

# Financial & Business Facts Overview

*June 30, 2020*



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**AMERICAN EQUITY**

INVESTMENT LIFE HOLDING COMPANY®

# Safe Harbor Statement

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*We make forward-looking statements that are based on our current expectations and projections about current events. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and we are including this statement for purposes of invoking these safe harbor provisions. You can identify these statements from our use of the words “estimate,” “project,” “believe,” “intend,” “anticipate,” “expect,” “target” and similar expressions. These forward-looking statements may include, among other things:*

- *statements relating to projected growth; anticipated changes in earnings, earnings per share, other financial performance measures; and management’s long-term performance goals;*
- *statements relating to the anticipated effects on our results of operations or our financial condition from expected developments or events;*
- *statements relating to our business and growth strategies, including any potential acquisitions and*
- *any other statements which are not historical facts.*

*These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements or industry results to differ materially from our expectations of future results, performance or achievements expressed or implied by the forward-looking statements.*

# WHO WE ARE

# Company Overview

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- Founded in 1995
- Headquarters: West Des Moines, IA
- 636 Employees<sup>(a)</sup>
- Market cap of \$2.3 billion<sup>(b)</sup>, public since 2003
- Principal product: fixed index annuity
- Sell primarily through independent agents
- Policyholder funds under management: \$53 billion
- AEL has been a top 3 fixed index annuity producer in the independent agent channel in 19 of the last 20 years

(a) As of June 30, 2020

(b) As of August 4, 2020

# Why Invest In American Equity?

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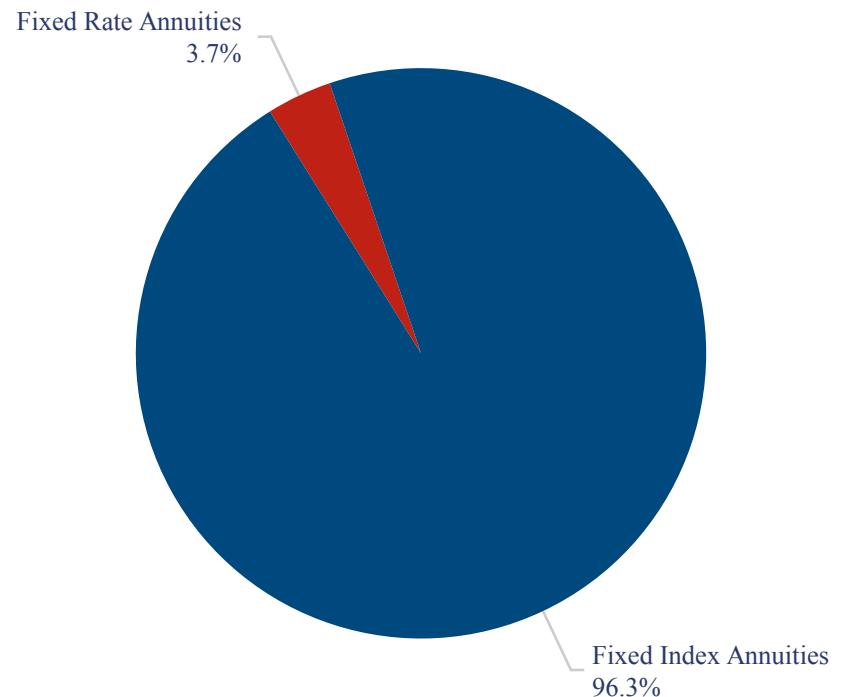
- Driven by demographics and distribution channel expansion, fixed index annuities are a growth market in the life insurance industry
- Track record of consistent growth with 18%<sup>(a)</sup> and 12%<sup>(a)</sup> compounded annual growth rate in operating income and policyholder funds under management, respectively over the past 10 years
- Average operating return on equity of 15%<sup>(a)</sup> over the past 5 years
- Strong relationships in independent agent channel. Growth opportunity in bank and broker-dealer markets
- Conservative investment portfolio; highly rated and liquid

(a) Based on data through 12/31/2019

# What is a fixed index annuity?

- Fixed Indexed Annuities
  - “Interest” based on performance of equity index or traditional fixed rate up to a stated cap or participation rate
  - Index crediting funded by call options
  - Offers more upside potential than simple fixed annuities
  - Index resets annually
    - Don’t have to “make back” market losses
  - Minimum guaranteed return with no losses, unlike variable annuities
  - Riders provide opportunity for guaranteed lifetime income

**Account Value  
June 30, 2020**



**Total: \$53.1 billion**

# Why Are FIAs Attractive?

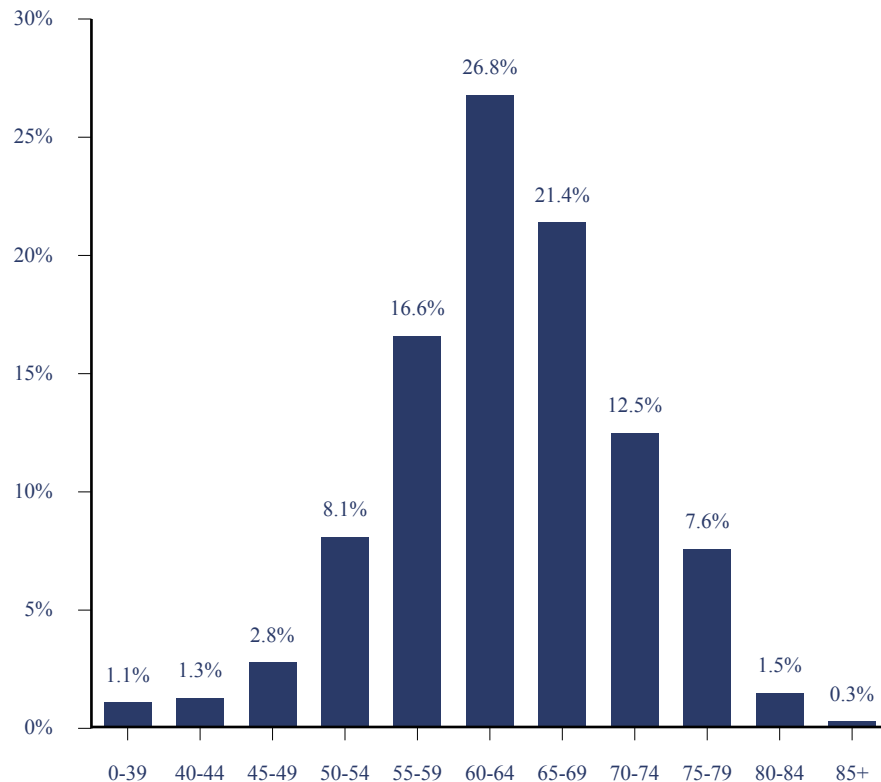
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- Aging population needs retirement savings & income
  - Longevity risk favors lifetime income guarantee
  - Significant portion of American population cannot bear market risk
- Indexed annuity characteristics attracting attention
  - Low volatility of returns
  - Principal Guarantee
  - Upside potential versus straight fixed income
  - Tax deferred accumulation
  - Guaranteed lifetime income combined with continued control of account value

# Growing Market Demographic

- Our typical policyholder <sup>(a)</sup>
  - 63 years old
  - Average fund value of \$90,999

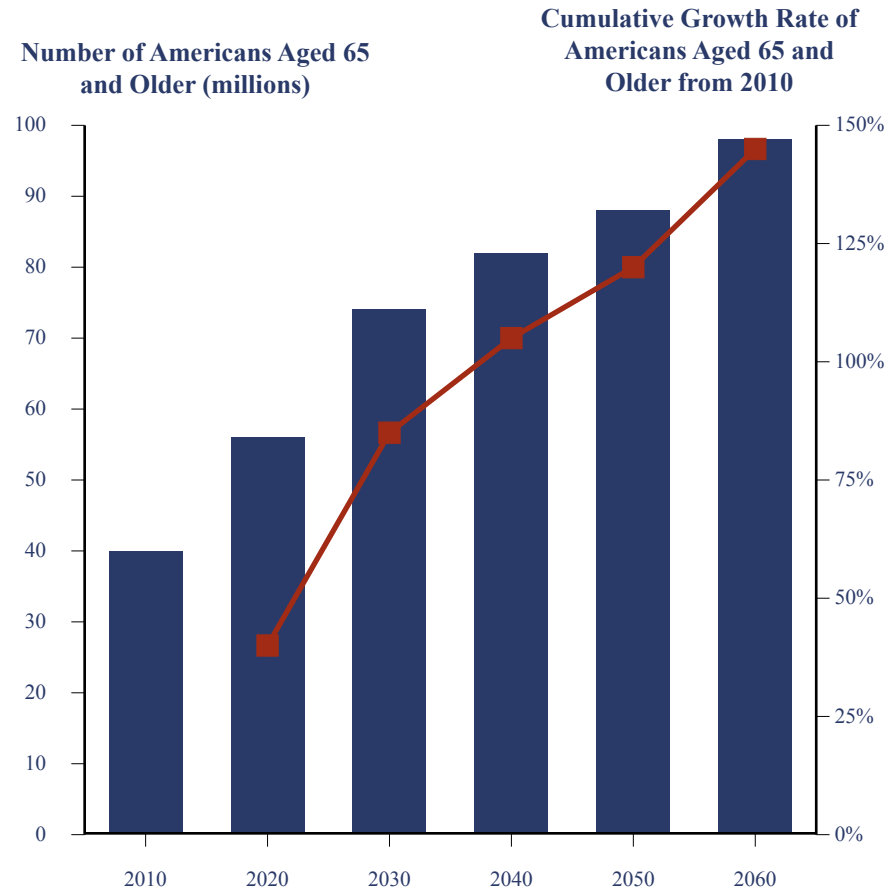
Percentage of Fund Value  
by Policyholder's Age



(a) As of June 30, 2020, American Equity Investment Life Insurance Company only data

(b) Source: U.S. Census Bureau, 2014 National Projections

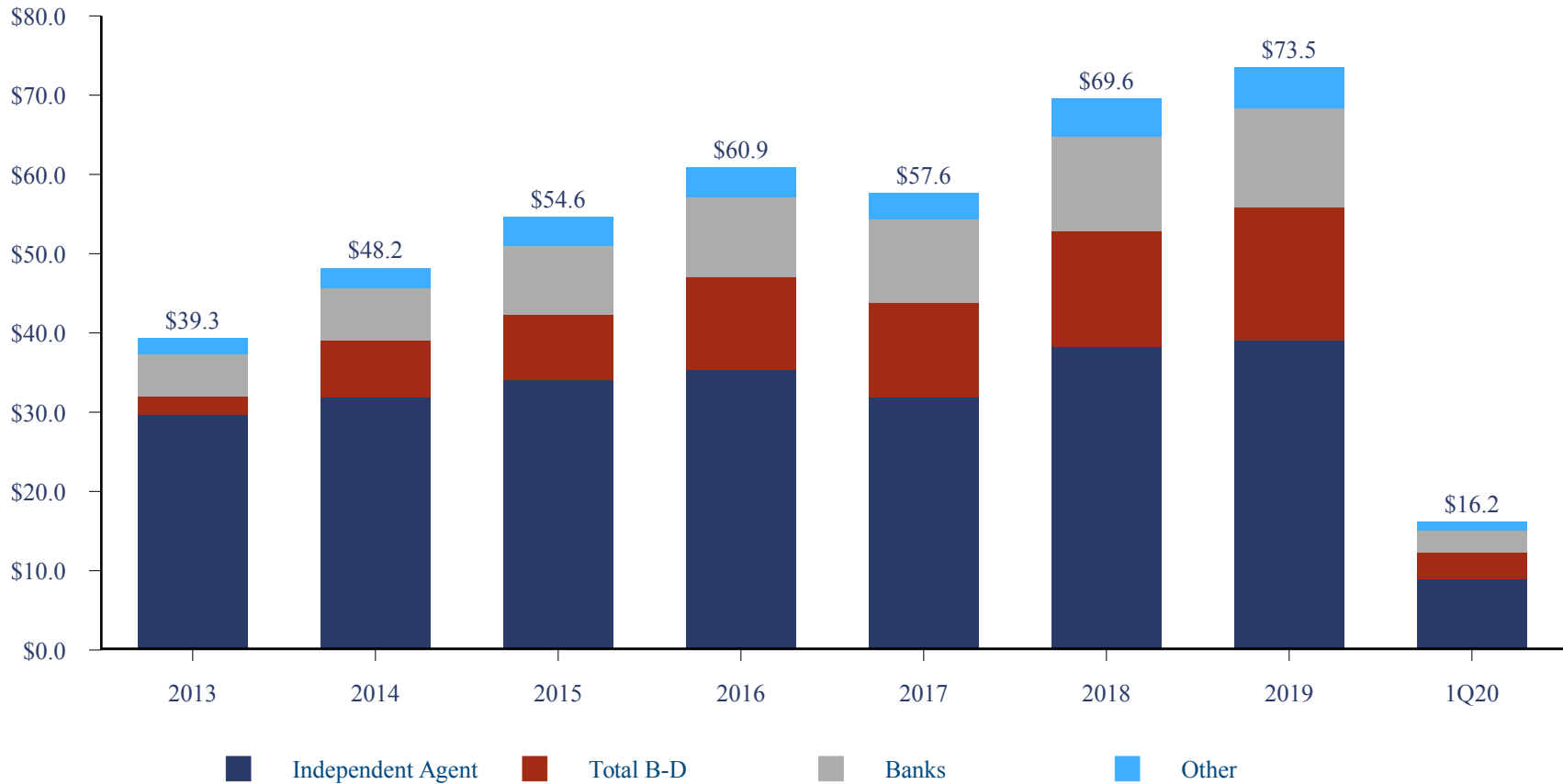
- Projected Growth in our Target Market <sup>(b)</sup>





# Growing Market

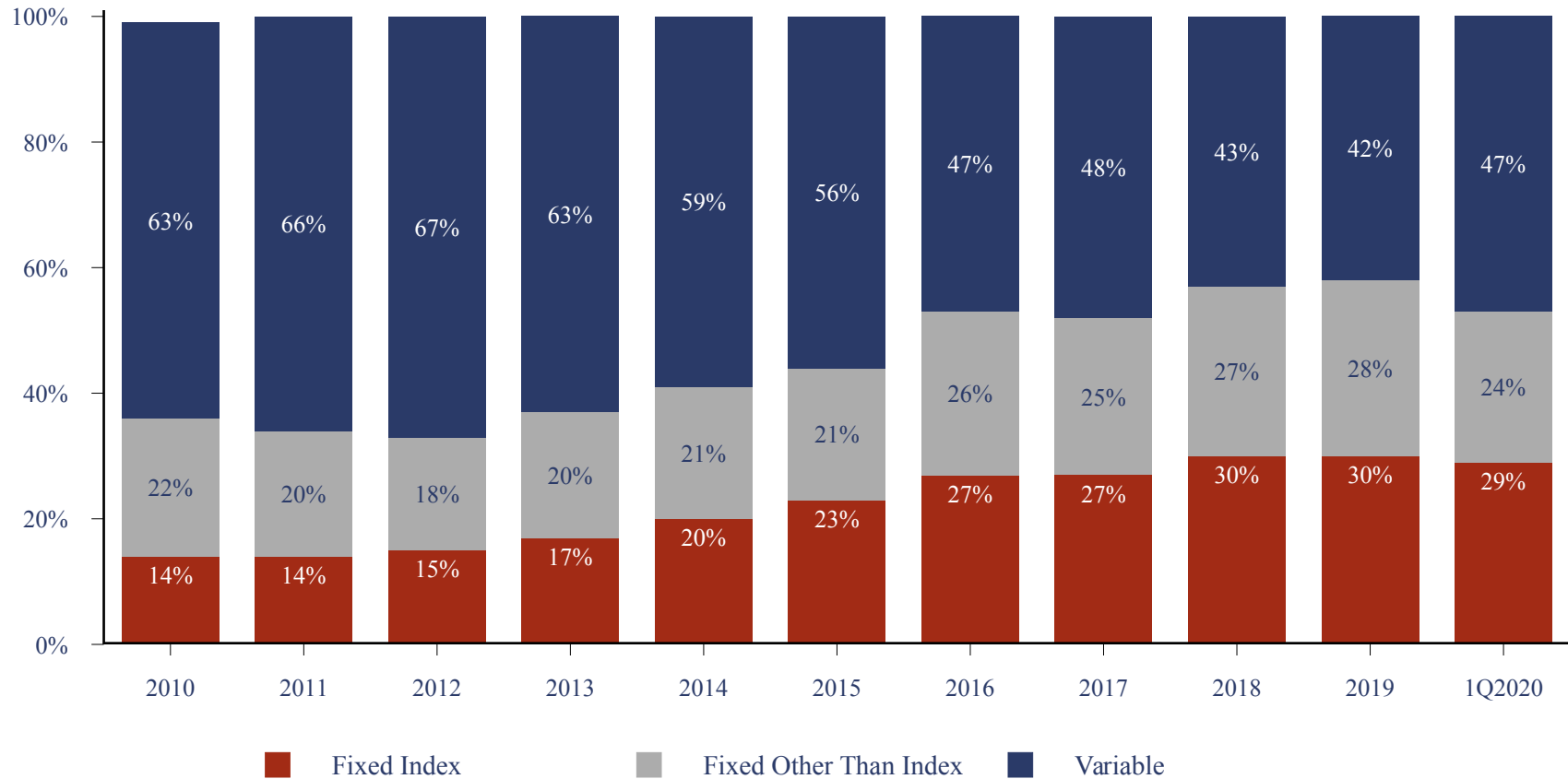
Index Annuity Sales (\$ in billions)



Source: LIMRA U.S. Individual Annuity Yearbook – 2013, 2015, LIMRA U.S. Individual Annuity Sales Survey Participant Report - 1Q2020

# Continued Room to Grow

## Annuity Market Share (Sales)



Source: LIMRA U.S. Individual Annuity Yearbook – 2009, 2015, LIMRA U.S. Individual Annuity Sales Survey Participant Report - 1Q2020

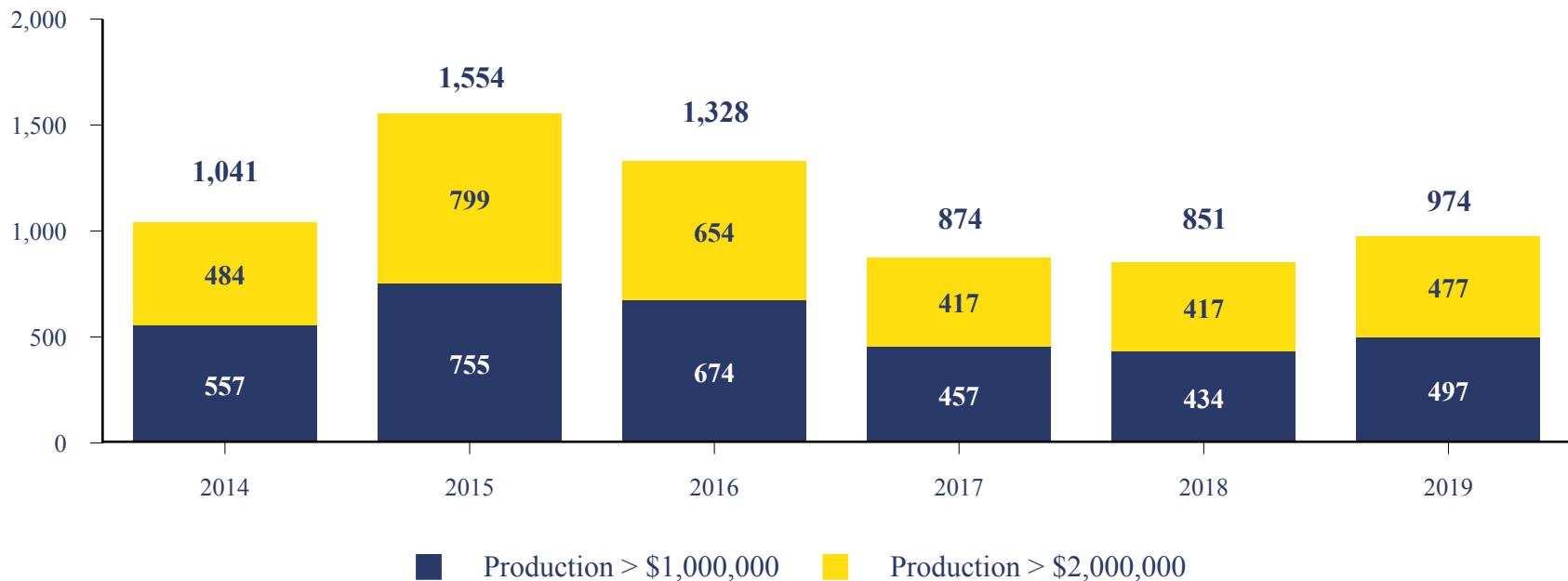
## Index Annuity Market Share (Sales) - Independent Agent Channel

2019		
1	Athene	12.60%
2	Allianz	11.80%
3	American Equity	8.02%
4	F&G Life	7.57%
5	Nationwide	7.17%

# Strong Independent Agent and NMO Relationships

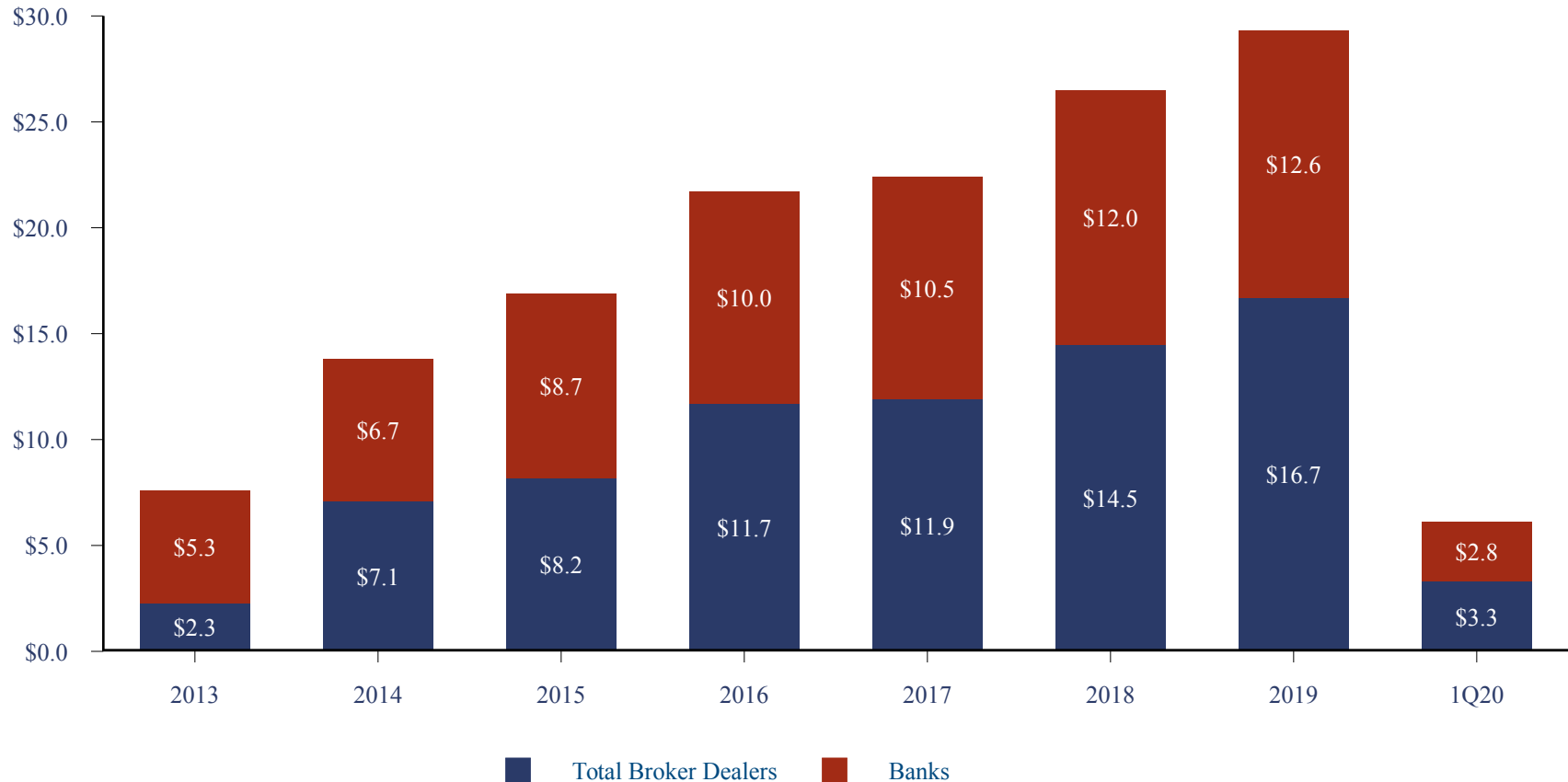
- Approximately 42 NMOs with nearly 21,000 independent agents, incentivized by:
  - Competitive commissions
  - Customary incentives
  - Industry leading service
  - Attractive product profile
- Focus on great agent relationships
  - Pay commissions daily
  - Phones answered by people
  - Access to senior management
  - Coinsure excess business – keep operating even when sales outpace capital

## Million Dollar Agents



# Banks and Broker Dealers Driving Industry Growth

Bank and Broker Dealer Index Annuity Sales (\$ in billions)



Source: LIMRA U.S. Individual Annuity Yearbook – 2013, 2015, LIMRA U.S. Individual Annuity Sales Survey Participant Report - 1Q2020

# Eagle Life: A Small but Growing Player

- Fixed index annuities under-represented in broker – dealer and bank channels
- AEL created Eagle Life to penetrate broker-dealer channel
- Small but growing player in bank & broker-dealer channels
  - 79 Selling agreements
  - 8,214 Appointed representatives
  - 11 Employee wholesalers

Banks - 2019	
AIG Companies	15.8%
Great American	11.6%
Global Atlantic	10.8%
Jackson National	9.8%
PAC Life	9.6%
AEL Companies	2.2%

Independent B-Ds - 2019	
Allianz Life	16.6%
Jackson National	11.9%
AIG Companies	11.0%
PAC Life	6.8%
Nationwide	6.4%
AEL Companies	3.8%

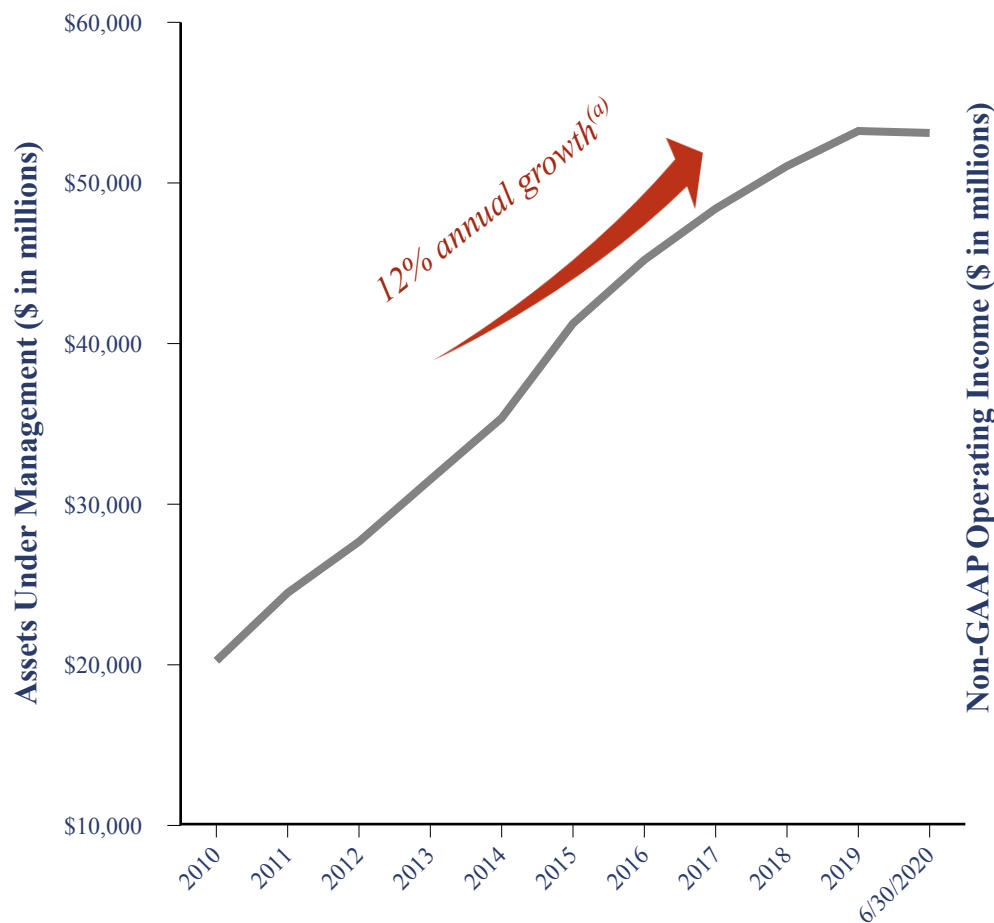
National B-Ds - 2019	
Global Atlantic	19.5%
Jackson National	15.1%
Nationwide	14.6%
AIG Companies	13.8%
Allianz Life	9.0%
AEL Companies	3.9%

Source: LIMRA U.S. Individual Annuity Sales Survey Participant Report - 2019

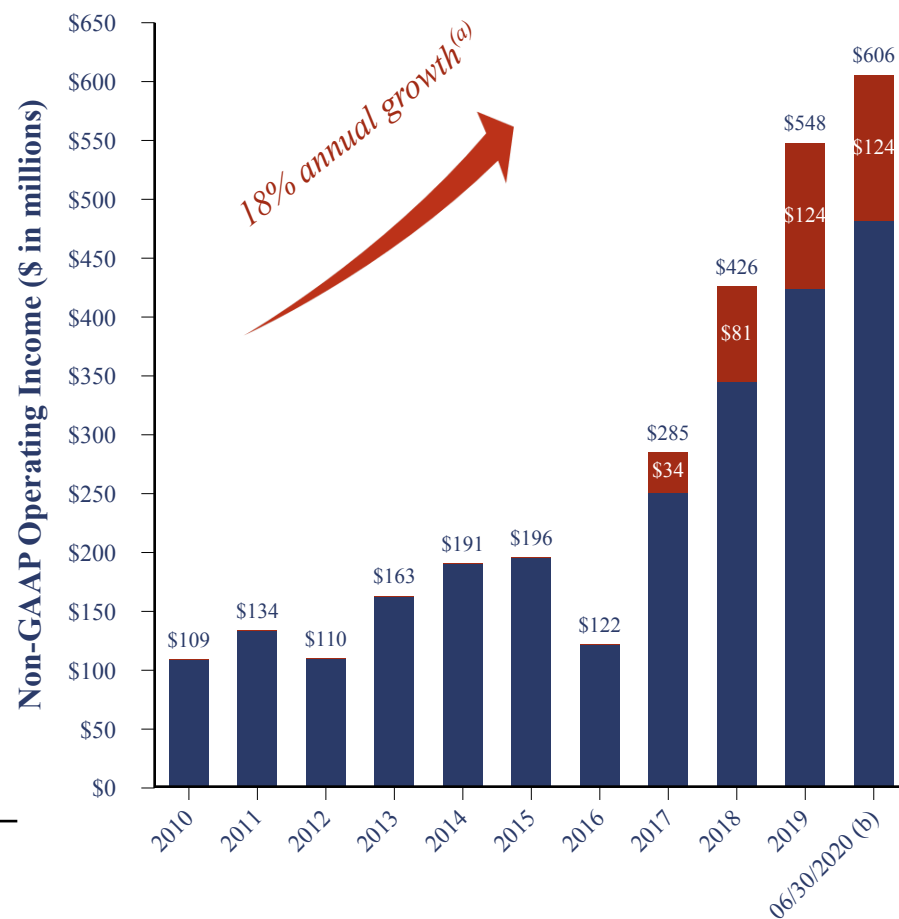
# **FINANCIAL PERFORMANCE**

# Strong Growth Over the Past Decade

**Ten Year Growth of Assets Under Management**



**Ten Year Growth of Non-GAAP Operating Income**



(a) Based on data through 12/31/2019

(b) Trailing 12 months

Impact from unlocking (included for 2017, 2018, 2019 and 2020 only)



# Operating Results

*(\$ in millions - except per share data)*

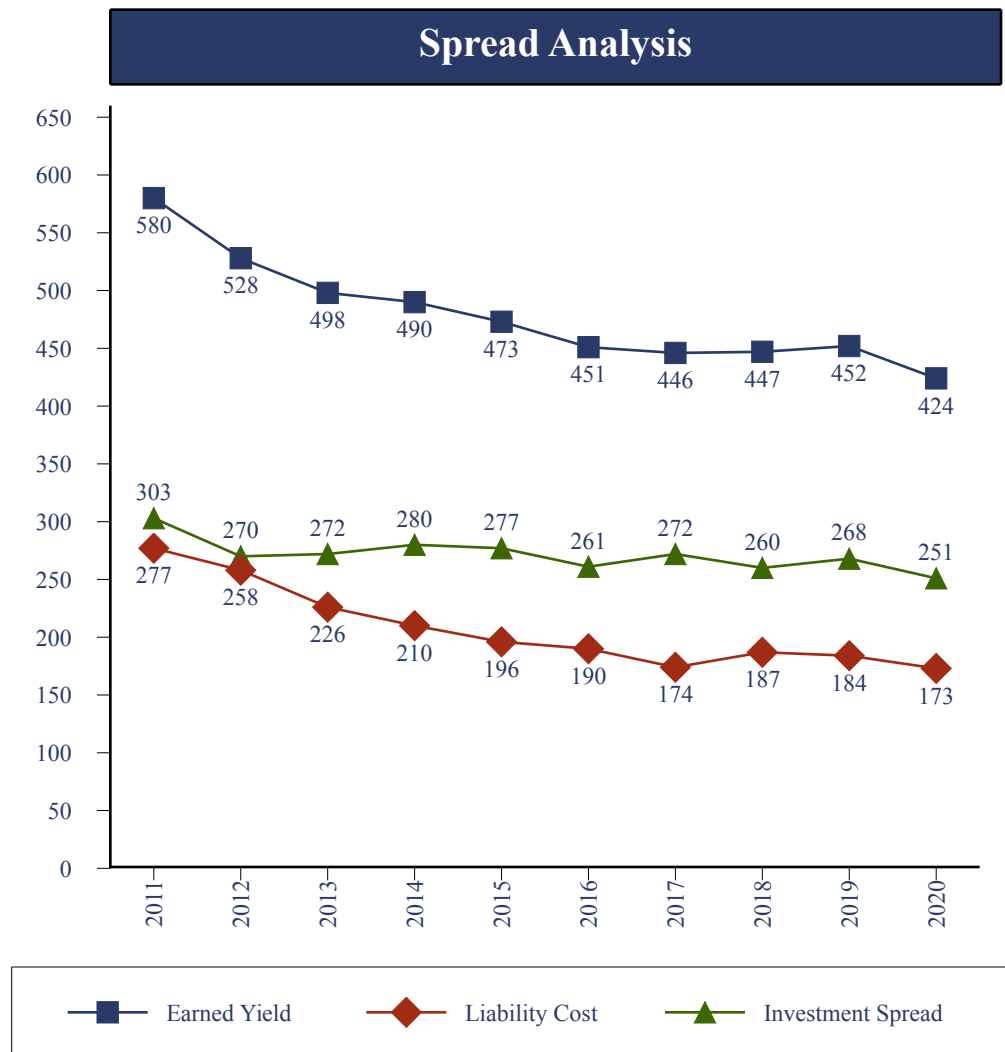
	YTD 6/30/2020	YTD 6/30/2019	2019	2018	2017
Annuities (and life) margin:					
Before LIBR <sup>(a)</sup> assumption revision	\$ 605.3	\$ 673.2	\$ 1,382.8	\$ 1,258.7	\$ 1,205.5
LIBR <sup>(a)</sup> assumption revision impact	—	—	(315.4)	53.6	(21.6)
Interest expense	(15.2)	(20.0)	(39.3)	(40.4)	(45.0)
Loss on extinguishment of debt	(2.0)	—	(2.0)	—	(18.8)
Amortization:					
Before unlocking	(211.8)	(339.2)	(649.4)	(657.6)	(655.8)
Unlocking impact	—	—	473.2	49.2	75.0
Operating expenses	(84.9)	(75.1)	(152.5)	(126.4)	(107.5)
Pretax non-GAAP operating income <sup>(b)</sup>	291.4	\$ 238.9	697.4	537.1	431.8
Less: Preferred dividends	(12.6)	—	—	—	—
Pretax non-GAAP operating income available to common stockholders <sup>(b)</sup>	\$ 278.8	\$ 238.9	\$ 697.4	\$ 537.1	\$ 431.8
Non-GAAP operating income available to common stockholders <sup>(b)</sup>	\$ 247.2	\$ 189.0	\$ 548.2	\$ 425.7	\$ 285.1
Non-GAAP operating income available to common stockholders per diluted common share <sup>(b)</sup>	\$ 2.69	\$ 2.06	\$ 5.97	\$ 4.66	\$ 3.16

(a) Lifetime Income Benefit Riders ("LIBR")

(b) Non-GAAP pretax operating income, non-GAAP pretax operating income available to common stockholders, non-GAAP operating income available to common stockholders and non-GAAP operating income available to common stockholders per diluted common share are non-GAAP financial measures. Non-GAAP operating income available to common stockholders equals net income available to common stockholders adjusted to eliminate the impact of net realized gains and losses on investments, including net OTTI losses recognized in operations, fair value changes in derivatives and embedded derivatives, loss on extinguishment of debt, the effect of a counterparty default on expired call options and changes in litigation reserves.

# Spread Management

- Majority of our income is derived from our investment spread – the difference between the earned yield of our investments and the liability cost of our policies
- Target investment spread on new sales:
  - 245 - 275 bps<sup>(a)</sup>
  - 160 - 195 bps<sup>(b)</sup>
- Earned yield has been under pressure due to lower interest rates and higher cash balances
- Liability costs are decreasing
  - We have been reducing crediting rates prudently



- (a) Bonus products  
 (b) Non-bonus products

# Minimize Hedging and Counterparty Risk

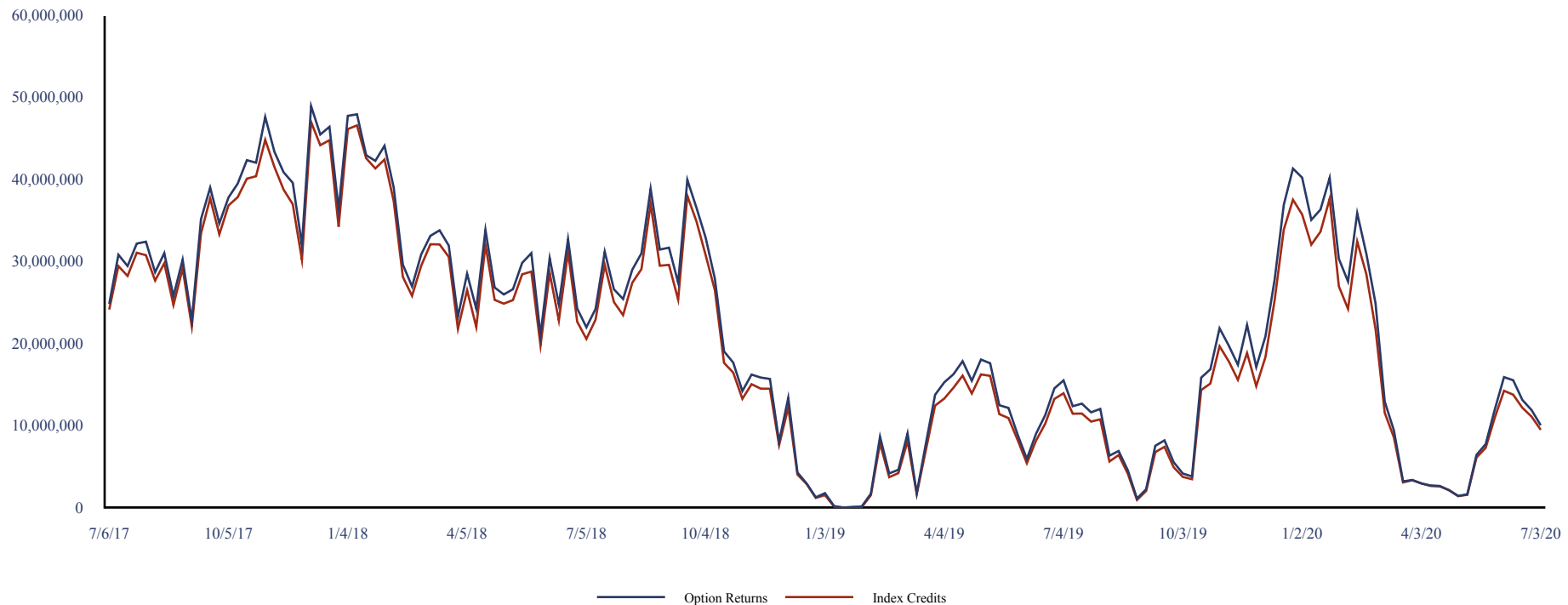
## Overview of Hedging Strategy

- One year customized call
  - Bought continuously to match inflows/renewals
  - High correlation with liability terms
  - Volume is key operational risk

## Counterparty Risk

- Approximately 10 counterparties
- All rated A- or better
- Credit support annex
- Concentration limit

Option Return vs. Index Credit (\$ in 000's)



# Surrender Charge Protection Mitigates Disintermediation Risk

- Surrenders are assumed to increase as surrender charges decrease
- 10% penalty-free withdrawals are assumed to remain level at 3% - 4% of fund values per year
- Surrender charges protect approximately 93% of annuity portfolio account value

## 2020

- Expected Surr: 1.8%
- Actual Surr: 2.6%
- Expected WD 3.7%
- Actual WD 2.9%

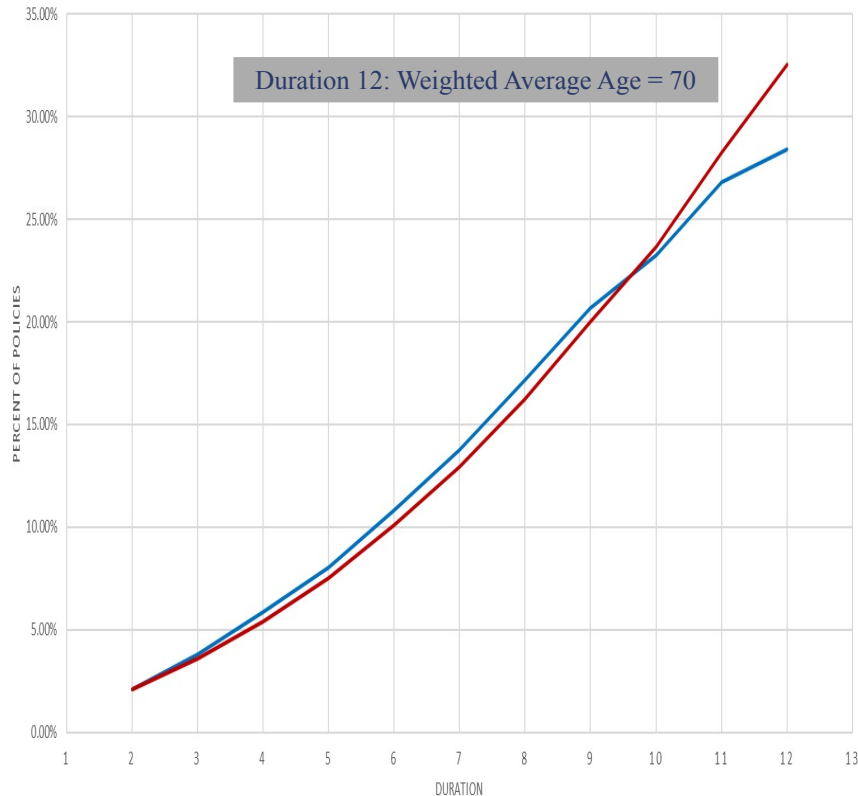
## 2019

- Expected Surr: 2.3%
- Actual Surr: 2.3%
- Expected WD 3.1%
- Actual WD 3.1%

# Lifetime Income Benefit Rider Utilization

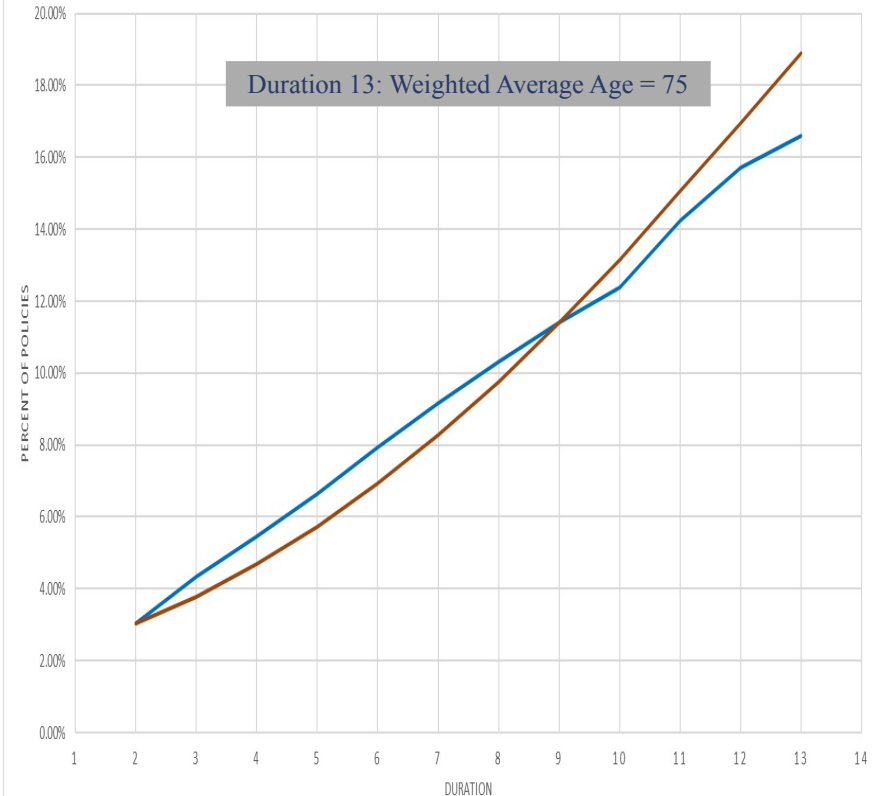
UTILIZATION BY DURATION - FEE

CUMULATIVE,ACTUAL,UTILIZATION CUMULATIVE,EXPECTED,UTILIZATION



UTILIZATION BY DURATION - NO FEE

CUMULATIVE,ACTUAL,UTILIZATION CUMULATIVE,EXPECTED,UTILIZATION



Pre-2015 cohorts: Reserves assume 60% ultimate utilization  
 2015 and later cohorts: Reserves assume 75% ultimate utilization

Pre-2015 cohorts: Reserves assume 30% ultimate utilization  
 2015 and later cohorts: Reserves assume 37.5% ultimate utilization

# Capital Structure

(\$ in millions)

	As of December 31,		
	6/30/2020	2019	2018
Notes payable	\$ 500.0	\$ 500.0	\$ 500.0
Total subordinated debentures	78.0	159.3	247.2
Stockholders' equity excluding AOCI <sup>(b)</sup>	3,342.2	3,072.2	2,451.5
Total capitalization excluding AOCI <sup>(a)</sup>	<u>\$ 3,920.2</u>	<u>\$ 3,731.5</u>	<u>\$ 3,198.7</u>
Total capitalization including AOCI	\$ 5,640.0	\$ 5,229.4	\$ 3,146.3
Senior debt/total capitalization - excluding AOCI <sup>(a)</sup>	12.8%	13.4%	15.6%
Total stockholders' equity	\$ 5,062.1	\$ 4,570.1	\$ 2,399.1
Equity available to preferred stockholders <sup>(c)</sup>	<u>(700.0)</u>	<u>(400.0)</u>	<u>—</u>
Total common stockholders' equity <sup>(b)</sup>	4,362.1	4,170.1	2,399.1
Accumulated other comprehensive (income) loss	<u>(1,719.8)</u>	<u>(1,497.9)</u>	<u>52.4</u>
Total common stockholders' equity excluding AOCI <sup>(b)</sup>	<u>\$ 2,642.3</u>	<u>\$ 2,672.2</u>	<u>\$ 2,451.5</u>

(a) Total capitalization and senior debt/total capitalization excluding AOCI, non-GAAP financial measures, are based on stockholders' equity excluding the effect of AOCI.

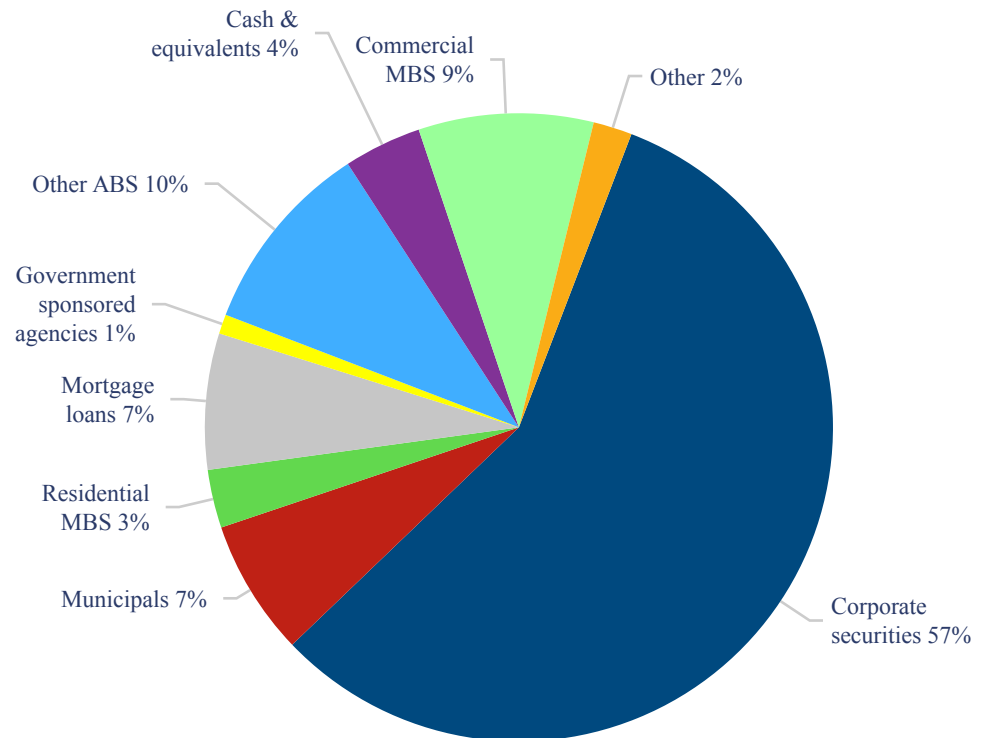
(b) Stockholders' equity and total common stockholders' equity excluding AOCI, non-GAAP financial measures, are based on stockholders' equity and common stockholders' equity excluding the effect of AOCI. Since AOCI fluctuates from quarter to quarter due to unrealized changes in the fair value of available for sale securities, we believe these non-GAAP financial measures provide useful supplemental information. Total common stockholders' equity and total common stockholder's equity excluding AOCI, non-GAAP financial measures, exclude equity available to preferred stockholders.

(c) Equity available to preferred stockholders is equal to the redemption value of outstanding preferred stock plus share dividends declared but not yet issued.

# Conservative Investment Portfolio

- Maintain / protect policyholder and stakeholder value
- Maximize investment income within risk parameters
- Minimize credit risk
- 96.7% of fixed maturity securities have NAIC 1 or NAIC 2 designation
- Manage duration and convexity

Cash and Invested Assets by Type  
June 30, 2020

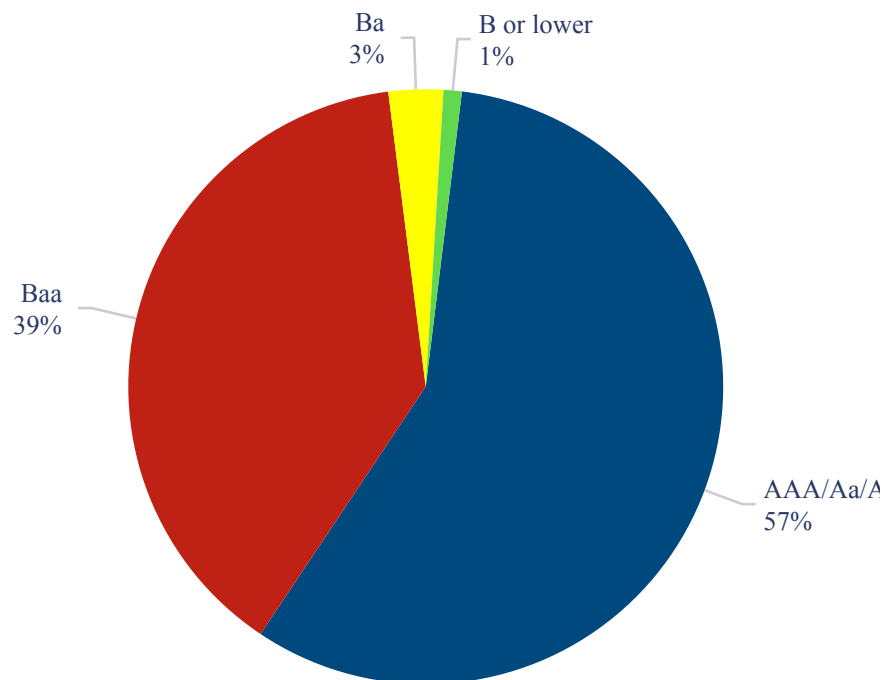


**Total: \$58.3 billion**

# Fixed Maturity Breakdown

- Overall credit quality remains high – weighted average of ‘A-’
- Diversified by sector and issuer
- Current investment watchlist comprised of \$625.6 million (amortized cost, net of allowance for credit loss) of securities

Fixed Maturity by Rating  
June 30, 2020



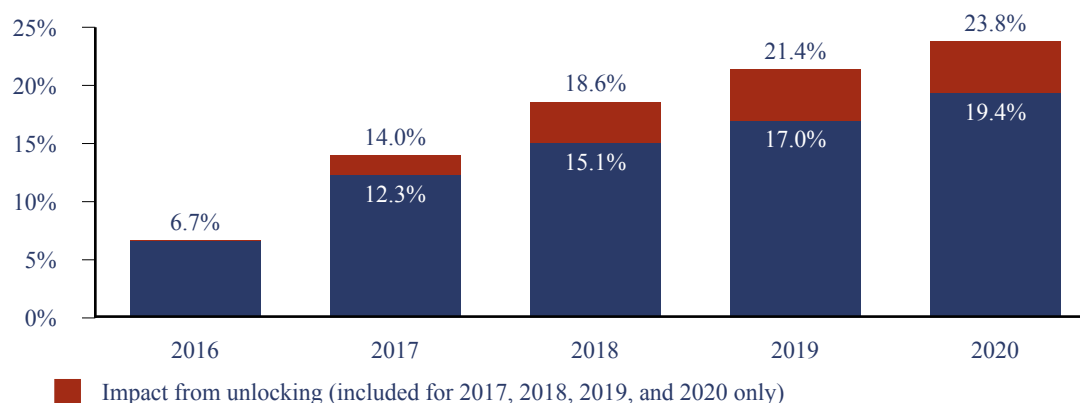
Total: \$50.7 billion

97% of AEL fixed income portfolio is investment grade

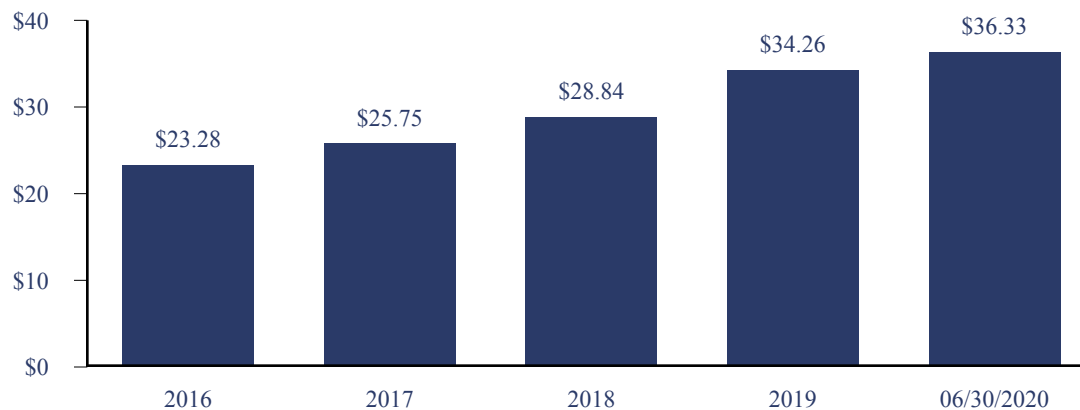


# High ROE on Growing Book Value Per Common Share

## Operating Return on Average Common Stockholders' Equity (ex. AOCI)<sup>(a)</sup>



## Book Value Per Common Share (ex. AOCI and the net impact of fair value accounting for derivatives and embedded derivatives)



(a) Operating return on equity is a non-GAAP financial measure. Operating return on equity equals operating income divided by average common stockholders' equity excluding accumulated other comprehensive income (loss).

# APPENDIX

# Non-GAAP Financial Measure Reconciliations

Reconciliation from Net Income (Loss) Available to Common Stockholders to Non-GAAP Operating Income Available to Common Stockholders	Six Months Ended	Year Ended December 31,			
	June 30, 2020	2019	2018	2017	2016
Net income (loss) available to common stockholders (b)	\$ (17,043)	\$ 246,090	\$ 458,016	\$ 174,645	\$ 83,243
Adjustments to arrive at non-GAAP operating income available to common stockholders: (a)					
Net realized gains/losses on financial assets, including credit losses	34,841	7,361	45,450	(5,093)	7,188
Change in fair value of derivatives and embedded derivatives – fixed index annuities	303,136	373,221	(72,181)	121,846	56,634
Change in fair value of derivatives – interest rate caps and swap	(848)	1,247	(1,892)	(1,224)	(1,265)
Litigation reserve	—	—	—	—	(1,957)
Income taxes	(72,897)	(79,736)	(3,653)	(5,124)	(21,499)
Non-GAAP operating income available to common stockholders	<u>\$ 247,189</u>	<u>\$ 548,183</u>	<u>\$ 425,740</u>	<u>\$ 285,050</u>	<u>\$ 122,344</u>

(a) Adjustments to net income (loss) available to common stockholders to arrive at non-GAAP operating income available to common stockholders are presented net of related adjustments to amortization of deferred sales inducements (DSI) and deferred policy acquisition costs (DAC) where applicable.

(b) Net income for 2017 includes income tax expense related to the revaluation of our deferred tax assets and liabilities using the new enacted federal tax rate resulting from the Tax Cuts and Jobs Act of 2017 ("Tax Reform"). The change in the federal income tax rate decreased net income by \$35.9 million. The impact of Tax Reform has been excluded from non-GAAP operating income.

# Non-GAAP Financial Measure Reconciliations (cont'd)

	Twelve Months Ended June 30,		Year Ended December 31,		
	2020	2019	2018	2017	2016
<b>Average Common Stockholders' Equity Ex Average AOCI (1)</b>					
Average total stockholders' equity	\$ 4,279,767	\$ 3,484,610	\$ 2,624,629	\$ 2,570,876	\$ 2,107,181
Average equity available to preferred stockholders	(350,000)	(200,000)	—	—	—
Average AOCI	(1,384,912)	(722,745)	(336,084)	(532,283)	(270,815)
Average common stockholders' equity excluding average AOCI	<u>\$ 2,544,855</u>	<u>\$ 2,561,865</u>	<u>\$ 2,288,545</u>	<u>\$ 2,038,593</u>	<u>\$ 1,836,366</u>
Net income available to common stockholders	\$ 240,467	\$ 246,090	\$ 458,016	\$ 174,645	\$ 83,243
Non-GAAP operating income available to common stockholders	\$ 606,379	\$ 548,183	\$ 425,740	\$ 285,050	\$ 122,344
<b>Return on Average Common Stockholders' Equity Excluding Average AOCI</b>					
Net income available to common stockholders	9.4%	9.6%	20.0%	8.6%	4.5%
Non-GAAP operating income available to common stockholders	23.8%	21.4%	18.6%	14.0%	6.7%

(1) Simple average based on stockholders' equity at beginning and end of the twelve month period.

# Non-GAAP Financial Measure Reconciliations (cont'd)

<b>Capitalization</b>	<b>6/30/2020</b>	<b>As of December 31,</b>			
		<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Notes and loan payable	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Total subordinated debentures	77,964	159,272	247,161	246,908	246,671
Total debt	577,964	659,272	747,161	746,908	746,671
Total stockholders' equity	5,062,059	4,570,119	2,399,101	2,850,157	2,291,595
Total capitalization	5,640,023	5,229,391	3,146,262	3,597,065	3,038,266
AOCI	1,719,839	1,497,921	(52,432)	724,599	339,966
Total capitalization excluding AOCI	\$ 3,920,184	\$ 3,731,470	\$ 3,198,694	\$ 2,872,466	\$ 2,698,300
<b>Debt-to-Capital Ratios</b>					
Senior debt/total capitalization - excluding AOCI	12.8%	13.4%	15.6%	17.4%	18.5%
Total debt/total capitalization - excluding AOCI	14.7%	17.7%	23.4%	26.0%	27.7%

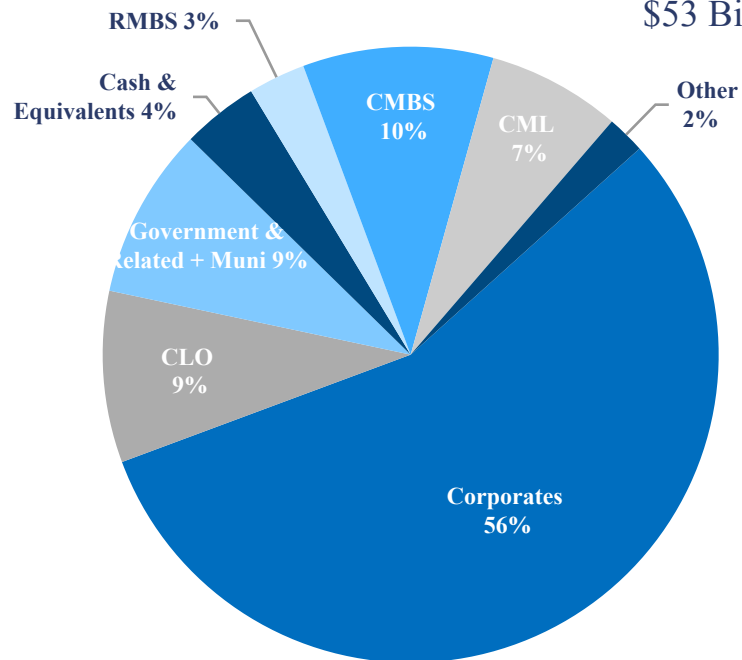
# Non-GAAP Financial Measure Reconciliations (cont'd)

Book Value Per Common Share	6/30/2020	As of December 31,			
		2019	2018	2017	2016
Total stockholders' equity	\$ 5,062,059	\$ 4,570,119	\$ 2,399,101	\$ 2,850,157	\$ 2,291,595
Equity available to preferred stockholders	(700,000)	(400,000)	—	—	—
Total common stockholders' equity	4,362,059	4,170,119	2,399,101	2,850,157	2,291,595
Accumulated other comprehensive income (loss) - AOCI	1,719,839	1,497,921	(52,432)	724,599	339,966
Total common stockholders' equity excluding AOCI	2,642,220	2,672,198	2,451,533	2,125,558	1,951,629
Net impact of fair value accounting for derivatives and embedded derivatives	685,839	448,924	155,065	174,890	97,138
Total common stockholders' equity excluding AOCI and the net impact of fair value accounting for derivatives and embedded derivatives	<u>\$ 3,328,059</u>	<u>\$ 3,121,122</u>	<u>\$ 2,606,598</u>	<u>\$ 2,300,448</u>	<u>\$ 2,048,767</u>
Common shares outstanding	91,595,066	91,107,555	90,369,229	89,331,087	88,016,188
Book value per common share	\$ 47.62	\$ 45.77	\$ 26.55	\$ 31.91	\$ 26.04
Book value per common share excluding AOCI	\$ 28.85	\$ 29.33	\$ 27.13	\$ 23.79	\$ 22.17
Book value per common share excluding AOCI and the net impact of fair value accounting for derivatives and embedded derivatives	\$ 36.33	\$ 34.26	\$ 28.84	\$ 25.75	\$ 23.28

# Conservative High Quality Investment Portfolio

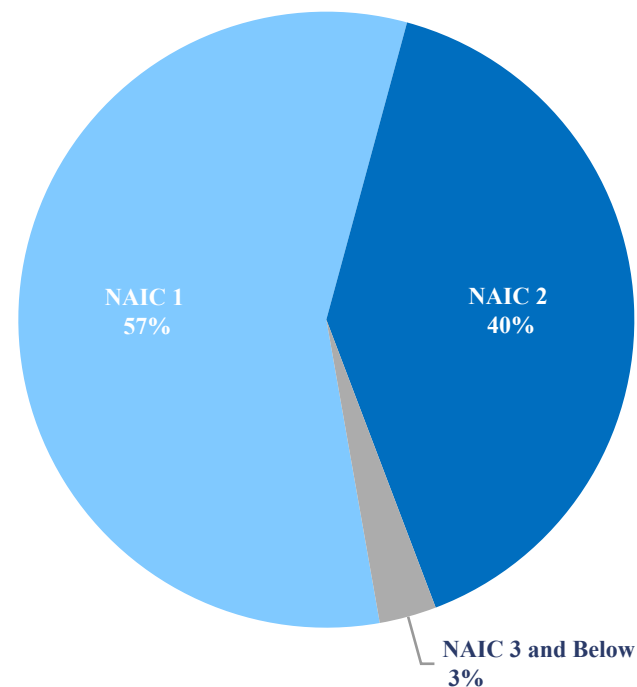
## Sector Allocation

\$53 Billion Investment Portfolio



- Well-diversified by sector and issuer
- Traditional corporate credit & structured securities
- Highly liquid (11% cash & equivalents and Govt & related)

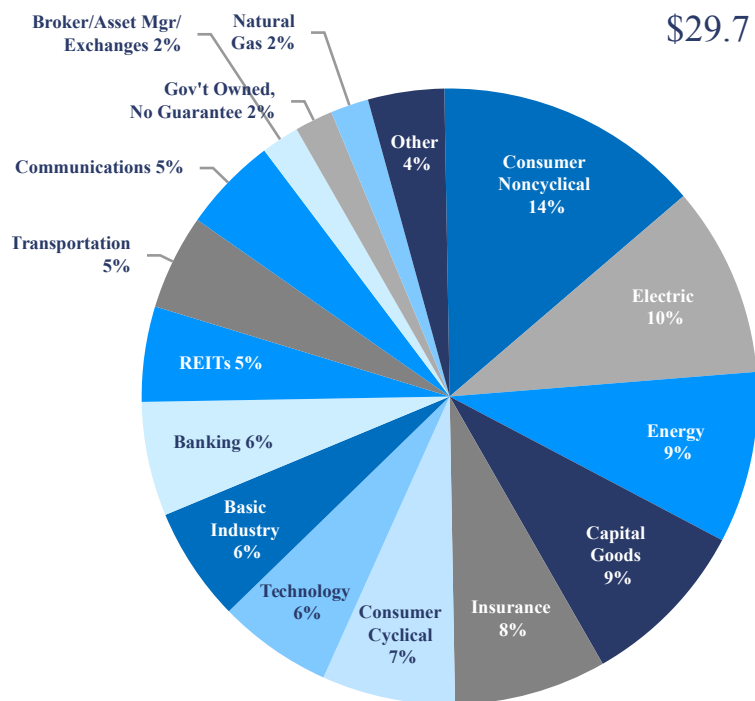
## Credit Quality



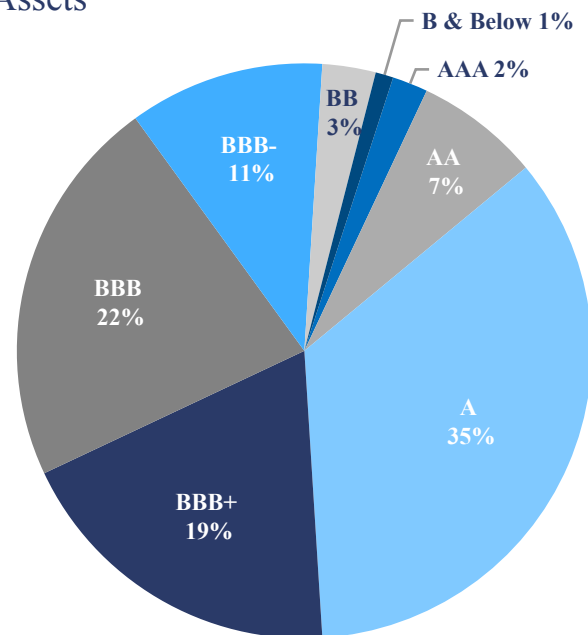
- High quality investment portfolio
- 97% NAIC 2 (BBB) or better
- 57% NAIC 1 (A or better)
- A- average credit rating

# Investment Portfolio: Corporate Credit Overview

## Sector Allocation



## Credit Quality



- Substantial net unrealized gains of \$3.5B as of June 30, 2020
- Disciplined credit review process
- Broadly diversified across credit sectors

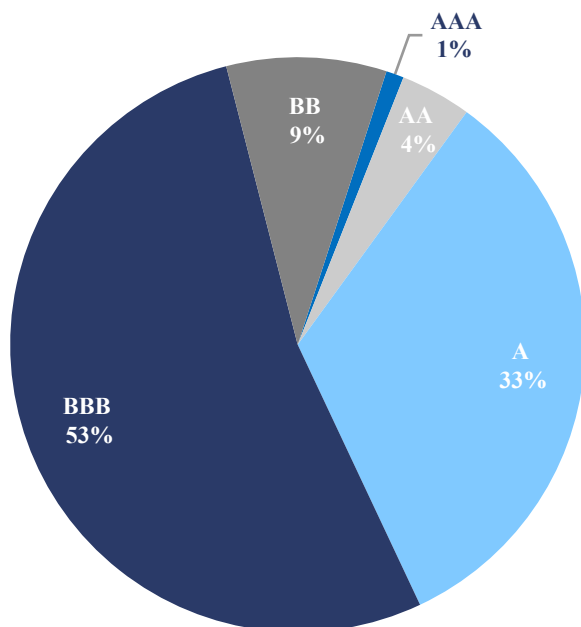
- Exceptional credit quality supported by 96% investment grade securities
- BBB- represent only 11% of corporate holdings



# Investment Portfolio: CLO Overview

## Ratings Profile

\$4.8 B or 9% of Invested Assets



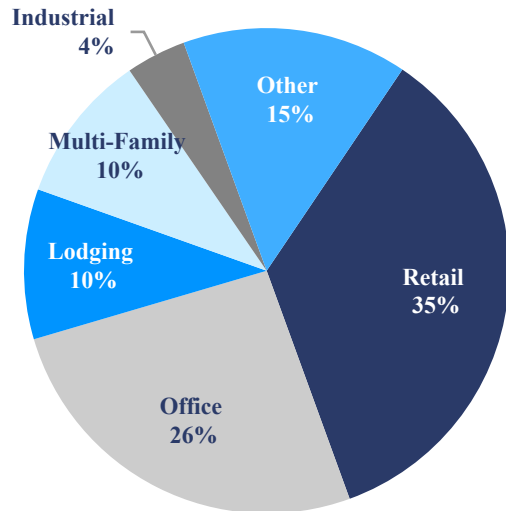
- All rated by either Moody's or S&P
- 98.5% First Lien
- 97% Broadly syndicated loans

## Structural Enhancements

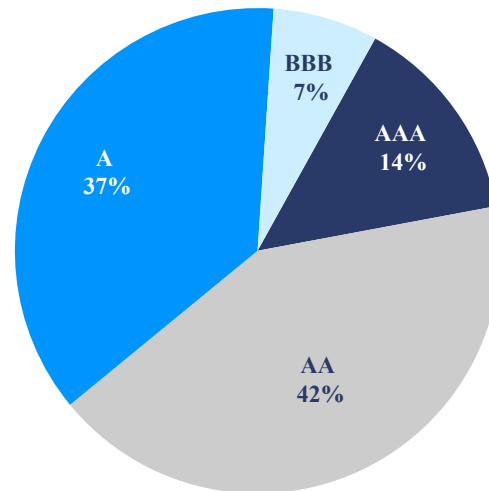
- All positions are CLO vintage 3.0 (post Great Financial Crisis - "GFC"); superior structure design
  - Limits non-loan collateral (No structured or HY bonds)
  - Shorter cash reinvestment period
  - Higher first lien loan requirements
- Higher par coverage support/ subordination across all tranches pre versus post crisis:
  - AAA: 24% to 35+%
  - AA: 19% to 24%
  - A: 13% to 19%
  - BBB: 9% to 13%

# Investment Portfolio: Non-Agency CMBS Overview

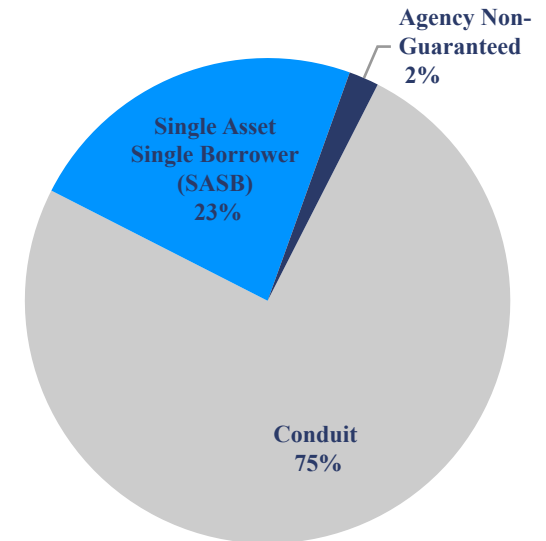
**Property Type**



**Ratings Distribution**



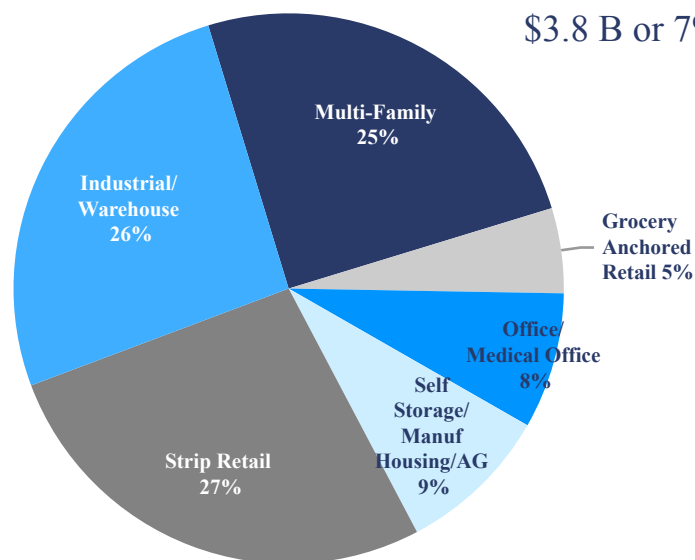
**Securitization Type**



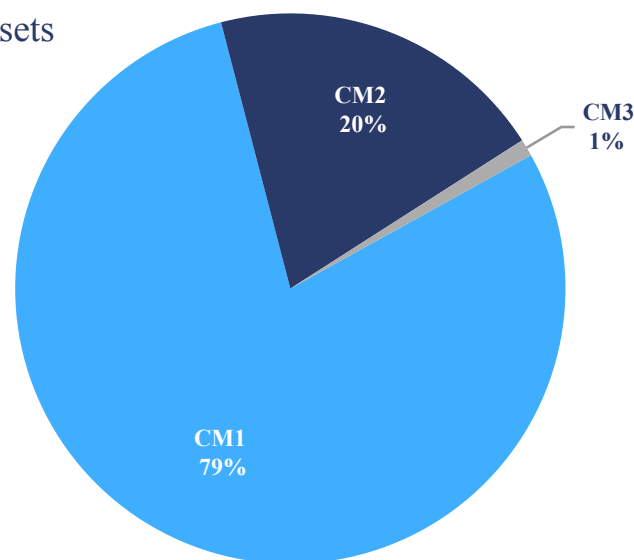
- All fixed rate transactions issued after the GFC
- Average credit quality - A+
- Diversified portfolio: 13,775 loans on 23,290 properties

# Investment Portfolio: Commercial Mortgage Loan Overview

## Property Type



## NAIC Ratings



- 793 first mortgage loans, average loan size \$4.7 million
- Weighted average portfolio: 58% LTV and 1.95x portfolio DSC ratio
- Per NAIC CM ratings: 79% rated CM1 and 20% rated CM2
- Per internal ratings: 99% of portfolio rated 1 or 2 on a scale of 1 to 5 with 1 being highest

- Geographically well-diversified
- Undervalued portfolio strength, only 8% in office
- Retail concentration down from 39% to 34% over last 3 years
- No exposure to hotels, malls or leisure-related properties

# Capital Sensitivity to Adverse Recessionary Scenario

12-18 month economic recession consistent with the Federal Reserve CCAR stress test

		<u>Actual Experience through June 30, 2020</u>
March 31, 2020 Pro Forma Estimated Risk-Based Capital (RBC) Ratio	396%	
Modeled Credit Losses	~ 25%	1%
Modeled Ratings Migration	<u>~ 50%</u>	<u>8%</u>
Projected Net Risk-Based Capital Ratio <sup>1</sup>	~ 320%	389% <sup>2</sup>

1. Excludes retained earnings or other management actions over the modeled period.

2. Estimated risk-based capital ratio as of June 30, 2020.

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