ranging in profile from national sales organizations to personal producing general agents. We aggressively recruit new agents and expect to continue to expand our independent agency force. In our recruitment efforts, we emphasize that agents have direct access to our executive officers, giving us an edge in recruiting over larger and foreign-owned competitors. We are currently licensed to sell our products in 46 states and the District of Columbia. We have applied or anticipate applying for licenses to sell our products in the remaining states.

The insurance brokerage distribution system is comprised of insurance brokers and marketing organizations. We are pursuing a strategy to increase the size of our brokerage distribution network by developing additional relationships with national and regional marketing organizations. These organizations typically recruit agents for us by advertising our products and our commission structure, through direct mail advertising, or through seminars for insurance agents and brokers. These organizations bear most of the cost incurred in marketing our products. We compensate marketing organizations by paying them a percentage of the commissions earned on new annuity policy sales generated by the agents recruited in such organizations. We also conduct other incentive programs for agents from time to time, including equity-based programs for our leading national marketers (See Note 10 of the Notes to Consolidated Financial Statements included elsewhere in this report). We generally do not enter into exclusive arrangements with these marketing organizations.

One of our national marketing organizations accounted for more than 10% of the annuity deposits and insurance premiums collections during 2002. The states with the largest shares of direct premiums collected in 2002 were: California (14.5%), Texas (11.4%), Florida (9.7%), Illinois (7.1%) and Michigan (5.4%).

Competition and Ratings

We operate in a highly competitive industry. Most of our competitors are substantially larger and enjoy substantially greater financial resources, higher ratings by rating agencies, broader and more diversified product lines and more widespread agency relationships. Our annuity products compete with equity index, fixed rate and variable annuities sold by other insurance companies and also with mutual fund products, traditional bank investments and other investment

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and retirement funding alternatives offered by asset managers, banks, and broker-dealers. Our insurance products compete with other insurance companies, financial intermediaries and other institutions based on a number of features, including crediting rates, policy terms and conditions, service provided to distribution channels and policyholders, ratings by rating agencies, reputation and broker compensation.

The sales agents for our products use the ratings assigned to an insurer by independent rating agencies as one factor in determining which insurer's annuity to market. In recent years, the market for annuities has been dominated by those insurers with the highest ratings. American Equity Life has received a financial strength rating of "B++" (Very Good) from A.M. Best Company and "BBB+" from Standard & Poor's. In July, 2002, A.M. Best Company and Standard & Poor's adjusted our financial strength ratings from "A-" (Excellent) to "B++" (Very Good) and "A-" to

"BBB+", respectively. The adjustments initially had no impact on sales of new annuity products or in lapses of existing balances. Beginning in November, 2002, our monthly sales volumes began to decline primarily as a result of certain actions by us, including reductions in crediting rates and suspension of new sales of some products. The degree to which ratings adjustments also contributed to this decline is unknown. Our ability to grow sales of new annuities and the level of surrenders of our existing annuity contracts in force during 2003 may be affected by the current ratings and/or our levels of statutory capital and surplus.

Financial strength ratings generally involve quantitative and qualitative evaluations of a company's financial condition and operating performance. Generally, rating agencies base their ratings upon information furnished to them by the insurer and upon their own investigations, studies and assumptions. Ratings are based upon factors of concern to policyholders, agents and intermediaries and are not directed toward the protection of investors and are not recommendations to buy, sell or hold securities.

A.M. Best Company ratings currently range from "A++" (Superior) to "F" (In Liquidation), and include 16 separate ratings categories. Within these categories, "A++" (Superior) and "A+" (Superior) are the highest, followed by "A" (Excellent) and "A-" (Excellent) then followed by "B++" (Very Good) and "B+" (Very Good). Publications of A.M. Best Company indicate that the "B++" and "B+" ratings are assigned to those companies that, in A.M. Best Company's opinion, have demonstrated very good overall performance when compared to the standards established by A.M. Best Company and have demonstrated a good ability to meet their obligations to policyholders over a long period of time.

Standard & Poor's insurer financial strength ratings currently range from "AAA" to "NR", and include 21 separate ratings categories. Within these categories, "AAA" and "AA" are the highest, followed by "A" and "BBB". Publications of Standard & Poor's indicate that an insurer rated "BBB" or higher is regarded as having financial security characteristics that outweigh any vulnerabilities, and is highly likely to have the ability to meet financial commitments.

A.M. Best Company and Standard & Poor's review their ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in their judgment, circumstances so warrant. If our ratings were to be adjusted again for any reason, we could experience a material decline in the sales of our products and the persistency of our existing business.

Reinsurance

Indemnity Reinsurance. Consistent with the general practice of the life insurance industry, American Equity Life enters into agreements of indemnity reinsurance with other insurance companies in order to reinsure portions of the coverage provided by its life and accident and health insurance products. Indemnity reinsurance agreements are intended to limit a life insurer's maximum loss on a large or unusually hazardous risk or to diversify its risks. Indemnity reinsurance does not discharge the original insurer's primary liability to the insured. American Equity Life's reinsured business related to these blocks of business is primarily ceded to two reinsurers. We believe the assuming companies will be able to honor all contractual commitments, based on our periodic review of their financial statements, insurance industry reports and reports filed with state insurance departments.

As of December 31, 2002, the policy risk retention limit was \$0.1 million or less on all life insurance policies issued by us. Reinsurance ceded by us related to our life, accident and health insurance was immaterial and reinsurance that we assumed (through the acquisition of two blocks of existing insurance from American Life and Casualty Insurance Company) represented approximately 6% of net life insurance in force.

Financial Reinsurance. Effective January 1, 2001, American Equity Life entered into a transaction treated as reinsurance under statutory accounting practices and as financial reinsurance under accounting principles generally accepted in the

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United States ("GAAP") with a subsidiary of Swiss Reinsurance Company ("Swiss Re") which includes a coinsurance segment and a yearly renewable term segment reinsuring a portion of death benefits payable on annuities produced after January 1, 2001 through approximately July 31, 2001. The coinsurance segment provides reinsurance to the extent of 2% of all risks associated with our annuity policies covered by this reinsurance agreement. We received a 2% expense allowance for this segment which is being repaid over a five-year period from the profits emerging from the reinsured block of policies. This segment of the reinsurance agreement provided approximately \$20.0 million in statutory surplus benefit during 2001.

The second segment of the Swiss Re agreement is yearly renewable term reinsurance whereby Swiss Re's subsidiary reinsures risks associated with the death benefits on our annuity products to the extent such benefits exceed the cash surrender values of the applicable contracts. We have received the maximum expense allowance allowable under this agreement of \$15 million during 2001, which was equal to 2.25%—3% of the first year premiums on annuities issued after January 1, 2001 through approximately July 31, 2001. This amount is being repaid ratably over a five-year period. The balance due at December 31, 2002 and 2001 was \$10.9 million and \$14.3 million, respectively. This agreement bears interest at the ninety day London Interbank Offered Rate plus 140 basis points (2.78% at December 31, 2002) and interest incurred was \$0.4 million for both the years ended December 31, 2002 and 2001.

Under the Swiss Re agreement, we are required to meet certain financial ratio requirements. We currently do not meet the risk-based capital and A.M. Best Company rating requirements under the agreement. Discussions with Swiss Re are on going in regards to the issue of a waiver or transfer of the agreement to another reinsurance company. If an agreement cannot be reached we will no longer receive experience refunds under the agreement and an acceleration of the repayment/recapture of the agreement will occur.

American Equity Life entered into a reinsurance transaction, effective November 1, 2002, with Hannover Life Reassurance Company of America ("Hannover") which is treated as reinsurance under statutory accounting practices and as financial reinsurance under GAAP. This agreement includes a coinsurance segment and a yearly renewable term segment reinsuring a portion of death benefits payable on certain annuities issued from January 1, 2002 to December 31, 2002. The coinsurance segment provides reinsurance to the extent of 6.88% of all risks associated with our annuity policies covered by this reinsurance agreement. This agreement provided approximately \$29.8 million in statutory surplus benefit during 2002. Risk charges of \$0.2 million were incurred during the year ended December 31, 2002, related to this agreement.

Coinurance. Effective August 1, 2001, American Equity Life entered into a coinsurance agreement with an affiliate of Farm Bureau covering 70% of certain of our non-multi-year rate guarantee fixed annuities and equity index annuities issued from August 1, 2001 through December 31, 2001, and 40% of those contracts for 2002 and 2003. As of December 31, 2002, Farm Bureau beneficially owned 32.47% of our common stock. Total annuity deposits ceded were approximately \$837.9 million and \$418.3 million for the year ended December 31, 2002 and the period from August 1, 2001 to December 31, 2001, respectively. Expense allowances received were approximately \$99.4 million and \$51.2 million under this agreement for the year ended December 31, 2002 and the period from August 1, 2001 to December 31, 2001, respectively. The balance due under this agreement to Farm Bureau was \$1.5 million at December 31, 2002 and \$22.9 million at December 31, 2001, and represents the market value of the call options related to the ceded business held by us to fund the index credits and cash due to or from Farm Bureau related to the transfer of ceded annuity deposits.

During 1998, American Equity Life also entered into a modified coinsurance agreement to cede 70% of its variable annuity business to an affiliate of Farm Bureau. Under this agreement and related administrative services agreements, we paid Farm Bureau's affiliate \$0.2 million for the each of years ended December 31, 2002 and 2001. The modified coinsurance agreement has an initial term of four years and will continue thereafter until termination by written notice at the election of either party. Any such termination will apply to the submission or acceptance of new policies, and business reinsured under the agreement prior to any such termination is not eligible for recapture before the expiration of 10 years.

Regulation

Life insurance companies are subject to regulation and supervision by the states in which they transact business. State insurance laws establish supervisory agencies with broad regulatory authority, including the power to:

- grant and revoke licenses to transact business;
- regulate and supervise trade practices and market conduct;

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- establish guaranty associations;
 - license agents;
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approve policy forms;

- approve premium rates for some lines of business;
- establish reserve requirements;
- prescribe the form and content of required financial statements and reports;
- determine the reasonableness and adequacy of statutory capital and surplus;
- perform financial, market conduct and other examinations;
- define acceptable accounting principles;
- regulate the type and amount of permitted investments; and
- limit the amount of dividends and surplus note payments that can be paid without obtaining regulatory approval.

State insurance regulators and the National Association of Insurance Commissioners, or NAIC, continually reexamine existing laws and regulations, and may impose changes in the future.

Our life subsidiaries are subject to periodic examinations by state regulatory authorities. In 2002, the Iowa Insurance Division completed an examination of American Equity Life, as of December 31, 2000. No adjustments to our financial statements were recommended or required as a result of this examination.

The payment of dividends or the distributions, including surplus note payments, by our life subsidiaries is subject to regulation by each subsidiary's state of domicile's insurance department. Currently, our life subsidiaries may pay dividends or make other distributions without the prior approval of their state of domicile's insurance department, unless such payments, together with all other such payments within the preceding twelve months, exceed the greater of (1) life subsidiary's net gain from operations for the preceding calendar year, or (2) 10% of the life subsidiary's statutory surplus at the preceding December 31. For 2003, up to approximately \$25.9 million can be distributed as dividends or surplus note payments by American Equity Life without prior approval of their state of domicile's insurance department. In addition, dividends and surplus note payments may be made only out of earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities. American Equity Life had approximately \$47.4 million of earned surplus at December 31, 2002.

Most states have also enacted regulations on the activities of insurance holding company systems, including acquisitions, extraordinary dividends, the terms of surplus notes, the terms of affiliate transactions and other related matters. We are registered pursuant to such legislation in Iowa. Recently, a number of state legislatures have considered or have enacted legislative proposals that alter and, in many cases, increase the authority of state agencies to regulate insurance companies and holding company systems.

Most states, including Iowa and New York where our life subsidiaries are domiciled, have enacted legislation or adopted administrative regulations affecting the acquisition of control of insurance companies as well as transactions between insurance companies and persons controlling them. The nature and extent of such legislation and regulations currently in effect vary from state to state. However, most states require administrative approval of the direct or indirect acquisition of 10% or more of the outstanding voting securities of an insurance company incorporated in the state. The acquisition of 10% of such securities is generally deemed to be the acquisition of "control" for the purpose of the holding company statutes and requires not only the filing of detailed information concerning the acquiring parties and the plan of acquisition, but also administrative approval prior to the acquisition. In many states, the insurance authority may find that "control" in fact does not exist in circumstances in which a person owns or controls more than 10% of the voting securities.

Although the federal government does not directly regulate the business of insurance, federal legislation and

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administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation, securities regulation and federal taxation can significantly affect the insurance business. In addition, legislation has been passed which could result in the federal government assuming some role in regulating insurance companies and which allows combinations between insurance companies, banks and other entities.

In 1998, the Securities and Exchange Commission ("SEC") requested comments as to whether equity index annuities, such as those sold by us, should be treated as securities under the federal securities laws rather than as insurance products. Treatment of these products as securities would likely require additional registration and licensing of these products and the agents selling them, as well as cause us to seek additional marketing relationships for these products. No action has been taken by the SEC on this issue.

State insurance regulators and the NAIC are continually reexamining existing laws and regulations and developing new legislation for the passage by state legislatures and new regulations for adoption by insurance authorities. Proposed laws and regulations or those still under development pertain to insurer solvency and market conduct and in recent years have focused on:

- insurance company investments;
- risk-based capital ("RBC") guidelines, which consist of regulatory targeted surplus levels based on the relationship of statutory capital and surplus, with prescribed adjustments, to the sum of stated percentages of each element of a specified list of company risk exposures;
- the implementation of non-statutory guidelines and the circumstances under which dividends may be paid;
- product approvals;
- agent licensing;
- underwriting practices; and
- insurance and annuity sales practices.

For example, the NAIC has promulgated proposed changes to statutory accounting standards. These initiatives may be adopted by the various states in which we are licensed, but the ultimate content, timing and impact of any statutes and regulations adopted by the states cannot be determined at this time.

The NAIC's RBC requirements are intended to be used by insurance regulators as an early warning tool to identify deteriorating or weakly capitalized insurance companies for the purpose of initiating regulatory action. The RBC formula defines a new minimum capital standard which supplements low, fixed minimum capital and surplus requirements previously implemented on a state-by-state basis. Such requirements are not designed as a ranking mechanism for adequately capitalized companies.

The NAIC's RBC requirements provide for four levels of regulatory attention depending on the ratio of a company's total adjusted capital to its RBC. Adjusted capital is defined as the total of statutory capital, surplus, asset valuation reserve and certain other adjustments. Calculations using the NAIC formula at December 31, 2002, indicate that the ratio of total adjusted capital to RBC for us exceeded the highest level at which regulatory action might be triggered by approximately 1.9 times. We received the approval of the Iowa Insurance Division to exclude from our RBC ratio for the year 2002, the impact of a rule change requiring the inclusion of additional amounts based on the results of certain cash flow testing scenarios in the calculation.

Our life subsidiaries also may be required, under the solvency or guaranty laws of most states in which they do business, to pay assessments up to certain prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies. These assessments may be deferred or forgiven under most guaranty laws if they would threaten an insurer's financial strength and, in certain instances, may be offset against future premium taxes. Assessments related to business reinsured for periods prior to the effective date of the reinsurance are the responsibility of the ceding companies. Given the short period of time since the inception of our business, we believe that assessments, if any, will be minimal.

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Federal Income Taxation

The annuity and life insurance products that we market and issue generally provide the policyholder with a federal income tax advantage, as compared to other savings investments, such as certificates of deposit and taxable bonds, in that federal income taxation on any increases in the contract values of these products is deferred until it is received by the policyholder. With other savings investments, the increase in value is taxed as earned. Annuity benefits and life insurance benefits, which accrue prior to the death of the policyholder, are generally not taxable until paid. Life insurance death benefits are generally exempt from income tax. Also, benefits received on immediate annuities are recognized as taxable income ratably, as opposed to the methods used for some other investments which tend to accelerate taxable income into earlier years.

From time to time, various tax law changes have been proposed that could have an adverse effect on our business, including the elimination of all or a portion of the income tax advantage for annuities and life insurance. If legislation were enacted to eliminate the tax deferral for annuities, such a change would have an adverse effect on our ability to sell non-qualified annuities. Non-qualified annuities are annuities that are not sold to an individual retirement account or other qualified retirement plan.

Our life subsidiaries are taxed under the life insurance company provisions of the Internal Revenue Code of 1986, as amended (the "Code"). Provisions in the Code require a portion of the expenses incurred in selling insurance products to be capitalized and deducted over a period of years, as opposed to being immediately deducted in the year incurred. This provision increases the tax for statutory accounting purposes which reduces statutory surplus and, accordingly, decreases the amount of cash dividends that may be paid by our life subsidiaries.

Employees

As of December 31, 2002, we had approximately 190 full-time employees, of which 180 are located in West Des Moines, Iowa, and 10 are located in the Pell City, Alabama office. We have experienced no work stoppages or strikes and consider our relations with our employees to be excellent. None of our employees are represented by a union.

Other Subsidiaries

We formed American Equity Investment Properties, L.C., an Iowa limited liability company to hold title to an office building in Birmingham, Alabama, where a portion of our life operations were conducted. The building was sold in 1998, and American Equity Investment Properties, L.C. now holds the remaining cash proceeds from the sale of the building. There are no present plans to dissolve American Equity Investment Properties, L.C., which may be used in the future to facilitate other aspects of our business.

On February 16, 1998, we formed American Equity Capital, Inc., an Iowa corporation, in connection with the introduction of variable products as a part of our product mix. American Equity Capital, Inc. acts as the broker-dealer for the sale of our variable products.

On July 9, 1999, we formed American Equity Capital Trust I, a Delaware statutory business trust. On October 25, 1999, we formed American Equity Capital Trust II, a Delaware statutory business trust. We formed these trusts in connection with the issuance of two issues of trust preferred securities. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 9 of the Notes to Consolidated Financial Statements included elsewhere in this report.

ITEM 2. PROPERTIES

We do not own any real estate. We lease space for our principal offices in West Des Moines, Iowa, pursuant to written leases for approximately 45,000 square feet. The leases expire on June 30, 2006 and have a renewal option for an additional five year term at a rental rate equal to the prevailing fair market rate. We also lease space for our office in Pell City, Alabama, pursuant to a written lease dated January 3, 2000, for approximately 3,380 square feet. This lease expires on December 31, 2004.

ITEM 3. LEGAL PROCEEDINGS

We are occasionally involved in litigation, both as a defendant and as a plaintiff. In addition, state regulatory bodies, such as state insurance departments, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., the Department of Labor, and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance

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laws, securities laws, the Employee Retirement Income Security Act of 1974, as amended and laws governing the activities of broker-dealers.

Companies in the life insurance and annuity business have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices and similar claims. We are currently a defendant in a purported class action lawsuit alleging improper sales practices. Our motion for dismissal of this claim was recently granted and class certification was denied. However, the plaintiff may re-file the claim within a specified period of time.

In addition, we are from time to time, subject to other legal proceedings and claims in the ordinary course of business, none of which we believe are likely to have a material adverse effect on our financial position, results of operations or cash flows. There can be no assurance that such litigation, or any future litigation, will not have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

There is no established public trading market for our common stock. As of February 28, 2003, we had 294 common shareholders.

In 2002 and 2001, we paid a cash dividend of \$0.01 per share on our common stock and \$0.03 on our participating convertible preferred stock. We intend to continue to pay an annual cash dividend on such shares so long as we have sufficient capital and/or future earnings to do so. However, we anticipate retaining most of our future earnings, if any, for use in our operations and the expansion of our business. Any further determination as to dividend policy will be made by our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition and future prospects and such other factors as our board of directors may deem relevant.

Our credit agreement contains a restrictive covenant which limits our ability to declare or pay dividends. In addition, since we are a holding company, our ability to pay cash dividends depends in large measure on our subsidiaries' ability to make distributions of cash or property to us. Iowa and New York insurance laws restrict the amount of distributions our life subsidiaries can pay to us without the approval of the Iowa Insurance Division or the New York Insurance Department. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 7 and 11 of the Notes to Consolidated Financial Statements included elsewhere in this report.

For information regarding unregistered sales of equity securities during 2002, see our Form 10-Qs for the quarters ending March 31, 2002, June 30, 2002, and September 30, 2002.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of and for the periods indicated should be read in conjunction with our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this report.

	As of and for the year ended December 31,				
	2002	2001	2000	1999	1998
	(Dollars in thousands, except per share data)				
Consolidated Statements of Income Data:					
Revenues					
Traditional life and accident and health insurance premiums	\$ 13,664	\$ 13,141	\$ 11,034	\$ 10,294	\$ 10,528
Annuity and single premium universal life product charges	15,376	12,520	8,338	3,452	642
Net investment income	308,548	209,086	100,060	66,679	26,357
Realized gains (losses) on sales of investments	(122)	787	(1,411)	(87)	427
Change in fair value of derivatives (a)	(57,753)	(55,158)	(3,406)	(528)	—
Total revenues	279,713	180,376	114,615	79,810	37,954
Benefits and expenses					
Insurance policy benefits and change in future policy benefits	9,317	9,762	8,728	7,232	6,085
Interest credited to account balances	177,633	97,923	56,529	41,727	15,838
Change in fair value of embedded derivatives (a)	(5,027)	12,921	—	—	—
Interest expense on notes payable	1,901	2,881	2,339	896	789
Interest expense on General Agency Commission and Servicing Agreement	3,596	5,716	5,958	3,861	1,652
Interest expense on amounts due under repurchase agreements	734	1,123	3,267	3,491	1,529
Other interest expense	1,043	381	—	—	—
Amortization of deferred policy acquisition costs	39,930	23,040	8,574	7,063	2,020
Other operating costs and expenses	21,635	17,176	14,602	12,445	9,037
Total benefits and expenses	250,762	170,923	99,997	76,715	36,950
Income before income taxes, minority interests and cumulative effect of change in accounting principle	28,951	9,453	14,618	3,095	1,004
Income tax expense (benefit)	7,299	333	2,385	(1,370)	760
Income before minority interests and cumulative effect of change in accounting principle	21,652	9,120	12,233	4,465	244
Minority interests in subsidiaries:					
Earnings attributable to company-obligated mandatorily redeemable preferred securities of subsidiary trusts	7,445	7,449	7,449	2,022	—
Income before cumulative effect of change in accounting principle	14,207	1,671	4,784	2,443	244
Cumulative effect of change in accounting for derivatives (a)	—	(799)	—	—	—
Net income	\$ 14,207	\$ 872	\$ 4,784	\$ 2,443	\$ 244
Per share data:					
Earnings per common share:					
Income before cumulative effect of change in accounting principle	\$ 0.87	\$ 0.10	\$ 0.29	\$ 0.15	\$ 0.02
Cumulative effect of change in accounting for derivatives (a)	—	(0.05)	—	—	—
Earnings per common share	\$ 0.87	\$ 0.05	\$ 0.29	\$ 0.15	\$ 0.02
Earnings per common share — assuming dilution:					
Income before cumulative effect of change in accounting principle	\$ 0.80	\$ 0.09	\$ 0.26	\$ 0.14	\$ 0.02
Cumulative effect of change in accounting for derivatives (a)	—	(0.04)	—	—	—
Earnings per common share — assuming dilution	\$ 0.80	\$ 0.05	\$ 0.26	\$ 0.14	\$ 0.02
Dividends declared per common share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ —

(a) The accounting change resulted from the adoption of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which became effective on January 1, 2001.

	As of and for the year ended December 31,				
	2002	2001	2000	1999	1998
	(Dollars in thousands, except per share data)				
Consolidated Balance Sheet data:					
Total assets	\$ 6,042,266	\$ 4,392,445	\$ 2,528,126	\$ 1,717,619	\$ 708,110
Policy benefit reserves	5,452,365	3,993,945	2,099,915	1,358,876	541,082
Notes payable	43,333	46,667	44,000	20,600	10,000
Amounts due to related party under General Agency Commission and Servicing Agreement	40,345	46,607	76,028	62,119	27,536
Trust preferred securities issued by subsidiary trusts	100,486	100,155	99,503	98,982	—
Stockholders' equity	77,478	42,567	58,652	34,324	66,131
Stockholders' equity excluding net unrealized investment gains and losses on available for sale securities	89,422	76,098	75,528	69,559	65,711
Other Financial Data:					

Life subsidiaries' statutory capital and surplus	\$	227,199	\$	177,868	\$	145,048	\$	139,855	\$	80,948
Life subsidiaries' net gains (losses) from operations before income taxes and realized capital gains (losses)		53,535		(5,675)		9,190		30,498		10,072
Life subsidiaries' statutory net income (loss)		26,010		(17,187)		10,420		17,837		4,804

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis reviews our consolidated financial position at December 31, 2002 and 2001, and our consolidated results of operations for the three years in the period ended December 31, 2002, and where appropriate, factors that may affect future financial performance. This analysis should be read in conjunction with the consolidated financial statements, notes thereto and selected consolidated financial data appearing elsewhere in this report.

All statements, trend analyses and other information contained in this report and elsewhere (such as in filings by us with the Securities and Exchange Commission, press releases, presentations by us or our management or oral statements) relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," and other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors include, among other things:

- general economic conditions and other factors, including prevailing interest rate levels and stock and credit market performance which may affect (among other things) our ability to sell our products, our ability to access capital resources and the costs associated therewith, the market value of our investments and the lapse rate and profitability of our policies
- customer response to new products and marketing initiatives
- mortality and other factors which may affect the profitability of our products
- changes in the Federal income tax laws and regulations which may affect the relative income tax advantages of our products
- increasing competition in the sale of annuities
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products and regulation of the sale, underwriting and pricing of products
- the risk factors or uncertainties listed from time to time in our private placement memorandums or filings with the Securities and Exchange Commission

Overview

We specialize in the sale of individual annuities (primarily deferred annuities) and, to a lesser extent, we also sell life insurance. Under accounting principles generally accepted in the United States, premium collections for deferred annuities are reported as deposit liabilities instead of as revenues. Earnings from products accounted for as deposit liabilities are primarily generated from the excess of net investment income earned over the interest credited to the policyholder, or the "investment spread," as well as realized gains and losses on investments. In the case of equity index annuities, the investment spread consists of net investment income in excess of the cost of the options purchased to fund the index-based component of the policyholder's return plus amounts credited as a result of minimum guarantees. Revenue is also recognized from surrender charges deducted from the policyholder's account balance.

Commissions and certain other costs relating to the production of new and renewal business are not expensed when incurred but instead are capitalized as deferred policy acquisition costs. Deferred policy acquisition costs for annuities are amortized into expense with the emergence of gross profits. Under certain circumstances, deferred policy acquisition costs will be expensed earlier than originally estimated, for example, when policy terminations are higher than originally estimated and when investments relating to the liabilities of such products are called or sold at a gain or loss prior to anticipated maturity.

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Critical Accounting Policies

The increasing complexity of the business environment and applicable authoritative accounting guidance require us to closely monitor our accounting policies. We have identified four critical accounting policies that are complex and require significant judgment. The following summary of our critical accounting policies is intended to enhance your ability to assess our financial condition and results of operations and the potential volatility due to changes in estimates and changes in guidance.

Valuation of Investments

Our equity securities (common and non-redeemable preferred stocks) and fixed maturity securities (bonds and redeemable preferred stocks maturing more than one year after issuance) classified as available for sale are reported at estimated fair value. Unrealized gains and losses, if any, on these securities are included directly in a separate component of stockholders' equity, net of income taxes and certain adjustments for assumed changes in amortization of deferred policy acquisition costs. Fair values for securities that are actively traded are determined using quoted market prices. For fixed maturity securities that are not actively traded, fair values are estimated using price matrices developed using yield data and other factors relating to instruments or securities with similar characteristics. The carrying amounts of all our investments are reviewed on an ongoing basis for credit deterioration. If this review indicates a decline in market value that is other than temporary, our carrying amount in the investment is reduced to its fair value and a specific writedown is taken. Such reductions in carrying amount are recognized as realized losses and charged to income.

Our periodic assessment of our ability to recover the amortized cost basis of investments that have materially lower quoted market prices requires a high degree of management judgment and uncertainty. Factors considered in evaluating whether a decline in value is other than temporary include: (a) the length of time and the extent to which the fair value has been less than cost; (b) the financial condition and near-term prospects of the issuer; (c) whether the investment is considered investment grade; (d) whether the issuer is current on all payments and that all contractual payments have been made as agreed; (e) our intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery; (f) consideration of rating agency actions; and (g) change in cash flows of asset-backed and mortgage-backed securities. In addition, for securities expected to be sold, an other than temporary impairment charge is recognized if we do not expect the fair value of a security to recover to cost or amortized cost prior to the expected date of sale. Once an impairment charge has been recorded, we then continue to review the other than temporarily impaired securities for appropriate valuation on an ongoing basis. Realized losses through a charge to earnings may be recognized in future periods should management later conclude that the decline in market value below amortized cost is other than temporary pursuant to our accounting policy described above.

At December 31, 2002 and 2001, the amortized cost and estimated fair value of fixed maturity securities and equity securities that were in an unrealized loss position were as follows:

	December 31, 2002		
	Amortized Cost	Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)		
Fixed maturity securities:			
Available for sale:			
United States Government and agencies	\$ 179,828	\$ (1,907)	\$ 177,921
Public utilities	10,008	(2,907)	7,101

Corporate securities	210,826	(19,408)	191,418
Redeemable preferred stocks	1,000	(240)	760
Mortgage and asset-backed securities:			
Government	50,250	(3,752)	46,498
Non-government	153,616	(43,008)	110,608
	<u>\$ 605,528</u>	<u>\$ (71,222)</u>	<u>\$ 534,306</u>
Held for investment:			
United States Government and agencies	\$ 230,231	\$ (579)	\$ 229,652
	<u>\$ 230,231</u>	<u>\$ (579)</u>	<u>\$ 229,652</u>
Equity securities, available for sale:			
Non-redeemable preferred stocks	\$ 2,650	\$ (110)	\$ 2,540
Common stocks	5,874	(1,223)	4,651
	<u>\$ 8,524</u>	<u>\$ (1,333)</u>	<u>\$ 7,191</u>

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	December 31, 2001		
	Amortized Cost	Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)		
Fixed maturity securities:			
Available for sale:			
United States Government and agencies	\$ 1,334,060	\$ (64,631)	\$ 1,269,429
State, municipal and other governments	5,234	(135)	5,099
Public utilities	29,364	(1,368)	27,996
Corporate securities	320,703	(27,228)	293,475
Redeemable preferred stocks	3,528	(188)	3,340
Mortgage and asset-backed securities:			
Government	493,295	(23,854)	469,441
Non-government	168,321	(21,366)	146,955
	<u>\$ 2,354,505</u>	<u>\$ (138,770)</u>	<u>\$ 2,215,735</u>
Held for investment:			
United States Government and agencies	\$ 379,011	\$ (45,210)	\$ 333,801
	<u>\$ 379,011</u>	<u>\$ (45,210)</u>	<u>\$ 333,801</u>
Equity securities, available for sale:			
Non-redeemable preferred stocks	\$ 6,850	\$ (130)	\$ 6,720
Common stocks	2,992	(252)	2,740
	<u>\$ 9,842</u>	<u>\$ (382)</u>	<u>\$ 9,460</u>

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2002 and 2001, 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-backed and asset-backed securities provide for periodic payments throughout their lives, and are shown below as a separate line.

	December 31, 2002			
	Available-for-sale		Held for investment	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(Dollars in thousands)				
Due after one year through five years	\$ 5	\$ 4	\$ —	\$ —
Due after five years through ten years	48,785	45,522	—	—
Due after ten years through twenty years	65,430	56,339	—	—
Due after twenty years	287,442	275,335	230,231	229,652
	<u>401,662</u>	<u>377,200</u>	<u>230,231</u>	<u>229,652</u>
Mortgage-backed and asset-backed securities	203,866	157,106	—	—
	<u>\$ 605,528</u>	<u>\$ 534,306</u>	<u>\$ 230,231</u>	<u>\$ 229,652</u>
	December 31, 2001			
	Available-for-sale		Held for investment	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value

	(Dollars in thousands)			
Due after one year through five years	\$ 4,718	\$ 4,554	\$ —	\$ —
Due after five years through ten years	69,715	66,307	—	—
Due after ten years through twenty years	377,480	351,674	—	—
Due after twenty years	1,240,976	1,176,804	379,011	333,801
	1,692,889	1,599,339	379,011	333,801
Mortgage-backed and asset-backed securities	661,616	616,396	—	—
	\$ 2,354,505	\$ 2,215,735	\$ 379,011	\$ 333,801

Approximately 80% and 69% of our total invested assets were in United States Government and agency fixed maturity

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securities including government guaranteed mortgage-backed securities at December 31, 2002 and 2001, respectively. Corporate securities represented approximately 8% and 15% of our total invested assets at December 31, 2002 and 2001, respectively. There are no other significant concentrations in the portfolio by type of security or by industry.

At December 31, 2002 and 2001, the fair value of investments we owned that were non-investment grade or not rated was \$51.9 million and \$52.5 million, respectively. The unrealized losses on investments we owned that were non-investment grade or not rated at December 31, 2002 and 2001, were \$19.8 million and \$7.2 million, respectively.

At December 31, 2002 and 2001, we identified certain invested assets which have characteristics (i.e. significant unrealized losses compared to book value and industry trends) creating uncertainty as to our future assessment of other than temporary impairments which are listed below by length of time these invested assets have been in an unrealized loss position. We have excluded from this list securities with unrealized losses which are related to market movements in interest rates.

	December 31, 2002		
	Amortized Cost	Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)		
3 months or less	\$ 39,853	\$ (14,815)	\$ 25,038
Greater than 3 months to 6 months	15,628	(4,050)	11,578
Greater than 6 months to 9 months	—	—	—
Greater than 9 months to 12 months	6,185	(3,185)	3,000
Greater than 12 months	40,067	(13,956)	26,111
	\$ 101,733	\$ (36,006)	\$ 65,727
	December 31, 2001		
	Amortized Cost	Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)		
3 months or less	\$ 8,361	\$ (1,075)	\$ 7,286
Greater than 3 months to 6 months	24,968	(5,418)	19,550
Greater than 6 months to 9 months	9,547	(1,155)	8,392
Greater than 9 months to 12 months	26,664	(7,849)	18,815
Greater than 12 months	—	—	0
	\$ 69,540	\$ (15,497)	\$ 54,043

We have reviewed these investments and concluded that there was no other than temporary impairment on these investments at December 31, 2002 and 2001. The factors that we considered in making this determination included the financial condition and near-term prospects of the issuer, whether the issuer is current on all payments and all contractual payments have been made, our intent and ability to hold the investment to allow for any anticipated recovery and the length of time and extent to which the fair value has been less than cost. We took writedowns on certain other investments that we concluded did have other than temporary impairments during 2002 and 2001 of \$13.0 million and \$7.8 million, respectively.

Derivative Instruments—Equity Index Products

We offer a variety of equity index annuities with income crediting strategies linked to several equity market indices, including the S&P 500, the Dow Jones Industrial Average, the NASDAQ 100 and the Russell 2000. Several of these products offer a bond strategy linked to the Lehman Aggregate Bond Index. These products allow purchasers to earn investment returns linked to equity or bond index appreciation without the risk of loss of their principal. Several of these products allow the purchaser to transfer funds once annually among several different income crediting strategies, including one or more of the index based strategies, a traditional fixed rate strategy and/or a multi-year rate guaranteed strategy. Substantially all of our equity index products require annual crediting of interest and an annual reset of the applicable index on the contract anniversary date. The computation of the annual index credit is based upon either a one year point-to-point calculation (i.e., the gain in the applicable index from the beginning of the applicable contract year to the next anniversary date) or a monthly averaging of the index during the contract year.

The annuity contract value is equal to the premiums paid plus annual index credits based upon a percentage, known as the "participation rate", of the annual appreciation (based in some instances on monthly averages) in a recognized index

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or benchmark. The participation rate, which we may reset annually, generally varies among the equity index products from 60% to 100%. Some of the products also have an "asset fee" ranging from 1% to 4%, which is deducted from the interest to be credited. The asset fees may be adjusted annually by us, subject to stated maximums. In addition, some products apply an overall maximum limit, or "cap", ranging from 9% to 13%, on the amount of annual interest the policyholder may earn in any one contract year, and the applicable cap also may be adjusted annually subject to stated minimums. The minimum guaranteed contract values are equal to 80% to 100% of the premium collected plus interest credited on the minimum guaranteed contract value at an annual rate of 3%.

We purchase one-year call options on the applicable indices as an investment to provide the income needed to fund the amount of the annual appreciation required to be credited on the equity index products. New one-year options are purchased at the outset of each contract year. We budget a specific amount to the purchase price of the specific options needed to fund the annual income credits, and the cost of the options represent our cost of providing the income credits. The amount we budget to the purchase of equity index call options is based on our interest spread targets and is comparable to the credited rates of interest we offer on fixed rate annuities. For example, if our yield on our invested assets is 7.10% and our targeted spread is 2.50%, we allocate

up to 4.60% of the premium in year one or account balance after year one to the purchase of one-year call options on the equity index products. Participation rates, which define the policyholder's level of participation in index gains each year, are determined by option costs. For example, if, based on current market conditions, the amount allocated to the purchase of options is sufficient to purchase a hedge on 70% of the annual gain in the applicable index, we will set the policyholder's participation rate at 70%. We have the ability to modify participation rates each year when a new option is purchased. In general, if option costs increase, participation rates may be decreased, and if option costs decrease, participation rates may be increased. We purchase call options weekly based upon new and renewing equity index account values during the applicable week, and the purchases are made by category according to the particular products and indices applicable to the new or renewing account values. Any gains on the options at the expiration of the one-year term offset the related interest credits to the equity index option holders. If there is no gain in an option, the policyholder receives a zero index credit on the policies, and we incur no costs beyond the option cost, except in cases where the minimum guaranteed value of a contract exceeds its index value.

Our risk associated with the current options we hold is limited to the cost of such options. Market value changes associated with those investments are reported as an increase or decrease in our revenues on our consolidated statements of income in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". The risk associated with prospective purchases of future one-year options is the uncertainty of the cost, which will determine whether we are able to earn our spread on our equity index business. All our equity index products permit us to modify participation rates, asset fees or annual income caps at least once annually. This feature is comparable to our fixed rate annuities, which allow us to adjust crediting rates annually. By modifying our participation rates or other features, we can limit our costs of purchasing the one-year call options, except in cases where the minimum guarantees would prevent further reductions. Based upon actuarial testing as a part of the design of our equity index products, we believe the risk that minimum guarantees would prevent us from controlling option costs is not material.

After the purchase of the one-year call options and payment of acquisition costs, we invest the balance of equity index premiums as a part of our general account invested assets. Our investment strategy is identical across all our fixed annuity products, including both the equity index and fixed rate annuities. We seek to maintain a portfolio of very high quality fixed income assets with minimal credit risk and an aggregate yield consistent with our spread targets. With respect to the equity index products, our spread is measured as the difference between the aggregate yield on our invested assets, less the aggregate option costs and the costs associated with minimum guarantees. If the minimum guaranteed value of an equity index product exceeds the index value (computed on a cumulative basis over the life of the contract) then the general account earnings are available to satisfy the minimum guarantees. If there were little or no gains in the entire series of one-year options purchased over the expected life of an equity index annuity (typically 10 to 15 years), then we would incur expenses for credited interest over and above our option costs, causing our spread to tighten and reducing our profits or potentially resulting in losses on these products.

The Financial Accounting Standards Board issued, then subsequently amended, SFAS No. 133, which became effective for us on January 1, 2001. Under SFAS No. 133, as amended, all derivative instruments (including certain derivative instruments embedded in other contracts) are recognized in the balance sheet at their fair values and changes in fair value are recognized immediately in earnings. This impacts the items of revenue and expense we report on our equity index business in three ways.

- We must mark to market the purchased call options we use to fund the annual index credits on our equity index annuities based upon quoted market prices from related counterparties. We record the

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change in fair value of these options as a component of our revenues. Included within the change in fair value of the options is an element reflecting the time value of the options, which initially is their purchase cost declining to zero at the end of their one-year lives. This element reflects our basic cost of money for the equity index annuity liabilities and thus the change in fair value of the options, reported as a component of revenue, will tend to reflect net losses each period. For the year ended December 31, 2002 and 2001, the change in fair value of derivatives of \$(57.8) million and \$(55.2) million, respectively, represents the change in fair value on call options used to fund the next-year income credit to the equity index annuities.

- Under SFAS No. 133, the annual crediting liabilities on our equity index annuities are treated as a "series of embedded derivatives" over the life of the applicable contracts. We are required to estimate the fair value of these embedded derivatives. Our estimates of the fair value of these embedded derivatives are based on assumptions related to underlying policy terms (including annual cap rates, participation rates, asset fees and minimum guarantees), index values, notional amounts, strike prices and expected lives of the policies. The change in fair value of the embedded derivatives will not correspond to the change in fair value of the purchased options because the purchased options are one-year options while the options valued in the fair value of embedded derivatives cover the entire life of the contract which is typically 10 to 15 years. The change in estimated fair value of the series of embedded options included in policyholder benefits in the consolidated statements of income, was \$(5.0) million and \$12.9 million for the year ended December 31, 2002 and 2001, respectively.
- We adjust the amortization of deferred policy acquisition costs to reflect the impact of the two items discussed above. Amortization of deferred policy acquisition costs was increased by \$1.4 million for the year ended December 31, 2002 and decreased by \$0.8 million for the year ended December 31, 2001 as a result of the impact of SFAS No. 133.

Deferred Policy Acquisition Costs

Commissions and certain other costs relating to the production of new business are not expensed when incurred but instead are capitalized as deferred policy acquisition costs. These costs are amortized into expense with the emergence of gross profits. Only costs which are expected to be recovered from future policy revenues and gross profits may be deferred. These costs consist principally of commissions, first-year bonus interest and certain costs of policy issuance. Deferred policy acquisition costs totaled \$595.5 million and \$492.8 million at December 31, 2002 and 2001, respectively. For annuity and single premium universal life products, these costs are being amortized generally in proportion to expected gross profits from investments and, to a lesser extent, from surrender charges and mortality and expense margins. Current period amortization must be adjusted retrospectively if changes occur in estimates of future gross profits/margins (including the impact of realized investment gains and losses). Our estimates of future gross profits/margins are based on actuarial assumptions related to the underlying policies terms, lives of the policies, yield on investments supporting the liabilities and level of expenses necessary to maintain the policies over their entire lives. We made no revisions to our estimates of future gross profits/margins.

Deferred Income Tax Assets

As of December 31, 2002 and 2001, we had \$50.7 million and \$51.2 million, respectively, of net deferred income tax assets related principally to book-to-tax temporary differences in the recording of policy benefit reserves. The realization of these assets is based upon estimates of future taxable income, which requires management judgement. Based upon future projections of sufficient taxable income of our life subsidiaries, and the adoption of plans and policies related to our net (non-life) operating loss carryforwards, we have not recorded a valuation allowance against these assets.

Results of Operations for the Three Years Ended December 31, 2002

New annuity deposits (net of reinsurance) for the years ended December 31, 2002 totaled \$1,597.3 million, compared to \$2,006.9 million for 2001 and \$843.3 million for 2000. New annuity deposits before reinsurance totaled \$2,435.2 million and \$2,425.2 million for the years ended December 31, 2002 and 2001, respectively. Our annuity reserves continued to show strong growth throughout 2002, primarily as a result of the growth in our agency force. Annuity reserves and the number of our appointed agents have grown as follows during the last three years:

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	Annuity Reserves	Agents
	(Dollars in thousands)	
2000	\$ 2,079,561	22,000
2001	\$ 3,968,455	34,000
2002	\$ 5,419,276	41,000

The growth in our annuity business resulted in a sizeable increase in our earnings from invested assets for 2002 and 2001. While certain expenses also increased as a result of the growth in our annuity business, the incremental profits from a larger deposit base allowed us to offset a greater portion of our fixed operating costs and expenses. Production decreased in the last two months of 2002 due to actions (i.e. crediting rate reductions and withdrawal of certain products) taken by us throughout the year to manage our capital position. We will continue to manage our levels of production throughout 2003 at levels the statutory capital and surplus of our life subsidiaries will support.

Net income was \$14.2 million in 2002, \$0.9 million in 2001 and \$4.8 million in 2000. The strong growth in net income is directly tied to the growth of our assets from the sales of annuities. In addition, net income in 2001 was lower than expected due to our decision after September 11th to maintain approximately 25% of our assets in cash equivalents. We estimate that the decline in net income for 2001 attributable to our high level of liquidity was approximately \$5.7 million, net of income taxes.

Traditional life and accident and health insurance premiums increased 5% to \$13.7 million in 2002 and increased 19% to \$13.1 million in 2001 from \$11.0 million in 2000. The majority of our traditional life and accident and health insurance premiums consist of group policies sold to a particular market. These changes are principally attributable to corresponding changes in direct sales of life products.

Annuity and single premium universal life product charges (surrender charges assessed against policy withdrawals and mortality and expense charges assessed against single premium universal life policyholder account balances) increased 23% to \$15.4 million in 2002, and 51% to \$12.5 million in 2001, from \$8.3 million in 2000. These increases are principally attributable to the growth in our annuity business and correspondingly, increases in annuity policy withdrawals subject to surrender charges. Withdrawals from annuity and single premium universal life policies were \$332.0 million, \$223.2 million and \$144.1 million for 2002, 2001 and 2000, respectively.

Net investment income increased 48% to \$308.5 million in 2002 and 109% to \$209.1 million in 2001 from \$100.1 million in 2000. These increases are principally attributable to the growth in our annuity business and correspondingly, increases in our invested assets. Invested assets (amortized cost basis) increased 44% to \$5,299.1 million at December 31, 2002 and 88% to \$3,682.7 million at December 31, 2001 compared to \$1,960.3 million at December 31, 2000, while the weighted average yield earned on average invested assets was 6.91%, 7.08% and 7.78% for 2002, 2001, and 2000, respectively. Prior to the adoption of SFAS No. 133 on January 1, 2001, net investment income for 2000 included amounts related to the options we hold to fund the annual index credits on our equity index annuities. This included gains received on such options, which were passed on to the equity index policyholders and the amortization of such options. Gains received on options held for equity index policies were \$13.2 million for 2000. Costs of amortization of such options were \$55.9 million for 2000.

Realized gains (losses) on investments were losses of \$0.1 million in 2002 compared to realized gains of \$0.8 million in 2001 and losses of \$1.4 million in 2000. In 2002, net realized losses of \$0.1 million consisted of gains of \$19.9 million, offset by losses of \$7.0 million on the sale of securities and write downs of approximately \$13.0 million in the fair value of certain securities in recognition of other than temporary impairments. In 2001, net realized gains of \$0.8 million consisted of gains of \$13.0 million, offset by losses of \$4.4 million on the sale of securities and write downs of approximately \$7.8 million in the fair value of certain securities in recognition of other than temporary impairments. In 2000, net realized losses of \$1.4 million were entirely comprised of losses related to the sale of certain corporate fixed maturity and equity securities.

Change in fair value of derivatives was \$(57.8) million for the year ended December 31, 2002 compared to \$(55.2) million in 2001 and \$(3.4) million in 2000. The change in fair value of derivatives in 2001 arises from the adoption of SFAS No. 133. We adopted SFAS No. 133 on January 1, 2001, which requires that we mark to market the purchased call options we use to fund the annual index credits on our equity index annuities. We include this as a component of our revenues (see Critical Accounting Policies—*Derivative Instruments—Equity Index Products*). The change in fair value of derivatives of \$(3.4) million in 2000 is related to the change in fair value of total return exchange agreements that we

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entered into during 2000. See Note 3 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Traditional life and accident and health insurance benefits decreased 5% to \$9.3 million in 2002 and increased 13% to \$9.8 million in 2001 compared to \$8.7 million in 2000. These increases are attributable to an increase in death benefits and surrenders.

Interest credited to annuity policyholder account balances increased 81% to \$177.6 million in 2002 and 73% to \$97.9 million in 2001 from \$56.5 million in 2000. These increases are principally attributable to increases in annuity liabilities. The amounts are also impacted by changes in the weighted average crediting rates for our annuity liabilities. The weighted average crediting rates for our annuity liabilities at December 31, 2002, 2001 and 2000 are summarized as follows:

	Fixed Rate (without bonuses)	Fixed Rate (with bonuses)	Multi-Year Rate Guaranteed Amounts	Equity Index Credits	Equity Index Option Costs
2002	4.49%	5.65%	5.94%	0.92%	3.92%
2001	5.15%	6.09%	6.14%	0.50%	4.25%
2000	5.18%	5.99%	6.87%	3.57%	5.09%

The above crediting rates are disclosed with and without the impact of first-year bonuses paid to policyholders. Generally such bonuses are deducted from the commissions paid to sales agents on such products and deferred as policy acquisition costs. With respect to our equity index annuities, the weighted average option costs represent the expenses we incur to fund the annual index credits on the equity index business. Gains realized on such options are offset by an expense in interest credited to annuity policyholder account balances. In addition to the cost of options to fund the annual index credits on the equity index business, we funded minimum guarantees during 2002 on these contracts. The estimated weighted average cost of funding these minimum guarantees on these contracts during 2002, 2001 and 2000 was 0.42%, 0.35% and 0.26%, respectively. See Critical Accounting Policies—*Derivative Instruments—Equity Index Products* and Note 1 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Weighted average crediting rates on our fixed rate annuities were lower in 2002 compared to 2001 and 2000 primarily as a result of a decrease in crediting rates on new and renewal business.

Change in market value of embedded derivatives decreased to \$(5.0) million in 2002 from \$12.9 million in 2001. These amounts arise from the adoption of SFAS No. 133 as of January 1, 2001, which requires recognition of the change in estimated fair value of equity index annuity reserves. See Critical Accounting Policies—*Derivative Instruments—Equity Index Products* and Note 1 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Interest expense on General Agency Commission and Servicing Agreement decreased 37% to \$3.6 million in 2002 and 5% to \$5.7 million in 2001 from \$6.0 million in 2000. These changes are principally attributable to corresponding decreases in the amount due to related party under the General Agency Commission and Servicing Agreement, which resulted from payments of renewal commissions by American Equity Life under this Agreement. See Note 8 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Interest expense on notes payable decreased 34% to \$1.9 million in 2002 and increased 26% to \$2.9 in 2001 from \$2.3 million in 2000. The decrease from 2001 to 2002 is due to a decrease in the balance outstanding under the notes, and a decrease in the average applicable interest rate. The increase from 2000 to 2001 was due to increases in the outstanding borrowings, offset in part by a decrease in the average applicable interest rate. The applicable interest rate was 4.36%, 6.28% and 7.99% for 2002, 2001 and 2000, respectively.

Interest expense on amounts due under repurchase agreements decreased 36% to \$0.7 million in 2002 and 67% to \$1.1 million in 2001 from \$3.3 million in 2000. These changes are principally attributable to a decrease in the average balances outstanding. See Note 7 of the Notes to the Consolidated Financial Statements included elsewhere in this report.

Other interest expense increased \$0.6 million to \$1.0 million in 2002 from \$0.4 million in 2001, and arises from the financial reinsurance transactions we entered into with Swiss Re effective January 1, 2001 and net interest expense on a short-bond transaction. See Notes 3 and 5 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Amortization of deferred policy acquisition costs increased 73% to \$39.9 million in 2002 and 167% to \$23.0 million

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in 2001 from \$8.6 million in 2000. These increases are primarily due to (i) the growth in our annuity business as discussed above; (ii) the introduction of multi-year rate guaranteed products with shorter expected lives; and (iii) an increase of \$1.4 million resulting from SFAS No. 133. See Notes 1 and 4 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Other operating costs and expenses increased 26% to \$21.6 million in 2002 and 18% to \$17.2 million in 2001 from \$14.6 million in 2000. These increases are principally attributable to increases in marketing expenses, employees and related salaries and costs of employment due to growth in our annuity business.

Income taxes were \$7.3 million, \$0.3 million, and \$2.4 million in 2002, 2001, and 2000, respectively. Our effective tax rates for 2002, 2001 and 2000 were 25%, 4% and 16%, respectively. These effective income tax rates varied from the applicable statutory federal income tax rates of 35% principally due to: (i) the impact of earnings attributable to company-obligated mandatorily

redeemable preferred securities of subsidiary trusts; and (ii) the impact of state taxes on the federal income tax expense. See Note 6 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Minority interest in earnings of subsidiaries includes amounts for distributions and the accretion of the issue discount on company-obligated mandatorily redeemable preferred stocks of subsidiary trusts issued in 1999. Tax benefits attributable to these amounts are reported as a reduction of income tax expense. See Notes 6 and 9 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Financial Condition

Investments

Our investment strategy is to maintain a predominantly investment grade fixed income portfolio, provide adequate liquidity to meet our cash obligations to policyholders and others and maximize current income and total investment return through active investment management. Consistent with this strategy, our investments principally consist of fixed maturity securities and short-term investments. We also have approximately 1% of our invested assets at December 31, 2002 in derivative instruments (equity market index call options) purchased in connection with the issuance of equity index annuities. Such options represent approximately 1.5% of the related equity index reserves.

Insurance statutes regulate the type of investments that our life subsidiaries are permitted to make and limit the amount of funds that may be used for any one type of investment. In light of these statutes and regulations and our business and investment strategy, we generally seek to invest in United States government and government-agency securities and corporate securities rated investment grade by established nationally recognized rating organizations or in securities of comparable investment quality, if not rated.

We have classified a substantial portion of our fixed maturity investments as available-for-sale to maximize investment flexibility. Available-for-sale securities are reported at market value and unrealized gains and losses, if any, on these securities are included directly in a separate component of stockholders' equity, thereby exposing stockholders' equity to incremental volatility due to changes in market interest rates and the accompanying changes in the reported value of securities classified as available-for-sale, with stockholders' equity increasing as interest rates decline and, conversely, decreasing as interest rates rise.

Our investment portfolio is summarized in the table below:

	December 31,			
	2002		2001	
	Carrying Amount	Percent	Carrying Amount	Percent
	(Dollars in thousands)			
Fixed maturity securities:				
United States Government and agencies	\$ 4,207,840	79.0%	\$ 2,087,484	55.2%
State, municipal, and other governments	5,631	0.1%	5,099	0.1%
Public utilities	51,023	1.0%	38,472	1.0%
Corporate securities	413,743	7.8%	549,150	14.5%
Redeemable preferred stocks	12,822	0.2%	17,055	.5%
Mortgage and asset-backed securities:				
Government	70,047	1.3%	528,325	14.0%
Non-Government	141,548	2.7%	203,781	5.4%
Total fixed maturity securities	4,902,654	92.1%	3,429,366	90.7%
Equity securities	17,006	0.3%	18,245	0.5%
Mortgage loans on real estate	334,339	6.3%	108,181	2.9%
Derivative instruments	52,313	1.0%	40,052	1.0%
Policy loans	295	0.0%	291	0.0%
Cash and cash equivalents	21,163	0.3%	184,130	4.9%
Total cash and investments	\$ 5,327,770	100.0%	\$ 3,780,265	100.0%

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

NAIC Designation	Rating Agency Equivalent	December 31,			
		2002		2001	
		Carrying Amount	Percent	Carrying Amount	Percent
		(Dollars in thousands)			
1	Aaa/Aa/A	\$ 4,624,824	94.3%	\$ 2,991,024	87.2%
2	Baa	230,847	4.7%	388,560	11.3%
3	Ba	37,478	0.8%	43,134	1.3%
4	B	7,505	0.2%	6,648	0.2%
5	Caa and lower	2,000	0.0%	—	—
6	In or near default	—	—	—	—
	Total fixed maturity securities	\$ 4,902,654	100.0%	\$ 3,429,366	100.0%

During 2001, we began a commercial mortgage loan program. At December 31, 2002, we held \$334.3 million of mortgage loans with commitments outstanding of \$49.3 million. These mortgage loans are diversified as to property type, location, and loan size, and are collateralized by the related properties. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and require diversification by geographic location and collateral type. The commercial mortgage loan portfolio is diversified by geographic region and specific collateral property type as follows:

December 31,			
2002		2001	
Carrying Amount	Percent	Carrying Amount	Percent
(Dollars in thousands)			

Geographic distribution				
East North Central	\$	35,989	10.8%	\$ 9,189 8.5%
East South Central		15,796	4.7%	16,029 14.8%
Middle Atlantic		40,879	12.2%	18,352 17.0%
Mountain		26,478	7.9%	— —
New England		13,242	4.0%	3,496 3.2%
Pacific		20,499	6.1%	— —
South Atlantic		96,401	28.8%	39,260 36.3%
West North Central		65,177	19.5%	21,855 20.2%
West South Central		19,878	6.0%	— —
Total mortgage loans	\$	334,339	100.0%	\$ 108,181 100.0%

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	December 31,			
	2002		2001	
	Carrying Amount	Percent	Carrying Amount	Percent
	(Dollars in thousands)			
Property type distribution				
Office	\$ 126,818	37.9%	\$ 42,059	38.9%
Retail	101,485	30.4%	19,131	17.7%
Industrial	70,141	21.0%	28,609	26.4%
Hotel	21,218	6.3%	13,135	12.1%
Apartments	968	0.3%	—	—
Mixed use/other	13,709	4.1%	5,247	4.9%
Total mortgage loans	\$ 334,339	100.0%	\$ 108,181	100.0%

Liabilities

Our liability for policy benefit reserves increased \$1,458.5 million and \$1,894.0 million during 2002 and 2001, respectively, to \$5,452.4 million at December 31, 2002 and \$3,993.9 million at December 31, 2001, primarily due to annuity sales as discussed above. Substantially all of our annuity products have a surrender charge feature designed to reduce early withdrawal or surrender of the policies and to partially compensate us for our costs if policies are withdrawn early. Notwithstanding these policy features, the withdrawal rates of policyholder funds may be affected by changes in interest rates.

We have a credit agreement with three banks. The amount outstanding under this agreement was \$43.3 million at December 31, 2002, of which \$10.0 million was borrowed in December, 2002 and contributed to the surplus of American Equity Life. The amount outstanding under this agreement at December 31, 2001 was \$46.7 million. Principal and interest under this agreement are paid quarterly. The notes bear interest (4.36% at December 31, 2002) at prime or LIBOR plus a specified margin of up to 2.25%. Under this agreement, we are required to maintain minimum capital and surplus levels at American Equity Life and meet certain other financial and operating ratio requirements. We are also prohibited from incurring other indebtedness for borrowed money without obtaining a waiver from the lenders and from paying dividends on our capital stock in excess of 25% of our consolidated net income for the prior fiscal year. See Note 7 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Stockholders' Equity

We were initially capitalized in December, 1995 and January, 1996 through the issuance of shares of Common Stock for cash of \$4.0 million. Subsequent to our initial capitalization (400,000 shares of Common Stock after a May 29, 1996 100-for-1 stock split), we issued additional shares of Common Stock, warrants to purchase shares of Common Stock and shares of Series Preferred Stock convertible into shares of Common Stock in several private placement offerings as follows:

Description	Issue Price	Number Issued		Warrant Exercise Price
		Shares	Warrants	
Common Stock & Warrants				
1996	\$ 3.33	2,340,000	468,000	\$ 3.33
1997	3.33	11,994	2,394	3.33
1998(1)	3.33	9,000	1,800	3.33
		2,360,994	472,194(2)	
1997	4.00	1,711,248	342,249(3)	4.00
		—	204,750(4)	4.00
		1,711,248	546,999	
Common Stock—1997	5.33	7,998,750		
1998 Series A Participating Preferred Stock	16.00	625,000		

- (1) issued to the placement agent in payment of a portion of the compensation due to the placement agent
- (2) exercised during 1998
- (3) exercised during 1999
- (4) issued to the placement agent as part of placement agent compensation; 170,625 exercised in 2000, and the remaining 34,125 exercised in 2002.

The aggregate net proceeds from these offerings, including proceeds received from the exercise of warrants, was \$65.7

million, substantially all of which were contributed to the capital and surplus of American Equity Life or used to fund the acquisition of the life insurance company acquired in 1996.

A portion of the 7,998,750 shares of Common Stock issued in 1997 at \$5.33 per share were issued in a rights offering to existing stockholders and in connection therewith, certain of our officers and directors received management subscription rights to purchase one share of Common Stock for each share owned and one-half share of Common Stock for each stock option held on the offering date. An aggregate of 2,157,375 management subscription rights were issued to nine officers and directors at that time. The management subscription rights have an exercise price of \$5.33 per share and expire on December 1, 2005. The subscription rights originally were to expire on December 1, 2002. The expiration was extended to December 1, 2005 and we recognized compensation expense of \$0.3 million. Farm Bureau purchased 4,687,500 shares of Common Stock in this offering and received a right of first refusal to maintain a 20% ownership interest in our capital stock.

The 625,000 shares of 1998 Series A Participating Preferred Stock issued in 1998 have participating dividend rights with the shares of Common Stock, when and as such dividends are declared. The preferred shares are convertible into shares of Common Stock on a three for one basis upon the earlier of the initial public offering of our Common Stock or December 31, 2003. The preferred shares have an aggregate liquidation preference of \$10 million.

In September, 1999, American Equity Capital Trust I ("Trust I"), our wholly-owned subsidiary, issued \$26.0 million of 8% Convertible Trust Preferred Securities (the "8% Trust Preferred Securities"). In connection with Trust I's issuance of the 8% Trust Preferred Securities and the related purchase by us of all of Trust I's common securities, we issued \$26.8 million in principal amount of our 8% Convertible Junior Subordinated Debentures, due September 30, 2029 (the "8% Debentures") to Trust I. The sole assets of Trust I are the 8% Debentures and any interest accrued thereon. Each 8% Trust Preferred Security is convertible into three shares of our common stock at a conversion price equal to the lesser of (i) \$10 per share or (ii) 90% of the initial price per share to the public of common stock sold in connection with our initial public offering of such common stock (the "IPO"), upon the earlier of the 91st day following the IPO or September 30, 2002. The interest payment dates on the 8% Debentures correspond to the distribution dates on the 8% Trust Preferred Securities.

The 8% Trust Preferred Securities, which have a liquidation value of \$30 per share plus accrued and unpaid distributions, mature simultaneously with the 8% Debentures. As of December 31, 2002, 863,671 shares of 8% Trust Preferred Securities were outstanding, all of which are unconditionally guaranteed by us to the extent of the assets of Trust I.

In October, 1999, American Equity Capital Trust II ("Trust II"), our wholly-owned subsidiary, issued 97,000 shares of 5% Trust Preferred Securities (the "5% Trust Preferred Securities"). The 5% Trust Preferred Securities, which have a liquidation value of \$100 per share (\$97.0 million in the aggregate) have been assigned a fair value of \$78.6 million (based upon an effective 7% yield-to-maturity). The consideration received by Trust II in connection with the issuance of the 5% Trust Preferred Securities consisted of fixed income trust preferred securities of equal value which were issued by the parent of Farm Bureau. Farm Bureau beneficially owns 32.47% of our common stock.

In connection with Trust II's issuance of the 5% Preferred Securities and the related purchase by us of all of Trust II's common securities, we issued \$100 million in principal amount of our 5% Subordinated Debentures, due June 1, 2047 (the "5% Debentures") to Trust II. The sole assets of Trust II are the 5% Debentures and any interest accrued thereon. The interest payment dates on the 5% Debentures correspond to the distribution dates on the 5% Trust Preferred Securities. The 5% Trust Preferred Securities mature simultaneously with the 5% Debentures. All of the 5% Trust Preferred Securities are unconditionally guaranteed by us to the extent of the assets of Trust II.

Liquidity for Insurance Operations

Our life subsidiaries generally receive adequate cash flow from premium collections and investment income to meet their obligations. Annuity and life insurance liabilities are generally long-term in nature. Policyholders may, however, withdraw funds or surrender their policies, subject to surrender and withdrawal penalty provisions. At December 31, 2002, approximately 99.9% of our annuity liabilities were subject to penalty upon surrender, with a weighted average remaining surrender charge period of 8.7 years and a weighted average surrender charge rate of 12.21%.

We believe that the diversity of our investment portfolio and the concentration of investments in high-quality securities provides sufficient liquidity to meet foreseeable cash requirements. The investment portfolio at December 31, 2002 included \$3,503.7 million (amortized cost basis) of publicly traded investment grade bonds. Although there is no present need or intent to dispose of such investments, our life subsidiaries could readily liquidate portions of its investments, if such a need arose. In addition, investments could be used to facilitate borrowings under reverse-

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repurchase agreements or dollar-roll transactions. Such borrowings have been used by our life subsidiary from time to time to increase our return on investments and to improve liquidity.

Liquidity of Parent Company

The parent company is a legal entity separate and distinct from its subsidiaries, and has no business operations. The parent company needs liquidity primarily to service its debt, including the subordinated debentures issued to subsidiary trusts, pay operating expenses and pay dividends to stockholders. The primary sources of funds for these payments are: (i) principal and interest payments received on the parent company's note receivable from American Equity Investment Service Company (see discussion that follows); (ii) dividends on capital stock and surplus note interest payments from American Equity Life; (iii) investment advisory fees from our life subsidiaries; (iv) cash on hand (\$0.8 million at December 31, 2002); and (v) cash (\$0.2 million at December 31, 2002) that may be distributed by American Equity Investment Properties, L.C. which invests and re-invests the remaining proceeds from the sale of the office building in Birmingham, Alabama that was sold in 1998. The parent company may also obtain cash by issuing debt or equity securities.

The payment of dividends or the distributions, including surplus note payments, by our life subsidiaries is subject to regulation by each subsidiary's state of domicile's insurance department. Currently, our life subsidiaries may pay dividends or make other distributions without the prior approval of their state of domicile's insurance department, unless such payments, together with all other such payments within the preceding twelve months, exceed the greater of (1) life subsidiary's net gain from operations for the preceding calendar year, or (2) 10% of the life subsidiary's statutory surplus at the preceding December 31. For 2003, up to approximately \$25.9 million can be distributed as dividends or surplus note payments by American Equity Life without prior approval of their state of domicile's insurance department. In addition, dividends and surplus note payments may be made only out of earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities. American Equity Life had approximately \$47.4 million of earned surplus at December 31, 2002.

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 our outstanding liabilities and adequate for its financial needs.

The transfer of funds by American Equity Life is also restricted by certain covenants in our loan agreement which, among other things, requires American Equity Life to maintain statutory capital and surplus (including the asset valuation and interest maintenance reserves) of \$140 million plus 25% of statutory net income and 75% of the capital contributions to American Equity Life for periods subsequent to December 31, 1999. Under the most restrictive of these limitations, \$25.9 million of our earned surplus at December 31, 2002 would be available for distribution by American Equity Life to the parent company in the form of dividends or other distributions.

Statutory accounting practices prescribed or permitted for our life subsidiaries differ in many respects from those governing the preparation of financial statements under accounting principles generally accepted in the United States ("GAAP"). Accordingly, statutory operating results and statutory capital and surplus may differ substantially from amounts reported in the GAAP basis financial statements for comparable items. Information as to statutory capital and surplus and statutory net income for our life subsidiaries as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 is included in Note 11 of the Notes to Consolidated Financial Statements included elsewhere in this report.

American Equity Life has entered into a general agency commission and servicing agreement with American Equity Investment Service Company, an affiliated company wholly-owned by the Company's chairman and president, whereby the affiliate acts as a national supervisory agent with responsibility for paying commissions to the Company's agents. This agreement initially benefits American Equity Life's statutory surplus by extending the payment of a portion of the first year commissions on new annuity business written by American Equity Life over a longer period of time, and thereby enabling American Equity Life to conduct a comparatively greater volume of business. In subsequent periods, American Equity Life's statutory surplus is reduced through the payment of renewal commissions to the affiliate on this business based upon the account balances of the annuities remaining in force for a period of five years (see Note 8 of the Notes to Consolidated Financial Statements included elsewhere in this report). During the years ended December 31,

2002 and 2000, the Service Company paid \$11.8 million and \$28.4 million, respectively, to agents of American Equity Life. American Equity Life paid renewal commissions to the Service Company of \$21.7 million, \$23.2 million and \$20.4 million, respectively, during the years ended December 31, 2002, 2001 and 2000.

As a source of funds the Service Company borrowed money from the parent company. At December 31, 2002 and 2001, the amounts receivable from the Service Company totaled \$20.5 million and \$29.1 million, respectively. Principal and interest are payable quarterly over five years from the date of the advance.

Future payments by American Equity Life on business in force at December 31, 2002 are dependent upon the account balances of the annuities remaining in force on each remaining quarterly renewal commission payment date.

Cash Flow Obligations

In the normal course of business, we enter into financing transactions, lease agreements, or other commitments. These commitments may obligate us to certain cash flows during future periods. The following table summarizes such obligations as of December 31, 2002.

	Payments Due by Period			
	Total	Less Than 1 Year	1—3 Years	4—5 Years
(Dollars in thousands)				
Notes payable	\$ 43,333	\$ 15,333	\$ 26,000	\$ 2,000
Amounts due to related party under General Agency Commission and Servicing Agreement	40,345	22,358	17,987	—
Swiss Re (See Note 5 of the Notes to Consolidated Financial Statements)	10,908	2,728	8,180	—
Hannover (See Note 5 of the Notes to Consolidated Financial Statements)	4,350	1,350	2,670	330
Operating leases	3,518	1,026	2,422	70
Mortgage loan funding	49,270	49,270	—	—
Total	\$ 151,724	\$ 92,065	\$ 57,259	\$ 2,400

Inflation

Inflation does not have a significant effect on our balance sheet. We have minimal investments in property, equipment or inventories. To the extent that interest rates may change to reflect inflation or inflation expectations, there would be an effect on our balance sheet and operations. Higher interest rates experienced in recent periods have decreased the value of our fixed maturity investments. It is likely that declining interest rates would have the opposite effect. It is not possible to calculate the effect such changes in interest rates, if any, have had on our operating results.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We seek to maximize the total return on our available-for-sale investments through active investment management. Accordingly, we have determined that our available-for-sale portfolio of fixed maturity securities is available to be sold in response to: (i) changes in market interest rates; (ii) changes in relative values of individual securities and asset sectors; (iii) changes in prepayment risks; (iv) changes in credit quality outlook for certain securities; (v) liquidity needs; and (vi) other factors. We have a portfolio of held for investment securities which consists principally of zero coupon bonds issued by U.S. government agencies. These securities are purchased to secure long-term yields which meet our spread targets and support the underlying liabilities.

Interest rate risk is our primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can affect the profitability of our products and the market 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 (participation or asset fee rates for equity index annuities) on approximately 75% of our annuity liabilities at least annually (subject to minimum guaranteed values). In addition, substantially all of our annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. However, competitive factors, including the impact of the level of surrenders and withdrawals, may limit our ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

A major component of our interest rate risk management program is structuring the investment portfolio with cash flow characteristics consistent with the cash flow characteristics of our insurance liabilities. We use computer models to simulate cash flows expected from our existing business under various interest rate scenarios. These simulations enable us to measure the potential gain or loss in fair value of our interest rate-sensitive financial instruments, to evaluate the adequacy of expected cash flows from our assets to meet the expected cash requirements of our liabilities and to determine if it is necessary to lengthen or shorten the average life and duration of our investment portfolio. (The "duration" of a security is the time weighted present value of the security's expected cash flows and is used to measure a security's sensitivity to changes in interest rates). When the durations of assets and liabilities are similar, exposure to interest rate risk is minimized because a change in value of assets should be largely offset by a change in the value of liabilities. At December 31, 2002, the effective duration of our fixed maturity securities and short-term investments was approximately 7.92 years and the estimated duration of our insurance liabilities was approximately 6.58 years.

If interest rates were to increase 10% (38 basis points) from levels at December 31, 2002, we estimate that the fair value of our fixed maturity securities would decrease by approximately \$177.6 million. If interest rates were to increase 50 basis points from the levels at December 31, 2002, the effective duration of our cash and invested assets backing our insurance liabilities would be approximately 11.07 years. The computer models used to estimate the impact of a 10% or 50 basis point 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.

At December 31, 2002, 86.7% of our fixed income securities have call features and 2.0% are subject to current redemption. Another 78.7% will become subject to call redemption through December 31, 2003. During the year ended December 31, 2002, we received \$1,541.6 million in net redemption proceeds related to the exercise of such call options. We have reinvestment risk related to these redemptions to the extent we cannot reinvest the net proceeds in assets with credit quality and yield characteristics similar to the redeemed bonds. Such reinvestment risk typically occurs in a declining rate environment. Should rates decline to levels which tighten the spread between our average portfolio yield and average cost of credited income on our annuity liability reserves, we have the ability to reduce crediting rates on most of our annuity liabilities to maintain the spread at our targeted level. Approximately 75% of our annuity liabilities are subject to annual adjustment of the applicable crediting rates at our discretion, limited by minimum guaranteed crediting rates of 3 to 4%.

With respect to our equity index business, we purchase call options on the applicable equity indices to fund the annual index credits on such annuities. These options are primarily one-year instruments purchased to match the funding requirements of the underlying policies. Our risk associated with the current options we hold is limited to the cost of such options, which we amortize in full over their one-year lives. Market value changes associated with those investments are substantially offset by an increase or decrease in the amounts added to policyholder account balances for equity indexed products. In 2002, we realized gains of \$13.5 million on our equity index options, and we credited \$14.7 million to policy holders. On the respective anniversary dates of the equity 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 equity index business. This is a risk we manage through the terms of our equity index annuities, which permit us to change annual participation rates, asset fees, and/or caps, subject to guaranteed minimums. By reducing participation rates, asset fees or caps, we can limit option costs to budgeted amounts except in cases

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements are included as a part of this report on Form 10-K on pages F-1 through F-33.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

The information required by Part III is incorporated by reference from our definitive proxy statement to be filed with the Commission pursuant to Regulation 14A within 120 days after December 31, 2002.

ITEM 14. CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of this examination.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Financial Statements and Financial Statement Schedules. See Index to Consolidated Financial Statements on page F-1 for a list of financial statements and financial statement schedules included in this report.

All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are omitted because they are not applicable, not required, or because the information is included elsewhere in the consolidated financial statements or notes thereto.

Exhibits. See Exhibit Index immediately preceding the Exhibits for a list of Exhibits filed with this report.

Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ended December 31, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, this 17th day of March, 2003.

AMERICAN EQUITY INVESTMENT LIFE
HOLDING COMPANY

By: /s/ D.J. NOBLE

D.J. Noble, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this registration statement has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title (Capacity)</u>	<u>Date</u>
<u>/s/ D.J. NOBLE</u> D.J. Noble	Chairman of the Board and President, (Principal Executive Officer)	March 17, 2003
<u>/s/ WENDY L. CARLSON</u> Wendy L. Carlson	Chief Financial Officer and General Counsel (Principal Financial Officer)	March 17, 2003
<u>/s/ TED M. JOHNSON</u> Ted M. Johnson	Vice President—Accounting (Principal Accounting Officer)	March 17, 2003
<u>/s/ JOHN C. ANDERSON</u> John C. Anderson	Director	March 17, 2003
<u>/s/ JAMES M. GERLACH</u> James M. Gerlach	Director	March 17, 2003

<u>/s/ ROBERT L. HILTON</u>	Director	March 17, 2003
Robert L. Hilton		
<u>/s/ JOHN M. MATOVINA</u>	Director	March 17, 2003
John M. Matovina		
<u>/s/ BEN T. MORRIS</u>	Director	March 17, 2003
Ben T. Morris		
<u>/s/ DAVID S. MULCAHY</u>	Director	March 17, 2003
David S. Mulcahy		
<u>/s/ A.J. STRICKLAND, III</u>	Director	March 17, 2003
A.J. Strickland, III		
<u>/s/ HARLEY A. WHITFIELD</u>	Director	March 17, 2003
Harley A. Whitfield		

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CERTIFICATIONS

I, *D.J. Noble*, certify that:

1. I have reviewed this annual report on Form 10-K of American Equity Investment Life Holding Company;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (1) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (2) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003

/s/ D.J. Noble

D.J. Noble, Chief Executive Officer
(Principal Executive Officer)

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CERTIFICATIONS

I, *Wendy L. Carlson*, certify that:

1. I have reviewed this annual report on Form 10-K of American Equity Investment Life Holding Company;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(1) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(2) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003

/s/ Wendy L. Carlson

Wendy L. Carlson, Chief Financial Officer
(Principal Financial Officer)

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**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 Annual Report of American Equity Investment Life Holding Company (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, D.J. Noble, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

and

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

Date: March 17, 2003

By: /s/ D.J. Noble

D.J. Noble, Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of American Equity Investment Life Holding Company (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wendy L. Carlson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

and

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

Date: March 17, 2003

By: /s/ Wendy L. Carlson

Wendy L. Carlson, Chief Financial Officer
(Principal Financial Officer)

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**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000**

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
American Equity Investment Life Holding Company

We have audited the accompanying consolidated balance sheets of American Equity Investment Life Holding Company as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedules listed in the Index on page F-1. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Equity Investment Life Holding Company at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in response to a new accounting standard that became effective January 1, 2001.

/s/ Ernst & Young LLP

Des Moines, Iowa
March 14, 2003

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

	December 31,	
	2002	2001
Assets		
Cash and investments:		
Fixed maturity securities:		
Available for sale, at market (amortized cost: 2002—\$3,796,914; 2001—\$3,101,040)	\$ 3,753,144	\$ 2,974,761
Held for investment, at amortized cost (market: 2002—\$1,151,337; 2001—\$412,378)	1,149,510	454,605
Equity securities, available for sale, at market (cost: 2002 - \$18,051; 2001—\$18,609)	17,006	18,245
Mortgage loans on real estate	334,339	108,181
Derivative instruments	52,313	40,052
Policy loans	295	291
Cash and cash equivalents	21,163	184,130
Total cash and investments	5,327,770	3,780,265
Premiums due and uncollected	1,371	1,386
Accrued investment income	36,716	22,100
Receivables from related parties	20,949	29,978
Property, furniture and equipment, less allowances for depreciation of \$4,011 in 2002 and \$3,150 in 2001	1,675	1,622
Deferred policy acquisition costs	595,450	492,757
Deferred income tax asset	50,711	51,244
Federal income taxes recoverable	—	4,224
Other assets	4,814	5,011
Assets held in separate account	2,810	3,858
Total assets	\$ 6,042,266	\$ 4,392,445

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

	December 31,	
	2002	2001

Liabilities and Stockholders' Equity

Liabilities:

Policy benefit reserves:		
Traditional life and accident and health insurance products	\$ 33,089	\$ 25,490
Annuity and single premium universal life products	5,419,276	3,968,455
Other policy funds and contract claims	35,644	22,046
Amounts due to related party under General Agency Commission and Servicing Agreement	40,345	46,607
Other amounts due to related parties	4,363	22,990
Notes payable	43,333	46,667
Amount due to reinsurer	10,908	14,318
Amounts due under repurchase agreements	241,731	—
Amounts due on securities purchased	103	66,504
Federal income taxes payable	8,187	—
Other liabilities	24,513	32,788
Liabilities related to separate account	2,810	3,858

Total liabilities	5,864,302	4,249,723
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Minority interests in subsidiaries:

Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	100,486	100,155
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Stockholders' equity:

Series Preferred Stock, par value \$1 per share, 2,000,000 shares authorized; 625,000 shares of 1998 Series A Participating Preferred Stock issued and outstanding	625	625
Common Stock, par value \$1 per share, 75,000,000 shares authorized; issued and outstanding 2002—14,438,452 shares; 2001—14,516,974 shares	14,438	14,517
Additional paid-in capital	56,811	57,452
Accumulated other comprehensive loss	(11,944)	(33,531)
Retained earnings	17,548	3,504

Total stockholders' equity	77,478	42,567
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Total liabilities and stockholders' equity	\$ 6,042,266	\$ 4,392,445
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See accompanying notes.

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

	Year ended December 31,		
	2002	2001	2000
Revenues:			
Traditional life and accident and health insurance premiums	\$ 13,664	\$ 13,141	\$ 11,034
Annuity and single premium universal life product charges	15,376	12,520	8,338
Net investment income	308,548	209,086	100,060
Realized gains (losses) on sales of investments	(122)	787	(1,411)
Change in fair value of derivatives	(57,753)	(55,158)	(3,406)
Total revenues	279,713	180,376	114,615
Benefits and expenses:			
Insurance policy benefits and change in future policy benefits	9,317	9,762	8,728
Interest credited to account balances	177,633	97,923	56,529
Change in fair value of embedded derivatives	(5,027)	12,921	—
Interest expense on notes payable	1,901	2,881	2,339
Interest expense on General Agency Commission and Servicing Agreement	3,596	5,716	5,958
Interest expense on amounts due under repurchase agreements	734	1,123	3,267
Other interest expense	1,043	381	—
Amortization of deferred policy acquisition costs	39,930	23,040	8,574
Other operating costs and expenses	21,635	17,176	14,602
Total benefits and expenses	250,762	170,923	99,997
Income before income taxes, minority interests and cumulative effect of change in accounting principle	28,951	9,453	14,618
Income tax expense	7,299	333	2,385
Income before minority interests and cumulative effect of change in accounting principle	21,652	9,120	12,233
Minority interests in subsidiaries:			
Earnings attributable to company-obligated mandatorily redeemable preferred securities of subsidiary trusts	7,445	7,449	7,449
Income before cumulative effect of change in accounting principle	14,207	1,671	4,784
Cumulative effect of change in accounting for derivatives	—	(799)	—
Net income	\$ 14,207	\$ 872	\$ 4,784
Earnings per common share:			
Income before cumulative effect of change in accounting principle	\$ 0.87	\$ 0.10	\$ 0.29

Cumulative effect of change in accounting for derivatives		—	(0.05)	—
Earnings per common share	\$	0.87	\$ 0.05	\$ 0.29
Earnings per common share—assuming dilution:				
Income before cumulative effect of change in accounting principle	\$	0.80	\$ 0.09	\$ 0.26
Cumulative effect of change in accounting for derivatives		—	(0.04)	—
Earnings per common share—assuming dilution	\$	0.80	\$ 0.05	\$ 0.26

See accompanying notes.

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**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except per share data)**

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance at January 1, 2000	\$ 625	\$ 4,712	\$ 66,058	\$ (35,235)	\$ (1,836)	\$ 34,324
Issuance of 9,424,620 shares of common stock pursuant to 3-for-1 stock split	—	9,425	(9,425)	—	—	—
Comprehensive income:						
Net income for year	—	—	—	—	4,784	4,784
Change in net unrealized investment gains/losses	—	—	—	18,359	—	18,359
Total comprehensive income	—	—	—	—	—	23,143
Issuance of 477,687 shares of common stock	—	478	1,478	—	—	1,956
Acquisition of 84,375 shares of common stock	—	(85)	(534)	—	—	(619)
Dividends on preferred stock (\$0.01 per share)	—	—	—	—	(6)	(6)
Dividends on common stock (\$0.01 per share)	—	—	—	—	(146)	(146)
Balance at December 31, 2000	625	14,530	57,577	(16,876)	2,796	58,652
Comprehensive loss:						
Net income for year	—	—	—	—	872	872
Change in net unrealized investment gains/losses	—	—	—	(16,655)	—	(16,655)
Total comprehensive loss	—	—	—	—	—	(15,783)
Issuance of 5,052 shares of common stock	—	5	34	—	—	39
Acquisition of 18,320 shares of common stock	—	(18)	(159)	—	—	(177)
Dividends on preferred stock (\$0.03 per share)	—	—	—	—	(19)	(19)
Dividends on common stock (\$0.01 per share)	—	—	—	—	(145)	(145)
Balance at December 31, 2001	625	14,517	57,452	(33,531)	3,504	42,567
Comprehensive income:						
Net income for year	—	—	—	—	14,207	14,207
Change in net unrealized investment gains/losses	—	—	—	21,587	—	21,587
Total comprehensive income	—	—	—	—	—	35,794
Issuance of 34,228 shares of common stock	—	34	103	—	—	137
Acquisition of 112,750 shares of common stock	—	(113)	(744)	—	—	(857)
Dividends on preferred stock (\$0.03 per share)	—	—	—	—	(19)	(19)
Dividends on common stock (\$0.01 per share)	—	—	—	—	(144)	(144)
Balance at December 31, 2002	\$ 625	\$ 14,438	\$ 56,811	\$ (11,944)	\$ 17,548	\$ 77,478

See accompanying notes.

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

	Year ended December 31,		
	2002	2001	2000
Operating activities			
Net income	\$ 14,207	\$ 872	\$ 4,784
Cumulative effect of change in accounting for derivatives	—	799	—
Adjustments to reconcile net income to net cash used in operating activities:			
Adjustments related to interest sensitive products:			
Interest credited to account balances	177,633	97,923	56,529
Annuity and single premium universal life product charges	(15,376)	(12,520)	(8,338)
Change in fair value of embedded derivatives	(5,027)	12,921	—
Increase in traditional life and accident and health insurance reserves	7,599	5,136	5,294
Policy acquisition costs deferred	(152,144)	(154,451)	(77,056)
Amortization of deferred policy acquisition costs	39,930	23,040	8,574
Provision for depreciation and other amortization	981	970	854
Amortization of discount and premiums on fixed maturity securities	(134,590)	(50,462)	12,933
Realized losses (gains) on sales of investments	122	(787)	1,411
Change in fair value of derivatives	57,753	55,158	3,406
Deferred income taxes	(11,091)	(5,794)	(2,840)
Reduction of amounts due to related party under General Agency Commission and Servicing Agreement	(18,058)	(29,422)	(14,491)

Changes in other operating assets and liabilities:

Accrued investment income	(14,616)	(702)	(7,215)
Receivables from related parties	9,029	17,265	(28,346)
Federal income taxes recoverable/payable	12,411	(4,274)	1,713
Other policy funds and contract claims	13,598	5,376	5,116
Other amounts due to related parties	(4,412)	15,927	4,000
Other liabilities	(8,275)	4,861	1,221
Other	1,544	414	(1,679)
Net cash used in operating activities	(28,782)	(17,750)	(34,130)

Investing activities

Sales, maturities, or repayments of investments:

Fixed maturity securities—available for sale	3,527,658	1,734,890	628,847
Equity securities, available for sale	10,352	7,820	1,588
Mortgage loans on real estate	3,160		
Derivative instruments	9,735	—	(3,406)
	3,550,905	1,742,710	627,029

Acquisition of investments:

Fixed maturity securities—available for sale	(4,634,925)	(3,214,768)	(1,092,492)
Fixed maturity securities—held for investment	(215,161)	—	(7,246)
Equity securities, available for sale	(10,055)	(18,844)	(1,437)
Mortgage loans on real estate	(229,318)	(108,181)	—
Derivative instruments	(93,963)	(76,569)	(68,088)

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Policy loans	\$ (4)	\$ (27)	\$ (33)
	(5,183,426)	(3,418,389)	(1,169,296)
Purchases of property, furniture and equipment	(914)	(1,370)	(424)
Net cash used in investing activities	(1,633,435)	(1,677,049)	(542,691)

Financing activities

Receipts credited to annuity and single premium universal life policyholder account balances	1,597,348	2,006,882	843,340
Unapplied policyholder receipts	—	12,803	—
Return of annuity and single premium universal life policyholder account balances	(332,042)	(223,163)	(144,077)
Financing fees incurred and deferred	(100)	—	(216)
Proceeds from notes payable	10,000	6,000	23,400
Repayments of notes payable	(13,334)	(3,333)	—
Increase (decrease) in amounts due under repurchase agreements	241,731	(110,000)	23,031
Amounts due to reinsurer	(3,410)	14,318	—
Net proceeds from issuance of common stock	137	39	1,956
Acquisitions of common stock	(857)	(177)	(619)
Acquisition of 8% Convertible Trust Preferred Securities	(60)	—	—
Dividends paid	(163)	(164)	(152)
Net cash provided by financing activities	1,499,250	1,703,205	746,663
Increase (decrease) in cash and cash equivalents	(162,967)	8,406	169,842
Cash and cash equivalents at beginning of year	184,130	175,724	5,882
Cash and cash equivalents at end of year	\$ 21,163	\$ 184,130	\$ 175,724

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest on notes payable and repurchase agreements	\$ 3,897	\$ 4,199	\$ 5,606
Income taxes—life subsidiaries	5,979	10,401	3,512

Non-cash financing and investing activities:

Bonus interest deferred as policy acquisition costs	28,153	17,399	9,955
Advances to related party under General Agency Commission and Servicing Agreement deferred as policy acquisition costs	11,796	—	28,400

See accompanying notes.

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**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002**

1. Organization and Significant Accounting Policies

Organization

American Equity Investment Life Holding Company (the Company), through its wholly-owned subsidiaries, American Equity Investment Life Insurance Company and American Equity Investment Life Insurance Company of New York, is licensed to sell insurance products in 46 states and the District of Columbia at December 31, 2002. The Company offers a broad array of annuity and insurance products. The Company's business consists primarily of the sale of equity index and fixed rate annuities. In 1998, the Company began offering variable annuity products. The Company operates solely in the life insurance business.

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: American Equity Investment Life Insurance Company, American Equity Investment Life Insurance Company of New York (formed in 2001), American Equity Investment Capital, Inc., American Equity Capital Trust I, American Equity Capital Trust II, and American Equity Investment Properties, L.C. All significant intercompany accounts and transactions have been eliminated.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are utilized in the calculation of value of insurance in force acquired, deferred policy acquisition costs, policyholder liabilities and accruals, valuation of embedded derivatives on equity index reserves and valuation allowances on deferred tax assets and investments. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized.

Reclassifications

Certain amounts in the 2001 and 2000 consolidated financial statements have been reclassified to conform to the 2002 financial statement presentation.

Investments

Fixed maturity securities (bonds and redeemable preferred stocks maturing more than one year after issuance) that may be sold prior to maturity are classified as available for sale. Available for sale securities are reported at estimated fair value and unrealized gains and losses, if any, on these securities are included directly in a separate component of stockholders' equity, net of income taxes and certain adjustments, for assumed changes in amortization of deferred policy acquisition costs. Premiums and discounts are amortized/accrued using methods which result in a constant yield over the securities' expected lives. Amortization/accrual of premiums and discounts on mortgage and asset-backed securities incorporate prepayment assumptions to estimate the securities' expected lives.

Fixed maturity securities that the Company has the positive intent and ability to hold to maturity are classified as held for investment. Held for investment securities are reported at cost adjusted for amortization of premiums and discounts. Changes in the market value of these securities, except for declines that are other than temporary, are not reflected in the Company's financial statements. Premiums and discounts are amortized/accrued using methods which result in a constant yield over the securities' expected lives.

Equity securities, comprised of common and non-redeemable preferred stocks, are classified as available for sale and are reported at market value. Unrealized

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gains and losses are included directly in a separate component of stockholders' equity, net of income taxes.

Mortgage loans on real estate are reported at cost, adjusted for amortization of premiums and accrual of discounts. If the Company determines that the value of any mortgage loan is impaired, the carrying amount of the mortgage loan will be reduced to its fair value, based upon the present value of expected future cash flows from the loan discounted at the loan's effective interest rate, or the fair value of the underlying collateral.

Policy loans are reported at unpaid principal.

The carrying amounts of all the Company's investments are reviewed on an ongoing basis for credit deterioration. If this review indicates a decline in market value that is other than temporary, the Company's carrying amount in the investment is reduced to its estimated fair value and a specific writedown is taken. Such reductions in carrying amount are recognized as realized losses and charged to income. Realized gains and losses on sales are determined on the basis of specific identification of investments.

Market values, as reported herein, of fixed maturity and equity securities are based on the latest quoted market prices, or for those fixed maturity securities not readily marketable, at values which are representative of the market values of issues of comparable yield and quality.

Derivative Instruments

The Financial Accounting Standards Board issued, then subsequently amended, Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which became effective for the Company on January 1, 2001. Under SFAS No. 133, as amended, all derivative instruments (including certain derivative instruments embedded in other contracts) are recognized in the balance sheet at their fair values and changes in fair value are recognized immediately in earnings, unless the derivatives qualify as hedges of future cash flows. For derivatives qualifying as hedges of future cash flows, the effective portion of the changes in fair value is recorded temporarily in equity, then recognized in earnings along with the related effects of the hedged items. Any "ineffective" portion of a hedge is reported in earnings as it occurs.

The Company has equity 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 equity market index. A portion of the premium from each policyholder is invested in investment grade fixed income securities to cover the minimum guaranteed value due the policyholder at the end of the contract term. A portion of the premium is used to purchase derivatives consisting of call options on the applicable equity market indices to fund the index credits due to equity index annuity holders. Substantially all of such call options are one year options which are closely matched to the annual crediting liabilities on such policies. In addition, the call options are marked to market with the change in fair value included as a component of our revenues. On the respective anniversary dates of the equity index policies, the equity index used to compute such annual crediting liabilities is reset and the Company purchases new one-year call options to fund the next annual index credit. The Company manages the cost of these purchases through the terms of its equity index annuities, which permits the Company to change annual participation rates, asset fees, and/or caps, subject to guaranteed minimums. By reducing participation rates, asset fees or caps, the Company can limit option costs to budgeted amounts except in cases where the minimum guarantees prevent further reductions in these contract terms.

The Company's strategy attempts to mitigate any potential risk of loss under these agreements through a regular monitoring process which evaluates the program's effectiveness. The Company is exposed to risk of loss in the event of nonperformance by the counterparties and, accordingly, the Company purchases its option contracts from multiple counterparties and evaluates the creditworthiness of all counterparties prior to purchase of the contracts. At December 31, 2002, all of these options had been purchased from nationally recognized investment banking institutions with a Standard and Poor's credit rating of BBB+ or higher.

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Under SFAS No. 133, the annual crediting liabilities on the Company's equity index annuities are treated as a "series of embedded derivatives" over the life of the applicable contract. The Company does not purchase call options to fund the equity index liabilities which may arise after the next policy anniversary date. The Company must value both the call options and the related forward embedded options in the policies at fair value. The change in fair value for the call options is included in change in fair value of derivatives and the change in fair value adjustment of the embedded options is included in change in fair value of embedded derivatives in the Consolidated Statements of Income.

For the year ended December 31, 2002 and 2001, change in fair value of derivatives of \$(57.8) million and \$(55.2) million, respectively, represents the change in fair value on call options used to fund the next-year income credit to the equity index annuities. The change in fair value of options embedded within the equity index products (including the forward options) was \$(5.0) million and \$12.9 million for the year ended December 31, 2002 and 2001, respectively. Amortization of deferred policy acquisition costs was increased by \$1.4 million for the year ended December 31, 2002 and decreased by \$0.8 million for the year ended December 31, 2001 as a result of the impact of SFAS No. 133.

At January 1, 2001, the Company's financial statements were adjusted to record a cumulative effect of adopting this accounting change, as follows (in thousands):

Fair value adjustment related to:	
Call options	\$ (14,537)
Equity index annuity liabilities	11,736
Adjustments for assumed changes in amortization of deferred policy acquisition costs	1,571
Deferred income tax benefit	431
Total	\$ (799)

Prior to the adoption of SFAS No. 133, the Company recorded the options at amortized cost plus intrinsic value, if any. Changes in the intrinsic value of the options were offset by changes to the policy benefit liabilities in the consolidated statements of income. This amount was (\$21.7) million during the year ended December 31, 2000.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Deferred Policy Acquisition Costs

To the extent recoverable from future policy revenues and gross profits, certain costs of producing new business, principally commissions, first-year bonus interest and certain costs of policy issuance (including policy issue costs of \$4.1 million in 2002, \$4.9 million in 2001 and \$2.7 million in 2000) have been deferred. For annuity and single premium universal life products, these costs are being amortized generally in proportion to expected gross profits from surrender charges and investment, mortality, and expense margins. That amortization is adjusted retrospectively when estimates of future gross profits/margins (including the impact of realized investment gains and losses) to be realized from a group of products are revised. Deferred policy acquisition costs are also adjusted for the change in amortization that would have occurred if available-for-sale fixed maturity securities had been sold at their aggregate market value and the proceeds reinvested at current yield. The impact of this adjustment is included in accumulated other comprehensive income (loss) within stockholders' equity.

For traditional life and accident and health insurance, deferred policy acquisition costs are being amortized over the premium-paying period of the related policies in proportion to premium revenues recognized, principally using the same assumptions for interest, mortality and withdrawals that are used for computing liabilities for future policy benefits subject to traditional "lock-in" concepts.

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Intangibles

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. Under the new Statements, goodwill and intangibles with indefinite lives will no longer be amortized but will be subject to impairment tests at least on an annual basis. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. The adoption of these Statements on January 1, 2002 did not have a material impact to the Company. The Company's intangible assets at December 31, 2002, which are included in other assets, consist of deferred debt and trust preferred security issue costs of \$1.8 million and other intangible assets not subject to amortization of \$0.3 million related to insurance licenses acquired in connection with the purchase of an inactive life insurance company in 1996.

Property, Furniture and Equipment

Property, furniture and equipment, comprised primarily of office furniture and equipment, data processing equipment and capitalized software costs, are reported at cost less allowances for depreciation. Depreciation expense is determined primarily using the straight-line method over the estimated useful lives of the assets.

Separate Accounts

The separate account assets and liabilities represent funds that are separately administered for the benefit of variable annuity policyholders who bear the underlying investment risk. The separate account assets and liabilities are carried at fair value. Revenues and expenses related to the separate account assets and liabilities, to the extent of premiums received from and benefits paid or provided to the separate account policyholders, are excluded from the amounts reported in the consolidated statements of income. The Company receives various fees (mortality, expense and surrender charges assessed against policyholder account balances) that are included as revenues in the consolidated statements of income.

Future Policy Benefits

Future policy benefit reserves for annuity and single premium universal life products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for these products ranged from 3.0% to 12.0% in 2002 and 2001 and from 3.0% to 12.5% in 2000. A portion of this amount (\$28.2 million, \$17.4 million and \$10.0 million during the years ended December 31, 2002, 2001 and 2000, respectively) represents an additional interest credit on first-year premiums payable until the first contract anniversary date (first-year bonus interest). Such amounts have been offset against interest credited to account balances and deferred as policy acquisitions costs.

The liability for future policy benefits for traditional life insurance is based on net level premium reserves, including assumptions as to interest, mortality, and other assumptions underlying the guaranteed policy cash values. Reserve interest assumptions are level and range from 3.0% to 6.0%. The liabilities for future policy benefits for accident and health insurance are computed using a net level premium method, including assumptions as to morbidity and other assumptions based on the Company's experience, modified as necessary to give effect to anticipated trends and to include provisions for possible unfavorable deviations. Policy benefit claims are charged to expense in the period that the claims are incurred.

Unpaid claims include amounts for losses and related adjustment expenses and are determined using individual claim evaluations and statistical analysis. Unpaid claims represent estimates of the ultimate net costs of all losses, reported and unreported, which remain unpaid at December 31 of each year. These estimates are necessarily subject to the impact of future changes in claim severity, frequency and other factors. In spite of the variability inherent in such situations, management believes that the unpaid claim amounts are adequate. The estimates are continuously reviewed and as

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adjustments to these amounts become necessary, such adjustments are reflected in current operations.

Certain group policies include provisions for annual experience refunds of premiums equal to net premiums received less a 16% administrative fee and less claims incurred. Such amounts (2002—\$0.3 million; 2001—\$0.6 million; and 2000—\$0.3 million) are reported as a reduction of traditional life and accident and health insurance premiums in the consolidated statements of income.

Deferred Income Taxes

Deferred income tax assets or liabilities are computed based on the temporary differences between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. Deferred income tax assets are subject to ongoing evaluation of whether such assets will be realized. The ultimate realization of deferred income tax assets depends on generating future taxable income during the periods in which temporary differences become deductible. If future income is not generated as expected, deferred income tax assets may need to be written off.

Stockholders' Equity

In connection with the issuance of the Company's common stock under certain private placement offerings, the Company issued warrants to purchase one additional share of common stock for every five shares that were purchased. During 2000, 170,625 warrants were exercised at a price of \$4.00 per share. During 2002, 34,125 warrants were exercised at a price of \$4.00 per share.

The Company issued 625,000 shares of 1998 Series A Participating Preferred Stock, at par, under a private placement offering in 1998 in exchange for cash of \$10 million. These shares have participating dividend rights with shares of the Company's common stock, when and as such dividends are declared. These shares are convertible into shares of the Company's common stock on a three-for-one basis, have no voting rights and have an aggregate liquidation preference of \$10 million.

Recognition of Premium Revenues and Costs

Revenues for annuity and single premium universal life products include surrender charges assessed against policyholder account balances and mortality and expense charges (single premium universal life products only) during the period. Expenses related to these products include interest credited to policyholder account balances and benefit claims incurred in excess of

policyholder account balances (single premium universal life products only).

Traditional life and accident and health insurance premiums are recognized as revenues over the premium-paying period. Future policy benefits are recognized as expenses over the life of the policy by means of the provision for future policy benefits.

All insurance-related revenues, benefits, losses and expenses are reported net of reinsurance ceded.

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Premiums and Deposits by Product Type

The Company markets equity index annuities, fixed rate annuities, a variable annuity and life insurance. In connection with its reinsured group life business, the Company also collects renewal premiums on certain accident and health insurance policies. Premiums and deposits (after cancellations and net of reinsurance) collected in 2002, 2001 and 2000, by product category were as follows:

Product Type	Year ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
Equity Index Annuities:			
Index Strategies	\$ 523,224	\$ 431,571	\$ 596,863
Fixed Strategy	370,496	156,553	37,030
Total Equity Index Annuities	893,720	588,124	633,893
Fixed Rate Annuities	703,628	1,418,758	209,447
Life Insurance	12,958	12,349	10,169
Accident and Health	706	792	865
Variable Annuities	83	15	3,895
	\$ 1,611,095	\$ 2,020,038	\$ 858,269

Stock-Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related Interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the company's employee stock options equals the fair value of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income is required by SFAS No. 123 as amended by SFAS No. 148, and has been determined as if the Company had accounted for its employee stock options and subscription rights under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a minimum value option pricing model (which is used for non-public companies) with the following weighted-average assumptions:

	2002	2001	2000
Risk-free interest rate	1.45%	2.44%	6.70%
Dividend yield	0%	0%	0%
Weighted-average expected life	3 years	3 years	3 years

The minimum value option pricing model is similar to the Black-Scholes option valuation model (which is primarily used for public companies) except that it excludes an assumption for the expected volatility of market price. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net earnings and earnings per common share were as follows:

	Year ended December 31,		
	2002	2001	2000
	(Dollars in thousands, except per share data)		
Net income, as reported	\$ 14,207	\$ 872	\$ 4,784
Deduct:			
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(491)	(38)	(1,201)
Net income, pro forma	\$ 13,716	\$ 834	\$ 3,583
Basic earnings per common share, as reported	\$ 0.87	\$ 0.05	\$ 0.29
Basic earnings per common share, pro forma	\$ 0.84	\$ 0.05	\$ 0.22
Diluted earnings per common share, as reported	\$ 0.80	\$ 0.05	\$ 0.26
Diluted earnings per common share, pro forma	\$ 0.77	\$ 0.05	\$ 0.19

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in stockholders' equity during a period except those resulting from investments by and distributions to stockholders. Other comprehensive income (loss) excludes net realized investment gains included in net income which merely represent transfers from unrealized to realized gains and losses. These amounts totaled \$(0.1) million, \$0.4 million and \$4.2 million in 2002, 2001 and 2000, respectively. Such amounts, which have been measured through the date of sale, are net of adjustments to deferred policy acquisition costs and income taxes totaling \$(0.1) million in 2002, \$0.4 million in 2001 and \$1.5 million in 2000.

2. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair values of financial instruments:

Fixed maturity securities: Quoted market prices, when available, or price matrices for securities which are not actively traded, developed using yield data and other factors relating to instruments or securities with similar characteristics.

Equity securities: Quoted market prices.

Mortgage loans on real estate: Discounted expected cash flows using interest rates currently being offered for similar loans.

Derivative instruments: Quoted market prices from related counterparties.

Policy loans: The Company has not attempted to determine the fair values associated with its policy loans, as management believes any differences between the Company's carrying value and the fair values afforded these instruments are immaterial to the Company's financial position and, accordingly, the cost to provide such disclosure is not worth the benefit to be derived.

Cash and cash equivalents: Amounts reported in the consolidated balance sheets for these instruments approximate their fair values.

Separate account assets and liabilities: Reported at estimated fair value in the consolidated balance sheets.

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Annuity and single premium universal life policy benefit reserves: Fair values of the Company's liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities), are stated at the cost the Company would incur to extinguish the liability (i.e., the cash surrender value) adjusted as required under SFAS No. 133. The Company is not required to and has not estimated the fair value of its liabilities under other contracts.

Notes payable and amounts due under repurchase agreements: As all notes and short-term indebtedness under repurchase agreements have variable interest rates, the amounts reported in the consolidated balance sheets for these instruments approximate their fair values.

Amounts due to related party under General Agency Commission and Servicing Agreement and Company-obligated mandatorily redeemable preferred securities of subsidiary trusts: Fair values are estimated by discounting expected cash flows using interest rates currently being offered for similar securities.

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

	December 31,			
	2002		2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets				
Fixed maturity securities:				
Available for sale	\$ 3,753,144	\$ 3,753,144	\$ 2,974,761	\$ 2,974,761
Held for investment	1,149,510	1,151,337	454,605	412,378
Equity securities, available for sale	17,006	17,006	18,245	18,245
Mortgage loans on real estate	334,339	359,447	108,181	109,806
Derivative instruments	52,313	52,313	40,052	40,052
Policy loans	295	295	291	291
Cash and cash equivalents	21,163	21,163	184,130	184,130
Separate account assets	2,810	2,810	3,858	3,858
Liabilities				
Annuity and single premium universal life policy benefit reserves	5,419,276	4,703,588	3,968,455	3,498,954
Amounts due to related party under General Agency Commission and Servicing Agreement	40,345	40,345	46,607	49,600
Notes payable	43,333	43,333	46,667	46,667
Amounts due under repurchase agreements	241,731	241,731	—	—
Liabilities related to separate account	2,810	2,810	3,858	3,858
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	100,486	97,243	100,155	104,962

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3. Investments

At December 31, 2002 and 2001, the amortized cost and estimated fair value of fixed maturity securities and equity securities were as follows:

December 31, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Fixed maturity securities:				
Available for sale:				
United States Government and agencies	\$ 3,116,562	\$ 19,348	\$ (1,907)	\$ 3,134,003
State, municipal and other governments	5,621	10	—	5,631
Public utilities	52,308	1,622	(2,907)	51,023
Corporate securities	354,071	3,407	(19,408)	338,070
Redeemable preferred stocks	11,882	1,180	(240)	12,822
Mortgage and asset-backed securities	256,470	1,885	(46,760)	211,595
	\$ 3,796,914	\$ 27,452	\$ (71,222)	\$ 3,753,144
Held for investment:				

	2002	2001	2000
	(Dollars in thousands)		
Fixed maturity securities	\$ 288,087	\$ 196,933	\$ 129,066
Equity securities	1,194	786	754
Mortgage loans on real estate	15,025	2,347	—
Derivative instruments	—	—	(32,162)
Policy loans	19	20	19
Cash and cash equivalents	3,500	12,281	1,703
Other	2,892	(1,137)	2,083
	310,717	211,230	101,463
Less investment expenses	(2,169)	(2,144)	(1,403)
Net investment income	\$ 308,548	\$ 209,086	\$ 100,060

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Proceeds from sales of available for sale fixed maturity securities for the years ended December 31, 2002, 2001 and 2000 were \$1,821.1 million, \$603.9 million and \$6.5 million, respectively. Scheduled principal repayments, calls and tenders for available for sale fixed maturity securities for the years ended December 31, 2002, 2001 and 2000 were \$1,706.6 million, \$1,131.0 million and \$622.4 million, respectively.

Net realized gains (losses) included in revenues for the years ended December 31, 2002, 2001 and 2000 are as follows:

	Year ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
Available for sale fixed maturity securities:			
Gross realized gains	\$ 19,943	\$ 12,820	\$ —
Gross realized losses	(6,773)	(4,439)	(977)
Writedowns (other than temporary impairments)	(13,030)	(7,773)	—
	140	608	(977)
Equity securities	(262)	179	(434)
	\$ (122)	\$ 787	\$ (1,411)

Changes in unrealized appreciation (depreciation) on investments for the years ended December 31, 2002, 2001 and 2000 are as follows:

	Year ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
Fixed maturity securities held for investment carried at amortized cost	\$ 44,054	\$ 22,030	\$ 18,325
Investments carried at estimated fair value:			
Fixed maturity securities, available for sale	\$ 82,509	\$ (77,463)	\$ 24,629
Equity securities, available for sale	(681)	400	(357)
	81,828	(77,063)	24,272
Adjustment for effect on other balance sheet accounts:			
Deferred policy acquisition costs	(49,470)	51,441	3,971
Deferred income tax asset	(11,624)	8,967	(9,884)
Net unrealized gain and amortization on fixed maturity securities transferred from available-for-sale to held for investment	853	—	—
	(60,241)	60,408	(5,913)
Change in unrealized appreciation (depreciation) on investments carried at estimated fair value	\$ (21,587)	\$ (16,655)	\$ 18,359

During 2002, we transferred fixed maturity securities at fair value of \$436.7 million (amortized cost of \$435.7 million) from available for sale to held for investment to match our investment objectives, which are to hold these investments to maturity. The unrealized gain on these securities on the date of transfer (\$1.0 million) is included as a separate component of accumulated other comprehensive loss, and will be amortized over the lives of the securities.

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The Company's mortgage loan portfolio totaled \$334.3 million and \$108.2 million at December 31, 2002 and 2001, respectively, with commitments outstanding of \$49.3 million at December 31, 2002. The portfolio consists of commercial mortgage loans diversified as to property type, location and loan size. The loans are collateralized by the related properties. The Company's mortgage lending policies establish limits on the amount that can be loaned to one borrower and require diversification by geographic location and collateral type. The commercial mortgage loan portfolio is diversified by geographic region and specific collateral property type as follows:

December 31,			
2002		2001	
Carrying Amount	Percent	Carrying Amount	Percent
(Dollars in thousands)			

Geographic distribution						
East North Central	\$	35,989	10.8%	\$	9,189	8.5%
East South Central		15,796	4.7%		16,029	14.8%
Middle Atlantic		40,879	12.2%		18,352	17.0%
Mountain		26,478	7.9%		—	—
New England		13,242	4.0%		3,496	3.2%
Pacific		20,499	6.1%		—	—
South Atlantic		96,401	28.8%		39,260	36.3%
West North Central		65,177	19.5%		21,855	20.2%
West South Central		19,878	6.0%		—	—
Total	\$	334,339	100.0%	\$	108,181	100.0%

December 31,

2002		2001	
Carrying Amount	Percent	Carrying Amount	Percent

(Dollars in thousands)

Property type distribution						
Office	\$	126,818	37.9%	\$	42,059	38.9%
Retail		101,485	30.4%		19,131	17.7%
Industrial		70,141	21.0%		28,609	26.4%
Hotel		21,218	6.3%		13,135	12.1%
Apartment		968	0.3%		—	—
Mixed use/other		13,709	4.1%		5,247	4.9%
Total	\$	334,339	100.0%	\$	108,181	100.0%

During 2002, the Company entered into a transaction relating to the short-sale of \$150.0 million of U.S. Treasury Securities. The transaction was intended to address interest rate exposure and generate capital gains that could be used to offset previously incurred capital losses. This transaction settled on November 14, 2002 and the net effect of \$0.6 million is included in the consolidated statement of income as other interest expense.

During 2000, the Company purchased financial futures instruments and total return exchange agreements as a part of its asset-liability management activities. The operations of the Company are subject to risk of interest rate fluctuations to the extent that there is a difference between the amount of the Company's interest-earning assets and interest-bearing liabilities that mature in specified periods. The principal objective of the Company's asset-liability management activities is to provide maximum levels of net investment income while maintaining acceptable levels of interest rate and liquidity risk, and facilitating the funding needs of the Company. Financial futures contracts are commitments to either purchase or sell a financial instrument at a specific future date for a specified price and may be settled in cash or

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through delivery of the financial instrument. Total return exchange agreements generally involve the exchange of the total return or yield on a referenced security for a specified interest rate.

If a financial futures contract used to manage interest rate risk was terminated early and resulted in payments based on the change in value of the underlying asset, any resulting gain or loss was deferred and amortized as an adjustment to the yield of the designated asset over its remaining life as long as the transaction qualified for hedge accounting. The effectiveness of the hedge was measured by a historical and probable future high correlation of changes in the fair value of the hedging instruments with changes in value of the hedged item. If correlation ceased to exist, hedge accounting would have been terminated and gains or losses recorded in income. During 2000, high correlation was achieved. Deferred losses of \$2.3 million for 2000 are included in held-for-investment fixed maturities and are being amortized as an adjustment to interest income over the life of the hedged instrument.

For total return exchange agreements, the change in fair value of these agreements was recognized as a component of our revenues. In 2000, the change in fair value of these agreements totaled \$(3.4) million.

The Company did not purchase or enter into any financial futures instruments or total return exchange agreements during 2002 or 2001 and all agreements were terminated or matured as of December 31, 2000.

At December 31, 2002, fixed maturity securities and short-term investments with an amortized cost of \$5,293.5 million were on deposit with state agencies to meet regulatory requirements. There are no restrictions on these assets.

At December 31, 2002, the following investments in any person or its affiliates (other than bonds issued by agencies of the United States Government) exceeded 10% of stockholders' equity:

Issuer	Estimated Fair Value and Carrying Amount	Amortized	Issuer	Estimated Fair Value and Carrying Amount	Amortized Cost
(Dollars in thousands)			(Dollars in thousands)		
FBL Capital Trust I	\$ 75,673	\$ 75,673	Northern States Power Co.	\$ 11,733	\$ 11,277
JP Morgan	20,896	20,954	Ashland Oil Co.	11,075	11,139
USTDB Inc.	13,653	19,450	Lehman Brothers Holdings	10,805	11,076
Knight Funding	14,861	18,387	Principal Guaranteed Arm	10,424	10,884
AIG Global	13,034	18,302	Tampa Electric Co.	10,595	10,407
USTDB Inc.	12,436	17,767	PSEG Power	10,592	9,957
Oakwood Mtg. Inv. Inc.	10,329	17,022	Mony Group	10,522	9,942
Dow Chemical	15,094	15,252	American Airlines	9,329	9,465
General Motors Corp.	14,572	15,081	Hertz Corp.	9,392	9,462
Continental Airlines	12,043	14,862	American Financial Group	9,323	9,394
Goldman Sachs Group Inc.	15,129	14,684	Northwest Airlines	5,586	9,249
CIT Group	14,142	14,075	South Street	6,621	8,644
Principal Financial Group	13,761	13,670	Sutter Notes	6,700	8,563
Ford Motor	12,460	13,651	Countrywide Capital	8,543	8,337
Deloitte & Touche	13,455	13,527	Oakwood Mtg. Inv. Inc.	4,491	8,145
TPREF Funding II	11,900	11,874	Land O Lakes Capital Trust	3,760	8,076
AXA	11,278	11,550			

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An analysis of deferred policy acquisition costs is presented below for the years ended December 31, 2002 and 2001:

	2002	2001
	(Dollars in thousands)	
Balance at beginning of year	\$ 492,757	\$ 289,609
Costs deferred during the year	192,093	171,850
Amortized to expense during the year	(39,930)	(23,040)
Other	—	2,897
Effect of unrealized losses	(49,470)	51,441
Balance at end of year	\$ 595,450	\$ 492,757

5. Reinsurance and Policy Provisions

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance enterprises or reinsurers. Reinsurance coverages for life insurance vary according to the age and risk classification of the insured.

Reinsurance contracts do not relieve the Company of its obligations to its policyholders. To the extent that reinsuring companies are later unable to meet obligations under reinsurance agreements, the Company's life insurance subsidiaries would be liable for these obligations, and payment of these obligations could result in losses to the Company. To limit the possibility of such losses, the Company evaluates the financial condition of its reinsurers, and monitors concentrations of credit risk. Insurance premiums have been reduced by \$0.6 million, \$0.2 million and \$0.2 million and insurance benefits have been reduced by \$0.1 million, \$0.2 million and \$0.4 million during the years ended December 31, 2002, 2001 and 2000, respectively, as a result of cession agreements.

No allowance for uncollectible amounts has been established against the Company's asset for amounts receivable from other insurance companies since none of the receivables are deemed by management to be uncollectible.

Financial Reinsurance. Effective January 1, 2001, the Company's life insurance subsidiary, American Equity Investment Life Insurance Company (American Equity Life), entered into a transaction treated as reinsurance under statutory accounting requirements and as financial reinsurance under accounting principles generally accepted in the United States (GAAP) with a subsidiary of Swiss Reinsurance Company ('Swiss Re') which includes a coinsurance segment on a 2% quota share basis and a yearly renewable term segment reinsuring a portion of death benefits payable on annuities produced after January 1, 2001 through approximately July 31, 2001. The coinsurance segment provides reinsurance to the extent of 2% of all risks associated with the Company's annuity policies covered by this reinsurance agreement. The Company received a 2% expense allowance for this segment which is being repaid over a five-year period from the profits emerging from the reinsured block of policies. This segment of the reinsurance agreement provided \$20 million in statutory surplus benefit during 2001.

The second segment is yearly renewable term reinsurance whereby Swiss Re's subsidiary reinsures risks associated with the death benefits on the Company's annuity products to the extent such benefits exceed the cash surrender values of the applicable contracts. The Company has received the maximum expense allowance allowable under this agreement of \$15 million during 2001 which was equal to 2.25% - 3% of the first year premiums on annuities issued after January 2001 through approximately July 31, 2001. This amount is to be paid ratably over a five-year period. The balance at December 31, 2002 and 2001 was \$10.9 million and \$14.3 million, respectively. This agreement bears interest at the ninety day London Interbank Offered Rate plus 140 basis points (2.78% at December 31, 2002) and interest incurred was \$0.4 million for each of the years ended December 31, 2002 and 2001.

Under the Swiss Re agreement, the Company is required to meet certain financial ratio requirements. The Company currently does not meet the risk-based capital and A.M. Best Company rating requirements under the agreement. Discussions with Swiss Re are on going in regards to the issue of a waiver or transfer of the agreement to another reinsurance company. If an agreement cannot be reached, the Company will no longer receive experience refunds under the agreement and an acceleration of the repayment/recapture of the agreement will occur.

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American Equity Life entered into a reinsurance transaction effective November 1, 2002, with Hannover Life Reassurance Company of America which is treated as reinsurance under statutory accounting requirements and as financial reinsurance under GAAP. This agreement includes a coinsurance segment and a yearly renewable term segment reinsuring a portion of death benefits payable on certain annuities issued from January 1, 2002 to December 31, 2002. The coinsurance segment provides reinsurance to the extent of 6.88% of all risks associated with our annuity policies covered by this reinsurance agreement. This agreement provided approximately \$29.8 million in statutory surplus benefit during 2002. Risk charges of \$0.2 million were incurred during the year ended December 31, 2002, related to this agreement.

Coinsurance. Effective August 1, 2001, American Equity Life entered into a coinsurance agreement with Equitrust Life Insurance Company ('Equitrust'), an affiliate of Farm Bureau Life Insurance Company ('Farm Bureau') covering 70% of certain of the Company's non-multi-year guarantee fixed annuities and equity index annuities issued from August 1, 2001 through December 31, 2001 and 40% of those contracts for 2002 and 2003. As of December 31, 2002, Farm Bureau beneficially owned 32.47% of the Company's common stock. Total annuity deposits ceded were approximately \$837.9 million and \$418.3 million for the year ended December 31, 2002 and the period from August 1, 2001 to December 31, 2001, respectively. Expense allowances received were approximately \$99.4 million and \$51.2 million under this agreement for the year ended December 31, 2002 and the period from August 1, 2001 to December 31, 2001, respectively. The balance due under this agreement to Farm Bureau was \$1.5 million at December 31, 2002 and \$22.9 million at December 31, 2001, and represents the market value of the call options related to the ceded business held by the Company to fund the index credits and cash due to or from Farm Bureau related to the transfer of annuity deposits.

During 1998, the Company entered into a modified coinsurance agreement to cede 70% of its variable annuity business to Equitrust. Under this agreement, the Company paid Equitrust \$0.2 million, \$0.2 million and \$0.1 million for the years ended December 31, 2002, 2001 and 2000, respectively. The modified coinsurance agreement has an initial term of four years and will continue thereafter until termination by written notice at the election of either party. Any such termination will apply to the submission or acceptance of new policies, and business reinsured under the agreement prior to any such termination is not eligible for recapture before the expiration of 10 years. Equitrust (or one of its affiliates) provides the administrative support necessary to manage this business.

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6. Income Taxes

The Company will file a consolidated federal income tax return with all its subsidiaries for 2002. For 2001 and 2000, the Company filed a consolidated income tax return with all its subsidiaries except American Equity Life and American Equity Investment Life Insurance Company of New York, which filed separate consolidated federal income tax returns.

Deferred income taxes are established by the Company and its subsidiaries based upon the temporary differences among financial reporting and tax bases of assets and liabilities within each entity, the reversal of which will result in taxable or deductible amounts in future years when the related asset or liability is recovered or settled, measured using the enacted tax rates.

The Company's income tax expense is as follows:

	For the year ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
Current income taxes	\$ 18,390	\$ 6,127	\$ 5,225
Deferred income taxes	(11,091)	(5,794)	(2,840)

Total income tax expense	\$	7,299	\$	333	\$	2,385
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Income tax expense differed from that computed at the applicable statutory federal income tax rate (35%) as follows.

	Year ended December 31,					
	2002	2001	2000			
	(Dollars in thousands)					
Income before income taxes, minority interests and cumulative effect of change in accounting principle	\$	28,951	\$	9,453	\$	14,618
Income tax expense on income before income taxes, minority interests and cumulative effect of change in accounting principle at statutory rate	\$	10,133	\$	3,309	\$	5,116
Tax effect of:						
Earnings attributable to company-obligated mandatorily redeemable preferred securities of subsidiary trusts		(2,606)		(2,607)		(2,607)
State income taxes		(233)		(201)		(151)
Dividends received deduction		(41)		(100)		—
Other		46		(68)		27
Income tax expense	\$	7,299	\$	333	\$	2,385

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The tax effect of individual temporary differences at December 31, 2002 and 2001, is as follows:

	December 31,			
	2002	2001		
	(Dollars in thousands)			
Deferred income tax assets:				
Policy benefit reserves	\$	207,651	\$	143,648
Unrealized depreciation on available-for-sale fixed maturity securities and equity securities		6,431		18,055
Deferred compensation		534		408
Net operating loss carryforwards		5,830		4,586
Net capital loss carryforward		—		5,614
Amounts due to reinsurers		3,818		4,773
Other		570		298
		224,834		177,382
Deferred income tax liabilities:				
Accrued discount on fixed maturity securities		(6,888)		(10,348)
Deferred policy acquisition costs		(166,856)		(115,359)
Value of insurance in force acquired		(109)		(145)
Other		(270)		(286)
		(174,123)		(126,138)
Deferred income tax asset	\$	50,711	\$	51,244

The Company regularly reviews its need for a valuation allowance against its deferred income tax assets. At December 31, 2002, no valuation allowance against its deferred income taxes has been established due to the Company's adoption of plans and policies relative to future taxable income or loss of non-life entities.

At December 31, 2002, the Company has non-life net operating loss carryforwards for tax purposes of \$14.4 million which expire in 2010 through 2022.

7. Notes Payable and Amounts Due Under Repurchase Agreements

The Company has a credit agreement with three banks. The amount outstanding under this agreement was \$43.3 million at December 31, 2002, of which \$10.0 million was borrowed in December, 2002 and contributed to the surplus of American Equity Life. The amount outstanding under this agreement at December 31, 2001 was \$46.7 million. Principal and interest under this agreement are paid quarterly. The notes bear interest (4.36% at December 31, 2002) at prime or LIBOR plus a specified margin of up to 2.25%. Under this agreement, the Company is required to maintain minimum capital and surplus levels at American Equity Life and meet certain other financial and operating ratio requirements. The Company is also prohibited from incurring other indebtedness for borrowed money without obtaining a waiver from the lenders and from paying dividends on its capital stock in excess of 25% of consolidated net income for the prior fiscal year. At December 31, 2002, the annual maturities of the notes payable are as follows: 2003—\$15.3 million; 2004—\$15.3 million; 2005—\$8.7 million; 2006—\$2.0 million; 2007—\$2.0 million.

As part of its investment strategy, the Company enters into securities lending programs to increase its return on investments and improve its liquidity. These transactions are accounted for as amounts due under repurchase agreements (short-term collateralized borrowings). These borrowings are collateralized by investment securities with fair market values approximately equal to the amount due. Such borrowings averaged approximately \$137.8 million, \$100.0 million, \$50.4 million for the years ended December 31, 2002, 2001 and 2000, respectively. The weighted average interest rate on amounts due under repurchase agreements was 1.59%, 6.51% and 6.49% for the years ended December 31, 2002, 2001 and 2000, respectively.

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8. General Agency Commission and Servicing Agreement

The Company has a General Agency Commission and Servicing Agreement with American Equity Investment Service Company (the Service Company), wholly-owned by the Company's chairman, whereby, the Service Company acts as a national supervisory agent with responsibility for paying commissions to agents of the Company. Under the terms of the original agreement, the Service Company was required to pay the greater of (a) 5% of the premiums collected by the Company on the sale of certain annuity products, or (b) 50% of the agent's commissions payable by the Company on the sale of those same policies. In return, the Company agreed to pay quarterly renewal commissions to the Service Company equal to .3875% of the premiums received by the Company on policies that still remain in force.

On December 31, 1997, the Service Company and the Company amended the Agreement to provide for the payment of 100% of the agents' commissions by the Service Company for policies issued from July 1, 1997 through December 31, 1997. In return, the Company agreed to pay the Service Company quarterly renewal commissions of .7% of the premiums received by the Company before January 1, 1998 that still remain in force, and .325% for in-force amounts received thereafter. The revised quarterly renewal commission schedule commenced December 31, 1997. For policies issued from January 1, 1998 through August 30, 1999, the original agreement remains in effect and, accordingly, the Company pays renewal commissions of .325% of the premiums received on such policies which remain in force.

On June 30, 1999, the Service Company and the Company further amended the Agreement to provide for the payment of 30% of agents' commissions by the Service Company for policies issued on or after September 1, 1999, and the Company agreed to pay the Service Company quarterly renewal commissions of .25% for in force amounts received thereafter.

On October 1, 2002, the Service Company and the Company further amended their agreement to provide for the payment of 35% of the agents' commissions payable by the Service Company for policies issued from October 1, 2002 through December 31, 2002, and the Company agreed to pay the Service Company quarterly renewal commissions of .325% of in-force amounts received thereafter. Effective October 1, 2002, the Company also agreed to pay the Service Company quarterly renewal commissions of .325% of in-force amounts on policies issued from January 1, 1998 through August 31, 1999 and .7% of in-force amounts on policies issued prior to January 1, 1998. The termination date of the agreement was extended to December 31, 2008.

In connection with the General Agency Commission and Servicing Agreement, the Company records commissions and a related payable for amounts paid by the Service Company. Interest expense is recorded based upon estimated future payments to the Service Company based upon an imputed interest rate (approximately 9.0%) for each of the periods presented. Estimated future payments are evaluated regularly and the imputed interest rate will be adjusted when deemed necessary. During the years ended December 31, 2002 and 2000, the Service Company paid \$11.8 million and \$28.4 million, respectively, to agents of the Company. The Company paid renewal commissions to the Service Company of \$21.7 million, \$23.2 million, and \$20.5 million during the years ended December 31, 2002, 2001 and 2000, respectively.

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Estimated future payments under the General Agency Commission and Servicing Agreement at December 31, 2002 are as follows (Dollars in thousands):

Year ending December 31:	
2003	\$ 25,247
2004	14,887
2005	4,106
2006	255
	<hr/>
	44,495
Amounts representing interest	(4,150)
	<hr/>
Net amount	\$ 40,345

As a source of funding its portion of producing agents' commission payments, the Service Company borrowed funds from David J. Noble, Chairman, Chief Executive Officer and President of the Company. The amount payable to Mr. Noble by the Service Company at December 31, 2002 and 2001 was \$24.1 million and \$22.4 million, respectively. As an alternate source of funds for such first year commissions, the Service Company borrowed funds from the Company. At December 31, 2002 and 2001, amounts receivable from the Service Company totaled \$20.5 million and \$29.1 million, respectively. Principal and interest on all loans to the Service Company are payable quarterly over five years from the date of the advance. The Service Company repays the above described indebtedness from the renewal commissions paid to it under the General Agency Commission and Servicing Agreement. Interest on such indebtedness accrues at "reference rate" of the financial institution that is the Company's principal lender. This rate averaged 8.70% in 2002, and 8.64% in 2001 and 2000.

9. Minority Interests in Subsidiary Trusts

During 1999, American Equity Capital Trust I ("Trust I"), a wholly-owned subsidiary of the Company, issued \$26.0 million of 8% Convertible Trust Preferred Securities (the "8% Trust Preferred Securities"). In connection with Trust I's issuance of the 8% Trust Preferred Securities and the related purchase by the Company of all of Trust I's common securities, the Company issued \$26.8 million in principal amount of its 8% Convertible Junior Subordinated Debentures, due September 30, 2029 (the "8% Debentures") to Trust I. The sole assets of Trust I are the 8% Debentures and any interest accrued thereon. Each 8% Trust Preferred Security is convertible into three shares of common stock of the Company at a conversion price equal to the lesser of (i) \$10 per share or (ii) 90% of the initial price per share to the public of the Company's common stock sold in connection with its initial public offering of such common stock (the "IPO"). The interest payment dates on the 8% Debentures correspond to the distribution dates on the 8% Trust Preferred Securities. The 8% Trust Preferred Securities, which have a liquidation value of \$10 per share plus accrued and unpaid distributions, mature simultaneously with the 8% Debentures. At December 31, 2002, 863,671 shares of 8% Trust Preferred Securities were outstanding, all of which are unconditionally guaranteed by the Company to the extent of the assets of Trust I.

Also during 1999, American Equity Capital Trust II ("Trust II"), a wholly-owned subsidiary of the Company, issued 97,000 shares of 5% Trust Preferred Securities (the "5% Trust Preferred Securities") to Iowa Farm Bureau Federation, which owns more than 50% of the voting capital stock of FBL Financial Group, Inc. ("FBL"), parent company of Farm Bureau.

The 5% Trust Preferred Securities, which have a liquidation value of \$100 per share (\$97.0 million in the aggregate), have been assigned a fair value of \$78.6 million (based upon an effective 7% yield-to-maturity). The consideration received by Trust II in connection with the issuance of the 5% Trust Preferred Securities consisted of fixed income trust preferred securities of equal value which were issued by FBL.

In connection with Trust II's issuance of the 5% Preferred Securities and the related purchase by the Company of all of Trust

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II's common securities, the Company issued \$100.0 million in principal amount of its 5% Subordinated Debentures, due June 1, 2047 (the "5% Debentures") to Trust II. The sole assets of Trust II are the 5% Debentures and any interest accrued thereon. The interest payment dates on the 5% Debentures correspond to the distribution dates on the 5% Trust Preferred Securities. The 5% Trust Preferred Securities mature simultaneously with the 5% Debentures. All of the 5% Trust Preferred Securities are unconditionally guaranteed by the Company to the extent of the assets of Trust II.

10. Retirement and Stock Compensation Plans

The Company has adopted a contributory defined contribution plan which is qualified under Section 401(k) of the Internal Revenue Code. The plan covers substantially all full-time employees of the Company, subject to minimum eligibility requirements. Employees can contribute up to 15% of their annual salary (with a maximum contribution of \$11,000 in 2002 and \$10,500 in 2001 and 2000) to the plan. The Company contributes an additional amount, subject to limitations, based on the voluntary contribution of the employee. Further, the plan provides for additional employer contributions based on the discretion of the Board of Directors. Plan contributions charged to expense were \$0.1 for each of the years ended December 31, 2002, 2001 and 2000.

The Company has entered into deferred compensation arrangements with certain officers, directors, and consultants, whereby these individuals agreed to take common stock of the Company at a future date in lieu of cash payments. The common stock is to be issued in conjunction with a "trigger event", as that term is defined in the individual agreements. At December 31, 2002 and 2001, these individuals have earned, and the Company has reserved for future issuance, 288,329 shares of common stock pursuant to these arrangements. The Company has also accrued \$1.2 million as an other liability at December 31, 2002 and 2001, representing the value associated with the shares earned.

During 1997, the Company established the American Equity Investment NMO Deferred Compensation Plan whereby agents can earn common stock in addition to their normal commissions. Awards are calculated using formulas determined annually by the Company's Board of Directors and are generally based upon new annuity deposits. For the years ended December 31, 2002, 2001 and 2000, agents earned the right to receive 692,439; 563,637 and 262,395 shares, respectively. These shares will be awarded at the end of the vesting period of 4 years. A portion of the awards may be subject to forfeiture if certain production levels are not met over the remaining vesting period. The Company recognizes commission expense as the awards vest.

For the years ended December 31, 2002, 2001 and 2000, agents vested in 476,918; 351,717 and 216,402 shares of common stock, respectively, and the Company recorded commission expense (which was subsequently capitalized as deferred policy acquisition costs) of \$2.6 million, \$2.5 million and \$1.6 million, respectively, under these plans. Amounts accrued are reported as other liabilities until the stock has been issued. At December 31, 2002, the Company has reserved 2,086,000 shares for future issuance under the plans. One of the Company's national marketing organizations accounted for more than 10% of the annuity deposits and insurance premium collections during 2002 and 2001. Two of the Company's national marketing organizations each accounted for more than 10% of the annuity deposits and insurance premium collections during 2000.

As there is no publicly quoted market value for the Company's stock, the Company performs an internal valuation which involves estimates by management to determine a market value. Those estimates are based upon various factors including past stock transactions with third parties, growth in the Company's revenues, comparison of the Company's growth pattern to other companies and annual valuations completed by investment bankers familiar with the operations of the Company. The results of the internal valuation affect the amount of commission expense recognized (which is capitalized as deferred policy acquisition costs) in connection with the American Equity Investment NMO Deferred Compensation Plan as described in the preceding paragraph. The results of the internal valuation of the Company's stock also affect the calculation of earnings (loss) per common share—assuming dilution by affecting the number of dilutive securities used in the calculation (see Note 13).

The Company has a Stock Option and Warrant Agreement with the Company's Chairman (and owner of 10% of its outstanding common stock at December 31, 2002) which allows the purchase of 1,200,000 shares of the Company's common stock. Included in this amount are warrants to purchase 240,000 shares of common stock at \$3.33 per share that were exercised in 2000 and options expiring in 2007 to purchase 600,000 shares of common stock at \$3.33 per share and 360,000 shares of common stock at \$7.33 per share.

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During 2000, as a separate deferred compensation agreement, the Company loaned the Chairman \$0.8 million pursuant to a forgivable loan agreement. The forgivable loan agreement is with full recourse, and although the proceeds of the loan were used for the exercise of warrants described in the preceding paragraph, the loan is not collateralized by the shares issued in connection with the exercise of these warrants. Further, these warrants were not issued in connection with the Company's employee stock option plan, but were issued to Mr. Noble, the Company's founding shareholder, as part of his initial capitalization of the Company. This loan is repayable in five equal annual installments of principal and interest, each of which may be forgiven if Mr. Noble remains continuously employed by the Company in his present capacity, subject to specified exceptions.

The Company's 1996 Stock Option Plan authorizes the grants of options to officers, directors and employees for up to 1,200,000 shares of the Company's common stock. All 1996 options granted have 10 year terms, and vest and become fully exercisable immediately. In 2000, the Company adopted the 2000 Employee Stock Option Plan which authorizes grants of options to officers and employees on up to 1,800,000 shares of the Company's common stock. Also in 2000, the Company adopted the 2000 Directors Stock Option Plan which authorizes grants of options to directors on up to 225,000 shares. All 2000 options granted have 10 year terms, and have a six month vesting period after which they become fully exercisable immediately.

Changes in the number of stock options outstanding during the years ended December 31, 2002, 2001 and 2000 are as follows:

	Number of Shares	Weighted- Average Exercise Price per Share	Total Exercise Price
(Dollars in thousands, except per share data)			
Outstanding at January 1, 2000	2,292,435	\$ 4.72	\$ 10,817
Granted	456,344	9.67	4,413
Cancelled	(118,575)	6.29	(746)
Exercised	(52,650)	3.68	(194)
Outstanding at December 31, 2000	2,577,554	5.54	14,290
Granted	87,500	9.67	846
Cancelled	(15,050)	7.91	(119)
Exercised	(5,052)	7.69	(39)
Outstanding at December 31, 2001	2,644,952	5.67	14,978
Granted	—		—
Cancelled	(15,547)	9.13	(142)
Exercised	(103)	9.67	(1)
Outstanding at December 31, 2002	2,629,302	5.64	\$ 14,835

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Stock options outstanding at December 31, 2002 (all currently exercisable) are as follows:

	Number of Shares	Weighted- Average Remaining Life (in Years)
Exercise price:		
\$3.33	1,069,500	4.19
\$4.00	347,250	4.56
\$5.33	114,000	5.64
\$7.33	569,760	5.16
\$8.67	18,000	6.92
\$9.67	510,792	8.15
	2,629,302	

At December 31, 2002, the Company had no shares of common stock available for future grant under the 1996 Stock Option Plan; 1,449,458 shares of common stock available for future grant under the 2000 Employee Stock Option Plan; and 225,000 shares of common stock available for future grant under the 2000 Directors Stock Option Plan.

On December 1, 1997, in connection with a rights offering of shares of the Company's common stock, the Company issued subscription rights to purchase an aggregate of 2,157,375 shares of the Company's common stock to certain officers and directors. The subscription rights have an exercise price of \$5.33 per share, were fully exercisable immediately, and expire on December 1, 2005. The subscription rights originally were to expire on December 1, 2002. The expiration was extended during 2002 to December 1, 2005 and the Company recognized compensation expense of \$0.2 million.

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11. Life Insurance Subsidiaries

Prior approval of regulatory authorities is required for the payment of dividends to the Company by its life insurance subsidiaries which exceed an annual limitation. During 2003, American Equity Life could pay dividends to its parent of \$25.9 million, without prior approval from regulatory authorities.

Statutory accounting practices prescribed or permitted by regulatory authorities for the Company's life insurance subsidiary differ from generally accepted accounting principles. Combined net income (loss) for the Company's life insurance subsidiaries as determined in accordance with statutory accounting practices was \$26.0 million, \$(17.2) million and \$10.4 million in 2002, 2001 and 2000, respectively, and total statutory capital and surplus of the Company's life insurance subsidiaries was \$227.2 million and \$177.9 million at December 31, 2002 and 2001, respectively.

The National Association of Insurance Commissioners (NAIC) revised the *Accounting Practices and Procedures Manual* in a

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process referred to as Codification. The revised manual was effective January 1, 2001. Statutory capital and surplus increased \$2.4 million during 2001 due to the adoption of accounting changes resulting from the codification of statutory accounting principles.

Life and health insurance companies are subject to certain risk-based capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life and health insurance company is to be determined based on the various risk factors related to it. At December 31, 2002, the Company's life subsidiaries meet the RBC requirements.

12. Commitments and Contingencies

The Company leases its home office space and certain equipment under operating leases which expire through June 2007. During the years ended December 31, 2002, 2001 and 2000, rent expense totaled \$1.0 million, \$0.5 million and \$0.6 million, respectively. At December 31, 2002, minimum rental payments due under all noncancellable operating leases with initial terms of one year or more are (dollars in thousands):

Year ending December 31:	
2003	\$ 1,026
2004	1,005
2005	924
2006	493
2007	70
	<u>\$ 3,518</u>

Assessments are, from time to time, levied on the Company by life and health guaranty associations in most states in which the Company is licensed to cover losses to policyholders of insolvent or rehabilitated companies. In some states, these assessments can be partially recovered through a reduction in future premium taxes. Management believes that assessments against the Company for failures known to date will be minimal.

In recent years, companies in the life insurance and annuity business have faced increased litigation, including class action lawsuits alleging improper design, improper sales practices and similar claims. The Company is currently a defendant in a purported class action lawsuit alleging improper sales practices. The Company's motion for dismissal of this claim was recently granted and class certification was denied. However, the plaintiff may re-file the claim within a specified period of time.

In addition, the Company is from time to time subject to other legal proceedings and claims in the ordinary course of business, none of which management believe are likely to have a material adverse effect on our financial position, results of operations or cash flows. There can be no assurance that such litigation, or any future litigation, will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

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13. Earnings Per Share

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

	Year ended December 31,		
	2002	2001	2000
	(Dollars in thousands, except per share data)		
Numerator:			
Income before cumulative effect of change in accounting principle	\$ 14,207	\$ 1,671	\$ 4,784
Cumulative effect of change in accounting for derivatives	—	(799)	—
Net income	<u>\$ 14,207</u>	<u>\$ 872</u>	<u>\$ 4,784</u>
Denominator:			
Weighted average common shares outstanding and issuable	14,528,387	14,530,978	14,365,267
Participating preferred stock	1,875,000	1,875,000	1,875,000
Denominator for earnings per common share	<u>16,403,387</u>	<u>16,405,978</u>	<u>16,240,267</u>
Effect of dilutive securities:			
Warrants	3,179	17,330	105,344
Stock options and management subscription rights	377,845	1,361,409	1,705,364
Deferred compensation agreements	1,015,924	737,601	537,059
Denominator for earnings per common share—assuming dilution	<u>17,800,335</u>	<u>18,522,318</u>	<u>18,588,034</u>
Earnings per common share:			
Income before cumulative effect of change in accounting principle	\$ 0.87	\$ 0.10	\$ 0.29
Cumulative effect of change in accounting for derivatives	—	(0.05)	—
Earnings per common share	<u>\$ 0.87</u>	<u>\$ 0.05</u>	<u>\$ 0.29</u>

State, municipal and other governments	5,621	5,631	5,631
Public utilities	52,308	51,023	51,023
Corporate securities	354,071	338,070	338,070
Redeemable preferred stocks	11,882	12,822	12,822
Mortgage and asset-backed securities	256,470	211,595	211,595
	<u>3,796,914</u>	<u>3,753,144</u>	<u>3,753,144</u>
Held for investment			
United States Government and agencies	1,073,837	1,075,664	1,073,837
Corporate securities	75,673	75,673	75,673
	<u>1,149,510</u>	<u>1,151,337</u>	<u>1,149,510</u>
Total fixed maturity securities	4,946,424	\$ 4,904,481	4,902,654
Equity securities, available for sale:			
Non-redeemable preferred stocks	11,218	\$ 11,379	11,379
Common stocks	6,833	5,627	5,627
Total equity securities	18,051	\$ 17,006	17,006
Mortgage loans on real estate	334,339		334,339
Derivative instruments	46,485		52,313
Policy loans	295		295
Cash and cash equivalents	21,163		21,163
Total investments	\$ 5,366,757	\$	5,327,770

(1) On the basis of cost adjusted for repayments and amortization of premiums and accrual of discounts for fixed maturity securities, derivative instruments, and short-term investments, and unpaid principal balance for mortgage loans.

(2) Derivative instruments are carried at estimated fair value.

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Schedule II—Condensed Financial Information of Registrant
AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)
Condensed Balance Sheets
(Dollars in thousands)

	December 31,	
	2002	2001
Assets		
Cash and cash equivalents	\$ 791	\$ 3,755
Receivable from subsidiary (eliminated in consolidation)	480	500
Receivables from related party	20,462	29,139
Property, furniture and equipment, less allowances for depreciation of \$1,031 in 2002 and \$992 in 2001	68	107
Federal income tax recoverable	558	—
Deferred income tax asset	5,943	4,590
Other assets	2,301	2,664
	<u>30,603</u>	<u>40,755</u>
Investment in and advances to subsidiaries (eliminated in consolidation)	196,815	153,256
Total assets	\$ 227,418	\$ 194,011
Liabilities and Stockholders' Equity		
Liabilities:		
Notes payable	\$ 43,333	\$ 46,667
Payable to subsidiaries (eliminated in consolidation)	104,807	103,429
Amounts due to related party	100	—
Other liabilities	1,700	1,348
Total liabilities	149,940	151,444
Stockholders' equity:		
Series preferred stock	625	625
Common stock	14,438	14,517
Additional paid-in capital	56,811	57,452
Accumulated other comprehensive loss	(11,944)	(33,531)
Retained earnings	17,548	3,504
Total stockholders' equity	77,478	42,567
Total liabilities and stockholders' equity	\$ 227,418	\$ 194,011

See accompanying note to condensed financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)
Condensed Statements of Income
(Dollars in thousands)

	Year ended December 31,		
	2002	2001	2000
Revenues:			
Net investment income	\$ 20	\$ 1,017	\$ 3,479
Dividends from subsidiary (eliminated in consolidation)	5,000	—	1,500
Interest from subsidiary (eliminated in consolidation)	214	214	214
Investment advisory fees (eliminated in consolidation)	1,994	—	—
Surplus note interest from subsidiary (eliminated in consolidation)	2,780	3,076	2,006
Interest on note receivable from related party	2,379	3,386	2,053
Total revenues	12,387	7,693	9,252
Expenses:			
Interest expense on notes payable	1,901	2,881	2,339
Interest expense on debentures issued to subsidiary trusts (eliminated in consolidation)	7,660	7,663	7,663
Other operating costs and expenses	2,453	1,147	620
Total expenses	12,014	11,691	10,622
Income (loss) before income tax benefit, equity in undistributed income of subsidiaries and minority interests	373	(3,998)	(1,370)
Income tax benefit	1,912	1,590	1,037
Income (loss) before equity in undistributed income of subsidiaries and minority interests	2,285	(2,408)	(333)
Equity in undistributed income of subsidiaries (eliminated in consolidation)	19,367	10,729	12,566
Income before minority interests in subsidiaries	21,652	8,321	12,233
Minority interests in subsidiaries:			
Earnings attributable to company-obligated mandatorily redeemable preferred securities of subsidiary trusts	(7,445)	(7,449)	(7,449)
Net income	\$ 14,207	\$ 872	\$ 4,784

See accompanying note to condensed financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)
Condensed Statements of Cash Flows
(Dollars in thousands)

	Year ended December 31,		
	2002	2001	2000
Operating activities			
Net income	\$ 14,207	\$ 872	\$ 4,784
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depreciation and amortization	159	198	199
Accrual of discount on fixed maturity security	—	59	(334)
Equity in undistributed income of subsidiaries	(19,367)	(10,729)	(12,566)
Minority interests in subsidiaries—earnings attributable to company-obligated mandatorily redeemable preferred securities of subsidiary trusts	7,445	7,449	7,449
Accrual of discount on debenture issued to subsidiary trust	521	521	521
Deferred income tax benefit	(1,353)	(1,590)	(1,037)
Changes in operating assets and liabilities:			
Receivable from subsidiary	20	—	2,695
Receivable from related party	8,677	13,234	3,416
Accrued investment income	—	—	547
Federal income tax recoverable	(558)	—	—
Other assets	343	(126)	(673)
Payable to subsidiaries	857	178	180
Amounts due to related parties	100	(4,000)	1,409
Other liabilities	352	(77)	197
Net cash provided by operating activities	11,403	5,989	6,787
Investing activities			
Capital contributions to subsidiaries	(50)	(10,025)	(60)
Sales of preferred stock	—	16,942	—
Purchases of property, plant and equipment	—	(177)	—
Purchase of surplus notes from subsidiary	(10,000)	(16,000)	—
Purchase of note receivable from related party	—	—	(27,000)
Net cash used in investing activities	(10,050)	(9,260)	(27,060)

See accompanying note to condensed financial statements.

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Year ended December 31, 2000: Life insurance \$ 19,372 \$ 100,060 \$ 65,257 \$ 8,574 \$ 26,166

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Schedule IV—Reinsurance
AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

Column A	Column B	Column C	Column D	Column E	Column F
	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percent of amount assumed to net
(Dollars in thousands)					
Year ended December 31, 2002:					
Life insurance in force, at end of year	\$ 2,084,417	\$ 807	\$ 133,745	\$ 2,217,355	6.03%
Insurance premiums and other considerations:					
Annuity and single premium universal life product charges	\$ 15,376	\$ —	\$ —	\$ 15,376	—%
Traditional life and accident and health insurance premiums	10,421	362	3,605	13,664	26.38%
	\$ 25,797	\$ 362	\$ 3,605	\$ 29,040	12.41%
Year ended December 31, 2001:					
Life insurance in force, at end of year	\$ 2,366,765	\$ 260,675	\$ 209,647	\$ 2,315,737	9.05%
Insurance premiums and other considerations:					
Annuity and single premium universal life product charges	\$ 12,555	\$ 35	\$ —	\$ 12,520	—%
Traditional life and accident and health insurance premiums	9,043	156	4,254	13,141	32.37%
	\$ 21,598	\$ 191	\$ 4,254	\$ 25,661	16.58%
Year ended December 31, 2000:					
Life insurance in force, at end of year	\$ 2,365,190	\$ 171,704	\$ 161,793	\$ 2,355,279	6.87%
Insurance premiums and other considerations:					
Annuity and single premium universal life product charges	\$ 8,338	\$ —	\$ —	\$ 8,338	—%
Traditional life and accident and health insurance premiums	8,600	182	2,616	11,034	23.71%
	\$ 16,938	\$ 182	\$ 2,616	\$ 19,372	13.50%

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EXHIBIT INDEX

Exhibit Number	Description
3.1	Articles of Incorporation, including Articles of Amendment***‡
3.2	Amended and Restated Bylaws†
4.1	Agreement dated December 4, 1997 between American Equity Investment Life Holding Company and Farm Bureau Life Insurance Company re Right of First Refusal*
4.2	Stockholders' Agreement dated April 30, 1997 among American Equity Investment Life Holding Company, David J. Noble, Twenty Services, Inc., Sanders Morris Mundy stockholders*
4.3	Registration Rights Agreement dated April 30, 1997 between American Equity Investment Life Holding Company and stockholders*
4.4	Amended and Restated Declaration of Trust of American Equity Capital Trust I dated September 7, 1999†
	The Company agrees to furnish the Commission upon its request a copy of any instrument defining the rights of holders of long-term debt of the Company and its consolidated subsidiaries
9	Voting Trust Agreement dated December 30, 1997 among Farm Bureau Life Insurance Company, American Equity Investment Life Holding Company and David J. Noble, S. Mulcahy and Debra J. Richardson (Voting Trustees)*
10.1	Restated and Amended General Agency Commission and Servicing Agreement dated June 30, 1997 between American Equity Investment Life Insurance Company and American Equity Investment Service Company*
10.1-A	1999 General Agency Commission and Servicing Agreement dated as of June 30, 1999 between American Equity Investment Life Insurance Company and American Equity Investment Service Company†
10.1-B	Second Restated and Amended General Agency Commission and Servicing Agreement dated as of October 1, 2002, between American Equity Investment Life Insurance Company and American Equity Investment Service Company
10.2	1996 Stock Option Plan*

10.3	Restated and Amended Stock Option and Warrant Agreement dated April 30, 1997 between American Equity Investment Life Holding Company and D.J. Noble*
10.4	Warrant to Purchase Common Stock dated May 12, 1997 issued to Sanders Morris Mundy Inc.*
10.5	Deferred Compensation Agreements between American Equity Investment Life Holding Company and (a) James M. Gerlach dated June 6, 1996* (b) Terry A. Reimer dated November 11, 1996* (c) David S. Mulcahy dated December 31, 1997*
10.6	Forgivable Loan Agreement dated April 30, 2000 between American Equity Investment Life Holding Company and D.J. Noble‡
10.7	2000 Employee Stock Option Plan‡

10.8	2000 Director Stock Option Plan‡
10.9	Coinsurance and Yearly Renewable Term Reinsurance Agreements§
10.10	Coinsurance Agreement o
10.11	Credit Agreement
21	Subsidiaries of American Equity Investment Life Holding Company •

* Incorporated by reference to the Registration Statement on Form 10 dated April 29, 1999

** Incorporated by reference to the Registration Statement on Form 10 dated April 29, 1999 and Post-Effective Amendment No. 1 to the Registration Statement on Form 10 dated June 1, 1999.

‡ Incorporated by reference to Form 10-Q for the period ended June 30, 2000.

† Incorporated by reference to Form 10-K for the period ended December 31, 1999.

§ Incorporated by reference to Form 10-Q for the period ended September 30, 2001.

• Incorporated by reference to Form 10-K for the period ended December 31, 2000.

o Incorporated by reference to Form 10-K for the period ended December 31, 2001.

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SECOND RESTATED AND AMENDED
 GENERAL AGENCY COMMISSION AND SERVICING
 AGREEMENT

DATED AS OF OCTOBER 1, 2002

BETWEEN

AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY

AND

AMERICAN EQUITY INVESTMENT SERVICE COMPANY

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THIS TABLE OF CONTENTS IS NOT PART OF THE AGREEMENT
 TO WHICH IT IS ATTACHED BUT IS INSERTED FOR CONVENIENCE ONLY.

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SCHEDULES

- 1.01(a) - Eligible Contracts
- 1.01(b) - Gross Agent Commission Schedule

THIS SECOND RESTATED AND AMENDED GENERAL AGENCY COMMISSION AND SERVICING AGREEMENT, dated as of October 1, 2002, restates in its entirety and amends that certain Restated and Amended General Agency Commission and Servicing Agreement, dated as of June 30, 1997, as amended (as so restated and amended, the "General Agency Agreement") between: AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY, an Iowa insurance corporation ("American Equity"), and AMERICAN EQUITY INVESTMENT SERVICE COMPANY, an Iowa corporation ("AEISC").

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each of the parties hereto agrees as follows:

SECTION 1. DEFINITIONS.

1.01 DEFINITIONS. As used herein, the following terms shall have the following meanings (all terms defined in this Section 1.01 or in other provisions of this Agreement in the singular to have the same meanings when used in the plural and vice versa):

"ACCOUNT SURRENDER VALUE" shall mean the Accumulated Value of any Eligible Contract (or portion thereof) that has been terminated (whether in whole or in part or by surrender, withdrawal or death).

"ACCUMULATED VALUE" shall mean, with respect to any Eligible Contract as at any date of determination thereof, the accumulated value as defined in such Eligible Contract.

"AEISC AMOUNT" shall mean, with respect to any Eligible Contract issued prior to July, 1999, 50% of the Sales Agent Commission payable with respect to such Eligible Contract; and with respect to any Eligible Contract issued after September 1, 2002, 35% of the Sales Agent Commission payable with respect to such Eligible Contract.

"AFFILIATE " of American Equity shall mean any other person controlling or controlled by or under common control with American Equity. For the purposes of this definition, "control" when used with respect to any specified person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling and "controlled" have meanings correlative to the foregoing.

"ANNUAL STATEMENT" shall have the meaning assigned thereto in Section 5.02 hereof.

"COMMISSION ACCUMULATED VALUE" shall mean, as at any Commission Payment

Date an amount equal to the aggregate of the Accumulated Values of all Eligible Contracts that are in force on such Commission Payment Date.

"COMMISSION AGREEMENT": An agreement between American Equity and any Person (other than the Borrower) the terms of which govern the rights and obligations of such Person with American Equity in respect of such Person's acting as an agent of American Equity for the sale of Eligible Contracts.

"COMMISSION PAYMENT DATES" shall mean the last day of each calendar quarter beginning with the second calendar quarter of 1997.

"ELIGIBLE CONTRACT" shall mean a deferred contract issued by American Equity and sold by a Sales Agent to a person in a jurisdiction in which American Equity and AEISC (or its duly-appointed representative) are duly licensed to issue such contracts or act as an insurance agency therein, as applicable, and any Replacement Contract issued in respect of any such contract.

"GROSS AGENT COMMISSION SCHEDULE" shall mean the Gross Agent Commission Schedule in effect with respect to Eligible Contracts as of the date hereof as set forth on Schedule A hereto.

"ORDER" shall mean any order, writ, injunction, decree, judgment, award or determination.

"PERSON": Any natural person, corporation, partnership, joint venture, firm, association, trust, unincorporated organization, government or governmental agency or political subdivision or any other entity, whether acting in an individual, fiduciary or other capacity.

"REPLACEMENT CONTRACT" shall mean any individual annuity contract with respect to which a Sales Agent earns a commission and which is (i) issued by American Equity or an Affiliate to an insured coincident with, or within six months (or such longer period as American Equity may determine in accordance with its normal business procedures) after, the termination for any reason of an Eligible Contract with the same insured, or (ii) any other individual annuity contract issued by American Equity to an insured that American Equity in good faith in accordance with its normal business procedures considers to be a replacement for a terminated Eligible Contract with the same insured.

"SALES AGENT" shall mean each person (other than American Equity or AEISC) who is a party to a Commission Agreement.

"SALES AGENT COMMISSION": With respect to the initial sale of any Eligible Contract, the commission payable by American Equity in connection with such sale to the Agent who sold such Eligible Contract, which commission shall not exceed, in respect of such Eligible Contract, the greater of 10% or the commission rate indicated on the Gross Agent Commission schedule.

"SAP" shall mean those accounting practices required or permitted by the Division of Insurance, Department of Commerce of the State of Iowa consistently

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applied throughout the specified period and in the immediately prior comparable period.

SECTION 2. SALES AGENT COMMISSIONS.

2.01 OBLIGATION TO PAY SALES AGENT COMMISSIONS. Subject to Section 2.02 below, AEISC shall pay, or cause to be paid, the AEISC Amount on each Eligible Contract to the Sales Agent entitled to the Sales Agent Commission thereon at the time such Sales Agent Commission is to be paid pursuant to the terms of such Sales Agent's Commission Agreement.

2.02 CONDITIONS FOR PAYMENTS OF AEISC AMOUNTS. AEISC's obligation to pay the AEISC Amount under Section 2.01 hereof with respect to any Eligible Contract is subject to the satisfaction of the following conditions:

(a) the presentment to AEISC by American Equity no later than 10:00 a.m., Central Standard Time, on the Business Day next preceding the Business Day on which such AEISC Amount is to be paid (but no more frequently than two times in any calendar week) of a Disbursement Certificate in respect of such AEISC Amount, together with a copy of the requisite disbursement schedule attached thereto duly completed;

(b) receipt by AEISC of evidence satisfactory to each of them that the portion of such Sales Agent Commission to be funded by American Equity has been made available by American Equity for payment to the Sales Agent entitled to such Sales Agent Commission;

(c) no Event of Default shall have occurred and be continuing.

2.03 REPLACEMENT CONTRACTS. AEISC shall have no obligation to pay a AEISC Amount in respect of any Replacement Contract.

SECTION 3. PAYMENT OF GENERAL AGENCY COMMISSIONS.

3.01 GENERAL AGENCY CURRENT COMMISSIONS. American Equity shall pay to AEISC general agency current commissions ("CURRENT COMMISSIONS") no later than 10:00 a.m., Central Standard Time, on each Commission Payment Date in an amount equal to .325% of the Commission Accumulated Value determined as of the preceding Commission Payment Date. Notwithstanding the preceding sentence, with respect to the Commission Accumulated Value of all Eligible Contracts produced during all calendar quarters of 1996 and 1997, American Equity shall pay to AEISC Current Commissions no later than 10:00 a.m. Central Standard Time, on each Commission Payment Date beginning with March 31, 1998 and continuing through and including the Commission Payment Date on December 31, 2002, in an amount equal to .7% of the Commission Accumulated Value for such Eligible Contracts.

3.02 SUPPLEMENTAL COMMISSIONS.

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(a) American Equity shall pay to AEISC Supplemental Commissions in an amount equal to .05% of the Commission Accumulated Value; provided that no Supplemental Commissions shall be payable on any Commission Payment Date unless (A) on such Commission Payment Date an Event of Default has occurred and/or is continuing; (B) on such Commission Payment Date or on any date prior thereto, American Equity has ceased to remain actively engaged in the business of issuing Eligible Contracts; or (C) on such Commission Payment Date or on any date prior thereto, American Equity, directly or indirectly, unreasonably limits, impedes, hampers or restricts the ability of the Sales Agents to sell Eligible Contracts.

(b) American Equity shall pay to AEISC other Supplemental Commissions no later than 10:00 a.m., Central Standard Time, on each Commission Payment Date in an amount equal to \$25,000.

3.03 GENERAL AGENCY REIMBURSEMENT COMMISSIONS. American Equity shall pay to AEISC general agency reimbursement commissions ("Reimbursement Commissions") with respect to all Voided Eligible Contracts (as defined below) no later than 10:00 a.m., Central Standard Time, on each Commission Payment Date in an amount equal to the aggregate of the AEISC Amounts of such Voided Eligible Contracts. For the purposes of this Section 3.04, a "VOIDED ELIGIBLE CONTRACT" shall mean, as at any Commission Payment Date, any Eligible Contract which was voided during the calendar quarter ending on the preceding Commission Payment Date because the owner of such Eligible Contract returned such Eligible Contract to American Equity during the examination period therefor in accordance with the terms of such Eligible Contract entitling such owner to a refund of the premium paid thereon and with respect to which AEISC paid the AEISC Amount.

3.04 TERMINATION OF COMMISSION OBLIGATIONS. With respect to Eligible Contracts sold during 1998, the termination date for payment of Current Commissions, Supplemental Commissions, or Reimbursement Commissions shall be December 31, 2004. With respect to Eligible Contracts sold during 1999, the termination date for payment of Current Commissions, Supplemental Commissions, or Reimbursement Commissions shall be December 31, 2005. With respect to Eligible Contracts sold after 1999 for which AEISC paid an AEISC Amount, the termination date for payment of Current Commissions, Supplemental Commissions, or Reimbursement Commissions shall be December 31, 2008.

3.05 PAYMENT OF COMMISSIONS.

(a) American Equity's obligation to make all payments referred to in this Section 3, when such payments shall become due and payable in accordance herewith, shall be absolute and unconditional and shall not be subject to any abatement or diminution by set-off, deduction, claim, counterclaim, recoupment, agreement, defense, suspension, deferment, interruption or otherwise.

(b) American Equity shall have no right to be released, relieved or

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discharged from its obligation to make such payments for any reason whatsoever, including, without limitation, (i) any default, misrepresentation, negligence, misconduct or other action or inaction of any kind by AEISC, whether under or in connection with this or any other agreement to which AEISC is a party; (ii) the invalidity, unenforceability, impossibility of performance, illegality, termination or amendment of, or any allegation or contest of invalidity, unenforceability, impossibility of performance, illegality of, any agreement to which AEISC is a party; (iii) any applicable law now or hereafter in force; (iv) the occurrence or continuance of an event of default or any default or event of default under any agreement to which AEISC is a party; (v) the compromise, settlement, release, modification, amendment (whether material or otherwise) or termination of any or all of the obligations, conditions, covenants or agreements of any Person under or arising out of any agreement to which AEISC is a party (other than any modification or amendment of this Agreement made in accordance with the terms hereof); (vi) the failure by any Person to give notice to American Equity of the occurrence of any default or event of default under any agreement to which AEISC is a party; (vii) the waiver of the payment, performance or observance of any of the obligations, conditions, covenants or agreements of any Person contained in any agreement to which AEISC is a party (including, without limitation, any waiver of such obligations under this Agreement made in accordance with the provisions hereof); (viii) the taking or the omission to take any of the actions referred to in any agreement to which AEISC is a party; or (ix) any other cause or circumstance foreseen or unforeseen, whether similar or dissimilar to any of the foregoing.

(c) American Equity shall pursue any claims which it may now or hereafter have against AEISC or any other Person independently of the rights of AEISC to receive payments from American Equity pursuant to this Section 3.

SECTION 4. SERVICER.

4.01 APPOINTMENT. AEISC hereby, to the exclusion of any other Person except to the extent provided in the Security Agreement, appoints the Servicer to perform the Servicing Functions in the name and on behalf of AEISC, and the Servicer hereby accepts such appointment, all upon the terms and conditions set forth in this Section 4.

4.02 THE SERVICING FUNCTIONS. The Servicing Functions to be performed by the Servicer on behalf of AEISC at no cost to AEISC shall be the management and administrative functions that are described below:

(a) the preparation and delivery of any payment, notice, instrument,

form, document, agreement, invoice or other item required to be delivered to any Person pursuant to the terms of the this Agreement and the accurate maintenance of all financial, business and corporate records of AEISC; and

(b) all other administrative obligations, duties, and functions of AEISC.

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AEISC shall be entitled, upon request, to full access to and use of all computer programs and software, training manuals, data, records, forms correspondence, files, and other materials used by the Servicer in performing the Servicing Functions.

4.03 OUTSIDE PROFESSIONALS AND OTHERS. The Servicer shall be entitled, in its sole discretion, to engage, at the expense of the Servicer, such outside legal counsel, accountants, actuaries, consultants, other professionals, and other Persons as the Servicer shall, from time to time, deem necessary or appropriate in the performance of the Servicing Functions (collectively, the "Outside Workers"). Such Outside Workers may, in the sole discretion of the Servicer, be Outside Workers who perform such or similar functions for the Servicer, and no conflict shall be deemed to exist on account thereof. In lieu of or in addition to engaging Outside Workers, the Servicer may employ its own or its affiliates' employees for purposes of the foregoing, and no conflict shall be deemed to exist on account thereof.

4.04 STANDARD OF CARE. The Servicer will exercise and give the same care and attention to its obligations hereunder as it gives to all other corporate obligations of a comparable nature, provided it shall not be held responsible for any losses arising from any action taken by it in good faith absent misconduct or negligence.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF AMERICAN EQUITY. American Equity represents and warrants to AEISC as of the date hereof as follows:

5.01 CORPORATE EXISTENCE. American Equity: (a) is an insurance corporation duly organized and validly existing under the laws of the State of Iowa; (b) has all requisite corporate power, and has all governmental licenses and authorizations, consents and approvals necessary to own its assets and carry on its business as now being or as proposed to be conducted; and (c) is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such qualifications necessary.

5.02 FINANCIAL CONDITION AND OTHER INFORMATION.

(a) American Equity has delivered to AEISC a copy of: (i) the annual statement of American Equity submitted to the Iowa Division of Insurance (the "ANNUAL STATEMENT") for the year ended December 31, 2001 and (ii) the affirmative certification of its actuary as to the adequacy of the reserves for liabilities determined in accordance with SAP reflected on the Annual Statement for the year ended December 31, 2001. The Annual Statement and Actuarial Certification described above in this paragraph (a) are hereinafter collectively called the "FINANCIAL STATEMENTS." The Financial Statements (including in each case, without limitation, the related schedules and notes) fairly present the financial condition of American Equity. The Financial Statements described in clause (i) have been prepared in accordance with SAP consistently applied by American Equity throughout the periods involved.

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(b) There are no material liabilities, contingent or otherwise, of American Equity as of December 31, 2001 not reflected in the Annual Statement of American Equity as of said date referred to in clause (i) of paragraph (a). Since said date, there has been no change in the financial condition, operations, business or prospects of American Equity from that set forth in the Financial Statements as at said date, other than changes in the ordinary course of business which have not, either individually or in the aggregate, been materially adverse to the financial condition, operations, business or prospects of American Equity.

(c) American Equity has prior to the execution and delivery of this Agreement delivered to AEISC a copy of the forms of the Commission Agreements and the Eligible Contracts.

5.03 LITIGATION; OBSERVANCE OF STATUTES, REGULATIONS AND ORDERS. There are no legal or arbitral proceedings or any proceedings by or before any court, arbitrator or Governmental Body, now pending or (to the knowledge of American Equity) threatened against American Equity which, if adversely determined, could be expected to have a material adverse effect on the financial condition, operations, business or prospects of American Equity.

American Equity is not in default under any Order of any court, arbitrator or Governmental Body. American Equity is not in violation of any statute or other rule or regulation of any Governmental Body the violation of which could be expected to have a material adverse effect on the financial condition, operation, business or prospects of American Equity.

5.04 NO BREACH. Neither the execution and delivery of this Agreement, the consummation of the transactions herein contemplated nor the compliance with the terms and provisions hereof will conflict with or result in a breach of, or require any consent under, the charter or by-laws of American Equity, or any statute, other rule or regulation or any Order of any Governmental Body, or any agreement or instrument to which American Equity is a party or by which it is bound or to which it is subject, or constitute a default under any such

agreement or instrument, or result in the creation or imposition of any Lien upon any of the revenues or assets of American Equity pursuant to the terms of any such agreement or instrument.

5.05 CORPORATE ACTION. American Equity has all necessary corporate power and authority to execute, deliver and perform its obligations under this Agreement; the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action on its part, and this Agreement has been duly and validly executed and delivered by American Equity and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms.

5.06 APPROVALS. Except for the reports required under Chapter 521A of the Iowa Code (2002) applicable to Insurance Holding Company Systems, no authorization, approvals or consents of, and no filings or registrations with, any Governmental Body are necessary for the execution, delivery or performance by American Equity of this

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Agreement or for the validity and enforceability thereof.

5.07 ERISA. No employee benefit plan established or maintained by American Equity or to which American Equity has made contributions, which is subject to Part 3 of Subtitle B of Title 1 of ERISA, or Section 412 of the Code, including, without limitation, to the knowledge of American Equity, any Multiemployer Plan, has an accumulated funding deficiency (as such term is defined in Section 302 of ERISA or Section 412 of the Code), or had such a deficiency as of the last day of the most recent fiscal year of such plan heretofore ended, and each such plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and any applicable federal or state law. No liability to PBGC (other than required insurance premiums, all of which have been paid when due) has been incurred with respect to any such plan and there has not been any reportable event within the meaning of ERISA, or any other event or condition, which presents a material risk of termination of any such plan by PBGC. To the knowledge of American Equity after due inquiry, neither any such plan nor any trust created thereunder, nor any trustee or administrator thereof, has engaged in a prohibited transaction (as such term is defined in Section 4975 of the Code) nor will the transactions contemplated by this Agreement constitute such a prohibited transaction, in any such case that could subject any such plan, trust, trustee (to the extent indemnified by American Equity), administrator or American Equity to any tax or penalty on prohibited transactions imposed under Section 4975 or ERISA or by Section 502(i) of ERISA which could have a material adverse effect on the business, operations or properties of American Equity. No liability has been incurred by American Equity with respect to any Multiemployer Plan, within the meaning of Section 4001(a)(3) of ERISA as a result of the complete or partial withdrawal by American Equity from such Multiemployer Plan under Section 4201 or 4204 of ERISA that could have a material adverse effect on the business, operations or properties of American Equity; nor has American Equity been notified by any such Multiemployer Plan that such Multiemployer Plan is in reorganization or insolvency under and within the meaning of Section 4241 or 4245 of ERISA or that such Multiemployer Plan intends to terminate or has been terminated under Section 4041A or ERISA.

5.08 TAXES. American Equity has filed all United States Federal income tax returns and all other tax returns that are required to have been filed in any jurisdiction. American Equity has paid all taxes due pursuant to such returns before they have become delinquent and pursuant to any assessment received by American Equity. The charges, accruals and reserves on the books of American Equity in respect of taxes and other governmental charges are, in the opinion of American Equity, adequate.

5.09 INVESTMENT COMPANY ACT. American Equity is not an "investment company", or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

5.10 PUBLIC UTILITY HOLDING COMPANY ACT. American Equity is not a "holding company," or an "affiliate" of a "holding company" or a "subsidiary company" of "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended.

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SECTION 6. REPRESENTATIONS AND WARRANTIES OF AEISC. AEISC represents and warrants to American Equity as of the date hereof as follows:

6.01 CORPORATE EXISTENCE. Subject, in the case of clauses (a) and (b) hereof, to Section 6.07 hereof, AEISC: (a) is a corporation duly organized and validly existing under the laws of the State of Iowa; (b) has all requisite corporate power, and has all governmental licenses, authorizations, consents and approvals necessary to own its assets and carry on its business as now being or as proposed to be conducted; and (c) is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary. The Company has no Subsidiaries.

6.02 FINANCIAL CONDITION. The balance sheet of AEISC as at December 31, 2001 heretofore furnished to American Equity, is complete and correct and fairly presents the financial condition of AEISC as at said date, all in accordance with generally accepted accounting principles and practices. AEISC did not have on said date any contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in said balance sheet as at said date. Since December 31, 2001, there has been no material adverse change in the financial condition, operations, business or prospects of AEISC from that set forth in said financial statement as at said

date. AEISC has not paid any salary or any other form of compensation for services to any Person except the President of AEISC; incurred any obligation, contractually or otherwise, to any Person except as was necessary or advisable for the compliance with Section 6.01 hereof; or created or maintained any Plan or been a participant in any Multiemployer Plan.

6.03 LITIGATION. There are no legal or arbitral proceedings or any proceedings by or before any court, arbitrator or Governmental Body, now pending or (to the knowledge of AEISC) threatened against AEISC.

6.04 NO BREACH. None of the execution and delivery of this Agreement, the consummation of the transactions herein contemplated and compliance with the terms and provisions hereof will conflict with or result in a breach of, or require any consent under, the charter or by-laws of AEISC, or any applicable statute, other rule or regulation, or any Order of any Governmental Body, or any agreement or instrument to which AEISC is a party or by which it is bound or to which it is subject, or constitute a default under any such agreement or instrument, or (except for the Liens created pursuant to the Security Documents) result in the creation or imposition of any Lien upon any other revenues or assets of AEISC pursuant to the terms of any such agreement or instrument.

6.05 CORPORATE ACTION. AEISC has all necessary corporate power and authority to execute, deliver and perform its obligations under this Agreement; the execution, delivery and performance by AEISC of this Agreement has been duly authorized by all necessary corporate action on its part; and this Agreement has been duly and validly executed and delivered by AEISC and constitutes, when executed and delivered, its legal, valid and binding obligation, enforceable in accordance with its terms.

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6.06 APPROVALS. No authorizations, approvals or consents of, and no filings or registrations with, any Governmental Body are necessary for the execution, delivery or performance by AEISC of this Agreement or for the validity or enforceability thereof, except as provided in Section 6.07 hereof.

6.07 INSURANCE AGENCY LICENSES. AEISC has made application to the appropriate state authorities in each jurisdiction in which it anticipates it will conduct business to enable it or its duly appointed representative to act as a licensed insurance agency in such jurisdiction.

SECTION 7. CERTAIN COVENANTS OF AEISC.

7.01 DELIVERY OF INFORMATION, ETC. AEISC will:

(a) furnish to American Equity, its counsel, accountants and other representatives full access to all of its properties, books, contracts, commitments, reports and records and shall furnish American Equity with all information concerning its business and affairs as American Equity may request; and

(b) pay and otherwise perform fully and in a timely manner all of its obligations under this Agreement.

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7.02 CORPORATE EXISTENCE, ETC. AEISC will:

(a) preserve and maintain its corporate existence and all of its material rights, privileges and franchises;

(b) comply with the requirements of all applicable statutes, other rules and regulations and Orders of any court, arbitrator or Governmental Body if failure to comply with such requirements would not adversely affect the financial condition, operations, business or prospects of AEISC;

(c) pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its property prior to the date on which penalties attach thereto, except for any such tax, assessment, charge or levy the payment of which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained;

(d) maintain all of its properties used or useful in its business in good working order and condition, ordinary wear and tear excepted; and

(e) permit representatives of American Equity, during normal business hours, to examine, copy and make extracts from its books and records, to inspect its properties, and to discuss its business and affairs with its officers, all to the extent reasonably requested by American Equity.

7.03 INSURANCE. AEISC will keep insured, by financially sound and reputable insurers, all property of a character usually insured by corporations engaged in the same or similar business similarly situated against loss or damage of the kinds and in the amounts customarily insured against by such corporations and carry such other insurance as is usually carried by such corporations.

7.04 PROHIBITION OF FUNDAMENTAL CHANGES. AEISC will not enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution). AEISC will not acquire any business or assets from, or capital stock of, or be a party to any acquisition of, any Person. AEISC will not convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or a substantial part of its business or assets, whether now owned or hereafter acquired.

SECTION 8. CERTAIN COVENANTS OF AMERICAN EQUITY.

8.01 DELIVERY OF INFORMATION. American Equity will furnish to AEISC:

(a) on or prior to the last day of each Calendar Quarter, a Settlement Statement in form and content satisfactory to the parties;

(b) within 60 days after the end of each of American Equity's fiscal

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years, copies of the Annual Statement of American Equity;

(c) within 60 days after the end of each of American Equity's fiscal quarters, copies of the quarterly financial statements of American Equity prepared in accordance with SAP as filed with the Iowa Division of Insurance for such accounting period;

(d) as soon as available and in any event within 120 days after each calendar year, a report of Ernst & Young or other independent accountants of recognized national standing selected by American Equity and reasonably satisfactory to AEISC, which shall indicate that based upon a review by such auditors of appropriate American Equity financial records all amounts due from American Equity to AEISC hereunder were properly computed and paid;

(e) at any time and from time to time upon the request of AEISC, a report of an independent actuarial firm of recognized national standing selected by American Equity and reasonably satisfactory to AEISC containing a comparison of the actuarial experience with respect to Eligible Contracts during any given calendar period with the assumptions with respect thereto; and

(f) such other documentation and information relating to Eligible Contracts as AEISC shall reasonably request.

8.02 LITIGATION. American Equity will promptly give to AEISC notice of all legal or arbitral proceedings, and of all proceedings by or before any court, arbitrator or Governmental Body affecting American Equity except proceedings which, if adversely determined, would not have a material adverse effect on the financial condition, operations, business or prospects of American Equity and any material development in respect of such legal or other proceedings.

8.03. CORPORATE EXISTENCE, ETC. American Equity will: preserve and maintain its corporate existence and all rights, privileges and franchises; comply with the requirements of all applicable statutes, other rules and regulations and orders of any court, arbitrator or Governmental Body if failure to comply with such requirements would adversely affect the financial condition, operations, business or prospects of American Equity; pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its property prior to the date on which penalties attach thereto, except for any such tax, assessment, charge or levy the payment of which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained; maintain all of its properties used or useful in its business in good working order and condition, ordinary wear and tear excepted; and permit representatives of AEISC during normal business hours to examine, copy and make extracts from its books and records (which shall be maintained at the office of American Equity and shall include all records that are necessary to comply with all of American Equity's obligations under the Basic Documents, including manually maintained list, computer generated printouts that identify all of the Eligible Contracts to inspect its properties, and to discuss its business and affairs with its officers, all to the extent reasonably requested by AEISC. American Equity will not default or permit any event of default to occur or be continuing under any

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indebtedness for borrowed money of American Equity or its parent company, American Equity Investment Life Holding Company, a Delaware corporation.

8.04 INSURANCE. American Equity will keep insured by financially sound and reputable insurers all property of a character usually insured by corporations engaged in the same or similar business similarly situated against loss or damage of the kinds and in the amounts customarily insured against by such corporations and carry such other insurance as is usually carried by such corporations.

8.05 CORRECTION OF ERRORS. As soon as reasonably practicable after becoming aware of an error in any Settlement Statement previously delivered to AEISC pursuant to Section 8.01(a) hereof, the effect of which error is that American Equity shall have defaulted in the payment when due and payable of any amount payable by it under this Agreement, American Equity will correct any such error by making such payment in the prescribed manner.

8.06 AMENDMENT OF CONTRACT FORMS. American Equity will not, without the prior written approval of AEISC (which consent shall not be unreasonably withheld), amend, modify, supplement, terminate or waive any of the provisions of the forms of Eligible Contracts as such forms exist on the date hereof.

SECTION 9. AMERICAN EQUITY OPTION. Notwithstanding anything in this Agreement to the contrary, in the event of a default by AEISC under this Agreement or any other agreement to which AEISC is a party, American Equity shall have the right (but not the obligation) to take such action, on behalf of AEISC or on its own behalf or otherwise, as it deems necessary or desirable to cure such default.

SECTION 10. TERMINATION. The obligations of AEISC and American Equity shall terminate on January 31, 2008.

SECTION 11. MISCELLANEOUS.

11.01 WAIVER. No failure on the part of either party to this Agreement to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

11.02 NOTICES. All notices and other communications provided for herein (including, without limitation, any modifications of, or waivers or consents under, this Agreement) shall be given or made by telex, telecopy, telegraph, cable or in writing and telexed, telecopied, telegraphed, cabled, mailed or delivered to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as

otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telex or telecopier, delivered to the telegraph or cable office or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid.

11.03 AMENDMENTS, ETC. No provision of this Agreement may be amended or modified except by an instrument in writing and signed by AEISC and American Equity.

11.04 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

11.05 ASSIGNMENTS. Neither party to this Agreement may assign its rights or obligations hereunder without the prior written consent of the other party.

11.06 CAPTIONS. The table of contents and captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

11.07 COUNTERPARTS. This Agreement may be executed in any number of counterparts, all of which all of taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

11.08 GOVERNING LAW; SUBMISSION TO JURISDICTION. This Agreement shall be governed by, and construed in accordance with, the law of the State of Iowa.

11.09 WAIVER OF JURY TRIAL. EACH OF AEISC AND AMERICAN EQUITY HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

AMERICAN EQUITY INVESTMENT
LIFE INSURANCE COMPANY

AMERICAN EQUITY INVESTMENT
SERVICE COMPANY

By: /s/ D. J. Noble

D. J. Noble, President

By: /s/ D. J. Noble

D. J. Noble, President

AMENDED AND RESTATED
CREDIT AGREEMENT

Dated as of December 30, 2002

Among

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY,

THE BANKS,
as defined herein,

and

U.S. BANK NATIONAL ASSOCIATION,
as a Bank and as Agent

EXECUTION COPY

AMENDED AND RESTATED
CREDIT AGREEMENT

THIS AMENDED AND RESTATED CREDIT AGREEMENT, dated as of December 30, 2002 is by and between AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY, an Iowa corporation (the "Borrower"), the banks or financial institutions listed on the signature pages hereof or which hereafter become parties hereto as hereinafter provided (individually referred to as a "Bank" or collectively as the "Banks"), WEST DES MOINES STATE BANK, an Iowa state bank, as Co-Agent (in such capacity, the "Co-Agent"), FLEET NATIONAL BANK, a national banking association, as Documentation Agent (in such capacity, the "Documentation Agent") and U.S. BANK NATIONAL ASSOCIATION, a national banking association, as agent for the Banks (together with its successors in such capacity, the "Agent").

Preliminary Statement

The Borrower, the Banks and the Agent have heretofore entered into a Second Amended and Restated Revolving Credit Agreement dated as of April 6, 2000 (the "Existing Credit Agreement"), pursuant to which the Banks have made certain loans available to the Borrower on a revolving credit basis. The Borrower elected, pursuant to the Existing Credit Agreement, to convert such loans into term loans. The unpaid principal balance of such term loans shall be continued hereunder and shall constitute the "Tranche A Loans" under this, amending and restating the Existing Credit Agreement.

The Borrower and certain of the Banks (the "Tranche B Banks" hereunder) have agreed that the Tranche B Banks shall make additional loans to the Borrower called the "Tranche B Loans" hereunder.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree that the Existing Credit Agreement is amended and restated in its entirety to read in full as follows:

ARTICLE I DEFINITIONS AND ACCOUNTING TERMS

Section 1.1 DEFINED TERMS. In addition to the terms defined elsewhere in this Agreement, the following terms shall have the following respective meanings (and such meanings shall be equally applicable to both the singular and plural form of the terms defined, as the context may require):

"ADJUSTED CAPITAL": As to AEILIC, as of any date, the total amount shown on line 30, page 27, column 1 of the Annual Statement of AEILIC, or an amount determined in a consistent manner for any date other than one as of which an Annual Statement is prepared. Such amount is intended to equal the "total adjusted capital" as defined in IOWA CODE SECTION 521E.1, or such other amount as is used to calculate risk-based capital level of AEILIC from time to time.

"ADJUSTED CAPITAL AND SURPLUS": As to AEILIC, as of any date, the sum of (a) Capital and Surplus as of such date, plus (b) IMR/AVR of AEILIC as of such date.

"ADVANCE": The portion of the outstanding Loans bearing interest at an identical rate for an identical Interest Period, provided that all Prime Rate Advances shall be deemed a single Advance. An Advance may be a "Eurodollar Advance" or "Prime Rate Advance" (each, a "type" of Advance).

"AEILIC": American Equity Investment Life Insurance Company, an Iowa insurance company.

"AEISC": American Equity Investment Service Company, an Iowa corporation.

"AEISC NOTE": Promissory Note, dated December 29, 1999, in the principal amount of \$50,000,000, payable by AEISC to the Borrower, as amended, modified, extended, renewed or replaced from time to time.

"AEISC NOTE COLLECTIONS" Any Collections representing payment of the AEISC Notes, proceeds of sale of the AEISC Notes, or distribution, adequate protection payment or similar amount received in respect of the AEISC Notes for the Obligations or otherwise in any insolvency case or proceeding involving the Borrower or AEISC.

"AEISC SECURITY AGREEMENT": The Third Amended and Restated Security Agreement dated as of April 6, 2000, as acknowledged and amended by the Acknowledgement of Security Agreement in the form of EXHIBIT B hereto, between AEISC and the Agent for the benefit of the Agent and the Banks, as the same may be amended, supplemented, restated or otherwise modified in writing from time to time by AEISC and the Agent.

"AFFILIATE": Any Person (other than a Subsidiary and other than U.S. Bank National Association): (a) which directly or indirectly through one or more intermediaries controls, or is controlled by, the Borrower; (b) which beneficially owns or holds 5% or more of the equity interest of the Borrower; or (c) 5% or more of the equity interest of which is beneficially owned or held by the Borrower or a Subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"AGENT": U.S. Bank National Association as agent for the Banks hereunder and each successor, as provided in SECTION 12.7, who shall act as Agent.

"AGENT'S FEE LETTER" means the letter agreement, dated as of December 30, 2002 (as thereafter amended, modified, renewed or replaced from time to time) between the Agent and the Borrower pertaining to certain fees.

"AGREEMENT": This Amended and Restated Credit Agreement, as it may be amended, modified, supplemented, restated or replaced from time to time.

"A.M. BEST": A.M. Best & Company.

"AMOUNTS AVAILABLE FOR DIVIDENDS": For any fiscal year of AEILIC, the maximum amount of dividends AEILIC is permitted to pay for such fiscal year under the Applicable Insurance Code of its state of domicile without necessitating approval of the Insurance Regulatory Authority.

"ANNUAL STATEMENT": As to any Insurance Subsidiary, the annual financial statements of such Insurance Subsidiary as required to be filed with the applicable Insurance Regulatory Authority, together with all exhibits and schedules filed therewith, prepared in conformity with SAP. References to amounts on particular exhibits, schedules, lines, pages and columns of the Annual Statement are based on the format promulgated by the NAIC for 2001 Life, Accident and Health Insurance Company Annual Statements. If such format is changed in future years so that different information is contained in such items or they no longer exist, it is understood that the reference is to information consistent with that reported in the referenced item in the 2001 Annual Statement of the Insurance Subsidiary.

"APPLICABLE INSURANCE CODE": As to any Insurance Subsidiary, the insurance code of any state where such Insurance Subsidiary is domiciled or doing insurance business and any successor statute of similar import, together with the regulations thereunder, as amended or otherwise modified and in effect from time to time. References to sections of the Applicable Insurance Code shall be construed to also refer to successor sections.

"AVERAGE INVESTED ASSETS": The sum of the Weighted Invested Assets for each of the four quarters within the twelve month period ending on the last day of any calendar quarter divided by 2.5.

"BORROWER PLEDGE AGREEMENT": The Second Amended and Restated Pledge Agreement dated as of April 6, 2000, as acknowledged and amended by the Acknowledgement of Security Agreement in the form of EXHIBIT C hereto, between the Borrower and the Agent for the benefit of the Agent and the Banks, as the same may be amended, supplemented restated or otherwise modified in writing from time to time by the Borrower and the Agent.

"BUSINESS DAY": Any day (other than a Saturday, Sunday or legal holiday in the State of Minnesota) on which national banks are permitted to be open in Minneapolis, Minnesota and New York, New York and, with respect to Eurodollar Advances, a day on which dealings in Dollars may be carried on by the Agent in the interbank eurodollar market.

"CAPITAL AND SURPLUS": As to AEILIC as of any date, the total amount shown on line 38, page 3, column 1 of the Annual Statement of AEILIC.

"CAPITALIZED LEASE LIABILITIES": With respect to any Person, all monetary obligations of such Person under any leasing or similar arrangement which, in accordance with GAAP, would be classified as a capitalized lease, and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP, and the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"CASH COVERAGE RATIO": The ratio, determined on a consolidated basis for the Borrower and its Subsidiaries at the end of each fiscal quarter for the period of four consecutive fiscal quarters then ending of:

(a) the total of the following: (i) Amounts Available for Dividends as of

(A) the last day of the most recently completed fiscal year, if the determination of Cash Coverage Ratio is being made at the end of any of the first three fiscal quarters of a fiscal year, or (B) the first day of the following fiscal year, if the determination of Cash Coverage Ratio is being made at the end of the fourth quarter of a fiscal year; PLUS (ii) interest paid on the Surplus Notes; PLUS (iii) commissions paid by AEILIC pursuant to the General Agency Commission Agreement; PLUS (iv) revenues of the Borrower under the Investment Advisory Agreement; PLUS (v) investments income of the Borrower (nonconsolidated), excluding investments in Subsidiaries; MINUS (vi) cash operating expenses of the Borrower; and MINUS (vii) all Restricted Payments made by the Borrower during the current fiscal year;

TO

(b) Fixed Charges for such period.

"CASH EQUIVALENTS": Any of the following: (a) securities with maturities of one (1) year or less from the date of determination issued or fully guaranteed or insured by the United States Government, or any instrumentality or agency thereof, (b) certificates of deposit, eurodollar time deposits, overnight bank deposits, bankers' acceptances and repurchase agreements of any Bank or any other commercial bank whose unsecured long-term debt obligations are rated at least "BBB-" by Fitch, "BBB-" by Standard & Poor's, "Baa-" by Moody's or "NAIC 2" by the NAIC having maturities of six (6) months or less from the date of determination, and (c) commercial paper having maturities of six (6) months or less from the date of determination rated at least "A-" by Standard & Poor's, "P-2" by Moody's, "F-2" by Fitch or "NAIC 2" by the NAIC, or carrying an equivalent rating by a nationally recognized rating agency, if all of the named rating agencies cease publishing ratings of investments.

"CHANGE OF CONTROL": A Change of Control shall be deemed to have occurred at such times as: (a) the Borrower ceases to own, free and clear of all Liens other than the Lien of the Agent pursuant to the Loan Documents, 100% of the outstanding shares of voting stock of AEILIC; (b) U.S. Bank National Association shall directly or indirectly have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities Exchange Commission under the Securities Exchange Act of 1934, as amended) of 30% or more of the outstanding shares of voting stock of the Borrower; (c) any Person other than U.S. Bank National Association, or two or more of such other Persons acting in concert who shall, as of the date of this Agreement, have owned 10% or less of the outstanding shares of voting stock of the Borrower shall directly or indirectly have acquired beneficial ownership (within the meaning of said Rule 13d-3) of 30% or more of the outstanding shares of voting stock of the Borrower, or (d) individuals who as of the date of this Agreement constitute the Borrower's Board of Directors (together with any new director whose election or appointment was approved by at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or

nomination for election was previously so approved), for any reason, cease to constitute a majority of the directors at any time then in office.

"CMO DERIVATIVE INVESTMENTS": Investments consisting of financial derivatives the value, pricing or yield of which is dependent upon the value, pricing or yield of collateralized mortgage obligations, as such terms are used in the United States financial markets, including, in an case, without limitation interest-only and principal-only bonds, residuals, floaters and inverse floaters and similar Investments.

"CODE": The Internal Revenue Code of 1986, as amended, or any successor statute, together with regulations thereunder.

"COLLECTIONS": Any payment received by the Agent in respect of the Obligations or any reduction in the amount of Obligations, whether by voluntary payment, by realization upon collateral (including payment of any note or security included thereunder), through the exercise of any right of set-off, banker's lien or similar right, by counterclaim or cross action or by the enforcement of any other right under the Loan Documents, or under any other guaranties or security agreements or otherwise, or as a distribution, adequate protection payment or similar amount received in respect of any collateral for the Obligations or otherwise in any insolvency case or proceeding involving the Borrower, any guarantor, third-party pledgor or obligee under any collateral.

"COMPANY ACTION LEVEL": AEILIC's "company-action-level risk-based capital" as calculated under IOWA CODE SECTION 521E, and the equivalent amount for any other Insurance Subsidiary, as calculated under the laws or regulations of Insurance Regulatory Authorities applicable to such other Insurance Subsidiaries.

"COMPLIANCE CERTIFICATE": A certificate in the form of EXHIBIT D, duly completed and signed by an authorized officer of the Borrower.

"CONSENT AND AGREEMENT TO SECURITY AGREEMENT" The Consent and Agreement to Security Agreement dated as of April 6, 2000, by AEILIC, as acknowledged and amended by the Acknowledgement of Consent and Agreement to Security Agreement in the form of EXHIBIT E hereto, as the same may be amended, supplemented restated or otherwise modified in writing from time to time by the Borrower and the Agent.

"CONTINGENT OBLIGATION": Any agreement, undertaking or arrangement by which any Person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the debt, obligation or other liability of any other Person (other than by endorsements of instruments in the

course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other Person; PROVIDED, THAT the Borrower's assumption of the trade debt of its Subsidiaries and obligations of the Borrower or the Insurance Subsidiaries under Reinsurance Agreements and Surplus Relief Reinsurance Agreements shall not be deemed Contingent Obligations of the Borrower or the Insurance Subsidiaries. The amount of any Person's liability with respect to any Contingent Obligation shall (subject to any limitation set forth therein) be deemed to be the

outstanding principal amount (or maximum outstanding principal amount, if larger) of the debt, obligation or other liability outstanding thereunder.

"DEFAULT": Any event which, with the giving of notice to the Borrower or lapse of time, or both, would constitute an Event of Default.

"8% SUBORDINATED DEBENTURES": The 8% Convertible Junior Subordinated Debentures issued by the Borrower in the aggregate amount of \$26,773,237 in exchange for the proceeds received by Trust I upon issuance of the 8% Trust Securities.

"8% TRUST SECURITIES": The preferred securities and the common securities issued by Trust I.

"ERISA": The Employee Retirement Income Security Act of 1974, as amended, and any successor statute, together with regulations thereunder.

"ERISA AFFILIATE": Any trade or business (whether or not incorporated) that is a member of a group of which the Borrower is a member and which is treated as a single employer under Section 414 of the Code.

"EURODOLLAR ADVANCE": An Advance designated as such in a notice of continuation or conversion under SECTION 2.3.

"EURODOLLAR INTERBANK RATE": The offered rate for deposits in United States Dollars for delivery of such deposits on the first day of an Interest Period of a Eurodollar Advance, for the number of days comprised therein, quoted by the Agent from Page 3750 of the Bridge's Telerate Service as of approximately 11:00 a.m., London time, on the day that is two Banking Days preceding the first day of the Interest Period of such Eurodollar Advance, or the rate for such deposits determined by the Agent at such time based on such other published service of general application as shall be selected by the Agent for such purpose; provided, that in lieu of determining the rate in the foregoing manner, the Agent may determine the rate based on rates offered to the Agent for deposits in United States Dollars in the interbank eurodollar market at such time for delivery on the first day of the Interest Period for the number of days comprised therein.

"EURODOLLAR RATE (RESERVE ADJUSTED)": A rate per annum calculated for the Interest Period of a Eurodollar Advance in accordance with the following formula:

$$\text{ERRA} = \frac{\text{EURODOLLAR INTERBANK RATE}}{1.00 - \text{ERR}}$$

In such formula, "ERR" means "Eurodollar Reserve Rate" and "ERRA" means "Eurodollar Rate (Reserve Adjusted)", in each instance determined by the Agent for the applicable Interest Period. The Agent's determination of all such rates for any Interest Period shall be conclusive in the absence of manifest error.

"EURODOLLAR RESERVE RATE": A percentage equal to the daily average during such Interest Period of the aggregate maximum reserve requirements (including all basic, supplemental, marginal and other reserves), as specified under Regulation D of the Federal Reserve Board, or any other applicable regulation that prescribes reserve requirements applicable to Eurocurrency liabilities (as presently defined in Regulation D) or applicable to extensions of credit by the Agent the rate of interest on which is determined with regard to rates applicable to Eurocurrency liabilities. Without limiting the generality of the foregoing, the Eurocurrency Reserve Rate shall reflect any reserves required to be maintained by the Agent against (i) any category of liabilities that includes deposits by reference to which the Eurodollar Interbank Rate is to be determined, or (ii) any category of extensions of credit or other assets that includes Eurodollar Advances.

"EVENT OF DEFAULT": Any event described in SECTION 10.1.

"FBL TRUST SECURITIES": The 5% Trust Preferred Securities issued by FBL Financial Group, Inc. in the nominal amount of \$97,000,000.

"FEDERAL RESERVE BOARD": The Board of Governors of the Federal Reserve System or an successor thereto.

"FITCH": Fitch Investors Services, Inc.

"5% SUBORDINATED DEBENTURES": The 5% Subordinated Debentures issued by the Borrower in a nominal amount of \$100,000,000 in exchange for the proceeds received by Trust II upon issuance of Trust II Securities.

"5% TRUST SECURITIES": The preferred securities and the common securities issued by Trust II.

"FIXED CHARGES": With respect to any period of calculation, the total of the following for the Borrower and its Subsidiaries: (i) interest paid or,

without duplication, accrued but unpaid on the Loans and all other Indebtedness (other than Indebtedness in respect of Repurchase Transactions), PLUS (ii) distributions on the 8% Trust Preferred Securities and the 5% Trust Preferred Securities, PLUS (iii) one fifth (1/5) of the amount of the Loans outstanding on the last day of such period.

"GAAP": Generally accepted accounting principles as applied in the preparation of the audited financial statements of the Borrower referred to in SECTION 7.5, PROVIDED that changes in generally accepted accounting principles shall be given effect for purposes of this Agreement as provided in SECTION 1.2.

"GENERAL AGENCY COMMISSION AGREEMENT": That certain 1999 General Agency Commission and Servicing Agreement, dated as of June 30, 1999 between AEISC and AEILIC, as the same shall be modified and supplemented in accordance with SECTION 9.18 hereof and in effect from time to time.

"HEDGING OBLIGATIONS": With respect to any Person, all liabilities of such Person under interest rate swap agreements, total return swap agreements, interest rate cap agreements, interest

rate collar agreements and other agreements designed to protect the such Person against fluctuations in interest rates or currency exchange rates.

"IMR/AVR": As to any Insurance Subsidiary at a particular date, the sum of (a) the interest maintenance reserve of such Insurance Subsidiary, computed in accordance with SAP as reported on line 9.4, page 3, column 1 of the Annual Statement PLUS (b) the asset valuation reserve of such Insurance Subsidiary, computed in accordance with SAP as reported on line 24.1, page 3, column 1 of the Annual Statement.

"INDEBTEDNESS": With respect to any Person at any date, all obligations, contingent or otherwise, which in accordance with GAAP should be classified upon such Person's balance sheet as liabilities, but in any event including the following (whether or not they should be classified as liabilities upon such balance sheet), without duplication: (a) all obligations of such Person for borrowed money or in respect of loans or advances; (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (c) all obligations in respect of letters of credit, whether or not drawn, and bankers' acceptances issued for the account of such Person; (d) all Capitalized Lease Liabilities of such Person; (e) all Hedging Obligations of such Person; (f) all obligations of such Person secured by a contractual Lien; (g) whether or not so included as liabilities in accordance with GAAP, all obligations of such Person to pay the deferred purchase price of property or services, and Indebtedness secured by a Lien on property owned or being purchased by such Person (including Indebtedness arising under conditional sales or other title retention agreements) whether or not such Indebtedness shall have been assumed by such Person or is limited in recourse; (h) any Indebtedness of another Person secured by a lien on any assets of such first Person, whether or not such Indebtedness is assumed by such first Person; (i) any Indebtedness of a partnership in which such Person is a general partner; and (j) all Contingent Obligations of such Person whether or not in connection with the foregoing.

"INSURANCE REGULATORY AUTHORITY": With respect to any Insurance Subsidiary, each governmental or regulatory agency with which such Insurance Subsidiary is required to file its Annual Statement or which exercises regulatory authority over the primary businesses being conducted by such Insurance Subsidiary.

"INSURANCE SUBSIDIARIES": AEILIC and all other Subsidiaries which at the time of reference are regulated as insurance companies under the laws of any state of the United States of America or of the District of Columbia.

"INTEREST PERIOD" For any Eurodollar Advance, the period commencing on the borrowing date of such Eurodollar Advance or the date a Prime Rate Advance is converted into such Eurodollar Advance, or the last day of the preceding Interest Period for such Eurodollar Advance, as the case may be, and ending on the numerically corresponding day one, two, three or six months thereafter, as selected by the Borrower pursuant to SECTION 2.3; PROVIDED, that:

(a) any Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day unless such next succeeding Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) Interest Periods shall not be chosen for Advances that would require payment of any amount of any Advance prior to the last day of the Interest Period in order to pay an installment of the Loans when due.

"INVESTED ASSETS": As to any Insurance Subsidiary, as of any date, the amount reported on line 11, page 2, column 1 of the Annual Statement, or an amount determined in a consistent manner for any date other than one as of which an Annual Statement is prepared.

"INVESTMENT": The acquisition, purchase, making or holding of any stock or other security, any loan, advance, contribution to capital, extension of credit (except for trade and customer accounts receivable for inventory sold or services rendered in the ordinary course of business and payable in accordance with customary trade terms), any acquisitions of real or personal property

(other than real and personal property acquired in the ordinary course of business) and any purchase or commitment or option to purchase stock or other debt or equity Securities of or any interest in another Person or any integral part of any business or the assets comprising such business or part thereof.

"INVESTMENT ADVISORY AGREEMENT": Each agreement between the Borrower and an Insurance Subsidiary under which the Borrower will act as investment advisor for such Insurance Subsidiary in consideration of fees paid by the Insurance Subsidiary thereunder.

"INVESTMENT GRADE SECURITIES": (a) Investments which are rated at least "BBB-" by Standard & Poor's, "Baa-3" by Moody's, or "NAIC 2" by the NAIC, and (b) municipal bonds which are rated at least "SP-2" by Standard & Poor's, "Baa-3" or "MIG4" by Moody's, or "NAIC 2" by the NAIC.

"LEVERAGE RATIO": As of the last day of any fiscal quarter of the Borrower, that ratio (expressed as a percentage) of:

(a) the total of the following: (i) the aggregate principal amount of Loans outstanding plus (ii) Indebtedness of AEISC (without duplication)

TO

(b) Adjusted Capital and Surplus.

"LICENSES": As such term is defined in SECTION 7.18.

"LIEN": Any security interest, mortgage, pledge, lien, hypothecation, judgment lien or similar legal process, charge, encumbrance, title retention agreement or analogous instrument or device (including, without limitation, the interest of the lessors under capitalized leases and the interest of a vendor under any conditional sale or other title retention agreement).

"LOAN DOCUMENTS": Collectively, this Agreement, the Notes, the Borrower Pledge Agreement, the AEISC Security Agreement, the Consent and Agreement to Security Agreement and any and all other documents or instruments furnished or required to be furnished in connection with any of the foregoing, as the same may be amended or modified in accordance with this Agreement.

"LOAN" AND "LOANS": The Tranche A Loans and the Tranche B Loans.

"MATERIAL ADVERSE CHANGE" or "MATERIAL ADVERSE EFFECT": Any change, event, action, condition or effect which individually or in the aggregate (a) impairs the validity or enforceability of this Agreement, any other Loan Document, or (b) materially and adversely affects the business, operations, financial prospects or condition of the Borrower or AEILIC on an unconsolidated basis, or (c) materially impairs the ability of the Borrower and its Subsidiaries to perform their respective Obligations under this Agreement or any of the other Loan Documents, or (d) materially and adversely affects the perfection or priority of any Lien granted under any of the Loan Documents.

"MOODY'S": Moody's Investors Service, Inc. and any successor thereto.

"NAIC": National Association of Insurance Commissioners, or any successor organization.

"NET INVESTMENT INCOME": As to any calendar quarter, the amount reported by the Borrower as Net Investment Income on its Consolidated Statements of Operations as filed with the SEC in its Form 10Q or 10K for applicable periods, less investment income and/or expense arising from the Borrower's derivative securities.

"NET ISSUANCE PROCEEDS": With respect to any sale or issuance of any debt or equity securities of the Borrower or any Subsidiary, cash or readily marketable cash equivalents received therefrom, whether at the time of such disposition or subsequent thereto, net of all legal expenses, commissions and other fees and all costs and expenses directly related to such sale or issuance.

"NET YIELD PERCENTAGE": The percentage equal to the difference between the Weighted Average Yield and the Weighted Average Crediting Rate.

"NOTES": The Tranche A Notes and the Tranche B Notes.

"OBLIGATIONS": All obligations of the Borrower and/or any of its Subsidiaries to the Banks or the Agent, howsoever created, arising or evidenced, whether direct or indirect, joint or several, absolute or contingent, or now or hereafter existing, or due or to become due, which arise under, out of or in connection with this Agreement, the Notes or the other Loan Documents.

"PAYMENT DATE": The final maturity date of each of the Loans, plus (a) the last day of each Interest Period for each Eurodollar Advance and, if such Interest Period is in excess of three months after the first day of such Interest Period, thereafter each day three months after each succeeding Payment Date; and (b) the last day of each month for each Prime Rate Advance.

"PBGC": The Pension Benefit Guaranty Corporation, established pursuant to Subtitle A of Title IV of ERISA, and any successor thereto or to the functions thereof.

"PERCENTAGE": As to any Bank the proportion, expressed as a percentage, that such Bank's outstanding Loans (Tranche A Loans plus Tranche B Loans) bears to the outstanding Loans (Tranche A Loans plus Tranche B Loans) of all Banks, as adjusted from time to time as provided in SECTION 4.2(c).

"PERSON": Any natural person, corporation, partnership, joint venture, firm, association, trust, unincorporated organization, government or governmental agency or political subdivision or any other entity, whether acting in an individual, fiduciary or other capacity.

"PLAN": An employee benefit plan or other plan, maintained for employees of the Borrower or of any ERISA Affiliate, and subject to Title IV of ERISA or Section 412 of the Code.

"PRIME RATE": The rate of interest from time to time announced by the Agent as its "prime rate." For purposes of determining any interest rate which is based on the Prime Rate, such interest rate shall be adjusted each time that the prime rate changes.

"PRIME RATE ADVANCE": An Advance designated as such in a notice of continuation or conversion under SECTION 2.3.

"REINSURANCE AGREEMENTS": Any agreement, contract, treaty, certificate or other arrangement (other than a Surplus Relief Reinsurance Agreement) by which any of the Insurance Subsidiaries agrees to transfer or cede to another insurer all or part of the liability assumed or assets held by any one of the Insurance Subsidiaries under a policy or policies of insurance or under a reinsurance agreement assumed by any one of the Insurance Subsidiaries. Reinsurance Agreements shall include, but not be limited to, any agreement, contract, treaty, certificate or other arrangement (other than a Surplus Relief Reinsurance Agreement) which is treated as such by the applicable Insurance Regulatory Authority.

"REPORTABLE EVENT": A reportable event as defined in Section 4043 of ERISA and the -regulations issued under such Section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulation has waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided that a failure to meet the minimum funding standard of Section 412 of the Code and Section 302 of ERISA shall be a reportable event regardless of the issuance of any such waivers in accordance with Section 412(d) of the Code.

"REPURCHASE TRANSACTIONS": Repurchase agreements entered into by the Borrower, as "Seller," providing for the sale of certain securities to an investment banking firm, as "Buyer," subject to repurchase obligations of the Borrower, the total amount of which Repurchase Transactions outstanding at any time shall be related to the total amount of new annuities that the Borrower anticipates will be sold by AEILIC during the time such Repurchase Transactions are outstanding.

"REQUIRED BANKS": Those Banks whose total Percentages equal or exceed 51%, PROVIDED, that if there are two or three Banks, the Required Banks shall include not less than two of such Banks.

"RESTRICTED PAYMENTS": Defined in SECTION 9.5.

"RISK-BASED CAPITAL": The ratio of Adjusted Capital of AEILIC to the Company Action Level of AEILIC, as such formula is determined by the Iowa Insurance Division PROVIDED, HOWEVER, that for the fiscal year ending December 31, 2002 and the fiscal quarters ending March 31, 2003, June 30, 2003 and September 30, 2003, such ratio shall be determined in accordance with variations permitted by the letter of the Iowa Commissioner of Insurance dated November 12, 2002. On and after the fiscal quarter of AEILIC ending December 31, 2003, such ratio shall be determined in accordance with the requirements of the Iowa Insurance Division without application of such variations.

"SAP": As to any insurance company, the statutory accounting practices prescribed or permitted by the Insurance Regulatory Authority.

"STANDARD & POOR'S": Standard & Poor's Rating Group and any successor thereto.

"STATUTORY LIABILITIES": With respect to any of the Insurance Subsidiaries as of any date, the amount reported on line 28, page 3, column 1 of the Annual Statement of each of the Insurance Subsidiaries, less IMR/AVR of each of the Insurance Subsidiaries constituting Statutory Liabilities on the Annual Statement, or an amount determined in a consistent manner for any date other than one as of which an Annual Statement is prepared.

"STATUTORY NET INCOME": With respect to AEILIC for any period, the amount reported for such period on line 33, page 4, column 1 of the Annual Statement of AEILIC, or an amount determined in a consistent manner for any period other than the one for which an Annual Statement is prepared.

"SUBSIDIARY": Any Person of which or in which the Borrower and its other Subsidiaries own directly or indirectly 50% or more of: (a) the combined voting power of all classes of stock having general voting power under ordinary circumstances to elect a majority of the board of directors of such Person, if it is a corporation, (b) the capital interest or profit interest of such Person, if it is a partnership, limited liability company, joint venture or similar entity, or (c) the beneficial interest of such Person, if it is a trust, association or other unincorporated organization.

"SURPLUS NOTE": Any surplus note or debenture issued at any time by AEILIC to the Borrower, as such surplus note or debenture may be amended or modified in accordance with this Agreement and approved by the Insurance Regulatory Authority.

"SURPLUS NOTE 5": A Surplus Note issued by AEILIC on or about December 31,

2002 in the principal amount of \$10,000,000, as amended, modified, extended, renewed or replaced from time to time.

"SURPLUS NOTE 5 COLLECTIONS" Any Collections representing payment of the Surplus Note 5, proceeds of sale of the Surplus Note 5, or distribution, adequate protection payment or similar

amount received in respect of the Surplus Note 5 for the Obligations or otherwise in any insolvency case or proceeding involving the Borrower or AEILIC.

"SURPLUS RELIEF REINSURANCE AGREEMENTS": Any agreement whereby any of the Insurance Subsidiaries assumes or cedes business under a reinsurance agreement that would be considered a "financing-type" reinsurance agreement as determined in accordance with the Statement of Financial Accounting Standards 113 or any successor thereto.

"TRANCHE A AMOUNT": For each Tranche A Bank, the amount of its loans under the Existing Credit Agreement, continued as a Tranche A Loan hereunder, as shown on SCHEDULE 1.1 hereto.

"TRANCHE A APPLICABLE MARGIN": 0.00% for Prime Rate Advances, and 2.25% for Eurodollar Rate Advances.

"TRANCHE A BANKS": The Banks funding the Tranche A Loans, as designated on SCHEDULE 1.1 attached hereto.

"TRANCHE A LOANS": The loans described in SECTION 2.1(a).

"TRANCHE A NOTES": The promissory notes defined and described in SECTION 2.4(a).

"TRANCHE A PERCENTAGE": As to any Bank the proportion, expressed as a percentage, that such Bank's outstanding Tranche A Loans bears to the outstanding Tranche A Loans of all Tranche A Banks, as initially shown on SCHEDULE 1.1 hereto, as adjusted from time to time as provided in SECTION 4.2(c).

"TRANCHE B AMOUNT": For each Tranche B Bank, the initial amount of its Tranche B Loan hereunder, as shown on SCHEDULE 1.1 hereto.

"TRANCHE B APPLICABLE MARGIN": 0.00% for Prime Rate Advances, and 3.00% for Eurodollar Rate Advances.

"TRANCHE B BANKS": The Banks funding the Tranche B Loans, as designated on SCHEDULE 1.1 attached hereto.

"TRANCHE B LOANS": The loans described in SECTION 2.1(a).

"TRANCHE B NOTES": The promissory notes defined and described in SECTION 2.4(b).

"TRANCHE B PERCENTAGE": As to any Bank the proportion, expressed as a percentage, that such Bank's outstanding Tranche B Loans bears to the outstanding Tranche B Loans of all Tranche B Banks, as initially shown on SCHEDULE 1.1 hereto, as adjusted from time to time as provided in SECTION 4.2(c).

"TRUST I": American Equity Capital Trust I, a statutory trust created under the laws of the State of Delaware, of which 100% of the common securities issued by Trust I are owned by the Borrower.

"TRUST II": American Equity Capital Trust II, a statutory trust created under the laws of the State of Delaware, of which 100% of the common securities issued by Trust II are owned by the Borrower.

"U.S. GOVERNMENT SECURITIES": Obligations of, or obligations guaranteed as to principal and interest by, the United States Government or agency or instrumentality thereof.

"WEIGHTED AVERAGE CREDITING RATE": The sum of (a) the average rate credited on the AEILIC'S fixed annuities for the last twelve-month period as certified by AEILIC's chief actuary multiplied by the percentage equal to the quotient of the aggregate accumulation values of AEILIC'S fixed annuities divided by the aggregate accumulation values of all of AEILIC'S annuities and (b) the average rate credited on AEILIC'S equity index annuities for the last twelve-month period as certified by AEILIC'S chief actuary multiplied by the percentage equal to the quotient of the aggregate accumulation values of AEILIC'S equity index annuities divided by the aggregate accumulation values of all AEILIC'S annuities.

"WEIGHTED AVERAGE YIELD": Net Investment Income as determined on the last day of any calendar quarter for the twelve-month period ending on such date divided by the Average Invested assets for the same period.

"WEIGHTED INVESTED ASSETS": For any calendar quarter, the sum of (a) the available for sale fixed maturity securities, PLUS (b) the held for investment fixed maturity securities, PLUS (c) mortgage loans, all as reported on the Borrower's consolidated balance sheets as filed with the SEC in its Form 10Q or 10K for the applicable period multiplied by the percentage reflecting the number of quarters within the applicable twelve month period in which such assets were held by the Borrower.

Section 1.2 ACCOUNTING TERMS AND CALCULATIONS. Except as may be expressly

provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder (including, without limitation, determination of compliance with financial ratios and restrictions in ARTICLES VIII and IX hereof) shall be made in accordance with GAAP, of if so provided, SAP, consistently applied. Any reference to "consolidated" financial terms shall be deemed to refer to those financial terms as applied to the Borrower and its Subsidiaries in accordance with GAAP. Notwithstanding the foregoing, further changes in accounting principles and policies (whether GAAP or SAP or both) may be given effect for purposes of this Agreement PROVIDED that:

(a) if any such changes shall affect computations determining compliance with the financial ratios and restrictions ARTICLES VIII and IX hereof, the Borrower shall give reasonable notice thereof to the Agent and each of the Banks, and shall not give effect to such change unless and until this Agreement shall be amended to give effect to such change, and

(b) if at any time the computations determining compliance with financial ratios and restrictions in Articles VIII and IX hereof utilize accounting principles different from those utilized in the financial statements then being furnished to the Banks pursuant to SECTION 8.1, such financial statements shall be accompanied by reconciliation work-sheets.

Section 1.3 COMPUTATION OF TIME PERIODS. In this Agreement, in the computation of a period of time from a specified date to a later specified date, unless otherwise stated the word "from" means "from and including" and the word "to" or "until" each means "to but excluding."

Section 1.4 OTHER DEFINITIONAL TERMS. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. References to Sections, Exhibits, schedules and like references are to this Agreement unless otherwise expressly provided.

ARTICLE II TERMS OF LENDING

Section 2.1 THE LOANS.

(a) TRANCHE A LOANS. The Tranche A Banks have made loans under the Existing Credit Agreement, which were converted into amortizing term loans subject to the repayment requirements of SECTION 4.1 of the Existing Credit Agreement. Such loans are continued as the Tranche A Loans hereunder. The Tranche A Amount of each Tranche A Bank is listed on Schedule 1.1 hereto.

(b) TRANCHE B LOANS. Subject to the terms and conditions hereof and in reliance upon the warranties of the Borrower herein, the Tranche B Banks agree to make additional term loans (the "Tranche B Term Loans") to the Borrower not later than December 31, 2002, in such amount as the Borrower shall request, but not exceeding the Tranche B Amounts of the Tranche B Banks.

Section 2.2 ADVANCE OPTIONS. The Loans shall be constituted of Eurodollar Advances and Prime Rate Advances, as shall be selected by the Borrower, except as otherwise provided herein. Any combination of types of Advances may be outstanding at the same time. Each Eurodollar Advance shall be in a minimum amount of \$500,000. Each Prime Rate Advance shall be in a minimum amount of \$100,000.

Section 2.3 CONTINUATION OR CONVERSION OF LOANS. The Borrower may elect to (i) continue any outstanding Eurodollar Advance from one Interest Period into a subsequent Interest Period to begin on the last day of the earlier Interest Period, or (ii) convert any outstanding Advance into another type of Advance (on the last day of an Interest Period only, in the instance of a Eurodollar Advance), by giving the Agent notice in writing, or by telephone promptly confirmed in writing, given so as to be received by the Agent not later than:

(a) 12:00 noon, Minneapolis time, one Business Day prior to the date of the requested continuation or conversion, if the continuing or converted Advance shall be a Prime Rate Advance; or

(b) 12:00 noon, Minneapolis time, three Business days prior to the date of the requested continuation or conversion, if the continuing or converted Advance shall be a Eurodollar Advance.

Each notice of continuation or conversion of an Advance shall specify (i) the effective date of the continuation or conversion date (which shall be a Business Day), (ii) the amount and the type or types of Advances following such continuation or conversion (subject to the limitation on amount set forth in SECTION 2.2), and (iii) for continuation as, or conversion into, Eurodollar Advances, the Interest Periods for such Advances. Absent timely notice of continuation or conversion, following expiration of an Interest Period unless the Eurodollar Advance is paid in full the Agent may at any time thereafter convert the Eurodollar Advance into a Prime Rate Advance. Until such time as such Advance is converted into a Prime Rate Advance by the Agent or the Borrower or is continued as a Eurodollar Advance with a new Interest Period by notice by the Borrower as provided above, such Advance shall continue to accrue interest at a rate equal to the interest rate applicable during the expired Interest Period. No Advance shall be continued as, or converted into, a Eurodollar Advance if a Default or Event of Default shall exist.

Section 2.4 THE NOTES.

(a) TRANCHE A NOTES. The Tranche A Loans of each Tranche A Bank shall be

evidenced by a promissory note of the Borrower (the "Tranche A Notes"), substantially in the form of EXHIBIT A-1 hereto, in the Tranche A Amount of each such Tranche A Bank. The Tranche A Banks shall enter in their respective records the amount of each Advance, the rate of interest borne by each Advance and the payments made on the Tranche A Loans, and such records shall be deemed conclusive evidence of the subject matter thereof, absent manifest error.

(b) TRANCHE B NOTES. The Tranche B Loans of each Tranche B Bank shall be evidenced by a promissory note of the Borrower (the "Tranche B Notes"), substantially in the form of EXHIBIT A-2 hereto, in the Tranche B Amount of each such Tranche B Bank. The Tranche B Banks shall enter in their respective records the amount of each Advance, the rate of interest borne by each Advance and the payments made on the Tranche B Loans, and such records shall be deemed conclusive evidence of the subject matter thereof, absent manifest error.

Section 2.5 FUNDING LOSSES. In the event of (a) any failure of the Borrower to borrow, continue or convert a Eurodollar Advance on a date specified in a notice thereof, or (b) any payment (including, without limitation, any payment pursuant to SECTION 4.2 or 10.2), prepayment or conversion of any Eurodollar Advance on a date other than the last day of the Interest Period for such Advance, the Borrower agrees to pay each Bank's costs, expenses and Interest Differential (as determined by such Bank) incurred as a result of such event. The term "Interest Differential" shall mean that amount, not less than 0, of the financial loss incurred by each Bank resulting from such event, calculated as the difference between the amount of interest such Bank would have earned (from like investments in the Money Markets as of the first day of the Interest Period of the relevant Advance) had such event not occurred and the interest the Bank will actually earn (from like investments in the Money Markets as of the date of such event) as a result of the redeployment of funds from such event. Because of the short-term

nature of this facility, the Borrower agrees that the Interest Differential shall not be discounted to its present value. The term "Money Markets" refers to one or more wholesale funding markets available to the Banks, including negotiable certificates of deposit, commercial paper, eurodollar deposits, bank notes, federal funds and others. Such determinations by each Bank shall be conclusive in the absence of manifest error.

Section 2.6 USE OF LOAN PROCEEDS. The proceeds of the Tranche A Loans have been used for the Borrower's general corporate purposes, including without limitation, loans to AEISC to be used by AEISC to meet its obligations under the General Agency Commission Agreement. The proceeds of the Tranche B Loans shall be used to fund Surplus Note 5.

ARTICLE III INTEREST AND FEES

Section 3.1 INTEREST.

(a) EURODOLLAR ADVANCES. The unpaid principal amount of each Eurodollar Advance shall bear interest prior to maturity at a rate per annum equal to the Eurodollar Rate (Reserve Adjusted) in effect for each Interest Period for such Eurodollar Advance PLUS (i) for Tranche A Loans, the Tranche A Applicable Margin for Eurodollar Advances, or (ii) for Tranche B Loans, the Tranche B Applicable Margin for Eurodollar Advances.

(b) PRIME RATE ADVANCES. The unpaid principal amount of each Prime Rate Advance shall bear interest prior to maturity at a rate per annum equal to the Base Rate per annum PLUS (i) for Tranche A Loans, the Tranche A Applicable Margin for Prime Rate Advances, or (ii) for Tranche B Loans, the Tranche B Applicable Margin for Prime Rate Advances.

(c) INTEREST AFTER MATURITY. Any amount of the Loans not paid when due, whether at the date scheduled therefor or earlier upon acceleration, shall bear interest until paid in full at a rate per annum equal to the greater of (i) 2.00% in excess of the rate applicable to the unpaid principal amount immediately before it became due, or (ii) 2.00% in excess of the Base Rate in effect from time to time.

Section 3.2 FEES. The Borrower agrees to pay the Agent the amounts described in the Agent's Fee Letter.

Section 3.3 COMPUTATION. Interest shall be computed on the basis of actual days elapsed and a year of 360 days.

Section 3.4 PAYMENT DATES. Accrued interest under SECTIONS 3.1(a) and (b) shall be payable on the Payment Dates for the applicable types of Advances. Accrued interest under SECTION 3.1(c) shall be payable on demand. Fees under SECTION 3.2 shall be payable as provided in the Agent's Fee Letter.

ARTICLE IV PAYMENTS, PREPAYMENTS, REDUCTION OR TERMINATION OF THE CREDIT AND SETOFF

Section 4.1 REPAYMENT.

(a) TRANCHE A LOANS. Principal of the Tranche A Loans shall be payable in quarterly installments commencing on December 31, 2002, and continuing on each March 31, June 30, September 30 and December 31 thereafter occurring to and including March 31, 2005, each in an amount equal to one-eleventh (1/11th) of the Tranche A Amount, and a final principal installment payable on June 30, 2005 in an amount equal to the aggregate principal balance of the Tranche A Loans then outstanding.

(b) TRANCHE B LOANS. Principal of the Tranche B Loans shall be payable in quarterly installments commencing on March 31, 2003, and continuing on each March 31, June 30, September 30 and December 31 thereafter occurring to and including September 30, 2007, each in an amount equal to one-twentieth (1/20th) of the Tranche B Amount, and a final principal installment payable on December 31, 2007 in an amount equal to the aggregate principal balance of the Tranche B Loans then outstanding.

Section 4.2 PREPAYMENTS.

(a) OPTIONAL. The Borrower may prepay the Loans, in whole or in part, at any time subject to the provisions of SECTION 2.5, without any other premium or penalty. Any such prepayment must be accompanied by accrued and unpaid interest on the amount prepaid. Each partial prepayment shall be in a minimum amount of \$250,000.

(b) MANDATORY PREPAYMENT AND ELECTION BY BANKS. The Borrower shall offer, by written notice to each of the Banks given within three Business Days after the receipt of Net Issuance Proceeds, to prepay the Loans in the following amounts at the following times:

(a) 15% of the Net Issuance Proceeds realized upon the sale or issuance by the Borrower of any equity securities; and

(b) 25% of the Net Issuance Proceeds realized upon the sale or issuance by the Borrower of any debt securities, notes, subordinated notes or equity securities convertible into any of the foregoing.

Each Bank may elect, at its sole option, to accept or waive receipt of such prepayments by giving written notice to the Borrower and Agent of such election, which notice shall be given not later than fifteen (15) days after the giving of the notice of such receipt by the Borrower. Absent response by a Bank, it shall be presumed that such Bank has waived (or not accepted) such offer to prepay. If accepted, prepayments under this SECTION 4.2(b) shall be (i) made by the Borrower within twenty five (25) days after receipt by the Borrower of such Net Issuance Proceeds, (ii) applied first, to portions of the Loans that are Prime Rate Advances, and thereafter to portions of the Loans that are Eurodollar Rate Advances, (iii) not be subject the provisions of SECTION 2.5, and (iv) applied to the unpaid installments of the respective Loans in the inverse order of their maturities.

(c) APPLICATION AND ADJUSTMENT OF PERCENTAGES. All prepayments under this Section shall be made to all Banks in proportion to their Percentages, unless otherwise waived by a Bank as provided in SECTION 4.2(b). If a payment is waived by some, but not all Banks, the Percentages, Tranche A Percentages and Tranche B Percentages of the Banks shall be

adjusted by the Agent to reflect the outstanding amounts of the respective Loans after application of the payments actually made.

Section 4.3 PAYMENTS. Payments and prepayments of principal of, and interest on, the Notes and all fees, expenses and other Obligations under the Loan Documents shall be made without set-off or counterclaim in immediately available funds not later than 2:00 p.m., Minneapolis time, on the dates due at the main office of the Agent in Minneapolis, Minnesota. Funds received on any day after such time shall be deemed to have been received on the next Business Day. The Agent shall promptly distribute in like funds to each Bank its respective Tranche A Percentage or Tranche B Percentage share of each such payment of principal, interest. Following an Event of Default and acceleration of the Obligations, allocation of any payments to Tranche A Loans and Tranche B Loans shall be made as provided in SECTION 10.4, and the Agent shall distribute to each Bank its respective Tranche A Percentage or Tranche B Percentage share of each payment applied to Tranche A Loan or Tranche B Loans as provided therein Subject to the definition of the term "Interest Period", whenever any payment to be made hereunder or on the Notes shall be stated to be due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in the computation of any interest or fees.

Section 4.4 PRORATION OF PAYMENTS. If any Bank or other holder of a Loan shall obtain any payment or other recovery (whether voluntary, involuntary, by application of offset, pursuant to the guaranty hereunder, or otherwise) on account of principal of, interest on, or fees with respect to any Loan, in any case in excess of the share of payments and other recoveries of other Banks or holders, such Bank or other holder shall purchase from the other Banks or holders, in a manner to be specified by the Agent. such participations in the Loans held by such other Banks or holders as shall be necessary to cause such purchasing Bank or other holder to share the excess payment or other recovery ratably with each of such other Banks or holders; provided, however, that if all or any portion of the excess payment or other recovery is thereafter recovered from such purchasing Bank or holder, the purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest. Following an Event of Default and acceleration of the Obligations, the recoveries to which the Tranche A Banks or Tranche B Banks shall be, respectively, entitled shall be determined under SECTION 10.4.

ARTICLE V ADDITIONAL PROVISIONS RELATING TO LOANS

Section 5.1 INCREASED COSTS. If, as a result of any law, rule, regulation, treaty or directive, or any change therein or in the interpretation or administration thereof, or compliance by the Banks with any request or directive (whether or not having the force of law) from any court, central bank, governmental authority, agency or instrumentality, or comparable agency:

(a) any tax, duty or other charge with respect to any Loan, the Notes or the Commitments is imposed, modified or deemed applicable, or the basis of taxation of payments to any Bank of interest or principal of the Loans or of the Facility Fees (other than taxes imposed on the overall net income of such Bank by the jurisdiction in which such Bank has its principal office) is changed;

(b) any reserve, special deposit, special assessment or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Bank is imposed, modified or deemed applicable;

(c) any increase in the amount of capital required or expected to be maintained by any Bank or any Person controlling such Bank is imposed, modified or deemed applicable; or

(d) any other condition affecting this Agreement or the Commitments is imposed on any Bank or the relevant funding markets;

and such Bank determines that, by reason thereof, the cost to such Bank of making or maintaining the Loans or extending the Commitments is increased, or the amount of any sum receivable by such Bank hereunder or under the Notes in respect of any Loan is reduced;

THEN, the Borrower shall pay to such Bank upon demand such additional amount or amounts as will compensate such Bank (or the controlling Person in the instance of (c) above) for such additional costs or reduction (provided that the Banks have not been compensated for such additional cost or reduction in the calculation of the Eurodollar Reserve Rate). Determinations by each Bank for purposes of this SECTION 5.1 of the additional amounts required to compensate such Bank shall be conclusive in the absence of manifest error. In determining such amounts, the Banks may use any reasonable averaging, attribution and allocation methods.

Section 5.2 DEPOSITS UNAVAILABLE OR INTEREST RATE UNASCERTAINABLE OR INADEQUATE: IMPRACTICABILITY. If the Agent determines (which determination shall be conclusive and binding on the parties hereto) that:

(a) deposits of the necessary amount for the relevant Interest Period for any Eurodollar Advance are not available in the relevant markets or that, by reason of circumstances affecting such market, adequate and reasonable means do not exist for ascertaining the Eurodollar Interbank Rate for such Interest Period;

(b) the Eurodollar Rate (Reserve Adjusted) will not adequately and fairly reflect the cost to the Banks of making or funding the Eurodollar Advance for a relevant Interest Period; or

(c) the making or funding of Eurodollar Advances has become impracticable as a result of any event occurring after the date of this Agreement which, in the opinion of the Agent, materially and adversely affects such Advances or the Banks' Commitments to make such Advances or the relevant market;

the Agent shall promptly give notice of such determination to the Borrower, and (i) any notice of a new Eurodollar Advance previously given by the Borrower and not yet borrowed or converted shall be deemed to be a notice to make a Prime Rate Advance, and (ii) the Borrower shall be obligated to either prepay in full any outstanding Eurodollar Advances, without premium or penalty on the last day of the current Interest Period with respect thereto or convert any such Eurodollar Advance to a Prime Rate Advance on such last day.

Section 5.3 CHANGES IN LAW RENDERING EURODOLLAR ADVANCES UNLAWFUL. If at any time due to the adoption of any law, rule, regulation, treaty or directive, or any change therein or in the interpretation or administration thereof by any court, central bank, governmental authority, agency or instrumentality, or comparable agency charged with the interpretation or administration thereof, or for any other reason arising subsequent to the date of this Agreement, it shall become unlawful or impossible for any Bank to make or fund any Eurodollar Advance, the obligation of such Bank to provide such Advance shall, upon the happening of such event, forthwith be suspended for the duration of such illegality or impossibility. If any such event shall make it unlawful or impossible for any Bank to continue any Eurodollar Advance previously made by it hereunder, such Bank shall, upon the happening of such event, notify the Agent and the Borrower thereof in writing, and the Borrower shall, at the time notified by such Bank, either convert each such unlawful Advance to a Prime Rate Advance or repay such Advance in full, together with accrued interest thereon, subject to the provisions of SECTION 2.5.

Section 5.4 DISCRETION OF THE BANKS AS TO MANNER OF FUNDING.

Notwithstanding any provision of this Agreement to the contrary, each Bank shall be entitled to fund and maintain its funding of all or any part of the Loans in any manner it elects; it being understood, however, that for purposes of this Agreement, all determinations hereunder shall be made as if the Banks had actually funded and maintained each Eurodollar Advance during the Interest Period for such Advance through the purchase of deposits having a term corresponding to such Interest Period and bearing an interest rate equal to the Eurodollar Interbank Rate for such Interest Period (whether or not any Bank shall have granted any participations in such Advances).

ARTICLE VI CONDITIONS PRECEDENT

Section 6. The obligation of the Agent and the Banks to make or continue the Loans hereunder shall be subject to the satisfaction of the conditions

precedent that the Agent shall have received all of the following, in form and substance satisfactory to the Agent, each duly executed by the duly authorized representative of the appropriate party, and certified or dated the date of the this Agreement or such other date as is satisfactory to the Agent:

(a) The Notes.

(b) The Acknowledgement of and Amendment to the AEISC Security Agreement, in the form of EXHIBIT B hereto.

(c) The Acknowledgement of and Amendment to the Borrower Pledge Agreement, in the form of EXHIBIT C hereto.

(d) The Acknowledgement of and Amendment to the Consent and Agreement to Security Agreement in the form of EXHIBIT E hereto.

(d) Copies of the corporate resolutions of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which it is a party, certified duly authorized officers thereof.

(e) Incumbency certificates showing the names and titles, and bearing the signatures of, the officers of the Borrower authorized to execute the Loan Documents to which it is a party, certified by duly authorized officers thereof.

(f) Copies of the Articles or Certificates of Incorporation and By-Laws of the Borrower with all amendments thereto, certified by duly authorized officers thereof.

(g) Certificates of Good Standing for the Borrower and AEISC in the jurisdictions of their incorporation, certified by the appropriate governmental officials.

(h) A Certificate of Good Standing for AEILIC from the appropriate Insurance Regulatory Authority.

(i) An opinion of the Borrower's general counsel, addressed to the Agent and the Banks, in substantially the form of EXHIBIT F.

(j) The Agent's Fee Letter, and payment of the fees provided therein and in SECTION 12.4.

ARTICLE VII REPRESENTATIONS AND WARRANTIES

To induce the Agent and the Banks to enter into this Agreement and to make or continue the Loans hereunder, the Borrower represents and warrants to the Agent and the Banks:

Section 7.1 ORGANIZATION, STANDING. Etc. The Borrower and each of its corporate Subsidiaries are corporations duly incorporated and validly existing and in good standing under the laws of the jurisdiction of their respective incorporation and have all requisite corporate power and authority to carry on their respective businesses as now conducted, to (in the instance of the Borrower) enter into the Loan Documents to which it is a party and to pay and perform its Obligations under such Loan Documents. The Borrower and each of its Subsidiaries are duly qualified and in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned, leased or operated by it or the business conducted by it makes such qualification necessary.

Section 7.2 AUTHORIZATION AND VALIDITY. The execution, delivery and performance by the Borrower of the Loan Documents to which it is a party have been duly authorized by all necessary corporate action by the Borrower, and such Loan Documents constitute the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies.

Section 7.3 NO CONFLICT; NO DEFAULT. The execution, delivery and performance by the Borrower of the Loan Documents to which it is a party will not (a) violate any provision of any law, statute, rule or regulation or any order, writ, judgment, injunction, decree, determination or award of any court, governmental agency or arbitrator presently in effect having applicability to the Borrower, (b) violate or contravene any provisions of the Articles (or Certificate) of Incorporation or by-laws of the Borrower, or (c) result in a breach of or constitute a default under any indenture, loan or credit agreement or any other agreement, lease or instrument to which the

Borrower is a party or by which it or any of its properties may be bound or result in the creation of any Lien on any asset of the Borrower or any Subsidiary. Neither the Borrower nor any Subsidiary is in default under or in violation of any such law, statute, rule or regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, loan or credit agreement or other agreement, lease or instrument in any case in which the consequences of such default or violation could constitute a Material Adverse Change. No Default or Event of Default has occurred and is continuing.

Section 7.4 GOVERNMENT CONSENT. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by, any governmental or public body or authority is required on the part of the Borrower to authorize, or is required in connection with the

execution, delivery and performance of, or the legality, validity, binding effect or enforceability of, the Loan Documents.

Section 7.5 FINANCIAL STATEMENTS AND CONDITION.

(a) The Borrower's audited consolidated and consolidating financial statements as at December 31, 2001 and its unaudited consolidated and consolidating financial statements as at September 30, 2002, as heretofore furnished to the Banks, have been prepared in accordance with GAAP on a consistent basis and fairly present the financial condition of the Borrower and its Subsidiaries as at such dates and the results of their operations and changes in financial position for the respective periods then ended. As of the dates of such financial statements, neither the Borrower nor any Subsidiary had any material obligation, contingent liability, liability for taxes or long-term lease obligation which is not reflected in such financial statements or in the notes thereto. Since September 30, 2002, no Material Adverse Change has occurred.

(a) AEILIC's statutory annual statement as at December 31, 2001 and its quarterly statement as at September 30, 2002, as heretofore furnished to the Banks, have been prepared in accordance with SAP on a consistent basis and fairly present the financial condition of AEILIC as at such dates and the results of its operations and changes in financial position for the respective periods then ended. Since September 30, 2002, no Material Adverse Change in respect of AEILIC has occurred.

Section 7.6 LITIGATION AND CONTINGENT LIABILITIES. There are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any of their properties before any court or arbitrator, or any governmental department, board, agency or other instrumentality which singly or in the aggregate, if determined adversely to the Borrower or such Subsidiary, could constitute a Material Adverse Change. Neither the Borrower nor any Subsidiary has any contingent liabilities which are material to the Borrower and the Subsidiaries as a consolidated enterprise.

Section 7.7 COMPLIANCE WITH LAWS. Neither the Borrower nor any Subsidiary is in violation of any law, ordinance, rule, regulation, order, policy, guideline or other requirement of any governmental agency or authority, if the effect of such violation could reasonably be expected to have a Material Adverse Effect and, to the best of the Borrower's knowledge, no such violation has been alleged and the Borrower and each Subsidiary (a) has filed in a timely

manner all reports, documents and other materials required to be filed by it with any governmental agency or authority, if such failure to so file could reasonably be expected to have a Material Adverse Effect; and the information contained in each of such filings is true, correct and complete in all material respects and (b) has retained all records and documents required to be retained by it pursuant to any law, ordinance, rule, regulation, order, policy, guideline or other requirement of any governmental agency or authority, if the failure to so retain such records and documents could reasonably be expected to have a Material Adverse Effect.

Section 7.8 ENVIRONMENTAL. HEALTH AND SAFETY LAWS. There does not exist any violation by the Borrower or any Subsidiary of any applicable federal, state or local law, rule or regulation or order of any government, governmental department, board, agency or other instrumentality relating to -environmental, pollution, health or safety matters which will or threatens to impose a material liability on the Borrower or a Subsidiary or which would require a material expenditure by the Borrower or such Subsidiary to cure. Neither the Borrower nor any Subsidiary has received any notice to the effect that any part of its operations or properties is not in material compliance with any such law, rule, regulation or order or notice that it or its property is the subject of any governmental investigation evaluating whether any remedial action is needed to respond to any release of any toxic or hazardous waste or substance into the environment, the consequences of which noncompliance or remedial action could constitute a Material Adverse Change.

Section 7.9 ERISA. Each Plan complies with all material applicable requirements of ERISA and the Code and with all material applicable rulings and regulations issued under the provisions of ERISA and the Code setting forth those requirements. No Reportable Event, other than a Reportable Event for which the reporting requirements have been waived by regulations of the PBGC, has occurred and is continuing with respect to any Plan. All of the minimum funding standards applicable to such Plans have been satisfied and there exists no event or condition which would permit the institution of proceedings to terminate any Plan under Section 4042 of ERISA. The current value of the Plans' benefits guaranteed under Title IV or ERISA does not exceed the current value of the Plans' assets allocable to such benefits.

Section 7.10 REGULATION U. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System) and no part of the proceeds of any Loan will be used to purchase or carry margin stock or for any other purpose which would violate any of the margin requirements of the Board of Governors of the Federal Reserve System.

Section 7.11 OWNERSHIP OF PROPERTY: LIENS. Each of the Borrower and the Subsidiaries has good and marketable title to its real properties and good and sufficient title to its other properties, including all properties and assets referred to as owned by the Borrower and its Subsidiaries in the audited financial statements of the Borrower referred to in SECTION 7.5 (other than property disposed of since the date of such financial statements in the ordinary course of business). None of the properties, revenues or assets of the Borrower or any of its Subsidiaries is subject to a Lien, except for (a) Liens disclosed in the financial statements referred to in SECTION 7.5 or (b) Liens allowed

under SECTION 9.2.

Section 7.12 TAXES. Each of the Borrower and the Subsidiaries has filed all federal, state and local tax returns required to be filed and has paid or made provision for the payment of all taxes due and payable pursuant to such returns and pursuant to any assessments made against it or any of its property and all other taxes, fees and other charges imposed on it or any of its property by any governmental authority (other than taxes, fees or charges the amount or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in accordance with GAAP have been provided on the books of the Borrower). No tax Liens have been filed and no material claims are being asserted with respect to any such taxes, fees or charges. The charges, accruals and reserves on the books of the Borrower in respect of taxes and other governmental charges are adequate.

Section 7.13 TRADEMARKS, PATENTS. Each of the Borrower and the Subsidiaries possesses or has the right to use all of the patents, trademarks, trade names, service marks and copyrights, and applications therefor, and all technology, know-how, processes, methods and designs used in or necessary for the conduct of its business, without known conflict with the rights of others.

Section 7.14 INVESTMENT COMPANY ACT. Neither the Borrower nor any Subsidiary is an "investment company" or a company "controlled" by an investment company within the meaning of the Investment Company Act of 1940, as amended.

Section 7.15 PUBLIC UTILITY HOLDING COMPANY ACT. Neither the Borrower nor any Subsidiary is a "holding company" or a "subsidiary company" of a holding company or an "affiliate" of a holding company or of a subsidiary company of a holding company within the meaning of the Public Utility Holding Company Act of 1935, as amended.

Section 7.16 SUBSIDIARIES. SCHEDULE 7.16 sets forth as of the date of this Agreement a list of all Subsidiaries and the number and percentage of the shares of each class of capital stock owned beneficially or of record by the Borrower or any Subsidiary therein, and the jurisdiction of incorporation of each Subsidiary.

Section 7.17 PARTNERSHIPS AND JOINT VENTURES. As of the date of this Agreement, there are no partnerships or joint ventures in which the Borrower or any Subsidiary is a partner (limited or general) or joint venturer.

Section 7.18 INSURANCE LICENSES. SCHEDULE 7.18 lists all of the jurisdictions in which each of the Insurance Subsidiaries hold licenses (including, without limitation, licenses or certificates of authority from applicable insurance departments), permits or authorizations to transact insurance and reinsurance business (collectively, the "Licenses"). Except as set forth on SCHEDULE 7.18, no such License is the subject of a proceeding for suspension or revocation or any similar proceedings, there is no sustainable basis for such a suspension or revocation, and, to the best of the Borrower's knowledge, no such suspension or revocation is threatened by any Insurance Regulatory Authority which, in either case, could reasonably be expected to have a Material Adverse Effect. SCHEDULE 7.18 indicates that line or lines of insurance which the Insurance Subsidiaries are permitted to be engaged in with respect to each License therein listed. The Insurance Subsidiaries do not transact any insurance business, directly or indirectly, in any state or jurisdiction other than those enumerated on SCHEDULE 7.18, where such business requires any license, permit, governmental approval, consent or other authorization.

Section 7.19 REINSURANCE. All persons with whom any Insurance Subsidiaries have ceded any obligations with respect to any Reinsurance Agreement or Surplus Relief Reinsurance Agreements have a financial strength rating of "A" or better by A.M. Best.

Section 7.20 PLEDGED SHARES. All of the shares of capital stock of AEILIC are duly authorized and validly issued, fully paid and non-assessable, and pledged to the Agent pursuant to the terms of the Borrower Pledge Agreement.

Section 7.21 PLEDGED SURPLUS NOTES. All of the Surplus Notes of AEILIC are duly authorized and validly issued, and pledged to the Agent pursuant to the terms of the Borrower Pledge Agreement. There is no order of preference or priority among the Surplus Notes (i.e., no Surplus Note is paid on a higher priority than any other Surplus Note) under any instrument or agreement related thereto or under applicable law respecting insolvency or liquidation of AEILIC.

ARTICLE VIII AFFIRMATIVE COVENANTS

From the date of this Agreement and thereafter until the Loans and all other Obligations of the Borrower to the Banks hereunder and under the Notes and the other Loan Documents have been paid in full, the Borrower will do, and will cause each Subsidiary to do, all of the following:

Section 8.1 REPORTS, CERTIFICATES AND OTHER INFORMATION. Unless otherwise provided herein, furnish or cause to be furnished to the Agent (who will forward copies to each Bank):

8.1.1 AUDIT REPORT.

(a) As soon as available and in any event within 120 days after the end of each fiscal year of the Borrower and AEISC, respectively, the annual audit report of the Borrower and its Subsidiaries and the annual report of AEISC, each prepared on a consolidated basis and in conformity with GAAP, consisting of at least statements of income,

cash flows, changes in stockholders' equity, and a consolidated balance sheet as at the end of such year, setting forth in each case in consolidated form corresponding figures from the previous annual audit, certified without qualification by independent certified public accountants of recognized standing selected by the Borrower and AEISC, respectively, and acceptable to the Required Banks, together with any -management letters, management reports or other supplementary comments or reports to the Borrower and AEISC, respectively, or their respective boards of directors furnished by such accountants and together with unaudited consolidating statements prepared for Borrower's management and AEISC's management, respectively.

(b) Together with the audited financial statements required under SECTION 8.1(a), a statement by the accounting firm performing each such audit stating that it has reviewed this Agreement and that in performing its examination nothing came to its attention that caused it to believe that any Default or Event of Default exists, or, if such Default or Event of Default exists, describing its nature.

8.1.2 QUARTERLY REPORTS. As soon as available and in any event within 60 days after the end of each fiscal quarter of each fiscal year, a copy of the unaudited financial statement of the Borrower and its Subsidiaries and a copy of the unaudited financial statement of AEISC, each prepared in the same manner as the audit report referred to in SECTION 8.1.1(a), signed by the Borrower's or AEISC's, as applicable, responsible officer, consisting of at least consolidated statements of income, cash flow, changes in stockholders' equity for the Borrower and its Subsidiaries and for AEISC, respectively, for such quarter and for the period from the beginning of such fiscal year to the end of such quarter, and the consolidated balance sheets of the Borrower and of AEISC, respectively, as at the end of such quarter.

8.1.3 TAX RETURNS AND REPORTS. If requested by the Agent or the Required Banks, copies of all federal, state, local and foreign Tax Returns and Reports filed by the Borrower or any of its Subsidiaries.

8.1.4 SAP FINANCIAL STATEMENTS.

(a) As soon as possible, but in any event within sixty (60) days after the end of each fiscal year of each of the Insurance Subsidiaries, a copy of the Annual Statement of such Insurance Subsidiaries for such fiscal year prepared in accordance with SAP and accompanied by the certification of the responsible officer of such Insurance Subsidiaries that such financial statements present fairly, in accordance with SAP, the financial position of such Insurance Subsidiaries for the period then ended;

(b) As soon as possible, but in any event within sixty (60) days after the end of each of the first three fiscal quarters of each fiscal year of each of the Insurance Subsidiaries, a copy of the quarterly statement of such Insurance Subsidiaries for such fiscal quarter, all prepared in accordance with SAP and accompanied by the certification of the responsible officer of such Insurance Subsidiaries that all such financial statements present fairly in accordance with SAP the financial position of such Insurance Subsidiaries for the periods then ended (subject to normal year-end and audit adjustments);

(c) Within fifteen (15) days after being delivered to any of the Insurance Subsidiaries, any final examination report issued from time to time by the applicable Insurance Regulatory Authority or the NAIC;

(d) Within ninety (90) days after the close of each Fiscal Year of each of the Insurance Subsidiaries, a copy of the "Statement of Actuarial Opinion" for each of the Insurance Subsidiaries which is provided to the applicable Insurance Regulatory Authority (or equivalent information should the Insurance Regulatory Authority no longer require such a statement). Such statement shall be in the format prescribed by the Applicable Insurance Code of the state of domicile of such Insurance Subsidiary.

8.1.5 COMPLIANCE CERTIFICATE AND RISK-BASED CAPITAL CALCULATIONS.

(a) Together with the financial statements furnished by the Borrower under SECTIONS 8.1.1 and 8.1.2, a Compliance Certificate signed by the chief financial officer of the Borrower, duly completed.

(b) Together with the financial statements furnished by the Borrower under SECTIONS 8.1.1 and 8.1.2, calculations of the Risk Based Capital for all or any of Insurance Subsidiaries based on the quarterly or annual financial statements being delivered.

8.1.6 REPORTS TO SEC AND TO STOCKHOLDERS. Promptly upon the mailing or filing thereof, copies of all financial statements, reports and proxy statements mailed to the Borrower's shareholders, and copies of all registration statements, periodic reports and other documents filed with the Securities and Exchange Commission (or any successor thereto) or any national securities exchange.

8.1.7 NOTICE OF DEFAULT AND LITIGATION. Promptly upon learning of the occurrence of any of the following, written notice thereof, describing the same and the steps being taken by the Borrower with respect thereto:

(a) the occurrence of a Default or Event of Default;

(b) the institution of any material litigation or the occurrence of any material litigation development;

(c) the commencement of any dispute which might reasonably be expected to lead to the material modification, transfer, revocation, suspension or termination or any Loan Document; or

(d) any Material Adverse Change.

8.1.8 ERISA LIABILITY. Immediately upon becoming aware of the occurrence, with respect to any Plan, of any Reportable Event (other than a Reportable Event for which the reporting requirements have been waived by PBGC regulations) or any "prohibited transaction" (as defined in Section 4975 of the Code), a notice specifying the nature thereof and what action the Borrower proposes to take with respect thereto, and, when received, copies of any notice from PBGC of intention to terminate or have a trustee appointed for any Plan.

8.1.9 ENVIRONMENTAL LIABILITIES. Immediately upon becoming aware of the occurrence thereof, notice of any violation as to any environmental matter by the Borrower or any Subsidiary and of the commencement of any judicial or administrative proceeding relating to health, safety or environmental matters (i) in which an adverse determination or result could result in the revocation of or have a material adverse effect on any operating permits, air emission permits, water discharge permits, hazardous waste permits or other permits held by the Borrower or any Subsidiary which are material to the operations of the Borrower or such Subsidiary, or (ii) which will or threatens to impose a material liability on the Borrower or such Subsidiary to any Person or which will require

a material expenditure by the Borrower or such Subsidiary to cure any alleged problem or violation.

8.1.10 INSURANCE HOLDING COMPANY FILINGS. Copies of all material Insurance Holding Company System Act filings with Governmental Authorities by the Borrower or any Insurance Subsidiary not later than ten (10) Business Days after such filings are made, including, without limitation, filings which seek approval of Governmental Authorities with respect to transactions between the Borrower and its Affiliates.

8.1.11 INSURANCE LICENSES. Within five (5) Business Days of such notice, notice of actual suspension, termination or revocation of any License or restriction thereon (material to the Insurance Subsidiaries) of any of the Insurance Subsidiaries by any Insurance Regulatory Authority or of receipt of notice from any Insurance Regulatory Authority notifying any of the Insurance Subsidiaries of a hearing (which is not withdrawn within ten (10) days) relating to such a suspension, termination, revocation or restriction, including any request by an Insurance Regulatory Authority which commits any of the Insurance Subsidiaries to take, or refrain from taking, any action or which otherwise materially and adversely affects the authority of any of the Insurance Subsidiaries to conduct its business.

8.1.12 INSURANCE PROCEEDINGS. Within three (3) Business Days of such notice, notice of any pending or threatened investigation or regulatory proceeding (other than routine periodic investigations or reviews) by any Insurance Regulatory Authority concerning the business, practices or operations of any of the Insurance Subsidiaries, including any agent or managing general agent thereof.

8.1.13 CHANGES IN APPLICABLE INSURANCE CODE. Promptly, upon knowledge of the Borrower or any Insurance Subsidiary, to the Agent (who shall promptly deliver such reports to the Banks), notice of any actual or proposed changes in any Applicable Insurance Code, if such changes could reasonably be expected to have a Material Adverse Effect.

8.1.14 REINSURANCE AGREEMENTS.

(a) Promptly, notice of any material change or modification to any Reinsurance Agreements or Surplus Relief Reinsurance Agreements whether entered into before or after the date of this Agreement including Reinsurance Agreements, if any, which are in a runoff mode on the date of this Agreement, which change or modification could reasonably be expected to have a Material Adverse Effect;

(b) promptly, notice of any written notice received by any of the Insurance Subsidiaries of any material denial of coverage, litigation or arbitration arising out of any Surplus Relief Reinsurance Agreement or any material Reinsurance Agreement to which any of the Insurance Subsidiaries is a party; and

(c) promptly, such other financial, actuarial and other information with respect to Surplus Relief Reinsurance Agreements and Reinsurance Agreements as the Agent may reasonably request.

8.1.15 INVESTMENTS. To the extent not provided with the financial statements provided in SECTION 8.1.4, within sixty (60) days of the end of each of the first three Fiscal Quarters of each Fiscal Year, and within one hundred twenty (120) days of the end of the last Fiscal Quarter of each Fiscal Year, a list of the Investments of the Borrower and its Subsidiaries including a valuation thereof prepared from sources reasonably acceptable to the Agent.

8.1.16 REVENUE AGENT NOTICES. Promptly, and in any event within ten (10) days of receipt, any revenue agent's reports or statutory notices of material deficiency related to the Borrower or any Insurance Subsidiary.

8.1.17 OTHER INFORMATION. From time to time, such other information regarding the business, operation and financial condition of the Borrower and the Subsidiaries as the Agent or the Required Banks may reasonably request.

Section 8.2 CORPORATE EXISTENCE. Subject to SECTION 9.1 in the instance of a Subsidiary, maintain its corporate existence in good standing under the laws of its jurisdiction of incorporation and its qualification to transact business in each jurisdiction in which the character of the properties owned, leased or operated by it or the business conducted by it makes such qualification necessary.

Section 8.3 INSURANCE. Maintain with financially sound and reputable insurance companies such insurance as may be required by law and such other insurance in such amounts and against such hazards as is customary in the case of reputable corporations engaged in the same or similar business and similarly situated.

Section 8.4 PAYMENT OF TAXES AND CLAIMS. File all tax returns and reports which are required by law to be filed by it and pay before they become delinquent all taxes, assessments and governmental charges and levies imposed upon it or its property and all claims or demands of any kind (including, without limitation, those of suppliers, mechanics, carriers, warehouses, landlords and other like Persons) which, if unpaid, might result in the creation of a Lien upon its property; provided that the foregoing items need not be paid if they are being contested in good faith by appropriate proceedings, and as long as the Borrower's or such Subsidiary's title to its property is not materially adversely affected, its use of such property in the ordinary course of its business is not materially interfered with and adequate reserves with respect thereto have been set aside on the Borrower's or such Subsidiary's books in accordance with GAAP.

Section 8.5 INSPECTION. Permit any Person designated by any Bank to visit and inspect any of its properties, corporate books and financial records, to examine and to make copies of its books of accounts and other financial records, and to discuss the affairs, finances and accounts of the Borrower and the Subsidiaries with, and to be advised as to the same by, its officers at such reasonable times and intervals as such Bank may designate. So long as no Event of Default exists, the expenses of the Banks for such visits, inspections and examinations shall be at the expense of the Banks, but any such visits, inspections, and examinations made while any Event of Default is continuing shall be at the expense of the Borrower.

Section 8.6 MAINTENANCE OF PROPERTIES. Maintain its properties used or useful in the conduct of its business in good condition, repair and working order, and supplied with all

necessary equipment, and make all necessary repairs, renewals, replacements, betterments and improvements thereto, all as may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times.

Section 8.7 BOOKS AND RECORDS. Keep adequate and proper records and books of account in which full and correct entries will be made of its dealings, business and affairs.

Section 8.8 COMPLIANCE. Comply in all material respects with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject.

Section 8.9 ERISA. Maintain each Plan in compliance with all material applicable requirements of ERISA and of the Code and with all material applicable rulings and regulations issued under the provisions of ERISA and of the Code.

Section 8.10 ENVIRONMENTAL MATTERS. Observe and comply with all laws, rules, regulations and orders of any government or government agency relating to health, safety, pollution, hazardous materials or other environmental matters to the extent non-compliance could result in a material liability or otherwise constitute or result in a Material Adverse Change.

Section 8.11 DIVIDENDS. Cause AEILIC to make dividends and/or principal and interest payments to the Borrower (a) in an amount sufficient to satisfy AEILIC's debt obligations under the Surplus Note (subject to regulatory approval), the 8% Subordinated Debentures and the 5% Subordinated Debentures and (b) to permit the Borrower to satisfy its payment obligations hereunder with respect to the Loans, if necessary.

ARTICLE IX NEGATIVE COVENANTS

From the date of this Agreement and thereafter until the Loans and all other Obligations of the Borrower to the Banks hereunder and under the Notes and the other Loan Documents have been paid in full, the Borrower will not, and will not permit any Subsidiary to, do any of the following:

Section 9.1 INDEBTEDNESS. Incur, create, issue, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness under this Agreement in respect of the Loan, the Surplus Note and other Obligations;

(b) Current liabilities, other than for borrowed money, incurred in the ordinary course of business;

(c) Hedging Obligations entered into in the ordinary course of business;

(d) Indebtedness consisting of endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;

(e) Indebtedness in respect of the 8% Subordinated Debentures in a principal amount not to exceed \$26,773,237;

(f) Indebtedness in respect of the 5% Subordinated Debentures in a principal amount not to exceed \$100,000,000; and

(g) Indebtedness in respect of Repurchase Transactions.

Section 9.2 LIENS. Create, incur, assume or suffer to exist any Lien with respect to any property, revenues or assets now owned or hereafter arising or acquired, except the following Liens:

(a) Deposits or pledges to secure payment of workers' compensation, unemployment insurance, old age pensions or other social security obligations, in the ordinary course of business of the Borrower or a Subsidiary;

(b) Liens for taxes, fees, assessments and governmental charges not delinquent or to the extent that payments therefor shall not at the time be required to be made in accordance with the provisions of SECTION 8.4;

(c) Liens of carriers, warehousemen, mechanics and materialmen, and other like Liens arising in the ordinary course of business, for sums not due or to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of SECTION 8.4;

(d) Deposits to secure the performance of bids, trade contracts, leases, statutory obligations and other obligations of a like nature incurred in the ordinary course of business;

(f) Liens on real estate to the extent real estate Investments are permitted by SECTION 9.6(f)(ii);

(g) Liens in favor of the Agent for the benefit of the Banks pursuant to this Agreement and the other Loan Documents; and

(h) the interests of sellers in Repurchase Transactions.

Section 9.3 MERGER. Merge or consolidate or enter into any analogous reorganization or transaction with any Person; provided, however, any wholly-owned Subsidiary may be merged with or liquidated into the Borrower (if the Borrower is the surviving corporation) or any other wholly-owned Subsidiary.

Section 9.4 SALE OF ASSETS. Sell, assign, lease, transfer, contribute, reinsure, cede, convey or otherwise dispose of, or grant options, warrants or other rights with respect to, any of its assets (including, without limitation, any books of business) to any Person, unless:

(a) such sale, assignment, transfer, lease, contribution, reinsurance, cession, conveyance or other disposition is in the ordinary course of its business including, without limitation,

sales of assets in connection with the management of the investment portfolio of the Borrower and its Subsidiaries;

(b) the aggregate net book value of all assets sold, transferred, leased, contributed, reinsured, ceded or conveyed (other than in the ordinary course of business) by the Borrower or any of its Subsidiaries pursuant to this clause (b) does not exceed \$500,000; or

(c) such sale, assignment, transfer, lease, contribution, reinsurance, cession, conveyance or other disposition is with respect to the sale of its capital assets and the net proceeds of such sale are used to replace such capital assets within ninety (90) days after receipt of such net proceeds.

Section 9.5 RESTRICTED PAYMENTS. Except as hereinafter provided, do any of the following:

(a) Declare or pay any dividends, either in cash or property, on any shares of its capital stock of any class (except dividends or other distributions payable solely in shares of common stock of the Borrower and except for dividends or other distributions payable solely to the Borrower);

(b) Directly or indirectly, or through any Subsidiary, purchase, redeem or retire any shares of its capital stock of any class or any warrants, rights or options to purchase or acquire any shares of its capital stock (other than in exchange for or out of the net cash proceeds to the Borrower from the substantially concurrent issue or sale of other shares of common stock of the Borrower or warrants, rights or options to purchase or acquire any shares of its common stock);

(c) Make any other payment or distribution, either directly or indirectly or through any Subsidiary, in respect of its capital stock (except for payments or distributions made solely to the Borrower); or

(d) Make payments of (i) principal of the 8% Subordinated Debentures or the 5% Subordinated Debentures, or (ii) interest of the 8% Subordinated Debentures or the 5% Subordinated Debentures at any time that the subordination terms of the documents pertaining thereto shall prevent or defer such payment or shall provide that the recipient of such payments may not retain such payment (it being expressly acknowledged that the Borrower may pay accrued interest at the stated rates of the Subordinated Debentures and the 5% Subordinated Debentures at any time that the foregoing clause shall not apply)

(such declarations or payments of dividends, purchases, redemptions or retirements of capital stock and warrants, rights or options and all such other payments or distributions being herein collectively called "Restricted Payments"), if after giving effect thereto any Default or Event of Default shall have occurred and be continuing or the sum of the aggregate amount of Restricted Payments made during any fiscal year of the Borrower shall exceed 25% of the consolidated net income of the Borrower (determined in accordance with GAAP) for the prior fiscal year. Notwithstanding the foregoing: (1) Trust I may pay interest or interest-equivalent dividends on the 8% Trust Securities at a rate not to exceed 8% per annum; (2) Trust II may pay interest or

interest-equivalent dividends on the 5% Trust Securities at a rate not to exceed 5% per annum; (3) the Borrower or any Subsidiary may acquire shares of the Borrower's common stock to be held in trust to fund the obligations of AEILIC under its NMO Deferred Stock Compensation Plans and (4) the Borrower may redeem shares of its capital stock of any class, provided that (aa) the number of shares of voting capital stock redeemed in any one fiscal year shall not exceed 1% of the total number of such shares outstanding at January 1 of such year, and (bb) the aggregate redemption price paid for all such shares redeemed in any fiscal year of the Borrower shall not exceed \$750,000.

Section 9.6 INVESTMENTS. Make, incur, assume or suffer to exist any Investment in any other Person, except:

(a) Investments existing on the date of this Agreement and identified in SCHEDULE 9.6;

(b) with respect to the Borrower and the Borrower's Subsidiaries, Investment Grade Securities and Cash Equivalents;

(c) in the ordinary course of business, Investments by the Borrower in any of its Subsidiaries or by any such Subsidiary in any of its Subsidiaries, by way of contributions to capital or loans or advances;

(d) in the ordinary course of business, Investments in call options on index derivatives acquired to hedge against index yield risk under annuity contracts issued by AEILIC;

(e) Investments in real property and improvements constituting the home office of the Borrower and/or one or more of its Subsidiaries;

(f) other Investments by AEILIC in Investments which are in compliance with all of the following guidelines:

(i) All Investments shall be in compliance with the Applicable Insurance Code(s) or as approved by the Insurance Regulatory Authority;

(ii) Investments in mortgage loans and real estate shall not exceed 10.00% of the Invested Assets of AEILIC as reported on and after December 31, 2001;

(iii) Investments in debt securities which are not Investment Grade Securities shall not exceed 5.00% of Invested Assets of AEILIC;

(iv) Investments in common stock and preferred stock with no redemption date (other than call options on index derivatives) shall not exceed 2.00% of Invested Assets of AEILIC;

(v) Without limiting the effect of the guidelines set forth in (ii), (iii) and (iv) above, total Investments under (ii), (iii) and (iv) above shall not exceed 15.00% of Invested Assets of AEILIC;

(vi) Investments relating to a single issuer (other than U.S. Government Securities) shall not exceed 2.5% of Invested Assets of AEILIC; and

(vii) Investments in CMO derivative Investments as reported on and after December 31, 2001, shall not exceed the following:

(x) 16.05% of the Invested Assets of AEILIC through and including December 31, 2002; and

(y) 7.00% of the Invested Assets of AEILIC on and after January 1, 2003.

(g) other Investments by American Equity Investment Properties, L.C. in an aggregate amount not to exceed \$400,000;

(h) Investment in the 8% Trust Securities and the 5% Trust Securities, to be held by the Borrower, not to exceed 3% of the total amount of the 8% Trust Securities or the 5% Trust Securities;

(i) Investments consisting of loans to AEISC in an amount not to exceed the sum of (i) \$5,000,000 plus (ii) the aggregate outstanding principal amount of Loans the proceeds of which have been loaned by the Borrower to AEISC to satisfy AEISC's obligations under the General Agency Commission Agreement; and

(j) Investments in the FBL Trust Securities received in exchange for the 5% Trust Securities, and Investment by the Borrower consisting of contribution of such FBL Trust Securities to the capital of AEILIC.

Section 9.7 PLANS. Permit any condition to exist in connection with any Plan which might constitute grounds for the PBGC to institute proceedings to have such Plan terminated or a trustee appointed to administer such Plan, permit any Plan to terminate under any circumstances which would cause the lien provided for in Section 4068 of ERISA to attach to any property, revenue or asset of the Borrower or any Subsidiary or permit the underfunded amount of Plan benefits guaranteed under Title IV of ERISA to exceed \$200,000.

Section 9.8 CHANGE IN NATURE OF BUSINESS. Make any material change in the nature of the business of the Borrower or such Subsidiary, as carried on at the date hereof.

Section 9.9 SUBSIDIARIES, PARTNERSHIPS, JOINT VENTURES AND OWNERSHIP OF STOCK. Do any of the following:

(a) form or acquire any corporation which would thereby become an Insurance Subsidiary or a Subsidiary without approval of the Required Banks, which approval may be conditioned upon the pledge of the stock of such Insurance Subsidiary or Subsidiary to the Agent for the benefit of the Banks pursuant to a pledge agreement in the form of the Borrower Pledge Agreement;

(b) form or enter into any partnership as a limited or general partner or into any joint venture;

(c) permit any Subsidiary to purchase or otherwise acquire any shares of the stock of the Borrower; or

(d) take any action, or permit any Subsidiary to take any action, which would result in a decrease in the Borrower's or any Subsidiary's ownership interest in any Subsidiary (including, without limitation, decrease in the percentage of the shares of any class of stock owned).

Section 9.10 OTHER AGREEMENTS. Enter into any agreement, bond, note or other instrument with or for the benefit of any Person other than the Banks which would: (a) prohibit the Borrower or such Subsidiary from granting, or otherwise limit the ability of the Borrower or such Subsidiary to grant, to the Banks any Lien on any assets or properties of the Borrower or such Subsidiary; or (b) be violated or breached by the Borrower's payment and performance of its Obligations under the Loan Documents.

Section 9.11 TRANSACTIONS WITH AFFILIATES. Enter into or be a party to any transaction or arrangement, including, without limitation, the purchase, sale, lease or exchange of property or the rendering of any service, with any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of the Borrower's or the applicable Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than would obtain in a comparable arm's-length transaction with a Person not a Affiliate.

Section 9.12 USE OF PROCEEDS. Permit any proceeds of the Loans to be used, either directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of "purchasing or carrying any margin stock" within the meaning of Regulation U of the Federal Reserve Board, as amended from time to time, and furnish to any Bank, upon its request, a statement in conformity with the requirements of Federal Reserve Form U-1 referred to in Regulation U.

Section 9.13 REINSURANCE.

(a) Enter into Surplus Relief Reinsurance Agreements except (i) those treaties existing on the date of this Agreement and described on SCHEDULE 9.13 hereto, and (ii) additional or replacement Surplus Relief Reinsurance Agreements so long as such Agreements and those listed in clause (i) above, individually or in the aggregate, do not provide statutory pre-tax gain of more than an aggregate benefit of the amount then outstanding of more than \$250,000. Any additional Surplus Relief Reinsurance Agreements entered into under this SECTION 9.13(a) shall be with responsible reinsurers having a financial strength rating of "A" or better by A.M. Best.

(b) Make any material change or modification to any Reinsurance Agreement which change or modification could reasonably be expected to have a Material Adverse Effect. In addition, the Borrower and its Subsidiaries shall reinsure all amounts of insurance written by it in excess of \$500,000 on any one life. Any Reinsurance Agreement pursuant to which the Borrower or any of the Insurance Subsidiaries cede any liabilities shall be with responsible reinsurers having a financial strength rating of "A" or better by A.M. Best or with reinsurers reasonably acceptable to the Agent.

Section 9.14 MINIMUM SURPLUS. Permit the sum of Capital and Surplus plus IMR/AVR of AEILIC to be less at any time than the sum of (a) \$140,000,000, PLUS (b) 25% of Statutory Net Income of AEILIC after December 31, 1999, PLUS (c) 75% of the actual sum of contributions to the Capital and Surplus of AEILIC made

subsequent to December 31, 1999.

Section 9.15 LEVERAGE RATIO. Permit the Leverage Ratio to be greater than 50% at any time.

Section 9.16 CASH COVERAGE RATIO. Permit the Cash Coverage Ratio for any period of four consecutive fiscal quarters to be less than 1.30 to 1.00.

Section 9.17 RISK-BASED CAPITAL. As of the end of any fiscal quarter or fiscal year, permit the Risk-Based Capital of AEILIC to fall below the following, for the following fiscal quarter and fiscal year ends:

FISCAL
QUARTER
AND YEAR
ENDS:
MINIMUM
RISK-BASED
CAPITAL: -

December
31, 2002,
March 31,
2003, June
30, 2003
and
September
30, 2003::
150%
December
31, 2003
and
thereafter:
200%

Section 9.18 AMENDMENT OF GENERAL AGENCY COMMISSION AGREEMENT. Permit AEILIC to join in or consent to the amendment, modification, supplement or waiver of any of the provisions of the General Agency Commission Agreement.

Section 9.19 NET YIELD PERCENTAGE. Permit the Net Yield Percentage to be less than 1.50% on the last day of any calendar quarter for the twelve-month period ending on that day.

ARTICLE X EVENTS OF DEFAULT AND REMEDIES

Section 10.1 EVENTS OF DEFAULT. The occurrence of any one or more of the following events shall constitute an Event of Default:

- (a) The Borrower shall fail to make when due, whether by acceleration or otherwise, any payment of principal of or interest on the Notes or any fee or other amount required to be made to the Banks pursuant to the Loan Documents;
- (b) Any representation or warranty made or deemed to have been made by or on behalf of the Borrower or any Subsidiary by any of the Loan Documents or by or on behalf of the Borrower or any Subsidiary in any certificate, statement, report or other writing furnished by or on behalf of the Borrower to the Banks pursuant to the Loan Documents shall prove to have been false or misleading in any material respect on the date as of which the facts set forth are stated or certified or deemed to have been stated or certified;
- (c) The Borrower shall fail to comply with and of SECTIONS 8.2, 9.3, 9.4, 9.5, 9.14, 9.15, 9.16, 9.17, 9.18 or 9.19 hereof;
- (d) The Borrower shall fail to comply with any agreement, covenant, condition, provision or term contained in the Loan Documents (and such failure shall not constitute an Event of Default under any of the other provisions of this SECTION 10.1) and such failure to comply shall continue for 30 days after whichever of the following dates is the earliest: (i) the date the Borrower gives notice of such failure to the Agent; (ii) the date the Borrower should have given notice of such failure to the Agent pursuant to Section 8.1.7; or (iii) the date the Agent gives notice of such failure to the Borrower.
- (e) The Borrower, any Subsidiary or AEISC shall become insolvent or shall generally not pay its debts as they mature or shall apply for, shall consent to, or shall acquiesce in the appointment of a custodian, trustee or receiver of the Borrower, such Subsidiary or AEISC or for a substantial part of the property thereof or, in the absence of such application, consent or acquiescence, a custodian, trustee or receiver shall be appointed for the Borrower, a Subsidiary or AEISC or for a substantial part of the property thereof and shall not be discharged within 30 days;
- (f) Any bankruptcy, reorganization, debt arrangement or other proceedings under any bankruptcy or insolvency law shall be instituted by or against the Borrower, a Subsidiary or AEISC, and, if instituted against the Borrower, a Subsidiary or AEISC, shall have been consented to or acquiesced in by the Borrower, such Subsidiary or AEISC, or shall remain undismissed

for 30 days, or an order for relief shall have been entered against the Borrower, such Subsidiary or AEISC, or the Borrower, any Subsidiary or AEISC shall take any corporate action to approve institution of, or acquiescence in, such a proceeding;

(g) Any dissolution or liquidation proceeding shall be instituted by or against the Borrower, a Subsidiary or AEISC and, if instituted against the Borrower, such Subsidiary or AEISC, shall be consented to or acquiesced in by the Borrower, such Subsidiary or AEISC or shall remain for 30 days undismitted, or the Borrower, any Subsidiary or AEISC shall take any corporate action to approve institution of, or acquiescence in, such a proceeding;

(h) A judgment or judgments for the payment of money in excess of the sum of \$250,000 in the aggregate shall be rendered against the Borrower or a Subsidiary and the Borrower or such Subsidiary shall not discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof, prior to any execution on such judgments by such judgment creditor, within 30 days from the date of entry thereof, and within said period of 30 days, or such longer period during which execution of such judgment shall be stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal;

(i) The institution by the Borrower or any ERISA Affiliate of steps to terminate any Plan if in order to effectuate such termination, the Borrower or any ERISA Affiliate would be required to make a contribution to such Plan, or would incur a liability or obligation to such Plan, in excess of \$250,000, or the institution by the PBGC of steps to terminate any Plan;

(j) The maturity of any Indebtedness of the Borrower (other than Indebtedness under this Agreement) or a Subsidiary shall be accelerated, or the Borrower or a Subsidiary shall fail to pay any such Indebtedness when due or, in the case of such Indebtedness payable on demand, when demanded, or any event shall occur or condition shall exist and shall continue for more than the period of grace, if any, applicable thereto and shall have the effect of causing, or permitting (any required notice having been given and grace period having expired) the holder of any such Indebtedness or any trustee or other Person acting on behalf of such holder to cause, such Indebtedness to become due prior to its stated maturity or to realize upon any collateral given as security therefor;

(k) Any Change of Control shall occur;

(l) (i) AEISC shall fail to comply with any agreement, covenant, condition, provision or term contained in the AEISC Security Agreement and such failure to comply shall continue for 30 days after whichever of the following dates is the earliest: (A) the date the Borrower gives notice of such failure to the Agent, (B) the date the Borrower should have given notice of such failure to the Agent pursuant to SECTION 8.1.7 or (c) the date the Agent gives notice of such failure to the Borrower; or (ii) AEISC shall purport to repudiate or revoke the AEISC Security Agreement or declare that it has no further obligations thereunder; or

(m) either (i) the financial strength rating of AEILIC by A.M. Best or by Standard & Poor's is reduced to less than "A-", in the case of A.M. Best, or to less than "A-", in the case of Standard & Poor's, and is not restored to an A.M. Best rating of at least "A-" or a Standard & Poor's rating of at least "A-", as the case may be, within 14 months after such rating reduction. or (ii) the financial strength rating of AEILIC by A. M. Best or by Standard & Poor's is reduced to less than "B++", in the case of A.M. Best, or to less than "BBB+", in the case of Standard & Poor's.

Section 10.2 REMEDIES. If (a) any Event of Default described in SECTIONS 10.1(e), (f) or (g) shall occur with respect to the Borrower, the Commitments shall automatically terminate and the outstanding unpaid principal balance of the Notes, the accrued interest thereon and all other Obligations of the Borrower to the Banks and the Agent under the Loan Documents shall automatically become immediately due and payable; or (b) any other Event of Default shall occur and be continuing, then the Agent may take any or all of the following actions (and shall take any or all of the following actions on direction of the Required Banks): (i) declare the Commitments terminated, whereupon the Commitments shall terminate, (ii) declare that the outstanding unpaid principal balance of the Notes, the accrued and unpaid interest thereon and all other Obligations of the Borrower to the Banks and the Agent under the Loan Documents to be forthwith due and payable, whereupon the Notes, all accrued and unpaid interest thereon and all such Obligations shall immediately become due and payable, in each case without demand or notice of any kind, all of which are hereby expressly waived, anything in this Agreement or in the Notes to the contrary notwithstanding, (iii) exercise all rights and remedies under any other instrument, document or agreement between the Borrower and the Agent or the Banks, and (iv) enforce all rights and remedies under any applicable law.

Section 10.3 OFFSET. In addition to the remedies set forth in SECTION 10.2, upon the occurrence of any Event of Default or at any time thereafter while such Event of Default continues, each Bank or any other holder of any Note may offset any and all balances, credits, deposits (general or special, time or demand, provisional or final), accounts or monies of the Borrower then or thereafter with such Bank or such other holder, or any obligations of such Bank or such other holder of the Note, against the Indebtedness then owed by the Borrower to such Bank subject, however, to the provisions of SECTION 4.5.

Section 10.4 APPLICATION OF PROCEEDS. After the occurrence of an Event of Default and acceleration of the Obligations, all Collections shall be applied by

the Agent in accordance with the provisions of this SECTION 10.4.

(a) COLLECTIONS. All Collections except the AEISC Note Collections and the Surplus Note 5 Collections shall be applied as follows:

FIRST, to the payment of all costs and expenses incurred by or on behalf of the Agent, including the costs and expenses of any sale or enforcement, including reasonable compensation to the Agent's agents and counsels, and all expenses, liabilities and advances made or incurred by or on behalf of the Agent in connection therewith;

SECOND, to the payment of the costs and expenses of such sale or enforcement, including reasonable compensation to the Banks' agents and counsel, and all expenses, liabilities and advances made or incurred by or on behalf of any Bank in connection therewith;

THIRD, to the payment of all amounts due (other than principal and interest) under the Notes or this Agreement, payable ratably to the Agent and each Bank in accordance with the amount of such obligations owed to each of them, until such obligations are paid in full;

FOURTH, to the payment of interest accrued and unpaid on the Loans and the Notes, payable ratably to each Bank in accordance with the amount of accrued interest owed to each of them until such interest is paid in full;

FIFTH, to the payment of the outstanding principal amounts of all Loans, payable ratably to each Bank in accordance with the Percentage of each Bank until such principal is paid in full;

SIXTH, to the payment of all other Obligations, payable ratably to the Agent and the Banks in the proportion that the Agent's and each Bank's share of those amounts bears to the total of those amounts for the Agent and all Banks; and

FINALLY, to the payment to the Borrower, or to its successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

(b) AEISC NOTE COLLECTIONS. The AEISC Note Collections shall be payable in accordance with (a) above, EXCEPT that for AEISC Note Collections, FOURTH and FIFTH in (a) shall be deemed to be replaced by the following:

FOURTH, to the payment of (i) interest accrued and unpaid on the Tranche A Loans, (ii) principal of the Tranche A Loans, payable ratably to each Tranche A Bank in accordance with such Tranche A Bank's Tranche A Percentage until such interest and principal are paid in full;

FIFTH, to the payment of (i) interest accrued and unpaid on the Tranche B Loans, (ii) principal of the Tranche B Loans, payable ratably to each Tranche B Bank in accordance with such Tranche B Bank's Tranche B Percentage until such interest and principal are paid in full;

(b) SURPLUS NOTE 5 COLLECTIONS. The Surplus Note 5 Collections shall be payable in accordance with (a) above, EXCEPT that for Surplus Note 5 Collections, FOURTH and FIFTH in (a) shall be deemed to be replaced by the following:

FOURTH, to the payment of (i) interest accrued and unpaid on the Tranche B Loans, (ii) principal of the Tranche B Loans, payable ratably to each Tranche B Bank in accordance with such Tranche B Bank's Tranche B Percentage until such interest and principal are paid in full;

FIFTH, to the payment of (i) interest accrued and unpaid on the Tranche A Loans, (ii) principal of the Tranche A Loans, payable ratably to each Tranche A Bank in accordance with such Tranche A Bank's Tranche A Percentage until such interest and principal are paid in full;

(d) DETERMINATION OF SOURCE OF COLLECTION. The Agent shall make the determination of whether any given Collection is a AEISC Collection or a Surplus Note 5 Collection in its sole, good faith judgment, which shall be deemed conclusive in absence of manifest error.

(e) DEFICIENCY. If the proceeds of any Collections are insufficient to cover the costs and expenses of such sale, as aforesaid, and the payment in full of all Obligations of the Borrower, the Borrower shall remain liable for any deficiency.

ARTICLE XI THE AGENT

Section 11.1 APPOINTMENT AND GRANT OF AUTHORITY. Each Bank hereby appoints the Agent, and the Agent hereby agrees to act, as agent under this Agreement and the other Loan Documents. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms hereof and thereof, together with such other powers as are reasonably incidental thereto. Each Bank hereby authorizes, consents to, and directs the Borrower to deal with the Agent as the true and lawful agent of such Bank to the extent set forth herein.

Section 11.2 NON-RELIANCE ON AGENT. Each Bank agrees that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower and decision to enter into this Agreement and that it will, independently and without reliance upon the Agent, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under the Loan Documents. The Agent shall not be required to keep informed as to the performance or observance by the Borrower of this Agreement and the Loan Documents or to inspect the properties or books of the Borrower. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Borrower (or any of its related companies) which may come into the Agent's possession.

Section 11.3 RESPONSIBILITY OF THE AGENT AND OTHER MATTERS.

(a) The Agent shall have no duties or responsibilities except those expressly set forth in this Agreement (including, without limitation, the duty to forward copies of reports, certificates and other information to the Banks pursuant to SECTION 8.1) and those duties and liabilities shall be subject to the limitations and qualifications set forth in this Section. The duties of the Agent shall be mechanical and administrative in nature.

(b) Neither the Agent nor any of its directors, officers or employees shall be liable for any action taken or omitted (whether or not such action taken or omitted is within or without the Agent's responsibilities and duties expressly set forth in this Agreement) under or in connection with this Agreement, or any other instrument or document in connection herewith, except for gross negligence or willful misconduct. Without limiting the foregoing, neither the Agent nor any of its directors, officers or employees shall be responsible for, or have any duty to examine:

(i) the genuineness, execution, validity, effectiveness, enforceability, value or sufficiency of (A) the Loan Documents, or the Notes, or (B) any document or instrument furnished pursuant to or in connection with the Loan Documents or the Notes,

(ii) the collectibility of any amounts owed by the Borrower,

(iii) any recitals or statements or representations or warranties in connection with the Loan Documents or the Notes,

(iv) any failure of any party to this Agreement to receive any communication sent, or

(v) the assets, liabilities, financial condition, results of operations, business or creditworthiness of the Borrower.

(c) The Agent shall be entitled to act, and shall be fully protected in acting upon, any communication in whatever form believed by the Agent in good faith to be genuine and

correct and to have been signed or sent or made by a proper person or persons or entity. The Agent may consult counsel and shall be entitled to act, and shall be fully protected in any action taken in good faith, in accordance with advice given by counsel. The Agent may employ agents and attorneys-in-fact and shall not be liable for the default or misconduct of any such agents or attorneys-in-fact selected by the Agent with reasonable care. The Agent shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, provisions or conditions of the Loan Documents or the Notes on the Borrower's part.

Section 11.4 ACTION ON INSTRUCTIONS. The Agent shall be entitled to act or refrain from acting, and in all cases shall be fully protected in acting or refraining from acting under the Loan Documents or the Notes or any other instrument or document in connection herewith or therewith in accordance with instructions in writing from (i) the Required Banks except for instructions which under the express provisions hereof must be received by the Agent from all the Banks, and (ii) in the case of such instructions, from all the Banks.

Section 11.5 INDEMNIFICATION. To the extent the Borrower does not reimburse and save the Agent harmless according to the terms hereof for and from all costs, expenses and disbursements in connection herewith or with the other Loan Documents, such costs, expenses and disbursements to the extent reasonable shall be borne by the Banks ratably in accordance with their Percentages and the Banks hereby agree on such basis (a) to reimburse the Agent for all such reasonable costs, expenses and disbursements on request and (b) to indemnify and save harmless the Agent against and from any and all losses, obligations, penalties, actions, judgments and suits and other reasonable costs, expenses and disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent, other than as a consequence of actual gross negligence or willful misconduct on the part of the Agent, arising out of or in connection with the Loan Documents or the Notes or any instrument or document in connection herewith or therewith, or any request of the Banks, including without limitation the reasonable costs, expenses and disbursements in connection with defending itself against any claim or liability, or answering any subpoena, related to the exercise or performance of any of its powers or duties under this Agreement or the other Loan Documents or the taking of any action under or in connection with the Loan Documents or the Notes.

Section 11.6 U.S. BANK NATIONAL ASSOCIATION AND AFFILIATES. With respect to U.S. Bank National Association's Commitment and any Loans by U.S. Bank National Association under this Agreement and any Note and any interest of U.S. Bank

National Association in any Note, U.S. Bank National Association shall have the same rights, powers and duties under this Agreement and such Note as any other Bank and may exercise the same as though it were not the Agent. U.S. Bank National Association and its affiliates may accept deposits from, lend money to, and generally engage, and continue to engage, in any kind of business with the Borrower as if U.S. Bank National Association were not the Agent.

Section 11.7 NOTICE TO HOLDER OF NOTES. The Agent may deem and treat the payees of the Notes as the owners thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof has been filed with the Agent. Any request, authority or consent of any holder of any Note shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note.

Section 11.8 SUCCESSOR AGENT. The Agent may resign at any time by giving at least 30 days written notice thereof to the Banks and the Borrower. Upon any such resignation, the Required Banks shall have the right to appoint a successor Agent. If no successor Agent shall have been appointed by the Required Banks and shall have accepted such appointment within 30 days after the retiring Agent's giving notice of resignation, then the retiring Agent may, but shall not be required to, on behalf of the Banks, appoint a successor Agent.

ARTICLE XII MISCELLANEOUS

Section 12.1 NO WAIVER AND AMENDMENT. No failure on the part of the Banks or the holders of the Notes to exercise and no delay in exercising any power or right hereunder or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right. The remedies herein and in any other instrument, document or agreement delivered or to be delivered to the Banks hereunder or in connection herewith are cumulative and not exclusive of any remedies provided by law. No notice to or demand on the Borrower not required hereunder or under the Notes shall in any event entitle the Borrower to any other or further notice or demand in similar or other circumstances or constitute a waiver of the right of the Banks or the holders of the Notes to any other or further action in any circumstances without notice or demand.

Section 12.2 AMENDMENTS, Etc. No amendment or waiver of any provision of this Agreement or any of the other Loan Documents, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Borrower and the Agent upon direction of the Required Banks and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless agreed to by the Agent and all of the Banks:

- (a) increase the amounts of or extend the terms of the Commitments or subject the Banks to any additional obligations;
- (b) reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder;
- (c) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder;
- (d) change the definition of Required Banks or amend this SECTION 12.2; or
- (e) release any collateral or security interest securing the Loans.

PROVIDED, FURTHER that amendments, waivers or consents affecting the rights of the Agent shall also require the consent of the Agent.

Section 12.3 ASSIGNMENTS AND PARTICIPATIONS.

(a) ASSIGNMENTS. Each Bank shall have the right, subject to the further provisions of this Sections 12.3, to sell or assign all or any part of its Commitment, Loans, Note, and other rights and obligations under this Agreement and related documents (such transfer, an "Assignment") to any of its affiliates and to any commercial lender, other financial institution or other entity (an "Assignee"). Upon such Assignment becoming effective as provided in SECTION 12.3(b), the assigning Bank shall be relieved from the portion of the Commitments, obligations to indemnify the Agent and other obligations hereunder to the extent assumed and undertaken by the Assignee, and to such extent the Assignee shall have the rights and obligations of a "Bank" hereunder. Notwithstanding the foregoing, unless otherwise consented to by the Borrower and the Agent (which consent, in the case of the Borrower, shall not be required if such assignment is to an affiliate of the assigning Bank or if an Event of Default has occurred and is continuing and, in any other case, shall not be unreasonably withheld or delayed by the Borrower or the Agent, as the case may be), each Assignment shall be in the initial principal amount of not less than \$2,000,000 in the aggregate for all Loans and Commitments assigned, or an integral multiple of \$1,000,000 if above such amount (or the remaining portion of such assigning Bank's commitment, if less than \$2,000,000). Each Assignment shall be documented by an agreement between the assigning Bank and the Assignee (an "Assignment and Assumption Agreement") in form and substance satisfactory to the Agent.

(b) EFFECTIVENESS OF ASSIGNMENTS. An Assignment shall become effective hereunder when all of the following shall have occurred: (1) the Assignee shall have submitted an Assignment Agreement in the form attached hereto as EXHIBIT G, duly completed and executed, in which the Assignee shall have

agreed in writing to have irrevocably assumed and undertaken the transferred portion of the assigning Bank's obligations hereunder (including without limitation the obligations to indemnify the Agent hereunder), to the Agent with a copy for the Borrower, and shall have provided to the Agent information the Agent shall have reasonably requested to make payments to the Assignee, (ii) either the assigning Bank or the Assignee shall have paid a processing fee of \$3,500 to the Agent for its own account, (iii) the assigning Bank and the Agent shall have agreed upon a date upon which the Assignment shall become effective, and (iv) the Agent and the Borrower shall have given their consent to such Assignment by executing such Assignment Agreement. Upon the Assignment becoming effective, (x) if requested by the assigning Bank, the Agent and the Borrower shall make appropriate arrangements so that new Notes are issued to the assigning Bank and the Assignee; and (y) the Agent shall forward all payments of interest, principal, fees and other amounts that would have been made to the assigning Bank, in proportion to the percentage of the assigning Bank's rights transferred, to the Assignee.

(c) PARTICIPATIONS. Each Bank shall have the right, subject to the further provisions of this SECTION 12.3, to grant or sell a participation in all or any part of its Loans, Note and Commitment (a "Participation") to any commercial lender, other financial institution or other entity (a "Participant") without the consent of the Borrower, the Agent or any other party hereto. The Borrower agrees that if amounts outstanding under this Agreement and the Notes are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of setoff in respect of its Participation in amounts owing under this

Agreement and any Note to the same extent as if the amount of its Participation were owing directly to it as a Bank under this agreement or any note; provided, that such right of setoff shall be subject to the obligation of such Participant to share with the Banks, and the Banks agree to share with such Participant, as provided in SECTION 4.4 hereof. The Borrower also agrees that each Participant shall be entitled to the benefits of Article V with respect to its Participation, provided, that no Participant shall be entitled to receive any greater amount pursuant to such Sections than the transferor Bank would have been entitled to receive in respect of the amount of the Participation transferred by such transferor Bank to such Participant had no such transfer occurred.

(d) LIMITATION OF RIGHTS OF ANY ASSIGNEE OR PARTICIPANT. Notwithstanding anything in the foregoing to the contrary, except in the instance of an Assignment that has become effective as provided in SECTION 12.3(b), (i) no Assignee or Participant shall have any direct rights hereunder, (ii) the Borrower, the Agent and the Banks other than the assigning or selling Bank shall deal solely with the assigning or selling Bank and shall not be obligated to extend any rights or make any payment to, or seek any consent of, the Assignee or Participant, (iii) no Assignment or Participation shall relieve the assigning or selling Bank from its Commitment to make Loans hereunder or any of its other obligations hereunder and such Bank shall remain solely responsible for the performance hereof, the (iv) no Assignee or Participant, other than an affiliate of the assigning or selling Bank, shall be entitled to require such Bank to take or omit to take any action hereunder, except that such Bank may agree with such Assignee or Participant that such Bank will not, without such Assignee's or Participant's consent, take any action which would, in the case of any principal, interest or fee in which the Assignee or Participant has an ownership or beneficial interest: (A) extend the final maturity of any Loans or extend the Termination Date, (B) reduce the interest rate on the Loans or the rate of Facility Fees, (C) forgive any principal of, or interest on, the Loans or any fees, or (D) release all or substantially all of the collateral for the Loans.

(d) TAX MATTERS. No Bank shall be permitted to enter into any Assignment or Participation with any Assignee or Participant who is not a United States Person, and no New Bank who is not a United States Person shall be permitted to become a Bank, unless such Assignee, Participant or New Bank represents and warrants to such the assigning or participating Bank, as applicable, and to the Agent that, as at the date of such Assignment or Participation, or as of the date such New Bank is to become a Bank, as the case may be, it is entitled to receive interest payments without withholding or deduction of any taxes and such Assignee, Participant or New Bank, as the case may be, executes and delivers to the Agent and to the assigning or participating Bank, as applicable, on or before the date of execution and delivery of documentation of such Participation or Assignment or on the date such New Bank is to become a Bank, as the case may be, a United States Internal Revenue Service Form W-8ECI or W-8BEN, or any successor to either of such forms, as appropriate, properly completed and claiming complete exemption from withholding and deduction of all Federal Income Taxes. A "United States Person" means any citizen, national or resident of the United States, any corporation or other entity created or organized in or under the laws of the United States or any political subdivision hereof or any estate or trust, in each case that is not subject to withholding of

United States Federal income taxes or other taxes on payment of interest, principal of fees hereunder.

(e) INFORMATION. Each Bank may furnish any information concerning the Borrower in the possession of such Bank from time to time to Assignees and Participants and potential Assignees and Participants.

(f) FEDERAL RESERVE BANK. Nothing herein stated shall limit the right of any Bank to assign any interest herein and in any Note to a Federal Reserve Bank.

Section 12.4 COSTS, EXPENSES AND TAXES. The Borrower agrees, whether or not any Loan is made hereunder, to pay on demand all costs and expenses of the following persons (including the reasonable fees and expenses of counsel and paralegals for such persons who may be employees of such persons), incurred in connection with the following matters: (i) the Agent in connection with the preparation, execution and delivery of the Loan Documents and the preparation, negotiation and execution of any and all amendments to each thereof and (ii) the Agent and the Banks in connection with the enforcement of the Loan Documents. The Borrower agrees to pay, and save the Agent and the Banks harmless from all liability for, any stamp or other taxes which may be payable with respect to the execution or delivery of the Loan Documents. The Borrower agrees to indemnify and hold the Agent and the Banks harmless from any loss or expense which may arise or be created by the acceptance of telephonic or other instructions for making Loans or disbursing the proceeds thereof. The obligations of the Borrower under this SECTION 12.4 shall survive any termination of this Agreement.

Section 12.5 NOTICES. Except when telephonic notice is expressly authorized by this Agreement, any notice or other communication to any party in connection with this Agreement shall be in writing and shall be sent by manual delivery, telegram, telex, facsimile transmission, overnight courier or United States mail (postage prepaid) addressed to such party at the address specified on the signature page hereof, or at such other address as such party shall have specified to the other party hereto in writing. All periods of notice shall be measured from the date of delivery thereof if manually delivered, from the date of sending thereof if sent by telegram, telex or facsimile transmission, from the first Business Day after the date of sending if sent by overnight courier, or from four days after the date of mailing if mailed; provided, however, that any notice to the Agent under Article II hereof shall be deemed to have been given only when received by the Agent.

Section 12.6 CONFIDENTIALITY. The Agent and the Banks may have received, and may hereafter receive, confidential financial and business information concerning the Borrower and its Subsidiaries and Affiliates. The Agent and each Bank agrees to hold non-public information received from the Borrower in confidence, and not disclose such information to persons other than the Agent's or Bank's officers, employees, agents and other representatives (who, if they are not employees of the Agent or the Bank, shall be informed of this confidentiality provision) except: (a) as required to disclose such information to a bank regulatory agency or in connection with an examination of its records by bank examiners or at the express direction of any other authorized government agency; (b) pursuant to a subpoena or other court order; (c) in connection with legal process in the Agent's or Bank's lending capacity; or (d) to participants, assignees, potential participants and potential assignees with respect to the financing who agree to be bound

by confidentiality provisions substantially similar to this paragraph. Confidential information shall not include (i) information already in the Agent's or Bank's possession prior to receipt from the Borrower, or (ii) information which becomes generally available to the public, other than as a result of disclosure by the Agent or a Bank, or its directors, officers, employees, advisors or agents or becomes available to the Agent or a Bank on a nonconfidential basis from a source other than the Borrower or its advisors, provided that such source is not known by the Agent or Bank to be bound by a confidentiality agreement with, or other obligation of confidentiality to, the Borrower or another party.

Section 12.7 SUCCESSORS. This Agreement shall be binding upon the Borrower, the Banks and the Agent and their respective successors and assigns, and shall inure to the benefit of the Borrower, the Banks and the Agent and the successors and assigns of the Banks. The Borrower shall not assign its rights or duties hereunder without the written consent of the Banks.

Section 12.8 SEVERABILITY. Any provision of the Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 12.9 SUBSIDIARY REFERENCES. The provisions of this Agreement relating to Subsidiaries shall apply only during such times as the Borrower has one or more Subsidiaries.

Section 12.10 CAPTIONS. The captions or headings herein and any table of contents hereto are for convenience only and in no way define, limit or describe the scope or intent of any provision of this Agreement.

Section 12.11 ENTIRE AGREEMENT. The Loan Documents embody the entire agreement and understanding between the Borrower, the Banks and the Agent with respect to the subject matter hereof and thereof. This Agreement supersedes all prior agreements and understandings relating to the subject matter hereof.

Section 12.12 COUNTERPARTS. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and either of the parties hereto may execute this Agreement by signing any such counterpart.

Section 12.13 GOVERNING LAW. THE VALIDITY, CONSTRUCTION AND ENFORCEABILITY OF THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF MINNESOTA, WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS OF THE UNITED STATES APPLICABLE TO NATIONAL BANKS.

Section 12.14 CONSENT TO JURISDICTION. AT THE OPTION OF THE BANKS, THIS AGREEMENT AND THE NOTES MAY BE ENFORCED IN ANY FEDERAL COURT OR MINNESOTA STATE COURT SITTING IN MINNEAPOLIS OR ST. PAUL, MINNESOTA; AND THE BORROWER CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT THE BORROWER COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY

ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT, THE BANKS AT ITS OPTION SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE-DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

Section 12.15 WAIVER OF JURY TRIAL. EACH OF THE BORROWER, THE AGENT, THE CO-AGENT, THE DOCUMENTATION AGENT AND THE BANKS (a) WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS (i) UNDER THIS AGREEMENT OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR (ii) ARISING FROM ANY BANKING RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY AND (b) WAIVES ANY RIGHT TO SEEK OR RECEIVE CONSEQUENTIAL, EXEMPLARY OR PUNITIVE DAMAGES IN ANY SUCH ACTION OR PROCEEDING.

Section 12.16 REPLACEMENT OF EXISTING CREDIT AGREEMENT. This Agreement supersedes and replaces the Existing Credit Agreement, and provides terms and conditions for loans made hereunder and made previously under the Existing Credit Agreement. The Tranche A Notes issued hereunder evidence indebtedness formerly evidenced by notes issued under the Existing Credit Agreement. Entry into this Agreement and delivery and acceptance of the Notes hereunder shall not evidence repayment of indebtedness or obligations under the Existing Credit Agreement.

(signature pages follow)

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first above written.

AMERICAN EQUITY INVESTMENT LIFE
HOLDING COMPANY

By: /s/ D.J. Noble

Title: President

5000 Westown Parkway, Suite 200
West Des Moines, Iowa 50266
Attention: Mr. David J. Noble, President
Telephone: (515) 221-0002
Fax: (515) 221-9947

U.S. BANK NATIONAL ASSOCIATION, as
Agent and as a Bank

By: /s/ Sam S. Pepper

Title: Vice President

800 Nicollet Mall
Mail Code BC-MN-H03N
Minneapolis, MN 55402
Attention: Mr. Sam S. Pepper
Telephone: (612) 303-3758
Fax: (612) 303-2265

WEST DES MOINES STATE BANK, as
Co-Agent as a Bank

By: /s/ Brad L. Winterbottom

Title: President

1601 22nd St.
West Des Moines, Iowa 50266
Attention: Mr. Brad L. Winterbottom
Telephone: (515) 222-2320
Fax: (515) 222-2346

(additional signature page follows)

FLEET NATIONAL BANK, as

By: /s/ Robert W. McClelland

Title: Director

Financial Institutions
100 Federal Street -- MA-EH-10010H
Boston, MA 02110
Attention: David A. Bosselait, Vice President
Telephone: (617) 434-3778
Fax: (617) 434-1096

EXHIBIT

Exhibit	Contents
A-1, A-2	Form of Note
B	Acknowledgment of AEISC Security Agreement
C	Acknowledgement of Borrower Pledge Agreement
D	Compliance Certificate
E	Acknowledgement of Consent and Agreement to Security Agreement by AEILIC
F	Form of Legal Opinion
G	Assignment and Assumption

Schedules

1.1	Amounts and Percentages
7.16	Subsidiaries
7.18	Insurance Licenses
9.6	Investments
9.13	Surplus Relief Reinsurance Agreements

EXHIBIT A-1
TRANCHE A NOTE

[\$[Tranche A Amount]] Minneapolis, Minnesota: December 30, 2002

FOR VALUE RECEIVED, the undersigned AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY, an Iowa corporation (the "Borrower"), promises to pay to the order of [BANK] (the "Bank"), on the Termination Date, or other due date or dates determined under the Credit Agreement hereinafter referred to, the principal sum of _____ DOLLARS (\$Tranche A Amount) (the "Tranche A Amount"), payable in quarterly installments commencing on December 31, 2002, and continuing on each March 31, June 30, September 30 and December 31 thereafter occurring to and including March 31, 2005, each in an amount equal to one-tenth (1/10th) of the Tranche A Amount, and a final principal installment payable on June 30, 2005 in an amount equal to the aggregate principal balance of the Tranche A Loans of the Bank then outstanding.

The Borrower further promises to pay to the order of the Bank interest on the aggregate unpaid principal amount hereof from time to time outstanding from the date hereof until paid in full at the rates per annum which shall be determined in accordance with the provisions of the Credit Agreement. Accrued interest shall be payable on the dates specified in the Credit Agreement.

All payments of principal and interest under this Note shall be made in lawful money of the United States of America in immediately available funds at the office of U.S. Bank National Association, at 800 Nicollet Mall., Minneapolis, Minnesota 55402, or at such other place as may be designated by the Agent to the Borrower in writing.

This Note is one of the Tranche A Notes and the Notes referred to in, and evidences indebtedness incurred under, a Credit Agreement dated as of December 30, 2002 (herein, as it may be amended, modified or supplemented from time to time, called the "Credit Agreement") among the Borrower, the Banks, as defined therein (including the Bank) and U.S. Bank National Association, as Agent, to which Credit Agreement reference is made for a statement of the terms and provisions thereof, including those under which the Borrower is permitted and required to make prepayments and repayments of principal of such indebtedness and under which such indebtedness may be declared to be immediately due and payable.

All parties hereto, whether as makers, endorsers or otherwise, severally waive presentment, demand, protest and notice of dishonor in connection with this Note.

This Note is made under and governed by the internal laws of the State of Minnesota.

AMERICAN EQUITY INVESTMENT LIFE
HOLDING COMPANY

By: _____

Title: _____

EXHIBIT A-2
TRANCHE B NOTE

[\$[Tranche B Amount] Minneapolis, Minnesota: December 30, 2002

FOR VALUE RECEIVED, the undersigned AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY, an Iowa corporation (the "Borrower"), promises to pay to the order of [BANK] (the "Bank"), on the Termination Date, or other due date or dates determined under the Credit Agreement hereinafter referred to, the principal sum of _____ DOLLARS (\$Tranche A Amount) (the "Tranche B Amount"), payable in quarterly installments commencing on March 31, 2003, and continuing on each March 31, June 30, September 30 and December 31 thereafter occurring to and including December 31, March 31, 2005, each in an amount equal to one-nineteenth (1/19th) of the Tranche B Amount, and a final principal installment payable on December 31, 2007 in an amount equal to the aggregate principal balance of the Tranche B Loans then outstanding.

The Borrower further promises to pay to the order of the Bank interest on the aggregate unpaid principal amount hereof from time to time outstanding from the date hereof until paid in full at the rates per annum which shall be determined in accordance with the provisions of the Credit Agreement. Accrued interest shall be payable on the dates specified in the Credit Agreement.

All payments of principal and interest under this Note shall be made in lawful money of the United States of America in immediately available funds at the office of U.S. Bank National Association, at 800 Nicollet Mall., Minneapolis, Minnesota 55402, or at such other place as may be designated by the Agent to the Borrower in writing.

This Note is one of the Tranche B Notes and the Notes referred to in, and evidences indebtedness incurred under, a Credit Agreement dated as of December 30, 2002 (herein, as it may be amended, modified or supplemented from time to time, called the "Credit Agreement") among the Borrower, the Banks, as defined therein (including the Bank) and U.S. Bank National Association, as Agent, to which Credit Agreement reference is made for a statement of the terms and provisions thereof, including those under which the Borrower is permitted and required to make prepayments and repayments of principal of such indebtedness and under which such indebtedness may be declared to be immediately due and payable.

All parties hereto, whether as makers, endorsers or otherwise, severally waive presentment, demand, protest and notice of dishonor in connection with this Note.

This Note is made under and governed by the internal laws of the State of Minnesota.

AMERICAN EQUITY INVESTMENT LIFE
HOLDING COMPANY

By: _____

Title: _____

EXHIBIT B
Acknowledgment and Amendment of AEISC Security Agreement

The undersigned has entered into a Third Amended and Restated Security Agreement, dated as of April 6, 2000 (the "Security Agreement") in favor of U.S. Bank National Association, as Agent for the Banks under the Credit Agreement referred to below. The undersigned acknowledges and agrees as follows:

1. The Credit Agreement, as defined in the Security Agreement, has been amended and restated as an Amended and Restated Credit Agreement, dated as of December 30, 2002. All references to the Credit Agreement in the Security Agreement shall be deemed to refer to such Amended and Restated Credit Agreement, as further amended, supplemented, restated or otherwise modified from time to time.

2. The "Obligations" specified in the Security Agreement include the obligations of the Borrower under the Credit Agreement referred to herein.

The undersigned hereby confirms that the Security Agreement remains in full force and effect, enforceable against the undersigned in accordance with its terms.

AMERICAN EQUITY INVESTMENT SERVICE
COMPANY

By: _____

Title: _____

EXHIBIT C
ACKNOWLEDGMENT AND AMENDMENT OF
SECOND AMENDED AND RESTATED
BORROWER PLEDGE AGREEMENT

The undersigned, as Pledgor (the "Pledgor") has executed and delivered a Second Amended and Restated Borrower Pledge Agreement, dated as of April 6, 2000 (the "Pledge Agreement"), pursuant to which the Pledgor has granted to certain security interests to U.S. BANK NATIONAL ASSOCIATION, a national banking association, as agent (in such capacity, the "Agent") for the Banks party to the Credit Agreement, as hereinafter defined. The Pledgor and the Agent acknowledge and agree as follows:

1. The Credit Agreement, as defined in the Pledge Agreement, has been amended and restated as an Amended and Restated Credit Agreement, dated as of December 30, 2002. All references to the Credit Agreement in the Pledge Agreement shall be deemed to refer to such Amended and Restated Credit Agreement, as further amended, supplemented, restated or otherwise modified from time to time.

2. A new definition is added to Section 1 of the Pledge Agreement, and shall read as follows:

"'Investment Advisory Agreement' shall mean each agreement between the Pledgor and AEILIC or any other subsidiary under which the Borrower will act as investment advisor for such subsidiary in consideration of fees paid by the subsidiary thereunder."

2. Section 2 of the Pledge Agreement is amended by re-lettering subsection "(f)" as "(g)" and adding new subsection (f) to read as follows:

"(f) all Investment Advisory Agreements and all rights thereunder, including all accounts and rights to payment thereunder; and"

3. The Pledgor agrees that the Agent may file any financing statement to perfect the security interest granted by the Pledgor under the Pledge Agreement without the signature of the Pledgor, to the extent permitted to do so by applicable law.

The Pledgor hereby confirm that the Pledge Agreement remains in full force and effect, enforceable against the Pledgor in accordance with its terms.

Page 1 of 2

IN WITNESS WHEREOF, the Pledgor has executed this Acknowledgment and Amendment as of December 20, 2002.

AMERICAN EQUITY INVESTMENT LIFE
HOLDING COMPANY

By: _____
Title: _____

Acknowledged and agreed

U.S. Bank National Association

By: _____
Title: _____

Page 2 of 2

EXHIBIT D
FORM OF COMPLIANCE CERTIFICATE

This Compliance Certificate is being submitted pursuant to Articles VIII and IX of the Amended and Restate Revolving Credit Agreement dated as of December 30, 2002 (as originally executed and as amended, modified, supplemented or restated, the "Credit Agreement"). The undersigned, being a duly acting and authorized officer of the Borrower and familiar with its books and records and the books and records of each Subsidiary, Attached are the consolidated financial statements for the Borrower as of _____, for American Equity Investment Life Insurance Company (AEILIC) as of _____, and for American Equity Investment Service Company (AEISC) as of _____, ("Current Financials").

I hereby certify that the Current Financials have been prepared in accordance to GAAP and/or statutory accounting practices applied on a consistent basis with the accounting practices applied in the annual audit reports referred to in the Credit Agreement.

Defaults and Events of Default (check one):

1. I have no knowledge of the occurrence of any Default or Event of Default under the Credit Agreement.
2. Attached is a detailed description of all Defaults and Events of Default of which I have knowledge and which have not previously been reported to U.S. Bank and remedied.

For the dates and periods covered by the Current Financials, the Borrower is in compliance with the covenants set forth in Article VIII and Article IX of the Credit Agreement, except as indicated in the attached description. The calculations made to determine compliance are attached.

American Equity Investment Life Holding Company

By: _____

Title: _____

Calculation of Covenants

[NOTE: ATTACHMENT MAY BE DIFFERENTLY FORMATTED]

For purposes of the following calculations, capitalized terms shall have the meanings set forth in the Credit Agreement and calculations shall be made in accordance with GAAP or SAP, as applied as described in the Credit Agreement.

Section 9.14 MINIMUM SURPLUS OF AEILIC:

Capital & Surplus	\$ _____
IMR/AVR:	
Interest maintenance reserve	\$ _____
Asset valuation reserve	\$ _____
Adjusted Capital and Surplus	\$ _____
REQUIRED:	
Minimum threshold	\$ _____
25% of AEILIC statutory net income after 12/31/99	\$ _____
75% of contributions to Capital and Surplus after 12/31/99:	\$ _____

REQUIRED AMOUNT:

Section 9.15 LEVERAGE RATIO:

(a) Principal amount of Loans outstanding:	\$ _____
Indebtedness of AEISC:	\$ _____
Total	\$ _____
(b) Adjusted Capital Total Capital & Surplus:	\$ _____
Leverage ratio ((a) to (b) expressed as a percentage):	_____%

REQUIRED:

Section 9.16 CASH COVERAGE RATIO:

(a) total of	
(i) Amounts Available for Dividends (see definition for time of determination)	\$ _____
PLUS (ii) interest paid on the Surplus Notes:	\$ _____
PLUS (iii) General Agency Commission Agreement commissions:	\$ _____
PLUS (iv) revenues under Investment Advisory Agreement:	\$ _____
PLUS (v) investments income of the Borrower (nonconsolidated), excluding investments in Subsidiaries:	\$ _____
MINUS (vi) cash operating expenses:	\$ _____
MINUS (vii) Restricted Payments:	\$ _____

Total: \$ _____

(b) total of:
(i) interest paid or accrued (other than
Indebtedness in respect of
Repurchase Transactions): \$ _____

PLUS (ii) distributions on the 8% Trust Preferred
Securities and the 5% Trust Preferred
Securities: \$ _____

PLUS (iii) one fifth (1/5) of outstanding Loans: \$ _____

Total: \$ _____

Cash Coverage Ratio ((a) to (b)) _____ to 1.00

REQUIRED: Not less than 1.30 to 1.00

Section 9.17 RISK-BASED CAPITAL OF AEILIC.

(a) Adjusted Capital: \$ _____
 (b) to the Company Action Level: \$ _____
 Risk Based Capital ((a) to (b) expressed as a percentage): _____%

REQUIRED:

December 31, 2002, March 31, 2003, June 30, 2003
 and September 30, 2003: 150%

December 31, 2003 and thereafter: 200%

NOTE: For the fiscal year ending December 31, 2002 and the fiscal quarters ending March 31, 2003, June 30, 2003 and September 30, 2003, such ratio shall be determined in accordance with variations permitted by the letter of the Iowa Commissioner of Insurance dated November 12, 2002.

Section 9.19 MINIMUM NET YIELD PERCENTAGE OF AEILIC:

(a) WEIGHTED AVERAGE YIELD:

(i) Net Investment Income (12 month period): \$ _____
 DIVIDED BY

(ii) Average Invested Assets
 (A) Weighted Invested Assets
 (4 quarter period): \$ _____
 DIVIDED BY (B) 2.5: \$ _____

Weighted Average Yield ((i) divided by (ii)): _____%

(b) WEIGHTED AVERAGE CREDITING RATE:

FIXED ANNUITIES: _____%

Average rate credited on
 fixed annuities for the last
 twelve-month period: _____%

MULTIPLIED BY

(i) aggregate accumulation values of
 fixed annuities \$ _____
 DIVIDED BY

(ii) aggregate accumulation values
 of all annuities: \$ _____

(i) divided by (ii): _____%

EQUITY INDEX ANNUITIES: _____%

Average rate credited on
 equity index annuities for the last
 twelve-month period: _____%

MULTIPLIED BY

(i) aggregate accumulation values of
 equity index annuities \$ _____
 DIVIDED BY

(ii) aggregate accumulation values
 of all annuities: \$ _____

(i) divided by (ii): _____%

Weighted Average Crediting Rate
 (sum of "Fixed Annuities"
 and "Equity Index Annuities" lines above): _____%

Net Yield Percentage ((a) less (b)): _____%

REQUIRED: Not less than 1.50%

EXHIBIT E

Acknowledgment of Consent and Agreement to Security Agreement

The undersigned has entered into a Consent and Agreement to Security Agreement, dated as of April 6, 2000 (the "Consent") in favor of U.S. Bank National Association, as Agent for the Banks under the Credit Agreement referred to below. The undersigned acknowledges and agrees as follows:

1. The Credit Agreement, as defined in the Consent, has been amended and restated as an Amended and Restated Credit Agreement, dated as of December 30, 2002. All references to the Credit Agreement in the Consent shall be deemed to refer to such Amended and Restated Credit Agreement, as further amended, supplemented, restated or otherwise modified from time to time.

2. The "Obligations" specified in the Consent include the obligations of the Borrower under the Credit Agreement referred to herein.

The undersigned hereby confirms that the Consent remains in full force and effect, enforceable against the undersigned in accordance with its terms.

AMERICAN EQUITY INVESTMENT LIFE
INSURANCE COMPANY

By: _____

Title: _____

Exhibit F
Opinion of Counsel

To: The Agent and Banks party
to the Credit Agreement described herein

[address to each bank]

U.S. Bank National Association
800 Nicollet Mall
Mail Code BC-MN-HQ3N
Minneapolis, MN 55402
Attention: Mr. Sam S. Pepper

Ladies/Gentlemen:

We have acted as counsel for AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY, (the "Borrower"), and we are delivering to you this opinion of counsel upon which you may rely, in connection with a Credit Agreement, dated as of December 30, 2002, entered into among the Borrower, the Banks, as defined therein, and U.S. Bank National Association, as Agent (the "Credit Agreement"), and the transactions and other Loan Documents described therein. Unless otherwise defined herein, capitalized terms used herein shall have the respective meanings assigned to such terms in the Credit Agreement.

In so acting, we, as counsel for the Borrower, have made such factual inquiries, and have examined or caused to be examined such questions of law, as we have considered necessary or appropriate for the purposes of this opinion and, upon the basis of such inquiries and examinations, advise you that, in our opinion:

(1) The Borrower and each of its Subsidiaries are corporations duly organized, validly existing and in good standing under the laws of the state of their respective incorporation, and each is duly qualified and in good standing as a foreign corporation in all other jurisdictions in which its respective present operations or properties require such qualification.

(2) The Borrower has full corporate power and authority to own and operate its properties and assets, carry on its business as presently conducted, and enter into and perform its obligations under the Loan Documents to which it is a party.

(3) The execution and delivery of the Loan Documents to which the Borrower is a party, the performance by the Borrower of its obligations thereunder, and the borrowing by the Borrower under the Credit Agreement, have been duly authorized by all necessary corporate action, and all of said Loan Documents have been duly executed and delivered on behalf of the Borrower and constitute valid and binding obligations of the Borrower, enforceable in accordance with their respective terms.

(4) There is no provision in the Borrower's Articles of Incorporation or By-Laws, nor any provision in any indenture, mortgage, contract or agreement to which the Borrower is a party or by which it or its properties may be bound, nor any law, statute, rule or regulation, nor any writ, order or decision of any court or governmental instrumentality binding on the Borrower which would be contravened by the execution and delivery of the Loan Documents to which the Borrower is a party, nor do any of the foregoing prohibit the Borrower's performance of any term, provision, condition, covenant or any other obligation of the Borrower contained therein.

(5) There are no actions, suits or proceedings pending or, to the best of our knowledge after due inquiry, threatened against or affecting the Borrower before any court or arbitrator or by or before any administrative agency or government authority, which, if adversely determined, could constitute an Adverse Event.

(6) Neither the making nor performance of the Loan Documents, nor the borrowing(s) under the Credit Agreement, requires the consent or approval of any governmental instrumentality.

(7) The Borrower is not a "holding company", a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(8) The Borrower is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

(9) The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and, to

the best of our knowledge after due inquiry, no part of the proceeds of any loan under the Credit Agreement will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.

Very truly yours,

Exhibit G
ASSIGNMENT AGREEMENT

ASSIGNMENT AGREEMENT, dated as of _____, 200__, among [] (the "Transferor Bank"), [] (the "Purchasing Bank"), AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY, an Iowa corporation (the "Borrower") and U.S. Bank National Association, as Agent for the Banks under the Credit Agreement described below (in such capacity, the "Agent").

W I T N E S S E T H

WHEREAS, this Assignment Agreement is being executed and delivered in accordance with Section 12.3 of the Amended and Restated Credit Agreement, dated as of December 30, 2002, among the Borrower, the Transferor Bank and the other Banks party thereto and the Agent (as from time to time amended, supplemented or otherwise modified in accordance with the terms thereof, the "CREDIT AGREEMENT" terms defined therein being used herein as therein defined);

WHEREAS, the Purchasing Bank wishes to become a Bank party to the Credit Agreement; and

WHEREAS, the Transferor Bank is selling and assigning to the Purchasing Bank rights, obligations and commitments under the Credit Agreement;

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Upon the execution and delivery of this Assignment Agreement by the Purchasing Bank, the Transferor Bank, the Agent and the Borrower, the Purchasing Bank shall be a Bank party to the Credit Agreement for all purposes thereof.

2. Effective on [] (the "Effective Date"), the Transferor Bank hereby sells and assigns to the Purchasing Bank [that portion of] its [Tranche A Loans][Tranche B Loans] equal to \$[] (the "Assignment Amount"), and that percentage of the principal amount of and all interest accrued on its Loans outstanding under the Credit Agreement which the Assignment Amount is of all [Tranche A Loans][Tranche B Loans]. Together with the Assigned Amount, the Transferor Bank hereby assigns to the Purchasing Bank the Transferor Bank's interest as a Bank in the Loan Documents (the Assigned Amount, [such portion of] such [Tranche A Loans][Tranche B Loans] and such interest in the Loan Documents being hereinafter referred to as the "Assigned Interest"). The Purchasing Bank hereby assumes the Assigned Amount and the Transferor Bank's related obligations under the Loan Documents.

3. On the Effective Date, the Purchasing Bank shall pay to the Transferor Bank a purchase price (the "Purchase Price") equal to the outstanding principal amount of the [Tranche A Loans][Tranche B Loans] included in the Assigned Interest as of the day preceding the Effective Date. The Transferor Bank acknowledges receipt from the Purchasing Bank of an amount equal to the Purchase Price.

4. All interest accrued on the Assigned Interest for the billing period in which the Effective Date falls shall be paid to the Agent as provided in the Credit Agreement, and distributed by the Agent (a) with respect to amounts accrued before the Effective Date, to the Transferor Bank and (b) with respect to amounts accrued on or after the Effective Date, to the Purchasing Bank. The Transferor Bank has made arrangements with the Purchasing Bank with respect to the portion, if any, to be paid by the Transferor Bank to the Purchasing Bank of other fees heretofore received by the Transferor Bank pursuant to the Credit Agreement.

5. Subject to the provisions of paragraph 4 above, from and after the Effective Date, principal, interest, fees and other amounts that would otherwise be payable to or for the account of the Transferor Bank pursuant to the Credit Agreement and the other Loan Documents in respect of the Assigned Interest shall, instead, be payable to or for the account of the Purchasing Bank pursuant to the Credit Agreement. Each time the Banks are asked, from and after the Effective Date, to make Loans or otherwise extend credit under the Loan Documents, the Agent shall advise the Purchasing Bank, as provided in the Credit Agreement, of the request, and the Purchasing Bank shall be solely responsible for making a Loan or otherwise extending credit in accordance with its Assigned Interest.

6. Concurrently with the execution and delivery hereof, (i) the Borrower, the Transferor Bank and the Purchasing Bank shall make appropriate arrangements so that a new Note is issued to the Purchasing Bank in respect of the Assigned Interest and, if the Transferor Bank has retained any [Tranche A Loans][Tranche B Loans], a new Note is issued to the Transferor Bank in respect of such retained interest, and the Transferor Bank's existing Revolving Note will be returned to the Borrower in due course, (ii) as and to the extent provided in the Credit Agreement, the Agent shall prepare and distribute to the Borrower and the Banks a revised schedule of the Commitments, Loans and credit percentages of each Bank, after giving effect to the assignment of the Assigned Interest, and (iii) the Transferor Bank shall pay to the Agent a processing and recordation fee of \$3,500.

7. The Transferor Bank (a) represents and warrants to the Purchasing Bank

that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (b) represents and warrants to the Purchasing Bank that the copies of the Loan Documents and the related agreements, certificates, opinion and letters previously delivered to the Purchasing Bank are true and correct copies of the Loan Documents and related agreements, certificates, opinion and letters executed by and/or delivered in connection with the closing of the credit facility contemplated by the Credit Agreement; (c) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of any of the Loan Documents or any other instrument or document furnished pursuant thereto; and (d) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower, or the performance or observance by the Borrower or any other Person of any of their respective obligations under the Loan Documents or any other instrument or document furnished pursuant thereto.

8. The Purchasing Bank (a) confirms to the Transferor Bank and the Agent that it has received a copy of the Loan Documents together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement; (b) acknowledges that it has, independently and without reliance upon the Transferor Bank, the Agent or any Bank and instead in reliance upon its own review of such documents and information as the Purchasing Bank deemed appropriate, made its own credit analysis and decision to enter into this Agreement and agrees that it will, independently and without reliance upon the Transferor Bank, the Agent or any Bank, and based on such documents and information as the Purchasing Bank shall deem appropriate at the time, continue to make its own credit decision in taking or not taking action under the Loan Documents; (c) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by the Purchasing Bank as a Bank under the Credit Agreement, including, without limitation, the provisions of Section 9.7 of the Credit Agreement relating to confidentiality of information; and (d) represents and warrants to the Borrower and the Agent that it is either (i) a corporation organized under the laws of the United States or any State thereof or (ii) is entitled to complete exemption from United States withholding tax imposed on or with respect to any payments, including fees, to be made pursuant to the Credit Agreement (x) under an applicable provision of a tax convention to which the United States is a party or (y) because it is acting through a branch, agency or office in the United States and any payment to be received by it under the Credit Agreement is effectively connected with a trade or business in the United States.

9. The Transferor Bank and the Purchasing Bank each individually represents and warrants that (a) it is validly existing and in good standing and has all requisite power to enter into this Agreement and to carry out the provisions hereof and has duly authorized the execution and delivery of this Agreement; (b) the execution and delivery of this Agreement and the performance of the obligations hereunder do not violate any provision of law, any order, rule or regulation of any court or governmental agency or its charter, articles of incorporation or bylaws or constitute a default under any agreement or other instrument to which it is a party or by which it is bound; and (c) it has duly executed and delivered this Agreement, and this Agreement constitutes a legal, valid and binding obligation enforceable against it in accordance with its terms.

10. Each of the parties to this Assignment Agreement agrees that at any time and from time to time upon the written request of any other party, it will execute and deliver such further documents and do such further acts and things as such other party may reasonably request in order to effect the purposes of this Assignment Agreement.

11. The address for notices to the Purchasing Bank as well as administrative information with respect to the Purchasing Bank is as set out below:

THIS ASSIGNMENT AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF MINNESOTA.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment Agreement to be executed by their respective duly authorized officers as of the date first set forth above.

[],
Transferor Bank

By: _____
Name: _____
Title: _____

[],
Purchasing Bank

By:

TOTAL
 AMOUNT: \$
 46,666,665

PERCENTAGES:

BANKS:
 PERCENTAGE:
 - - - - -
 U.S. Bank:
 52.857143%

Fleet Bank: 31.428571%
 West Des
 Moines Bank 15.714286%

 100.000000%

Schedule 7.16

Subsidiaries

NAME OF
 SUBSIDIARY
 OWNERSHIP %
 JURISDICTION

 1. American
 Equity
 Investment
 Life
 Insurance
 Company 100
 Iowa 2.
 American
 Equity
 Investment
 Life
 Insurance
 Company of
 New York
 New York
 100 New
 York 3.
 American
 Equity
 Capital,
 Inc. 100
 Iowa 4.
 American
 Equity
 Investment
 Properties,
 L.C. 100
 Iowa 5.
 American
 Equity
 Capital
 Trust I 100
 Delaware 6.
 American
 Equity
 Capital
 Trust II
 100
 Delaware

**Ownership percentages reflect the percentage of voting common stock or equivalent equity ownership. All subsidiaries are directly owned by American Equity Investment Life Holding Company, except (i) American Equity Investment Life Insurance Company of New York, which is directly owned by American Equity Investment Life Insurance Company; and (ii) American Equity Investment Properties, L.C. which is 99% owned by American Equity Investment Life Holding Company and 1% owned by American Equity Investment Life Insurance Company

Schedule 7.18

0.000%
11/5/2032 AGY
\$ 12.22 \$
50,693,825.00
\$
50,000,000.00
3128X0EJ
FEDERAL HOME
LN MTG CORP *
6.200%
11/7/2022 AGY
\$ 100.00 \$
50,000,000.00
\$
430,000,000.00
3128X0EW
FEDERAL HOME
LN MTG CORP *
0.000%
11/12/2032
AGY \$ 11.68 \$
50,228,882.00
\$
50,000,000.00
3128X0EX
FEDERAL HOME
LN MTG CORP *
6.400%
11/7/2022 AGY
\$ 100.00 \$
50,000,000.00
\$
444,000,000.00
3128X0FD
FEDERAL HOME
LN MTG CORP *
0.000%
11/12/2032
AGY \$ 11.35 \$
50,387,533.00
\$
50,000,000.00
3128X0FF
FEDERAL HOME
LN MTG CORP *
6.500%
11/15/2022
AGY \$ 100.00
\$
50,000,000.00
\$
50,000,000.00
3133MSWC
FEDERAL HOME
LN BANK
6.150%
11/5/2027 AGY
\$ 100.00 \$
50,000,000.00
\$
25,000,000.00
3136F2PA
FEDERAL NATL
MTG ASSN MTN
* 6.050%
11/5/2027 AGY
\$ 100.00 \$
25,000,000.00
\$
10,000,000.00
615337AA MONY
GROUP 8.350%
3/15/2010
BAA2 \$ 99.42
\$
9,941,838.00
\$
9,800,000.00
744448BT
PUBLIC SVCS
OF COLORADO
7.880%
10/1/2012
BAA1 \$ 99.10
\$
9,712,912.00
\$
6,100,000.00
882850BJ TXU
ELECTRIC CO
(ONCOR)
8.250%
4/1/2004 A3 \$
101.82 \$
6,204,595.00
\$
11,900,000.00

89234SAB
 TPREF FUNDING
 II 8.000%
 11/15/2032
 AAA \$ 99.78 \$
 11,873,875.00
 \$
 715,070,109.00
 MARKET
 11/30/2002
 UNREALIZED
 G/L PAR PRICE
 MARKET VALUE
 (MKT - BOOK)

 ----- \$
 200,000,000.00
 \$ 99.38 \$
 198,750,000.00
 \$
 (1,250,000.00)
 \$
 400,000,000.00
 \$ 12.75 \$
 51,016,000.00
 \$ (10,649.00)
 \$
 50,000,000.00
 \$ 97.23 \$
 48,615,000.00
 \$
 (1,385,000.00)
 \$
 415,000,000.00
 \$ 12.23 \$
 50,750,350.00
 \$ 56,525.00 \$
 50,000,000.00
 \$ 99.43 \$
 49,714,000.00
 \$
 (286,000.00)
 \$
 430,000,000.00
 \$ 11.72 \$
 50,400,300.00
 \$ 171,418.00
 \$
 50,000,000.00
 \$ 100.05 \$
 50,025,000.00
 \$ 25,000.00 \$
 444,000,000.00
 \$ 11.39 \$
 50,558,280.00
 \$ 170,747.00
 \$
 50,000,000.00
 \$ 100.15 \$
 50,075,000.00
 \$ 75,000.00 \$
 50,000,000.00
 \$ 98.95 \$
 49,473,000.00
 \$
 (527,000.00)
 \$
 25,000,000.00
 \$ 97.48 \$
 24,371,000.00
 \$
 (629,000.00)
 \$
 10,000,000.00
 \$ 96.82 \$
 9,681,900.00
 \$
 (259,938.00)
 \$
 9,800,000.00
 \$ 109.33 \$
 10,713,850.00
 \$
 1,000,938.00
 \$
 6,100,000.00
 \$ 106.83 \$
 6,516,630.00
 \$ 312,035.00
 \$
 11,900,000.00
 \$ 100.00 \$
 11,900,000.00
 \$ 26,125.00 \$

TREASURY NOTE MARKET VALUES

AMORT PAR
CUSIP
ISSUER
COUPON (%)
MATURITY
RATING COST
BOOK VALUE

\$
500,000.00
9128276V
UNITED
STATES
TREAS NTS
4.250
3/31/2003
TSY \$
100.01 \$
500,030.00
\$

800,000.00
912827P8
UNITED
STATES
TREAS NTS
7.250
5/15/2004
TSY \$
101.81 \$
814,467.00
\$

620,000.00
9128273E
UNITED
STATES
TREAS NTS
6.125
8/15/2007
TSY \$
101.35 \$
628,354.00
\$

1,942,851.00
MARKET
11/30/2002
UNREALIZED
G/L PAR
PRICE
MARKET
VALUE (MKT
- BOOK) - -

--- \$
500,000.00
\$ 101.02 \$
505,078.13
\$ 5,048.13
\$
800,000.00
\$ 107.86 \$
862,875.00
\$ 48,408.00
\$
620,000.00
\$ 112.47 \$
697,306.25
\$ 68,952.25
\$
2,065,259.38
\$
122,408.38

CMO MARKET VALUES

AMORT PAR
CUSIP ISSUER
COUPON (%)
MATURITY
RATING COST
BOOK VALUE -

9,737,000.00 \$
 76,843,268.00
 MARKET
 11/30/2002
 UNREALIZED G/L
 PAR PRICE
 MARKET VALUE
 (MKT - BOOK) -

 \$ 19,000,000.00
 \$ 67.00 \$
 12,730,000.00 \$
 (6,270,000.00)
 \$ 9,108,000.00
 \$ 75.00 \$
 6,831,000.00 \$
 (1,000,903.00)
 \$ 3,000,000.00
 \$ 95.85 \$
 2,875,500.00 \$
 (124,500.00) \$
 19,053,000.00 \$
 78.00 \$
 14,861,340.00 \$
 (3,191,612.00)
 \$ 5,000,000.00
 \$ 32.00 \$
 1,600,000.00 \$
 (1,400,000.00)
 \$ 8,419,927.00
 \$ 86.84 \$
 7,312,180.35 \$
 (383,186.65) \$
 10,000,000.00 \$
 69.00 \$
 6,900,000.00 \$
 (1,626,046.00)
 \$ 9,737,000.00
 \$ 70.00 \$
 6,815,900.00 \$
 (2,921,100.00)
 \$ 59,925,920.35
 \$
 (16,917,347.65)

ABS MARKET VALUES

AMORT PAR CUSIP
 ISSUER COUPON
 (%) MATURITY
 RATING COST BOOK
 VALUE - -----

 ----- \$
 8,166,000.00
 67087TAW
 OAKWOOD_MTG_1999-
 E- M2 8.400
 3/15/2030 N/A \$
 99.74 \$
 8,144,719.00 \$
 16,660,000.00
 67087TBP OAKWOOD
 2000-C M1 8.490
 10/15/2030 AA3 \$
 102.23 \$
 17,031,135.00 \$
 10,000,000.00
 70556JAD PEGASUS
 AVAITION 1999-1A
 C1 5.878
 3/25/2029 NR \$
 61.85 \$
 6,185,495.00 \$
 9,792,834.00
 70557RAH PEGASUS
 AVAITION 01-1A
 CL C2 8.257
 5/10/2031 BA1 \$
 70.04 \$
 6,858,695.00 \$
 38,220,044.00
 MARKET
 11/30/2002
 UNREALIZED G/L
 PAR PRICE MARKET
 VALUE (MKT -
 BOOK) - -----

 --- \$
 8,166,000.00 \$
 55.00 \$
 4,491,300.00 \$
 (3,653,419.00) \$
 16,660,000.00 \$
 63.00 \$
 10,495,800.00 \$
 (6,535,335.00) \$
 10,000,000.00 \$
 30.00 \$
 3,000,000.00 \$
 (3,185,495.00) \$
 9,792,834.00 \$
 49.00 \$
 4,798,488.66 \$
 (2,060,206.34) \$
 22,785,588.66 \$
 (15,434,455.34)

TAXABLE MUNICIPALS MARKET VALUES

AMORT PAR
 CUSIP ISSUER
 COUPON (%)
 MATURITY
 RATING COST
 BOOK VALUE -

----- \$
 4,827,761.00
 62621DAA
 MUNICIPAL
 CORRECTIONS
 FINANCE 8.470
 8/1/2016 NR \$
 100.00 \$
 4,827,761.00
 \$
 16,500,000.00
 13100KAE NJ
 ECON DEV AUTH
 * 0.000
 2/15/2018 AAA
 \$ 33.86 \$
 5,587,195.00
 \$
 10,414,956.00
 MARKET
 11/30/2002
 UNREALIZED
 G/L PAR PRICE
 MARKET VALUE
 (MKT - BOOK)

 ----- \$
 4,827,761.00
 \$ 77.00 \$
 3,717,375.97
 \$
 (1,110,385.03)
 \$
 16,500,000.00
 \$ 33.80 \$
 5,577,000.00
 \$ (10,195.00)
 \$
 9,294,375.97
 \$
 (1,120,580.03)

PREFERRED STOCK MARKET VALUES

AMORT PAR
 CUSIP ISSUER
 COUPON (%)
 MATURITY
 RATING COST
 BOOK VALUE -

312923XV
 FEDERAL HOME LN
 MTG CORP *
 0.000
 11/16/2020 AGY
 \$ 26.65 \$
 55,973,163.00 \$
 315,000,000.00
 312924HC
 FEDERAL HOME LN
 MTG CORP *
 0.000 9/24/2026
 AGY \$ 17.32 \$
 54,554,755.00 \$
 590,000,000.00
 312924RP
 FEDERAL HOME LN
 MTG CORP MTN
 0.000
 11/13/2026 AGY
 \$ 18.17 \$
 107,176,697.00
 \$
 890,000,000.00
 312924WG
 FEDERAL HOME LN
 MTG CORP MTN
 0.000
 12/10/2026 AGY
 \$ 18.07 \$
 160,812,085.00
 \$
 300,000,000.00
 3133M7BT
 FEDERAL HOME LN
 BKS 0.000
 2/1/2029 AGY \$
 16.44 \$
 49,317,170.00 \$
 100,000,000.00
 3134A24G
 FEDERAL HOME LN
 MTG CORP 0.000
 2/22/2029 AGY \$
 16.29 \$
 16,285,987.00 \$
 1,000,000,000.00
 3134A26X
 FEDERAL HOME LN
 MTG CORP 0.000
 3/8/2029 AGY \$
 16.24 \$
 162,379,030.00
 \$
 1,050,000,000.00
 3134A2T2
 FEDERAL HOME LN
 MTG CORP 0.000
 1/28/2029 AGY \$
 16.69 \$
 175,192,968.00
 \$
 844,142,000.00
 MARKET
 11/30/2002
 UNREALIZED G/L
 PAR PRICE
 MARKET VALUE
 (MKT - BOOK) -

 - \$
 230,000,000.00
 \$ 27.25 \$
 62,675,000.00 \$
 224,855.00 \$
 210,000,000.00
 \$ 26.77 \$
 56,208,600.00 \$
 235,437.00 \$
 315,000,000.00
 \$ 17.34 \$
 54,633,600.00 \$
 78,845.00 \$
 590,000,000.00
 \$ 18.19 \$
 107,321,000.00
 \$ 144,303.00 \$
 890,000,000.00
 \$ 18.07 \$
 160,778,500.00
 \$ (33,585.00) \$
 300,000,000.00
 \$ 16.52 \$
 49,560,000.00 \$

242,830.00 \$
 100,000,000.00
 \$ 16.45 \$
 16,452,000.00 \$
 166,013.00 \$
 1,000,000,000.00
 \$ 16.40 \$
 164,020,000.00
 \$ 1,640,970.00
 \$
 1,050,000,000.00
 \$ 16.53 \$
 173,544,000.00
 \$
 (1,648,968.00)
 \$
 845,192,700.00
 \$ 1,050,700.00

CORPORATE MARKET VALUES

AMORT PAR CUSIP
 ISSUER COUPON (%)
 MATURITY RATING
 COST BOOK VALUE -

 ----- \$
 10,000,000.00
 001957AZ AT&T
 CORP 144A 7.300
 11/15/2011 BAA2 \$
 99.88 \$
 9,987,785.00 \$
 1,881,807.00
 02378JAH AMERICAN
 AIRLINES 7.377
 5/23/2019 BA1 \$
 97.48 \$
 1,834,330.00 \$
 9,500,000.00
 025932AB AMERICAN
 FINANCIAL GROUP
 7.125 4/15/2009
 BAA2 \$ 98.87 \$
 9,392,832.00 \$
 9,750,000.00
 044540AH ASHLAND
 INC 8.800
 11/15/2012 BAA2 \$
 111.46 \$
 10,867,174.00 \$
 10,000,000.00
 054536AA AXA
 8.600 12/15/2030
 A2 \$ 115.51 \$
 11,551,162.00 \$
 4,000,000.00
 06605WAC
 BANKBOSTON CAP
 TRUST I 8.250
 12/15/2026 A2 \$
 101.92 \$
 4,076,984.00 \$
 2,500,000.00
 06605XAE
 BANKBOSTON CAP
 TRUST II 7.750
 12/15/2026 A2 \$
 104.63 \$
 2,615,788.00 \$
 3,000,000.00
 125563AC CIT CAP
 TRUST I 7.700
 2/15/2027 A3 \$
 104.27 \$
 3,128,071.00 \$
 10,000,000.00
 125581AB CIT
 GROUP 7.750
 4/2/2012 A2 \$
 109.54 \$
 10,954,026.00 \$
 8,000,000.00
 126117AH CNA
 FINANCIAL CORP
 6.950 1/15/2018
 BAA2 \$ 87.81 \$
 7,024,799.00 \$
 5,000,000.00
 13134VAA CALPINE
 CDA ENERGY 8.500

5/1/2008 B1 \$
100.49 \$
5,024,657.00 \$
10,000,000.00
161477AA CHASE
CAPITAL I 7.670
12/1/2026 A1 \$
102.43 \$
10,243,232.00 \$
10,000,000.00
210805DK
CONTNETL_AIR_2001-
001- B 7.373
6/15/2017 BAA3 \$
100.63 \$
10,062,543.00 \$
5,000,000.00
222371AA
COUNTRYWIDE CAP *
8.000 12/15/2026
BAA1 \$ 102.54 \$
5,127,195.00 \$
3,000,000.00
22237AAB
COUNTRYWIDE CAP
III 8.050
6/15/2027 BAA1 \$
107.08 \$
3,212,380.00 \$
10,000,000.00
224050AJ COX
ENTERPRISES 8.000
2/15/2007 BAA1 \$
100.83 \$
10,080,545.00 \$
5,000,000.00
25159NAW
DEVELOPERS
DIVERSIFIED RLTY
7.500 7/15/2018
BAA3 \$ 100.24 \$
5,012,052.00 \$
3,270,000.00
25468PBV DISNEY
WALT CO MTN 6.300
1/25/2022 A3 \$
93.04 \$
3,042,312.00 \$
3,500,000.00
25746RAE DOMINION
RES CAP TR I
7.830 12/1/2027
BAA2 \$ 104.01 \$
3,640,235.00 \$
4,000,000.00
268766AR EOP
OPERATING LP
7.250 6/15/2028
BAA1 \$ 99.37 \$
3,974,730.00 \$
25,099.00
299920439
EVERGREEN INST
TREAS MMKT-IV
0.000 \$ 100.00 \$
25,099.00 \$
97,000,000.00
30260*11 FBL CAP
TRUST I 5.000
11/15/2047 A2 \$
78.01 \$
75,666,221.00 \$
6,000,000.00
309588AC FARMERS
EXCHANGE CAP 144A
7.050 7/15/2028
BAA3 \$ 96.79 \$
5,807,190.00 \$
2,450,000.00
337364AE FIRST
UNION CAP II
7.850 1/1/2027 A2
\$ 104.94 \$
2,570,997.00
MARKET 11/30/2002
UNREALIZED G/L
PAR PRICE MARKET
VALUE (MKT -
BOOK) - -----

\$ 10,000,000.00 \$
97.49 \$
9,749,100.00 \$
(238,685.00) \$
1,881,807.00 \$

72.00 \$
 1,354,901.04 \$
 (479,428.96) \$
 9,500,000.00 \$
 99.16 \$
 9,420,138.63 \$
 27,306.63 \$
 9,750,000.00 \$
 105.06 \$
 10,243,057.50 \$
 (624,116.50) \$
 10,000,000.00 \$
 106.31 \$
 10,631,200.00 \$
 (919,962.00) \$
 4,000,000.00 \$
 105.81 \$
 4,232,320.00 \$
 155,336.00 \$
 2,500,000.00 \$
 103.02 \$
 2,575,475.00 \$
 (40,313.00) \$
 3,000,000.00 \$
 94.25 \$
 2,827,500.00 \$
 (300,571.00) \$
 10,000,000.00 \$
 108.88 \$
 10,887,500.00 \$
 (66,526.00) \$
 8,000,000.00 \$
 79.75 \$
 6,380,000.00 \$
 (644,799.00) \$
 5,000,000.00 \$
 45.50 \$
 2,275,000.00 \$
 (2,749,657.00) \$
 10,000,000.00 \$
 102.33 \$
 10,232,500.00 \$
 (10,732.00) \$
 10,000,000.00 \$
 74.00 \$
 7,400,000.00 \$
 (2,662,543.00) \$
 5,000,000.00 \$
 104.95 \$
 5,247,550.00 \$
 120,355.00 \$
 3,000,000.00 \$
 105.54 \$
 3,166,290.00 \$
 (46,090.00) \$
 10,000,000.00 \$
 108.07 \$
 10,807,400.00 \$
 726,855.00 \$
 5,000,000.00 \$
 97.76 \$
 4,887,800.00 \$
 (124,252.00) \$
 3,270,000.00 \$
 93.50 \$
 3,057,450.00 \$
 15,138.00 \$
 3,500,000.00 \$
 98.23 \$
 3,437,942.81 \$
 (202,292.19) \$
 4,000,000.00 \$
 98.29 \$
 3,931,440.00 \$
 (43,290.00) \$
 25,099.00 \$
 100.00 \$
 25,099.00 \$ - \$
 97,000,000.00 \$
 78.01 \$
 75,666,221.00 \$ -
 \$ 6,000,000.00 \$
 80.18 \$
 4,810,800.00 \$
 (996,390.00) \$
 2,450,000.00 \$
 105.18 \$
 2,576,910.00 \$
 5,913.00

\$ 6,030,000.00	338899AA	FLEET FINL GROUP	7.920	12/11/2026	A2	\$ 100.29	\$ 6,047,370.00
\$ 3,300,000.00	345220AB	FORD CAPITAL BV	9.500	6/1/2010	BAA1	\$ 107.23	\$ 3,538,719.00

\$ 10,000,000.00	345370CA	FORD MOTOR COMPANY	7.450	7/16/2031	BAA1	\$ 100.06	\$ 10,006,250.00
\$ 5,000,000.00	37042GC8	GENL MOTORS ACCTP CORP	7.500	8/15/2017	A2	\$ 100.00	\$ 5,000,000.00
\$ 10,000,000.00	370442AV	GENL MOTORS	8.100	6/15/2024	A3	\$ 100.82	\$ 10,081,500.00
\$ 2,500,000.00	39141GAA	GREAT WESTERN FINL TRUST II	8.206	2/1/2027	BAA1	\$ 105.94	\$ 2,648,392.00
\$ 2,000,000.00	40415B20	HECO C APITAL TRUST II	7.300	12/28/2028	BAA2	\$ 100.32	\$ 2,006,332.00
\$ 1,400,000.00	428040BN	HERTZ CORPORATION	7.630	8/15/2007	BAA2	\$ 99.09	\$ 1,387,199.00
\$ 8,000,000.00	428040BQ	HERTZ CORP	7.400	3/1/2011	BAA2	\$ 99.70	\$ 7,975,652.00
\$ 20,000.00	428999\$D1	HIBERNIA NATIONAL BANK	1.790	2/17/2003		\$ 100.00	\$ 20,000.00
\$ 4,000,000.00	431282AF	HIGHWOODS FORSYTH	7.500	4/15/2018	BAA2	\$ 102.29	\$ 4,091,744.00
\$ 5,700,000.00	432848AH	HILTON HOTELS CORP	7.950	4/15/2007	BA1	\$ 103.08	\$ 5,875,693.00
\$ 4,750,000.00	44181ELF	HOUSEHOLD FINANCE CORP	7.600	9/15/2017	A2	\$ 100.00	\$ 4,750,000.00
\$ 3,000,000.00	449669AK	IMC GLOBAL INC	7.300	1/15/2028	BA2	\$ 99.99	\$ 2,999,782.00
\$ 8,000,000.00	46623MAA	JPM CAP TRUST II *	7.950	2/1/2027	A1	\$ 105.20	\$ 8,416,376.00
\$ 2,000,000.00	46623PAA	J P MORGAN CAPITAL	7.540	1/15/2027	A1	\$ 100.76	\$ 2,015,289.00
\$ 6,600,000.00	477122AX	JET EQUIPMENT 10.91	10.910	8/15/2014	CAA3	\$ 25.00	\$ 1,650,000.00
\$ 5,000,000.00	493265AC	KEYCORP INSTIT CAP-A 144A	7.826	12/1/2026	A3	\$ 104.73	\$ 5,236,277.00
\$ 8,000,000.00	514665AA	LAND O LAKES CAP 144A	7.450	3/15/2028	BA3	\$ 100.95	\$ 8,076,189.00
\$ 14,500,000.00	52517PMP	LEHMAN BROS HOLDINGS	0.000	2/10/2028	A2	\$ 13.97	\$ 2,025,654.00
\$ 21,500,000.00	52517PND	LEHMAN BROS HLDGS MTN *	0.000	3/25/2028	A2	\$ 13.73	\$ 2,950,976.00
\$ 40,000,000.00	52517PPB	LEHMAN BROS HOLDINGS	0.000	7/28/2028	A2	\$ 15.12	\$ 6,047,881.00
\$ 1,900,000.00	61688AAG	MORGAN JP & CO MTN *	0.000	4/24/2027	A1	\$ 15.18	\$ 288,335.00
\$ 6,000,000.00	63861QBH	NATIONWIDE HEALTH PPTYS MTN	7.600	11/20/2028	BAA3	\$ 100.71	\$ 6,042,347.00
\$ 5,000,000.00	638671AC	NATIONWIDE MUTUAL INS 144A	8.250	12/1/2031	A2	\$ 105.62	\$ 5,280,982.00
\$ 4,000,000.00	64806QAG	NEW PLAN REALTY TR MTN	7.680	11/2/2026	BAA2	\$ 104.12	\$ 4,164,801.00
\$ 9,310,000.00	667294AK	NORTHWEST_AIR_1999-1C- C	8.130	8/1/2015	BA2	\$ 99.36	\$ 9,250,022.00
\$ 3,000,000.00	69331VAA	PECO ENERGY CAP TRUST III	7.380	4/6/2028	BAA1	\$ 99.26	\$ 2,977,668.00
\$ 10,000,000.00	69362BAD	PSEG POWER 144A	7.750	4/15/2011	BAA1	\$ 99.57	\$ 9,956,670.00
\$ 3,000,000.00	74531LAC	PUGET SOUND ENERGY INC	8.231	6/1/2027	BA1	\$ 105.78	\$ 3,173,420.00
\$ 10,000,000.00	74913EAF	QWEST SOUND FDG 144A	7.250	2/15/2011	CAA1	\$ 98.50	\$ 9,850,062.00
\$ 5,000.00	784186AC	SG HOLDINGS INC	0.000	7/28/2005	AAA	\$ 100.00	\$ 5,000.00
\$ 5,000,000.00	828783AT	SIMON DEBARTOLO	7.375	6/15/2018	BAA1	\$ 100.10	\$ 5,005,103.00
\$ 4,000,000.00	84258RAC	SOUTHERN CO CAP TRUST	8.140	2/15/2027	BAA1	\$ 105.68	\$ 4,227,386.00
\$ 5,000,000.00	875127AS	TAMPA ELECTRIC	6.875	6/15/2012	A2	\$ 106.06	\$ 5,302,980.00
\$ 5,000,000.00	875127AU	TAMPA ELECTRIC	6.375	8/15/2012	A1	\$ 102.14	\$ 5,106,885.00
\$ 6,520,000.00	893473AC	TRANSAMERICA CAP III	7.625	11/15/2037	A2	\$ 103.76	\$ 6,765,152.00
\$ 5,000,000.00	90339HAA	U S TR CAP A 144A	8.414	2/1/2027	BAA1	\$ 106.10	\$ 5,304,980.00
\$ 5,000,000.00	977385AK	WITCO CORP	6.875	2/1/2026	BA1	\$ 94.22	\$ 4,711,154.00
\$ 13,000,000.00		DELOITTE & TOUCHE	7.610	4/17/2017	A1	\$ 146.15	\$ 19,000,000.00

\$ 424,182,561.00

\$ 6,030,000.00
\$ 104.75 \$
6,316,425.00 \$
269,055.00 \$
3,300,000.00 \$
107.05 \$
3,532,650.00 \$
(6,069.00) \$
10,000,000.00 \$
84.75 \$
8,475,000.00 \$
(1,531,250.00)
\$ 5,000,000.00
\$ 96.97 \$
4,848,300.00 \$
(151,700.00) \$
10,000,000.00 \$
98.25 \$
9,825,000.00 \$
(256,500.00) \$
2,500,000.00 \$
107.75 \$
2,693,750.00 \$
45,358.00 \$
2,000,000.00 \$
100.40 \$
2,008,000.00 \$
1,668.00 \$
1,400,000.00 \$
101.25 \$
1,417,514.00 \$
30,315.00 \$
8,000,000.00 \$
94.71 \$
7,576,400.00 \$
(399,252.00) \$
20,000.00 \$
100.00 \$
20,000.00 \$ - \$
4,000,000.00 \$
97.76 \$
3,910,520.00 \$
(181,224.00) \$
5,700,000.00 \$
102.78 \$
5,858,289.00 \$
(17,404.00) \$
4,750,000.00 \$
102.50 \$
4,868,750.00 \$
118,750.00 \$
3,000,000.00 \$
80.00 \$
2,400,000.00 \$
(599,782.00) \$
8,000,000.00 \$

105.45 \$
8,436,000.00 \$
19,624.00 \$
2,000,000.00 \$
100.00 \$
2,000,000.00 \$
(15,289.00) \$
6,600,000.00 \$
7.00 \$
462,000.00 \$
(1,188,000.00)
\$ 5,000,000.00
\$ 102.25 \$
5,112,500.00 \$
(123,777.00) \$
8,000,000.00 \$
44.00 \$
3,520,000.00 \$
(4,556,189.00)
\$ 14,500,000.00
\$ 13.78 \$
1,997,955.00 \$
(27,699.00) \$
21,500,000.00 \$
13.73 \$
2,952,165.00 \$
1,189.00 \$
40,000,000.00 \$
14.21 \$
5,684,000.00 \$
(363,881.00) \$
1,900,000.00 \$
14.08 \$
267,425.00 \$
(20,910.00) \$
6,000,000.00 \$
111.25 \$
6,675,000.00 \$
632,653.00 \$
5,000,000.00 \$
101.66 \$
5,083,200.00 \$
(197,782.00) \$
4,000,000.00 \$
100.88 \$
4,035,000.00 \$
(129,801.00) \$
9,310,000.00 \$
69.00 \$
6,423,900.00 \$
(2,826,122.00)
\$ 3,000,000.00
\$ 95.91 \$
2,877,330.00 \$
(100,338.00) \$
10,000,000.00 \$
103.08 \$
10,307,900.00 \$
351,230.00 \$
3,000,000.00 \$
99.34 \$
2,980,200.00 \$
(193,220.00) \$
10,000,000.00 \$
62.00 \$
6,200,000.00 \$
(3,650,062.00)
\$ 5,000.00 \$
100.00 \$
5,000.00 \$ - \$
5,000,000.00 \$
102.09 \$
5,104,300.00 \$
99,197.00 \$
4,000,000.00 \$
106.05 \$
4,242,000.00 \$
14,614.00 \$
5,000,000.00 \$
107.36 \$
5,368,000.00 \$
65,020.00 \$
5,000,000.00 \$
104.42 \$
5,221,000.00 \$
114,115.00 \$
6,520,000.00 \$
95.61 \$
6,233,576.40 \$
(531,575.60) \$
5,000,000.00 \$
108.24 \$
5,412,000.00 \$
107,020.00 \$
5,000,000.00 \$
71.50 \$
3,575,000.00 \$

(1,136,154.00)
\$ 13,000,000.00
\$ 105.00 \$
13,650,000.00 \$
(5,350,000.00)
\$
393,399,644.38
\$
(30,782,916.62)

AGENCY MARKET VALUES (ZEROS)

AMORT PAR
CUSIP ISSUER
COUPON (%)
MATURITY
RATING COST
BOOK VALUE -

----- \$
100,000,000.00

3129245J
FEDERAL HOME
LN MTG CORP *
0.000
2/25/2022 AGY
\$ 24.83 \$
24,834,629.00
\$

182,000,000.00

312924HH
FEDERAL HOME
LN MTG CORP *
0.000
10/2/2031 AGY
\$ 11.90 \$
21,662,822.00
\$

280,000,000.00

312924VR
FEDERAL HOME
LN MTG CORP
MTN 0.000
12/18/2026
AGY \$ 19.12 \$
53,531,597.00
\$

330,000,000.00

312924YK
FEDERAL HOME
LN MTG CORP *
0.000
12/18/2026
AGY \$ 16.25 \$
53,635,506.00
\$

400,000,000.00

3129252A
FEDERAL HOME
LN MTG CORP *
0.000
9/3/2032 AGY
\$ 12.91 \$
51,634,880.00
\$

400,000,000.00

3129253H
FEDERAL HOME
LN MTG CORP *
0.000
9/10/2032 AGY
\$ 12.89 \$
51,565,847.00
\$

34,830,000.00

3129253V
FEDERAL HOME
LN MTG CORP *
0.000
9/17/2032 AGY
\$ 12.87 \$
4,484,093.00
\$

400,000,000.00
3129253Y
FEDERAL HOME
LN MTG CORP *
0.000
9/17/2032 AGY

\$ 12.87 \$
51,496,907.00
\$
218,000,000.00
312925B3
FEDERAL HOME
LN MTG CORP *
0.000
8/6/2032 AGY
\$ 11.91 \$
25,956,443.00
\$
400,000,000.00
312925E2
FEDERAL HOME
LN MTG CORP *
0.000
8/19/2032 AGY
\$ 12.94 \$
51,773,225.00
\$
200,000,000.00
312925E9
FEDERAL HOME
LN MTG CORP *
0.000
8/19/2032 AGY
\$ 12.94 \$
25,886,612.00
\$
400,000,000.00
312925G2
FEDERAL HOME
LN MTG CORP *
0.000
8/19/2032 AGY
\$ 12.94 \$
51,773,221.00
MARKET
11/30/2002
UNREALIZED
G/L PAR PRICE
MARKET VALUE
(MKT - BOOK)

----- \$
100,000,000.00
\$ 24.85 \$
24,852,000.00
\$ 17,371.00 \$
182,000,000.00
\$ 11.99 \$
21,812,700.00
\$ 149,878.00
\$
280,000,000.00
\$ 19.11 \$
53,516,400.00
\$ (15,197.00)
\$
330,000,000.00
\$ 16.26 \$
53,664,600.00
\$ 29,094.00 \$
400,000,000.00
\$ 12.91 \$
51,624,000.00
\$ (10,880.00)
\$
400,000,000.00
\$ 12.89 \$
51,552,000.00
\$ (13,847.00)
\$
34,830,000.00
\$ 12.87 \$
4,482,969.30
\$ (1,123.70)
\$
400,000,000.00
\$ 12.87 \$
51,484,000.00
\$ (12,907.00)
\$
218,000,000.00
\$ 11.93 \$
26,000,860.00
\$ 44,417.00 \$
400,000,000.00
\$ 12.94 \$
51,760,000.00
\$ (13,225.00)
\$
200,000,000.00

\$ 12.94 \$
 25,880,000.00
 \$ (6,612.00)
 \$
 400,000,000.00
 \$ 12.94 \$
 51,760,000.00
 \$ (13,221.00)

\$ 475,000,000.00	312925J4	FEDERAL HOME LN MTG CORP *	0.000	8/27/2032	AGY	\$ 12.92	\$ 61,386,775.00
\$ 430,000,000.00	312925L8	FEDERAL HOME LN MTG CORP *	0.000	8/26/2032	AGY	\$ 11.86	\$ 50,994,956.00
\$ 650,000,000.00	312925M3	FEDERAL HOME LN MTG CORP *	0.000	8/27/2032	AGY	\$ 11.79	\$ 76,644,383.00
\$ 515,000,000.00	312925MM	FEDERAL HOME LN MTG CORP *	0.000	5/28/2032	AGY	\$ 11.08	\$ 57,073,347.00
\$ 215,000,000.00	312925N7	FEDERAL HOME LN MTG CORP *	0.000	8/26/2032	AGY	\$ 12.03	\$ 25,865,951.00
\$ 200,000,000.00	312925N9	FEDERAL HOME LN MTG CORP *	0.000	8/26/2032	AGY	\$ 12.93	\$ 25,852,002.00
\$ 250,000,000.00	312925RD	FEDERAL HOME LN MTG CORP *	0.000	6/24/2032	AGY	\$ 10.71	\$ 26,783,052.00
\$ 200,000,000.00	312925S6	FEDERAL HOME LN MTG CORP *	0.000	8/27/2032	AGY	\$ 12.92	\$ 25,847,063.00
\$ 800,000,000.00	312925S7	FEDERAL HOME LN MTG CORP *	0.000	8/27/2032	AGY	\$ 12.92	\$ 103,388,249.00
\$ 95,000,000.00	312925SF	FEDERAL HOME LN MTG CORP *	0.000	6/25/2032	AGY	\$ 10.86	\$ 10,321,328.00
\$ 75,000,000.00	312925TF	FEDERAL HOME LN MTG CORP *	0.000	7/2/2032	AGY	\$ 10.85	\$ 8,136,531.00
\$ 600,000,000.00	312925VB	FEDERAL HOME LN MTG CORP *	0.000	7/15/2032	AGY	\$ 11.29	\$ 67,755,542.00
\$ 230,000,000.00	312925VY	FEDERAL HOME LN MTG CORP *	0.000	7/15/2032	AGY	\$ 11.29	\$ 25,972,958.00
\$ 230,000,000.00	312925XC	FEDERAL HOME LN MTG CORP *	0.000	7/22/2032	AGY	\$ 11.28	\$ 25,935,800.00
\$ 455,000,000.00	312925YG	FEDERAL HOME LN MTG CORP *	0.000	7/29/2032	AGY	\$ 11.26	\$ 51,234,376.00
\$ 400,000,000.00	312925Z8	FEDERAL HOME LN MTG CORP *	0.000	9/3/2032	AGY	\$ 12.91	\$ 51,634,880.00
\$ 230,000,000.00	312925ZB	FEDERAL HOME LN MTG CORP *	0.000	7/30/2032	AGY	\$ 11.26	\$ 25,893,399.00
\$ 200,000,000.00	3133M5HA	FEDERAL HOME LN BKS	0.000	9/15/2028	AGY	\$ 15.94	\$ 31,871,552.00
\$ 10,000,000.00	3133M6V8	FEDERAL HOME LN BKS	0.000	12/21/2018	AGY	\$ 33.03	\$ 3,302,813.00
\$ 200,000,000.00	3134A2MA	FEDERAL HOME LN MTG CORP	0.000	8/3/2028	AGY	\$ 16.07	\$ 32,137,464.00
\$ 25,000,000.00	3134A2MH	FEDERAL HOME LN MTG CORP	0.000	8/3/2028	AGY	\$ 16.07	\$ 4,017,178.00
\$ 200,000,000.00	3134A2QF	FEDERAL HOME LN MTG CORP	0.000	9/15/2028	AGY	\$ 15.94	\$ 31,871,552.00
\$ 60,000,000.00	3134A2UL	FEDERAL HOME LN MTG CORP	0.000	11/2/2028	AGY	\$ 17.06	\$ 10,233,831.00
\$ 222,915,000.00	3134A2WZ	FEDERAL HOME LN MTG CORP	0.000	12/1/2028	AGY	\$ 16.51	\$ 36,794,125.00
\$ 20,000,000.00	31364FQ6	FEDERAL NATL MTG ASSN MTN *	0.000	6/22/2018	AGY	\$ 33.52	\$ 6,704,201.00

\$ 1,345,889,090.00

\$
 475,000,000.00
 \$ 12.92 \$
 61,374,750.00 \$
 (12,025.00) \$
 430,000,000.00
 \$ 11.88 \$
 51,092,600.00 \$
 97,644.00 \$
 650,000,000.00
 \$ 11.82 \$
 76,804,000.00 \$
 159,617.00 \$
 515,000,000.00
 \$ 11.11 \$
 57,216,500.00 \$
 143,153.00 \$
 215,000,000.00
 \$ 12.05 \$
 25,905,350.00 \$
 39,399.00 \$
 200,000,000.00
 \$ 12.92 \$
 25,846,000.00 \$
 (6,002.00) \$
 250,000,000.00
 \$ 10.75 \$
 26,880,000.00 \$
 96,948.00 \$
 200,000,000.00
 \$ 12.92 \$
 25,842,000.00 \$
 (5,063.00) \$
 800,000,000.00
 \$ 12.92 \$
 103,368,000.00
 \$ (20,249.00) \$
 95,000,000.00 \$
 10.87 \$
 10,322,700.00 \$
 1,372.00 \$
 75,000,000.00 \$
 10.87 \$
 8,149,500.00 \$
 12,969.00 \$
 600,000,000.00
 \$ 11.32 \$
 67,944,000.00 \$
 188,458.00 \$
 230,000,000.00
 \$ 11.32 \$
 26,045,200.00 \$
 72,242.00 \$
 230,000,000.00
 \$ 11.31 \$

MTG CORP *
6.000 10/3/2017
AGY \$ 100.00 \$
100,000,000.00
\$ 15,000,000.00
3129256Y
FEDERAL HOME LN
MTG CORP *
5.850
10/10/2017 AGY
\$ 100.00 \$
15,000,000.00 \$
25,000,000.00
312925B5
FEDERAL HOME LN
MTG CORP *
6.700 8/6/2032
AGY \$ 100.00 \$
25,000,000.00 \$
50,000,000.00
312925E3
FEDERAL HOME LN
MTG CORP *
7.000 8/19/2032
AGY \$ 100.00 \$
50,000,000.00 \$
25,000,000.00
312925F4
FEDERAL HOME LN
MTG CORP *
7.000 8/19/2032
AGY \$ 100.00 \$
25,000,000.00 \$
50,000,000.00
312925G3
FEDERAL HOME LN
MTG CORP *
7.000 8/19/2032
AGY \$ 100.00 \$
50,000,000.00 \$
60,000,000.00
312925J3
FEDERAL HOME LN
MTG CORP *
7.000 8/27/2032
AGY \$ 100.00 \$
60,000,000.00 \$
25,000,000.00
312925N8
FEDERAL HOME LN
MTG CORP *
6.520 8/26/2032
AGY \$ 100.00 \$
25,000,000.00 \$
25,000,000.00
312925P7
FEDERAL HOME LN
MTG CORP *
7.000 8/26/2032
AGY \$ 100.00 \$
25,000,000.00 \$
25,000,000.00
312925S5
FEDERAL HOME LN
MTG CORP *
7.000 8/27/2032
AGY \$ 100.00 \$
25,000,000.00 \$
100,000,000.00
312925S8
FEDERAL HOME LN
MTG CORP *
7.000 8/27/2032
AGY \$ 100.00 \$
100,000,000.00
\$ 50,000,000.00
312925Z9
FEDERAL HOME LN
MTG CORP *
6.400 9/6/2022
AGY \$ 100.00 \$
50,000,000.00 \$
13,702.00
3133TKM3
FEDERAL HOME LN
MTG CORP 214
6.085 4/25/2029
AGY \$ 98.85 \$
13,544.00 \$
10,000,000.00
31364FPJ
FEDERAL NATL
MTG ASSN MTN
6.750 2/4/2028
AGY \$ 98.95 \$
9,895,054.00 \$
25,000,000.00

3136F15X
 FEDERAL
 NATIONAL MTG
 ASSC * 6.750
 7/29/2027 AGY \$
 100.00 \$
 25,000,000.00 \$
 25,000,000.00
 3136F1UJ
 FEDERAL NATL
 MTG ASSN *
 7.000 3/25/2027
 AGY \$ 100.00 \$
 25,000,000.00 \$
 50,000,000.00
 3136F2CG
 FEDERAL
 NATIONAL MTG
 ASSC * 6.700
 8/26/2027 AGY \$
 100.00 \$
 50,000,000.00 \$
 75,000,000.00
 3136F2CK
 FEDERAL
 NATIONAL MTG
 ASSC * 6.710
 8/26/2027 AGY \$
 100.00 \$
 75,000,000.00 \$
 1,084,908,598.00
 TOTALS: \$
 5,109,221,262.00
 MARKET
 11/30/2002
 UNREALIZED G/L
 PAR PRICE
 MARKET VALUE
 (MKT - BOOK) -

 --- \$
 50,000,000.00 \$
 100.05 \$
 50,025,000.00 \$
 25,000.00 \$
 50,000,000.00 \$
 100.15 \$
 50,075,000.00 \$
 75,000.00 \$
 50,000,000.00 \$
 100.05 \$
 50,025,000.00 \$
 25,000.00 \$
 200,000,000.00
 \$ 99.45 \$
 198,900,000.00
 \$
 (1,100,000.00)
 \$
 100,000,000.00
 \$ 100.00 \$
 100,000,000.00
 \$ - \$
 15,000,000.00 \$
 99.35 \$
 14,902,500.00 \$
 (97,500.00) \$
 25,000,000.00 \$
 100.25 \$
 25,062,500.00 \$
 62,500.00 \$
 50,000,000.00 \$
 100.35 \$
 50,175,000.00 \$
 175,000.00 \$
 25,000,000.00 \$
 100.35 \$
 25,087,500.00 \$
 87,500.00 \$
 50,000,000.00 \$
 100.35 \$
 50,175,000.00 \$
 175,000.00 \$
 60,000,000.00 \$
 100.35 \$
 60,210,000.00 \$
 210,000.00 \$
 25,000,000.00 \$
 100.20 \$
 25,050,000.00 \$
 50,000.00 \$
 25,000,000.00 \$
 100.35 \$
 25,087,500.00 \$

815,000.00
15,000.00
969491109
WILLIAMS
ENERGY
PARTNERS LP
NR \$ 37.15 \$
557,250.00 \$
33.39 \$
500,850.00
44,800.00
902973304 US
BANCORP A1 \$
18.58 \$
998,592.00 \$
21.09 \$
944,832.00 \$
14,873,815.00
\$
2,736,980.00

LOAN NUMBER
BORROWER
AMOUNT OF
LOAN CURRENT
PRINCIPAL
BALANCE
TOTAL MARKET
VALUE
CLOSING DATE

--- 90-0001
4048
Associates \$
3,825,000.00
\$
3,700,462.97
\$
5,100,000.00
5/31/2001
90-0003
Chadwick
Square \$
2,150,000.00
\$
2,109,099.90
\$
2,875,000.00
5/31/2001
90-0004
Colston
Commercial \$
4,700,000.00
\$
4,620,143.22
\$
7,500,000.00
6/18/2001
90-0002 813
Roosevelt \$
2,800,000.00
\$
2,732,626.64
\$
3,800,000.00
6/27/2001
90-0006
Knightsbridge
\$
4,150,000.00
\$
4,076,131.66
\$
5,650,000.00
6/28/2001
90-0007
Lexington
Hotel \$
4,850,000.00
\$
4,746,422.76
\$
7,200,000.00
7/18/2001
90-0008
Tennessee
Hotel \$

3,650,000.00
\$
3,572,050.09
\$
5,350,000.00
7/18/2001
90-0005
Corporate I
\$
1,400,000.00
\$
1,359,708.05
\$
1,950,000.00
7/25/2001
90-0009
Painter's
Crossing \$
5,400,000.00
\$
5,259,102.02
\$
7,700,000.00
8/14/2001
90-0018 EIG
Merchants \$
5,550,000.00
\$
5,405,965.91
\$
7,400,000.00
9/14/2001
90-0024 Mill
Creek \$
2,900,000.00
\$
2,857,505.84
\$
3,875,000.00
9/18/2001
90-0013 CBD
Parking \$
2,000,000.00
\$
1,968,041.16
\$
2,850,000.00
9/26/2001
90-0011
Corporate
Park I \$
3,200,000.00
\$
3,115,723.89
\$
6,250,000.00
9/27/2001
90-0012 900
Towbin \$
3,000,000.00
\$
2,920,991.05
\$
4,350,000.00
9/27/2001
90-0010
First Tower
Sanford
Partners \$
3,000,000.00
\$
2,883,471.86
\$
4,000,000.00
10/3/2001
90-0014 Fort
Road
Associates -
Irvine Park
\$
3,255,000.00
\$
3,207,970.68
\$
5,450,000.00
10/4/2001
90-0015 Fort
Road -
Medical
Center \$
5,260,000.00
\$
5,185,999.13
\$
7,240,000.00
10/4/2001
90-0022

Evelyn Avenue Associates, LLLP \$ 3,500,000.00
 \$ 3,449,876.52
 \$ 4,700,000.00
 10/25/2001 90-0017
 Knightsbridge Medical Center, LTD \$ 3,150,000.00
 \$ 3,106,077.79
 \$ 4,400,000.00
 10/31/2001 90-0021
 Airport Business Center IV LP \$ 2,000,000.00
 \$ 1,971,862.80
 \$ 3,000,000.00
 10/31/2001 90-0026 SAP Building, LLC \$ 2,550,000.00
 \$ 2,495,510.46
 \$ 3,500,000.00
 11/13/2001 90-0023
 Wayzata Bay Center LLC \$ 2,600,000.00
 \$ 2,505,633.03
 \$ 3,980,000.00
 11/16/2001

90-0019	Northfield- 520 Eagleton	\$ 1,730,000.00	\$ 1,710,376.03	\$ 2,310,000.00	11/19/2001
90-0020	Northfield- 601 Eagleton & 10401 J. Price	\$ 1,970,000.00	\$ 1,945,352.23	\$ 2,630,000.00	11/19/2001
90-0027	Brown, Frischman, Friedrich & Brown Trustees	\$ 4,850,000.00	\$ 4,786,507.14	\$ 6,800,000.00	11/19/2001
90-0031	White Clay IV, LP	\$ 5,250,000.00	\$ 5,181,270.56	\$ 7,100,000.00	11/27/2001
90-0032	White Clay V, LP	\$ 3,940,000.00	\$ 3,888,420.23	\$ 7,000,000.00	11/27/2001
90-0030	DOT Development Company, L.L.C.	\$ 1,425,000.00	\$ 1,394,550.02	\$ 2,050,000.00	11/30/2001
90-0025	The Turnac Group, L.L.C.	\$ 5,000,000.00	\$ 4,940,598.20	\$ 6,800,000.00	12/6/2001
90-0016	Western Springs LLC	\$ 3,200,000.00	\$ 3,094,165.65	\$ 4,600,000.00	12/11/2001
90-0028	North Holding Partnership	\$ 1,950,000.00	\$ 1,912,165.30	\$ 2,600,000.00	12/14/2001
90-0029	Metal Services Commercial	\$ 3,772,500.00	\$ 3,699,304.48	\$ 5,030,000.00	12/14/2001
90-0035	Philadelphia Partners I, LLC	\$ 487,500.00	\$ 478,041.33	\$ 650,000.00	12/14/2001
90-0033	GPI-Meridian Office Properties I, LP	\$ 1,425,000.00	\$ 1,398,586.94	\$ 1,900,000.00	1/8/2002
90-0038	Albemarle Square Investment Group, LLC	\$ 3,925,000.00	\$ 3,880,479.43	\$ 5,240,000.00	1/25/2002
90-0041	2003 Riverside Parkway, LLC	\$ 2,800,000.00	\$ 2,724,050.86	\$ 3,750,000.00	2/12/2002
90-0039	Friarsgate Investment Group, LLC	\$ 4,200,000.00	\$ 4,163,576.65	\$ 5,600,000.00	3/29/2002
90-0044	Crosspointe Partners V & VI, LLC	\$ 2,450,000.00	\$ 2,409,486.70	\$ 3,525,000.00	4/3/2002
90-0045	1331 Speer LLC	\$ 2,800,000.00	\$ 2,779,613.32	\$ 3,925,000.00	4/12/2002
90-0053	Asset Marketing Systems	\$ 4,000,000.00	\$ 3,970,876.11	\$ 6,050,000.00	4/15/2002
90-0037	A & R Development II, LLC	\$ 3,025,000.00	\$ 3,001,900.19	\$ 4,050,000.00	4/22/2002
90-0036	ESTE Building Corporation	\$ 4,575,000.00	\$ 4,540,064.01	\$ 6,100,000.00	4/25/2002
90-0042	The Waterfront Partners, LLC	\$ 4,875,000.00	\$ 4,835,363.51	\$ 6,500,000.00	4/25/2002
90-0050	Hurco Companies, Inc.	\$ 4,500,000.00	\$ 4,444,909.61	\$ 7,200,000.00	4/30/2002
90-0052	Twin Park Complex	\$ 975,000.00	\$ 967,901.08	\$ 1,300,000.00	4/30/2002

90-0057	Wheeler Square Associates, Inc.	\$ 4,050,000.00	\$ 4,017,359.63	\$ 5,535,000.00	5/1/2002
90-0054	DOT Development Company, LLC (Hirata)	\$ 1,500,000.00	\$ 1,484,703.79	\$ 2,025,000.00	5/10/2002
90-0048	Starcrest Business Center, Ltd.	\$ 2,600,000.00	\$ 2,553,568.15	\$ 3,800,000.00	5/16/2002
90-0040	The Watermark Corporation of Tallahassee, Inc.	\$ 3,950,000.00	\$ 3,878,133.19	\$ 5,800,000.00	5/21/2002
90-0046	University Place Properties, LLC	\$ 4,600,000.00	\$ 4,570,958.82	\$ 6,520,000.00	5/23/2002
90-0049	Bexar Fountains, Ltd.	\$ 4,400,000.00	\$ 4,355,284.93	\$ 6,000,000.00	5/30/2002
90-0055	Poppleton Associates LP	\$ 2,550,000.00	\$ 2,533,901.05	\$ 3,500,000.00	5/30/2002
90-0058	New Sugar Creek, LLC	\$ 3,100,000.00	\$ 3,084,076.54	\$ 4,300,000.00	6/12/2002
90-0064	Newburgh Development Associates, LLC	\$ 1,200,000.00	\$ 1,185,715.30	\$ 2,550,000.00	6/12/2002
90-0063	C&R Familian Project, LLC	\$ 800,000.00	\$ 796,088.23	\$ 1,100,000.00	6/17/2002
90-0062	University Place Developers, LC	\$ 3,800,000.00	\$ 3,768,787.00	\$ 5,850,000.00	6/27/2002
90-0070	Randolph Medical Center, LLC	\$ 3,540,000.00	\$ 3,520,988.92	\$ 5,300,000.00	6/28/2002

90-0072	Emerald Colorado, LLC	\$ 2,400,000.00	\$ 2,378,134.95	\$ 3,835,000.00	7/2/2002
90-0060	Greenway Haydon Loop, LLC	\$ 3,650,000.00	\$ 3,634,594.41	\$ 5,355,000.00	7/3/2002
90-0061	Beemer & Associates V, Ltd	\$ 2,500,000.00	\$ 2,463,973.87	\$ 5,000,000.00	7/8/2002
90-0051	Maurice M. Weill, Trust	\$ 1,450,000.00	\$ 1,432,847.62	\$ 2,425,000.00	7/10/2002
90-0066	Physicians and Surgeons Capital Corp.	\$ 3,300,000.00	\$ 3,285,807.86	\$ 4,700,000.00	7/10/2002
90-0074	Mourning Dove Properties, LLC	\$ 1,150,000.00	\$ 1,145,227.96	\$ 1,700,000.00	7/29/2002
90-0068	Maurice M. Weill Trustee for B. Lapin-Weill Indust	\$ 1,000,000.00	\$ 988,114.90	\$ 3,875,000.00	7/30/2002
90-0069	Maurice M. Weill Trustee for M. Feldman-FBE Union	\$ 2,500,000.00	\$ 2,489,348.62	\$ 3,500,000.00	7/30/2002
90-0073	HD Allstar New Tampa, LLC	\$ 1,720,000.00	\$ 1,699,749.51	\$ 2,600,000.00	7/31/2002
90-0047	Keiser Commons Associates, Ltd.	\$ 3,750,000.00	\$ 3,724,235.47	\$ 5,100,000.00	8/1/2002
90-0075	River Glen Office Centre, LLC	\$ 1,055,000.00	\$ 1,045,601.94	\$ 1,450,000.00	8/16/2002
90-0077	MOP II B1, LLLP	\$ 1,775,000.00	\$ 1,769,056.06	\$ 2,560,000.00	8/22/2002
90-0059	TAS I, LP	\$ 2,850,000.00	\$ 2,840,789.48	\$ 3,800,000.00	8/29/2002
90-0065	Prairie Partners Six, LLP	\$ 6,450,000.00	\$ 6,428,780.43	\$ 9,050,000.00	8/29/2002
90-0081	A-Secured Self & Vehicle Storage	\$ 1,925,000.00	\$ 1,918,337.97	\$ 2,660,000.00	8/29/2002
90-0078	Lexington Business Park V, LLC	\$ 2,220,000.00	\$ 2,209,318.24	\$ 3,030,000.00	9/3/2002
90-0071	Canal, LLC	\$ 1,700,000.00	\$ 1,690,112.61	\$ 2,400,000.00	9/10/2002
90-0083	Sycan B Corporation	\$ 3,400,000.00	\$ 3,391,745.99	\$ 4,785,000.00	9/10/2002
90-0090	Grand Place LLC	\$ 8,500,000.00	\$ 8,481,057.24	\$ 11,450,000.00	9/12/2002
90-0088	Ari-Pac Investments	\$ 2,100,000.00	\$ 2,087,271.79	\$ 4,000,000.00	9/19/2002
90-0085	Beemer & Associates XIV, LC	\$ 2,150,000.00	\$ 2,130,837.19	\$ 3,400,000.00	9/26/2002
90-0091	PAN AM Investments, Inc.	\$ 2,600,000.00	\$ 2,576,826.38	\$ 4,300,000.00	9/26/2002
90-0084	Hotel Investment Property One, LLC	\$ 5,300,000.00	\$ 5,288,356.02	\$ 7,550,000.00	9/30/2002
90-0086	CFS, LLC	\$ 3,975,000.00	\$ 3,950,850.50	\$ 5,550,000.00	9/30/2002
90-0098	999 West Chester Pike Associates, LP	\$ 1,575,000.00	\$ 1,571,408.15	\$ 2,125,000.00	9/30/2002
90-0099	Fenton Plaza Memebers, LLC	\$ 1,250,000.00	\$ 1,248,487.20	\$ 1,850,000.00	10/8/2002
90-0094	4901 Burnet Road, Ltd.	\$ 1,250,000.00	\$ 1,247,672.38	\$ 2,000,000.00	10/9/2002
90-0095	11103 West Avenue, San Antonio, Ltd.	\$ 3,850,000.00	\$ 3,842,830.94	\$ 5,850,000.00	10/9/2002
90-0101	Moani & Nohea Real Estate Holdings LLC	\$ 3,500,000.00	\$ 3,492,013.31	\$ 4,800,000.00	10/10/2002
90-0103	First Central Investment Corp.	\$ 3,000,000.00	\$ 2,990,739.11	\$ 4,475,000.00	10/10/2002
90-0097	The Wescott Building, LLC	\$ 3,100,000.00	\$ 3,090,219.65	\$ 4,650,000.00	10/16/2002
90-0105	RW Investments, LLC	\$ 1,800,000.00	\$ 1,797,777.97	\$ 2,400,000.00	10/29/2002
90-0089	Evergreen Properties, LLC	\$ 3,500,000.00	\$ 3,495,764.19	\$ 4,670,000.00	10/31/2002
90-0102	Gravois Bluffs	\$ 5,200,000.00	\$ 5,186,502.83	\$ 7,700,000.00	11/1/2002
90-0107	Beemer & Associates V, Ltd.	\$ 2,000,000.00	\$ 2,000,000.00	\$ 2,780,000.00	11/14/2002
90-0104	Rock Hall Real Estate, LLC	\$ 1,085,000.00	\$ 1,085,000.00	\$ 1,450,000.00	11/20/2002
90-0076	Roberts Road Associates	\$ 3,575,000.00	\$ 3,575,000.00	\$ 5,500,000.00	11/21/2002
90-0100	Naamans Creek Center, LLC	\$ 1,350,000.00	\$ 1,350,000.00	\$ 1,800,000.00	11/21/2002
		\$ 289,560,000.00	\$ 286,171,895.30	\$ 419,235,000.00	

Schedule 9.13
Surplus Relief Reinsurance Agreements

1. Coinsurance and Yearly Renewable Term Reinsurance between: AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY, West Des Moines, Iowa and ATLANTIC INTERNATIONAL REINSURANCE COMPANY LTD., Bridgetown, Barbados, West Indies, a wholly-owned subsidiary of SWISS REINSURANCE COMPANY. Effective Date: January 1, 2001.
2. Coinsurance and Yearly Renewable Term Reinsurance between: HANNOVER LIFE REASSURANCE COMPANY OF AMERICA and AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY. Effective Date: November 1, 2002.