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POST-EFFECTIVE AMENDMENT NO. 4 TO

FORM 10

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Pursuant to Section 12(b) or (g) of The Securities Exchange Act of 1934

American Equity Investment Life Holding Company

Iowa	42-1447959
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State of Incorporation	IRS employer Identification No.

5000 Westown Parkway, Suite 440	
West Des Moines, Iowa 50266	(515) 221-0002
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Address of principal executive offices	Telephone

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

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

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Item 1. Business

Background and Organization of the Company

The Company was formed on December 15, 1995, to develop, market, issue and administer annuities and life insurance through its insurance subsidiary, American Equity Investment Life Insurance Company. As a foundation for beginning its business, the Company acquired two blocks of in force insurance business from American Life and Casualty Insurance Company ("American Life"), the principal operating subsidiary of The Statesman Group, Inc. ("Statesman"), of which, the Company's named executive officers were previously officers (the "American Life Purchase"). In addition to the American Life Purchase, the Company also acquired Century Life Insurance Company ("Century") to expand its licensing authority to 23 states and the District of Columbia (the "Century Purchase"). Concurrent with the Century Purchase, the Company merged American Equity Investment Life Insurance Company into Century and renamed the merged entity American Equity Investment Life Insurance Company (the "Life Company").

The Company was originally incorporated under the laws of Delaware on December 15, 1995. On January 7, 1998, the Company's state of incorporation was changed from Delaware to Iowa. The Company's executive offices are located at 5000 Westown Parkway, Suite 440, West Des Moines, IA 50266, and its telephone number is 515-221-0002.

The Company's business consists primarily of the sale of fixed annuities, including equity-index annuities. Fixed annuities are savings vehicles through which a purchaser deposits one or more premium payments with an insurance company in exchange for a guarantee of principal and tax-deferred accrual of earnings at specified rates. The policyholder may withdraw the accumulated value of the annuity as a lump sum or as a stream of payments for a fixed term or for life. In 1998, the Company developed its first variable annuity which became available for sale in July, 1998. Variable annuities differ from fixed annuities in that the policyholder, rather than the issuer, bears the investment risk, and the policyholder's rate of return is dependent upon the performance of the particular investment option selected by the policyholder. The Company's business strategy is to focus on its annuity business and earn predictable returns by managing investment spreads and controlling investment risk.

Annuity Market Overview

The Company's target market includes the group of individuals now aged 45-75 who are seeking to accumulate tax-deferred savings. The Company believes

that significant growth opportunities exist for annuity products because of favorable demographic and economic trends. According to the U. S. Census Bureau, there were 33.5 million Americans age 65 and older in 1995, representing 13% of the U. S. population. By 2030, this sector of the population is expected to increase to 22% of the total population. The Company's products are particularly attractive to this group as a result of the guarantee of principal, competitive rates of credited interest, tax-deferred growth and alternative payout options.

According to the Life Insurance Marketing and Research Association, annuity sales were an estimated \$128.3 billion in 1998 versus \$126.3 billion in 1997. Historically, fixed annuities have represented a substantial majority of all annuity sales; however, over the past few years, sales of variable annuities have experienced substantial increases. In 1998, variable annuity sales increased 12% to \$98.8 billion and fixed annuity sales decreased 23% to \$29.5 billion. The decline in the contribution of fixed annuities to total annual annuity sales is a result of several factors including, but not limited to, the recent strong performance of equity markets relative to bond markets. The Company believes its equity-index annuities, which have a crediting rate linked to the change in the Standard & Poor's Corporation ("S&P") 500 Index or the Dow Index, as applicable, appeal to purchasers interested in participating in equity markets without the risk of loss of principal.

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Products

The Company's products include traditional fixed rate annuities, equity-index annuities, a variable annuity and life insurance products.

Traditional Fixed Rate Annuities. These products, which accounted for 57% of the total annuity premiums collected during 1998, include single premium deferred annuities ("SPDAs"), flexible premium deferred annuities ("FPDAs") and single premium immediate annuities ("SPIAs"). An SPDA generally involves the tax-deferred accumulation of interest on a single premium paid by the policyholder. After a number of years, as specified in the annuity contract, the annuitant may elect to take the proceeds of the annuity either in a single payment or in a series of payments for life, for a fixed number of years, or for a combination thereof. FPDAs are similar to SPDAs in many respects, except that the SPDA allows additional premium payments in varying amounts by the policyholder without the filing of a new application. The Company's SPDAs and FPDAs generally have an interest rate (the "crediting rate") that is guaranteed by the Company for the first policy year, after which, the Company has the discretionary ability to change the crediting rate to any rate at or above a guaranteed minimum rate. The guaranteed rate on all policies in force and new issues ranges from 3% to 4%. The initial crediting rate is largely a function of the interest rate the Company can earn on invested assets acquired with new annuity fund deposits and the rates offered on similar products by the Company's competitors. For subsequent adjustments to crediting rates, the Company takes into account the yield on its investment portfolio, annuity surrender assumptions, competitive industry pricing and crediting rate history for particular groups of annuity policies with similar characteristics.

Approximately 81% of the Company's traditional fixed rate annuity sales have been "bonus" products. The initial crediting rate on these products specifies a bonus crediting rate ranging from 1% to 7% of the annuity deposit for the first policy year only. After the first year, the bonus interest portion of the initial crediting rate is automatically discontinued, and the renewal crediting rate is established. Generally, there is a compensating adjustment in the commission paid to the agent to offset the first year interest bonus. As of March 31, 1999, crediting rates on the Company's outstanding SPDAs and FPDAs generally ranged from 4.90% to 5.40%, excluding interest rate bonuses guaranteed for the first year (5.0% to 5.4% as of December 31, 1998). The average crediting rate including interest bonuses was 6.79% at March 31, 1999 (7.06% at December 31, 1998) and the average rate excluding bonuses was 5.18% at March 31, 1999 (5.21% at December 31, 1998).

The policyholder is typically permitted to withdraw all or a part of the premium paid, plus accumulated interest credited to the account (the "accumulation value"), subject to the assessment of a surrender charge for withdrawals in excess of specified limits. Most of the Company's SPDAs and FPDAs provide for penalty-free withdrawals of up to 10% of the accumulation value each year after the first year, subject to limitations. Withdrawals in excess of allowable penalty-free amounts are assessed a surrender charge during a penalty period which generally ranges from five to fifteen years after the date the policy is issued. This surrender charge is initially 9% to 25% of the accumulation value and generally decreases by approximately one to two percentage points per year during the surrender charge period. Surrender charges are set at levels to protect the Company from loss on early terminations and to reduce the likelihood of policyholders terminating their policies during periods of increasing interest rates. This practice lengthens the effective duration of

the policy liabilities and enables the Company to maintain profitability on such policies.

The Company's SPIAs are designed to provide a series of periodic payments for a fixed period of time or for life, according to the policyholder's choice at the time of issue. The amounts, frequency, and length of time of the payments are fixed at the outset of the annuity contract. SPIAs are often purchased by persons at or near retirement age who desire a steady stream of payments over a future period of years. The single premium is often the payout from a terminated annuity contract. The implicit interest rate on SPIAs is based on market conditions when the policy is issued. The implicit interest rate on the Company's outstanding SPIAs averaged 5.08% at March 31, 1999. (5.11% at December 31, 1998).

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Equity-Index Annuities. The Company's fixed annuity products currently include nine equity-index products, which accounted for approximately 43% of the total annuity premiums collected during 1998. These products allow purchasers to earn investment returns based upon equity index averages without the risk of loss of their principal and have all the other benefits of a typical fixed annuity, including deferral of income taxes on accumulated earnings.

The annuity's contract value is equal to the premiums paid increased for returns based upon a percentage (the "participation rate") of the average annual gains in the S&P 500 Index or the Dow Index, as applicable, subject to a minimum guaranteed value. The participation rate generally varies among the equity-index products from 65% to 80%, and may be reset annually by the Company. Certain of the products have a 100% participation rate, but charge an asset fee of 1% to 3.95% which may also be reset annually by the Company and is deducted on each policy anniversary. The minimum guaranteed values are equal to 80% - 100% of the premium collected plus interest credited at an annual rate of 3%. The annuities provide for penalty-free withdrawals of up to 10% of premium in each year after the first year of the annuity's term. Other withdrawals are subject to a surrender charge ranging initially from 9% to 15% over a surrender period of from five to fifteen years. During the applicable period, the surrender charges on some equity-index products remain level, while on other equity-index products, the surrender charges decline by one to two percentage points per year. The Company purchases S&P 500 Index and Dow Index call options as an investment to provide the income needed to fund the amount of the average annual gains required to be credited on the equity-index products

Variable Annuities. Variable annuities offer contract holders a rate of return based on the specific investment portfolios into which premiums may be directed, as chosen by the contract owner. Profits on variable annuities are derived from the fees charged to contract owners rather than from the investment spread. The Company shares in 30% of the risks, costs and operating results of these products through a reinsurance arrangement (See Item 1. Business - Reinsurance and Item 7. Certain Relationships and Related Transactions).

Life Insurance. These products include traditional, universal life and other interest-sensitive life insurance products. As a result of the American Life Purchase, the Company is one of the largest life insurance carriers for members of the state National Guard Associations with more than \$1.9 billion of life insurance in force. The Company intends to continue offering a complete line of life insurance products for this market.

Investments

Investment activities are an integral part of the Company's business; investment income is a significant component of the Company's total revenues. Profitability of many of the Company's products is significantly affected by spreads between interest yields on investments and rates credited on insurance liabilities. Although substantially all credited rates on SPDAs and FPDAs may be changed annually, changes in crediting rates may not be sufficient to maintain targeted investment spreads in all economic and market environments. In addition, competition and other factors, including the impact of the level of surrenders and withdrawals, may limit the Company's ability to adjust or to maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions. As of March 31, 1999, the average yield, computed on the cost basis of the Company's investment portfolio, was 7.45%. (7.46% at December 31, 1999).

The Company manages the equity-based risk component of its equity-index annuities by purchasing S&P 500 Index and Dow Index call options to hedge such risk and adjusting the participation rate or asset fee rate to reflect the change in the cost of such options (which varies based on market conditions). Accordingly, the Company is able to focus on managing the interest rate spread component of such products.

For additional information regarding the composition of the Company's investment portfolio and the Company's interest rate risk management, see "Management Discussion and Analysis of Financial Condition and Results of Operations" and Note 4 of the Notes to Audited Consolidated Financial Statements.

Marketing

The Company markets its products through a variable cost brokerage distribution network and emphasizes high quality service to its agents and policyholders. Approximately 95% of new annuity policies are issued within 24 hours of receipt by the Company of the application and initial premium, and commissions to agents are paid weekly. The Company believes these factors have been significant in building excellent relationships with its existing agency force.

As of June 30, 1999, the Company has recruited approximately 14,700 independent agents and agencies ranging in profile from national sales organizations to personal producing general agents. In its recruitment efforts, the Company emphasizes that agents have direct access to the Company's executive officers, giving it an edge in recruiting over larger and foreign-owned competitors. The Company also uses a variety of incentive programs and deferred compensation programs to attract agents (see Note 9 of the Notes to Audited Consolidated Financial Statements). The Company is currently licensed to sell its products in 40 states and the District of Columbia. The Company has applied or anticipates applying for licenses to sell its products in the remaining states.

The insurance brokerage distribution system is comprised of insurance brokers and marketing organizations. The Company is pursuing a strategy to increase the size of its brokerage distribution network by developing relationships with national and regional marketing organizations. These organizations typically recruit agents for the Company by advertising the Company's products and its commission structure, through direct mail advertising, or through seminars for insurance agents and brokers. These organizations bear most of the cost incurred in marketing the Company's products. The Company compensates marketing organizations by paying them a percentage of the commissions earned on new annuity and life policy sales generated by the agents recruited in such organizations. The Company also conducts other incentive programs for agents from time to time. The Company generally does not enter into exclusive arrangements with these marketing organizations.

One of the Company's national marketing organizations accounted for more than 10% of the annuity deposits and insurance premium collections during 1998. This organization produced approximately 16% of the collections. The states with the largest share of direct premiums collected are: California (16%), Florida (12%), Michigan (10%), and Arizona (8%) and Texas (8%).

Competition and Ratings

The Company operates in a highly regulated and highly competitive industry and most of its competitors are substantially larger and enjoy substantially greater financial resources, higher ratings, broader and more diversified product lines and more widespread agency relationships. The Company's annuity products compete not only with products sold by other insurance companies (including other fixed and equity-index annuities and variable annuities) but also with mutual fund products, traditional bank investments and other investment and retirement funding alternatives. Insurers compete with other insurance companies, financial intermediaries and other institutions based on a number of features, including pricing and other product terms, service provided to distribution channels and policyholders, and ratings.

The distributors and purchasers for the Company's products use the financial strength ratings assigned to an insurer by independent rating agencies as one factor in determining which insurer's annuity to market or purchase. Such ratings generally involve quantitative and qualitative evaluations of a company's financial condition and operating performance. Generally, rating agencies base their ratings upon information furnished to

them by the insurer and upon their own investigations, studies and assumptions. Ratings are based upon factors of concern to policyholders, agents and intermediaries and are not directed toward the protection of investors.

In recent years, the market for annuities has been dominated by those

insurers with the highest ratings. The Life Company has received a rating of "A- (Excellent)" from A.M. Best Company. ("A.M. Best"). A.M. Best ratings currently range from "A++ (Superior)" to "F (In Liquidation)", and include 15 separate ratings categories. Within these categories, "A++ (Superior)" and "A+ (Superior)" are the highest, followed by "A (Excellent)" and "A- (Excellent)". Publications of A.M. Best indicate that the "A" and "A-" ratings are assigned to those companies that, in A.M. Best's opinion, have demonstrated excellent overall performance when compared to the standards established by A.M. Best and have demonstrated a strong ability to meet their obligations to policyholders over a long period of time. A.M. Best reviews its ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in the judgment of A.M. Best, circumstances so warrant. If the Life Company's A.M. Best rating were to be downgraded for any reason, the Company could experience a material decline in the sales of its products and the persistency of its in force business.

Reinsurance

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

As of December 31, 1998, the policy risk retention limit was \$100,000 or less on all policies issued by the Company. Reinsurance ceded by the Company was immaterial and reinsurance assumed (the American Life Purchase) represented more than 99% of net life insurance in force.

During 1998, the Life Company entered into a modified coinsurance agreement to cede 70% of its variable life and variable annuity business to Farm Bureau Life Insurance Company (see Item 4. Security Ownership of Certain Beneficial Owners and Management and Item 7. Certain Relationships and Related Transactions). This agreement enabled the Company to introduce variable products into its product line. Farm Bureau provides the administrative support necessary to manage this business, and is paid an administrative fee for such services. Amounts paid pursuant to this arrangement were immaterial during 1998.

Service Company Agreement

On January 15, 1997, the Life Company entered into a general agency commission and servicing agreement (the "Service Company Agreement") with American Equity Investment Service Company (the "Service Company") pursuant to which the Service Company agreed to pay a specified portion of the commissions due to the Life Company's agents on new annuity business written by the Life Company, and the Life Company agreed to pay renewal and other commissions to the Service Company on this business, principally based upon the account balances of the annuities remaining in force over a specified period. The Service Company has assigned its rights under the Service Company Agreement to a lender as collateral security for a \$45 million line of credit made to D.J. Noble, the Company's chairman and president, as borrower and recontributed by him as a loan to the Service Company. The Service Company is wholly-owned by Mr. Noble.

The Service Company Agreement initially increases the Life Company's statutory capital and surplus enabling it to conduct a comparatively greater volume of business. The termination of the Service Company Agreement would reduce the Life Company's capacity to further develop its annuity business. Under the Service Company Agreement, the Life Company is required to comply with certain recurring obligations, the breach of which shall constitute an event of default. Such agreement is not assignable without the prior written consent of the other party and expires on December 31, 2005. There have been no material uncured breaches under the Service Company Agreement.

Regulation

Life insurance companies are subject to regulation and supervision by the states in which they transact business. State insurance laws establish supervisory agencies with broad regulatory authority, including the power to: (i) grant and revoke licenses to transact business; (ii) regulate and supervise trade practices and market conduct; (iii) establish guaranty associations; (iv)

license agents; (v) approve policy forms; (vi) approve premium rates for some lines of business; (vii) establish reserve requirements; (viii) prescribe the form and content of required financial statements and reports; (ix) determine the reasonableness and adequacy of statutory capital and surplus; (x) perform financial, market conduct and other examinations; (xi) define acceptable accounting principles; (xii) regulate the type and amount of permitted investments; and (xiii) limit the amount of dividends and surplus note payments that can be paid without obtaining regulatory approval. The Life Company is subject to periodic examinations by state regulatory authorities. The Iowa Insurance Division completed an examination of the Life Company as of December 31, 1997 in 1998. No adjustments were recommended or required as a result of this examination.

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

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

Although the federal government does not directly regulate the business of insurance, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation, securities regulation and federal taxation can significantly affect the insurance business. In addition, legislation has been introduced from time to time in Congress that could result in the federal government assuming some role in regulating insurance companies or allowing combinations between insurance companies, banks and other entities.

The Securities and Exchange Commission has requested comments as to whether equity-index annuities, such as those sold by the Company, should be treated as securities under the Federal securities laws rather than as insurance products. Treatment of these products as securities would likely require additional registration and licensing of these products and the agents selling them, as well as cause the Company to seek additional marketing relationships for these products.

In recent years, the National Association of Insurance Commissioners (an association of state regulators and their staffs, the "NAIC") has approved and recommended to the states for adoption and implementation several model laws and regulations including: (i) investment reserve requirements; (ii) risk-based capital ("RBC") standards for determining the level of statutory capital and surplus an insurer must maintain in relation to its

investment and insurance risks; (iii) codification of insurance accounting principles; (iv) additional investment restrictions; and (v) restrictions on a insurance company's ability to pay dividends. The NAIC is currently developing new model laws or regulations, including: (i) product design standards; (ii) reserve requirements; and (iii) product illustrations. These model laws and regulations may be adopted by the various states in which the Life Company is licensed, but the ultimate content and timing of any statutes and regulations adopted by the states cannot be determined at this time. It is not possible to predict the future impact of changing state and federal regulations on the Company's operations, and there can be no assurance that existing insurance related laws and regulations will not become more restrictive in the future or that laws and regulations enacted in the future will not be more restrictive.

The NAIC's RBC requirements are intended to be used by insurance regulators as an early warning tool to identify deteriorating or weakly capitalized insurance companies for the purpose of initiating regulatory action.

Such requirements are not designed as a ranking mechanism for adequately capitalized companies. In addition, the RBC formula defines a new minimum capital standard which supplements low, fixed minimum capital and surplus requirements previously implemented on a state-by-state basis.

The NAIC's RBC requirements provide for four levels of regulatory attention depending on the ratio of a company's total adjusted capital (defined as the total of its statutory capital, surplus, asset valuation reserve and certain other adjustments) to its RBC. Calculations using the NAIC formula at December 31, 1998, indicate that the ratio of total adjusted capital to RBC for the Company exceeded by more than eight times the highest level at which regulatory action might be triggered.

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

Federal Income Taxation

The annuity and life insurance products marketed and issued by the Company generally provide the policyholder with an income tax advantage, as compared to other savings investments, such as certificates of deposit and taxable bonds, in that income taxation on any increases in the contract values of these products is deferred until it is received by the policyholder. With other savings investments, the increase in value is taxed as earned. Annuity benefits and life insurance benefits, which accrue prior to the death of the policyholder, are generally not taxable until paid. Life insurance death benefits are generally exempt from income tax. Also, benefits received on immediate annuities are recognized as taxable income ratably, as opposed to the methods used for some other investments which tend to accelerate taxable income into earlier years. The tax advantage for annuities and life insurance is provided in the Internal Revenue Code of 1986, as amended (the "Code"), and is generally followed in all states and other United States taxing jurisdictions.

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

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The Life Company is taxed under the life insurance company provisions of the Code. Provisions in the Code require a portion of the expenses incurred in selling insurance products to be deducted over a period of years, as opposed to immediate deduction in the year incurred. This provision increases the tax for statutory accounting purposes which reduces statutory surplus and, accordingly, decreases the amount of cash dividends that may be paid by the Life Company.

Employees

As of December 31, 1998, the Company has 78 full-time employees, of which 68 are located in Des Moines, Iowa, and 10 are located in the Pell City, Alabama offices. The Company has experienced no work stoppages or strikes and consider its relations with employees to be excellent. None of the employees are represented by a union.

Other Subsidiaries

The Company formed American Equity Investment Properties, L.C., an Iowa limited liability company (the "Property Company") to hold title to an office building in Birmingham, Alabama, where a portion of the Life Company's operations were conducted. The Property Company received a \$700,000 mortgage loan from the Life Company to finance certain repairs and improvements needed to market the property for sale or lease. The building was sold in 1998 and the mortgage loan was repaid in full. The Property Company now holds the remaining cash proceeds (\$1,180,000 at March 31, 1999) from the sale of the building. There are no present plans to dissolve the Property Company, which may be used in the future to facilitate other aspects of the Company's business.

On February 16, 1998, the Company formed American Equity Capital, Inc., an Iowa corporation, in connection with the introduction of variable products as a part of the Company's product mix. American Equity Capital, Inc. will act as the broker-dealer for the sale of the Company's variable products and will recruit other broker-dealers to establish a distribution network for these products.

Item 2. Financial Information

Selected Financial Data

The following table presents certain consolidated financial data for the periods indicated and should be read in conjunction with the consolidated financial statements, including notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10.

Period From 12/28/95 through Year Ended Year Ended Year Ended 12/31/95 12/31/96 12/31/97 12/31/98 ---- ----- ----- -----	
	---- INCOME STATEMENT DATA:
	Revenues
	Insurance
	policy income
	\$ 1,820 \$
	14,554,714 \$
	11,436,803 \$
	11,170,655
	Net
	investment
	income 4,010
	865,155
	4,018,617
	26,356,472
	Other income
	-- -- --
	426,782 ----- ----- ----- -----

	Total
	revenues
	5,830
	15,419,869
	15,455,420
	37,953,909
	Benefits and
	expenses
	Insurance
	policy
	benefits and
	change in
	future policy
	benefits --
	8,787,700
	7,440,080
	6,084,893
	Interest
	credited to
	account
	balances --
	77,831
	2,129,686
	15,837,912
	Interest
	expense on

notes payable
-- 493,801
979,826
788,770
Interest
expense on
General
Agency
Commission
and Servicing
Agreement --
-- 182,839
1,652,479
Interest
expense on
amounts due
under
repurchase
agreements --
-- 291,547
1,528,718
Amortization
of deferred
policy
acquisition
costs and
value of
insurance in
force
acquired --
879,916
960,193
2,293,654
Amortization
of goodwill -
- 17,500
70,000 70,000
Other
operating
costs and
expenses
21,249
6,302,094
8,160,863
8,692,813 ---

Total
benefits and
expenses
21,249
16,558,842
20,215,034
36,949,239 --

Income (loss)
before income
taxes
(15,419)
(1,138,973)
(4,759,614)
1,004,670
Income tax
(expense)
benefit -- --
1,390,226
(760,483) ---

Net income
(loss) \$
(15,419) \$
(1,138,973) \$
(3,369,388) \$

244,187

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Basic
earnings per
common share
\$ (0.05) \$
(1.90) \$
(2.11) \$ 0.05

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Diluted
earnings per
common share
\$ (0.05) \$
(1.90) \$
(2.11) \$ 0.05

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BALANCE SHEET
DATA (at
period end):
Total assets
\$13,227,254 \$
35,214,597 \$
239,711,137
\$708,109,513

Policy
benefit
reserves
4,251,306
11,846,566
155,998,268
541,082,179

Notes payable
4,000,000
10,000,000
10,000,000
10,000,000

Stockholders'
equity
2,984,581
10,137,102
54,426,049
66,130,521

OTHER DATA:
Life Company
statutory
capital and
surplus \$
6,098,581 \$
17,302,272 \$
64,709,809 \$
80,947,913
Life Company
statutory net
income (loss)
(419)
1,174,811
4,470,284
4,803,545

Three Months
Ended March
31, -----

1998 1999 ---

- INCOME
STATEMENT
DATA:
Revenues
Insurance
policy income

\$ 2,917,770 \$
3,358,476 Net
investment
income
4,690,780
10,064,697
Other income
25,495 2,802

Total
revenues
7,634,045
13,425,975
Benefits and
expenses
Insurance
policy
benefits and
change in
future policy
benefits
1,903,907
1,548,486
Interest
credited to
account
balances
1,948,453
5,684,217
Interest
expense on
notes payable
202,250
201,884
Interest
expense on
General
Agency
Commission
and Servicing
Agreement
282,249
673,715
Interest
expense on
amounts due
under
repurchase
agreements
392,408
698,729
Amortization
of deferred
policy
acquisition
costs and
value of
insurance in
force
acquired
273,479
1,017,340
Amortization
of goodwill
17,500 17,500
Other
operating
costs and
expenses
2,804,415
3,335,965 ---

Total
benefits and
expenses
273,479
1,017,340 ---

Income (loss)
before income
taxes
(190,616)
248,139
Income tax
(expense)
benefit 3,198
(185,345) ---

Net income
(loss) \$
(187,418) \$
62,794

=====
=====
Basic
earnings per
common share
\$ (0.04) \$
0.01

=====
=====
Diluted
earnings per
common share
\$ (0.04) \$
0.01

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=====
BALANCE SHEET

DATA (at
period end):
Total assets
\$ 369,064,206
\$ 885,115,149

Policy
benefit
reserves
232,379,032
690,915,100

Notes payable
10,000,000
10,000,000

Stockholders'
equity
54,141,061
63,370,814

OTHER DATA:
Life Company
statutory
capital and
surplus \$
65,647,435
83,540,755

Life Company
statutory net
income
993,520
2,844,646

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis reviews the consolidated financial position of the Company at March 31, 1999 and December 31, 1998 and 1997, and the consolidated results of operations for the three years ended December 31, 1998, and the three months ended March 31, 1999 and 1998, and where appropriate, factors that may affect future financial performance. This analysis should be read in conjunction with the consolidated financial statements, notes thereto and selected financial data appearing elsewhere in this Form 10.

All statements, trend analyses and other information contained in this report and elsewhere (such as in filings by the Company with the Securities and Exchange Commission, press releases, presentations by the Company or its

management or oral statements) relative to markets for the Company's products and trends in the Company's operations or financial results, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," and other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors include, among other things:

- - general economic conditions and other factors, including prevailing interest rate levels and stock and credit market performance which may affect (among other things) the Company's ability to sell its products, its ability to access capital resources and the costs associated therewith, the market value of the Company's investments and the lapse rate and profitability of policies
- - customer response to new products and marketing initiatives
- - mortality and other factors which may affect the profitability of the Company's products
- - changes in the Federal income tax laws and regulations which may affect the relative income tax advantages of the Company's products
- - increasing competition in the sale of annuities
- - regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products and regulation of the sale, underwriting and pricing of products
- - the ability to achieve Year 2000 readiness for significant systems and operations on a timely basis
- - the risk factors or uncertainties listed from time to time in the Company's private placement memorandums or hereafter, filings with the Securities and Exchange Commission

Results of Operations

Business Overview. The Company effectively commenced business on January 1, 1996, shortly after its formation and incorporation. As a foundation for beginning its business, the Company acquired two blocks of in force insurance business from another insurance company, of which many of the Company's executive officers and employees were previously employees. Later in 1996, the Company acquired another life insurance company with no in force insurance business which allowed the Company to expand its licensing authority to sell insurance and annuities to 23 states and the District of Columbia. Since then, Company management has expanded the Company's licensing to 40 states and the District of Columbia.

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

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

The Company began its marketing efforts for annuities in November, 1996 and collected \$2,313,000 of annuity deposits in 1996. For the year ended December 31, 1997, annuity deposits were \$141,854,000, of which \$121,430,000 was collected in the second half of the year. For the year ended December 31, 1998,

annuity deposits were \$377,917,000. For the three months ended March 31, 1999 and 1998, annuity deposits were 149,888,000 and 78,543,000 respectively. The increased annuity production is a direct result of the growth of the Company's agency force, which increased from approximately 400 agents at December 31, 1996 to 4,450 agents at December 31, 1997, 10,525 agents at December 31, 1998 and 12,225 agents at March 31, 1999.

Three Months Ended March 31, 1999. The Company had net income of \$63,000 for the three months ended March 31, 1999 compared to a net loss of \$187,000 for the three months ended March 31, 1998. Net income in 1999 is a direct result of the growth in the Company's annuity business. Annuity reserves grew from \$146,311,000 at December 31, 1997 to \$223,450,000 at March 31, 1998 and \$679,045,000 at March 31, 1999 and resulted in an increase in the Company's investment spread for 1999. While certain expenses also increased as a result of the growth in the Company's annuity business, the increase in the investment spread was greater and resulted in a profitable quarter.

Year Ended December 31, 1998. The Company had net income of \$244,000 in 1998 compared to a net loss of \$3,369,000 in 1997. Net income in 1998 is a direct result of the growth in the Company's annuity business which began to accelerate in the third quarter of 1997. Annuity reserves grew from \$23,657,000 at June 30, 1997 to \$529,765,000 at December 31, 1998 and resulted in a increase in the Company's investment spread for 1998 (the effective yield earned on average invested assets was 7.46% and 7.80% for the years ended December 31, 1998 and 1997, respectively). While certain expenses also increased as a result of the growth in the annuity business, the incremental profits from the larger deposit base allowed the Company to offset a greater portion of fixed operating costs and expenses. The 1998 results also benefited from a non-recurring gain of \$275,000 on the sale of an office building located in Birmingham, Alabama from which the Company's operations in that location were previously conducted (see Item 3. Properties) and from a reduction in interest expense on notes payable as a result of lower interest rates on outstanding indebtedness. The comparison of 1998 to 1997 was also favorably impacted by the non-recurring costs and expenses recognized in 1997 as discussed in the paragraph that follows.

Year Ended December 31, 1997. The Company incurred a net loss of \$3,369,000 for the year ended December 31, 1997, compared to a net loss of \$1,139,000 for the year ended December 31, 1996. The greater loss in 1997 primarily resulted from two items. First, the Company adopted SOP No. 98-5, Reporting on the Costs of Start-Up Activities, effective January 1, 1997 (although adoption was not mandated until January 1, 1999). This required the Company to recognize as an expense in 1997 aggregate costs of \$1,236,000 related to agency and product development including salaries, rentals and other costs related to the creation of a marketing department, agency force and new products. Prior to the adoption of SOP No. 98-5 these expenses could have been capitalized and amortized to expense in later years. No such costs were incurred in 1996. Second, the Company recognized a nonrecurring compensation expense of \$628,000 as a result of an amendment to the stock option agreement with the Company's chairman (see Note 9 of the Notes to Audited Consolidated Financial

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Statements). Excluding the non-recurring items previously discussed, the Company incurred a net loss of \$1,505,000 in 1997 which was slightly greater than the net loss of \$1,139,000 in 1996. In both periods, the losses were primarily a result of cost and expenses, including personnel, occupancy and data processing, related to developing the Company's annuity business. The greater loss in 1997 was attributable to an increase in these development expenses associated with the Company's significant growth in new annuity sales which began in the third quarter of 1997.

Financial Condition

Investments. The Company's investment strategy is to maintain a predominantly investment grade fixed income portfolio, provide adequate liquidity to meet its cash obligations to policyholders and others and maximize current income and total investment return through active investment management. Consistent with this strategy, the Company's investments principally consist of fixed maturity securities and short-term investments. The Company also has approximately 2.8% of its invested assets at March 31, 1999 (2.6% at December 31, 1998) in derivative instruments (S&P 500 Index call options) purchased in connection with the issuance of equity-index annuities.

Insurance statutes regulate the type of investments that the Life Company is permitted to make and limit the amount of funds that may be used for any one type of investment. In light of these statutes and regulations and the

Company's business and investment strategy, the Company generally seeks to invest in United States government and government-agency securities and corporate securities rated investment grade by established nationally recognized rating organizations or in securities of comparable investment quality, if not rated.

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

Liabilities. The Company's liability for policy benefit reserves increased \$149,833,000 during the three months ended March 31, 1999 and \$385,084,000 for the year ended December 31, 1998, to \$690,915,000 at March 31, 1999 and \$541,082,000 at December 31, 1998, primarily due to annuity sales as discussed above.

Substantially all of the Company's annuity products have a surrender charge feature designed to reduce early withdrawal or surrender of the policies and to partially compensate the Company for its costs if policies are withdrawn early. Surrender charge periods on annuity policies currently being issued generally range from five years to fifteen years. The initial surrender charge on annuity policies ranges from 9% to 25% of the accumulation value and, with respect to some products, the surrender charge decreases by approximately one to two percentage points per year during the surrender charge period. Notwithstanding these policy features, the withdrawal rates of policyholder funds may be affected by changes in interest rates.

On October 18, 1996, the Company borrowed \$10,000,000 from two banks under a variable rate revolving credit agreement with a maximum borrowing level of \$10,000,000. Proceeds from the borrowing were contributed to the capital and surplus of the Life Company (\$6,000,000) and used to refinance indebtedness incurred by the Company to capitalize the Life Company at the time of its formation (\$4,000,000). At March 31, 1999, the interest rate on the notes is 7.25% (7.56% at December 31, 1998). The loan matures on October 17, 1999 with an option for a one year extension. Under this agreement, the Company is required to maintain minimum capital and surplus levels at the Life Company and meet certain other financial and operating ratio requirements. The Company is also prohibited from incurring other indebtedness for borrowed money without obtaining a waiver from the lenders and from paying dividends on its capital stock in excess of 10% of its consolidated net income for the prior fiscal year.

Stockholders' Equity. The Company was initially capitalized in December, 1995 and January, 1996 through the issuance of shares of Common Stock for cash of \$4,000,000. Subsequent to its initial capitalization (400,000 shares of Common Stock after May 29, 1996 100-for-1 stock split), the Company has issued additional shares of Common Stock, warrants to purchase shares of Common Stock and shares of Series Preferred Stock convertible into shares of Common Stock in several private placement offerings as follows:

No. Issued	
Warrant ----	

Exercise	
Description	
Issue Price	
Shares	
Warrants	
Price -----	

-- Common	
Stock &	
Warrants -	
-1996 \$10.00	
780,000	
156,000	
\$10.00 -	
-1997 10.00	
3,998 798	

10.00 -
 -1998(1)
 10.00 3,000
 600 10.00 --

 786,998
 157,398(2) -
 -1997 12.00
 570,416
 114,083(3)
 12.00 -- --
 68,250(4)
 12.00 -----
 --- -----
 570,416
 182,333
 Common
 Stock--1997
 16.00
 2,666,250 --
 1998 Series
 A
 Participating
 Preferred
 Stock--1998
 16.00
 625,000 --

-
- (1) issued to the placement agent in payment of a portion of the compensation due to the placement agent
 - (2) exercised during 1998
 - (3) exercised during April, 1999
 - (4) issued to the placement agent as part of placement agent compensation; expire on April 30, 2000

A portion of the 2,666,250 shares of Common Stock issued in 1997 at \$16 per share were issued in a rights offering to existing stockholders and in connection therewith, certain officers and directors of the Company received management subscription rights to purchase one share of Common Stock for each share owned and one-half share of Common Stock for each stock option held on the record date. Such directors and officers beneficially owned 513,750 shares of Common Stock and held an aggregate of 410,750 stock options at that time and accordingly an aggregate of 719,125 management subscription rights were issued to nine officers and directors at that time. The management subscription rights have a exercise price of \$16 per share and expire on December 1, 2002. An institutional investor purchased 1,562,500 shares of Common Stock in this offering and received a right of first refusal to maintain a 20% ownership interest the Company.

The 625,000 shares of 1998 Series A Participating Preferred Stock issued in 1998 have participating dividend rights with the shares of Common Stock, when and as such dividends are declared. The preferred shares are convertible into shares of Common Stock on a one for one basis upon the earlier of the Company's initial public offering of its Common Stock or December 31, 2003.

The aggregate net proceeds from the transactions identified above were \$65,352,000, substantially all of which were contributed to the capital and surplus of the Life Company or used to fund the acquisition of the life insurance company acquired in 1996.

Liquidity for Insurance Operations. The Life Company generally receives adequate cash flow from premium collections and investment income to meet its obligations. Annuity and life insurance liabilities are generally long-term in nature. Policyholders may, however, withdraw funds or surrender their policies, subject to surrender and withdrawal penalty provisions. At March 31, 1999 and December 31, 1998, approximately 97% of the Company's annuity liabilities were subject to penalty upon surrender.

The Company believes that the diversity of its investment portfolio and the concentration of investments in high-quality, liquid securities provides sufficient liquidity to meet foreseeable cash requirements. The investment

portfolio at March 31, 1998 included \$753,813,000 of publicly traded investment grade bonds (569,650,000 at December 31, 1998). Although there is no present need or intent to dispose of such investments, the Life Company could readily liquidate portions of its investments, if such a need arose. In addition, investments could be used to facilitate borrowings under reverse-repurchase agreements or dollar-roll transactions. Such borrowings have been used by the Life Company from time to time to increase its return on investments and to improve liquidity.

Liquidity of Parent Company. The parent company is a legal entity separate and distinct from its subsidiaries, and has no business operations. The parent company needs liquidity primarily to service its debt and pay operating expenses. The primary sources of funds for these payments are: (i) cash on hand (\$2,111,000 at March 31, 1999); (ii) dividends on capital stock and surplus note interest payments from the Life Company; and (iii) cash (\$1,180,000 at March 31, 1999) that may be distributed by the American Equity Investment Properties, L.C. which holds the net proceeds from the sale of the office building in Birmingham, Alabama that was sold in 1998 (see Item 3. Properties). The parent company may also obtain cash by issuing debt or equity securities.

The payment of dividends or the distributions, including surplus note payments, by the Life Company are subject to regulation by the Iowa Insurance Division. Currently, the Life Company may pay dividends or make other distributions without the prior approval of the Iowa Insurance Division, unless such payments, together with all other such payments within the preceding twelve months, exceed the greater of (1) the Life Company's net gain from operations (excluding net realized capital gains or losses) for the preceding calendar year, or (2) 10% of its statutory surplus at the preceding December 31. For 1999, up to \$7,845,000 can be distributed as dividends or surplus note payments without prior approval of the Iowa Insurance Division (of which \$69,000 had been distributed through March 31, 1999). In addition, dividends and surplus note payments may be made only out of earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities. The Life Company had \$17,413,000 of earned surplus at March 31, 1999 (\$14,588,000 at December 31, 1998).

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, the Iowa insurance laws and regulations require that the statutory surplus of the Life Company following any dividend or distribution must be reasonable in relation to its outstanding liabilities and adequate for its financial needs.

The transfer of funds by the Life Company is also restricted by certain covenants in the Company's loan agreement which, among other things, requires the Life Company to maintain statutory capital and surplus (including the asset valuation and interest maintenance reserves) of \$14,000,000 plus 25% of statutory net income for periods subsequent to June, 30 1996. Under the most restrictive of these limitations, all of the Life Company's earned surplus at March 31, 1999 and December 31, 1998 would be available for distribution by the Life Company to the Company in the form of dividends or other distributions.

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Statutory accounting practices prescribed or permitted for the Life Company differ in many respects from those governing the preparation of financial statements under generally accepted accounting principles ("GAAP"). Accordingly, statutory operating results and statutory capital and surplus may differ substantially from amounts reported in the GAAP basis financial statements for comparable items. Information as to statutory capital and surplus and statutory net income for the Life Company as of December 31, 1998 and 1997 and for the years ended December 31, 1998, 1997 and 1996 is included in Note 10 of the Notes to Audited Consolidated Financial Statements. Statutory capital and surplus at March 31, 1999 was \$83,540,755 and statutory net income for the three months ended March 31, 1999 was \$2,844,646.

The Life Company has entered into a general agency commission and servicing agreement with an affiliated company wholly-owned by the Company's chairman and president, whereby the affiliate acts as a national supervisory agent with responsibility for paying commissions to the Life Company's agents on annuity policies issued by the Life Company. This agreement initially benefits the Life Company's statutory surplus by extending the payment of a portion of the first year commissions on new annuity business written by the Life Company over a longer period of time, and thereby enabling the Life Company to conduct a comparatively greater volume of business. In subsequent periods, the Life Company's statutory surplus is reduced through the payment of renewal commissions to the affiliate on this business based upon the account balances of

the annuities remaining in force for a period of five years.

The aggregate amount of first-year commissions paid by the affiliate with funds obtained from sources other than the Life Company was \$35,959,000 from the inception of the agreement through March 31, 1999, and the aggregate amount of renewal commissions paid by the Life Company to the affiliate for the same period was \$10,790,000. Additional funding is presently available for the Service Company portion of first-year commissions estimated to be paid from April, 1999 through August, 1999. It is anticipated that arrangements will be undertaken to procure funding for later periods.

Future payments by the Life Company on business in force at March 31, 1999 are dependent upon the account balances of the annuities remaining in force on each remaining quarterly renewal commission payment date. Assuming that the account balances remain constant over such remaining renewal commission payments dates, future renewal commission payments by the Life Company would be \$2,820,779 per quarterly payment until December, 2002, and \$1,749,497 per quarterly payment from January, 2003 until January, 2005. All such payments would be capitalized as deferred policy acquisition costs and amortized to expense pursuant to the Company's stated accounting policy.

Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk is the Company's primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can affect the profitability of the Company's products and the market value of its investments.

The profitability of most of the Company's products depends on the spreads between interest yield on investments and rates credited on insurance liabilities. The Company has the ability to adjust crediting rates (participation or asset fee rates for equity-index annuities) on substantially all of its annuity policies at least annually (subject to minimum guaranteed values). In addition, substantially all of the Company's annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. However, competitive factors, including the impact of the level of surrenders and withdrawals, may limit the Company's ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

A major component of the Company's interest rate risk management program is structuring the investment portfolio with cash flow characteristics consistent with the cash flow characteristics of the Company's insurance liabilities. The Company uses computer models to simulate cash flows expected from its existing business under various interest rate scenarios. These simulations enable the Company to measure the potential gain or loss in fair value of its interest rate-sensitive financial instruments, to evaluate the adequacy of expected cash flows from its assets to meet the expected cash requirements of its liabilities and to determine if it is necessary to lengthen or shorten the average life and duration of its investment portfolio. (The "duration" of a security is the time weighted present value of the security's expected cash flows and is used to measure a security's sensitivity to changes in interest rates). When the durations of assets and liabilities are similar, exposure to interest rate risk is minimized because a change in value of assets should be largely offset by a change in the value of liabilities. At December 31, 1998, the effective duration of the Company's fixed maturity securities and short-term investments was approximately 7.5 years and the estimated duration of the Company's insurance liabilities was approximately 8.1 years.

If interest rates were to increase 10% from levels at December 31, 1998, the Company estimates that the fair value of its fixed maturity securities, net of corresponding changes in the values of deferred policy acquisition costs and insurance in force acquired would decrease by approximately \$12,856,000. The computer models used to estimate the impact of a 10% change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of the Company's 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 the Company actively manages its investments and liabilities, its net exposure to interest rates can vary over time.

Our investments in equity index call options are closely matched with our obligations to equity-indexed annuity holders. Market value changes associated with those investments are substantially offset by an increase or decrease in the amounts added to policyholder account balances for equity-indexed products.

Year 2000 Readiness Disclosure

Many computer programs were originally written using two digits rather than four digits to identify a particular year. Such programs may recognize a date using "00" as the year 1900 rather than the year 2000. If not corrected, these computer programs could cause system failures or miscalculations in the year 2000, with possible adverse effects on the Company's operations.

During the first quarter of 1998, the Company developed a strategy to identify and then test its internal computer programs which are date sensitive. The Company's systems for administering its group life policies were identified as having two-digit date codes. Conversion to four-digit codes and testing of such converted systems commenced in the second quarter of 1998 and was completed prior to December 31, 1998. These systems are now year 2000 compliant. The costs of testing and conversion charged to expense during 1998 were approximately \$25,000.

The policy issue and administration system for the Company's individual annuity and life insurance business is a system developed from the outset using four digits for the year. This system was purchased from a third party vendor in the fourth quarter of 1996. At that time, the vendor provided the Company with a letter of year 2000 compliance for this program. However, the Company did not rely solely on the compliance letter and began a comprehensive systems test in the third quarter of 1998. Testing included processing daily, monthly, quarterly and annual business cycles through February 29, 2000. Internal testing was completed during the fourth quarter of 1998. These systems were determined to be year 2000 compliant. The costs of testing of this system charged to expense during 1998 were approximately \$10,000.

External testing with third party providers of computer dependent services was completed during the first quarter of 1999. The most critical of these providers to the Company's ongoing business operations is the financial institution with which the Company electronically interfaces each business day for the processing of premium collections and commission payments. Integrated testing between the Company and this financial institution was successfully completed in February 1999. Testing included all types of ACH (Automated Clearing House) transactions. The cost of such testing charged to expense in 1999 will be approximately \$5,000.

Additionally, the Company is in the process of instituting a corporate wide disaster recovery plan for its data systems that will include both its Iowa and Alabama locations. Both locations will be prepared to serve the other in the event of a prolonged business outage. The plan will incorporate contingencies for year 2000 interruptions caused by certain third party providers and other outside elements for which adequate testing cannot be conducted. These would include, for example, utility companies that supply electricity and water.

In a worst case scenario, if the Company's policy issue and administration systems were inoperable, the Company could manually issue and administer policies. Similarly, if ACH transactions were suspended, the Company could manually issue commission checks and deposit premium receipts. Because manual operations are more time consuming, these functions would not occur as rapidly and delays of a few days to a few weeks could be experienced. This would entail some additional expense although the Company does not believe it would be material.

Pending Accounting Change

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." Statement No 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Accounting for gains or losses resulting from changes in the values of those derivatives is dependent on the use of the derivative and whether it qualifies for hedge accounting. The Statement is effective for the Company in the year 2000, with earlier adoption encouraged. The Company has not yet estimated the effect that adoption of this new Statement will have on earnings or the financial position of the Company.

Inflation does not have a significant effect on the Company's balance sheet; the Company has minimal investments in property, equipment or inventories. To the extent that interest rates may change to reflect inflation or inflation expectations, there would be an effect on the Company's balance sheet and operations. Lower interest rates experienced in recent periods have increased the value of the Company's fixed maturity investments. These lower rates may also have made it more difficult to issue new fixed rate annuities. It is not possible to calculate the effect of these changes on the Company's operating results. It is likely that rising interest rates would have the opposite effect.

Item 3. Properties

The Company leases space for its principal offices in Des Moines, Iowa, pursuant to written leases for approximately 17,350 square feet at a monthly rental of \$25,699 (\$308,388 per year) and has entered into a lease for an additional 9,200 square feet of space at a monthly rental of approximately \$14,350 (\$172,200 per year). The leases expire on June 30, 2004, and have a renewal option for an additional five year term at a rental rate equal to the then market value.

The Company is negotiating a lease for office space utilized by its staff in Pell City, Alabama. Previously, the Company owned an office building in Birmingham, Alabama from which its operations in that location were conducted. As discussed in Item 1. Business, the building was sold in 1998. The Company owns no real estate.

Item 4. Security Ownership of Certain Beneficial Owners and Management

The Company presently has 255 shareholders. The following table sets forth the beneficial ownership of the Company's Common Stock as of March 31, 1999 by: (i) each of the Company's directors; (ii) the Company's chief executive officer and other executive officers; (iii) all directors and executive officers as a group; and (iv) those persons owning more than 5% of the Company's Common Stock based upon information obtained from the Company's records at that date.

Warrants, Options, Management Subscription Rights included in Number of Shares Number of Shares Name Beneficially Owned Percent Beneficially Owned	----	-

Directors and Executive Officers		
David J. Noble (2)	(4)	1,366,500
		24.2%
James M. Gerlach		960,000
		2.0%
Robert L. Hilton		1,250
* -- Ben T. Morris(3)		13,750 *
David S. Mulcahy(4)		6,250

32,000 *
 10,000 A.J.
 Strickland,
 III 78,000
 1.7% 35,000
 Harley A.
 Whitfield
 12,000 *
 5,000 John
 C. Anderson
 7,100 * --
 Terry A.
 Reimer
 97,250 2.0%
 65,750 Debra
 J.
 Richardson(4)
 37,324 *
 32,375 Wendy
 L. Carlson
 22,500 *
 17,500 All
 directors
 and
 executive
 officers as
 group (11
 persons)
 1,764,924
 30.2%
 1,198,125 5%
 Owners Farm
 Bureau Life
 Insurance
 Company(4)
 1,562,500
 33.3% --
 Conseco
 Companies(5)
 456,500 9.7%
 --

 * Less than 1%

- (1) The address of each of the beneficial owners other than Ben T. Morris, Farm Bureau Life Insurance Company and Conseco Companies is c/o the Company, 5000 Westown Parkway, Suite 440, West Des Moines, IA 50266. The address for Ben T. Morris is c/o Sanders Morris Mundy Inc., 3100 Chase Tower, Houston, TX 77002. The address for Farm Bureau Life Insurance Company is 5400 University Avenue, West Des Moines, IA 50266. The address for Conseco Companies is 11825 N. Pennsylvania Street, Carmel, IN 46032.
- (2) Includes 327,500 shares of Common Stock owned by Mr. Noble and 79,000 shares of Common Stock owned by Twenty Services, Inc. ("Twenty"). Mr. Noble beneficially owns 53% of Twenty.
- (3) Does not include the warrant issued to Sanders Morris Mundy Inc. (of which Mr. Morris is a principal owner) to acquire up to 68,250 shares at an exercise price of \$12 per share. This warrant expires on April 30, 2000.

- (4) Of the 1,562,500 shares beneficially owned by Farm Bureau Life Insurance Company, 623,291 shares are on deposit in a voting trust which has a term of ten years ending on December 31, 2007. Under the terms of the voting trust, the voting trustees named therein control all voting rights attributable to the shares deposited in the voting trust, while Farm Bureau retains the economic rights to those shares. The voting trustees are David J. Noble, David S. Mulcahy and Debra J. Richardson, each of whom is a director or an executive officer of the Company. Each of the voting trustees disclaims any beneficial ownership with respect to these shares. Farm Bureau also received a right of first refusal to maintain a 20% ownership interest in the voting equity securities of the Company.
- (5) Aggregate number of shares owned by three subsidiaries of Conseco, Inc.

The following table sets forth information with respect to the directors and executive officers of the Company. There are no family relationships among any directors or executive officers of the Company except for Mr. Noble and Dr. Anderson who is Mr. Noble's son-in-law.

Name	Age	Position
David J. Noble	67	Chairman of the Board, President, Treasurer and Director
1995 James M. Gerlach	57	Executive Vice President and Director
1996 Robert L. Hilton	70	Director
1996 Ben T. Morris	53	Director
1997 David S. Mulcahy	46	Director
1996 A. J. Strickland, III	57	Director
1996 Harley A. Whitfield	68	Director
1996 John C. Anderson	36	Director
1998 Terry A. Reimer	53	Executive Vice President
Debra J. Richardson	42	Senior Vice President and Secretary
Wendy L. Carlson	38	Chief Financial Officer and General Counsel

David J. Noble serves as Chairman, President and Treasurer of the Company and Chairman and President of the Life Company. Mr. Noble was

Statesman's Chief Executive Officer (from 1982 through 1994) and a Director of Statesman (from 1975) and its President (from 1979) until he left to form the Company at the end of 1995. Mr. Noble has been active in the insurance industry for over 45 years. Mr. Noble is a Director of Twenty Services, Inc., an Alabama corporation.

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James M. Gerlach serves as a Director and Executive Vice President of the Company and as a Director, Executive Vice President and Chief Marketing Officer of the Life Company. Prior to joining the Company, Mr. Gerlach served as Executive Vice President and Secretary of American Life and as Executive Vice President and Treasurer of Vulcan Life Insurance Company, a subsidiary of American Life. Mr. Gerlach has been active in the insurance industry for over 35 years.

Robert L. Hilton is a Director of the Company. From 1992 to 1996, he served as President of TIDE Consulting Co., Destin, Florida. Since 1997, Mr. Hilton has served as Executive Vice President of Insurance Data Resources Statistical Services, Inc., Boca Raton, Florida. Mr. Hilton is a former director of Statesman, and served for over 40 years as Senior Vice President of the National Council of Compensation Insurance, Boca Raton, Florida.

Ben T. Morris is a Director of the Company. Mr. Morris is President, Director, and co-founder of Sanders Morris Mundy Inc., Houston, Texas, a financial services and investment banking firm. Mr. Morris is a Director of Capital Title Group, Inc. and USA Cafe Investors LLC.

David S. Mulcahy is a Director of the Company and of the Life Company. Since 1994, he has been a principal owner and officer of MABSCO Capital, Inc., Des Moines, Iowa and is the Chairman of Monarch Manufacturing Company, Waukee, Iowa. Mr. Mulcahy is a certified public accountant who acted as the senior tax partner for Ernst & Young LLP, where he was employed from 1976 through 1994.

A. J. Strickland, III is a Director of the Company. Since 1969, Mr. Strickland has been a Professor at the University of Alabama School of Business. Mr. Strickland is a Director of Twenty Services, Inc., and a former director of Statesman.

Harley A. Whitfield is a Director of the Company. Mr. Whitfield is an attorney who is of counsel to Whitfield & Eddy, P.L.C., Des Moines, Iowa. Mr. Whitfield was a partner with Whitfield & Eddy, P.L.C. from 1956 through 1994. Mr. Whitfield served as general corporate counsel for Statesman for over 30 years.

John C. Anderson is a Director of the Company, and is the Associate Medical Director for the Life Company. Dr. Anderson is a member of the Southbrooke Health Center, Pell City, Alabama, where he has practiced chiropractic medicine since 1990. He is on the staff at St. Clair Regional Hospital, and has served on the Physician Advisory Committee for Blue Cross/Blue Shield of Alabama.

Terry A. Reimer serves as Executive Vice President of the Company and as a Director, Executive Vice President, Chief Operating Officer and Treasurer of the Life Company. Mr. Reimer was Executive Vice President, Treasurer and Chief Operating Officer of American Life from September, 1988, through November, 1996. Mr. Reimer is a certified public accountant and has been involved in the insurance industry for over 30 years.

Debra J. Richardson is Senior Vice President and Secretary of the Company and is a Director, Vice President and Secretary of the Life Company. Ms. Richardson was employed by Statesman from 1977 through April 1996, serving in various positions including Vice President-Shareholder/Investor Relations and Secretary. Ms. Richardson has been involved in the insurance industry for 20 years.

Wendy L. Carlson is Chief Financial Officer and General Counsel for the Company. Ms. Carlson was a member of Whitfield & Eddy, PLC, where she practiced law from June, 1985 through May, 1999. Ms. Carlson is a certified public accountant and has been involved with the insurance industry for over 14 years.

The following is a significant member of the Board of Directors of the Life Company:

Jack W. Schroeder serves as Vice Chairman and Director of the Life Company. Mr. Schroeder served as President of American Life and Casualty Insurance Co. from 1988 through 1994 and as Vice President from 1995 through 1996. Mr. Schroeder has been involved in the insurance industry for over 40 years.

Item 6. Executive Compensation

The following table sets forth certain information with respect to the annual and long-term compensation of the Company's chief executive officer and the Company's highest paid executive officers whose total salary and bonus for 1998 services exceeded \$100,000. The amounts shown are aggregate compensation from the Company and its subsidiaries.

Summary Compensation Table

Long-Term Compensation Annual Awards Compensation(1) Securities ---- ----- --- Underlying All Other Name and Principal Position Year Salary Bonus Options/SARs(2) Compensation(3) - - - - - ----- ----- ----- -----
---- D.J. Noble 1998 \$ 60,000 \$-0- -0- \$1,200 Chairman, President and 1997 60,000 -0- 400,000 -0- Chief Executive Officer 1996 -0- -0- -0- -0- James M. Gerlach 1998 120,000 -0- -0- 2,400 Executive Vice President 1997 120,000 -0- 2,500 1,400 1996 70,000 -0- 25,000 -0- Terry A. Reimer 1998 120,000 -0- -0- 2,400 Executive Vice President 1997 120,000 -0- 2,500 1,400 1996 16,154 -0- 25,000 -0-

(1) Includes employee tax-deferred contributions to the Company's 401(k) savings plan and the deferred portion of Mr. Gerlach's and Mr. Reimer's compensation for 1997 and 1996 pursuant to their deferred compensation agreements with the Company. Mr. Gerlach and Mr. Reimer elected to defer receipt of \$50,000 each in 1997. Mr. Reimer deferred all of his 1996 salary, and Mr. Gerlach deferred \$30,946 of his 1996 salary. No interest is paid on the amounts deferred. Payment of the amounts deferred will be made in shares of Common Stock valued at \$10 per share. The shares will be issued only upon the occurrence of certain trigger events, including death, disability, retirement or Board action. As of December 31, 1998, 8,095 shares were issuable to Mr. Gerlach and 6,615 shares were issuable to Mr. Reimer.

(2) Except for Mr. Noble, all awards were made under the Company's 1996 Stock Option Plan. The number of securities for Mr. Noble includes warrants to purchase 80,000 shares of Common Stock and options to purchase 320,000 shares of Common Stock (see Note 9 of the Notes to Audited Consolidated Financial Statements).

In addition to the number of securities listed, each of the named executive officers received subscription rights to purchase shares of Common Stock in connection with a rights offering in December, 1997. Each executive officer received the right to purchase one share of Common Stock for each share owned and one-half share of Common Stock for each stock option held at the close of business on December 1, 1997. These management subscription rights have an exercise price of \$16 per share and may be exercised at any time prior to December 1, 2002. Mr. Noble received 560,000 management subscription rights and Mr. Gerlach and Mr. Reimer each received 38,750 management subscription rights.

(3) Represents employer contributions to the Company's 401(k) savings plan.

Option/SAR Grants in Last Fiscal Year

No options to purchase or stock appreciation rights ("SARs") on Common Stock were granted to the named executive officers in 1998.

Aggregated Option/SAR Exercises in 1998
and Year-End Option/SAR Values

The following table summarizes the options on Common Stock exercised during 1998 and the value of unexercised options on Common Stock held by the named executive officers at fiscal year-end:

Name	Exercise	Unexercisable(U)	Unexercisable(U)	Value of Unexercised Number of the Money Shares	Options/SARs Acquired at Fiscal Year-End(2) at Fiscal Year-End(1) on Value	Exercisable(E)/Unexercisable(U)	Exercisable(E)/Unexercisable(U)	Realized(1)
D.J. Noble	None	None	(E)400,000	(E)\$1,680,000	(U) None	(U)	None	James M. Gerlach
None	(E) 27,500	(E) 160,000	(U)	None	(U) None	500	\$3,000	(E) 27,000
								(U) 157,000
								None

(1) Values equal to the excess of the fair market value on the date of exercise or December 31, 1998 over the exercise price. For purposes of this table, fair market value was deemed to be \$16.00 per share, the price at which shares of Common Stock were issued in a private offering in December, 1997 and shares of 1998 Series A Participating Preferred Stock were issued in a private offering in December, 1998.

(2) Does not include management subscription rights which, based upon the deemed fair market value of \$16.00 per share of Common Stock, had no value at December 31, 1998. See footnote (2) to Summary Compensation Table.

Except for Mr. Noble, all options were granted under the Company's 1996 Stock Option Plan. The number for Mr. Noble includes warrants to purchase

80,000 shares of Common Stock and options to purchase 320,000 shares of Common Stock (see Note 9 of the Notes to Audited Consolidated Financial Statements).

Compensation of Directors

Each member of the Board of Directors who is not an officer of the Company receives \$500 per day for attending meetings of the Board of Directors or meetings of committees of the Board of Directors, plus reimbursement of expenses for attending such meetings.

Compensation Committee Interlocks and Insider Participation

The Board of Directors has established a Compensation Committee, the members of which are directors who are not employees of the Company.

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Item 7. Certain Relationships and Related Transactions

General Agency Commission and Servicing Agreement

On January 15, 1997, the Life Company entered into a general agency commission and servicing agreement (the "Service Company Agreement") with American Equity Investment Service Company (the "Service Company"), which is wholly-owned by D. J. Noble. Under the Service Company Agreement, the Service Company agreed to pay a specified portion of the commissions due to the Life Company's agents on new annuity business written by the Life Company, and the Life Company agreed to pay renewal and other commissions to the Service Company on this business, principally based upon the account balances of the annuities remaining in force over a specified period. The Service Company has assigned its rights under the Service Company Agreement to a lender as collateral security for a \$45 million line of credit made to Mr. Noble as borrower and recontributed by him as a loan to the Service Company. Under the Service Company Agreement, the Life Company is required to comply with certain recurring obligations, the breach of which shall constitute an event of default. Such agreement is not assignable without the prior written consent of the other party and expires on December 31, 2005.

During the years ended December 31, 1998 and 1997, the Service Company paid \$19,933,480 and \$11,470,576, respectively, to agents of the Life Company and the Life Company paid renewal commissions to the Service Company of \$6,781,288 and \$1,360,410, respectively. At December 31, 1998, accounts payable to the Service Company by the Life Company aggregated \$2,438,600.

Variable Product Alliance

In December 1997, the Company formed an alliance with FBL Financial Group, Inc. ("FBL") under which the parties have developed a variable annuity product and a variable universal life insurance product. The Company first offered these products to the public in July 1998. The parties have entered into a reinsurance agreement under which the risks, costs and profits associated with the variable products are shared on a percentage basis. FBL provides the administrative support necessary to manage this business, and is paid an administrative fee for such services.

FBL is the parent of Farm Bureau Life Insurance Company, which beneficially owns 33.3% of the Company's outstanding Common Stock (see Item 4. Security Ownership of Certain Beneficial Owners and Management).

Item 8. Legal Proceedings

The Company is not party to, and its property is not subject to, any pending legal proceedings.

Item 9. Market Price of and Dividends on Common Stock and Related Stockholders Matters

None of the Company's outstanding Common Stock is authorized for trading on an established public trading market. At December 31, 1998, 2,283,458 shares of Common Stock are subject to outstanding options or warrants to purchase, management subscription rights or convertible preferred stock. In addition, 193,950 shares of Common Stock are potentially issuable to certain officers, directors, consultants and agents pursuant to certain deferred compensation agreements they have with the Company.

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As of the date of this Form 10, the Company has not declared any cash dividends on its Common Stock and it is currently contemplated that the Company will not pay cash dividends on its Common Stock for the immediately foreseeable future. The payment of dividends in the future is subject to the discretion of the Board of Directors and will depend upon general business conditions, legal and regulatory restrictions on the payment of dividends and other factors deemed relevant by the Board. Additionally, the Company's credit facility contains a restrictive covenant which limits the Company's ability to pay dividends to no more than 10% of its consolidated net income for the prior fiscal year.

The Company's ability to pay dividends will depend upon the cash flow and profitability of the Life Company. Iowa insurance laws restrict the amount of dividends and surplus note payments the Life Company can pay without obtaining the approval of the Iowa Insurance Division. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10.

Item 10. Recent Sales of Unregistered Securities

The Company was initially capitalized in December, 1995 and January, 1996 through the issuance of 4,000 shares of its Common Stock to D. J. Noble, its chairman and president, and Twenty Services, Inc., a corporation 53% owned by Mr. Noble, for \$4,000,000 in cash. On May 29, 1996, these initial shares were increased to 400,000 shares as a result of a 100-for-1 stock split that became effective on that date.

The Company conducted two private placements of Common Stock and warrants in September and October, 1996. An aggregate of 780,000 shares of Common Stock and warrants to purchase 156,000 shares of Common Stock at an exercise price of \$10 per share were sold to "accredited investors" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act") in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof. EVEREN Securities, Inc. was the placement agent for these offerings. The aggregate consideration received was \$7,800,000 and EVEREN Securities, Inc. received an aggregate selling commission of \$186,500. In 1998, the Company issued 3,000 shares of Common Stock and warrants to purchase 600 shares of Common Stock at an exercise price of \$10 per share as payment for \$30,000 of the aggregate selling commission.

During 1997, 3,998 shares of Common Stock and warrants to purchase 798 shares of Common Stock at an exercise price of \$10 per share were sold to four employees for an aggregate price of \$39,980.

All of the aforementioned warrants were exercised in September and October, 1998 and the aggregate consideration received for the issuance of 157,398 shares of Common Stock was \$1,573,980.

In a May, 1997 private placement offering, the Company sold 568,750 shares of Common Stock and warrants to purchase 113,750 shares of Common Stock at an exercise price of \$12 per share to "accredited investors" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof. The aggregate consideration received was \$6,825,000 and a selling commission of \$546,000 was paid to Sanders Morris Mundy Inc., the placement agent. In addition, the placement agent received a warrant to purchase 68,250 shares of Common Stock at an exercise price of \$12 per share. The warrants issued to the purchasers in this offering were exercised in April, 1999 and the warrant issued to the placement agent expires on April 30, 2000.

Resales of shares acquired in the May, 1997 offering (including shares acquired upon exercise of the warrants) are subject to a right-of-first refusal among the persons acquiring their shares in that offering. Also, in the event the Company elects to register any of its securities in connection with a public offering, persons acquiring shares in that offering will have a one-time right to demand registration of their shares upon the

affirmative vote of persons holding at least two-thirds of such shares; provided, however, that in an underwritten offering, the underwriter(s) may choose to exclude the shares of selling shareholders on a pro rata basis if the underwriter determines that the inclusion of such shares would have a material adverse effect on the offering. In addition, if the Company proposes to register any shares of Common Stock subsequent to the time it is a public company, persons acquiring shares in the May, 1997 offering will have piggyback registration rights on such securities registrations.

In August, 1997, 1,666 shares of Common Stock and a warrant to purchase 333 shares of Common Stock were sold to an employee for an aggregate price of \$19,992. This warrant was exercised in April, 1999 at \$12 per share.

In a rights offering and private placement of Common Stock in December, 1997, the Company sold 2,666,250 shares of Common Stock of which 1,562,500 shares were sold to Farm Bureau Life Insurance Company (see Item 4. Security Ownership of Certain Beneficial Owners and Management) and 1,103,750 shares were sold to existing stockholders. The aggregate consideration received was \$42,660,000 and a selling commission of \$2,374,500 was paid to EVEREN Securities, Inc. The issuance of these shares was made in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof. In connection with this offering, the Company granted Farm Bureau Life Insurance Company a right of first refusal to maintain a 20% ownership interest in the voting equity securities of the Company. Also, directors and executive officers of the Company received rights to purchase one share of Common Stock for each share owned and one-half share of Common Stock for each stock option held at the close of business on December 1, 1997. An aggregate of 719,125 management subscription rights were issued to nine officers and directors at that time. These management subscription rights have an exercise price of \$16 per share and may be exercised at any time prior to December 1, 2002.

The Company sold 625,000 shares of 1998 Series A Participating Preferred Stock in December 1998 to an institutional investor for total consideration of \$10,000,000 in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof. These shares have participating dividend rights with the shares of Common Stock, when and as such dividends are declared. The preferred shares are convertible into shares of Common Stock on a one for one basis upon the earlier of the Company's initial public offering of its Common Stock or December 31, 2003.

During 1997 and 1998, the Company issued an aggregate of 900 shares of Common Stock to three employees pursuant to the exercise of options under its employee stock option plan. The total consideration received from these option exercises was \$10,200.

All shareholders of the Company will have a right of co-sale in the event of any transfer of a controlling interest in the Company (excluding certain involuntary transfers in the event of death or disability).

Item 11. Description of Securities to be Registered

The authorized capital of the Company consists of 27,000,000 shares of stock of all classes, consisting of 25,000,000 shares of Common Stock, par value \$1 per share, and 2,000,000 shares of Series Preferred Stock. The summary below does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the Company's Articles of Incorporation, as amended, and its Bylaws, as amended, which are filed as exhibits to this Form 10, as well as to the provisions of any applicable laws.

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As of the date of this Form 10, there are 4,696,045 shares of Common Stock issued and outstanding. Each outstanding share of Common Stock is entitled to one vote per share on each matter submitted to a vote of stockholders. Cumulative voting for the election of directors is not permitted, and the holders of a majority of shares voting for the election of directors can elect all members of the Board of Directors. Subject to the rights of holders of Series Preferred Stock, holders of Common Stock have equal ratable rights to dividends from funds legally available therefor, when, as, and if declared by the Board of Directors and are entitled to share ratably in all assets of the Company available for distribution to holders of Common Stock upon liquidation, dissolution or winding up of the Company. Holders of Common Stock have no preemptive, conversion, redemption, or subscription rights. All outstanding shares of Common Stock are validly issued, fully paid, and non-assessable.

The Series Preferred Stock may be issued from time to time in one or more series with such rights and preferences as may be determined by the Board of Directors. There are 625,000 shares of 1998 Series A Participating Preferred Stock issued and outstanding. The preferred shares rank on parity with the Common Stock as to the payment of dividends and have participating dividend rights with the shares of Common Stock, when and as such dividends are declared. The preferred shares rank senior to the Common Stock as to the distribution of assets upon liquidation, dissolution or winding up. Upon liquidation, the preferred shares will have a liquidation preference equal to the greater of: (i) \$16 per share (aggregate \$10,000,000) plus accrued and unpaid dividends and distributions which have been declared; or (ii) the amount per share payable to holders of Common Stock. The preferred shares have no voting rights and are

convertible into shares of Common Stock on a one for one basis upon the earlier of the Company's initial public offering of its Common Stock or December 31, 2003. Antidilution rights for the 1998 Series A Participating Preferred Stock are specified in the resolutions creating the series.

Item 12. Indemnification of Directors and Officers

Certain provisions of the Iowa Business Corporation Act ("IBCA") and the Company's Articles of Incorporation and Bylaws relate to the limitation of liability and indemnification of directors and officers of the Company. These various provisions are described below.

The Articles of Incorporation provide that the Company's directors are not personally liable to the Company or its shareholders for monetary damages for breach of their fiduciary duties as a director to the fullest extent permitted by Iowa law. Under existing Iowa law, directors would not be personally liable to the Company or its shareholders for monetary damages for breach of their fiduciary duties as a director, except for: (i) any breach of the director's duty of loyalty to the Company or its shareholders; (ii) acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law; (iii) any transaction from which the director derived improper personal benefit; or (iv) the unlawful payment of dividends or unlawful stock repurchases or redemptions. This indemnification provision may have the effect of reducing the likelihood of derivative litigation against directors and may discourage or deter shareholders of the company from bringing a lawsuit against directors of the Company for breach of their fiduciary duties as directors. However, the provision does not affect the availability of equitable remedies such as an injunction or rescission.

The Bylaws also provide that each person who was or is a party or is threatened to be made a party to any threatened, pending or completed civil or criminal action or proceeding by reason of the fact that such person is or was a director of the company or is or was serving at the request of the company as a director of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by the Corporation to the fullest extent permitted by Iowa law. This right to indemnification shall also include the right to be paid by the Company the expenses incurred in connection with any such proceeding in advance of its final disposition to the fullest extent authorized by Iowa law. This right to indemnification shall be a contract right. The Company may, by action of its Board of Directors, provide indemnification to such of the officers, employees

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and agents of the Company to such extent and to such effect as the Board of Directors determines to be appropriate and authorized by Iowa law.

The Company's Bylaws authorize the Company to purchase insurance for directors, officers and employees of the company, and persons who serve at the request of the Company as directors, officers, members, employees, fiduciaries or agents of other enterprises, against any expense, liability or loss incurred in such capacity, whether or not the Company would have the power to indemnify such persons against such expense or liability under the Bylaws. The Company maintains insurance coverage for its officers and directors as well as insurance coverage to reimburse the Company for potential costs of its corporate indemnification of directors and officers.

Item 13. Financial Statements and Supplementary Data

The financial statements are included as part of this Form 10 on pages F-1 through F-34 and pages F-42 through F-46.

Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 15. Financial Statements and Exhibits

See Index to Consolidated Financial Statements on page F-1 for a list of financial statements and financial statement schedules filed as part of this Form 10.

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

statements or notes thereto.

See Exhibit Index immediately preceding the Exhibits for a list of the Exhibits filed with this Form 10.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, this 8th day of January, 2002.

AMERICAN EQUITY INVESTMENT
LIFE HOLDING COMPANY

By: /s/ D.J. NOBLE

D.J. Noble, President

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

Signature
Title
(Capacity)
Date -----

- ---- /s/
D.J. NOBLE
Chairman
of the
Board,
President,
January 8,
2002 - ---

--
Treasurer
and
Director
D.J. Noble
(Principal
Executive
Officer)
/s/ TERRY
A. REIMER
Executive
Vice
President
January 8,
2002 - ---

--
(Principal
Accounting
Officer)
Terry A.
Reimer /s/
WENDY L.
CARLSON
Chief
Financial
Officer
and
General
January 8,
2002 - ---

-- Counsel

(Principal
Financial
Officer)
Wendy L.
Carlson
/s/ JAMES
M. GERLACH
Director
January 8,
2002 - ---

-- James
M. Gerlach
/s/ ROBERT
L. HILTON
Director
January 8,
2002 - ---

-- Robert
L. Hilton
/s/ BEN T.
MORRIS
Director
January 8,
2002 - ---

-- Ben T.
Morris /s/
DAVID S.
MUJLCAHY
Director
January 8,
2002 - ---

-- David
S. Mulcahy
/s/ A.J.
STRICKLAND,
III
Director
January 8,
2002 - ---

-- A.J.
Strickland,
III /s/
HARLEY A.
WHITFIELD
Director
January 8,
2002 - ---

-- Harley
A.
Whitfield
/s/ JOHN
C.
ANDERSON
Director
January 8,
2002 - ---

-- John C.
Anderson

American Equity Investment Life Holding Company

Index to Consolidated Financial Statements

Audited Consolidated Financial Statements as of December 31, 1998 and

1997, and for the three years ended December 31, 1998:

Report of Independent Auditors.....	F-2
Consolidated Balance Sheets.....	F-3
Consolidated Statements of Operations.....	F-5
Consolidated Statements of Changes in Stockholders' Equity.....	F-6
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Notes to Consolidated Financial Statements.....	F-10
Schedule I - Summary of Investments--Other Than Investments in Related Parties.....	F-35
Schedule II - Condensed Financial Information of Registrant (Parent Company).....	F-36
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Unaudited Consolidated Financial Statements as of March 31, 1999 and for the three months ended March 31, 1999 and 1998:

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of American Equity Investment Life Holding Company as of December 31, 1998 and 1997, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Equity Investment Life Holding Company at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Des Moines, Iowa
March 2, 1999

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American Equity Investment Life Holding Company

Consolidated Balance Sheets

December 31
1998 1997 --

Assets Cash
and
investments:
Available-
for-sale

fixed
 maturity
 securities,
 at market
 (amortized
 cost: 1998 -
 \$600,300,562;
 1997 -
 \$201,624,365)
 \$601,897,562
 \$202,315,960
 Derivative
 instruments
 16,171,621
 2,065,549
 Policy loans
 192,184
 183,353 Cash
 and cash
 equivalents
 15,891,779
 7,719,829 --

 Total cash
 and
 investments
 634,153,146
 212,284,691
 Receivable
 from other
 insurance
 companies
 616,737
 622,094
 Premiums due
 and
 uncollected
 1,684,698
 1,336,336
 Accrued
 investment
 income
 2,946,796
 1,762,624
 Receivables
 from related
 parties
 89,427
 37,382
 Property,
 furniture
 and
 equipment,
 less
 accumulated
 depreciation
 of \$859,085
 in 1998 and
 \$360,298 in
 1997
 1,242,228
 2,962,160
 Value of
 insurance in
 force
 acquired
 1,068,906
 1,343,000
 Deferred
 policy
 acquisition
 costs
 57,103,449
 14,575,497
 Intangibles,
 less
 accumulated
 amortization
 of \$472,306
 in 1998 and

\$280,743 in
 1997 646,142
 837,705
 Deferred
 income tax
 asset
 8,289,499
 3,846,947
 Other assets
 117,035
 102,701
 Assets held
 in separate
 account
 151,450 - --

 Total assets
 \$708,109,513
 \$239,711,137
 =====
 =====

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December 31
 1998 1997 --

 Liabilities
 and
 stockholders'
 equity
 Liabilities:
 Policy
 benefit
 reserves:
 Traditional
 life
 insurance
 and accident
 and health
 products \$
 11,317,156 \$
 9,687,379
 Annuity
 products
 529,765,023
 146,310,889
 Other policy
 funds and
 contract
 claims
 6,315,598
 2,355,156
 Provision
 for
 experience
 rating
 refunds
 833,679
 535,655
 Amounts due
 to related
 party under
 General
 Agency
 Commission
 and
 Servicing
 Agreement
 25,097,677
 10,293,006
 Other
 amounts due
 to related
 parties

2,438,600
 985,194
 Notes payable
 10,000,000
 10,000,000
 Amounts due under repurchase agreements -
 49,000,000 -
 Federal income taxes payable
 1,648,822
 2,562,742
 Other liabilities
 5,410,987
 2,555,067
 Liabilities related to separate account
 151,450 - --

 Total liabilities
 641,978,992
 185,285,088
 Commitments and contingencies
 (Notes 6, 9 and 11)
 Stockholders' equity:
 Series Preferred Stock, par value \$1 per share,
 2,000,000 shares authorized;
 625,000 shares of 1998 Series A
 Participating Preferred Stock issued and outstanding in 1998
 625,000 -
 Common Stock, par value \$1 per share -
 10,000,000 shares authorized; issued and outstanding
 4,581,962 shares in 1998 and
 4,420,864 shares in 1997
 4,581,962
 4,420,864
 Additional paid-in capital
 64,783,117
 54,318,665
 Accumulated other

comprehensive
income
420,035
210,300
Retained-
earnings
deficit
(4,279,593)
(4,523,780)

Total
stockholders'
equity
66,130,521
54,426,049 -

Total
liabilities
and
stockholders'
equity
\$708,109,513
\$239,711,137
=====

See accompanying notes.

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American Equity Investment Life Holding Company
Consolidated Statements of Operations

Year ended
December 31
1998 1997
1996 -----

Revenues:
Traditional
life and
accident and
health
insurance
premiums \$
10,528,108 \$
11,424,907 \$
14,540,707
Annuity
product
charges
642,547
11,896
14,007 Net
investment
income
26,356,472
4,018,617
865,155
Realized
gains on
investments
426,782 - -

--- Total
revenues
37,953,909
15,455,420
15,419,869
Benefits and

expenses:	
Insurance	
policy	
benefits and	
change in	
future	
policy	
benefits	
6,084,893	
7,440,080	
8,787,700	
Interest	
credited to	
account	
balances	
15,837,912	
2,129,686	
77,831	
Interest	
expense on	
notes	
payable	
788,770	
979,826	
493,801	
Interest	
expense on	
General	
Agency	
Commission	
and	
Servicing	
Agreement	
1,652,479	
182,839 -	
Interest	
expense on	
amounts due	
under	
repurchase	
agreements	
1,528,718	
291,547 -	
Amortization	
of deferred	
policy	
acquisition	
costs and	
value of	
insurance in	
force	
acquired	
2,293,654	
960,193	
879,916	
Amortization	
of goodwill	
70,000	
70,000	
17,500 Other	
operating	
costs and	
expenses	
8,692,813	
8,160,863	
6,302,094 --	

Total	
benefits and	
expenses	
36,949,239	
20,215,034	
16,558,842 -	

Income	
(loss)	
before	

income taxes
 1,004,670
 (4,759,614)
 (1,138,973)
 Income tax
 benefit
 (expense):
 Current
 (5,311,080)
 (2,565,057)
 - Deferred
 4,550,597
 3,955,283 -

 (760,483)
 1,390,226 -

 --- Net
 income
 (loss) \$
 244,187 \$
 (3,369,388)
 \$
 (1,138,973)

=====
 =====
 =====

Basic
 earnings per
 common share
 \$0.05
 \$(2.11)
 \$(1.90)

=====
 =====
 =====

Diluted
 earnings per
 common share
 \$0.05
 \$(2.11)
 \$(1.90)

=====
 =====
 =====

See accompanying notes.

American Equity Investment Life Holding Company
 Consolidated Statements of Changes in Stockholders' Equity

Preferred
 Stock -----
 --- Balance
 at January
 1, 1996 \$ --
 Comprehensive
 loss: Net
 loss for
 year --
 Change in
 net
 unrealized
 depreciation
 of
 available-
 for-sale
 fixed
 maturity
 securities -

- Total
comprehensive
loss
Issuance of
1,000 shares
of common
stock (pre-
split) --
Stock split
effective
May 29, 1996
(100 for 1)
-- Issuance
of 780,000
shares of
common stock
(post
split), less
issuance
expenses of
\$306,950 --

Balance at
December 31,
1996
Comprehensive
loss: Net
loss for
year --
Change in
net
unrealized
appreciation
of
available-
for-sale
fixed
maturity
securities -
- Total
comprehensive
loss
Issuance of
574,414
shares of
common
stock, less
issuance
expenses of
\$628,563 --
Issuance of
2,666,250
shares of
common
stock, less
issuance
expenses of
\$2,299,930 -
- Issuance
of 200
shares of
stock under
employee
stock option
plan --
Compensation
expense
related to
issuance of
stock
options and
warrants
(Note 9) --

Balance at
December 31,
1997
Comprehensive
income: Net
income for
year --

Change in
 net
 unrealized
 appreciation
 of
 available-
 for-sale-
 fixed
 maturity
 securities -
 - Total
 comprehensive
 income
 Issuance of
 160,398
 shares of
 common
 stock, less
 issuance
 expenses of
 \$329,700 --
 Issuance of
 625,000
 shares of
 1998 Series
 A
 Participating
 Preferred
 Stock, less
 issuance
 expenses of
 \$31,930
 625,000
 Issuance of
 700 shares
 of stock
 under
 employee
 stock option
 plan -- ----
 ---- Balance
 at December
 31, 1998
 \$625,000
 =====

See accompanying notes.

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Accumulated
 Other
 Additional
 Comprehensive
 Income
 Retained-
 Earnings
 Total
 Stockholders'
 Common Stock
 Paid-In
 Capital
 (Loss)
 Deficit
 Equity -----

 ----- \$
 3,000 \$
 2,997,000 \$
 - \$ (15,419)
 \$ 2,984,581
 - - -
 (1,138,973)
 (1,138,973)

- -
(201,556) -
(201,556) --

(1,340,529)
1,000
999,000 - -
1,000,000
396,000
(396,000) -
- - 780,000
6,713,050 -
- 7,493,050

1,180,000
10,313,050
(201,556)
(1,154,392)
10,137,102 -
- -
(3,369,388)
(3,369,388)
- - 411,856
- 411,856 --

(2,957,532)
574,414
5,681,995 -
- 6,256,409
2,666,250
37,693,820 -
- 40,360,070
200 1,800 -
- 2,000 -
628,000 - -
628,000 ----

4,420,864
54,318,665
210,300
(4,523,780)
54,426,049 -
- - 244,187
244,187 - -
209,735 -
209,735 ----

453,922
160,398
1,113,882 -
- 1,274,280
- 9,343,070
- -
9,968,070
700 7,500 -
- 8,200 ----

\$4,581,962
\$64,783,117
\$420,035
\$(4,279,593)
\$66,130,521
=====
=====
=====
=====
=====
=====

American Equity Investment Life Holding Company

Consolidated Statements of Cash Flows

Year ended	
December 31	
1998	1997
1996	-----
-----	-----
-----	-----
-----	-----
Operating activities	
Net income (loss) \$	
244,187	\$ (3,369,388)
(1,138,973)	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Adjustments related to interest sensitive products:	
Interest credited to account balances	
15,837,912	
2,129,686	
77,831	
Charges for mortality and administration	
(642,547)	
(11,896)	
(14,007)	
Increase in traditional life insurance and accident and health reserves	
1,629,777	
287,197	
439,216	
Policy acquisition costs deferred	
(19,291,978)	
(2,782,517)	
(245,226)	
Amortization of deferred policy acquisition costs	
2,019,560	
578,193	6,995
Amortization of discount and premiums on available-for-sale fixed maturity securities and	

derivative
 instruments
 (12,975,476)
 (997,853)
 36,148
 Provision for
 depreciation
 and other
 amortization
 991,569
 913,168
 982,794
 Compensation
 expense
 related to
 issuance of
 stock options
 and warrants
 -- 628,000 --
 Realized
 gains on
 investments
 (426,782) --
 -- Deferred
 income taxes
 (4,550,597)
 (3,955,283) -
 - Reduction
 of amounts
 due to
 related party
 under General
 Agency
 Commission
 and Servicing
 Agreement
 (3,675,402)
 (192,376) --
 Change in
 other
 operating
 assets and
 liabilities:
 Federal
 income taxes
 payable
 (913,920)
 2,562,742 --
 Accrued
 investment
 income
 (1,184,172)
 (1,347,769)
 (345,194)
 Other policy
 funds and
 contract
 claims
 3,960,442
 1,279,542
 225,000
 Receivables
 from related
 parties
 (52,045) -- -
 - Other
 liabilities
 2,907,964
 1,297,281
 1,112,347
 Other
 (72,751)
 (271,762)
 (327,230) ---

 Net cash
 provided by
 (used in)
 operating

activities
 (16,194,259)
 (3,253,035)
 809,701
 Investing
 activities
 Maturities or
 repayments of
 investments:
 Available-
 for-sale
 fixed
 maturity
 securities
 222,745,031
 22,591,487
 3,779,185
 Policy loans
 -- -- 12,580

 222,745,031
 22,591,487
 3,791,765
 Acquisitions
 of
 investments:
 Available-
 for-sale
 fixed
 maturity
 securities
 (602,830,456)
 (200,181,267)
 (19,223,611)
 Derivative
 instruments
 (11,539,179)
 (1,815,674) -
 - Policy
 loans (8,831)
 (26,830)
 (169,103) ---

 (614,378,466)
 (202,023,771)
 (19,392,714)
 Cash received
 pursuant to
 reinsurance
 assumption
 agreements --
 -- 3,805,969
 Proceeds from
 sale of
 property
 2,094,619 --
 -- Purchases
 of property,
 furniture and
 equipment
 (625,567)
 (1,123,129)
 (2,199,329)
 Acquisition
 of Century
 Life
 Insurance
 Company, net
 of cash
 equivalents
 received -- -
 - (885,837)
 Other -- --
 386,113 -----

Net cash used
in investing
activities
(390,164,383)
(180,555,413)
(14,494,033)

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American Equity Investment Life Holding Company
Consolidated Statements of Cash Flows (continued)

Year ended	
December 31	
1998	1997
1996	-----
-----	-----
-----	-----
Financing	
activities	
Receipts	
from	
interest	
sensitive	
products	
credited to	
policyholder	
account	
balances	
\$377,917,332	
\$141,853,600	
\$ 2,456,054	
Return of	
policyholder	
account	
balances on	
interest	
sensitive	
products	
(23,637,290)	
(2,419,197)	
(217,532)	
Financing	
fees	
incurred	
and	
deferred -	
- (418,448)	
Proceeds	
from notes	
payable - -	
10,000,000	
Repayments	
of notes	
payable - -	
(4,000,000)	
Change in	
amounts due	
under	
repurchase	
agreements	
49,000,000	
- - Net	
proceeds	
from sale	
of	
preferred	
stock	
9,968,070 -	
- Net	
proceeds	
from	
issuance of	
common	
stock	
1,282,480	
46,618,479	

8,493,050 -

-- Net cash
provided by
financing
activities
414,530,592
186,052,882
16,313,124

Increase in
cash and
cash
equivalents
8,171,950
2,244,434
2,628,792
Cash and
cash
equivalents
at
beginning
of year
7,719,829
5,475,395
2,846,603 -

-- Cash and
cash
equivalents
at end of
year \$
15,891,779
\$ 7,719,829
\$ 5,475,395
=====

=====

Supplemental
disclosures
of cash
flow

information
Cash paid
during year
for:

Interest \$
1,995,789 \$
1,113,886 \$
16,500
Income
taxes
6,225,000
2,315 -

Non-cash
financing
and
investing
activities:

Bonus
interest
deferred as
policy
acquisition
costs
5,909,679
1,035,325 -

Assets and
liabilities
acquired
pursuant to
reinsurance
assumption
agreements:

Premiums
 due and
 uncollected
 (41,284)
 Value of
 insurance
 in force
 acquired
 (1,097,921)
 Universal
 life and
 annuity
 policy
 reserves
 871,580
 Traditional
 life and
 accident
 and health
 policy
 reserves
 3,982,118
 Policy and
 contract
 claims
 91,476 ----

 Cash
 received
 pursuant to
 reinsurance
 assumption
 agreements
 \$ 3,805,969

See accompanying notes.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements

December 31, 1998

1. Organization and Significant Accounting Policies

Organization

American Equity Investment Life Holding Company (the Company), through its wholly-owned subsidiary, American Equity Investment Life Insurance Company, is licensed to sell insurance products in 39 states and the District of Columbia at December 31, 1998. The Company offers a broad array of insurance products including single premium deferred annuities, flexible premium deferred annuities, interest-sensitive life insurance products and traditional life insurance products. In 1998, the Company began offering variable life and variable annuity products. The Company operates solely in the life insurance business.

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: American Equity Investment Life Insurance Company, American Equity Capital, Inc. (formed in 1998) and American Equity Investment Properties, L.C. All significant intercompany accounts and transactions have been eliminated.

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

Certain amounts in the 1997 and 1996 consolidated financial statements have been

reclassified to conform to the 1998 financial statement presentation.

Investments

The Company has classified all of its fixed maturity securities (bonds) as available-for-sale. Available-for-sale securities are reported at market value and unrealized gains and losses, if any, on these securities are included directly in a separate component of stockholders' equity, net of certain adjustments. Premiums and discounts are amortized/accrued using methods which result in a constant yield over the securities' expected lives. Amortization/accrual of premiums and discounts on mortgage and asset-backed securities incorporate prepayment assumptions to estimate the securities' expected lives.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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

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

Derivative Instruments

The Company sells deferred annuity products with an additional benefit provision based on the increase, if any, in the Standard & Poor's 500 Index. The Company has analyzed the characteristics of these benefits and has purchased one-year option contracts with similar characteristics to hedge these risks. The underlying cost of the option is amortized over the life of the contracts and is recorded, net of proceeds received upon expiration, as a component of net investment income. The Company purchases these options from nationally recognized investment banking firms which have a Standard & Poor's credit rating of BBB+ or higher.

These options are reported at fair value in the consolidated balance sheets. The options are purchased at the time the related annuity policies are issued, with similar maturity dates and benefit features that fluctuate as the value of the options change. Accordingly, changes in the unrealized appreciation of the options (\$8,061,627 and \$839,359 during the years ended December 31, 1998 and 1997, respectively) are offset by changes to the policy benefit liabilities in the consolidated statements of operations.

The Company's hedging strategy attempts to mitigate any potential risk of loss under these agreements through a regular monitoring process which evaluates the program's effectiveness. The Company is exposed to risk of loss in the event of nonperformance by the counterparties and, accordingly, the Company purchases its option contracts from multiple counterparties and evaluates the creditworthiness of all counterparties prior to purchase of the contracts.

Policy Loans

Policy loans are reported at unpaid principal.

Cash and Cash Equivalents

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

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Deferred Policy Acquisition Costs and Value of Insurance In Force Acquired

To the extent recoverable from future policy revenues and gross profits, certain costs of acquiring new insurance business, principally commissions, first-year bonus interest and policy issue costs of \$1,908,540 for 1998 and \$1,920,895 for 1997 have been deferred. Policy issue costs consist of that portion of the expenses of our policy issue department which are directly related to the issuance of new annuities and insurance products (including the applicable portion of salaries and related benefits paid to policy issue employees, depreciation of policy issue computers and other equipment, mail and shipping expenses, etc.) The value of insurance in force acquired is an asset that arose with the acquisition of two blocks of business discussed in Note 3. The initial values are determined by an actuarial study using expected future profits as a measurement of the net present value of the insurance acquired. Interest accrues on the unamortized balance at a rate of 6%.

For annuity products, these costs are being amortized generally in proportion to expected gross profits from surrender charges and investment, mortality, and expense margins. That amortization is adjusted retrospectively when estimates of future gross profits/margins (including the impact of investment gains and losses) to be realized from a group of products are revised. For traditional life and accident and health insurance, such costs are being amortized over the premium-paying period of the related policies in proportion to premium revenues recognized, principally using the same assumptions for interest, mortality and withdrawals that are used for computing liabilities for future policy benefits subject to traditional "lock-in" concepts.

Intangibles

Intangibles consist of deferred debt costs and the excess of the purchase price paid over net assets acquired (goodwill) in connection with the purchase of Century Life Insurance Company (see Note 3). Deferred debt costs are being amortized over the life of the related loan agreement, three years using the interest method. Goodwill is being amortized over 10 years using a straight-line method.

Property, Furniture and Equipment

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

Separate Accounts

The separate account assets and liabilities reported in the accompanying consolidated balance sheets represent funds that are separately administered, principally for the benefit of variable life and variable annuity policyholders who bear the underlying investment risk. The separate account assets and liabilities are carried at fair value. Revenues and expenses related to the separate account assets and liabilities, to the extent of benefits paid or provided to the separate account policyholders, are excluded from the amounts reported in the consolidated statements of operations. The Company receives various fees that are included in the consolidated statements of operations.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Future Policy Benefits

Future policy benefit reserves for annuity products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for annuity products ranged from 3.0% to 12.0% in 1998, from 3.0% to 12.4% in 1997 and from 3.0% to 8.4% in 1996. A portion of this amount (\$5,909,679 and \$1,035,325 during the years ended December 31, 1998 and 1997, respectively) represents an additional interest credit on first-year premiums payable until the first contract anniversary date (first-year bonus interest). Such amounts have been offset against interest credited to account balances and deferred as policy acquisitions costs.

The liability for future policy benefits for traditional life insurance is based

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

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

Certain of the Company's traditional group life insurance business includes a provision for refunds of premiums based upon the annual experience of this business. Refunds are equal to net premiums received less a 16% administrative fee and less claims incurred. Such amounts (1998 - \$523,807; 1997 - 711,129; and 1996 - \$1,243,567) are reported as a reduction of traditional life and accident and health insurance premiums reflected in the Consolidated Statements of Operations.

Deferred Income Taxes

Deferred income tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Stockholders' Equity

During 1997, the Company increased the number of authorized shares from 2,500,000 to 10,000,000. In connection with the issuance of the Company's common stock under certain private placement offerings, the Company issued warrants to purchase one additional share of common stock for every five shares that were purchased. In addition, warrants to purchase 80,000 shares of the Company's common stock were issued in 1997 in connection with the amendment of the Stock Option Agreement with the Company's chairman (see Note 9). During 1998, 157,398 warrants were exercised at a price of \$10.00. At December 31, 1998, the Company had warrants for 262,333 shares outstanding with the following attributes:

Number	Expiration Date	Exercise Price
114,083	April 30, 1999	\$12.00
68,250	April 30, 2000	12.00
80,000	April 30, 2000	10.00
262,333		

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

Recognition of Premium Revenues and Costs

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

Life and accident and health premiums are recognized as revenues over the premium-paying period. Future policy benefits and policy acquisition costs are recognized as expenses over the life of the policy by means of the provision for future policy benefits and amortization of deferred policy acquisition costs.

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

Premiums and Deposits by Product Type

The Company markets equity-index annuities, fixed rate annuities, a variable annuity and life insurance. In connection with its reinsured group life business, the Company also collects renewal premiums on certain accident and health policies. Premium receipts (after cancellations) by product category collected during 1998 and 1997 were as follows:

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

PRODUCT
TYPE 1998
1997 -----

---- FIXED
ANNUITIES:
Equity
Index
\$163,470,000
\$
34,836,000
Fixed Rate
214,447,000
107,018,000
LIFE
INSURANCE
10,155,000
10,867,000
ACCIDENT
AND HEALTH
RENEWALS:
373,000
558,000
VARIABLE
ANNUITIES:
151,000 --

- - - - -

\$388,596,000
\$153,279,000
=====
=====

Earnings Per Share

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 128, Earnings Per Share. SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is similar to the previously reported fully diluted earnings per share, except in determining the number of dilutive shares outstanding for options and warrants. Under SFAS No. 128, diluted earnings per share assumes the proceeds that would be received upon the exercise of all dilutive options and warrants would be used to repurchase the Company's common shares at the average market price of such stock during the period. Under prior rules, the higher of the average market price or ending market price was used. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the requirements of SFAS No. 128.

Comprehensive Income

On January 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income, and restated prior years' financial statements to conform to the new reporting standard. SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on the Company's net income or stockholders' equity. Comprehensive income includes all changes in stockholders' equity during a period except those resulting from investments by and distributions to stockholders.

Other comprehensive income excludes net realized investment gains (losses) included in net income which merely represent transfers from unrealized to realized gains and losses. These amounts totaled \$35,886 in 1998. Such amounts, which have been measured through the date of sale, are net of adjustments to deferred policy acquisition costs and income taxes totaling \$115,864 in 1998.

Pending Accounting Change

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Accounting for gains or losses resulting from changes in the values of those derivatives is dependent on the use of the derivative and whether it qualifies for hedge accounting. The Statement is effective for the Company in the year 2000, with earlier adoption encouraged. The Company has not yet estimated the effect that this new Statement will have on earnings or the financial position of the Company.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

2. Fair Values of Financial Instruments

SFAS No. 107, Disclosures About Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. SFAS No. 107 also excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements and allows companies to forego the disclosures when those estimates can only be made at excessive cost. Accordingly, the aggregate fair value amounts presented herein are limited by each of these factors and do not purport to represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Fixed Maturity Securities: Fair values for fixed maturity securities are based on quoted market prices, when available, or price matrices for securities which are not actively traded, developed using yield data and other factors relating to instruments or securities with similar characteristics.

Derivative Instruments: Fair values for derivative instruments are based on quoted market prices from related counterparties.

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

Cash and Cash Equivalents: The carrying amounts reported in the consolidated balance sheets for these instruments approximate their fair values.

Separate Account Assets and Liabilities: Separate account assets and liabilities are reported at estimated fair value in the Company's consolidated balance sheets.

Annuity Policy Reserves: Fair values of the Company's liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities), are stated at the cost the Company would incur to extinguish the liability (i.e., the cash surrender value). The Company is not required to and has not estimated the fair value of its liabilities under other contracts.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

2. Fair Values of Financial Instruments (continued)

Notes Payable and Amounts Due Under Repurchase Agreements: As all agreements carry variable interest rate provisions, the carrying amounts reported in the consolidated balance sheets for these instruments approximate their fair values.

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

December 31	
1998	1997
-	-
-----	-----
-----	-----
-----	-----
-----	-----
-----	-----
-----	-----
-----	-----
Carrying	
Amount	Fair
Value	Value
-----	-----
-----	-----
-----	-----
-----	-----
- Assets	
Available-	
for-sale	
fixed	
maturity	
securities	
\$601,897,562	\$601,897,562
\$202,315,960	\$202,315,960
Derivative	
instruments	
16,171,621	16,171,621
2,065,549	2,065,549
Policy	
loans	
192,184	192,184
183,353	

183,353
 Cash and
 cash
 equivalents
 15,891,779
 15,891,779
 7,719,829
 7,719,829
 Separate
 account
 assets
 151,450
 151,450 - -
 Liabilities
 Annuity
 policy
 reserves
 529,765,023
 458,253,796
 146,310,889
 129,660,303
 Notes
 payable
 10,000,000
 10,000,000
 10,000,000
 10,000,000
 Amounts due
 under
 repurchase
 agreements
 49,000,000
 49,000,000
 - -
 Separate
 account
 liabilities
 151,450
 151,450 - -

3. Purchase of Business and Reinsurance Assumption Agreements

On September 30, 1996, the Company purchased Century Life Insurance Company, an inactive life insurance company licensed to transact business in 22 states and the District of Columbia for \$5,900,047. The transaction was accounted for as a purchase and the excess of the purchase price over the fair value of the net assets received, generally attributed to the licenses received and other intangibles, aggregated \$700,000 and has been allocated to goodwill. Goodwill will be amortized on the straight-line method over ten years. The following summarizes the assets and liabilities received in connection with the purchase:

Available-for-sale fixed maturity securities	\$ 155,837
Cash equivalents	5,014,210
Accrued investments income	30,000
Intangibles	700,000
Other assets	6,785
Other liabilities	(6,785)

Net purchase price	\$5,900,047
	=====

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

3. Purchase of Business and Reinsurance Assumption Agreements (continued)

Concurrent with the purchase, the Company merged American Equity Investment Life Insurance Company into Century Life Insurance Company and renamed the merged entity American Equity Investment Life Insurance Company.

On December 31, 1995, the Company acquired a block of individual and group insurance policies from American Life and Casualty Insurance Company, pursuant

to a reinsurance agreement. Under the agreement, the Company received cash of \$3,132,880, of which \$2,746,767 had been received prior to December 31, 1995, and assumed the related assets and liabilities, including the value of insurance in force acquired in the amount of \$1,500,000.

On January 2, 1996, the Company acquired an additional block of individual life business from American Life and Casualty Insurance Company pursuant to a second reinsurance agreement. Under this agreement, the Company received cash of \$3,805,969, and assumed the related assets and liabilities, including the value of insurance in force acquired in the amount of \$1,097,921.

The consolidated statements of operations includes results of the acquired company and for the acquired blocks of business subsequent to their purchase dates.

4. Investments

Fixed Maturity Securities

The following table contains amortized cost and market value information on available-for-sale fixed maturities at December 31, 1998:

Gross	Gross
Estimated	Estimated
Amortized	Amortized
Unrealized	Unrealized
Unrealized	Unrealized
Market Cost	Market Cost
Gains	Gains
Losses	Losses
Value -----	Value -----
-----	-----
-----	-----
-----	-----
Bonds:	
United States Government and agencies	
\$385,393,461	\$ 854,292
	\$(23,637)
\$386,224,116	
State, municipal and other governments	
4,227,231	-(3,231)
4,224,000	
Public utilities	
9,869,720	
194,810	-(10,064,530)
10,064,530	
Corporate securities	
191,393,819	1,036,268
	\$(525,097)
191,904,990	
Mortgage and asset-backed securities	
9,416,331	64,400
	\$(805)
9,479,926	
-----	-----
-----	-----
-----	-----
\$600,300,562	\$2,149,770
	\$(552,770)
\$601,897,562	
=====	=====
=====	=====

American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

At December 31, 1997, available-for-sale fixed maturity securities, which consisted entirely of bonds, were comprised entirely of United States Government and agencies obligations. Net unrealized appreciation on bonds of \$691,595 included gross unrealized appreciation of \$736,523 and gross unrealized depreciation of \$44,928 for the year ended December 31, 1997.

The carrying value and estimated fair value of available-for-sale fixed maturity securities at December 31, 1998, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Amortized Estimated Cost Fair Value ----- -----

Due after one year through five years
\$111,095,370
\$111,096,900
Due after five years through ten years
6,174,732
6,241,955
Due after ten years through twenty years
208,864,193
209,270,079
Due after twenty years
264,749,936
265,808,702

- -----

590,884,231
592,417,636
Mortgage- backed and asset- backed securities
9,416,331
9,479,926 -

- Total
\$600,300,562
\$601,897,562
=====
=====

The unrealized appreciation or depreciation on available-for-sale fixed maturity securities is reported as a separate component of stockholders' equity, reduced by adjustments to deferred policy acquisition costs that would have been required as a charge or credit to income had such amounts been realized, and a provision for deferred income taxes. Net unrealized appreciation of

available-for-sale fixed maturity securities as reported were comprised of the following:

December 31	
1998	1997
-	-
-----	-----
Unrealized	
appreciation	
on	
available-	
for-sale	
fixed	
maturity	
securities	
\$1,597,000	
\$ 691,595	
Adjustments	
for assumed	
changes in	
amortization	
pattern of	
deferred	
policy	
acquisition	
costs	
(960,583)	
(372,959)	
Related	
deferred	
income	
taxes	
(216,382)	
(108,336)	
-	

Net	
unrealized	
appreciation	
of	
available-	
for-sale	
fixed	
maturity	
securities	
\$ 420,035	\$
210,300	
=====	
=====	

American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

Net Investment Income

Components of net investment income are as follows:

Year ended	
December	
31 1998	
1997 1996	

-	

Available-	
for-sale	
fixed	
maturity	
securities	
\$28,304,437	
\$5,131,361	
\$ 913,636	
Derivative	

instruments
(1,767,580)
(589,484)
- Policy
loans
8,338
12,281
9,849 Cash
and cash
equivalents
331,530
124,393
70,442
Other
invested
assets
55,109 - -

- -----
- -----
--
26,931,834
4,678,551
993,927
Less
investment
expenses
(575,362)
(659,934)
(128,772)

- -----
-- Net
investment
income
\$26,356,472
\$4,018,617
\$ 865,155
=====

Realized and Unrealized Gains and Losses

An analysis of sales, maturities, and principal repayments of the Company's fixed maturities portfolio for the year ended December 31, 1998 is as follows:

Gross Gross
Amortized
Realized
Realized
Proceeds
Cost Gains
Losses from
Sale -----

---- Year
ended
December
31, 1998:
Scheduled
principal
repayments,
calls and
tenders
\$157,731,977
\$ - \$ -
\$157,731,977
Sales
64,861,304
163,865
(12,115)
65,013,054

- -----

Total
 \$222,593,281
 \$163,865
 \$(12,115)
 \$222,745,031
 =====
 =====
 =====
 =====

For the year ended December 31, 1998, realized gains of \$426,782 consist of gains on sales of fixed maturities of \$151,750 and gains on the sale of properties of \$275,032. The Company did not have any realized gains for the years ended December 31, 1997 and 1996.

The changes in unrealized appreciation/depreciation on investments, which are entirely attributable to available-for-sale fixed maturity securities, aggregated \$905,405, \$893,151 and \$(201,556) for the years ended December 31, 1998, 1997 and 1996, respectively. The change in net unrealized appreciation/depreciation is recorded net of adjustments to deferred policy acquisition costs and deferred income taxes totaling \$695,670 in 1998 and \$481,295 in 1997.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

Repurchase Agreements

As part of its investment strategy, the Company enters into securities lending programs to increase its return on investments and improve liquidity. These transactions are accounted for as amounts due under repurchase agreements. These amounts are collateralized by investment securities with fair values approximately equal to the amount due. At December 31, 1998, amounts outstanding aggregated \$49,000,000. At December 31, 1997, no amounts were outstanding.

Other

At December 31, 1998, affidavits of deposits covering fixed maturity securities and short-term investments with a carrying value of \$602,089,746 (1997 - \$201,494,229) were on deposit with state agencies to meet regulatory requirements.

At December 31, 1998, the following investments in any person or its affiliates (other than bonds issued by agencies of the United States Government) exceeded 10% of stockholders' equity: corporate bonds with carrying values of \$12,161,587 issued by Nationsbank and \$6,860,000 issued by Unocal Corp.

5. Value of Insurance In Force Acquired

The value of insurance in force acquired is an asset that represents the present value of future profits on business acquired. An analysis of the value of insurance in force acquired for the years ended December 31, 1998, 1997 and 1996 is as follows:

Year ended	
December 31	
1998	1997
1996	-----

Balance at	
beginning	
of year	
\$1,343,000	
\$1,725,000	
\$ 1,500,000	
Acquired	
during the	
year - -	
1,097,921	
Accretion	
of interest	
during the	

year 71,000
 91,000
 130,000
 Amortization
 of asset
 (345,094)
 (473,000)
 (1,002,921)

 Balance at
 end of year
 \$1,068,906
 \$1,343,000
 \$ 1,725,000
 =====
 =====
 =====

Amortization of the value of insurance in force acquired for the next five years ending December 31 is expected to be as follows: 1999 - \$318,000; 2000 - \$232,000; 2001 - \$104,000; 2002 - \$104,000; and 2003 - \$103,000.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

6. Reinsurance and Policy Provisions

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance enterprises or reinsurers. Reinsurance coverages for life insurance vary according to the age and risk classification of the insured. The Company does not use financial or surplus relief reinsurance.

Reinsurance contracts do not relieve the Company of its obligations to its policyholders. To the extent that reinsuring companies are later unable to meet obligations under reinsurance agreements, the Company's life insurance subsidiaries would be liable for these obligations, and payment of these obligations could result in losses to the Company. To limit the possibility of such losses, the Company evaluates the financial condition of its reinsurers, and monitors concentrations of credit risk. Insurance premiums have been reduced by \$567,027, \$722,545 and \$742,088 and insurance benefits have been reduced by \$375,592, \$503,154 and \$455,472 during the years ended December 31, 1998, 1997 and 1996, respectively, as a result of cession agreements.

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

During 1998, the Company entered into a modified coinsurance agreement to cede 70% of its variable life and variable annuity business to Equitrust Life Insurance Company ("Equitrust"). Equitrust is an affiliate of Farm Bureau Life Insurance Company which beneficially owns 33.27% of our voting capital securities. Under this agreement and related administrative services agreements, the Company paid Equitrust \$77,954 for the year ended December 31, 1998. The modified coinsurance agreement has an initial term of four years and will continue thereafter until termination by written notice at the election of either party. Any such termination will apply to the submission or acceptance of new policies, and business reinsured under the agreement prior to any such termination is not eligible for recapture before the expiration of 10 years.

Unpaid claims on accident and health insurance include amounts for losses and related adjustment expense and are estimates of the ultimate net costs of all losses, reported and unreported. These estimates are subject to the impact of future changes in claim severity, frequency and other factors. The activity in the liability for unpaid claims and related adjustment expense for the years ended December 31, 1998, 1997 and 1996, net of reinsurance, is summarized as follows:

Unpaid
 Claims
 Unpaid
 Liability
 at Claims

Claims
Beginning
of Reserve
Claims
Claims
Liability
at Year
Assumed
Incurred
Paid End
of Year --

Year ended
December
31, 1998
1998 \$ - \$
- \$
580,845
\$318,507 \$
262,338
1997 and
prior
667,287 -
(133,100)
123,864
410,323 --

667,287 \$
- \$
447,745
\$442,371
672,661
=====
=====
=====
Active
life
reserve
1,406,694
1,518,222

Total
accident
and health
reserves
\$2,073,981
\$2,190,883
=====
=====

American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

6. Reinsurance and Policy Provisions (continued)

Unpaid
Claims
Unpaid
Liability
at Claims
Claims
Beginning
of Reserve
Claims
Claims
Liability
at Year

Assumed
 Incurred
 Paid End
 of Year --

 Year ended
 December
 31, 1997
 1997 \$ - \$
 - \$
 556,302
 \$296,060 \$
 260,242
 1996 and
 prior
 629,651 -
 (107,471)
 115,135
 407,045 --

 629,651 \$
 - \$
 448,831
 \$411,195
 667,287
 =====
 =====
 =====
 Active
 life
 reserve
 1,350,132
 1,406,694

 Total
 accident
 and health
 reserves
 \$1,979,783
 \$2,073,981
 =====
 =====
 Year ended
 December
 31, 1996
 1996 \$ - \$
 - \$421,841
 \$ 90,844 \$
 330,997
 1995 and
 prior -
 501,589
 44,347
 247,282
 298,654 --

 \$501,589
 \$466,188
 \$338,126
 629,651
 =====
 =====
 =====
 Active
 life
 reserve -
 1,350,132

 Total
 accident
 and health
 reserves \$
 -
 \$1,979,783
 =====
 =====

7. Income Taxes

The Company and each of its subsidiaries file separate federal income tax returns. American Equity Investment Properties, L.C. is taxed as a partnership and, as such, all taxable income is distributed to its owners.

Deferred income taxes are established by the Company and its subsidiaries based upon the temporary differences among financial reporting and tax bases of assets and liabilities within each entity, the reversal of which will result in taxable or deductible amounts in future years when the related asset or liability is recovered or settled, measured using the enacted tax rates. Prior to 1997, no deferred taxes were provided since timing differences were not sufficient to offset operating loss carryforwards.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

7. Income Taxes (continued)

The effective tax rate on income (loss) before income taxes is different than the prevailing federal income tax rate, as follows:

Year ended December 31	1998	1997
Income (loss) before income taxes	\$1,004,670	\$(4,759,614)
	\$(1,138,973)	
	=====	=====
Tax effect at federal statutory rate (34%)	\$ (341,588)	\$ 1,618,269
	\$ 387,251	
Tax effect (decrease) of: State income taxes	59,000	129,000
	38,000	
Small company deduction -	331,000	-
Change in valuation allowance	(397,000)	(707,000)
	(427,000)	

Other
 (80,895)
 18,957
 1,749 -----

 Income tax
 benefit
 (expense) \$
 (760,483) \$
 1,390,226 \$
 -
 =====
 =====
 =====

The tax effect of individual temporary differences and the amount of the related valuation allowance established against the Company's deferred income tax assets at December 31, 1998 and 1997, is as follows:

December 31	1998	1997	--
-----	-----	-----	-----
Deferred income tax assets:			
Policy benefit reserves	\$17,810,000		
Provision for experience rating refunds	\$ 5,239,000		
Deferred compensation	350,000		
368,000 Net operating loss carryforwards	1,182,000		
Other	66,000		
-----	-----	-----	-----
19,691,000			
6,626,000			
Deferred income tax liabilities:			
Unrealized appreciation of fixed maturity securities	(216,382)		
Deferred policy acquisition costs	(108,336)		
(8,939,000)			
(727,000)			
Value of insurance in force acquired	(363,000)		
(457,000)			
Other	(346,119)		
-----	-----	-----	-----
(346,717)			--

 (9,864,501)
 (1,639,053)
 Valuation
 allowance on
 deferred
 income tax
 assets
 (1,537,000)
 (1,140,000)

 Deferred
 income tax
 asset \$
 8,289,499 \$
 3,846,947
 =====
 =====

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

7. Income Taxes (continued)

The Company regularly reviews its needs for a valuation allowance against its deferred income tax assets. During the year ended December 31, 1997, the Company's life insurance company became taxable and it is expected that it will continue to pay federal income taxes in the foreseeable future. As a result, the valuation allowance pertaining to deferred income tax assets at this subsidiary was removed at December 31, 1997. The Company continues to carry a valuation allowance against deferred income tax assets of the non-life insurance entities due to the uncertainty of future income estimates.

American Equity Investment Life Holding Company has net operating loss carryforwards for tax purposes of \$2,942,000 at December 31, 1998, which expire in 2010 through 2013.

8. General Agency Commission and Servicing Agreement

The Company has a General Agency Commission and Servicing Agreement with American Equity Investment Service Company (the Service Company), wholly-owned by the Company's chairman, whereby, the Service Company acts as a national supervisory agent with responsibility for paying commissions to agents of the Company. Under the terms of the original agreement, the Service Company was required to pay the greater of (a) 5% of the premiums collected by the Company on the sale of certain annuity products, or (b) 50% of the agent's commissions payable by the Company on the sale of those same policies. In return, the Company agreed to pay quarterly renewal commissions to the Service Company equal to .3275% of the premiums received by the Company on policies that still remain in force. In addition, the Company has agreed to pay supplemental commissions should lapses in any quarter exceed 1.88%, or certain other circumstances arise. The Agreement terminates on June 30, 2005.

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

In connection with the General Agency Commission and Servicing Agreement, the Company records commissions and a related payable for amounts paid by the Service Company. Interest expense is recorded based upon estimated future payments to the Service Company based upon an imputed interest rate (assumed to be 9.0%) for each of the periods presented. Estimated future payments are evaluated regularly and the imputed interest rate will be adjusted when deemed necessary. During the years ended December 31, 1998 and 1997, the

Service Company paid \$19,933,480 and \$11,470,576 respectively, to agents of the Company. The Company paid renewal commissions to the Service Company of \$6,781,288 and \$1,360,410, respectively, which were used to reduce the amount due under commission and servicing agreement, and amounts attributable to imputed interest.

From January, 1997 to July, 1999, the Service Company borrowed approximately \$45,000,000 from David J. Noble, Chairman, Chief Executive Officer and President of the Company as the source of funding its portion of producing agents' commission payments. During 1999, the Company agreed to loan the Service Company up to \$50,000,000 as an alternate source of funds for such first year commission. Principal and interest on all loans to the Service Company are payable quarterly over five years from the date of the advance. Interest on all such indebtedness accrues at "reference rate" of the financial institution which is the Company's principal lender. This rate averaged 8.38% in 1998 and 8.44% in 1997. The Service Company repays the above described indebtedness from the renewal commissions paid to it under the General Agency Commission and Servicing Agreement.

9. Notes Payable

On October 18, 1996, the Company borrowed \$10 million from two banks under a variable rate revolving credit agreement with a maximum borrowing level of \$10 million. The notes bear interest (7.56% at December 31, 1998) at LIBOR plus 2.25% and interest is payable quarterly. Principal and accrued interest is due and payable on October 17, 1999, with an option for a one-year extension. Under the agreement, the Company is required to maintain minimum capital and surplus levels at American Equity Investment Life Insurance Company and meet certain other financial and operating ratio requirements.

10. Retirement and Stock Compensation Plans

During 1996, the Company adopted a contributory defined contribution plan which is qualified under Section 401(k) of the Internal Revenue Service Code. The plan covers substantially all full-time employees of the Company, subject to minimum eligibility requirements. Employees can contribute up to 15% of their annual salary (with a maximum contribution of \$10,000 in 1998 and \$9,500 in 1997) to the plan. The Company contributes an additional amount, subject to limitations, based on the voluntary contribution of the employee. Further, the plan provides for additional employer contributions based on the discretion of the Board of Directors. The Company's related expenses were \$25,231 and \$19,434 with respect to this plan during the years ended December 31, 1998 and 1997, respectively. No contributions were made during 1996 to the plan.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

10. Retirement and Stock Compensation Plans (continued)

The Company has entered into deferred compensation arrangements with certain officers, directors, and consultants, whereby these individuals have agreed to take common stock of the Company at a future date in lieu of current cash payments. The common stock is to be issued in conjunction with a "trigger event", as that term is defined in the individual agreements. At December 31, 1998, these individuals have earned, and the Company has reserved for future issuance, 96,958 shares of common stock pursuant to these arrangements. The Company has also accrued \$1,017,333 as an other liability at December 31, 1998, representing the value associated with the shares earned.

During 1997, the Company established the American Equity Investment NMO Deferred Compensation Plan whereby agents can earn common stock in addition to their normal commissions. Awards are calculated using formulas determined annually by the Company's Board of Directors and are generally based upon new annuity deposits. For the years ended December 31, 1998 and 1997, agents earned the

right to receive 83,861 and 13,131 shares, respectively. These shares will be awarded at the end of the vesting period, 4 years for the 1998 program and 3 years for the 1997 program. A portion of the awards may be subject to forfeiture if certain production levels are not met over the remaining vesting period. The Company recognizes commission expense as the awards vest. For the year ended December 31, 1998, agents vested in 25,342 shares of common stock and the Company recorded commission expense (which was subsequently capitalized as deferred policy acquisition costs) of \$295,354 with respect to this plan. Amounts accrued are reported as other liabilities until the stock has been issued. The Company has reserved 96,992 shares for future issuance under the plan.

On January 3, 1996, the Company entered into a Stock Option Agreement with its chairman (and owner of 8.9% of the Company's outstanding common stock at December 31, 1998) pursuant to which the chairman will be entitled to maintain ownership of at least 51% of all outstanding shares of common stock of the Company. During 1997, the Stock Option Agreement was amended and the number of options and warrants to purchase shares of the Company's common stock was fixed at 400,000. Certain of these options and warrants have an exercise price of \$10.00 per share and expire in 2000 (80,000 warrants) and 2007 (200,000 options). The remaining 120,000 options can be exercised at anytime at fair value and expire in 2007. In connection with the 1997 amendment, the Company recorded compensation expense of \$628,000.

During 1996, the Company also adopted the 1996 Stock Option Plan which authorizes the grants of options to officers, directors and employees for up to 400,000 shares of the Company's common stock. All options granted have 10 year terms, and vest and become fully exercisable immediately. The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below,

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

10. Retirement and Stock Compensation Plans (continued)

the alternative fair value accounting provided for under SFAS No. 123, Accounting for Stock-Based Compensation, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the fair value of the underlying stock on the date of grant, no compensation expense is recognized.

Information relating to the stock options during the years ended December 31, 1998, 1997 and 1996, excluding the 120,000 options described above exercisable at fair value, is as follows:

Weighted-
Average
Total
Number of
Exercise
Price
Exercise
Shares per
Share
Price ----

- Shares
granted
during
during
1996 and
under
option at
December
31, 1996
612,000
\$10.00 \$
6,120,000
Granted
during
1997

341,700
 10.98
 3,750,400
 Canceled
 during
 1997
 (412,000)
 10.00
 (4,120,000)
 Exercised
 during
 1997 (200)
 10.00
 (2,000)
 Forfeited
 during
 1997
 (5,800)
 10.00
 (58,000) -

Shares
 under
 option at
 December
 31, 1997
 535,700
 10.62
 5,690,400
 Granted
 during
 1998
 38,500
 16.00
 616,000
 Canceled
 during
 1998
 (16,500)
 10.18
 (168,000)
 Exercised
 during
 1998 (700)
 11.71
 (8,200) --

Shares
 under
 option at
 December
 31, 1998
 557,000
 \$11.01 \$
 6,130,200
 =====
 =====

=====
 Exercisable
 options:
 December
 31, 1996
 612,000
 \$10.00 \$
 6,120,000
 December
 31, 1997
 535,700
 10.62
 5,690,400
 December
 31, 1998
 557,000
 11.01
 6,130,200

American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

10. Retirement and Stock Compensation Plans (continued)

Information regarding stock options outstanding at December 31, 1998 is as follows:

Outstanding

Weighted-
Average
Remaining
Currently
Contractual
Life
Exercisable
Number (in
Years)
(Number) -

Exercise
prices:

\$10.00
381,500

8.17
381,500

\$12.00
123,200

8.55
123,200

\$16.00
52,300

9.74
52,300 ---

557,000
8.40

557,000

Fair value
120,000

8.33
120,000 --

677,000
8.39

677,000

=====

====

=====

At December 31, 1998 and 1997, the Company had 142,100 and 164,100 shares, respectively, available for grant as additional awards under the 1996 Stock Option Plan.

On December 1, 1997, in connection with a rights offering and a private offering of shares of the Company's common stock, the Company issued subscription rights to purchase an aggregate of 719,125 shares of the Company's common stock to certain officers and directors. The subscription rights have an exercise price of \$16.00 per share, were fully exercisable immediately, and expire on December 1, 2002.

Pro forma information regarding net income is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options and subscription rights under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a minimum value

option pricing model (which is used for non-public companies) with the following weighted-average assumptions:

Year
ended
December
31 1998
1997
1996 ---
---- ---
---- ---

Risk-
free
interest
rate
5.40%
6.50%
6.50%
Dividend
yield 0%
0% 0%
Weighted-
average
expected
life 3
years 3
years 3
years

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

10. Retirement and Stock Compensation Plans (continued)

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

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

Year ended	
December 31	
1998	1997
1996	-----
	--

	Net
	income
	(loss), as
	reported
	\$244,187
	\$(3,369,388)
	\$(1,138,973)
	Net income
	(loss), pro
	forma
	189,000
	(4,903,000)
	(2,222,000)
	Basic
	earnings
	per common
	share, as
	reported
	0.05 (2.11)
	(1.90)

Basic earnings per common share, pro forma	0.04
	(3.07)
	(3.71)
Diluted earnings per common share, as reported	0.05
	(2.11)
	(1.90)
Diluted earnings per common share, pro forma	0.04
	(3.07)
	(3.71)

The pro forma impact is likely to increase in future years as additional options are granted and amortized ratably over the vesting period.

11. Stockholder's Equity of Life Insurance Subsidiary

Capital Restrictions of Subsidiary

Iowa Insurance Laws require domestic insurers to maintain a minimum of \$5.0 million capital and surplus.

Prior approval of statutory authorities is required for the payment of dividends to the Company's stockholder which exceed an annual limitation.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

11. Stockholder's Equity of Life Insurance Subsidiary (continued)

Statutory Accounting Policies

The financial statements of American Equity Investment Life Insurance Company included herein differ from related statutory-basis principally as follows: (a) the bond portfolio is segregated into held-for-investment (carried at amortized cost), available-for-sale (carried at fair value), and trading (reported at fair value) classifications rather than generally being carried at amortized cost; (b) acquisition costs of acquiring new business are deferred and amortized over the life of the policies rather than charged to operations as incurred; (c) the excess of purchase price over net assets acquired in business combinations is allocated to identifiable intangibles such as value of insurance in force acquired, rather than being entirely attributable to goodwill (a portion of which may be non-admitted); (d) policy reserves on traditional life and accident and health products are based on reasonable assumptions of expected mortality, morbidity, interest and withdrawals which include a provision for possible adverse deviation from such assumptions which may differ from reserves based on statutory mortality rates and interest; (e) future policy benefit reserves on certain universal life and annuity products are based on full account values, rather than discounting methodologies utilizing statutory interest rates; (f) reinsurance amounts are shown as gross amounts, net of an allowance for uncollectible amounts, on the consolidated balance sheet rather than netted against the corresponding receivable or payable; (g) deferred income taxes are provided for the difference between the financial statement and income tax bases of assets and liabilities; (h) net realized gains or losses attributed to changes in the level of interest rates in the market are recognized as gains or losses in the statement of operations when the sale is completed rather than deferred and amortized over the remaining life of the fixed maturity security or mortgage loan; (i) declines in the estimated realizable value of investments are charged to the statement of operations for declines in value, when such declines in value are judged to be other than temporary rather than through the establishment of a formula-determined statutory investment reserve (carried as a liability), changes in which are charged directly to surplus, (j) agents' balances and certain other assets designated as "non-admitted assets" for

statutory purposes are reported as assets rather than being charged to surplus; (k) revenues for universal life and annuity products consist of policy charges for the cost of insurance, policy administration charges, amortization of policy initiation fees and surrender charges assessed rather than premiums received; and (l) pension income or expense is recognized in accordance with SFAS No. 87, Employers' Accounting for Pensions, rather than in accordance with rules and regulations permitted by the Employee Retirement Income Security Act of 1974; (m) surplus notes are reported as a liability rather than as a component of capital and surplus; and (n) assets and liabilities are restated to fair values when a change in ownership occurs, rather than continuing to be presented at historical cost.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

11. Stockholder's Equity of Life Insurance Subsidiary (continued)

Net income for the life insurance subsidiary as determined in accordance with statutory accounting practices was \$4,803,545, \$4,470,284 and \$1,174,811 in 1998, 1997 and 1996, respectively, and total statutory capital and surplus of the life insurance subsidiary was \$80,947,913 and \$64,709,809 at December 31, 1998 and 1997, respectively.

In 1998, the NAIC adopted codified statutory accounting principles (Codification). Codification will likely change, to some extent, prescribed statutory accounting practices and may result in changes to the accounting practices that the Company uses to prepare its statutory-basis financial statements. Codification will require adoption by the various states before it becomes the prescribed statutory basis of accounting for insurance companies domiciliated within those states. Accordingly, before Codification becomes effective for the Company, the State of Iowa must adopt Codification as the prescribed basis of accounting on which domestic insurers must report their statutory-basis results to the Insurance Division, Department of Commerce, of the State of Iowa. At this time it is unclear whether the State of Iowa will adopt Codification. However, based on current guidance, management believes that the impact of Codification will not be material to the Company's statutory-basis financial statements.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies

The Company leases its home office space and certain other equipment under operating leases which expire through June 2004. During the years ended December 31, 1998, 1997 and 1996, rent expense totaled \$335,382, \$341,982 and \$147,662, respectively. At December 31, 1998, minimum rental payments due under all noncancelable operating leases with initial terms of one year or more are:

Year ending December 31:	
1999	\$ 434,000
2000	422,000
2001	420,000
2002	413,000
2003	405,000
Thereafter, through June 2004	189,000

	\$2,283,000
	=====

Assessments are, from time to time, levied on the Company by life and health guaranty associations by most states in which the Company is licensed to cover losses to policyholders of insolvent or rehabilitated companies. In some states,

these assessments can be partially recovered through a reduction in future premium taxes. Given the short period since inception, management believes that assessments against the Company for failures known to date will be minimal.

American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (continued)

13. Earnings Per Share

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

Year ended
 December 31
 1998 1997
 1996 -----

Numerator:
 Net income
 (loss) \$
 244,187
 \$(3,369,388)
 \$(1,138,973)

Numerator
 for basic
 and
 dilutive
 earnings
 per common
 share -
 income
 available
 to common
 stockholders
 \$ 244,187
 \$(3,369,388)
 \$(1,138,973)
 =====
 =====
 =====

Denominator:
 Denominator
 for basic
 earnings
 per common
 share -
 weighted-
 average
 shares
 4,464,912
 1,598,695
 598,740
 Effect of
 dilutive
 securities:
 Preferred
 stock 3,425
 - -
 Warrants
 117,370 - -
 Stock
 options
 114,788 - -
 Deferred
 compensation
 agreements
 13,533 - -

Denominator
for diluted
earnings
per share -
adjusted
weighted-
average
shares
4,714,028
1,598,695
598,740
=====

Basic
earnings
per common
share \$0.05
\$(2.11)
\$(1.90)
=====

Diluted
earnings
per common
share \$0.05
\$(2.11)
\$(1.90)
=====

14. Impact of Year 2000 (Unaudited)

The Company has developed a plan to assess its information technology needs to be ready for the Year 2000. During 1996, the Company purchased a new policy administration system which the vendor has represented and have tested it to be Year 2000 compliant. Additionally, the Company has begun converting any remaining non-compliant data processing systems. The Company currently expects the project to be substantially completed by early 1999 and does not expect the cost to modify systems used in the normal course of business to be significant. While additional testing will be conducted on its systems through the Year 2000, the Company does not expect this project to have a significant effect on operating activities.

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American Equity Investment Life Holding Company
Notes to Consolidated Financial Statements (continued)

14. Impact of Year 2000 (Unaudited) (continued)

The Company also recognizes there are outside influences and dependencies relative to its Year 2000 effort, over which it has little or no control. The Company is putting effort into ensuring these considerations will have minimal impact. This includes the continued availability of certain resources, assessing third-party modification plans and developing contingency/recovery plans aimed at ensuring the continuity of critical business functions before and after December 31, 1999. However, there can be no assurances that these steps will be sufficient to avoid any adverse impact to the Company's business or its consolidated financial statements.

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Schedule I
Summary of Investments - Other Than
Investments in Related Parties

December 31, 1998

Column A
 Column B
 Column C

Column D - -

- Amount at
 Which Shown
 in the Type
 of
 Investment
 Cost(1)
 Value
 Balance

Sheet - ----

 Fixed
 maturities,
 available-
 for-sale:
 Bonds:
 United
 States

Government
 and agencies
 \$385,393,461
 \$386,224,116
 \$386,224,116

State,
 municipal
 and other
 governments
 4,227,231
 4,224,000
 4,224,000

Public
 utilities
 9,869,720
 10,064,530
 10,064,530

Corporate
 securities
 191,393,819
 191,904,990
 191,904,990

Mortgage and
 asset-backed
 securities
 9,416,331
 9,479,926
 9,479,926 --

Total fixed
 maturities,
 available-
 for-sale
 600,300,562
 \$601,897,562
 601,897,562

=====
 Derivative
 financial
 instruments
 7,270,635

16,171,621
 Policy loans
 192,184
 192,184
 Short-term
 investments
 45,000
 45,000 -----

 Total
 investments
 \$607,808,381
 \$618,306,367
 =====
 =====

(1) On the basis of cost adjusted for repayments and amortization of premiums and accrual of discounts for fixed maturities.

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Schedule II

Condensed Financial Information of Registrant

(Parent Company)

American Equity Investment Life Holding Company

Condensed Balance Sheets

	December 31	December 31
	1998	1997
	---	---
	-----	-----
	-----	-----
Assets Cash and cash equivalents \$	2,212,159	\$ 3,585,886
Receivable from subsidiary (eliminated in consolidation)	- 126,775	
Property, furniture and equipment, less accumulated depreciation of \$453,927 in 1998 and \$173,866 in 1997	518,079	602,023
Intangibles, less accumulated amortization of \$314,805 in 1998 and \$193,242 in 1997	103,642	225,205
Other assets	27,699	2,042
	-----	-----
	--- 2,861,579	4,541,931
Investment in and advances to subsidiaries (eliminated in		

consolidation)	
	74,712,974
	60,863,595 --

Total assets	
	\$77,574,553
	\$65,405,526
	=====
	=====
Liabilities	
and	
stockholders'	
equity	
Liabilities:	
Notes payable	
	\$10,000,000
	\$10,000,000
Payable to	
subsidiaries	
(eliminated	
in	
consolidation)	
	- 17,247
Other	
liabilities	
	1,444,032
	962,230 -----

----- Total	
liabilities	
	11,444,032
	10,979,477
Commitments	
and	
contingencies	
Stockholders'	
equity:	
Series	
Preferred	
Stock 625,000	
- Common	
Stock	
	4,581,962
	4,420,864
Additional	
paid-in	
capital	
	64,783,117
	54,318,665
Accumulated	
other	
comprehensive	
income	
	420,035
	210,300
Retained-	
earnings	
deficit	
	(4,279,593)
	(4,523,780) -

Total	
stockholders'	
equity	
	66,130,521
	54,426,049 --

Total	
liabilities	
and	
stockholders'	
equity	
	\$77,574,553
	\$65,405,526
	=====
	=====

Schedule II

Condensed Financial Information of Registrant (continued)

(Parent Company)

American Equity Investment Life Holding Company

Condensed Statements of Operations

Year ended	
December 31	
1998	1997
1996	-----
-----	-----
-----	-----
- Revenues:	
Net	
investment	
income \$	
154,307	\$
50,161	\$
8,140 Surplus	
note interest	
from	
subsidiary	
(eliminated	
in	
consolidation)	
157,788	
134,077	
41,266	-----
-----	-----
-----	-----
--- Total	
revenues	
312,095	
184,238	
49,406	
Expenses:	
Interest	
expense on	
notes payable	
910,372	
979,826	
493,802 Other	
operating	
costs and	
expenses	
697,180	
1,281,776	
165,080	-----
-----	-----
-----	-----
---- Total	
expenses	
1,607,552	
2,261,602	
658,882	-----
-----	-----
-----	-----
---- Loss	
before equity	
in	
undistributed	
income of	
subsidiaries	
(1,295,457)	
(2,077,364)	
(609,476)	
Equity in	
undistributed	
income (loss)	
of	
subsidiaries	
(eliminated	
in	

consolidation)
 1,539,644
 (1,292,024)
 (529,497) ---

 ----- Net
 income (loss)
 \$ 244,187
 \$(3,369,388)
 \$(1,138,973)
 =====
 =====
 =====

See accompanying note to condensed financial statements.

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Schedule II

Condensed Financial Information of Registrant (continued)

(Parent Company)

American Equity Investment Life Holding Company

Condensed Statements of Cash Flows

Year ended
 December 31
 1998 1997
 1996 -----

 Operating
 activities
 Net income
 (loss) \$
 244,187
 \$(3,369,388)
 \$(1,138,973)
 Adjustments
 to reconcile
 net income
 (loss) to
 net cash
 provided by
 (used in)
 operating
 activities:
 Provision
 for
 depreciation
 and
 amortization
 401,624
 306,082
 61,027
 Compensation
 expense
 related to
 issuance of
 stock
 options and
 warrants -
 628,000 -
 Equity in
 undistributed
 loss
 (income) of
 subsidiaries
 (1,539,644)
 1,292,024
 529,497
 Changes in
 operating
 assets and
 liabilities:

Receivable
from
subsidiaries
126,775
(85,509)
(41,266)
Other assets
(25,657)
(2,042) -
Payable to
subsidiaries
(17,247)
(733,313)
750,560
Other
liabilities
481,802
128,634
818,596 ----

----- Net
cash
provided by
(used in)
operating
activities
(328,160)
(1,835,512)
979,441
Investing
activities
Capital
contributions
to
subsidiaries
(6,600,000)
(42,500,000)
(10,476,235)
Issuance of
surplus
notes to
subsidiary
(5,500,000)
-
(2,500,000)
Purchases of
property,
furniture
and
equipment
(196,117)
(514,269)
(261,620) --

Net cash
used in
investing
activities
(12,296,117)
(43,014,269)
(13,237,855)
Financing
activities
Financing
fees
incurred and
deferred - -
(418,448)
Proceeds
from notes
payable - -
10,000,000
Repayments
of notes
payable - -
(4,000,000)
Net proceeds
from sale of

preferred
 stock
 9,968,070 -
 - Net
 proceeds
 from
 issuance of
 common stock
 1,282,480
 46,618,479
 8,493,050 --

Net cash
 provided by
 financing
 activities
 11,250,550
 46,618,479
 14,074,602 -

Increase
 (decrease)
 in cash and
 cash
 equivalents
 (1,373,727)
 1,768,698
 1,816,188
 Cash and
 cash
 equivalents
 at beginning
 of year
 3,585,886
 1,817,188
 1,000 -----

----- Cash
 and cash
 equivalents
 at end of
 year \$
 2,212,159 \$
 3,585,886 \$
 1,817,188
 =====
 =====
 =====

Supplemental
 disclosure
 of cash flow
 information
 Cash paid
 during the
 year for
 interest \$
 467,111 \$
 840,344 \$
 440,042

See accompanying note to condensed financial statements.

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Schedule II

Condensed Financial Information of Registrant

(Parent Company)

American Equity Investment Life Holding Company

Note to Condensed Financial Statements

1. Basis of Presentation

The accompanying condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto of American Equity Investment Life Holding Company.

In the parent company-only financial statements, the Company's investment in and advances (which consists of surplus notes issued to the Company's life insurance subsidiary) subsidiaries is stated at cost plus equity in undistributed income (losses) of subsidiaries since the date of acquisition and net unrealized gains/losses on the subsidiaries' investments classified as "available-for-sale" in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities.

See Note 8 to the consolidated financial statements for a description of the Company's notes payable.

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Schedule III

Supplementary Insurance Information

American Equity Investment Life Holding Company

December 31, 1998

Column A
 Column B
 Column C
 Column D
 Column E
 Column F -

 Future
 Policy
 Other
 Benefits,
 Policy
 Deferred
 Losses,
 Claims
 Insurance
 Policy
 Claims and
 Unearned
 and
 Premiums
 Acquisition
 Loss
 Revenue
 Benefits
 and Segment
 Costs
 Expenses
 Reserve
 Payable
 Charges - -

Year ended
 December
 31, 1998:
 Life
 insurance
 \$57,103,449
 \$541,082,179

\$ -
\$6,315,598
\$11,170,655
Year ended
December
31, 1997:
Life
insurance
14,575,497
155,998,268
- 2,355,156
11,436,803
Year ended
December
31, 1996:
Life
insurance
238,231
11,846,566
- 1,075,614
14,554,714

Column A
Column G
Column H
Column I
Column J
Column K - -

Benefits
Claims,
Amortization
Losses of
Deferred Net
and Policy
Other
Investment
Settlement
Acquisition
Operating
Premiums
Segment
Income
Expenses
Costs
Expenses
Written - - -

- Year ended
December 31,
1998: Life
insurance
\$26,356,472
\$21,922,805
\$2,019,560
\$11,354,395.5
\$ - Year
ended
December 31,
1997: Life
insurance
4,018,617
9,569,766
578,193
9,884,236 -
Year ended
December 31,
1996: Life
insurance

865,155
8,865,531
6,995
7,686,316 -

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Schedule IV

Reinsurance

American Equity Investment Life Holding Company

Column A Column
B Column C
Column D Column
E Column F - --

Percentage
Ceded Assumed
from of Amount
Gross to Other
Other Assumed
Amount
Companies
Companies Net
Amount to Net -

-- At December
31, 1998: Life
insurance in
force \$
1,407,000 \$ -
\$2,398,544,000
\$2,399,951,000
99.9%

=====
=====
=====
=====

==== Insurance
premiums and
other
considerations:
Annuity product
charges \$
642,547 \$ - \$ -
\$ 642,547 -%
Traditional
life insurance
and accident
and health
insurance
premiums 19,174
567,027
11,075,961
10,528,108
105.2% -----

--- \$ 661,721
\$567,027 \$
11,075,961 \$
11,170,655
99.2%

=====
=====
=====

==== At
December 31,
1997: Life
insurance in
force \$ - \$ -
\$2,427,796,000
\$2,427,796,000
100.0%

=====
=====

==== Insurance
premiums and
other
considerations:
Annuity product
charges \$
11,896 \$ - \$ -
\$ 11,896 -%
Traditional
life insurance
and accident
and health
insurance
premiums -
722,545
12,147,452
11,424,907
106.3% -----

--- \$ 11,896
\$722,545 \$
12,147,452 \$
11,436,803
106.2%

=====
=====

==== At
December 31,
1996: Life
insurance in
force \$ - \$ -
\$2,912,219,000
\$2,912,219,000
100.0%

=====
=====

==== Insurance
premiums and
other
considerations:
Annuity product
charges \$
14,007 \$ - \$ -
\$ 14,007 -%
Traditional
life insurance
and accident
and health
insurance
premiums 98,722
742,088
15,184,073
14,540,707
104.4% -----

--- \$ 112,729
\$742,088 \$
15,184,073 \$
14,554,714
104.3%

=====
=====

=====
 =====
 =====
 =====

American Equity Investment Life Holding Company
 Consolidated Balance Sheets
 (Unaudited)

	March 31,	December 31,
	1999	1998
-----	--	--
-----	-	-
Assets Cash		
and		
investments:		
Available-		
for-sale		
fixed		
maturity		
securities,		
at market		
(amortized		
cost: 1999 -		
\$751,813,003;		
1998 -		
\$600,300,562)		
\$740,184,003		
601,897,562		
Equity		
securities,		
at market		
(cost:		
\$2,000,000)		
1,880,000 0		
Derivative		
instruments		
21,401,280		
16,171,621		
Policy loans		
215,466		
192,184 Cash		
and cash		
equivalents		
5,091,494		
15,891,779 -		

Total cash		
and		
investments		
768,772,243		
634,153,146		
Receivable		
from other		
insurance		
companies		
656,635		
616,737		
Premiums due		
and		
uncollected		
1,878,922		
1,684,698		
Accrued		
investment		
income		
4,339,474		
2,946,796		
Receivables		
from related		
parties		

3,074,827
 89,427
 Property,
 furniture
 and
 equipment,
 less
 accumulated
 depreciation
 1,178,868
 1,242,228
 Value of
 insurance in
 force
 acquired
 990,177
 1,068,906
 Deferred
 policy
 acquisition
 costs
 84,844,069
 57,103,449
 Intangibles,
 less
 accumulated
 amortization
 598,252
 646,142
 Deferred
 income tax
 asset
 13,118,090
 8,289,499
 Other assets
 5,510,223
 117,035
 Assets held
 in separate
 account
 153,369
 151,450 ----

Total assets
 \$885,115,149
 \$708,109,513
 =====
 =====

Liabilities
 and
 stockholders'
 equity
 Liabilities:
 Policy
 benefit
 reserves:
 Traditional
 life
 insurance
 and accident
 and health
 products \$
 11,870,243 \$
 11,317,156
 Annuity
 products
 679,044,857
 529,765,023
 Other policy
 funds and
 contract
 claims
 7,090,754
 6,315,598
 Provision
 for
 experience
 rating
 refunds
 1,479,289

833,679	
Amounts due to related party under General Agency Commission and Servicing Agreement	
30,822,998	
25,097,677	
Other amounts due to related parties	
2,648,394	
2,438,600	
Notes payable	
10,000,000	
10,000,000	
Amounts due under repurchase agreements	
68,979,000	
49,000,000	
Federal income taxes payable	
3,358,742	
1,648,822	
Other liabilities	
6,296,689	
5,410,987	
Liabilities related to separate account	
153,309	
151,450	----
-----	-----

Total liabilities	
821,744,335	
641,978,992	
Commitments and contingencies	
Stockholders' equity:	
Series Preferred Stock, par value \$1 per share	
625,000	
625,000	
Common Stock, par value \$1 per share	
4,581,962	
4,581,962	
Additional paid-in capital	
64,783,117	
64,783,117	
Accumulated other comprehensive income	
(2,406,466)	
420,035	
Retained-earnings deficit	

(4,216,799)
(4,279,593)

Total
stockholders'
equity
63,370,814
66,130,521 -

Total
liabilities
and
stockholders'
equity
\$885,115,149
\$708,109,513
=====

See accompanying notes.

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American Equity Investment Life Holding Company

Consolidated Statements of Operation
(unaudited)

Three Months Ended March 31, 1999
1998 -----

----- Revenues Traditional life
and accident and health insurance
premiums \$ 2,940,993 \$ 2,869,938
Annuity product charges 417,483
47,832 Net investment income
10,064,697 4,690,780 Other income
2,802 25,495 -----

----- Total revenues
13,425,975 7,634,045 Benefits and
expenses Traditional life and
accident and health insurance
benefits 1,548,486 1,903,907
Interest credited to account
balances 5,684,217 1,948,453
Interest expense on notes payable
201,884 202,250 Interest expense
on General Agency Commission and
Servicing Agreement 673,715
282,249 Interest expense on
amounts due under repurchase
agreements 698,729 392,408
Amortization of deferred
acquisition costs and value of
insurance in force acquired
1,017,340 273,479 Amortization of
goodwill 17,500 17,500 Other
operating costs and expenses
3,335,965 2,804,415 -----

----- Total
benefits and expenses 13,177,836
7,824,661 -----

----- Income (loss) before
federal income taxes 248,139
(190,616) Income tax benefit
(expense): Current (3,559,920)
(1,041,035) Deferred 3,374,575
1,044,233 -----

----- (185,345) 3,198 -----
----- Net
income (loss) \$ 62,794 \$
(187,418)

=====

Basic earnings per common share \$
0.01 \$ (0.04)

=====

Diluted earnings per common share
\$ 0.01 \$ (0.04)

=====
See accompanying notes.

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American Equity Investment Life Holding Company

Consolidated Statement of Cash Flows
(Unaudited)

Three Months Ended March 31, 1999
1998 -----

----- Operating Activities Net
income (loss) \$ 62,794 \$ (187,418)
Adjustments to reconcile net income
(loss) to net cash provided by (used
in) operating activities:
Adjustments related to interest
sensitive products: Interest
credited to account balances
5,684,217 1,948,453 Charges for
mortality and administration
(417,483) (47,832) Increase
(decrease) in traditional life
insurance and accident and health
reserves 553,087 (17,116) Policy
acquisition costs deferred
(10,217,807) (6,047,456)
Amortization of deferred policy
acquisition costs 922,001 243,088
Provision for depreciation and other
amortization 221,414 239,884
Amortization of discount and
premiums on available-for-sale fixed
maturity securities and derivative
instruments (3,704,070) (2,736,196)
Deferred income taxes (3,374,575)
(1,044,233) Reduction of amounts due
to related party under General
Agency Commission and Servicing
Agreement (1,764,885) (702,945)
Change in federal income taxes
payable 1,709,920 (2,458,965) Change
in other operating assets and
liabilities (7,623,036) 6,539,362 --

Net Cash provided by (used in)
operating activities (17,948,423)
(4,271,374) Investing activities:
Maturities or repayment of
investments: Available-for-sale
fixed maturity securities
231,346,802 71,262,131 Acquisition
of investments: Available-for-sale
fixed maturity securities
(375,753,119) (181,253,310) Equity
securities (2,000,000) Derivative
Instruments (5,551,954) (1,043,968)
Policy Loans (23,282) (7,048) -----

(383,328,355) (182,304,326)
Purchases of furniture and equipment
(110,164) (67,623) -----

----- Net cash used
in investing activities
(152,091,717) (111,109,818)
Financing activities: Receipts from
interest sensitive products credited
to policyholder account balances
149,887,799 75,509,335 Return of
policyholder account balances on
interest sensitive products
(10,626,944) (4,350,406) Change in
amounts due under repurchase
agreements 19,979,000 47,142,187
Cost of issuance of common stock 0

(179,700) -----
----- Net cash provided by
financing activities 159,239,855
118,121,416 -----
----- Increase (decrease) in
cash and a cash equivalents
(10,800,285) 2,740,224 Cash and cash
equivalents at beginning of period
15,891,779 7,719,829 -----
----- Cash and cash
equivalents at end of period \$
5,091,494 \$ 10,460,053

=====
Supplemental disclosure of cash flow
information Cash paid during period
for: Interest \$ 951,853 \$ 594,659
Income taxes \$ 1,850,000 \$ 3,500,000

See accompanying notes.

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American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements
March 31, 1999
(Unaudited)

NOTE A - BASIS OF PRESENTATION

The unaudited consolidated financial statements as of March 31, 1999 and for the three months ended March 31, 1999 and 1998 include the accounts of the Company and its wholly-owned subsidiaries, American Equity Investment Life Insurance Company, American Equity Investment Properties, L.C. and American Equity Capital, Inc. All significant intercompany accounts and transactions have been eliminated.

The unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly the Company's financial position and results of operations on a basis consistent with the prior audited financial statements.

NOTE B - CHANGES IN AMOUNTS DUE UNDER REPURCHASE AGREEMENTS

As part of its investment strategy, the Company enters into securities lending programs to increase its return on investments and improve its liquidity. These transactions are accounted for as amounts due under repurchase agreements (short-term collateralized borrowings). Such borrowings averaged approximately \$55,740,000 and \$27,460,000 for the three months ended March 31, 1999 and 1998, respectively and were collateralized by investment securities with fair values approximately equal to the amount due. The weighted average interest rate on amounts due under repurchase agreements was 5.08% and 5.80% for the three months ended March 31, 1999 and 1998, respectively.

NOTE C - EARNINGS PER SHARE

The weighted-average shares used to determine basic earnings per share and the adjusted weighted-average shares used to determine diluted earnings per share for the three months ended March 31, 1999 and 1998 were as follows:

1999	
1998 ---	

Weighted-	
average	
shares	
4,581,962	
4,420,864	
Adjusted	
weighted-	
average	
shares	
5,821,489	
4,743,992	

NOTE D - SUBSEQUENT EVENTS

In April, 1999, certain stockholders exercised warrants to purchase 114,083 shares of common stock at \$12 per share resulting in proceeds of approximately \$1,369,000.

Beginning in July, 1999, the Company is sponsoring a private placement of 8% Convertible Trust Preferred Securities to be issued by American Capital Trust I, a statutory business trust created under the laws of the State of Delaware. Up to 1,000,000 shares of Trust Preferred Securities are being offered at a price per share of \$30 or a maximum aggregate amount of \$30 million.

The Trust Securities will pay cumulative dividends at the rate of 8% per annum and will be convertible into common stock of the Company after September 30, 2002, or upon the Company's initial public offering of its common stock ("IPO"). The conversion price is \$30 per share or 90% of the IPO price, whichever is the lesser. The Trust Preferred Securities may also be redeemed by the Company after September 30, 2002, or upon the IPO, at a redemption price of \$30 per share.

The Trust will sell the Trust Preferred Securities to persons qualifying as "accredited investors" under Regulation D promulgated by the SEC under the Securities Act of 1933.

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EXHIBIT INDEX

Exhibit Number	Description - -----
3.1**	Articles of Incorporation, including Articles of Amendment
3.2*	Bylaws
4.1*	Agreement dated December 4, 1997 between American Equity Investment Life Holding Company and Farm Bureau Life Insurance Company re Right of First Refusal
4.2*	Stockholders' Agreement dated April 30, 1997 among American Equity Investment Life Holding Company, David J. Noble, Twenty Services, Inc., Sanders Morris Mundy Inc. and stockholders
4.3*	Registration Rights Agreement dated April 30, 1997 between American Equity

Investment
Life Holding
Company and
stockholders
The Company
agrees to
furnish the
commission
upon its
request a
copy of any
instrument
defining the
rights of
holders of
long-term
debt of the
Company and
its
consolidated
subsidiaries
9* Voting
Trust
Agreement
dated
December 30,
1997 among
American
Equity
Investment
Life Holding
Company, Farm
Bureau Life
Insurance
Company and
David J.
Noble, David
S. Mulcahy
and Debra J.
Richardson
(Voting
Trustees)
10.1*
Restated and
Amended
General
Agency
Commission
and Servicing
Agreement
dated June
30, 1997
between
American
Equity
Investment
Life
Insurance
Company and
American
Equity
Investment
Service
Company 10.2*
1996 Stock
Option Plan
10.3*
Restated and
Amended Stock
Option and
Warrant
Agreement
dated April
30, 1997
between
American
Equity
Investment
Life Holding
Company and
D.J. Noble

10.4* Warrant
to Purchase
Common Stock
dated May 12,
1997 issued
to Sanders
Morris Mundy
Inc. 10.5*
Deferred
Compensation
Agreements
between
American
Equity
Investment
Life Holding
Company and
(a) James M.
Gerlach dated
June 6, 1996
(b) Terry A.
Reimer dated
November 11,
1996 (c)
David S.
Mulcahy dated
December 31,
1997 21*
Subsidiaries
of American
Equity
Investment
Life Holding
Company 27.1*
Financial
Data Schedule
(year ended
December 31,
1998) 27.2
Financial
Data Schedule
(three months
ended March
31, 1999) - -

* previously filed

** previously filed except Articles of Amendment filed with the Iowa
Secretary of State on June 17, 1999.