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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

/ / **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	**42-1447959**
(State of Incorporation)	(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)

(Former name, former address and former fiscal year, if changed since last report)

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

APPLICABLE TO CORPORATE ISSUERS:
Shares of common stock outstanding at October 31, 2001: 14,532,294

PART I.—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2001	December 31, 2000
Assets		
Cash and investments:		
Fixed maturity securities:		
Available for sale, at market (amortized cost: 2001—$2,602,915; 2000—$1,523,376)	$ 2,595,487	$ 1,474,560
Held for investment, at amortized cost (market: 2001—$428,734; 2000—$365,023)	447,982	429,280
Equity securities, at market (cost: 2001—$11,575; 2000—$7,435)	10,706	6,671
Mortgage loans	49,516	—

Derivative instruments	18,522	34,707
Policy loans	300	264
Cash and cash equivalents	529,968	175,724
Total cash and investments	3,652,481	2,121,206
Receivable from other insurance companies	280	375
Premiums due and uncollected	1,405	1,256
Accrued investment income	37,368	21,398
Receivables from related parties	37,592	47,242
Property, furniture, and equipment, less allowances for depreciation of $2,946 in 2001 and $2,370 in 2000	1,592	1,032
Value of insurance in force acquired	282	520
Deferred policy acquisition costs	417,766	289,609
Intangibles, less accumulated amortization of $939 in 2001 and $797 in 2000	2,195	2,338
Deferred income tax asset	33,605	36,052
Federal income taxes recoverable	1,400	—
Other assets	5,201	2,913
Assets held in separate account	3,364	4,185
Total assets	$ 4,194,531	$ 2,528,126

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

	September 30, 2001	December 31, 2000
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves:		
Traditional life and accident and health insurance products	$ 24,460	$ 20,354
Annuity and single premium universal life products	3,729,100	2,079,561
Other policy funds and contract claims	20,252	16,669
Provision for experience rating refunds	—	336
Amounts due to related party under General Agency Commission and Servicing Agreement	62,535	76,028
Other amounts due to related parties	—	4,000
Notes payable	50,000	44,000
Amounts due to reinsurers	14,318	—
Amounts due under repurchase agreements	—	110,000
Amounts due on securities purchased	69,880	—
Federal income taxes payable	—	50
Other liabilities	42,652	14,788
Liabilities related to separate account	3,364	4,185
Total liabilities	4,016,561	2,369,971
Minority interests in subsidiaries:		
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	99,894	99,503
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: 2001—14,532,294 shares; 2000—14,530,242 shares	14,532	14,530
Additional paid-in capital	57,584	57,577
Accumulated other comprehensive loss	(2,258)	(16,876)
Retained earnings	7,593	2,796
Total stockholders' equity	78,076	58,652
Total liabilities and stockholders' equity	$ 4,194,531	$ 2,528,126

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenues:				
Traditional life and accident and health insurance premiums	$ 3,266	$ 3,050	$ 9,881	$ 9,234
Annuity and single premium universal life product charges	3,288	2,657	9,135	5,945
Net investment income	42,044	28,052	100,489	61,801
Realized gains on sales of investments	69	80	808	6,276
Unrealized losses on derivatives	(8,903)	—	(5,775)	—
Total revenues	39,764	33,839	114,538	83,256
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	3,176	2,457	7,768	6,559
Interest credited to account balances	27,526	16,714	63,042	41,303
Change in fair value of embedded derivatives	(12,591)	—	(6,104)	—
Interest expense on notes payable	744	676	2,395	1,523
Interest expense on General Agency Commission and Servicing Agreement	1,378	1,550	4,439	4,350
Interest expense on amounts due under repurchase agreements	173	958	1,123	2,676
Interest expense due to reinsurers	260	—	260	—
Amortization of deferred policy acquisition costs and value of insurance in force acquired	8,782	2,919	14,659	5,733
Other operating costs and expenses	5,498	4,101	13,066	11,525
Total benefits and expenses	34,946	29,375	100,648	73,669
Income before income taxes, minority interests and cumulative effect adjustment	4,818	4,464	13,890	9,587
Income tax expense	(926)	(827)	(2,707)	(1,271)
Minority interests in subsidiaries:				
Earnings attributable to company-obligated mandatorily redeemable preferred securities of subsidiary trusts	(1,862)	(1,862)	(5,587)	(5,587)
Income before cumulative effect of change in accounting principle	2,030	1,775	5,596	2,729
Cumulative effect of change in accounting for derivatives	—	—	(799)	—
Net income	$ 2,030	$ 1,775	$ 4,797	$ 2,729
Earnings (loss) per common share:				
Income before accounting change	$ 0.14	$ 0.12	$ 0.38	$ 0.19
Cumulative effect of change in accounting for derivatives	—	—	(0.05)	—
Earnings per common share	$ 0.14	$ 0.12	$ 0.33	$ 0.19
Earnings (loss) per common share—assuming dilution:				
Income before accounting change	$ 0.11	$ 0.09	$ 0.30	$ 0.14
Cumulative effect of change in accounting for derivatives	—	—	(0.04)	—
Earnings per common share—assuming dilution	$ 0.11	$ 0.09	$ 0.26	$ 0.14

See accompanying notes.

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

	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 period	—	—	—	—	2,729	2,729
Change in net unrealized investment gains/losses	—	—	—	(738)	—	(738)
Total comprehensive income						1,991
Issuance of 451,687 shares of common stock	—	452	1,320	—	—	1,772
Acquisition of 90,625 shares of common stock	—	(91)	(553)	—	—	(644)
Balance at September 30, 2000	$ 625	$ 14,498	$ 57,400	$ (35,973)	$ 893	$ 37,443
Balance at January 1, 2001	$ 625	$ 14,530	$ 57,577	$ (16,876)	$ 2,796	$ 58,652
Comprehensive income:						
Net income for period	—	—	—	—	4,797	4,797
Change in net unrealized investment gains/losses	—	—	—	14,618	—	14,618
Total comprehensive income						19,415
Issuance of 4,552 shares of common stock	—	5	29	—	—	34
Acquisition of 2,500 shares of common stock	—	(3)	(22)	—	—	(25)
Balance at September 30, 2001	$ 625	$ 14,532	$ 57,584	$ (2,258)	$ 7,593	$ 78,076

Total comprehensive income for the third quarter of 2001 was $7,549, and was comprised of net income of $2,030 and a decrease in net unrealized depreciation of available-for-sale fixed maturity securities and equity securities of $5,519.

Total comprehensive income for the third quarter of 2000 was $14,297, and was comprised of net income of $1,775 and a decrease in net unrealized depreciation of available-for-sale fixed maturity securities and equity securities of $12,522.

See accompanying notes.

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

	Nine months ended September 30,	
	2001	**2000**
Operating activities		
Net income	$ 4,797	$ 2,729
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	63,042	41,303
Annuity and single premium universal life product charges	(9,135)	(5,945)
Change in fair value of embedded derivatives	(6,104)	—
Increase in traditional life insurance and accident and health reserves	4,105	3,904
Policy acquisition costs deferred	(144,470)	(70,107)
Amortization of deferred policy acquisition costs	14,421	5,495
Provision for depreciation and other amortization	957	982
Amortization of discount and premiums on fixed maturity securities and derivative instruments	12,318	9,307
Realized gains on investments	(808)	(6,276)
Unrealized (gains) losses on derivatives	5,775	—
Deferred income taxes	(4,994)	(996)
Reduction of amounts due to related party under General Agency Commission and Servicing Agreement	(13,493)	(3,892)
Changes in other operating assets and liabilities:		
Accrued investment income	(15,970)	(11,901)
Receivables from related parties	9,650	(28,141)
Federal income taxes recoverable/payable	(1,450)	167

Other policy funds and contract claims	3,583	4,252
Other amounts due to related parties	(4,000)	(1,431)
Other liabilities	5,662	(419)
Pending policyholder applications	22,049	(1,528)
Other	(2,397)	12,812
Net cash used in operating activities	(55,663)	(49,685)
Investing Activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities—available for sale	667,870	616,795
Equity securities	5,175	1,070
Derivative instruments	—	7,177
	673,045	625,042
Acquisition of investments:		
Fixed maturity securities—available for sale	(1,653,468)	(1,004,902)
Fixed maturity securities—held for investment	—	(7,246)
Equity securities	(8,859)	(1,337)
Mortgage loans	(49,516)	—
Derivative instruments	(58,464)	(50,402)
Policy loans	(36)	(28)
	(1,770,343)	(1,063,915)
Purchases of property, furniture and equipment	(1,137)	(323)
Net cash used in investing activities	(1,098,435)	(439,196)

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

	Nine months ended September 30, 2001	Nine months ended September 30, 2000
Financing activities		
Receipts credited to annuity and single premium universal life policyholder account balances	1,759,701	654,818
Return of annuity and single premium universal life policyholder account balances	(161,687)	(96,817)
Financing fees incurred and deferred	—	(216)
Proceeds from notes payable	6,000	11,500
Increase (decrease) in amounts due under repurchase agreements	(110,000)	17,987
Amounts due to reinsurers	14,318	—
Re-acquisition of common stock	(24)	(644)
Net proceeds from issuance of common stock	34	1,772
Net cash provided by financing activities	1,508,342	588,400
Increase in cash and cash equivalents	354,244	99,519
Cash and cash equivalents at beginning of period	175,724	5,882
Cash and cash equivalents at end of period	$ 529,968	$ 105,401
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest on notes payable and repurchase agreements	$ 3,626	$ 4,199
Income taxes—life subsidiary	9,150	2,100
Non-cash financing and investing activities:		
Bonus interest deferred as policy acquisition costs	15,329	7,188
Advances to related party under General Agency Commission and Servicing Agreement deferred as policy acquisition costs	—	22,400

See accompanying notes.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of American Equity Investment Life Holding Company (the Company) have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements. The unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly our financial position and results of operations on a basis consistent with the prior audited financial statements. Operating results for the three- and nine-month periods ended September 30, 2001, are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. For further information, refer to our consolidated financial statements and notes for the year ended December 31, 2000 included in our annual report on Form 10-K.

2. Accounting Changes

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-indexed annuity products that guarantee the return of principal to the customer and credits interest based on a percentage of the gain in a specified equity market index. A portion of the premium from each customer is invested in investment grade fixed income securities to cover the minimum guaranteed value due the customer at the end of the contract term. A portion of the premiums is used to purchase derivatives consisting of call options on the applicable equity market indexes 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. The equity index used to compute such annual crediting liabilities is reset at the beginning of each policy year, and the Company has the ability to modify annually, within limits, policy terms such as participation rates, asset fees and income caps.

Under SFAS No. 133, the annual crediting liabilities on the Company's equity index annuities is 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 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 unrealized gains (losses) on investments and the change in fair value adjustment of the embedded options is included in policyholder benefits in the Consolidated Statements of Income.

During the nine months ended September 30, 2001, unrealized losses on investments of $5,775,000 represent the change in fair value on call options used as a hedge for 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 $6,104,000 for the nine months ended September 30, 2001. Amortization of deferred policy acquisition costs was decreased by $874,000 for the nine months ended September 30, 2001 as a result of the impact of SFAS No. 133. Excluding the effects of SFAS No. 133 discussed above, the Company's net income for the nine months ended September 30, 2001 would have been $4,814,000.

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)

3. Changes in Amounts Due Under Repurchase Agreements

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). During the third quarter of 2001, there were borrowings outstanding for 18 days at an interest rate of 3.9%. The weighted average interest rate on amounts due under repurchase agreements was 6.48% for the nine months ended September 30, 2000.

4. Line of Credit

The Company borrowed an additional $6,000,000 during the third quarter of 2001 under its variable rate revolving line of credit, bringing its total borrowings to the maximum credit limit of $50,000,000. The Company exercised an option to convert the line of credit to a term loan to be paid in fifteen equal quarterly installments beginning on December 31, 2001.

5. 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. This Agreement is more fully described in Note 8 to the Audited Financial Statements included in the Company's Form 10-K for December 31, 2000.

During the nine months ended September 30, 2001 and 2000, the Company paid renewal commissions to the Service Company of $17,588,000 and $16,227,000, respectively, which were used to reduce the amount due under the General Agency Commission and Servicing Agreement, and amounts attributable to imputed interest.

During 1999, the Company agreed to loan to the Service Company up to $50,000,000 pursuant to a promissory note bearing interest at the "reference rate" of the financial institution which is the Company's principal lender. Principal and interest are payable quarterly over five years from the date of the advance. At September 30, 2001 and December 31, 2000, the net amount advanced to the Service Company totaled $36,035,000 and $41,565,000, respectively.

6. Reclassifications

Certain amounts in the unaudited consolidated financial statements for the period ended September 30, 2000 have been reclassified to conform to the financial statement presentation for September 30, 2001 and December 31, 2000. As discussed in Note 5, the Company has established a liability for future amounts due to a related party under the General Agency Commission and Servicing Agreement and revised prior financial statements to reflect such handling. The revisions have been handled as a reclassification and increased liabilities and deferred policy acquisition costs by $62,639,000 at September 30, 2000.

7. Financial Reinsurance

Effective January 1, 2001, our life insurance subsidiary entered into a transaction treated as reinsurance under statutory accounting requirements and as financial reinsurance under GAAP with a subsidiary of Swiss Reinsurance Company ("Swiss Re") which includes a coinsurance segment on a 2% quota share basis and yearly renewable term segment reinsuring a portion of death benefits payable on annuities produced after January 1, 2001. The 2% quota share coinsurance transaction provides reinsurance to the extent of 2% of all risks associated with our annuity policies beginning with policies issued in January 2001. We receive a 2% expense allowance for this segment which is captured over a five-year period from the profits emerging from the reinsured block of policies. This segment of the reinsurance agreement has provided $20 million in statutory surplus benefit.

The second segment 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 $15,000,000 as of September 30, 2001, which was equal to 2.25% to 3% of the first year premiums on annuities issued after January 2001.

The amount due to Swiss Re at September 30, 2001 was $14,318,000 with interest payable quarterly at the London Interbank Offered Rate (LIBOR) plus 1.4%. The interest rate at September 30, 2001 was 4.0%. This amount is paid rateably over a five year period.

8. Earnings Per Share

The following table sets forth the computation of basic earnings per common share and diluted earnings per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	(Dollars in thousands, except per share data)			
Numerator:				
Income before cumulative effect of change in accounting principle	$ 2,030	$ 1,775	$ 5,596	$ 2,729
Cumulative effect of change in accounting for derivative instruments	—	—	(799)	—
Net income	$ 2,030	$ 1,775	$ 4,797	$ 2,729
Denominator:				
Weighted average shares outstanding	14,530,990	14,481,214	14,533,567	14,361,087
Effect of dilutive securities:				
Preferred stock	1,875,000	1,875,000	1,875,000	1,875,000
Warrants	20,004	20,004	20,004	20,004
Stock options and subscription rights	1,679,666	2,082,755	1,680,850	2,082,755
Deferred compensation agreements	753,349	779,592	753,590	779,592
Adjusted weighted average shares outstanding	18,859,009	19,238,565	18,863,011	19,118,438
Earnings (loss) per common share:				
Income before accounting change	$ 0.14	$ 0.12	$ 0.38	$ 0.19

Cumulative effect of change in accounting for derivative instruments	—	—	(0.05)	—
Earnings per common share	$ 0.14	$ 0.12	$ 0.33	$ 0.19
Earnings (loss) per common share — assuming dilution				
Income before accounting change	$ 0.11	$ 0.09	$ 0.30	$ 0.14
Cumulative effect of change in accounting for derivative instruments	—	—	(0.04)	—
Diluted earnings per common share	$ 0.11	$ 0.09	$ 0.26	$ 0.14

The effect of the convertible stock of the subsidiary trusts has not been included in the computation of dilutive earnings per share as the effect is antidilutive.

The Company effected a three-for-one split of common stock payable June 30, 2000 to stockholders of record as of June 1, 2000. Accordingly, all historical weighted average share and per share amounts have been restated to reflect the stock split. Share amounts presented in the unaudited Consolidated Balance Sheets and unaudited Consolidated Statements of Stockholders' Equity reflect the actual share amounts as of or for each period presented.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis reviews our consolidated financial position at September 30, 2001, and the consolidated results of operations for the periods ended September 30, 2001 and 2000, and where appropriate, factors that may affect future financial performance. This analysis should be read in conjunction with the unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q, and the audited consolidated financial statements, notes thereto and selected consolidated financial data appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

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 policies
- customer response to new products and marketing initiatives
- mortality and other factors which may affect the profitability of our products
- changes in Federal income tax laws and regulations which may affect the relative income tax advantages of our products
- increasing competition in the sale of annuities
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products and regulation of the sale, underwriting and pricing of products
- the risk factors or uncertainties listed from time to time in our private placement memorandums or filings with the Securities and Exchange Commission

Results of Operations

Three and Nine Months Ended September 30, 2001 and 2000

Our business has continued to grow rapidly, with reserves for annuities and single premium universal life policies increasing from $1,342,256,000 at December 31, 1999 to $2,079,561,000 at December 31, 2000 and $3,729,100,000 at September 30, 2001. Deposits from sales of annuities and single premium universal life policies during the nine months ended September 30, 2001 increased 169% to $1,759,701,000 compared to $654,818,000 for the same period in 2000. The increased production is a direct result of the growth in our agency force which increased from 18,000 agents at December 31, 1999 to 22,000 agents at December 31, 2000 and 31,000 agents at September 30, 2001.

Our net income increased 14% to $2,030,000 for the third quarter of 2001, and 76% to $4,797,000 for the nine months ended September 30, 2001 compared to $1,775,000 and $2,729,000, respectively, for the same periods in 2000. These increases are primarily attributable to an increase in net investment income during the first quarter of 2001, the effect of which is magnified by the decline in net investment income experienced during the first quarter of 2000 caused by the total return swap agreement discussed below.

Traditional life and accident and health insurance premiums increased 7% to $3,266,000 for the third quarter of 2001, and increased 7% to $9,881,000 for the nine months ended September 30, 2001 compared to $3,050,000 and $9,234,000, respectively, for the same periods in 2000. 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 24% to $3,288,000 for the third quarter of 2001, and 54% to $9,135,000 for the nine months ended September 30, 2001 compared to $2,657,000 and $5,945,000, respectively, for the same periods in 2000. These increases are principally attributable to the growth in our annuity business and correspondingly, an increase in annuity policy withdrawals subject to surrender charges. Withdrawals from annuity and single premium universal life policies were $161,687,000 for the nine months ended September 30, 2001 compared to $96,817,000 for the same period in 2000.

Net investment income increased 50% to $42,044,000 in the third quarter of 2001, and 63% to $100,489,000 for the nine months ended September 30, 2001 compared to $28,052,000 and $61,801,000, respectively, for the same periods in 2000. Invested assets (amortized cost basis) increased 63% to $3,101,606,000 at September 30, 2001 compared to $1,904,245,000 at September 30, 2000, while the effective yield earned on invested assets (excluding cash and cash equivalents) was 7.3% for the nine months ended September 30, 2001 compared to 7.6% for the same period in 2000.

Realized gains (losses) on the sale of investments consisted of an increase in realized gains of $69,000 in the third quarter of 2001 compared to $80,000 for the same period in 2000. For the nine months ended September 30, 2001, the Company had realized gains of $808,000 compared to $6,276,000 for the same period in 2000. In the first nine months of 2000, net realized gains of $6,276,000 included: (i) realized gains of $7,177,000 attributable to gains on the termination of total return swap agreements for which there was an offsetting impact on net investment income and (ii) realized losses of $901,000 on the sale of certain corporate fixed maturity securities. The investment program involving the total return swap agreements was terminated in February, 2000.

Unrealized losses on derivatives were $8,903,000 in the third quarter of 2001, and $5,775,000 for the nine months ended September 30, 2001. These amounts arise from the adoption of SFAS No. 133 as of January 1, 2001, which requires the recognition of unrealized gains from the change in fair value of derivative securities. See Note 2 of the Notes to Consolidated Financial Statements.

Traditional life and accident and health insurance benefits increased 29% to $3,176,000 in the third quarter of 2001, and increased 18% to $7,768,000 for the nine months ended September 30, 2001 compared to $2,457,000 and $6,559,000, respectively, for the same periods in 2000. These increases are principally attributable to an increase in death benefits and surrenders.

Interest credited to annuity and single premium universal life policyholder account balances increased 65% to $27,526,000 in the third quarter of 2001, and 53% to $63,042,000 for the nine months ended September 30, 2001 compared to $16,714,000 and $41,303,000, respectively, for the same periods in 2000. These increases are principally attributable to the increase in annuity liabilities. For the nine months ended September 30, 2001, the weighted average crediting rate for our fixed rate annuity liabilities, excluding interest rate and premium bonuses guaranteed for the first year of the annuity contract, was 5.62%, compared to 5.15% for the same period in 2000. The weighted average crediting rate, including interest rate and premium bonuses guaranteed for the first year of the annuity contract, was 6.12% for the nine months ended September 30, 2001 compared to 6.07% for the same period in 2000.

Change in market value of embedded derivatives consisted of a decrease of $12,591,000 in the third quarter of 2001, and a decrease of $6,104,000 for the nine months ended September 30, 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 Note 2 of the Notes to Consolidated Financial Statements.

Interest expense on notes payable increased 10% to $744,000 for the third quarter of 2001, and 57% to $2,395,000 for the nine months ended September 30, 2001 compared to $676,000 and $1,523,000, respectively, for the same periods in 2000. These increases are attributable to increases in the outstanding borrowings during 2000 and 2001, offset in part by a decrease in the applicable interest rate from 7.99% to 6.64%.

Interest expense on General Agency Commission and Servicing Agreement decreased 11% to $1,378,000 for the third quarter of 2001, and 2% to $4,439,000 for the nine months ended September 30, 2001, compared to $1,550,000 and $4,350,000, respectively, for the same periods in 2000. The decrease for the third quarter of 2001 was principally attributable to a decrease in the amounts due under General Agency Commission and Servicing Agreement. The increase for the nine months ended September 30, 2001 was due to an increase in the amount of renewal commissions paid by our life subsidiary to the Service Company under this Agreement as compared to 2000. See Note 5 of the Notes to Consolidated Financial Statements.

Interest expense on amounts due under repurchase agreements decreased 82% to $173,000 in the third quarter of 2001, and 58% to $1,123,000 for the nine months ended September 30, 2001 compared to $958,000 and $2,676,000, respectively, for the same periods in 2000. These decreases are principally attributable to a decrease in the average balances outstanding. See Note 3 of the Notes to Consolidated Financial Statements.

Amortization of deferred policy acquisition costs and value of insurance in force acquired increased 201% to $8,782,000 in the third quarter of 2001, and 156% to $14,659,000 for the nine months ended September 30, 2001 compared to $2,919,000 and $5,733,000, respectively, for the same periods in 2000. These increases are primarily due to the growth in our annuity business as discussed above, offset in part by a decrease of $874,000 resulting from SFAS No. 133. See Note 2 of the Notes to Consolidated Financial Statements.

Other operating costs and expenses increased 34% to $5,498,000 in the third quarter of 2001, and 13% to $13,066,000 for the nine months ended September 30, 2001 compared to $4,101,000 and $11,525,000, respectively, for the same periods in 2000. These increases are principally attributable to increases in marketing expenses, employees, and related salaries and costs of employment.

Income tax expense increased 12% to $926,000 in the third quarter of 2001 and increased 113% to $2,707,000 for the nine months ended September 30, 2001 compared to $827,000 and $1,271,000, respectively, for the same periods in 2000. The increases are principally due to increases in pretax income. The effective income tax rate for the 2001 periods is less than the applicable statutory federal income tax rate of 35% because of (i) tax benefits for earnings attributable to redeemable preferred securities of subsidiary trusts and (ii) state income tax benefits on the parent company's non-life loss (life insurance subsidiary taxable income is taxed at the 35% federal income tax rate and not generally subject to state income taxes).

Financial Condition

Cash and investments increased 72% during the nine months ended September 30, 2001 as a result of the growth in our annuity business discussed above. At September 30, 2001, the fair value of our available-for-sale fixed maturity securities and equity securities was $8,297,000 less than the amortized

cost of those investments. At September 30, 2001, the amortized cost of our fixed maturity securities held for investment exceeded the market value by $19,248,000.

We did not issue any debt securities during the first nine months of 2001. For information related to borrowings under the Company's variable rate revolving line of credit, see Note 7 of the Notes to Consolidated Financial Statements found in the Annual Report on Form 10-K.

Effective January 1, 2001, our life insurance subsidiary entered into a transaction treated as reinsurance under statutory accounting requirements and as financial reinsurance under GAAP with a subsidiary of Swiss Reinsurance Company ("Swiss Re") which includes a coinsurance segment on a 2% quota share basis and yearly renewable term segment reinsuring a portion of death benefits payable on annuities produced after January 1, 2001. The 2% quota share coinsurance transaction provides reinsurance to the extent of 2% of all risks associated with our annuity policies beginning with policies issued in January 2001. We receive a 2% expense allowance for this segment which is captured over a five-year period from the profits emerging from the reinsured block of policies. This segment of the reinsurance agreement has provided $20 million in statutory surplus benefit.

The second segment 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 $15,000,000 as of September 30, 2001, which was equal to 2.25% to 3% of the first year premiums on annuities issued after January 2001.

The statutory capital and surplus of our life insurance subsidiary at September 30, 2001 was $184,191,000. The life insurance subsidiary made surplus note interest payments to us of $1,756,000 during the nine months ended September 30, 2001. For the remainder of 2001, up to $12,749,000 can be distributed by the life insurance subsidiary as dividends without prior regulatory approval. We contributed an additional $10,000,000 of capital to our life insurance subsidiary during the third quarter of 2001. The capital and surplus of our life insurance subsidiary was reduced by the change in net unrealized losses on derivatives of $5,775,000 as of September 30, 2001.

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. Our life insurance subsidiary had $14,715,000 of earned surplus at September 30, 2001.

The transfer of funds by our life insurance subsidiary is also restricted by certain covenants in our loan agreements, which, among other things, require the life insurance subsidiary to maintain statutory capital and surplus (including asset valuation and interest maintenance reserves) equal to a minimum of $140,000,000 plus 25% of statutory net income and 75% of the capital contributions to life insurance subsidiary for periods subsequent to December 31, 2000. Under the most restrictive of these limitations, $28,490,000 of the life insurance subsidiary's earned surplus at September 30, 2001 would be available for distribution by the life insurance subsidiary.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES OF 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 substantially all of our annuity policies 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 September 30, 2001, the effective duration of our fixed maturity securities and short-term investments was approximately 7.84 years and the estimated duration of our insurance liabilities was approximately 7.10 years.

If interest rates were to increase 10% from levels at September 30, 2001, we estimate that the fair value of our fixed maturity securities, net of corresponding changes in the values of deferred policy acquisition costs and insurance in force acquired would decrease by approximately $130,379,000. The computer models used to estimate the impact of a 10% change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of our financial instruments indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because we actively manage our investments and liabilities, our net exposure to interest rates can vary over time.

Our investments in equity index call options are closely matched with our obligations to equity-indexed annuity holders. 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.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c)

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)

Exhibits:

10.9 Coinsurance and Yearly Renewable Term Reinsurance Agreement

(b)

No reports on Form 8-K were filed during the quarter ended September 30, 2001.

SIGNATURES

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

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

Date: November 13, 2001

By: /s/ DAVID J. NOBLE

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

By: /s/ WENDY L. CARLSON

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

By: /s/ TERRY A. REIMER

Terry A. Reimer, Executive Vice President (Principal Accounting Officer)

QuickLinks

ITEM 1. FINANCIAL STATEMENTS

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY CONSOLIDATED BALANCE SHEETS (Continued) (Dollars in thousands, except per share data) (Unaudited)
AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY CONSOLIDATED STATEMENTS OF INCOME (Dollars in thousands, except per share data) (Unaudited)
AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share data) (Unaudited)
AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY CONSOLIDATED STATEMENTS OF CASH FLOWS (Dollars in thousands) (Unaudited)
AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued) (Dollars in thousands) (Unaudited)
AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2001 (Unaudited)
SIGNATURES

COINSURANCE AND YEARLY RENEWABLE TERM REINSURANCE AGREEMENT

BETWEEN

AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY
West Des Moines, Iowa

AND

ATLANTIC INTERNATIONAL REINSURANCE COMPANY LTD.
Bridgetown, Barbados, West Indies

COINSURANCE AND YEARLY RENEWABLE TERM REINSURANCE

ARTICLE PAGE - ------- ---- I. PREAMBLE AND REINSURANCE PROVIDED......................... 3 II. TERM, TERMINATION AND RECAPTURE.......................... 3 III. REINSURANCE COVERAGE..................................... 4 IV. REINSURANCE PREMIUMS AND EXPENSE ALLOWANCES............... 5 V. EXPERIENCE ACCOUNT BALANCE.............................. 7 VI. CASH BALANCE... 8 VII. CASH SETTLEMENT ADJUSTMENTS.............................. 9 VIII. FINANCIAL COVENANTS...................................... 10 IX. REPORTS AND REMITTANCES................................. 12 X. NET RETAINED LINES...................................... 13 XI. EXCLUSIONS.. 14 XII. INSOLVENCY.. 15 XIII. ARBITRATION.. 16 XIV. AGREEMENT, AMENDMENTS AND MERGER......................... 17 XV. MISCELLANEOUS... 18 XVI. SECURITY.. 20 XVII. SERVICE OF SUIT.. 24 XVIII. REINSURANCE INTERMEDIARY................................ 24 SIGNATURE PAGE... 26 EXHIBIT 1 - SAMPLE REPORTING FORMAT Schedule A - SUBJECT BUSINESS CONTRACTS (TYPES) Schedule B - YRT BASE RATE BY AGE (NEAREST BIRTHDAY) Schedule C - TARGET CASH BALANCES Schedule D - COMPANY INFORMATION

ARTICLE I: PREAMBLE AND REINSURANCE PROVIDED

1.01 - This is an Agreement of Coinsurance and Yearly Renewable Term Reinsurance between:

AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY
West Des Moines, Iowa

(hereinafter referred to as the "Company")

and

ATLANTIC INTERNATIONAL REINSURANCE COMPANY LTD.
Bridgetown, Barbados, West Indies

(hereinafter referred to as the "Reinsurer") whereby, the Reinsurer agrees to indemnify the Company for Covered Losses paid by the Company subject to all of the terms and conditions of this Agreement.

ARTICLE II: TERM, TERMINATION AND RECAPTURE

2.01 - EFFECTIVE DATE: The Effective Date of this Agreement shall be 12:01 a.m., Central Standard Time, January 1, 2001.

2.02 - TERM: This Agreement shall remain in force and the Term of this Agreement shall be from the Effective Date until the earlier of (i) the date of death of the last contract holder of a Subject Business agreement, or (ii) the Recapture Date.

2.03 - NEW BUSINESS TERMINATION DATE: With respect to new policies issued by the Company, this Agreement shall terminate as follows

(a) on the termination date requested by the Reinsurer, subject to written notice to the Company at least one-hundred-twenty (120) days prior such termination date;

(b) immediately upon failure by the Company to comply with one or more of the Financial Covenants set forth in Section 8.02 herein; or

(c) immediately once the Cash Balance equals or exceeds fifteen-million dollars ($15,000,000).

The date on which this Agreement terminates with respect to new policies shall hereinafter be referred to as the "New Business Termination Date".

2.04 - TERMINATION AND RECAPTURE: The Company may terminate this Agreement and recapture all business reinsured hereunder at any time after June 29, 2001 by providing written notice to the Reinsurer by registered or certified mail, return receipt requested, at least one-hundred-twenty (120) days in advance, such notice to include the effective date of termination and recapture.

The Reinsurer may terminate this Agreement only if the Company fails to pay any Reinsurance Premium when due in accordance with Section 4.01, subject to ninety (90) days' notice and demand for such Reinsurance Premium by the Reinsurer.

The date on which this Agreement is terminated by the Company or by the Reinsurer as set forth in this Section 2.04 shall hereinafter be referred to as the "Recapture Date". On the Recapture Date, the Company shall pay to the Reinsurer the Cash Balance as of the Recapture Date, that being the Cash Balance on the Settlement Date immediately preceding the Recapture Date adjusted to include interest through the Recapture Date, and the Reinsurer shall be released from all current and future liabilities under this Agreement.

ARTICLE III: REINSURANCE COVERAGE

3.01 - COVERAGE:

(a) SECTION A: The Reinsurer shall indemnify the Company for Section A Covered Losses paid by the Company.

(b) SECTION B: The Reinsurer shall indemnify the Company for Section B Covered Losses paid by the Company.

3.02 - SUBJECT BUSINESS: Subject Business shall mean all contracts issued by the Company on or after the Effective Date that are classified as one of the types of contracts listed on Schedule A attached hereto and incorporated herein; provided, however, that Subject Business shall not include any contracts issued by the Company on or after the New Business Termination Date.

It is understood and agreed that the Company shall continue to administer the Subject Business during the Term of this Agreement.

3.03 - SUBJECT LOSSES:

(a) Section A Subject Losses shall mean all benefits paid by the Company to contract holders of the Subject Business contracts, including surrender values paid, death benefits paid, and interest and premium bonuses credited in accordance with the terms of such Subject Business contracts. Section A Subject Losses shall not include rider benefits, extracontractual payments, extracontractual damages, and other benefits not intended under the terms of the Subject Business contracts.

(b) Section B Subject Losses shall mean all surrender charges waived by the Company upon death of the contract holders of the Subject Business contracts, but only as respects that portion of the Subject Business that is not reinsured under Section A of this Agreement.

3.04 - COVERED LOSSES:

(a) Section A Covered Losses shall equal two percent (2%) of Section A Subject Losses.

(b) Section B Covered Losses shall equal Section B Subject Losses, subject to the Section B Aggregate Limit.

(c) The sum of Section A Covered Losses and Section B Covered Losses shall hereinafter be referred to collectively as "Covered Losses".

3.05 - SECTION B AGGREGATE LIMIT: The Section B Aggregate Limit for the sum of all Section B Covered Losses indemnified by the Reinsurer under this Agreement shall equal fifty-million dollars ($50,000,000).

The Section B Aggregate Limit is the maximum amount recoverable by the Company under Section B of this Agreement. Under no circumstances shall the Reinsurer pay more than the Section B Aggregate Limit under Section B.

ARTICLE IV: REINSURANCE PREMIUMS AND EXPENSE ALLOWANCES

4.01 - REINSURANCE PREMIUM:

(a) Section A Reinsurance Premium for each Accounting Period shall equal two percent (2%) of all single, first-year and renewal premiums received by the Company for that Accounting Period on Subject Business.

(b) Section B Reinsurance Premium shall equal, for the Accounting Period commencing July 1, 2001 and each Accounting Period thereafter, the sum of the following:

(i) for each Subject Business contract in force, twenty-five percent (25%) of the applicable rate from Schedule B attached hereto and incorporated herein, based on the contract holder's age at the nearest birthday at the beginning of that Accounting Period, MULTIPLIED BY the arithmetic average of the Net Amount at Risk at the beginning of that Accounting Period and the Net Amount at Risk at the end of that Accounting Period;

(ii) a policy fee of eighteen-dollars-and-seventy-five-cents ($18.75) for each Subject Business contract in force at the beginning of that Accounting Period; and

(iii) fifty-percent (50%) of the amount by which the account value exceeds the cash surrender value paid by the Company on each partial surrender and each full surrender of Subject Business contracts during that Accounting Period.

"Net Amount at Risk" as used herein shall mean, as respects each Subject Business contract, the amount by which the account value payable to the beneficiary upon death of the contract holder exceeds the cash surrender value at such time.

(c) The sum of Section A Reinsurance Premium and Section B Reinsurance Premium shall hereinafter be referred to collectively as the "Reinsurance Premiums". The Reinsurance Premiums for each Accounting Period shall be due and payable from the Company to the Reinsurer as part of the Total Settlement for that Accounting Period in accordance with Section 9.06.

4.02 - EXPENSE ALLOWANCES:

(a) SECTION A:

(i) For each Accounting Period, the Section A First Year Expense Allowances shall equal the portion of the Section A Reinsurance Premium paid for that Accounting Period that relates to single and first-year premiums received by the Company.

(ii) For each Accounting Period, the Section A Renewal Expense Allowances shall be equal to twenty-five cents ($0.25) for each Subject Business contract in force.

The Section A First Year Expense Allowances and the Section A Renewal Expense Allowances for each Accounting Period shall hereinafter be referred to collectively as the "Section A Expense Allowances".

(b) SECTION B: Section B Expense Allowances for each Accounting Period shall equal:

(i) the sum of

(x) two-and-twenty-five-hundredths percent (2.25%) of single and first-year premiums paid to the Company during that Accounting Period, excluding any premium bonuses, for Subject Business contracts (other than SPDA 6-5 contracts) with a first-year surrender charge of fifteen percent (15%) or less; and

(y) three percent (3%) of single and first-year premiums paid to the Company during that Accounting Period, excluding any premium bonuses, for Subject Business contracts with

a first-year surrender charge in excess of fifteen percent (15%); and

(z) for Subject Business contracts classified as SPDA 6-5 contracts, one percent (1%) of single and first-year premiums paid to the Company during that Accounting Period, excluding any premium bonuses;

MINUS

(ii) the absolute value of any negative Cash Settlement Adjustment for that calendar quarter as determined in accordance with Section 7.01.

(c) The Section A Expense Allowances and the Section B Expense Allowances for each Accounting Period shall hereinafter be referred to collectively as the "Expense Allowances". The Expense Allowances for each Accounting Period shall be due and payable from the Reinsurer to the Company as part of the Total Settlement for that Accounting Period in accordance with Section 9.06.

(d) It is understood and agreed that the Reinsurer shall have no obligation to reimburse the Company for any direct or allocable expenses or taxes.

ARTICLE V: EXPERIENCE ACCOUNT BALANCE

5.01 - EXPERIENCE ACCOUNT BALANCE: An Experience Account Balance ("EAB") shall be calculated at the end of each Accounting Period. The EAB as of the Effective Date, and at any time thereafter until the end of the first Accounting Period, shall be equal to zero (0). The EAB at the end of the first Accounting Period shall be equal to the Experience Account Gain for that Accounting Period. The EAB at the end of each Accounting Period thereafter shall equal the EAB at the end of the prior Accounting Period plus the Experience Account Gain for that Accounting Period.

5.02 - EXPERIENCE ACCOUNT GAIN: The Experience Account Gain for each Accounting Period shall equal the sum of:

(a) the Section A Reinsurance Premium for that Accounting Period; and

(b) the Coinsurance Reserves at the end of the prior Accounting Period;

minus the sum of

(c) the Section A Expense Allowances for that Accounting Period;

(d) the Section A Covered Losses for that Accounting Period;

(e) the Coinsurance Reserves at the end of that Accounting Period; and

(f) the Risk and Expense Charge for that Accounting Period.

5.03 - COINSURANCE RESERVES: The Coinsurance Reserves at the end of each Accounting Period shall equal two percent (2%) of the statutory reserves held for the Subject Business as of the end of that Accounting Period.

5.04 - RISK AND EXPENSE CHARGE: The Risk and Expense Charge for each Accounting Period shall equal (a) eight-tenths-of-one-percent (0.8%), MULTIPLIED BY (b) the number of days in that Accounting Period divided by three-hundred-sixty (360) days, MULTIPLIED BY (c) the absolute value of the EAB at the end of the prior Accounting Period.

ARTICLE VI: CASH BALANCE

6.01 - CASH BALANCE: The Cash Balance on the Effective Date shall be equal to zero (0). The Cash Balance for the first Accounting Period shall be determined on the Settlement Date for that Accounting Period in an amount equal to the Total Settlement for that Accounting Period. The Cash Balance for each Accounting Period thereafter shall be determined on the Settlement Date for that Accounting Period in an amount equal to (a) the Total Settlement for that Accounting Period, PLUS (b) the Interest on Cash Balance at that Settlement Date, PLUS (a) the Cash Balance for the prior Accounting Period, as determined on the applicable Settlement Date.

6.02 - INTEREST ON CASH BALANCE: The Interest on Cash Balance at the first Settlement Date shall be equal to zero (0). The Interest on Cash Balance at each Settlement Date thereafter shall equal (a) the Cash Balance Rate on that Settlement Date, MULTIPLIED BY (b) the Cash Balance on the prior Settlement Date.

6.03 - CASH BALANCE RATE: The Cash Balance Rate at each Settlement Date shall equal (a) the ninety (90) day London Interbank Offered Rate ("LIBOR"), as reported on Telerate Page 3750 as of

11:00 a.m., London time, on the last Business Day prior to that Settlement Date, plus one-and-four-tenths percent (1.4%), MULTIPLIED BY (b) the ratio that the number of days during that Accounting Period for which the Cash Balance is positive bears to three-hundred-sixty (360) days.

"Telerate Page 3750" means the display page currently so designated on the Dow Jones Market Service or any successor service (or such other page as may replace that page on the Dow Jones Market Service or any successor service for the purpose of displaying comparable rates or prices).

6.04 - TARGET CASH BALANCE: The Target Cash Balance at the end of each Accounting Period shall be the amount set forth in Schedule C attached hereto and incorporated herein for that Accounting Period.

ARTICLE VII: CASH SETTLEMENT ADJUSTMENTS

7.01 - CASH SETTLEMENT ADJUSTMENTS: The Cash Settlement Adjustment for each Accounting Period shall be calculated on or before the Settlement Date for that Accounting Period in an amount equal to:

(a) the Target Cash Balance at the end of that Accounting Period;

MINUS

(b) the Tentative Settlement for that Accounting Period;

MINUS

(c) the Loss Carryover for the prior Accounting Period;

MINUS

(d) the Cash Balance for the prior Accounting Period as of the applicable Settlement Date;

MINUS

(e) the Interest on Cash Balance for that Accounting Period;

MINUS

(f) the Risk and Expense Charge for that Accounting Period.

If the Cash Settlement Adjustment for an Accounting Period is greater than zero (0) AND the Company is not, and was not, in violation of one or more of the Financial Covenants at any time during that Accounting Period or any prior Accounting Periods, an Experience Refund in an amount equal to such Cash Settlement Adjustment shall be paid by the Reinsurer to the Company as part of the Total Settlement for that Accounting Period in accordance with Section 9.06. If the Cash Settlement Adjustment for an Accounting Period is less than zero (0), the absolute value of such Cash Settlement Adjustment shall be deducted from the Section B Expense Allowances for that Accounting Period as set forth in Section 4.02.

At the sole option of the Reinsurer, the Experience Refund may be recalculated at the end of any Accounting Period in accordance with the above formula, where items (b), (e) and (f) include all Accounting Periods within the calendar year as opposed to individual Accounting Periods, and items (c) and (d) are valued as of the end of the last Accounting Period of the prior calendar year. Upon any such recalculation of the Experience Refund, the Total Settlement will be recalculated accordingly.

7.02 - LOSS CARRYOVER: The Loss Carryover at the end of the first Accounting Period shall be equal to zero (0). The Loss Carryover at the end of each Accounting Period thereafter shall equal the greater of (i) zero (0), or (ii) an amount equal to:

(a) the Cash Balance for the prior Accounting Period as calculated on the applicable Settlement Date,

PLUS

(b) the Interest on Cash Balance for that Accounting Period as calculated on the applicable Settlement Date,

PLUS

(c) the Total Settlement for that Accounting Period,

MINUS

(d) the Target Cash Balance at the end of that Accounting Period.

ARTICLE VIII: FINANCIAL COVENANTS

8.01 - NON-COMPLIANCE WITH FINANCIAL COVENANTS: The Company shall notify the Reinsurer within five (5) Business Days of any failure by the Company to comply with one or more of the Financial Covenants. As provided in Section 2.03, this Agreement will terminate as respects new policies issued by the Company immediately upon failure by the Company to comply with one or more of the Financial Covenants.

8.02 - FINANCIAL COVENANTS: The Financial Covenants are:

(a) the Company shall maintain Risk Based Capital, as measured by the formula prescribed by the insurance department of the Company's state of domicile, of no less than two-hundred-fifteen percent (215%) of the Company Action Level;

(b) the Company shall maintain Total Surplus of no less than one-hundred-twenty-five-million dollars ($125,000,000);

(c) there shall be no Change of Control of the Company, where "Change of Control" is signaled by the requirement that the Company, or the parent of the Company, file such change with any insurance department or with the Securities Exchange Commission;

(d) there shall be no material change in the Company's underwriting guidelines from those in effect as of the Effective Date, unless the

Company obtains the prior written approval of the Reinsurer to such change;

(e) there shall be no material change in the overall credit quality of the Company's investment portfolio from the Effective Date;

(f) the insurance financial strength rating of the Company as assigned by A.M. Best Company shall not be less than "A-";

(g) the Financial Leverage Ratio (as defined in Section 8.03) of the Company and its corporate parent combined shall not be greater than sixty percent (60%); and

(h) the Cash Coverage Ratio (as defined in Section 8.04) of the Company and its parent combined shall not be less than one-and-two-tenths (1.2).

8.03 - FINANCIAL LEVERAGE RATIO: The Financial Leverage Ratio at any time shall be determined as follows, with the result expressed as a percentage:

(a) the sum of (i) the principal amount of loans outstanding at American Equity Investment Life Holding Company (the "Holding Company"), and (ii) the principal amount of loans outstanding at American Equity Investment Service Company (the "Service Company"), excluding any such loans that may be included in (a)(i) herein;

DIVIDED BY

(b) the sum of (i) the Company's Total Capital and Surplus, (ii) the Company's Asset Valuation Reserve, and (iii) the Company's Interest Maintenance Reserve, where items (i), (ii) and (iii) are the respective amounts as reported on the Company's most recent certified statutory financial statements.

8.04 - CASH COVERAGE RATIO: The Cash Coverage Ratio at any time shall equal:

(a) the sum of (i) amounts available to the Company at that time for dividends to stockholders in accordance with the statutes and regulations of the State of Iowa, (ii) any commissions paid by the Company to the Service Company during the current Accounting Period, (iii) investment income of the Holding Company, excluding income from investments in subsidiaries, during the current Accounting Period, (iv) cash operating expenses of the Holding Company during the current Accounting Period, and (v) restricted payments (dividends paid to shareholders) by the Holding Company during the current Accounting Period;

DIVIDED BY

(b) the sum of (i) interest on loans outstanding at the Holding Company, (ii) distribution by the Holding Company on trust preferreds, and (iii) twenty

percent (20%) of the principal amounts of loans outstanding at the Holding Company and at the Service Company.

ARTICLE IX: REPORTS AND REMITTANCES

9.01 - COMPANY REPORTS: The Company shall provide to the Reinsurer, no less than three (3) Business Days prior to each Settlement Date, all information and data required by the Reinsurer to fulfill its obligations and rights under this Agreement and to satisfy its legal reporting requirements. A suggested format for such reporting is attached hereto as Exhibit 1. The Company shall also furnish to the Reinsurer, on a quarterly basis, a copy of its certified statutory financial statements at the time such statements are submitted by the Company to the regulatory authority in its state of domicile, and shall furnish the Reinsurer with a statement at the end of each Accounting Period that demonstrates the Company's compliance with the Financial Covenants.

9.02 - ACCOUNTING PERIOD: Accounting Period shall mean each calendar quarter during the Term of this Agreement. In the event the Recapture Date occurs at any time other than at the end of a calendar quarter, the last Accounting Period shall be the period from the beginning of that calendar quarter to the Recapture Date, both dates inclusive.

9.03 - SETTLEMENT DATES: The Settlement Date for each Accounting Period shall be the first Business Day on or after fifteen (15) days after the end of that Accounting Period.

9.04 - BUSINESS DAY: Business Day shall mean any day other than a Saturday, a Sunday, or a day on which commercial banks in Bridgetown, Barbados, the State of New York, or the State of Iowa are authorized by law or executive order to close.

9.05 - TENTATIVE SETTLEMENT: The Tentative Settlement for each Accounting Period shall be determined as follows:

(a) any amounts due to the Company under Section A of this

Agreement for that Accounting Period;

PLUS

(b) any amounts due to the Company under Section B of this Agreement for that Accounting Period;

MINUS THE SUM OF

(c) any amounts due to the Reinsurer under Section A of this Agreement for that Accounting Period; and

(d) any amounts due to the Reinsurer under Section B of this Agreement for that Accounting Period.

For the avoidance of doubt, the Experience Refund for an Accounting Period shall not be included in the computation of the Tentative Settlement for that Accounting Period.

9.06 - TOTAL SETTLEMENT: The Total Settlement for each Accounting Period shall equal (a) the Tentative Settlement for that Accounting Period, plus (b) the Experience Refund, if any, for that Accounting Period, MINUS (c) the cost for that Accounting Period of any Security provided by the Reinsurer in accordance with Article XVI - SECURITY. If the Total Settlement for an Accounting Period is greater than zero, then such Total Settlement shall be due and payable by the Reinsurer to the Company on the Settlement Date for that Accounting Period. If the Total Settlement is less than zero, then the absolute value of such Total Settlement shall be due and payable by the Company to the Reinsurer on the Settlement Date for that Accounting Period.

ARTICLE X: NET RETAINED LINES

10.01 - APPLICATION OF OTHER REINSURANCE PROCEEDS: This Agreement applies only to that portion of insurance or reinsurance which, after the application of all reinsurance other than the reinsurance hereunder, the Company retains net for its own account. In calculating the amount of loss hereunder for which the Company shall be reimbursed, only the loss with respect to such retained portion shall be included.

10.02 - COLLECTION OF OTHER REINSURANCE PROCEEDS: The amount of the Reinsurer's liability hereunder shall not be increased by reason of the Company's inability to collect from any other reinsurers, whether specific or general, any amounts which may have become due from them, whether such inability arises from the insolvency of such other reinsurers, or otherwise.

10.03 - OTHER REINSURANCE: In order to provide that the Reinsurer's liability under this Agreement shall not be increased in any calendar year by a change in reinsurance ceded or recoverable by the Company, the reinsurance arrangements, including treaties, facultative certificates and interpretations with respect to obligations thereunder, which were in effect on January 1, 2001 are deemed to continue in effect for purposes of all computations hereunder.

ARTICLE XI: EXCLUSIONS

11.01 - EXTRACONTRACTUAL DAMAGES: This Agreement does not cover extracontractual damages or extracontractual liability resulting from fraud, oppression, bad faith, strict liability, or negligent, reckless or intentional wrongs on the part of the Company or its directors, officers, employees and agents. The following types of damages are examples of damages excluded under this Agreement for the

conduct described above: actual damages, damages for emotional distress, and punitive or exemplary damages.

11.02 - INSOLVENCY FUNDS: The Reinsurer shall not be obligated to pay to the Company any share of any liability of the Company arising, bycontract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund or from reimbursement of any person for any such liability. "Insolvency Fund" includes any guaranty or insolvency fund, plan, pool, association, or other arrangement howsoever denominated, established or governed, which provides for any assessment of or payment or assumption by any person or part of all of any claim, debt, charge, fee or other obligation of any insurer, or its successors or assigns which has been declared to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.

11.03 - DIVIDENDS: The Reinsurer shall not participate in the determination of, nor reimburse the Company for, any policyholder or other dividends paid by the Company.

ARTICLE XII: INSOLVENCY

12.01 - REINSURER'S OBLIGATION: In the event of the insolvency of the Company, the reinsurance afforded by this Agreement shall be payable by the Reinsurer on the basis of the liability of the Company under the Subject Business, without diminution because of such insolvency, directly to the Company or its liquidator, receiver, conservator, or statutory successor.

12.02 - REINSURER'S NOTICE AND DEFENSE OF CLAIMS: The Reinsurer shall be given written notice of the pendency of each claim or loss which may involve the reinsurance afforded by this Agreement within a reasonable time after such claim or loss is filed in the insolvency proceedings. The Reinsurer shall have the right to investigate each such claim or loss and interpose at its own expense, in the proceeding where the claim or loss is to be adjudicated, any defense which it may deem available to the Company or its liquidator, receiver, conservator, or statutory successor. If more than one reinsurer is involved, such reinsurers may designate one reinsurer to act for all.

12.03 - DEFENSE EXPENSE: The expense thus incurred by the Reinsurer shall be chargeable, subject to court approval, against the insolvent Company as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.

12.04 - OFFSET: Any debts or credits, liquidated or unliquidated, in favor of or against either party on the date of the receivership or liquidation order (except where the obligation was purchased by or transferred to be used as an offset) are deemed mutual debts or credits and shall be set off with the balance only to be allowed or

paid. Although such claim on the part of either party may be unliquidated or undetermined in amount on the date of the entry of the receivership or liquidation order, such claim will be regarded as being in existence as of such date and any credits or claims then in existence and held by the other party may be offset against it.

12.05 - RIGHTS OF PARTIES: Nothing hereinabove set forth in this Article shall in any way change the relationship or status of the parties hereto, nor enlarge the obligations of any party to any other except as specifically hereinabove provided, to wit, to pay the statutory successor on the basis of the amount of liability determined in the liquidation or receivership proceeding, rather than on the basis of the actual amount of loss (dividends) paid by the liquidator, receiver, conservator, or statutory successor to allowed claimants. Nor, except as hereinabove specifically provided, shall anything in this Article in any manner create any obligation or establish any right against the Reinsurer in favor of any third parties or any other persons not parties to this Agreement.

ARTICLE XIII: ARBITRATION

13.01 - RESOLUTION OF DISPUTES: As a condition precedent to any right arising under this Agreement, any dispute between the Company and the Reinsurer arising out of the provisions of this Agreement, or concerning its interpretation or validity, whether arising before or after termination of this Agreement, shall be submitted to arbitration in the manner set forth in this Article. Either party may initiate arbitration of any dispute arising out of the provisions of this Agreement by giving written notice to the other party, by registered or certified mail, return receipt requested, of its intention to arbitrate and of its appointment of an arbitrator in accordance with Section 13.03.

13.02 - COMPOSITION OF PANEL: Unless the parties agree upon a single arbitrator within fifteen (15) days after the receipt of a notice of intention to arbitrate, all disputes shall be submitted to an arbitration panel composed of two arbitrators and an umpire, chosen in accordance with Section 13.03 and Section 13.04.

13.03 - APPOINTMENT OF ARBITRATORS: The members of the arbitration panel shall be chosen from disinterested persons knowledgeable in the insurance and reinsurance business. The party requesting arbitration (hereinafter referred to as the "claimant") shall appoint an arbitrator and give written notice thereof, by registered or certified mail, return receipt requested, to the other party (hereinafter referred to as the "respondent") together with its notice of intention to arbitrate. Unless a single arbitrator is agreed upon within fifteen (15) days after the receipt of the notice of intention to arbitrate, the respondent shall, within thirty (30) days after receiving such notice, also appoint an arbitrator and notify the claimant thereof in a like manner. Before instituting a hearing, the two arbitrators so appointed shall choose an umpire. If, within twenty (20) days after they are both appointed, the arbitrators fail to agree upon the appointment of an umpire, the umpire shall be appointed by the President of the American Arbitration Association.

13.04 - FAILURE OF PARTY TO APPOINT ARBITRATOR: If the respondent fails to appoint an arbitrator within thirty (30) days after receiving a notice of intention to arbitrate, such arbitrator shall be appointed by the President of the American Arbitration Association, and shall then, together with the arbitrator appointed by the claimant, choose an umpire as provided in Section 13.03.

13.05 - CHOICE OF LAW AND FORUM: Any arbitration instituted pursuant to this Article shall be held in New York, New York, or in a location to be mutually agreed upon by the Company and the Reinsurer and the laws of the State of New York, without regard to its conflict of laws rules, shall govern the interpretation and application of this Agreement.

13.06 - SUBMISSION OF DISPUTE TO PANEL: Unless otherwise extended by the arbitration panel, or agreed to by the parties, each party shall submit its case to the panel within thirty (30) days after the selection of an umpire.

13.07 - PROCEDURE GOVERNING ARBITRATION: All proceedings before the panel shall be informal and the panel shall not be bound by the formal rules of evidence. The panel shall have the power to fix all procedural rules relating to the arbitration proceeding. In reaching any decision, the panel shall give due consideration to the customs and usage of the insurance and reinsurance business.

13.08 - ARBITRATION AWARD: The arbitration panel shall render its decision within sixty (60) days after termination of the proceeding, which decision shall be in writing, stating the reasons therefor. The decision of the majority of the panel shall be final and binding on the parties to the proceeding.

13.09 - COST OF ARBITRATION: Unless otherwise allocated by the panel, each party shall bear the expense of its own arbitrator and its own witnesses and shall jointly and equally bear with the other parties the expense of the umpire and the arbitration.

13.10 - LIMIT OF JURISDICTION: The arbitration panel does not have the jurisdiction to authorize any punitive damage awards between the parties.

ARTICLE XIV: AGREEMENT, AMENDMENTS AND MERGER

14.01 - AGREEMENT: This Agreement states the agreement originally made between the Company and the Reinsurer effective January 1, 2001 as evidenced by the Reinsurance Binder dated December 29, 2000. This Agreement replaces that Reinsurance Binder as the statement of the terms and conditions which the Company and the Reinsurer have agreed shall govern the obligations originally undertaken in the Reinsurance Binder.

14.02 - AMENDMENTS: This Agreement may be amended only by mutual consent of the parties expressed in a written addendum executed by the parties with the same formalities as this Agreement, and such addendum shall be deemed to be an integral part of this Agreement and binding on the parties hereto.

14.03 - MERGER CLAUSE: The parties hereto acknowledge that they have read this Agreement, understand it, and agree to be bound by its terms and

conditions. Further, the parties hereto agree that this Agreement is the complete and exclusive statement of the Agreement between the parties, superseding all proposals or prior agreements, oral or written, and all other communications between the parties relating to the subject matter hereof.

ARTICLE XV: MISCELLANEOUS

15.01 - ACCESS TO RECORDS: The Reinsurer shall have the right to examine, at any reasonable time, all papers, books, accounts, documents and other records of the Company relating to the Subject Business. Upon request, the Company shall supply the Reinsurer, at the Reinsurer's expense, with copies of the whole or any part of such papers, books, accounts, documents and other records relating to the Subject Business. The Reinsurer's right of inspection under this Section 15.01 shall continue to exist after termination of this Agreement as long as one of the parties hereto has a claim against the other arising from this Agreement.

15.02 - ALTERNATE CALCULATIONS:

(a) If any calculation described in this Agreement produces a result which is substantially different from that contemplated by the parties to this Agreement, an alternate calculation which preserves the same principles as exemplified herein shall be prepared by the parties and mutually agreed upon. Any dispute with respect to such alternate calculation shall be resolved by Arbitration as provided in ARTICLE XIII: ARBITRATION.

(b) If any pattern of actual transactions which has taken place is a pattern for which this Agreement does not specify a particular set of calculations, an alternate set of calculations which preserves the same principles as exemplified herein shall be prepared by the parties and mutually agreed upon. Any dispute with respect to such alternate set of calculations shall be resolved by Arbitration as provided in ARTICLE XIII: ARBITRATION.

15.03 - COUNTERPARTS: This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

15.04 - CURRENCY: All payments hereunder shall be made in United States dollars. All monetary amounts herein are in United States dollars. All reports and accounts hereunder shall be rendered in United States dollars. For the purpose of this Agreement where the Company receives premiums or pays losses in currencies other than United States dollars, such premiums and losses shall be converted

into United States dollars at the actual rate of exchange at which such premiums and losses are entered in the Company's books.

15.05 - DISCLOSURES AND APPROVALS: The Company represents and warrants, with respect to this Agreement and the transactions hereunder and with respect to any insurance or reinsurance written or assumed by the Company which is covered by this Agreement and all transactions thereunder, that all disclosures and approvals which are necessary or appropriate under any law or regulation have been made or obtained, or will be made or obtained in a timely manner.

15.06 - ENTIRE AGREEMENT: The terms expressed herein constitute the entire agreement between the parties with respect to the Subject Business. There are no understandings between the parties with respect to the Subject Business other than as expressed in this Agreement.

15.07 - ERRORS AND OMISSIONS: Inadvertent errors and omissions of any nature made by either party shall neither increase nor reduce the liability of either party from what that liability would have been had no such error or omission taken place. Upon discovery, the party committing an error or omission shall correct such error or supply such omission retroactively to the time such error or omission occurred, and advise the other party thereof as soon as possible.

15.08 - PARTIES TO THIS AGREEMENT: This Agreement is a reinsurance agreement solely between the Company and the Reinsurer, and performance of the obligations of each party under this Agreement will be rendered solely to the other party. In no instance will any party other than the Company and the Reinsurer have any rights under this Agreement, and the Company will be and shall remain the only party hereunder that is liable to any contract holder or beneficiary of any Subject Business contract.

This Agreement shall be binding upon all successors, assignees and transferees of the parties to this Agreement, provided, however, that neither this Agreement nor any rights or obligations under this Agreement may be assigned or transferred by either party without the prior written consent of the other party.

15.09 - RELIANCE ON INFORMATION SUPPLIED BY THE COMPANY: The Company acknowledges that, at the Reinsurer's request, it has provided the Reinsurer, prior to execution of this Agreement by the parties, with the information described in Schedule D attached hereto and incorporated herein (hereinafter, the "Company Information"),. The Company represents that any assumptions the Company made in preparing the Company Information were based upon informed judgment and are consistent with sound actuarial principles. The Company represents that all factual information contained in the Company Information was, as of the date provided, complete and accurate in all material respects to the best of the Company's knowledge and belief. The Reinsurer has relied on Company Information and the foregoing representations in entering into this Agreement.

15.10 - RIGHT OF OFFSET: Both the Company and the Reinsurer shall have, and may exercise at any time, the right to offset any balance or balances due the other.

Such offset may include balances due under this Agreement and any other agreements heretofore or hereafter entered into between the Company and the Reinsurer, regardless of whether such balances are in respect of premiums, or losses or otherwise, and regardless of the capacity of any party, whether as reinsurer or reinsured or otherwise, under the various agreements involved.

15.11 - TAXES: The Company shall be liable for all taxes, except income and profit taxes of the Reinsurer, on amounts paid to the Reinsurer under the terms of this Agreement, and shall indemnify and hold the Reinsurer harmless for any taxes which the Reinsurer may become obligated to pay on the Company's behalf.

ARTICLE XVI: SECURITY

16.01 - SECURITY: Upon the Company's written request, the Reinsurer shall provide security to the Company for its obligations to the Company by providing access to funds held in Trust or Letters of Credit for the benefit of the Company, in accordance with the provisions set forth in this Article, or by providing any other form of security that would permit the Company to take credit for the reinsurance ceded hereunder.

16.02 - LETTER OF CREDIT:

(a) Upon the written request of the Company, the Reinsurer agrees that it will be the applicant for and provide the Company with a Letter or Letters of Credit, in a form acceptable to the Company and in conformity with the applicable regulations of the State of Iowa as respects credit for reinsurance, in an amount no less than the Reinsurer's remaining liability to the Company, as determined by the Company, to secure the obligations of the Reinsurer to the Company under this Agreement. The cost of such Letter(s) of Credit, if any, shall be borne by the Company.

(b) The Reinsurer and the Company agree that the Letter(s) of Credit provided by the Reinsurer pursuant to the provisions of this Agreement may be drawn upon at any time, notwithstanding any other provisions in this Agreement, and shall be utilized by the Company or any successor by operation of law of the Company including, without limitation, any liquidator, rehabilitator, receiver, or conservator of the Company only for one or more of the following purposes:

(i) to reimburse the Company for the Reinsurer's share of premiums returned to the owners of policies reinsured under this Agreement, on account of cancellations of such policies;

(ii) to reimburse the Company for the Reinsurer's share of surrenders and benefits or losses paid by the Company pursuant to the provisions of the policies reinsured under this Agreement;

(iii) to fund an account with the Company in an amount at least equal to the deduction, for reinsurance ceded, from the Company's liabilities for reinsurance ceded under this Agreement. Such amount shall include, but not be limited to, amounts for policy reserves, reserves for claims and losses incurred (including losses incurred but not reported), reserves for loss adjustment expenses and reserves for unearned premiums; and

(iv) to pay any other amounts the Company claims are due under this Agreement.

All of the foregoing shall be applied without diminution because of insolvency on the part of the Company or the Reinsurer.

(c) Should amounts be held pursuant to (b)(iii) above, then the Company shall pay interest at the Prime Rate on such funds as may be held from time to time.

(d) Should any amounts drawn down on the Letters of Credit be in excess of the actual amounts required for (b)(i), (b)(ii), or (b)(iii) above, or should any amounts subsequently be determined not to be due under (b)(iv) above, then such excess amounts and amounts not due shall be returned to the Reinsurer forthwith and the Company shall pay interest at the Prime Rate on such funds from the date they were drawn down to the date they are returned.

(e) Any interest calculated pursuant to the provisions of paragraphs (c) and (d) above shall be offset against any other obligations of the Reinsurer.

16.03 - TRUST FUNDS:

(a) Upon the written request of the Company, the Reinsurer may at its option provide funds in Trust for the benefit of the Company as an alternative or supplement to Letter(s) of Credit. Any such Trust Funds shall be held in accordance with the applicable regulations of the State of Iowa as respects credit for reinsurance. The cost of such Trust Funds, if any, shall be borne by the Company.

(b) The assets deposited in the trust account shall be valued, according to their current fair market value, and shall consist only of cash (United States legal tender), certificates of deposit (issued by a United States bank and payable in United States legal tender), and investments of the types specified in the applicable regulations of the State of Iowa as respects credit for reinsurance, provided that such investments are issued by an institution that is not the parent, subsidiary, or affiliate of either the Reinsurer or the Company.

(c) Prior to depositing assets into the Trust account, the Reinsurer shall execute assignments, endorsements in blank, or transfer legal title to the trustee of all shares, obligations or any other assets requiring

assignments, in order that the Company, or the trustee upon the direction of the Company, may whenever necessary negotiate any such assets without consent or signature from the Reinsurer or any other entity.

(d) All settlements of account between the Company and the Reinsurer shall be made in cash or its equivalent.

(e) The Reinsurer and the Company agree that the assets in the Trust account, established by the Reinsurer pursuant to the provisions of this Agreement, may be withdrawn by the Company at any time, notwithstanding any other provisions in this Agreement, and shall be utilized and applied by the Company or any successor by operation of law of the Company including, without limitation, any liquidator, rehabilitator, receiver or conservator of the Company only for one or more of the following purposes:

(i) to reimburse the Company for the Reinsurer's share of premiums returned to the owners of policies reinsured under this Agreement, on account of cancellations of such policies;

(ii) to reimburse the Company for the Reinsurer's share of surrenders and benefits or losses paid by the Company pursuant to the provisions of the policies reinsured under this Agreement;

(iii) to fund an account with the Company in an amount at least equal to the deduction, for reinsurance ceded, from the Company's liabilities for reinsurance ceded under this Agreement. Such amount shall include, but not be limited to, amounts for policy reserves, reserves for claims and losses incurred (including losses incurred but not reported), reserves for loss adjustment expenses and reserves for unearned premiums; and

(iv) to pay any other amounts the Company claims are due under this Agreement.

All of the foregoing shall be applied without diminution because of insolvency on the part of the Company or the Reinsurer.

(f) The Company shall give the Reinsurer the right to seek approval from the Company to withdraw from the aforementioned Trust account all or any part of the assets contained therein and transfer such assets to the Reinsurer, provided:

(i) the Reinsurer shall at the time of such withdrawal, replace the withdrawn assets with other qualified assets having a market value equal to the market value of the assets withdrawn so as to maintain at all times the deposit in the required amount, or

(ii) after such withdrawal and transfer, the market value of the Trust account is no less than one-hundred-two percent (102%) of the required amount.

(g) Should amounts be held pursuant to (e)(iii) above, then the Company shall pay interest at the Prime Rate on such funds as may be held from time to time.

(h) Should any amounts withdrawn from the Trust account be in excess of the actual amounts required for (e)(i), (e)(ii), or (e)(iii) above, or should any amounts subsequently be determined not to be due under (e)(iv) above, then such excess amounts and amounts not due shall be returned to the Reinsurer forthwith and the Company shall pay interest at the Prime Rate on such funds from the date they were withdrawn to the date they are returned.

(i) Any interest calculated pursuant to the provisions of paragraphs (g) and (h) above shall be offset against any other obligations of the Reinsurer.

16.04 - OTHER FORMS OF SECURITY: The Reinsurer may, at its option, as an alternative or supplement to Letter(s) of Credit and Trust Funds, provide security in any other form that would permit the Company to take credit for the reinsurance ceded hereunder. Any such other form of security shall be in accordance with Iowa Insurance Department regulations. The cost of such other form(s) of security shall be borne by the Company.

16.05 - PRIME RATES: Prime Rates shall be determined for each business day in New York City, and for non-business days shall equal the Prime Rate as determined for the most recent preceding business day. The PRIME RATES as published in The Wall Street Journal (Eastern Edition) shall be the primary source for the Prime Rates. If The Wall Street Journal does not publish such a rate for a business day, the Prime Rate shall be the maximum of the rates publicly announced by major banks in New York City as their "Prime Rates" applicable to such day.

ARTICLE XVII: SERVICE OF SUIT

17.01 - SUBMISSION TO JURISDICTION: It is agreed that in the event of the failure of the Reinsurer to pay any amount claimed to be due under this Agreement, the Reinsurer, at the request of the Company, will submit to the jurisdiction of any Court of competent jurisdiction within the United States of America and will comply with all requirements necessary to give such Court jurisdiction; and all matters arising hereunder shall be determined in accordance with the law and practice of such Court.

17.02 - SERVICE OF PROCESS: It is further agreed that service of process in any suit instituted against the Reinsurer arising out of this Agreement, may be made upon Morgan, Lewis & Bockius LLP, 101 Park Avenue, New York, New York

10178-0060, U.S.A., Attention: F. Sedgwick Browne, and that in such suit the Reinsurer will abide by the final decision of such Court or of any Appellate Court in the event of an appeal.

17.03 - APPEARANCE: Morgan, Lewis & Bockius LLP are authorized and directed to accept service of process on behalf of the Reinsurer in any such suit and/or upon the request of the Company to give a written undertaking to the Company that they will enter a general appearance upon the Reinsurer's behalf in the event such a suit shall be instituted.

17.04 - INSURANCE OFFICIAL AS ATTORNEY FOR SERVICE OF PROCESS: Further, pursuant to any statute of any State, Territory or District of the United States of America which makes provision therefor, the Reinsurer hereby designates the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as their true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Agreement, and hereby designates Morgan, Lewis & Bockius LLP as the party to whom the said officer is authorized to mail such process or a true copy thereof.

ARTICLE XVIII: REINSURANCE INTERMEDIARY

18.01 - REINSURANCE INTERMEDIARY: Swiss Re Atrium Corporation, 55 East 52nd Street, New York, New York 10055, U.S.A., is hereby recognized as the Reinsurance Intermediary negotiating this Agreement.

18.02 - COMMUNICATIONS: All communications, including but not limited to notices, reports, and statements, relating to this Agreement, shall be transmitted to the Company and the Reinsurer through the Reinsurance Intermediary.

18.03 - PAYMENTS: All payments, including but not limited to premiums, expense allowances, and losses, relating to this Agreement shall be made directly between the Company and the Reinsurer, and not through any intermediary.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives,

In West Des Moines, Iowa, this ------------------ day of --------------- , 2001

AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY

By: ----------------------------- By: ----------------------------

Name: ----------------------------- Name: --------------------------

Title: ----------------------------- Title: -------------------------

And in New York, New York, this ------------- day of ----------------- , 2001

ATLANTIC INTERNATIONAL REINSURANCE COMPANY LTD.

By: -------------------------- By: -----------------------------

Name: -------------------------- Name: ---------------------------

Title: -------------------------- Title: ---------------------------

EXHIBIT 1 - SAMPLE REPORTING FORMAT

QUARTERLY REPORT OF ACTIVITY AND SETTLEMENTS
FROM: AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY
TO: ATLANTIC INTERNATIONAL REINSURANCE COMPANY LTD.

ACCOUNTING PERIOD:
REPORT DATE:

SECTION A: COINSURANCE
1. Section A Reinsurance Premium (Section 4.01(a))
   a. First- year Premiums
   b. Single Premiums
   c. Renewal Premiums
      Total Section A Reinsurance Premium

2. a. Section A Subject Losses (Section 3.03(a))
   b. Section A Covered Losses (Section 3.04(a))

3. Section A Expense Allowances (Section 4.02(a))
   a. First Year Expense Allow = 100% * (First year + Single Prems)
   b. Renewal Exp Allow = $.25 per Subject Business contract
      Total Section A Expense Allowances

4. Section A Cash Settlement = 2b + 3 -1

5. Risk and Expense Charge (Section 5.04)

6. Increase in Coinsurance Reserves

7. Experience Account Gain = - 4 - 5 - 6 (Section 5.02)

8. Experience Account Balance = Prior EAB + 7 (Section 5.01)

SECTION B: YEARLY RENEWABLE TERM
1. Section B Reinsurance Prem (Section 4.01(b))
   a. Age related portion calculated using Schedule B
   b. Policy fee of $18.75 per contract in force at beginning of period
   c. 50% of Surrender gains for period
      Total Section B Reinsurance Premium

2. a. Section B Subject Losses (Section 3.03(b))
   b. Section B Covered Losses (Section 3.04(b))

	ALLOWANCE	PREMIUMS	CALCULATED ALLOWANCE
3. Section B Expense Allowances (Section 4.02(b))	---------	--------	---------
a. 2.25% of Single & first year prem on contracts w/s.c.< = 15%			
b. 3% of single & first year premium on contracts w/s.c. > 15%			
c. 1% of single premium on SPDA 6-5 contracts			
d. Absolute value of any negative Cash Settlement Adjustment per Section 7.01			
Total Section B Expense Allowances = a + b + c - d			

4. Section B Cash Settlement = 2b + 3 - 1

LOSS CARRYOVER (Section 7.02)
1. Cash Balance at last Settlement Date
2. Interest on Cash Balance from last Settlement Date to current SD
3. Total Settlement for Accounting Period

4. TARGET CASH BALANCE AT END OF ACCOUNTING PERIOD (SCHED. C)
5. Loss Carryover = max (0, 1 + 2 + 3 - 4)

EXPERIENCE REFUND OR SECTION B EXPENSE ALLOWANCE ADJUSTMENT (Section 7.01)
1. Target Cash Balance at end of Accounting Period (Schedule C)
2. Tentative Settlement for Accounting Period
3. Cash Balance at last Settlement Date
4. Interest on Cash Balance from last Settlement Date to current SD
5. Loss Carryover for prior Accounting Period
6. Risk and Expense Charge
7. Adjustment = 1 - 2 - 3 - 4 - 5 - 6. If negative, reduce Sect. B
   Expense Allowances; if positive, pay to AE as Experience Refund

TOTAL SETTLEMENT (Section 9.06)
1. Tentative Settlement: Section A, (7) + Section B, (4)
2. Experience Refund
3. Cost of Security
4. Total Settlement 1 + 2 - 3. If positive, pay to AE; if negative, pay to Reinsurer

CASH BALANCE (Section 6.01)
1. Cash Balance at prior Settlement Date
2. Total Settlement from above
3. Interest on Cash Balance from last Settlement Date to current SD
Cash Balance = 1 + 2 + 3

INTEREST ON CASH BALANCE FROM LAST SETTLEMENT DATE TO CURRENT SD
1. Cash Balance at prior Settlement Date
2. Cash Balance Rate for period (Section 6.03)
3. Interest on Cash Balance = 1 * 2

SUPPLEMENTAL INFORMATION - ------------------------	NUMBER OF CONTRACTS	ACCOUNT VALUES IN FORCE	SURRENDER VALUES IN FORCE	GROSS STATUTORY RESERVES
Beginning of Period				
+ Additions				
- - Terminations				
End of Period				

Cash Balance Rate
90 Day LIBOR
Number of Days Cash Balance > 0 during Accounting Period
Prior Accounting Period Date

SAP Entries
Premiums Ceded (sum of Coins. & YRT)
Other income (allowances & adjustments, pos. or neg.)

Death Benefits Ceded
Surrender Benefits Ceded
Increase in Reserves Ceded

Effect on Statutory Income:
Cumulative Effect on Stat. Income:

GAAP Entries - Income
Interest Paid on Deposits
Possibly entries for change in assets and change in liabilities

-Balance Sheet
Asset: Cash & Invested Assets
Liability: Deposits

SCHEDULE A-
SUBJECT BUSINESS CONTRACT (TYPES)

FPDA 1
FPDA 1 (3%)
FPDA 2
FPDA 3
FPDA 5
FPDA 6
Super7
SPDA 1
SPDA 2
SPDA 6 with a 5-year interest guarantee only ("SPDA 6-5")

Index 1
Index 3
Infinity (Index 4)
Ultimate (Index 5)
New Horizons (Index 6)
Optimum (Index 8)
The Dow (Index 10)

SCHEDULE
B - YRT
BASE
RATES BY
AGE
(NEAREST
BIRTHDAY)
- ------

------ -

- ------

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AGE YRT
RATE AGE
YRT RATE
AGE YRT
RATE - -

--- ----

------ -

- ------

----- --

- ------

----- 0
0.02994
35
0.00777
69
0.09795
1
0.00231
36
0.00816
70
0.10629
2
0.00165
37
0.00852
71
0.11517
3
0.00120
38
0.00885
72
0.12477
4
0.00099
39
0.00909
73
0.13509
5
0.00087

40
0.00936
74
0.14628
6
0.00081
41
0.00972
75
0.15840
7
0.00075
42
0.01023
76
0.17166
8
0.00066
43
0.01092
77
0.18621
9
0.00057
44
0.01176
78
0.20127
10
0.00045
45
0.01272
79
0.21987
11
0.00048
46
0.01377
80
0.23964
12
0.00072
47
0.01488
81
0.26184
13
0.00126
48
0.01596
82
0.28698
14
0.00195
49
0.01713
83
0.34737
15
0.00273
50
0.01839
84
0.37389
16
0.00348
51
0.01983
85
0.40257
17
0.00405
52
0.02163
86
0.43437
18
0.00441
53
0.02382
87

0.46662
19
0.00456
54
0.02634
88
0.49854
20
0.00468
55
0.02916
89
0.53100
21
0.00489
56
0.03213
90
0.56544
22
0.00501
57
0.03534
91
0.60375
23
0.00507
58
0.03879
92
0.64626
24
0.00519
59
0.04254
93
0.69240
25
0.00522
60
0.04653
94
0.73923
26
0.00528
61
0.05709
95
0.78447
27
0.00540
62
0.05535
96
0.82314
28
0.00558
63
0.06018
97
0.85962
29
0.00585
64
0.06537
98
0.89391
30
0.00615
65
0.07083
99
0.92601
31
0.00642
66
0.07671
100
0.95595
32
0.00669

67
0.08313
101
0.98376
33
0.00702
68
0.09021
102
1.00000
34
0.00735

SCHEDULE C -
TARGET CASH BALANCES

END OF ACCOUNTING PERIOD	TARGET CASH BALANCE
1	$15,000,000
2	15,000,000
3	14,318,000
4	13,636,000
5	12,954,000
6	12,272,000
7	11,590,000
8	10,908,000
9	10,226,000
10	9,544,000
11	8,862,000
12	8,180,000
13	7,498,000
14	6,816,000
15	6,134,000
16	5,452,000
17	4,770,000
18	4,088,000
19	3,406,000
20	2,724,000
21	2,042,000
22	1,360,000
23	678,000
24 and thereafter	0

SCHEDULE D -
COMPANY INFORMATION

1. Facsimile Transmission (subject: Information Requested by Will) dated November 22, 2000 from Brent Mardis to Marvin Fineman

2. Memorandum (subject: Reinsurance Term Sheet) dated December 11, 2000 from Wendy Carlson and Brent Mardis to Wilfred Romero and Gary Winterbottom

3. Statement of Investment Objectives and Policy for American Equity Investment Life Insurance Company

4. Schedule of Future Production Estimates (2001 - 2003) and Production History (1997 - 2000) for American Equity Investment Life Insurance Company

5. Schedule of Partial Withdrawals, Surrenders and Deaths for the time period January 1, 2000 - September 30, 2000 for policies issued in 1997, 1998, 1999, and 2000

6. Schedule dated February 17, 2000 of Partial Withdrawals and Surrenders for the time period January 1, 1999 - December 31, 1999 for policies issued in 1997, 1998, 1999 and 2000

7. Schedule entitled "Asset Model - Mutliple Scenario Summary" (model name: IST06) dated August 14, 2000

8. Schedule entitled "Asset Model - Multiple Scenario Summary" (model name: FST06) dated August 14, 2000

9. Asset Model dated October 26, 2000 for calendar years 2000 through 2019, Level and Uniformly Increasing

10. TAS-Data Entry Facility screen shot entitled "Asset/Liability Model Crediting Data [aelap] - Excess Lapse"

11. Draft of Schedule D - Part 1 dated October 5, 2000 of the Annual Statement for the Year 2000 of American Equity Investment Life Insurance Company

12. Draft of the Actuarial Appraisal of American Equity Investment Life Insurance Company prepared by Milliman & Robertson, Inc., as of December 31, 1999 and dated April 10, 2000

13. Facsimile Transmission (subject: Cash Flow Testing Summaries) dated October 23, 2000 from Brent Mardis to Dimitry Stambler

14. Agent's Kit for American Equity Investment Life Insurance Company