Julie LaFollette

Good morning, and welcome to American Equity Investment Life Holding Company's conference call to discuss first-quarter 2017 earnings. Our earnings release and financial supplement can be found on our website at www.american-equity.com. Non-GAAP financial measures discussed on today's call and reconciliations of non-GAAP financial measures to the most comparable GAAP measures, can be found in those documents.

Presenting on today's call are: John Matovina, Chief Executive Officer; Ted Johnson, Chief Financial Officer; and Ron Grensteiner, President of American Equity Investment Life Insurance Company. Some of the comments made during this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act.

There are number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Factors that could cause the actual results to differ materially are discussed in detail in our most recent filings with the SEC. An audio replay will be made available on our website shortly after today's call. It is now my pleasure to introduce John Matovina.

John Matovina

Thank you, Julie. Good morning everyone, and thank you for joining us.

Before we discuss first quarter earnings, I'd like to take a moment to remember our founder and long-time Chairman, David Noble, who passed away last month. Dave was an icon in the insurance business and made it his career for over 60 years. In 1995, after negotiating and closing the sale of The Statesman Group, he retired from the insurance business for all of three days and then formed American Equity Life.

Dave believed in two things: First, Americans needed an attractive, safe way, to save for retirement and ensure guaranteed lifetime income. He saw fixed indexed annuities, which he liked to refer to as "sleep insurance," as the best product to fit these needs.

Second, Dave believed in service: Service to agents and service to policyholders. We strive every day to offer the best service in the insurance industry and believe this differentiates us from our competitors.

Dave's strength, knowledge and determination drove American Equity's success. From a startup more than 21 years ago, American Equity is now a public company with a $2.1 billion market cap, $46 billion of policyholder funds under management, $3 billion of adjusted statutory capital and surplus, and 530 employees.

Dave Noble was truly an American success story. We owe him much and will miss his leadership and counsel greatly.

From all of us at American Equity, thank you to everyone for your kind words, support and expressions of sympathy. There will be a celebration of Dave's life in Des Moines on the evening of May 31st.

Now, I'll move to first quarter results. We started 2017 on a solid earnings note, reporting non-GAAP operating earnings of $59.6 million or $0.66 per share.

Our performance in the first quarter of 2017, in the three key areas that drive our financial performance, was mixed. As a reminder, the key measurements are:

- growing invested assets and policyholder funds under management;
- generating a high level of operating earnings on the growing asset base through investment spread; and
- minimizing impairment losses in our portfolio.

For the first quarter of 2017:

- we delivered 1.8% growth in policyholder funds under management;
- on a trailing twelve month basis, generated an 11.2% non-GAAP operating return on average equity excluding the impact of assumption revisions in the third quarter of 2016; and
- our investment impairment losses - after the effects of DAC and income taxes - were just 0.02% of average equity.

The growth in our policyholder funds under management was driven by $1.1 billion in gross sales, down substantially from record first quarter sales of $2.1 billion last year. While we don't have industry sales statistics yet, we anticipate that fixed index annuity sales for the industry were soft again this quarter.

While the fixed indexed annuity market remains highly competitive, the interest rate environment remains our biggest challenge. The post-election increase in interest rates allowed us to invest funds this quarter at rates that were closer to but still less than our portfolio rate. We were able to offset the negative impact on our investment spread from this with reductions in our crediting rates. Our investment spread for the quarter also benefited from a larger over hedging benefit and an increase in recurring but non-trendable investment income items.

Our low level of investment impairment losses reflects our commitment to a high quality investment portfolio.

I'll be back at the end of the call for some closing remarks, but now I'd like to turn the call over to Ted Johnson for additional comments on first quarter financial results.

Ted Johnson

Thank you, John. As we reported yesterday afternoon, we had non-GAAP operating income of $59.6 million or $0.66 per share for the first quarter of 2017 compared to non-GAAP operating income of $21.0 million or $0.25 per share for the first quarter of 2016. Excluding revisions to assumptions for deferred policy acquisition costs and deferred sales inducements, first quarter 2016 non-GAAP operating income and non-GAAP operating income per share would have been $49.6 million and $0.60 per share, respectively.

Our diluted share count was 8.5% higher in the first quarter of 2017 compared to the first quarter a year ago primarily due to the settlement of two equity forward sales agreements through the issuance of 5.6 million shares of our common stock in the third quarter of 2016.

Investment spread for the first quarter was 271 basis points compared to 262 basis points in the fourth quarter of 2016 as a result of a one basis point increase in average yield on invested assets and an eight basis point decrease in the cost of money.

Average yield on invested assets was 4.48% in the first quarter. The average yield continues to be unfavorably impacted by the investment of new premiums and portfolio cash flows at rates below the portfolio rate. However, the unfavorable impact from lower new money investment yields was offset by non-trendable investment income items which added ten basis points to the first quarter average yield on invested assets compared to seven basis points from such items in the fourth quarter of 2016. Non-trendable investment income in the first quarter of 2017 included seven basis points from fees from bond transactions and prepayment income and three basis points from an acceleration of the rate of paydowns on RMBS securities.

The average yield on fixed income securities purchased and commercial mortgage loans funded in the first quarter was 4.13% compared to 3.71% in the fourth quarter of 2016 and 4.14% in the first quarter of 2016. With rates coming down in April, we invested new money at 3.90% last month.

The aggregate cost of money for annuity liabilities was 177 basis points compared to 185 basis points in the fourth quarter. This decrease reflects continuing reductions in crediting rates on in-force policies and a lower cost of money on new deposits. The benefit from over hedging the obligations for index linked interest was five basis points in the first quarter of 2017 compared to two basis points in the fourth quarter of 2016.

As you're aware, we have been working to counteract the impact of lower investment yields by reducing the rates on our policyholder liabilities. We expect that we will continue to achieve reductions in our cost of money through renewal rate reductions that will be implemented on policy anniversary dates over the remainder of this year. We continue to have flexibility to reduce our crediting rates if necessary and could decrease our cost of money by approximately 49 basis points if we reduce current rates to guaranteed minimums. This is flat with the year-end level.

Other operating costs and expenses in the first quarter were $27.6 million. On a sequential basis, other operating costs and expenses increased $4.2 million primarily due to a $2.3 million benefit in the fourth quarter of 2016 from the reduction of an accrual for potential guaranty fund assessments. The remainder of the increase reflects higher reinsurance risk charges due to an increase in the excess regulatory reserves ceded to an unaffiliated insurer and an increase in general operating expenses.

Our effective income tax rate in the quarter was 34%. Income tax expense benefited by roughly $1.3 million in the quarter due to a change in accounting for income taxes related to stock compensation. The effective income tax rate excluding this item was 35.3%

Our estimated risk-based capital (RBC) ratio at March 31, 2017 is 353%, up from 342% at the end of last year. The increase in the RBC ratio included eight (8) points from a decline in required capital for production which we estimate using trailing 12 month sales. The increase in our adjusted statutory capital and surplus exceeded the increase in required capital from growth in assets and reserves and accounted for the remainder of the first quarter increase in our RBC ratio.

Now I'll turn the call over to Ron to discuss sales, marketing, and competition.

Ron Grensteiner

Thank you, Ted. Good morning, everybody.

As we reported yesterday, gross sales for the first quarter of 2017 were $1.1 billion. This is down from record first quarter sales of $2.1 billion in 2016. As a reminder, sales results in 1Q16 benefited from continued momentum from record sales in the second half of 2015 as well as elevated sales of multi-year guaranteed annuities. On a sequential basis, gross sales declined from $1.4 billion.

Net sales for the quarter were $1.0 billion compared to $1.6 billion a year earlier and $1.1 billion in the fourth quarter of 2016. Nearly all the sales for 1Q17 were fixed index annuities.

We expect first quarter industry sales of fixed indexed annuities will likely be down on both a sequential and a year-over-year basis. As we stated on our fourth quarter 2016 earnings call, we believe low interest rates and a more robust stock market may be factors. We also believe actions by distributors to conform to the DOL fiduciary rule were a distraction from marketing efforts and played a role in lower sales. We have also seen evidence that registered representatives are repositioning money away from annuities and into managed money in anticipation of the DOL fiduciary rule.

As we noted on our last conference call, the sales environment in the first quarter was aggressive. We've seen companies improve lifetime income benefit rider terms by increasing roll-up rates, income benefit bonuses and pay-out factors. Some companies were also quick to raise interest, cap and participation rates following the jump in the 10-year treasury rate. Conversely, we have not seen companies reduce rates as the 10-year treasury rate retreats.

As mentioned on prior earnings calls, we are not a company that will sacrifice spread and returns for the sake of higher sales. It's not nearly as exciting to operate in a slower sales environment; but it's important for us to stay disciplined. One action we did take to improve our competitive position was to make available an optional market value adjustment rider on our American Equity Choice and Eagle Select fixed index annuities. This rider allows us to offer a more competitive participation rate strategy and has helped us gain some traction, particularly at Eagle Life. We did not benefit to the same extent at American Equity Life since the Choice products only represent about 13% of American Equity Life's sales.

In early March, we introduced Rate Shield – a suite of traditional fixed rate annuity products; and Income Shield – a new guaranteed income rider. These were introduced as part of our DOL fiduciary rule strategy; and will give independent insurance agents products they can sell under Prohibited Transaction Exemption 84-24, if necessary. However, as long as independent agents are allowed to sell qualified fixed index annuities under an exemption other than the Best Interest Contract Exemption, we do not expect Rate Shield to garner significant sales.

Guaranteed lifetime income is an area of the market for which American Equity is well known; but we are losing some market share because we are perceived as not being competitive. In reality, our guaranteed income may not be the highest but it is competitive. Using 200 data points with issue ages between 50 and 75 and income beginning between ages 60 and 80, our top selling product produces guaranteed income on average within 97% of the top income product.

Turning to current sales trends, pending business at American Equity Life averaged 2,569 applications during the first quarter compared to 2,515 applications when we reported fourth quarter 2016 earnings. Pending at American Equity Life today is 2,526 applications.

Pending at Eagle Life stands at 167 applications today, up from 118 when we reported fourth quarter earnings.

We are continuing to build distribution at Eagle Life. In the first quarter, we added one new wholesaler, three selling agreements and 261 representatives. In total, we have 7 wholesalers, 55 selling agreements and 5,267 representatives.

In conclusion, it is difficult for people like me who grew up in the marketing side of the business to see sales decline. However, I remain optimistic and believe our best days are still ahead of us with a demographic of people who desire features and benefits that only our product can provide. We will continue to reinforce our value proposition of providing exceptional customer service through strong distribution relationships. With that, I'll turn the call back over to John.

John Matovina

Thank you Ted and Ron.

We view the first quarter of 2017 as a mixed start to the new year. Although sales remained soft, earnings results were solid, particularly in light of continued interest rate and spread pressure, and investment impairment losses were quite low. While low interest rates remain a headwind to our spread management, we continue to have room to lower liability rates, and we will remain proactive in managing our substantial in-force book of business. The value of that book could increase if tax reform comes to pass and we end up with lower corporate tax rates that are not offset by changes to our taxable income base.

While the order delaying the applicability date of the Department of Labor's fiduciary rule was appropriate, the details of that order have introduced additional elements of confusion. We are optimistic that the DOL will further delay the June 9, 2017 applicability date consistent with President Trump's memorandum to fully examine various aspects of the rule. However, if the rule remains as is and is implemented on June 9, 2017 and January 1, 2018, we would expect disruption of fixed index annuity sales. While the eventual outcome of the DOL fiduciary rule remains uncertain, we remain prepared to respond and grow our business. Regardless, an ever growing number of Americans need attractive fixed index annuity products that offer principal protection with guaranteed lifetime income, and the DOL fiduciary rule won't change this.

We have great relationships with our distribution partners. We are consistent in our business practices and we have a very dedicated group of home office employees providing excellent service to our distribution partners and policyholders each and every day. On behalf of those 530 employees, thank you for your time and attention this morning. We'll now turn the call back to the operator for questions.

Q&A

Q: Can you talk about the possibility of new NAIC standard nonforfeiture rules?

A: The Life Actuarial Task Force (LATF) is currently looking at possibly simplifying the standard nonforfeiture rules so that they are equivalently applied by those states participating in the Interstate Compact. We are aware of these discussions; they are in the very early stages and to be honest, there doesn't seem to be much impetus behind them. Our expectation would be that if something were eventually decided, it would affect new product introductions. Our risk would be if existing products not approved under the Compact were not grandfathered.

Q: Can you talk about the potential of VM-22 being applied to fixed indexed annuities?

A: New Valuation Interest Rates (VM-22): The VM-22 subgroup of LATF has developed new maximum valuation interest rates for SPIAs and pension buyouts, to be implemented in 2018, which has been exposed for comments. The Moody's index, which is the current basis for valuation interest rates, would be replaced by a yield derived from a mix of higher grade investments. This new valuation interest rate would likely be lower than the rate set off the Moody's index, which in turn, would lead to higher regulatory reserves, all else equal.

A working group for the deferred annuities products version is just being formed, although we expect it to include many of the same people who worked on the SPIA and pension buyout version. So, at some point, we expect changes to VM-22 will be applied to deferred annuities. However, we expect that it will be applied to new sales, and the valuation interest rate on current in-force will be left unchanged. As a pure annuity writer, we'd probably be affected more than most; however, it is not clear whether this would affect rating agency models.

Q: Can you comment on the NAIC's longevity risk task force (VM-30)?

A: Longevity risk (VM-30): The NAIC is currently looking at how longevity risk should be reflected in reserves and capital adequacy. The Longevity Risk Task Force is currently evaluating current US and international practices for considering longevity risk in reserves and required capital for life and annuity products, and will form a recommendation as to how an explicit longevity risk margin or charge should be incorporated into statutory reserve requirements, risk-based capital requirements, or both. We think that longevity risk is adequately captured in our reserves through asset adequacy testing, but do expect additional C-3 RBC factors to be developed. Given our emphasis on annuities with LIBRs, this should affect us more than most. However, we would not expect this to affect rating agency models.

Q: How about the NAIC's Suitability Model Review?

A: The NAIC has formed a working group to review the 2010 model suitability regulation. In order to develop a solution outside of DOL, the industry believes there is merit to incorporating best interest concepts into the model suitability regulation. American Equity is actively engaged in this process. It's still very, very early in the process though, so not much we can say at this point.

Q: Can you comment on your retail mall exposure within your CMBS holdings?

A: Before I do, I want to talk out our process. Our internal process for evaluation and CMBS loan includes a fundamental analysis of the properties' location, demographics, competitive landscape, tenant strength and diversity, sponsor experience and financial strength. We utilize market recognized analytics to assess the current environment for properties across hundreds of submarkets, such as vacancies, supply and demand, rents and valuation. We account for the degree of leverage, a loan's abililty cover both interest only and fully amortizing debt payments, and the ability to refinance at maturity in an environment of higher rates.

For any give CMBS deal, we complete a deep analysis of representing 55-85% of the underlying collateral on an annual basis. Any BBB bonds or securities in which we are modeling a decline in performance, we review every six months.

Our CMBS holdings total $4.9 billion of which 35% or $1.69 billion is retail. Our retail mall exposure is $733 million. Retail mall exposure is defined as a large box anchor with smaller in-line stores. Other forms of retail exposure include: Community shopping centers, lifestyle centers, neighborhood centers, power centers and other (things like single tenant or specialty retail).

Of our mall exposure, 26% or $177 million is conduit regional – the area of most concern. LTV on our conduit regional exposure is 60%. This basically aligns with what would be Class B properties.

We classify all of our mall exposure in 3 different risk buckets (Low, Medium High) in terms of likelihood of a default. There are several metrics that go into this including high risk tenant overlap, population density and growth, local household incomes, revenue trends and occupancy.

High risk (which we believe would align with Class C) is just 1% of our mall exposure. Medium risk is 10% and low risk is 89%. Medium risk is less than conduit regional/Class B because we don't believe that just because a mall is Class B that it will default and close.

Direct exposure to Macy's is $63.8 million, JC Penny is $50.8 million, Sears/Kmart is $39.3 million and Kohl's is $9.2 million.

Loan exposure to Macy's is $332.3 million, JC Penny is $248 million, Sears/Kmart is $162.6 million, and Kohl's is $34.7 million.

Note: Direct exposure reflects the absolute amount of lease payments of an entire deal that a tenant accounts for. Loan exposure reflects the absolute amount of loans in which the tenant is included.

Q: What is your retail exposure within the corporate credit portfolio?

A: Our public corporate credit retail exposure is $674 million with an average credit rating of A-. We have only two credits, which total just $22 million of book value, rated below investment grade.

Of companies in the news, we have $25.4 million at amortized cost of Kohl's, $18.2 million of Macy's, $12.5 million of Family Dollar Stores, and $9.7 million of GAP. Our unrealized loss on these positions was just $778,000.

Q: What is your retail exposure within the commercial mortgage loan portfolio?

A: Well, to begin with, we have developed a very in-depth, internal process for evaluation and analysis of potential commercial mortgage loans. We use industry recognized market resources to review and analyze a market's, and a particular submarket's, current and projected: vacancy rates, market rental rates, level of new construction, space absorption, etc.

We look for stabilized, good quality, and well located properties with a focus on core markets and we perform a full review of each property's and area's economic metrics including the financial strength of the sponsor, vacancy rates and current absorption characteristics, leverage. We stress test our properties to ensure breakeven leasing in times of economic downturns; and, in today's low interest rate environment, we have a particular focus on exit analysis via refinance and sale.

I think you can see this as I discuss retail. Roughly 36% of the CML portfolio is retail. However, we have no exposure to department stores in our commercial mortgage portfolio. We primarily lend on community strip malls and grocery-store anchored shopping centers. We believe our exposure to internet disintermediation is minimal.

Q: Can you discuss the potential for assessments resulting from the Penn Treaty bankruptcy?

A: Even if state laws are changed, we believe our exposure would be relatively small. With regards to potential LTC assessments, AE accounts for roughly 0.88% of all life, annuity, health and deposit fund premium in the country according to the 2016 ACLI Factbook.

Our percentage of premium in major states is approximately: Florida (1.1%), California (0.83%), Texas (0.84%), Pennsylvania (1.3%), New York (0.05%), Illinois (1.0%), and Ohio (0.61%).

Q: Any sense about market share in the quarter?

A: Not right now. Our sense is that FIA sales were down in the quarter industrywide compared to the fourth quarter, but whether we did better or worse…we just don't know.

Q: What's the cost of new money running right now?

A: At American Equity Life, option costs for new money during the quarter averaged around 143 bps, but they can gyrate week to week depending on product/strategy mix. Crediting rates on fixed strategies are quite a bit lower. Option costs are higher at Eagle, but of course, all of Eagle Life's products are non-bonus products with lower spread requirement.

Q: Any thoughts on spread going forward?

A: No, we don't give guidance; or

A: Let's just consider American Equity Life. We're investing new money and portfolio cash flows at around 3.9%, so our effective yield will continue to come down slowly and we have the comparison advantage of having all our cash invested. Cost of money, including fixed strategies, and renewals for FIA is probably is in the low 1.70s.

Q: Ron, can you fill out more about competition.

A: Markets are competitive but we haven't seen much in the way of major changes since our last earnings call. Still basically the same aggressive players that we previously noted. The new MVA option for Eagle Select and American Equity Choice has allowed us to offer higher participation rates, so we've become pretty competitive in the par rate segment.

Q: Who's looking really competitive?

A: Security Benefit Life is very aggressive on its lifetime income benefit rider. In the bank and broker/dealer channel, Great American and Reliance Standard have been very aggressive.

Q: Can you talk about the new LIBR?

A: From a market perspective, the big change in the LIBR will be that the benefit base will be computed using simple interest rather than compound interest. Based upon rider terms we currently offer with the 84-24 traditional fixed rate products in early March, the benefit payments for those looking to begin withdrawals early will be higher than the current LIBR and will make us more competitive with other products in the market. From a risk management perspective, the big change in the LIBR will be that after an initial guaranteed period, we are able to adjust the level of the benefit base increase (we call this the roll-up rate) rather than the level of the fee assessed for the rider.

Q: Is the Loyalty Rewards program still continuing?

A: That ends June 9th, but can be continued if the June 9th implementation date of the Impartial Conduct Standard is extended.

Q: Are the NMOs going to be ready on June 9th to implement the Impartial Conduct Standards?

A: Well remember, under PTE 84-24, the onus of responsibility to meet the Impartial Conduct Standards is on the agents. The NMOs are working hard helping to assist their agents to be ready for June 9th.

A: Right now, it's not clear to us whether independent agents will sell product under the BICE or PTE 84-24? Under the old PTE 84-24, which will be in place come June 9th, the Impartial Conduct Standards apply plus there is significant disclosure on the part of the independent agent.

If sales were under the BICE for the latter half of the year, the Impartial Conduct Standards would still be in play, but none of the disclosures or a contract is necessary until January 1. However, as we understand it, an FI is still needed.

Q: Given everything going on right now, do you have any new thoughts on whether to act as an FI for your NMOs?

A: No, we still do not intend to act as a financial institution; not even through January 1, 2018. While reduced due to the delay, there's still legal exposure that we are leery of undertaking.

Q: Given pending number can you talk about your thoughts on sales for this year?

A: We expect our sales to be down this year, if for no other reason than our sales were probably unsustainably high the last two years. Given the uncertainty with the DOL rule and carriers, agents and NMO's continued need to focus on compliance with the rule, as well as the competitive environment, it's not likely to be another record year. That said, we still expect policyholder funds to grow.

Q: Can you talk about the increase in RBC at quarter-end over year-end.

A: Our estimated RBC ratio is 11 points higher relative to year-end. This reflects a lower C-4 charge as our gross sales declined on a trailing twelve month basis as well as a larger increase in adjusted capital and surplus than the increase in other elements of required capital.

Q: Any new thoughts on reinsurance?

A: We still consider reinsurance to be an acceptable source of capital if we were to need it. There's a little bit of a wrench in the works though with regards to using overseas reinsurers. Under the border adjustment discussions for tax reform, it is unclear whether offshore reinsurance is considered an export of risk (and therefore premiums ceded would still be a deduction as is the case today) or an import of services (in which case premiums ceded may not be adjusted) or would reinsurance and other financial services be exempt from border adjustability (which is the typical case today in most countries that have such a mechanism).

Q: Thoughts on tax reform in general?

A: We hope it happens, obviously. We've seen a lot of reports and agree that our effective rate would pretty much decline in line with any decrease in the statutory rate. We're not holding our breath, but if the corporate tax rate were to actually drop to 15%, we think this would effectively wipe out the tax benefit from being domesticated in Bermuda, all else equal.

Q: What would be the effect on your DTA and capital if tax reform were to happen.

A: Well, it depends on the eventual corporate rate of course and it gets pretty complicated. On a GAAP basis, we have a DTA of $126.7 million. A change in the corporate tax rate to 20% would lower reported stockholder's equity by $54 million. However, we have a deferred tax liability for the mark-to-market on our invested assets. So what happens is that if we were to exclude AOCI, our DTA would be $343 million and our stockholder's equity ex. AOCI would decline by $147 million.

We estimate that the effect of a cut in the corporate tax rate to 20% would negatively affect RBC by about 4 points.

Q: How were index credits in the quarter and how did they compare to SOP 03-1 assumptions for the LIBR reserve?

A: Credits were very strong in the first quarter, more than offsetting a slight shortfall in the fourth quarter. If we were to look today at where the equity markets and assumed no change – we'd be ahead of target for the twelve months ending September 30, 2017 on that factor.

Q: Any thoughts on how we should be thinking about DAC given the increase in rates.

A: Remember DAC modeling is based on spread, not interest rates. Of course, interest rates affect spread, so there's an indirect assumption. Over the first six months since we unlocked in the third quarter, spread has been better than we assumed. Whether we continue with our current assumptions come September 30, 2017 depends on the interest rate environment – and our planned responses – at that time.

Q: Any update on the DOL litigation?

A: Nothing much lately. The parties in the Northern District of Texas case filed their first briefs with the 5th Circuit Court of Appeals earlier this week. We would expect a hearing late summer/early fall. The other cases are in various stages of appeal.

Q: Any thoughts on more potential delays?

A: With the Labor Secretary now confirmed, it is possible the June 9th effective date for implementation of the Impartial Conduct Standards could be pushed back although time is getting tight. We could see a delay in the January 1, 2018 BICE implementation as the DOL conducts its review of the rule following the President's February 3, Executive Order.

Q: What was GAAP LIBR reserve?

A: $563.6 million

Additional financial items responsive to potential questions

1. During 1Q17 we purchased $1.2 billion of fixed income securities at an average yield of 4.11% and we funded $106 million of commercial mortgage loans at an average yield of 4.38%. The security purchases included $1.0 billion of predominantly investment grade corporate bonds at a 4.10% yield, $65 million of commercial mortgage-backed securities at a 4.47% yield, $0 million of callable government agency securities and Treasuries, $57 million of municipal bonds at a 3.91% yield, $59 million of asset-backed securities at a 4.08% yield, and $11 million of leveraged loans at a 4.26% yield.

2) Interest expense for notes payable was $7.7 million compared to $7.6 million in 4Q16. The increase reflects higher LIBOR rates that affect the accrual of interest on the $100 million term loan we closed this past September 30th. The increase in interest expense from $6.9 million in 1Q16 reflects the new short term loan.

3) Interest expense on subordinated debentures of $3.3 million in 1Q17 was flat with 4Q16. We have $169.6 million of floating rate subordinated debentures which support $164.5 million of floating rate trust preferred securities held by third parties. We have swapped $85.5 million of floating rate trust preferred securities to a blended fixed rate of 6.08% and have capped the floating rate on the other $79.0 million for a term of seven years beginning March 2014 (swap) or July 2014 (caps). These derivatives are effectively raising the interest cost on the underlying trust preferred securities. Pretax operating income in 4Q16 was reduced by $308,000 for the interest rate swap. The caps reduce pretax operating income by $142,000 each quarter unless 3-month LIBOR exceeds the 2.50% cap rate in which case we would benefit from the caps and our effective interest cost for the underlying trust preferred securities would be capped at 6.93% (6.212% interest + .718% for amortization of cap cost). The amounts for each of these derivatives are reported in “Change in fair value of derivatives.”

4) We are in a net positive position with regards to metals, mining and energy. Given current markets, we didn’t really see the need to go through the stress testing we’ve done in the past.

5) On the subject of stress testing, we ran two scenarios at the end of the third quarter: a scenario in which our entire portfolio was downgraded one notch and a scenario in which our portfolio tracked corporate migration experience during the Great Recession. We found both scenarios resulted in roughly the same result, reducing our RBC ratio by about 55 bps.

6) Average credit quality is A, unchanged from year-end 2016.

7) We had a very low level of impairments in the quarter. Really just a small amount of RMBS..

8) We have eight names on our watchlist. Four are energy/oil related. One was metals/mining.

9) RMBS pay downs added roughly 3 bps to effective yield in the quarter.