Fidelity & Guaranty Life
Form 10-Q
February 04, 2015

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 December 31, 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	46-3489149
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Two Ruan Center 601 Locust Street, 14th Floor Des Moines, Iowa	50309
(Address of principal executive offices)	(Zip Code)

(800) 445-6758
(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 58,702,042 shares of the registrant's common stock outstanding as of February 2, 2015.

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)

	December 31, 2014 (Unaudited)	September 30, 2014
ASSETS		
Investments:		
Fixed maturities securities, available-for-sale, at fair value (amortized cost: December 31, 2014 - $17,172.2; September 30, 2014 - $16,691.9)	$17,910.4	$17,434.6
Equity securities, available-for-sale, at fair value (amortized cost: December 31, 2014 - $640.7; September 30, 2014 - $679.0)	657.9	697.7
Derivative investments	306.2	296.3
Commercial mortgage loans	206.8	136.2
Other invested assets	253.3	236.7
Total investments	19,334.6	18,801.5
Related party loans	93.2	112.7
Cash and cash equivalents	555.5	576.4
Accrued investment income	163.8	181.8
Reinsurance recoverable	3,728.6	3,664.8
Intangibles, net	592.6	515.0
Deferred tax assets	132.4	137.4
Other assets	150.9	163.1
Total assets	$24,751.6	$24,152.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Contractholder funds	$17,160.1	$16,463.5
Future policy benefits	3,483.8	3,504.3
Funds withheld for reinsurance liabilities	1,376.0	1,330.8
Liability for policy and contract claims	67.8	58.1
Debt	300.0	300.0
Other liabilities	698.5	836.8
Total liabilities	23,086.2	22,493.5
Commitments and contingencies		
Shareholders' equity:		
Preferred stock ($.01 par value, 50,000,000 shares authorized, no shares issued at December 31, 2014)	$—	$—
Common stock ($.01 par value, 500,000,000 shares authorized, 58,702,042 issued and outstanding at December 31, 2014; 58,442,721shares issued and outstanding at September 30, 2014)	0.6	0.6
Additional paid-in capital	703.7	702.1
Retained earnings	617.2	606.9
Accumulated other comprehensive income	345.2	349.6
	(1.3)	—

Treasury Stock, at cost (51,115 shares at December 31, 2014; no shares at September 30, 2014)		
Total shareholders' equity	1,665.4	1,659.2
Total liabilities and shareholders' equity	$24,751.6	$24,152.7

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	
	December 31, 2014	December 31, 2013
	(Unaudited)	
Revenues:		
Premiums	$11.6	$13.7
Net investment income	208.4	183.4
Net investment gains	58.5	123.4
Insurance and investment product fees and other	19.8	15.6
Total revenues	298.3	336.1
Benefits and expenses:		
Benefits and other changes in policy reserves	223.7	216.9
Acquisition and operating expenses, net of deferrals	29.2	26.0
Amortization of intangibles	16.2	22.9
Total benefits and expenses	269.1	265.8
Operating income	29.2	70.3
Interest expense	(5.9)	(5.6)
Income before income taxes	23.3	64.7
Income tax expense	9.2	22.0
Net income	$14.1	$42.7
Net income per common share:		
Basic	$0.24	$0.87
Diluted	$0.24	$0.87
Weighted average common shares used in computing net income per common share:		
Basic	58,283,327	49,142,208
Diluted	58,453,554	49,263,675
Cash dividend per common share	$0.065	$0.915
Supplemental disclosures:		
Total other-than-temporary impairments	$—	$—
Portion of other-than-temporary impairments included in other comprehensive income	—	—
Net other-than-temporary impairments	—	—
Gains on derivative instruments	62.6	111.5
Other realized investment (losses) gains	(4.1)	11.9
Total net investment gains	$58.5	$123.4

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 December 31, 2014	December 31, 2013
	(Unaudited)	
Net income	$14.1	$ 42.7
Other comprehensive income		
Unrealized investment (losses):		
Changes in unrealized investment (losses) before reclassification adjustment	(10.9)	(10.3)
Net reclassification adjustment for losses (gains) included in net investment gains	4.1	(8.1)
Changes in unrealized investment (losses) after reclassification adjustment	(6.8)	(18.4)
Adjustments to intangible assets	1.2	8.0
Changes in deferred income tax asset/liability	1.2	3.6
Net change to derive comprehensive (loss) for the period	(4.4)	(6.8)
Comprehensive income, net of tax	$9.7	$ 35.9

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)

	Preferred Stock	Common Stock	Additional Paid-in Capital/Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance, September 30, 2013	$—	$—	$ 527.1	$498.6	$ 112.9	$—	$ 1,138.6
Dividends	—	—	—	(43.0)	—	—	(43.0)
Stock Split	—	0.6	(0.6)	—	—	—	—
Proceeds from issuance of common stock, net of transaction fees	—	—	173.0	—	—	—	173.0
Net income	—	—	—	42.7	—	—	42.7
Unrealized investment losses, net	—	—	—	—	(6.8)	—	(6.8)
Stock compensation	—	—	1.0	—	—	—	1.0
Balance, December 31, 2013	$—	$ 0.6	$ 700.5	$498.3	$ 106.1	$—	$ 1,305.5
Balance, September 30, 2014	$—	$ 0.6	$ 702.1	$606.9	$ 349.6	$—	$ 1,659.2
Treasury shares purchased	—	—	—	—	—	(1.3)	(1.3)
Dividends	—	—	—	(3.8)	—	—	(3.8)
Net income	—	—	—	14.1	—	—	14.1
Unrealized investment losses, net	—	—	—	—	(4.4)	—	(4.4)
Stock compensation	—	—	1.6	—	—	—	1.6
Balance, December 31, 2014	$—	$ 0.6	$ 703.7	$617.2	$ 345.2	$(1.3)	$ 1,665.4

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended	
	December 31, 2014	December 31, 2013
	(Unaudited)	
Cash flows from operating activities:		
Net income	$14.1	$42.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	6.0	7.1
Amortization	(11.3)	(12.9)
Deferred income taxes	6.2	4.1
Interest credited/index credits and other changes to contractholder account balances	196.8	178.3
Net recognized (gains) on investments and derivatives	(58.5)	(123.4)
Charges assessed to contractholders for mortality and administration	(14.6)	(9.6)
Deferred policy acquisition costs, net of amortization	(76.4)	(29.7)
Changes in operating assets and liabilities:		
Reinsurance recoverable	(14.5)	(17.7)
Future policy benefits	(20.5)	(10.9)
Funds withheld from reinsurers	37.3	(39.9)
Collateral posted	39.3	2.7
Other assets and other liabilities	(15.5)	47.2
Net cash provided by operating activities	88.4	38.0
Cash flows from investing activities:		
Proceeds from available-for-sale investments sold, matured or repaid	824.6	1,705.9
Proceeds from derivatives instruments and other invested assets	128.4	102.7
Proceeds from commercial mortgage loans	30.8	—
Cost of available-for-sale investments acquired	(1,370.2)	(2,598.5)
Costs of derivatives instruments and other invested assets	(99.8)	(81.9)
Costs of commercial mortgage loans	(101.4)	(86.0)
Related party loans	19.5	22.6
Capital expenditures	(1.7)	(2.9)
Net increase in policy loans	(0.2)	—
Net cash (used in) investing activities	(570.0)	(938.1)
Cash flows from financing activities:		
Treasury stock	(1.2)	—
Proceeds from issuance of common stock, net of transaction fees	—	175.9
Dividends paid	(3.8)	(43.0)
Contractholder account deposits	873.2	772.2
Contractholder account withdrawals	(407.5)	(449.9)
Net cash provided by financing activities	460.7	455.2
Change in cash and cash equivalents	(20.9)	(444.9)
Cash and cash equivalents at beginning of period	576.4	1,204.3
Cash and cash equivalents at end of period	$555.5	$759.4
Supplemental disclosures of cash flow information:		
Interest paid	$4.8	$9.8
Income taxes paid	$26.0	$—

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

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”). The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for the Securities and Exchange Commission (“SEC”) Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in Fidelity & Guaranty Life and Subsidiaries' Annual Report on Form 10-K, for the year ended September 30, 2014 (“2014 Form 10-K”), should be read in connection with the reading of these interim unaudited consolidated financial statements.
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.

Certain GAAP policies, which significantly affect the determination of financial position, results of operations and cash flows, are summarized in our 2014 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company’s results. Operating results for the three month period ended December 31, 2014, are not necessarily indicative of the results that may be expected for the full year ending September 30, 2015. All material inter-company accounts and transactions have been eliminated in consolidation. Amounts reclassified out of other comprehensive income are reflected in net investment gains in the Condensed Consolidated Statements of Operations.

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

(2) Significant Accounting Policies and Practices
Principles of Consolidation
The accompanying unaudited condensed consolidated financial statements include the accounts of the Company 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
Investments in Qualified Affordable Housing Projects
In January 2014, the Financial Accounting Standards Board ("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. ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Project. The Company early adopted this guidance effective October 1, 2014 for all new LIHTC investments made subsequent to that date. Prior LIHTC investments will continue to be accounted for under the effective-yield method. This adoption did not have a material effect on the Company’s consolidated financial position and results of operations.

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Share-Based Payments When a Performance Target is achieved after the Requisite Service Period

In June 2014, the FASB issued new guidance on Stock Compensation (ASU 2014-12, Accounting for Share-Based Payments When the Term of an Award Provide that a Performance Target Could Be Achieved after the Requisite Service Period), effective for fiscal years beginning after December 15, 2015 and interim periods within those years. The new guidance requires that performance targets that affect vesting and that could be achieved after the requisite service period to be treated as performance conditions. Such performance targets would not be included in the grant-date fair value calculation of the award, rather compensation cost should be recorded when it is probable the performance target will be reached and should represent the compensation cost attributable to period(s) for which the requisite service has already been rendered. This standard may be early adopted and the amendments in this Update may be applied either prospectively or retrospectively. The Company will not early adopt this standard and is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

(3) Significant Risks and Uncertainties

Use of Estimates and Assumptions

The preparation of the Company’s Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions used.

Subsequent Events

The Company has concluded that there were no material subsequent events requiring adjustment to or disclosure in its Condensed Consolidated Financial Statements.

Concentrations of Financial Instruments

As of December 31, 2014 and September 30, 2014, 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 $2,217.7 or 11.5% and $2,240.3 or 11.9%, respectively, of the invested assets portfolio. The Company’s holdings in this industry include investments in 80 different issuers with the top ten investments accounting for 39.3% of the total holdings in this industry. As of December 31, 2014, the Company had investments in 1 issuer, Wells Fargo & Company, that exceeded 10.0% of shareholders' equity with a total fair value of $180.7 or 0.9% of the invested assets portfolio. As of September 30, 2014, the Company had investments in 2 issuers, Wells Fargo & Company and J.P. Morgan Chase, that exceeded 10.0% of shareholders' equity with a total fair value of $365.3 or 1.9% of the invested assets portfolio. Additionally, the Company’s largest concentration in any single issuer as of December 31, 2014 and September 30, 2014 was in Wells Fargo & Company which had a fair value of $180.7 or 0.9% and $185.4 or 1.0% 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 Front Street Re (Cayman) Ltd. ("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 an AAA credit rating from Standard & Poor's Ratings Services ("S&P") as of December 31, 2014. As of December 31, 2014, the net amount recoverable from Wilton Re was $1,521.2 and the net amount recoverable from FSRCI was $1,311.9. The coinsurance agreement with FSRCI is on a funds withheld basis. 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 December 31, 2014 and September 30, 2014 are summarized as follows:

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Available-for sale securities					
Asset-backed securities	$2,102.5	$9.3	$(33.4)	$2,078.4	$2,078.4
Commercial mortgage-backed securities	649.4	20.0	(1.0)	668.4	668.4
Corporates	9,258.6	550.6	(94.5)	9,714.7	9,714.7
Equities	640.7	25.3	(8.1)	657.9	657.9
Hybrids	1,268.7	55.6	(22.8)	1,301.5	1,301.5
Municipals	1,221.5	143.2	(2.8)	1,361.9	1,361.9
Residential mortgage-backed securities	2,095.4	124.6	(18.1)	2,201.9	2,201.9
U.S. Government	576.1	8.3	(0.8)	583.6	583.6
Total available-for-sale securities	17,812.9	936.9	(181.5)	18,568.3	18,568.3
Derivative investments	191.4	124.0	(9.2)	306.2	306.2
Commercial mortgage loans	206.8	—	—	206.8	206.8
Other invested assets	257.9	—	(4.6)	253.3	253.3
Total investments	$18,469.0	$1,060.9	$(195.3)	$19,334.6	$19,334.6

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	September 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Available-for-sale securities					
Asset-backed securities	$2,040.4	$11.8	$(19.8)	$2,032.4	$2,032.4
Commercial mortgage-backed securities	617.6	21.3	(2.0)	636.9	636.9
Corporates	9,329.1	499.2	(48.9)	9,779.4	9,779.4
Equities	679.0	23.8	(5.1)	697.7	697.7
Hybrids	1,279.1	52.2	(15.2)	1,316.1	1,316.1
Municipals	1,149.9	116.2	(6.3)	1,259.8	1,259.8
Residential mortgage-backed securities	1,984.8	140.3	(11.1)	2,114.0	2,114.0
U.S. Government	291.0	6.4	(1.4)	296.0	296.0
Total available-for-sale securities	17,370.9	871.2	(109.8)	18,132.3	18,132.3
Derivatives Instruments	177.7	123.3	(4.7)	296.3	296.3
Commercial mortgage loans	136.2	—	—	136.2	136.2
Other invested assets	237.2	—	(0.5)	236.7	236.7
Total investments	$17,922.0	$994.5	$(115.0)	$18,801.5	$18,801.5

Included in AOCI were cumulative unrealized gains of $0.9 and unrealized losses of $1.9 related to the non-credit portion of other than temporary impairments ("OTTI") on non-agency residential mortgage-backed securities ("RMBS") at December 31, 2014 and September 30, 2014. 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 $15,555.0 and $15,009.3 at December 31, 2014 and September 30, 2014, respectively. 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.

The Company held no non-income producing investments during the three months ended December 31, 2014 and December 31, 2013.

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 $566.1 and $573.2 at December 31, 2014 and September 30, 2014, 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.

	December 31, 2014	
	Amortized Cost	Fair Value
Corporates, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$302.3	$304.4
Due after one year through five years	2,786.2	2,830.0
Due after five years through ten years	2,899.6	2,990.6
Due after ten years	5,833.4	6,334.8
Subtotal	11,821.5	12,459.8
Other securities which provide for periodic payments:		
Asset-backed securities	2,102.5	2,078.4
Commercial mortgage-backed securities	649.4	668.4
Structured hybrids	503.4	501.9
Residential mortgage-backed securities	2,095.4	2,201.9
Subtotal	$5,350.7	$5,450.6
Total fixed maturity available-for-sale securities	$17,172.2	$17,910.4

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 December 31, 2014.

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

	December 31, 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	$940.8	$(17.0)	$505.8	$(16.4)	$1,446.6	$(33.4)
Commercial mortgage-backed securities	57.9	(0.5)	0.3	(0.5)	58.2	(1.0)
Corporates	882.3	(31.5)	1,339.0	(63.0)	2,221.3	(94.5)
Equities	149.2	(4.9)	50.9	(3.2)	200.1	(8.1)
Hybrids	270.8	(4.9)	234.4	(17.9)	505.2	(22.8)
Municipals	9.4	(0.1)	194.3	(2.7)	203.7	(2.8)
Residential mortgage-backed securities	454.5	(10.2)	227.0	(7.9)	681.5	(18.1)
U.S. Government	—	—	58.8	(0.8)	58.8	(0.8)
Total available-for-sale securities	$2,764.9	$(69.1)	$2,610.5	$(112.4)	$5,375.4	$(181.5)
Total number of available-for-sale securities in an unrealized loss position less than twelve months						383
Total number of available-for-sale securities in an unrealized loss position twelve months or longer						329
Total number of available-for-sale securities in an unrealized loss position						712

	September 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	$939.3	$(12.8)	$289.7	$(7.0)	$1,229.0	$(19.8)
Commercial mortgage-backed securities	160.3	(0.9)	0.4	(1.1)	160.7	(2.0)
Corporates	816.6	(16.3)	1,127.8	(32.6)	1,944.4	(48.9)
Equities	180.4	(2.2)	54.9	(2.9)	235.3	(5.1)
Hybrids	258.2	(2.3)	290.0	(12.9)	548.2	(15.2)
Municipals	—	—	264.9	(6.3)	264.9	(6.3)
Residential mortgage-backed securities	298.5	(5.8)	177.6	(5.3)	476.1	(11.1)
U.S Government	37.3	(0.1)	81.7	(1.3)	119.0	(1.4)
Total available-for-sale securities	$2,690.6	$(40.4)	$2,287.0	$(69.4)	$4,977.6	$(109.8)
						324

Total number of available-for-sale securities in an unrealized loss position less than twelve months	
Total number of available-for-sale securities in an unrealized loss position twelve months or longer	311
Total number of available-for-sale securities in an unrealized loss position	635

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At December 31, 2014 and September 30, 2014, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments.
At December 31, 2014 and September 30, 2014, securities with a fair value of $40.0 and $0.2, respectively, were depressed greater than 20.0% of amortized cost (excluding U.S. Government and U.S. Government sponsored agency securities), which represented less than 1.0% 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 months ended December 31, 2014 and December 31, 2013, for which a portion of the OTTI was recognized in AOCI:

	Three months ended	
	December 31, 2014	December 31, 2013
Beginning balance	$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

The Company recognized no material impairment losses in operations during the three months ended December 31, 2014 and 2013.

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Mortgage Loans on Real Estate

Commercial mortgage loans ("CMLs") represented approximately 1.1% and 0.8% of the Company’s total investments as of December 31, 2014 and September 30, 2014, respectively. The Company primarily makes mortgage loans on income producing properties including hotels, industrial properties, retail buildings, multifamily properties and office buildings. The company diversifies its CML portfolio by geographic region and property type to reduce concentration risk. Subsequent to origination the Company continuously evaluates CMLs based on relevant current information to ensure properties are performing at a consistent and acceptable level to secure the related debt. The distribution of CMLs, gross of valuation allowances, by property type and geographic region is reflected in the following tables:

	December 31, 2014			September 30, 2014		
	Gross Carrying Value	% of Total		Gross Carrying Value	% of Total	
Property Type:						
Industrial - General	$20.0	9.7	%	$—	—	%
Industrial - Warehouse	47.7	23.1	%	48.0	35.2	%
Multifamily	29.9	14.5	%	37.8	27.7	%
Office	76.0	36.7	%	44.6	32.8	%
Retail	33.2	16.0	%	5.8	4.3	%
Total commercial mortgage loans	$206.8	100.0	%	$136.2	100.0	%
US Region:						
East North Central	$64.3	31.1	%	$27.8	20.4	%
Middle Atlantic	18.0	8.7	%	10.9	8.0	%
Pacific	61.2	29.6	%	61.5	45.1	%
South Atlantic	37.5	18.1	%	—	—	%
West North Central	5.8	2.8	%	5.8	4.3	%
West South Central	20.0	9.7	%	30.2	22.2	%
Total commercial mortgage loans	$206.8	100.0	%	$136.2	100.0	%

The Company has a CML portfolio with 100.0% of all CMLs having a loan-to-value (“LTV”) ratio of less than 75.0% at December 31, 2014 and September 30, 2014. As of December 31, 2014, all CMLs are current and have not experienced credit or other events which would require the recording of an impairment loss. The Company has not established a collective or specific CML valuation allowance as of December 31, 2014.

LTV and debt service coverage (“DSC”) ratios are measures commonly used to assess the risk and quality of mortgage loans. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A LTV ratio in excess of 100.0% indicates the unpaid loan amount exceeds the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property’s net income to its debt service payments. A DSC ratio of less than 1.0 indicates that a property’s operations do not generate sufficient income to cover debt payments.

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The following table presents the recorded investment in CMLs by LTV and DSC ratio categories and estimated fair value by the indicated loan-to-value ratios at December 31, 2014 and September 30, 2014:

	Debt-Service Coverage Ratios								
	>1.25	1.00 - 1.25	N/A(a)	Total Amount	% of Total		Estimated Fair Value	% of Total	
December 31, 2014									
LTV Ratios:									
Less than 50%	$44.3	$—	$0.8	$45.1	21.8	%	$45.1	21.8	%
50% to 60%	51.4	—	—	51.4	24.9	%	51.4	24.9	%
60% to 75%	90.3	20.0	—	110.3	53.3	%	110.3	53.3	%
Commercial mortgage loans	$186.0	$20.0	$0.8	$206.8	100.0	%	$206.8	100.0	%
September 30, 2014									
LTV Ratios:									
Less than 50%	$44.6	$—	$0.8	$45.4	33.4	%	$45.4	33.4	%
50% to 60%	19.9	—	—	19.9	14.6	%	19.9	14.6	%
60% to 75%	70.9	—	—	70.9	52.0	%	70.9	52.0	%
Commercial mortgage loans	$135.4	$—	$0.8	$136.2	100.0	%	$136.2	100.0	%

(a) N/A - Current DSC ratio not available.

The Company recognizes a mortgage loan as delinquent when payments on the loan are greater than 30 days past due. At December 31, 2014, we had no CMLs that were delinquent in principal or interest payments. The following provides the current and past due composition of our CMLs:

	December 31, 2014	September 30, 2014
Current to 30 days	$ 206.8	$ 136.2
Total carrying value	$ 206.8	$ 136.2

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

•borrower is in default,
•borrower has declared bankruptcy,
•there is growing concern about the borrower's ability to continue as a going concern,
•borrower has insufficient cash flows to service debt,
•borrower's inability to obtain funds from other sources, and
•there is a breach of financial covenants by the borrower.

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

•assets used to satisfy debt are less than our recorded investment,
•interest rate is modified,
•maturity date extension at an interest rate less than market rate,
•capitalization of interest,

•delaying principal and/or interest for a period of three months or more, and
•partial forgiveness of the balance or charge-off.

Mortgage loan workouts, refinances or restructures that are classified as TDRs are individually evaluated and measured for impairment. As of December 31, 2014, our CML portfolio had no impairments, modifications or troubled debt restructuring.

Net Investment Income

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

	Three months ended	
	December 31, 2014	December 31, 2013
Fixed maturity available-for-sale securities	$195.6	$ 175.3
Equity available-for-sale securities	9.2	4.4
Commercial mortgage loans	1.2	0.8
Related party loans	1.7	1.9
Invested cash and short-term investments	—	0.1
Other investments	5.8	4.5
Gross investment income	213.5	187.0
Investment expense	(5.1)	(3.6)
Net investment income	$208.4	$ 183.4

Net investment gains

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

	Three months ended	
	December 31, 2014	December 31, 2013
Net realized (losses) gains on fixed maturity available-for-sale securities	$(3.8)	$ 13.6
Realized gains (losses) on equity securities	1.1	(1.6)
Net realized gains on securities	(2.7)	12.0
Realized gains on certain derivative instruments	40.9	54.9
Unrealized gains on certain derivative instruments	1.8	60.9
Change in fair value of reinsurance related embedded derivative	18.4	(4.3)
Change in fair value of other embedded derivatives	1.5	—
Realized gains on derivatives and embedded derivatives	62.6	111.5
Realized losses on other invested assets	(1.4)	(0.1)
Net investment gains	$58.5	$ 123.4

Realized gains and losses on the sale of securities are determined on the specific identification method.

For the three months ended December 31, 2014, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities totaled $809.6, gross gains on such sales totaled $10.5 and gross losses totaled $14.3.

For the three months ended December 31, 2013, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities, totaled $1,663.7, gross gains on such sales totaled $14.4, and gross losses totaled $0.8.

Unconsolidated Variable Interest Entities

We own two investments in variable interest entities ("VIEs") that are not consolidated within the Company's financial statements. VIEs do not have sufficient equity to finance their own activities without additional financial support and certain of its investors lack certain characteristics of a controlling financial interest. These VIEs are not consolidated in the Company's financial statements for the following reasons: 1) FGL Insurance does not have any voting rights or notice rights; 2) the

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Company does not have any rights to remove the investment manager; and 3) the Company was not involved in the design of the investment. These characteristics indicate that FGL Insurance lacks the ability to direct the activities, or otherwise exert control, of the VIEs and is not considered the primary beneficiary of them.

FGL Insurance participates in loans to third parties originated by Salus Capital Partners, LLC ("Salus"). Salus is an affiliated, limited liability company indirectly owned by HGI that originates senior secured asset-based loans to unaffiliated third-party borrowers. FGL Insurance also participates in Collateralized Loan Obligations (“CLOs”) managed by Salus. Because Salus is not consolidated, the Company’s maximum exposure to loss as a result of its investments in Salus is limited to the carrying value of its investments in Salus which totaled $293.8 and $303.6 as of December 31, 2014 and September 30, 2014, respectively. FGL’s investments in Salus are detailed in “Note 14. Related Party Transactions” to the Company’s Consolidated Financial Statements.

FGL Insurance also participates in an investment managed by Fifth Street Management, LLC (“Fifth Street”). Fifth Street Senior Loan Fund II (the “Fund”) invests in loans selected and/or originated by Fifth Street. Fifth Street is an unaffiliated, limited liability company that originates financing for the Fund’s investment activity through CLOs. The Company’s maximum exposure to loss as a result of its investments in Fifth Street is limited to the carrying value of its investments in Fifth Street which totaled $30.0 at December 31, 2014 and September 30, 2014, respectively.

(5) Derivative Financial Instruments

The carrying amounts of derivative instruments, including derivative instruments embedded in fixed indexed annuity (“FIA”) contracts, is as follows:

	December 31, 2014	September 30, 2014
Assets:		
Derivative investments:		
Call options	$ 306.2	$ 296.3
Other Invested Assets:		
Other embedded derivatives	14.3	12.9
Other Assets:		
Reinsurance related embedded derivative	94.8	76.4
	$ 415.3	$ 385.6
Liabilities:		
Contractholder funds:		
FIA embedded derivative	$ 2,140.2	$ 1,908.1
Funds withheld for reinsurance liabilities		
Call options payable to FSRCI	21.5	22.9
Other liabilities:		
Futures contracts	1.9	0.5
	$ 2,163.6	$ 1,931.5

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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	
	December 31, 2014	December 31, 2013
Revenues:		
Net investment gains (losses):		
Call options	$38.5	$ 102.7
Futures contracts	4.2	13.1
Other embedded derivatives	1.5	—
Reinsurance related embedded derivative	18.4	(4.3)
	$62.6	$ 111.5
Benefits and other changes in policy reserves:		
FIA embedded derivatives	$232.1	$ 100.3

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 December 31, 2014 the fair value of the embedded derivative is $11.8 and the fair value of the fund link note is $22.7. 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 embedded derivative reported in "Other invested assets", while the host is an available-for-sale security reported in "Fixed maturities, available-for-sale".

FGL Insurance participates in loans to third parties originated by Salus, an affiliated VIE, 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. Two of the participating loans include 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 changes in fair value reflected in the Company's Condensed Consolidated Statements 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. The Company had realized losses of $1.3 and $0.0, respectively, for the three months ended December 31, 2014 and 2013 related to its foreign exchange embedded derivative included in other invested assets.

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.

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

		December 31, 2014				September 30, 2014			
Counterparty	Credit Rating (Fitch/Moody's/S&P)	Notional Amount	Fair Value	Collateral	Net Credit Risk	Notional Amount	Fair Value	Collateral	Net Credit Risk
Merrill Lynch	A/*/A	$2,004.8	$74.6	$38.4	$36.2	$2,239.9	$92.7	$52.5	$40.2
Deutsche Bank	A+/A3/A	3,205.6	123.0	95.8	27.2	2,810.0	108.0	72.5	35.5
Morgan Stanley	*/A3/A	2,681.8	96.9	79.0	17.9	2,294.7	85.0	63.0	22.0
Barclay's Bank	A/A2/A	259.3	11.7	—	11.7	258.0	10.6	—	10.6
		$8,151.5	$306.2	$213.2	$93.0	$7,602.6	$296.3	$188.0	$108.3

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 December 31, 2014 and September 30, 2014, counterparties posted $213.2 and $188.0 of collateral of which $174.8 and $135.5 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 $38.4 and $52.5 of non-cash collateral was held by a third-party custodian at December 31, 2014 and September 30, 2014, respectively. 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 $93.0 and $108.3 at December 31, 2014 and September 30, 2014, respectively.

The Company held 1,627 and 2,348 futures contracts at December 31, 2014 and September 30, 2014, 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 $7.4 and $10.8 at December 31, 2014 and September 30, 2014, 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:

	December 31, 2014				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Cash and cash equivalents	$555.5	$—	$—	$555.5	$555.5
Fixed maturity securities, available-for-sale:					
Asset-backed securities	—	2,007.4	71.0	2,078.4	2,078.4
Commercial mortgage-backed securities	—	548.0	120.4	668.4	668.4
Corporates	—	8,813.8	900.9	9,714.7	9,714.7
Hybrids	—	1,301.5	—	1,301.5	1,301.5
Municipals	—	1,323.1	38.8	1,361.9	1,361.9
Residential mortgage-backed securities	—	2,201.9	—	2,201.9	2,201.9
U.S. Government	401.6	182.0	—	583.6	583.6
Equity securities available-for-sale	57.1	562.7	38.1	657.9	657.9
Derivative financial instruments	—	306.2	—	306.2	306.2
Reinsurance related embedded derivative, included in other assets	—	94.8	—	94.8	94.8
Commercial mortgage loans	—	—	206.8	206.8	206.8
Related party loans	—	—	93.2	93.2	93.2
Other invested assets	—	0.9	252.4	253.3	253.3
Total financial assets at fair value	$1,014.2	$17,342.3	$1,721.6	$20,078.1	$20,078.1
Liabilities					
Derivatives:					
FIA embedded derivatives, included in contractholder funds	$—	$—	$2,140.2	$2,140.2	$2,140.2
Derivative instruments - futures contracts	—	1.9	—	1.9	1.9
Investment contracts, included in contractholder funds	—	—	13,442.9	13,442.9	15,019.9
Call options payable for FSRCI, included in funds withheld for reinsurance liabilities	—	21.5	—	21.5	21.5
Debt	—	316.1	—	316.1	300.0
Total financial liabilities at fair value	$—	$339.5	$15,583.1	$15,922.6	$17,483.5

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	September 30, 2014				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Cash and cash equivalents	$576.4	$—	$—	$576.4	$576.4
Fixed maturity securities, available-for-sale:					
Asset-backed securities	—	1,958.6	73.8	2,032.4	2,032.4
Commercial mortgage-backed securities	—	553.8	83.1	636.9	636.9
Corporates	—	8,945.8	833.6	9,779.4	9,779.4
Hybrids	—	1,316.1	—	1,316.1	1,316.1
Municipals	—	1,222.6	37.2	1,259.8	1,259.8
Residential mortgage-backed securities	—	2,114.0	—	2,114.0	2,114.0
U.S. Government	115.6	180.4	—	296.0	296.0
Equity securities available-for-sale	59.2	598.4	40.1	697.7	697.7
Derivative financial instruments	—	296.3	—	296.3	296.3
Reinsurance related embedded derivative, included in other assets	—	76.4	—	76.4	76.4
Commercial mortgage loans	—	—	136.2	136.2	136.2
Related party loans	—	—	112.7	112.7	112.7
Other invested assets	—	1.7	235.0	236.7	236.7
Total financial assets at fair value	$751.2	$17,264.1	$1,551.7	$19,567.0	$19,567.0
Liabilities					
Derivatives:					
FIA embedded derivatives, included in contractholder funds	$—	$—	$1,908.1	$1,908.1	$1,908.1
Derivative instruments - futures contracts	—	0.5	—	0.5	0.5
Investment contracts, included in contractholder funds	—	—	13,108.8	13,108.8	14,555.4
Call options payable for FSRCI, included in funds withheld for reinsurance liabilities	—	22.9	—	22.9	22.9
Debt	—	316.5	—	316.5	300.0
Total financial liabilities at fair value	$—	$339.9	$15,016.9	$15,356.8	$16,786.9

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 December 31, 2014 and September 30, 2014. 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 of similar assets (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 December 31, 2014 and September 30, 2014, 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.

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 December 31, 2014 and September 30, 2014 is applied to the Annuity 2000 mortality tables. 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.

Other Invested Assets

Fair value of our loan participation interest securities approximates the unpaid principal balance of the participation interest as of December 31, 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 December 31, 2014, the primary market participant for these securities and the short-term maturity of these loans (less than 1 year).

Fair value of our embedded derivative is based on an unobservable input, the net asset value of the AnchorPath fund at the balance sheet date. The 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 United States dollar ("USD")/CAD exchange rates.

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Valuation Methodologies and Associated Inputs for Financial Instruments Not Carried at Fair Value

The following discussion outlines the methodologies and assumptions used to determine the fair value of our financial instruments not carried at fair value. Considerable judgment is required to develop these assumptions used to measure fair value. Accordingly, the estimates shown are not necessarily indicative of the amounts that would be realized in a one-time, current market exchange of all of our financial instruments.

Mortgage Loans on Real Estate

The fair value of mortgage loans on real estate is established using a discounted cash flow method based on credit rating, maturity and future income. The ratings for mortgages in good standing are based on property type, location, market conditions, occupancy, debt-service coverage, loan-to-value, quality of tenancy, borrower and payment record. The fair value for impaired mortgage loans is based on the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s market price or the fair value of the collateral if the loan is collateral dependent. The inputs used to measure the fair value of our mortgage loans on real estate are classified as Level 3 within the fair value hierarchy.

In September 2013, the Company initiated a commercial loan program utilizing a third party CML asset manager, Principal Real Estate Investors. Subsequently in October 2014, the Company expanded the program with the addition of CorAmerica, a subsidiary of Harbinger Group, as an additional CML asset manager. As part of these programs, the Company has funded CMLs with a fair value of $206.1 at December 31, 2014, which is equal to amortized cost. As these loans were originated in the past sixteen months, none are past due or have material credit issues and given that there have not been material changes in market interest since origination the Company views amortized cost as representative of fair value. The CML asset managers monitor the status of the payment obligations, the credit quality of the borrower, the condition of the property, and any other events that may impact the performance and principal repayment of the CMLs. Additionally, the Company periodically reviews the asset managers' valuation methodologies and investment processes to insure the program is performing in line with the objectives of the program. A CML's current standing and payment obligations are material factors in evaluating the CML's carrying value and related fair value. At December 31, 2014, all CMLs are current with no payments past due and there are no credit or other events which would require impairment evaluation.

Policy Loans (included within Other Invested Assets)

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.

Short-Term and Long-Term Debt

The fair value of long-term debt is based on quoted market prices. For short-term debt, excluding current maturities of long-term debt, the carrying value approximates fair value. The inputs used to measure the fair value of our short-term and long-term debt are classified as Level 2 within the fair value hierarchy.

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Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of December 31, 2014 and September 30, 2014 are as follows:

	Fair Value at December 31, 2014	Valuation Technique	Unobservable Input(s)	Range (Weighted average) December 31, 2014
Assets				
Asset-backed securities	$71.0	Broker-quoted	Offered quotes	94.45% - 108.81% (98.62%)
Commercial mortgage-backed securities	120.4	Broker-quoted	Offered quotes	100.00% - 121.50% (114.89%)
Corporates	898.8	Broker-quoted	Offered quotes	64.82% - 122.23% (101.02%)
Corporates	2.1	Matrix Pricing	Quoted prices	148.21%
Municipals	38.8	Broker-quoted	Offered quotes	111.84%
Equity securities available-for-sale	6.1	Broker-quoted	Offered quotes	100.00%
Equity securities available-for-sale	32.0	Market-approach	Yield	8.87% - 10.37%
Other invested assets:				
Embedded derivative	11.8	Black Scholes model	Net asset value of AnchorPath fund	100.00%
Salus participations	227.8	Market Pricing	Offered quotes	100.00%
Total	$1,408.8			
Liabilities				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$2,140.2	Discounted cash flow	Market value of option	0.00% - 42.52% (3.36%)
			SWAP rates	1.77% - 2.28% (2.03%)
			Mortality multiplier	80.00%
			Surrender rates	0.50% - 75.00% (7.00%)
			Non-performance spread	0.25%
Total liabilities at fair value	$2,140.2			

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	Fair Value at September 30, 2014	Valuation Technique	Unobservable Input(s)	Range (Weighted average) September 30, 2014
Assets				
Asset-backed securities	$73.8	Broker-quoted	Offered quotes	95.45% - 109.26% (99.26%)
Commercial mortgage-backed securities	83.1	Broker-quoted	Offered quotes	105.25% - 121.00% (118.29%)
Corporates	831.6	Broker-quoted	Offered quotes	61.67% - 119.75% (100.04%)
Corporates	2.0	Matrix Pricing	Quoted prices	142.30%
Municipals	37.2	Broker-quoted	Offered quotes	106.64%
Equity securities available-for-sale	6.0	Broker-quoted	Offered quotes	99.75%
Equity securities available-for-sale	34.1	Market-approach	Yield	8.31% - 9.81%
Other invested assets:				
Embedded derivative	11.2	Black Scholes model	Net asset value of AnchorPath fund	100.00%
Salus participations	213.3	Market Pricing	Offered quotes	100.00%
Total	$1,292.3			
Liabilities				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$1,908.1	Discounted cash flow	Market value of option	0.00% - 49.82% (3.37%)
			SWAP rates	1.93% - 2.64% (2.29%)
			Mortality multiplier	80.00%
			Surrender rates	0.50% - 75.00% (7.00%)
			Non-performance spread	0.25%
Total liabilities at fair value	$1,908.1			

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 months ended December 31, 2014 and December 31, 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 December 31, 2014							
		Total Gains (Losses)						
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	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	$73.8	$—	$(0.4)	$3.5	$—	$—	$(5.9)	$71.0
Commercial mortgage-backed securities	83.1	—	0.8	36.8	—	(0.3)	—	120.4
Corporates	833.6	(0.1)	8.9	61.0	—	(2.5)	—	900.9
Municipals	37.2	—	1.8	—	—	(0.2)	—	38.8
Equity securities available-for-sale	40.1	—	(2.0)	—	—	—	—	38.1
Other invested assets:								
Available-for-sale embedded derivative	11.2	0.6	—	—	—	—	—	11.8
Salus participations, included in other invested assets	213.3	(1.1)	(0.7)	47.3		(31.0)	—	227.8
Total assets at Level 3 fair value	$1,292.3	$(0.6)	$8.4	$148.6	$—	$(34.0)	$(5.9)	$1,408.8
Liabilities								
FIA embedded derivatives, included in contractholder funds	$1,908.1	$232.1	$—	$—	$—	$—	$—	$2,140.2
Total liabilities at Level 3 fair value	$1,908.1	$232.1	$—	$—	$—	$—	$—	$2,140.2

(a) The net transfers out of Level 3 during the three months ended December 31, 2014 were exclusively to Level 2.

	Three months ended December 31, 2013							
		Total Gains (Losses)						
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	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	$246.4	$—	$(0.7)	$5.0	$—	$—	$—	$250.7
	5.6	—	0.4	—	—	—	—	6.0

Commercial mortgage-backed securities								
Corporates	461.1	—	(6.1)	152.7	—	(0.5)	—	607.2
Municipals	—							