



**FOR IMMEDIATE RELEASE**  
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**American Equity Reports Second Quarter 2009 Operating Earnings  
 of \$21.6 Million or \$0.38 Per Diluted Common Share**

WEST DES MOINES, Iowa (August 4, 2009) – American Equity Investment Life Holding Company (NYSE: AEL), a leading underwriter of fixed-rate and fixed index annuities, today reported 2009 second quarter operating income<sup>1</sup> of \$21.6 million, or \$0.38 per diluted common share, an increase of 21% over adjusted<sup>2</sup> 2008 second quarter operating income of \$17.9 million, or \$0.32 per diluted common share. Financial highlights include:

- Annuity sales increased 77% to a record \$1.1 billion for the second quarter of 2009 compared to second quarter 2008 annuity sales of \$648 million.
- Effective June 1, 2009 AEL implemented an industry leading program to restructure commission payments to agents in order to increase its sales capacity.
- AEL strengthened its capital structure by issuing 5 million shares of its common stock in exchange for \$37.2 million of its 5.25% contingent convertible senior Notes due 2024.<sup>3</sup>
- Book value per outstanding common share increased to \$10.65 including Accumulated Other Comprehensive Loss from \$9.46 at December 31, 2008.

<sup>1</sup> In addition to net income, American Equity has consistently utilized operating income, a non-GAAP financial measure commonly used in the life insurance industry, as an economic measure to evaluate its financial performance. See accompanying tables for the reconciliation of net income to operating income and a description of reconciling items.

<sup>2</sup> All prior period financial statements have been adjusted pursuant to the provisions of FASB Staff Position No. APB 14-1 which was effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. See more complete discussion in the company's Form 10-Q for the quarterly period ended March 31, 2009.

<sup>3</sup> The increased shares outstanding reduced second quarter operating income by \$0.01 per diluted common share.

Net income for the second quarter of 2009 was \$9 million or \$0.16 per diluted common share, compared to adjusted net income of \$3.7 million or \$0.07 per diluted common share for the same period in 2008.

### **STRONG DEMAND FOR FIXED ANNUITIES CONTINUES**

In the second quarter of 2009 American Equity's sales of annuity products reached a new peak of \$1.1 billion, with strong demand for principal protected savings products continuing in the aftermath of the global financial crisis and sustained low interest rates. American Equity, the number three all time writer of fixed index annuities, saw record sales volumes in each month during the second quarter, with June sales reaching an all time monthly high of \$409 million. Fixed annuities are particularly attractive in this time of financial uncertainty because they offer protection from market volatility for the full value of policyholder accounts including principal and all annually credited interest.

During the second quarter of 2009 American Equity implemented a number of steps to reinforce the capital adequacy of its principal life subsidiary and increase sales capacity during this unprecedented period. Such steps include: (i) the restructuring of sales commissions to sales agents to defer a portion of commission expense to the second and third years after policy issue; (ii) the expansion of a reinsurance treaty providing additional statutory surplus; and (iii) a contribution to statutory capital and surplus from an additional draw on the company's bank line of credit. The company continues to explore additional programs to support its risk-based capital above the levels indicated by its financial strength ratings from credit rating agencies.

### **EARNINGS GROWTH FROM STEADY SPREAD MANAGEMENT**

The 21% growth in operating earnings for the second quarter of 2009 compared to the same period in 2008 is a direct reflection of American Equity's growth in invested assets and sustained management of the gross investment spread between earnings on invested assets and the cost of money on its annuity liabilities. On an amortized cost basis, invested assets grew 9.8% from \$13.4 billion at June 30, 2008 to \$14.7 billion at June 30, 2009. The aggregate yield on invested assets improved from 6.17% for the first six months of 2008 to 6.29% for the same period in 2009, while the cost of money on annuity liabilities declined from 3.49% to 3.31%. The net result was an improvement in the gross investment spread from 2.68% for the first six months of 2008 to 2.98% for the same period in 2009.

During the second quarter of 2009 American Equity received \$2.3 billion of proceeds from bonds sold or called for redemption, most of which were calls of its U.S. agency securities.

As a result, cash balances were high during the second quarter, although the majority of such balances had been reinvested by June 30, 2009. Investment earnings during the second quarter of 2009 were impacted by the low return on temporary cash holdings, although that impact was offset in part by higher than expected prepayment income on residential mortgage backed securities (“RMBS”). Together with new money from annuity sales, the company invested \$3.2 billion in fixed income securities with an average yield of 6.18% during the second quarter of 2009 and \$56 million in new commercial mortgage loans with an average yield of 6.98%. New investments include principally high grade corporate bonds and prime RMBS. The company’s principal objective in its investing activities is to minimize credit risk while maintaining or improving overall yield results.

The financial crisis and related ratings actions have affected the fair values of a portion of the company’s invested assets, including in particular its Alt-A RMBS and perpetual preferred securities; however, the company is well-positioned to hold such securities until valuations recover and actual economic losses experienced have been relatively minor. The company has no subprime RMBS and no commercial mortgage backed securities. Ratings downgrades on RMBS securities have resulted in a decrease in the risk-based capital ratios of life insurance companies across the industry based on mid-year estimates of such ratios. In many cases this impact on risk-based capital is grossly disproportionate to the actual level and severity of expected losses on the underlying RMBS securities. As a result, state insurance regulators are discussing possible modifications to the risk-based capital calculations to more accurately reflect the credit quality of these investments.

American Equity’s commercial mortgage loans, with an aggregate carrying value of \$2.4 billion, include over 900 individual loans with an average loan size of \$2.5 million. The great majority of these loans are performing in accordance with their terms with no deterioration in credit quality. The company has completed one of two foreclosures initiated in prior periods, and has modified several others to accept payments of interest only for a period of time. An impairment loss of \$1 million was recorded in the second quarter of 2009 with respect to one loan. The company has analyzed stress scenarios, including increased levels of delinquencies and defaults, which indicate that future loss exposure in such stress scenarios may be less than 100 basis points of aggregate mortgage loan values.

## **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

This press release contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to future operations, strategies, financial results or other developments, and are subject to assumptions, risks and uncertainties. Statements such as “guidance,” “expect,” “anticipate,” “believe,” “goal,” “objective,” “target,” “may,” “should,” “estimate,” “projects,” or similar words as well as specific projections of future results qualify as forward-looking statements. Factors that may cause our actual results to differ materially from those contemplated by these forward looking statements can be found in the company’s Form 10-K filed with the Securities and Exchange Commission. Forward-looking statements speak only as of the date the statement was made and the company undertakes no obligation to update such forward-looking statements. There can be no assurance that other factors not currently anticipated by the company will not materially and adversely affect our results of operations. Investors are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf.

## **CONFERENCE CALL**

American Equity will hold a conference call to discuss second quarter 2009 earnings on Wednesday August 5, 2009, at 10 a.m. CDT. The conference call will be webcast live on the Internet. Investors and interested parties who wish to listen to the call on the Internet may do so at [www.american-equity.com](http://www.american-equity.com). The call may also be accessed by telephone at 1-866-788-0542, passcode 29502690 (international callers, please dial 1-857-350-1680). An audio replay will be available shortly after the call on AEL’s web site. An audio replay will be available via telephone through August 26, 2009 by calling 1-888-286-8010, passcode 61712516 (international callers, please dial 1-617-801-6888).

## **ABOUT AMERICAN EQUITY**

American Equity Investment Life Holding Company, through its wholly-owned operating subsidiaries, is a full-service underwriter of a broad line of annuity and insurance products with a primary emphasis on the sale of fixed-rate and fixed index annuities. The company’s headquarters are located at 5000 Westown Parkway, West Des Moines, Iowa, 50266. The mailing address of the company is: P.O. Box 71216, Des Moines, Iowa, 50325. For more information, visit our website [www.american-equity.com](http://www.american-equity.com).

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## American Equity Investment Life Holding Company

### Net Income (Loss)/Operating Income (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	(As Adjusted)		(As Adjusted)	
	(Dollars in thousands, except per share data)			
Revenues:				
Traditional life and accident and health insurance premiums	\$ 2,867	\$ 2,880	\$ 6,353	\$ 6,196
Annuity product charges	16,615	11,845	31,666	23,943
Net investment income	226,803	202,080	447,457	397,568
Change in fair value of derivatives	30,494	(73,313)	(13,329)	(230,678)
Net realized gains on investments, excluding other than temporary impairment ("OTTI") losses	4,317	255	5,077	1,085
OTTI losses on investments:				
Total OTTI losses	(22,061)	(30,274)	(77,452)	(33,523)
Portion of OTTI losses recognized in other comprehensive income	16,418	-	58,371	-
Net OTTI losses recognized in operations	(5,643)	(30,274)	(19,081)	(33,523)
Gain (loss) on extinguishment of debt	3,098	(196)	3,098	(1,328)
Total revenues	<u>278,551</u>	<u>113,277</u>	<u>461,241</u>	<u>163,263</u>
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	1,974	2,321	4,173	4,930
Interest sensitive and index product benefits	71,977	49,469	131,740	103,645
Amortization of deferred sales inducements	12,184	(4,479)	25,895	27,433
Change in fair value of embedded derivatives	140,716	17,745	154,899	(200,869)
Interest expense on notes payable	3,642	4,981	7,918	10,113
Interest expense on subordinated debentures	4,029	4,649	8,237	9,880
Interest expense on amounts due under repurchase agreements	2	2,024	244	4,996
Amortization of deferred policy acquisition costs	13,266	18,620	47,910	99,310
Other operating costs and expenses	16,880	12,550	31,344	25,001
Total benefits and expenses	<u>264,670</u>	<u>107,880</u>	<u>412,360</u>	<u>84,439</u>
Income before income taxes	13,881	5,397	48,881	78,824
Income tax expense	4,869	1,745	13,394	27,112
<b>Net income</b>	<b>9,012</b>	<b>3,652</b>	<b>35,487</b>	<b>51,712</b>
Net realized gains and net OTTI losses on investments, net of offsets	141	8,910	(537)	9,918
Convertible debt retirement, net of income taxes	(1,520)	115	(1,520)	777
Net effect of SFAS 133, net of offsets	13,946	5,220	11,481	(27,650)
<b>Operating income (a)</b>	<b>\$ 21,579</b>	<b>\$ 17,897</b>	<b>\$ 44,911</b>	<b>\$ 34,757</b>
Earnings per common share				
Earnings per common share	\$ 0.16	\$ 0.07	\$ 0.66	\$ 0.95
Earnings per common share - assuming dilution	\$ 0.16	\$ 0.07	\$ 0.63	\$ 0.91
Operating income per common share (a)	\$ 0.39	\$ 0.33	\$ 0.83	\$ 0.64
Operating income per common share - assuming dilution (a)	\$ 0.38	\$ 0.32	\$ 0.80	\$ 0.61
Weighted average common shares outstanding (in thousands):				
Earnings per common share	55,336	53,934	54,157	54,661
Earnings per common share - assuming dilution	58,105	56,856	56,909	57,518

## American Equity Investment Life Holding Company

### Operating Income

Three months ended June 30, 2009 (Unaudited)

	As Reported	Adjustments		Operating Income (a)
		Realized Losses and Convertible Debt	SFAS 133 and Other Index Annuity	
(Dollars in thousands, except per share data)				
Reserves:				
Traditional life and accident and health insurance premiums	\$ 2,867	\$ -	\$ -	\$ 2,867
Annuity product charges	16,615	-	-	16,615
Net investment income	226,803	-	-	226,803
Change in fair value of derivatives	30,494	-	(83,970)	(53,476)
Net realized gains on investments, excluding other than temporary impairment ("OTTI") losses	4,317	(4,317)	-	-
Net OTTI losses recognized in operations	(5,643)	5,643	-	-
Gain (loss) on extinguishment of debt	3,098	(3,098)	-	-
Total revenues	278,551	(1,772)	(83,970)	192,809
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	1,974	-	-	1,974
Interest sensitive and index product benefits	71,977	-	4,538	76,515
Amortization of deferred sales inducements	12,184	409	5,393	17,986
Change in fair value of embedded derivatives	140,716	-	(140,716)	-
Interest expense on notes payable	3,642	-	-	3,642
Interest expense on subordinated debentures	4,029	-	-	4,029
Interest expense on amounts due under repurchase agreements	2	-	-	2
Amortization of deferred policy acquisition costs	13,266	647	25,318	39,231
Other operating costs and expenses	16,880	(500)	-	16,380
Total benefits and expenses	264,670	556	(105,467)	159,759
Income before income taxes	13,881	(2,328)	21,497	33,050
Income tax expense	4,869	(949)	7,551	11,471
<b>Net income</b>	<b>\$ 9,012</b>	<b>\$ (1,379)</b>	<b>\$ 13,946</b>	<b>\$ 21,579</b>
<b>Earnings per common share</b>	<b>\$ 0.16</b>			<b>\$ 0.39</b>
<b>Earnings per common share - assuming dilution</b>	<b>\$ 0.16</b>			<b>\$ 0.38</b>

(a) In addition to net income (loss), we have consistently utilized operating income, operating income per common share and operating income per common share - assuming dilution, non-GAAP financial measures commonly used in the life insurance industry, as economic measures to evaluate our financial performance. Operating income equals net income (loss) adjusted to eliminate the impact of net realized gains and losses on investments including related deferred tax asset valuation allowance, gain on extinguishment of convertible debt, SFAS 133, dealing with fair value changes in derivatives and embedded derivatives and the Lehman counterparty default on expired call options. Because these items fluctuate from quarter to quarter in a manner unrelated to core operations, we believe measures excluding their impact are useful in analyzing operating trends. We believe the combined presentation and evaluation of operating income together with net income (loss), provides information that may enhance an investor's understanding of our underlying results and profitability.