Fidelity & Guaranty Life
Form 10-Q
August 06, 2014

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 June 30, 2014

OR

¨ 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: 001-36227

FIDELITY & GUARANTY LIFE
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	46-3489149 (I.R.S. Employer Identification No.)
1001 Fleet Street, 6th Floor Baltimore, MD (Address of principal executive offices)	21202 (Zip Code)

(410) 895-0100
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 or No ¨.

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 (section 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 or No ¨.

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.

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-accelerated Filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ or No x

There were 58,436,821 shares of the registrant's common stock outstanding as of August 4, 2014.

FIDELITY & GUARANTY LIFE AND SUBSIDIARIES
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PART I: FINANCIAL INFORMATION
Item 1. Financial Statements
FIDELITY & GUARANTY LIFE AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	June 30, 2014 (Unaudited)	September 30, 2013
ASSETS		
Investments:		
Fixed maturities securities, available-for-sale, at fair value	$17,007.4	$15,541.4
Equity securities, available-for-sale, at fair value	698.4	271.1
Derivative investments	324.7	221.8
Other invested assets	340.2	188.2
Total investments	18,370.7	16,222.5
Related party loans	124.1	119.0
Cash and cash equivalents	818.3	1,204.3
Accrued investment income	157.2	159.3
Reinsurance recoverable	3,675.4	3,728.6
Intangibles, net	496.2	563.8
Deferred tax assets	95.3	226.4
Other assets	128.0	205.2
Total assets	$23,865.2	$22,429.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Contractholder funds	$16,217.9	$15,248.2
Future policy benefits	3,516.1	3,556.8
Funds withheld for reinsurance liabilities	1,339.3	1,407.7
Liability for policy and contract claims	61.0	51.5
Long-term debt	300.0	300.0
Other liabilities	728.0	700.0
Total liabilities	22,162.3	21,264.2
Shareholders' equity:		
Common stock ($.01 par value, 500,000,000 shares authorized, 58,437,412 issued and outstanding at June 30, 2014; 47,000,000 shares issued and outstanding at September 30, 2013)	0.6	—
Additional paid-in capital	701.4	527.1
Retained earnings	598.3	524.9
Accumulated other comprehensive income	402.6	112.9
Total shareholders' equity	1,702.9	1,164.9
Total liabilities and shareholders' equity	$23,865.2	$22,429.1

See accompanying notes to condensed consolidated financial statements.

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FIDELITY & GUARANTY LIFE AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except share data)

	Three months ended		Nine months ended	
	June 30, 2014 (Unaudited)	June 30, 2013	June 30, 2014 (Unaudited)	June 30, 2013
Revenues:				
Premiums	$13.1	$19.0	$41.4	$46.9
Net investment income	191.2	184.6	558.9	522.8
Net investment gains	145.0	58.3	266.7	411.5
Insurance and investment product fees and other	18.6	16.1	51.3	44.6
Total revenues	367.9	278.0	918.3	1,025.8
Benefits and expenses:				
Benefits and other changes in policy reserves	242.5	107.2	638.3	431.7
Acquisition and operating expenses, net of deferrals	22.9	25.6	80.9	76.0
Amortization of intangibles	14.7	64.7	48.9	163.1
Total benefits and expenses	280.1	197.5	768.1	670.8
Operating income	87.8	80.5	150.2	355.0
Interest expense	(5.7)	(5.9)	(16.9)	(5.9)
Income before income taxes	82.1	74.6	133.3	349.1
Income tax expense	25.6	21.4	9.3	112.1
Net income	$56.5	$53.2	$124.0	$237.0
Net income per common share:				
Basic	$0.97	$1.13	$2.25	$5.04
Diluted	$0.97	$1.13	$2.24	$5.04
Weighted average common shares used in computing net income per common share:				
Basic	58,270,822	47,000,000	55,194,513	47,000,000
Diluted	58,474,938	47,000,000	55,329,523	47,000,000
Cash dividend per common share	$0.065	NM(a)	$0.130	NM(a)
Supplemental disclosures:				
Total other-than-temporary impairments	$(0.6)	$(0.7)	$(0.6)	$(1.6)
Portion of other-than-temporary impairments included in other comprehensive income	—	—	—	—
Net other-than-temporary impairments	(0.6)	(0.7)	(0.6)	(1.6)
Gains on derivative instruments	73.5	19.9	176.9	126.6
Other investment gains	72.1	39.1	90.4	286.5
Total net investment gains	$145.0	$58.3	$266.7	$411.5

(a) NM - Not meaningful under prior capital structure. Cash dividends per common share for the three and nine months ended June 30, 2014 exclude the special dividend paid to Harbinger Group Inc. of $43.0 (see Note 9 - Equity).

See accompanying notes to condensed consolidated financial statements.

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FIDELITY & GUARANTY LIFE AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Three months ended		Nine months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(Unaudited)		(Unaudited)	
Net income	$56.5	$53.2	$124.0	$237.0
Other comprehensive income (loss)				
Unrealized investment gains (losses):				
Changes in unrealized investment gains (losses) before reclassification adjustment	353.1	(559.4)	726.7	(379.1)
Net reclassification adjustment for (gains) included in net investment gains	(71.5)	(35.3)	(89.8)	(281.8)
Changes in unrealized investment gains (losses) after reclassification adjustment	281.6	(594.7)	636.9	(660.9)
Adjustments to intangible assets	(86.1)	210.7	(191.2)	260.9
Changes in deferred income tax asset/liability	(68.4)	135.5	(156.0)	140.9
Net change to derive comprehensive income (loss) for the period	127.1	(248.5)	289.7	(259.1)
Comprehensive income (loss), net of tax	$183.6	$(195.3)	$413.7	$(22.1)

See accompanying notes to condensed consolidated financial statements.

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FIDELITY & GUARANTY LIFE AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(In millions)

	Common Stock	Additional Paid-in Capital/Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, September 30, 2012	$—	$ 415.6	$440.7	$ 434.5	$1,290.8
Capital contributions from Harbinger Group Inc.	—	110.6	—	—	110.6
Dividends	—	—	(93.7)	—	(93.7)
Net income	—	—	237.0	—	237.0
Unrealized investment losses, net	—	—	—	(259.1)	(259.1)
Stock compensation	—	—	—	—	—
Balance, June 30, 2013	$—	$ 526.2	$584.0	$ 175.4	$1,285.6
Balance, September 30, 2013	$—	$ 527.1	$524.9	$ 112.9	$1,164.9
Dividends	—	—	(50.6)	—	(50.6)
Stock split	0.5	(0.5)	—	—	—
Proceeds from issuance of common stock, net of transaction fees	0.1	172.5	—	—	172.6
Net income	—	—	124.0	—	124.0
Unrealized investment gains, net	—	—	—	289.7	289.7
Stock compensation	—	2.3	—	—	2.3
Balance, June 30, 2014	$0.6	$ 701.4	$598.3	$ 402.6	$1,702.9

See accompanying notes to condensed consolidated financial statements.

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FIDELITY & GUARANTY LIFE AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Nine months ended June 30, 2014 (Unaudited)	June 30, 2013
Cash flows from operating activities:		
Net income	$124.0	$237.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of properties	3.8	2.9
Amortization of intangibles	48.9	163.1
Stock-based compensation	11.5	3.7
Amortization of debt issuance costs	2.6	0.8
Deferred income taxes	(24.9)	166.9
Interest credited/index credits and other changes to contractholder account balances	540.8	323.6
Amortization of fixed maturity discounts and premiums	(29.6)	24.4
Net recognized (gains) on investments and derivatives	(266.7)	(411.5)
Charges assessed to contractholders for mortality and administration	(33.4)	(23.9)
Deferred policy acquisition costs	(172.5)	(109.2)
Changes in operating assets and liabilities:		
Accrued investment income	2.1	33.1
Reinsurance recoverable	(12.9)	(6.6)
Future policy benefits	(40.7)	(38.6)
Funds withheld from reinsurers	(90.4)	—
Collateral posted	80.1	—
Liability for policy and contract claims	9.5	(24.2)
Other assets and other liabilities	23.2	(103.5)
Net cash provided by operating activities	175.4	238.0
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid:		
Fixed maturities	4,352.5	6,990.7
Equity securities	49.7	57.8
Derivatives instruments and other invested assets	358.5	217.4
Cost of investments acquired:		
Fixed maturities	(5,173.8)	(7,180.6)
Equity securities	(454.1)	(112.1)
Derivatives instruments and other invested assets	(341.4)	(112.5)
Related party loans	(5.0)	(205.2)
Capital expenditures	(6.7)	(3.1)
Net cash (used in) investing activities	(1,220.3)	(347.6)
Cash flows from financing activities:		
Capital funding	—	110.6
Proceeds from issuance of common stock, net of transaction fees	175.5	—
Dividends paid	(50.6)	(93.7)
Proceeds from issuance of new debt	—	300.0
Debt issuance costs	—	(10.2)
Contractholder account deposits	1,772.8	1,078.4
Contractholder account withdrawals	(1,238.8)	(1,327.1)

Net cash provided by financing activities	658.9	58.0
Change in cash and cash equivalents	(386.0)	(51.6)
Cash and cash equivalents at beginning of period	1,204.3	1,054.6
Cash and cash equivalents at end of period	$818.3	$1,003.0
Supplemental disclosures of cash flow information:		
Interest paid	$19.1	$5.9
Income taxes paid	$24.4	$2.7

See accompanying notes to condensed consolidated financial statements.

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FIDELITY & GUARANTY LIFE AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Basis of Presentation and Nature of Business

Fidelity & Guaranty Life (formerly, Harbinger F&G, LLC (“HFG”)) (“FGL” and, collectively with its subsidiaries, the “Company”) is a subsidiary of Harbinger Group Inc. (“HGI”). HGI is a diversified holding company focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries. FGL and HGI’s shares of common stock trade on the New York Stock Exchange (“NYSE”) under the symbols “FGL” and “HRG,” respectively. In January of 2014, HGI transferred HGI’s ownership interest in FGL common shares to FS Holdco II, Ltd. ("FS Holdco") which is a direct wholly-owned subsidiary of HGI. HGI indirectly held 47,000,000 shares of FGL's outstanding common stock, representing an 80.4% interest at June 30, 2014.

FGL’s primary business is the sale of individual life insurance products and annuities through independent agents, managing general agents, and specialty brokerage firms and in selected institutional markets. FGL’s principal products are deferred annuities (including fixed indexed annuity (“FIA”) contracts), immediate annuities and life insurance products. FGL markets products through its wholly-owned insurance subsidiaries, Fidelity & Guaranty Life Insurance Company (“FGL Insurance”) and Fidelity & Guaranty Life Insurance Company of New York (“FGL NY Insurance”), which together are licensed in all fifty states and the District of Columbia.

Dollar amounts in the accompanying footnotes are presented in millions, unless otherwise noted.

On August 9, 2013, the Company distributed its ownership interests in its wholly-owned subsidiaries, HGI Real Estate, LLC. and FS Holdco to HGI and HGI's subsidiaries. Beginning on August 9, 2013 with the distribution of FS Holdco, the Company’s financials reflected the 10% reinsurance agreement, whereby FGL cedes 10% of its in-force annuity block not already reinsured on a funds withheld basis to Front Street Re (Cayman) Ltd. (“FSRCI”), a subsidiary of FS Holdco. Accordingly, the three and nine months ended June 30, 2013 include net (loss) and net earnings of $(7.3) and $10.1, respectively from HGI Real Estate, LLC and FS Holdco operations.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of the Company included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), have been condensed or omitted pursuant to such rules and regulations. These interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Company’s Registration Statement on Form S-1/A filed with the SEC on December 3, 2013 (the “Form S-1”). The results of operations for the three and nine months ended June 30, 2014 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending September 30, 2014.

The Company’s fiscal quarters end on the last calendar day of the months of December, March, June and September.

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(2) Significant Accounting Policies and Practices
Principles of Consolidation
The accompanying unaudited condensed consolidated financial statements include the accounts of FGL and all other entities in which FGL has a controlling financial interest (none of which are variable interest entities). All intercompany accounts and transactions have been eliminated in consolidation.
Recent Accounting Pronouncements
Offsetting Assets and Liabilities
In December 2011, the Financial Accounting Standards Board ("FASB") issued amended disclosure requirements for offsetting financial assets and financial liabilities to allow investors to better compare financial statements prepared under GAAP with financial statements prepared under International Financial Reporting Standards. The new standards are effective for the Company beginning in the first quarter of its fiscal year ending September 30, 2014. ASU 2011-11 Disclosures about Offsetting Assets and Liabilities - was adopted by the Company effective October 1, 2013. FGL does not offset any of its derivative transactions, including bifurcated embedded derivatives, in its statement of financial position. The Company only enters into purchased equity options and long futures contracts. The Company has not entered into any repurchase and reverse repurchase agreements or securities borrowing and lending transactions. Accordingly, no additional disclosures are required.
Investments in Qualified Affordable Housing Projects
In January 2014, the FASB issued amended guidance which allows investors in Low Income Housing Tax Credit ("LIHTC") programs that meet specified conditions to present the net tax benefits (net of the amortization of the cost of the investment) within income tax expense. The cost of the investments that meet the specified conditions will be amortized in proportion to (and over the same period as) the total expected tax benefits, including the tax credits and other tax benefits, as they are realized on the tax return. The guidance is required to be applied retrospectively, if investors elect the proportional amortization method. However, if investors have existing LIHTC investments accounted for under the effective-yield method at adoption, they may continue to apply that method for those existing investments. The new standards will become effective for the Company beginning in the first quarter of its fiscal year ending September 30, 2016. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial position and results of operations.
Income Taxes
FGL and certain of its non-life insurance subsidiaries are included in the consolidated U.S. Federal income tax return of HGI. The Company's life insurance subsidiaries file a consolidated life insurance income tax return. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company assesses the recoverability of its deferred tax assets in each reporting period under the guidance outlined within ASC 740 ("Income Taxes"). The guidance requires an assessment of both positive and negative evidence in determining the realizability of deferred tax assets. A valuation allowance is required to reduce the Company's deferred tax asset to an amount that is more likely than not to be realized. In determining the net deferred tax asset and valuation allowance, management is required to make judgments and estimates related to projections of future profitability. These judgments include the following: the timing and extent of the utilization of net operating loss carry-forwards, the reversals of temporary differences, and tax planning strategies. Because of the change in facts and circumstances described in Note 11 of the Financial Statements, the Company determined that a portion of its existing deferred tax assets that had previously had a valuation allowance placed against them, were now more likely than not recoverable. Therefore, the Company released a portion of its valuation allowance and recognized a $35.0 gain in the income statement as of March 31, 2014. After the valuation allowance release, the Company still has a partial valuation allowance of $120.4 against its gross deferred tax assets and liabilities of $215.7 as of June 30, 2014 for other deferred tax assets that are not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has the ability and intent to recover in a tax-free manner assets

(or liabilities) with book/tax basis differences for which no deferred taxes have been provided, in accordance with ASC Topic 740, “Income Taxes”.

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The Company applies the accounting guidance for uncertain tax positions which prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The guidance also provides information on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Accrued interest expense and penalties related to uncertain tax positions are recorded in “Income tax benefit” in the Company’s Consolidated Statements of Operations. The Company had no unrecognized tax benefits related to uncertain tax positions as of June 30, 2014 and September 30, 2013.

(3) Significant Risks and Uncertainties

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making estimates, actual results in future periods could differ from those estimates.

The Company’s significant estimates which are susceptible to change in the near term relate to (1) recognition of deferred tax assets and related valuation allowances, (2) fair value of certain invested assets and derivatives including embedded derivatives (see Notes 4 and 5), (3) other than temporary impairment “OTTI” of available-for-sale investments (see Note 4), (4) amortization of intangibles (see Note 7), (5) estimates of reserves for loss contingencies, including litigation and regulatory reserves (see Note 12) and (6) reserves for future policy benefits and product guarantees.

Concentrations of Financial Instruments

As of June 30, 2014 and September 30, 2013, the Company’s most significant investment in one industry, excluding U.S. Government securities, was its investment securities in the banking industry with a fair value of $2,175.4 or 11.8% and $1,892.1 or 11.7%, respectively, of the invested assets portfolio. The Company’s holdings in this industry include investments in 84 different issuers with the top ten investments accounting for 40.0% of the total holdings in this industry. As of June 30, 2014 and September 30, 2013, the Company had investments in 1 issuer and 6 issuers, respectively that exceeded 10% of stockholders equity with a fair value of $189.1 or 1.0% and $788.7 or 4.9% of the invested assets portfolio. Additionally, the Company’s largest concentration in any single issuer as of June 30, 2014 and September 30, 2013 had a fair value of $189.1 and $150.7 or 1.0% and 0.9% of the invested assets portfolio, respectively.

Concentrations of Financial and Capital Markets Risk

The Company is exposed to financial and capital markets risk, including changes in interest rates and credit spreads which can have an adverse effect on the Company’s results of operations, financial condition and liquidity. The Company expects to continue to face challenges and uncertainties that could adversely affect its results of operations and financial condition.

The Company’s exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates, in the absence of other countervailing changes, will decrease the net unrealized gain position of the Company’s investment portfolio and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of the Company’s products may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring the Company to liquidate assets in an unrealized loss position. This risk is mitigated to some extent by the high level of surrender charge protection provided by the Company’s products.

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Concentration of Reinsurance Risk

The Company has a significant concentration of reinsurance with Wilton Reassurance Company (“Wilton Re”) and FSRCI (an affiliate) that could have a material impact on the Company’s financial position in the event that Wilton Re or FSRCI fail to perform their obligations under the various reinsurance treaties. Wilton Re is a wholly owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"). CPPIB has a AAA credit rating from Standard & Poor's Ratings Services ("S&P"). As of June 30, 2014, the net amount recoverable from Wilton Re was $1,360.6 and the net amount recoverable from FSRCI is $1,281.7. The Company monitors both the financial condition of individual reinsurers and risk concentration arising from similar geographic regions, activities and economic characteristics of reinsurers to reduce the risk of default by such reinsurers.

(4) Investments

The Company’s debt and equity securities investments have been designated as available-for-sale and are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income (“AOCI”) net of associated adjustments for value of business acquired (“VOBA”), deferred acquisition costs (“DAC”) and deferred income taxes. The Company’s consolidated investments at June 30, 2014 and September 30, 2013 are summarized as follows:

	June 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Available-for sale securities					
Asset-backed securities	$1,970.7	$17.7	$(10.4)	$1,978.0	$1,978.0
Commercial mortgage-backed securities	585.0	26.3	(1.1)	610.2	610.2
Corporates	9,765.9	568.5	(36.6)	10,297.8	10,297.8
Equities	678.2	25.1	(4.9)	698.4	698.4
Hybrids	442.0	39.8	(0.2)	481.6	481.6
Municipals	1,151.0	111.9	(7.2)	1,255.7	1,255.7
Agency residential mortgage-backed securities	96.1	3.4	—	99.5	99.5
Non-agency residential mortgage-backed securities	1,738.6	143.3	(7.8)	1,874.1	1,874.1
U.S. Government	404.6	7.2	(1.3)	410.5	410.5
Total available-for-sale securities	16,832.1	943.2	(69.5)	17,705.8	17,705.8
Derivative investments	165.1	160.6	(1.0)	324.7	324.7
Other invested assets	340.2	—	—	340.2	340.2
Total investments	$17,337.4	$1,103.8	$(70.5)	$18,370.7	$18,370.7

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	September 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Available-for-sale securities					
Asset-backed securities	$1,745.2	$24.5	$(5.2)	$1,764.5	$1,764.5
Commercial mortgage-backed securities	431.3	24.6	(1.6)	454.3	454.3
Corporates	9,314.7	288.7	(185.1)	9,418.3	9,418.3
Equities	274.6	6.8	(10.3)	271.1	271.1
Hybrids	412.6	19.5	(3.3)	428.8	428.8
Municipals	998.8	48.9	(40.7)	1,007.0	1,007.0
Agency residential mortgage-backed securities	96.5	2.4	(0.3)	98.6	98.6
Non-agency residential mortgage-backed securities	1,304.0	77.5	(13.4)	1,368.1	1,368.1
U.S. Government	998.5	7.2	(3.9)	1,001.8	1,001.8
Total available-for-sale securities	15,576.2	500.1	(263.8)	15,812.5	15,812.5
Derivatives Instruments	141.7	88.5	(8.4)	221.8	221.8
Other invested assets	188.2	—	—	188.2	188.2
Total investments	$15,906.1	$588.6	$(272.2)	$16,222.5	$16,222.5

Included in AOCI were cumulative unrealized gains of $0.9 and unrealized losses of $1.9 related to the non-credit portion of OTTI on non-agency residential mortgage-backed securities ("RMBS") at June 30, 2014 and September 30, 2013. The non-agency RMBS unrealized gains and losses represent the difference between amortized cost and fair value on securities that were previously impaired. There have been no impairments or write downs on any of the non-agency RMBS purchased in 2014.

Securities held on deposit with various state regulatory authorities had a fair value of $14,795.6 and $19.4 at June 30, 2014 and September 30, 2013, respectively. The increase in securities held on deposits is due to FGL Insurance's re-domestication from Maryland to Iowa. Under Iowa regulations, insurance companies are required to hold securities on deposit in an amount no less than the Company's legal reserve as prescribed by Iowa regulations.

In accordance with the Company's Federal Home Loan Bank of Atlanta (“FHLB”) agreements, the investments supporting the funding agreement liabilities are pledged as collateral to secure the FHLB funding agreement liabilities. The collateral investments had a fair value of $593.6 and $604.9 at June 30, 2014 and September 30, 2013, respectively.

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The amortized cost and fair value of fixed maturity available-for-sale securities by contractual maturities, as applicable, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

	June 30, 2014	
	Amortized Cost	Fair Value
Corporates, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$350.2	$353.3
Due after one year through five years	2,297.9	2,368.3
Due after five years through ten years	3,290.4	3,439.3
Due after ten years	5,748.8	6,204.0
Subtotal	11,687.3	12,364.9
Other securities which provide for periodic payments:		
Asset-backed securities	1,970.7	1,978.0
Commercial mortgage-backed securities	585.0	610.2
Structured hybrids	76.2	80.7
Agency residential mortgage-backed securities	96.1	99.5
Non-agency residential mortgage-backed securities	1,738.6	1,874.1
Total fixed maturity available-for-sale securities	$16,153.9	$17,007.4

The Company's available-for-sale securities with unrealized losses are reviewed for potential OTTI. In evaluating whether a decline in value is other-than-temporary, the Company considers several factors including, but not limited to the following: (1) the extent and the duration of the decline; (2) the reasons for the decline in value (credit event, currency or interest-rate related, including general credit spread widening); and (3) the financial condition of and near-term prospects of the issuer. The Company also considers the ability and intent to hold the investment for a period of time to allow for a recovery of value.

The Company analyzes its ability to recover the amortized cost by comparing the net present value of cash flows expected to be collected with the amortized cost of the security. For mortgage-backed and asset-backed securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions, based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within the tranche structure is also considered. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. If the net present value is less than the amortized cost of the investment, an OTTI is recognized. FGL has concluded that the fair values of the securities presented in the table below were not OTTI as of June 30, 2014.

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The fair value and gross unrealized losses of available-for-sale securities, aggregated by investment category, were as follows:

	June 30, 2014					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$474.2	$(4.7)	$306.2	$(5.7)	$780.4	$(10.4)
Commercial mortgage-backed securities	52.8	(0.1)	0.2	(1.0)	53.0	(1.1)
Corporates	446.1	(8.0)	1,009.2	(28.6)	1,455.3	(36.6)
Equities	46.0	(0.2)	80.6	(4.7)	126.6	(4.9)
Hybrids	—	—	12.7	(0.2)	12.7	(0.2)
Municipals	15.9	—	213.6	(7.2)	229.5	(7.2)
Agency residential mortgage-backed securities	5.5	—	0.7	—	6.2	—
Non-agency residential mortgage-backed securities	177.2	(4.1)	139.7	(3.7)	316.9	(7.8)
U.S. Government	—	—	81.7	(1.3)	81.7	(1.3)
Total available-for-sale securities	$1,217.7	$(17.1)	$1,844.6	$(52.4)	$3,062.3	$(69.5)
Total number of available-for-sale securities in an unrealized loss position less than twelve months						178
Total number of available-for-sale securities in an unrealized loss position twelve months or longer						250
Total number of available-for-sale securities in an unrealized loss position						428

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	September 30, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$329.3	$(4.5)	$81.5	$(0.7)	$410.8	$(5.2)
Commercial mortgage-backed securities	26.6	(0.5)	4.8	(1.1)	31.4	(1.6)
Corporates	3,457.2	(175.0)	186.0	(10.1)	3,643.2	(185.1)
Equities	118.6	(9.2)	32.2	(1.1)	150.8	(10.3)
Hybrids	52.0	(3.3)	—	—	52.0	(3.3)
Municipals	333.3	(27.3)	144.4	(13.4)	477.7	(40.7)
Agency residential mortgage-backed securities	9.8	(0.2)	1.1	(0.1)	10.9	(0.3)
Non-agency residential mortgage-backed securities	325.2	(12.2)	69.9	(1.2)	395.1	(13.4)
U.S government	753.9	(3.9)	—	—	753.9	(3.9)
Total available-for-sale securities	$5,405.9	$(236.1)	$519.9	$(27.7)	$5,925.8	$(263.8)
Total number of available-for-sale securities in an unrealized loss position less than twelve months						588
Total number of available-for-sale securities in an unrealized loss position twelve months or longer						78
Total number of available-for-sale securities in an unrealized loss position						666

At June 30, 2014 and September 30, 2013, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments. Agency residential mortgage-backed securities had positions with an unrealized loss less than $0.1 as of June 30, 2014.

At June 30, 2014 and September 30, 2013, securities with a fair value of $0.2 and $60.9, respectively, were depressed greater than 20% of amortized cost (excluding U.S. Government and U.S. Government sponsored agency securities), which represented less than 1% of the carrying values of all investments.

The following table provides a reconciliation of the beginning and ending balances of the credit loss portion of OTTI on fixed maturity securities held by the Company for the three and nine months ended June 30, 2014 and June 30, 2013, for which a portion of the OTTI was recognized in AOCI:

	Three months ended	Nine months ended

	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Beginning balance	$2.7	$2.7	$2.7	$2.7
Increases attributable to credit losses on securities:				
Other-than-temporary impairment was previously recognized	—	—	—	—
Other-than-temporary impairment was not previously recognized	—	—	—	—
Ending balance	$2.7	$2.7	$2.7	$2.7

The Company recognized $0.6 of credit impairment losses in operations during the three and nine months ended June 30, 2014, related to fixed maturity securities and low income housing tax credit securities with an amortized cost of $1.3 and a fair value of $0.7 at June 30, 2014. For the three and nine months ended June 30, 2013, the Company recognized impairment losses in operations totaling $0.7 and $1.6, including credit impairments of $0.5 and $0.8, and change-of-intent impairments of $0.2 and $0.8 related to fixed maturity securities with an amortized cost of $4.0 and a fair value of $2.4 at June 30, 2013.

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Details underlying write-downs taken as a result of OTTI that were recognized in net income and included in net realized gains on securities were as follows:

	Three months ended		Nine months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
OTTI recognized in net income:				
Municipals	$0.3	$—	$0.3	$—
Non-agency residential mortgage-backed securities	—	0.2	—	1.1
Other assets	0.3	0.5	0.3	0.5
Total OTTI	$0.6	$0.7	$0.6	$1.6

The portion of OTTI recognized in AOCI is disclosed in the Statement of Comprehensive Income.

Net Investment Income

The major sources of "Net investment income" on the accompanying Condensed Consolidated Statements of Operations were as follows:

	Three months ended		Nine months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Fixed maturity available-for-sale securities	$181.5	$178.2	$532.2	$506.5
Equity available-for-sale securities	6.9	3.3	16.2	11.5
Related party loans	1.8	3.9	5.3	9.8
Policy loans	0.2	—	0.5	—
Invested cash and short-term investments	—	0.2	0.2	1.4
Other investments	5.4	4.2	16.6	5.7
Gross investment income	195.8	189.8	571.0	534.9
Investment expense	(4.6)	(5.2)	(12.1)	(12.1)
Net investment income	$191.2	$184.6	$558.9	$522.8

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Net investment gains

Details underlying “Net investment gains ” reported on the accompanying Condensed Consolidated Statements of Operations were as follows:

	Three months ended		Nine months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net realized gains on fixed maturity available-for-sale securities	$72.9	$33.9	92.6	278.5
Realized gains (losses) on equity securities	0.1	4.8	(1.3)	6.7
Net realized gains on securities	73.0	38.7	91.3	285.2
Realized gains on certain derivative instruments	57.2	54.0	157.0	99.3
Unrealized gains (losses) on certain derivative instruments	36.6	(34.1)	73.3	27.3
Change in fair value of reinsurance related embedded derivative	(21.2)	—	(54.3)	—
Change in fair value of other embedded derivatives	0.9	—	0.9	—
Realized gains on derivatives and embedded derivatives	73.5	19.9	176.9	126.6
Realized gains (losses) on other invested assets	(1.5)	(0.3)	(1.5)	(0.3)
Net investment gains	$145.0	$58.3	$266.7	$411.5

For the three and nine months ended June 30, 2014, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities totaled $1,724.6 and $4,352.5, gross gains on such sales totaled $74.6 and $96.8 and gross losses totaled $1.7 and $4.2, respectively.

For the three and nine months ended June 30, 2013, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities, totaled $1,252.4 and $6,990.7, gross gains on such sales totaled $35.0 and $284.0 and gross losses totaled $0.4 and $1.0, respectively.

(5) Derivative Financial Instruments

The carrying amounts of derivative instruments, including derivative instruments embedded in FIA contracts, is as follows:

	June 30, 2014	September 30, 2013
Assets:		
Derivative investments:		
Call options	$324.6	$ 221.8
Futures contracts	0.1	—
Other Invested Assets:		
Other embedded derivatives	12.2	—
Other Assets:		
Reinsurance related embedded derivative	63.7	118.0
	$400.6	$ 339.8
Liabilities:		
Contractholder funds:		
FIA embedded derivative	$1,864.5	$1,544.4
Funds withheld for reinsurance liabilities		
Call options payable to FSRCI	27.1	22.8
Other liabilities:		
Futures contracts	—	1.0
	$1,891.6	$1,568.2

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The change in fair value of derivative instruments included in the accompanying Condensed Consolidated Statements of Operations is as follows:

	Three months ended		Nine months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:				
Net investment gains (losses):				
Call options	$83.2	$16.5	$205.3	$114.1
Futures contracts	10.6	3.4	25.0	12.5
Other embedded derivatives	0.9	—	0.9	—
Reinsurance related embedded derivative	(21.2)	—	(54.3)	—
	$73.5	$19.9	$176.9	$126.6
Benefits and other changes in policy reserves:				
FIA embedded derivatives	$145.8	$(53.7)	$320.1	$35.1

Additional Disclosures

Other Embedded Derivatives

On June 16, 2014, FGL Insurance invested in a $35.0 fund-linked note issued by Nomura International Funding Pte. Ltd. The note provides for an additional payment at maturity based on the value of an embedded derivative in AnchorPath Dedicated Return Fund (the "AnchorPath Fund") of $11.3 which is based on the actual return of the fund. At maturity of the fund-linked note, FGL Insurance will receive the $35.0 face value of the note plus the value of the embedded derivative in the AnchorPath Fund. The additional payment at maturity is an available-for-sale embedded derivative reported in "Other invested assets".

FGL Insurance participates in loans to third parties originated by Salus Capital Partners, LLC ("Salus"), an affiliated company indirectly owned by HGI that provides asset-based financing. Three of the participating loans are denominated in Canadian dollars (CAD) which is different from FGL Insurance's functional currency. One of the participating loans includes a provision for reimbursement from the borrower to FGL Insurance for any net foreign exchange losses realized by FGL Insurance under the loan in which FGL Insurance has a participation interest. FGL Insurance's ability to recover the foreign exchange losses under this loan participation is such that the Company has established an embedded derivative equal to FGL Insurance's cumulative net foreign exchange loss on this loan participation. The value of the embedded derivative is reflected in "Other invested assets" as of the balance sheet date with an offset to the Company's Consolidated Statement of Operations. The value of the embedded derivative at each balance sheet date is equal to the cumulative net foreign exchange loss recognized on this loan participation at the balance sheet date.

Reinsurance Related Embedded Derivatives

Effective December 31, 2012, FGL Insurance entered into a modified coinsurance arrangement with FSRCI, meaning that funds were withheld by FGL Insurance. This arrangement creates an obligation for FGL Insurance to pay FSRCI at a later date, which resulted in an embedded derivative. This embedded derivative is considered a total return swap with contractual returns that are attributable to the assets and liabilities associated with this reinsurance arrangement. The fair value of the total return swap is based on the change in fair value of the underlying assets held in the funds withheld portfolio. Investment results for the assets that support the coinsurance with funds withheld reinsurance arrangement, including gains and losses from sales, are passed directly to the reinsurer pursuant to contractual terms of the reinsurance arrangement. The reinsurance related embedded derivative is reported in “Other assets” on the Condensed Consolidated Balance Sheets and the related gains or losses are reported in “Net investment gains” on the Condensed Consolidated Statements of Operations.

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Credit Risk

The Company is exposed to credit loss in the event of nonperformance by its counterparties on the call options and reflects assumptions regarding this nonperformance risk in the fair value of the call options. The nonperformance risk is the net counterparty exposure based on the fair value of the open contracts less collateral held. The Company maintains a policy of requiring all derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement.

Information regarding the Company's exposure to credit loss on the call options it holds is presented in the following table:

		June 30, 2014				September 30, 2013			
Counterparty	Credit Rating (Fitch/Moody's/S&P) (a)	Notional Amount	Fair Value	Collateral	Net Credit Risk	Notional Amount	Fair Value	Collateral	Net Credit Risk
Merrill Lynch	A/*/A	$2,150.9	$100.4	$57.2	$43.2	$2,037.8	$70.7	$—	$70.7
Deutsche Bank	A+/A2/A	2,639.8	114.9	76.5	38.4	1,620.4	51.7	23.0	28.7
Morgan Stanley	*/A3/A	2,116.6	98.1	75.6	22.5	2,264.1	75.7	49.0	26.7
Royal Bank of Scotland	A-/*/A-	—	—	—	—	364.3	20.3	—	20.3
Barclay's Bank	A/A2/A	256.0	11.2	—	11.2	120.8	3.4	—	3.4
		$7,163.3	$324.6	$209.3	$115.3	$6,407.4	$221.8	$72.0	$149.8

(a) Credit rating as of June 30, 2014 except for Royal Bank of Scotland which is as of September 30, 2013. An * represents credit ratings that were not available.

Collateral Agreements

The Company is required to maintain minimum ratings as a matter of routine practice as part of its over-the-counter derivative agreements on ISDA forms. Under some ISDA agreements, the Company has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between the parties, at which time any amounts payable by the Company or the counterparty would be dependent on the market value of the underlying derivative contracts. The Company's current rating allows multiple counterparties the right to terminate ISDA agreements. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, the Company and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. As of June 30, 2014 and September 30, 2013, counterparties posted $209.3 and $72.0 of collateral of which $152.1 and $72.0 is included in "Cash and cash equivalents" with an associated payable for this collateral included in "Other liabilities" on the Condensed Consolidated Balance Sheets. The remaining, $57.2 of non-cash collateral was held by a third-party custodian at June 30, 2014. Accordingly, the maximum amount of loss due to credit risk that the Company would incur if parties to the call options failed completely to perform according to the terms of the contracts was $115.3 and $149.8 at June 30, 2014 and September 30, 2013, respectively.

The Company held 2,016 and 1,693 futures contracts at June 30, 2014 and September 30, 2013, respectively. The fair value of the futures contracts represents the cumulative unsettled variation margin (open trade equity, net of cash settlements). The Company provides cash collateral to the counterparties for the initial and variation margin on the futures contracts which is included in "Cash and cash equivalents" in the accompanying Condensed Consolidated Balance Sheets. The amount of cash collateral held by the counterparties for such contracts was $8.7 and $5.9 at June 30, 2014 and September 30, 2013, respectively.

(6) Fair Value of Financial Instruments

The Company's measurement of fair value is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset or non-performance risk, which may include the Company's own credit risk. The Company's estimate of an exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability ("exit price") in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability, as opposed to the price that would be paid to acquire the asset or receive a liability ("entry price"). The Company categorizes financial instruments carried at fair value into a three-level fair value hierarchy, based on the priority of inputs to the respective valuation technique. The three-level hierarchy for fair value measurement is defined as follows:

Level 1 -Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 -Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lower level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. Because certain securities trade in less liquid or illiquid markets with limited or no pricing information, the determination of fair value for these securities is inherently more difficult. However, Level 3 fair value investments may include, in addition to the unobservable or Level 3 inputs, observable components, which are components that are actively quoted or can be validated to market-based sources.

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The carrying amounts and estimated fair values of the Company's financial instruments for which the disclosure of fair values is required, including financial assets and liabilities measured and carried at fair value on a recurring basis, with the exception of investment contracts, a portion of related party loans, portions of other invested assets and debt, are summarized according to the hierarchy previously described, as follows:

	June 30, 2014				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Cash and cash equivalents	$818.3	$—	$—	$818.3	$818.3
Fixed maturity securities, available-for-sale:					
Asset-backed securities	—	1,935.2	42.8	1,978.0	1,978.0
Commercial mortgage-backed securities	—	526.3	83.9	610.2	610.2
Corporates	—	9,552.6	745.2	10,297.8	10,297.8
Hybrids	—	481.6	—	481.6	481.6
Municipals	—	1,219.2	36.5	1,255.7	1,255.7
Agency residential mortgage-backed securities	—	99.5	—	99.5	99.5
Non-agency residential mortgage-backed securities	—	1,874.1	—	1,874.1	1,874.1
U.S. Government	209.4	201.1	—	410.5	410.5
Equity securities available-for-sale	50.0	607.4	41.0	698.4	698.4
Derivative financial instruments	—	324.7	—	324.7	324.7
Reinsurance related embedded derivative, included in other assets	—	63.7	—	63.7	63.7
Related party loans	—	—	124.1	124.1	124.1
Other invested assets	—	0.6	339.6	340.2	340.2
Total financial assets at fair value	$1,077.7	$16,886.0	$1,413.1	$19,376.8	$19,376.8
Liabilities					
Derivatives:					
FIA embedded derivatives, included in contractholder funds	$—	$—	$1,864.5	$1,864.5	$1,864.5
Investment contracts, included in contractholder funds	—	—	12,891.5	12,891.5	14,353.4
Call options payable for FSRCI, included in funds withheld for reinsurance liabilities	—	27.1	—	27.1	27.1
Debt	—	300.0	—	300.0	300.0
Total financial liabilities at fair value	$—	$327.1	$14,756.0	$15,083.1	$16,545.0

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	September 30, 2013				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Cash and cash equivalents	$1,204.3	$—	$—	$1,204.3	$1,204.3
Fixed maturity securities, available-for-sale:					
Asset-backed securities	—	1,518.1	246.4	1,764.5	1,764.5
Commercial mortgage-backed securities	—	448.7	5.6	454.3	454.3
Corporates	—	8,957.2	461.1	9,418.3	9,418.3
Hybrids	—	428.8	—	428.8	428.8
Municipals	—	1,007.0	—	1,007.0	1,007.0
Agency residential mortgage-backed securities	—	98.6	—	98.6	98.6
Non-agency residential mortgage-backed securities	—	1,368.1	—	1,368.1	1,368.1
U.S. Government	790.9	210.9	—	1,001.8	1,001.8
Equity securities available-for-sale	—	271.1	—	271.1	271.1
Derivative financial instruments	—	221.8	—	221.8	221.8
Reinsurance related embedded derivative, included in other assets	—	118.0	—	118.0	118.0
Related party loans	—	—	119.0	119.0	119.0
Other invested assets	—	—	188.2	188.2	188.2
Total financial assets at fair value	$1,995.2	$14,648.3	$1,020.3	$17,663.8	$17,663.8
Liabilities					
Derivatives:					
FIA embedded derivatives, included in contractholder funds	$—	$—	$1,544.4	$1,544.4	$1,544.4
Derivative instruments: futures contracts	—	1.0	—	1.0	1.0
Investment contracts, included in contractholder funds	—	—	12,378.6	12,378.6	13,703.8
Call options payable for FSRCI, included in funds withheld for reinsurance liabilities	—	22.8	—	22.8	22.8
Debt	—	300.0	—	300.0	300.0
Total financial liabilities at fair value	$—	$323.8	$13,923.0	$14,246.8	$15,572.0

The carrying amounts of accrued investment income, and portions of other insurance liabilities, approximate fair value due to their short duration and, accordingly, they are not presented in the tables above.

Valuation Methodologies

Fixed Maturity Securities & Equity Securities

The Company measures the fair value of its securities based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and the Company will then consistently apply the valuation methodology to measure the security’s fair value. The Company's fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include a third-party pricing service, independent broker quotations or pricing matrices. The Company uses observable and unobservable inputs in its valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators and industry and economic events are monitored and

further market data will be acquired when certain thresholds are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. The significant unobservable input used in the fair value measurement of equity securities available-for-sale for which the market-approach valuation technique is employed is yields for comparable securities. Increases (decreases) in the yields would result in lower or higher, respectively, fair value measurements. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. The fair value of the Company's investment in mutual funds is based on the net asset value published by the respective mutual fund and represents the value the Company would have received if it withdrew its investment on the balance sheet date. Management believes the broker quotes are prices at which trades could be executed based on historical trades executed at broker-quoted or slightly higher prices.

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The Company did not adjust prices received from third parties as of June 30, 2014 and September 30, 2013. However, the Company does analyze the third-party valuation methodologies and its related inputs to perform assessments to determine the appropriate level within the fair value hierarchy.

Derivative Financial Instruments

The fair value of derivative assets and liabilities is based upon valuation pricing models, which represents what the Company would expect to receive or pay at the balance sheet date if it canceled the options, entered into offsetting positions, or exercised the options. Fair values for these instruments are determined externally by an independent consulting firm using market-observable inputs, including interest rates, yield curve volatilities, and other factors. The fair values of the embedded derivatives in the Company's FIA products are derived using market indices, pricing assumptions and historical data. The fair value of the reinsurance related embedded derivative in the funds withheld reinsurance agreement with FSRCI is estimated based upon the change in the fair value of the assets supporting the funds withheld from reinsurance liabilities. As the fair value of the assets is based on a quoted market price (Level 2), the fair value of the embedded derivative is based on market-observable inputs and is classified as Level 2. The fair value of futures contracts represents the cumulative unsettled variation margin (open trade equity, net of cash settlements).

Investment contracts include deferred annuities, FIAs, indexed universal life policies ("IULs") and immediate annuities. The fair value of deferred annuity, FIA, and IUL contracts is based on their cash surrender value (i.e. the cost the Company would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of the respective reporting date. At June 30, 2014 and September 30, 2013, this resulted in lower fair value reserves relative to the carrying value. The Company is not required to, and has 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.

Other Invested Assets

Fair value of our loan participation interest securities has been assessed to be equal to the unpaid principal balance of the participation interest as of June 30, 2014. In making this assessment the Company considered the sufficiency of the underlying loan collateral, movements in the benchmark interest rate between origination date and June 30, 2014, the primary market participant for these securities and the short-term maturity of these loans (less than 1 year).

Fair value of our available-for-sale embedded derivative is based on an unobservable input, the net asset value of the AnchorPath fund at the balance sheet date. The available-for-sale embedded derivative is similar to a call option on the net asset value of the AnchorPath fund with a strike price of zero since FGL Insurance will not be required to make any additional payments at maturity of the fund-linked note in order to receive the net asset value of the AnchorPath fund on the maturity date. Therefore, the Black Scholes model returns the net asset value of the AnchorPath fund as the fair value of the call option regardless of the values used for the other inputs to the option pricing model. The net asset value of the AnchorPath fund is provided by the fund manager at the end of each calendar month and represents the value an investor would receive if it withdrew its investment on the balance sheet date. Therefore, the key unobservable input used in the Black Scholes model is the value of the AnchorPath fund. As the value of the AnchorPath fund increases or decreases, the fair value of the embedded derivative will increase or decrease.

Fair value of foreign exchange embedded derivative is based on the quoted USD/CAD exchange rates.

All of the other financial instruments included in other investments, primarily commercial mortgage loans ("CMLs") and policy loans, are carried at amortized cost which approximates fair value. Information on determining the carry value of these investments is described below:

In September 2013, the Company initiated a commercial loan program with Principal Real Estate Investors ("Principal"). The Company has funded thirteen CMLs originated and serviced by Principal with a fair value of $148.6 at June 30, 2014 which is equal to amortized cost as these loans were recently originated and are performing in good standing with no material credit concerns with the borrower or the property. Principal monitors the status of the payment obligations, the credit quality of the borrower and the property as well as for other events that may impact the

performance and principal repayment of the CMLs. Additionally, the Company reviews Principal's valuation methodologies and processes to perform assessments. A CMLs' good standing and payment obligations are material factors in evaluating CMLs carrying value. At June 30, 2014, all thirteen CMLs are performing in good standing and there are no credit or other events which would require impairment evaluation.

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Also included in other invested assets are policy loans. 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.

Related Party Loans

The related party loans (discussed in Note 14) carrying value at par approximates fair value, as this is the exit price for the obligation of these loans.

Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of June 30, 2014 and September 30, 2013 are as follows:

	Fair Value at			Range (Weighted average)
	June 30, 2014	Valuation Technique	Unobservable Input(s)	June 30, 2014
Assets				
Asset-backed securities	$42.8	Broker-quoted	Offered quotes	95.45% - 102.39% (98.84%)
Commercial mortgage-backed securities	83.9	Broker-quoted	Offered quotes	104.00% - 121.39% (118.85%)
Corporates	653.5	Broker-quoted	Offered quotes	61.57% - 121.00% (99.61%)
Corporates	91.7	Matrix Pricing	Quoted prices	95.94% - 142.14% (101.73%)
Municipals	36.5	Broker-quoted	Offered quotes	(116.55%)
Equity securities available-for-sale	6.0	Broker-quoted	Offered quotes	100.00%
Equity securities available-for-sale	35.0	Market-approach	Yield	8.08% - 9.58%
Other invested assets:				
Available-for-sale embedded derivative	11.6	Black Scholes model	Net asset value of AnchorPath fund	100.00%
Salus participations, included in other invested assets	168.1	Market Pricing	Offered quotes	100.00%
Total	$1,129.1			
Liabilities				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$1,864.5	Discounted cash flow	Market value of option	0% - 48.16% (3.95%)
			SWAP rates	1.70% - 2.63% (2.17%)
			Mortality multiplier	80%
			Surrender rates	0.50% - 75.00% (7.00%)
			Non-performance spread	0.25%
Total liabilities at fair value	$1,864.5			

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	Fair Value at			Range (Weighted average)
	September 30, 2013	Valuation Technique	Unobservable Input(s)	September 30, 2013
Assets				
Asset-backed securities	$246.5	Broker-quoted	Offered quotes	100.00% - 107.25% (100.91%)
Commercial mortgage-backed securities	5.6	Broker-quoted	Offered quotes	95.50%
Corporates	404.5	Broker-quoted	Offered quotes	0.00% - 113.00% (90.45%)
Corporates	56.6	Market Pricing	Quoted prices	90.06% - 130.92% (97.19%)
Salus participations, included in other invested assets	157.0	Market Pricing	Offered quotes	100.00%
Total	$870.2			
Liabilities				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$1,544.4	Discounted cash flow	Market value of option	0% - 38.24% (3.82%)
			SWAP rates	1.54% - 2.77% (2.16%)
			Mortality multiplier	80%
			Surrender rates	0.50% - 75% (7%)
			Non-performance spread	0.25%
Total liabilities at fair value	$1,544.4			

The significant unobservable inputs used in the fair value measurement of FIA embedded derivatives included in contractholder funds are market value of option, interest swap rates, mortality multiplier, surrender rates, and non-performance spread. The mortality multiplier at June 30, 2014 and September 30, 2013, is based on the 2000 annuity tables and assumes the contractholder population is 50% female and 50% male. Significant increases (decreases) in the market value of option in isolation would result in a higher or lower, respectively, fair value measurement. Significant increases or decreases in interest swap rates, mortality multiplier, surrender rates, or non-performance spread in isolation would result in a lower or higher, respectively, fair value measurement. Generally, a change in any one unobservable input would not result in a change in any other unobservable input. Changes in unrealized losses (gains), net in the Company’s FIA embedded derivatives are included in "Benefits and other changes in policy reserves" in the Condensed Consolidated Statements of Operations.

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The following tables summarize changes to the Company's financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the three and nine months ended June 30, 2014 and June 30, 2013 respectively. This summary excludes any impact of amortization of VOBA and DAC. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	Three months ended June 30, 2014					
		Total Gains (Losses)				
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Net Purchases, Sales, & Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets						
Fixed maturity securities available-for-sale:						
Asset-backed securities	$47.4	$—	$0.2	$—	$(4.8)	$42.8
Commercial mortgage-backed securities	—	—	0.1	83.8	—	83.9
Corporates	657.0	—	14.4	87.9	(14.1)	745.2
Municipals	35.6	—	0.9	—	—	36.5
Equity securities available-for-sale	33.4	—	2.1	5.5	—	41.0
Other invested assets:						
Available-for-sale embedded derivative	—	0.3	—	11.3	—	11.6
Salus participations, included in other invested assets	193.4	—	—	(25.3)	—	168.1
Total assets at Level 3 fair value	$966.8	$0.3	$17.7	$163.2	$(18.9)	$1,129.1
Liabilities						
FIA embedded derivatives, included in contractholder funds	$1,718.7	$145.8	$—	$—	$—	$1,864.5
Total liabilities at Level 3 fair value	$1,718.7	$145.8	$—	$—	$—	$1,864.5

(a) The net transfers out of Level 3 during the three months ended June 30, 2014 were exclusively to Level 2.

	Nine months ended June 30, 2014					
		Total Gains (Losses)				
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Net Purchases, Sales, & Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets						
Fixed maturity securities available-for-sale:						
Asset-backed securities	$246.5	$—	$(1.2)	$5.0	$(207.5)	$42.8
Commercial mortgage-backed securities	5.6	—	0.5	83.8	(6.0)	83.9
Corporates	461.1	—	18.4	279.8	(14.1)	745.2
Municipals	—	—	1.5	35.0	—	36.5
Equity securities available-for-sale	—	—	2.1	38.9	—	41.0
Other invested assets:						
Available-for-sale embedded derivative	—	0.3	—	11.3	—	11.6
Salus participations, included in other invested assets	157.0	—	—	11.1	—	168.1
Total assets at Level 3 fair value	$870.2	$0.3	$21.3	$464.9	$(227.6)	$1,129.1
Liabilities						

FIA embedded derivatives, included in contractholder funds	$1,544.4	$320.1	$—	$—	$—	$1,864.5
Total liabilities at Level 3 fair value	$1,544.4	$320.1	$—	$—	$—	$1,864.5

(a) The net transfers out of Level 3 during the nine months ended June 30, 2014 were exclusively to Level 2. There was a $6.0 transfer within the Level 3 asset class from commercial mortgage-backed securities to asset-backed securities.

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	Three months ended June 30, 2013					
	Balance at Beginning of Period	Total Gains (Losses) Included in Earnings	Included in AOCI	Net Purchases, Sales, & Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets						
Fixed maturity securities available-for-sale:						
Contingent Purchase Price	$41.0	$—	$—	$—	$—	$41.0
Asset-backed securities	5.3	—	(0.2)	117.4	0.1	122.6
Commercial mortgage-backed securities	6.2	—	(0.1)	—	(0.1)	6.0
Corporates	356.5	—	(11.9)	94.5	(0.1)	439.0
Hybrids		—	—	—	—	—
Equity securities available-for-sale	10.0	—	1.6	0.1	—	11.7
Salus preferred equity, included in related party loans	32.0	—	—	—	—	32.0
Salus participations, included in other invested assets	15.2	—	—	147.0	—	162.2
Total assets at Level 3 fair value	$466.2	$—	$(10.6)	$359.0	$(0.1)	$814.5
Liabilities						
FIA embedded derivatives, included in contractholder funds	$1,639.6	$(53.7)	$—	$—	$—	$1,585.9
Total liabilities at Level 3 fair value	$1,639.6	$(53.7)	$—	$—	$—	$1,585.9

(a) The net transfers in and out of Level 3 during the three months ended June 30, 2013 were exclusively to or from Level 2.

	Nine months ended June 30, 2013					
	Balance at Beginning of Period	Total Gains (Losses) Included in Earnings	Included in AOCI	Net Purchases, Sales, & Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets						
Fixed maturity securities available-for-sale:						
Contingent Purchase Price	$41.0	$—	$—	$—	$—	$41.0
Asset-backed securities	15.9	—	(0.2)	117.4	(10.5)	122.6
Commercial mortgage-backed securities	5.0	—	—	1.0		6.0
Corporates	135.3	(0.3)	(10.8)	348.6	(33.8)	439.0
Hybrids	8.9	—	(0.2)	—	(8.7)	—
Equity securities available-for-sale	—	—	1.6	10.1	—	11.7
Salus preferred equity, included in related party loans	32.0	—	—	—	—	32.0
Salus participations, included in other invested assets	—	—	—	162.2	—	162.2
Total assets at Level 3 fair value	$238.1	$(0.3)	$(9.6)	$639.3	$(53.0)	$814.5
Liabilities						
	$1,550.8	$35.1	$—	$—	$—	$1,585.9

FIA embedded derivatives, included in contractholder funds						
Total liabilities at Level 3 fair value	$1,550.8	$35.1	$—	$—	$—	$1,585.9

(a) The net transfers in and out of Level 3 during the nine months ended June 30, 2013 were exclusively to or from Level 2.

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The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. There were no transfers between Level 1 and Level 2 for the three or nine months ended June 30, 2014. We transferred $79.3 U.S. Government securities from Level 1 into Level 2 for the three and nine months ended June 30, 2013 reflecting the level of market activity in these instruments.

Primary market issuance and secondary market activity for certain asset-backed, hybrid and corporate securities during the three months and nine months ended June 30, 2014 and June 30, 2013 increased the market observable inputs used to establish fair values for similar securities. These factors, along with more consistent pricing from third-party sources, resulted in the Company concluding that there is sufficient trading activity in similar instruments to support classifying these securities as Level 2 as of June 30, 2014 and June 30, 2013. Accordingly, the Company's assessment resulted in net transfers out of Level 3 of $18.9 and $221.6 related to asset backed securities and corporate securities during the three and nine months ended June 30, 2014. During the three and nine months ended June 30, 2013, there were net transfers out of Level 3 of $0.1 and $53.0, respectively, related to corporate and hybrid securities.

The following tables present the gross components of purchases, sales, and settlements, net, of Level 3 financial instruments for the three and nine months ended June 30, 2014 and June 30, 2013, respectively. There were no issuances during these periods.

	Three months ended June 30, 2014			
	Purchases	Sales	Settlements	Net Purchases, Sales, & Settlements
Assets				
Fixed maturity securities available-for-sale:				
Commercial mortgage-backed securities	$83.8	$—	$—	$83.8
Corporates	88.9	(1.0)	—	87.9
Equity securities available-for-sale	5.5	—	—	5.5
Other invested assets:				
Available-for-sale embedded derivative	11.3	—	—	11.3
Salus participations, included in other invested assets	4.1	—	(29.4)	(25.3)
Total assets at fair value	$193.6	$(1.0)	$(29.4)	$163.2

	Nine months ended June 30, 2014			
	Purchases	Sales	Settlements	Net Purchases, Sales, & Settlements
Assets				
Fixed maturity securities available-for-sale:				
Asset-backed securities	$5.0	$—	$—	$5.0
Commercial mortgage-backed securities	83.8	—	—	83.8
Corporates	283.2	(1.0)	(2.4)	279.8
Equity securities available-for-sale	38.9	—	—	38.9
Municipal	35.0	—	—	35.0
Other invested assets				

Available-for-sale embedded derivative	11.3	—	—	11.3
Salus participations, included in other invested assets	109.1	—	(98.0)	11.1
Total assets at fair value	$566.3	$(1.0)	$(100.4)	$464.9

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	Three months ended June 30, 2013			
	Purchases	Sales	Settlements	Net Purchases, Sales, & Settlements
Assets				
Fixed maturity securities available-for-sale:				
Asset-backed securities	$117.5	$—	$(0.1)	$117.4
Corporates	102.7	—	(8.2)	94.5
Equity securities available-for-sale	0.1	—	—	0.1
Other invested assets	147.0	—	—	147.0
Total assets at fair value	$367.3	$—	$(8.3)	$359.0

	Nine months ended June 30, 2013			
	Purchases	Sales	Settlements	Net Purchases, Sales, & Settlements
Assets				
Fixed maturity securities available-for-sale:				
Asset-backed securities	$117.5	$—	$(0.1)	$117.4
Commercial mortgage-backed securities	1.0	—	—	1.0
Corporates	380.1	(9.6)	(21.9)	348.6
Equity securities available-for-sale	10.1	—	—	10.1
Other invested assets	162.2	—	—	162.2
Total assets at fair value	$670.9	$(9.6)	$(22.0)	$639.3

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(7) Intangible Assets

Information regarding VOBA and DAC which includes deferred sales inducement, is as follows:

	VOBA	DAC	Total
Balance at September 30, 2012	$104.3	$169.2	$273.5
Deferrals	—	109.2	109.2
Less: Amortization related to:			
Unlocking	22.6	4.8	27.4
Interest	16.2	7.1	23.3
Periodic amortization	(151.8)	(62.0)	(213.8)
Add: Adjustment for unrealized investment gains/losses	211.3	49.6	260.9
Balance at June 30, 2013	$202.6	$277.9	$480.5

	VOBA	DAC	Total
Balance at September 30, 2013	$225.3	$338.5	$563.8
Deferrals	—	172.5	172.5
Less: Amortization related to:			
Unlocking	21.8	3.4	25.2
Interest	11.0	10.1	21.1
Periodic amortization	(59.3)	(35.9)	(95.2)
Add: Adjustment for unrealized investment gains/losses	(108.2)	(83.0)	(191.2)
Balance at June 30, 2014	$90.6	$405.6	$496.2

Amortization of VOBA and DAC is based on the amount of gross margins or profits recognized, including investment gains and losses. The adjustment for unrealized net investment gains represents the amount of VOBA and DAC that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the "shadow adjustments" as the additional amortization is reflected in AOCI rather than the statement of operations. As of June 30, 2014 and September 30, 2013, the VOBA balance included cumulative adjustments for net unrealized investment gains/losses of $189.7 and $81.4, respectively, and the DAC balances included cumulative adjustments for net unrealized investment gains/losses of $64.4 and $18.6, respectively.

The above DAC balances include $29.8 and $26.2 of deferred sales inducements, net of shadow adjustments, as of June 30, 2014 and September 30, 2013, respectively.

The weighted average amortization period for VOBA is approximately 5.0 years. Estimated amortization expense for VOBA in future fiscal periods is as follows:

Fiscal Year	Estimated Amortization Expense VOBA
2014	$8.2
2015	43.4
2016	39.6
2017	32.7
2018	26.6
Thereafter	129.7

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(8) Long Term Debt

In March 2013, FGL's wholly owned subsidiary, Fidelity & Guaranty Life Holdings, Inc. ("FGLH"), issued $300.0 aggregate principal amount of its 6.375% senior notes (“Notes Offering”) due April 1, 2021, at par value, which FGLH may elect to redeem after April 1, 2016. Interest payments are due semi-annually, April 1 and October 1, commencing October 1, 2013, and total interest expense was $4.8 and $14.3, for the three and nine months ended June 30, 2014, respectively, and $5.1 for the three and nine months ended June 30, 2013.

In connection with the Notes Offering, FGL capitalized $10.2 of debt issue costs. The fees are classified as “Other assets” in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2014 and are being amortized over the redemption date using the straight-line method over the remaining term of the debt, of which $0.9 and $2.6 has been amortized for the three and nine months ended June 30, 2014, respectively and $0.8 for the three and nine months ended June 30, 2013.

(9) Equity

On November 26, 2013, the Company’s board of directors increased the number of authorized shares of the Company’s common stock, par value $0.01 per share, from 100 thousand to 500,000 thousand and approved a stock split of the issued and outstanding shares of common stock at a ratio of 4,700-for-1, resulting in 47,000 thousand shares outstanding. Net income per common share and the weighted average common shares used in computing net income per share for the three and nine months ended June 30, 2014 and 2013, included in the Company’s Consolidated Statement of Operations, have been adjusted to give effect to the stock split. Likewise, the amount of shares authorized, issued, and outstanding disclosed in the Company’s Consolidated Balance sheets have also been adjusted.

In December 2013 the Company issued 9,750 thousand shares of common stock as well as 58 thousand unrestricted shares to its directors in connection with its initial public offering ("IPO") and began trading on the New York Stock Exchange under the ticker symbol "FGL." FGL also granted the underwriters an option to purchase an additional 1,463 thousand shares of common stock that was subsequently exercised. Subsequent to the offering HGI indirectly held 47,000 thousand shares of FGL's outstanding common stock, representing an 80.4% interest at June 30, 2014.

On December 18, 2013, the Company received net proceeds from the IPO of $172.5. A portion of the proceeds were used to pay a special dividend of $43.0 to HGI.

On March 3, 2014, FGL’s Board of Directors declared a quarterly cash dividend of $0.065 per share. The dividend was paid on March 31, 2014 to shareholders of record as of the close of business on March 17, 2014. The total cash payment of $3.9 (based on fully vested, outstanding shares of 58,271 thousand) was funded from the IPO proceeds.

On May 6, 2014, FGL’s Board of Directors declared a quarterly cash dividend of $0.065 per share. The dividend was paid on June 2, 2014 to shareholders of record as of the close of business on May 19, 2014 and total cash paid was $3.7 (based on fully vested, outstanding shares of 58,271 thousand).

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(10) Stock Compensation

In conjunction with the IPO, on November 7, 2013, FGL's Board of Directors adopted a long term stock-based incentive plan (the "FGL 2013 Stock Incentive Plan" or the "Omnibus Plan") under which certain officers, employees, directors and consultants are eligible to receive equity based awards. The Omnibus Plan was approved by the stockholder on November 19, 2013, became effective on December 12, 2013 and expires in December 2023. FGL's Compensation Committee approved the granting of awards under the Omnibus Plan to certain employees, officers and directors (other than the members of the Compensation Committee). In addition, FGL's Board of Directors approved the granting of awards to members of FGL's Compensation Committee (the "Compensation Committee Awards"). The Compensation Committee Awards were not made under the Omnibus Plan; however, these awards will be construed and administered as if subject to the terms of the Omnibus Plan. FGL's Board of Directors and stockholder also approved the granting of unrestricted common shares to its directors in lieu of cash compensation at the election of each individual director (the "Unrestricted Share Awards"). The Omnibus Plan, Compensation Committee Awards and the Unrestricted Share Awards are collectively referred to as the "FGL Plans" and are accounted for as equity plans. New shares are issued to satisfy stock option exercises. As of the date the stock awards are approved and communicated to the recipient, the fair value of stock options is determined using a Black-Scholes options valuation methodology, and the fair value of other stock awards is based upon the market value of the stock. The fair value of the awards is expensed over the service period, which generally corresponds to the vesting period, and is recognized as an increase to Additional paid-in capital in stockholders' equity.

Prior to the initial public offering, FGL did not offer stock-based compensation plans to any of its directors, employees or the directors or employees of its subsidiaries.

FGL's principal subsidiary, FGLH, sponsors stock-based incentive plans and dividend equivalent plans ("DEPs") for its employees (the "FGLH Plans"). Awards under the FGLH Plans are based on the common stock of FGLH. In 2013, FGLH determined that all equity awards will be settled in cash when exercised and therefore are classified as liability plans. For these awards, the settlement value is classified as a liability, in "Other liabilities", on the Consolidated Balance Sheets and the liability is adjusted to the current fair value through net income at the end of each reporting period, which causes volatility in net income (loss) as a result of changes in the fair value of FGLH's stock. The fair value of stock options is determined using a Black-Scholes options valuation methodology and the fair value of restricted stock units is based upon the fair value of FGLH's stock. In connection with the IPO, the FGLH plans were frozen and no new awards will be granted under these plans. Outstanding awards will be permitted to vest in accordance with the award agreements and will be cash settled upon vesting or exercise.

The Company recognized total stock compensation expense related to the FGL Plans and FGLH Plans as follows:

	Three months ended		Nine months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
FGL Plans				
Stock options	$0.1	$—	$0.2	$—
Restricted shares	0.1	—	0.4	—
Performance restricted stock units	(0.1)	—	0.7	—
Unrestricted shares	—	—	1.0	—
	0.1	—	2.3	—
FGLH Plans				
Stock Incentive Plan - stock options	1.1	1.0	7.0	1.9
2011 DEP	—	0.2	0.6	0.6
Amended and Restated Stock Incentive Plan - stock options	0.9	0.2	5.9	0.2
Amended and Restated Stock Incentive Plan - restricted stock units	0.3	0.2	1.4	0.4
2012 DEP	0.1	0.2	0.3	0.4
	2.4	1.8	15.2	3.5
Total stock compensation expense	2.5	1.8	17.5	3.5

Related tax benefit	0.9	0.6	6.1	1.2
Net stock compensation expense	$1.6	$1.2	$11.4	$2.3

The stock compensation expense is included in "Acquisition and operating expenses, net of deferrals" in the Condensed Consolidated Statements of Operations.

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Total compensation expense related to the FGL Plans and FGLH Plans not yet recognized as of June 30, 2014 and the weighted-average period over which this expense will be recognized are as follows:

	Unrecognized Compensation Expense	Weighted Average Recognition Period in Years
FGL Plans		
Stock options	$0.7	2.7
Restricted shares	2.3	2.7
Performance restricted stock units	8.8	2.5
Unrestricted shares	—	N/A
	11.8	
FGLH Plans		
Stock Incentive Plan	1.0	0.3
2011 DEP	—	0.0
Amended and Restated Stock Incentive Plan - stock options	3.2	1.5
Amended and Restated Stock Incentive Plan - restricted stock units	2.0	1.5
2012 DEP	0.8	1.8
	7.0	
Total unrecognized stock compensation expense	$18.8	2.1

FGL Plans

FGL’s Compensation Committee is authorized to grant up to 2,838 thousand equity awards under the FGL Plans. On December 12, 2013, FGL granted 239 thousand stock options to certain officers, directors and other key employees under the Omnibus Plan and 10 thousand stock options to Compensation Committee members. These stock options vest in equal installments over a period of three years and expire on the seventh anniversary of the grant date. The total fair value of the option grants to certain officers and directors on the grant date was $0.6 and the total fair value of the option grants to other key employees on the grant date was $0.3. At June 30, 2014, the intrinsic value of stock options outstanding, exercisable and vested or expected to vest was $1.7, $0 and $1.7, respectively. During both the nine months ended June 30, 2014 and 2013 the intrinsic value of stock options exercised was $0.

A summary of FGL’s outstanding stock options as of June 30, 2014, and related activity during the three month period, is as follows (share amount in thousands):

Stock Option Awards	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Stock options outstanding at September 30, 2013	—	$—	$—
Granted	249	17.00	3.76
Exercised	—	—	—
Forfeited or expired	(4)		5.26
Stock options outstanding at June 30, 2014	245	17.00	3.73
Exercisable at June 30, 2014	—		
Vested or expected to vest at June 30, 2014	241	17.00	3.70

The following assumptions were used in the determination of these grant date fair values using the Black-Scholes option pricing model and based on the value of FGL's common stock:

	2014
Risk-free interest rate	1.4%
Assumed dividend yield	1.5%
Expected option term	4.5 years
Volatility	25%

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The dividend yield is based on the expected dividend rate during the expected life of the option. Expected volatility is based on the implied volatility of exchange-traded securities for life insurance companies. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life of the options granted represents the weighted-average period of time from the grant date to the date of exercise, expiration or cancellation based upon a simplified method.

On December 12, 2013, FGL also granted 96 thousand restricted shares to certain officers and directors under the Omnibus Plan and 11 thousand restricted shares to Compensation Committee members. In addition, FGL granted 64 thousand restricted shares to other key employees on December 12, 2013; however, these awards were not communicated to the recipients until January 30, 2014 which was determined to be the grant date for accounting purposes. These shares vest in equal installments over a period of three years and expire on the seventh anniversary of the grant date. The total fair value of the restricted shares granted to certain officers and directors on their grant date was $1.8 and the total fair value of the restricted shares granted to other key employees on the grant date was $1.2. The restricted shares are entitled to any cash dividends paid on FGL's stock prior to vesting of the restricted shares. The cash dividends are held by FGL until the shares become vested and are paid to the recipient at that time or are forfeited if the restricted shares do not vest.

A summary of FGL's restricted shares outstanding as of June 30, 2014, and related activity during the nine months then ended, are as follows (share amount in thousands):

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at September 30, 2013	—	$—
Granted	171	18.11
Forfeited or expired	(5)	19.98
Restricted shares outstanding at June 30, 2014	166	18.06
Exercisable at June 30, 2014	—	—
Vested or expected to vest at June 30, 2014	162	18.00

On December 12, 2013, FGL also granted 469 thousand performance restricted stock units ("PRSUs") to senior executive officers under the Omnibus Plan. In addition, FGL granted 72 thousand PRSUs to a new senior executive officer on January 22, 2014. The award was communicated to and accepted by the senior executive officer on January 27, 2014. These units vest on September 30, 2016, contingent on the satisfaction of performance criteria and on the officer's continued employment unless otherwise noted in the agreement. The total fair value of the PRSUs on the grant date of December 12, 2013 was $8.0 and the total fair value of the PRSUs awarded to the senior executive officer on the grant date of January 27, 2014 was $1.4.

PRSUs subject to vesting are adjusted based on yearly performance, which is evaluated on two non-GAAP measures: (1) adjusted operating income, and (2) return on equity.

A summary of PRSUs outstanding as of June 30, 2014, and related activity during the nine months then ended, is as follows (share amount in thousands):

Performance Restricted Stock Units (PRSUs)	Shares	Weighted Average Grant Date Fair Value
PRSUs outstanding at September 30, 2013	—	$—
Granted	541	17.37
Forfeited or expired	—	—
PRSUs outstanding at June 30, 2014	541	17.37
Exercisable at June 30, 2014	—	
Vested or expected to vest at June 30, 2014	541	17.37

Additionally, on December 12, 2013, FGL granted unrestricted shares totaling 58 thousand to certain directors in payment for services rendered. Total fair value of the unrestricted shares on the grant date was $1.0.

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FGLH Plans

A summary of FGLH's outstanding stock options as of June 30, 2014 and changes during the nine months then ended are as follows (share amount in thousands):

Stock Option Awards	FGLH Options	Weighted Average Exercise Price (a)
Stock options outstanding at September 30, 2013	335	$44.23
Granted	—	—
Exercised	(41)	41.23
Forfeited or expired	(3)	47.06
Stock options outstanding at June 30, 2014	291	44.62
Exercisable at June 30, 2014	132	42.33
Vested or expected to vest at June 30, 2014	284	44.57

(a) The exercise price is based on the value of FGLH’s common stock, not the value of the Company’s common stock. The fair value of FGLH stock at June 30, 2014 is $110.74.

At June 30, 2014, the intrinsic value of stock options outstanding, exercisable and vested or expected to vest was $19.2, $9.0 and $18.8, respectively. The intrinsic value of stock options exercised during the nine months ended June 30, 2014 and 2013 was $5.9 and $0.4, respectively.

A summary of FGLH's restricted stock units outstanding as of June 30, 2014 and related activity during the nine months then ended is as follows (share amount in thousands):

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value (a)
Restricted shares outstanding at September 30, 2013	46	$49.60
Granted	—	—
Exercised	(18)	49.53
Forfeited or expired	(1)	49.45
Restricted shares outstanding at June 30, 2014	27	49.55
Exercisable at June 30, 2014	—	
Restricted stock vested or expected to vest at June 30, 2014	25	49.55

(a) Fair value is based on the value of FGLH’s common stock, not the value of the Company’s common stock.

(11) Income Taxes

The provision for income taxes represents federal income taxes. The effective tax rate for the three and nine months ended June 30, 2014 was 31.2% and 7.0%, respectively. The effective tax rate for the three and nine months ended June 30, 2013 was 28.7% and 32.1%, respectively. The effective tax rate on pre-tax income differs from the U.S Federal statutory rate primarily due to current period changes to the Company’s valuation allowance offsetting its deferred tax asset position. The Company recognized a partial valuation allowance release of $35.0 in the quarter ended March 31, 2014 due to the adoption of a prudent and feasible tax planning strategy that makes it more likely than not that a portion of its capital loss carry forward deferred tax assets will now be realized. The impact is included in the nine month period ended June 30, 2014.

In assessing the recoverability of its deferred tax assets, management regularly considers the guidance outlined within ASC 740 (“Income Taxes”). The guidance requires an assessment of both positive and negative evidence in determining the realizability of deferred tax assets. A valuation allowance is required to reduce the Company’s deferred tax asset to an amount that is more likely than not to be realized. In determining the net deferred tax asset and valuation allowance, management is required to make judgments and estimates related to projections of future profitability. These judgments include the following: the timing and extent of the utilization of net operating loss carry-forwards,

the reversals of temporary differences, and tax planning strategies.

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The Company maintains a valuation allowance against certain U.S. Internal Revenue Code, Section 382 ("Section 382") limited capital loss carry forwards and the deferred tax assets of its non-life insurance company subsidiaries. A valuation allowance has been placed against Section 382 limited capital loss carry forwards to reduce these deferred tax assets to an amount that is more-likely than not to be realized before the attributes expire. The non-life insurance company subsidiaries have a history of losses and insufficient sources of future income in order to recognize any portion of their deferred tax assets. The valuation allowance is reviewed quarterly and will be maintained until there is sufficient positive evidence to support a release. At each reporting date, management considers new evidence, both positive and negative, that could impact the future realization of deferred tax assets. Management will consider a release of the valuation allowance once there is sufficient positive evidence that it is more likely than not that the deferred tax assets will be realized. Any release of the valuation allowance will be recorded as a tax benefit increasing net income or other comprehensive income.

During the period ended March 31, 2014, market conditions changed sufficiently that Management determined it was prudent and feasible to adopt a new tax planning strategy. The strategy involves repositioning a portion of the investment portfolio to trigger $100.0 in net unrealized built-in gains (“NUBIG”). The sale of these assets will result in an increase to the Company’s Section 382 limit (i.e. the “adjusted limit”), enabling the Company to utilize capital loss carry forwards that will offset NUBIG-related gains. This strategy makes it more likely than not that the amount of capital loss carryforwards needed to offset those gains will be utilized. Therefore, a partial release of the valuation allowance offsetting the deferred tax asset related to capital loss carry forwards was recorded at the March 31, 2014 reporting date. Management intends to execute the transactions prior to the expiration of Section 382-limited capital loss carry forwards. As of June 30, 2014, approximately $67.5 of NUBIG has been recognized locking in $23.6 in benefits. The Company currently has capital loss carry forwards of $258.8 that are set to expire December 31, 2015. Key considerations in the Company’s decision supporting adoption of the planning strategy include wider spreads in specific credit markets, increased range of executable reinvestment opportunities, and an enhanced focus on managing and increasing the Company’s Statutory Interest Maintenance Reserve (“IMR”) balance and capital position providing increased flexibility in volatile interest rate and credit spread markets.

The Company has recorded a partial valuation allowance of $120.4 against its gross deferred tax assets and liabilities of $215.7 as of June 30, 2014. The June 30, 2014 valuation allowance is an offset to capital loss carryforwards (post tax planning strategy execution) expected to expire, as well as non-life company deferred tax assets that will most likely not be recovered due to lack of forecasted taxable income in the non-life segment.

The Company’s tax provision changes quarterly based on recurring and non-recurring factors, including but not limited to, enacted tax legislation, tax audit settlements and changes in judgment from the evaluation of new information resulting in the recognition or de-recognition and/or re-measurement of a tax position taken in a prior period. Changes in judgment related to a tax position are generally recognized in the quarter in which any such change occurs.

(12) Commitments and Contingencies

Contingencies

Regulatory and Litigation Matters

FGL is assessed amounts by the state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At June 30, 2014, FGL has accrued $4.4 for guaranty fund assessments which is expected to be offset by estimated future premium tax deductions of $4.7.

The Company has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration’s Death Master File (the "Death Master File") and compliance with state claims practices regulation. To date, the Company has received inquiries from authorities in Maryland, Minnesota and New York. The New York Insurance Department issued a letter and subsequent regulation requiring life insurers doing business in New York to use the Death Master File or similar databases to determine if benefits were payable under life insurance policies, annuities, and retained asset accounts. Legislation requiring insurance companies to use the Death Master File to identify potential claims has recently been enacted in Maryland and other states. As a result of these legislative and regulatory developments, in May 2012, the Company undertook an initiative to

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use the Death Master File and other publicly available databases to identify persons potentially entitled to benefits under life insurance policies, annuities and retained asset accounts. During fiscal 2012, the Company incurred an $11.0 benefit expense, net of reinsurance, to increase reserves to cover potential benefits payable resulting from this ongoing effort. Based on its analysis to date, and management's estimate, the Company believes the remaining accrual will cover the reasonably estimated liability arising out of these developments. In addition, the Company has received audit and examination notices from several state agencies responsible for escheatment and unclaimed property regulation in those states. The Company established a contingency of $2.0, the mid-point of an estimated range of $1.0 to $3.0, related to the external legal costs and administrative costs of said audits and examinations of which $0.4 has been paid through June 30, 2014. Additional costs that cannot be reasonably estimated as of the date of this filing are possible as a result of ongoing regulatory developments and other future requirements related to this matter.

The Company is involved in various pending or threatened legal proceedings, including purported class actions, arising in the ordinary course of business. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. In the opinion of management and in light of existing insurance and other potential indemnification, reinsurance and established reserves, such litigation is not expected to have a material adverse effect on the Company's financial position, although it is possible that the results of operations and cash flows could be materially affected by an unfavorable outcome in any one period.

On July 18, 2011, a putative class action Complaint was filed in the United States District Court for the Central District of California, captioned Eddie L. Cressy v. OM Financial Life Insurance Company, et. al., Case No. 2:2011-cv-05871. The Plaintiff asked the Court to certify the action as a class action on behalf of both a nationwide and a California class defined as certain persons who were sold OM Financial Life Insurance equity-indexed universal life insurance policies.

The Plaintiff alleged, inter alia, that the Plaintiff and members of the putative class relied on defendants' advice to purchase unsuitable insurance policies. After extensive motion practice, the federal court dismissed the federal causes of action, with prejudice, and, on May 9, 2013, declined to exercise supplemental jurisdiction over the state law claims, dismissed the state law claims, without prejudice, and granted the Plaintiff leave to re-file the state law claims in California state court.

On July 5, 2013, the Plaintiff filed a putative class action captioned Eddie L. Cressy v. Fidelity Guaranty [sic] Life Insurance Company, et. al. in the Superior Court of California, County of Los Angeles (the "Court"), at No. BC-514340. The state court Complaint asserts, inter alia, that the Plaintiff and members of the putative class relied on Defendants' advice in purchasing unsuitable equity-indexed insurance policies. The Plaintiff seeks to certify a class defined as "all persons who reside or are located in the state of California who were sold OM Financial/FGL Insurance equity-indexed universal life insurance policies as an investment."

On April 4, 2014, the Plaintiff, FGL Insurance and the other two defendants signed a Settlement Agreement, pursuant to which FGL Insurance has agreed to pay a total of $5.3 to settle the claims of a nationwide class consisting, with certain exclusions, of all persons who own or owned an OM Financial/FGL Insurance indexed universal life insurance policy issued from January 1, 2007 through March 31, 2014, inclusive. As part of the settlement, FGL Insurance agreed to certification of the nationwide class for settlement purposes only. An amended Settlement Agreement was filed with the Court on April 23, 2014 as part of the Plaintiff's Unopposed Motion for Preliminary Approval of Settlement and Conditional Class Certification. On June 19, 2014, the Court held a hearing on Plaintiff's Unopposed Motion for Preliminary Approval of Settlement and Conditional Class Certification and entered its Order Granting Motion for Preliminary Approval of Class Action Settlement ("Order"). Pursuant to the terms of the Settlement Agreement and the Court's Order, FGL Insurance has the right to unilaterally terminate the settlement if either: (i) 100 policyholders or (ii) policyholders representing more than one percent (1%) of the total premiums paid opt out of or object to the settlement. Final settlement is also subject to other conditions and the entry of a final order that can no longer be appealed. On October 3, 2014, the Court is expected to hold a hearing to determine whether it should finally approve the settlement.

At June 30, 2014, the Company estimated the total cost for the settlement, legal fees and other costs related to this class action would be $9.9 and established a liability for the unpaid portion of the estimate of $7.3. Based on the

information currently available the Company does not expect the actual cost for settlement, legal fees and other related cost to differ materially from the amount accrued. The Company is seeking indemnification from OM Group (UK) Limited (“OMGUK”) under the First Amended and Restated Stock Purchase Agreement, dated February 17, 2011 (the “F&G Stock Purchase Agreement”) between HFG and OMGUK related to the settlement

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and the costs and fees in defending the Cressy litigation in both the federal and state courts. The Company has established an amount recoverable from OMGUK for the amount of $4.5, the collection of which the Company believes is probable. The actual amount recovered from OMGUK could be greater or less than the Company's estimate, but the Company anticipates that the amount recovered will not be materially different than its current estimate. The settlement, legal fees and other costs related to this class action and the amount recoverable from OMGUK is presented net in the income statement in the caption "Benefits and other changes in policy reserves."
In light of the inherent uncertainties involved in the matter described above and uncertainties in litigation generally, there can be no assurance that this litigation, or any other pending or future litigation, will not have a material adverse effect on our business, financial condition, or results of operations.

Guarantees

The F&G Stock Purchase Agreement between HFG and OMGUK includes a Guarantee and Pledge Agreement which creates certain obligations for FGLH as a grantor and also grants a security interest to OMGUK of FGLH's equity interest in FGL Insurance in the event that HFG fails to perform in accordance with the terms of the F&G Stock Purchase Agreement. The Company is not aware of any events or transactions that resulted in non-compliance with the Guarantee and Pledge Agreement.

(13) Reinsurance

The Company reinsures portions of its policy risks with other insurance companies. The use of reinsurance does not discharge an insurer from liability on the insurance ceded. The insurer is required to pay in full the amount of its insurance liability regardless of whether it is entitled to or able to receive payment from the reinsurer. The portion of risks exceeding the Company's retention limit is reinsured with other insurers. The Company seeks reinsurance coverage in order to limit its exposure to mortality losses and enhance capital management. The Company follows reinsurance accounting when there is adequate risk transfer. Otherwise, the deposit method of accounting is followed. The Company also assumes policy risks from other insurance companies.
The effect of reinsurance on premiums earned, benefits incurred and reserve changes for the three and nine months ended June 30, 2014 and June 30, 2013 were as follows:

	Three months ended				Nine months ended			
	June 30, 2014		June 30, 2013		June 30, 2014		June 30, 2013	
	Net Premiums Earned	Net Benefits Incurred	Net Premiums Earned	Net Benefits Incurred	Net Premiums Earned	Net Benefits Incurred	Net Premiums Earned	Net Benefits Incurred
Direct	$65.6	$324.1	$69.9	$150.8	$200.3	$876.9	$212.3	$579.7
Assumed	8.8	6.7	9.1	8.2	27.6	19.1	24.5	15.7
Ceded	(61.3)	(88.3)	(60.0)	(51.8)	(186.5)	(257.7)	(189.9)	(163.7)
Net	$13.1	$242.5	$19.0	$107.2	$41.4	$638.3	$46.9	$431.7

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the three and nine months ended June 30, 2014 and June 30, 2013, the Company did not write off any reinsurance balances. During the three and nine months ended June 30, 2014 , the Company did not commute any ceded reinsurance. Effective June 17, 2013, the Company rescinded the portion of the coinsurance agreement dated April 1, 2011 between FGL Insurance and Wilton Re which covered certain disability income riders. Wilton Re paid FGL Insurance a rescission settlement of $6.4. FGL Insurance recognized a net gain on the rescission of $1.9.
No policies issued by the Company have been reinsured with any foreign company, which is controlled, either directly or indirectly, by a party not primarily engaged in the business of insurance.
The Company has not entered into any reinsurance agreements in which the reinsurer may unilaterally cancel any reinsurance for reasons other than non-payment of premiums or other similar credit issues.

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(14) Related Party Transactions

FSRCI

Effective December 31, 2012, FGL Insurance entered into a reinsurance treaty with FSRCI, an indirect wholly-owned subsidiary of HGI, FGL's parent, whereby FGL ceded 10% of its June 30, 2012 in-force annuity block business not already reinsured on a funds withheld basis. Under the terms of the agreement, FSRCI paid FGL Insurance an initial ceding allowance of $15.0. A study prepared by an independent third party actuarial firm determined that the initial ceding allowance of $15.0 is a fair and reasonable valuation. The coinsurance agreement was on a funds withheld basis, meaning that funds were withheld by FGL Insurance from the coinsurance premium owed to FSRCI as collateral for FSRCI's payment obligations. Accordingly, the collateral assets remain under the ultimate ownership of FGL Insurance.

At June 30, 2014 and September 30, 2013, the Company's reinsurance recoverable included $1,281.7 and $1,365.0, respectively, related to FSRCI and funds withheld for reinsurance liabilities included $1,301.2 and $1,368.3, respectively, related to FSRCI.

Below are the ceded operating results to FSRCI's for the three and nine months ended June 30, 2014:

Revenues:	Three months ended June 30, 2014	Nine months ended June 30, 2014
Premiums	$0.2	$0.6
Net investment income	14.1	46.3
Net investment gains	9.8	21.1
Insurance and investment product fees	1.2	3.6
Total Revenues	25.3	71.6
Benefits and expenses:		
Benefits and other changes in policy reserves	(17.5)	(49.9)
Acquisition & operating expenses, net of deferrals	(1.1)	(4.7)
Total benefits and expenses	(18.6)	(54.6)
Operating income	$6.7	$17.0

FGL Insurance invested in CLO securities issued by Fortress Credit Opportunities III CLO LP ("FCO III") and also invested in securities issued by Fortress Credit BSL Limited ("Fortress BSL"). The parent of both FCO III and Fortress BSL is Fortress Investment Group LLC, which has acquired interests greater than 10% ownership in HGI as of June 30, 2014.

During the June 2014 quarter, Leucadia National Corp ("Leucadia") ownership interest in HGI's outstanding common shares exceeded 10%. As of June 30, 2014, FGL Insurance held $37.3 debt securities issued by Leucadia as well as corporate debt issued by Jefferies Group Inc. ("Jefferies"), a wholly owned subsidiary of Leucadia. Additionally, Frederick's of Hollywood became a wholly owned subsidiary of HGI during the quarter. As of June 30, 2014, FGL Insurance held loan participation interests with Fredericks of Hollywood with a carry value of $11.0.

FGL Insurance participates in loans to third parties originated by Salus. In addition to the participation in loans originated by Salus, FGL Insurance also agreed to provide Salus with financing in the form of a revolving loan and promissory note. In January 2014, FGL Insurance acquired from FSRCI preferred equity interests in Salus which have a 10% per annum return and a total par value of $30.0. Salus is a limited liability company and considered a variable interest entity ("VIE") as it does not have sufficient equity to finance its own activities without additional financial support and certain of its investors lack certain characteristics of a controlling financial interest. FGL Insurance does not have any voting rights or notice rights under the Salus limited liability company agreement or amendments, does not have any rights to remove the manager of Salus and was not involved in the design of Salus. Therefore, FGL Insurance lacks the ability to direct the activities of Salus and is not considered the primary beneficiary. As a result, Salus is not consolidated in the Company's financial statements. The Company's maximum exposure to loss as a result of its investments in Salus is limited to the carrying value of the preferred equity

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interests, the promissory note and any amounts owed under the revolving loan as reported in its balance sheet. The carrying value of these investments in Salus as of June 30, 2014 and September 30, 2013 are disclosed in the tables below.

The Company's consolidated related party investments as of June 30, 2014 and September 30, 2013, and related net investment income for the three and nine months ended June 30, 2014 and 2013 are summarized as follows:

		June 30, 2014		
Type	Balance Sheet Classification	Asset carrying value	Accrued Investment Income	Total carrying value
Salus collateralized loan obligations	Fixed Maturities, available for sale	$240.3	$0.6	$240.9
Fortress Investment Group collateralized loan obligations	Fixed Maturities, available for sale	106.5	0.7	107.2
Leucadia National Corp	Fixed Maturities, available for sale	37.3	0.4	37.7
Jefferies Group Inc	Fixed Maturities, available for sale	69.0	1.4	70.4
Salus preferred equity(a)	Equity securities, available for sale	35.0	—	35.0
Salus participations	Other Invested Assets	168.1	1.4	169.5
Foreign exchange embedded derivative	Other Invested Assets	0.6	—	0.6
HGI energy loan	Related Party Loans	70.0	—	70.0
Salus 2012 participations	Related Party Loans	12.6	—	12.6
Salus promissory note	Related Party Loans	20.0	0.5	20.5
Salus revolver	Related Party Loans	10.0	—	10.0
Frederick's of Hollywood	Related Party Loans	11.0	—	11.0

(a) Salus preferred equity is included in the FSRCI funds withheld portfolio, accordingly all income on this asset is ceded to FSRCI.

		September 30, 2013		
Type	Balance Sheet Classification	Asset carrying value	Accrued Investment Income	Total carrying value
Salus collateralized loan obligations	Fixed Maturities, available for sale	$241.5	$0.4	$241.9
Salus participations	Other Invested Assets	157.0	1.5	158.5
HGI energy loan	Related Party Loans	70.0	1.6	71.6
Salus 2012 participations	Related Party Loans	27.3	0.1	27.4
Salus promissory note	Related Party Loans	20.0	—	20.0

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Type	Investment Income Classification	Three months ended June 30, 2014 Net investment income	Three months ended June 30, 2013 Net investment income	Nine months ended June 30, 2014 Net investment income	Nine months ended June 30, 2013 Net investment income
Salus collateralized loan obligations	Fixed Maturities	$3.0	$1.1	$9.2	$2.3
Fortress Investment Group collateralized loan obligations	Fixed Maturities	0.9	—	0.9	—
Leucadia National Corp	Fixed Maturities	1.3	—	1.3	—
Jefferies Group Inc	Fixed Maturities	0.9	—	2.6	—
Salus preferred equity	Equity securities	—	1.4	—	2.1
Salus participations	Other Invested Assets	3.8	2.1	13.8	2.1
HGI energy loan	Related Party Loans	1.1	2.8	3.4	3.4
Salus 2012 participations	Related Party Loans	0.2	0.3	0.5	3.1
Salus promissory note	Related Party Loans	0.3	0.4	1.0	1.1
Salus Revolver	Related Party Loans	0.2	0.1	0.4	0.1

The Company had realized gains of $0.6 for both the three and nine months ended, June 30, 2014 related to its foreign exchange embedded derivative included in other invested assets.

The Company’s pre-closing and closing obligations under the F&G Stock Purchase Agreement, including payment of the purchase price, were guaranteed by the Master Fund. Pursuant to the Transfer Agreement, HGI entered into a Guaranty Indemnity Agreement (the “Guaranty Indemnity”) with the Master Fund, pursuant to which HGI agreed to indemnify the Master Fund for any losses incurred by it or its representatives in connection with the Master Fund’s guaranty of the Company’s pre-closing and closing obligations under the F&G Stock Purchase Agreement.

(15) Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (share amounts in thousands):

	Three months ended June 30, 2014	Three months ended June 30, 2013	Nine months ended June 30, 2014	Nine months ended June 30, 2013
Net income attributable to common shares - basic	$56.5	$53.2	$124.0	$237.0
Weighted-average common shares outstanding - basic	58,271	47,000	55,195	47,000
Dilutive effect of unvested restricted stock and unvested performance restricted stock	167	—	113	—
Dilutive effect of stock options	37	—	22	—
Weighted-average shares outstanding - diluted	58,475	47,000	55,330	47,000
Net income per common share:				
Basic	$0.97	$1.13	$2.25	$5.04
Diluted	$0.97	$1.13	$2.24	$5.04

The number of shares of common stock outstanding used in calculating the weighted average thereof reflects the actual number of FGL shares of common stock outstanding, excluding unvested restricted stock.

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(16) Insurance Subsidiary Financial Information and Regulatory Matters

The Company’s insurance subsidiaries file financial statements with state insurance regulatory authorities and the National Association of Insurance Commissioners (“NAIC”) that are prepared in accordance with Statutory Accounting Principles (“SAP”) prescribed or permitted by such authorities, which may vary materially from GAAP. Prescribed SAP includes the Accounting Practices and Procedures Manual of the NAIC as well as state laws, regulations and administrative rules. Permitted SAP encompasses all accounting practices not so prescribed. The principal differences between statutory financial statements and financial statements prepared in accordance with GAAP are that statutory financial statements do not reflect DAC and VOBA, some bond portfolios may be carried at amortized cost, assets and liabilities are presented net of reinsurance, contractholder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted. Accordingly, statutory operating results and statutory capital and surplus may differ substantially from amounts reported in the GAAP basis financial statements for comparable items

On November 1, 2013, FGL Insurance re-domesticated from Maryland to Iowa. After re-domestication, FGL Insurance elected to apply Iowa-prescribed accounting practices that permit Iowa-domiciled insurers to report equity call options used to economically hedge FIA index credits at amortized cost for statutory accounting purposes and to calculate FIA statutory reserves such that index credit returns will be included in the reserve only after crediting to the annuity contract. This resulted in an $11.5 increase to statutory capital and surplus at December 31, 2013. Also, the Iowa Insurance Division granted FGL Insurance a permitted statutory accounting practice to reclassify its negative unassigned surplus balance of $805.8 to additional paid in capital as of April 6, 2011, the date the Company acquired FGL Insurance, which had the effect of setting FGL Insurance’s statutory unassigned surplus to zero as of this date. The prescribed and permitted statutory accounting practice has no impact on the Company’s consolidated financial statements which are prepared in accordance with GAAP.

FGL Insurance’s statutory carrying value of Raven Reinsurance Company ("Raven Re") reflects the effect of permitted practices Raven Re received. Raven Re is permitted to treat the available amount of a letter of credit as an admitted asset. Raven Re is also permitted to follow Iowa prescribed statutory accounting practice for its reserves on reinsurance assumed from FGL Insurance. Without such permitted statutory accounting practices Raven Re’s statutory capital and surplus would be negative and its risk-based capital would fall below the minimum regulatory requirements. As of June 30, 2014, FGL NY Insurance does not follow any prescribed or permitted statutory accounting practices that differ from the NAIC’s statutory accounting practices.

On October 7, 2013 the New York State Department of Financial Services (“NYDFS”) announced an agreement with Philip A. Falcone, the Chairman and Chief Executive Officer of HGI (FGL’s ultimate parent company), HGI, FGLH and FGL NY Insurance that Mr. Falcone will not exercise control, within the meaning of New York insurance law, over FGL NY Insurance or any other New York-licensed insurer for seven years (the “NYDFS Commitment”). Under the NYDFS Commitment agreement, FGLH agreed to maintain FGL NY Insurance’s risk based capital ("RBC") level at no less than 225% company action level RBC ratio, and established a trust account funded with $18.5 of cash or eligible securities to support that agreement.

In addition, in connection with its re-domestication to Iowa, FGL Insurance agreed to the conditions set by the Iowa Commissioner that neither Mr. Falcone nor any employees of Harbinger Capital Partners LLC (“HCP”) may serve as an officer or director of FGL Insurance or FGL (but FGL Insurance may request that the Iowa Insurance Division lift this restriction after five years); neither Mr. Falcone nor HCP shall be involved in making investment decisions for FGL Insurance or any funds withheld account that supports credit for reinsurance for FGL Insurance for five years; and, within three months of FGL’s IPO, FGL shall have an audit committee that complies with Iowa regulation 191-98.13(8) which requires that 75% of the audit committee’s members be independent. FGL has complied with these requirements.

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

Introduction

Management's discussion and analysis reviews our consolidated financial position at June 30, 2014 (unaudited) and September 30, 2013, and the unaudited consolidated results of operations for the three and nine months ended June 30, 2014 and 2013 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of FGL, which was included with our audited consolidated financial statements for the year ended September 30, 2013 included within the Prospectus dated December 12, 2013. Certain statements we make under this Item 2 constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Forward-Looking Statements" in "Part II — Other Information" of this report. You should consider our forward-looking statements in light of our unaudited condensed consolidated financial statements, related notes, and other financial information appearing elsewhere in this report, and our filings with the U.S. Securities & Exchange Commission's (the "SEC"), including our Registration Statement on Form S-1, as amended (File No. 333-190880), which can be found at the SEC's website www.sec.gov. In this Quarterly Report on Form 10-Q we refer to the three months ended June 30, 2014 as the "Fiscal 2014 Quarter,", the nine months ended June 30, 2014 as the "Fiscal 2014 Nine Months", the three month ended June 30, 2013 as the "Fiscal 2013 Quarter" and the nine months ended June 30, 2013 as the "Fiscal 2013 Nine Months".

On August 9, 2013, the Company distributed its ownership interests in its wholly-owned subsidiaries, HGI Real Estate, LLC, and FS Holdco II Ltd. ("FS Holdco") to HGI and HGI's subsidiaries. Beginning on August 9, 2013 with the distribution of FS Holdco, the Company's financials reflected the 10% reinsurance agreement, whereby FGL cedes 10% of its in-force annuity block not already reinsured on a funds withheld basis to FSR, a subsidiary of FS Holdco. Accordingly, the three and nine months ended June 30, 2013 include net earnings of $(7.3) and $10.1, respectively from HGI Real Estate, LLC, and FS Holdco operations.

Overview

We provide our principal life and annuity products through our insurance subsidiaries- Fidelity and Guaranty Life Insurance Company ("FGL Insurance") and Fidelity and Guaranty Life Insurance Company of New York ("FGL NY Insurance"). Our customers range across a variety of age groups and are concentrated in the middle-income market. Our fixed indexed annuities provide for pre-retirement wealth accumulation and post-retirement income management. Our life insurance provides wealth protection and transfer opportunities through indexed universal life products. Life and annuity products are primarily distributed through independent insurance marketing organizations ("IMOs") and independent insurance agents.

Since FGLH's acquisition by HFG on April 6, 2011 (the "FGLH Acquisition"), we have made several significant changes to our business. We have ceded the majority of our life insurance business, with the exception of traditional life products that contain return of premium riders, to Wilton Re to transfer the risk of the lifetime guarantee on a large portion of the universal life insurance line of business; we reduced the number of product offerings to concentrate on capital efficient products and to this end have launched several new FIA products; we began managing a significant portion of our investment portfolio internally; and we repositioned our investment portfolio by shortening the overall duration, all of which are described in more detail below. These changes have positively impacted our recent net income and profitability.

In setting the features and pricing of new FIA sales relative to our targeted net margin, we take into account our expectations regarding (1) net investment spread, which is the difference between the net investment income we earn and the sum of the interest credited to policyholders and the cost of hedging our risk on the policies; (2) fees, including surrender charges and rider fees, partly offset by vesting bonuses that we pay our policyholders; and (3) a number of related expenses, including benefits and reserves, acquisition costs, and general and administrative expenses.

Trends and Uncertainties

The following factors represent some of the key trends and uncertainties that have influenced the development of our business and our historical financial performance and that we believe will continue to influence our business and financial performance in the future.

Market Conditions

Market volatility has affected and may continue to affect our business and financial performance in varying ways. Volatility can pressure sales and reduce demand as consumers hesitate to make financial decisions. In the long-term, however, we believe that the 2008 through 2010 financial crisis and resultant lingering financial uncertainty will motivate individuals to seek solutions combining elements of capital preservation, income and growth. We believe current market conditions may ultimately enhance the attractiveness of our product portfolio. To enhance the attractiveness and profitability of our products and services, we continually to monitor the behavior of our customers, as evidenced by mortality rates, morbidity rates, annuitization rates and lapse rates, which vary in response to changes in market conditions.

Interest Rate Environment

Certain of our products include guaranteed minimum crediting rates, most notably our fixed rate annuities. As of June 30, 2014, the GAAP reserves and average crediting rate on our fixed rate annuities were $2.9 billion and 3.5%, respectively. We are required to pay these guaranteed minimum crediting rates even if earnings on our investment portfolio decline, which would negatively impact earnings. In addition, we expect more policyholders to hold policies with comparatively high guaranteed rates for a longer period in a low interest rate environment. Conversely, a rise in average yield on our investment portfolio would positively impact earnings if the average interest rate we pay on our products does not rise correspondingly. Similarly, we expect that policyholders would be less likely to hold policies with existing guarantees as interest rates rise and the relative value of other new business offerings are increased, which would negatively impact our earnings and cash flows.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Quantitative and Qualitative Disclosures about Market Risk” for a more detailed discussion of interest rate risk.

Aging of the U.S. Population

We believe that the aging of the U.S. population will affect the demand for our products. As the “baby boomer” generation prepares for retirement, we believe that demand for retirement savings, growth and income products will grow. The impact of this growth may be offset to some extent by asset outflows as an increasing percentage of the population begins withdrawing assets to convert their savings into income.

Industry Factors and Trends Affecting Our Results of Operations

Demographics and macroeconomic factors are increasing the demand for our FIA and IUL products, for which demand is large and growing: over 10,000 people will turn 65 each day in the United States over the next 15 years. According to the U.S. Census Bureau, the proportion of the U.S. population over the age of 65 is expected to grow from 14.8% in 2015 to 20.3% in 2030.

Due to turbulence in the stock market in 2007 and 2008, many middle-income Americans have grown to appreciate the security these indexed products afford. As a result, the IUL market expanded from $100 of annual premiums in 2002 to over $1.3 billion of annual premiums in 2012. Similarly, the FIA market grew from nearly $12 billion of sales in 2002 to $34 billion of sales in 2012.

Competition

Our insurance subsidiaries operate in highly competitive markets. We face a variety of large and small industry participants. These companies compete for the growing pool of retirement assets driven by a number of exogenous factors, such as the continued aging of the U.S. population and the reduction in financial safety nets provided by governments and corporations. In many segments, product differentiation is difficult as product development and life cycles have shortened.

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Our own sales of annuities and IULs by quarter were as follows:

(in millions)	Annuity Sales		IUL Sales	
	Fiscal 2014	Fiscal 2013	Fiscal 2014	Fiscal 2013
Q1	$540.6	$247.3	$5.0	$5.5
Q2	727.5	243.8	4.8	4.3
Q3	391.7	270.5	5.9	4.3
Total	$1,659.8	$761.6	$15.7	$14.1

Key Components of Our Historical Results of Operations

Under GAAP, premium collections for fixed indexed and fixed rate annuities and immediate annuities without life contingency are reported as deposit liabilities (i.e., contractholder funds) instead of as sales or revenues. Similarly, cash payments to customers are reported as decreases in the liability for contractholder funds and not as expenses. Sources of revenues for products accounted for as deposit liabilities are net investment income, surrender and other charges deducted from contractholder funds, and net realized gains (losses) on investments. Components of expenses for products accounted for as deposit liabilities are interest-sensitive and index product benefits (primarily interest credited to account balances or the cost of providing index credits to the policyholder), amortization of DAC and VOBA, other operating costs and expenses, and income taxes.

Earnings from products accounted for as deposit liabilities are primarily generated from the excess of net investment income earned over the sum of interest credited to policyholders and the cost of hedging our risk on FIA policies, known as the net investment spread . With respect to FIAs, the cost of the cost of hedging our risk includes the expenses incurred 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 index credits earned on annuity contractholder fund balances.

Our profitability depends in large part upon the amount of assets under management (“AUM”), the net investment spreads earned on our average assets under management ("AAUM"), our ability to manage our operating expenses and the costs of acquiring new business (principally commissions to agents and bonuses credited to policyholders). As we grow AUM, earnings generally increase. AUM increases when cash inflows, which include sales, exceed cash outflows. Managing net investment spreads involves the ability to manage our investment portfolios to maximize returns and minimize risks on our AUM such as interest rate changes and defaults or impairment of investments, and our ability to manage interest rates credited to policyholders and costs of the options and futures purchased to fund the annual index credits on the FIAs or IULs. We analyze returns on AAUM pre- and post-DAC and VOBA as well as pre- and post-tax to measure our profitability in terms of growth and improved earnings.

Adjusted Operating Income ("AOI")

Management believes that certain non-GAAP financial measures may be useful in certain instances to provide additional meaningful comparisons between current results and results in prior operating periods. Reconciliations of such measures to the most comparable GAAP measures are included herein.

AOI is a non-GAAP economic measure we use to evaluate financial performance each period for the periods subsequent to the FGLH Acquisition. AOI is calculated by adjusting net income to eliminate (i) the impact of net investment gains, excluding gains and losses on derivatives and including OTTI losses recognized in operations, (ii) the effect of changes in the rates used to discount the FIA embedded derivative liability, (iii) the effect of change in fair value of reinsurance related embedded derivative, (iv) the effect of class action litigation reserves and (v) residual net income of distributed subsidiaries we no longer own. All adjustments to AOI are net of the corresponding VOBA, DAC and income tax impact related to these adjustments as appropriate. While these adjustments are an integral part of the overall performance of FGL, market conditions impacting these items can overshadow the underlying performance of the business. Accordingly, we believe using a measure which excludes their impact is effective in analyzing the trends of our operations. Our non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate such non-GAAP measures in the same manner as we do.

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In the second quarter of 2014, we revised our definition of AOI from a pre-tax basis to an after-tax basis to better reflect the basis on which the performance of our business is internally assessed. AOI now includes interest expense and an effective tax rate of 35% is now applied to reconciling items made to net income. All prior periods presented have been revised to reflect this new definition. Additionally, during the second quarter of 2014 we revised our definition of AOI to exclude the effect of class action litigation reserves, net of the corresponding VOBA, DAC and income tax impact related to these adjustments. This change has been reflected in the current period calculation. Lastly, during the second quarter of 2014 we revised our definition of AOI to exclude residual net income of distributed subsidiaries; specifically the portion of Front Street Re income not already accounted for in the AOI adjustments above. From the inception of the reinsurance treaty on December 31, 2012 through August 9, 2013, Front Street Re was a fully consolidated subsidiary of FGL. On August 9, 2013 in preparation for the IPO, FGL distributed this subsidiary to its parent company. Adjusting for this distribution provides a better view of the underlying performance of FGL as it is now structured post-IPO.

AUM is the sum of (i) total invested assets at amortized cost, excluding derivatives; and including (ii) related party loans and investments and (iii) cash and cash equivalents. AAUM is the sum of AUM at the end of each month in the period divided by the number of months in the period.

Together with net income we believe AOI provide meaningful financial metrics that help investors understand our underlying results and profitability. Our non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate AOI in the same manner as we do.

AOI should not be used as a substitute for net income. However, we believe the adjustments made to net income in order to derive AOI provide an understanding of our overall results of operations. For example, we could have strong operating results in a given period, yet report net income that is materially less, if during such period the fair value of our derivative assets hedging the FIA index credit obligations decreased due to general equity market conditions but the embedded derivative liability related to the index credit obligation did not decrease in the same proportion as the derivative assets because of non-equity market factors such as interest rate movements. Similarly, we could also have poor operating results in a given period yet show net income that is materially greater, if during such period the fair value of the derivative assets increases but the embedded derivative liability did not increase in the same proportion as the derivative assets. We hedge our FIA index credits with a combination of static and dynamic strategies, which can result in earnings volatility, the effects of which are generally likely to reverse over time. Our management and board of directors review AOI and net income as part of their examination of our overall financial results. However, these examples illustrate the significant impact derivative and embedded derivative movements can have on our net income. Accordingly, our management and board of directors perform an independent review and analysis of these items, as part of their review of our hedging results each period.

The adjustments to net income are net of DAC and VOBA amortization and income tax expense related to these adjustments. Amounts attributable to the fair value accounting for derivatives hedging the FIA index credits and the related embedded derivative liability fluctuate from period to period based upon changes in the fair values of call options purchased to fund the annual index credits for FIAs, changes in the interest rates used to discount the embedded derivative liability, and the fair value assumptions reflected in the embedded derivative liability. The accounting standards for fair value measurement require the discount rates used in the calculation of the embedded derivative liability to be based on risk-free interest rates. The impact of the change in risk-free interest rates has been removed from net income. Additionally, in evaluating our operating results, the effect of change in the fair value of the reinsurance related embedded derivative has been removed from net income.

In addition, we regularly monitor and report the production volume metric titled “Sales”. Sales are not derived from any specific GAAP income statement accounts or line items and should not be view as a substitute for any financial measure determined in accordance with GAAP. For GAAP purposes annuity sales are recorded as deposit liabilities (i.e. contract holder funds).Management believes that presentation of sales as measured for management purposes enhances the understanding of our business and helps depict longer term trends that may not be apparent in the results

of operations due to the timing of sales and revenue recognition.

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Results of Operations

The following tables set forth the consolidated results of operations and compares the amount of the change between the fiscal periods (in millions):

	Fiscal Quarter			Fiscal Nine Months		
	2014	2013	Increase / (Decrease)	2014	2013	Increase / (Decrease)
Revenues:						
Premiums	$13.1	$19.0	$(5.9)	$41.4	$46.9	$(5.5)
Net investment income	191.2	184.6	6.6	558.9	522.8	36.1
Net investment gains	145.0	58.3	86.7	266.7	411.5	(144.8)
Insurance and investment product fees and other	18.6	16.1	2.5	51.3	44.6	6.7
Total revenues	367.9	278.0	89.9	918.3	1,025.8	(107.5)
Benefits and other changes in policy reserves	242.5	107.2	135.3	638.3	431.7	206.6
Acquisition and operating expenses, net of deferrals	22.9	25.6	(2.7)	80.9	76.0	4.9
Amortization of intangible assets	14.7	64.7	(50.0)	48.9	163.1	(114.2)
Total benefits and expenses	280.1	197.5	82.6	768.1	670.8	97.3
Operating income	87.8	80.5	7.3	150.2	355.0	(204.8)
Interest expense	(5.7)	(5.9)	0.2	(16.9)	(5.9)	(11.0)
Income before income taxes	82.1	74.6	7.5	133.3	349.1	(215.8)
Income tax expense	25.6	21.4	4.2	9.3	112.1	(102.8)
Net income	$56.5	$53.2	$3.3	$124.0	$237.0	$(113.0)

Annuity sales during the Fiscal 2014 Quarter and the Fiscal 2013 Quarter were $391.7 and $270.5, respectively, including $378.6 and $263.8, respectively, of FIA sales. Annuity sales during the Fiscal 2014 Nine Months and the Fiscal 2013 Nine Months were $1,659.8 and $761.6, respectively, including $997.5 and $745.5, respectively, of FIA sales. The increase in sales period over period is primarily due to higher than expected sales for the multi-year guarantee annuity ("MYGA") program as the Company tested the MYGA market during the first half of 2014 and higher FIA sales in the Fiscal 2014 Quarter.

Revenues

Premiums. For the Fiscal 2014 Quarter, premiums decreased $5.9, or 31.1%, to $13.1 from $19.0 for the Fiscal 2013 Quarter. For the Fiscal 2014 Nine Months, premiums decreased $5.5, or 11.7%, to $41.4 from $46.9 for the Fiscal 2013 Nine Months. The decrease in premiums for quarter over quarter and year over year is primarily due to the rescission of the coinsurance agreement with Wilton Re covering Home Certain disability income riders during the Fiscal 2013 Quarter which resulted in a decrease in ceded premiums of approximately $4.5 and corresponding increase in total net premiums. Premiums primarily reflect insurance premiums for traditional life insurance products which are recognized as revenue when due from the policyholder. FGL Insurance has ceded the majority of its traditional life business to unaffiliated third party reinsurers. The remaining traditional life business is primarily related to traditional life contracts that contain return of premium riders, which have not been reinsured to third party reinsurers.

Net investment income. For the Fiscal 2014 Quarter, net investment income increased $6.6, or 3.6%, to $191.2 from $184.6 for the Fiscal 2013 Quarter. The quarter over quarter increase is primarily due to higher yield on invested assets during the Fiscal 2014 Quarter. During the fourth quarter of Fiscal Year 2013, we found opportunities to sell investments in gain positions and invested these proceeds into higher yielding assets during the first half of 2014. This resulted in an earned yield of 4.62% during the Fiscal 2014 Quarter compared to 4.36% during the Fiscal 2013 Quarter.

For the Fiscal 2014 Nine Months, net investment income increased $36.1, or 6.9%, to $558.9 from $522.8 for the Fiscal 2013 Nine Months. The Fiscal 2013 Nine Months was impacted by our decision in the first quarter of 2013 to

be defensive with our investment portfolio, given the interest rate environment at the time, and reduce the credit and interest rate risk exposures in the portfolio, as well as shorten the duration of the portfolio relative to our liabilities. In addition, we sold investments that utilized pre-acquisition tax benefits (carryforwards) which resulted in tax free capital gains. These strategies resulted in significant sales of investments during the first quarter of 2013. The proceeds from the investment sales, including the tax free gains, were primarily held in cash, cash equivalents and treasury notes, which temporarily

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lowered investment income until the proceeds were reinvested. We began reinvesting the sales proceeds in September 2013 and continued our reinvestment strategy into the first half of 2014. This reinvestment strategy resulted in a decrease in average cash and short-term investments from $1,757.5 during the Fiscal 2013 Nine Months to $1,057.0 during the Fiscal 2014 Nine Months. Furthermore, we reinvested the excess cash and short-term investments into higher yielding assets which resulted in an earned yield of 4.60% during the Fiscal 2014 Nine Months compared to 4.18% during the Fiscal 2013 Nine Months.

The Company's cash and short-term investments position at the end of recent periods is summarized as follows:

	Fiscal Nine Months	
(in $ millions)	2014	2013
Q1	$1,262.0	$2,564.4
Q2	881.3	1,516.3
Q3	1,027.7	1,191.7
Q4		1,995.3

AAUM (on an amortized cost basis) was $16.5 billion and $16.8 billion and the yield earned on AAUM was 4.62% and 4.36% (annualized) for the Fiscal 2014 Quarter and the Fiscal 2013 Quarter, respectively, compared to interest credited and option costs of 2.88% and 2.92% (annualized) for each period, respectively.

AAUM (on an amortized cost basis) was $16.2 billion and $16.6 billion and the yield earned on AAUM was 4.60% and 4.18% (annualized) for the Fiscal 2014 Nine Months and the Fiscal 2013 Nine Months, respectively, compared to interest credited and option costs of 2.94% and 2.96% (annualized) for each period, respectively.

Our net investment spread for the period is summarized as follows (annualized):

	Fiscal Quarter		Fiscal Nine Months	
	2014	2013	2014	2013
Yield on AAUM (at amortized cost)	4.62 %	4.36 %	4.60 %	4.18 %
Less: Interest credited and option cost	2.88 %	2.92 %	2.94 %	2.96 %
Net investment spread	1.74 %	1.44 %	1.66 %	1.22 %

The net investment spread for the Fiscal 2014 Quarter and the Fiscal 2014 Nine Months increased 0.30% and 0.44% compared to the Fiscal 2013 Quarter and the Fiscal 2013 Nine Months, respectively, due to the re-investment strategy discussed above, which resulted in a decrease in excess liquidity held in low yielding cash and short-term investments and an increase in yield earned and net investment income.

Net investment gains. Fiscal 2014 Quarter, we had net investment gains of $145.0 compared to net investment gains of $58.3 for the Fiscal 2013 Quarter. The period over period increase of $86.7 is primarily due to an increase in net realized and unrealized gains on futures contracts and call options of $73.8 primarily resulting from the performance of the indices upon which the call options and futures contracts are based. We utilize a combination of static (call options) and dynamic (long futures contracts) instruments in our hedging strategy. A substantial portion of the call options and futures contracts are based upon the S&P 500 index with the remainder based upon other equity and bond market indices. The S&P 500 index increased 4.7% and 2.4% during the Fiscal 2014 Quarter and the Fiscal 2013 Quarter, respectively (the percentages noted are a fiscal quarter over quarter comparison of the growth of the S&P 500 Index only and do not reflect the change for each option buy date). Included in the net realized and unrealized gains on futures contracts and call options in the Fiscal 2013 Quarter was an unrealized loss of $30.9, primarily due to the expiration of options in the money during the quarter that were in an unrealized gain position as of March 31, 2013. Also contributing to the quarter over quarter increase were net investment gains on fixed maturity and equity available-for-sale securities in the Fiscal 2014 Quarter of $73.0, compared to net investment gains of $38.7 for the Fiscal 2013 Quarter. The $34.3 increase period over period is primarily due to $73.0 of gains during the Fiscal 2014 Quarter related to the Company's Tax Planning Strategy adopted during the March 2014 quarter. The strategy involves repositioning a portion of the investment portfolio to trigger net unrealized built-in gains ("NUBIG") which will allow for the utilization of capital loss carry forwards.

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Partially offsetting the increases above was a decrease in the fair value of the reinsurance related embedded derivative, which is based on the change in fair value of the underlying assets held in the funds withheld portfolio, resulting in an unrealized loss of $21.2 during the Fiscal 2014 Quarter. This change was primarily due to a decrease in treasury rates during the quarter and corresponding increase in the unrealized gain position of the Front Street Re funds withheld portfolio.

For the Fiscal 2014 Nine Months, we had net investment gains of $266.7 compared to net investment gains of $411.5 for the Fiscal 2013 Nine Months. The period over period decrease of $144.8 is primarily due to $91.3 of net investment gains on fixed maturity and equity available-for-sale securities in the Fiscal 2014 Nine Months, compared to net investment gains of $285.2 for the Fiscal 2013 Nine Months. The $193.9 decrease period over period is primarily due to our portfolio repositioning trading activity during the Fiscal 2013 Nine Months in which we sold certain investments during the first quarter of 2013 that utilized pre-acquisition tax benefits (carryforwards) which resulted in tax free capital gains.

Also contributing to the period over period decrease was a decrease in the fair value of the reinsurance related embedded derivative, which is based on the change in fair value of the underlying assets held in the funds withheld portfolio, resulting in an unrealized loss of $54.3 during the Fiscal 2014 Nine Months. This change was primarily due to a decrease in treasury rates during the quarter and corresponding increase in the unrealized gain position of the Front Street Re funds withheld portfolio.

Partially offsetting the decreases above was an increase in net realized and unrealized gains on futures contracts and call options of $103.7 primarily resulting from the performance of the indices upon which the call options and futures contracts are based. The S&P 500 index increased 16.6% and 11.5% during the Fiscal 2014 Nine Months and the Fiscal 2013 Nine Months, respectively (the percentages noted are a fiscal quarter over quarter comparison of the growth of the S&P 500 Index only and do not reflect the change for each option buy date).

The components of the realized and unrealized gains on derivative instruments hedging our indexed annuity products are as follows (in millions):

	Fiscal Quarter			Fiscal Nine Months		
	2014	2013	Increase / (Decrease)	2014	2013	Increase / (Decrease)
Call options:						
Gain (loss) on option expiration	$46.5	$47.4	$ (0.9)	$135.8	$87.4	$48.4
Change in unrealized gain (loss)	36.9	(30.9)	67.8	69.6	26.6	43.0
Futures contracts:						
Gain (loss) on futures contracts expiration	10.7	6.6	4.1	21.2	11.9	9.3
Change in unrealized gain (loss)	(0.3)	(3.1)	2.8	3.7	0.7	3.0
	$93.8	$20.0	$73.8	$230.3	$126.6	$103.7

The average index credits to policyholders were as follows:

	Fiscal Quarter		Fiscal Nine Months	
	2014	2013	2014	2013
S&P 500 Index:				
Point-to-point strategy	4.6%	4.7%	4.8%	5.4%
Monthly average strategy	4.8%	4.1%	5.0%	4.9%
Monthly point-to-point strategy	5.4%	5.7%	6.5%	4.3%
3 Year high water mark	21.3%	20.3%	20.7%	23.7%

For the Fiscal 2014 Quarter and Fiscal 2014 Nine Months, the average credit to contractholders from index credits during the period was 5.1% and 5.6%, respectively, compared to 5.1% and 5.0% for the same periods in 2013. The credits for the Fiscal 2014 Quarter and Fiscal 2014 Nine Months were based on comparing the S&P 500 Index on each issue date in these respective periods to the same issue date in the respective prior year periods. The volatility at different points in these periods created lower overall monthly point-to-point credits in the Fiscal 2013 Quarter and Fiscal 2013 Nine Months compared to the S&P 500 Index growth for issue dates in the Fiscal 2014 Quarter and Fiscal

2014 Nine Months, respectively.

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Actual amounts credited to contractholder fund balances may differ from the index appreciation due to contractual features in the FIA contracts (caps, spreads, participation rates and asset fees) which allow the Company to manage the cost of the options purchased to fund the annual index credits.

Insurance and investment product fees and other. Insurance and investment product fees and other consists primarily of the cost of insurance, policy rider fees and surrender charges assessed against policy withdrawals in excess of the policyholder's allowable penalty-free amounts (up to 10% of the prior year's value, subject to certain limitations). These revenues increased $2.5, or 15.5% to $18.6, for the Fiscal 2014 Quarter from $16.1 for Fiscal 2013 Quarter and increased $6.7, or 15.0% to $51.3, for the Fiscal 2014 Nine Months from $44.6 for Fiscal 2013 Nine Months. These increases are primarily due to the growth in sales of our IUL and FIA products and the product fees associated with them over the past year.

Benefits and expenses

Benefits and other changes in policy reserves. For the Fiscal 2014 Quarter, benefits and other changes in policy reserves increased $135.3, or 126.2%, to $242.5, from $107.2 for the Fiscal 2013 Quarter. This increase was principally due to the FIA market value liability which increased $49.8 during the Fiscal 2014 Quarter compared to a $44.8 decrease during the Fiscal 2013 Quarter. The FIA market value liability is directly correlated with the change in market value of the derivative assets hedging our FIA policies. Accordingly, the period over period increase of $94.6 was primarily due to the equity market movements during these respective quarters (see the net investment gain discussion above for details on the change in market value of our derivative assets quarter over quarter). Also contributing to the increase in benefits and other changes in policy reserves was the FIA present value of future credits and guarantee liability change, which increased $5.2 during the Fiscal 2014 Quarter compared to a $73.0 decrease during the Fiscal 2013 Quarter. The period over period increase of $78.2 was primarily driven by the change in risk free rates during the respective quarters. During the Fiscal 2014 Quarter a decrease in risk free rates increased reserves by $20.6 compared to an increase in risk free rates in the Fiscal 2013 Quarter and corresponding decrease in reserves of $60.5.

Partially offsetting the quarter over quarter increases above was a quarter over quarter decrease in immediate annuity policy reserves of $22.0 primarily due to mortality experience. Upon a death, we release the reserve established for the expected remaining benefits which are based on assumptions for mortality among other things. To the extent the actual deaths in the period are higher than expected, additional reserves will be released.

For the Fiscal 2014 Nine Months, benefits and other changes in policy reserves increased $206.6, or 47.9%, to $638.3 from $431.7 for the Fiscal 2013 Nine Months. This increase was principally due to the FIA present value of future credits and guarantee liability change period over period as well as an increase in the FIA market value liability. The FIA present value of future credits and guarantee liability change decreased $16.3 during the Fiscal 2014 Nine Months compared to a $131.7 decrease during the Fiscal 2013 Nine Months. The period over period increase of $115.4 was primarily driven by an increase in risk free rates during the Fiscal 2013 Nine Months, which reduced reserves by $99.3 compared to a decrease in rates and corresponding reserve increase of $12.0 during the Fiscal 2014 Nine Months. Also contributing to the increase in benefits and other changes in policy reserves was the FIA market value liability which increased $80.4 period over period. As discussed above, this change is primarily due to the market value of the derivative assets hedging our FIA policies (see the net investment gain discussion above for details on the change in market value of our derivative assets quarter over quarter). Lastly, index credits, interest credited and bonuses increased $25.2 period over period primarily due to increased sales of new FIA and deferred annuity policies during the past year.

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Below is a summary of the major components included in Benefits and other changes in policy reserves for the Fiscal 2014 Quarter and 2013 Quarters and Nine Months:

	Fiscal Quarter		Increase / (Decrease)	Fiscal Nine Months		Increase / (Decrease)
	2014	2013	2014 compared to 2013	2014	2013	2014 compared to 2013
FIA market value option liability	$49.8	$(44.8)	$94.6	$97.7	$17.3	$80.4
FIA present value future credits & guarantee liability change	5.2	(73.0)	78.2	(16.3)	(131.7)	115.4
Index credits, interest credited & bonuses	156.9	160.6	(3.7)	446.7	421.5	25.2
Annuity Payments	46.3	56.4	(10.1)	143.0	167.7	(24.7)
Other policy benefits and reserve movements	(15.7)	8.0	(23.7)	(32.8)	(43.1)	10.3
Total benefits and other changes in policy reserves	$242.5	$107.2	$135.3	$638.3	$431.7	$206.6

Acquisition and operating expenses, net of deferrals. Acquisition, and operating expenses, net of deferrals, decreased $2.7, or 10.5%, from $25.6 for the Fiscal 2013 Quarter to $22.9 for the Fiscal 2014 Quarter. This decrease was due in part to $1.1 of expenses ceded to Front Street Re which were included in the consolidated results of FGL for the Fiscal 2013 Quarter as Front Street Re was a fully consolidated subsidiary of FGL. As discussed previously, on August 9, 2013 in preparation for the IPO, FGL distributed this subsidiary to its parent company. Accordingly, the Fiscal 2014 acquisition and operating expenses are reduced for expenses ceded to Front Street Re. Additionally, the Fiscal 2013 Quarter includes a $1.2 change of tax fees due to additional guarantee fund expenses related to Executive Life of NY, which went into formal liquidation during the quarter.

Acquisition and operating expenses, net of deferrals, increased $4.9, or 6.4%, from $76.0 for the Fiscal 2013 Nine Months to $80.9 for the Fiscal 2014 Nine Months. The period over period increases were principally due to an increase in stock compensation expense as a result of the FGL 2013 Stock Incentive Plan that was adopted on November 7, 2013 in conjunction with the IPO. Additionally, the stock compensation expense related to the 2011 and 2012 FGLH Plans increased as a result of the appreciation of the Company's share price since the initial public offering. See Note 10, Stock Compensation, in our unaudited Condensed Consolidated Financial Statements for additional information regarding our stock compensation plans.

Amortization of intangibles. For the Fiscal 2014 Quarter, amortization of intangibles decreased $50.0, or 77.3%, to $14.7 from $64.7 for the Fiscal 2013 Quarter and decreased $114.2, or 70.0%, from $163.1 for the Fiscal 2013 Nine Months to $48.9 for the Fiscal 2014 Nine Months. Amortization of intangibles is based on historical, current and future expected gross margins (pre-tax operating income before amortization). Accordingly, the period over period decreases were primarily due to lower gross margins on our FIA products during the Fiscal 2014 Quarter and Fiscal 2014 Nine Months, respectively. The decrease in the margins for both periods was primarily due to the increase in the FIA present value of future credits and guarantee liability discussed above. Additionally, the decrease in trading gains on the AFS portfolio as discussed above contributed to lower gross margins during the Fiscal 2014 Nine Months.

Other items affecting net income

Interest expense. Interest expense for the Fiscal 2014 Quarter and Fiscal 2014 Nine Months was $5.7 and $16.9, respectively, and $5.9 for both the Fiscal 2013 Quarter and Fiscal 2013 Nine Months, respectively. The interest expense reflects the interest incurred on the $300.0 of outstanding 6.375% senior notes (the "Senior Notes") which were issued by FGLH in March 2013. Accordingly, the Fiscal 2013 Nine Months only includes 3 months of interest expense compared to 9 months in Fiscal 2014. The outstanding Senior Notes pay interest semi-annually at a coupon rate of 6.375%.

Income tax expense (benefit). Income tax expense for the Fiscal 2014 Quarter was $25.6, net of a valuation allowance release of $3.0, compared to income tax expense of $21.4 for the Fiscal 2013 Quarter, net of a valuation allowance release of $4.6. The increase in income tax expense of $4.2 quarter over quarter is due to a combination of an increase in pre-tax income of $7.5 and a decrease in valuation allowance release of $1.6 related to capital loss carryforward

deferred tax assets.

Income tax expense for the Fiscal 2014 Nine Months was $9.3, net of a valuation allowance release of $38.3, compared to income tax expense of $112.1 for the Fiscal 2013 Nine Months, net of a valuation allowance release of $6.6. The decrease in income tax expense of $102.8 period over period is primarily due to a decrease in pre-tax income of $215.8 and a valuation allowance release of $35.0 in the prior quarter related to capital loss carryforward deferred tax assets that are now more likely than not to be realized because of the adoption of the tax planning strategy discussed in Note 11, Income Taxes, of our unaudited Condensed Consolidated Financial Statements.

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AOI

The table below shows the adjustments made to reconcile net income to our AOI:

	Fiscal Quarter		Fiscal Nine Months	
Reconciliation from Net Income to AOI:	2014	2013	2014	2013
Net Income	$56.5	$53.2	$124.0	$237.0
Adjustments to arrive at AOI:				
Effect of investment (gains) losses, net of offsets	(39.5)	(13.3)	(49.5)	(134.0)
Effect of change in FIA embedded derivative discount rate, net of offsets	8.1	(22.4)	4.6	(38.2)
Effect of change in fair value of reinsurance related embedded derivative, net of offsets	10.2	—	27.9	—
Effects of class action litigation reserves, net of offsets	(0.1)	—	1.0	—
Residual net income of distributed subsidiaries	—	(3.5)	—	(6.2)
AOI	$35.2	$14.0	$108.0	$58.6

For the Fiscal 2014 Quarter, AOI increased $21.2 to $35.2, from $14.0 for the Fiscal 2013 Quarter. The increase is primarily due to $5.7 favorable mortality experience in the immediate annuity product line, a $4.3 increase in net investment income after-tax as well as favorable intangible amortization of $4.7, on an after-tax basis. Additionally, results in the Fiscal 2013 Quarter included $5.0 of reserve strengthening in the immediate annuity product line and $2.7 of project related expenses, after-tax.

For the Fiscal 2014 Nine Months, AOI increased $49.4 to $108.0, from $58.6 for the Fiscal 2013 Nine Months. The increase is primarily due to a $31.7 increase in valuation allowance release year over year as well as an increase in net investment income of $23.5, net of income taxes during the Fiscal 2014 Nine Months as discussed above.

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Investment Portfolio

The types of assets in which we may invest are influenced by various state laws, which prescribe qualified investment assets applicable to insurance companies. Within the parameters of these laws, we invest in assets giving consideration to three primary investment objectives: (i) maintain robust absolute returns; (ii) provide reliable yield and investment income; and (iii) preserve capital.

Our investment portfolio is designed to contribute stable earnings and balance risk across diverse asset classes and is primarily invested in high quality fixed income securities.

As of June 30, 2014 and September 30, 2013, the fair value of our investment portfolio was approximately $18.4 billion and $16.2 billion, respectively, and was divided among the following asset class and sectors:

(dollars in millions)	June 30, 2014			September 30, 2013		
	Fair Value	Percent		Fair Value	Percent	
Fixed maturity securities, available for sale:						
United States Government full faith and credit	$410.5	2.2	%	$1,001.8	6.2	%
United States Government sponsored entities	99.5	0.5	%	98.6	0.6	%
United States municipalities, states and territories	1,255.7	6.8	%	1,007.0	6.2	%
Corporate securities:						
Finance, insurance and real estate	5,468.0	29.9	%	5,053.8	31.1	%
Manufacturing, construction and mining	863.3	4.7	%	1,746.2	10.8	%
Utilities and related sectors	1,894.0	10.3	%	757.3	4.7	%
Wholesale/retail trade	990.5	5.4	%	844.1	5.2	%
Services, media and other	1,082.0	5.9	%	1,016.9	6.3	%
Hybrid securities	481.6	2.6	%	428.8	2.6	%
Non-agency residential mortgage backed securities	1,874.1	10.2	%	1,368.1	8.4	%
Commercial mortgage backed securities	610.2	3.3	%	454.3	2.8	%
Asset backed securities	1,978.0	10.8	%	1,764.5	10.9	%
Equity securities (a)	698.4	3.8	%	271.1	1.7	%
Other (primarily derivatives, policy loans and CMLS)	664.9	3.6	%	410.0	2.5	%
Total	$18,370.7	100.0	%	$16,222.5	100.0	%

(a) Includes investment grade non-redeemable preferred stocks ($609.6 and $226.3, respectively) and Federal Home Loan Bank of Atlanta common stock ($38.8 and $44.6, respectively).

Insurance statutes regulate the type of investments that our life insurance 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 (i) corporate securities rated investment grade by established nationally recognized statistical rating organizations (each, an “NRSRO”), (ii) U.S. Government and government-sponsored agency securities, or (iii) securities of comparable investment quality, if not rated.

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As of June 30, 2014 and September 30, 2013, our fixed maturity AFS securities portfolio was approximately $17.0 billion and $15.5 billion, respectively. The increase in B and below investments from September 30, 2013 to June 30, 2014 due primarily to the acquisition of non-agency RMBS securities (which carry a NAIC 1 designation) which represent the majority of the increase in this segment over the relevant time period. The following table summarizes the credit quality, by NRSRO rating, of our fixed income portfolio:

(dollars in millions)	June 30, 2014		September 30, 2013	
Rating	Fair Value	Percent	Fair Value	Percent
AAA	$1,781.3	10.5 %	$1,924.3	12.4 %
AA	1,983.8	11.7 %	2,423.1	15.6 %
A	3,864.3	22.7 %	3,791.3	24.4 %
BBB	6,802.2	40.0 %	5,508.6	35.4 %
BB (a)	649.3	3.8 %	468.1	3.0 %
B and below (b)	1,926.5	11.3 %	1,426.0	9.2 %
Total	$17,007.4	100.0 %	$15,541.4	100.0 %

(a) Includes $48.4 and $31.4 at June 30, 2014 and September 30, 2013, respectively, of non-agency RMBS that carry a NAIC 1 designation.
(b) Includes $1,571.3 and $1,096.3 at June 30, 2014 and September 30, 2013, respectively, of non-agency RMBS that carry a NAIC 1 designation.

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

NAIC Designation	NRSRO Equivalent Rating
1	AAA/AA/A
2	BBB
3	BB
4	B
5	CCC and lower
6	In or near default

The NAIC adopted revised designation methodologies for non-agency RMBS, including RMBS backed by subprime mortgage loans and for commercial mortgage-backed securities ("CMBS"). The NAIC's objective with the revised designation methodologies for these structured securities was to increase accuracy in assessing expected losses and to use the improved assessment to determine a more appropriate capital requirement for such structured securities. The NAIC designations for structured securities, including subprime and Alternative A-paper ("Alt-A"), RMBS, are based upon a comparison of the bond's amortized cost to the NAIC's loss expectation for each security. Securities where modeling results in no expected loss in all scenarios are given the highest designation of NAIC 1. A large percentage of our RMBS securities carry a NAIC 1 designation while the NRSRO rating indicates below investment grade. This is primarily due to credit and change of intent impairments recorded by us which reduced the amortized cost on these securities to a level resulting in no expected loss in all scenarios, which corresponds to a NAIC 1 designation. The revised methodologies reduce regulatory reliance on rating agencies and allow for greater regulatory input into the assumptions used to estimate expected losses from such structured securities. In the tables below, we present the rating of structured securities based on ratings from the revised NAIC rating methodologies described above (which in some cases do not correspond to rating agency designations). All NAIC designations (e.g., NAIC 1-6) are based on the revised NAIC methodologies.

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The tables below present our fixed maturity securities by NAIC designation as of June 30, 2014 and September 30, 2013:

(dollars in millions)	June 30, 2014			
NAIC Designation	Amortized Cost	Fair Value	Percent of Total Fair Value	
1	$9,312.4	$9,800.6	57.6	%
2	5,996.2	6,328.6	37.2	%
3	479.9	510.5	3.0	%
4	265.9	270.3	1.6	%
5	99.5	97.4	0.6	%
	$16,153.9	$17,007.4	100.0	%

	September 30, 2013			
NAIC Designation	Amortized Cost	Fair Value	Percent of Total Fair Value	
1	$9,342.0	$9,554.0	61.5	%
2	5,362.2	5,379.2	34.6	%
3	405.0	415.4	2.7	%
4	132.7	133.0	0.9	%
5	53.9	53.8	0.3	%
6	5.9	6.0	—	%
	$15,301.7	$15,541.4	100.0	%

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities as of June 30, 2014 and September 30, 2013, as applicable, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	June 30, 2014		September 30, 2013	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Corporate, Non-structured Hybrids, Municipal and U.S. Government securities:				
Due in one year or less	$350.2	$353.3	$978.5	$982.4
Due after one year through five years	2,297.9	2,368.3	2,739.1	2,805.8
Due after five years through ten years	3,290.4	3,439.3	2,972.4	3,000.9
Due after ten years	5,748.8	6,204.0	5,007.5	5,037.5
Subtotal	$11,687.3	$12,364.9	$11,697.5	$11,826.6
Other securities which provide for periodic payments:				
Asset-backed securities	$1,970.7	$1,978.0	$1,745.2	$1,764.6
Commercial-mortgage-backed securities	585.0	610.2	431.3	454.3
Structured hybrids	76.2	80.7	27.1	29.4
Agency residential mortgage-backed securities	96.1	99.5	96.5	98.6
Non-agency residential mortgage-backed securities	1,738.6	1,874.1	1,304.0	1,368.0
Total fixed maturity available-for-sale securities	$16,153.9	$17,007.4	$15,301.6	$15,541.5

Non-Agency RMBS Exposure

In late 2011 and 2012, following stabilization in the housing market, and a review of the loss severity methodology utilized by the NAIC, which took into account home price appreciation vectors, rather than NRSRO ratings criteria, we began to increase exposure to non-agency RMBS securities across the spectrum. These investment decisions were driven by rigorous analysis of the underlying collateral, as well as considerations of structural characteristics associated with these positions.

In all cases, we have been buyers of non-agency RMBS securities in the secondary market. We do not originate non-agency whole loans, regardless of underlying collateral.

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Our investment in non-agency RMBS securities is predicated on the conservative and adequate cushion between purchase price and NAIC 1 rating, favorable capital characteristics, general lack of sensitivity to interest rates, positive convexity to prepayment rates and correlation between the price of the securities and the unfolding recovery of the housing market. We believe incremental purchases of non-agency RMBS securities bring our asset allocation back more in line with typical life insurance company's structured exposure.
The fair value of our investments in subprime and Alt-A RMBS securities was $529.5 and $614.3 as of June 30, 2014, respectively, and $360.7 and $394.9 as of September 30, 2013, respectively. We continue to focus on NAIC 1 and 2 rated investments and have reduced our exposure to NAIC 4 or lower rated investments since September 30, 2013.
The following tables summarize our exposure to subprime and Alt-A RMBS by credit quality using NAIC designations, NRSRO ratings and vintage year as of June 30, 2014 and September 30, 2013:

	NAIC Designation			NRSRO			Vintage		
As of June 30, 2014	1	97.4	%	AAA	6.3	%	2008	0.5	%
	2	1.6	%	AA	1.4	%	2007	17.2	%
	3	0.8	%	A	6.6	%	2006	33.3	%
	4	0.2	%	BBB	3.1	%	2005 and prior	49.0	%
	5	—	%	BB and below	82.6	%		100.0	%
	6	—	%		100.0	%			
		100.0	%						
As of September 30, 2013	1	92.5	%	AAA	4.8	%	2007	21.8	%
	2	6.0	%	AA	2.3	%	2006	23.9	%
	3	0.7	%	A	8.7	%	2005 and prior	54.3	%
	4	0.5	%	BBB	3.9	%		100.0	%
	5	0.3	%	BB and below	80.3	%			
	6	—	%		100.0	%			
		100.0	%						

ABS Exposure
As of June 30, 2014, our asset backed security ("ABS") exposure was largely composed of NAIC 1 rated tranches of collateralized loan obligations ("CLOs"), which comprised 93.3% of all ABS holdings. These exposures, are generally senior tranches of collateralized loan obligations ("CLOs") which have leveraged loans as their underlying collateral. The remainder of our ABS exposure was largely diversified by underlying collateral and issuer type, including credit card and automobile receivables.
The following tables summarize our ABS exposure. The non-CLO exposure represents 6.7% of total ABS assets, or 0.7% of total invested assets. As of June 30, 2014, the CLO and non-CLO positions were trading at a net unrealized gain position of $5.6 and $1.7, respectively.
The non-CLO exposure as of September 30, 2013 represented 11.1% of total ABS assets, or 1.2%, of total invested assets. As of September 30, 2013, the CLO positions were trading at a net unrealized gain position of $20.4 million and non-CLO positions were trading at a net unrealized loss position of $(1.0) .

(dollars in millions)	June 30, 2014			September 30, 2013		
Asset Class	Fair Value	Percent		Fair Value	Percent	
ABS CLO	$1,844.3	93.3	%	$1,569.4	88.9	%
ABS Auto	16.5	0.8	%	11.7	0.7	%
ABS Home Equity	2.6	0.1	%	68.1	3.9	%
ABS Other	109.5	5.5	%	107.3	6.1	%
ABS Utility	5.1	0.3	%	8.0	0.5	%
Total ABS	$1,978.0	100.0	%	$1,764.5	100.0	%

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Unrealized Losses

The amortized cost and fair value of the fixed maturity securities and the equity securities that were in an unrealized loss position as of June 30, 2014 and September 30, 2013 were as follows:

	June 30, 2014			
(in millions)	Number of securities	Amortized Cost	Unrealized Losses	Fair Value
Fixed maturity securities, available for sale:				
United States Government full faith and credit	4	$83.0	$(1.3)	$81.7
United States Government sponsored agencies	14	6.2	—	6.2
United States municipalities, states and territories	42	236.7	(7.2)	229.5
Corporate securities:				
Finance, insurance and real estate	63	731.6	(18.9)	712.7
Manufacturing, construction and mining	27	227.8	(6.9)	220.9
Utilities and related sectors	37	239.3	(3.9)	235.4
Wholesale/retail trade	21	90.8	(1.7)	89.1
Services, media and other	25	202.4	(5.2)	197.2
Hybrid securities	2	12.9	(0.2)	12.7
Non-agency residential mortgage backed securities	67	324.7	(7.8)	316.9
Commercial mortgage backed securities	11	54.1	(1.1)	53.0
Asset backed securities	97	790.8	(10.4)	780.4
Equity securities	18	131.5	(4.9)	126.6
	428	$3,131.8	$(69.5)	$3,062.3

	September 30, 2013			
(in millions)	Number of securities	Amortized Cost	Unrealized Losses	Fair Value
Fixed maturity securities, available for sale:				
United States Government full faith and credit	18	$758.8	$(3.9)	$754.9
United States Government sponsored agencies	17	10.1	(0.2)	9.9
United States municipalities, states and territories	71	518.5	(40.8)	477.7
Corporate securities:				
Finance, insurance and real estate	170	1,867.8	(84.2)	1,783.6
Manufacturing, construction and mining	48	537.1	(36.0)	501.1
Utilities and related sectors	73	546.8	(19.2)	527.6
Wholesale/retail trade	45	362.9	(13.6)	349.3
Services, media and other	50	513.7	(32.1)	481.6
Hybrid securities	6	55.3	(3.3)	52.0
Non-agency residential mortgage backed securities	85	408.5	(13.4)	395.1
Commercial mortgage backed securities	10	33.0	(1.6)	31.4
Asset backed securities	56	416.0	(5.2)	410.8
Equity securities	17	161.1	(10.3)	150.8
	666	$6,189.6	$(263.8)	$5,925.8

The gross unrealized loss position on the portfolio as of June 30, 2014, was $69.5, a decrease of $194.3 from $263.8 as of September 30, 2013. The decrease is due to investment grade credit spreads narrowing during this time period while US Treasury yields remained largely unchanged. The corporate portfolio experienced a decrease of $148.5 in the unrealized loss position from $185.1 to $36.6 due to improved pricing on most of the securities held in the portfolio. Also, strengthening conditions in the municipal bond market led to an improvement in the unrealized loss position for those municipal securities held in the portfolio; this segment demonstrated a narrowing of its unrealized loss position from $40.8 to $7.2.

Our municipal bond exposure is a combination of general obligation bonds (fair value of $358.9 and an amortized cost of $330.5 as of June 30, 2014) and special revenue bonds (fair value of $896.8 and amortized cost of $820.5 as of June 30, 2014). Across all municipal bonds, the largest issuer represented 8.1% of the category,

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and the largest single municipal bond issuer represents less than 0.6% of the entire portfolio and is rated NAIC 1. Our focus within municipal bonds is on NAIC 1 rated instruments, and 98.0% of our municipal bond exposure is rated NAIC 1.

At June 30, 2014, finance and finance related corporates remain the largest dollar component of the $69.5 unrealized loss position, although this segment now represents 27.2% of the total unrealized loss versus 31.9% at the prior measurement period. Most of the other corporate segments showed similar declines in their unrealized loss position as spreads narrowed.

The amortized cost and fair value of fixed maturity securities and equity securities (excluding U.S Government and U.S. Government-sponsored agency securities) in an unrealized loss position greater than 20% and the number of months in an unrealized loss position with fixed maturity investment grade securities (NRSRO rating of BBB/Baa or higher) as of June 30, 2014 and September 30, 2013, were as follows:

	June 30, 2014				September 30, 2013			
	Number of securities	Amortized Cost	Fair Value	Gross Unrealized Losses	Number of securities	Amortized Cost	Fair Value	Gross Unrealized Losses
Investment grade:								
Less than six months	—	$—	$—	$—	9	$78.3	$60.9	$(17.4)
Twelve months or greater		—	—	—	1	0.6	—	(0.6)
Total investment grade	—	—	—	—	10	78.9	60.9	(18.0)
Below investment grade:								
Less than six months	1	0.1	0.1	—	1	—	—	—
Six months or more and less than twelve months	2	0.3	0.1	(0.2)	1	—	—	—
Twelve months or greater	3	0.9	—	(0.9)	2	0.4	—	(0.4)
Total below investment grade	6	$1.3	$0.2	$(1.1)	4	$0.4	$—	$(0.4)

OTTI and Watch List

We have a policy and process in place to identify securities in our investment portfolio each quarter for which we should recognize impairments.

At each balance sheet date, we identify invested assets which have characteristics that create uncertainty as to our future assessment of an OTTI (i.e. significant unrealized losses compared to amortized cost and industry trends). As part of this assessment, we review not only a change in current price relative to the asset's amortized cost, but also 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. On a quarterly basis, we review structured securities for changes in default rates, loss severities and expected cash flows for the purpose of assessing potential OTTI and related credit losses to be recognized in operations. A security which has a 20% 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.

At June 30, 2014 and September 30, 2013, our watch list included only six and fourteen securities, respectively, in an unrealized loss position with an amortized cost of $1.3 and $79.3, unrealized losses of $1.1 and $18.4, and a fair value of $0.2 and $60.9, respectively. Our analysis of these securities, which included cash flow testing results,

demonstrated the June 30, 2014 and September 30, 2013 carrying values were fully recoverable.

There were eight and six structured securities on the watch list to which we had potential credit exposure as of June 30, 2014 and September 30, 2013, respectively. Our analysis of these structured securities, which included cash flow testing results, demonstrated the June 30, 2014 and September 30, 2013 carrying values were fully recoverable.

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Exposure to European Sovereign Debt

Our investment portfolio had no direct exposure to European sovereign debt as of June 30, 2014 or September 30, 2013.

Available-For-Sale Securities

For additional information regarding our AFS securities, including the amortized cost, gross unrealized gains (losses), and fair value of AFS securities as well as the amortized cost and fair value of fixed maturity AFS securities by contractual maturities as of June 30, 2014, refer to Note 4, to our unaudited Condensed Consolidated Financial Statements.

Net Investment Income and Net Investment Gains

For discussion regarding our net investment income and net investment gains refer to Note 4 to our unaudited Condensed Consolidated Financial Statements.

Concentrations of Financial Instruments

For detail regarding our concentration of financial instruments refer to Note 3 to our unaudited Condensed Consolidated Financial Statements.

Derivatives

We are exposed to credit loss in the event of nonperformance by our counterparties on call options. We attempt to reduce this credit risk by purchasing such options from large, well-established financial institutions.

We also hold cash and cash equivalents received from counterparties for call option collateral, as well as U.S. Government securities pledged as call option collateral, if our counterparty's net exposures exceed pre-determined thresholds. See Note 5 to our unaudited Condensed Consolidated Financial Statements for additional information regarding our derivatives and our exposure to credit loss on call options.

Liquidity and Capital Resources

Discussion of Consolidated Cash Flows

Summary of Consolidated Cash Flows

Presented below is a table that summarizes the cash provided or used in our activities and the amount of the respective increases or decreases in cash provided or used from those activities between the fiscal periods (in millions):

	Fiscal Nine Months		Increase / (Decrease)
Cash provided by (used in):	2014	2013	2014 compared to 2013
Operating activities	$175.4	$238.0	$(62.6)
Investing activities	(1,220.3)	(347.6)	(872.7)
Financing activities	658.9	58.0	600.9
Net increase in cash and cash equivalents	$(386.0)	$(51.6)	$(334.4)

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Operating Activities

Cash provided by operating activities totaled $175.4 for the Fiscal 2014 Nine Months as compared to cash provided by operating activities of $238.0 for the Fiscal 2013 Nine Months. The $62.6 decline was principally due to an increase in policy acquisition costs of $63.3 million resulting from an increase in product sales period over period.

Investing Activities

Cash used in investing activities was $1,220.3 for the Fiscal 2014 Nine Months, as compared to cash used in investing activities of $347.6 for the Fiscal 2013 Nine Months. The $872.7 increase in cash used in investing activities is principally due to a $1,069.3 increase in purchases of fixed maturity securities and other investments, net of cash proceeds from sales, maturities and repayments.

Financing Activities

Cash provided by financing activities was $658.9 for Fiscal 2014 Nine Months compared to cash provided in financing activities of $58.0 for Fiscal 2013 Nine Months. The $600.9 increase in cash provided by financing activities was primarily related to the receipt of $175.5 of net cash proceeds from the issuance of common stock in connection with our IPO, an increase in cash provided by $782.7 from the issuance of investment contracts and pending new production, including annuity and universal life insurance contracts, net of redemptions and benefit payments. These increases were partially offset by a $43.1 decrease due to dividends paid to our parent company, HGI, and to our stockholders period over period.

Off-Balance Sheet Arrangements

Throughout our history, we have entered into indemnifications in the ordinary course of business with our customers, suppliers, service providers, business partners and in certain instances, when we sold businesses. Additionally, we have indemnified our directors and officers who are, or were, serving at our request in such capacities. Although the specific terms or number of such arrangements is not precisely known due to the extensive history of our past operations, costs incurred to settle claims related to these indemnifications have not been material to our financial statements. We have no reason to believe that future costs to settle claims related to our former operations will have a material impact on our financial position, results of operations or cash flows.

The F&G Stock Purchase Agreement between HFG and OMGUK includes a Guarantee and Pledge Agreement which creates certain obligations for FGLH as a grantor and also grants a security interest to OMGUK of FGLH’s equity interest in FGL Insurance in the event that HFG fails to perform in accordance with the terms of the F&G Stock Purchase Agreement. We are not aware of any events or transactions that resulted in non-compliance with the Guarantee and Pledge Agreement.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates. Refer to Note 2 for material changes to the critical accounting policies and estimates as discussed in our Registration Statement on Form S-1 as amended (File No. 333-190880) which can be found at the SEC's website www.sec.gov.

Recent Accounting Pronouncements

Offsetting Assets and Liabilities

In December 2011, the FASB issued amended disclosure requirements for offsetting financial assets and financial liabilities to allow investors to better compare financial statements prepared under GAAP with financial statements prepared under International Financial Reporting Standards. The new standards are effective for the Company beginning in the first quarter of its fiscal year ending September 30, 2014. ASU 2011-11 was adopted by the Company effective October 1, 2013. FGL does not offset any of its derivative transactions, including

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bifurcated embedded derivatives, in its statement of financial position. The Company only enters into purchased equity option and long futures contracts transactions. The Company has not entered into any repurchase and reverse repurchase agreements or securities borrowing and lending transactions. Accordingly, no additional disclosures are required.

Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued amended guidance which allows investors in Low Income Housing Tax Credit ("LIHTC") programs that meet specified conditions to present the net tax benefits (net of the amortization of the cost of the investment) within income tax expense. The cost of the investments that meet the specified conditions will be amortized in proportion to (and over the same period as) the total expected tax benefits, including the tax credits and other tax benefits, as they are realized on the tax return. The guidance is required to be applied retrospectively, if investors elect the proportional amortization method. However, if investors have existing LIHTC investments accounted for under the effective-yield method at adoption, they may continue to apply that method for those existing investments. The new standards are effective for the Company beginning in the first quarter of its fiscal year ending September 30, 2016. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial position and results of operations.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk Factors

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, commodity prices and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. We have significant holdings in financial instruments and are naturally exposed to a variety of market risks. We are primarily exposed to interest rate risk and equity price risk and have some exposure to credit risk and counterparty risk, which affect the fair value of financial instruments subject to market risk.

Enterprise Risk Management

We place a high priority to risk management and risk control. As part of our effort to ensure measured risk taking, management has integrated risk management in our daily business activities and strategic planning. We have comprehensive risk management, governance and control procedures in place and have established a dedicated risk management function with responsibility for the formulation of our risk appetite, strategies, policies and limits. The risk management function is also responsible for monitoring our overall market risk exposures and provides review, oversight and support functions on risk-related issues. Our risk appetite is aligned with how our businesses are managed and how we anticipate future regulatory developments.

Our risk governance and control systems enable us to identify, control, monitor and aggregate risks and provide assurance that risks are being measured, monitored and reported adequately and effectively in accordance with the following three principles:

- Management of the business has primary responsibility for the day-to-day management of risk.
- The risk management function has the primary responsibility to align risk taking with strategic planning through risk tolerance and limit setting.
- The internal audit function provides an ongoing independent and objective assessment of the effectiveness of internal controls, including financial and operational risk management.

The Chief Risk Officer (“CRO”) heads our risk management process and reports directly to our Chief Executive Officer (“CEO”). Our Enterprise Risk Committee discusses and approves all risk policies and reviews and approves risks associated with our activities. This includes volatility (affecting earnings and value), exposure (required capital and market risk) and insurance risks.

We have implemented several limit structures to manage risk. Examples include, but are not limited to, the following:

- At-risk limits on sensitivities of earnings and regulatory capital to the capital markets provide the fundamental framework to manage capital markets risks including the risk of asset / liability mismatch;
- Duration and convexity mismatch limits;
- Credit risk concentration limits; and
- Investment and derivative guidelines.

We manage our risk appetite based on two key risk metrics:

- Regulatory Capital Sensitivities: the potential reduction, under a moderate capital markets stress scenario, of the excess of available statutory capital above the minimum required under the NAIC regulatory RBC methodology; and
- Earnings Sensitivities: the potential reduction in results of operations under a moderate capital markets stress scenario. Maintaining a consistent level of earnings helps us to finance our operations, support our capital requirements and provide funds to pay dividends to stockholders.

Our risk metrics cover the most important aspects in terms of performance measures where risk can materialize and are representative of the regulatory constraints to which our business is subject. The sensitivities for earnings and statutory capital are important metrics since they provide insight into the level of risk we take under stress scenarios. They also are the basis for internal risk management.

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We are also subject to cash flow stress testing pursuant to regulatory requirements. This analysis measures the effect of changes in interest rate assumptions on asset and liability cash flows. The analysis includes the effects of:

- The timing and amount of redemptions and prepayments in our asset portfolio;
- Our derivative portfolio;
- Death benefits and other claims payable under the terms of our insurance products;
- Lapses and surrenders in our insurance products;
- Minimum interest guarantees in our insurance products; and
- Book value guarantees in our insurance products.

Interest Rate Risk

Interest rate risk is our primary market risk exposure. We define interest rate risk as the risk of an economic loss due to adverse changes in interest rates. This risk arises from our holdings in interest sensitive assets and liabilities, primarily as a result of investing life insurance premiums and fixed annuity deposits received in interest-sensitive assets and carrying these funds as interest-sensitive liabilities. Substantial and sustained increases or decreases in market interest rates can affect the profitability of the insurance products and the fair value of our investments, as the majority of our insurance liabilities are backed by fixed maturity securities.

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 the rates credited, primarily caps and credit rates, on the majority of the annuity liabilities at least annually, subject to minimum guaranteed values. In addition, the majority of the 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 the levels necessary to avoid a narrowing of spreads under certain market conditions.

In order to meet our policy and contractual obligations, we must earn a sufficient return on our invested assets. Significant changes in interest rates exposes us to the risk of not earning the anticipated spreads between the interest rate earned on our investments and the credited interest rates paid on outstanding policies and contracts. Both rising and declining interest rates can negatively affect interest earnings, spread income and the attractiveness of certain of our products.

During periods of increasing interest rates, we may offer higher crediting rates on interest-sensitive products, such as IUL insurance and fixed annuities, and we may increase crediting rates on in-force products to keep these products competitive. A rise in interest rates, in the absence of other countervailing changes, will result in a decline in the market value of our investment portfolio.

As part of our ALM program, we have made a significant effort to identify the assets appropriate to different product lines and ensure investing strategies match the profile of these liabilities. Our ALM strategy is designed to align the expected cash flows from the investment portfolio with the expected liability cash flows. As such, a major component of our effort to manage interest rate risk has been to structure the investment portfolio with cash flow characteristics that are consistent with the cash flow characteristics of the insurance liabilities. We use actuarial models to simulate the cash flows expected from the existing business under various interest rate scenarios. These simulations enable us to measure the potential gain or loss in the fair value of interest rate-sensitive financial instruments, to evaluate the adequacy of expected cash flows from assets to meet the expected cash requirements of the 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. Duration 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 the value of assets could be expected to be largely offset by a change in the value of liabilities.

Credit Risk and Counterparty Risk

We are exposed to the risk that a counterparty will default on its contractual obligation resulting in financial loss. The major source of credit risk arises predominantly in our insurance operations’ portfolios of debt and similar securities. The carrying value of our fixed maturity portfolio totaled $17.0 billion and $15.5 billion at June 30,

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2014 and September 30, 2013, respectively. Our credit risk materializes primarily as impairment losses. We are exposed to occasional cyclical economic downturns, during which impairment losses may be significantly higher than the long-term historical average. This is offset by years where we expect the actual impairment losses to be substantially lower than the long-term average. Credit risk in the portfolio can also materialize as increased capital requirements as assets migrate into lower credit qualities over time. The effect of rating migration on our capital requirements is also dependent on the economic cycle and increased asset impairment levels may go hand in hand with increased asset related capital requirements.

We manage the risk of default and rating migration by applying disciplined credit evaluation and underwriting standards and limiting allocations to lower quality, higher risk investments. In addition, we diversify our exposure by issuer and country, using rating based issuer and country limits. We also set investment constraints that limit our exposure by industry segment. To limit the impact that credit risk can have on earnings and capital adequacy levels, we have portfolio-level credit risk constraints in place. Limit compliance is monitored on a daily or, in some cases, monthly basis.

In connection with the use of call options, we are exposed to counterparty credit risk-the risk that a counterparty fails to perform under the terms of the derivative contract. We have adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the financial loss from defaults. The exposure and credit rating of the counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst seven different approved counterparties to limit the concentration in one counterparty. Our policy allows for the purchase of derivative instruments from nationally recognized investment banking institutions with the equivalent of an Standard & Poor's Ratings Services ("S&P") rating of A- or higher. Collateral support documents are negotiated to further reduce the exposure when deemed necessary. See Note 5 to our unaudited Condensed Consolidated Financial Statements for additional information regarding our exposure to credit loss.

Information regarding the Company's exposure to credit loss on the call options it holds is presented in the following table:

		June 30, 2014				September 30, 2013			
Counterparty	Credit Rating (Fitch/Moody's/S&P) (a)	Notional Amount	Fair Value	Collateral	Net Credit Risk	Notional Amount	Fair Value	Collateral	Net Credit Risk
Merrill Lynch	A/*/A	$2,150.9	$100.4	$57.2	$43.2	$2,037.8	$70.7	$—	$70.7
Deutsche Bank	A+/A2/A	2,639.8	114.9	76.5	38.4	1,620.4	51.7	23.0	28.7
Morgan Stanley	*/A3/A	2,116.6	98.1	75.6	22.5	2,264.1	75.7	49.0	26.7
Royal Bank of Scotland	A-/*/A-	—	—	—	—	364.3	20.3	—	20.3
Barclay's Bank	A/A2/A	256.0	11.2	—	11.2	120.8	3.4	—	3.4
		$7,163.3	$324.6	$209.3	$115.3	$6,407.4	$221.8	$72.0	$149.8

(a) Credit rating as of June 30, 2014 except for Royal Bank of Scotland which is as of September 30, 2013. An * represents credit ratings that were not available.

We also have credit risk related to the ability of reinsurance counterparties to honor their obligations to pay the contract amounts under various agreements. To minimize the risk of credit loss on such contracts, we diversify our exposures among many reinsurers and limit the amount of exposure to each based on credit rating. We also generally limit our selection of counterparties with which we do new transactions to those with an “A-” credit rating or above or that are appropriately collateralized and provide credit for reinsurance. When exceptions are made to that principle, we ensure that we obtain collateral to mitigate our risk of loss.

In the normal course of business, certain reinsurance recoverables are subject to reviews by the reinsurers. We are not aware of any material disputes arising from these reviews or other communications with the counterparties as of

June 30, 2014 that would require an allowance for uncollectible amounts.

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Equity Price Risk

We are primarily exposed to equity price risk through certain insurance products, specifically those products with guaranteed minimum withdrawal benefits. We offer a variety of FIA contracts with crediting strategies linked to the performance of indices such as the S&P 500 Index, Dow Jones Industrials or the NASDAQ 100 Index. The estimated cost of providing guaranteed minimum withdrawal benefits incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction in our net income. The rate of amortization of intangibles related to FIA products and the cost of providing guaranteed minimum withdrawal benefits could also increase if equity market performance is worse than assumed.

To economically hedge the equity returns on these products, we purchase derivatives to hedge the FIA equity exposure. The primary way we hedge FIA equity exposure is to purchase over the counter equity index call options from broker-dealer derivative counterparties who generally have a minimum credit rating of Baa2 from Moody's and A- from S&P. The second way to hedge FIA equity exposure is by purchasing exchange traded equity index futures contracts. Our hedging strategy enables us to reduce our overall hedging costs and achieve a high correlation of returns on the call options purchased relative to the index credits earned by the FIA contractholders. The majority of the call options are one-year options purchased to match the funding requirements underlying the FIA contracts. These hedge programs are limited to the current policy term of the FIA contracts, based on current participation rates. Future returns, which may be reflected in FIA contracts' credited rates beyond the current policy term, are not hedged. We attempt to manage the costs of these purchases through the terms of our FIA contracts, which permit us to change caps or participation rates, subject to certain guaranteed minimums that must be maintained.

The derivatives are used to fund the FIA contract index credits and the cost of the call options purchased is treated as a component of spread earnings. While the FIA hedging program does not explicitly hedge statutory or GAAP income volatility, the FIA hedging program tends to mitigate a significant portion of the statutory and GAAP reserve changes associated with movements in the equity market and risk-free rates. This is due to the fact that a key component in the calculation of statutory and GAAP reserves is the market valuation of the current term embedded derivative. Due to the alignment of the embedded derivative reserve component with hedging of this same embedded derivative, there should be a reasonable match between changes in this component of the reserve and changes in the assets backing this component of the reserve. However, there may be an interim mismatch due to the fact that the hedges which are put in place are only intended to cover exposures expected to remain until the end of an indexing term. To the extent index credits earned by the contractholder exceed the proceeds from option expirations and futures income, we incur a raw hedging loss.

See Note 5 to our unaudited Condensed Consolidated Financial Statements for additional details on the derivatives portfolio.

Fair value changes associated with these investments are intended to, but do not always, substantially offset the increase or decrease in the amounts added to policyholder account balances for index products. For the Fiscal Nine Months, the annual index credits to policyholders on their anniversaries were $284.7. Proceeds received at expiration on options related to such credits were $268.3. The shortfall is funded by our net investment spread earnings and futures income.

Other market exposures are hedged periodically depending on market conditions and our risk tolerance. The FIA hedging strategy economically hedges the equity returns and exposes us to the risk that unhedged market exposures result in divergence between changes in the fair value of the liabilities and the hedging assets. We use a variety of techniques including direct estimation of market sensitivities and value-at-risk to monitor this risk daily. We intend to continue to adjust the hedging strategy as market conditions and risk tolerance change.

Sensitivity Analysis

The analysis below is hypothetical and should not be considered a projection of future risks. Earnings projections are before tax and noncontrolling interest.

Interest Rate Risk

We assess interest rate exposures for financial assets, liabilities and derivatives using hypothetical test scenarios that assume either increasing or decreasing 100 basis point parallel shifts in the yield curve, reflecting changes in

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either credit spreads or risk-free rates. If interest rates were to increase 100 basis points from levels at June 30, 2014, the estimated fair value of our fixed maturity securities would decrease by approximately $979.6 million of which $51.8 million relates to the Front Street funds withheld assets. The fair values of the reinsurance related embedded derivative would increase by the amount of the Front Street funds withheld assets and be reflected in the Company's Condensed Consolidated Statement of Operations. The impact on shareholders' equity of such decrease, net of income taxes and intangibles adjustments, and the change in reinsurance related derivative would be a decrease of $452.6 million in AOCI and a decrease of $427.3 million in total shareholders' equity. If interest rates were to decrease by 100 basis points from levels at June 30, 2014, the estimated impact on the embedded derivative liability of such a decrease would be an increase of $122.3. The actuarial models used to estimate the impact of a one percentage point 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 financial instruments indicated by these 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, the net exposure to interest rates can vary over time. However, any such decreases in the fair value of fixed maturity securities, unless related to credit concerns of the issuer requiring recognition of an OTTI, would generally be realized only if we were required to sell such securities at losses prior to their maturity to meet liquidity needs. Our liquidity needs are managed using the surrender and withdrawal provisions of the annuity contracts and through other means.

Equity Price Risk

Assuming all other factors are constant, we estimate that a decline in equity market prices of 10% would cause the market value of our equity investments to decrease by approximately $69.8 million, our derivative investments to decrease by approximately $43.9 million based on equity positions and our FIA embedded derivative liability to decrease by approximately $33.8 million as of June 30, 2014. Because our equity investments are classified as AFS, the 10% decline would not affect current earnings except to the extent that it reflects OTTI. These scenarios consider only the direct effect on fair value of declines in equity market levels and not changes in asset-based fees recognized as revenue, or changes in our estimates of total gross profits used as a basis for amortizing DAC and VOBA.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that, as of June 30, 2014, the Company's disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There has not been any change in the Company's internal controls over financial reporting that occurred during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Special Note Regarding Forward-Looking Statements

This quarterly report includes forward-looking statements. Some of the forward-looking statements can be identified by the use of terms such as “believes”, “expects”, “may”, “will”, “should”, “could”, “seeks”, “intends”, “plans”, “estimates”, “a other comparable terms. However, not all forward-looking statements contain these identifying words. These forward-looking statements include all matters that are not related to present facts or current conditions or that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our consolidated results of operations, financial condition, liquidity, prospects and growth strategies and the industries in which we operate and including, without limitation, statements relating to our future performance.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition and liquidity, and industry development may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our consolidated results of operations, financial condition and liquidity, and industry development are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the risks and uncertainties discussed in “Risk Factors” included in our Registration Statement on form S-1, as amended (File No. 333-190880), which can be found at the SEC’s website, www.sec.gov. Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include:

- the accuracy of management’s assumptions and estimates;
- the accuracy of our assumptions regarding the fair value and future performance of our investments;
- our and our insurance subsidiaries’ ability to maintain or improve financial strength ratings;
- our and our insurance subsidiaries’ potential need for additional capital to maintain our and their financial strength and credit ratings and meet other requirements and obligations;
- the stock of our primary operating subsidiary is subject to the security interest of its former owner;
- our ability to manage our business in a highly regulated industry, which is subject to numerous legal restrictions and regulations;
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) underwriting of insurance products and regulation of the sale, underwriting and pricing of products and minimum capitalization and statutory reserve requirements for insurance companies, or the ability of our insurance subsidiaries to make cash distributions to us (including dividends or payments on surplus notes those subsidiaries issue to us);
- the impact of our reinsurers failing to meet or timely meet their assumed obligations, increasing their rates, or becoming subject to adverse developments that could materially adversely impact their ability to provide reinsurance to us at consistent and economical terms;
- restrictions on our ability to use captive reinsurers;
- being forced to sell investments at a loss to cover policyholder withdrawals;
- the impact of interest rate fluctuations;
- the availability of credit or other financings and the impact of equity and credit market volatility and disruptions on both our ability to obtain capital and the value and liquidity of our investments;
- changes in the federal income tax laws and regulations which may affect the relative income tax advantages of our products;
- increases in our valuation allowance against our deferred tax assets, and restrictions on our ability to fully utilize such assets;
-

being the target or subject of, and our ability to defend ourselves against or respond to, litigation (including class action litigation), enforcement investigations or regulatory scrutiny;

- the performance of third parties including distributors, underwriters, actuarial consultants and other service providers;
- the loss of key personnel;

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- interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems;
- the continued availability of capital required for our insurance subsidiaries to grow;
- the impact on our business of new accounting rules or changes to existing accounting rules;
- our risk management policies and procedures could leave us exposed to unidentified or unanticipated risk;
- general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance which may affect (among other things) our ability to sell our products and the fair value of our investments, which could result in impairments and OTTI, and certain liabilities, and the lapse rate and profitability of policies;
- our ability to protect our intellectual property;
- difficulties arising from outsourcing relationships;
- the impact on our business of man-made catastrophes, pandemics, and malicious and terrorist acts;
- our ability to compete in a highly competitive industry and maintain competitive unit costs;
- adverse consequences if the independent contractor status of our IMOs is successfully challenged;
- our ability to attract and retain national marketing organizations and independent agents;
- adverse tax consequences if we generate passive income in excess of operating expenses;
- significant operating and financial restrictions, which may prevent us from capitalizing on business opportunities;
- the inability of our subsidiaries and affiliates to generate sufficient cash to service all of their obligations;
- our subsidiaries' ability to pay dividends to us;
- the ability to maintain or obtain approval of the IID and other regulatory authorities as required for our operations and those of our insurance subsidiaries; and
- the other factors discussed in "Risk Factors", of our Registration Statement on form S-1, as amended (File No. 333-190880).

You should read this report completely and with the understanding that actual future results may be materially different from expectations. All forward looking statements made in this report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this report and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

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Item 1. Legal Proceedings

See Note 12 to the Company’s Condensed Consolidated Financial Statements included in Part I—Item 1. Financial Statements.

Item 1A. Risk Factors

A detailed discussion of our risk factors can be found in our Registration Statement on Form S-1, as amended (File No.333-190880), which can be found at the SEC’s website www.sec.gov. There have been no material changes to the risk factors disclosed in our Registration Statement.

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

Use of Proceeds from Public Offering of Common Stock

Our initial public offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-190880) that was declared effective by the Securities and Exchange Commission on December 12, 2013. Credit Suisse Securities (USA) LLC, J.P. Morgan Securities LLC and Jeffries LLC acted as the representatives for the underwriters. The Registration Statement registered 9,750,000 shares of common stock and an additional 1,462,500 shares of common stock for sale upon the exercise of the underwriters’ over-allotment option. On December 18, 2013, 11,212,500 shares of common stock were sold at an initial public offering price of $17.00 per share, for aggregate gross proceeds of approximately $190.6 million to the Company. Our net proceeds of approximately $173.0 million from the initial public offering is comprised of gross proceeds from shares we issued in the initial public offering of approximately $190.6 million, offset by underwriting discounts and commissions of approximately $12.8 million and aggregate offering costs of approximately $4.8 million.

On December 18, 2013, a portion of the proceeds from the initial public offering was used to pay a special dividend to HGI of approximately $43.0 million. As described in our Registration Statement under the heading “Use of Proceeds,” we anticipate that we will use the remaining net proceeds from the initial public offering for working capital to support the growth of our business and other general corporate purposes, including the costs associated with being a public company. There has been no material change in the planned use of proceeds from our initial public offering from that described in our final prospectus filed with the Securities and Exchange Commission on December 13, 2013.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Description of Exhibits
3.1	Amended and Restated Certificate of Incorporation of Fidelity & Guaranty Life (incorporated by reference to our Registration Statement on Form S-8, filed on December 13, 2013 (File No. 333-192849)).
3.2	Amended and Restated Bylaws of Fidelity & Guaranty Life (incorporated by reference to our Registration Statement on Form S-8, filed on December 13, 2013 (File No. 333-192849)).
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Form of Common Stock Certificate (incorporated by reference to our Registration Statement on Form S-1/A, filed on December 3, 2013 (File No. 333-192849)).
4.3	Indenture, dated March 27, 2013, among Fidelity & Guaranty Life Holdings, Inc., as issuer, the Subsidiary Guarantors from time to time parties thereto and Wells Fargo Bank, National Association, as trustee, relating to the 6.375% Senior Notes due 2021 (incorporated by reference to our Registration Statement on Form S-1/A, filed on October 17, 2013 (File No. 333-192849)).
4.4	First Supplemental Indenture, dated March 27, 2013, among Fidelity & Guaranty Life Holdings, Inc., as issuer, the Subsidiary Guarantors from named therein and Wells Fargo Bank, National Association, relating to the 6.375% Senior Notes due 2021 (incorporated by reference to our Registration Statement on Form S-1/A, filed on October 17, 2013 (File No. 333-192849)).
4.5	Registration Rights Agreement, dated December 18, 2013, between Fidelity & Guaranty Life, and Harbinger Group, Inc.
31.1 *	Certification of Chief Executive Officer, pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of Chief Financial Officer, pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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.
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.
101.INS *	XBRL Instance Document.
101.SCH *	XBRL Taxonomy Extension Schema.
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF *	XBRL Taxonomy Definition Linkbase.
101.LAB *	XBRL Taxonomy Extension Label Linkbase.
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase.

* 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.

FIDELITY & GUARANTY LIFE (Registrant)

Dated: August 6, 2014

By: /s/ Dennis Vigneau
Senior Vice President and Chief Financial Officer
(on behalf of the Registrant and as Principal
Financial Officer)