

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

(Mark One)

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number : 001-31911

**American Equity Investment Life Holding Company**

(Exact name of registrant as specified in its charter)

Iowa

(State or other jurisdiction of incorporation or organization)

42-1447959

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

6000 Westown Parkway  
West Des Moines, Iowa 50266

(Address of principal executive offices, including zip code)

(515) 221-0002

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

As of November 4, 2021, there were 92,513,517 shares of the registrant's common stock, \$1 par value, outstanding.

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

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
	(Unaudited)	
<b>Assets</b>		
Investments:		
Fixed maturity securities, available for sale, at fair value (amortized cost of \$41,247,540 as of 2021 and \$42,304,736 as of 2020; allowance for credit losses of \$4,074 as of 2021 and \$64,771 as of 2020)	\$ 45,738,097	\$ 47,538,893
Mortgage loans on real estate (net of allowance for credit losses of \$21,558 as of 2021 and \$31,029 as of 2020)	4,288,742	4,165,489
Real estate related to consolidated variable interest entities	259,262	—
Derivative instruments	990,033	1,310,954
Other investments	1,021,226	590,078
Total investments	52,297,360	53,605,414
Cash and cash equivalents (2021 includes \$27,224 related to consolidated variable interest entities)	12,684,793	9,095,522
Coinurance deposits (net of allowance for credit losses of \$2,697 as of 2021 and \$1,888 as of 2020)	8,733,096	4,844,927
Accrued investment income (2021 includes \$309 related to consolidated variable interest entities)	413,370	398,082
Deferred policy acquisition costs	2,193,889	2,225,199
Deferred sales inducements	1,545,494	1,448,375
Income taxes recoverable	—	862
Other assets (2021 includes \$1,503 related to consolidated variable interest entities)	449,961	70,198
Total assets	<u>\$ 78,317,963</u>	<u>\$ 71,688,579</u>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Policy benefit reserves	\$ 64,810,504	\$ 62,352,882
Other policy funds and contract claims	229,199	240,904
Notes payable	496,101	495,668
Subordinated debentures	78,342	78,112
Deferred income taxes	426,176	504,000
Income taxes payable	39,478	—
Other liabilities (2021 includes \$12,191 related to consolidated variable interest entities)	5,862,955	1,668,025
Total liabilities	71,942,755	65,339,591
Stockholders' equity:		
Preferred stock, Series A; par value \$1 per share; \$400,000 aggregate liquidation preference; 20,000 shares authorized; issued and outstanding: 2021 - 16,000 shares; 2020 - 16,000 shares	16	16
Preferred stock, Series B; par value \$1 per share; \$300,000 aggregate liquidation preference; 12,000 shares authorized; issued and outstanding: 2021 - 12,000 shares; 2020 - 12,000 shares	12	12
Common stock; par value \$1 per share; 200,000,000 shares authorized; issued and outstanding: 2021 - 92,513,517 shares (excluding 9,936,715 treasury shares); 2020 - 95,720,622 shares (excluding 6,516,525 treasury shares)	92,513	95,721
Additional paid-in capital	1,609,039	1,681,127
Accumulated other comprehensive income	1,956,974	2,203,557
Retained earnings	2,716,654	2,368,555
Total stockholders' equity	6,375,208	6,348,988
Total liabilities and stockholders' equity	<u>\$ 78,317,963</u>	<u>\$ 71,688,579</u>

*See accompanying notes to unaudited consolidated financial statements.*

**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Dollars in thousands, except per share data)  
(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Revenues:</b>				
Premiums and other considerations	\$ 15,841	\$ 10,407	\$ 43,649	\$ 29,103
Annuity product charges	58,480	62,277	182,321	185,264
Net investment income	526,366	543,331	1,522,876	1,660,353
Change in fair value of derivatives	(70,701)	205,011	826,484	(409,201)
Net realized gains (losses) on investments	4,933	(22,321)	(2,764)	(68,545)
Other revenue	7,644	—	7,644	—
Loss on extinguishment of debt	—	—	—	(2,024)
<b>Total revenues</b>	<b>542,563</b>	<b>798,705</b>	<b>2,580,210</b>	<b>1,394,950</b>
<b>Benefits and expenses:</b>				
Insurance policy benefits and change in future policy benefits	18,756	13,273	51,008	36,676
Interest sensitive and index product benefits	817,014	576,147	2,106,590	1,217,358
Amortization of deferred sales inducements	(17,172)	416,983	93,283	415,396
Change in fair value of embedded derivatives	(536,404)	(1,732,497)	(545,104)	(1,855,623)
Interest expense on notes payable	6,535	6,388	19,322	19,161
Interest expense on subordinated debentures	1,342	1,323	3,994	4,232
Amortization of deferred policy acquisition costs	(1,588)	622,596	185,329	623,409
Other operating costs and expenses	56,518	42,738	177,433	128,315
<b>Total benefits and expenses</b>	<b>345,001</b>	<b>(53,049)</b>	<b>2,091,855</b>	<b>588,924</b>
<b>Income before income taxes</b>	<b>197,562</b>	<b>851,754</b>	<b>488,355</b>	<b>806,026</b>
Income tax expense	44,697	184,554	107,500	143,308
<b>Net income</b>	<b>152,865</b>	<b>667,200</b>	<b>380,855</b>	<b>662,718</b>
Less: Preferred stock dividends	10,918	5,950	32,756	18,511
<b>Net income available to common stockholders</b>	<b>\$ 141,947</b>	<b>\$ 661,250</b>	<b>\$ 348,099</b>	<b>\$ 644,207</b>
<b>Earnings per common share</b>	<b>\$ 1.53</b>	<b>\$ 7.20</b>	<b>\$ 3.69</b>	<b>\$ 7.02</b>
<b>Earnings per common share - assuming dilution</b>	<b>\$ 1.53</b>	<b>\$ 7.17</b>	<b>\$ 3.67</b>	<b>\$ 7.00</b>
<b>Weighted average common shares outstanding (in thousands):</b>				
Earnings per common share	92,478	91,861	94,326	91,770
Earnings per common share - assuming dilution	93,044	92,163	94,867	92,071

*See accompanying notes to unaudited consolidated financial statements.*

**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Dollars in thousands)  
(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net income	\$ 152,865	\$ 667,200	\$ 380,855	\$ 662,718
Other comprehensive income (loss):				
Change in net unrealized investment gains/losses (1)	(85,990)	420,547	(308,740)	695,593
Reclassification of unrealized investment gains/losses to net income (1)	1,260	2,392	(3,391)	9,810
Other comprehensive income (loss) before income tax	(84,730)	422,939	(312,131)	705,403
Income tax effect related to other comprehensive income (loss)	17,793	(88,816)	65,548	(148,135)
Other comprehensive income (loss)	(66,937)	334,123	(246,583)	557,268
Comprehensive income	<u>\$ 85,928</u>	<u>\$ 1,001,323</u>	<u>\$ 134,272</u>	<u>\$ 1,219,986</u>

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

*See accompanying notes to unaudited consolidated financial statements.*

**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(Dollars in thousands)  
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
<b>For the three months ended September 30, 2021</b>						
Balance at June 30, 2021	\$ 28	\$ 92,554	\$ 1,604,535	\$ 2,023,911	\$ 2,574,707	\$ 6,295,735
Net income for period	—	—	—	—	152,865	152,865
Other comprehensive loss	—	—	—	(66,937)	—	(66,937)
Share-based compensation	—	—	6,109	—	—	6,109
Issuance of common stock	—	—	(306)	—	—	(306)
Treasury stock acquired, common	—	(41)	(1,299)	—	—	(1,340)
Dividends on preferred stock	—	—	—	—	(10,918)	(10,918)
Balance at September 30, 2021	<u>\$ 28</u>	<u>\$ 92,513</u>	<u>\$ 1,609,039</u>	<u>\$ 1,956,974</u>	<u>\$ 2,716,654</u>	<u>\$ 6,375,208</u>
<b>For the three months ended September 30, 2020</b>						
Balance at June 30, 2020	\$ 28	\$ 91,595	\$ 1,508,171	\$ 1,577,469	\$ 1,742,426	\$ 4,919,689
Net income for period	—	—	—	—	667,200	667,200
Other comprehensive income	—	—	—	334,123	—	334,123
Share-based compensation	—	—	3,121	—	—	3,121
Issuance of common stock	—	337	(305)	—	—	32
Dividends on preferred stock	—	—	—	—	(5,950)	(5,950)
Balance at September 30, 2020	<u>\$ 28</u>	<u>\$ 91,932</u>	<u>\$ 1,510,987</u>	<u>\$ 1,911,592</u>	<u>\$ 2,403,676</u>	<u>\$ 5,918,215</u>
<b>For the nine months ended September 30, 2021</b>						
Balance at December 31, 2020	\$ 28	\$ 95,721	\$ 1,681,127	\$ 2,203,557	\$ 2,368,555	\$ 6,348,988
Net income for period	—	—	—	—	380,855	380,855
Other comprehensive loss	—	—	—	(246,583)	—	(246,583)
Share-based compensation	—	—	19,265	—	—	19,265
Issuance of common stock	—	459	4,395	—	—	4,854
Treasury stock acquired, common	—	(3,667)	(95,748)	—	—	(99,415)
Dividends on preferred stock	—	—	—	—	(32,756)	(32,756)
Balance at September 30, 2021	<u>\$ 28</u>	<u>\$ 92,513</u>	<u>\$ 1,609,039</u>	<u>\$ 1,956,974</u>	<u>\$ 2,716,654</u>	<u>\$ 6,375,208</u>
<b>For the nine months ended September 30, 2020</b>						
Balance at December 31, 2019	\$ 16	\$ 91,107	\$ 1,212,311	\$ 1,354,324	\$ 1,768,764	\$ 4,426,522
Net income for period	—	—	—	—	662,718	662,718
Other comprehensive income	—	—	—	557,268	—	557,268
Issuance of preferred stock	12	—	290,248	—	—	290,260
Share-based compensation	—	—	7,515	—	—	7,515
Issuance of common stock	—	825	913	—	—	1,738
Cumulative effect of change in accounting principle	—	—	—	—	(9,295)	(9,295)
Dividends on preferred stock	—	—	—	—	(18,511)	(18,511)
Balance at September 30, 2020	<u>\$ 28</u>	<u>\$ 91,932</u>	<u>\$ 1,510,987</u>	<u>\$ 1,911,592</u>	<u>\$ 2,403,676</u>	<u>\$ 5,918,215</u>

See accompanying notes to unaudited consolidated financial statements.

**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Dollars in thousands)  
(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>		
Net income	\$ 380,855	\$ 662,718
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest sensitive and index product benefits	2,106,590	1,217,358
Amortization of deferred sales inducements	93,283	415,396
Annuity product charges	(182,321)	(185,264)
Change in fair value of embedded derivatives	(545,104)	(1,855,623)
Change in traditional life and accident and health insurance reserves	19,487	6,507
Policy acquisition costs deferred	(243,711)	(178,251)
Amortization of deferred policy acquisition costs	185,329	623,409
Provision for depreciation and other amortization	3,985	3,857
Amortization of discounts and premiums on investments	18,438	37,110
Realized gains/losses on investments	2,764	68,545
Distributions from equity method investments	10,697	190
Change in fair value of derivatives	(826,484)	409,201
Deferred income taxes	(12,276)	171,265
Loss on extinguishment of debt	—	2,024
Share-based compensation	19,265	7,515
Change in accrued investment income	(15,288)	20,179
Change in income taxes recoverable/payable	40,340	(35,202)
Change in other assets	(2,003)	2,307
Change in other policy funds and contract claims	(15,971)	(18,951)
Change in collateral held for derivatives	(170,371)	(506,735)
Change in collateral held for securities lending	—	(494,368)
Change in other liabilities	(141,230)	(22,281)
Other	(88,983)	4,325
Net cash provided by operating activities	<u>637,291</u>	<u>355,231</u>
<b>Investing activities</b>		
Sales, maturities, or repayments of investments:		
Fixed maturity securities, available for sale	3,295,774	3,344,860
Mortgage loans on real estate	500,140	230,042
Derivative instruments	1,741,357	633,948
Other investments	12,008	3,238
Acquisitions of investments:		
Fixed maturity securities, available for sale	(2,283,419)	(2,279,427)
Mortgage loans on real estate	(621,002)	(723,154)
Real estate acquired	(259,262)	—
Derivative instruments	(547,006)	(557,709)
Other investments	(422,070)	(10,616)
Purchases of property, furniture and equipment	(15,060)	(12,440)
Net cash provided by investing activities	<u>1,401,460</u>	<u>628,742</u>

**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

**(Dollars in thousands)  
(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Financing activities</b>		
Receipts credited to annuity policyholder account balances	\$ 4,879,283	\$ 1,811,843
Coinsurance deposits	683,829	304,169
Return of annuity policyholder account balances	(3,861,391)	(2,922,187)
Repayment of subordinated debentures	—	(81,450)
Acquisition of treasury stock	(99,415)	—
Proceeds from issuance of preferred stock, net	—	290,260
Proceeds from issuance of common stock, net	4,854	1,738
Change in checks in excess of cash balance	(23,884)	(6,595)
Preferred stock dividends	(32,756)	(18,511)
Net cash provided by (used in) financing activities	<u>1,550,520</u>	<u>(620,733)</u>
Increase in cash and cash equivalents	3,589,271	363,240
Cash and cash equivalents at beginning of period	<u>9,095,522</u>	<u>2,293,392</u>
Cash and cash equivalents at end of period	<u><u>\$ 12,684,793</u></u>	<u><u>\$ 2,656,632</u></u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during period for:		
Interest expense	\$ 15,000	\$ 17,677
Income taxes	80,169	4,810
Non-cash operating activity:		
Deferral of sales inducements	71,683	68,468

*See accompanying notes to unaudited consolidated financial statements.*



**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2021**  
**(Unaudited)**

**1. Significant Accounting Policies****Consolidation and Basis of Presentation**

The accompanying consolidated financial statements of American Equity Investment Life Holding Company ("we", "us", "our" or the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. The consolidated financial statements include a variable interest entity ("VIE") in which we are the primary beneficiary. All of the adjustments in the consolidated financial statements are normal recurring items which are necessary to present fairly our financial position and results of operations on a basis consistent with the prior audited consolidated financial statements. Operating results for the three and nine month periods ended September 30, 2021 are not necessarily indicative of the results that may be expected for any other period, including for the year ended December 31, 2021. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements requires management estimates and assumptions using subjective and complex judgments that frequently require assumptions about matters that are inherently uncertain. Our actual results could differ from these estimates. For further information related to a description of areas of judgment and estimates and other information necessary to understand our financial position and results of operations, refer to the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2020.

**Real Estate Investments**

Beginning in the second quarter of 2021, we held residential real estate investments through consolidation of an investment company VIE. Residential real estate investments are reported at fair value and the change in fair value on these investments is reported in net income as a component of net investment income. Fair values of residential real estate are initially based on the cost to purchase the properties and subsequently based on a discounted cash flow methodology. See Note 3 – Fair Values of Financial Instruments for more information on the determination of fair value. The residential real estate investments are leased to renters through operating lease arrangements. Rental income is recognized on a straight-line basis over the term of the respective leases.

**Variable Interest Entities**

We have relationships with various special purpose entities and other legal entities that must be evaluated to determine if the entities meet the criteria of a VIE. This assessment is performed by reviewing contractual, ownership and other rights and requires use of judgment. First, we determine if we hold a variable interest in an entity by assessing if we have the right to receive expected losses and expected residual returns of the entity. If we hold a variable interest, then the entity is assessed to determine if it is a VIE. An entity is a VIE if the equity at risk is not sufficient to support its activities, if the equity holders lack a controlling financial interest or if the entity is structured with non-substantive voting rights. In addition to the previous criteria, if the entity is a limited partnership or similar entity, it is a VIE if the limited partners do not have the power to direct the entity's most significant activities through substantive kick-out rights or participating rights. A VIE is evaluated to determine the primary beneficiary. The primary beneficiary of a VIE is the enterprise with (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. When we are the primary beneficiary, we are required to consolidate the entity in our financial statements. We reassess our involvement with VIEs on a quarterly basis. For further information about VIEs, refer to Note 6 – Variable Interest Entities.

**Adopted Accounting Pronouncements**

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

In June 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") that significantly changed the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model that requires these assets be presented at the net amount expected to be collected. In addition, credit losses on available for sale debt securities are recorded through an allowance account subsequent to the adoption of this ASU. We adopted this ASU on January 1, 2020. The adoption of this ASU resulted in an increase in our mortgage loan allowance for credit losses of \$8.6 million and the recognition of an allowance for credit losses on our reinsurance recoverable/coinsurance deposits balances of \$3.2 million on the date of adoption. Retained earnings was decreased by \$9.3 million, which reflects the net of tax impact of the increase in the mortgage loan allowance for credit losses and the recognition of an allowance for credit losses on our reinsurance recoverable/coinsurance deposits balances on the date of adoption.

## **New Accounting Pronouncements**

In August 2018, the FASB issued an ASU that revises certain aspects of the measurement models and disclosure requirements for long duration insurance and investment contracts. The FASB's objective in issuing this ASU is to improve, simplify, and enhance the accounting for long-duration contracts. The revisions include updating cash flow assumptions in the calculation of the liability for traditional life products, introducing the term 'market risk benefit' ("MRB") and requiring all contract features meeting the definition of an MRB to be measured at fair value, simplifying the method used to amortize deferred policy acquisition costs and deferred sales inducements to a constant basis over the expected term of the related contracts rather than based on actual and estimated gross profits and enhancing disclosure requirements. While this ASU is effective for us on January 1, 2023, the transition date (the remeasurement date) is January 1, 2021. Early adoption of this ASU is permitted. We are in the process of evaluating the impact this guidance will have on our consolidated financial statements.

## 2. Revision of Immaterial Misstatement in Prior Year Financial Statements

Management identified an error in the Company's historical financial statements as further described below. In accordance with the guidance set forth in SEC Staff Accounting Bulletin No. 99, Materiality, and SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, management concluded that the error was not material to the consolidated financial statements as presented in the Company's quarterly and annual financial statements that had been previously filed in the Company's Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. As a result, amendment of such reports is not required. The Company revised the previously issued annual consolidated financial statements for 2020 in this Form 10-Q to correct this error.

The corrected immaterial error was in the calculation of the impact of unrealized gains and losses on lifetime income benefit reserves as of December 31, 2020 determined in the first quarter of 2021. This immaterial error resulted in an increase in the lifetime income benefit reserves which are included in policy benefit reserves in the consolidated balance sheet, an increase in the deferred policy acquisition costs and deferred sales inducements and a decrease in deferred income taxes with an offsetting change in accumulated other comprehensive income which is a component of total stockholders' equity. The immaterial error had no impact on the consolidated statement of operations or consolidated statement of cash flows.

The effect of the revisions on the Company's previously issued financial statements are provided in the tables below. Amounts throughout the consolidated financial statements and notes thereto have been adjusted to incorporate the revised amounts, where applicable. The following tables reconcile selected lines from the Company's year-end December 31, 2020 consolidated balance sheet and the three and nine months ended September 30, 2020 consolidated statement of comprehensive income from the previously reported amounts to the revised amounts.

### Revised Consolidated Balance Sheet

	Year Ended December 31, 2020		
	As Reported	Adjustment	As Revised
	(Dollars in thousands)		
<b>Assets</b>			
Deferred policy acquisition costs	\$ 2,045,812	\$ 179,387	\$ 2,225,199
Deferred sales inducements	1,328,857	119,518	1,448,375
<b>Total assets</b>	<b>71,389,674</b>	<b>298,905</b>	<b>71,688,579</b>
<b>Liabilities and Stockholders' Equity</b>			
<b>Liabilities:</b>			
Policy benefit reserves	61,768,246	584,636	62,352,882
Deferred income taxes	564,003	(60,003)	504,000
<b>Total liabilities</b>	<b>64,814,958</b>	<b>524,633</b>	<b>65,339,591</b>
<b>Stockholders' equity:</b>			
Accumulated other comprehensive income	2,429,285	(225,728)	2,203,557
<b>Total stockholders' equity</b>	<b>6,574,716</b>	<b>(225,728)</b>	<b>6,348,988</b>
<b>Total liabilities and stockholders' equity</b>	<b>71,389,674</b>	<b>298,905</b>	<b>71,688,579</b>

### Revised Consolidated Statement of Comprehensive Income

	Three Months Ended September 30, 2020		
	As Reported	Adjustment	As Revised
	(Dollars in thousands)		
<b>Other comprehensive income:</b>			
Change in net unrealized investment gains/losses (1)	\$ 494,154	\$ (73,607)	\$ 420,547
<b>Other comprehensive income before income tax</b>	<b>496,546</b>	<b>(73,607)</b>	<b>422,939</b>
Income tax effect related to other comprehensive income	(104,274)	15,458	(88,816)
<b>Other comprehensive income</b>	<b>392,272</b>	<b>(58,149)</b>	<b>334,123</b>
<b>Comprehensive income</b>	<b>1,059,472</b>	<b>(58,149)</b>	<b>1,001,323</b>

  

	Nine Months Ended September 30, 2020		
	As Reported	Adjustment	As Revised
	(Dollars in thousands)		
<b>Other comprehensive income:</b>			
Change in net unrealized investment gains/losses (1)	\$ 767,646	\$ (72,053)	\$ 695,593
<b>Other comprehensive income before income tax</b>	<b>777,456</b>	<b>(72,053)</b>	<b>705,403</b>
Income tax effect related to other comprehensive income	(163,266)	15,131	(148,135)
<b>Other comprehensive income</b>	<b>614,190</b>	<b>(56,922)</b>	<b>557,268</b>
<b>Comprehensive income</b>	<b>1,276,908</b>	<b>(56,922)</b>	<b>1,219,986</b>

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

### 3. Fair Values of Financial Instruments

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

	September 30, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in thousands)				
<b>Assets</b>				
Fixed maturity securities, available for sale	\$ 45,738,097	\$ 45,738,097	\$ 47,538,893	\$ 47,538,893
Mortgage loans on real estate	4,288,742	4,457,776	4,165,489	4,327,885
Real estate investments	259,262	259,262	—	—
Derivative instruments	990,033	990,033	1,310,954	1,310,954
Other investments	1,021,226	1,021,226	590,078	590,078
Cash and cash equivalents	12,684,793	12,684,793	9,095,522	9,095,522
Coinsurance deposits	8,733,096	7,861,372	4,844,927	4,411,051
<b>Liabilities</b>				
Policy benefit reserves	64,429,370	55,935,990	61,406,599	52,928,174
Single premium immediate annuity (SPIA) benefit reserves	228,508	235,456	240,226	247,679
Notes payable	496,101	574,210	495,668	567,345
Subordinated debentures	78,342	89,292	78,112	87,951

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

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

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

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

Our assets and liabilities which are measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020 are presented below based on the fair value hierarchy levels:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
<b>September 30, 2021</b>				
<b>Assets</b>				
Fixed maturity securities, available for sale:				
United States Government full faith and credit	\$ 38,486	\$ 33,110	\$ 5,376	\$ —
United States Government sponsored agencies	1,043,351	—	1,043,351	—
United States municipalities, states and territories	3,596,256	—	3,596,256	—
Foreign government obligations	195,341	—	195,341	—
Corporate securities	31,021,887	5	31,021,882	—
Residential mortgage backed securities	1,053,983	—	1,053,983	—
Commercial mortgage backed securities	4,138,078	—	4,138,078	—
Other asset backed securities	4,650,715	—	4,650,715	—
Other investments: equity securities	362,149	350,000	5,800	6,349
Real estate investments	259,262	—	—	259,262
Derivative instruments	990,033	—	990,033	—
Cash and cash equivalents	12,684,793	12,684,793	—	—
	<u>\$ 60,034,334</u>	<u>\$ 13,067,908</u>	<u>\$ 46,700,815</u>	<u>\$ 265,611</u>
<b>Liabilities</b>				
Fixed index annuities - embedded derivatives	<u>\$ 7,547,840</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,547,840</u>
<b>December 31, 2020</b>				
<b>Assets</b>				
Fixed maturity securities, available for sale:				
United States Government full faith and credit	\$ 39,771	\$ 33,940	\$ 5,831	\$ —
United States Government sponsored agencies	1,039,551	—	1,039,551	—
United States municipalities, states and territories	3,776,131	—	3,776,131	—
Foreign government obligations	202,706	—	202,706	—
Corporate securities	31,156,827	8	31,156,819	—
Residential mortgage backed securities	1,512,831	—	1,512,831	—
Commercial mortgage backed securities	4,261,227	—	4,261,227	—
Other asset backed securities	5,549,849	—	5,549,849	—
Derivative instruments	1,310,954	—	1,310,954	—
Cash and cash equivalents	9,095,522	9,095,522	—	—
	<u>\$ 57,945,369</u>	<u>\$ 9,129,470</u>	<u>\$ 48,815,899</u>	<u>\$ —</u>
<b>Liabilities</b>				
Fixed index annuities - embedded derivatives	<u>\$ 7,938,281</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,938,281</u>

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

#### ***Fixed maturity securities***

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

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

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

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

We validate external valuations at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, comparison of the prices to a secondary pricing source, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list. Additionally, as needed we utilize discounted cash flow models or perform independent valuations on a case-by-case basis using inputs and assumptions similar to those used by the pricing services. Although we do identify differences from time to time as a result of these validation procedures, we did not make any significant adjustments as of September 30, 2021 and December 31, 2020.

#### ***Mortgage loans on real estate***

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

#### ***Real estate investments***

The fair values of residential real estate are initially calculated based on the cost to purchase the properties and subsequently calculated based on a discounted cash flow methodology. Under the discounted cash flow method, net operating income is forecasted assuming a 10-year hold period commencing as of the valuation date. An additional year is forecast in order to determine the residual sale price at the end of the hold period, using a residual (terminal) capitalization rate. The significant inputs into the fair value calculation under the discounted cash flow method include the capitalization rate, discount rate and vacancy rate. These inputs are unobservable market data; therefore, fair value of residential real estate falls into Level 3 in the fair value hierarchy. As of September 30, 2021, the fair value of residential real estate was calculated using purchase price as all properties were purchased recently and therefore the purchase price was determined to be an appropriate proxy of fair value.

#### ***Derivative instruments***

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

#### ***Other investments***

Equity securities are the only financial instruments included in other investments that are measured at fair value on a recurring basis. The fair value for these securities are determined using the same methods discussed above for fixed maturity securities. Financial instruments included in other investments that are not measured at fair value on a recurring basis are policy loans, equity method investments and company owned life insurance ("COLI"). We have not attempted to determine the fair values associated with our policy loans, as we believe any differences between carrying values and the fair values are immaterial to our consolidated financial position. The fair values of our equity method investments are obtained from third parties and are determined using a variety of valuation techniques, including discounted cash flow analysis, valuation multiples analysis for comparable investments and appraisal values. As the risk spread and liquidity discount are unobservable market inputs, the fair value of our equity method investments falls within Level 3 of the fair value hierarchy. The fair value of equity method investments was \$277.4 million and \$179.7 million as of September 30, 2021 and December 31, 2020, respectively. The fair value of our COLI approximates the cash surrender value of the policies and falls within Level 2 of the fair value hierarchy. The fair value of COLI was \$380.9 million and \$373.6 million as of September 30, 2021 and December 31, 2020, respectively.

#### ***Cash and cash equivalents***

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

### ***Policy benefit reserves, coinsurance deposits and SPIA benefit reserves***

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

### ***Notes payable***

The fair values of our senior unsecured notes are based upon quoted market prices and are categorized as Level 2 within the fair value hierarchy. Notes payable are not remeasured at fair value on a recurring basis.

### ***Subordinated debentures***

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

### ***Fixed index annuities - embedded derivatives***

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

Within this determination we have the following significant unobservable inputs: 1) the expected cost of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary and 2) our best estimates for future policy decrements, primarily lapse, partial withdrawal and mortality rates. As of both September 30, 2021 and December 31, 2020, we utilized an estimate of 2.10% for the expected cost of annual call options, which is based on estimated long-term account value growth and a historical review of our actual option costs.

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

Contract Duration (Years)	Average Lapse Rates		Average Partial Withdrawal Rates	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
1 - 5	2.98%	1.22%	2.20%	2.63%
6 - 10	2.74%	1.50%	2.26%	3.14%
11 - 15	4.66%	5.66%	2.18%	3.58%
16 - 20	8.72%	7.08%	1.35%	3.79%
20+	4.92%	7.36%	—%	3.63%

Lapse rates are generally expected to increase as surrender charge percentages decrease. Lapse expectations reflect a significant increase in the year in which the surrender charge period on a contract ends.

The following table provides a reconciliation of the beginning and ending balances for our Level 3 assets and liabilities, which are measured at fair value on a recurring basis using significant unobservable inputs for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
<b>Other investments: equity securities</b>				
Beginning balance	\$ —	\$ —	\$ —	\$ —
Transfers in	6,349	—	6,349	—
Ending balance	<u>\$ 6,349</u>	<u>\$ —</u>	<u>\$ 6,349</u>	<u>\$ —</u>
<b>Real estate investments</b>				
Beginning balance	\$ 258,237	\$ —	\$ —	\$ —
Purchases and sales, net	1,025	—	259,262	—
Change in fair value	—	—	—	—
Ending balance	<u>\$ 259,262</u>	<u>\$ —</u>	<u>\$ 259,262</u>	<u>\$ —</u>
<b>Fixed index annuities - embedded derivatives</b>				
Beginning balance	\$ 8,384,764	\$ 9,418,485	\$ 7,938,281	\$ 9,624,395
Premiums less benefits	365,474	78,244	1,062,994	243,421
Change in fair value, net	(681,509)	(2,021,513)	(932,546)	(2,392,600)
Reserve release related to in-force ceded reinsurance	(520,889)	—	(520,889)	—
Ending balance	<u>\$ 7,547,840</u>	<u>\$ 7,475,216</u>	<u>\$ 7,547,840</u>	<u>\$ 7,475,216</u>

The fair value of our fixed index annuities embedded derivatives is net of coinsurance ceded of \$1,162.4 million and \$655.3 million as of September 30, 2021 and December 31, 2020, respectively. Change in fair value, net for each period in our embedded derivatives is included in change in fair value of embedded derivatives in the unaudited consolidated statements of operations.

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

The most sensitive assumption in determining policy liabilities for fixed index annuities is the rates used to discount the excess projected contract values. As indicated above, the discount rate reflects our nonperformance risk. If the discount rates used to discount the excess projected contract values at September 30, 2021, were to increase by 100 basis points, the fair value of the embedded derivatives would decrease by \$562.4 million recorded through operations as a decrease in the change in fair value of embedded derivatives and there would be a corresponding decrease of \$239.8 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as an increase in amortization of deferred policy acquisition costs and deferred sales inducements. A decrease by 100 basis points in the discount rates used to discount the excess projected contract values would increase the fair value of the embedded derivatives by \$619.5 million recorded through operations as an increase in the change in fair value of embedded derivatives and there would be a corresponding increase of \$274.2 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as a decrease in amortization of deferred policy acquisition costs and deferred sales inducements.



#### 4. Investments

At September 30, 2021 and December 31, 2020, the amortized cost and fair value of fixed maturity securities were as follows:

	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses (2)	Allowance for Credit Losses	Fair Value
(Dollars in thousands)					
<b>September 30, 2021</b>					
Fixed maturity securities, available for sale:					
United States Government full faith and credit	\$ 37,112	\$ 1,398	\$ (24)	\$ —	\$ 38,486
United States Government sponsored agencies	1,008,980	34,371	—	—	1,043,351
United States municipalities, states and territories	3,142,857	457,359	(1,188)	(2,772)	3,596,256
Foreign government obligations	177,101	18,240	—	—	195,341
Corporate securities	27,342,408	3,695,003	(14,518)	(1,006)	31,021,887
Residential mortgage backed securities	980,838	75,599	(2,158)	(296)	1,053,983
Commercial mortgage backed securities	3,963,733	197,750	(23,405)	—	4,138,078
Other asset backed securities	4,594,511	102,882	(46,678)	—	4,650,715
	<u>\$ 41,247,540</u>	<u>\$ 4,582,602</u>	<u>\$ (87,971)</u>	<u>\$ (4,074)</u>	<u>\$ 45,738,097</u>
<b>December 31, 2020</b>					
Fixed maturity securities, available for sale:					
United States Government full faith and credit	\$ 37,471	\$ 2,300	\$ —	\$ —	\$ 39,771
United States Government sponsored agencies	995,465	44,132	(46)	—	1,039,551
United States municipalities, states and territories	3,236,767	543,252	(1,044)	(2,844)	3,776,131
Foreign government obligations	177,062	25,644	—	—	202,706
Corporate securities	26,745,196	4,507,716	(35,892)	(60,193)	31,156,827
Residential mortgage backed securities	1,399,956	117,135	(2,526)	(1,734)	1,512,831
Commercial mortgage backed securities	4,119,650	206,255	(64,678)	—	4,261,227
Other asset backed securities	5,593,169	103,320	(146,640)	—	5,549,849
	<u>\$ 42,304,736</u>	<u>\$ 5,549,754</u>	<u>\$ (250,826)</u>	<u>\$ (64,771)</u>	<u>\$ 47,538,893</u>

- (1) Amortized cost excludes accrued interest receivable of \$388.4 million and \$377.5 million as of September 30, 2021 and December 31, 2020, respectively.
- (2) Gross unrealized losses are net of allowance for credit losses.

The amortized cost and fair value of fixed maturity securities at September 30, 2021, by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our mortgage and other asset backed securities provide for periodic payments throughout their lives and are shown below as separate lines.

	Available for sale	
	Amortized Cost	Fair Value
(Dollars in thousands)		
Due in one year or less	\$ 1,688,694	\$ 1,705,847
Due after one year through five years	6,932,293	7,402,594
Due after five years through ten years	6,728,152	7,453,463
Due after ten years through twenty years	9,272,871	11,196,318
Due after twenty years	7,086,448	8,137,099
	<u>31,708,458</u>	<u>35,895,321</u>
Residential mortgage backed securities	980,838	1,053,983
Commercial mortgage backed securities	3,963,733	4,138,078
Other asset backed securities	4,594,511	4,650,715
	<u>\$ 41,247,540</u>	<u>\$ 45,738,097</u>

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

	September 30, 2021	December 31, 2020
	(Dollars in thousands)	
Net unrealized gains on available for sale fixed maturity securities	\$ 4,494,631	\$ 5,297,040
Adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements and policy benefit reserves	(2,045,973)	(2,536,251)
Deferred income tax valuation allowance reversal	22,534	22,534
Deferred income tax expense	(514,218)	(579,766)
Net unrealized gains reported as accumulated other comprehensive income	<u>\$ 1,956,974</u>	<u>\$ 2,203,557</u>

The National Association of Insurance Commissioners ("NAIC") assigns designations to fixed maturity securities. These designations range from Class 1 (highest quality) to Class 6 (lowest quality). In general, securities are assigned a designation based upon the ratings they are given by the Nationally Recognized Statistical Rating Organizations ("NRSRO's"). The NAIC designations are utilized by insurers in preparing their annual statutory statements. NAIC Class 1 and 2 designations are considered "investment grade" while NAIC Class 3 through 6 designations are considered "non-investment grade." Based on the NAIC designations, we had 97% of our fixed maturity portfolio rated investment grade at both September 30, 2021 and December 31, 2020, respectively.

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

NAIC Designation	September 30, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
1	\$ 22,823,664	\$ 25,508,437	\$ 23,330,149	\$ 26,564,542
2	17,170,505	18,928,256	17,312,485	19,377,013
3	1,066,599	1,107,418	1,292,124	1,299,455
4	145,455	157,196	282,049	256,651
5	17,226	15,860	29,396	16,288
6	24,091	20,930	58,533	24,944
	<u>\$ 41,247,540</u>	<u>\$ 45,738,097</u>	<u>\$ 42,304,736</u>	<u>\$ 47,538,893</u>

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 567 and 843 securities, respectively) have been in a continuous unrealized loss position, at September 30, 2021 and December 31, 2020:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses (1)	Fair Value	Unrealized Losses (1)	Fair Value	Unrealized Losses (1)
(Dollars in thousands)						
<b>September 30, 2021</b>						
Fixed maturity securities, available for sale:						
United States Government full faith and credit	\$ 1,019	\$ (24)	\$ —	\$ —	\$ 1,019	\$ (24)
United States municipalities, states and territories	40,043	(582)	23,961	(3,378)	64,004	(3,960)
Corporate securities	419,976	(6,997)	164,005	(8,527)	583,981	(15,524)
Residential mortgage backed securities	83,291	(455)	40,947	(1,999)	124,238	(2,454)
Commercial mortgage backed securities	56,781	(354)	349,533	(23,051)	406,314	(23,405)
Other asset backed securities	364,936	(1,842)	2,056,088	(44,836)	2,421,024	(46,678)
	<u>\$ 966,046</u>	<u>\$ (10,254)</u>	<u>\$ 2,634,534</u>	<u>\$ (81,791)</u>	<u>\$ 3,600,580</u>	<u>\$ (92,045)</u>
<b>December 31, 2020</b>						
Fixed maturity securities, available for sale:						
United States Government sponsored agencies	\$ 250,475	\$ (46)	\$ —	\$ —	\$ 250,475	\$ (46)
United States municipalities, states and territories	31,802	(3,887)	868	(1)	32,670	(3,888)
Corporate securities	606,277	(45,150)	154,633	(50,935)	760,910	(96,085)
Residential mortgage backed securities	156,016	(2,384)	13,599	(1,876)	169,615	(4,260)
Commercial mortgage backed securities	934,593	(54,834)	35,153	(9,844)	969,746	(64,678)
Other asset backed securities	1,013,781	(16,607)	2,567,723	(130,033)	3,581,504	(146,640)
	<u>\$ 2,992,944</u>	<u>\$ (122,908)</u>	<u>\$ 2,771,976</u>	<u>\$ (192,689)</u>	<u>\$ 5,764,920</u>	<u>\$ (315,597)</u>

- (1) Unrealized losses have not been reduced to reflect the allowance for credit losses of \$4.1 million and \$64.8 million as of September 30, 2021 and December 31, 2020, respectively.

The unrealized losses at September 30, 2021 are principally related to the timing of the purchases of certain securities, which carry less yield than those available at September 30, 2021, and the continued impact the COVID-19 pandemic had on credit markets. Approximately 81% and 75% of the unrealized losses on fixed maturity securities shown in the above table for September 30, 2021 and December 31, 2020, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations.

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

Changes in net unrealized gains/losses on investments for the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
Fixed maturity securities available for sale carried at fair value	\$ (327,223)	\$ 800,492	\$ (802,409)	\$ 1,285,600
Adjustment for effect on other balance sheet accounts:				
Deferred policy acquisition costs, deferred sales inducements and policy benefit reserves	242,493	(377,553)	490,278	(580,197)
Deferred income tax asset/liability	17,793	(88,816)	65,548	(148,135)
	<u>260,286</u>	<u>(466,369)</u>	<u>555,826</u>	<u>(728,332)</u>
Change in net unrealized gains/losses on investments carried at fair value	<u>\$ (66,937)</u>	<u>\$ 334,123</u>	<u>\$ (246,583)</u>	<u>\$ 557,268</u>

Proceeds from sales of available for sale fixed maturity securities for the nine months ended September 30, 2021 and 2020 were \$446.4 million and \$1.1 billion, respectively. Scheduled principal repayments, calls and tenders for available for sale fixed maturity securities for the nine months ended September 30, 2021 and 2020 were \$2.8 billion and \$2.3 billion, respectively.

Net realized gains (losses) on investments for the three and nine months ended September 30, 2021 and 2020, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
Available for sale fixed maturity securities:				
Gross realized gains	\$ 1,001	\$ 2,843	\$ 7,430	\$ 18,296
Gross realized losses	—	(51)	(16,147)	(1,521)
Net credit loss (provision) release	84	(25,923)	(93)	(82,335)
	1,085	(23,131)	(8,810)	(65,560)
Mortgage loans on real estate:				
Decrease (increase) in allowance for credit losses	5,023	810	9,471	(3,697)
Recovery of specific allowance	—	—	—	712
Loss on sale of mortgage loans	(1,175)	—	(3,425)	—
	3,848	810	6,046	(2,985)
	\$ 4,933	\$ (22,321)	\$ (2,764)	\$ (68,545)

Realized losses on available for sale fixed maturity securities in 2021 and 2020 were realized primarily due to strategies to reposition the fixed maturity security portfolio that result in improved net investment income, credit risk or duration profiles as they pertain to our asset liability management. In addition, certain realized gains and losses on available for sale fixed maturity securities in 2020 were realized as a result of efforts to de-risk the portfolio. Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date.

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

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

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

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

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

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

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

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

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

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

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

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

Three Months Ended September 30, 2021						
	United States Municipalities, States and Territories	Corporate Securities	Commercial Mortgage Backed Securities	Residential Mortgage Backed Securities	Other Asset Backed Securities	Total
(Dollars in thousands)						
Beginning balance	\$ 3,347	\$ 10,723	\$ —	\$ 120	\$ —	\$ 14,190
Additions for credit losses not previously recorded	—	—	—	296	—	296
Change in allowance on securities with previous allowance	(575)	315	—	—	—	(260)
Reduction for securities sold during the period	—	—	—	—	—	—
Write-offs charged against the allowance	—	(10,032)	—	—	—	(10,032)
Recoveries of amounts previously written off	—	—	—	(120)	—	(120)
Ending balance	<u>\$ 2,772</u>	<u>\$ 1,006</u>	<u>\$ —</u>	<u>\$ 296</u>	<u>\$ —</u>	<u>\$ 4,074</u>
Three Months Ended September 30, 2020						
	United States Municipalities, States and Territories	Corporate Securities	Commercial Mortgage Backed Securities	Residential Mortgage Backed Securities	Other Asset Backed Securities	Total
(Dollars in thousands)						
Beginning balance	\$ —	\$ 46,749	\$ 2,660	\$ 777	\$ —	\$ 50,186
Additions for credit losses not previously recorded	—	6,296	19,183	444	—	25,923
Reduction for securities with credit losses due to intent to sell	—	—	(14,490)	—	—	(14,490)
Ending balance	<u>\$ —</u>	<u>\$ 53,045</u>	<u>\$ 7,353</u>	<u>\$ 1,221</u>	<u>\$ —</u>	<u>\$ 61,619</u>
Nine Months Ended September 30, 2021						
	United States Municipalities, States and Territories	Corporate Securities	Commercial Mortgage Backed Securities	Residential Mortgage Backed Securities	Other Asset Backed Securities	Total
(Dollars in thousands)						
Beginning balance	\$ 2,844	\$ 60,193	\$ —	\$ 1,734	\$ —	\$ 64,771
Additions for credit losses not previously recorded	—	705	—	407	—	1,112
Change in allowance on securities with previous allowance	(72)	1,240	—	(631)	—	537
Reduction for securities sold during the period	—	(50,758)	—	—	—	(50,758)
Write-offs charged against the allowance	—	(10,032)	—	—	—	(10,032)
Recoveries of amounts previously written off	—	(342)	—	(1,214)	—	(1,556)
Ending balance	<u>\$ 2,772</u>	<u>\$ 1,006</u>	<u>\$ —</u>	<u>\$ 296</u>	<u>\$ —</u>	<u>\$ 4,074</u>
Nine Months Ended September 30, 2020						
	United States Municipalities, States and Territories	Corporate Securities	Commercial Mortgage Backed Securities	Residential Mortgage Backed Securities	Other Asset Backed Securities	Total
(Dollars in thousands)						
Beginning balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Additions for credit losses not previously recorded	—	53,045	27,521	1,221	548	82,335
Reduction for securities with credit losses due to intent to sell	—	—	(20,168)	—	(548)	(20,716)
Ending balance	<u>\$ —</u>	<u>\$ 53,045</u>	<u>\$ 7,353</u>	<u>\$ 1,221</u>	<u>\$ —</u>	<u>\$ 61,619</u>

## 5. Mortgage Loans on Real Estate

Our financing receivables consist of the following three portfolio segments: commercial mortgage loans, agricultural mortgage loans and residential mortgage loans. Our mortgage loan portfolios are summarized in the following table. There were commitments outstanding of \$44.0 million at September 30, 2021.

	September 30, 2021	December 31, 2020
	(Dollars in thousands)	
<b>Commercial mortgage loans:</b>		
Principal outstanding	\$ 3,325,371	\$ 3,580,154
Deferred fees and costs, net	(1,387)	(1,266)
Amortized cost	3,323,984	3,578,888
Valuation allowance	(17,690)	(25,529)
Commercial mortgage loans, carrying value	3,306,294	3,553,359
<b>Agricultural mortgage loans:</b>		
Principal outstanding	354,743	245,807
Deferred fees and costs, net	(1,002)	(634)
Amortized cost	353,741	245,173
Valuation allowance	(628)	(2,130)
Agricultural mortgage loans, carrying value	353,113	243,043
<b>Residential mortgage loans:</b>		
Principal outstanding	610,635	366,320
Deferred fees and costs, net	1,479	925
Unamortized discounts and premiums, net	20,461	5,212
Amortized cost	632,575	372,457
Valuation allowance	(3,240)	(3,370)
Residential mortgage loans, carrying value	629,335	369,087
Mortgage loans, carrying value	\$ 4,288,742	\$ 4,165,489

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

	September 30, 2021		December 31, 2020	
	Principal	Percent	Principal	Percent
	(Dollars in thousands)			
<b>Geographic distribution</b>				
East	\$ 672,882	20.2 %	\$ 699,741	19.5 %
Middle Atlantic	292,152	8.8 %	281,971	7.9 %
Mountain	349,747	10.5 %	391,025	10.9 %
New England	24,325	0.7 %	24,774	0.7 %
Pacific	634,074	19.1 %	659,743	18.4 %
South Atlantic	746,152	22.5 %	832,739	23.3 %
West North Central	243,396	7.3 %	266,050	7.4 %
West South Central	362,643	10.9 %	424,111	11.9 %
	\$ 3,325,371	100.0 %	\$ 3,580,154	100.0 %
<b>Property type distribution</b>				
Office	\$ 290,702	8.7 %	\$ 297,065	8.3 %
Medical Office	15,752	0.5 %	20,584	0.6 %
Retail	1,062,830	32.0 %	1,187,484	33.2 %
Industrial/Warehouse	902,412	27.1 %	929,325	25.9 %
Apartment	885,655	26.6 %	939,084	26.2 %
Mixed use/Other	168,020	5.1 %	206,612	5.8 %
	\$ 3,325,371	100.0 %	\$ 3,580,154	100.0 %

Our agricultural mortgage loan portfolio consists of loans with an outstanding principal balance of \$354.7 million and \$245.8 million as of September 30, 2021 and December 31, 2020, respectively. These loans are collateralized by agricultural land and are diversified as to location within the United States. Our residential mortgage loan portfolio consists of loans with an outstanding principal balance of \$610.6 million and \$366.3 million as of September 30, 2021 and December 31, 2020, respectively. These loans are collateralized by the related properties and diversified as to location within the United States.

Mortgage loans on real estate are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Interest income is included in Net investment income on our consolidated statements of operations. Accrued interest receivable, which was \$21.1 million and \$16.6 million as of September 30, 2021 and December 31, 2020, respectively, is included in Accrued investment income on our consolidated balance sheets.

#### *Loan Valuation Allowance*

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

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



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

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

  

	Three Months Ended September 30, 2020			
	Commercial	Agricultural	Residential	Total
	(Dollars in thousands)			
Beginning allowance balance	\$ (18,119)	\$ (320)	\$ (1,650)	\$ (20,089)
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Change in provision for credit losses	990	20	(200)	810
Ending allowance balance	<u>\$ (17,129)</u>	<u>\$ (300)</u>	<u>\$ (1,850)</u>	<u>\$ (19,279)</u>

  

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

  

	Nine Months Ended September 30, 2020			
	Commercial	Agricultural	Residential	Total
	(Dollars in thousands)			
Beginning allowance balance	\$ (17,579)	\$ (200)	\$ —	\$ (17,779)
Charge-offs	1,485	—	—	1,485
Recoveries	712	—	—	712
Change in provision for credit losses	(1,747)	(100)	(1,850)	(3,697)
Ending allowance balance	<u>\$ (17,129)</u>	<u>\$ (300)</u>	<u>\$ (1,850)</u>	<u>\$ (19,279)</u>

Charge-offs include allowances that have been established on loans that were satisfied either by taking ownership of the collateral or by some other means such as discounted pay-off or loan sale. When ownership of the property is taken it is recorded at the lower of the loan's carrying value or the property's fair value (based on appraised values) less estimated costs to sell. The real estate owned is recorded as a component of Other investments and the loan is recorded as fully paid, with any allowance for credit loss that has been established charged off. Fair value of the real estate is determined by third party appraisal. Recoveries are situations where we have received a payment from the borrower in an amount greater than the carrying value of the loan (principal outstanding less specific allowance).

## Credit Quality Indicators

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

LTV and DSC ratios for our commercial mortgage loans are originally calculated at the time of loan origination and are updated annually for each loan using information such as rent rolls, assessment of lease maturity dates and property operating statements, which are reviewed in the context of current leasing and in place rents compared to market leasing and market rents. A DSC ratio of less than 1.0 indicates that a property's operations do not generate sufficient income to cover debt payments. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. All of our commercial mortgage loans that have a debt service coverage ratio of less than 1.0 are performing under the original contractual loan terms at September 30, 2021 and December 31, 2020.

The amortized cost of our commercial mortgage loan portfolio by LTV and DSC ratios based on the most recent information collected was as follows at September 30, 2021 and December 31, 2020 (by year of origination):

	2021		2020		2019		2018		2017		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
<b>As of September 30, 2021:</b>														
<b>Debt Service Coverage Ratio:</b>	(Dollars in thousands)													
Greater than or equal to 1.5	\$ 115,988	67 %	\$ 457,059	61 %	\$ 529,625	62 %	\$ 342,347	59 %	\$ 252,749	53 %	\$ 804,604	45 %	\$ 2,502,372	55 %
Greater than or equal to 1.2 and less than 1.5	12,993	68 %	59,575	66 %	129,356	68 %	89,987	67 %	136,948	68 %	155,276	56 %	584,135	64 %
Greater than or equal to 1.0 and less than 1.2	—	— %	21,245	79 %	70,141	74 %	12,014	70 %	6,425	61 %	51,806	59 %	161,631	69 %
Less than 1.0	—	— %	—	— %	22,537	65 %	18,045	62 %	13,489	68 %	21,775	58 %	75,846	63 %
<b>Total</b>	<b>\$ 128,981</b>	<b>67 %</b>	<b>\$ 537,879</b>	<b>63 %</b>	<b>\$ 751,659</b>	<b>64 %</b>	<b>\$ 462,393</b>	<b>61 %</b>	<b>\$ 409,611</b>	<b>59 %</b>	<b>\$ 1,033,461</b>	<b>48 %</b>	<b>\$ 3,323,984</b>	<b>58 %</b>

	2020		2019		2018		2017		2016		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
<b>As of December 31, 2020:</b>														
<b>Debt Service Coverage Ratio:</b>														
Greater than or equal to 1.5	\$ 364,574	63 %	\$ 442,370	66 %	\$ 399,193	62 %	\$ 316,738	57 %	\$ 359,321	54 %	\$ 715,706	47 %	\$ 2,597,902	57 %
Greater than or equal to 1.2 and less than 1.5	161,779	66 %	226,166	70 %	124,267	72 %	124,564	67 %	52,513	62 %	111,690	55 %	800,979	66 %
Greater than or equal to 1.0 and less than 1.2	17,638	82 %	22,917	67 %	2,769	71 %	7,597	66 %	—	— %	32,327	65 %	83,248	69 %
Less than 1.0	—	— %	64,131	58 %	1,441	89 %	10,156	80 %	—	— %	21,031	60 %	96,759	61 %
<b>Total</b>	<b>\$ 543,991</b>	<b>65 %</b>	<b>\$ 755,584</b>	<b>67 %</b>	<b>\$ 527,670</b>	<b>64 %</b>	<b>\$ 459,055</b>	<b>60 %</b>	<b>\$ 411,834</b>	<b>55 %</b>	<b>\$ 880,754</b>	<b>49 %</b>	<b>\$ 3,578,888</b>	<b>59 %</b>

LTV and DSC ratios for our agricultural mortgage loans are calculated at the time of loan origination and are evaluated annually for each loan using land value averages. A DSC ratio of less than 1.0 indicates that a property's operations do not generate sufficient income to cover debt payments. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. All of our agricultural mortgage loans that have a debt service coverage ratio of less than 1.0 are performing under the original contractual loan terms at September 30, 2021 and December 31, 2020.

The amortized cost of our agricultural mortgage loan portfolio by LTV and DSC ratios based on the most recent information collected was as follows at September 30, 2021 and December 31, 2020 (by year of origination):

	2021		2020		2019		2018		2017		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
As of September 30, 2021:	(Dollars in thousands)													
Debt Service Coverage Ratio:														
Greater than or equal to 1.5	\$ 38,445	49 %	\$ 83,859	57 %	\$ 11,749	49 %	\$ 25,000	11 %	\$ —	— %	\$ —	— %	\$ 159,053	47 %
Greater than or equal to 1.2 and less than 1.5	63,169	58 %	103,185	43 %	3,352	22 %	—	— %	—	— %	—	— %	169,706	48 %
Greater than or equal to 1.0 and less than 1.2	7,477	44 %	4,125	36 %	4,757	50 %	—	— %	—	— %	—	— %	16,359	44 %
Less than 1.0	—	— %	8,623	59 %	—	— %	—	— %	—	— %	—	— %	8,623	59 %
<b>Total</b>	<b>\$ 109,091</b>	<b>54 %</b>	<b>\$ 199,792</b>	<b>49 %</b>	<b>\$ 19,858</b>	<b>44 %</b>	<b>\$ 25,000</b>	<b>11 %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ 353,741</b>	<b>48 %</b>

	2020		2019		2018		2017		2016		Prior		Total	
	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV	Amortized Cost	Average LTV
As of December 31, 2020:														
Debt Service Coverage Ratio:														
Greater than or equal to 1.5	\$ 78,631	52 %	\$ 13,985	47 %	\$ 25,000	11 %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 117,616	43 %
Greater than or equal to 1.2 and less than 1.5	101,879	44 %	3,425	23 %	—	— %	—	— %	—	— %	—	— %	105,304	44 %
Greater than or equal to 1.0 and less than 1.2	4,213	37 %	6,573	43 %	—	— %	—	— %	—	— %	—	— %	10,786	41 %
Less than 1.0	11,467	48 %	—	— %	—	— %	—	— %	—	— %	—	— %	11,467	48 %
<b>Total</b>	<b>\$ 196,190</b>	<b>47 %</b>	<b>\$ 23,983</b>	<b>42 %</b>	<b>\$ 25,000</b>	<b>11 %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ 245,173</b>	<b>43 %</b>

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

	2021	2020	2019	2018	2017	Prior	Total
<b>As of September 30, 2021:</b>	<b>(Dollars in thousands)</b>						
<b>Commercial mortgage loans</b>							
Current	\$ 128,981	\$ 537,879	\$ 751,659	\$ 462,393	\$ 409,611	\$ 1,033,461	\$ 3,323,984
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
<b>Total commercial mortgage loans</b>	<b>\$ 128,981</b>	<b>\$ 537,879</b>	<b>\$ 751,659</b>	<b>\$ 462,393</b>	<b>\$ 409,611</b>	<b>\$ 1,033,461</b>	<b>\$ 3,323,984</b>
<b>Agricultural mortgage loans</b>							
Current	\$ 109,091	\$ 199,792	\$ 19,858	\$ 25,000	\$ —	\$ —	\$ 353,741
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
<b>Total agricultural mortgage loans</b>	<b>\$ 109,091</b>	<b>\$ 199,792</b>	<b>\$ 19,858</b>	<b>\$ 25,000</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 353,741</b>
<b>Residential mortgage loans</b>							
Current	\$ 232,026	\$ 316,539	\$ 16,520	\$ —	\$ —	\$ —	\$ 565,085
30 - 59 days past due	49,684	5,343	389	—	—	—	55,416
60 - 89 days past due	4,209	951	—	—	—	—	5,160
Over 90 days past due	—	6,004	910	—	—	—	6,914
<b>Total residential mortgage loans</b>	<b>\$ 285,919</b>	<b>\$ 328,837</b>	<b>\$ 17,819</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 632,575</b>
<b>As of December 31, 2020:</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Prior</b>	<b>Total</b>
	<b>(Dollars in thousands)</b>						
<b>Commercial mortgage loans</b>							
Current	\$ 543,991	\$ 755,584	\$ 527,670	\$ 459,055	\$ 411,834	\$ 880,754	\$ 3,578,888
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
<b>Total commercial mortgage loans</b>	<b>\$ 543,991</b>	<b>\$ 755,584</b>	<b>\$ 527,670</b>	<b>\$ 459,055</b>	<b>\$ 411,834</b>	<b>\$ 880,754</b>	<b>\$ 3,578,888</b>
<b>Agricultural mortgage loans</b>							
Current	\$ 196,190	\$ 23,983	\$ 25,000	\$ —	\$ —	\$ —	\$ 245,173
30 - 59 days past due	—	—	—	—	—	—	—
60 - 89 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
<b>Total agricultural mortgage loans</b>	<b>\$ 196,190</b>	<b>\$ 23,983</b>	<b>\$ 25,000</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 245,173</b>
<b>Residential mortgage loans</b>							
Current	\$ 321,779	\$ 24,951	\$ —	\$ —	\$ —	\$ —	\$ 346,730
30 - 59 days past due	25,150	299	—	—	—	—	25,449
60 - 89 days past due	111	—	—	—	—	—	111
Over 90 days past due	167	—	—	—	—	—	167
<b>Total residential mortgage loans</b>	<b>\$ 347,207</b>	<b>\$ 25,250</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 372,457</b>

Commercial, agricultural and residential mortgage loans are considered nonperforming when they become 90 days or more past due. When loans become nonperforming, we place them on non-accrual status and discontinue recognizing interest income. If payments are received on a nonperforming loan, interest income is recognized to the extent it would have been recognized if normal principal and interest would have been received timely. If payments are received to bring a nonperforming loan back to less than 90 days past due, we will resume accruing interest income on that loan. There were 13 loans in non-accrual status at September 30, 2021 and one loan in non-accrual status at December 31, 2020. During the three and nine months ended September 30, 2021 we recognized interest income of \$3 thousand and \$36 thousand on loans which were in non-accrual status at the respective period end. During the three and nine months ended September 30, 2020 we recognized no interest income on loans which were in non-accrual status at the respective period end.

#### *Troubled Debt Restructuring*

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

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

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

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

Mortgage loan workouts, refinances or restructures that are classified as TDRs are individually evaluated and measured for impairment. There were no mortgage loans that we determined to be a TDR at September 30, 2021 and December 31, 2020.

## **6. Variable Interest Entities**

We have relationships with various types of entities which may be VIEs. One VIE is consolidated in our financial results. See Note 1, Significant Accounting Policies for further details on our consolidation accounting policies.

#### *Consolidated Variable Interest Entities*

As of September 30, 2021, we were invested in one investment company real estate limited partnership which owns various limited liability companies that invest in residential real estate properties. This entity is a VIE as the legal entity's equity investors have insufficient equity at risk and lack of power to direct the activities that most significantly impact the economic performance. We determined we are the primary beneficiary as a result of our power to control the entity through our significant ownership. Due to the nature of these real estate investments, the investment balance will fluctuate based on changes in the fair value of the properties as well as when purchases and sales of properties are made.

The carrying amounts of our consolidated VIE assets, which can only be used to settle obligations of the consolidated VIE, were \$288.3 million as of September 30, 2021. The carrying amounts of our consolidated VIE liabilities for which creditors do not have recourse were \$12.2 million as of September 30, 2021.

#### *Unconsolidated Variable Interest Entities*

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

The carrying amount and maximum exposures to loss relating to VIEs in which we hold a significant variable interest but are not the primary beneficiary is \$227.0 million. The maximum exposure to loss for fixed maturity securities, available for sale is equal to their carrying amount.

## 7. Derivative Instruments

None of our derivatives qualify for hedge accounting, thus, any change in the fair value of the derivatives is recognized immediately in the consolidated statements of operations. The fair value of our derivative instruments, including derivative instruments embedded in fixed index annuity contracts, presented in the consolidated balance sheets are as follows:

	September 30, 2021	December 31, 2020
	(Dollars in thousands)	
Assets		
Derivative instruments		
Call options	\$ 988,835	\$ 1,310,954
Warrants	1,198	—
	<u>\$ 990,033</u>	<u>\$ 1,310,954</u>
Liabilities		
Policy benefit reserves - annuity products		
Fixed index annuities - embedded derivatives, net	\$ 7,547,840	\$ 7,938,281

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in thousands)			
Change in fair value of derivatives:				
Call options	\$ (71,688)	\$ 205,011	\$ 825,381	\$ (409,263)
Warrants	987	—	1,103	—
Interest rate caps	—	—	—	62
	<u>\$ (70,701)</u>	<u>\$ 205,011</u>	<u>\$ 826,484</u>	<u>\$ (409,201)</u>
Change in fair value of embedded derivatives:				
Fixed index annuities - embedded derivatives	\$ (681,509)	\$ (2,021,513)	\$ (932,546)	\$ (2,392,600)
Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting	145,105	289,016	387,442	536,977
	<u>\$ (536,404)</u>	<u>\$ (1,732,497)</u>	<u>\$ (545,104)</u>	<u>\$ (1,855,623)</u>

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

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

Our strategy attempts to mitigate any potential risk of loss due to the nonperformance of the counterparties to these call options through a regular monitoring process which evaluates the program's effectiveness. We do not purchase call options that would require payment or collateral to another institution and our call options do not contain counterparty credit-risk-related contingent features. We are exposed to risk of loss in the event of nonperformance by the counterparties and, accordingly, we purchase our option contracts from multiple counterparties and evaluate the creditworthiness of all counterparties prior to purchase of the contracts. All non-exchange traded options have been purchased from nationally recognized financial institutions with a Standard and Poor's credit rating of A- or higher at the time of purchase and the maximum credit exposure to any single counterparty is subject to concentration limits. We also have credit support agreements that allow us to request the counterparty to provide collateral to us when the fair value of our exposure to the counterparty exceeds specified amounts.

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

Counterparty	Credit Rating (S&P)	Credit Rating (Moody's)	September 30, 2021		December 31, 2020	
			Notional Amount	Fair Value	Notional Amount	Fair Value
			(Dollars in thousands)			
Bank of America	A+	Aa2	\$ 2,994,366	\$ 61,336	\$ 2,835,420	\$ 95,378
Barclays	A	A1	4,525,383	145,696	5,710,978	277,692
Canadian Imperial Bank of Commerce	A+	Aa2	5,342,067	188,902	6,593,815	279,053
Citibank, N.A.	A+	Aa3	3,296,027	72,818	3,118,979	96,757
Credit Suisse	A+	A1	4,581,898	102,878	4,422,798	78,823
J.P. Morgan	A+	Aa2	3,833,032	47,527	3,600,636	54,762
Morgan Stanley	A+	Aa3	1,744,800	33,258	2,856,466	62,969
Royal Bank of Canada	AA-	A2	2,640,076	58,383	1,289,699	32,753
Societe Generale	A	A1	2,638,886	60,749	1,494,904	34,394
Truist	A	A2	2,040,196	58,879	2,375,124	96,573
Wells Fargo	A+	Aa2	5,713,233	152,124	4,848,541	196,801
Exchange traded			283,983	6,285	214,819	4,999
			\$ 39,633,947	\$ 988,835	\$ 39,362,179	\$ 1,310,954

As of September 30, 2021 and December 31, 2020, we held \$1.1 billion and \$1.3 billion, respectively, of cash and cash equivalents and other investments from counterparties for derivative collateral, which is included in Other liabilities on our consolidated balance sheets. This derivative collateral limits the maximum amount of economic loss due to credit risk that we would incur if parties to the call options failed completely to perform according to the terms of the contracts to \$6.3 million and \$35.1 million at September 30, 2021 and December 31, 2020, respectively.

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

We entered into an interest rate swap and interest rate caps to manage interest rate risk associated with the floating rate component on certain of our subordinated debentures. See Note 10 in our Annual Report on Form 10-K for the year ended December 31, 2020 for more information on our subordinated debentures. As of September 30, 2021, all of our floating rate subordinated debentures have been redeemed and the interest rate swap and interest rate caps have been terminated. The terms of the interest rate swap provided that we paid a fixed rate of interest and received a floating rate of interest. The terms of the interest rate caps limited the three month LIBOR to 2.50%. The interest rate swap and caps were not effective hedges under accounting guidance for derivative instruments and hedging activities. Therefore, we recorded the interest rate swap and caps at fair value and any net cash payments received or paid were included in the change in fair value of derivatives in the unaudited consolidated statements of operations.

## 8. Reinsurance and Policy Provisions

### Brookfield

Effective July 1, 2021 American Equity Investment Life Insurance Company ("American Equity Life") entered into a reinsurance agreement with North End Re (Cayman) SPC ("North End Re") (North End Re reinsurance treaty), a wholly owned subsidiary of Brookfield Asset Management Reinsurance Partners Ltd. ("Brookfield Reinsurance") to reinsure approximately \$4,327.1 million of in-force fixed indexed annuity product liabilities as of the effective date of the reinsurance agreement, 70% on a modified coinsurance ("modco") basis and 30% on a coinsurance basis. The liabilities reinsured on a coinsurance basis will be secured by assets held in both a statutory and supplemental trust (collectively referred to as the "trusts"). The liabilities reinsured on a modco basis will be secured by a segregated modco account in which the assets are maintained by American Equity Life. American Equity Life transferred cash of \$2,645.5 million to the segregated modco account and \$1,133.8 million to the statutory trust at close of this reinsurance agreement on October 8, 2021. American Equity Life will receive an annual ceding commission equal to 49 basis points and the Company will receive an annual asset liability management fee equal to 30 basis points calculated based on the initial cash surrender value of liabilities ceded. Such fees are fixed and contractually guaranteed for six years with the additional and final seventh year payment being contingent on certain performance obligations for both parties. The initial net present value of the ceding commission related to the in-force business was \$114.1 million.

As part of the North End Re reinsurance treaty, American Equity Life is also ceding 75% of certain fixed index annuities issued after the effective date of the agreement, 70% on a modco basis and 30% on a coinsurance basis to North End Re. On sales subsequent to the effective date of the North End Re reinsurance treaty, American Equity Life will receive an annual ceding commission equal to 140 basis points and the Company will receive an annual asset liability management fee equal to 30 basis points calculated based on the initial cash surrender value of liabilities ceded. Such fees are fixed and contractually guaranteed for six years with the additional and final seventh year payment being contingent on certain performance obligations for both parties. The initial net present value of the ceding commission related to the third quarter of 2021 flow business was \$12.9 million.

In addition, American Equity Life will receive certain acquisition cost reimbursements and an on-going annual expense reimbursement on each policy subject to the reinsurance agreement for the entirety of the policy duration.

As a result of the North End Re reinsurance treaty, there is a deferred gain of \$292.9 million which is recorded in Other Liabilities as of September 30, 2021. This deferred gain represents the unamortized portion of the cost of reinsurance related to the in-force business and new business in the third quarter which will be amortized over the life of the underlying reinsured policies. The deferred gain consists primarily of the difference between liabilities ceded and assets transferred as part of the reinsurance agreement and the present value of the ceding commissions previously noted offset by a reduction in deferred policy acquisition costs associated with the the in-force business ceded.

American Equity Life remains liable to policyholders with respect to the policy liabilities ceded to North End Re should North End Re fail to meet the obligations it has reinsured.

The assets in the trusts and modco account are required to remain at a value that is sufficient to support the current balance of policy benefit liabilities of the ceded business on a statutory basis. The assets in the trusts and modco account are subject to investment management agreements between American Equity Life and North End Re.

As of September 30, 2021, coinsurance deposits (aggregate policy benefits reserves transferred to North End Re under these agreements) were \$4.5 billion. The balance due under these agreements to North End Re was \$4.2 billion which is recorded in Other Liabilities at September 30, 2021, which is comprised of a \$2.9 billion modco payable, \$1.1 billion payable to the statutory trust and \$0.2 billion of a reinsurance payable resulting from quarterly settlement of policyholder activity and call options.

Amounts ceded to North End Re under these agreements are as follows:

	Three and Nine Months Ended September 30,	
	2021	
	(Dollars in thousands)	
Consolidated Statements of Operations		
Annuity product charges	\$	6,857
Change in fair value of derivatives		(12,187)
	\$	(5,330)
Interest sensitive and index product benefits	\$	39,506
Change in fair value of embedded derivatives		(49,357)
	\$	(9,851)

Separate from the reinsurance transaction, Brookfield Asset Management (including its affiliates, "Brookfield"), has an aggregate approximate 9.5% interest in the Company's outstanding common stock as of September 30, 2021. Brookfield has an existing agreement to purchase additional shares of the Company's common stock for up to a total equity interest of 19.9% (and not less than a 15% equity interest), subject to required regulatory approvals and satisfaction of other customary closing conditions.

## 9. Notes Payable and Amounts Due Under Repurchase Agreements

Notes payable includes the following:

	September 30, 2021	December 31, 2020
	(Dollars in thousands)	
Senior notes due 2027		
Principal	\$ 500,000	\$ 500,000
Unamortized debt issue costs	(3,677)	(4,086)
Unamortized discount	(222)	(246)
	<u>\$ 496,101</u>	<u>\$ 495,668</u>

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



As part of our investment strategy, we enter into securities repurchase agreements (short-term collateralized borrowings). When we do borrow cash on these repurchase agreements, we pledge collateral in the form of debt securities with fair values approximately equal to the amount due and we use the cash to purchase debt securities ahead of the time we collect the cash from selling annuity policies to avoid a lag between the investment of funds and the obligation to credit interest to policyholders. We earn investment income on the securities purchased with these borrowings at a rate in excess of the cost of these borrowings. Such borrowings averaged \$19.0 million during the nine months ended September 30, 2020. We had no borrowings under repurchase agreements during the three and nine months ended September 30, 2021 and during the three months ended September 30, 2020. The maximum amount borrowed was \$186.4 million during the nine months ended September 30, 2020. The weighted average interest rate on amounts due under repurchase agreements was 1.73% for the nine months ended September 30, 2020.

## 10. Commitments and Contingencies

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

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

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

In addition to our commitments to fund mortgage loans, we have unfunded commitments at September 30, 2021 to limited partnerships of \$117.7 million and to fixed maturity securities of \$8.1 million.

## 11. Earnings Per Common Share and Stockholders' Equity

### Earnings Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands, except per share data)				
<b>Numerator:</b>				
Net income available to common stockholders - numerator for earnings per common share	\$ 141,947	\$ 661,250	\$ 348,099	\$ 644,207
<b>Denominator:</b>				
Weighted average common shares outstanding	92,478,154	91,861,167	94,325,984	91,769,932
Effect of dilutive securities:				
Stock options and deferred compensation agreements	237,076	55,926	224,519	85,493
Restricted stock and restricted stock units	328,430	246,179	316,897	215,310
Denominator for earnings per common share - assuming dilution	93,043,660	92,163,272	94,867,400	92,070,735
Earnings per common share	\$ 1.53	\$ 7.20	\$ 3.69	\$ 7.02
Earnings per common share - assuming dilution	\$ 1.53	\$ 7.17	\$ 3.67	\$ 7.00

During the three months ended September 30, 2021, there were 336,598 options to purchase shares of our common stock outstanding, with an exercise price of \$31.31 - \$32.58, excluded from the computation of diluted earnings per common share. During the nine months ended September 30, 2021, there were 226,598 options to purchase shares of our common stock outstanding, with an exercise price of \$31.63 - \$32.58, excluded from the computation of diluted earnings per common share. During the three months ended September 30, 2020, there were 522,671 options to purchase shares of our common stock outstanding, with an exercise price of \$24.71 - \$26.70, excluded from the computation of diluted earnings per common share. During the nine months ended September 30, 2020, there were 50,000 options to purchase shares of our common stock outstanding, with an exercise price of \$26.70, excluded from the computation of diluted earnings per share.

### *Stockholders' Equity*

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

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

Dividends on the Series A and Series B preferred stock are payable on a non-cumulative basis only when, as and if declared, quarterly in arrears on the first day of March, June, September and December of each year, commencing on March 1, 2020 for Series A and on December 1, 2020 for Series B. For the three and nine months ended September 30, 2021, we paid dividends totaling \$5.9 million and \$17.8 million on the Series A preferred stock and \$5.0 million and \$14.9 million on the Series B preferred stock, respectively. For the three and nine months ended September 30, 2020, we paid dividends totaling \$5.9 million and \$18.5 million on the Series A preferred stock, respectively. The Series A and Series B preferred stock rank senior to our common stock with respect to dividends, to the extent declared, and in liquidation, to the extent of the liquidation preference. The Series A and Series B preferred stock are not subject to any mandatory redemption, sinking fund, retirement fund, purchase fund or similar provisions.

### *Brookfield Asset Management Equity Investment*

On October 18, 2020, we announced an agreement with Brookfield Asset Management, Inc. and its affiliated entities (collectively, "Brookfield") under which Brookfield will acquire up to a 19.9% ownership interest of common stock in the Company. The equity investment by Brookfield will take place in two stages: an initial purchase of a 9.9% equity interest at \$37.00 per share which closed on November 30, 2020 with Brookfield purchasing 9,106,042 shares, and a second purchase of up to an incremental 10.0% equity interest, at the greater value of \$37.00 per share or adjusted book value per share (excluding AOCI and the net impact of fair value accounting for derivatives and embedded derivatives). The second equity investment is subject to finalization of a reinsurance transaction that closed on October 8, 2021, receipt of applicable regulatory approvals and other closing conditions. Brookfield also received one seat on the Company's Board of Directors following the initial equity investment.

### *Share Repurchase Program*

On October 18, 2020, the Company's Board of Directors approved a \$500 million share repurchase program. The purpose of the share repurchase program is to both offset dilution from the issuance of shares to Brookfield and to institute a regular cash return program for shareholders. We started the buyback program on October 30, 2020 and have repurchased 5.1 million shares of our common stock for \$149.4 million in the open market as of September 30, 2021.

On November 30, 2020 we entered into an accelerated share repurchase (ASR) agreement with Citibank, N.A. to repurchase an aggregate of \$115 million of our common stock. Under the ASR agreement, we received an initial share delivery of approximately 3.5 million shares. The final settlement of 0.5 million shares, which was based on the volume-weighted average price of our common stock during the term of the transaction, less a discount and subject to customary adjustments, was delivered on February 25, 2021. The average price paid for shares repurchased under the ASR was \$28.45 per common share. The ASR agreement was determined to be an equity contract.

As of September 30, 2021, we have repurchased approximately 9.1 million shares of our common stock at an average price of \$29.04 per common share.

### *Treasury Stock*

As of September 30, 2021, we held 9,936,715 shares of treasury stock with a carrying value of \$260.6 million. As of December 31, 2020, we held 6,516,525 shares of treasury stock with a carrying value of \$151.6 million.

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

Management's discussion and analysis reviews our unaudited consolidated financial position at September 30, 2021, and the unaudited consolidated results of operations for the three and nine month periods ended September 30, 2021 and 2020, and where appropriate, factors that may affect future financial performance. This analysis should be read in conjunction with our unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q, and the audited consolidated financial statements, notes thereto and selected consolidated financial data appearing in our Annual Report on Form 10-K for the year ended December 31, 2020. Interim operating results for the three and nine months ended September 30, 2021 are not necessarily indicative of the results expected for the entire year. Preparation of financial statements requires use of management estimates and assumptions.

### Cautionary Statement Regarding Forward-Looking Information

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

- general economic conditions and other factors, including prevailing interest rate levels and stock and credit market performance which may affect (among other things) our ability to sell our products, our ability to access capital resources and the costs associated therewith, the fair value of our investments, which could result in credit losses, and certain liabilities, and the lapse rate and profitability of policies;
- major public health issues, and specifically the COVID-19 pandemic and the resulting impacts on economic conditions and financial markets;
- customer response to new products and marketing initiatives;
- changes in Federal income tax laws and regulations which may affect the relative income tax advantages of our products;
- increasing competition in the sale of fixed annuities;
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products and regulation of the sale, underwriting and pricing of products; and
- the risk factors or uncertainties listed from time to time in our filings with the SEC.

For a detailed discussion of these and other factors that might affect our performance, see Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 and Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021. Forward-looking statements speak only as of the date the statement was made and the Company undertakes no obligation to update such forward-looking statements. There can be no assurance that other factors not currently disclosed or anticipated by the Company will not materially adversely affect our results of operations or plans. Investors are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf.

### Our Business and Profitability

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

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

Our profitability depends in large part upon:

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

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

The Go-to-Market pillar focuses on how we generate long-term client assets, referred to as policyholder funds under management, through annuity product sales. We consider our marketing capabilities and franchise to be one of our core competitive strengths. The liabilities we expect to originate will result in stable, long-term attractive funding, which we will invest to earn a spread and return over the prudent level of risk capital. American Equity Life has become one of the leading insurance companies in the IMO distribution channel over our 25-year history and can tap into a core set of loyal independent producers to originate new annuity product sales. We are focused on growing our loyal producers with one million dollars or greater of annuity product sales each year. We plan to increase our share of annuity product sales generated by IMOs and accelerate our expansion into bank, broker dealer and registered investment advisor distribution through our subsidiary, Eagle Life Insurance Company (“Eagle Life”). Our strategy is to improve sales execution and enhance producer loyalty with product solutions, focused marketing campaigns, distribution analytics to enhance both sales productivity and producer engagement and new client engagement models that complement traditional physical face-to-face interactions.

The Investment Management pillar will enable the return on assets to generate adequate spread income. In an environment where risk free rates remain low, insurers need to invest for better risk-adjusted yields than what are available in traditional fixed income securities. Our investment strategy is to look for opportunities to invest in alpha-producing specialty sub-sectors like middle market credit and sectors with contractually strong cash flows like commercial and residential real estate and infrastructure debt and equity. Our investment management strategy includes forming partnerships with certain asset managers that will provide access to specific asset sectors, resulting in a sustainable supply of quality private investments, in addition to traditional fixed income securities. The partnerships with asset managers may include us taking an equity interest in the asset manager to create greater alignment or forming an alternate economic sharing arrangement so we benefit as our partners scale their platforms with third party assets under management.

The Capital Structure pillar is focused on greater use of reinsurance structuring to both optimize asset allocation for our balance sheet and enable American Equity Life to free up capital and become a capital-light company over time. On October 8, 2021, we completed the previously announced reinsurance transaction with North End Re (Cayman) SPC (“North End Re”), a wholly owned subsidiary of Brookfield Asset Management Reinsurance Partners Ltd. In addition, we continue to work diligently on the formation of our own reinsurance platform, as well as working on other potential reinsurance arrangements. These transactions will enable us to achieve three business outcomes over time: first, free up capital to potentially return to shareholders, second, redeploy capital into higher yielding alpha generating assets to grow investment income relative to new money yields in a traditional core fixed income portfolio and third, successfully demonstrating the first two outcomes will allow us to raise third-party capital into reinsurance vehicles (“side-cars”) to provide risk capital to back a portion of our existing liabilities and future sales of annuity products. This will enable us to convert from an investment spread business with our own capital at risk into a combination spread based and fee based business with externally sourced risk capital. In combination, we expect these three outcomes to generate sustained, deployable capital for shareholders and significant accretion in return on equity (“ROE”) over time.

The Foundational Capabilities pillar is focused on upgrading our operating platform to enhance the digital customer experience, create differentiation through data analytics to support the first three pillars, enhance core technology and align talent. We have maintained high quality personal service as one of our highest priorities since our inception and continue to strive for an unprecedented level of timely and accurate service to both our agents and policyholders. Examples of our high quality service include a live person answering phone calls and issuing policies within 24 hours of receiving the application if the paperwork is in good order. We believe high quality service is one of our strongest competitive advantages and the foundational capabilities pillar will look to continue to enhance our high quality service.

The combination of differentiated investment strategies and increased capital efficiency will improve annuity product competitiveness, thereby enhancing new business growth potential and further strengthening the operating platform. This will complete the virtuous cycle of the AEL 2.0 business model, having started with a strong, at scale annuity originator, that is even further strengthened by the power of the investments and capital structure pillars.

The migration towards the AEL 2.0 business model will result in 2021 being a transitional year for our financial results. We are migrating a fairly large balance sheet from a legacy core fixed income asset strategy with relatively higher asset leverage to a new asset allocation approach encompassing lower asset leverage, capital structure optimization through reinsurance and third-party capital, and utilization of alpha-producing assets to both improve sustainability of investment results in a low-interest rate environment and deliver superior, loss adjusted net yield over time. The scaling of alpha-producing assets is expected to be a multi-year journey. We have added in excess of \$2 billion in private assets during 2021 and expect to grow such assets at a pace of 5% or greater of the portfolio in each subsequent year to evolve into our new asset allocation of 30% to 40% in private assets.

During 2021, we have made progress in the execution of the AEL 2.0 strategy. Key areas of progress include the following:

- we continued revitalization of our Go-to-Market strategy pillar. We delivered a complete refresh of our general account product suite, regained relevance and growth in the IMO distribution channel and built additional distribution with Eagle Life. Go-to-Market has been trending upward since the fourth quarter of last year. Our fixed index annuity sales were driven by the new competitive indices we introduced to the AssetShield product in February. At Eagle Life, the increase in fixed index annuity sales was driven by new relationships, a new income product, and an increase in our employee wholesaler team;
- we continued to build out our investment management pillar capabilities. We began to leverage our asset management partnerships to invest in single-family rental homes, middle market loans and agricultural and residential loans consistent with ramping towards the AEL 2.0 asset allocation strategy. Year-to-date, including residential mortgage loans, single family rental homes, commercial mortgage and agricultural loans and middle market loans, we have invested in approximately \$2.5 billion in privately sourced assets. We are in process of transitioning the management of our core fixed income and private placement investments to BlackRock Financial Management, Inc. and Conning, Inc.
- we finalized a reinsurance treaty with North End Re, a wholly owned subsidiary of Brookfield Asset Management Reinsurance Partners Ltd. that covers both a portion of our in-force and new business flow which will provide attractive fee-like revenues that will start to drive our evolution to a higher return on equity business through building a capital efficient, return on assets fee-like earnings model. See *Note 8 - Reinsurance and Policy Provisions* for more information.

On October 18, 2020, the Company's Board of Directors approved a \$500 million share repurchase program. The purpose of the share repurchase program is to both offset dilution from the issuance of shares to Brookfield Asset Management (including its affiliates "Brookfield"), and to institute a regular capital return program for shareholders. On July 1, 2021, we completed our share-repurchase of 9.1 million shares since starting our buyback in the fourth quarter of last year, which fully offset the impact of shares issued to Brookfield. As of September 30, 2021, we have repurchased approximately 9.1 million shares of our common stock at an average price of \$29.04 per common share since the beginning of the share repurchase program in October 2020.

On April 14, 2021, Fitch affirmed its "A-" financial strength rating on American Equity Investment Life Insurance Company and its life insurance subsidiaries, its "BBB" issuer default rating on American Equity Investment Life Holding Company and its "BBB-" senior unsecured debt ratings, and revised its outlook to "stable" from "negative" on its financial strength, issuer default and senior unsecured debt ratings.

On July 29, 2021, A.M. Best affirmed its "A-" financial strength rating on American Equity Investment Life Insurance Company and its subsidiaries, American Equity Investment Life Insurance Company of New York and Eagle Life Insurance Company, its "bbb-" long-term issuer credit rating of American Equity Investment Life Holding Company, its "bbb-" senior unsecured debt ratings, and its "bb" perpetual, non-cumulative preferred stock ratings. The outlook for these credit ratings of "stable" was also affirmed by A.M. Best on July 29, 2021.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Average yield on invested assets	3.91%	4.10%	3.71%	4.20%
Aggregate cost of money	1.51%	1.66%	1.55%	1.71%
Aggregate investment spread	2.40%	2.44%	2.16%	2.49%
Impact of:				
Investment yield - additional prepayment income	0.12%	0.10%	0.11%	0.06%
Cost of money benefit from over hedging	0.08%	0.03%	0.05%	0.03%

The cost of money for fixed index annuities and average crediting rates for fixed rate annuities are computed based upon policyholder account balances and do not include the impact of amortization of deferred sales inducements. See Critical Accounting Policies - Deferred Policy Acquisition Costs and Deferred Sales Inducements included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020. With respect to our fixed index annuities, the cost of money includes the average crediting rate on amounts allocated to the fixed rate strategy and expenses we incur to fund the annual index credits. Proceeds received upon expiration of call options purchased to fund annual index credits are recorded as part of the change in fair value of derivatives, and are largely offset by an expense for interest credited to annuity policyholder account balances. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities and Financial Condition - Derivative Instruments included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020.

Average yield on invested assets decreased primarily as a result of a higher level of cash and cash equivalent holdings during the three and nine months ended September 30, 2021 compared to the same periods in 2020. The higher level of cash and cash equivalent holdings was a result of our decision to execute a series of trades in the fourth quarter of 2020 designed to raise liquidity to fund block reinsurance transactions and de-risk the investment portfolio. See **Net investment income**. Active management of policyholder crediting rates has continued to lower the aggregate cost of money. We expect to have flexibility to reduce our crediting rates if necessary and could decrease our cost of money by approximately 58 basis points if we reduce current rates to guaranteed minimums.

### Results of Operations for the Three and Nine Months Ended September 30, 2021 and 2020

Annuity deposits by product type collected during the three and nine months ended September 30, 2021 and 2020, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
American Equity Investment Life Insurance Company:				
Fixed index annuities	\$ 727,641	\$ 432,602	\$ 1,947,241	\$ 1,491,564
Annual reset fixed rate annuities	1,462	1,817	5,285	6,464
Multi-year fixed rate annuities	14,196	531	849,062	983
Single premium immediate annuities	16,282	10,205	45,671	25,687
	759,581	445,155	2,847,259	1,524,698
Eagle Life Insurance Company:				
Fixed index annuities	187,611	60,476	520,967	239,349
Annual reset fixed rate annuities	—	39	337	97
Multi-year fixed rate annuities	362,769	68,206	1,556,391	73,386
	550,380	128,721	2,077,695	312,832
Consolidated:				
Fixed index annuities	915,252	493,078	2,468,208	1,730,913
Annual reset fixed rate annuities	1,462	1,856	5,622	6,561
Multi-year fixed rate annuities	376,965	68,737	2,405,453	74,369
Single premium immediate annuities	16,282	10,205	45,671	25,687
Total before coinsurance ceded	1,309,961	573,876	4,924,954	1,837,530
Coinsurance ceded	203,218	5,996	209,968	29,390
Net after coinsurance ceded	\$ 1,106,743	\$ 567,880	\$ 4,714,986	\$ 1,808,140

Annuity deposits before and after coinsurance ceded increased 128% and 95%, respectively, during the third quarter of 2021 compared to the same period in 2020 and increased 168% and 161%, respectively, during the nine months ended September 30, 2021 compared to the same period in 2020. The increases in sales in for the three and nine months ended September 30, 2021 compared to the same periods in 2020 were driven by the sales of multi-year fixed rate annuity products introduced in late 2020 at both American Equity Life and Eagle Life and increased sales of fixed index annuities at both American Equity Life and Eagle Life. We are focused on our fixed index annuity products with recent product refreshes and the new EstateShield product at American Equity Life and the addition of a guaranteed retirement income product at Eagle Life. We are targeting total sales of \$5 billion to \$6 billion in 2021.

Prior to January 1, 2021, we had been ceding 80% of the annuity deposits received from certain multi-year rate guaranteed annuities and 20% of certain fixed index annuities sold by Eagle Life through broker/dealers and banks to an unaffiliated reinsurer. Beginning January 1, 2021, no new business is being ceded to the unaffiliated reinsurer. Effective July 1, 2021, we ceded 100% of an in-force block of fixed index annuities and began ceding 75% of certain fixed index annuities issued after July 1, 2021 to Brookfield which caused the increases in coinsurance ceded premiums for the three and nine months ended September 30, 2021 compared to the same periods in 2020.

**Net income available to common stockholders** decreased to \$141.9 million in the third quarter of 2021 and \$348.1 million for the nine months ended September 30, 2021 compared to \$661.3 million and \$644.2 million for the same periods in 2020. The decreases in net income available to common stockholders for the three and nine months ended September 30, 2021 were driven primarily by the impact of assumption updates during the third quarter of 2021 compared to the impact of assumption updates during the third quarter of 2020 as further described below.

Net income available to common stockholders for the three and nine months ended September 30, 2021 was negatively impacted by a decrease in the aggregate investment spread as previously noted. Net income, in general, is impacted by the volume of business in force and the investment spread earned on this business. The average amount of annuity account balances outstanding (net of annuity liabilities ceded under coinsurance agreements) decreased 1% to \$52.6 billion for the third quarter of 2021 and increased 3% to \$54.6 billion for the nine months ended September 30, 2021 compared to \$53.1 billion and \$53.2 billion for the same periods in 2020. Our investment spread measured in dollars was \$323.2 million for the third quarter of 2021 and \$876.0 million for the nine months ended September 30, 2021 compared to \$318.2 million and \$966.3 million for the same periods in 2020. Our investment spread has been negatively impacted by the extended low interest rate environment and by holding higher levels of cash and cash equivalents (see **Net investment income**). The higher levels of cash and cash equivalent holdings will decrease in the fourth quarter of 2021 with the execution of the reinsurance treaty with North End Re which closed on October 8, 2021. We expect to invest most of the cash balances above our target cash levels into traditional fixed income securities and privately sourced assets during the rest of 2021. The impact of the extended low interest rate environment and higher cash and cash equivalent holdings has been partially offset by a lower aggregate cost of money due to our continued active management of new business and renewal rates. Net income available to common stockholders for the three and nine months ended September 30, 2021 was negatively impacted by an increase in other operating costs and expenses (see **Other operating costs and expenses**). We expect operating costs to trend higher in the near term, as we will build out the necessary infrastructure to continue execution of the AEL 2.0 strategy. We expect the level of other operating costs and expenses to settle into the high \$40 million range each quarter beginning during 2022, post refinancing our existing redundant reserve financing facilities.

Net income was also impacted by the change in the fair value of derivatives and embedded derivatives, which fluctuates from period to period based upon changes in fair values of call options purchased to fund the annual index credits for fixed index annuities and changes in interest rates used to discount the embedded derivative liability. Net income for the three and nine months ended September 30, 2021 was positively impacted by decreases in expected index credits on the next policy anniversary dates resulting from decreases in the fair value of the call options acquired to fund these index credits and net increases in the discount rates used to estimate the fair value of our embedded derivative liabilities, the impact of which was partially offset by increases in amortization of deferred policy acquisition costs and deferred sales inducements related to the change in fair value of derivatives and embedded derivatives. Net income (loss) for the three and nine months ended September 30, 2020 was negatively impacted by net decreases in the discount rates used to estimate the fair value of our embedded derivative liabilities, the impact of which was partially offset by decreases in amortization of deferred policy acquisition costs and deferred sales inducements related to the change in fair value of derivatives and embedded derivatives. See discussion below for the drivers of changes in net income as a result of actuarial assumption updates. See **Change in fair value of derivatives**, **Change in fair value of embedded derivatives**, **Amortization of deferred sales inducements** and **Amortization of deferred policy acquisition costs**.

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

Net income available to common stockholders for the 2021 and 2020 periods includes effects from updates to assumptions as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
(Decrease) increase in amortization of deferred sales inducements	\$ (51,412)	\$ 391,428	\$ (51,412)	\$ 428,101
(Decrease) increase in amortization of deferred policy acquisition costs	(52,602)	589,209	(52,602)	646,785
Increase in interest sensitive and index product benefits	233,178	285,825	233,178	285,825
Decrease in change in fair value of embedded derivatives	(125,752)	(2,111,140)	(125,752)	(2,341,279)
Effect on net income available to common stockholders	(2,678)	663,073	(2,678)	769,611

We review these assumptions quarterly and as a result of these reviews, we made updates to assumptions in the third quarter of 2021 and the second and third quarters of 2020.

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

Due to the continued low interest rate environment, we updated our assumption for investment spread for American Equity Life to 2.25% in the near term and increasing to 2.50% over an eight-year reversion period and our assumption for crediting/discount rate to 1.55% increasing to 2.10% over an eight-year reversion period. Prior to these assumption updates, our long-term assumption for aggregate investment spread was at 2.60% at then end of an eight-year reversion period, with a near term crediting/discount rate of 1.90% increasing to 2.10% over an eight-year reversion period. The assumption change to decrease aggregate investment spread resulted in lower expected future gross profits as compared to previous estimates and a decrease in the balances of deferred policy acquisition costs and deferred sales inducements.

We updated lapse rate and mortality assumptions based on historical experience. For certain annuity products without a lifetime income benefit rider, the lapse rate assumption was increased in more recent cohorts to reflect higher lapses on policies with a market value adjustment



("MVA") feature. For other annuity products with a lifetime income benefit rider, the population was bifurcated based on whether policies had utilized the rider. For those policies which had utilized the rider, the lapse rate assumption was decreased in later durations. The overall mortality assumption was lowered to reflect historical experience. The net impact of the updates to the lapse rate and mortality assumptions resulted in higher expected future gross profits as compared to previous estimates and an increase in the balances of deferred policy acquisition costs and deferred sales inducements. The net impact of the updates to lapse rate and mortality assumptions resulted in an increase in the liability for lifetime income benefit riders due to a greater amount of expected benefit payments in excess of account values.

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

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

The most significant assumption updates made in the third quarter of 2020 were to investment spread assumptions, including the net investment earned rate and crediting rates on policies, as well as updates to lapse rate and partial withdrawal assumptions as discussed below.

Due to the economic and low interest rate environments, we updated our assumption for aggregate investment spread to 2.40% in the near-term increasing to 2.60% over an eight-year reversion period and our assumption for crediting/discount rate to 1.60% increasing to 2.10% over an eight-year reversion period. Prior to these assumption updates, our long-term assumption for aggregate investment spread was steady at 2.60%, with a near term crediting/discount rate of 1.90% increasing to 2.90% over a 20-year reversion period. The assumption update to decrease aggregate investment spread resulted in lower expected future gross profits as compared to previous estimates and a decrease in the balances of deferred policy acquisition costs and deferred sales inducements. The decrease in the crediting rate, which is used as the discount rate in the calculation of the liability for lifetime income benefit riders, resulted in an increase in the liability for lifetime income benefit riders.

We updated lapse rate and partial withdrawal assumptions based on actual historical experience. For certain annuity products without a lifetime income benefit rider, lapse rate and partial withdrawal assumptions were increased while for certain annuity products with a lifetime income benefit rider, lapse rate and partial withdrawal assumptions were decreased. The net impact of the updates to lapse rate and partial withdrawal assumptions resulted in lower expected future gross profits as compared to previous estimates and a decrease in the balances of deferred policy acquisition costs and deferred sales inducements. The net impact of the updates to lapse rate and partial withdrawal assumptions resulted in an increase in the liability for lifetime income benefit riders due to a greater amount of expected benefit payments in excess of account values.

The most significant assumption update to the calculation of the fair value of the embedded derivative component of our fixed index annuity policy benefit reserves in the third quarter of 2020 was a decrease in the crediting rate/option budget to 2.10% from 2.90% as a result of a revised estimate of the cost of options. This assumption change resulted in a decrease in the fair value of the embedded derivative component of our fixed index annuity policy benefit reserves due to a reduction in the projected policy contract values over the expected lives of the contracts. The net impact of the the updates to lapse and partial withdrawal assumptions noted above resulted in an increase in the embedded derivative component of our fixed index annuity policy benefit reserves as more funds ultimately qualify for excess benefits.

During the second quarter of 2020, we updated assumptions used in determining the embedded derivative component of our fixed index annuity policy benefit reserves. The revision consisted of a refinement in the derivation of the discount rate used in calculating the fair value of embedded derivatives which increased the discount rate and resulted in a decrease in the change in fair value of embedded derivatives offset by increases in amortization of deferred sales inducements and deferred policy acquisition costs.

Net income available to common stockholders for the three and nine months ended September 30, 2020 was negatively impacted by net realized losses on investments primarily as a result of credit losses on available for sale fixed maturity securities (see **Net realized gains on investments**).

Net income for the nine months ended September 30, 2020 was impacted by a discrete tax item that provided a tax benefit of \$30.1 million related to the provision of the Coronavirus Aid, Relief, and Economic Security Act that allowed net operating losses for 2018 through 2020 to be carried back to previous tax years in which a 35% statutory tax rate was in effect.

**Non-GAAP operating income (loss) available to common stockholders, a non-GAAP financial measure**, increased to \$79.5 million in the third quarter of 2021 and \$214.7 million for the nine months ended September 30, 2021 compared to \$(249.8) million and \$(2.6) million for the same periods in 2020.



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

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

The adjustments made to net income available to common stockholders to arrive at non-GAAP operating income (loss) available to common stockholders for the three and nine months ended September 30, 2021 and 2020 are set forth in the table that follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
Reconciliation from net income available to common stockholders to non-GAAP operating income (loss) available to common stockholders:				
Net income available to common stockholders	\$ 141,947	\$ 661,250	\$ 348,099	\$ 644,207
Adjustments to arrive at non-GAAP operating income (loss) available to common stockholders:				
Net realized (gains) losses on financial assets, including credit losses	(3,900)	15,145	2,528	49,986
Change in fair value of derivatives and embedded derivatives - fixed index annuities	(75,879)	(1,176,909)	(172,746)	(873,773)
Change in fair value of derivatives - interest rate caps and swap	—	—	—	(848)
Income taxes	17,285	250,701	36,801	177,804
Non-GAAP operating income (loss) available to common stockholders	\$ 79,453	\$ (249,813)	\$ 214,682	\$ (2,624)

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

Non-GAAP operating income (loss) available to common stockholders for the 2021 and 2020 periods includes effects from updates to assumptions as follows:

	Three and Nine Months Ended September 30,	
	2021	2020
(Dollars in thousands)		
(Decrease) increase in amortization of deferred sales inducements	\$ (73,791)	\$ 57,467
(Decrease) increase in amortization of deferred policy acquisition costs	(87,029)	90,970
Increase in interest sensitive and index product benefits	233,178	285,825
Effect on non-GAAP operating income (loss) available to common stockholders	(56,801)	(340,895)

The impact to net income available to common stockholders and non-GAAP operating income (loss) available to common stockholders from assumption updates varies due to the impact of fair value accounting for our fixed index annuity business as non-GAAP operating income (loss) available to common stockholders eliminates the impact of fair value accounting for our fixed index annuity business. While the assumption updates made during 2021 and 2020 were consistently applied, the impact to net income available to common stockholders and non-GAAP operating income (loss) available to common stockholders varies due to different amortization rates being applied to gross profit adjustments included in the valuation.

The changes in non-GAAP operating income (loss) available to common stockholders for the three and nine months ended September 30, 2021 compared to the same periods in 2020 were primarily a result of the impact of assumption updates as previously noted. Non-GAAP operating income (loss) available to common stockholders adjusted for the impact of updates to assumptions for the three months ended September 30, 2021 increased compared to the same period in 2020. The increase is primarily due to a smaller increase in the liability for lifetime income benefit riders and less amortization of deferred policy acquisition costs and deferred sales inducements partially offset by lower investment income and higher other operating costs and expenses. Non-GAAP operating income (loss) available to common stockholders adjusted for the impact of updates to assumptions for the nine months ended September 30, 2021 decreased compared to the same period in 2020. The decrease is primarily due to lower investment income and higher other operating costs and expenses partially offset by a smaller increase in the liability for lifetime income benefit riders and less amortization of deferred policy acquisition costs and deferred sales inducements. In addition, non-GAAP operating income (loss) available to common stockholders for the nine months ended September 30, 2020 was impacted by a \$30.1 million tax benefit from a discrete tax item related to the Coronavirus Aid, Relief, and Economic Security Act. **See Net income available to common stockholders.**

**Annuity product charges** (surrender charges assessed against policy withdrawals and fees deducted from policyholder account balances for lifetime income benefit riders) decreased 6% to \$58.5 million in the third quarter of 2021 and 2% to \$182.3 million for the nine months ended September 30, 2021 compared to \$62.3 million and \$185.3 million for the same periods in 2020. The components of annuity product charges are set forth in the table that follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
Surrender charges	\$ 16,481	\$ 16,447	\$ 54,019	\$ 55,542
Lifetime income benefit riders (LIBR) fees	41,999	45,830	128,302	129,722
	<u>\$ 58,480</u>	<u>\$ 62,277</u>	<u>\$ 182,321</u>	<u>\$ 185,264</u>
Withdrawals from annuity policies subject to surrender charges	\$ 313,557	\$ 176,442	\$ 875,046	\$ 573,419
Average surrender charge collected on withdrawals subject to surrender charges	5.3 %	9.3 %	6.2 %	9.7 %
Fund values on policies subject to LIBR fees	\$ 5,260,739	\$ 5,789,502	\$ 16,563,433	\$ 16,821,767
Weighted average per policy LIBR fee	0.80 %	0.79 %	0.77 %	0.77 %

The decreases in annuity product charges for the three and nine month periods ended September 30, 2021 compared to the same periods in 2020 were primarily attributable to decreases in fees assessed for lifetime income benefit riders due to lower volumes of business in force subject to the fee compared to the prior periods post the execution of the North End Re reinsurance treaty effective on July 1, 2021. In addition, surrender charges decreased for the nine month period ended September 30, 2021 as the increases in withdrawals from annuity policies subject to surrender charges were more than offset by lower average surrender charges collected on those withdrawals due to changes in the surrender charge levels and offsetting market value adjustments on policies that were surrendered compared to the same period in 2020. See **Interest sensitive and index product benefits** below for corresponding expense recognized on lifetime income benefit riders.

**Net investment income** decreased 3% to \$526.4 million in the third quarter of 2021 and 8% to \$1,522.9 million for the nine months ended September 30, 2021 compared to \$543.3 million and \$1,660.4 million for the same periods in 2020. The decreases were principally attributable to decreases in average yield earned on average invested assets during the three and nine months ended September 30, 2021 compared to the same periods in 2020, partially offset by increases in our average invested assets during the three and nine months ended September 30, 2021 compared to the same periods in 2020. Average invested assets excluding derivative instruments (on an amortized cost basis) increased 1% to \$53.8 billion for the third quarter of 2021 and 4% to \$54.9 billion for the nine months ended September 30, 2021 compared to \$53.0 billion and \$52.8 billion for the same periods in 2020.

The average yield earned on average invested assets was 3.91% for the third quarter of 2021 and 3.71% for the nine months ended September 30, 2021 compared to 4.10% and 4.20% for the same periods in 2020. The decreases in average yield earned for the three and nine months ended September 30, 2021 compared to the same periods in 2020 were primarily attributable to increases in our level of cash and cash equivalent holdings as previously described and investment of new premiums and portfolio cash flows during the first half of 2021 and most of 2020 at average rates below the overall portfolio yield, excluding the impact of cash and cash equivalent holdings on the overall portfolio yield. Cash and cash equivalents holdings averaged \$6.9 billion during the three months ended September 30, 2021, after adjusting for the cash impact to average cash holdings of the North End Re reinsurance treaty, compared to \$1.4 billion during the three months ended September 30, 2020. As of September 30, 2021, we held approximately \$7.6 billion of cash and cash equivalents, after adjusting for the cash impact to cash holdings of the North End Re reinsurance treaty. We intend to hold approximately 1% to 2% of our investment portfolio in cash and cash equivalents once we are fully invested.

The expected return on investments purchased during the three and nine months ended September 30, 2021 was 4.63% and 4.07%, net of third-party investment management expenses. Purchases for the three months ended September 30, 2021 included \$23.9 million of fixed maturity securities with an expected return of 3.47% and \$375 million of privately sourced assets with an expected return of 4.70%. The privately sourced assets include investments in investment real estate, middle market loans, mortgage loans and strategic investments in limited partnerships. The expected return on investments purchased during the three and nine months ended September 30, 2020 was 4.54% and 4.06%.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
Call options:				
Gain on option expiration	\$ 346,674	\$ (3,228)	\$ 1,058,152	\$ (2,492)
Change in unrealized gains/losses	(418,362)	208,239	(232,771)	(406,771)
Warrants	987	—	1,103	—
Interest rate caps	—	—	—	62
	<u>\$ (70,701)</u>	<u>\$ 205,011</u>	<u>\$ 826,484</u>	<u>\$ (409,201)</u>

The differences between the change in fair value of derivatives between periods for call options are primarily due to the performance of the indices upon which our call options are based which impacts the level of gains on call option expirations, the fair values of those call options and changes in the fair values of those call options between periods. The changes in gain on option expiration and unrealized gains/losses on call options for the three and nine months ended September 30, 2021 compared to the same periods in 2020 reflect the impact of the recovery of the equity markets subsequent to the equity markets decline in March of 2020 related to the economic uncertainty caused by the COVID-19 pandemic. A substantial portion of our call options are based upon the S&P 500 Index with the remainder based upon other equity and bond market indices. The range of index appreciation (after applicable caps, participation rates and asset fees) for options expiring during the three and nine months ended September 30, 2021 and 2020 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
S&P 500 Index				
Point-to-point strategy	1.0% - 17.6%	0.6% - 11.6%	0.0% - 42.6%	0.0% - 17.4%
Monthly average strategy	1.0% - 12.2%	0.0% - 8.0%	0.0% - 29.4%	0.0% - 11.9%
Monthly point-to-point strategy	0.4% - 20.2%	0.0% - 0.2%	0.0% - 21.7%	0.0% - 14.0%
Volatility control index point-to-point strategy	0.0% - 8.3%	0.0% - 1.4%	0.0% - 9.7%	0.0% - 9.3%
Fixed income (bond index) strategies	0.0% - 4.7%	0.0% - 11.1%	0.0% - 10.0%	0.0% - 13.6%

The change in fair value of derivatives is also influenced by the aggregate cost of options purchased. The aggregate cost of options for the three and nine months ended September 30, 2021 were lower than for the same periods in 2020 as option costs generally decreased during 2020 and into 2021. The aggregate cost of options is also influenced by the amount of policyholder funds allocated to the various indices and market volatility which affects option pricing. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020.

**Net realized gains (losses) on investments** includes gains and losses on the sale of securities and other investments and changes in allowances for credit losses on our securities and mortgage loans on real estate. Net realized gains (losses) on investments fluctuate from year to year primarily due to changes in the interest rate and economic environment and the timing of the sale of investments. See Note 4 and Note 5 to our unaudited consolidated financial statements and Financial Condition - Credit Losses for a detailed presentation of the types of investments that generated the gains (losses) as well as discussion of credit losses on our securities recognized during the periods presented and Financial Condition - Investments and Note 5 to our unaudited consolidated financial statements for discussion of credit losses recognized on mortgage loans on real estate.

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

**Other revenue** was \$7.6 million for the three and nine months ended September 30, 2021 and primarily consists of \$2.7 million related to asset liability management fees and \$4.5 million of amortization related to the deferred gain associated with the cost of reinsurance. Both of these items are associated with the North End Re reinsurance treaty which was effective July 1, 2021. See *Note 8 - Reinsurance and Policy Provisions* for more information.

**Interest sensitive and index product benefits** increased 42% to \$817.0 million in the third quarter of 2021 and 73% to \$2.1 billion for the nine months ended September 30, 2021 compared to \$576.1 million and \$1.2 billion for the same periods in 2020. The components of interest sensitive and index product benefits are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>(Dollars in thousands)</b>				
Index credits on index policies	\$ 475,292	\$ 174,747	\$ 1,535,320	\$ 551,562
Interest credited (including changes in minimum guaranteed interest for fixed index annuities)	65,637	48,042	188,279	148,078
Lifetime income benefit riders	276,085	353,358	382,991	517,718
	<u>\$ 817,014</u>	<u>\$ 576,147</u>	<u>\$ 2,106,590</u>	<u>\$ 1,217,358</u>

The increases in index credits for the three and nine months ended September 30, 2021 compared to the same periods in 2020 were due to changes in the level of appreciation of the underlying indices (see discussion above under **Change in fair value of derivatives**) and the amount of funds allocated by policyholders to the respective index options. Total proceeds received upon expiration of the call options purchased to fund the annual index credits were \$489.9 million and \$1,559.5 million for the three and nine months ended September 30, 2021, compared to \$178.4 million and \$560.7 million for the same periods in 2020. The increases in interest credited for the three and nine months ended September 30, 2021 compared to the same periods in 2020 were due to increases in sales of single premium deferred annuity products that receive a fixed rate of interest partially offset by a reduction in interest credited to funds allocated to the fixed option within our fixed index annuities due to a decrease in the average balance allocated to the fixed option. The decreases in benefits recognized for lifetime income benefit riders for the three and nine months ended September 30, 2021 compared to the same periods in 2020 were primarily due to the impact of assumption updates made during the third quarter of 2021 compared to the impact of assumption updates made during the third quarter of 2020 and the level of index credits on index policies for the three and nine months ended September 30, 2021 compared to the same periods in 2020. In addition, fund value of policies with lifetime income benefit riders decreased as a result of the North End Re reinsurance treaty, which correlates to the decrease in fees discussed in **Annuity product charges**.

The liability (net of coinsurance ceded) for lifetime income benefit riders was \$2.7 billion and \$2.5 billion at September 30, 2021 and December 31, 2020, respectively which includes the impact of unrealized gains and losses on available for sale securities on the liability for lifetime income benefit riders of \$461.9 million and \$584.6 million at September 30, 2021 and December 31, 2020, respectively.

**Amortization of deferred sales inducements** before gross profit adjustments decreased for the three and nine months ended September 30, 2021 compared to the same periods in 2020. Amortization of deferred sales inducements is based on historical, current and future expected gross profits. The changes in amortization from period to period are the result of differences in actual gross profits compared to expected or modeled gross profits and changes to the underlying business. The decreases in amortization before and after gross profit adjustments for the three and nine months ended September 30, 2021 compared to the same periods in 2020 were primarily due to the impact of assumption updates made during the third quarter of 2021 as compared to the impact of assumption updates made during the third quarter of 2020. See **Net Income available to common stockholders** and **Non-GAAP operating income (loss) available to common stockholders** above for discussion of the impact of assumption updates for the three and nine months ended September 30, 2021 and 2020. In addition, amortization of deferred sales inducements for the three and nine months ended September 30, 2021 decreased as index credits on index policies for the three and nine months ended September 30, 2021 were in excess of index credits on index policies for the same periods of 2020. Bonus products represented 67% and 76% of our net annuity account values at September 30, 2021 and September 30, 2020, respectively. The amount of amortization is affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business and amortization associated with net realized gains (losses) on investments. Fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our fixed index annuity contracts. The change in fair value of the embedded derivatives will not correspond to the change in fair value of the derivatives (purchased call options), because the purchased call options are one-year options while the options valued in the fair value of embedded derivatives cover the expected lives of the contracts which typically exceed ten years.

Amortization of deferred sales inducements is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>(Dollars in thousands)</b>				
Amortization of deferred sales inducements before gross profit adjustments	\$ (34,854)	\$ 113,273	\$ 57,887	\$ 197,514
Gross profit adjustments:				
Fair value accounting for derivatives and embedded derivatives	17,613	305,981	35,752	224,938
Net realized losses on investments	69	(2,271)	(356)	(7,056)
Amortization of deferred sales inducements after gross profit adjustments	<u>\$ (17,172)</u>	<u>\$ 416,983</u>	<u>\$ 93,283</u>	<u>\$ 415,396</u>

**Change in fair value of embedded derivatives** includes changes in the fair value of our fixed index annuity embedded derivatives (see Note 7 to our unaudited consolidated financial statements). The components of change in fair value of embedded derivatives are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
Fixed index annuities - embedded derivatives	\$ (681,509)	\$ (2,021,513)	\$ (932,546)	\$ (2,392,600)
Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting	145,105	289,016	387,442	536,977
	<u>\$ (536,404)</u>	<u>\$ (1,732,497)</u>	<u>\$ (545,104)</u>	<u>\$ (1,855,623)</u>

The change in fair value of the fixed index annuity embedded derivatives resulted from (i) changes in the expected index credits on the next policy anniversary dates, which are related to the change in fair value of the call options acquired to fund those index credits discussed above in **Change in fair value of derivatives**; (ii) changes in the expected annual cost of options we will purchase in the future to fund index credits beyond the next policy anniversary; (iii) changes in the discount rates used in estimating our embedded derivative liabilities; and (iv) the growth in the host component of the policy liability. The amounts presented as "Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting" represent the total change in the difference between policy benefit reserves for fixed index annuities computed under the derivative accounting standard and the long-duration contracts accounting standard at each balance sheet date, less the change in fair value of our fixed index annuities embedded derivative. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020.

The primary reason for the increases in the change in fair value of the fixed index annuity embedded derivatives during the three and nine months ended September 30, 2021 compared to the same periods of 2020 was the impact of assumption updates made during the third quarter of 2021 compared to the impact of assumption updates made during the third quarter of 2020. See **Net Income available to common stockholders** above for discussion of the impact of assumption updates on the fair value of the fixed index annuity embedded derivative for the three and nine months ended September 30, 2021 and 2020.

In addition, the increase in the change in fair value of the fixed index annuity embedded derivatives during the three months ended September 30, 2021 compared to the same period of 2020 was due to a decrease in expected index credits on the next policy anniversary dates resulting from decreases in the fair value of the call options acquired to fund these index credits during the three months ended September 30, 2021 compared to increases in the expected index credits resulting from increases in the fair value of the call options acquired to fund these index credits during the three months ended September 30, 2020 and an increase in the net discount rate during the three months ended September 30, 2021 compared to a decrease in the net discount rate during the same period of 2020. The increase in change in fair value of the fixed index annuity embedded derivatives for the nine months ended September 30, 2021 was also due to an increase in the net discount rate during the nine months ended September 30, 2021 compared to a decrease in the net discount rate during the same period of 2020. The discount rates used in estimating our embedded derivative liabilities fluctuate based on the changes in the general level of risk free interest rates and our own credit spread.

**Amortization of deferred policy acquisition costs** before gross profit adjustments decreased for the three and nine months ended September 30, 2021 compared to the same periods in 2020. Amortization of deferred policy acquisition costs is based on historical, current and future expected gross profits. The changes in amortization from period to period are the result of differences in actual gross profits compared to expected or modeled gross profits and changes to the underlying business. The decreases in amortization before and after gross profit adjustments for the three and nine months ended September 30, 2021 compared to the same periods in 2020 were primarily due to the impact of assumption updates made during the third quarter of 2021 as compared to the impact of assumption updates made during the third quarter of 2020. See **Net Income available to common stockholders** and **Non-GAAP operating income (loss) available to common stockholders** above for discussion of the impact of assumption updates for the three and nine months ended September 30, 2021 and 2020. In addition, amortization of deferred sales inducements for the three and nine months ended September 30, 2021 decreased as index credits on index policies for the three and nine months ended September 30, 2021 were in excess of index credits on index policies for the same periods of 2020. The amount of amortization is affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business and amortization associated with net realized gains (losses) on investments. As discussed above, fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our fixed index annuity contracts.

Amortization of deferred policy acquisition costs is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
Amortization of deferred policy acquisition costs before gross profit adjustments	\$ (33,190)	\$ 173,508	\$ 106,963	\$ 301,004
Gross profit adjustments:				
Fair value accounting for derivatives and embedded derivatives	31,582	452,694	79,107	333,319
Net realized losses on investments	20	(3,606)	(741)	(10,914)
Amortization of deferred policy acquisition costs after gross profit adjustments	\$ (1,588)	\$ 622,596	\$ 185,329	\$ 623,409

**Other operating costs and expenses** increased 32% to \$56.5 million in the third quarter of 2021 and 38% to \$177.4 million for the nine months ended September 30, 2021 compared to \$42.7 million and \$128.3 million for the same periods in 2020 and are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in thousands)				
Salary and benefits	\$ 33,733	\$ 24,966	\$ 97,441	\$ 68,953
Risk charges	9,608	11,387	33,404	33,334
Other	13,177	6,385	46,588	26,028
Total other operating costs and expenses	\$ 56,518	\$ 42,738	\$ 177,433	\$ 128,315

Salary and benefits for the three and nine months ended September 30, 2021 increased \$8.8 million and \$28.5 million, respectively, compared to the same periods in 2020. These increases are primarily a result of an increase in salary and benefits of \$5.6 million and an increase of \$2.2 million related to expense recognized under our equity and cash incentive compensation programs ("incentive compensation programs") for the three months ended September 30, 2021 compared to the same period in 2020 and an increase in salary and benefits of \$12.7 million and an increase of \$13.6 million related to incentive compensation programs for the nine months ended September 30, 2021 compared to the same period in 2020. The increases in salary and benefits were primarily due to an increased number of employees related to our continued growth and implementation of AEL 2.0. The increases in expenses related to our incentive compensation programs were primarily due to an increase in the expected payouts due to a larger number of employees participating in the programs and higher potential payouts for certain employees participating in the programs. The increases in salary and benefits for the nine months ended September 30, 2021 include \$5.1 million of expenses associated with talent transition as we implement the AEL 2.0 strategy.

Risk charges decreased for the three months ended September 30, 2021 and increased slightly for the nine months ended September 30, 2021 compared to the same periods in 2020. The decrease in risk charge expense for the three months ended September 30, 2021 is due to a reduction in the excess regulatory reserves ceded as of September 31, 2021 compared to September 30, 2020 as a result of the recapture of certain excess regulatory reserves ceded as of September 30, 2021. These expenses are based on the amount of excess regulatory reserves ceded to an unaffiliated reinsurer. The excess regulatory reserves ceded at September 30, 2021 and 2020 were \$1,226.6 million and \$1,332.2 million, respectively.

Other expenses increased for the three and nine months ended September 30, 2021 compared to the same periods in 2020 primarily as a result of increases in legal and consulting fees related to the implementation of AEL 2.0, increases in depreciation and maintenance expense related to software and hardware assets and increases in agent conference related expenses as a result of conferences being planned as we emerge from the COVID-19 pandemic.

**Income tax expense** was \$44.7 million in the third quarter of 2021 and \$107.5 million for the nine months ended September 30, 2021 compared to \$184.6 million and \$143.3 million for the same periods in 2020. The changes in income tax expense were primarily due to changes in income before income taxes as well as changes in the effective income tax rates. The effective income tax rates for the three and nine months ended September 30, 2021 were 22.6% and 22.0%, respectively, and 21.7% and 17.8% for the same periods in 2020, respectively.

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

The effective tax rates for the three and nine months ended September 30, 2021 and the three months ended September 30, 2020 were not significantly impacted by discrete tax items. The effective tax rate for the nine months ended September 30, 2020 was impacted by a discrete tax item that provided a tax benefit of \$30.8 million related to the provision of the Coronavirus Aid, Relief, and Economic Security Act that allowed net operating losses for 2018 through 2020 to be carried back to previous tax years in which a 35% statutory tax rate was in effect. The effective income tax rates excluding the impact of discrete items were 21.62% and 21.63%, respectively, for the three and nine months ended September 30, 2021 and 21.57% and 21.55% for the same periods in 2020, respectively.

## Financial Condition

### Investments

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

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

The composition of our investment portfolio is summarized as follows:

	September 30, 2021		December 31, 2020	
	Carrying Amount	Percent	Carrying Amount	Percent
(Dollars in thousands)				
Fixed maturity securities:				
United States Government full faith and credit	\$ 38,486	0.1 %	\$ 39,771	0.1 %
United States Government sponsored agencies	1,043,351	2.0 %	1,039,551	1.9 %
United States municipalities, states and territories	3,596,256	6.9 %	3,776,131	7.0 %
Foreign government obligations	195,341	0.4 %	202,706	0.4 %
Corporate securities	31,021,887	59.3 %	31,156,827	58.1 %
Residential mortgage backed securities	1,053,983	2.0 %	1,512,831	2.8 %
Commercial mortgage backed securities	4,138,078	7.9 %	4,261,227	8.0 %
Other asset backed securities	4,650,715	8.9 %	5,549,849	10.4 %
Total fixed maturity securities	45,738,097	87.5 %	47,538,893	88.7 %
Mortgage loans on real estate	4,288,742	8.2 %	4,165,489	7.8 %
Real estate	259,262	0.5 %	—	— %
Derivative instruments	990,033	1.9 %	1,310,954	2.4 %
Other investments	1,021,226	1.9 %	590,078	1.1 %
	<u>\$ 52,297,360</u>	<u>100.0 %</u>	<u>\$ 53,605,414</u>	<u>100.0 %</u>

### Fixed Maturity Securities

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

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

Rating Agency Rating	September 30, 2021		December 31, 2020	
	Carrying Amount	Percent of Fixed Maturity Securities	Carrying Amount	Percent of Fixed Maturity Securities
(Dollars in thousands)				
Aaa/Aa/A	\$ 26,662,952	58.3 %	\$ 27,883,428	58.7 %
Baa	18,109,280	39.6 %	18,408,954	38.7 %
Total investment grade	44,772,232	97.9 %	46,292,382	97.4 %
Ba	786,584	1.7 %	973,581	2.0 %
B	79,414	0.2 %	122,553	0.3 %
Caa	40,126	0.1 %	61,037	0.1 %
Ca and lower	59,741	0.1 %	89,340	0.2 %
Total below investment grade	965,865	2.1 %	1,246,511	2.6 %
	<u>\$ 45,738,097</u>	<u>100.0 %</u>	<u>\$ 47,538,893</u>	<u>100.0 %</u>



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

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

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

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

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

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

NAIC Designation	September 30, 2021				December 31, 2020			
	Amortized Cost	Fair Value	Carrying Amount	Percent of Total Carrying Amount	Amortized Cost	Fair Value	Carrying Amount	Percent of Total Carrying Amount
	(Dollars in thousands)				(Dollars in thousands)			
1	\$ 22,823,664	\$ 25,508,437	\$ 25,508,437	55.8 %	\$ 23,330,149	\$ 26,564,542	\$ 26,564,542	55.9 %
2	17,170,505	18,928,256	18,928,256	41.4 %	17,312,485	19,377,013	19,377,013	40.8 %
3	1,066,599	1,107,418	1,107,418	2.4 %	1,292,124	1,299,455	1,299,455	2.7 %
4	145,455	157,196	157,196	0.3 %	282,049	256,651	256,651	0.5 %
5	17,226	15,860	15,860	— %	29,396	16,288	16,288	— %
6	24,091	20,930	20,930	0.1 %	58,533	24,944	24,944	0.1 %
	<u>\$ 41,247,540</u>	<u>\$ 45,738,097</u>	<u>\$ 45,738,097</u>	<u>100.0 %</u>	<u>\$ 42,304,736</u>	<u>\$ 47,538,893</u>	<u>\$ 47,538,893</u>	<u>100.0 %</u>

The amortized cost and fair value of fixed maturity securities at September 30, 2021, by contractual maturity, are presented in Note 4 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

## Unrealized Losses

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

	Number of Securities	Amortized Cost	Unrealized Losses, Net of Allowance	Allowance for Credit Losses	Fair Value
(Dollars in thousands)					
<b>September 30, 2021</b>					
Fixed maturity securities, available for sale:					
United States Government full faith and credit	1	\$ 1,043	\$ (24)	\$ —	\$ 1,019
United States municipalities, states and territories	20	67,964	(1,188)	(2,772)	64,004
Corporate securities	69	599,505	(14,518)	(1,006)	583,981
Residential mortgage backed securities	51	126,692	(2,158)	(296)	124,238
Commercial mortgage backed securities	62	429,719	(23,405)	—	406,314
Other asset backed securities	364	2,467,702	(46,678)	—	2,421,024
	<u>567</u>	<u>\$ 3,692,625</u>	<u>\$ (87,971)</u>	<u>\$ (4,074)</u>	<u>\$ 3,600,580</u>
<b>December 31, 2020</b>					
Fixed maturity securities, available for sale:					
United States Government sponsored agencies	3	\$ 250,521	\$ (46)	\$ —	\$ 250,475
United States municipalities, states and territories	14	36,558	(1,044)	(2,844)	32,670
Corporate securities	103	856,995	(35,892)	(60,193)	760,910
Residential mortgage backed securities	43	173,875	(2,526)	(1,734)	169,615
Commercial mortgage backed securities	122	1,034,424	(64,678)	—	969,746
Other asset backed securities	558	3,728,144	(146,640)	—	3,581,504
	<u>843</u>	<u>\$ 6,080,517</u>	<u>\$ (250,826)</u>	<u>\$ (64,771)</u>	<u>\$ 5,764,920</u>

The unrealized losses at September 30, 2021 are principally related to the timing of the purchases of certain securities, which carry less yield than those available at September 30, 2021, and the continued impact the COVID-19 pandemic had on credit markets. Approximately 81% and 75% of the unrealized losses on fixed maturity securities shown in the above table for September 30, 2021 and December 31, 2020, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations.

The decrease in unrealized losses from December 31, 2020 to September 30, 2021 was primarily related to pricing improvements due to improved credit quality for certain fixed maturity securities during the nine months ended September 30, 2021 and strategies to reposition the fixed maturity security portfolio that resulted in the sales of certain securities that were in an unrealized loss position at December 31, 2020. This decrease was partially offset by an increase in treasury yields during the nine months ended September 30, 2021. The 10-year U.S. Treasury yields at September 30, 2021 and December 31, 2020 were 1.52% and 0.93%, respectively. The 30-year U.S. Treasury yields at September 30, 2021 and December 31, 2020 were 2.08% and 1.65%, respectively.

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

NAIC Designation	Carrying Value of Securities with Gross Unrealized Losses	Percent of Total	Gross Unrealized Losses (1)	Percent of Total
(Dollars in thousands)				
<b>September 30, 2021</b>				
1	\$ 1,340,009	37.2 %	\$ (30,840)	35.0 %
2	1,785,151	49.6 %	(40,816)	46.4 %
3	388,245	10.8 %	(12,900)	14.7 %
4	54,940	1.5 %	(1,995)	2.3 %
5	15,860	0.4 %	(467)	0.5 %
6	16,375	0.5 %	(953)	1.1 %
	<u>\$ 3,600,580</u>	<u>100.0 %</u>	<u>\$ (87,971)</u>	<u>100.0 %</u>
<b>December 31, 2020</b>				
1	\$ 2,625,341	45.5 %	\$ (82,045)	32.7 %
2	2,286,377	39.7 %	(106,700)	42.5 %
3	650,364	11.3 %	(42,040)	16.8 %
4	178,669	3.1 %	(16,274)	6.5 %
5	4,991	0.1 %	(1,640)	0.7 %
6	19,178	0.3 %	(2,127)	0.8 %
	<u>\$ 5,764,920</u>	<u>100.0 %</u>	<u>\$ (250,826)</u>	<u>100.0 %</u>

(1) Gross unrealized losses have been adjusted to reflect the allowance for credit loss of \$4.1 million and \$64.8 million as of September 30, 2021 and December 31, 2020, respectively.

Our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 567 and 843 securities, respectively) have been in a continuous unrealized loss position at September 30, 2021 and December 31, 2020, along with a description of the factors causing the unrealized losses is presented in Note 4 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

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

	Number of Securities	Amortized Cost, Net of Allowance (1)	Fair Value	Gross Unrealized Losses, Net of Allowance (1)
(Dollars in thousands)				
<b>September 30, 2021</b>				
Fixed maturity securities, available for sale:				
Investment grade:				
Less than six months	114	\$ 754,630	\$ 748,237	\$ (6,393)
Six months or more and less than twelve months	42	182,807	180,785	(2,022)
Twelve months or greater	330	2,309,934	2,245,622	(64,312)
Total investment grade	486	3,247,371	3,174,644	(72,727)
Below investment grade:				
Less than six months	7	25,379	25,156	(223)
Six months or more and less than twelve months	4	12,687	11,868	(819)
Twelve months or greater	70	403,114	388,912	(14,202)
Total below investment grade	81	441,180	425,936	(15,244)
	567	\$ 3,688,551	\$ 3,600,580	\$ (87,971)
<b>December 31, 2020</b>				
Fixed maturity securities, available for sale:				
Investment grade:				
Less than six months	54	\$ 686,711	\$ 679,337	\$ (7,374)
Six months or more and less than twelve months	310	2,201,769	2,118,844	(82,925)
Twelve months or greater	338	2,400,833	2,288,755	(112,078)
Total investment grade	702	5,289,313	5,086,936	(202,377)
Below investment grade:				
Less than six months	9	48,355	47,984	(371)
Six months or more and less than twelve months	37	155,451	146,779	(8,672)
Twelve months or greater	95	522,627	483,221	(39,406)
Total below investment grade	141	726,433	677,984	(48,449)
	843	\$ 6,015,746	\$ 5,764,920	\$ (250,826)

- (1) Amortized cost and gross unrealized losses have been adjusted to reflect the allowance for credit loss of \$4.1 million and \$64.8 million as of September 30, 2021 and December 31, 2020, respectively.

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

	Number of Securities	Amortized Cost, Net of Allowance (1)	Fair Value	Gross Unrealized Losses, Net of Allowance (1)
(Dollars in thousands)				
<b>September 30, 2021</b>				
Investment grade:				
Less than six months	—	\$ —	\$ —	\$ —
Six months or more and less than twelve months	—	—	—	—
Twelve months or greater	—	—	—	—
Total investment grade	—	—	—	—
Below investment grade:				
Less than six months	—	—	—	—
Six months or more and less than twelve months	—	—	—	—
Twelve months or greater	—	—	—	—
Total below investment grade	—	—	—	—
	—	\$ —	\$ —	\$ —
<b>December 31, 2020</b>				
Investment grade:				
Less than six months	1	\$ 2,453	\$ 1,909	\$ (544)
Six months or more and less than twelve months	4	21,368	15,589	(5,779)
Twelve months or greater	—	—	—	—
Total investment grade	5	23,821	17,498	(6,323)
Below investment grade:				
Less than six months	1	5,963	4,323	(1,640)
Six months or more and less than twelve months	8	38,046	38,046	—
Twelve months or greater	5	3,875	3,062	(813)
Total below investment grade	14	47,884	45,431	(2,453)
	19	\$ 71,705	\$ 62,929	\$ (8,776)

(1) Amortized cost and gross unrealized losses have been adjusted to reflect the allowance for credit loss of \$4.1 million and \$64.8 million as of September 30, 2021 and December 31, 2020, respectively.

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

	Available for sale	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
<b>September 30, 2021</b>		
Due in one year or less	\$ 31,570	\$ 31,143
Due after one year through five years	41,118	38,332
Due after five years through ten years	200,680	194,093
Due after ten years through twenty years	184,145	180,742
Due after twenty years	210,999	204,694
	668,512	649,004
Residential mortgage backed securities	126,692	124,238
Commercial mortgage backed securities	429,719	406,314
Other asset backed securities	2,467,702	2,421,024
	<u>\$ 3,692,625</u>	<u>\$ 3,600,580</u>
<b>December 31, 2020</b>		
Due in one year or less	\$ 2,324	\$ 1,864
Due after one year through five years	382,843	360,761
Due after five years through ten years	396,842	355,188
Due after ten years through twenty years	216,725	203,282
Due after twenty years	145,340	122,960
	1,144,074	1,044,055
Residential mortgage backed securities	173,875	169,615
Commercial mortgage backed securities	1,034,424	969,746
Other asset backed securities	3,728,144	3,581,504
	<u>\$ 6,080,517</u>	<u>\$ 5,764,920</u>

#### International Exposure

We hold fixed maturity securities with international exposure. As of September 30, 2021, 16.1% of the carrying value of our fixed maturity securities was comprised of corporate debt securities of issuers based outside of the United States and debt securities of foreign governments. All of our fixed maturity securities with international exposure are denominated in U.S. dollars. Our investment professionals analyze each holding for credit risk by economic and other factors of each country and industry. The following table presents our international exposure in our fixed maturity portfolio by country or region:

	September 30, 2021		
	Amortized Cost	Carrying Amount/ Fair Value	Percent of Total Carrying Amount
	(Dollars in thousands)		
GIIPS (1)	\$ 227,691	\$ 253,570	0.6 %
Asia/Pacific	425,035	477,989	1.0 %
Non-GIIPS Europe	2,592,188	2,899,194	6.3 %
Latin America	228,392	255,981	0.6 %
Non-U.S. North America	1,376,418	1,545,320	3.4 %
Australia & New Zealand	952,105	1,023,260	2.2 %
Other	846,302	933,980	2.0 %
	<u>\$ 6,648,131</u>	<u>\$ 7,389,294</u>	<u>16.1 %</u>

(1) Greece, Ireland, Italy, Portugal and Spain ("GIIPS"). All of our exposure in GIIPS are corporate securities with issuers domiciled in these countries. None of our foreign government obligations were held in any of these countries.

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

	September 30, 2021	
	Amortized Cost	Carrying Amount/ Fair Value
	(Dollars in thousands)	
GIIPS	\$ 14,873	\$ 17,139
Asia/Pacific	196	189
Non-GIIPS Europe	97,569	102,371
Latin America	50,142	53,417
Non-U.S. North America	79,586	81,337
Australia & New Zealand	545	545
Other	89,575	94,610
	<u>\$ 332,486</u>	<u>\$ 349,608</u>

#### Watch List

At each balance sheet date, we identify invested assets which have characteristics (i.e., significant unrealized losses compared to amortized cost and industry trends) creating uncertainty as to our future assessment of credit losses. As part of this assessment, we review not only a change in current price relative to its amortized cost but the issuer's current credit rating and the probability of full recovery of principal based upon the issuer's financial strength. For corporate issuers, we evaluate the financial stability and quality of asset coverage for the securities relative to the term to maturity for the issues we own. For asset-backed securities, we evaluate changes in factors such as collateral performance, default rates, loss severities and expected cash flows. At September 30, 2021, the amortized cost and fair value of securities on the watch list (all fixed maturity securities) are as follows:

General Description	Number of Securities	Amortized Cost	Allowance for Credit Losses	Amortized Cost, Net of Allowance	Net Unrealized Losses, Net of Allowance	Fair Value
				(Dollars in thousands)		
Corporate securities - Public securities	1	\$ 6,351	\$ (209)	\$ 6,142	\$ —	\$ 6,142
Corporate securities - Private placement securities	5	36,589	(797)	35,792	(742)	35,050
Residential mortgage backed securities	10	21,470	(296)	21,174	(284)	20,890
Commercial mortgage backed securities	5	68,232	—	68,232	(2,989)	65,243
United States municipalities, states and territories	5	19,044	(2,772)	16,272	(575)	15,697
	<u>26</u>	<u>\$ 151,686</u>	<u>\$ (4,074)</u>	<u>\$ 147,612</u>	<u>\$ (4,590)</u>	<u>\$ 143,022</u>

We expect to recover the unrealized losses, net of allowances, as we did not have the intent to sell and it was not more likely than not that we would be required to sell these securities prior to recovery of the amortized cost basis, net of allowances. Our analysis of these securities and their credit performance at September 30, 2021 is as follows:

Corporate securities - public securities: The public corporate security included on the watch list has exposure to the offshore drilling industry. The decline in value of this security is due the low level of oil prices over a long period of time. While oil prices have drifted up in recent periods, the company's credit metrics remain under pressure.

Corporate securities - private placement securities: The private placement securities included on the watch list are spread across numerous industries, the most significant of which is the airlines industry. The heightened credit risk on these securities is primarily due to the impact COVID-19 has had on the travel industry.

Structured securities: The structured securities included on the watch list have generally experienced higher levels of stress due to the impact COVID-19 is having on the economy. While there is a heightened level of credit risk for the structured securities on the watch list, we expect minimal credit losses on these securities based on our current analyses.

United States municipalities, states and territories: The decline in value of these securities, which are related to senior living facilities in the Southeastern region of the United States, is primarily due to the financial strain COVID-19 is having on this industry.

#### Credit Losses

We have a policy and process to identify securities in our investment portfolio for which we recognize credit loss. See Note 4 to our unaudited consolidated financial statements.

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

During the three and nine months ended September 30, 2020, we recognized credit losses of \$4.8 million and \$51.5 million, respectively, on corporate securities with exposure to the offshore drilling industry and \$19.2 million and \$27.5 million, respectively, on commercial mortgage backed securities due to the impact of COVID-19 on the performance of the underlying collateral or our intent to sell the securities. In addition, during the three and nine months ended September 30, 2020, we recognized credit losses of \$0.4 million and \$1.2 million, respectively, on residential mortgage backed securities due to the performance of the underlying collateral and \$1.5 million and \$1.6 million, respectively, on private placement securities with exposure primarily to the airlines industry. During the nine months ended September 30, 2020 we recognized a credit loss of \$0.5 million on an asset backed security due to our intent to sell such security.

Several factors led us to believe that full recovery of amortized cost is not expected on the securities for which we recognized credit losses. A discussion of these factors, our policy and process to identify securities that could potentially have credit loss is presented in Note 4 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

#### *Mortgage Loans on Real Estate*

Our financing receivables consist of three mortgage loan portfolio segments: commercial mortgage loans, agricultural mortgage loans and residential mortgage loans. Our commercial mortgage loan portfolio consists of loans with an outstanding principal balance of \$3.3 billion and \$3.6 billion as of September 30, 2021 and December 31, 2020, respectively. This portfolio consists of mortgage loans collateralized by the related properties and diversified as to property type, location and loan size. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and other criteria to attempt to reduce the risk of default. Our agricultural mortgage loan portfolio consists of loans with an outstanding principal balance of \$354.7 million and \$245.8 million as of September 30, 2021 and December 31, 2020, respectively. These loans are collateralized by agricultural land and are diversified as to location within the United States. Our residential mortgage loan portfolio consists of loans with an outstanding principal balance of \$610.6 million and \$366.3 million as of September 30, 2021 and December 31, 2020, respectively. These loans are collateralized by the related properties and diversified as to location within the United States. Mortgage loans on real estate are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances.

At September 30, 2021 and December 31, 2020, the largest principal amount outstanding for any single commercial mortgage loan was \$28.2 million and \$34.7 million, respectively, and the average loan size was \$4.7 million and \$4.8 million, respectively. In addition, the average loan-to-value ratio for commercial and agricultural mortgage loans combined was 53.2% and 53.6% at September 30, 2021 and December 31, 2020, respectively, based upon the underwriting and appraisal at the time the loan was made. This loan-to-value ratio is indicative of our conservative underwriting policies and practices for originating mortgage loans and may not be indicative of collateral values at the current reporting date. Our current practice is to only obtain market value appraisals of the underlying collateral at the inception of the loan unless we identify indicators of impairment in our ongoing analysis of the portfolio, in which case, we either calculate a value of the collateral using a capitalization method or obtain a third party appraisal of the underlying collateral. The commercial mortgage loan portfolio is summarized by geographic region and property type in Note 5 to our unaudited consolidated financial statements in this Form 10-Q, incorporated by reference in this Item 2.

In the normal course of business, we commit to fund commercial mortgage loans up to 90 days in advance. At September 30, 2021, we had commitments to fund mortgage loans totaling \$44.0 million, with interest rates ranging from 3.55% to 6.03%. During 2021 and 2020, due to historically low interest rates, the commercial mortgage loan industry has been very competitive. This competition has resulted in a number of borrowers refinancing with other lenders. For the nine months ended September 30, 2021, we received \$250.3 million in cash for loans being paid in full compared to \$126.4 million for the nine months ended September 30, 2020. Some of the loans being paid off have either reached their maturity or are nearing maturity; however, some borrowers are paying the prepayment fee and refinancing at a lower rate.

See Note 5 to our unaudited consolidated financial statements, incorporated by reference, for a presentation of our valuation allowance, foreclosure activity and troubled debt restructure analysis. We have a process by which we evaluate the credit quality of each of our mortgage loans. This process utilizes each loan's loan-to-value and debt service coverage ratios as primary metrics. See Note 5 to our unaudited consolidated financial statements, incorporated by reference, for a summary of our portfolio by loan-to-value and debt service coverage ratios.



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

	Current	30-59 days past due	60-89 days past due	Over 90 days past due	Total
<b>As of September 30, 2021:</b>	<b>(Dollars in thousands)</b>				
Commercial mortgage loans	\$ 3,323,984	\$ —	\$ —	\$ —	\$ 3,323,984
Agricultural mortgage loans	353,741	—	—	—	353,741
Residential mortgage loans	565,085	55,416	5,160	6,914	632,575
Total mortgage loans	<u>\$ 4,242,810</u>	<u>\$ 55,416</u>	<u>\$ 5,160</u>	<u>\$ 6,914</u>	<u>\$ 4,310,300</u>
<b>As of December 31, 2020:</b>					
Commercial mortgage loans	\$ 3,578,888	\$ —	\$ —	\$ —	\$ 3,578,888
Agricultural mortgage loans	245,173	—	—	—	245,173
Residential mortgage loans	346,730	25,449	111	167	372,457
Total mortgage loans	<u>\$ 4,170,791</u>	<u>\$ 25,449</u>	<u>\$ 111</u>	<u>\$ 167</u>	<u>\$ 4,196,518</u>

### Derivative Instruments

Our derivative instruments primarily consist of call options purchased to provide the income needed to fund the annual index credits on our fixed index annuity products. The fair value of the call options is based upon the amount of cash that would be required to settle the call options obtained from the counterparties adjusted for the nonperformance risk of the counterparty. The nonperformance risk for each counterparty is based upon its credit default swap rate. We have no performance obligations related to the call options.

None of our derivatives qualify for hedge accounting, thus, any change in the fair value of the derivatives is recognized immediately in the consolidated statements of operations. A presentation of our derivative instruments along with a discussion of the business strategy involved with our derivatives is included in Note 7 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

### Liquidity and Capital Resources

Our insurance subsidiaries generally have adequate cash flows from annuity deposits and investment income to meet their policyholder and other obligations. Net cash flows from annuity deposits and funds returned to policyholders as surrenders, withdrawals and death claims were \$1,567.7 million for the nine months ended September 30, 2021 compared to \$(806.2) million for the nine months ended September 30, 2020, with the increase attributable to a \$2,886.9 million increase in net annuity deposits after coinsurance and a \$513.0 million (after coinsurance) increase in funds returned to policyholders. We continue to invest the net proceeds from policyholder transactions and investment activities in high quality fixed maturity securities and mortgage loans. We have a highly liquid investment portfolio that can be used to meet policyholder and other obligations as needed. In addition, we intend to hold approximately 1% to 2% of our investment portfolio in cash and cash equivalents.

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

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

Currently, American Equity Life may pay dividends or make other distributions without the prior approval of the Iowa Insurance Commissioner, unless such payments, together with all other such payments within the preceding twelve months, exceed the greater of (1) American Equity Life's net gain from operations for the preceding calendar year, or (2) 10% of American Equity Life's statutory capital and surplus at the preceding December 31. For 2021, up to \$372.9 million can yet be distributed as dividends by American Equity Life without prior approval of the Iowa Insurance Commissioner. In addition, dividends and surplus note payments may be made only out of statutory earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities in the life subsidiary's state of domicile. American Equity Life had \$2.1 billion of statutory earned surplus at September 30, 2021.

The maximum distribution permitted by law or contract is not necessarily indicative of an insurer's actual ability to pay such distributions, which may be constrained by business and regulatory considerations, such as the impact of such distributions on surplus, which could affect the insurer's ratings or competitive position, the amount of premiums that can be written and the ability to pay future dividends or make other distributions. Further, state insurance laws and regulations require that the statutory surplus of our life subsidiaries following any dividend or distribution must be reasonable in relation to their outstanding liabilities and adequate for their financial needs. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength ratings from rating agencies. Both regulators and rating agencies could become more conservative in their methodology and criteria, including increasing capital requirements for our insurance subsidiaries which, in turn, could negatively affect the cash available to us from insurance subsidiaries. As of September 30, 2021, we estimate American Equity Life has sufficient statutory capital and surplus, combined with capital available to the holding company, to maintain its insurer financial strength rating. However, this capital may not be sufficient if significant future losses are incurred or a rating agency modifies its rating criteria and access to additional capital could be limited.

Cash and cash equivalents of the parent holding company at September 30, 2021, were \$397.0 million. We also have the ability to issue equity, debt or other types of securities through one or more methods of distribution. The terms of any offering would be established at the time of the offering, subject to market conditions.

### **New Accounting Pronouncements**

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

### **Regulatory Developments**

The U.S. Department of Labor (the "DOL") issued new guidance during the first quarter of 2021 broadening the criteria for when an advisor on ERISA or Individual Retirement Account products has a fiduciary duty to the client. Advisors who sell our products who may be fiduciaries will have more complex compliance and disclosure obligations, and as a result higher costs. In addition, to the extent the DOL requires a fiduciary institution to oversee such an advisor, we or the IMO's with whom we partner may have more complex compliance and disclosure obligations, and as a result higher costs and greater risk. The DOL has also indicated it intends to make further changes to the existing regulatory framework for providing fiduciary advice. While the scope and content of any such changes remain uncertain, they may include new rules and amending or revoking exemptions financial institutions rely on in providing services.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

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

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

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

If interest rates were to increase 10% (20 basis points) from levels at September 30, 2021, we estimate that the fair value of our fixed maturity securities would decrease by approximately \$701.4 million. The impact on stockholders' equity of such decrease (net of income taxes and certain adjustments for changes in amortization of deferred policy acquisition costs and deferred sales inducements and policy benefit reserves) would be a decrease of \$316.1 million in accumulated other comprehensive income and a decrease in stockholders' equity. The models used to estimate the impact of a 10% change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of our financial instruments indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because we actively manage our investments and liabilities, our net exposure to interest rates can vary over time. However, any such decreases in the fair value of our fixed maturity securities (unless related to credit concerns of the issuer requiring recognition of a credit loss) would generally be realized only if we were required to sell such securities at losses prior to their maturity to meet our liquidity needs, which we manage using the surrender and withdrawal provisions of our annuity contracts and through other means. See Financial Condition - Liquidity for Insurance Operations included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020 for a further discussion of the liquidity risk.

The amortized cost of fixed maturity securities that are callable at the option of the issuer, excluding securities with a make-whole provision, was \$5.4 billion as of September 30, 2021. We have reinvestment risk related to these redemptions to the extent we cannot reinvest the net proceeds in assets with credit quality and yield characteristics similar to the redeemed bonds. Such reinvestment risk typically occurs in a declining rate environment. In addition, we have \$3.5 billion of floating rate fixed maturity securities as of September 30, 2021. Generally, interest rates on these floating rate fixed maturity securities are based on the 3 month LIBOR rate and are reset quarterly. Should rates decline to levels which tighten the spread between our average portfolio yield and average cost of interest credited on annuity liabilities, we have the ability to reduce crediting rates (caps, participation rates or asset fees for fixed index annuities) on most of our annuity liabilities to maintain the spread at our targeted level. At September 30, 2021, approximately 92% of our annuity liabilities were subject to annual adjustment of the applicable crediting rates at our discretion, limited by minimum guaranteed crediting rates specified in the policies. At September 30, 2021, approximately 18% of our annuity liabilities were at minimum guaranteed crediting rates.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in thousands)			
Proceeds received at expiration of options related to such credits	\$ 489,902	\$ 178,405	\$ 1,559,495	\$ 560,683
Annual index credits to policyholders on their anniversaries	475,292	174,747	1,535,320	551,562

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

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

In accordance with the Securities Exchange Act Rules 13a-15(e) and 15d-15(e), our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded the design and operation of our disclosure controls and procedures were effective as of September 30, 2021 in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

We describe certain factors that may affect our business or operations under "Risk Factors" in Part I, Item 1A, of our 2020 Annual Report on Form 10-K, as amended or supplemented here.

### Risks Relating to Our Business

***Brookfield's Pending Investment in Our Common Stock is Subject to Regulatory Approvals and is Terminable by Brookfield or by us Under Certain Conditions.***

Brookfield's pending investment in our common stock is subject to regulatory approvals. These approvals remain outstanding, and may delay or impact the execution of Brookfield's pending investment. Our Investment Management Agreement with Brookfield, as amended, is terminable by either Brookfield or us after November 30, 2021, unless the parties have received these regulatory approvals and closed that investment. However, a party whose failure to fulfill any material obligation under that agreement or other material breach of that agreement has been the primary cause of, or resulted in, the failure to close that investment, does not have the right to terminate that agreement.

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

#### Issuer Purchases of Securities

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

Period	Total Number of Shares Purchased (shares)	Average Price Paid Per Share (dollars)	Total number of shares purchased as part of publicly announced program (a) (shares)	Approximate dollar value of shares that may yet be purchased under program (dollars in thousands)
July 1, 2021 - July 31, 2021	41,004	\$ 32.70	41,004	\$ 236,000
August 1, 2021 - August 31, 2021	—	\$ —	—	\$ —
September 1, 2021 - September 30, 2021	—	\$ —	—	\$ —
Total	<u>41,004</u>		<u>41,004</u>	

(a) On October 18, 2020, the Company's Board of Directors approved a \$500 million share repurchase program.

### Item 5. Other Information

As we continue to execute our multi-year AEL 2.0 transformation and look to optimize our operating flexibility and capital structure, we intend to put in place an appropriate level of suitable financing alternatives. We decided to let our revolving credit facility expire and expect to put in its place a meaningful financing structure that, if needed, together with our strong cash position, subsidiary dividend capacity, and other existing sources of liquidity, can help support the planned execution of ongoing AEL 2.0 initiatives and other potential future transactions over the next five years.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
10.1 *	<a href="#">Offer Letter Agreement dated August 25, 2021 between American Equity Investment Life Insurance Company and Axel Andre</a>
10.2 *	<a href="#">Retention Agreement between American Equity Investment Life Insurance Company and Scott Samuelson dated as of September 30, 2021</a>
10.3 *	<a href="#">American Equity Transition Benefit Plan, dated as of August 6, 2021</a>
10.4 *	<a href="#">Form of Separation Agreement under American Equity Transition Benefit Plan, effective August 6, 2021</a>
10.5 *	<a href="#">Excerpts From American Equity Investment Life Holding Company Board of Directors Action by Written Consent Regarding John Matovina Restricted Stock, dated October 25, 2021</a>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101	The following materials from American Equity Investment Life Holding Company's Quarterly Report on Form 10-Q for the period ended September 30, 2021 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Consolidated Financial Statements.
104	The cover page from American Equity Investment Life Holding Company's Quarterly Report on Form 10-Q for the period ended September 30, 2021 formatted in iXBRL and contained in Exhibit 101.

\* Denotes management contract or compensatory plan.

## **SIGNATURES**

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

Date: November 9, 2021

AMERICAN EQUITY INVESTMENT LIFE  
HOLDING COMPANY

By: /s/ Scott A. Samuelson

Scott A. Samuelson

Vice President and Chief Accounting Officer

(Principal Accounting Officer and Duly Authorized Officer)



August 25, 2021

Axel Andre  
[REDACTED]

Dear Axel,

On behalf of American Equity Investment Life Holding Company (the "Company"), I am pleased to confirm our verbal offer of employment. This offer is to join our company on September 7, 2021 as Chief Financial Officer reporting to Anant Bhalla.

Your annual salary will be \$600,000 per year, payable in accordance with the Company's standard payroll practices and subject to withholding taxes.

This offer also includes your participation in our Short-Term Incentive Plan. Your Short-Term Incentive Plan opportunity is a target bonus of 175% of your base salary and a maximum of 350% of your base salary. The actual bonus to be paid under this incentive plan is based upon certain annual company performance metrics and personal goals and will be paid out on a pro-rata basis for performance year 2021. You will also be recommended to the Board of Directors in 2022 for a Long-Term Incentive Plan award with a target of 200% of your base salary. Further details will be provided upon grant.

To facilitate your transition to the Company, effective with your start date you will receive a stock option grant valued at \$400,000 fair market value on date of grant. The grant has a ten-year term and is subject to a graduated vesting schedule with 1/3 of the award vesting on each of your first, second and third anniversaries with the Company. The award is subject to the terms set forth in the award agreement as well as the equity incentive plan under which it is granted. You will also receive a one-time cash sign on bonus of \$200,000, minus applicable taxes. Should you voluntarily leave the Company prior to the first anniversary date of payment, you will be required to pay back the gross amount of the sign on bonus in full.

You will receive a two-year Change in Control Agreement that will cover your annual base salary and Short-Term Performance Incentive Plan target bonus.

This offer includes an officer title of Executive Vice President pending Board of Directors approval.

For the period up to, but no more than, one year after your start date, American Equity will reimburse you for temporary housing in the Des Moines, Iowa metro. Expenses must be agreed in advance by the Chief Human Resources Officer. Any housing reimbursement will be included in your gross income and subject to income taxes. Similar to the sign on bonus, should you voluntarily leave the Company prior to the first anniversary date of payment, you will be required to pay back the gross amount of any housing reimbursement provided by the Company. Also, should the Company determine that relocation to Des Moines is required, you will be provided relocation benefits under the relocation plan in place at that time for similarly situated executives.

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

This offer is subject to the successful passing of a background investigation and credit check, as well as clearance of your Directors and Officers Questionnaire. Upon acceptance of our offer, please electronically sign this letter below. If you have any questions about this offer, please contact either myself or Megan Kohler, Senior Talent Acquisition Partner at [REDACTED]. You are encouraged to keep a copy for your records, or we can provide one upon request.

We are excited to make this opportunity available to you and know that you will find joining American Equity to be a rewarding career transition.

Best Regards,

/s/ Jennifer Bryant

Jennifer Bryant

EVP, Chief Human Resources Officer

Accepted by: Axel Andre /s/ Axel Andre

Date: 08/26/2021



## RETENTION AGREEMENT

This Retention Agreement (“Agreement”) is entered into by and between American Equity Investment Life Insurance Company (“Employer”) and Scott Samuelson (“Employee”) as of September 30, 2021 (“Effective Date”).

**WHEREAS**, Employee is a valued employee of Employer;

**WHEREAS**, Employer is currently the Chief Accounting Officer of the Employer and the Employer’s parent company, American Equity Investment Life Holding Company (“Holding Company”); and

**WHEREAS**, Employer wishes to provide an incentive to Employee to continue Employee’s employment with Employer.

**THEREFORE**, based on the consideration and mutual covenants in this Agreement, Employee and Employer agree as follows:

1. Employer will pay Employee Retention Awards (“Awards”) in the following amounts, payable within 30 days after each specified date (the “Retention Dates”), provided the conditions outlined in Section 2 are also met:
  - a. \$150,000 – Retention Date November 30, 2021, so long as the Holding Company has filed its quarterly report on Form 10-Q (“10-Q”) for the third quarter of 2021 with the Securities and Exchange Commission (“SEC”) by that date;
  - b. \$75,000 – Retention Date March 31, 2021, so long as the Holding Company has filed its annual report on Form 10-K for 2021 with the SEC by that date; and
  - c. \$75,000 – Retention Date May 31, 2022, so long as the Holding Company has filed its 10-Q for first quarter of 2022 with the SEC by that date.
2. Subject to Section 3, to receive each Award, Employee must demonstrate satisfactory progress on control environment enhancements as reasonably determined by the Holding Company Chief Financial Officer and remain continuously employed with Employer through the specified Retention Date.
3. Notwithstanding the foregoing, if Employee’s employment with Employer is terminated due to death, Disability (as defined under the American Equity Investment Life Holding Company 2016 Employee Incentive Plan) or other than for Cause (as defined below), any Award payments which have not yet been paid will be made within 30 days following such termination of Employee’s employment. In the event of Employee’s death, payment will be made to Employee’s beneficiary as designated by the Employee under the group life insurance plan in which Employee participates. For purposes of this Agreement, “Cause” includes: (i) the willful and continued failure by the Employee to perform substantially the Employee’s duties with the Employer and its corporate affiliates (“Enterprise”) (other than any such failure resulting from the Employee’s incapacity due to physical or mental illness) for a period of thirty (30) days after a written demand for substantial performance is delivered to the Employee that specifically identifies the manner in which the Employee has not substantially performed his or her duties; (ii) the commission of an act of fraud, embezzlement or dishonesty in the course of employment that results in material loss, damage or injury to the Enterprise; (iii) material non-compliance with generally accepted financial standards or reporting requirements that results in any Enterprise company’s restatement of its earnings, financial results or financial statements; (iv) the conviction of, guilty plea to, or plea of “no contest” to a criminal act, whether or not in the course of employment or in the workplace, that constitutes a felony or other serious crime involving moral turpitude, dishonesty or fraud; (v) the violation of a non-compete, non-solicitation or confidentiality agreement with the Enterprise, that causes material financial impact or significant reputational harm, or the material violation of any Enterprise Code of Conduct; or (vi) the willful failure to cooperate with the Enterprise in any investigation or formal proceeding or being found liable in a Securities and Exchange Commission enforcement action. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Employer Board of Directors or Holding Company Board of Directors or based upon the advice of counsel for the Enterprise shall be conclusively presumed to be done, or omitted to be done, by the Employee in good faith and in the best interests of the Enterprise.
4. The laws of the State of Iowa will govern this Agreement, and Employee agrees to submit to the personal jurisdiction of the state and federal courts in Iowa.
5. Nothing in this Agreement shall interfere with or limit in any way the right of Employer to terminate Employee’s employment at any time for any reason or no reason, or confer upon Employee any right to continue in the employ of Employer.
6. This Agreement may only be amended in writing signed by both parties.
7. Employee agrees that commencing with the Effective Date and continuing for a period of one year after the termination of Employee’s employment, Employee shall not, directly or indirectly:
  - a. Induce, entice, recruit, hire, or employee, or attempt to induce, entice, recruit, hire, or employ any employee of the Enterprise, or cause or encourage any Person to do any of the foregoing;

- b. Solicit on Employee's own behalf or on behalf of any entity other than the Enterprise any customers, clients, or prospective customers or clients of the Enterprise who are known to Employee to be customers, clients, or prospective customers or clients of the Enterprise to cease doing business with or reduce or change their relationship with the Enterprise; or
- c. Serve directly or indirectly as an owner, employee, officer, trustee advisor, partner, consultant, or in any other capacity any of the following entities: Apollo Global Management, Blackstone, Brookfield (solely with respect to matters involving the Company), the Carlyle Group, KKR & Co. Inc., Paulson Investment Company, or Sixth Street Partners, or any successor, affiliate or portfolio company of such entities that competes with the Company with respect to the sale of fixed index and fixed rate annuities. The foregoing restriction shall not include the passive ownership of securities in any entity listed above and the exercise of rights appurtenant thereto, so long as such securities represent no more than two percent of the voting power of all securities of such enterprise.
8. Employee acknowledges that the covenants contained in Section 7 are reasonable in the scope of the activities restricted and the duration of the restrictions, and that such covenants are reasonably necessary to protect the Enterprise's legitimate interests in its relationships with its employees, customers, clients and suppliers. Employee further acknowledges such covenants are essential elements of this Agreement and that, but for such covenants, the Employer would not have entered into this Agreement.
- Notwithstanding the foregoing, to the extent any court holds that the restrictions in Section 7 are unreasonable under circumstances then existing, Employee and Employer agree that the maximum period, scope or geographical area reasonable under such circumstances shall be substituted for the stated period, scope or area.
9. This Agreement is the complete agreement of Employer and Employee regarding the Award, and supersedes any prior agreements whether written or oral.
10. Employer shall be entitled to withhold from amounts to be paid to Employee under this Agreement any federal, state or local withholding or other taxes or charges which it is from time to time required to withhold.
11. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

**Employer**

By: /s/ Jennifer Bryant  
Name: Jennifer Bryant  
Title: EVP and Chief Human Resources Officer  
September 30, 2021  
Date

**Employee**

By: /s/ Scott Samuelson  
Scott Samuelson  
September 30, 2021  
Date

## AMERICAN EQUITY TRANSITION BENEFIT PLAN

Dated as of August 6, 2021

### ARTICLE I

#### PURPOSE

The purpose of the American Equity Transition Benefit Plan is to provide benefits to certain employees of the Company and other Employers whose employment is involuntarily terminated under the circumstances set forth below. The Employer intends the Plan to qualify as an unfunded “employee benefit plan” (as such term is defined under Section 3(3) of ERISA) designed to provide severance benefits to Participants as a “welfare plan” (as such term is defined under Section 3(1) of ERISA). The Plan is effective as of August 6, 2021.

### ARTICLE II

#### DEFINITIONS

The following capitalized terms shall, for purposes of this Plan have the meaning described below.

Affiliate means the Holding Company or any entity which is within the definition of that term under S.E.C. Rule 12b-2 which reference to the Holding Company.

Click means the Employer’s Click incentive compensation program.

Click Basis means the Participant’s most recent Click award, determined in the sole discretion of the Employer under Click.

COBRA means the Consolidated Omnibus Budget Reconciliation Act of 1985.

COBRA Assistance means a taxable cash payment equal to such Participant’s COBRA contribution rate for the first twelve (12) months after termination of employment.

Company means American Equity Investment Life Insurance Company.

Employee means any individual employed by an Employer in the United States of America who is eligible to participate in the American Equity Investment Profit Sharing and 401(K) Plan.

Employer means any Affiliate which adopts this Plan, each with respect to its own Employees.

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

Holding Company means American Equity Investment Life Holding Company.

Involuntary Termination means any of Involuntary Termination Due To Job Elimination, Involuntary Termination Due to Job Modification, or Involuntary Termination Due to Poor Fit, but in no case includes any employment termination at any time, that was attributable, in the sole discretion of the Employer, to any of (a) the Employee engaging in misconduct (as determined in the sole discretion of the Employer), (b) Employee poor job performance not qualifying for Involuntary Termination Due to Job Modification, or Involuntary Termination Due to Poor Fit, (c) the Employee resigning or retiring, including after an Employer has notified the Employee that Employer intends to involuntarily terminate the Employee, or (d) the Employee’s death.

Involuntary Termination Due to Job Elimination means an involuntary termination of an Employee's employment by an Employer that, in the sole discretion of the Employer, was because the Employee's job has been eliminated.

Involuntary Termination Due to Job Modification means an involuntary termination of an Employee's employment by an Employer that is attributable, in the sole discretion of the Employer, to changes to the level, responsibilities, education, training, qualifications, experience, or skills required to successfully perform the Employee’s job that the Employee does not possess and is unlikely, despite reasonably anticipated efforts, to possess within a reasonable period of time in light of business needs.

Involuntary Termination Due to Poor Fit means an involuntary termination of an Employee's employment by an Employer that is attributable, in the sole discretion of the Employer, to manifest poor Employee fit or misalignment for the Employee's job due to the Employee's lack of training, qualifications, experience, or skills required to successfully perform the Employee's job and that the Employee is unlikely, despite reasonably anticipated efforts, to possess the necessary attributes within a reasonable period of time in light of business needs, such poor fit generally arising within a reasonable time after the Employee is placed in the job.

Participant means any Employee whose employment is terminated because of an Involuntary Termination and whom the Employer selects, in the Employer's discretion, to be a Participant.

Plan means this American Equity Transition Benefit Plan, as amended from time to time.

Plan Administrator means the individual designated by the Chief Human Resources Officer of the Company.

Prior Severance Arrangement means an Employee's offer letter or other agreement or arrangement with the Company or an Affiliate (other than the Plan) that provides for the payment of severance benefits or similar payments to the Employee upon a change-in-control related to the Company or the Employee's employment termination or cessation with the Company (or an Affiliate).

Separation Agreement and General Release means the document designated by the Employer from time to time.

Severance Benefit means a severance benefit determined in accordance with Article IV, subject to the applicable limits and/or benefit reductions set forth in the Plan.

Short-Term Incentive Target means the Participant's target STI Plan award, determined in the sole discretion of the Employer under the STI Plan.

STI Plan means the American Equity Investment Life Holding Company Short-Term Performance Incentive Plan.

Tier 1 Participant means a Participant whom the Employer determines from its books and records is, as of the date of Involuntary Termination, an executive officer (as determined under SEC Rule 3b-7 or any successor rule) of the Holding Company, or an Executive Vice President of the Company.

Tier 2 Participant means a Participant who is not a Tier 1 Participant whom the Employer determines from its books and records is, as of the date of Involuntary Termination, a direct report to the Holding Company Chief Executive Officer holding a "Chief" title, or a senior managing directors title, with the Company.

Tier 3 Participant means a Participant who is neither a Tier 1 Participant nor Tier 2 Participant whom the Employer determines from its books and records is, as of the date of Involuntary Termination, holding a "Head of" title.

Tier 4 Participant means a Participant who is neither a Tier 1 Participant, nor a Tier 2 Participant, nor Tier 3 Participant.

Week's Pay means 1/52nd of the Employee's annual gross base salary as of the date of such Employee's Involuntary Termination, determined without regard to overtime, commissions, premiums, bonuses, incentive payments, incentive awards, supplemental allowances, shift allowances, living or other allowances as well as retirement benefits and other fringe benefits.

Year of Service means each year of continuous service with the Company or an Affiliate since the latest date of hire of the Employee by such Company or Affiliate, rounded to the nearest whole number, as determined by the Employer based on its books and records.

### **ARTICLE III**

#### **ELIGIBILITY AND PAYMENT**

3.1 Eligibility. A Participant is entitled to a Severance Benefit only if, as determined by the Employer in its sole discretion:

(a) The Participant does not voluntarily terminate employment with the Participant's Employer on or before the date on which the Participant's Involuntary Termination would have become effective; and

(b) The Participant continues to work through the date of his or her scheduled termination in a manner which is satisfactory to the Employer and complies with all Employer policies, procedures, and guidelines.

3.2 Severance Benefit. A Participant is entitled to a Severance Benefit only if:

(a) The Employer, in its discretion, offers the Participant a Separation Agreement and General Release, the Participant agrees to such agreement, such agreement becomes final and effective (including that the Participant does not revoke acceptance in accordance with that agreement's terms); and

(b) The Participant does not violate the terms of the Separation Agreement and General Release, as determined by the Employer in its discretion.

3.3 Distribution of Severance Benefits.

(a) So long as the Participant's Separation Agreement and General Release becomes final and effective, the Participant will receive any Severance Pay in substantially equal installments beginning on the next practicable scheduled Company payday following the Separation Agreement and General Release becoming final and effective, and the last equal installment paid:

(1) for a Tier 1, Tier 2, or Tier 3 Participant, no later than March 15th of the calendar year following the date of employment termination (or following the date of separation from service under U.S. Internal Revenue Code Section 409A, if different), except as otherwise provided in the Separation Agreement and General Release; or

(2) for a Tier 4 Participant, no later than the earlier of (a) three (3) months after the installment payments began, or (a) March 15th of the calendar year following the date of employment termination (or following the date of separation from service under U.S. Internal Revenue Code Section 409A, if different), in each case except as otherwise provided in the Separation Agreement and General Release.

(b) So long as a Tier 1 Participant's Separation Agreement and General Release becomes final and effective, the Participant will receive any COBRA Assistance in a single lump sum on the next practicable scheduled Company payday after the later of (i) election to continue coverage under the Company's Medical and Dental Plans under COBRA; or (ii) the Separation Agreement and General Release becomes final and effective, except as otherwise provided in the Separation Agreement and General Release.

(c) So long as the Participant's Separation Agreement and General Release becomes final and effective, the Participant will receive Outplacement Assistance as described in Article IV, except as otherwise provided in the Separation Agreement and General Release.

3.4 Death of a Participant. If a Participant who is offered a Separation Agreement and General Release dies before executing that agreement, such Participant shall receive no Severance Benefit. With respect to a Participant who is offered and has executed a Separation Agreement and General Release as of the date of death the Participant's estate shall receive the Severance Pay Component and any COBRA Assistance prescribed in the Separation Agreement and General Release, except that there will be no entitlement to receive any Outplacement Assistance.

3.5 Offset. (a) To the extent permitted by law, the Company and/or its Affiliates reserve the right to offset Severance Pay by (i) any advance, loan or other monies the Participant owes the Company or any Affiliate; or (ii) any obligations the Participant owes the Company or any Affiliate, including, but not limited to, the following: any outstanding financial obligations(s) that the Participant has to the Company or any Affiliate, including, but not limited to, expense account balances, employee advances, the value of any computer hardware or software, communications equipment or other Company- or any Affiliate-provided property in the Participant's possession that the Participant fails to return to the Company or an Affiliate. Additionally, since damages due to violation of any of the provisions of the Separation Agreement or release will be significant and difficult to estimate, the Company may cease payment of any and all amounts under this Plan upon becoming aware of any such violation or breach. The Company and/or its Affiliates may also take any other action consistent with law that any of them considers in its sole discretion to be necessary and /or appropriate.

(b) To the extent that a federal, state or local law, including the Worker Adjustment and Retraining Notification Act ("WARN"), requires the Company or any Affiliate to give advance notice or make a payment to a Participant because of Involuntary Termination, layoff, plant closing, sale of business or any other similar event (collectively, "WARN Event"), then the amount of such required payment shall coordinate with and reduce Severance Pay otherwise payable under the Plan; provided,

however, that in no event shall Severance Pay be reduced by this provision on account of a WARN Event below two (2) Weeks' Pay.

3.6 Other Company, Affiliate, and Employer Arrangements. Any other Participant rights and benefits that may be available under any other Company, Employer, or Affiliate arrangements, including any rights under long term incentive compensation plans arising upon a termination of employment with severance eligibility, shall be determined in accordance with the terms and conditions of such arrangements, including but not limited to applicable governing award agreements including any condition for execution and non-revocation of a Separation Agreement and General Release.

#### **ARTICLE IV**

##### **DETERMINATION OF SEVERANCE BENEFIT**

4.1 Components of Severance Benefit. The Severance Benefit offered to a Participant under a Separation Agreement and General Release, and payable only if such Separation Agreement and General Release becomes final and effective and the Participant has not violated its terms, shall consist of the elements provided in this Article IV. Notwithstanding the foregoing provisions of this Article IV, the Employer, in its sole discretion, may at any time prior to the execution by a Participant of a Separation Agreement and General Release, increase, decrease or eliminate the Severance Benefit payable as to any given Participant or any class of Participants, based on such factors or considerations that the Employer deems relevant.

4.2 Severance Pay. The Severance Benefit will include "Severance Pay" equal the sum of the amounts determined under clauses (a) and (b):

(a) a "Base Salary Component":

(1) for a Tier 1 or Tier 2 Participant, a Base Salary Component equal to fiftytwo (52) Weeks' Pay;

(2) for a Tier 3 Participant, a Base Salary Component equal to two (2) Week's Pay for each Year of Service, minimum sixteen (16) weeks, maximum thirty-six (36) weeks; or

(2) for a Tier 4 Participant, a Base Salary Component equal to two (2) Week's Pay for each Year of Service, minimum twelve (12) weeks, maximum twenty-six (26) weeks.

(b) a "Short-Term Incentive Compensation Component":

(1) for Participants eligible under the STI Plan:

(i) If the Participant's last day of employment with the Employer on account of an Involuntary Termination is on or after March 16 through and including December 31 of a calendar year, then the Participant shall receive, in consideration of the STI Plan opportunity for the current calendar year, an amount based on a pro rata share of the Participant's Short-Term Incentive Target determined by the Employer in its discretion using a fraction, the numerator of which is equal to the number of the Participant's full or partial months of employment during such calendar year, and the denominator of which is twelve; or

(ii) If the Participant's last day of employment with the Employer on account of Involuntary Termination is on or after January 1 but prior to March 16 of a calendar year, then (a) any Short-Term Incentive Compensation Component with respect to the prior calendar year performance shall be determined consistent with the methodology of the STI Plan; and (b) the Participant shall receive no Short-Term Incentive Compensation Component with respect to the current calendar year in which the Involuntary Termination took place.

(2) For Participants eligible under Click:

(i) If the Participant's last day of employment with the Employer on account of an Involuntary Termination is on or after half-way through a Click period, then the Participant shall receive, in consideration of the Click opportunity for the current Click period, an amount based on a pro rata share of the Participant's Click Basis determined by the Employer in its discretion using a fraction, the numerator of which is equal to the number of the Participant's full or partial months of employment during such period, and the denominator of which is the total number of months in that Click Period; or

(ii) If the Participant's last day of employment with the Employer on account of Involuntary Termination is earlier than half-way through a Click period, then (a) any Short-Term Incentive Compensation Component with respect to any yet unpaid Click award for the prior Click Period shall be determined consistent with the methodology of Click; and (b) the Participant shall receive no Short-Term Incentive Compensation Component with respect to the current Click period in which the Involuntary Termination took place.

4.3 COBRA Assistance. For a Tier 1 Participant only, to the extent the Participant is entitled to elect to continue coverage under the Company's Medical and Dental Plans under COBRA, and so elects COBRA coverage, the Severance Benefit will, to the extent permissible under law, include COBRA Assistance.

4.4 Outplacement Assistance. The Severance Benefit will include "Outplacement Assistance," which shall be determined by a schedule determined by the Employer from time to time. In no event shall any Plan payments for Outplacement Services be made later than March 15 of the calendar year following the calendar year of the Participant's termination of employment.

## ARTICLE V

### ADMINISTRATION

5.1 Administration of the Plan. The Plan Administrator shall be the administrator of the Plan for purposes of Section 3(16) of ERISA. The Plan Administrator shall have full discretionary authority to control and manage the operation of the Plan. The Plan will not compensate the Plan Administrator or its delegates for performing their Plan duties. The Plan Administrator has full and exclusive discretionary authority to:

(a) determine all questions relating to the eligibility, benefits, and other rights of Employees under the Plan, and all matters related thereto;

(b) interpret, construe and administer the provisions of the Plan, summary plan description, and (solely for purposes of claims under the Plan) any Separation Agreement and General Release;

(c) adopt any rules, procedures and forms necessary for the operation and administration of the Plan;

(d) keep all records necessary for the operation and administration of the Plan;

(e) take all steps necessary to comply with any ERISA reporting and disclosure requirements applicable to the Plan;

(f) designate or employ agents (who may also be Employees of an Employer) and delegate to such agents the exercise of one or more specific powers of the Plan Administrator;

(g) delegate any or all of its authority under the Plan to any individual, organization or committee either within the Employer or an unrelated third party; and

(h) retain or contract with any legal, accounting or other expert advisers (who may also be advisers to the Employer in connection with the Administrator's operation and administration of the Plan.

The Plan Administrator's interpretation and construction hereof, summary plan description, and (solely for purposes of claims under the Plan) any Separation Agreement and General Release, and its determinations thereunder (including under Sections 5.5 and 5.6) shall be binding and conclusive on all parties for all purposes.

5.2 Named Fiduciary. The Plan Administrator shall be the named fiduciary with respect to the Plan for purposes of Section 402 of ERISA.

5.3 Right of Contract. The Plan Administrator may contract with one or more persons to render advice with regard to any responsibility it has under this Plan.

5.4 Establishment of Administrative Procedures. Subject to the limitations of the Plan, the Plan Administrator shall from time to time establish such procedures for the administration of this Plan as the Plan Administrator may deem desirable.

5.5 Claims Procedure. Claims for benefits under this Plan may be submitted in writing to the Plan Administrator (or designee) by a claimant. An authorized representative (including legal counsel) may act on behalf of such claimant in pursuit of a claim under Section 5.6 of the Plan.

(a) If it is determined that a claim for benefits is not payable, in whole or in part, the Plan Administrator (or its delegate) will provide written notification of the denial within 90 days after the claim is received from a claimant or delegate.

(b) This notice will include:

(1) The specific reasons for denying the claim;

(2) A specific reference to the Plan provisions upon which the denial is based;

(3) A description of any additional material or information necessary for the claimant to perfect the claim, and an explanation of why this additional material or information is necessary; and

(4) A description of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination.

(c) If the Plan Administrator (or its delegate) determines that an extension of time is necessary for processing the claim, the Plan Administrator (or its delegate) shall notify the claimant in writing or electronically of such extension, the special circumstances requiring the extension and the date by which the Plan Administrator (or its delegate) expects to render the benefit determination. In no event shall the extension exceed a period of 90 days from the end of the initial 90-day period. If notice of the denial of a claim is not furnished within 90 days after the Plan Administrator (or its delegate) receives it (or within 180 days after such receipt if the Plan Administrator (or its delegate) determines an extension is necessary), the claim shall be deemed denied and the claimant shall be permitted to proceed to the review stage described in Section 5.7.

5.6 Appeals Procedure. Within 60 days of receiving the notice of denial, a claimant may file a written request with the Plan Administrator (or its delegate) for appellate review by the Chief Human Resources Officer of the Company, or such individual's designee other than the Plan Administrator, of the adverse benefit determination. An authorized representative (including legal counsel) may act on behalf of such claimant in pursuing an appeal under Section 5.7 of the Plan.

(a) In connection with the claimant's appeal of the adverse benefit determination, the claimant may submit written comments, documents, records, and other information relating to the claim for benefits, and claimants will be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits.

(b) Claimants will be provided with a final decision in writing promptly, and within 60 days of receiving the request for review, unless the Chief Human Resources Officer of the Company, or such individual's designee other than the Plan Administrator, determines that special circumstances require an extension of time for processing, in which case Chief Human Resources Officer of the Company, or such individual's designee other than the Plan Administrator, shall notify the claimant in writing or electronically of such extension, the special circumstances requiring the extension and the date by which the Plan Administrator (or its delegate) expects that the decision on the appeal of the benefit determination to be made. In no event shall the extension exceed a period of 60 days from the end of the initial 60-day period.

(c) In the case of an adverse benefit determination, the claimant will be provided with a written notice that shall include:

(1) specific reasons for the adverse determination;

(2) a reference to the specific Plan provisions on which the determination is based;

(3) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and

(4) a statement describing the claimant's right to bring an action under Section 502(a) of ERISA.

(c) For purposes of determining the appeal, the Chief Human Resources Officer of the Company, or such individual's designee other than the Plan Administrator, shall have each of the powers and authority of the Plan Administrator



5.7 Plan Administrator's Discretionary Authority. The Plan Administrator (or its delegate) has full discretion and authority to construe and interpret all provisions of the Plan, summary plan description, any Separation Agreement and General Release (solely for purposes of claims under the Plan), and any claims for benefits, and to make any factual determinations necessary to resolve a claim. The claimant may not bring an action in any court under the Plan until the claim and appeal rights described in Sections 5.5 and 5.6 have been exercised and exhausted, and the eligibility or benefits requested in the appeal have been denied, in whole or in part. In addition, if a claimant does not raise a particular issue or issues during the claim and appeals process, the claimant may not raise such issue or issues in any subsequent action brought in any court.

## ARTICLE VI

### AMENDMENT AND TERMINATION

6.1 Right to Amend or Terminate. Except as otherwise set forth below, the Plan may at any time without prior notice, for any reason, and from time to time be amended, suspended or terminated in whole or in part, in writing in a document executed by an officer of the Company.

6.2 Cessation of Eligibility. In the event the Plan is amended, suspended or terminated, Employees shall cease to be eligible for benefits with respect to employment terminations which occur thereafter except in accordance with such amendment.

## ARTICLE VII

### GENERAL

7.1 Management Decisions. This Plan document does not fully define in any particular circumstance whether an Employee's termination of employment entitles such Employee to any Severance Benefit hereunder, and the Employer reserves the right as a management prerogative to review the circumstances regarding each Employee's termination and to determine whether such Employee is eligible for, or entitled to, a Severance Benefit hereunder, including, without limitation, whether or not the circumstances of any Employee's termination of employment falls within the definition of Involuntary Termination, whether an individual is an eligible Employee, whether an Employee has a Prior Severance Arrangement, and whether an individual should be provided with a Separation Agreement and General Release. Where any provision of this Plan provides that any determination is to be made or other action taken by the Employer, that determination or action shall be considered for all purposes an exercise within the Employer's management prerogative to determine an Employee's eligibility for, and/or entitlement to, a Severance Benefit under the Plan and the amount or form of any such Severance Benefit (and not an exercise of discretion by a Plan fiduciary such as the Plan Administrator or a named fiduciary as described in Article V, which exercise may be reviewable subject to the provisions of applicable law). Such determinations or actions by the Employer under this Plan shall, to the extent made by the person who has been designated to serve as Plan Administrator, shall be made or taken by that individual in his or her capacity as an agent of the Employer exercising authority to perform management functions delegated by the Employer, and shall not be made or taken by that individual in the capacity of Plan Administrator or named fiduciary under ERISA.

7.2 Maximum Severance Benefit. Notwithstanding anything else contained in this Plan, maximum severance benefits payable to a Participant shall not exceed twice the Participant's "annual compensation" within the meaning of U.S. Department of Labor Regulation 29 CFR Section 2510.3-2(b)(2)(i) as determined by the Employer during the year immediately preceding his or her Involuntary Termination. In the event that total severance benefits would exceed this maximum, Severance Pay (and, if necessary, the Outplacement Assistance) shall be reduced so that the total severance benefits equals no more than such maximum.

7.3 No Right to Employment. Nothing contained herein shall be construed as conferring upon an Employee or Participant the right to continue in the employ of the Employer, Company, or any Affiliate in any capacity nor interfere in any way with the right of the Employer, Company, or any Affiliate to discharge an Employee or Participant for any reason.

7.4 Employee Benefit Plans. The Severance Benefit shall not be deemed to be salary or other compensation to the Participant for the purpose of computing benefits to which he may be entitled under any employee benefit plan or any other arrangement of the Employer, Company, or any Affiliate maintained for the benefit of its employees.

7.5 Severance Benefit as an Unsecured Promise. It is anticipated that the Employer, Company, or any Affiliate may establish a memorandum account on its books for the Participant as a bookkeeping convenience to reflect the anticipated Severance Benefit. However, the Company shall not be required to segregate any funds representing such Severance Benefit and nothing in this Plan shall be construed as providing for or requiring such segregation. In addition, neither the Employer,

Company, or any Affiliate shall be deemed to be a trustee for the Participant of any Severance Benefit. The Participant and any other person or persons having or claiming a right to payments hereunder or to any interest in this Plan shall rely solely on the unsecured promise of the Company to make payments hereunder. Nothing herein shall be construed to give the Participant or any other person or persons any right, title, interest or claim in or to any specific asset, fund, reserve, account or property of any kind whatsoever owned by the Employer, Company, or any Affiliate or in which it may have any right, title or interest now or in the future. The rights of any such person shall be limited to those of an unsecured creditor.

7.6 Payment from General Assets. Payments hereunder shall at all times be made by the Employer, Company, or an Affiliate. Title to, and beneficial ownership of, any assets that the Employer, Company, or an Affiliate may designate to pay any Severance Benefit shall at all times remain with the Employer, Company, or Affiliate, and nothing provided for herein shall cause such assets to be treated as anything other than general assets of the Employer, Company, or Affiliate. Nothing set forth herein nor elsewhere shall preclude Employer, Company, or Affiliate if it so elects, in its sole discretion, to establish a trust under Code Section 501(c)(9) for the purpose of funding benefits payable under the Plan. Payments from any such trust shall discharge Employer, Company, or Affiliate's obligations under the Plan.

7.7 Withholding. Each Employer, Company, or Affiliate retain the right to deduct and withhold from any Severance Benefit all sums which it may be required to deduct or withhold pursuant to any applicable statute, law, regulation or order of any jurisdiction whatsoever.

7.8 No Assignment. Neither the Participant nor any other person or persons entitled to any payment hereunder shall have power to transfer, assign, anticipate, mortgage or otherwise encumber any right to receive a payment in advance of any such payment and any attempted transfer, assignment, anticipation, mortgage or other encumbrance shall be void. No payment shall be subject to seizure for the payment of public or private debts or judgments of the Participant, or be transferable by operation of law in event of the Participant's bankruptcy, insolvency or otherwise, except to the extent otherwise required by law.

7.9 Other Policies. Any Employer, Company, or Affiliate policies, practices, agreements or arrangements regarding severance benefits, or similar payments upon employment termination or cessation other than a Prior Severance Arrangement, are hereby superseded by this Plan. If an Employee has a Prior Severance Arrangement, then such Employee shall not be entitled to any benefits under the Plan.

7.10 Governing Law and Litigation. This Plan shall be governed by and construed in accordance with the laws of the State of Iowa, to the extent not preempted by ERISA or other applicable Federal law. Any action under this Plan shall be brought in the United States District Court for the District of Iowa. Any action by a claimant or Participant must be brought within one (1) year of the later of (a) the date the individual receives a final decision on a claim for benefits, or (b) the date the individual's appeal is denied or deemed denied.

7.11 Construction.

- (a) All pronouns shall include any other pronoun regardless of sex and singularity/plurality, unless the context clearly indicates otherwise.
- (b) The word "day" or "days" means a calendar day or days, unless expressly stated otherwise.

7.12 Captions. The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control nor affect the meaning or construction of any of its provisions.

Approved:

By: /s/ Jennifer Bryant  
Jennifer Bryant  
Executive Vice President and Chief Human Resources Officer

Adopted by the Company:

By: /s/ Jennifer Bryant  
Jennifer Bryant  
Executive Vice President and Chief Human Resources Officer

### Separation Agreement, Waiver and General Release

The parties to this Separation Agreement, Waiver, and Release (the “**Agreement**”) are American Equity Investment Life Insurance Company (“**Company**”) and [name] (“**Participant**”) (collectively, the “**Parties**”). For good and valuable consideration, the receipt and sufficiency of which the Parties acknowledge, Participant and the Company agree as follows:

1. Participant’s employment was, or will be, terminated effective [date] (“**Termination Date**”). To the extent that Participant is a director, trustee, fiduciary, or officer of any Released Person (as defined in Section 5 of this Agreement) entity or affiliate, or is a member of any committee of any Released Person entity or affiliate, Participant hereby resigns from such capacity effective [immediately][upon the Termination Date] and agrees to execute any additional, more specific resignation documentation the Released Person may request.

2. Provided this Agreement becomes final and effective and has not been revoked in accordance with its terms, the Company will pay and provide to Participant (or, in case of Participant death, to the Participant’s estate) cash payments in the total amount of [amount of sev pay, Click, STIP, pre-2022 RSU’s, in words ] (\$ [amount in numbers]), less deductions including, but not limited to, all applicable federal, state, and local tax withholding (the “**Severance Pay**”). The Company will pay the Severance Pay in equal installments with the first payment on the first practicable Company payday after this Agreement becomes final and effective, and equal installments continuing on each Company payday thereafter with the last installment paid no later than [the earlier of (a) three (3) months after the first installment payment, or (b)] March 15th of the calendar year following the Termination Date.

[In addition, provided this Agreement becomes final and effective and has not been revoked in accordance with its terms, the Company will pay and provide to Participant, subject to Participant’s timely election of COBRA continuation coverage, Participant will receive a single lump sum payment of [amount in numbers] (\$ amount in numbers) for continuation of Participant’s health insurance coverage, with such payment to be made on the later of (i) the first practicable Company payday after after this Agreement becomes final and effective or (ii) the first practicable Company payday after Company receives notice that Participant has elected COBRA coverage.]

Participant agrees that if Participant is rehired by a Released Person, any payments or rights to payments under this Agreement that have not yet been paid shall terminate immediately on the date of such rehire.

3. Provided this Agreement becomes final and effective and has not been revoked in accordance with its terms, the Company will make any payments to Participant subject to the terms of any Participant Restricted Stock Unit Agreements conditioned on a final separation agreement, as applicable (less deductions including, but not limited to, all applicable federal, state, and local tax withholding), and will provide outplacement services as provided in the American Equity Investment Life Transition Benefit Plan document (the “**Plan Document**”).

4. The payments in Sections 2 and 3 of this Agreement are considered wages and will be taxable as wages and reported on the Form W-2 issued to Participant for the tax year in which the payment is made. Further, the payments under Sections 2 and 3 of this Agreement will be excluded from benefit eligible earnings for all employer compensation and benefits purposes including, but not limited to, any bonus and incentive, pension, retirement and welfare plans and arrangements and paid time off allowances. The Company may offset any amounts due under this Agreement, and may coordinate any amounts due with any payments due under the WARN Act or similar law, as provided in the Plan Document.

5. **Participant knowingly and voluntarily releases the Company from all claims.** Specifically, as a material inducement to the Company to enter into this Agreement, on behalf of Participant’s relatives, heirs, executors, administrators, successors, and assigns, Participant hereby fully and forever releases and discharges the Company, its past, present, and future parents, subsidiaries, affiliates, and agents and its and their past, present, and future directors, officers, employees, agents, representatives, employee benefit plans and funds, and the fiduciaries thereof, successors, and assigns of each (“**Released Person(s)**”) from any and all claims, actions, liability, or promises, and rights of any and every kind or nature that Participant ever had, now has, or may have, whether known or unknown, against the Released Persons arising out of any act, omission, transaction, or occurrence, up to and including the date the Participant executes this Agreement, including, but not limited to:

(a) any claim arising out of or related to employment by and/or affiliation with the Released Persons or the discontinuance of employment/affiliation with the Released Persons;

(b) any claim of employment discrimination, harassment, or retaliation under, or any alleged violation of, any federal, state, or local law, rule, regulation, ordinance or Executive Order, including, but not limited to, Title VII of the Civil Rights Act; the Americans with Disabilities Act; the Rehabilitation Act; the Age Discrimination in Employment Act (“**ADEA**”), as amended by the Older Workers Benefit Protection Act (“**OWBPA**”); the Employee Retirement Income Security Act (“**ERISA**”); the Family and Medical Leave Act (“”); Section 1981 of the Civil Rights Act of 1866; the Equal Pay Act; the Fair Labor

Standards Act; the Immigration Reform and Control Act; the Uniformed Services Employment and Reemployment Rights Act; the Iowa Civil Rights Act; and Iowa's Wage Payment and Collection Act, all as amended;

(c) any alleged violations of any duty or other employment-related obligation or other obligations arising out of contract, tort, libel or slander, defamation, public policy, law or equity, or allegations of wrongful discharge or retaliation;

(d) any expectation, anticipation, right, or claim to incentive compensation under any Company incentive compensation plan;

(e) any claim for benefit plan accruals based upon the payments enumerated in this Agreement or compensation, whether classified as back pay, front pay, or any other compensation paid by Released Persons or awarded post-separation, including, but not limited to, compensation awarded by a regulatory body, arbitration panel, or court of competent jurisdiction except as expressly set forth below; and

(f) any claim for any enhancement or differential calculation over and above the benefit vested or otherwise payable to Participant under the standard terms of any Released Person benefit plan.

6. Participant agrees that until the later of (i) the end of twelve (12) months following the Termination Date or (ii) the completion of all payments pursuant to Sections 2 and 3 of this Agreement, Participant will not solicit any employee, customer, vendor, consultant, Independent Marketing Organization (or individual affiliate with any such organizations) of any Released Person to end, reduce the time or scope of, decline to renew, or decline to extend the sales or other business volume, time, or scope of such relationship.

Participant also agrees that until the end of twelve (12) months following the Termination Date, Participant will not, without the prior written consent of the Company, and to the extent such consent is limited or conditioned, be employed by, engaged by, or otherwise assist, either as an individual or as a partner, joint venturer, employee, agent, consultant, officer, trustee, director, owner, part-owner, shareholder (except for less than 1% ownership of the common stock of a publicly-traded company), or in any other capacity, directly or indirectly, providing the same or similar activities, skills, experience, or expertise Participant performed for the Company any entities that a Released Party identifies as a competitor its the Compensation Discussion and Analysis publicly disclosed to the U.S. Securities and Exchange Commission ("SEC") within twelve (12) months on or prior to the date this Agreement becomes final and effective. These prohibitions shall apply to each entity and its parents, subsidiaries, affiliates, or agents, or any entity with 9.9% or greater direct or indirect economic interest in any of them.

Participant also acknowledges and agrees that Participant shall be subject to and abide by provisions of any other agreements containing Participant post-employment obligations that Participant executed, which are incorporated by reference herein.

Any of the restrictions in this Section 6 may be waived, in writing, solely by the Company. The Company's decision to grant such a written waiver shall reside in its sole and absolute discretion.

The Parties acknowledge that if either were to violate any section of this Agreement, including, but not limited to Section 6, the aggrieved party would not have adequate damages at law and that it would be appropriate for a court to enter an injunction prohibiting any further violation; further, if either Party obtains a final judgment of a court of competent jurisdiction, pursuant to which either Party is determined to have breached their obligations under this Agreement, including but not limited to Section 6, the prevailing party shall be entitled to recover, in addition to any award of damages, its reasonable attorneys' fees, costs, and expenses incurred in obtaining such judgment.

7. If a final and non-appealable judicial determination is made by a court or arbitrator that any of the provisions of Section 6 constitute an unreasonable or otherwise unenforceable restriction against Participant, the remaining provisions of Section 6 of this Agreement will not be rendered void but will be deemed to be modified to the minimum extent necessary to remain in force and effect for the longest period and largest scope that would not constitute such an unreasonable or unenforceable restriction (and such court shall have the power to reduce the duration or restrict or redefine the scope of such provision and to enforce such provision as so reduced, restricted or redefined). Moreover, notwithstanding the fact that any provision of Section 6 of this Agreement is determined not to be specifically enforceable, except as otherwise provided in Section 6 of this Agreement, the Company will nevertheless be entitled to recover monetary damages as a result of Participant's breach of any such provision.

8. If the Participant breaches this Agreement, or the Company believes in good faith that Participant intends to breach this Agreement, in addition to any other remedy the Company may have, including seeking injunctive relief, the payments described in Sections 2 and 3 of this Agreement will immediately forfeit. In such case, no further payments under Sections 2 and 3 of this Agreement will be made and, upon demand by the Company, Participant agrees to repay to the Company any and all amounts paid pursuant to Sections 2 and 3 of this Agreement prior to the determination of a breach or an intent to breach, with the exception of one hundred dollars (\$100.00).

9. Except as set forth herein, this Agreement does not affect any rights or benefits that vested or were otherwise payable to Participant prior to execution of this Agreement under any employee benefit plans governed by ERISA. Participant's rights to any ERISA plan benefits are governed exclusively by the terms of the respective plan documents that provide those benefits. Nothing in this Agreement shall be deemed a waiver of claims for unemployment compensation benefits, worker's compensation benefits, claims for breach of this Agreement, claims that arise after Participant signs this Agreement, and/or any claims or rights that cannot be waived by law. Nothing in this Agreement shall prohibit Participant from making any disclosure in accordance with Section 12(a), including any disclosure to the SEC pursuant to Section 21F-17(b), of the Securities and Exchange Act of 1934, as amended, or receiving an award from the SEC in connection therewith. Nothing in this Agreement impacts in any way Participant's rights to indemnification from a Released Person under applicable law. Nothing in this Agreement otherwise offers, promises, or guarantees any such indemnification.

10. By entering into this Agreement, each respective Party does not admit, and specifically denies, any liability, wrongdoing or violation of any law, statute, regulation, agreement or policy, and it is expressly understood and agreed that this Agreement is being entered into solely for the purpose of resolving any and all matters in controversy, disputes, causes of action, claims, contentions and differences of any kind whatsoever between the Participant and the Released Persons.

11. By executing this Agreement, Participant acknowledges that Participant has accurately reported to the Company the daily or weekly hours Participant worked for the Company to the extent Participant has been asked to do so, that the Company has paid Participant all the salary and wages it owes Participant (including any overtime compensation or incentive compensation), that Participant has been provided with any and all leaves of absences (including those under the FMLA or other law) that Participant has requested and to which Participant was entitled, that Participant has no known workplace injuries or occupational diseases, that Participant has not been retaliated against for reporting any allegations of fraud or other wrongdoing and that Participant has had the opportunity prior to signing this Agreement to raise to the Company any concerns or complaints about these or any other matters regarding employment or affiliation with the Company.

12. Participant agrees that: (i) the terms of this Agreement; (ii) any claims that were raised or could have been raised in any action as of the date Participant executes this Agreement; (iii) the facts underlying those claims; and, (iv) all Confidential and/or Proprietary Information Participant worked on or became aware of during employment and/or affiliation with the Company shall not be disclosed to any third parties by Participant or Participant's agents, attorneys, or representatives.

**Furthermore, Participant acknowledges that retaining or sharing (in each case, orally, electronically, physically, or otherwise) any Confidential and/or Proprietary Information, without specific written Company permission, could result in significant damages to the Company. Participant acknowledges that the Company reserves its right to use all legal remedies at its disposal to pursue Participant for any damages that could result from a breach of this provision.** Participant also acknowledges that the damages to the Company for breach of this and any other provision of this Agreement could be not readily calculable and that Company may, at its option, enforce the provisions of Paragraph 8 in case of any such breach. Participant's obligation to not disclose Confidential and/or Proprietary Information does not extend to the circumstances described below:

(a) Neither this Section 12 nor any other provision of this Agreement prohibit or restrict Participant or Participant's attorney from providing information or testimony to, otherwise assisting or participating in an investigation or proceeding with or brought by, or filing a charge or complaint: (i) with any government agency, law enforcement organization, legislative body, regulatory organization, or self-regulatory organization ("SRO"), including, but not limited to, the SEC, Financial Industry Regulatory Authority ("FINRA"), Commodity Futures Trading Commission ("CFTC"), Department of Justice ("DOJ"), Internal Revenue Service ("IRS"), Department of Labor ("DOL"), National Labor Relations Board ("NLRB"), and Equal Employment Opportunity Commission ("EEOC"); (ii) as required by court order or subpoena; (iii) as may be necessary for the prosecution of claims relating to the performance or enforcement of this Agreement; or (iv) from providing any other disclosure required by law. However, by executing this Agreement Participant waives all rights to personally recover any compensation, damages, or other relief in connection with any such investigation, proceeding, charge, or complaint, except that Participant does not waive any right Participant may have to receive a monetary award from the SEC as a whistleblower or directly from any other federal, state, or local agency pursuant to a similar program.

(b) To the extent a Released Person publicly discloses this Agreement to the SEC, Participant is not prohibited from disclosing this Agreement. Under other circumstances, Participant is not prohibited from disclosing this Agreement to a spouse, civil union or domestic partner, attorney, accountant, or tax or financial advisor, provided that such individuals are advised that they may not disclose this Agreement and have agreed to be bound by the same restrictions against disclosure that apply to Participant.

(c) Participant is not prohibited from providing a prospective employer with information concerning former job title, salary, job responsibilities, and qualifications.

For purposes of this Agreement, “**Confidential and/or Proprietary Information**” shall mean information in any form that is proprietary and confidential to the Company and shall include, but not be limited to, the following types of information: (i) corporate information, including contractual arrangements, customer or client lists or information, distributor lists or information, plans, strategies, tactics, policies and resolutions; (ii) any litigation or negotiations; (iii) financial information, including spreadsheets, models, projections, investment strategies, undisclosed aspects of any Released Party strategy or business initiatives, including but not limited to, reinsurance or other strategies (including but not limited to execution status and/or concerns or issues), cost and performance data, debt arrangement, equity structure, investment structuring, investment partners or recipients and/or their arrangements, investors and holdings; (iv) operational information, including trade secrets, control and inspection practices, suppliers and vendors; and (v) personnel information, including personnel lists, resumes, roles, personal data, medical information, compensation, organization structure and performance evaluations concerning individuals other than Participant. Confidential and/or Proprietary Information does not include information that is or becomes generally part of the public domain without breach of this Agreement by Participant. Participant agrees that all Confidential and/or Proprietary Information is and shall remain the sole and exclusive property of the Company.

13. Participant agrees to cooperate with a Released Person or its counsel to provide information, relevant documentation, and/or truthful testimony in connection with any matter in which a Released Person has an interest and as to which Participant has knowledge of any of the facts, events or circumstances at issue. If requested, Participant agrees to meet with a Released Person representative and/or a Released Person’s counsel to truthfully provide all knowledge and information Participant has pertaining to any such matter and prepare, as necessary, for any deposition, trial, or other proceeding, including regulatory proceeding, related to such matter. Participant’s reasonable out of pocket expenses, such as for travel, will be reimbursed. Participant will not otherwise be entitled to further compensation for time or legal fees.

14. If Participant is served with a subpoena, court order, or a request by a government agency, law enforcement organization, legislative body, regulatory organization, or SRO, including, but not limited to, the SEC, FINRA, CFTC, DOJ, IRS, DOL, NLRB, or EEOC, or a comparable state or local agency, organization, or body, calling for the disclosure of this Agreement or any information concerning a Released Person, Participant agrees to give the Company a copy of such demand for information promptly by mail to: American Equity Investment Life Insurance Company, Attention: Chief Legal Officer, 6000 Westown Parkway, West Des Moines, IA 50266, unless prohibited by law. Participant does not need prior authorization of the Company to make such a disclosure.

15. Reference requests regarding Participant may be directed to: American Equity Investment Life Insurance Company, Attention: Chief Human Resources Officer, 6000 Westown Parkway, West Des Moines, IA 50266.

16. Participant acknowledges that on or prior to the Termination Date, Participant delivered to Participant’s former manager (or other person designated by the Company) all Released Person property, information (including Confidential and/or Proprietary Information), documents, and other materials (including, but not limited to, keys, mobile phones, computer equipment, and identification cards), including all copies or versions, that are in Participant’s possession or control (“**Released Person Material**”). Released Person Material does not include documents Participant received from an authorized representative of a Released Person regarding Participant’s employment or affiliation with the Released Person (e.g., summary plan descriptions, performance evaluations, benefit statements), any policy or product purchased from a Released Person, securities of a Released Person, materials Participant provided to a regulatory agency or other entity pursuant to Section 12(a) of this Agreement, or other materials Participant is entitled by law to retain. Participant represents that Participant has conducted a diligent search for all Released Person Material prior to executing this Agreement. Participant agrees that, if Participant discovers or receives any Released Person Material after signing this Agreement, Participant will return it to: American Equity Investment Life Insurance Company, Attention: Chief Human Resources Officer, 6000 Westown Parkway, West Des Moines, IA 50266, within 48 hours of discovery or receipt.

17. Pursuant to the terms of the OWBPA and the ADEA, Participant acknowledges that:

(a) Participant has been advised to consult with an attorney before executing this Agreement and Participant has consulted or had the opportunity to consult with an attorney of Participant’s choosing concerning the terms and conditions prior to signing this Agreement.

(b) The Company has advised Participant in writing that Participant has [twenty-one (21)][forty-five (45)] days in which to review this Agreement [and the Exhibit A included with this Agreement] and fully consider its terms prior to signing it.

(c) Participant has read and fully understands the significance of all the terms and conditions of this Agreement.

(d) Participant is signing this Agreement voluntarily and of free will and agrees to abide by all the terms and conditions contained herein.

(e) Participant acknowledges and agrees that the payments in Sections 2 and 3 of this Agreement are in addition to any benefits the Participant would have otherwise received without signing this Agreement, and Participant is entering into this Agreement and releasing, waiving and discharging rights or claims only in exchange for such consideration.

(f) This Agreement waives no rights or claims that may arise after its execution.

(g) Participant may accept this Agreement by fully executing it and returning it to the Company at 6000 Westown Parkway, West Des Moines, IA 50266 attention: Chief Human Resources Officer no later than 5:00 p.m. on the [twenty-first (21st) or forty-fifth] day after the date Participant received this Agreement or such later date as Participant or counsel for Participant and the Company have agreed to.

(h) After this Agreement has been executed by Participant, Participant will have seven (7) days to revoke this Agreement, which Participant may do in writing by e-mail to legalnotices@american-equity.com by 5:00 p.m. on the last day of that 7-day period. This Agreement will become final and effective on the eighth (8th) day, provided Participant has not previously revoked it.

(i) In the event that Participant does not accept this Agreement as set forth above or Participant revokes this Agreement in accordance with Section 17(h) of this Agreement, this Agreement, including, but not limited to, the obligation of the Company to make any payments and/or provide any benefit pursuant to Sections 2 or 3 of this Agreement, shall automatically be null and void.

18. This Agreement may not be changed except in a writing that specifically references this Agreement and is signed by Participant and an officer of the Company. This Agreement constitutes the full understanding between Participant and the Company, provided, however, that each of any other agreements containing Participant post-employment obligations that Participant executed remain in full force and effect pursuant to the terms of the respective agreement. The Parties affirm that no other promises, representations, or agreements of any kind have been made by any person or entity whatsoever to cause the Parties to sign this Agreement, and that they fully understand the meaning and intent of this Agreement.

19. Iowa state law governs the interpretation of this Agreement and applies to claims for breach of it, regardless of conflict of laws principles, unless prohibited by law. Subject to the Claims Procedures set forth in the Plan Document, any dispute shall be subject to the exclusive jurisdiction and venue of the state and/or federal courts located in Des Moines, Iowa, unless prohibited by law.

20. To the extent any of the terms of this Agreement conflict with the terms of the Plan document, the terms of the Plan Document shall prevail. If any provision of this Agreement is held by a court of competent jurisdiction to be illegal, void, or unenforceable, such provision shall be of no force and effect and shall not impair the enforceability of any other provision of this Agreement, except that if Sections 5 or 8 of this Agreement are held to be illegal, void, or unenforceable, whether in whole or in part, this Agreement shall be voidable by the Company.

By signing below, this Agreement is agreed to and voluntarily accepted by:

\_\_\_\_\_  
Participant

\_\_\_\_\_  
Date

American Equity Investment Life Insurance Company

By: \_\_\_\_\_

\_\_\_\_\_  
Date

Company Title: \_\_\_\_\_



**EXCERPTS FROM  
ACTION BY WRITTEN CONSENT  
OF THE COMPENSATION AND TALENT MANAGEMENT COMMITTEE,  
THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE,  
AND THE BOARD OF DIRECTORS  
OF AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY**

**October 25, 2021**

**RESOLVED**, that the Compensation Committee determines it is advisable and in the best interests of the Company and its shareholders that the Board adopt the resolutions below, and recommends the Board do so.

**RESOLVED**, that the Nominating Committee determines it is advisable and in the best interests of the Company and its shareholders that the Board adopt the resolutions below, and recommends the Board do so.

**RESOLVED**, that the Board determines it is advisable and in the best interests of the Company and its shareholders that:

1. The [June 10,] 2021 [Company – John] Matovina Director Restricted Stock Award Agreement is hereby amended by deleting in its entirety each of Sections 3(b) and 3(d), which read, respectively:
  - (b) Death/Disability. Notwithstanding any other provisions in this Agreement to the contrary, in the event of a termination of the Participant's service as a director of the Company due to the Participant's death or Disability, the restrictions applicable to the Restricted Stock, as described in Section 2 hereof, shall lapse with respect to one-hundred percent (100%) of the Restricted Stock.
  - (d) Other Termination of Service. Notwithstanding any other provisions in this Agreement to the contrary if, prior to the date on which the restrictions described in Section 2 hereof have lapsed in accordance with Section 3(a), (b) or (c) above, the Participant's service on the Company's Board of Directors shall terminate for any reason other than as described in Section 3(b) herein, or the Participant resigns for any reason, the Restricted Stock shall immediately be forfeited without consideration.
2. the officers of the Company and its affiliates as defined in SEC rule 12b-2 are, and each of them hereby is, authorized to take any action the officer determines appropriate or necessary to carry out the terms and objectives of these resolutions.

/s/ Anant Bhalla  
Anant Bhalla

/s/ Joyce A. Chapman  
Joyce A. Chapman

/s/ Brenda J. Cushing  
Brenda J. Cushing

/s/ James M. Gerlach  
James M. Gerlach

/s/ Douglas T. Healy  
Douglas T. Healy

/s/ Robert L. Howe  
Robert L. Howe

/s/ Michelle M. Keeley  
Michelle M. Keeley

/s/ William R. Kunkel  
William R. Kunkel

/s/ Alan D. Matula  
Alan D. Matula

/s/ David S. Mulcahy  
David S. Mulcahy

/s/ Gerard D. Neugent  
Gerard D. Neugent

/s/ Sachin Shah  
Sachin Shah

/s/ A. J. Strickland  
A. J. Strickland

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

I, Anant Bhalla, certify that:

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

Date: November 9, 2021

By: /s/ Anant Bhalla

Anant Bhalla

Chief Executive Officer and President

(Principal Executive Officer)

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

I, Axel Andre, certify that:

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

Date: November 9, 2021

By: /s/ Axel Andre

Axel Andre

Chief Financial Officer and Executive Vice President

(Principal Financial Officer)

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

In connection with the Quarterly Report of American Equity Investment Life Holding Company (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Anant Bhalla, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 9, 2021

By: /s/ Anant Bhalla  
Anant Bhalla  
Chief Executive Officer and President  
(Principal Executive Officer)

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

In connection with the Quarterly Report of American Equity Investment Life Holding Company (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Axel Andre, Chief Financial Officer and Executive Vice President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
  
and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2021

By: /s/ Axel Andre

Axel Andre

Chief Financial Officer and Executive Vice President

*(Principal Financial Officer)*