AMERICAN EQUITY INVESTMENT LIFE HOLDING CO
Form 10-Q
November 09, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number : 001-31911
American Equity Investment Life Holding Company
(Exact name of registrant as specified in its charter)

Iowa	42-1447959
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6000 Westown Parkway
West Des Moines, Iowa 50266
(Address of principal executive offices, including zip code)
(515) 221-0002
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer," “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer o
Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
APPLICABLE TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
As of November 7, 2016, there were 88,066,714 shares of the registrant's common stock, $1 par value, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2016 - $39,199,077; 2015 - $35,823,710)	$ 42,304,410	$ 36,421,839
Held for investment, at amortized cost (fair value: 2016 - $75,547; 2015 - $65,377)	76,773	76,622
Equity securities, available for sale, at fair value (cost: 2016 - $7,520; 2015 - $7,515)	7,843	7,828
Mortgage loans on real estate	2,419,230	2,435,257
Derivative instruments	706,007	337,256
Other investments	297,068	291,530
Total investments	45,811,331	39,570,332
Cash and cash equivalents	812,814	397,749
Coinsurance deposits	4,453,320	3,187,470
Accrued investment income	405,996	362,104
Deferred policy acquisition costs	2,370,781	2,905,136
Deferred sales inducements	1,800,435	2,232,148
Deferred income taxes	—	232,683
Income taxes recoverable	12,652	29,599
Other assets	180,892	112,171
Total assets	$ 55,848,221	$ 49,029,392
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves	$ 50,814,665	$ 45,495,431
Other policy funds and contract claims	302,849	324,850
Notes and loan payable	493,445	393,227
Subordinated debentures	241,751	241,452
Deferred income taxes	110,551	—
Other liabilities	1,072,098	629,897
Total liabilities	53,035,359	47,084,857
Stockholders' equity:		
Preferred stock, par value $1 per share, 2,000,000 shares authorized, 2016 and 2015 - no shares issued and outstanding	—	—
Common stock, par value $1 per share, 200,000,000 shares authorized; issued and outstanding: 2016 - 87,898,452 shares (excluding 3,221,258 treasury shares); 2015 - 81,354,079 shares (excluding 3,448,750 treasury shares)	87,898	81,354

Additional paid-in capital	767,570	630,367
Accumulated other comprehensive income	963,796	201,663
Retained earnings	993,598	1,031,151
Total stockholders' equity	2,812,862	1,944,535
Total liabilities and stockholders' equity	$ 55,848,221	$ 49,029,392

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Premiums and other considerations	$12,731	$8,335	$31,534	$25,369
Annuity product charges	47,675	37,975	125,304	99,066
Net investment income	463,583	436,085	1,374,239	1,253,930
Change in fair value of derivatives	103,794	(351,360)	68,828	(405,484)
Net realized gains (losses) on investments, excluding other than temporary impairment ("OTTI") losses	5,256	1,159	10,680	10,362
OTTI losses on investments:				
Total OTTI losses	(4,554)	(10,000)	(11,334)	(10,132)
Portion of OTTI losses recognized in (from) other comprehensive income	1,575	4,771	(1,785)	3,943
Net OTTI losses recognized in operations	(2,979)	(5,229)	(13,119)	(6,189)
Total revenues	630,060	126,965	1,597,466	977,054
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	15,065	10,959	37,567	32,629
Interest sensitive and index product benefits	278,943	213,465	487,735	802,431
Amortization of deferred sales inducements	69,245	65,807	127,396	152,278
Change in fair value of embedded derivatives	144,404	(414,724)	694,564	(583,112)
Interest expense on notes and loan payable	6,887	7,283	20,649	21,976
Interest expense on subordinated debentures	3,253	3,075	9,627	9,138
Amortization of deferred policy acquisition costs	98,108	67,885	198,486	186,871
Other operating costs and expenses	25,133	24,497	78,786	70,487
Total benefits and expenses	641,038	(21,753)	1,654,810	692,698
Income (loss) before income taxes	(10,978)	148,718	(57,344)	284,356
Income tax expense (benefit)	(3,558)	51,412	(19,791)	98,302
Net income (loss)	$(7,420)	$97,306	$(37,553)	$186,054
Earnings (loss) per common share	$(0.09)	$1.22	$(0.45)	$2.39
Earnings (loss) per common share - assuming dilution	$(0.09)	$1.19	$(0.45)	$2.33
Weighted average common shares outstanding (in thousands):				
Earnings (loss) per common share	86,262	79,676	83,645	77,995
Earnings (loss) per common share - assuming dilution	87,044	81,559	84,413	79,977

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$(7,420)	$97,306	$(37,553)	$186,054
Other comprehensive income (loss):				
Change in net unrealized investment gains/losses (1)	107,003	60,402	1,167,763	(453,582)
Noncredit component of OTTI losses (1)	(731)	(2,381)	835	(1,968)
Reclassification of unrealized investment gains/losses to net income (loss) (1)	2,287	96	3,914	1,940
Other comprehensive income (loss) before income tax	108,559	58,117	1,172,512	(453,610)
Income tax effect related to other comprehensive income (loss)	(37,995)	(20,341)	(410,379)	158,764
Other comprehensive income (loss)	70,564	37,776	762,133	(294,846)
Comprehensive income (loss)	$63,144	$135,082	$724,580	$(108,792)

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

See accompanying notes to unaudited consolidated financial statements.

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2015	$81,354	$630,367	$ 201,663	$1,031,151	$1,944,535
Net loss for period	—	—	—	(37,553)	(37,553)
Other comprehensive income	—	—	762,133	—	762,133
Share-based compensation, including excess income tax benefits	—	5,335	—	—	5,335
Issuance of common stock via settlement of forward sale agreements	5,590	129,072	—	—	134,662
Issuance of 861,375 shares of common stock under compensation plans, including excess income tax benefits	861	2,890	—	—	3,751
Issuance of 92,998 shares of common stock to settle warrants that have reached their expiration	93	(94)	—	—	(1)
Balance at September 30, 2016	$87,898	$767,570	$ 963,796	$993,598	$2,812,862
Balance at December 31, 2014	$76,062	$513,218	$ 721,401	$829,195	$2,139,876
Net income for period	—	—	—	186,054	186,054
Other comprehensive loss	—	—	(294,846)	—	(294,846)
Share-based compensation, including excess income tax benefits	—	7,567	—	—	7,567
Issuance of common stock via public offering	4,300	100,179	—	—	104,479
Issuance of 828,529 shares of common stock under compensation plans, including excess income tax benefits	829	5,950	—	—	6,779
Balance at September 30, 2015	$81,191	$626,914	$ 426,555	$1,015,249	$2,149,909

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Operating activities		
Net income (loss)	$(37,553)	$186,054
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Interest sensitive and index product benefits	487,735	802,431
Amortization of deferred sales inducements	127,396	152,278
Annuity product charges	(125,304)	(99,066)
Change in fair value of embedded derivatives	694,564	(583,112)
Change in traditional life and accident and health insurance reserves	8,977	3,024
Policy acquisition costs deferred	(423,525)	(464,451)
Amortization of deferred policy acquisition costs	198,486	186,871
Provision for depreciation and other amortization	3,000	3,733
Amortization of discounts and premiums on investments	(2,258)	(10,730)
Realized gains (losses) on investments and net OTTI losses recognized in operations	2,439	(4,173)
Change in fair value of derivatives	(70,002)	404,085
Deferred income taxes	(66,895)	23,640
Share-based compensation	4,849	5,332
Change in accrued investment income	(43,892)	(48,963)
Change in income taxes recoverable/payable	16,947	4,794
Change in other assets	1,930	1,053
Change in other policy funds and contract claims	(27,627)	(36,876)
Change in collateral held for derivatives	254,210	(469,752)
Change in other liabilities	(48,608)	24,766
Other	(10,363)	(9,843)
Net cash provided by operating activities	944,506	71,095
Investing activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities - available for sale	1,853,281	1,280,927
Mortgage loans on real estate	302,262	354,391
Derivative instruments	147,887	563,125
Other investments	12,928	11,716
Acquisition of investments:		
Fixed maturity securities - available for sale	(5,065,873)	(5,041,263)
Mortgage loans on real estate	(284,186)	(362,123)
Derivative instruments	(444,360)	(427,763)
Other investments	(9,778)	(5,206)
Purchases of property, furniture and equipment	(872)	(913)
Net cash used in investing activities	(3,488,711)	(3,627,109)

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

	Nine Months Ended September 30,	
	2016	2015
Financing activities		
Receipts credited to annuity and single premium universal life policyholder account balances	$5,712,759	$4,913,473
Coinsurance deposits	(1,180,827)	21,623
Return of annuity policyholder account balances	(1,806,895)	(1,638,598)
Financing fees incurred and deferred	(1,456)	—
Repayment of notes payable	—	(48,152)
Net proceeds from settlement of notes hedges and warrants	—	25,775
Proceeds from issuance of debt	100,000	—
Acquisition of common stock	—	(16)
Excess tax benefits realized from share-based compensation plans	487	3,281
Proceeds from issuance of common stock	138,660	111,274
Change in checks in excess of cash balance	(3,458)	(10,546)
Net cash provided by financing activities	2,959,270	3,378,114
Increase in cash and cash equivalents	415,065	(177,900)
Cash and cash equivalents at beginning of period	397,749	701,514
Cash and cash equivalents at end of period	$812,814	$523,614
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest expense	$35,764	$36,136
Income taxes	29,961	66,541
Non-cash operating activity:		
Deferral of sales inducements	270,991	346,410
Non-cash financing activities:		
Common stock issued to settle warrants that have expired	93	—

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016
(Unaudited)

1. Significant Accounting Policies

Consolidation and Basis of Presentation

The accompanying consolidated financial statements of American Equity Investment Life Holding Company (“we”, “us” or “our”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements. The consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly our financial position and results of operations on a basis consistent with the prior audited consolidated financial statements. Operating results for the three and nine month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements requires the use of management estimates. For further information related to a description of areas of judgment and estimates and other information necessary to understand our financial position and results of operations, refer to the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Subsequently, in August 2015, the FASB issued an ASU that states that the Securities and Exchange Commission staff would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and expensing those costs ratably over the term of the line of credit arrangement. These ASU's became effective for us on January 1, 2016, and retroactive application is required. They did not have a material impact on our consolidated financial statements.

New Accounting Pronouncements

In January 2016, the FASB issued an ASU that, among other aspects of recognition, measurement, presentation and disclosure of financial instruments, primarily requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Additionally, it changes the accounting for financial liabilities measured at fair value under the fair value option and eliminates some disclosures regarding fair value of financial assets and liabilities measured at amortized cost. This ASU will be effective for us on January 1, 2018, and we have not determined the effect it will have on our consolidated financial statements.

In February 2016, the FASB issued an ASU that will require recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU affects accounting and disclosure more dramatically for lessees as accounting for lessors is mainly unchanged. This ASU will be effective for us on January 1, 2019, with early adoption permitted, and we have not determined the effect it will have on our consolidated financial statements.

In March 2016, the FASB issued an ASU related to the accounting for share-based payment transactions. The aspects of accounting guidance affected by this ASU are income taxes, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU will be effective for us on January 1, 2017, with early adoption permitted, and we have not determined the effect it will have on our consolidated financial statements.

In June 2016, the FASB issued an ASU that significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model that requires these assets be presented at the net amount expected to be collected. In addition, credit losses on available for sale debt securities should be recorded through an allowance account. This ASU will be effective for us on January 1, 2020, with early adoption permitted, and we have not yet determined the impact this updated guidance will have on our consolidated financial statements.

In August 2016, the FASB issued an ASU that clarifies how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. This ASU will be effective for us on January 1, 2018, with early adoption permitted, and we have not yet determined the impact this updated guidance will have on our consolidated financial statements.

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2. Fair Values of Financial Instruments

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

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Assets				
Fixed maturity securities:				
Available for sale	$42,304,410	$42,304,410	$36,421,839	$36,421,839
Held for investment	76,773	75,547	76,622	65,377
Equity securities, available for sale	7,843	7,843	7,828	7,828
Mortgage loans on real estate	2,419,230	2,446,247	2,435,257	2,471,864
Derivative instruments	706,007	706,007	337,256	337,256
Other investments	297,068	290,719	285,044	290,075
Cash and cash equivalents	812,814	812,814	397,749	397,749
Coinsurance deposits	4,453,320	3,997,317	3,187,470	2,860,882
Interest rate caps	307	307	1,410	1,410
Counterparty collateral	144,082	144,082	82,312	82,312
Liabilities				
Policy benefit reserves	50,461,717	42,237,613	45,151,460	38,435,515
Single premium immediate annuity (SPIA) benefit reserves	302,428	313,130	324,264	336,066
Notes and loan payable	493,445	520,800	393,227	417,752
Subordinated debentures	241,751	227,755	241,452	216,933
Interest rate swap	4,944	4,944	3,139	3,139

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

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

Level 1— Quoted prices are available in active markets for identical financial instruments as of the reporting date. We do not adjust the quoted price for these financial instruments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

Level 2— Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active; and models and other valuation methodologies using inputs other than quoted prices that are observable.

Level 3— Models and other valuation methodologies using significant inputs that are unobservable for financial instruments and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in Level 3 are securities for which no market activity or data exists and for which we used discounted expected future cash flows with our own assumptions about what a market participant

would use in determining fair value.

Transfers of securities among the levels occur at times and depend on the type of inputs used to determine fair value of each security. There were no transfers between levels during any period presented.

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Our assets and liabilities which are measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 are presented below based on the fair value hierarchy levels:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
September 30, 2016				
Assets				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$418,465	$411,408	$7,057	$ —
United States Government sponsored agencies	1,472,904	—	1,472,904	—
United States municipalities, states and territories	4,052,210	—	4,052,210	—
Foreign government obligations	254,420	—	254,420	—
Corporate securities	27,915,657	6	27,915,651	—
Residential mortgage backed securities	1,358,174	—	1,358,174	—
Commercial mortgage backed securities	5,310,156	—	5,310,156	—
Other asset backed securities	1,522,424	—	1,522,424	—
Equity securities, available for sale: finance, insurance and real estate	7,843	—	7,843	—
Derivative instruments	706,007	—	706,007	—
Cash and cash equivalents	812,814	812,814	—	—
Interest rate caps	307	—	307	—
Counterparty collateral	144,082	—	144,082	—
	$43,975,463	$1,224,228	$42,751,235	$ —
Liabilities				
Interest rate swap	$4,944	$—	$4,944	$ —
Fixed index annuities - embedded derivatives	6,678,102	—	—	6,678,102
	$6,683,046	$—	$4,944	$ 6,678,102
December 31, 2015				
Assets				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$471,256	$438,598	$32,658	$ —
United States Government sponsored agencies	1,398,611	—	1,398,611	—
United States municipalities, states and territories	3,755,367	—	3,755,367	—
Foreign government obligations	212,565	—	212,565	—
Corporate securities	23,802,394	121	23,802,273	—
Residential mortgage backed securities	1,462,072	—	1,462,072	—
Commercial mortgage backed securities	4,174,396	—	4,174,396	—
Other asset backed securities	1,145,178	—	1,145,178	—
Equity securities, available for sale: finance, insurance and real estate	7,828	—	7,828	—
Derivative instruments	337,256	—	337,256	—
Cash and cash equivalents	397,749	397,749	—	—
Interest rate caps	1,410	—	1,410	—

Counterparty collateral	82,312	—	82,312	—
	$37,248,394	$836,468	$36,411,926	$ —
Liabilities				
Interest rate swap	$3,139	$—	$3,139	$ —
Fixed index annuities - embedded derivatives	5,983,622	—	—	5,983,622
	$5,986,761	$—	$3,139	$ 5,983,622

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

Fixed maturity securities and equity securities

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

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

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

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

We validate external valuations at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list. Additionally, as needed we utilize discounted cash flow models or perform independent valuations on a case-by-case basis using inputs and assumptions similar to those used by the pricing services. Although we do identify differences from time to time as a result of these validation procedures, we did not make any significant adjustments as of September 30, 2016 and December 31, 2015.

Mortgage loans on real estate

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

Derivative instruments

The fair values of derivative instruments, primarily call options, are based upon the amount of cash that we will receive to settle each derivative instrument on the reporting date. These amounts are determined by our investment team using industry accepted valuation models and are adjusted for the nonperformance risk of each counterparty net of any collateral held. Inputs include market volatility and risk free interest rates and are used in income valuation techniques in arriving at a fair value for each option contract. The nonperformance risk for each counterparty is based

upon its credit default swap rate. We have no performance obligations related to the call options purchased to fund our fixed index annuity policy liabilities.

Other investments

None of the financial instruments included in other investments are measured at fair value on a recurring basis. Financial instruments included in other investments are policy loans, equity method investments and company owned life insurance (COLI). We have not attempted to determine the fair values associated with our policy loans, as we believe any differences between carrying value and the fair values afforded these instruments are immaterial to our consolidated financial position and, accordingly, the cost to provide such disclosure does not justify the benefit to be derived. The fair value of our equity method investments qualify as Level 3 fair values and were determined by calculating the present value of future cash flows discounted by a risk free rate, a risk spread and a liquidity discount. The risk spread and liquidity discount are rates determined by our investment professionals and are unobservable market inputs. The fair value of our COLI approximates the cash surrender value of the policies and whose fair values fall within Level 2 of the fair value hierarchy.

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Cash and cash equivalents

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

Interest rate swap and caps

The fair values of our pay fixed/receive variable interest rate swap and our interest rate caps are obtained from third parties and are determined by discounting expected future cash flows using projected LIBOR rates for the term of the swap and caps.

Counterparty collateral

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

Policy benefit reserves, coinsurance deposits and SPIA benefit reserves

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

Notes and loan payable

The fair values of our senior unsecured notes are based upon pricing matrices developed by a third party pricing service when quoted market prices are not available and are categorized as Level 2 within the fair value hierarchy. Fair value of our term loan is equal to the principal amount outstanding as the loan was originated on September 30, 2016. Notes and loan payable are not remeasured at fair value on a recurring basis.

Subordinated debentures

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

Fixed index annuities - embedded derivatives

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

Within this determination we have the following significant unobservable inputs: 1) the expected cost of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary and 2) our best estimates for future policy decrements, primarily lapse, partial withdrawal and mortality rates. As of September 30, 2016 and December 31, 2015, we utilized an estimate of 3.10% for the expected cost of annual call options, which are based on estimated account value growth and a historical review of our actual option costs.

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Our best estimate assumptions for lapse, partial withdrawal and mortality rates are based on our actual experience and our outlook as to future expectations for such assumptions. These assumptions, which are consistent with the assumptions used in calculating deferred policy acquisition costs and deferred sales inducements, are reviewed on a quarterly basis and are revised as our experience develops and/or as future expectations change. Our mortality rate assumptions are based on 65% of the 1983 Basic Annuity Mortality Tables. The following table presents average lapse rate and partial withdrawal rate assumptions, by contract duration, used in estimating the fair value of the embedded derivative component of our fixed index annuity policy benefit reserves at each reporting date:

	Average Lapse Rates		Average Partial Withdrawal Rates	
Contract Duration (Years)	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
1 - 5	1.76%	1.58%	3.30%	3.08%
6 - 10	6.59%	8.55%	3.30%	3.55%
11 - 15	11.25%	12.01%	3.32%	3.59%
16 - 20	12.03%	12.99%	3.18%	3.22%
20+	11.68%	12.54%	3.18%	3.22%

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

The following tables provide a reconciliation of the beginning and ending balances for our Level 3 assets and liabilities, which are measured at fair value on a recurring basis using significant unobservable inputs for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Available for sale securities				
Beginning balance	$—	$26	$—	$375
Principal returned	—	(2)	—	(23)
Amortization of premium/accretion of discount	—	(28)	—	(494)
Total gains (losses) (realized/unrealized):				
Included in other comprehensive income (loss)	—	4	—	280
Included in operations	—	—	—	(138)
Ending balance	$—	$—	$—	$—

The Level 3 assets included in the table above are not material to our financial position, results of operations or cash flows, and it is management's opinion that the sensitivity of the inputs used in determining the fair value of these assets is not material as well.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Fixed index annuities - embedded derivatives				
Beginning balance	$6,499,015	$5,984,007	$5,983,622	$5,574,653
Premiums less benefits	137,526	207,141	273,287	1,020,853
Change in fair value, net	41,561	(460,031)	421,193	(864,389)
Ending balance	$6,678,102	$5,731,117	$6,678,102	$5,731,117

Change in fair value, net for each period in our embedded derivatives are included in change in fair value of embedded derivatives in the unaudited consolidated statements of operations.

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

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The most sensitive assumption in determining policy liabilities for fixed index annuities is the rates used to discount the excess projected contract values. As indicated above, the discount rate reflects our nonperformance risk. If the discount rates used to discount the excess projected contract values at September 30, 2016, were to increase by 100 basis points, the fair value of the embedded derivatives would decrease by $475.4 million recorded through operations as a decrease in the change in fair value of embedded derivatives and there would be a corresponding decrease of $283.7 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as an increase in amortization of deferred policy acquisition costs and deferred sales inducements. A decrease by 100 basis points in the discount rate used to discount the excess projected contract values would increase the fair value of the embedded derivatives by $532.7 million recorded through operations as an increase in the change in fair value of embedded derivatives and there would be a corresponding increase of $313.5 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as a decrease in amortization of deferred policy acquisition costs and deferred sales inducements.

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3. Investments

At September 30, 2016 and December 31, 2015, the amortized cost and fair value of fixed maturity securities and equity securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
September 30, 2016				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$416,503	$1,962	$—	$418,465
United States Government sponsored agencies	1,410,760	62,563	(419)	1,472,904
United States municipalities, states and territories	3,548,586	503,992	(368)	4,052,210
Foreign government obligations	233,825	24,420	(3,825)	254,420
Corporate securities	25,751,501	2,298,306	(134,150)	27,915,657
Residential mortgage backed securities	1,225,720	134,685	(2,231)	1,358,174
Commercial mortgage backed securities	5,121,361	216,346	(27,551)	5,310,156
Other asset backed securities	1,490,821	46,705	(15,102)	1,522,424
	$39,199,077	$3,288,979	$(183,646)	$42,304,410
Held for investment:				
Corporate security	$76,773	$—	$(1,226)	$75,547
Equity securities, available for sale:				
Finance, insurance, and real estate	$7,520	$323	$—	$7,843
December 31, 2015				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$470,567	$988	$(299)	$471,256
United States Government sponsored agencies	1,386,219	26,801	(14,409)	1,398,611
United States municipalities, states and territories	3,422,667	341,328	(8,628)	3,755,367
Foreign government obligations	210,953	12,547	(10,935)	212,565
Corporate securities	23,597,530	887,288	(682,424)	23,802,394
Residential mortgage backed securities	1,366,985	98,576	(3,489)	1,462,072
Commercial mortgage backed securities	4,238,265	41,412	(105,281)	4,174,396
Other asset backed securities	1,130,524	34,534	(19,880)	1,145,178
	$35,823,710	$1,443,474	$(845,345)	$36,421,839
Held for investment:				
Corporate security	$76,622	$—	$(11,245)	$65,377
Equity securities, available for sale:				
Finance, insurance, and real estate	$7,515	$313	$—	$7,828

At September 30, 2016, 36% of our fixed income securities have call features, of which 0.1% ($46.6 million) were subject to call redemption and another 3.4% ($1.3 billion) will become subject to call redemption during the next twelve months. Approximately 69% of our fixed income securities that have call features are not callable until within six months of their stated maturities.

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The amortized cost and fair value of fixed maturity securities at September 30, 2016, by contractual maturity, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our mortgage and other asset backed securities provide for periodic payments throughout their lives and are shown below as separate lines.

	Available for sale		Held for investment	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$585,813	$591,574	$—	$—
Due after one year through five years	2,449,847	2,626,859	—	—
Due after five years through ten years	11,633,226	12,222,759	—	—
Due after ten years through twenty years	8,770,193	9,756,946	—	—
Due after twenty years	7,922,096	8,915,518	76,773	75,547
	31,361,175	34,113,656	76,773	75,547
Residential mortgage backed securities	1,225,720	1,358,174	—	—
Commercial mortgage backed securities	5,121,361	5,310,156	—	—
Other asset backed securities	1,490,821	1,522,424	—	—
	$39,199,077	$42,304,410	$76,773	$75,547

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

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Net unrealized gains on available for sale fixed maturity securities and equity securities	$3,105,656	$598,442
Adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements	(1,657,561)	(322,859)
Deferred income tax valuation allowance reversal	22,534	22,534
Deferred income tax expense	(506,833)	(96,454)
Net unrealized gains reported as accumulated other comprehensive income	$963,796	$201,663

The National Association of Insurance Commissioners (“NAIC”) assigns designations to fixed maturity securities. These designations range from Class 1 (highest quality) to Class 6 (lowest quality). In general, securities are assigned a designation based upon the ratings they are given by the Nationally Recognized Statistical Rating Organizations (“NRSRO’s”). The NAIC designations are utilized by insurers in preparing their annual statutory statements. NAIC Class 1 and 2 designations are considered “investment grade” while NAIC Class 3 through 6 designations are considered “non-investment grade.” Based on the NAIC designations, we had 97% and 98% of our fixed maturity portfolio rated investment grade at September 30, 2016 and December 31, 2015, respectively.

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

	September 30, 2016		December 31, 2015	
NAIC Designation	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
1	$25,136,784	$27,489,043	$23,363,259	$24,207,801
2	12,859,996	13,679,587	11,709,730	11,589,325
3	1,107,948	1,062,620	758,531	643,293
4	147,237	124,317	60,480	44,312
5	12,794	18,839	—	—
6	11,091	5,551	8,332	2,485

$39,275,850 $42,379,957 $35,900,332 $36,487,216

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The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 364 and 1,246 securities, respectively) have been in a continuous unrealized loss position, at September 30, 2016 and December 31, 2015:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
September 30, 2016						
Fixed maturity securities:						
Available for sale:						
United States Government sponsored agencies	$76,581	$(419)	$—	$—	$76,581	$(419)
United States municipalities, states and territories	68,084	(368)	—	—	68,084	(368)
Foreign government obligations	—	—	20,750	(3,825)	20,750	(3,825)
Corporate securities:						
Finance, insurance and real estate	453,189	(5,447)	100,261	(5,376)	553,450	(10,823)
Manufacturing, construction and mining	271,769	(5,102)	764,319	(80,318)	1,036,088	(85,420)
Utilities and related sectors	157,473	(3,440)	221,059	(17,989)	378,532	(21,429)
Wholesale/retail trade	16,064	(75)	59,574	(3,914)	75,638	(3,989)
Services, media and other	136,667	(4,545)	133,607	(7,944)	270,274	(12,489)
Residential mortgage backed securities	38,200	(2,144)	1,976	(87)	40,176	(2,231)
Commercial mortgage backed securities	945,680	(27,518)	937	(33)	946,617	(27,551)
Other asset backed securities	263,184	(9,224)	98,048	(5,878)	361,232	(15,102)
	$2,426,891	$(58,282)	$1,400,531	$(125,364)	$3,827,422	$(183,646)
Held for investment:						
Corporate security:						
Insurance	$—	$—	$75,547	$(1,226)	$75,547	$(1,226)
December 31, 2015						
Fixed maturity securities:						
Available for sale:						
United States Government full faith and credit	$37,730	$(299)	$—	$—	$37,730	$(299)
United States Government sponsored agencies	957,053	(14,409)	—	—	957,053	(14,409)
United States municipalities, states and territories	261,823	(8,474)	2,846	(154)	264,669	(8,628)
Foreign government obligations	42,966	(1,762)	15,463	(9,173)	58,429	(10,935)
Corporate securities:						
Finance, insurance and real estate	2,077,223	(59,607)	49,912	(14,855)	2,127,135	(74,462)
Manufacturing, construction and mining	3,517,967	(246,456)	376,229	(131,003)	3,894,196	(377,459)
Utilities and related sectors	2,240,652	(138,940)	97,184	(22,565)	2,337,836	(161,505)
Wholesale/retail trade	473,050	(17,863)	38,682	(8,125)	511,732	(25,988)
Services, media and other	1,037,011	(39,937)	32,050	(3,073)	1,069,061	(43,010)
Residential mortgage backed securities	162,770	(2,958)	6,438	(531)	169,208	(3,489)
Commercial mortgage backed securities	2,679,510	(105,002)	11,495	(279)	2,691,005	(105,281)
Other asset backed securities	457,055	(10,581)	46,657	(9,299)	503,712	(19,880)
	$13,944,810	$(646,288)	$676,956	$(199,057)	$14,621,766	$(845,345)

Held for investment:						
Corporate security:						
Insurance	$65,377	$(11,245)	$—	$—	$65,377	$(11,245)

Based on the results of our process for evaluating available for sale securities in unrealized loss positions for other than temporary impairments, which is discussed in detail later in this footnote, we have determined that the unrealized losses on the securities in the preceding table are temporary. The unrealized losses at September 30, 2016 are principally related to select sectors of the credit markets with spreads that remain wide due to specific market concerns around metals, mining and energy.

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The commodity related sectors had most of the gross unrealized losses in our corporate fixed income securities portfolio as of September 30, 2016 and December 31, 2015. Commodity prices, specifically oil, gas and base metals, declined significantly in late 2015, but prices have risen in 2016 to levels that appear sustainable and should support prices and NRSRO ratings longer term. The value of oil has been significantly depressed as the amount of supply from new production has exceeded demand. In addition, iron ore and other key industrial metals have depressed prices as investors perceive the economic slowdown in Asia Pacific will curb demand as supply remains high. The companies in the metal and mining sectors experienced the largest decline in values of their debt in late 2015. In the above table, oil and metals and mining exposure is reflected within the foreign government; manufacturing, construction and mining; and utilities and related sectors. Within these sectors, we continue to monitor the impact to our investment portfolio for those companies that may be adversely affected, both directly and indirectly. Even though the energy holdings and a majority of the metals and mining holdings have seen significant improvements in values as oil and iron ore prices have increased, they could continue to see price volatility and possible downgrades in credit ratings. If oil and commodity prices fall lower and remain at depressed levels for an extended period of time or decline further, certain issuers and investments may come under further stress. At this time, we believe the unrealized losses are temporary due to the fact that the price decline is driven by an over-supply of oil in the energy sector, which we feel is unsustainable long term. Our exposure is in companies that we believe have more financial flexibility and significant operational scale to manage through the downturn. In addition, price declines in the metal and mining sector have been heavily influenced by excess production and softer demand. Companies in the mining sector are more susceptible to rating downgrades and we believe companies will be under continued financial strain if prices decline again. We believe company issuers in our portfolio will be able to meet their debt service obligations. Approximately 53% and 84% of the unrealized losses on fixed maturity securities shown in the above table for September 30, 2016 and December 31, 2015, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations. All of the fixed maturity securities with unrealized losses are current with respect to the payment of principal and interest.

Changes in net unrealized gains on investments for the three and nine months ended September 30, 2016 and 2015 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Fixed maturity securities held for investment carried at amortized cost	$6,954	$(3,753)	$10,019	$(13,980)
Investments carried at fair value:				
Fixed maturity securities, available for sale	$224,258	$118,345	$2,507,204	$(908,644)
Equity securities, available for sale	28	(30)	10	23
	224,286	118,315	2,507,214	(908,621)
Adjustment for effect on other balance sheet accounts:				
Deferred policy acquisition costs and deferred sales inducements	(115,727)	(60,198)	(1,334,702)	455,011
Deferred income tax asset/liability	(37,995)	(20,341)	(410,379)	158,764
	(153,722)	(80,539)	(1,745,081)	613,775
Change in net unrealized gains on investments carried at fair value	$70,564	$37,776	$762,133	$(294,846)

Proceeds from sales of available for sale securities for the nine months ended September 30, 2016 and 2015 were $364.0 million and $269.7 million, respectively. Scheduled principal repayments, calls and tenders for available for sale securities for the nine months ended September 30, 2016 and 2015 were $1.5 billion and $1.0 billion, respectively.

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Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Net realized gains (losses) on investments, excluding net OTTI losses for the three and nine months ended September 30, 2016 and 2015, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Available for sale fixed maturity securities:				
Gross realized gains	$4,956	$283	$11,047	$4,783
Gross realized losses	(79)	(97)	(2,678)	(897)
	4,877	186	8,369	3,886
Other investments:				
Gain on sale of real estate	31	2,245	867	3,278
Loss on sale of real estate	—	—	(93)	(575)
Impairment losses on real estate	—	(570)	—	(1,199)
	31	1,675	774	1,504
Mortgage loans on real estate:				
Decrease (increase) in allowance for credit losses	(113)	(702)	(3,946)	597
Recovery of specific allowance	461	—	5,483	4,375
	348	(702)	1,537	4,972
	$5,256	$1,159	$10,680	$10,362

Losses on available for sale fixed maturity securities were realized primarily due to strategies to reposition the fixed maturity security portfolio that result in improved net investment income, credit risk or duration profiles as they pertain to our asset liability management.

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

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

- the length of time and the extent to which the fair value has been less than amortized cost or cost;
- whether the issuer is current on all payments and all contractual payments have been made as agreed;
- the remaining payment terms and the financial condition and near-term prospects of the issuer;
- the lack of ability to refinance due to liquidity problems in the credit market;
- the fair value of any underlying collateral;
- the existence of any credit protection available;
- our intent to sell and whether it is more likely than not we would be required to sell prior to recovery for debt securities;
- our assessment in the case of equity securities including perpetual preferred stocks with credit deterioration that the security cannot recover to cost in a reasonable period of time;
- our intent and ability to retain equity securities for a period of time sufficient to allow for recovery;
- consideration of rating agency actions; and
- changes in estimated cash flows of mortgage and asset backed securities.

We determine whether other than temporary impairment losses should be recognized for debt and equity securities by assessing all facts and circumstances surrounding each security. Where the decline in fair value of debt securities is

attributable to changes in market interest rates or to factors such as market volatility, liquidity and spread widening, and we anticipate recovery of all contractual or expected cash flows, we do not consider these investments to be other than temporarily impaired because we do not intend to sell these investments and it is not more likely than not we will be required to sell these investments before a recovery of amortized cost, which may be maturity. For equity securities, we recognize an impairment charge in the period in which we do not have the intent and ability to hold the securities until recovery of cost or we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period of time on a security-by-security basis by considering all the evidence available to us, including the magnitude of any unrealized loss and its duration.
Other than temporary impairment losses on equity securities are recognized in operations. If we intend to sell a debt security or if it is more likely than not that we will be required to sell a debt security before recovery of its amortized cost basis, other than temporary impairment has occurred and the difference between amortized cost and fair value will be recognized as a loss in operations.

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

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

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

The cash flow modeling is performed on a security-by-security basis and incorporates actual cash flows on the residential mortgage backed securities through the current period, as well as the projection of remaining cash flows using a number of assumptions including default rates, prepayment rates and loss severity rates. The default curves we use are tailored to the Prime or Alt-A residential mortgage backed securities that we own, which assume lower default rates and loss severity for Prime securities versus Alt-A securities. These default curves are scaled higher or lower depending on factors such as current underlying mortgage loan performance, rating agency loss projections, loan to value ratios, geographic diversity, as well as other appropriate considerations.

The following table presents the range of significant assumptions used to determine the credit loss component of other than temporary impairments we have recognized on residential mortgage backed securities for the nine months ended September 30, 2016 and 2015, which are all senior level tranches within the structure of the securities:

		Discount Rate		Default Rate		Loss Severity	
Sector	Vintage	Min	Max	Min	Max	Min	Max
Nine months ended September 30, 2016							
Prime	2005	7.7%	7.7%	14%	14%	50%	50%
	2006	7.3%	7.3%	13%	13%	50%	50%
	2007	6.2%	6.4%	18%	31%	50%	55%
Alt-A	2005	7.4%	7.4%	11%	11%	60%	60%
Nine months ended September 30, 2015							
Prime	2006	6.5%	6.5%	14%	14%	40%	40%
	2007	5.8%	7.0%	15%	21%	45%	55%
Alt-A	2005	5.6%	5.6%	99%	99%	2 %	2 %

The determination of the credit loss component of a corporate bond (including redeemable preferred stocks) is based on the underlying financial performance of the issuer and their ability to meet their contractual obligations. Considerations in our evaluation include, but are not limited to, credit rating changes, financial statement and ratio

analysis, changes in management, significant changes in credit spreads, breaches of financial covenants and a review of the economic outlook for the industry and markets in which they trade. In circumstances where an issuer appears unlikely to meet its future obligation, or the security's price decline is deemed other than temporary, an estimate of credit loss is determined. Credit loss is calculated using default probabilities as derived from the credit default swaps markets in conjunction with recovery rates derived from independent third party analysis or a best estimate of credit loss. This credit loss rate is then incorporated into a present value calculation based on an expected principal loss in the future discounted at the yield at the date of purchase and compared to amortized cost to determine the amount of credit loss associated with the security.

In addition, for debt securities which we do not intend to sell and it is not more likely than not we will be required to sell, but our intent changes due to changes or events that could not have been reasonably anticipated, an other than temporary impairment charge is recognized in net income and amortized cost is written down to fair value. Once an impairment charge has been recorded, we then continue to review the other than temporarily impaired securities for appropriate valuation on an ongoing basis. Unrealized losses may be recognized in future periods through a charge to earnings, should we later conclude that the decline in fair value below amortized cost is other than temporary pursuant to our accounting policy described above. The use of different methodologies and assumptions to determine the fair value of investments and the timing and amount of impairments may have a material effect on the amounts presented in our consolidated financial statements.

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The following table summarizes other than temporary impairments for the three and nine months ended September 30, 2016 and 2015, by asset type:

	Number of Securities	Total OTTI Losses	Portion of OTTI Losses Recognized in (from) Other Comprehensive Income	Net OTTI Losses Recognized in Operations
		(Dollars in thousands)		
Three months ended September 30, 2016				
Fixed maturity securities, available for sale:				
Corporate securities:				
Materials	1	$(4,554)	$ 1,575	$(2,979)
Three months ended September 30, 2015				
Fixed maturity securities, available for sale:				
Residential mortgage backed securities	3	$—	$ (354)	$(354)
Other asset backed securities	1	(10,000)	5,125	(4,875)
	4	$(10,000)	$ 4,771	$(5,229)
Nine months ended September 30, 2016				
Fixed maturity securities, available for sale:				
Corporate securities:				
Energy	2	$(642)	$ —	$(642)
Materials	1	(4,554)	1,575	(2,979)
Telecommunications	1	(4,462)	562	(3,900)
Utilities	1	(136)	—	(136)
Residential mortgage backed securities	6	—	(440)	(440)
Commercial mortgage backed securities	5	(1,540)	—	(1,540)
Other asset backed securities	1	—	(3,482)	(3,482)
	17	$(11,334)	$ (1,785)	$(13,119)
Nine months ended September 30, 2015				
Fixed maturity securities, available for sale:				
Residential mortgage backed securities	7	$(132)	$ (1,182)	$(1,314)
Other asset backed securities	1	(10,000)	5,125	(4,875)
	8	$(10,132)	$ 3,943	$(6,189)

The cumulative portion of other than temporary impairments determined to be credit losses which have been recognized in operations for debt securities are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Cumulative credit loss at beginning of period	$(154,408)	$(128,010)	$(145,824)	$(127,050)
Credit losses on securities for which OTTI has not previously been recognized	(2,979)	(4,876)	(9,197)	(5,008)
Additional credit losses on securities for which OTTI has previously been recognized	—	(353)	(3,922)	(1,181)

Accumulated losses on securities that were disposed of during the period	573	761	2,129	761
Cumulative credit loss at end of period	$(156,814)	$(132,478)	$(156,814)	$(132,478)

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The following table summarizes the cumulative noncredit portion of OTTI and the change in fair value since recognition of OTTI, both of which were recognized in other comprehensive income (loss), by major type of security, for securities that are part of our investment portfolio at September 30, 2016 and December 31, 2015:

	Amortized Cost	OTTI Recognized in Other Comprehensive Income	Change in Fair Value Since OTTI was Recognized	Fair Value
	(Dollars in thousands)			
September 30, 2016				
Fixed maturity securities, available for sale:				
Corporate securities	$12,930	$ (5,112)	$9,729	$17,547
Residential mortgage backed securities	392,598	(170,284)	206,943	429,257
Commercial mortgage backed securities	6,585	—	190	6,775
Other asset backed securities	4,854	(1,643)	(1,566)	1,645
	$416,967	$ (177,039)	$215,296	$455,224
December 31, 2015				
Fixed maturity securities, available for sale:				
Corporate securities	$6,396	$ (2,975)	$9	$3,430
Residential mortgage backed securities	466,871	(170,724)	199,149	495,296
Other asset backed securities	8,154	(5,125)	(553)	2,476
	$481,421	$ (178,824)	$198,605	$501,202

4. Mortgage Loans on Real Estate

Our mortgage loan portfolio is summarized in the following table. There were commitments outstanding of $110.1 million at September 30, 2016.

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Principal outstanding	$2,427,905	$2,449,909
Loan loss allowance	(7,527)	(14,142)
Deferred prepayment fees	(1,148)	(510)
Carrying value	$2,419,230	$2,435,257

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

	September 30, 2016		December 31, 2015	
	Principal	Percent	Principal	Percent
	(Dollars in thousands)			
Geographic distribution				
East	$652,230	26.9 %	$698,113	28.5 %
Middle Atlantic	155,249	6.4 %	160,261	6.6 %
Mountain	231,561	9.5 %	252,442	10.3 %
New England	12,834	0.5 %	13,161	0.5 %
Pacific	387,212	16.0 %	355,268	14.5 %
South Atlantic	474,238	19.5 %	456,227	18.6 %
West North Central	319,341	13.2 %	313,120	12.8 %
West South Central	195,240	8.0 %	201,317	8.2 %
	$2,427,905	100.0%	$2,449,909	100.0%
Property type distribution				
Office	$321,297	13.2 %	$396,154	16.2 %
Medical Office	54,129	2.2 %	77,438	3.2 %
Retail	825,490	34.0 %	790,158	32.2 %
Industrial/Warehouse	677,342	27.9 %	686,400	28.0 %
Hotel	1,142	0.1 %	3,361	0.1 %
Apartment	376,189	15.5 %	352,971	14.4 %
Mixed use/other	172,316	7.1 %	143,427	5.9 %
	$2,427,905	100.0%	$2,449,909	100.0%

Our financing receivables currently consist of one portfolio segment which is our commercial mortgage loan portfolio. These are mortgage loans with collateral consisting of commercial real estate and borrowers consisting mostly of limited liability partnerships or limited liability corporations.

We evaluate our mortgage loan portfolio for the establishment of a loan loss allowance by specific identification of impaired loans and the measurement of an estimated loss for each individual loan identified. A mortgage loan is impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. If we determine that the value of any specific mortgage loan is impaired, the carrying amount of the mortgage loan will be reduced to its fair value, based upon the present value of expected future cash flows from the loan discounted at the loan's effective interest rate, or the fair value of the underlying collateral less estimated costs to sell.

In addition, we analyze the mortgage loan portfolio for the need of a general loan allowance for probable losses on all other loans on a quantitative and qualitative basis. The amount of the general loan allowance is based upon management's evaluation of the collectability of the loan portfolio, historical loss experience, delinquencies, credit concentrations, underwriting standards and national and local economic conditions.

We rate each of the mortgage loans in our portfolio based on factors such as historical operating performance, loan to value ratio and economic outlook, among others. We calculate a loss factor to apply to each rating based on historical losses we have recognized in our mortgage loan portfolio. We apply the loss factors to the total principal outstanding within each rating category to determine an appropriate estimate of the general loan loss allowance. We also assess the portfolio qualitatively and apply a loss rate to all loans without a specific allowance based on management's assessment of economic conditions, and we apply an additional amount of loss allowance to a group of loans that we have identified as having higher risk of loss.

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The following table presents a rollforward of our specific and general loss allowances for mortgage loans on real estate:

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015	
	Specific Allowance	General Allowance	Specific Allowance	General Allowance
	(Dollars in thousands)			
Beginning allowance balance	$(4,552)	$ (6,300)	$(9,316)	$ (7,500)
Charge-offs	2,977	—	—	—
Recoveries	461	—	—	—
Change in provision for credit losses	(213)	100	(1,302)	600
Ending allowance balance	$(1,327)	$ (6,200)	$(10,618)	$ (6,900)

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	Specific Allowance	General Allowance	Specific Allowance	General Allowance
	(Dollars in thousands)			
Beginning allowance balance	$(7,842)	$ (6,300)	$(12,333)	$ (10,300)
Charge-offs	5,078	—	143	—
Recoveries	5,483	—	4,375	—
Change in provision for credit losses	(4,046)	100	(2,803)	3,400
Ending allowance balance	$(1,327)	$ (6,200)	$(10,618)	$ (6,900)

The specific allowance represents the total credit loss allowances on loans which are individually evaluated for impairment. The general allowance is for the group of loans discussed above which are collectively evaluated for impairment. The following table presents the total outstanding principal of loans evaluated for impairment by basis of impairment method:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Individually evaluated for impairment	$4,683	$ 21,277
Collectively evaluated for impairment	2,423,222	2,428,632
Total loans evaluated for impairment	$2,427,905	$ 2,449,909

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

During the three and nine months ended September 30, 2016 and 2015, no mortgage loans were satisfied by taking ownership of any real estate serving as collateral. The following table summarizes the activity in the real estate owned, included in Other investments, which was obtained in satisfaction of mortgage loans on real estate:

	Three Months Ended September 30,	Nine Months Ended September 30,

	2016	2015	2016	2015
	(Dollars in thousands)			
Real estate owned at beginning of period	$—	$12,958	$6,485	$20,238
Real estate acquired in satisfaction of mortgage loans	—	—	—	—
Additions	—	120	—	120
Sales	—	(2,761)	(6,444)	(9,241)
Impairments	—	(570)	—	(1,199)
Depreciation	—	(53)	(41)	(224)
Real estate owned at end of period	$—	$9,694	$—	$9,694

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We analyze credit risk of our mortgage loans by analyzing all available evidence on loans that are delinquent and loans that are in a workout period.

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Credit Exposure--By Payment Activity		
Performing	$2,426,284	$2,438,341
In workout	1,621	11,568
Delinquent	—	—
Collateral dependent	—	—
	$2,427,905	$2,449,909

The loans that are categorized as "in workout" consist of loans that we have agreed to lower or no mortgage payments for a period of time while the borrowers address cash flow and/or operational issues. The key features of these workouts have been determined on a loan-by-loan basis. Most of these loans are in a period of low cash flow due to tenants vacating their space or tenants requesting rent relief during difficult economic periods. Generally, we have allowed the borrower a six month interest only period and in some cases a twelve month period of interest only. Interest only workout loans are expected to return to their regular debt service payments after the interest only period. Interest only loans that are not fully amortizing will have a larger balance at their balloon date than originally contracted. Fully amortizing loans that are in interest only periods will have larger debt service payments for their remaining term due to lost principal payments during the interest only period. In limited circumstances we have allowed borrowers to pay the principal portion of their loan payment into an escrow account that can be used for capital and tenant improvements for a period of not more than twelve months. In these situations new loan amortization schedules are calculated based on the principal not collected during this twelve month workout period and larger payments are collected for the remaining term of each loan. In all cases, the original interest rate and maturity date have not been modified, and we have not forgiven any principal amounts.

Mortgage loans are considered delinquent when they become 60 days or more past due. In general, when loans become 90 days past due, become collateral dependent or enter a period with no debt service payments required we place them on non-accrual status and discontinue recognizing interest income. If payments are received on a delinquent loan, interest income is recognized to the extent it would have been recognized if normal principal and interest would have been received timely. If payments are received to bring a delinquent loan back to current we will resume accruing interest income on that loan. There were no loans in non-accrual status at September 30, 2016 or December 31, 2015.

We define collateral dependent loans as those mortgage loans for which we will depend on the value of the collateral real estate to satisfy the outstanding principal of the loan.

All of our commercial mortgage loans depend on the cash flow of the borrower to be at a sufficient level to service the principal and interest payments as they come due. In general, cash inflows of the borrowers are generated by collecting monthly rent from tenants occupying space within the borrowers' properties. Our borrowers face collateral risks such as tenants going out of business, tenants struggling to make rent payments as they become due, and tenants canceling leases and moving to other locations. We have a number of loans where the real estate is occupied by a single tenant. Our borrowers sometimes face both a reduction in cash flow on their mortgage property as well as a reduction in the fair value of the real estate collateral. If borrowers are unable to replace lost rent revenue and increases in the fair value of their property do not materialize we could potentially incur more losses than what we have allowed for in our specific and general loan loss allowances.

Aging of financing receivables is summarized in the following table, with loans in a "workout" period as of the reporting date considered current if payments are current in accordance with agreed upon terms:

30 - 59 Days	60 - 89 Days	90 Days and Over	Total Past Due	Current	Collateral Dependent Receivables	Total Financing Receivables

	(Dollars in thousands)					
Commercial Mortgage Loans						
September 30, 2016	$—	$—	$—	$2,427,905	$	—$2,427,905
December 31, 2015	$—	$—	$—	$2,449,909	$	—$2,449,909

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Financing receivables summarized in the following two tables represent all loans that we are either not currently collecting, or those we feel it is probable we will not collect all amounts due according to the contractual terms of the loan agreements (all loans that we have worked with the borrower to alleviate short-term cash flow issues, loans delinquent for 60 days or more at the reporting date, loans we have determined to be collateral dependent and loans that we have recorded specific impairments on that we feel may continue to have performance issues).

	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
September 30, 2016			
Mortgage loans with an allowance	$3,356	$4,683	$ (1,327)
Mortgage loans with no related allowance	1,621	1,621	—
	$4,977	$6,304	$ (1,327)
December 31, 2015			
Mortgage loans with an allowance	$13,435	$21,277	$ (7,842)
Mortgage loans with no related allowance	8,859	8,859	—
	$22,294	$30,136	$ (7,842)

	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)	
Three months ended September 30, 2016		
Mortgage loans with an allowance	$3,378	$ 75
Mortgage loans with no related allowance	1,634	25
	$5,012	$ 100
Three months ended September 30, 2015		
Mortgage loans with an allowance	$17,336	$ 44
Mortgage loans with no related allowance	13,414	176
	$30,750	$ 220
Nine months ended September 30, 2016		
Mortgage loans with an allowance	$3,420	$ 226
Mortgage loans with no related allowance	1,680	75
	$5,100	$ 301
Nine months ended September 30, 2015		
Mortgage loans with an allowance	$17,649	$ 866
Mortgage loans with no related allowance	13,432	595
	$31,081	$ 1,461

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

- borrower is in default,
- borrower has declared bankruptcy,
- there is growing concern about the borrower's ability to continue as a going concern,
-

borrower has insufficient cash flows to service debt,

- borrower's inability to obtain funds from other sources, and
- there is a breach of financial covenants by the borrower.

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

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

Mortgage loan workouts, refinances or restructures that are classified as TDRs are individually evaluated and measured for impairment. A summary of mortgage loans on commercial real estate with outstanding principal at September 30, 2016 and December 31, 2015 that we determined to be TDRs are as follows:

Geographic Region	Number of TDRs	Principal Balance Outstanding	Specific Loan Loss Allowance	Net Carrying Amount
		(Dollars in thousands)		
September 30, 2016				
South Atlantic	1	$3,024	$ —	$3,024
East North Central	1	2,041	(467)	1,574
	2	$5,065	$ (467)	$4,598
December 31, 2015				
South Atlantic	6	$11,155	$ (2,992)	$8,163
East North Central	2	3,306	(467)	2,839
West North Central	1	5,913	—	5,913
	9	$20,374	$ (3,459)	$16,915

5. Derivative Instruments

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

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Assets		
Derivative instruments		
Call options	$706,007	$ 337,256
Other assets		
Interest rate caps	307	1,410
	$706,314	$ 338,666
Liabilities		
Policy benefit reserves - annuity products		
Fixed index annuities - embedded derivatives	$6,678,102	$ 5,983,622
Other liabilities		
Interest rate swap	4,944	3,139
	$6,683,046	$ 5,986,761

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Change in fair value of derivatives:				
Call options	$103,267	$(347,038)	$72,910	$(396,399)
2015 notes hedges	—	(1,141)	—	(4,516)
Interest rate swap	647	(2,349)	(2,979)	(3,283)
Interest rate caps	(120)	(832)	(1,103)	(1,286)
	$103,794	$(351,360)	$68,828	$(405,484)
Change in fair value of embedded derivatives:				
Fixed index annuities—embedded derivatives	$41,561	$(460,031)	$421,193	$(864,389)
Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting	102,843	46,448	273,371	285,793
2015 notes embedded conversion derivative	—	(1,141)	—	(4,516)
	$144,404	$(414,724)	$694,564	$(583,112)

The amounts presented as "Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting" represents the total change in the difference between policy benefit reserves for fixed index annuities computed under the derivative accounting standard and the long-duration contracts accounting standard at each balance sheet date, less the change in fair value of our fixed index annuities embedded derivatives that is presented as Level 3 liabilities in Note 2.

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

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

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

Counterparty	Credit Rating (S&P)	Credit Rating (Moody's)	September 30, 2016		December 31, 2015	
			Notional Amount	Fair Value	Notional Amount	Fair Value
			(Dollars in thousands)			
Bank of America	A	A1	$ 6,367,855	$ 156,209	$ 6,257,861	$ 67,662
Barclays	A-	A2	2,485,187	62,339	2,463,768	35,273
BNP Paribas	A	A1	891,487	16,050	1,520,710	16,944
Citibank, N.A.	A	A1	3,738,323	69,484	3,786,498	23,587
Credit Suisse	A	A2	1,652,310	35,776	1,278,492	12,508
Deutsche Bank	BBB+	Baa2	522,531	7,950	1,349,002	10,704
J.P. Morgan	A+	Aa3	1,622,978	19,165	838,982	5,283
Morgan Stanley	A	A1	2,870,679	49,172	3,465,457	33,171
Royal Bank of Canada	AA-	Aa3	3,413,277	91,977	2,820,410	48,654
SunTrust	A-	Baa1	2,297,155	63,758	1,308,434	20,028
Wells Fargo	AA-	Aa2	4,521,020	129,851	4,187,955	63,442
Exchange traded			207,038	4,276	—	—
			$ 30,589,840	$ 706,007	$ 29,277,569	$ 337,256

As of September 30, 2016 and December 31, 2015, we held $665.7 million and $349.8 million, respectively, of cash and cash equivalents and other securities from counterparties for derivative collateral, which is included in other liabilities on our consolidated balance sheets. This derivative collateral limits the maximum amount of economic loss due to credit risk that we would incur if parties to the call options failed completely to perform according to the terms of the contracts to $64.2 million and $36.9 million at September 30, 2016 and December 31, 2015, respectively.

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

We entered into an interest rate swap and interest rate caps to manage interest rate risk associated with the floating rate component on certain of our subordinated debentures. See Note 10 in our Annual Report on Form 10-K for the year ended December 31, 2015 for more information on our subordinated debentures. The terms of the interest rate swap provide that we pay a fixed rate of interest and receive a floating rate of interest. The terms of the interest rate caps limit the three month London Interbank Offered Rate ("LIBOR") to 2.50%. The interest rate swap and caps are not effective hedges under accounting guidance for derivative instruments and hedging activities. Therefore, we record the interest rate swap and caps at fair value and any net cash payments received or paid are included in the change in fair value of derivatives in the unaudited consolidated statements of operations.

Details regarding the interest rate swap are as follows:

Maturity Date	Notional Amount	Receive Rate	Pay Rate	Counterparty	September 30, 2016 Fair Value	December 31, 2015 Fair Value
					(Dollars in thousands)	
March 15, 2021	$85,500	LIBOR	2.415%	SunTrust	$(4,944)	$ (3,139)

Details regarding the interest rate caps are as follows:

Maturity Date	Notional Amount	Floating Rate	Cap Rate	Counterparty	September 30, 2016 Fair Value	December 31, 2015 Fair Value

					(Dollars in thousands)	
July 7, 2021	$40,000	LIBOR	2.50%	SunTrust	$153	$ 708
July 8, 2021	12,000	LIBOR	2.50%	SunTrust	46	212
July 29, 2021	27,000	LIBOR	2.50%	SunTrust	108	490
	$79,000				$307	$ 1,410

The interest rate swap converts floating rates to fixed rates for seven years which began in March 2014. The interest rate caps cap our interest rates for seven years which began in July 2014. As of September 30, 2016, we deposited $4.5 million of collateral with the counterparty to the swap.

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In September 2010, concurrently with the issuance of $200.0 million principal amount of 3.50% Convertible Senior Notes due September 15, 2015 (the "2015 notes"), we entered into hedge transactions (the "2015 notes hedges") with two counterparties whereby we would receive the cash equivalent of the conversion spread on 16.0 million shares of our common stock based upon a strike price of $12.50 per share, subject to certain conversion rate adjustments in the 2015 notes. The 2015 notes hedges were accounted for as derivative assets and were included in other assets in our consolidated balance sheets. The 2015 notes hedges and the 2015 notes embedded conversion derivative liability were settled with the extinguishment of the 2015 notes in 2015. The 2015 notes hedges and 2015 notes embedded conversion derivative were adjusted to fair value each reporting period and unrealized gains and losses are reflected in our consolidated statements of operations.

In separate transactions, we sold warrants (the "2015 warrants") to the 2015 notes hedges counterparties for the purchase of up to 16.0 million shares of our common stock at a price of $16.00 per share. We received $15.6 million in cash proceeds from the sale of the 2015 warrants, which was recorded as an increase in additional paid-in capital. The number of shares and strike price of the warrants were subject to adjustment based on dividends we paid subsequent to selling the warrants. The warrants expired on various dates from December 2015 through June 2016. Changes in the fair value of these warrants were not recognized in our consolidated financial statements as the instruments remained classified as equity.

In December 2015, we began settling the 2015 warrants in net shares on a weekly basis, and completed the settlement of all the warrants by June 30, 2016. 140,866 shares of our common stock were delivered to holders of the expiring warrants, of which 92,998 shares were issued during the nine months ended September 30, 2016. 2015 warrants remained outstanding on 1.6 million shares of our common stock at a strike price of $15.59 per share at December 31, 2015. As the average price of our common stock exceeded the strike price of the 2015 warrants while they were outstanding, the effect has been included in diluted earnings per share for the nine months ended September 30, 2016, and the three and nine months ended September 30, 2015.

6. Notes and Loan Payable

On September 30, 2016, we entered into a credit agreement with six banks that provided for a $150 million unsecured revolving line of credit (the "Revolving Facility") that terminates on September 30, 2021 and a $100 million term loan (the "Term Loan") that terminates on September 30, 2019 and can be prepaid prior to maturity without penalty. We utilized the proceeds from the Term Loan to make a contribution to the capital and surplus of our subsidiary, American Equity Investment Life Insurance Company ("American Equity Life"). Any proceeds from the Revolving Facility will be used to finance our general corporate purposes. Interest is paid quarterly on the Term Loan. The interest rate for all borrowings under the credit agreement is floating at a rate based on our election that will be equal to the alternate base rate (as defined in the credit agreement) plus the applicable margin or the adjusted LIBOR rate (as defined in the credit agreement) plus the applicable margin. We also pay a commitment fee based on the available unused portion of the Revolving Facility. The applicable margin and commitment fee rate are based on our credit rating and can change throughout the period of the borrowings. Based upon our current credit rating, the applicable margin is 0.75% for alternate base rate borrowings and 1.75% for adjusted LIBOR rate borrowings, and the commitment fee is 0.275%. Under this agreement, we are required to maintain a minimum risk-based capital ratio at our subsidiary, American Equity Life, of 275%, a maximum ratio of adjusted debt to total adjusted capital of 0.35, and a minimum level of statutory surplus at American Equity Life equal to the sum of 1) 80% of statutory surplus at June 30, 2016, 2) 50% of the statutory net income for each fiscal quarter ending after June 30, 2016, and 3) 50% of all capital contributed to American Equity Life after June 30, 2016. The Revolving Facility contains an accordion feature that allows us, on up to three occasions and subject to credit availability, to increase the credit facility by an additional $50 million in the aggregate. We also have the ability to extend the maturity date of the Revolving Facility by an additional one year past the initial maturity date of September 30, 2021 with the consent of the extending banks. There are currently no guarantors of the Revolving Facility or the Term Loan, but certain of our subsidiaries must guarantee our obligations under the credit agreement if such subsidiaries guarantee other material amounts of our debt. No amounts were outstanding under the Revolving Facility at September 30, 2016. As of September 30, 2016, $445.0 million is unrestricted and could be distributed to shareholders and still be in compliance with all covenants under this credit agreement.

The preceding replaced a $140 million unsecured revolving line of credit agreement with five banks dated November 22, 2013 that was scheduled to terminate on November 22, 2017.

As part of our investment strategy, we enter into securities repurchase agreements (short-term collateralized borrowings). The maximum amount borrowed was $40.6 million during the nine months ended September 30, 2015. When we do borrow cash on these repurchase agreements, we pledge collateral in the form of debt securities with fair values approximately equal to the amount due and we use the cash to purchase debt securities ahead of the time we collect the cash from selling annuity policies to avoid a lag between the investment of funds and the obligation to credit interest to policyholders. We earn investment income on the securities purchased with these borrowings at a rate in excess of the cost of these borrowings. Such borrowings averaged $0.6 million for the nine months ended September 30, 2015. We had no borrowings under repurchase agreements during the three and nine months ended September 30, 2016 and the three months ended September 30, 2015. The weighted average interest rate on amounts due under repurchase agreements was 0.39% for the nine months ended September 30, 2015.

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7. Commitments and Contingencies

We are occasionally involved in litigation, both as a defendant and as a plaintiff. In addition, state regulatory bodies, such as state insurance departments, the Securities and Exchange Commission, Financial Industry Regulatory Authority, the Department of Labor, and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, the Employee Retirement Income Security Act of 1974, as amended, and laws governing the activities of broker-dealers.

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

Companies in the life insurance and annuity business have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices and similar claims. We were a defendant in a purported class action, McCormack, et al. v. American Equity Investment Life Insurance Company, et al., in the United States District Court for the Central District of California, Western Division and Anagnostis v. American Equity, et al., coordinated in the Central District, entitled, In Re: American Equity Annuity Practices and Sales Litigation (complaint filed September 7, 2005) (the "Los Angeles Case"), involving allegations of improper sales practices and similar claims.

The Los Angeles Case was a consolidated action involving several lawsuits filed by putative class members seeking class action status for a national class of purchasers of annuities issued by us. On July 30, 2013, the parties entered into a settlement agreement and stipulated to certification of the case as a class action for settlement purposes only. A class member filed an appeal with the United States Court of Appeals for the Ninth Circuit on February 28, 2014. On February 17, 2016, the United States Court of Appeals for the Ninth Circuit affirmed the terms of the settlement agreement and on April 6, 2016, the class member’s subsequent request for a rehearing en banc was denied. All remaining opportunities for appeal have passed.

During the three months ended September 30, 2016, we reduced the litigation liability related to the Los Angeles Case by $6.4 million as we paid out $1.8 million in partial settlement, reclassified $1.8 million from the litigation liability to policy benefit reserves and other policy funds and contract claims and released $2.8 million of the litigation liability as additional information became available concerning the nature and magnitude of claims based on the terms of the settlement. After this activity, we estimate our litigation liability in this matter to be $4.7 million based on our best estimate of probable loss. There can be no assurance that any other pending or future litigation will not have a material adverse effect on our business, financial condition, or results of operations.

In addition to our commitments to fund mortgage loans, we have unfunded commitments at September 30, 2016 to limited partnerships of $58.8 million and to secured bank loans of $35.3 million.

8. Earnings (Loss) Per Share and Stockholders' Equity

Earnings (Loss) Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands, except per share data)			
Numerator:				
Net income (loss) - numerator for earnings (loss) per common share	$(7,420)	$ 97,306	$(37,553)	$ 186,054
Denominator:				

Weighted average common shares outstanding (1)	86,261,692	79,675,955	83,645,427	77,994,602
Effect of dilutive securities:				
2015 warrants	—	714,980	20,219	766,795
Stock options and deferred compensation agreements	424,875	981,271	423,498	1,076,166
Restricted stock and restricted stock units	357,359	186,430	323,409	139,747
Denominator for earnings (loss) per common share - assuming dilution	87,043,926	81,558,636	84,412,553	79,977,310
Earnings (loss) per common share	$(0.09)	$ 1.22	$(0.45)	$ 2.39
Earnings (loss) per common share - assuming dilution	$(0.09)	$ 1.19	$(0.45)	$ 2.33

(1) Weighted average common shares outstanding include shares vested under the NMO Deferred Compensation Plan.

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Options to purchase shares of our common stock that were outstanding during the respective periods indicated but were not included in the computation of diluted earnings (loss) per share because the options' exercise price was greater than the average market price of the common shares are as follows:

Period	Number of Shares	Range of Exercise Prices	
		Minimum	Maximum
Three months ended September 30, 2016	1,058,491	$24.79	$24.79
Three months ended September 30, 2015	—	$—	$—
Nine months ended September 30, 2016	1,058,491	$24.79	$24.79
Nine months ended September 30, 2015	—	$—	$—

Stockholders' Equity

In August 2015, we completed an underwritten public offering of 8,600,000 shares of our common stock at a public offering price of $25.25 per share, of which 4,300,000 shares were subject to a forward sale agreement. The underwriters exercised in full their option to purchase 1,290,000 additional shares of common stock, which were subject to a separate forward sale agreement. We settled the forward sale agreements on August 1, 2016 and issued 5,590,000 shares of our common stock and received $134.7 million in net proceeds. We contributed the net proceeds from the settlement to the capital and surplus of American Equity Life.

The forward sale agreements had no initial fair value since they were entered into at the then market price of the common stock. The forward sale agreements are equity instruments and qualify for an exception from derivative and fair value accounting.

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

Management's discussion and analysis reviews our unaudited consolidated financial position at September 30, 2016, and the unaudited consolidated results of operations for the three and nine month periods ended September 30, 2016 and 2015, and where appropriate, factors that may affect future financial performance. This analysis should be read in conjunction with our unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q, and the audited consolidated financial statements, notes thereto and selected consolidated financial data appearing in our Annual Report on Form 10-K for the year ended December 31, 2015.

Cautionary Statement Regarding Forward-Looking Information

All statements, trend analyses and other information contained in this report and elsewhere (such as in filings by us with the Securities and Exchange Commission ("SEC"), press releases, presentations by us or our management or oral statements) relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as "anticipate", "believe", "plan", "estimate", "expect", "intend", and other similar expressions, constitute forward-looking statements. We caution that these statements may and often do vary from actual results and the differences between these statements and actual results can be material. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. Factors that could contribute to these differences include, among other things:

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

For a detailed discussion of these and other factors that might affect our performance, see Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 and Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2016.

Our Business and Profitability

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

Our business model contemplates continued growth in invested assets and operating income while maintaining a high quality investment portfolio that will not experience significant losses from impairments of invested assets. We are committed to maintaining a high quality investment portfolio with limited exposure to below investment grade securities and other riskier assets. Growth in invested assets is predicated on a continuation of our high sales achievements of the last five years while at the same time maintaining a high level of retention of the funds received. The economic and personal investing environments continue to be conducive for high sales levels as retirees and others look to put their money in instruments that will protect their principal and provide them with consistent cash

flow sources in their retirement years. However, the U.S. Department of Labor ("DOL") issued its final conflict of interest fiduciary rule and related prohibited transaction exemptions on April 6, 2016. The DOL rule prohibits the payments of commissions on the sales of annuities to qualified accounts unless those commissions are paid pursuant to one of two specified exemptions. A significant portion of our fixed index annuity sales are to individual retirement accounts through independent insurance agents which could be adversely affected when the rule takes effect in April 2017. Sales of fixed index annuities through broker/dealers and banks would also be affected but a smaller portion of our fixed index annuity sales in those distribution channels are to qualified accounts. We are continuing to analyze the rule and developing our strategy for compliance and products. If the rule goes into effect as issued, the disruption in fixed index annuity sales could be partially mitigated by updating and expanding our menu of traditional declared rate fixed annuities that offer lifetime income benefit riders. While these products would also be subject to the new DOL rule, they are covered under the less onerous of the two prohibited transaction exemptions. For additional discussion of the DOL rule and the risks it poses to our business, see Part II Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2016.

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Our profitability depends in large part upon:

- the amount of assets under our management,
- investment spreads we earn on our policyholder account balances,
- our ability to manage our investment portfolio to maximize returns and minimize risks such as interest rate changes and defaults or impairment of investments,
- our ability to manage interest rates credited to policyholders and costs of the options purchased to fund the annual index credits on our fixed index annuities,
- our ability to manage the costs of acquiring new business (principally commissions to agents and bonuses credited to policyholders) and
- our ability to manage our operating expenses.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Average yield on invested assets	4.46%	4.79%	4.52%	4.77%
Aggregate cost of money	1.89%	1.96%	1.91%	1.96%
Aggregate investment spread	2.57%	2.83%	2.61%	2.81%
Impact of:				
Investment yield - additional prepayment income	0.04%	0.14%	0.05%	0.08%
Cost of money effect of over hedging	0.02%	0.02%	0.01%	0.05%

The cost of money for fixed index annuities and average crediting rates for fixed rate annuities are computed based upon policyholder account balances and do not include the impact of amortization of deferred sales inducements. See Critical Accounting Policies - Deferred Policy Acquisition Costs and Deferred Sales Inducements included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2015.

With respect to our fixed index annuities, the cost of money includes the average crediting rate on amounts allocated to the fixed rate strategy, expenses we incur to fund the annual index credits and where applicable, minimum guaranteed interest credited. Proceeds received upon expiration or early termination of call options purchased to fund annual index credits are recorded as part of the change in fair value of derivatives, and are largely offset by an expense for interest credited to annuity policyholder account balances. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities and Financial Condition - Derivative Instruments included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2015.

We are currently in the midst of an unprecedented period of low interest rates and low yields for investments with the credit quality we prefer which presents a strong headwind to achieving our target rate for investment spread. In response to this persistent low interest rate environment, we have been reducing policyholder crediting rates for new annuities and existing annuities since the fourth quarter of 2011. Spread results for the 2016 and 2015 periods reflect the benefits from these reductions; however, the reductions in cost of money have been less than and were offset by lower yields from investment purchases.

Renewal rate adjustments covering $16 - 17 billion of policyholder account values began on September 1, 2016, and should lower the overall cost of money by 8 basis points when fully implemented. In addition, we will begin applying renewal rate adjustments on $7.4 billion of policyholder account values beginning on December 6, 2016. These adjustments will be implemented over the next 12 to 15 months on policy anniversary dates and are expected to reduce a portion of the 0.54% cost of money differential between existing rates and guaranteed minimum rates we had at September 30, 2016.

We reduced new money rates on many of our fixed index annuity products by approximately 10 basis points in April 2016 and reduced new money rates on most of our non-bonus fixed index annuity products by approximately 10-25 basis points in August 2016. We also reduced rates three times on our multi-year rate guaranteed annuity products for a total of 55-85 basis points during the second and third quarters of 2016. Investment yields available to us in the third and fourth quarters of 2016 have been significantly lower than the first six months of the year. Investment yields at these levels will continue to put downward pressure on our investment spread and product returns.

In August 2015, we completed an underwritten public offering of 9,890,000 shares of our common stock at a public offering price of $25.25 per share, of which 5,590,000 shares were subject to forward sale agreements. We physically settled the forward sales agreements on August 1, 2016 by delivery of the 5.6 million shares of our common stock and contributed the $134.7 million in net proceeds from the settlement to the capital and surplus of American Equity Life to support continued growth and maintain desired financial strength ratings.

On September 30, 2016, we entered into a credit agreement providing for a three-year $100 million term loan and a $150 million unsecured revolving line of credit that matures on September 30, 2021. The $100 million of loan proceeds were contributed to the capital and surplus of American Equity Life on October 3, 2016.

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Life insurance companies are subject to the NAIC risk-based capital (RBC) requirements which 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. Rating agencies utilize a form of RBC to partially determine capital strength of insurance companies. Our RBC ratio at December 31, 2015 was 336%, and our estimated RBC ratio at September 30, 2016 was 327%. On a pro forma basis, including the $100 million capital contribution on October 3, 2016, the estimated RBC ratio at September 30, 2016 was 338%.

Results of Operations for the Three and Nine Months Ended September 30, 2016 and 2015

Annuity deposits by product type collected during the three and nine months ended September 30, 2016 and 2015, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Product Type	2016	2015	2016	2015
	(Dollars in thousands)			
Fixed index annuities	$1,291,236	$1,764,179	$4,504,784	$4,748,612
Annual reset fixed rate annuities	13,877	8,425	46,448	32,612
Multi-year fixed rate annuities	225,937	45,032	1,161,527	132,249
Single premium immediate annuities	11,730	8,921	25,357	27,085
Total before coinsurance ceded	1,542,780	1,826,557	5,738,116	4,940,558
Coinsurance ceded	416,233	98,881	1,471,488	272,827
Net after coinsurance ceded	$1,126,547	$1,727,676	$4,266,628	$4,667,731

Annuity deposits before coinsurance ceded decreased 16% during the third quarter of 2016 and increased 16% during the nine months ended September 30, 2016 compared to the same periods in 2015. The increase in sales for the nine months ended September 30, 2016 is primarily due to sales of multi-year rate guaranteed (MYGA) fixed annuity products. These products are often emphasized by banks which are an expanding source of distribution for Eagle Life. Our rates on these products were more competitive during the first half of 2016 and together with the larger number of bank distribution relationships, translated into a significant increase in sales of those products for the nine months ended September 30, 2016. Rates on these products were less competitive in the third quarter of 2016 but the larger number of bank distribution relationships resulted in a large increase in sales for these products in the third quarter of 2016 compared to the same period in 2015.

Annuity deposits before coinsurance ceded from fixed index annuities decreased 27% during the third quarter of 2016 and 5% during the nine months ended September 30, 2016 compared to the same periods in 2015. We had robust sales of fixed index annuities by independent agents during the final three quarters of 2015 following the withdrawal in the first quarter of 2015 of a competitor’s guaranteed income product that had been the source of significant competition. This competitor has returned to the market in 2016 and in general the market in the independent agent distribution channel has been more competitive in 2016. Declines in fixed index annuity sales from independent agents has been partially offset by increases in sales from banks and broker-dealers which were up 97% in the third quarter of 2016 to $152.9 million and 158% for the nine months ended September 30, 2016 to $529.9 million. These increases were attributable to an expansion in the number of distribution relationships selling Eagle Life's fixed index annuities from 35 relationships as of September 30, 2015 to 52 relationships as of September 30, 2016 and increased sales from many of the relationships that were selling Eagle Life's fixed index annuities in both periods.

We coinsure 80% of the premiums received from (1) MYGA fixed annuity products, (2) fixed index annuities sold by Eagle Life Insurance Company ("Eagle Life") through broker/dealers and banks and (3) certain non-bonus fixed index annuity products sold by American Equity Life in August and September 2016. The increases in coinsurance ceded premiums are attributable to the increases in premiums from these sources. The premiums ceded for American Equity Life's non-bonus fixed index annuities in the third quarter of 2016 were $112.2 million.

Net income (loss), in general, has been positively impacted by the growth in the volume of business in force and the investment spread earned on this business. The average amount of annuity account balances outstanding (net of annuity liabilities ceded under coinsurance agreements) increased 13% to $44.1 billion for the third quarter of 2016 and 15% to $43.0 billion for the nine months ended September 30, 2016 compared to $38.9 billion and $37.4 billion

for the same periods in 2015. Our investment spread measured in dollars was $252.7 million for the third quarter of 2016 and $745.2 million for the nine months ended September 30, 2016 compared to $239.5 million and $688.9 million for the same periods in 2015. As previously mentioned, our investment spread has been negatively impacted by the extended low interest rate environment (see Net investment income).

Net income (loss) is also impacted by the change in fair value of derivatives and embedded derivatives which fluctuates from period to period based upon changes in fair values of call options purchased to fund the annual index credits for fixed index annuities and changes in interest rates used to discount the embedded derivative liability. Net loss for the three and nine months ended September 30, 2016 was negatively impacted by decreases in the discount rates used to estimate the fair value of our embedded derivative liabilities. Net income for the three and nine months ended September 30, 2015 was positively impacted by increases in the discount rates used to estimate the fair value of our embedded derivative liabilities.

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

Net income (loss) for the 2016 and 2015 periods includes effects from unlocking and revisions to assumptions used in determining reserves for living income benefit riders as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Increase (decrease) in amortization of deferred sales inducements	$17,868	$(5,612)	$35,760	$(5,612)
Increase (decrease) in amortization of deferred policy acquisition costs	22,080	(10,970)	48,164	(10,970)
Increase in interest sensitive and index product benefits	42,002	18,313	42,002	18,313
Effect on net income (loss)	(52,859)	(1,117)	(81,224)	(1,117)

We review these assumptions quarterly and as a result of this review we made adjustments in the third quarter of 2016 to extend the period of time in which we assume investment spread will grade up to our long-term spread targets by an additional year. We had previously made adjustments to lower future spread assumptions in the first quarter of 2016 after comparing investment spread assumptions to actual investment spreads earned in the three months ended December 31, 2015 and March 31, 2016 and determining that decreases in the average yield earned on invested assets resulting from the continued low interest rate environment was creating shortfalls in investment spread and gross profits. Yields obtained on investments purchased in the third quarter of 2016 were much lower than we had anticipated as a result of the overall decline in investment yields that followed the Brexit vote late in the second quarter and led to the third quarter unlocking of investment spread assumptions. In addition, during the third quarter of 2016, revisions to assumptions used in determining reserves held for living income benefit riders described below resulted in a decrease in estimated future gross profits.

The most significant revisions to assumptions in 2015 were account balance true-ups, which were favorable to us due to stronger equity market performance than we assumed, favorable adjustments to lapse assumptions to reflect better persistency experienced than assumed and unfavorable adjustments to investment spread to reflect lower spreads being earned than assumed. In 2015, the favorable impact of the account balance true-up and lapse assumption change was largely offset by reductions in estimated future gross profits attributable to revisions to the assumptions for the lifetime income benefit rider liability described below.

The 2016 and 2015 revisions to reserves for living income benefit riders were consistent with unlocking for deferred policy acquisition costs and deferred sales inducements described above. The 2016 revisions were primarily due to actual index credits on policies being lower than projected over the past four quarters which generated an increase in interest sensitive and index product benefits and a decrease in net income for 2016. The 2015 revisions included a revision to the future period assumption for the primary age at which policyholders elect to exercise the rider's lifetime income benefit. The most significant assumption change generating the 2015 negative impact on net income was an increase to the primary election age to begin receiving lifetime income from 67 to 70 as our experience has shown that age 70 is the most popular age at which policyholders elect to begin receiving lifetime income benefit payments. The lifetime income benefit payments are determined by applying a payout factor to the rider's benefit base. The payout factors vary by the age at the time the lifetime income is elected. In early versions of the rider, the age band for payout factors was 10 years (i.e. 60-69; 70-79). As a result, policyholders have an incentive to defer their lifetime income election until age 70, when the payout factor stepped up. Subsequent versions of the rider reduced the age bands between payout factors to five years and the rider we currently sell has a different payout factor for every age. With these structures, assumption revisions from any further developments in our experience for primary election age should have a smaller impact than what was experienced in 2015.

Operating income (loss) (a non-GAAP financial measure) decreased to $(4.7) million in the third quarter of 2016 and to $66.4 million for the nine months ended September 30, 2016 compared to $45.9 million and $145.7 million for the same periods in 2015.

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

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

The adjustments made to net income (loss) to arrive at operating income (loss) for the three and nine months ended September 30, 2016 and 2015 are set forth in the table that follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Reconciliation of net income (loss) to operating income (loss):				
Net income (loss)	$(7,420)	$97,306	$(37,553)	$186,054
Adjustments to arrive at operating income (loss):				
Net realized (gains) losses and net OTTI losses on investments, net of offsets	(1,008)	2,542	752	(2,835)
Change in fair value of derivatives and embedded derivatives - index annuities, net of offsets	9,400	(83,410)	160,078	(61,277)
Change in fair value of derivatives and embedded derivatives - debt	(1,049)	2,575	2,483	2,746
Litigation reserve, net of offsets	(1,957)	—	(1,957)	—
Income taxes	(2,689)	26,903	(57,426)	20,991
Operating income (loss)	$(4,723)	$45,916	$66,377	$145,679

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

Operating income (loss) for the 2016 and 2015 periods includes effects from unlocking and revisions to assumptions used in determining reserves for living income benefit riders as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Increase (decrease) in amortization of deferred sales inducements	$18,055	$(478)	$36,127	$(478)
Increase (decrease) in amortization of deferred policy acquisition costs	21,493	(4,260)	47,765	(4,260)
Increase in interest sensitive and index product benefits	42,002	18,313	42,002	18,313
Effect on operating income (loss)	(52,600)	(8,756)	(81,202)	(8,756)

Annuity product charges (surrender charges assessed against policy withdrawals and fees deducted from policyholder account balances for lifetime income benefit riders) increased 26% to $47.7 million in the third quarter of 2016 and 26% to $125.3 million for the nine months ended September 30, 2016 compared to $38.0 million and $99.1 million for the same periods in 2015. The components of annuity product charges are set forth in the table that follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015

	(Dollars in thousands)			
Surrender charges	$13,819	$13,104	$40,381	$36,071
Lifetime income benefit riders (LIBR) fees	33,856	24,871	84,923	62,995
	$47,675	$37,975	$125,304	$99,066
Withdrawals from annuity policies subject to surrender charges	$117,223	$106,939	$334,510	$288,135
Average surrender charge collected on withdrawals subject to surrender charges	11.8 %	12.3 %	12.1 %	12.5 %
Fund values on policies subject to LIBR fees	$4,789,359	$3,816,764	$12,668,190	$10,295,527
Weighted average per policy LIBR fee	0.71 %	0.65 %	0.67 %	0.61 %

The increases in annuity product charges were primarily attributable to increases in fees assessed for lifetime income benefit riders due to a larger volume of business in force subject to the fee and an increase in the average fees being charged as compared to prior periods. See Interest sensitive and index product benefits below for corresponding expense recognized on lifetime income benefit riders. In addition, surrender charges increased in the third quarter of 2016 as well as the nine months ended September 30, 2016, compared to the same periods in 2015 due to an increase in withdrawals from annuity policies subject to surrender charges.

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Net investment income increased 6% to $463.6 million in the third quarter of 2016 and 10% to $1.4 billion for the nine months ended September 30, 2016 compared to $436.1 million and $1.3 billion for the same periods in 2015. The increases were principally attributable to the growth in our annuity business and a corresponding increase in our invested assets. Average invested assets excluding derivative instruments (on an amortized cost basis) increased 14% to $41.7 billion for the third quarter of 2016 and 16% to $40.6 billion for the nine months ended September 30, 2016 compared to $36.5 billion and $35.1 billion for the same periods in 2015. The average yield earned on average invested assets was 4.46% for the third quarter of 2016 and 4.52% for the nine months ended September 30, 2016 compared to 4.79% and 4.77% for the same periods in 2015.

The decreases in average yield earned on average invested assets were attributable to the investment of new premiums and portfolio cash flows during 2016 and 2015 at rates below the overall portfolio yield and higher cash balances. The average yield on fixed income securities purchased and commercial mortgage loans funded in the three and nine months ended September 30, 2016 was 3.31% and 3.64%, respectively, compared to 3.89% and 3.82% for the same periods in 2015, respectively. The average balance for cash and short-term investments was $1.2 billion and $1.0 billion during the three and nine months ended September 30, 2016, respectively, compared to $444.4 million and $283.9 million for the same periods in 2015, respectively. The unfavorable impact from these items was partially offset by prepayment and fee income received resulting in additional net investment income of $4.2 million and $16.7 million for the three and nine months ended September 30, 2016 and $13.1 million and $20.0 million for the same periods in 2015, respectively.

Change in fair value of derivatives consists of call options purchased to fund annual index credits on fixed index annuities, the 2015 notes hedges related to our 2015 notes and an interest rate swap and interest rate caps that hedge our floating rate subordinated debentures. The components of change in fair value of derivatives are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Call options:				
Gain (loss) on option expiration	$(14,299)	$(17,336)	$(259,497)	$193,957
Change in unrealized gains/losses	117,566	(329,702)	332,407	(590,356)
2015 notes hedges	—	(1,141)	—	(4,516)
Interest rate swap	647	(2,349)	(2,979)	(3,283)
Interest rate caps	(120)	(832)	(1,103)	(1,286)
	$103,794	$(351,360)	$68,828	$(405,484)

The differences between the change in fair value of derivatives between periods for call options are primarily due to the performance of the indices upon which our call options are based. A substantial portion of our call options are based upon the S&P 500 Index with the remainder based upon other equity and bond market indices. The range of index appreciation (after applicable caps, participation rates and asset fees) for options expiring during the three and nine months ended September 30, 2016 and 2015 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
S&P 500 Index				
Point-to-point strategy	0.0 - 8.2%	0.0 - 8.0%	0.0 - 8.2%	0.0 - 8.9%
Monthly average strategy	0.0 - 8.0%	0.0 - 7.4%	0.0 - 8.0%	0.0 - 9.0%
Monthly point-to-point strategy	0.0 - 4.1%	0.0 - 6.5%	0.0 - 4.1%	0.0 - 12.1%
Fixed income (bond index) strategies	0.0 - 10.0%	0.0 - 7.0%	0.0 - 10.0%	0.0 - 10.0%

The change in fair value of derivatives is also influenced by the aggregate costs of options purchased. The aggregate cost of options has increased primarily due to an increased amount of fixed index annuities in force. The aggregate cost of options is also influenced by the amount of policyholder funds allocated to the various indices and market volatility which affects option pricing. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities

included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2015.

Our 2015 notes matured and were extinguished on September 15, 2015 and the 2015 notes hedges expired on that same date. The change in fair value of the 2015 notes hedges corresponded with the change in the fair value of the conversion obligation to the holders of the 2015 notes which was accounted for as an embedded derivative liability with changes in fair value reported in Change in fair value of embedded derivatives.

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Net realized gains (losses) on investments, excluding OTTI losses include gains and losses on the sale of securities and impairment losses on mortgage loans on real estate which fluctuate from year to year due to changes in the interest rate and economic environment and the timing of the sale of investments, as well as gains (losses) recognized on real estate owned due to any sales and impairments on long-lived assets. The components of net realized gains (losses) on investments are set forth in the table that follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Available for sale fixed maturity securities:				
Gross realized gains	$4,956	$283	$11,047	$4,783
Gross realized losses	(79)	(97)	(2,678)	(897)
	4,877	186	8,369	3,886
Other investments:				
Gain on sale of real estate	31	2,245	867	3,278
Loss on sale of real estate	—	—	(93)	(575)
Impairment losses on real estate	—	(570)	—	(1,199)
	31	1,675	774	1,504
Mortgage loans on real estate:				
Decrease (increase) in allowance for credit losses	(113)	(702)	(3,946)	597
Recovery of specific allowance	461	—	5,483	4,375
	348	(702)	1,537	4,972
	$5,256	$1,159	$10,680	$10,362

Losses on available for sale fixed maturity securities were realized primarily due to strategies to reposition the fixed maturity security portfolio that result in improved net investment income, credit risk or duration profiles as they pertain to our asset liability management. See Financial Condition - Investments and Note 4 to our unaudited consolidated financial statements for additional discussion of allowance for credit losses recognized on mortgage loans on real estate.

Net OTTI losses recognized in operations decreased to $3.0 million in the third quarter of 2016 and increased to $13.1 million for the nine months ended September 30, 2016 compared to $5.2 million and $6.2 million for the same periods in 2015. See Financial Condition - Other Than Temporary Impairments and Note 3 to our unaudited consolidated financial statements for additional discussion of other than temporary impairments recognized during the periods presented.

Interest sensitive and index product benefits increased 31% to $278.9 million in the third quarter of 2016 and decreased 39% to $487.7 million for the nine months ended September 30, 2016 compared to $213.5 million and $802.4 million for the same periods in 2015. The components of interest sensitive and index product benefits are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Index credits on index policies	$126,653	$101,170	$142,084	$515,675
Interest credited (including changes in minimum guaranteed interest for fixed index annuities)	71,766	64,680	204,739	194,476
Lifetime income benefit riders	80,524	47,615	140,912	92,280
	$278,943	$213,465	$487,735	$802,431

The increase in index credits for three months ended September 30, 2016 and the decrease in index credits for the nine months ended September 30, 2016 were both attributable to changes in the appreciation/depreciation of the underlying indices over the applicable time periods (see discussion above under Change in fair value of derivatives) and the amount of funds allocated by policyholders to the respective index options. Total proceeds received upon expiration of the call options purchased to fund the annual index credits were $128.3 million and $144.3 million for the three and nine months ended September 30, 2016, compared to $103.8 million and $529.2 million for the same periods in 2015. The increases in interest credited were primarily due to increases in average amount of annuity liabilities outstanding receiving a fixed rate of interest. The increases in benefits recognized for living income benefit riders was due to the impact of revisions of assumptions used in determining reserves held for living income benefit riders and interest sensitive and index product benefits (See Net income (loss) above for discussion of the impact of revisions of assumptions) and an increase in the number of policies with lifetime income benefit riders and correlates to the increase in fees discussed in Annuity product charges.

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The reserve held for living income benefit riders was $492.9 million and $352.0 million at September 30, 2016 and December 31, 2015, respectively.

Amortization of deferred sales inducements, in general, has been increasing each period due to growth in our annuity business and the deferral of sales inducements incurred with respect to sales of premium bonus annuity products. Bonus products represented 88% and 89% of our net annuity account values at September 30, 2016 and September 30, 2015, respectively. The increases in amortization from these factors have been affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business, amortization associated with net realized gains (losses) on investments and net OTTI losses recognized in operations. Fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our fixed index annuity contracts. The change in fair value of the embedded derivatives will not correspond to the change in fair value of the derivatives (purchased call options), because the purchased call options are one-year options while the options valued in the fair value of embedded derivatives cover the expected lives of the contracts which typically exceed ten years. Amortization of deferred sales inducements is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Amortization of deferred sales inducements before gross profit adjustments	$78,178	$53,163	$212,358	$155,014
Gross profit adjustments:				
Fair value accounting for derivatives and embedded derivatives	(9,825)	13,334	(84,532)	(3,279)
Net realized gains (losses) on investments, net OTTI losses recognized in operations and changes in litigation reserves	892	(690)	(430)	543
Amortization of deferred sales inducements after gross profit adjustments	$69,245	$65,807	$127,396	$152,278

See Net income (loss) and Operating income (loss), a non-GAAP financial measure, above for discussion of the impact of unlocking on amortization of deferred sales inducements for the three and nine months ended September 30, 2016 and 2015. See Critical Accounting Policies - Deferred Policy Acquisition Costs and Deferred Sales Inducements included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2015.

Change in fair value of embedded derivatives includes changes in the fair value of our fixed index annuity embedded derivatives and changes in the fair value of the embedded derivative related to the conversion option of our 2015 notes (see Note 5 to our unaudited consolidated financial statements and Note 9 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2015). The components of change in fair value of embedded derivatives are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Fixed index annuities - embedded derivatives	$41,561	$(460,031)	$421,193	$(864,389)
Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting	102,843	46,448	273,371	285,793
2015 notes embedded conversion derivative	—	(1,141)	—	(4,516)
	$144,404	$(414,724)	$694,564	$(583,112)

The change in fair value of the fixed index annuity embedded derivatives resulted from (i) changes in the expected index credits on the next policy anniversary dates, which are related to the change in fair value of the call options

acquired to fund those index credits discussed above in Change in fair value of derivatives; (ii) changes in discount rates used in estimating our embedded derivative liabilities; and (iii) the growth in the host component of the policy liability. The amounts presented as "Other changes in difference between policy benefit reserves computed using derivative accounting vs. long-duration contracts accounting" represents the total change in the difference between policy benefit reserves for fixed index annuities computed under the derivative accounting standard and the long-duration contracts accounting standard at each balance sheet date, less the change in fair value of our fixed index annuities embedded derivative. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2015. The primary reasons for the increases in the change in fair value of the fixed index annuity embedded derivatives during the three and nine months ended September 30, 2016 were decreases in the discount rates used in estimating the fair value of our liability during the three and nine months ended September 30, 2016 as compared to increases in the discount rates for the same periods of 2015 and increases in the expected index credits on the next policy anniversary dates resulting from increases in the fair value of the call options acquired to fund these index credits during the three and nine months ended September 30, 2016 as compared to decreases in the expected index credits on the next policy anniversary dates resulting from decreases in the fair value of the call options acquired to fund these index credits for the same periods in 2015.

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As discussed above under Change in fair value of derivatives, our 2015 notes matured and were extinguished on September 15, 2015. The related embedded conversion derivative liability was also settled on that date. The change in the fair value of the 2015 notes embedded conversion derivative was offset by a comparable increase or decrease in the change in fair value of the 2015 notes hedges.

Interest expense on notes and loan payable decreased 5% to $6.9 million in the third quarter of 2016 and 6% to $20.6 million for the nine months ended September 30, 2016 compared to $7.3 million and $22.0 million for the same periods in 2015. The decreases in interest expense were attributable to the extinguishment of $22.4 million principal amount of our convertible senior notes in 2015.

Amortization of deferred policy acquisition costs, in general, has been increasing each period due to the growth in our annuity business and the deferral of policy acquisition costs incurred with respect to sales of annuity products. The increases in amortization from these factors have been affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business and amortization associated with net realized gains (losses) on investments and net OTTI losses recognized in operations. As discussed above, fair value accounting for derivatives and embedded derivatives utilized in our fixed index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our fixed index annuity contracts. Amortization of deferred policy acquisition costs is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Amortization of deferred policy acquisition costs before gross profit adjustments	$106,777	$71,715	$299,729	$216,608
Gross profit adjustments:				
Fair value accounting for derivatives and embedded derivatives	(9,919)	(2,992)	(100,858)	(30,532)
Net realized gains (losses) on investments, net OTTI losses recognized in operations and changes in litigation reserves	1,250	(838)	(385)	795
Amortization of deferred policy acquisition costs after gross profit adjustments	$98,108	$67,885	$198,486	$186,871

See Net income (loss) and Operating income (loss), a non-GAAP financial measure, above for discussion of the impact of unlocking on amortization of deferred policy acquisition costs for the three and nine months ended September 30, 2016 and 2015. See Critical Accounting Policies - Deferred Policy Acquisition Costs and Deferred Sales Inducements included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2015.

Other operating costs and expenses increased 3% to $25.1 million in the third quarter of 2016 and 12% to $78.8 million for the nine months ended September 30, 2016 compared to $24.5 million and $70.5 million for the same periods in 2015 and are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
			(Dollars in thousands)	
Salary and benefits	$12,111	$12,349	$38,939	$35,461
Risk charges	7,688	5,654	21,747	15,784
Other	5,334	6,494	18,100	19,242
Total other operating costs and expenses	$25,133	$24,497	$78,786	$70,487

The three months ended September 30, 2016 reflect an increase in salary and benefits of approximately $0.9 million due to an increased number of employees related to our growth and a $0.7 million increase in a deferred compensation liability that is based upon the value of our common stock as compared to the same period in 2015. The nine months ended September 30, 2016 reflect an increase in salary and benefits of approximately $5.5 million due to an increased number of employees related to our growth as well as an expense of $2.3 million related to assumption changes and the execution of an amended and restated retirement agreement with our Executive Chairman as compared to the same period in 2015. These increases were offset by decreases of approximately $2.1 million and $4.2 million related to expense recognized under our short-term incentive compensation program and other bonus programs during the three and nine months ended September 30, 2016 as compared to the same periods in 2015.

The increases in reinsurance risk charges expense were due to the growth in our policyholder liabilities subject to a reinsurance agreement pursuant to which we cede excess regulatory reserves to an unaffiliated reinsurer. The regulatory reserves ceded at September 30, 2016 and 2015 were $603.0 million and $434.4 million, respectively.

Other expenses for the three and nine months ended September 30, 2016 benefited from the release of a litigation liability of $2.8 million. The benefit was offset by the write-off of debt issuance costs of $0.4 million related to the termination of our November 2013 credit facility during the third quarter of 2016 and offset by expenses of $0.6 million and $0.7 million for the three and nine months ended September 30, 2016, related to spending on the Department of Labor's fiduciary rule.

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Income tax expense (benefit) was $(3.6) million in the third quarter of 2016 and $(19.8) million for the nine months ended September 30, 2016 compared to $51.4 million and $98.3 million for the same periods in 2015. The changes in income tax expense were primarily due to changes in income (loss) before income taxes. The effective income tax rates for the three and nine months ended September 30, 2016 were 32.4% and 34.5%, respectively, and 34.6% and 34.6% for the same periods in 2015, respectively.

Income tax expense (benefit) and the resulting effective tax rate are based upon two components of income (loss) before income taxes (benefits) ("pretax income") that are taxed at different tax rates. Life insurance income is generally taxed at an effective rate of approximately 35.5% reflecting the absence of state income taxes for substantially all of the states that the life insurance subsidiaries do business in. The income (loss) for the parent company and other non-life insurance subsidiaries is generally taxed at an effective tax rate of 41.5% reflecting the combined federal / state income tax rates. The effective income tax rates resulting from the combination of the income tax provisions for the life / non-life sources of income (loss) vary from period to period based primarily on the relative size of pretax income (loss) from the two sources. We are expecting the effective income tax rate in 2016 to be higher than in it was in 2015 as the percentage of taxable income from the life insurance sources is expected to be less than it was in 2015 and tax exempt investment income is expected to be lower in 2016 than it was in 2015.

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Financial Condition

Investments

Our investment strategy is to maintain a predominantly investment grade fixed income portfolio, provide adequate liquidity to meet our cash obligations to policyholders and others and maximize current income and total investment return through active investment management. Consistent with this strategy, our investments principally consist of fixed maturity securities and mortgage loans on real estate.

Insurance statutes regulate the type of investments that our life subsidiaries are 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 our business and investment strategy, we generally seek to invest in United States government and government-sponsored agency securities, corporate securities, residential and commercial mortgage backed securities, other asset backed securities and United States municipalities, states and territories securities rated investment grade by established nationally recognized statistical rating organizations ("NRSRO's") or in securities of comparable investment quality, if not rated, and commercial mortgage loans on real estate.

The composition of our investment portfolio is summarized as follows:

	September 30, 2016		December 31, 2015	
	Carrying Amount	Percent	Carrying Amount	Percent
	(Dollars in thousands)			
Fixed maturity securities:				
United States Government full faith and credit	$418,465	0.9 %	$471,256	1.3 %
United States Government sponsored agencies	1,472,904	3.2 %	1,398,611	3.5 %
United States municipalities, states and territories	4,052,210	8.8 %	3,755,367	9.5 %
Foreign government obligations	254,420	0.6 %	212,565	0.5 %
Corporate securities	27,992,430	61.1 %	23,879,016	60.3 %
Residential mortgage backed securities	1,358,174	3.0 %	1,462,072	3.7 %
Commercial mortgage backed securities	5,310,156	11.6 %	4,174,396	10.5 %
Other asset backed securities	1,522,424	3.3 %	1,145,178	2.9 %
Total fixed maturity securities	42,381,183	92.5 %	36,498,461	92.2 %
Equity securities	7,843	— %	7,828	— %
Mortgage loans on real estate	2,419,230	5.3 %	2,435,257	6.2 %
Derivative instruments	706,007	1.5 %	337,256	0.9 %
Other investments	297,068	0.7 %	291,530	0.7 %
	$45,811,331	100.0%	$39,570,332	100.0%

Fixed Maturity Securities

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

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

	September 30, 2016		December 31, 2015	
Rating Agency Rating	Carrying Amount	Percent of Fixed Maturity Securities	Carrying Amount	Percent of Fixed Maturity Securities
	(Dollars in thousands)			
Aaa/Aa/A	$27,509,994	64.9 %	$23,724,648	65.0 %
Baa	13,278,853	31.3 %	11,491,609	31.5 %
Total investment grade	40,788,847	96.2 %	35,216,257	96.5 %
Ba	931,771	2.2 %	657,760	1.8 %

B	147,965	0.4	%	68,712	0.2	%
Caa	59,636	0.1	%	91,998	0.3	%
Ca and lower	452,964	1.1	%	463,734	1.2	%
Total below investment grade	1,592,336	3.8	%	1,282,204	3.5	%
	$42,381,183	100.0	%	$36,498,461	100.0	%

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

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

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

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

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

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

	September 30, 2016				December 31, 2015			
NAIC Designation	Amortized Cost	Fair Value	Carrying Amount	Percent of Total Carrying Amount	Amortized Cost	Fair Value	Carrying Amount	Percent of Total Carrying Amount
	(Dollars in thousands)				(Dollars in thousands)			
1	$25,136,784	$27,489,043	$27,489,043	64.9 %	$23,363,259	$24,207,801	$24,207,801	66.3 %
2	12,859,996	13,679,587	13,679,587	32.3 %	11,709,730	11,589,325	11,589,325	31.8 %
3	1,107,948	1,062,620	1,063,846	2.5 %	758,531	643,293	654,538	1.8 %
4	147,237	124,317	124,317	0.3 %	60,480	44,312	44,312	0.1 %
5	12,794	18,839	18,839	— %	—	—	—	— %
6	11,091	5,551	5,551	— %	8,332	2,485	2,485	— %
	$39,275,850	$42,379,957	$42,381,183	100.0 %	$35,900,332	$36,487,216	$36,498,461	100.0 %

The amortized cost and fair value of fixed maturity securities at September 30, 2016, by contractual maturity, are presented in Note 3 to our unaudited consolidated financial statements in this form 10-Q, which is incorporated by reference in this Item 2.

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Unrealized Losses

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

	Number of Securities	Amortized Cost	Unrealized Losses	Fair Value
		(Dollars in thousands)		
September 30, 2016				
Fixed maturity securities, available for sale:				
United States Government sponsored agencies	2	$77,000	$(419)	$76,581
United States municipalities, states and territories	7	68,452	(368)	68,084
Foreign government obligations	2	24,575	(3,825)	20,750
Corporate securities:				
Finance, insurance and real estate	38	564,273	(10,823)	553,450
Manufacturing, construction and mining	97	1,121,508	(85,420)	1,036,088
Utilities and related sectors	41	399,961	(21,429)	378,532
Wholesale/retail trade	7	79,627	(3,989)	75,638
Services, media and other	20	282,763	(12,489)	270,274
Residential mortgage backed securities	16	42,407	(2,231)	40,176
Commercial mortgage backed securities	99	974,168	(27,551)	946,617
Other asset backed securities	34	376,334	(15,102)	361,232
	363	$4,011,068	$(183,646)	$3,827,422
Fixed maturity securities, held for investment:				
Corporate security:				
Insurance	1	$76,773	$(1,226)	$75,547
December 31, 2015				
Fixed maturity securities, available for sale:				
United States Government full faith and credit	4	$38,029	$(299)	$37,730
United States Government sponsored agencies	21	971,462	(14,409)	957,053
United States municipalities, states and territories	76	273,297	(8,628)	264,669
Foreign government obligations	6	69,364	(10,935)	58,429
Corporate securities:				
Finance, insurance and real estate	145	2,201,597	(74,462)	2,127,135
Manufacturing, construction and mining	334	4,271,655	(377,459)	3,894,196
Utilities and related sectors	216	2,499,341	(161,505)	2,337,836
Wholesale/retail trade	43	537,720	(25,988)	511,732
Services, media and other	101	1,112,071	(43,010)	1,069,061
Residential mortgage backed securities	34	172,697	(3,489)	169,208
Commercial mortgage backed securities	222	2,796,286	(105,281)	2,691,005
Other asset backed securities	43	523,592	(19,880)	503,712
	1,245	$15,467,111	$(845,345)	$14,621,766
Fixed maturity securities, held for investment:				
Corporate security:				
Insurance	1	$76,622	$(11,245)	$65,377

The decrease in unrealized losses from December 31, 2015 to September 30, 2016 was primarily due to a decrease in interest rates in addition to price improvements in the energy and metals and mining securities during the nine months ended September 30, 2016. The 10-year U.S. Treasury rates at September 30, 2016 and December 31, 2015 were 1.60% and 2.27%, respectively.

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

NAIC Designation	Carrying Value of Securities with Gross Unrealized Losses	Percent of Total	Gross Unrealized Losses	Percent of Total
	(Dollars in thousands)			
September 30, 2016				
1	$1,968,836	50.4 %	$(46,397)	25.1 %
2	1,172,321	30.0 %	(50,849)	27.5 %
3	647,740	16.6 %	(58,113)	31.4 %
4	104,555	2.7 %	(23,065)	12.5 %
5	5,198	0.1 %	(903)	0.5 %
6	5,545	0.2 %	(5,545)	3.0 %
	$3,904,195	100.0%	$(184,872)	100.0%
December 31, 2015				
1	$8,278,102	56.3 %	$(280,209)	32.7 %
2	5,813,570	39.6 %	(436,543)	51.0 %
3	560,199	3.8 %	(117,814)	13.7 %
4	44,041	0.3 %	(16,168)	1.9 %
5	—	— %	—	— %
6	2,476	— %	(5,856)	0.7 %
	$14,698,388	100.0%	$(856,590)	100.0%

Our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 364 and 1,246 securities, respectively) have been in a continuous unrealized loss position at September 30, 2016 and December 31, 2015, along with a description of the factors causing the unrealized losses is presented in Note 3 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in the Item 2.

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

	Number of Securities	Amortized Cost	Fair Value	Gross Unrealized Losses
		(Dollars in thousands)		
September 30, 2016				
Fixed maturity securities:				
Investment grade:				
Less than six months	183	$2,145,551	$2,102,467	$(43,084)
Six months or more and less than twelve months	20	188,631	183,275	(5,356)
Twelve months or greater	79	962,113	908,301	(53,812)
Total investment grade	282	3,296,295	3,194,043	(102,252)
Below investment grade:				
Less than six months	18	117,063	108,928	(8,135)
Six months or more and less than twelve months	8	33,928	32,221	(1,707)
Twelve months or greater	56	640,555	567,777	(72,778)
Total below investment grade	82	791,546	708,926	(82,620)
	364	$4,087,841	$3,902,969	$(184,872)
December 31, 2015				
Fixed maturity securities:				
Investment grade:				
Less than six months	588	$7,395,125	$7,193,059	$(202,066)
Six months or more and less than twelve months	484	6,799,113	6,388,844	(410,269)
Twelve months or greater	44	592,600	484,646	(107,954)
Total investment grade	1,116	14,786,838	14,066,549	(720,289)
Below investment grade:				
Less than six months	87	297,879	279,947	(17,932)
Six months or more and less than twelve months	15	175,603	148,337	(27,266)
Twelve months or greater	28	283,413	192,310	(91,103)
Total below investment grade	130	756,895	620,594	(136,301)
	1,246	$15,543,733	$14,687,143	$(856,590)

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

	Number of Securities	Amortized Cost	Fair Value	Gross Unrealized Losses
		(Dollars in thousands)		
September 30, 2016				
Investment grade:				
Less than six months	1	$10,451	$6,429	$(4,022)
Six months or more and less than twelve months	—	—	—	—
Twelve months or greater	1	2,070	993	(1,077)
Total investment grade	2	12,521	7,422	(5,099)
Below investment grade:				
Less than six months	1	4,995	3,190	(1,805)
Six months or more and less than twelve months	2	5,000	3,841	(1,159)
Twelve months or greater	10	89,899	56,701	(33,198)
Total below investment grade	13	99,894	63,732	(36,162)
	15	$112,415	$71,154	$(41,261)
December 31, 2015				
Investment grade:				
Less than six months	37	$460,894	$339,047	$(121,847)
Six months or more and less than twelve months	13	122,794	82,149	(40,645)
Twelve months or greater	1	2,856	1,999	(857)
Total investment grade	51	586,544	423,195	(163,349)
Below investment grade:				
Less than six months	13	73,412	44,976	(28,436)
Six months or more and less than twelve months	13	145,886	88,308	(57,578)
Twelve months or greater	3	30,930	14,213	(16,717)
Total below investment grade	29	250,228	147,497	(102,731)
	80	$836,772	$570,692	$(266,080)

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

	Available for sale		Held for investment	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
September 30, 2016				
Due in one year or less	$—	$—	$—	$—
Due after one year through five years	155,440	147,773	—	—
Due after five years through ten years	1,054,247	1,017,021	—	—
Due after ten years through twenty years	388,586	368,382	—	—
Due after twenty years	1,019,886	946,221	76,773	75,547
	2,618,159	2,479,397	76,773	75,547
Residential mortgage backed securities	42,407	40,176	—	—
Commercial mortgage backed securities	974,168	946,617	—	—
Other asset backed securities	376,334	361,232	—	—
	$4,011,068	$3,827,422	$76,773	$75,547
December 31, 2015				
Due in one year or less	$—	$—	$—	$—
Due after one year through five years	257,994	247,957	—	—
Due after five years through ten years	6,111,139	5,802,168	—	—
Due after ten years through twenty years	2,816,752	2,693,742	—	—
Due after twenty years	2,788,651	2,513,974	76,622	65,377
	11,974,536	11,257,841	76,622	65,377
Residential mortgage backed securities	172,697	169,208	—	—
Commercial mortgage backed securities	2,796,286	2,691,005	—	—
Other asset backed securities	523,592	503,712	—	—
	$15,467,111	$14,621,766	$76,622	$65,377

Energy and Metals & Mining

The tables below summarize our publicly issued corporate fixed maturity securities in the energy and metals & mining sectors. Our privately placed available for sale fixed maturity securities at September 30, 2016 total $175.1 million fair value ($176.6 million amortized cost) in energy and $43.4 million fair value ($45.6 million amortized cost) in metals & mining and are not included in the following tables.

	September 30, 2016			
Sector and Subsector	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Average Credit Rating
	(Dollars in thousands)			
Energy				
Independent	$505,553	$506,918	$1,365	Baa
Integrated	497,369	532,324	34,955	A
Oil field services	405,148	385,393	(19,755)	Baa
Refining	119,571	126,823	7,252	Baa
Midstream	760,316	790,623	30,307	Baa
Government owned no guarantee	308,695	336,258	27,563	A

Metals & Mining	559,112	583,469	24,357	Baa
Total Energy and Metals & Mining	$3,155,764	$3,261,808	$106,044	Baa

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	Amortized Cost at September 30, 2016							
	Energy							
NRSRO Rating	Independent	Integrated	Oil field services	Refining	Midstream	Government Owned No Guarantee	Metals & Mining	Total
	(Dollars in thousands)							
Aaa	$—	$—	$—	$—	$—	$ —	$—	$—
Aa	—	228,200	—	—	—	44,662	—	272,862
A	89,493	84,765	90,631	500	90,842	214,194	76,594	647,019
Baa	369,837	149,192	185,220	119,071	635,467	25,264	287,846	1,771,897
Ba	46,223	35,212	100,235	—	34,007	—	129,897	345,574
B	—	—	29,062	—	—	24,575	54,092	107,729
Below B	—	—	—	—	—	—	10,683	10,683
	$505,553	$497,369	$405,148	$119,571	$760,316	$ 308,695	$559,112	$3,155,764

	Fair Value at September 30, 2016							
	Energy							
NRSRO Rating	Independent	Integrated	Oil field services	Refining	Midstream	Government Owned No Guarantee	Metals & Mining	Total
	(Dollars in thousands)							
Aaa	$—	$—	$—	$—	$—	$ —	$—	$—
Aa	—	249,998	—	—	—	47,087	—	297,085
A	93,882	88,981	98,603	551	99,269	242,485	83,669	707,440
Baa	369,909	159,716	183,741	126,272	658,477	25,936	304,529	1,828,580
Ba	43,127	33,629	83,138	—	32,877	—	129,763	322,534
B	—	—	19,911	—	—	20,750	49,452	90,113
Below B	—	—	—	—	—	—	16,056	16,056
	$506,918	$532,324	$385,393	$126,823	$790,623	$ 336,258	$583,469	$3,261,808

International Exposure

We hold fixed maturity securities with international exposure. As of September 30, 2016, 18% of the carrying value of our fixed maturity securities was comprised of corporate debt securities of issuers based outside of the United States and debt securities of foreign governments. Our investment professionals analyze each holding for credit risk by economic and other factors of each country and industry. The following table presents our international exposure in our fixed maturity portfolio by country or region:

	September 30, 2016		
	Amortized Cost	Carrying Amount/Fair Value	Percent of Total Carrying Amount
	(Dollars in thousands)		
GIIPS (1)	$232,384	$263,285	0.6%
Asia/Pacific	429,332	470,108	1.1%
Non-GIIPS Europe	2,977,297	3,199,061	7.5%
Latin America	261,452	259,606	0.6%
Non-U.S. North America	1,279,722	1,346,510	3.2%
Australia & New Zealand	790,853	831,821	2.0%
Other	1,129,309	1,184,464	2.8%
	$7,100,349	$7,554,855	17.8%

(1) Greece, Ireland, Italy, Portugal and Spain continue to cause credit risk as economic conditions in these countries continue to be volatile, especially within the financial and banking sectors. All of our exposure in GIIPS are corporate securities with issuers domiciled in these countries. None of our foreign government obligations were held in any of these countries.

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All of the securities presented in the table above are denominated in U.S. dollars and all are investment grade (NAIC designation of either 1 or 2), except for the following:

	September 30, 2016	
	Amortized Cost	Carrying Amount/ Fair Value
	(Dollars in thousands)	
GIIPS (1)	$28,763	$30,447
Asia/Pacific	11,500	9,597
Non-GIIPS Europe	98,170	95,254
Latin America	55,579	42,308
Non-U.S. North America	120,456	116,486
	$314,468	$294,092

Watch List

At each balance sheet date, we identify invested assets which have characteristics (i.e. significant unrealized losses compared to amortized cost and industry trends) creating uncertainty as to our future assessment of an other than temporary impairment. As part of this assessment, we review not only a change in current price relative to its amortized cost but the issuer's current credit rating and the probability of full recovery of principal based upon the issuer's financial strength. Specifically for corporate issues we evaluate the financial stability and quality of asset coverage for the securities relative to the term to maturity for the issues we own. A security which has a 25% or greater change in market price relative to its amortized cost and a possibility of a loss of principal will be included on a list which is referred to as our watch list. We exclude from this list securities with unrealized losses which are related to market movements in interest rates and which have no factors indicating that such unrealized losses may be other than temporary as we do not intend to sell these securities and it is more likely than not we will not have to sell these securities before a recovery is realized. In addition, we exclude our residential and commercial mortgage backed securities as we monitor all of our residential and commercial mortgage backed securities on a quarterly basis for changes in default rates, loss severities and expected cash flows for the purpose of assessing potential other than temporary impairments and related credit losses to be recognized in operations. At September 30, 2016, the amortized cost and fair value of securities on the watch list are as follows:

General Description	Number of Securities	Amortized Cost	Unrealized Gains (Losses)	Fair Value	Months in Continuous Unrealized Loss Position	Months Unrealized Losses Greater Than 20%
		(Dollars in thousands)				
Investment grade						
Corporate securities:						
Utilities	1	$10,452	$(4,023)	$6,429	13	2
Other asset backed securities:						
Financials	1	2,218	(1,153)	1,065	66	17
Utilities	1	4,995	(1,805)	3,190	1	1
	3	$17,665	$(6,981)	$10,684		
Below investment grade						
Corporate securities:						
Energy	4	$45,044	$(10,668)	$34,376	25 - 41	0 - 21
Industrials	1	4,981	(3,181)	1,800	23	14

Materials	4	29,772	(3,518)	26,254	15 - 44	0 - 11
Telecommunications	1	2,171	(686)	1,485	27	15
Other asset backed securities:						
Financials	1	4,854	(3,209)	1,645	40	21
	11	$86,822	$(21,262)	$65,560		
	14	$104,487	$(28,243)	$76,244		

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We have determined that the unrealized losses of the securities on the watch list are temporary as we do not intend to sell these securities and it is more likely than not we will not have to sell these securities before recovery of their amortized cost. Our analysis of these securities and their credit performance at September 30, 2016 is as follows:
Corporate securities:
Utilities: The decline in the value of this security is due to the company's parent announcing a strategic decision to attempt to become a fully regulated utility by 2018. This issuer is part of the unregulated business of the parent and concerns have arisen in regard to the ability to become regulated. This uncertainty has stressed market prices for this bond. At this time, we have determined that this security was not other than temporarily impaired as it is early in the request for regulation in regard to this entity.
Energy, Industrials and Materials: The decline in the value of these securities relates to ongoing operational issues related to the decline in certain commodity prices specific to their businesses. The decline in these commodity prices creates financial challenges as the industries realign to accommodate the lower prices. These issuers will be stressed greater than the average company due to their price sensitivity and the specific position they hold in the chain of supply. We recognized an other than temporary impairment on one security during the third quarter of 2016 due to our evaluation of the operating performance and the credit worthiness of the issuer. While the remaining issuers have seen their financial and profitability profile weakened, we have determined that the remaining securities were not other than temporarily impaired due to our evaluation of the operating performance and the credit worthiness of the issuer.
Telecommunications: The decline in the value of this security is the result of regional economic recessionary pressure in Brazil and an increase in competition in the markets it operates. This issuer has seen weakened performance and heightened risk. We recognized an other than temporary impairment on this security during the first quarter of 2016 due to our evaluation of the operating performance and the credit worthiness of the issuer.
Other asset backed securities:
Financials: The decline in value of the investment grade other asset backed security is due to poor performance in the underlying pool of student loans. The investment is backed by a guarantee from the for-profit education services provider. We have determined that this security was not other than temporarily impaired, because the guarantee is in good standing and all required payments have been made, including hyper-amortization payments triggered by the performance of the student loan portfolio. The decline in value of the below investment grade other asset backed security is related directly to the decline in oil prices and the financial stability of its operator. The issuer has direct exposure to the oil market as its primary business is deep water drilling. As oil prices have declined the operator of the deep water vessel has experienced financial pressure on its balance sheet. We recognized other than temporary impairments on this security during the second quarter of 2016 and the third quarter of 2015.
Utilities: The decline in the value of this security is due to the company's parent announcing a strategic decision to attempt to become a fully regulated utility by 2018. This issuer is part of the unregulated business of the parent and concerns have arisen in regard to the ability to become regulated. This uncertainty has stressed market prices for this bond. At this time, we have determined that this security was not other than temporarily impaired as it is early in the request for regulation in regard to this entity.
Other Than Temporary Impairments
We have a policy and process to identify securities in our investment portfolio for which we should recognize impairments. See Critical Accounting Policies—Evaluation of Other Than Temporary Impairments included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2015. During the periods presented, we recognized other than temporary impairment on corporate securities, commercial mortgage backed securities, residential mortgage backed securities and an other asset backed security. During the three months ended September 30, 2016, we recognized an OTTI of $3.0 million due to our concern regarding a corporate security issued by a Brazilian metals and mining company as developments during this period led us to the conclusion that we will not be able to fully recover our amortized cost basis. We recognized an OTTI of $3.9 million during the nine months ended September 30, 2016, due to our concern regarding a corporate security issued by a Brazilian telecommunications company. Developments in 2016 led us to the conclusion that we will not be able to fully recover our amortized cost basis due to liquidity concerns. The OTTI that we recognized during the nine months ended September 30, 2016, on commercial mortgage backed securities were due to our intent to sell the securities,

which were in an unrealized loss position at at the reporting date. In addition, during the nine months ended September 30, 2016 and the three and nine months ended September 30 2015, we recognized additional credit losses on residential mortgage backed securities on which we have previously recognized OTTI. Several factors led us to believe that full recovery of amortized cost is not expected on the residential mortgage backed securities for which we recognized additional credit losses and reclassified OTTI from accumulated other comprehensive income to net income. A discussion of these factors, our policy and process to identify securities that could potentially have impairment that is other than temporary and a summary of OTTI is presented in Note 3 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

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Mortgage Loans on Real Estate

Our commercial mortgage loan portfolio consists of mortgage loans collateralized by the related properties and diversified as to property type, location and loan size. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and other criteria to attempt to reduce the risk of default. Our commercial mortgage loans on real estate are reported at cost, net of loan loss allowances and deferred prepayment fees. At September 30, 2016 and December 31, 2015, the largest principal amount outstanding for any single mortgage loan was $19.5 million and $17.9 million, respectively, the average loan size was $3.1 million and $2.9 million, respectively, and the average loan to value ratio for the overall portfolio based upon the underwriting and appraisal at the time the loan was made was 53.7% and 53.7%, respectively. This loan to value is indicative of our conservative underwriting policies and practices for making commercial mortgage loans and may not be indicative of collateral values at the reporting date. Our current practice is to only obtain market value appraisals of the underlying collateral at the inception of the loan unless we identify indicators of impairment in our ongoing analysis of the portfolio, in which case, we either calculate a value of the collateral using a capitalization method or obtain a third party appraisal of the underlying collateral. The commercial mortgage loan portfolio is summarized by geographic region and property type in Note 4 to our unaudited consolidated financial statements, incorporated by reference in this Item 2.

In the normal course of business, we commit to fund commercial mortgage loans up to 90 days in advance. At September 30, 2016, we had commitments to fund commercial mortgage loans totaling $110.1 million, with fixed interest rates ranging from 3.65% to 4.45%. During 2016 and 2015, due to historically low interest rates, the commercial mortgage loan industry has been very competitive. This competition has resulted in a number of borrowers refinancing with other lenders. For the nine months ended September 30, 2016, we received $243.9 million in cash for loans being paid in full compared to $282.9 million for the nine months ended September 30, 2015. Some of the loans being paid off have either reached their maturity or are nearing maturity; however, some borrowers are paying the prepayment fee and refinancing at a lower rate.

See Note 4 to our unaudited consolidated financial statements, incorporated by reference for a presentation of our specific and general loan loss allowances, impaired loans, foreclosure activity and troubled debt restructure analysis.

We have a process by which we evaluate the credit quality of each of our commercial mortgage loans. This process utilizes each loan's debt service coverage ratio as a primary metric. A summary of our portfolio by debt service coverage ratio (based on most recent information collected) follows:

	September 30, 2016		December 31, 2015	
	Principal Outstanding	Percent of Total Principal Outstanding	Principal Outstanding	Percent of Total Principal Outstanding
	(Dollars in thousands)			
Debt Service Coverage Ratio:				
Greater than or equal to 1.5	$1,740,867	71.7 %	$1,772,226	72.3 %
Greater than or equal to 1.2 and less than 1.5	487,260	20.1 %	414,482	16.9 %
Greater than or equal to 1.0 and less than 1.2	123,284	5.1 %	141,799	5.8 %
Less than 1.0	76,494	3.1 %	121,402	5.0 %
	$2,427,905	100.0 %	$2,449,909	100.0 %

All (based on principal outstanding) of our mortgage loans that have a debt service coverage ratio of less than 1.0 are performing and current with contractual principal and interest payments at September 30, 2016.

Mortgage loans summarized in the following table represent all loans that we are either not currently collecting or those we feel it is probable we will not collect all amounts due according to the contractual terms of the loan agreements (all loans that we have worked with the borrower to alleviate short-term cash flow issues, loans delinquent for 60 days or more at the reporting date, loans we have determined to be collateral dependent and loans that we have recorded specific impairments on that we feel may continue to have performance issues).

	September 30, 2016	December 31, 2015

	(Dollars in thousands)	
Impaired mortgage loans with an allowance	$4,683	$ 21,277
Impaired mortgage loans with no related allowance	1,621	8,859
Allowance for probable loan losses	(1,327)	(7,842)
Net carrying value of impaired mortgage loans	$4,977	$ 22,294

At September 30, 2016, we had no commercial mortgage loans that were delinquent (60 days or more past due at the reporting date) in their principal and interest payments.

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Derivative Instruments

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

None of our derivatives qualify for hedge accounting, thus, any change in the fair value of the derivatives that are not classified as equity is recognized immediately in the consolidated statements of operations. A presentation of our derivative instruments along with a discussion of the business strategy involved with our derivatives is included in Note 5 to our unaudited consolidated financial statements in this Form 10-Q, which is incorporated by reference in this Item 2.

Liquidity and Capital Resources

Our insurance subsidiaries continue to have adequate cash flows from annuity deposits and investment income to meet their policyholder and other obligations. Net cash flows from annuity deposits and funds returned to policyholders as surrenders, withdrawals and death claims were $2.7 billion for the nine months ended September 30, 2016 compared to $3.3 billion for the nine months ended September 30, 2015, with the decrease attributable to a $399.4 million decrease in net annuity deposits after coinsurance and a $172.1 million (after coinsurance) increase in funds returned to policyholders. We continue to invest the net proceeds from policyholder transactions and investment activities in high quality fixed maturity securities and fixed rate commercial mortgage loans.

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

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

Currently, American Equity Life may pay dividends or make other distributions without the prior approval of the Iowa Insurance Commissioner, unless such payments, together with all other such payments within the preceding twelve months, exceed the greater of (1) American Equity Life's net gain from operations for the preceding calendar year, or (2) 10% of American Equity Life's statutory capital and surplus at the preceding December 31. For 2016, up to $241.3 million can be distributed as dividends by American Equity Life without prior approval of the Iowa Insurance Commissioner. In addition, dividends and surplus note payments may be made only out of statutory earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities in the life subsidiary's state of domicile. American Equity Life had $1.4 billion of statutory earned surplus at September 30, 2016.

The maximum distribution permitted by law or contract is not necessarily indicative of an insurer's actual ability to pay such distributions, which may be constrained by business and regulatory considerations, such as the impact of such distributions on surplus, which could affect the insurer's ratings or competitive position, the amount of premiums that can be written and the ability to pay future dividends or make other distributions. Further, state insurance laws and regulations require that the statutory surplus of our life subsidiaries following any dividend or distribution must be reasonable in relation to their outstanding liabilities and adequate for their financial needs. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength ratings from A.M. Best and Standard and Poor's. Both regulators and rating agencies could become more conservative in their methodology and criteria, including increasing capital requirements for our insurance subsidiaries which, in turn, could negatively affect the cash available to us from insurance

subsidiaries. As of September 30, 2016, we estimate American Equity Life has sufficient statutory capital and surplus, combined with capital available to the holding company, to meet this rating objective. However, this capital may not be sufficient if significant future losses are incurred or a rating agency modifies its rating criteria and access to additional capital could be limited.

The transfer of funds by American Equity Life is also restricted by a covenant in our line of credit agreement which requires American Equity Life to maintain a minimum risk-based capital ratio of 275% and a minimum level of statutory surplus equal to the sum of 1) 80% of statutory surplus at June 30, 2016, 2) 50% of the statutory net income for each fiscal quarter ending after June 30, 2016, and 3) 50% of all capital contributed to American Equity Life after June 30, 2016. American Equity Life's risk-based capital ratio was 336% at December 31, 2015. Under this agreement, we are also required to maintain a maximum ratio of adjusted debt to total adjusted capital of 0.35.

In August 2015, we completed an underwritten public offering of 9,890,000 shares of our common stock at a public offering price of $25.25 per share, of which 5,590,000 shares were subject to forward sale agreements. During the third quarter of 2015, we contributed $120 million to the capital and surplus of American Equity Life which included $104.5 million of initial net proceeds from the issuance of 4.3 million shares of common stock in our August 2015 public stock offering. We settled the forward sale agreements on August 1, 2016, as we issued 5,590,000 shares of our common stock and received $134.7 million in net proceeds which was contributed to the capital and surplus of American Equity Life.

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Cash and cash equivalents of the parent holding company at September 30, 2016, were $133.7 million, which includes the net proceeds from the three-year $100 million term loan we entered into on September 30, 2016, of which $100 million was contributed to American Equity Life on October 3, 2016. In addition, we have a $150 million revolving line of credit, with no borrowings outstanding, available through September 2021 for general corporate purposes of the parent company and its subsidiaries. We also have the ability to issue equity, debt or other types of securities through one or more methods of distribution under a currently effective shelf registration statement on Form S-3. The terms of any offering would be established at the time of the offering, subject to market conditions.

New Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We seek to invest our available funds in a manner that will maximize shareholder value and fund future obligations to policyholders and debtors, subject to appropriate risk considerations. We seek to meet this objective through investments that: (i) consist substantially of investment grade fixed maturity securities; (ii) have projected returns which satisfy our spread targets; and (iii) have characteristics which support the underlying liabilities. Many of our products incorporate surrender charges, market interest rate adjustments or other features to encourage persistency. We seek to maximize the total return on our available for sale investments through active investment management. Accordingly, we have determined that our available for sale portfolio of fixed maturity securities is available to be sold in response to: (i) changes in market interest rates; (ii) changes in relative values of individual securities and asset sectors; (iii) changes in prepayment risks; (iv) changes in credit quality outlook for certain securities; (v) liquidity needs; and (vi) other factors.

Interest rate risk is our primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can affect the profitability of our products, the fair value of our investments, and the amount of interest we pay on our floating rate term loan and subordinated debentures. See Note 6 to our unaudited consolidated financial statements, which is incorporated by reference for this Item 3, for information regarding the floating interest rate on our term loan. Our floating rate trust preferred securities bear interest at the three month LIBOR plus 3.50% - 4.00%. Our outstanding balance of floating rate trust preferred securities was $164.5 million at September 30, 2016, of which $85.5 million has been swapped to a fixed rate which began in March 2014 and $79.0 million has been capped for a term of seven years which began in July 2014 (see Note 5 to our unaudited consolidated financial statements). The profitability of most of our products depends on the spreads between interest yield on investments and rates credited on insurance liabilities. We have the ability to adjust crediting rates (caps, participation rates or asset fee rates for index annuities) on substantially all of our annuity liabilities at least annually (subject to minimum guaranteed values). In addition, substantially all of our annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. However, competitive factors, including the impact of the level of surrenders and withdrawals, may limit our ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

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

If interest rates were to increase 10% (23 basis points) from levels at September 30, 2016, we estimate that the fair value of our fixed maturity securities would decrease by approximately $805.6 million. The impact on stockholders' equity of such decrease (net of income taxes and certain adjustments for changes in amortization of deferred policy acquisition costs and deferred sales inducements) would be a decrease of $257.8 million in accumulated other

comprehensive income and a decrease in stockholders' equity. The models used to estimate the impact of a 10% change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of our financial instruments indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because we actively manage our investments and liabilities, our net exposure to interest rates can vary over time. However, any such decreases in the fair value of our fixed maturity securities (unless related to credit concerns of the issuer requiring recognition of an other than temporary impairment) would generally be realized only if we were required to sell such securities at losses prior to their maturity to meet our liquidity needs, which we manage using the surrender and withdrawal provisions of our annuity contracts and through other means. See Financial Condition - Liquidity for Insurance Operations included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2015.

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At September 30, 2016, 36% of our fixed income securities have call features, of which 0.1% ($46.6 million) were subject to call redemption. Another 3.4% ($1.3 billion) will become subject to call redemption during the next twelve months. We have reinvestment risk related to these potential redemptions to the extent we cannot reinvest the net proceeds in assets with credit quality and yield characteristics similar to the redeemed bonds. Such reinvestment risk typically occurs in a declining rate environment. Should rates decline to levels which tighten the spread between our average portfolio yield and average cost of interest credited on annuity liabilities, we have the ability to reduce crediting rates (caps, participation rates or asset fees for index annuities) on most of our annuity liabilities to maintain the spread at our targeted level. At September 30, 2016, approximately 98% of our annuity liabilities were subject to annual adjustment of the applicable crediting rates at our discretion, limited by minimum guaranteed crediting rates specified in the policies.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Annual index credits to policyholders on their anniversaries	$126,653	$101,170	$142,084	$515,675
Proceeds received at expiration of options related to such credits	128,293	103,750	144,343	529,196

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with the Securities Exchange Act Rules 13a-15(e) and 15d-15(e), our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2016 solely because of the material weakness in our internal control over financial reporting disclosed in our 2015 Annual Report on Form 10-K. Management has concluded that the material weakness that was present as of December 31, 2015 was also present as of September 30, 2016 because we have not completed testing of sufficient instances of the enhanced control procedures in order to conclude on the operating effectiveness.

Previously Identified Material Weakness in Internal Control Over Financial Reporting

As previously disclosed in our 2015 Annual Report on Form 10-K, we did not have adequate controls designed and in place to ensure that we correctly implemented changes made to the calculation of lifetime income benefit reserves in the third quarter of 2015. Specifically, the design of our control relating to the review of the implementation of code changes to reflect revised assumptions and the impact of those changes (the “review control”) on the lifetime income benefit reserves was not modified given the complex nature and volume of code changes we made as part of the third quarter 2015 review.

Changes in Internal Control Over Financial Reporting

Other than the ongoing remediation plans described below, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation Status

We are currently working to remediate the material weakness. We have reviewed the design of our current "review control" over the implementation of code changes to our lifetime income benefit reserves to determine appropriate improvements and have implemented enhanced procedures. As part of these procedures, our controls have been enhanced to ensure that all code changes are reviewed by an individual who was not responsible for the implementation of the code changes.

In addition, the scope of the "review control" over the implementation of code changes to our lifetime income benefit reserves has been expanded to include detail testing of our lifetime income benefit reserves calculation to ensure any code changes are implemented accurately. These control enhancements are intended to ensure that code changes to the lifetime income benefit reserves calculation function as intended.

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We believe these measures will remediate the control deficiency identified above and have strengthened our internal control over financial reporting for the calculation of our lifetime income benefit reserves. We will test the ongoing operating effectiveness of the new controls and will consider the material weakness remediated after the applicable remedial controls operate effectively for a sufficient period of time.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 7 - Commitments and Contingencies to the unaudited consolidated financial statements, which is incorporated by reference in this Item 1, for litigation and regulatory disclosures that supplements the disclosure in Note 13 - Commitments and Contingencies to the audited consolidated financial statements of our 2015 Annual Report on Form 10-K.

Item 1A. Risk Factors

Our 2015 Annual Report on Form 10-K described our Risk Factors. We modified the Risk Factor titled Recent changes in federal regulation may affect our annuity sales and profitability in our Form 10-Q for the quarterly period ended March 31, 2016 in response to the U.S. Department of Labor's final conflict of interest fiduciary rule and related prohibited transaction exemptions which were issued on April 6, 2016. There have been no other material changes to the Risk Factors during the nine months ended September 30, 2016.

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

There were no issuer purchases of equity securities for the quarter ended September 30, 2016.

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Item 6. Exhibits

Exhibit No.	Description	Method of Filing
10.1	First Amendment to American Equity Investment Life Holding Company 2016 Employee Incentive Plan	Incorporated by reference to Exhibit 99.2 to Form S-8 filed on September 8, 2016
10.2	Credit Agreement, dated as of September 30, 2016, among American Equity Investment Life Holding Company, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent	Incorporated by reference to Exhibit 10.1 to Form 8-K filed on October 3, 2016
12.1	Ratio of Earnings to Fixed Charges	Filed herewith
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

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SIGNATURES

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

Date: November 9, 2016 AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

By: /s/ John M. Matovina
John M. Matovina, Chief Executive Officer and President
(Principal Executive Officer)

By: /s/ Ted M. Johnson
Ted M. Johnson, Chief Financial Officer and Treasurer
(Principal Financial Officer)

By: /s/ Scott A. Samuelson
Scott A. Samuelson, Vice President - Controller
(Principal Accounting Officer)