UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 8, 2015

HC2 HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	001-35210	54-1708481
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS. Employer Identification No.)

505 Huntmar Park Drive #325
Herndon, VA 20170
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (703) 865-0700

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

On April 15, 2015, HC2 Holdings, Inc., a Delaware corporation (the "Company"), filed a Current Report on Form 8-K with the Securities and Exchange Commission announcing that the Company entered into a Stock Purchase Agreement (the "Purchase Agreement") with Continental General Corporation, a Nebraska corporation, and Great American Financial Resources, Inc., a Delaware corporation (collectively, the "Sellers"), pursuant to which the Company agreed to purchase from the Sellers all of the issued and outstanding shares of common stock of United Teacher Associates Insurance Company, a Texas life insurance company ("UTAIC"), and Continental General Insurance Company, an Ohio life insurance company ("CGIC" and, together with UTAIC, the "Acquired Businesses"), as well as all assets owned by the Sellers or their affiliates that are used exclusively or primarily in the business of the Acquired Businesses, subject to certain exceptions (the "Acquisitions").

In connection with the Acquisitions, the Company is furnishing this Current Report on Form 8-K in order to make publicly available certain historical financial information of the Acquired Businesses and unaudited pro forma financial information of the Company reflecting the Acquisitions as Exhibits 99.1, 99.2, 99.3, 99.4 and 99.5.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired

Audited financial statements of United Teacher Associates Insurance Company, as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, and the notes related thereto.

Unaudited financial statements of United Teacher Associates Insurance Company as of December 31, 2014 and June 30, 2015 and for the year ended December 31, 2014 and the six months ended June 30, 2015, and the notes related thereto.

Audited financial statements of Continental General Insurance Company, as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, and the notes related thereto.

Unaudited financial statements of Continental General Insurance Company as of December 31, 2014 and June 30, 2015 and for the year ended December 31, 2014 and the six months ended June 30, 2015, and the notes related thereto.

(b) Pro Forma Financial Information

Unaudited pro forma condensed combined balance sheet as of June 30, 2015, unaudited pro forma condensed combined statements of operations for the year ended December 31, 2014 and for the six months ended June 30, 2015, and the notes related thereto.

(d) Exhibits

Exhibit No.	Description
2.1	Stock Purchase Agreement, dated as of April 13, 2015, by and among HC2 Holdings, Inc., Continental General Corporation and Great American Financial Resources, Inc. (incorporated by reference to Exhibit 2.1 to HC2's Current Report on Form 8-K, filed on April 15, 2015) (File No. 001-35210).
99.1	Audited financial statements of United Teacher Associates Insurance Company, as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 and the notes related thereto.
99.2	Unaudited financial statements of United Teacher Associates Insurance Company as of December 31, 2014 and June 30, 2015 and for the year ended December 31, 2014 and the six months ended June 30, 2015, and the notes related thereto.
99.3	Audited financial statements of Continental General Insurance Company, as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, and the notes related thereto.
99.4	Unaudited financial statements of Continental General Insurance Company as of December 31, 2014 and June 30, 2015 and for the year ended December 31, 2014 and the six months ended June 30, 2015, and the notes related thereto.
99.5	Unaudited pro forma condensed combined balance sheet as of June 30, 2015, unaudited pro forma condensed combined statements of operations for the year ended December 31, 2014 and for the six months ended June 30, 2015, and the notes related thereto.

SIGNATURE

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 hereunto duly authorized.

HC2 Holdings, Inc.
(Registrant)

Date: September 8, 2015	By:	/s/ Michael Sena
	Name:	Michael Sena
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 99.1

UNITED TEACHER ASSOCIATES INSURANCE COMPANY

Financial Statements

Years ended December 31, 2014, 2013 and 2012
with report of Independent Auditors

Ernst & Young LLP
1900 Scripps Center
312 Walnut Street
Cincinnati, OH 45202

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Report of Independent Auditors

Board of Directors
United Teacher Associates Insurance Company

We have audited the accompanying financial statements of United Teacher Associates Insurance Company, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statement of earnings, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Teacher Associates Insurance Company at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

September 3, 2015

UNITED TEACHER ASSOCIATES INSURANCE COMPANY
BALANCE SHEET
(Dollars in Thousands, Except Per Share Data)

	December 31	
	2014	**2013**
Assets:		
Cash and cash equivalents	$ 42,372	$ 19,774
Investments:		
Fixed maturities, available for sale at fair value (amortized cost - $861,910 and $835,844)	983,088	903,645
Equity securities, available for sale at fair value (cost - $59,441 and $38,354)	61,833	39,988
Policy loans	15,930	16,361
Other investments	2,455	4,683
Total cash and investments	1,105,678	984,451
Recoverables from reinsurers	185,128	184,077
Deferred policy acquisition costs	52,133	52,725
Accrued investment income	11,535	11,449
Other assets	6,160	4,785
Total assets	$ 1,360,634	$ 1,237,487
Liabilities and Equity:		
Annuity benefits accumulated	$ 194,785	$ 199,945
Life, accident and health reserves	947,642	793,393
Net deferred tax liability	3,483	12,382
Other liabilities	12,541	16,208
Total liabilities	1,158,451	1,021,928
Shareholder's Equity:		
Common stock, par value - $1 per share:		
- 5,000,000 shares authorized		
- 2,500,005 shares issued and outstanding	2,500	2,500
Capital surplus	149,040	138,119
Retained earnings	30,336	39,423
Accumulated other comprehensive income, net of tax	20,307	35,517
Total shareholder's equity	202,183	215,559
Total liabilities and shareholder's equity	$ 1,360,634	$ 1,237,487

See notes to financial statements.

UNITED TEACHER ASSOCIATES INSURANCE COMPANY
STATEMENT OF OPERATIONS
(In Thousands)

	Year Ended December 31		
	2014	**2013**	**2012**
Revenues:			
Life, accident and health net earned premiums	$ 70,883	$ 72,883	$ 152,646
Net investment income	59,942	53,724	52,797
Realized gains (losses) on securities (*)	(5,505)	7,809	21,056
Other income	19	183	369
Total revenues	125,339	134,599	226,868
Cost and expenses:			
Annuity benefits	6,274	7,957	8,341
Life, accident and health benefits	106,742	103,741	192,213
Insurance acquisition expenses, net	15,094	19,162	99,848
Other operating and general expenses	11,759	15,542	19,184
Total costs and expenses	139,869	146,402	319,586
Loss before income taxes	(14,530)	(11,803)	(92,718)
Income tax benefit	(5,443)	(4,575)	(32,533)
Net loss	$ (9,087)	$ (7,228)	$ (60,185)
(*) Consists of the following:			
Realized gains (losses) before impairments	$ (769)	$ 9,084	$ 21,320
Losses on securities with impairment	(4,877)	(1,275)	(253)
Non-credit portion recognized in other comprehensive income (loss)	141	-	(11)
Impairment charges recognized in earnings	(4,736)	(1,275)	(264)
Total realized gains (losses) on securities	$ (5,505)	$ 7,809	$ 21,056

See notes to financial statements.

UNITED TEACHER ASSOCIATES INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31		
	2014	2013	2012
Comprehensive Income (Loss):			
Net loss	$ (9,087)	$ (7,228)	$ (60,185)
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities:			
Unrealized holding gains (losses) on securities arising during the period	(18,788)	33,457	13,972
Reclassification adjustment for realized losses (gains) included in net loss	3,578	(5,076)	(13,686)
Total net unrealized gains (losses) on securities	(15,210)	28,381	286
Total comprehensive income (loss), net of tax	$ (24,297)	$ 21,153	$ (59,899)

See notes to financial statements.

UNITED TEACHER ASSOCIATES INSURANCE COMPANY
STATEMENT OF CHANGES IN EQUITY
(Dollars in Thousands)

		Shareholder's Equity			
	Common Shares	Common Stock and Capital Surplus	Retained Earnings	Accumulated Other Comp Inc (Loss)	Total
Balance at January 1, 2012	2,500,005	$ 98,324	$ 106,836	$ 6,850	$ 212,010
Net loss	-	-	(60,185)	-	(60,185)
Other comprehensive income	-	-	-	286	286
Capital contribution from parent	-	4,000	-	-	4,000
Other	-	644	-	-	644
Balance at December 31, 2012	2,500,005	$ 102,968	$ 46,651	$ 7,136	$ 156,755
Net loss	-	-	(7,228)	-	(7,228)
Other comprehensive income	-	-	-	28,381	28,381
Capital contributions from parent	-	35,000	-	-	35,000
Other	-	2,651	-	-	2,651
Balance at December 31, 2013	2,500,005	$ 140,619	$ 39,423	$ 35,517	$ 215,559
Net loss	-	-	(9,087)	-	(9,087)
Other comprehensive loss	-	-	-	(15,210)	(15,210)
Capital contribution from parent	-	10,000	-	-	10,000
Other	-	921	-	-	921
Balance at December 31, 2014	2,500,005	$ 151,540	$ 30,336	$ 20,307	$ 202,183

See notes to financial statements.

UNITED TEACHER ASSOCIATES INSURANCE COMPANY
STATEMENT OF CASH FLOWS
(In Thousands)

	Year Ended December 31		
	2014	2013	2012
Operating Activities:			
Net loss	$ (9,087)	$ (7,228)	$ (60,185)
Adjustments:			
Depreciation and amortization	(723)	47	(5,037)
Annuity benefits	6,274	7,957	8,341
Realized (gains) losses on investing activities	5,505	(7,809)	(21,056)
Deferred annuity and life policy acquisition costs	(538)	(535)	(12,248)
Amortization of insurance acquisition costs	5,025	8,574	87,859
Change in:			
Life, accident and health reserves	73,739	41,437	326,876
Recoverables from reinsurers	(1,051)	23,260	(196,551)
Accrued investment income	(86)	(1,111)	(803)
Net deferred tax liability	(662)	(795)	(28,392)
Other assets	(1,375)	928	3,598
Other liabilities	(4,032)	6,564	(6,215)
Other operating activities, net	(149)	1,614	1,752
Net cash provided by operating activities	72,840	72,903	97,939
Investing Activities:			
Purchases of:			
Fixed maturities	(83,185)	(158,609)	(134,736)
Equity securities	(24,778)	(23,412)	(16,200)
Other investments	(1,724)	(3,787)	-
Proceeds from:			
Maturities and redemptions of fixed maturities	50,974	73,787	45,483
Repayment of mortgage loans	-	-	2,949
Sales of fixed maturities	4,902	3,949	18,283
Sales of equity securities	791	2,051	5,391
Other investments	4,431	2,924	291
Other investing activities, net	247	222	221
Net cash used in investing activities	(48,342)	(102,875)	(78,318)
Financing Activities:			
Annuity receipts	3,758	4,453	4,976
Annuity surrenders, benefits and withdrawals	(15,658)	(18,102)	(17,131)
Cash contributions received	10,000	35,000	4,000
Net cash provided by (used in) financing activities	(1,900)	21,351	(8,155)
Net Change in Cash and Cash Equivalents	22,598	(8,621)	11,466
Cash and cash equivalents at beginning of year	19,774	28,395	16,929
Cash and cash equivalents at end of year	$ 42,372	$ 19,774	$ 28,395

See notes to financial statements.

A. Accounting Policies

Basis of Presentation The financial statements include the accounts of United Teacher Associates Insurance Company ("UTAIC" or the "Company"). UTAIC is a direct wholly-owned subsidiary of Great American Financial Resources, Inc. ("GAFRI"), a financial services holding company wholly-owned by American Financial Group, Inc. ("AFG") . The financial statements also include costs paid on behalf of UTAIC by GAFRI. These costs are recorded as expense in the period incurred and shown as an increase in capital surplus.

Although the Company does not currently market any life, annuity or long-term care insurance, UTAIC's product portfolio includes a diversified mix of closed blocks of life, annuity and long-term care ("LTC") health insurance products.

In the third quarter of 2012 GAFRI sold its Medicare Supplement and other non LTC health insurance business, including Loyal American Life Insurance Company ("Loyal") to Cigna. As part of the agreement UTAIC reinsured all of its Medicare Supplement and other non LTC health business into Loyal through a 100% coinsurance agreement ("Cigna Transaction"). The Company accepts new premium sales (Medicare supplement, critical illness and other non-health products), for certain states, through a reinsurance fronting agreement, whereby the Company reinsures 100% of these premiums through a coinsurance agreement with Loyal.

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Changes in circumstances could cause actual results to differ materially from those estimates.

Fair Value Measurements Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The standards establish a hierarchy of valuation techniques based on whether the assumptions that market participants would use in pricing the asset or liability ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect UTAIC's assumptions about the assumptions market participants would use in pricing the asset or liability.

Investments Fixed maturity and equity securities classified as "available for sale" are reported at fair value with unrealized gains and losses included in accumulated other comprehensive income ("AOCI") in UTAIC's Balance Sheet. Policy loans are carried primarily at the aggregate unpaid balance.

Premiums and discounts on fixed maturity securities are amortized using the interest method. Mortgage-backed securities ("MBS") are amortized over a period based on estimated future principal payments, including prepayments. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations.

Gains or losses on securities are determined on the specific identification basis. When a decline in the value of a specific investment is considered to be other-than-temporary at the balance sheet date, a provision for impairment is charged to earnings (included in realized gains (losses) on securities) and the cost basis of that investment is reduced. If management can assert that it does not intend to sell an impaired fixed maturity security and it is not more likely than not that it will have to sell the security before recovery of its amortized cost basis, then the other-than-temporary impairment is separated into two components: (i) the amount related to credit losses (recorded in earnings) and (ii) the amount related to all other factors (recorded in other comprehensive income). The credit-related portion of an other-than-temporary impairment is measured by comparing a security's amortized cost to the present value of its current expected cash flows discounted at its effective yield prior to the impairment charge. Both components are shown in the Statement of Operations. If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment charge to earnings is recorded to reduce the amortized cost of that security to fair value.

Derivatives Derivatives included in UTAIC's Balance Sheet are recorded at fair value and consist of components of certain fixed maturity securities (primarily interest-only MBS). Changes in fair value of derivatives are included in earnings.

Deferred Policy Acquisition Costs ("DPAC") Policy acquisition costs (principally commissions and certain underwriting and policy issuance costs) directly related to the successful acquisition or renewal of an insurance contract are deferred. DPAC also includes capitalized costs associated with sales inducements offered to fixed annuity policyholders such as enhanced interest rates and premium and persistency bonuses.

DPAC related to annuities is deferred to the extent deemed recoverable and amortized, with interest, in relation to the present value of actual and expected gross profits on the policies. Expected gross profits consist principally of estimated future investment margin (estimated future net investment income less interest credited on policyholder funds) and surrender, mortality, and other life and annuity policy charges, less death, annuitization and estimated future policy administration expenses. To the extent that realized gains and losses result in adjustments to the amortization of DPAC related to annuities, such adjustments are reflected as components of realized gains (losses) on securities.

DPAC related to traditional life and health insurance is amortized over the expected premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. See *"Life, Accident and Health Reserves"* below for details on the impact of loss recognition on the accounting for traditional life and health insurance contracts.

DPAC includes the present value of future profits on business in force of annuity, life, accident and health insurance companies acquired ("PVFP"). PVFP represents the portion of the costs to acquire companies that is allocated to the value of the right to receive future cash flows from insurance contracts existing at the date of acquisition. PVFP is amortized with interest in relation to expected gross profits of the acquired policies for annuities and in relation to the premium paying period for traditional life and health insurance products.

DPAC and certain other balance sheet amounts related to annuity and life businesses are also adjusted, net of tax, for the change in expense that would have been recorded if the unrealized gains (losses) from securities had actually been realized. These adjustments are included in unrealized gains (losses) on marketable securities, a component of AOCI in UTAIC's Balance Sheet.

Reinsurance Premium revenue and benefits are reported net of the amounts related to reinsurance ceded to and assumed from other companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Amounts received from reinsurers that represent recoveries of acquisition costs are netted against DPAC, so that the net amount is capitalized. The cost of reinsurance is accounted for over the term of the related treaties using assumptions consistent with those used to account for the underlying reinsured policies.

Annuity Benefits Accumulated Annuity receipts and benefit payments are recorded as increases or decreases in annuity benefits accumulated rather than as revenue and expense. Increases in this liability (primarily interest credited) are charged to expense and decreases for charges are credited to annuity policy charges revenue. Reserves for traditional fixed annuities are generally recorded at the stated account value.

Life, Accident and Health Reserves Liabilities for future policy benefits under traditional life, accident and health policies are computed using the net level premium method. Computations are based on the original projections of investment yields, mortality, morbidity and surrenders and include provisions for unfavorable deviations unless a loss recognition event (premium deficiency) occurs. Claim reserves and liabilities established for accident and health claims are modified as necessary to reflect actual experience and developing trends.

For long-duration contracts (such as traditional life and long-term care insurance policies), loss recognition occurs when, based on current expectations as of the measurement date, existing contract liabilities plus the present value of future premiums (including reasonably expected rate increases) are not expected to cover the present value of future claims payments and related settlement and maintenance costs (excluding overhead) as well as unamortized acquisition costs. If a block of business is determined to be in loss recognition, a charge is recorded in earnings in an amount equal to the excess of the present value of expected future claims costs and unamortized acquisition costs over existing reserves plus the present value of expected future premiums (with no provision for adverse deviation). The charge is recorded first to reduce unamortized acquisition costs and then as an additional reserve (if unamortized acquisition costs have been reduced to zero).

In addition, reserves for traditional life and long-term care insurance policies are subject to adjustment for loss recognition charges that would have been recorded if the unrealized gains from securities had actually been realized. This adjustment is included in unrealized gains (losses) on marketable securities, a component of AOCI in UTAIC’s Balance Sheet.

Premium Recognition For traditional life, accident and health products, premiums are recognized as revenue when legally collectible from policyholders.

Income Taxes The Company has an intercompany tax allocation agreement with AFG. Pursuant to the agreement, the Company’s tax expense is determined based upon its inclusion in the consolidated tax return of AFG and its includable subsidiaries. Estimated payments are made quarterly during the year. Following year-end, additional settlements are made on the original due date of the return and, when extended, at the time the return is filed. The method of allocation among the companies under the agreement is based upon separate return calculations with current credit for losses to the extent the losses provide a benefit in the consolidated return.

Deferred income taxes are calculated using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases and are measured using enacted tax rates. A valuation allowance is established to reduce total deferred tax assets to an amount that will more likely than not be realized.

UTAIC recognizes the tax benefits of uncertain tax positions only when the position is more likely than not to be sustained under examination by the appropriate taxing authority. Interest and penalties on UTAIC’s reserve for uncertain tax positions are recognized as a component of tax expense.

Benefit Plans UTAIC provides retirement benefits to qualified employees of participating companies through the AFG 401(k) Retirement and Savings Plan, a defined contribution plan. AFG and its subsidiaries make all contributions to the retirement fund portion of the plan and match a percentage of employee contributions to the savings fund. Company contributions are expensed in the year for which they are declared.

Statement of Cash Flows For cash flow purposes, “investing activities” are defined as making and collecting loans and acquiring and disposing of debt or equity instruments and property and equipment. “Financing activities” include obtaining resources from owners and providing them with a return on their investments, borrowing money and repaying amounts borrowed. Annuity receipts, surrenders, benefits and withdrawals are also reflected as financing activities. All other activities are considered “operating.” Short-term investments having original maturities of three months or less when purchased are considered to be cash equivalents for purposes of the financial statements.

B. <u>Fair Value Measurements</u>

Accounting standards for measuring fair value are based on inputs used in estimating fair value. The three levels of the hierarchy are as follows:

Level 1 — Quoted prices for identical assets or liabilities in active markets (markets in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis). UTAIC’s Level 1 financial instruments consist primarily of publicly traded equity securities and highly liquid government bonds for which quoted market prices in active markets are available.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (markets in which there are few transactions, the prices are not current, price quotations vary substantially over time or among market makers, or in which little information is released publicly); and valuations based on other significant inputs that are observable in active markets. UTAIC’s Level 2 financial instruments include corporate and municipal fixed maturity securities, mortgage-backed securities (“MBS”) and non-affiliated common stocks priced using observable inputs. Level 2 inputs include benchmark yields, reported trades, corroborated broker/dealer quotes, issuer spreads and benchmark securities. When non-binding broker quotes can be corroborated by comparison to similar securities priced using observable inputs, they are classified as Level 2.

Level 3 — Valuations derived from market valuation techniques generally consistent with those used to estimate the fair values of Level 2 financial instruments in which one or more significant inputs are unobservable or when the market for a security exhibits significantly less liquidity relative to markets supporting Level 2 fair value measurements. The unobservable inputs may include management’s own assumptions about the assumptions market participants would use based on the best information available in the circumstances. UTAIC’s Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker quotes or internally developed using significant inputs not based on, or corroborated by, observable market information.

UTAIC’s management is responsible for the valuation process and uses data from outside sources (including nationally recognized pricing services and broker/dealers) in establishing fair value. The Company's internal investment professionals are a group of approximately 20 analysts whose primary responsibility is to manage AFG’s investment portfolio. These professionals monitor individual investments as well as overall industries and are active in the financial markets on a daily basis. The group is led by AFG’s chief investment officer, who reports directly to one of AFG’s Co-CEOs. Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by AFG’s internal investment professionals who are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price. To validate the appropriateness of the prices obtained, these investment managers consider widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. In addition, AFG communicates directly with the pricing service regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the service to value specific securities.

Assets measured and carried at fair value in the financial statements are summarized below (in thousands):

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale ("AFS") fixed maturities:				
U.S. Government and government agencies	$ 6,816	$ 5,987	$ -	$ 12,803
States, municipalities and political subdivisions	-	313,429	5,757	319,186
Foreign government	-	4,697	-	4,697
Residential MBS	-	130,457	17,331	147,788
Commercial MBS	-	61,675	3,128	64,803
Asset-backed securities ("ABS")	-	31,560	4,142	35,702
Corporate and other	536	389,472	8,101	398,109
Total AFS fixed maturities	7,352	937,277	38,459	983,088
Equity securities	54,782	3,005	4,046	61,833
Total assets accounted for at fair value	$ 62,134	$ 940,282	$ 42,505	$ 1,044,921

December 31, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale fixed maturities:				
U.S. Government and government agencies	$ 6,486	$ 6,735	$ -	$ 13,221
States, municipalities and political subdivisions	-	254,109	-	254,109
Foreign government	-	4,305	-	4,305
Residential MBS	-	124,035	25,832	149,867
Commercial MBS	-	68,631	2,714	71,345
Asset-backed securities	-	33,335	4,404	37,739
Corporate and other	524	365,818	6,717	373,059
Total AFS fixed maturities	7,010	856,968	39,667	903,645
Equity securities	36,140	2,560	1,288	39,988
Total assets accounted for at fair value	$ 43,150	$ 859,528	$ 40,955	$ 943,633

At December 31, 2014 and 2013 no liabilities were carried at fair value.

The transfers between Level 1 and Level 2 for the years ended December 31, 2014, 2013 and 2012 are reflected in the table below at fair value as of the end of the reporting period (dollars in thousands):

	Year ended December 31											
	Level 2 to Level 1 Transfers						Level 1 to Level 2 Transfers					
	# of Transfers			Fair Value			# of Transfers			Fair Value		
	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
Perpetual preferred stocks	1	-	1	$ 1,085	$ -	$ 1,125	2	-	2	$ 3,105	$ -	$ 2,113
Common stocks	-	2	-	-	2,291	-	-	-	-	-	-	-
Redeemable preferred stocks	-	-	1	-	-	530	-	-	-	-	-	-

The transfers from Level 2 to Level 1 are due to increases in trade frequency, resulting in trade data sufficient to warrant classification in Level 1. The transfers from Level 1 to Level 2 are due to decreases in trade frequency, resulting in lack of available trade data sufficient to warrant classification in Level 1. Approximately 4% of the total assets carried at fair value on December 31, 2014, were Level 3 assets. Approximately 84% ($36 million) of the Level 3 assets were priced using non-binding broker quotes, for which there is a lack of transparency as to the inputs used to determine fair value. Details as to the quantitative inputs are neither provided by the brokers nor otherwise reasonably obtainable by UTAIC. Since internally developed Level 3 asset fair values represent less than of 1% of the total assets measured at fair value and less than 4% of UTAIC's shareholder's equity, changes in unobservable inputs used to determine internally developed fair values would not have a material impact on UTAIC's financial position.

Changes in balances of Level 3 financial assets carried at fair value during 2014, 2013 and 2012 are presented below (in thousands). The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2013	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31, 2014
AFS fixed maturities:								
State and municipal	$ -	$ 108	$ (918)	$ -	$ -	$ 6,567	$ -	$ 5,757
Residential M BS	25,832	(1,139)	(147)	-	(474)	9,792	(16,533)	17,331
Commercial M BS	2,714	(21)	435	-	-	-	-	3,128
Asset-backed securities	4,404	20	85	-	(2,375)	2,008	-	4,142
Corporate and other	6,717	(802)	371	-	(1,209)	3,024	-	8,101
Equity securities	1,288	16	(253)	2,498	-	1,500	(1,003)	4,046

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2012	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31, 2013
AFS fixed maturities:								
Residential M BS	$ 24,507	$ 2,298	$ 2,043	$ 1,850	$ (1,475)	$ 6,552	$ (9,943)	$ 25,832
Commercial M BS	-	(114)	(201)	-	-	3,029	-	2,714
Asset-backed securities	6,548	(28)	(67)	-	(1,009)		(1,040)	4,404
Corporate and other	2,452	41	42	5,991	(68)	775	(2,516)	6,717
Equity securities	-	-	215	1,073	-		-	1,288

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2011	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31, 2012
AFS fixed maturities:								
State and municipal	$ 2,750	$ 77	$ 867	$ -	$ -	$ -	$ (3,694)	$ -
Residential M BS	5,914	278	385	10,598	(869)	8,589	(388)	24,507
Commercial M BS	-	-	-	-	-	-	-	-
Asset-backed securities	3,121	3	237	3,222	(35)	-	-	6,548
Corporate and other	3,833	44	(105)	-	(300)	-	(1,020)	2,452

Fair Value of Financial Instruments The carrying value and fair value of financial instruments that are not carried at fair value in the financial statements at December 31 are summarized below (in thousands):

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
2014					
Financial assets:					
Cash and cash equivalents	$ 42,372	$ 42,372	$ 42,372	$ -	$ -
Policy loans	15,930	15,930	-	-	15,930
Total financial assets not accounted for at fair value	$ 58,302	$ 58,302	$ 42,372	$ -	$ 15,930
Financial liabilities:					
Annuity benefits accumulated (*)	$ 194,425	$ 208,782	$ -	$ -	$ 208,782
Total financial liabilities not accounted for at fair value	$ 194,425	$ 208,782	$ -	$ -	$ 208,782

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
2013					
Financial assets:					
Cash and cash equivalents	$ 19,774	$ 19,774	$ 19,774	$ -	$ -
Policy loans	16,361	16,361	-	-	16,361
Total financial assets not accounted for at fair value	$ 36,135	$ 36,135	$ 19,774	$ -	$ 16,361
Financial liabilities:					
Annuity benefits accumulated (*)	$ 199,633	$ 208,027	$ -	$ -	$ 208,027
Total financial liabilities not accounted for at fair value	$ 199,633	$ 208,027	$ -	$ -	$ 208,027

(*) Excludes life contingent annuities in the payout phase.

The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of these instruments. The fair value of policy loans is estimated to approximate carrying value; policy loans have no defined maturity dates and are inseparable from insurance contracts. The fair value of annuity benefits was estimated based on expected cash flows discounted using forward interest rates adjusted for the Company’s credit risk and includes the impact of maintenance expenses and capital costs.

C. Investments

Available for sale fixed maturities and equity securities at December 31 consisted of the following (in thousands):

	2014				2013			
	Amortized	Fair	Gross Unrealized		Amortized	Fair	Gross Unrealized	
	Cost	Value	Gains	Losses	Cost	Value	Gains	Losses
Fixed Maturities:								
U.S. Government and government agencies	$ 12,026	$ 12,803	$ 777	$ -	$ 12,582	$ 13,221	$ 688	$ (49)
States, municipalities and political subdivisions	275,519	319,186	44,058	(391)	244,938	254,109	14,169	(4,998)
Foreign government	3,982	4,697	715	-	3,981	4,305	324	-
Residential MBS	133,208	147,788	15,147	(567)	136,037	149,867	14,321	(491)
Commercial MBS	60,345	64,803	4,458	-	66,719	71,345	5,041	(415)
Asset-backed securities	35,030	35,702	759	(87)	37,381	37,739	653	(295)
Corporate and other	341,800	398,109	56,853	(544)	334,206	373,059	40,803	(1,950)
Total fixed maturities	$ 861,910	$ 983,088	$ 122,767	$ (1,589)	$ 835,844	$ 903,645	$ 75,999	$ (8,198)
Common stocks	$ 37,719	$ 39,691	$ 3,254	$ (1,282)	$ 33,360	$ 34,827	$ 3,829	$ (2,362)
Perpetual preferred stocks	$ 21,722	$ 22,142	$ 674	$ (254)	$ 4,994	$ 5,161	$ 168	$ (1)

The non-credit related portion of other-than-temporary impairment charges is included in other comprehensive income. Cumulative non-credit charges taken for securities still owned at December 31, 2014 and December 31, 2013, respectively, were $5.8 million and $5.7 million. Gross unrealized gains on such securities at December 31, 2014 and December 31, 2013 were $4.0 million and $4.3 million, respectively. Gross unrealized losses on such securities at December 31, 2014 and December 31, 2013 were $303,000 and $317,000, respectively. These amounts represent the non-credit other-than-temporary impairment charges recorded in AOCI adjusted for subsequent changes in fair values and relate to residential MBS.

The following tables show gross unrealized losses (dollars in thousands) on fixed maturities and equity securities by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014 and 2013.

	Less Than Twelve Months			Twelve Months or More		
2014	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
Fixed Maturities:						
U.S. Government and government agencies	$ -	$ -	-%	$ -	$ -	-%
States, municipalities and political subdivisions	-	-	-%	(391)	11,161	97%
Residential MBS	(331)	21,576	98%	(236)	6,021	96%
Commercial MBS	-	-	-%	-	-	-%
Asset-backed securities	(62)	6,415	99%	(25)	6,123	100%
Corporate and other	(474)	5,154	92%	(70)	6,173	99%
Total fixed maturities	$ (867)	$ 33,145	97%	$ (722)	$ 29,478	98%
Common stocks	$ (779)	$ 14,298	95%	$ (503)	$ 4,474	90%
Perpetual preferred stocks	$ (254)	$ 8,246	97%	$ -	$ -	-%

	Less Than Twelve Months			Twelve Months or More		
2013	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
Fixed Maturities:						
U.S. Government and government agencies	$ (49)	$ 1,912	98%	$ -	$ -	-%
States, municipalities and political subdivisions	(4,093)	71,275	95%	(905)	6,536	88%
Residential MBS	(184)	17,184	99%	(307)	4,040	93%
Commercial MBS	(180)	2,915	94%	(235)	1,765	88%
Asset-backed securities	(214)	17,206	99%	(81)	3,644	98%
Corporate and other	(1,844)	40,902	96%	(106)	1,381	93%
Total fixed maturities	$ (6,564)	$ 151,394	96%	$ (1,634)	$ 17,366	91%
Common stocks	$ (2,362)	$ 13,983	86%	$ -	$ -	-%
Perpetual preferred stocks	$ (1)	$ 999	100%	$ -	$ -	-%

At December 31, 2014, the gross unrealized losses on fixed maturities of $1.6 million relate to 51 securities. Investment grade securities (as determined by nationally recognized rating agencies) represented approximately 50% of the gross unrealized loss and 65% of the fair value.

The determination of whether unrealized losses are "other-than-temporary" requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include:

a) whether the unrealized loss is credit-driven or a result of changes in market interest rates,

b) the extent to which fair value is less than cost basis,

c) cash flow projections received from independent sources,

d) historical operating, balance sheet and cash flow data contained in issuer SEC filings and news releases,

e) near-term prospects for improvement in the issuer and/or its industry,

f) third party research and communications with industry specialists,

g) financial models and forecasts,

h) the continuity of dividend payments, maintenance of investment grade ratings and hybrid nature of certain investments,

i) discussions with issuer management, and

j) ability and intent to hold the investment for a period of time sufficient to allow for anticipated recovery in fair value.

UTAIC analyzes its MBS securities for other-than-temporary impairment each quarter based upon expected future cash flows. Management estimates expected future cash flows based upon its knowledge of the MBS market, cash flow projections (which reflect loan to collateral values, subordination, vintage and geographic concentration) received from independent sources, implied cash flows inherent in security ratings and analysis of historical payment data. For 2014, UTAIC recorded $78,000 in other-than-temporary impairment charges related to its residential MBS.

UTAIC recorded $3.2 million in other-than-temporary impairment charges on common stocks in 2014. At December 31, 2014, the gross unrealized losses on common stocks of $1.3 million relate to 12 securities**;** $0.5 million (2 securities) have been in an unrealized loss position for more than 12 months.

Management believes UTAIC will recover its cost basis in the securities with unrealized losses and that UTAIC has the ability to hold the securities until they recover in value and had no intent to sell them at December 31, 2014.

A progression of the credit portion of other-than-temporary impairments on fixed maturity securities for which the non-credit portion of an impairment has been recognized in other comprehensive income is shown below (in thousands):

	2014	2013	2012
Balance at January 1	$ 4,307	$ 4,730	$ 4,710
Additional credit impairments on:			
Previously impaired securities	-	-	20
Securities without prior impairments	78	-	-
Reductions due to sales or redemptions	(129)	(423)	-
Balance at December 31	$ 4,256	$ 4,307	$ 4,730

The table below sets forth the scheduled maturities of available for sale fixed maturities as of December 31, 2014 (dollars in thousands). Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Amortized	Fair Value	
Maturity	Cost	Amount	%
One year or less	$ 15,694	$ 16,034	2%
After one year through five years	115,631	126,653	13%
After five years through ten years	103,502	112,712	11%
After ten years	398,500	479,396	49%
Subtotal	633,327	734,795	75%
MBS (average life of approximately 5 years)	193,553	212,591	21%
ABS (average life of approximately 5 years)	35,030	35,702	4%
Total	$ 861,910	$ 983,088	100%

Certain risks are inherent in connection with fixed maturity securities, including loss upon default, price volatility in reaction to changes in interest rates, and general market factors and risks associated with reinvestment of proceeds due to prepayments or redemptions in a period of declining interest rates.

There were no investments in individual issuers that exceeded 10% of Shareholder’s Equity at December 31, 2014 or 2013.

Securities having a carrying value of approximately $20.1 million at December 31, 2014, were pledged to others as collateral for assumed reinsurance transactions or on deposit with regulatory authorities.

Net Unrealized Gain on Marketable Securities In addition to adjusting equity securities and fixed maturity securities classified as "available for sale" to fair value, G AAP requires that deferred policy acquisition costs and certain other balance sheet amounts related to annuity, life and health businesses be adjusted to the extent that unrealized gains and losses from securities would result in adjustments to those balances had the unrealized gains or losses actually been realized. The following table shows (in thousands) the components of the net unrealized gain on securities that is included in AOCI in UTAIC's Balance Sheet.

	2014		
	Pretax	Deferred Tax	Net
Unrealized gain on:			
Fixed maturity securities	$ 121,178	$ (42,412)	$ 78,766
Equity securities	2,392	(837)	1,555
Deferred policy acquisition costs	(5,909)	2,068	(3,841)
Life, accident & health reserves	(86,420)	30,247	(56,173)
	$ 31,241	$ (10,934)	$ 20,307

	2013		
	Pretax	Deferred Tax	Net
Unrealized gain on:			
Fixed maturity securities	$ 67,801	$ (23,730)	$ 44,071
Equity securities	1,634	(572)	1,062
Deferred policy acquisition costs	(8,884)	3,109	(5,775)
Life, accident & health reserves	(5,909)	2,068	(3,841)
	$ 54,642	$ (19,125)	$ 35,517

Net Investment Income The following table shows (in thousands) investment income earned and investment expenses incurred.

	2014	2013	2012
Investment income			
Fixed maturities	$ 53,743	$ 50,196	$ 51,000
Equity securities	4,804	2,338	608
Policy loans	988	1,060	1,022
Other	526	408	420
Gross investment income	60,061	54,002	53,050
Investment expenses	(119)	(278)	(253)
Net investment income	$ 59,942	$ 53,724	$ 52,797

UTAIC's investment portfolio is managed by a subsidiary of AFG. Investment expenses included investment management fees charged by this subsidiary of $6,000 in 2014, $168,000 in 2013 and $178,000 in 2012.

Realized gains (losses) and changes in unrealized appreciation (depreciation) related to fixed maturity and equity security investments are summarized as follows (in thousands):

	Fixed Maturities	Equity Securities	Mortgage Loans and Other Investments	Other (a)	Tax Effects	Total
Year ended December 31, 2014						
Realized before impairments	$ (1,299)	$ 321	$ -	$ 209	$ 269	$ (500)
Realized - impairments	(1,500)	(3,236)	-	-	1,658	(3,078)
Change in unrealized	53,377	758	-	(77,536)	8,191	(15,210)
Year ended December 31, 2013						
Realized before impairments	$ 8,556	$ 1,143	$ -	$ (615)	$ (3,179)	$ 5,905
Realized - impairments	(491)	(866)	-	82	446	(829)
Change in unrealized	(49,179)	123	-	92,720	(15,283)	28,381
Year ended December 31, 2012						
Realized before impairments	$ 18,520	$ 2,991	$ -	$ (191)	$ (2,377)	$ 18,943
Realized - impairments	(20)	(249)	-	5	92	(172)
Change in unrealized	23,769	(428)	-	(22,901)	(154)	286

(a) Primarily adjustments to deferred policy acquisition costs and reserves related to long-term care business

Gross realized gains and losses (excluding impairment writedowns and mark-to-market of derivatives) on available for sale fixed maturity and equity security investment transactions included in the Statement of Cash Flows consisted of the following (in thousands):

	2014	2013	2012
Fixed maturities:			
Gross gains	$ 805	$ 1,802	$ 3,186
Gross losses	(80)	(30)	-
Equity securities:			
Gross gains	321	1,143	2,991
Gross losses	-	-	-

D. Derivatives

UTAIC has investments in MBS that contain embedded derivatives (primarily interest-only MBS) that do not qualify for hedge accounting. UTAIC records the entire change in the fair value of these securities in earnings. These investments are part of UTAIC's overall investment strategy, representing a small component of UTAIC's overall investment portfolio and had a fair value of $21.5 million and $27.2 million at December 31, 2014 and 2013, respectively. The gain or loss resulting for changes in fair value of these securities is included in realized gains on securities in the Statement of Operations and was a loss of $2.0 million in 2014 compared to gains of $6.8 million and $0.8 million in 2013 and 2012, respectively.

E. Reinsurance

The Company is contingently liable with respect to reinsurance ceded in that the liability for such reinsurance would become that of the Company upon failure of any reinsurer to meet its obligations under a particular reinsurance agreement. Retention limits under accident and health insurance policies vary from plan to plan.

During 2012, in conjunction with and prior to the sale of certain affiliated insurance companies to Cigna, the Company entered into a reinsurance agreement with Loyal which ceded 100% of all accident and health policies, excluding LTC. Under the agreement, all activity on these policies after existing reinsurance is ceded to Loyal. There was no ceding commission on this transaction. At December 31, 2014, the Company had a $174.5 million reinsurance recoverable from Loyal (A-rated by A. M. Best), for which Loyal holds investments in a trust.

During 2014, the Company entered into an agreement with a non-affiliated reinsurer to commute two reinsurance agreements covering a portion of the Company's LTC business. The Company received a commutation payment of $10.3 million in exchange for releasing the reinsurer from its future obligations under these treaties. The Company recorded a pre-tax loss of $4.5 million on this transaction.

The effect of reinsurance on premiums for the years ended December 31, is as follows (in thousands):

	2014	2013	2012
Direct premiums	$ 170,003	$ 178,225	$ 185,230
Reinsurance assumed	4,803	4,767	5,781
Reinsurance ceded	(103,923)	(110,109)	(38,365)
Net premiums	$ 70,883	$ 72,883	$ 152,646

Reinsurance recoveries were $58.9 million, $61.8 million and $23.4 million for 2014, 2013 and 2012, respectively.

F. Deferred Policy Acquisition Costs

A progression of deferred policy acquisition costs is presented below (in thousands):

	Deferred Costs	Sales Inducements	Present Value of Future Profits	Unrealized	Total
Balance at January 1, 2012	$ 130,703	$ 3,479	$ 12,716	$ (84,669)	$ 62,229
Additions and other	12,248	(91)	-	-	12,157
Amortization:					
Periodic amortization	(14,366)	(278)	(1,296)	-	(15,940)
LTC loss recognition	(66,938)	-	(5,222)	-	(72,160)
Annuity unlocking	(34)	(18)	(3)	-	(55)
Included in realized gains	(118)	(61)	(7)	-	(186)
Change in unrealized	-	-	-	73,433	73,433
Balance at December 31, 2012	$ 61,495	$ 3,031	$ 6,188	$ (11,236)	$ 59,478
Additions and other	535	(97)	-	-	438
Amortization:					
Periodic amortization	(7,305)	(203)	(823)	-	(8,331)
Annuity unlocking	(412)	(233)	(34)	-	(679)
Included in realized gains	(318)	(170)	(45)	-	(533)
Change in unrealized	-	-	-	2,352	2,352
Balance at December 31, 2013	$ 53,995	$ 2,328	$ 5,286	$ (8,884)	$ 52,725
Additions and other	538	(52)	-	-	486
Amortization:					
Periodic amortization	(6,304)	(188)	(733)	-	(7,225)
Annuity unlocking	1,957	951	55		2,963
Included in realized gains	134	63	12	-	209
Change in unrealized	-	-	-	2,975	2,975
Balance at December 31, 2014	$ 50,320	$ 3,102	$ 4,620	$ (5,909)	$ 52,133

The present value of future profits (“PVFP”) amounts in the table above are net of $53.3 million and $52.6 million of accumulated amortization at both December 31, 2014 and 2013, respectively. The expected amortization of PVFP, net of interest, will average approximately $570,000 per year over the next five years.

G. Life, Accident and Health Reserves

Life, accident and health reserves consist of the following (in thousands):

	2014	2013
Long-term care insurance reserves	$ 751,535	$ 588,660
Traditional life insurance reserves	23,216	22,398
Other accident and health insurance reserves	172,891	182,335
Total life, accident and health reserves	$ 947,642	$ 793,393

Long-term care reserves are discounted at rates varying from 5.6% to 6.2%. The Company uses the 1994 Group Annuity Mortality Table, modified for Company experience. Long-term care insurance reserves include unearned premiums of $12.2 million and $12.3 million at December 31, 2014 and 2013, respectively.

At December 31, 2014 UTAIC had $87.1 million of inforce life insurance face amount compared to $93.0 million at December 31, 2013.

Life, accident and health reserves include liabilities for long-term care policies which are estimates of future payments for reported and unreported claims, with respect to insured events, which have occurred prior to the balance sheet date. Activity in the liability and reserve accounts for unpaid claims, which includes a provision for claim adjustment expenses, net of amounts recoverable from reinsurers is summarized as follows (in thousands):

	2014	2013	2012
Beginning balance as of January 1	$ 71,132	$ 55,854	$ 42,209
Less reinsurance recoverables	(2,518)	(2,397)	(1,328)
Net balance as of January 1	68,614	53,457	40,881
Incurred related to insured events of:			
Current year	38,282	38,138	30,946
Prior years	(1,675)	361	(311)
Total incurred	36,607	38,499	30,635
Paid related to insured events of:			
Current year	(4,527)	(4,712)	(3,101)
Prior years	(25,983)	(21,014)	(16,799)
Total paid	(30,510)	(25,726)	(19,900)
Interest on liability for policy and contract claims	3,041	2,384	1,841
Reinsurance recaptured	2,177	-	-
Net balance as of December 31	79,929	68,614	53,457
Add reinsurance recoverables	-	2,518	2,397
Ending balance as of December 31	$ 79,929	$ 71,132	$ 55,854

The development of 2014 and 2012 liabilities is primarily due to positive experience in claims ultimately settled for less than the estimated liabilities. The 2013 development is primarily due to negative experience in claims ultimately settled for more than the estimated liabilities.

In 2012, UTAIC recorded a pre-tax loss recognition charge of $130.5 million to write off $72.2 million in deferred policy acquisition costs and increase reserves by $58.3 million on its long-term care business, due primarily to the future impact of changes in assumptions related to future investment yields, as well as changes in claims, expenses and persistency assumptions. No additional loss recognition charges were recorded in 2014 or 2013.

H. Shareholder's Equity

Accumulated Other Comprehensive Income, Net of Tax (“AOCI”) Comprehensive income is defined as all changes in Shareholder’s Equity except those arising from transactions with shareholders. Comprehensive income includes net earnings and other comprehensive income, which consists primarily of changes in net unrealized gains or losses on available for sale securities.

The progression of the components of accumulated other comprehensive income follows (in thousands):

	AOCI Beginning Balance	Other Comprehensive Income Pretax	Tax	Net Of Tax	AOCI Ending Balance
Year ended December 31, 2014					
Net unrealized gains on securities:					
Unrealized holding gains (losses) on securities arising during the period		$ (28,906)	$ 10,118	$ (18,788)	
Reclassification adjustment for realized (gains) losses included in net earnings (a)		5,505	(1,927)	3,578	
Total net unrealized gains on securities (b)	$ 35,517	(23,401)	8,191	(15,210)	$ 20,307
Year ended December 31, 2013					
Net unrealized gains on securities:					
Unrealized holding gains (losses) on securities arising during the period		$ 51,473	$ (18,016)	$ 33,457	
Reclassification adjustment for realized (gains) losses included in net earnings (a)		(7,809)	2,733	(5,076)	
Total net unrealized gains on securities (b)	$ 7,136	43,664	(15,283)	28,381	$ 35,517
Year ended December 31, 2012					
Net unrealized gains on securities (b)	$ 6,850	$ 440	$ (154)	$ 286	$ 7,136

(a) The reclassification adjustment out of net unrealized gains on securities affected the following lines in UTAIC’s Consolidated Statement of Operations:

OCI component	Affected line in the Consolidated Statement of Operations
Pretax	Realized gains on securities
Tax	Provision for income taxes

(b) Includes net unrealized gains of $585,000 at December 31, 2014 compared to $186,000 at December 31, 2013 and $0 at December 31, 2012, related to securities for which only the credit portion of an other-than-temporary impairment has been recorded in earnings.

I. Income Taxes

The following is a reconciliation of income taxes at the statutory rate of 35% to the provision (benefit) for income taxes as shown in the Statement of Operations (dollars in thousands):

	2014		2013		2012	
	Amount	% of LBT	Amount	% of LBT	Amount	% of LBT
Losses before income taxes ("LBT")	$ (14,530)		$ (11,803)		$ (92,718)	
Income tax benefit at statutory rate	$ (5,086)	35%	$ (4,131)	35%	$ (32,451)	35%
Effect of:						
Tax-exempt interest	(524)	4%	(221)	2%	(125)	0%
Dividends received deduction	(45)	0%	(105)	1%	(10)	0%
State income taxes	35	0%	(66)	1%	118	0%
Other	177	(1%)	(52)	0%	(65)	0%
Income tax benefit as shown on the Statement of Operations	$ (5,443)	38%	$ (4,575)	39%	$ (32,533)	35%

UTAIC’s 2012 through 2014 tax years remain subject to examination by the IRS.

The total income tax provision (benefit) consists of (in thousands):

	2014	2013	2012
Current taxes:			
Federal	$ (4,306)	$ (2,269)	$ (4,019)
Foreign	8	-	17
State	54	(101)	182
Deferred taxes:			
Federal	(1,199)	(2,205)	(28,713)
Income tax benefit	$ (5,443)	$ (4,575)	$ (32,533)

Deferred income tax assets and liabilities reflect temporary differences between the carrying amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes. The significant components of deferred tax assets and liabilities included in the Balance Sheet at December 31 were as follows (in thousands):

	2014	2013
Deferred tax assets:		
Insurance claims and reserves	$ 7,441	$ 7,451
Deferred policy acquisition costs	1,281	402
Employee benefits	454	420
Other, net	951	2,001
Total deferred tax assets	10,127	10,274
Deferred tax liabilities:		
Investment securities	(2,676)	(3,531)
Unrealized gains related to investments	(10,934)	(19,125)
Total deferred tax liabilities	(13,610)	(22,656)
Net deferred tax liability	$ (3,483)	$ (12,382)

The likelihood of realizing deferred tax assets is reviewed periodically. There was no valuation allowance against deferred tax assets as of December 31, 2014 and 2013.

The change in the net deferred tax assets primarily relates to the decrease in the deferred tax liability associated with unrealized gains on fixed maturity securities and insurance claims and reserves.

In July 2014, AFG finalized a settlement with the IRS related to tax years 2008 and 2009. As a result, UTAIC's uncertain tax positions are now effectively settled, allowing UTAIC to reduce its liability for uncertain tax positions by $61,000 in 2014. Although UTAIC will pay $87,000 under this settlement, the reduction in this liability resulted in offsetting increases to UTAIC's deferred tax liability and, as a result, did not impact its effective tax rate. The following is a progression of UTAIC's uncertain tax positions, excluding interest and penalties, which all relate to the uncertainty as to the timing of tax return inclusion of investment income of certain debt securities (in thousands):

	2014	2013	2012
Balance at January 1	$ 148	$ 106	$ 249
Reductions for tax positions of prior years	(61)	-	(200)
Additions for tax positions of prior year	-	-	15
Additions for tax positions of current year	-	42	42
Settlements	(87)	-	-
Balance at December 31	$ -	$ 148	$ 106

Net cash refunds/(payments) for income taxes were $1.7 million, $8.9 million and ($0.7 million) for 2014, 2013 and 2012, respectively.

At December 31, 2014 UTAIC had $1.0 million receivable from AFG for current income taxes which is included in other assets on the Balance Sheet. At December 31, 2013 UTAIC had $1.5 million payable to AFG for current income taxes which is included in other liabilities on the Balance Sheet.

J. Contingencies

UTAIC is involved in litigation from time to time, generally arising in the ordinary course of business. This litigation may include, but is not limited to, general commercial disputes, lawsuits brought by policyholders, employment matters, reinsurance collection matters and actions challenging certain business practices of insurance subsidiaries. None of these matters are expected to have a material adverse impact on UTAIC's results of operations or financial condition.

K. Statutory Information

UTAIC is required to file financial statements with state insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis). Net earnings (losses) and capital and surplus on a statutory basis for UTAIC is as follows (in thousands):

Net Earnings/(Losses)			Capital and Surplus	
2014	2013	2012	2014	2013
$ (36,576)	$ 3,471	$ (16,379)	$ 56,138	$ 84,410

The National Association of Insurance Commissioners' ("NAIC") model law for risk based capital ("RBC") applies to life insurance companies. RBC formulas determine the amount of capital that an insurance company needs so that it has an acceptable expectation of not becoming financially impaired. Companies below specific trigger points or ratios are subject to regulatory action. At December 31, 2014 and 2013, the capital ratios of UTAIC exceeded the RBC requirements.

UTAIC did not use any prescribed or permitted statutory accounting practices that differed from the NAIC statutory accounting practices at December 31, 2014 or 2013.

UTAIC received cash capital contributions from its sole shareholder, GAFRI, totaling $10.0 million, $35.0 million and $4.0 million in 2014, 2013 and 2012 respectively. The maximum amount of dividends that can be paid to shareholders in 2015 by life insurance companies domiciled in the State of Texas without prior approval of the Insurance Commissioner is the greater of 10% of statutory surplus as regards to policyholders or statutory net income as of the preceding December 31, but only to the extent of statutory earned surplus as of the preceding December 31. The maximum amount of dividends payable in 2015 by UTAIC without prior approval is $0 based on net loss and/or earned deficit.

L. Additional Information

Related Parties Certain administrative, management, accounting, actuarial, data processing, collection and investment services are provided under agreements between UTAIC and affiliates. The amount received from Continental General Insurance Company, an affiliate, for such services was $3.2 million, $1.5 million and $5.2 million in 2014, 2013 and 2012, respectively. The amount paid to affiliates for such services was $2.7 million, $3.4 million and $1.2 million 2014, 2013 and 2012, respectively. At December 31, 2014 and 2013 UTAIC had net intercompany receivables of $0.3 million and $0.2 million, respectively.

Operating Leases Total rental expense for leases of office space was $560,000, $481,000 and $397,000 in 2014, 2013 and 2012, respectively. UTAIC leases space from AFG and GAFRI. UTAIC has no contractual obligations for rent but expects to pay similar amounts in future periods to AFG and GAFRI.

Benefit Plans UTAIC expensed approximately $195,000, $178,000 and $336,000 in 2014, 2013 and 2012, respectively, related to the retirement and employee savings plans.

M. <u>Subsequent Event</u>

The Company has evaluated subsequent events through September 3, 2015, the date its financial statements were available to be issued.

On April 14, 2015 GAFRI and UTAIC entered into a definitive agreement with HC2 Holding Inc. to sell all of the stock of UTAIC and Continental General Insurance Company, an affiliate. The agreement is subject to receipt of regulatory approvals and is expected to close in the second half of 2015.

Exhibit 99.2

UNITED TEACHER ASSOCIATES INSURANCE COMPANY

Financial Statements (Unaudited)

Six months ended June 30, 2015 and 2014

GreatAmericanInsuranceGroup.com

UNITED TEACHER ASSOCIATES INSURANCE COMPANY
BALANCE SHEET (UNAUDITED)
(Dollars in Thousands, Except Per Share Data)

	June 30, 2015	December 31, 2014
Assets:		
Cash and cash equivalents	$ 21,760	$ 42,372
Investments:		
Fixed maturities, available for sale at fair value (amortized cost - $911,503 and $861,910)	1,003,150	983,088
Equity securities, available for sale at fair value (cost - $66,193 and $59,441)	67,407	61,833
Policy loans	15,831	15,930
Other investments	3,666	2,455
Total cash and investments	1,111,814	1,105,678
Recoverables from reinsurers	179,262	185,128
Deferred policy acquisition costs	49,472	52,133
Accrued investment income	12,100	11,535
Other assets	4,551	6,160
Total assets	$ 1,357,199	$ 1,360,634
Liabilities and Equity:		
Annuity benefits accumulated	$ 191,760	$ 194,785
Life, accident and health reserves	947,004	947,642
Net deferred tax liability	289	3,483
Other liabilities	12,705	12,541
Total liabilities	1,151,758	1,158,451
Shareholder's Equity:		
Common stock, par value - $1 per share:		
- 5,000,000 shares authorized		
- 2,500,005 shares issued and outstanding	2,500	2,500
Capital surplus	149,524	149,040
Retained earnings	33,772	30,336
Accumulated other comprehensive income, net of tax	19,645	20,307
Total shareholder's equity	205,441	202,183
Total liabilities and shareholder's equity	$ 1,357,199	$ 1,360,634

See notes to financial statements.

UNITED TEACHER ASSOCIATES INSURANCE COMPANY
STATEMENT OF EARNINGS (UNAUDITED)
(In Thousands)

	Six Months Ended June 30	
	2015	**2014**
Revenues:		
Life, accident and health net earned premiums	$ 35,947	$ 36,084
Net investment income	30,213	31,009
Realized gains (losses) on securities (*)	(1,485)	825
Other income	19	19
Total revenues	64,694	67,937
Cost and expenses:		
Annuity benefits	3,628	3,710
Life, accident and health benefits	40,735	50,122
Insurance acquisition expenses, net	8,435	8,766
Other operating and general expenses	7,029	5,991
Total costs and expenses	59,827	68,589
Earnings (loss) before income taxes	4,867	(652)
Provision (benefit) for income taxes	1,431	(494)
Net earnings (loss)	$ 3,436	$ (158)
(*) Consists of the following:		
Realized gains (losses) before impairments	$ 169	$ 825
Losses on securities with impairment	(1,654)	-
Non-credit portion recognized in other comprehensive income (loss)	-	-
Impairment charges recognized in earnings	(1,654)	-
Total realized gains (losses) on securities	$ (1,485)	$ 825

See notes to financial statements.

UNITED TEACHER ASSOCIATES INSURANCE COMPANY STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

	Six Months Ended June 30	
	2015	2014
Comprehensive Income:		
Net earnings (loss)	$ 3,436	$ (158)
Other comprehensive income, net of tax:		
Net unrealized gains (losses) on securities:		
Unrealized holding gains (losses) on securities arising during the period	(1,627)	14,209
Reclassification adjustment for realized losses (gains) included in net earnings (loss)	965	(536)
Total net unrealized gains (losses) on securities	(662)	13,673
Total comprehensive income, net of tax	$ 2,774	$ 13,515

See notes to financial statements.

UNITED TEACHER ASSOCIATES INSURANCE COMPANY

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Dollars in Thousands)

		Shareholder's Equity			
	Common Shares	Common Stock and Capital Surplus	Retained Earnings	Accumulated Other Comp Inc. (Loss)	Total
Balance at December 31, 2014	2,500,005	$ 151,540	$ 30,336	$ 20,307	$ 202,183
Net earnings	-	-	3,436	-	3,436
Other comprehensive loss	-	-	-	(662)	(662)
Other	-	484	-	-	484
Balance at June 30, 2015	2,500,005	$ 152,024	$ 33,772	$ 19,645	$ 205,441

See notes to financial statements.

UNITED TEACHER ASSOCIATES INSURANCE COMPANY
STATEMENT OF CASH FLOWS (UNAUDITED)
(In Thousands)

	Six Months Ended June 30	
	2015	**2014**
Operating Activities:		
Net earnings (loss)	$ 3,436	$ (158)
Adjustments:		
Depreciation and amortization	(211)	(479)
Annuity benefits	3,628	3,710
Realized (gains) losses on investing activities	1,485	(825)
Deferred annuity and life policy acquisition costs	(222)	(292)
Amortization of insurance acquisition costs	3,611	3,733
Change in:		
Life, accident and health reserves	28,250	37,022
Recoverables from reinsurers	5,866	(2,920)
Accrued investment income	(565)	(341)
Net deferred tax liability	(2,885)	4,108
Other assets	1,851	(1,128)
Other liabilities	(2,048)	(3,714)
Other operating activities, net	(468)	(17)
Net cash provided by operating activities	41,728	38,699
Investing Activities:		
Purchases of:		
Fixed maturities	(92,497)	(52,811)
Equity securities	(7,149)	(14,212)
Other investments	(939)	(670)
Proceeds from:		
Maturities and redemptions of fixed maturities	38,940	27,031
Sales of fixed maturities	3,542	2,510
Sales of equity securities	1,654	-
Other investments	235	2,829
Other investing activities, net	99	190
Net cash used in investing activities	(56,115)	(35,133)
Financing Activities:		
Annuity receipts	1,691	1,980
Annuity surrenders, benefits and withdrawals	(7,916)	(7,676)
Net cash used in financing activities	(6,225)	(5,696)
Net Change in Cash and Cash Equivalents	(20,612)	(2,130)
Cash and cash equivalents at beginning of year	42,372	19,774
Cash and cash equivalents at end of year	$ 21,760	$ 17,644

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

A. Accounting Policies

Basis of Presentation The accompanying interim financial statements are unaudited; however, management believes that all adjustments (consisting of normal recurring accruals unless otherwise indicated) necessary for a fair presentation have been made. The results of operations for interim periods are not necessarily indicative of results expected for the year. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim reporting. These unaudited financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2014. There are no changes to our significant accounting policies described in our audited financial statements.

The financial statements include the accounts of United Teacher Associates Insurance Company ("UTAIC" or the "Company"). UTAIC is a direct wholly-owned subsidiary of Great American Financial Resources, Inc. ("GAFRI"), a financial services holding company wholly-owned by American Financial Group, Inc. ("AFG"). The financial statements also include costs paid on behalf of UTAIC by GAFRI. These costs are recorded as expense in the period incurred and shown as an increase in capital surplus.

Although the Company does not currently market any life, annuity or long-term care insurance, UTAIC's product portfolio includes a diversified mix of closed blocks of life, annuity and long-term care ("LTC") health insurance products.

The Company accepts new premium sales (Medicare supplement, critical illness and other non-health products), for certain states, through a reinsurance fronting agreement, whereby the Company reinsures 100% of these premiums through a coinsurance agreement with Loyal American Life Insurance Company, a Cigna subsidiary.

Fair Value Measurements Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The standards establish a hierarchy of valuation techniques based on whether the assumptions that market participants would use in pricing the asset or liability ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect UTAIC's assumptions about the assumptions market participants would use in pricing the asset or liability.

Investments Fixed maturity and equity securities classified as "available for sale" are reported at fair value with unrealized gains and losses included in accumulated other comprehensive income ("AOCI") in UTAIC's Balance Sheet. Policy loans are carried primarily at the aggregate unpaid balance.

Premiums and discounts on fixed maturity securities are amortized using the interest method. Mortgage-backed securities ("MBS") are amortized over a period based on estimated future principal payments, including prepayments. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations.

Gains or losses on securities are determined on the specific identification basis. When a decline in the value of a specific investment is considered to be other-than-temporary at the balance sheet date, a provision for impairment is charged to earnings (included in realized gains (losses) on securities) and the cost basis of that investment is reduced. If management can assert that it does not intend to sell an impaired fixed maturity security and it is not more likely than not that it will have to sell the security before recovery of its amortized cost basis, then the other-than-temporary impairment is separated into two components: (i) the amount related to credit losses (recorded in earnings) and (ii) the amount related to all other factors (recorded in other comprehensive income). The credit-related portion of an other-than-temporary impairment is measured by comparing a security's amortized cost to the present value of its current expected cash flows discounted at its effective yield prior to the impairment charge. Both components are shown in the Statement of Earnings. If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment charge to earnings is recorded to reduce the amortized cost of that security to fair value.

Derivatives Derivatives included in UTAIC's Balance Sheet are recorded at fair value and consist of components of certain fixed maturity securities (primarily interest-only MBS). Changes in fair value of derivatives are included in earnings.

Deferred Policy Acquisition Costs ("DPAC") Policy acquisition costs (principally commissions and certain underwriting and policy issuance costs) directly related to the successful acquisition or renewal of an insurance contract are deferred. DPAC also includes capitalized costs associated with sales inducements offered to fixed annuity policyholders such as enhanced interest rates and premium and persistency bonuses.

DPAC related to annuities is deferred to the extent deemed recoverable and amortized, with interest, in relation to the present value of actual and expected gross profits on the policies. Expected gross profits consist principally of estimated future investment margin (estimated future net investment income less interest credited on policyholder funds) and surrender, mortality, and other life and annuity policy charges, less death, annuitization and estimated future policy administration expenses. To the extent that realized gains and losses result in adjustments to the amortization of DPAC related to annuities, such adjustments are reflected as components of realized gains (losses) on securities.

DPAC related to traditional life and health insurance is amortized over the expected premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. See *"Life, Accident and Health Reserves"* below for details on the impact of loss recognition on the accounting for traditional life and health insurance contracts.

DPAC includes the present value of future profits on business in force of annuity, life, accident and health insurance companies acquired ("PVFP"). PVFP represents the portion of the costs to acquire companies that is allocated to the value of the right to receive future cash flows from insurance contracts existing at the date of acquisition. PVFP is amortized with interest in relation to expected gross profits of the acquired policies for annuities and in relation to the premium paying period for traditional life and health insurance products.

DPAC and certain other balance sheet amounts related to annuity and life businesses are also adjusted, net of tax, for the change in expense that would have been recorded if the unrealized gains (losses) from securities had actually been realized. These adjustments are included in unrealized gains (losses) on marketable securities, a component of AOCI in UTAIC's Balance Sheet.

Reinsurance Premium revenue and benefits are reported net of the amounts related to reinsurance ceded to and assumed from other companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Amounts received from reinsurers that represent recovery of acquisition costs are netted against DPAC, so that the net amount is capitalized. The cost of reinsurance is accounted for over the term of the related treaties using assumptions consistent with those used to account for the underlying reinsured policies.

Annuity Benefits Accumulated Annuity receipts and benefit payments are recorded as increases or decreases in annuity benefits accumulated rather than as revenue and expense. Increases in this liability (primarily interest credited) are charged to expense and decreases for charges are credited to annuity policy charges revenue. Reserves for traditional fixed annuities are generally recorded at the stated account value.

Life, Accident and Health Reserves Liabilities for future policy benefits under traditional life, accident and health policies are computed using the net level premium method. Computations are based on the original projections of investment yields, mortality, morbidity and surrenders and include provisions for unfavorable deviations unless a loss recognition event (premium deficiency) occurs. Claim reserves and liabilities established for accident and health claims are modified as necessary to reflect actual experience and developing trends.

For long-duration contracts (such as traditional life and long-term care insurance policies), loss recognition occurs when, based on current expectations as of the measurement date, existing contract liabilities plus the present value of future premiums (including reasonably expected rate increases) are not expected to cover the present value of future claims payments and related settlement and maintenance costs (excluding overhead) as well as unamortized acquisition costs. If a block of business is determined to be in loss recognition, a charge is recorded in earnings in an amount equal to the excess of the present value of expected future claims costs and unamortized acquisition costs over existing reserves plus the present value of expected future premiums (with no provision for adverse deviation). The charge is recorded first to reduce unamortized acquisition costs and then as an additional reserve (if unamortized acquisition costs have been reduced to zero).

In addition, reserves for traditional life and long-term care insurance policies are subject to adjustment for loss recognition charges that would have been recorded if the unrealized gains from securities had actually been realized. This adjustment is included in unrealized gains (losses) on marketable securities, a component of AOCI in UTAIC’s Balance Sheet.

Premium Recognition For traditional life, accident and health products, premiums are recognized as revenue when legally collectible from policyholders.

Income Taxes The Company has an intercompany tax allocation agreement with AFG. Pursuant to the agreement, the Company’s tax expense is determined based upon its inclusion in the consolidated tax return of AFG and its includable subsidiaries. Estimated payments are made quarterly during the year. Following year-end, additional settlements are made on the original due date of the return and, when extended, at the time the return is filed. The method of allocation among the companies under the agreement is based upon separate return calculations with current credit for losses to the extent the losses provide a benefit in the consolidated return.

Deferred income taxes are calculated using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases and are measured using enacted tax rates. A valuation allowance is established to reduce total deferred tax assets to an amount that will more likely than not be realized.

UTAIC recognizes the tax benefits of uncertain tax positions only when the position is more likely than not to be sustained under examination by the appropriate taxing authority. Interest and penalties on UTAIC’s reserve for uncertain tax positions are recognized as a component of tax expense.

Benefit Plans UTAIC provides retirement benefits to qualified employees of participating companies through the AFG 401(k) Retirement and Savings Plan, a defined contribution plan. AFG and its subsidiaries make all contributions to the retirement fund portion of the plan and match a percentage of employee contributions to the savings fund. Company contributions are expensed in the year for which they are declared.

Statement of Cash Flows For cash flow purposes, “investing activities” are defined as making and collecting loans and acquiring and disposing of debt or equity instruments and property and equipment. “Financing activities” include obtaining resources from owners and providing them with a return on their investments, borrowing money and repaying amounts borrowed. Annuity receipts, surrenders, benefits and withdrawals are also reflected as financing activities. All other activities are considered “operating.” Short-term investments having original maturities of three months or less when purchased are considered to be cash equivalents for purposes of the financial statements.

B. Fair Value Measurements

Accounting standards for measuring fair value are based on inputs used in estimating fair value. The three levels of the hierarchy are as follows:

Level 1 — Quoted prices for identical assets or liabilities in active markets (markets in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis). UTAIC’s Level 1 financial instruments consist primarily of publicly traded equity securities and highly liquid government bonds for which quoted market prices in active markets are available.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (markets in which there are few transactions, the prices are not current, price quotations vary substantially over time or among market makers, or in which little information is released publicly); and valuations based on other significant inputs that are observable in active markets. UTAIC’s Level 2 financial instruments include corporate and municipal fixed maturity securities, mortgage-backed securities (“M BS”) and non-affiliated common stocks priced using observable inputs. Level 2 inputs include benchmark yields, reported trades, corroborated broker/dealer quotes, issuer spreads and benchmark securities. When non-binding broker quotes can be corroborated by comparison to similar securities priced using observable inputs, they are classified as Level 2.

Level 3 — Valuations derived from market valuation techniques generally consistent with those used to estimate the fair values of Level 2 financial instruments in which one or more significant inputs are unobservable or when the market for a security exhibits significantly less liquidity relative to markets supporting Level 2 fair value measurements. The unobservable inputs may include management’s own assumptions about the assumptions market participants would use based on the best information available in the circumstances. UTAIC’s Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker quotes or internally developed using significant inputs not based on, or corroborated by, observable market information.

UTAIC’s management is responsible for the valuation process and uses data from outside sources (including nationally recognized pricing services and broker/dealers) in establishing fair value. The Company's internal investment professionals are a group of approximately 20 analysts whose primary responsibility is to manage AFG’s investment portfolio. These professionals monitor individual investments as well as overall industries and are active in the financial markets on a daily basis. The group is led by AFG’s chief investment officer, who reports directly to one of AFG’s Co-CEOs. Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by AFG’s internal investment professionals who are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price. To validate the appropriateness of the prices obtained, these investment managers consider widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. In addition, AFG communicates directly with the pricing service regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the service to value specific securities.

Assets measured and carried at fair value in the financial statements are summarized below (in thousands):

June 30, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale ("AFS") fixed maturities:				
U.S. Government and government agencies	$ 4,105	$ 5,512	$ -	$ 9,617
States, municipalities and political subdivisions	-	320,197	5,461	325,658
Foreign government	-	4,717	-	4,717
Residential MBS	-	114,829	23,891	138,720
Commercial MBS	-	58,867	2,983	61,850
Asset-backed securities ("ABS")	-	27,541	2,126	29,667
Corporate and other	2,472	421,681	8,768	432,921
Total AFS fixed maturities	6,577	953,344	43,229	1,003,150
Equity securities	60,363	4,244	2,800	67,407
Total assets accounted for at fair value	$ 66,940	$ 957,588	$ 46,029	$ 1,070,557

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale fixed maturities:				
U.S. Government and government agencies	$ 6,816	$ 5,987	$ -	$ 12,803
States, municipalities and political subdivisions	-	313,429	5,757	319,186
Foreign government	-	4,697	-	4,697
Residential MBS	-	130,457	17,331	147,788
Commercial MBS	-	61,675	3,128	64,803
Asset-backed securities	-	31,560	4,142	35,702
Corporate and other	536	389,472	8,101	398,109
Total AFS fixed maturities	7,352	937,277	38,459	983,088
Equity securities	54,782	3,005	4,046	61,833
Total assets accounted for at fair value	$ 62,134	$ 940,282	$ 42,505	$ 1,044,921

At June 30, 2015 and December 31, 2014 no liabilities were carried at fair value.

There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2015. There was one perpetual preferred stock with a fair value of $1 million transferred from Level 1 to Level 2 during the six months ended June 30, 2014 due to decreases in trade frequency resulting in lack of available trade data sufficient to warrant classification in Level 1. Approximately 4% of the total assets carried at fair value on June 30, 2015, were Level 3 assets. Approximately 69% ($32 million) of the Level 3 assets were priced using non-binding broker quotes, for which there is a lack of transparency as to the inputs used to determine fair value. Details as to the quantitative inputs are neither provided by the brokers nor otherwise reasonably obtainable by UTAIC. Since internally developed Level 3 asset fair values represent less than of 1% of the total assets measured at fair value and less than 3% of UTAIC's shareholder's equity, changes in unobservable inputs used to determine internally developed fair values would not have a material impact on UTAIC's financial position.

Changes in balances of Level 3 financial assets carried at fair value during the six months ended June 30, 2015 and 2014 are presented below (in thousands). The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2014	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at June 30, 2015
AFS fixed maturities:								
State and municipal	$ 5,757	$ 197	$ (493)	$ -	$ -	$ -	$ -	$ 5,461
Residential MBS	17,331	(512)	212	-	(182)	10,697	(3,655)	23,891
Commercial MBS	3,128	(45)	(100)	-	-	-	-	2,983
Asset-backed securities	4,142	(16)	-	-	(2,000)	-	-	2,126
Corporate and other	8,101	17	(208)	-	(111)	969	-	8,768
Equity securities	4,046	(308)	29	-	-	-	(967)	2,800

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2013	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at June 30, 2014
AFS fixed maturities:								
Residential MBS	$ 25,832	$ (786)	$ 203	$ -	$ (263)	$ 6,709	$ (16,533)	$ 15,162
Commercial MBS	2,714	(8)	118	-	-	-	-	2,824
Asset-backed securities	4,404	(8)	134	-	-	2,008	-	6,538
Corporate and other	6,717	233	(301)	-	(918)	-	-	5,731
Equity securities	1,288	-	264	2,250	-	1,503	(1,337)	3,968

Fair Value of Financial Instruments The carrying value and fair value of financial instruments that are not carried at fair value in the financial statements at June 30, 2015 and December 31, 2014 are summarized below (in thousands):

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
June 30, 2015					
Financial assets:					
Cash and cash equivalents	$ 21,760	$ 21,760	$ 21,760	$ -	$ -
Policy loans	15,831	15,831	-	-	15,831
Total financial assets not accounted for at fair value	$ 37,591	$ 37,591	$ 21,760	$ -	$ 15,831
Financial liabilities:					
Annuity benefits accumulated(*)	$ 191,196	$ 199,437	$ -	$ -	$ 199,437
Total financial liabilities not accounted for at fair value	$ 191,196	$ 199,437	$ -	$ -	$ 199,437

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
December 31, 2014					
Financial assets:					
Cash and cash equivalents	$ 42,372	$ 42,372	$ 42,372	$ -	$ -
Policy loans	15,930	15,930	-	-	15,930
Total financial assets not accounted for at fair value	$ 58,302	$ 58,302	$ 42,372	$ -	$ 15,930
Financial liabilities:					
Annuity benefits accumulated(*)	$ 194,425	$ 208,782	$ -	$ -	$ 208,782
Total financial liabilities not accounted for at fair value	$ 194,425	$ 208,782	$ -	$ -	$

(*) Excludes life contingent annuities in the payout phase.

The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of these instruments. The fair value of policy loans is estimated to approximate carrying value; policy loans have no defined maturity dates and are inseparable from insurance contracts. The fair value of annuity benefits was estimated based on expected cash flows discounted using forward interest rates adjusted for the Company's credit risk and includes the impact of maintenance expenses and capital costs.

C. **Investments**

Available for sale fixed maturities and equity securities at June 30, 2015 and December 31, 2014 consisted of the following (in thousands):

	June 30, 2015				December 31, 2014			
	Amortized	Fair	Gross Unrealized		Amortized	Fair	Gross Unrealized	
	Cost	Value	Gains	Losses	Cost	Value	Gains	Losses
Fixed Maturities:								
U.S. Government and government agencies	$ 8,990	$ 9,617	$ 627	$ -	$ 12,026	$ 12,803	$ 777	$ -
States, municipalities and political subdivisions	294,331	325,658	34,177	(2,850)	275,519	319,186	44,058	(391)
Foreign government	3,982	4,717	735	-	3,982	4,697	715	-
Residential MBS	125,425	138,720	13,664	(369)	133,208	147,788	15,147	(567)
Commercial MBS	58,462	61,850	3,388	-	60,345	64,803	4,458	-
Asset-backed securities	29,034	29,667	685	(52)	35,030	35,702	759	(87)
Corporate and other	391,279	432,921	44,920	(3,278)	341,800	398,109	56,853	(544)
Total fixed maturities	$ 911,503	$ 1,003,150	$ 98,196	$ (6,549)	$ 861,910	$ 983,088	$ 122,767	$ (1,589)
Common stocks	$ 38,936	$ 39,759	$ 2,771	$ (1,948)	$ 37,719	$ 39,691	$ 3,254	$ (1,282)
Perpetual preferred stocks	$ 27,257	$ 27,648	$ 632	$ (241)	$ 21,722	$ 22,142	$ 674	$ (254)

The non-credit related portion of other-than-temporary impairment charges is included in other comprehensive income. Cumulative non-credit charges taken for securities still owned at June 30, 2015 and December 31, 2014, respectively, were $5.7 million and $5.8 million. Gross unrealized gains on such securities at June 30, 2015 and December 31, 2014 were $3.8 million and $4.0 million, respectively. Gross unrealized losses on such securities at June 30, 2015 and December 31, 2014 were $285,000 and $303,000, respectively. These amounts represent the non-credit other-than-temporary impairment charges recorded in AOCI adjusted for subsequent changes in fair values and relate to residential MBS.

The following tables show gross unrealized losses (dollars in thousands) on fixed maturities and equity securities by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2015 and December 31, 2014.

	Less Than Twelve Months			Twelve Months or M ore		
June 30, 2015	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
Fixed Maturities:						
U.S. Government and government agencies	$ -	$ -	-%	$ -	$ -	-%
States, municipalities and political subdivisions	(2,066)	43,678	95%	(784)	3,828	83%
Residential M BS	(64)	11,028	99%	(305)	11,584	97%
Commercial M BS	-	-	-%	-	-	-%
Asset-backed securities	(46)	6,727	99%	(6)	1,994	100%
Corporate and other	(3,278)	82,678	96%	-	-	-%
Total fixed maturities	$ (5,454)	$ 144,111	96%	$ (1,095)	$ 17,406	94%
Common stocks	$ (1,948)	$ 19,943	91%	$ -	$ -	-%
Perpetual preferred stocks	$ (170)	$ 7,337	98%	$ (71)	$ 2,929	98%

	Less Than Twelve Months			Twelve Months or More		
December 31, 2014	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
Fixed M aturities:						
U.S. Government and government agencies	$ -	$ -	-%	$ -	$ -	-%
States, municipalities and political subdivisions	-	-	-%	(391)	11,161	97%
Residential M BS	(331)	21,576	98%	(236)	6,021	96%
Commercial M BS	-	-	-%	-	-	-%
Asset-backed securities	(62)	6,415	99%	(25)	6,123	100%
Corporate and other	(474)	5,154	92%	(70)	6,173	99%
Total fixed maturities	$ (867)	$ 33,145	97%	$ (722)	$ 29,478	98%
Common stocks	$ (779)	$ 14,298	95%	$ (503)	$ 4,474	90%
Perpetual preferred stocks	$ (254)	$ 8,246	97%	$ -	$ -	-%

At June 30, 2015, the gross unrealized losses on fixed maturities of $6.5 million relate to 109 securities. Investment grade securities (as determined by nationally recognized rating agencies) represented approximately 80% of the gross unrealized loss and 86% of the fair value.

The determination of whether unrealized losses are "other-than-temporary" requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include:

a) whether the unrealized loss is credit-driven or a result of changes in market interest rates,
b) the extent to which fair value is less than cost basis,
c) cash flow projections received from independent sources,
d) historical operating, balance sheet and cash flow data contained in issuer SEC filings and news releases,
e) near-term prospects for improvement in the issuer and/or its industry,
f) third party research and communications with industry specialists,
g) financial models and forecasts,
h) continuity of dividend payments, maintenance of investment grade ratings and hybrid nature of certain investments,
i) discussions with issuer management, and
j) ability and intent to hold the investment for a period of time sufficient to allow for anticipated recovery in fair value.

UTAIC analyzes its MBS securities for other-than-temporary impairment each quarter based upon expected future cash flows. Management estimates expected future cash flows based upon its knowledge of the MBS market, cash flow projections (which reflect loan to collateral values, subordination, vintage and geographic concentration) received from independent sources, implied cash flows inherent in security ratings and analysis of historical payment data. For the six months ended June 30, 2015 and 2014, UTAIC recorded $29,000 and $0, respectively, in other-than-temporary impairment charges related to its residential MBS.

UTAIC recorded $1.6 million in other-than-temporary impairment charges on common stocks in for the six months ended June 30, 2015. At June 30, 2015, the gross unrealized losses on common stocks of $1.9 million relate to 20 securities, no securities have been in an unrealized loss position for more than 12 months.

Management believes UTAIC will recover its cost basis in the securities with unrealized losses and that UTAIC has the ability to hold the securities until they recover in value and had no intent to sell them at June 30, 2015.

A progression of the credit portion of other-than-temporary impairments on fixed maturity securities for which the non-credit portion of an impairment has been recognized in other comprehensive income is shown below (in thousands):

	2015	2014
Balance at January 1	$ 4,256	$ 4,307
Additional credit impairments on:		
Securities without prior impairments	29	-
Reductions due to sales or redemptions	(61)	(64)
Balance at June 30	$ 4,224	$ 4,243

The table below sets forth the scheduled maturities of available for sale fixed maturities as of June 30, 2015 (dollars in thousands). Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Amortized	Fair Value	
Maturity	Cost	Amount	%
One year or less	$ 16,705	$ 17,180	2%
After one year through five years	105,256	114,456	11%
After five years through ten years	114,124	122,685	12%
After ten years	462,497	518,592	52%
Subtotal	698,582	772,913	77%
MBS (average life of approximately 5 years)	183,887	200,570	20%
ABS (average life of approximately 5 years)	29,034	29,667	3%
Total	$ 911,503	$ 1,003,150	100%

Certain risks are inherent in connection with fixed maturity securities, including loss upon default, price volatility in reaction to changes in interest rates, and general market factors and risks associated with reinvestment of proceeds due to prepayments or redemptions in a period of declining interest rates.

There were no investments in individual issuers that exceeded 10% of Shareholder’s Equity at June 30, 2015 or December 31, 2014.

Net Unrealized Gain on Marketable Securities In addition to adjusting equity securities and fixed maturity securities classified as “available for sale” to fair value, G AAP requires that deferred policy acquisition costs and certain other balance sheet amounts related to annuity, life and health businesses be adjusted to the extent that unrealized gains and losses from securities would result in adjustments to those balances had the unrealized gains or losses actually been realized. The following table shows (in thousands) the components of the net unrealized gain on securities that is included in AOCI in UTAIC’s Balance Sheet.

	June 30, 2015		
	Pretax	Deferred Tax	Net
Unrealized gain on:			
Fixed maturity securities	$ 91,647	$ (32,076)	$ 59,571
Equity securities	1,214	(425)	789
Deferred policy acquisition costs	(5,108)	1,788	(3,320)
Life, accident & health reserves	(57,530)	20,135	(37,395)
	$ 30,223	$ (10,578)	$ 19,645

	December 31, 2014		
	Pretax	Deferred Tax	Net
Unrealized gain on:			
Fixed maturity securities	$ 121,178	$ (42,412)	$ 78,766
Equity securities	2,392	(837)	1,555
Deferred policy acquisition costs	(5,909)	2,068	(3,841)
Life, accident & health reserves	(86,420)	30,247	(56,173)
	$ 31,241	$ (10,934)	$ 20,307

Net Investment Income The following table shows (in thousands) investment income earned and investment expenses incurred for the six months ended June 30.

	2015	2014
Investment income		
Fixed maturities	$ 26,952	$ 27,464
Equity securities	2,385	2,782
Policy loans	523	505
Other	516	310
Gross investment income	30,376	31,061
Investment expenses	(163)	(52)
Net investment income	$ 30,213	$ 31,009

UTAIC’s investment portfolio is managed by a subsidiary of AFG. Investment expenses included investment management fees charged by this subsidiary of $119,000 and $1,000 for the six months ended June 30, 2015 and 2014, respectively.

Realized gains (losses) and changes in unrealized appreciation (depreciation) related to fixed maturity and equity security investments are summarized as follows (in thousands):

	Fixed Maturities	Equity Securities	Mortgage Loans and Other Investments	Other (a)	Tax Effects	Total
Six months ended June 30, 2015						
Realized before impairments	$ (597)	$ 702	$ -	$ 64	$ (59)	$ 110
Realized - impairments	(29)	(1,625)	-	-	579	(1,075)
Change in unrealized	(29,531)	(1,178)	-	29,691	356	(662)
Six months ended June 30, 2014						
Realized before impairments	$ 775	$ -	$ -	$ 50	$ (289)	$ 536
Realized - impairments	-	-	-	-	-	-
Change in unrealized	42,024	2,276	-	(23,265)	(7,362)	13,673

(a) Primarily adjustments to deferred policy acquisition costs and reserves related to long-term care business

Gross realized gains and losses (excluding impairment writedowns and mark-to-market of derivatives) on available for sale fixed maturity and equity security investment transactions included in the Statement of Cash Flows consisted of the following for the six months ended June 30 (in thousands):

	2015	2014
Fixed maturities:		
Gross gains	$ 1,091	$ 355
Gross losses	(30)	(79)
Equity securities:		
Gross gains	702	-
Gross losses	-	-

D. Derivatives

UTAIC has investments in MBS that contain embedded derivatives (primarily interest-only MBS) that do not qualify for hedge accounting. UTAIC records the entire change in the fair value of these securities in earnings. These investments are part of UTAIC's overall investment strategy, representing a small component of UTAIC's overall investment portfolio and had a fair value of $19.5 million at June 30, 2015 and $21.5 million at December 31, 2014. The gain or loss resulting for changes in fair value of these securities is included in realized gains on securities in the Statement of Earnings and was a loss of $1.7 million for the six months ended June 30, 2015 and a gain of $0.5 million for the six months ended June 30, 2014.

E. Shareholder's Equity

Accumulated Other Comprehensive Income, Net of Tax (“AOCI”) Comprehensive income is defined as all changes in Shareholder’s Equity except those arising from transactions with shareholders. Comprehensive income includes net earnings and other comprehensive income, which consists primarily of changes in net unrealized gains or losses on available for sale securities.

The progression of the components of accumulated other comprehensive income follows (in thousands):

		Other Comprehensive Income			
	AOCI Beginning Balance	Pretax	Tax	Net of Tax	AOCI Ending Balance
Six Months Ended June 30, 2015					
Net unrealized gains on securities:					
Unrealized holding gains (losses) on securities arising during the period		$ (2,503)	$ 876	$ (1,627)	
Reclassification adjustment for realized (gains) losses included in net earnings (a)		1,485	(520)	965	
Total net unrealized gains on securities (b)	$ 20,307	(1,018	356	(662	$ 19,645
Six Months Ended June 30, 2014					
Net unrealized gains on securities:					
Unrealized holding gains (losses) on securities arising during the period		$ 21,860	$ (7,651)	$ 14,209	
Reclassification adjustment for realized (gains) losses included in net earnings (a)		(825)	289	(536)	
Total net unrealized gains on securities (b)	$ 35,517	21,035	(7,362)	13,673	$ 49,190

(a) The reclassification adjustment out of net unrealized gains on securities affected the following lines in UTAIC’s Consolidated Statement of Earnings:

OCI component	Affected line in the Consolidated Statement of Earnings
Pretax	Realized gains on securities
Tax	Provision for income taxes

(b) Includes net unrealized gains of $723,000 at June 30, 2015 compared to $585,000 at December 31, 2014 related to securities for which only the credit portion of an other-than-temporary impairment has been recorded in earnings.

F. **Income Taxes**

The following is a reconciliation of income taxes at the statutory rate of 35% to the provision for income taxes as shown in the Statement of Earnings for the six months ended June 30 (dollars in thousands):

	2015		2014	
	Amount	% of EBT	Amount	% of EBT
Earnings (loss) before income taxes ("EBT")	$ 4,867		$ (652)	
Income taxes (benefit) at statutory rate	$ 1,703	35%	$ (228)	35%
Effect of:				
Tax-exempt interest	(278)	(6%)	(254)	39%
Dividends received deduction	(46)	(1%)	(25)	4%
State income taxes	41	1%	10	(2%)
Other	11	0%	3	0%
Provision (benefit) for income taxes as shown on the Statement of Earnings	$ 1,431	29%	$ (494)	76%

G. **Contingencies**

UTAIC is involved in litigation from time to time, generally arising in the ordinary course of business. This litigation may include, but is not limited to, general commercial disputes, lawsuits brought by policyholders, employment matters, reinsurance collection matters and actions challenging certain business practices of insurance subsidiaries. None of these matters are expected to have a material adverse impact on UTAIC’s results of operations or financial condition.

H. **Subsequent Event**

The Company has evaluated subsequent events through September 3, 2015, the date its financial statements were available to be issued.

On April 14, 2015 GAFRI and UTAIC entered into a definitive agreement with HC2 Holding Inc. to sell all of the stock of UTAIC and Continental General Insurance Company, an affiliate. The agreement is subject to receipt of regulatory approvals and is expected to close in the second half of 2015.

Exhibit 99.3

CONTINENTAL GENERAL INSURANCE COMPANY

Financial Statements

Years ended December 31, 2014, 2013 and 2012
with report of Independent Auditors

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Report of Independent Auditors

Board of Directors
Continental General Insurance Company

We have audited the accompanying financial statements of Continental General Insurance Company, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statement of earnings, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Continental General Insurance Company at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

September 3, 2015

CONTINENTAL GENERAL INSURANCE COMPANY
BALANCE SHEET
(Dollars in Thousands, Except Per Share Data)

	December 31	
	2014	**2013**
Assets:		
Cash and cash equivalents	$ 12,305	$ 5,267
Investments:		
Fixed maturities, available for sale at fair value (amortized cost - $204,107 and $207,790)	229,116	225,592
Equity securities, available for sale at fair value (cost - $10,378 and $5,620)	10,185	5,932
Mortgage loans	2,706	2,856
Policy loans	2,810	2,944
Other investments	334	793
Total cash and investments	257,456	243,384
Recoverables from reinsurers	420,140	419,078
Deferred policy acquisition costs	17,264	19,474
Accrued investment income	2,514	2,785
Net deferred tax asset	22,250	20,314
Other assets	4,112	5,399
Total assets	$ 723,736	$ 710,434
Liabilities and Equity:		
Annuity benefits accumulated	$ 78,161	$ 86,411
Life, accident and health reserves	564,809	536,992
Other liabilities	12,840	13,474
Total liabilities	655,810	636,877
Shareholder's Equity:		
Common stock, par value - $1 per share:		
- 6,500,000 shares authorized		
- 4,196,559 shares issued and outstanding	4,197	4,197
Capital surplus	96,674	96,479
Accumulated deficit	(37,575)	(37,022)
Accumulated other comprehensive income, net of tax	4,630	9,903
Total shareholder's equity	67,926	73,557
Total liabilities and shareholder's equity	$ 723,736	$ 710,434

See notes to financial statements.

CONTINENTAL GENERAL INSURANCE COMPANY
STATEMENT OF EARNINGS
(In Thousands)

	Year Ended December 31		
	2014	**2013**	**2012**
Revenues:			
Life, accident and health net earned premiums	$ 12,606	$ 13,737	$ 40,055
Net investment income	15,484	13,974	13,199
Realized gains (losses) on securities (*)	(1,471)	1,313	2,210
Other income	4,800	5,175	5,359
Total revenues	31,419	34,199	60,823
Cost and expenses:			
Annuity benefits	2,627	3,166	3,266
Life, accident and health benefits	22,915	24,001	62,403
Insurance acquisition expenses, net	3,525	4,123	13,700
Other operating and general expenses	3,220	2,021	2,941
Total costs and expenses	32,287	33,311	82,310
Earnings (loss) before income taxes	(868)	888	(21,487)
Provision (benefit) for income taxes	(315)	290	(7,504)
Net earnings (loss)	$ (553)	$ 598	$ (13,983)
(*) Consists of the following:			
Realized gains (losses) before impairments	$ (335)	$ 2,535	$ 2,288
Losses on securities with impairment	(1,170)	(1,222)	(78)
Non-credit portion recognized in other comprehensive income	34	-	-
Impairment charges recognized in earnings	(1,136)	(1,222)	(78)
Total realized gains (losses) on securities	$ (1,471)	$ 1,313	$ 2,210

See notes to financial statements.

CONTINENTAL GENERAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31		
	2014	**2013**	**2012**
Comprehensive Income (Loss):			
Net earnings (loss)	$ (553)	$ 598	$ (13,983)
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities:			
Unrealized holding gains (losses) on securities arising during the period	(6,229)	5,354	(857)
Reclassification adjustment for realized losses (gains) included in net earnings (loss)	956	(1,430)	(1,437)
Total net unrealized gains (losses) on securities	(5,273)	3,924	(2,294)
Total comprehensive income (loss), net of tax	$ (5,826)	$ 4,522	$ (16,277)

See notes to financial statements.

CONTINENTAL GENERAL INSURANCE COMPANY
STATEMENT OF CHANGES IN EQUITY
(Dollars in Thousands)

		Shareholder's Equity			
	Common Shares	Common Stock and Capital Surplus	Accumulated Deficit	Accumulated Other Comp Inc (Loss)	Total
Balance at January 1, 2012	4,196,559	$ 100,005	$ (23,637)	$ 8,273	$ 84,641
Net loss	-	-	(13,983)	-	(13,983)
Other comprehensive loss	-	-	-	(2,294)	(2,294)
Balance at December 31, 2012	4,196,559	$ 100,005	$ (37,620)	$ 5,979	$ 68,364
Net earnings	-	-	598	-	598
Other comprehensive income	-	-	-	3,924	3,924
Other	-	671	-	-	671
Balance at December 31, 2013	4,196,559	$ 100,676	$ (37,022)	$ 9,903	$ 73,557
Net loss	-	-	(553)	-	(553)
Other comprehensive loss	-	-	-	(5,273)	(5,273)
Other	-	195	-	-	195
Balance at December 31, 2014	4,196,559	$ 100,871	$ (37,575)	$ 4,630	$ 67,926

See notes to financial statements.

CONTINENTAL GENERAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS
(In Thousands)

	Year Ended December 31		
	2014	2013	2012
Operating Activities:			
Net earnings (loss)	$ (553)	$ 598	$ (13,983)
Adjustments:			
Depreciation and amortization	65	(95)	(1,081)
Annuity benefits	2,627	3,166	3,266
Realized (gains) losses on investing activities	1,471	(1,313)	(2,210)
Deferred annuity and life policy acquisition costs	(12)	57	(1,305)
Amortization of insurance acquisition costs	2,450	2,871	11,368
Change in:			
Life, accident and health reserves	12,777	(3,805)	107,724
Recoverables from reinsurers	(1,062)	11,243	(75,882)
Accrued investment income	271	(352)	(113)
Net deferred tax asset	949	775	(4,944)
Other assets	1,213	3,915	(2,390)
Other liabilities	(634)	(125)	(2,265)
Other operating activities, net	43	305	(451)
Net cash provided by operating activities	19,605	17,240	17,734
Investing Activities:			
Purchases of:			
Fixed maturities	(15,503)	(28,409)	(27,061)
Equity securities	(5,521)	(2,052)	(3,567)
Proceeds from:			
Maturities and redemptions of fixed maturities	18,247	18,796	19,483
Repayment of mortgage loans	150	470	352
Sales of fixed maturities	254	922	689
Sales of equity securities	-	352	611
Other investments	461	1,434	754
Other investing activities, net	134	(129)	251
Net cash used in investing activities	(1,778)	(8,616)	(8,488)
Financing Activities:			
Annuity receipts	441	322	3,873
Annuity surrenders, benefits and withdrawals	(11,230)	(11,684)	(9,940)
Net cash used in financing activities	(10,789)	(11,362)	(6,067)
Net Change in Cash and Cash Equivalents	7,038	(2,738)	3,179
Cash and cash equivalents at beginning of year	5,267	8,005	4,826
Cash and cash equivalents at end of year	$ 12,305	$ 5,267	$ 8,005

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

A. Accounting Policies

Basis of Presentation The financial statements include the accounts of Continental General Insurance Company ("CGI" or the "Company"). CGI is an indirect wholly-owned subsidiary of Great American Financial Resources, Inc. (" GAFRI"), a financial services holding company wholly-owned by American Financial Group, Inc. ("AFG"). The financial statements also include costs paid on behalf of CGI by GAFRI. These costs are recorded as expense in the period incurred and shown as an increase in capital surplus.

Although the Company does not currently market any life, annuity or long-term care insurance, CGI's product portfolio includes a diversified mix of closed blocks of life, annuity and long-term care ("LTC") health insurance products.

In the third quarter of 2012 GAFRI sold its Medicare Supplement and other non LTC health insurance business, including Loyal American Life Insurance Company ("Loyal") to Cigna. As part of the agreement prior to the sale CGI reinsured all of its Medicare Supplement and other non LTC health business into Loyal through a 100% coinsurance agreement ("Cigna Transaction"). The Company accepted new premium sales (Medicare supplement, critical illness and other non-health products), for certain states, through a reinsurance fronting agreement through August 2014, whereby the Company reinsures 100% of these premiums through a coinsurance agreement with Loyal.

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Changes in circumstances could cause actual results to differ materially from those estimates.

Fair Value Measurements Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The standards establish a hierarchy of valuation techniques based on whether the assumptions that market participants would use in pricing the asset or liability ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect CGI's assumptions about the assumptions market participants would use in pricing the asset or liability.

Investments Fixed maturity and equity securities classified as "available for sale" are reported at fair value with unrealized gains and losses included in accumulated other comprehensive income ("AOCI") in CGI's Balance Sheet. Mortgage and policy loans are carried primarily at the aggregate unpaid balance.

Premiums and discounts on fixed maturity securities are amortized using the interest method. Mortgage-backed securities ("MBS") are amortized over a period based on estimated future principal payments, including prepayments. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations.

Gains or losses on securities are determined on the specific identification basis. When a decline in the value of a specific investment is considered to be other-than-temporary at the balance sheet date, a provision for impairment is charged to earnings (included in realized gains (losses) on securities) and the cost basis of that investment is reduced. If management can assert that it does not intend to sell an impaired fixed maturity security and it is not more likely than not that it will have to sell the security before recovery of its amortized cost basis, then the other-than-temporary impairment is separated into two components: (i) the amount related to credit losses (recorded in earnings) and (ii) the amount related to all other factors (recorded in other comprehensive income). The credit-related portion of an other-than-temporary impairment is measured by comparing a security's amortized cost to the present value of its current expected cash flows discounted at its effective yield prior to the impairment charge. Both components are shown in the Statement of Earnings. If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment charge to earnings is recorded to reduce the amortized cost of that security to fair value.

Derivatives Derivatives included in CGI's Balance Sheet are recorded at fair value and consist of components of certain fixed maturity securities (primarily interest-only MBS). Changes in fair value of derivatives are included in earnings.

Deferred Policy Acquisition Costs ("DPAC") Policy acquisition costs (principally commissions and certain underwriting and policy issuance costs) directly related to the successful acquisition or renewal of an insurance contract are deferred.

DPAC related to annuities, universal life and interest-sensitive life policies is deferred to the extent deemed recoverable and amortized, with interest, in relation to the present value of actual and expected gross profits on the policies. Expected gross profits consist principally of estimated future investment margin (estimated future net investment income less interest credited on policyholder funds) and surrender, mortality, and other life and annuity policy charges, less death, annuitization and estimated future policy administration expenses. To the extent that realized gains and losses result in adjustments to the amortization of DPAC related to annuities, universal life and interest-sensitive life policies, such adjustments are reflected as components of realized gains (losses) on securities.

DPAC related to traditional life and health insurance is amortized over the expected premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. See *"Life, Accident and Health Reserves"* below for details on the impact of loss recognition on the accounting for traditional life and health insurance contracts.

DPAC includes the present value of future profits on business in force of annuity, life, accident and health insurance companies acquired ("PVFP"). PVFP represents the portion of the costs to acquire companies that is allocated to the value of the right to receive future cash flows from insurance contracts existing at the date of acquisition. PVFP is amortized with interest in relation to expected gross profits of the acquired policies for annuities and universal life products and in relation to the premium paying period for traditional life and health insurance products.

DPAC and certain other balance sheet amounts related to annuity and life businesses are also adjusted, net of tax, for the change in expense that would have been recorded if the unrealized gains (losses) from securities had actually been realized. These adjustments are included in unrealized gains (losses) on marketable securities, a component of AOCI in CGI's Balance Sheet.

Reinsurance Premium revenue and benefits are reported net of the amounts related to reinsurance ceded to and assumed from other companies. Expense allowances from reinsurers are included in other operating and general expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Amounts received from reinsurers that represent recovery of acquisition costs are netted against DPAC, so that the net amount is capitalized. The cost of reinsurance is accounted for over the term of the related treaties using assumptions consistent with those used to account for the underlying reinsured policies.

Annuity Benefits Accumulated Annuity receipts and benefit payments are recorded as increases or decreases in annuity benefits accumulated rather than as revenue and expense. Increases in this liability (primarily interest credited) are charged to expense and decreases for charges are credited to annuity policy charges revenue. Reserves for traditional fixed annuities are generally recorded at the stated account value.

Life, Accident and Health Reserves Liabilities for future policy benefits under traditional life, accident and health policies are computed using the net level premium method. Computations are based on the original projections of investment yields, mortality, morbidity and surrenders and include provisions for unfavorable deviations unless a loss recognition event (premium deficiency) occurs. Claim reserves and liabilities established for accident and health claims are modified as necessary to reflect actual experience and developing trends. Reserves for interest-sensitive whole life and universal life policies are generally recorded at contract value.

For long-duration contracts (such as traditional life and long-term care insurance policies), loss recognition occurs when, based on current expectations as of the measurement date, existing contract liabilities plus the present value of future premiums (including reasonably expected rate increases) are not expected to cover the present value of future claims payments and related settlement and maintenance costs (excluding overhead) as well as unamortized acquisition costs. If a block of business is determined to be in loss recognition, a charge is recorded in earnings in an amount equal to the excess of the present value of expected future claims costs and unamortized acquisition costs over existing reserves plus the present value of expected future premiums (with no provision for adverse deviation). The charge is recorded first to reduce unamortized acquisition costs and then as an additional reserve (if unamortized acquisition costs have been reduced to zero).

In addition, reserves for traditional life and long-term care insurance policies are subject to adjustment for loss recognition charges that would have been recorded if the unrealized gains from securities had actually been realized. This adjustment is included in unrealized gains (losses) on marketable securities, a component of AOCI in CGI's Balance Sheet.

Premium Recognition For traditional life, accident and health products, premiums are recognized as revenue when legally collectible from policyholders. For interest-sensitive life and universal life products, premiums are recorded in a policyholder account, which is reflected as a liability. Revenue is recognized as amounts are assessed against the policyholder account for mortality coverage and contract expenses.

Income Taxes The Company has an intercompany tax allocation agreement with AFG. Pursuant to the agreement, the Company's tax expense is determined based upon its inclusion in the consolidated tax return of AFG and its includable subsidiaries. Estimated payments are made quarterly during the year. Following year-end, additional settlements are made on the original due date of the return and, when extended, at the time the return is filed. The method of allocation among the companies under the agreement is based upon separate return calculations with current credit for losses to the extent the losses provide a benefit in the consolidated return.

Deferred income taxes are calculated using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases and are measured using enacted tax rates. A valuation allowance is established to reduce total deferred tax assets to an amount that will more likely than not be realized.

CGI recognizes the tax benefits of uncertain tax positions only when the position is more likely than not to be sustained under examination by the appropriate taxing authority. Interest and penalties on CGI's reserve for uncertain tax positions are recognized as a component of tax expense.

Benefit Plans CGI provides retirement benefits to qualified employees of participating companies through the AFG 401(k) Retirement and Savings Plan, a defined contribution plan. AFG and its subsidiaries make all contributions to the retirement fund portion of the plan and match a percentage of employee contributions to the savings fund. Company contributions are expensed in the year for which they are declared.

Statement of Cash Flows For cash flow purposes, "investing activities" are defined as making and collecting loans and acquiring and disposing of debt or equity instruments and property and equipment. "Financing activities" include obtaining resources from owners and providing them with a return on their investments, borrowing money and repaying amounts borrowed. Annuity receipts, surrenders, benefits and withdrawals are also reflected as financing activities. All other activities are considered "operating." Short-term investments having original maturities of three months or less when purchased are considered to be cash equivalents for purposes of the financial statements.

B. Fair Value Measurements

Accounting standards for measuring fair value are based on inputs used in estimating fair value. The three levels of the hierarchy are as follows:

Level 1 — Quoted prices for identical assets or liabilities in active markets (markets in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis). CGI's Level 1 financial instruments consist primarily of publicly traded equity securities and highly liquid government bonds for which quoted market prices in active markets are available.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (markets in which there are few transactions, the prices are not current, price quotations vary substantially over time or among market makers, or in which little information is released publicly); and valuations based on other significant inputs that are observable in active markets. CGI's Level 2 financial instruments include corporate and municipal fixed maturity securities, mortgage-backed securities ("MBS") and non-affiliated common stocks priced using observable inputs. Level 2 inputs include benchmark yields, reported trades, corroborated broker/dealer quotes, issuer spreads and benchmark securities. When non-binding broker quotes can be corroborated by comparison to similar securities priced using observable inputs, they are classified as Level 2.

Level 3 — Valuations derived from market valuation techniques generally consistent with those used to estimate the fair values of Level 2 financial instruments in which one or more significant inputs are unobservable or when the market for a security exhibits significantly less liquidity relative to markets supporting Level 2 fair value measurements. The unobservable inputs may include management's own assumptions about the assumptions market participants would use based on the best information available in the circumstances. CGI's Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker quotes or internally developed using significant inputs not based on, or corroborated by, observable market information.

CGI’s management is responsible for the valuation process and uses data from outside sources (including nationally recognized pricing services and broker/dealers) in establishing fair value. The Company's internal investment professionals are a group of approximately 20 analysts whose primary responsibility is to manage AFG’s investment portfolio. These professionals monitor individual investments as well as overall industries and are active in the financial markets on a daily basis. The group is led by AFG’s chief investment officer, who reports directly to one of AFG’s Co-CEOs. Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by AFG’s internal investment professionals who are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price. To validate the appropriateness of the prices obtained, these investment managers consider widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. In addition, the Company communicates directly with the pricing service regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the service to value specific securities.

Assets measured and carried at fair value in the financial statements are summarized below (in thousands):

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale ("AFS") fixed maturities:				
U.S. Government and government agencies	$ 1,784	$ 6,475	$ -	$ 8,259
States, municipalities and political subdivisions	-	50,237	-	50,237
Foreign government	-	1,761	-	1,761
Residential MBS	-	39,523	5,432	44,955
Commercial MBS	-	20,303	464	20,767
Asset-backed securities ("ABS")	-	6,137	-	6,137
Corporate and other	-	95,770	1,230	97,000
Total AFS fixed maturities	1,784	220,206	7,126	229,116
Equity securities	8,132	1,027	1,026	10,185
Total assets accounted for at fair value	$ 9,916	$ 221,233	$ 8,152	$ 239,301

December 31, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale fixed maturities:				
U.S. Government and government agencies	$ 1,953	$ 6,265	$ -	$ 8,218
States, municipalities and political subdivisions	-	40,715	-	40,715
Foreign government	-	1,615	-	1,615
Residential MBS	-	36,330	7,278	43,608
Commercial MBS	-	23,595	475	24,070
Asset-backed securities	-	6,326	1,002	7,328
Corporate and other	-	98,399	1,639	100,038
Total AFS fixed maturities	1,953	213,245	10,394	225,592
Equity securities	4,837	1,060	35	5,932
Total assets accounted for at fair value	$ 6,790	$ 214,305	$ 10,429	$ 231,524

At December 31, 2014 and 2013 no liabilities were carried at fair value.

There were no transfers between Level 1 and Level 2 during 2014 or 2013. During 2012, one perpetual preferred stock with a fair value of $1 million transferred from Level 1 to Level 2 due to decreases in trade frequency, resulting in lack of available trade data sufficient to warrant classification in Level 1.

Approximately 3% of the total assets carried at fair value on December 31, 2014, were Level 3 assets. Approximately 85% ($7 million) of the Level 3 assets were priced using non-binding broker quotes, for which there is a lack of transparency as to the inputs used to determine fair value. Details as to the quantitative inputs are neither provided by the brokers nor otherwise reasonably obtainable by CGI. Since internally developed Level 3 asset fair values represent less than 1% of the total assets measured at fair value and less than 2% of CGI's shareholder's equity, changes in unobservable inputs used to determine internally developed fair values would not have a material impact on CGI's financial position.

Changes in balances of Level 3 financial assets carried at fair value during 2014, 2013 and 2012 are presented below (in thousands). The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2013	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31 2014
AFS fixed maturities:								
Residential MBS	$ 7,278	$ (79)	$ (55)	$ -	$ (500)	$ $ 2,757	$ (3,969)	$ 5,432
Commercial MBS	475	(11)	-	-	-	-	-	464
Asset-backed securities	1,002	-	5	-	(12)	-	(995)	-
Corporate and other	1,639	(300)	(33)	-	(76)	-	-	1,230
Equity securities	35	-	(7)	998	-	-	-	1,026

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2012	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31, 2013
AFS fixed maturities:								
Residential MBS	$ 9,516	$ 737	$ 224	$ 446	$ (1,467)	$ 687	$ (2,865)	$ 7,278
Commercial MBS	-	(57)	-	-	-	532	-	475
Asset-backed securities	1,051	-	(34)	-	(15)	-	-	1,002
Corporate and other	-	18	40	1,615	(34)	-	-	1,639
Equity securities	-	-	-	35	-	-	-	35

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2011	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31, 2012
AFS fixed maturities:								
Residential MBS	$ 5,092	$ 133	$ 14	$ 3,928	$ (809)	$ 1,761	$ (603)	$ 9,516
Commercial MBS	-	-	-	-	-	-	-	-
Asset-backed securities	1,031	(1)	35	-	(14)	-	-	1,051

Fair Value of Financial Instruments The carrying value and fair value of financial instruments that are not carried at fair value in the financial statements at December 31 are summarized below (in thousands):

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
2014					
Financial assets:					
Cash and cash equivalents	$ 12,305	$ 12,305	$ 12,305	$ -	$ -
Mortgage loans	2,706	2,706	-	-	2,706
Policy loans	2,810	2,810	-	-	2,810
Total financial assets not accounted for at fair value	$ 17,821	$ 17,821	$ 12,305	$ -	$ 5,516
Financial liabilities:					
Annuity benefits accumulated(*)	$ 76,702	$ 78,442	$ -	$ -	$ 78,442
Total financial liabilities not accounted for at fair value	$ 76,702	$ 78,442	$ -	$ -	$ 78,442

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
2013					
Financial assets:					
Cash and cash equivalents	$ 5,267	$ 5,267	$ 5,267	$ -	$ -
Mortgage loans	2,856	2,856	-	-	2,856
Policy loans	2,944	2,944	-	-	2,944
Total financial assets not accounted for at fair value	$ 11,067	$ 11,067	$ 5,267	$ -	$ 5,800
Financial liabilities:					
Annuity benefits accumulated(*)	$ 84,773	$ 81,691	$ -	$ -	$ 81,691
Total financial liabilities not accounted for at fair value	$ 84,773	$ 81,691	$ -	$ -	$ 81,691

(*) Excludes life contingent annuities in the payout phase.

The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of these instruments. Fair values for mortgage loans are estimated by discounting the future contractual cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. The fair value of policy loans is estimated to approximate carrying value; policy loans have no defined maturity dates and are inseparable from insurance contracts. The fair value of annuity benefits was estimated based on expected cash flows discounted using forward interest rates adjusted for the Company’s credit risk and includes the impact of maintenance expenses and capital costs.

C. Investments

Available for sale fixed maturities and equity securities at December 31 consisted of the following (in thousands):

	2014				2013			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed Maturities:								
U.S. Government and government agencies	$ 7,902	$ 8,259	$ 357	$ -	$ 7,993	$ 8,218	$ 359	$ (134)
States, municipalities and political subdivisions	46,093	50,237	4,256	(112)	40,730	40,715	1,281	(1,296)
Foreign government	1,493	1,761	268	-	1,493	1,615	122	-
Residential MBS	40,718	44,955	4,324	(87)	39,181	43,608	4,447	(20)
Commercial MBS	19,102	20,767	1,665	-	22,106	24,070	1,964	-
Asset-backed securities	5,841	6,137	320	(24)	6,984	7,328	375	(31)
Corporate and other	82,958	97,000	14,215	(173)	89,303	100,038	11,088	(353)
Total fixed maturities	$ 204,107	$ 229,116	$ 25,405	$ (396)	$ 207,790	$ 225,592	$ 19,636	$ (1,834)
Common stocks	$ 5,878	$ 5,700	$ 116	$ (294)	$ 4,620	$ 4,872	$ 671	$ (419)
Perpetual preferred stocks	$ 4,500	$ 4,485	$ 37	$ (52)	$ 1,000	$ 1,060	$ 60	$ -

The non-credit related portion of other-than-temporary impairment charges is included in other comprehensive income. Cumulative non-credit charges taken for securities still owned at December 31, 2014 and December 31, 2013, respectively, were $375,000 and $692,000. Gross unrealized gains on such securities at December 31, 2014 and December 31, 2013 were $218,000 and $251,000, respectively. Gross unrealized losses on such securities at December 31, 2014 and December 31, 2013 were $34,000 and $0, respectively. These amounts represent the non-credit other-than-temporary impairment charges recorded in AOCI adjusted for subsequent changes in fair values and relate to residential MBS.

The following tables show gross unrealized losses (dollars in thousands) on fixed maturities and equity securities by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014 and 2013.

2014	Less Than Twelve Months			Twelve Months or More		
	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
Fixed Maturities:						
U.S. Government and government agencies	$ -	$ -	-%	$ -	$ -	-%
States, municipalities and political subdivisions	-	-	-%	(112)	3,414	97%
Residential MBS	(71)	5,186	99%	(16)	2,010	99%
Commercial MBS	-	-	-%	-	-	-%
Asset-backed securities	(24)	465	95%	-	-	-%
Corporate and other	(173)	1,332	89%	-	-	-%
Total fixed maturities	$ (268)	$ 6,983	96%	$ (128)	$ 5,424	98%
Common stocks	$ (129)	$ 2,079	94%	$ (165)	$ 1,352	89%
Perpetual preferred stocks	$ (52)	$ 1,449	97%	$ -	$ -	-%

2013	Less Than Twelve Months			Twelve Months or More		
	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
Fixed Maturities:						
U.S. Government and government agencies	$ (134)	$ 3,839	97%	$ -	$ -	-%
States, municipalities and political subdivisions	(941)	13,089	93%	(355)	2,594	88%
Residential MBS	(3)	422	99%	(17)	1,987	99%
Commercial MBS	-	-	-%	-	-	-%
Asset-backed securities	-	-	-%	(31)	456	94%
Corporate and other	(318)	9,655	97%	(35)	460	93%
Total fixed maturities	$ (1,396)	$ 27,005	95%	$ (438)	$ 5,497	93%
Common stocks	$ (419)	$ 1,597	79%	$ -	$ -	-%
Perpetual preferred stocks	$ -	$ -	-%	$ -	$ -	-%

At December 31, 2014, the gross unrealized losses on fixed maturities of $396,000 relate to 13 securities. Investment grade securities (as determined by nationally recognized rating agencies) represented approximately 56% of the gross unrealized loss and 55% of the fair value.

The determination of whether unrealized losses are “other-than-temporary” requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include:

a) whether the unrealized loss is credit-driven or a result of changes in market interest rates,
b) the extent to which fair value is less than cost basis,
c) cash flow projections received from independent sources,
d) historical operating, balance sheet and cash flow data contained in issuer SEC filings and news releases,
e) near-term prospects for improvement in the issuer and/or its industry,
f) third party research and communications with industry specialists,
g) financial models and forecasts,
h) the continuity of dividend payments, maintenance of investment grade ratings and hybrid nature of certain investments,
i) discussions with issuer management, and
j) ability and intent to hold the investment for a period of time sufficient to allow for anticipated recovery in fair value.

CGI analyzes its MBS securities for other-than-temporary impairment each quarter based upon expected future cash flows. Management estimates expected future cash flows based upon its knowledge of the MBS market, cash flow projections (which reflect loan to collateral values, subordination, vintage and geographic concentration) received from independent sources, implied cash flows inherent in security ratings and analysis of historical payment data. For 2014, CGI recorded $19,000 in other-than-temporary impairment charges related to its residential MBS.

CGI recorded $762,000 in other-than-temporary impairment charges on common stocks in 2014. At December 31, 2014, the gross unrealized losses on common stocks of $294,000 relate to 8 securities**;** $165,000 (2 securities) have been in an unrealized loss position for more than 12 months.

Management believes CGI will recover its cost basis in the securities with unrealized losses and that CGI has the ability to hold the securities until they recover in value and had no intent to sell them at December 31, 2014.

A progression of the credit portion of other-than-temporary impairments on fixed maturity securities for which the non-credit portion of an impairment has been recognized in other comprehensive income is shown below (in thousands):

	2014	2013	2012
Balance at January 1	$ 225	$ 225	$ 373
Additional credit impairments on:			
Previously impaired securities	-	-	-
Securities without prior impairments	19	-	25
Reductions due to sales or redemptions	(125)	-	(173)
Balance at December 31	$ 119	$ 225	$ 225

The table below sets forth the scheduled maturities of available for sale fixed maturities as of December 31, 2014 (dollars in thousands). Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Amortized	Fair Value	
Maturity	Cost	Amount	%
One year or less	$ 6,211	$ 6,389	3%
After one year through five years	24,514	27,441	12%
After five years through ten years	40,455	43,544	19%
After ten years	67,266	79,883	35%
Subtotal	138,446	157,257	69%
MBS (average life of approximately 5 years)	59,820	65,722	29%
ABS (average life of approximately 4 1/2 years)	5,841	6,137	2%
Total	$ 204,107	$ 229,116	100%

Certain risks are inherent in connection with fixed maturity securities, including loss upon default, price volatility in reaction to changes in interest rates, and general market factors and risks associated with reinvestment of proceeds due to prepayments or redemptions in a period of declining interest rates.

There were no investments in individual issuers that exceeded 10% of Shareholder’s Equity at December 31, 2014 or 2013.

Securities having a carrying value of approximately $5.3 million at December 31, 2014, were on deposit as required by regulatory authorities.

Net Unrealized Gain on Marketable Securities In addition to adjusting equity securities and fixed maturity securities classified as "available for sale" to fair value, G AAP requires that deferred policy acquisition costs and certain other balance sheet amounts related to annuity, life and health businesses be adjusted to the extent that unrealized gains and losses from securities would result in adjustments to those balances had the unrealized gains or losses actually been realized. The following table shows (in thousands) the components of the net unrealized gain on securities that is included in AOCI in CGI's Balance Sheet.

	2014		
	Pretax	Deferred Tax	Net
Unrealized gain on:			
Fixed maturity securities	$ 25,009	$ (8,753)	$ 16,256
Equity securities	(193)	68	(125)
Deferred policy acquisition costs	(221)	77	(144)
Life, accident and health reserves	(17,472)	6,115	(11,357)
	$ 7,123	$ (2,493)	$ 4,630

	2013		
	Pretax	Deferred Tax	Net
Unrealized gain on:			
Fixed maturity securities	$ 17,802	$ (6,231)	$ 11,571
Equity securities	312	(109)	203
Deferred policy acquisition costs	(446)	156	(290)
Life, accident and health reserves	(2,432)	851	(1,581)
	$ 15,236	$ (5,333)	$ 9,903

Net Investment Income The following table shows (in thousands) investment income earned and investment expenses incurred.

	2014	2013	2012
Investment income			
Fixed maturities	$ 14,262	$ 13,131	$ 12,537
Equity securities	918	425	132
Policy loans	180	237	158
Other	162	270	458
Gross investment income	15,522	14,063	13,285
Investment expenses	(38)	(89)	(86)
Net investment income	$ 15,484	$ 13,974	$ 13,199

CGI's investment portfolio is managed by a subsidiary of AFG. Investment expenses included investment management fees charged by this subsidiary of $1,000 in 2014, $43,000 in 2013 and $47,000 in 2012.

Realized gains (losses) and changes in unrealized appreciation (depreciation) related to fixed maturity and equity security

investments are summarized as follows (in thousands):

	Fixed Maturities	Equity Securities	Mortgage Loans and Other Investments	Other (a)	Tax Effects	Total
Year ended December 31, 2014						
Realized before impairments	$ (338)	$ -	$ -	$ 3	$ 117	$ (218)
Realized - impairments	(374)	(762)	-	-	398	(738)
Change in unrealized	7,207	(505)	-	(14,815)	2,840	(5,273)
Year ended December 31, 2013						
Realized before impairments	$ 2,479	$ 125	$ (69)	$ -	$ (887)	$ 1,648
Realized - impairments	(164)	(240)	(818)	-	428	(794)
Change in unrealized	(11,999)	84	-	17,952	(2,113)	3,924
Year ended December 31, 2012						
Realized before impairments	$ 2,156	$ 132	$ -	$ -	$ (801)	$ 1,487
Realized - impairments	(26)	(52)	-	-	27	(51)
Change in unrealized	8,842	231	-	(12,602)	1,235	(2,294)

(a) Primarily adjustments to deferred policy acquisition costs and reserves related to long-term care business.

Gross realized gains and losses (excluding impairment writedowns and mark-to-market of derivatives) on available for sale fixed maturity and equity security investment transactions included in the Statement of Cash Flows consisted of the following (in thousands):

	2014	2013	2012
Fixed maturities:			
Gross gains	$ 87	$ 740	$ 94
Gross losses	(27)	-	-
Equity securities:			
Gross gains	-	125	132
Gross losses	-	-	-

D. Derivatives

CGI has investments in MBS that contain embedded derivatives (primarily interest-only MBS) that do not qualify for hedge accounting. CGI records the entire change in the fair value of these securities in earnings. These investments are part of CGI’s overall investment strategy, representing a small component of CGI’s overall investment portfolio and had a fair value of $5.9 million and $7.3 million at December 31, 2014 and 2013, respectively. The gain or loss resulting for changes in fair value of these securities is included in realized gains on securities in the Statement of Earnings and was a loss of $398,000 in 2014 compared to gains of $1.7 million and $71,000 in 2013 and 2012, respectively.

E. Reinsurance

The Company is contingently liable with respect to reinsurance ceded in that the liability for such reinsurance would become that of the Company upon failure of any reinsurer to meet its obligations under a particular reinsurance agreement. The Company currently reinsures its annuities, life insurance, LTC, and other health products. The maximum amount the Company would retain on any single life insurance policy is $250,000. Retention limits under accident and health insurance policies vary from plan to plan.

On August 31, 2012, in conjunction with and prior to the sale of certain affiliated insurance companies to Cigna, the Company entered into a reinsurance agreement with Loyal which ceded 100% of all remaining accident and health policies, excluding LTC. Under this agreement, all activity on these policies after existing reinsurance is ceded to Loyal. There was no ceding commission on this transaction.

CGI reinsures a portion of its life and health insurance risk with non-affiliated insurance carriers under traditional indemnity reinsurance arrangements (“ceded reinsurance”). Under these arrangements, the other carriers agree to accept responsibility for a portion of the risks underwritten by CGI. The primary purpose of ceded reinsurance is to protect the Company from potential losses in excess of amounts it is willing to accept.

On February 1, 1999, the Company entered into a reinsurance agreement with Hannover Life Reassurance Company (“Hannover”) under which it ceded 50% of most of its existing in-force business. On August 1, 2006, the Company entered into another reinsurance agreement with Hannover under which it ceded 50% of its in-force business, including business subject to the 1999 agreement. As a result of these two agreements, 75% of the risk on business issued before February 1, 1999, and 50% of the risk issued from that date through August 1, 2006, is reinsured with Hannover.

The effect of reinsurance on premiums and during the years ended December 31 is as follows (in thousands):

	2014	2013	2012
Direct premiums	$ 92,519	$ 102,521	$ 106,371
Reinsurance assumed	313	33	41
Reinsurance ceded	(80,226)	(88,817)	(66,357)
Net premiums	$ 12,606	$ 13,737	$ 40,055

Reinsurance recoveries were $67.0 million, $67.8 million and $54.8 million for 2014, 2013 and 2012, respectively.

At December 31, 2014 CGI has reinsured approximately $553 million of its $822 million inforce life insurance face amount compared to $603 million of its $869 million inforce life insurance face amount at December 31, 2013.

At December 31, 2014 the Company’s reinsurance recoverable includes $394 million for Hannover Life reinsurance Company (rated A- by A. M. Best) and $26 million with Loyal (rated A- by A. M. Best), for which Loyal holds investments in a trust.

Included in other operating and general expenses in the Statement of Earnings are $2.6 million, $2.8 million and $5.1 million of reinsurance expense allowances for 2014, 2013 and 2012, respectively.

F. Deferred Policy Acquisition Costs

A progression of deferred policy acquisition costs is presented below (in thousands):

	Deferred Costs	Present Value of Future Profits	Unrealized	Total
Balance at January 1, 2012	$ 13,294	$ 19,617	$ (8,241)	$ 24,670
Additions	977	328	-	1,305
Amortization:				
Periodic amortization	(2,229)	(2,251)	-	(4,480)
LTC loss recognition	-	(6,888)	-	(6,888)
Change in unrealized	-	-	7,722	7,722
Balance at December 31, 2012	$ 12,042	$ 10,806	$ (519)	$ 22,329
Additions and other	(60)	3	-	(57)
Amortization:				
Periodic amortization	(1,424)	(1,441)	-	(2,865)
Annuity unlocking	2	(8)	-	(6)
Change in unrealized	-	-	73	73
Balance at December 31, 2013	$ 10,560	$ 9,360	$ (446)	$ 19,474
Additions	12	-	-	12
Amortization:				
Periodic amortization	(1,242)	(1,207)	-	(2,449)
Annuity unlocking	-	(1)	-	(1)
Included in realized gains	1	2	-	3
Change in unrealized	-	-	225	225
Balance at December 31, 2014	$ 9,331	$ 8,154	$ (221)	$ 17,264

The present value of future profits (“PVFP”) amounts in the table above are net of $39.1 million and $37.9 million of accumulated amortization at December 31, 2014 and 2013, respectively. The expected amortization of PVFP, net of interest, will average approximately $917,000 per year over the next five years.

G. Life, Accident and Health Reserves

Life, accident and health reserves consist of the following (in thousands):

	2014	2013
Long-term care insurance reserves	$ 427,798	$ 394,713
Interest-sensitive and universal life policies	49,351	50,690
Traditional life insurance reserves	29,204	28,817
Other accident and health insurance reserves	58,456	62,772
Total life, accident and health reserves	$ 564,809	$ 536,992

Long-term care reserves are discounted at rates ranging from 5.4% to 6.8%. The Company uses the 1994 Group Annuity Mortality Table, modified for Company experience. Long-term care insurance reserves include unearned premiums of $6.1 million and $6.4 million at December 31, 2014 and 2013, respectively.

Life, accident and health reserves include liabilities for long-term care policies which are estimates of future payments for reported and unreported claims, with respect to insured events, which have occurred prior to the balance sheet date. Activity in the liability and reserve accounts for unpaid claims, which includes a provision for claim adjustment expenses, net of amounts recoverable from reinsurers is summarized as follows (in thousands):

	2014	2013	2012
Beginning balance as of January 1	$ 104,638	$ 90,251	$ 84,493
Less reinsurance recoverables	(72,532)	(62,730)	(58,688)
Net balance as of January 1	32,106	27,521	25,805
Incurred related to insured events of:			
Current year	11,771	11,607	11,145
Prior years	(2,300)	(226)	(1,823)
Total incurred	9,471	11,381	9,322
Paid related to insured events of:			
Current year	(2,293)	(1,863)	(3,010)
Prior years	(6,902)	(6,390)	(5,955)
Total paid	(9,195)	(8,253)	(8,965)
Interest on liability for policy and contract claims	1,591	1,457	1,359
Net balance as of December 31	33,973	32,106	27,521
Add reinsurance recoverables	75,564	72,532	62,730
Ending balance as of December 31	$ 109,537	$ 104,638	$ 90,251

The development of prior years is primarily due to positive experience in claims ultimately settled for less than the estimated liabilities.

In 2012, CGI recorded a pre-tax loss recognition charge of $31.6 million to write off $6.9 million in deferred policy acquisition costs and insurance reserves by $24.7 million on its long-term care business, due primarily to the impact of changes in assumptions related to future investment yields as well as changes in claims, expenses and persistency assumptions. No additional loss recognition charges were recorded in 2014 or 2013.

H. Shareholder's Equity

Accumulated Other Comprehensive Income, Net of Tax ("AOCI") Comprehensive income is defined as all changes in Shareholder's Equity except those arising from transactions with shareholders. Comprehensive income includes net earnings and other comprehensive income, which consists primarily of changes in net unrealized gains or losses on available for sale securities.

The progression of the components of accumulated other comprehensive income follows (in thousands):

		Other Comprehensive Income			
	AOCI Beginning Balance	Pretax	Tax	Net of Tax	AOCI Ending Balance
Year ended December 31, 2014					
Net unrealized gains on securities:					
Unrealized holding gains (losses) on securities arising during the period		$ (9,584)	$ 3,355	$ (6,229)	
Reclassification adjustment for realized (gains) losses included in net earnings (a)		1,471	(515)	956	
Total net unrealized gains on securities (b)	$ 9,903	(8,113)	2,840	(5,273)	$ 4,630
Year ended December 31, 2013					
Net unrealized gains on securities:					
Unrealized holding gains (losses) on securities arising during the period		$ 8,237	$ (2,883)	$ 5,354	
Reclassification adjustment for realized (gains) losses included in net earnings (a)		(2,200)	770	(1,430)	
Total net unrealized gains on securities (b)	$ 5,979	6,037	(2,113)	3,924	$ 9,903
Year ended December 31, 2012					
Net unrealized gains on securities (b)	$ 8,273	$ (3,529)	$ 1,235	$ (2,294)	$ 5,979

(a) The reclassification adjustment out of net unrealized gains on securities affected the following lines in CGI's Consolidated Statement of Earnings:

OCI component	Affected line in the Consolidated Statement of Earnings
Pretax	Realized gains on securities
Tax	Provision for income taxes

(b) Includes net unrealized gains of $35,000 at December 31, 2014 compared to net unrealized gains of $163,000 and $149,000 at December 31, 2013 and 2012, related to securities for which only the credit portion of an other-than-temporary impairment has been recorded in earnings.

I. Income Taxes

The following is a reconciliation of income taxes at the statutory rate of 35% to the provision (benefit) for income taxes as shown in the Statement of Earnings (dollars in thousands):

	2014		2013		2012	
	Amount	% of EBT	Amount	% of EBT	Amount	% of EBT
Earnings (loss) before income taxes ("EBT")	$ (868)		$ 888		$ (21,487)	
Income taxes (benefit) at statutory rate	$ (304)	35%	$ 311	35%	$ (7,520)	35%
Effect of:						
Tax-exempt interest	(19)	2%	(6)	(1%)	(2)	0%
Other	8	(1%)	(15)	(2%)	18	0%
Provision (benefit) for income taxes as shown on the Statement of Earnings	$ (315)	36%	$ 290	32%	$ (7,504)	35%

CGI's 2012 through 2014 tax years remain subject to examination by the IRS.

The total income tax provision (benefit) consists of (in thousands):

	2014	2013	2012
Current taxes:			
Federal	$ (1,126)	$ (151)	$ (2,515)
Foreign	-	-	6
State	12	58	51
Deferred taxes:			
Federal	799	383	(5,046)
Provision for income tax expense (benefit)	$ (315)	$ 290	$ (7,504)

Deferred income tax assets and liabilities reflect temporary differences between the carrying amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes. The significant components of deferred tax assets and liabilities included in the Balance Sheet at December 31 were as follows (in thousands):

	2014	2013
Deferred tax assets:		
Insurance claims and reserves	$ 14,578	$ 14,430
Deferred policy acquisition costs	8,493	9,177
Other, net	1,672	2,040
Total deferred tax assets	24,743	25,647
Deferred tax liabilities:		
Unrealized gains related to investments	(2,493)	(5,333)
Total deferred tax liabilities	(2,493)	(5,333)
Net deferred tax asset	$ 22,250	$ 20,314

The likelihood of realizing deferred tax assets is reviewed periodically. There was no valuation allowance against deferred tax assets as of December 31, 2014 and 2013.

In July 2014, AFG finalized a settlement with the IRS related to tax years 2008 and 2009. As a result, CGI's uncertain tax positions are now effectively settled, allowing CGI to reduce its liability for uncertain tax positions by $255,000 in 2014. The following is a progression of CGI's uncertain tax positions, excluding interest and penalties, which all relate to the uncertainty as to the timing of tax return inclusion of investment income of certain debt securities (in thousands):

	2014	2013	2012
Balance at January 1	$ 255	$ 251	$ 26
Reductions for tax positions of prior years	(255)	-	-
Additions for tax positions of current year	-	4	225
Balance at December 31	$ -	$ 255	$ 251

Net cash refunds (payments) for income taxes were $2.6 million, $2.5 million and ($2.1 million) in 2014, 2013 and 2012, respectively.

At December 31, 2014 CGI had $0.7 million payable to AFG for current income taxes which is included in other liabilities on the Balance Sheet. At December 31, 2013 CGI had $0.8 million receivable from AFG for current income taxes which is included in other assets on the Balance Sheet.

J. Contingencies

CGI is involved in litigation from time to time, generally arising in the ordinary course of business. This litigation may include, but is not limited to, general commercial disputes, lawsuits brought by policyholders, employment matters, reinsurance collection matters and actions challenging certain business practices of insurance subsidiaries. None of these matters are expected to have a material adverse impact on CGI's results of operations or financial condition.

K. Statutory Information

CGI is required to file financial statements with state insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis). Net earnings (losses) and capital and surplus on a statutory basis for CGI as follows (in thousands):

Net Earnings/(Losses)			Capital and Surplus	
2014	2013	2012	2014	2013
$ 1,944	$ 4,709	$ (886)	$ 21,500	$ 22,775

The National Association of Insurance Commissioners' ("NAIC") model law for risk based capital ("RBC") applies to life insurance companies. RBC formulas determine the amount of capital that an insurance company needs so that it has an acceptable expectation of not becoming financially impaired. Companies below specific trigger points or ratios are subject to regulatory action. At December 31, 2014 and 2013, the capital ratios of CGI exceeded the RBC requirements.

CGI did not use any prescribed or permitted statutory accounting practices that differed from the NAIC statutory accounting practices at December 31, 2014 or 2013.

The maximum amount of dividends that can be paid to shareholders in 2015 by life insurance companies domiciled in the State of Ohio without prior approval of the Insurance Commissioner is the greater of 10% of statutory surplus as regards to policyholders or statutory net income as of the preceding December 31. The maximum amount of dividends payable in 2015 by CGI without prior approval is $1.9 million based on net income.

L. Additional Information

Related Parties Certain administrative, management, accounting, actuarial, data processing, collection and investment services are provided under agreements between CGI and affiliates. The net amount paid to affiliates was $4.5 million, $2.5 million and $5.4 million in 2014, 2013 and 2012, respectively, for such services. At December 31, 2014 and 2013 CGI had net intercompany payables of $0.4 million and $0.2 million, respectively.

Operating Leases Total rental expense for leases of office space was $301,000, $169,000 and $330,000 in 2014, 2013 and 2012, respectively. CGI leases space from AFG and GAFRI. CGI has no contractual obligations for rent but expects to pay similar amounts in future periods to AFG and GAFRI.

Benefit Plans CGI expensed approximately $105,000, $63,000 and $176,000 in 2014, 2013 and 2012, respectively, related to the retirement and employee savings plans.

M. Subsequent Event

The Company has evaluated subsequent events through September 3, 2015, the date its financial statements were available to be issued.

On April 14, 2015 GAFRI and CGI entered into a definitive agreement with HC2 Holding Inc. to sell all of the stock of CGI and United Teacher Associates Insurance Company, an affiliate. The agreement is subject to receipt of regulatory approvals and is expected to close in the second half of 2015.

Exhibit 99.4

CONTINENTAL GENERAL INSURANCE COMPANY

Financial Statements (Unaudited)

Six months ended June 30, 2015 and 2014

GreatAmericanInsuranceGroup.com

CONTINENTAL GENERAL INSURANCE COMPANY
BALANCE SHEET (UNAUDITED)
(Dollars in Thousands, Except Per Share Data)

	June 30, 2015	December 31, 2014
Assets:		
Cash and cash equivalents	$ 6,651	$ 12,305
Investments:		
Fixed maturities, available for sale at fair value (amortized cost - $211,984 and $204,107)	231,487	229,116
Equity securities, available for sale at fair value (cost - $11,644 and $10,378)	11,757	10,185
Mortgage loans	2,113	2,706
Policy loans	2,764	2,810
Other investments	223	334
Total cash and investments	254,995	257,456
Recoverables from reinsurers	420,504	420,140
Deferred policy acquisition costs	15,851	17,264
Accrued investment income	2,634	2,514
Net deferred tax asset	19,759	22,250
Other assets	3,182	4,112
Total assets	$ 716,925	$ 723,736
Liabilities and Equity:		
Annuity benefits accumulated	$ 75,931	$ 78,161
Life, accident and health reserves	559,315	564,809
Other liabilities	14,063	12,840
Total liabilities	649,309	655,810
Shareholder's Equity:		
Common stock, par value - $1 per share:		
- 6,500,000 shares authorized		
- 4,196,559 shares issued and outstanding	4,197	4,197
Capital surplus	96,792	96,674
Accumulated deficit	(38,048)	(37,575)
Accumulated other comprehensive income, net of tax	4,675	4,630
Total shareholder's equity	67,616	67,926
Total liabilities and shareholder's equity	$ 716,925	$ 723,736

See notes to financial statements.

CONTINENTAL GENERAL INSURANCE COMPANY
STATEMENT OF EARNINGS (UNAUDITED)
(In Thousands)

	Six Months Ended June 30	
	2015	**2014**
Revenues:		
Life, accident and health net earned premiums	$ 5,263	$ 6,602
Net investment income	7,081	8,292
Realized gains (losses) on securities (*)	(844)	227
Other income	2,342	2,323
Total revenues	13,842	17,444
Cost and expenses:		
Annuity benefits	1,179	1,350
Life, accident and health benefits	8,917	12,573
Insurance acquisition expenses, net	1,966	1,981
Other operating and general expenses	2,530	1,469
Total costs and expenses	14,592	17,373
Earnings (loss) before income taxes	(750)	71
Provision (benefit) for income taxes	(277)	18
Net earnings (loss)	$ (473)	$ 53
(*) Consists of the following:		
Realized gains (losses) before impairments	$ (372)	$ 227
Losses on securities with impairment	(472)	-
Non-credit portion recognized in other comprehensive income (loss)	-	-
Impairment charges recognized in earnings	(472)	-
Total realized gains (losses) on securities	$ (844)	$ 227

See notes to financial statements.

CONTINENTAL GENERAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

	Six Months Ended June 30	
	2015	**2014**
Comprehensive Income (Loss):		
Net earnings (loss)	$ (473)	$ 53
Other comprehensive income (loss), net of tax:		
Net unrealized gains (losses) on securities:		
Unrealized holding gains (losses) on securities arising during the period	(514)	(1,215)
Reclassification adjustment for realized losses (gains) included in net earnings (loss)	549	(148)
Total net unrealized gains (losses) on securities	35	(1,363)
Total comprehensive income (loss), net of tax	$ (438)	$ (1,310)

See notes to financial statements.

CONTINENTAL GENERAL INSURANCE COMPANY
STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
(Dollars in Thousands)

		Shareholder's Equity			
	Common Shares	Common Stock and Capital Surplus	Accumulated Deficit	Accumulated Other Comp Inc. (Loss)	Total
Balance at December 31, 2014	4,196,559	$ 100,871	$ (37,575)	$ 4,630	$ 67,926
Net loss	-	-	(473)	-	(473)
Other comprehensive income	-	-	-	45	45
Other	-	118	-	-	118
Balance at June 30, 2015	4,196,559	$ 100,989	$ (38,048)	$ 4,675	$ 67,616

See notes to financial statements.

CONTINENTAL GENERAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS (UNAUDITED)
(In Thousands)

	Six Months Ended June 30 2015	Six Months Ended June 30 2014
Operating Activities:		
Net earnings (loss)	$ (473)	$ 53
Adjustments:		
Depreciation and amortization	(21)	4
Annuity benefits	1,179	1,350
Realized (gains) losses on investing activities	844	(227)
Deferred annuity and life policy acquisition costs	(11)	(8)
Amortization of insurance acquisition costs	1,420	1,420
Change in:		
Life, accident and health reserves	(217)	11,140
Recoverables from reinsurers	(364)	(3,834)
Accrued investment income	(120)	114
Net deferred tax asset	2,447	1,852
Other assets	942	1,142
Other liabilities	(1,259)	(1,718)
Other operating activities, net	77	136
Net cash provided by operating activities	4,444	11,424
Investing Activities:		
Purchases of:		
Fixed maturities	(16,859)	(12,507)
Equity securities	(1,690)	(1,456)
Proceeds from:		
Maturities and redemptions of fixed maturities	10,766	10,264
Repayment of mortgage loans	593	102
Sales of fixed maturities	290	235
Sales of equity securities	102	-
Other investments	-	351
Other investing activities, net	46	125
Net cash used in investing activities	(6,752)	(2,886)
Financing Activities:		
Annuity receipts	304	299
Annuity surrenders, benefits and withdrawals	(3,650)	(6,222)
Net cash used in financing activities	(3,346)	(5,923)
Net Change in Cash and Cash Equivalents	(5,654)	2,615
Cash and cash equivalents at beginning of year	12,305	5,267
Cash and cash equivalents at end of year	$ 6,651	$ 7,882

See notes to financial statements.

A. Accounting Policies

Basis of Presentation The accompanying interim financial statements are unaudited; however, management believes that all adjustments (consisting of normal recurring accruals unless otherwise indicated) necessary for a fair presentation have been made. The results of operations for interim periods are not necessarily indicative of results expected for the year. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim reporting. These unaudited financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2014. There are no changes to our significant accounting policies described in our audited financial statements.

The financial statements include the accounts of Continental General Insurance Company ("CGI" or the " Company"). CGI is an indirect wholly-owned subsidiary of Great American Financial Resources, Inc. ("GAFRI"), a financial services holding company wholly-owned by American Financial Group, Inc. ("AFG"). The financial statements also include costs paid on behalf of CGI by GAFRI. These costs are recorded as expense in the period incurred and shown as an increase in capital surplus.

Although the Company does not currently market any life, annuity or long-term care insurance, CGI's product portfolio includes a diversified mix of closed blocks of life, annuity and long-term care ("LTC") health insurance products.

The Company accepted new premium sales (Medicare supplement, critical illness and other non-health products), for certain states, through a reinsurance fronting agreement through August 2014, whereby the Company reinsures 100% of these premiums through a coinsurance agreement with Loyal American Life Insurance Company, a Cigna subsidiary.

Fair Value Measurements Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The standards establish a hierarchy of valuation techniques based on whether the assumptions that market participants would use in pricing the asset or liability ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect CGI's assumptions about the assumptions market participants would use in pricing the asset or liability.

Investments Fixed maturity and equity securities classified as "available for sale" are reported at fair value wi th unrealized gains and losses included in accumulated other comprehensive income ("AOCI") in CGI's Balance Sheet. Mortgage and policy loans are carried primarily at the aggregate unpaid balance.

Premiums and discounts on fixed maturity securities are amortized using the interest method. Mortgage-backed securities ("MBS") are amortized over a period based on estimated future principal payments, including prepayments. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations.

Gains or losses on securities are determined on the specific identification basis. When a decline in the value of a specific investment is considered to be other-than-temporary at the balance sheet date, a provision for impairment is charged to earnings (included in realized gains (losses) on securities) and the cost basis of that investment is reduced. If management can assert that it does not intend to sell an impaired fixed maturity security and it is not more likely than not that it will have to sell the security before recovery of its amortized cost basis, then the other-than-temporary impairment is separated into two components: (i) the amount related to credit losses (recorded in earnings) and (ii) the amount related to all other factors (recorded in other comprehensive income). The credit-related portion of an other-than-temporary impairment is measured by comparing a security's amortized cost to the present value of its current expected cash flows discounted at its effective yield prior to the impairment charge. Both components are shown in the Statement of Earnings. If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment charge to earnings is recorded to reduce the amortized cost of that security to fair value.

Derivatives Derivatives included in CGI's Balance Sheet are recorded at fair value and consist of components of certain fixed maturity securities (primarily interest-only MBS). Changes in fair value of derivatives are included in earnings.

Deferred Policy Acquisition Costs ("DPAC") Policy acquisition costs (principally commissions and certain underwriting and policy issuance costs) directly related to the successful acquisition or renewal of an insurance contract are deferred.

DPAC related to annuities, universal life and interest-sensitive life policies is deferred to the extent deemed recoverable and amortized, with interest, in relation to the present value of actual and expected gross profits on the policies. Expected gross profits consist principally of estimated future investment margin (estimated future net investment income less interest credited on policyholder funds) and surrender, mortality, and other life and annuity policy charges, less death, annuitization and estimated future policy administration expenses. To the extent that realized gains and losses result in adjustments to the amortization of DPAC related to annuities, universal life and interest-sensitive life policies, such adjustments are reflected as components of realized gains (losses) on securities.

DPAC related to traditional life and health insurance is amortized over the expected premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. See *"Life, Accident and Health Reserves"* below for details on the impact of loss recognition on the accounting for traditional life and health insurance contracts.

DPAC includes the present value of future profits on business in force of annuity, life, accident and health insurance companies acquired ("PVFP"). PVFP represents the portion of the costs to acquire companies that is allocated to the value of the right to receive future cash flows from insurance contracts existing at the date of acquisition. PVFP is amortized with interest in relation to expected gross profits of the acquired policies for annuities and universal life products and in relation to the premium paying period for traditional life and health insurance products.

DPAC and certain other balance sheet amounts related to annuity and life businesses are also adjusted, net of tax, for the change in expense that would have been recorded if the unrealized gains (losses) from securities had actually been realized. These adjustments are included in unrealized gains (losses) on marketable securities, a component of AOCI in CGI's Balance Sheet.

Reinsurance Premium revenue and benefits are reported net of the amounts related to reinsurance ceded to and assumed from other companies. Expense allowances from reinsurers are included in other operating and general expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Amounts received from reinsurers that represent recovery of acquisition costs are netted against DPAC, so that the net amount is capitalized. The cost of reinsurance is accounted for over the term of the related treaties using assumptions consistent with those used to account for the underlying reinsured policies.

Annuity Benefits Accumulated Annuity receipts and benefit payments are recorded as increases or decreases in annuity benefits accumulated rather than as revenue and expense. Increases in this liability (primarily interest credited) are charged to expense and decreases for charges are credited to annuity policy charges revenue. Reserves for traditional fixed annuities are generally recorded at the stated account value.

Life, Accident and Health Reserves Liabilities for future policy benefits under traditional life, accident and health policies are computed using the net level premium method. Computations are based on the original projections of investment yields, mortality, morbidity and surrenders and include provisions for unfavorable deviations unless a loss recognition event (premium deficiency) occurs. Claim reserves and liabilities established for accident and health claims are modified as necessary to reflect actual experience and developing trends. Reserves for interest-sensitive whole life and universal life policies are generally recorded at contract value.

For long-duration contracts (such as traditional life and long-term care insurance policies), loss recognition occurs when, based on current expectations as of the measurement date, existing contract liabilities plus the present value of future premiums (including reasonably expected rate increases) are not expected to cover the present value of future claims payments and related settlement and maintenance costs (excluding overhead) as well as unamortized acquisition costs. If a block of business is determined to be in loss recognition, a charge is recorded in earnings in an amount equal to the excess of the present value of expected future claims costs and unamortized acquisition costs over existing reserves plus the present value of expected future premiums (with no provision for adverse deviation). The charge is recorded first to reduce unamortized acquisition costs and then as an additional reserve (if unamortized acquisition costs have been reduced to zero).

In addition, reserves for traditional life and long-term care insurance policies are subject to adjustment for loss recognition charges that would have been recorded if the unrealized gains from securities had actually been realized. This adjustment is included in unrealized gains (losses) on marketable securities, a component of AOCI in CGI’s Balance Sheet.

Premium Recognition For traditional life, accident and health products, premiums are recognized as revenue when legally collectible from policyholders. For interest-sensitive life and universal life products, premiums are recorded in a policyholder account, which is reflected as a liability. Revenue is recognized as amounts are assessed against the policyholder account for mortality coverage and contract expenses.

Income Taxes The Company has an intercompany tax allocation agreement with AFG. Pursuant to the agreement, the Company’s tax expense is determined based upon its inclusion in the consolidated tax return of AFG and its includable subsidiaries. Estimated payments are made quarterly during the year. Following year-end, additional settlements are made on the original due date of the return and, when extended, at the time the return is filed. The method of allocation among the companies under the agreement is based upon separate return calculations with current credit for losses to the extent the losses provide a benefit in the consolidated return.

Deferred income taxes are calculated using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases and are measured using enacted tax rates. A valuation allowance is established to reduce total deferred tax assets to an amount that will more likely than not be realized.

CGI recognizes the tax benefits of uncertain tax positions only when the position is more likely than not to be sustained under examination by the appropriate taxing authority. Interest and penalties on CGI’s reserve for uncertain tax positions are recognized as a component of tax expense.

Benefit Plans CGI provides retirement benefits to qualified employees of participating companies through the AFG 401(k) Retirement and Savings Plan, a defined contribution plan. AFG and its subsidiaries make all contributions to the retirement fund portion of the plan and match a percentage of employee contributions to the savings fund. Company contributions are expensed in the year for which they are declared.

Statement of Cash Flows For cash flow purposes, “investing activities” a re defined as making and collecting loans and acquiring and disposing of debt or equity instruments and property and equipment. “Financing activities” include obtaining resources from owners and providing them with a return on their investments, borrowing money and repaying amounts borrowed. Annuity receipts, surrenders, benefits and withdrawals are also reflected as financing activities. All other activities are considered “operating.” Short-term investments having original maturities of three months or less when purchased are considered to be cash equivalents for purposes of the financial statements.

B. <u>Fair Value Measurements</u>

Accounting standards for measuring fair value are based on inputs used in estimating fair value. The three levels of the hierarchy are as follows:

Level 1 — Quoted prices for identical assets or liabilities in active markets (markets in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis). CGI’s Level 1 financial instruments consist primarily of publicly traded equity securities and highly liquid government bonds for which quoted market prices in active markets are available.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (markets in which there are few transactions, the prices are not current, price quotations vary substantially over time or among market makers, or in which little information is released publicly); and valuations based on other significant inputs that are observable in active markets. CGI’s Level 2 financial instruments include corporate and municipal fixed maturity securities, mortgage-backed securities (“MBS”) and non-affiliated common stocks priced using observable inputs. Level 2 inputs include benchmark yields, reported trades, corroborated broker/dealer quotes, issuer spreads and benchmark securities. When non-binding broker quotes can be corroborated by comparison to similar securities priced using observable inputs, they are classified as Level 2.

Level 3 — Valuations derived from market valuation techniques generally consistent with those used to estimate the fair values of Level 2 financial instruments in which one or more significant inputs are unobservable or when the market for a security exhibits significantly less liquidity relative to markets supporting Level 2 fair value measurements. The unobservable inputs may include management’s own assumptions about the assumptions market participants would use based on the best information available in the circumstances. CGI’s Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker quotes or internally developed using significant inputs not based on, or corroborated by, observable market information.

CGI’s management is responsible for the valuation process and uses data from outside sources (including nationally recognized pricing services and broker/dealers) in establishing fair value. The Company's internal investment professionals are a group of approximately 20 analysts whose primary responsibility is to manage AFG’s investment portfolio. These professionals monitor individual investments as well as overall industries and are active in the financial markets on a daily basis. The group is led by AFG’s chief investment officer, who reports directly to one of AFG’s Co-CEOs. Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by AFG’s internal investment professionals who are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price. To validate the appropriateness of the prices obtained, these investment managers consider widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. In addition, the Company communicates directly with the pricing service regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the service to value specific securities.

Assets measured and carried at fair value in the financial statements are summarized below (in thousands):

June 30, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale ("AFS") fixed maturities:				
U.S. Government and government agencies	$ 1,732	$ 5,078	$ -	$ 6,810
States, municipalities and political subdivisions	-	53,676	-	53,676
Foreign government	-	1,769	-	1,769
Residential MBS	-	34,190	7,152	41,342
Commercial MBS	-	19,833	442	20,275
Asset-backed securities ("ABS")	-	5,750	-	5,750
Corporate and other	-	100,663	1,202	101,865
Total AFS fixed maturities	1,732	220,959	8,796	231,487
Equity securities	9,684	2,062	11	11,757
Total assets accounted for at fair value	$ 11,416	$ 223,021	$ 8,807	$ 243,244

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale fixed maturities:				
U.S. Government and government agencies	$ 1,784	$ 6,475	$ -	$ 8,259
States, municipalities and political subdivisions	-	50,237	-	50,237
Foreign government	-	1,761	-	1,761
Residential MBS	-	39,523	5,432	44,955
Commercial MBS	-	20,303	464	20,767
Asset-backed securities	-	6,137	-	6,137
Corporate and other	-	95,770	1,230	97,000
Total AFS fixed maturities	1,784	220,206	7,126	229,116
Equity securities	8,132	1,027	1,026	10,185
Total assets accounted for at fair value	$ 9,916	$ 221,233	$ 8,152	$ 239,301

At June 30, 2015 and December 31, 2014 no liabilities were carried at fair value.

There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2015 or 2014. Approximately 4% of the total assets carried at fair value on June 30, 2015, were Level 3 assets. Approximately 56% ($5 million) of the Level 3 assets were priced using non-binding broker quotes, for which there is a lack of transparency as to the inputs used to determine fair value. Details as to the quantitative inputs are neither provided by the brokers nor otherwise reasonably obtainable by CGI. Since internally developed Level 3 asset fair values represent less than 1% of the total assets measured at fair value and approximately 3% of CGI’s shareholder’s equity, changes in unobservable inputs used to determine internally developed fair values would not have a material impact on CGI’s financial position.

Changes in balances of Level 3 financial assets carried at fair value during the six months ended June 30, 2015 and 2014 are presented below (in thousands). The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

	Balance at December 31, 2014	Total realized/unrealized gains (losses) included in: Net earnings (loss)	Total realized/unrealized gains (losses) included in: Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at June 30, 2015
AFS fixed maturities:								
Residential MBS	$ 5,432	$ 29	$ (39)	$ -	$ (193)	$ 2,849	$ (926)	$ 7,152
Commercial MBS	464	(22)	-	-	-	-	-	442
Corporate and other	1,230	11	3	-	(42)	-	-	1,202
Equity securities	1,026	(15)	(33)	-	-	-	(967)	11

	Balance at December 31, 2013	Total realized/unrealized gains (losses) included in: Net earnings (loss)	Total realized/unrealized gains (losses) included in: Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at June 30, 2014
AFS fixed maturities:								
Residential MBS	$ 7,278	$ (86)	$ (18)	$ -	$ (263)	$ 836	$ (3,969)	$ 3,778
Commercial MBS	475	(5)	-	-	-	-	-	470
Asset-backed securities	1,002	-	16	-	(8)	-	-	1,010
Corporate and other	1,639	(5)	(140)	-	(53)	-	-	1,441
Equity securities	35	-	35	750	-	-	-	820

Fair Value of Financial Instruments The carrying value and fair value of financial instruments that are not carried at fair value in the financial statements at June 30, 2015 and December 31, 2014 are summarized below (in thousands):

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
June 30, 2015					
Financial assets:					
Cash and cash equivalents	$ 6,651	$ 6,651	$ 6,651	$ -	$ -
Mortgage loans	2,113	2,113	-	-	2,113
Policy loans	2,764	2,764	-	-	2,764
Total financial assets not accounted for at fair value	$ 11,528	$ 11,528	$ 6,651	$ -	$ 4,877
Financial liabilities:					
Annuity benefits accumulated(*)	$ 74,562	$ 75,105	$ -	$ -	$ 75,105
Total financial liabilities not accounted for at fair value	$ 74,562	$ 75,105	$ -	$ -	$ 75,105

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
December 31, 2014					
Financial assets:					
Cash and cash equivalents	$ 12,305	$ 12,305	$ 12,305	$ -	$ -
Mortgage loans	2,706	2,706	-	-	2,706
Policy loans	2,810	2,810	-	-	2,810
Total financial assets not accounted for at fair value	$ 17,821	$ 17,821	$ 12,305	$ -	$ 5,516
Financial liabilities:					
Annuity benefits accumulated(*)	$ 76,702	$ 78,442	$ -	$ -	$ 78,442
Total financial liabilities not accounted for at fair value	$ 76,702	$ 78,442	$ -	$ -	$ 78,442

(*) Excludes life contingent annuities in the payout phase.

The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of these instruments. Fair values for mortgage loans are estimated by discounting the future contractual cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. The fair value of policy loans is estimated to approximate carrying value; policy loans have no defined maturity dates and are inseparable from insurance contracts. The fair value of annuity benefits was estimated based on expected cash flows discounted using forward interest rates adjusted for the Company’s credit risk and includes the impact of maintenance expenses and capital costs.

C. Investments

Available for sale fixed maturities and equity securities at June 30, 2015 and December 31, 2014consisted of the following (in thousands):

	June 30, 2015				December 31, 2014			
	Amortized	Fair	Gross Unrealized		Amortized	Fair	Gross Unrealized	
	Cost	Value	Gains	Losses	Cost	Value	Gains	Losses
Fixed Maturities:								
U.S. Government and government agencies	$ 6,586	$ 6,810	$ 224	$ -	$ 7,902	$ 8,259	$ 357	$ -
States, municipalities and political subdivisions	50,992	53,676	3,348	(664)	46,093	50,237	4,256	(112)
Foreign government	1,493	1,769	276	-	1,493	1,761	268	-
Residential MBS	37,488	41,342	3,904	(50)	40,718	44,955	4,324	(87)
Commercial MBS	18,946	20,275	1,329	-	19,102	20,767	1,665	-
Asset-backed securities	5,516	5,750	236	(2)	5,841	6,137	320	(24)
Corporate and other	90,963	101,865	11,400	(498)	82,958	97,000	14,215	(173)
Total fixed maturities	$ 211,984	$ 231,487	$ 20,717	$ (1,214)	$ 204,107	$ 229,116	$ 25,405	$ (396)
Common stocks	$ 6,644	$ 6,770	$ 335	$ (209)	$ 5,878	$ 5,700	$ 116	$ (294)
Perpetual preferred stocks	$ 5,000	$ 4,987	$ 14	$ (27)	$ 4,500	$ 4,485	$ 37	$ (52)

The non-credit related portion of other-than-temporary impairment charges is included in other comprehensive income. Cumulative non-credit charges taken for securities still owned at June 30, 2015 and December 31, 2014 were $375,000. Gross unrealized gains on such securities at June 30, 2015 and December 31, 2014 were $228,000 and $218,000, respectively. Gross unrealized losses on such securities at June 30, 2015 and December 31, 2014 were $34,000. These amounts represent the non-credit other-than-temporary impairment charges recorded in AOCI adjusted for subsequent changes in fair values and relate to residential MBS.

The following tables show gross unrealized losses (dollars in thousands) on fixed maturities and equity securities by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2015 and December 31, 2014.

	Less Than Twelve Months			Twelve Months or More		
June 30, 2015	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
Fixed Maturities:						
U.S. Government and government agencies	$ -	$ -	-%	$ -	$ -	-%
States, municipalities and political subdivisions	(455)	8,369	95%	(209)	731	78%
Residential MBS	(12)	3,391	100%	(38)	1,325	97%
Commercial MBS	-	-	-%	-	-	-%
Asset-backed securities	(2)	488	100%	-	-	-%
Corporate and other	(498)	11,955	96%	-	-	-%
Total fixed maturities	$ (967)	$ 24,203	96%	$ (247)	$ 2,056	89%
Common stocks	$ (122)	$ 2,353	95%	$ (87)	$ 309	78%
Perpetual preferred stocks	$ (27)	$ 1,472	98%	$ -	$ -	-%

	Less Than Twelve Months			Twelve Months or More		
December 31, 2014	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
Fixed Maturities:						
U.S. Government and government agencies	$ -	$ -	-%	$ -	$ -	-%
States, municipalities and political subdivisions	-	-	-%	(112)	3,414	97%
Residential MBS	(71)	5,186	99%	(16)	2,010	99%
Commercial MBS	-	-	-%	-	-	-%
Asset-backed securities	(24)	465	95%	-	-	-%
Corporate and other	(173)	1,332	89%	-	-	-%
Total fixed maturities	$ (268)	$ 6,983	96%	$ (128)	$ 5,424	98%
Common stocks	$ (129)	$ 2,079	94%	$ (165)	$ 1,352	89%
Perpetual preferred stocks	$ (52)	$ 1,449	97%	$ -	$ -	-%

At June 30, 2015, the gross unrealized losses on fixed maturities of $1.2 million relate to 37 securities. Investment grade securities (as determined by nationally recognized rating agencies) represented approximately 82% of the gross unrealized loss and 88% of the fair value.

The determination of whether unrealized losses are “other-than-temporary” requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include:

a) whether the unrealized loss is credit-driven or a result of changes in market interest rates,
b) the extent to which fair value is less than cost basis,
c) cash flow projections received from independent sources,
d) historical operating, balance sheet and cash flow data contained in issuer SEC filings and news releases,
e) near-term prospects for improvement in the issuer and/or its industry,
f) third party research and communications with industry specialists,
g) financial models and forecasts,
h) the continuity of dividend payments, maintenance of investment grade ratings and hybrid nature of certain investments,
i) discussions with issuer management, and
j) ability and intent to hold the investment for a period of time sufficient to allow for anticipated recovery in fair value.

CGI analyzes its MBS securities for other-than-temporary impairment each quarter based upon expected future cash flows. Management estimates expected future cash flows based upon its knowledge of the MBS market, cash flow projections (which reflect loan to collateral values, subordination, vintage and geographic concentration) received from independent sources, implied cash flows inherent in security ratings and analysis of historical payment data. For the six months ended June 30, 2015 and 2014, CGI recorded $9,000 and $0, respectively, in other-than-temporary impairment charges related to its residential MBS.

CGI recorded $351,000 in other-than-temporary impairment charges on common stocks for the six months ended June 30, 2015. At June 30, 2015, the gross unrealized losses on common stocks of $209,000 relate to 10 securities, $87,000 (1 security) has been in an unrealized loss position for more than 12 months.

Management believes CGI will recover its cost basis in the securities with unrealized losses and that CGI has the ability to hold the securities until they recover in value and had no intent to sell them at June 30, 2015.

A progression of the credit portion of other-than-temporary impairments on fixed maturity securities for which the non-credit portion of an impairment has been recognized in other comprehensive income is shown below (in thousands):

	2015	2014
Balance at January 1	$ 119	$ 225
Additional credit impairments on:		
Securities without prior impairments	9	-
Balance at June 30	$ 128	$ 225

The table below sets forth the scheduled maturities of available for sale fixed maturities as of June 30, 2015 (dollars in thousands). Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Amortized	Fair Value	
Maturity	Cost	Amount	%
One year or less	$ 4,893	$ 5,034	2%
After one year through five years	24,404	27,063	12%
After five years through ten years	43,161	46,193	20%
After ten years	77,576	85,830	37%
Subtotal	150,034	164,120	71%
MBS (average life of approximately 5 years)	56,434	61,617	27%
ABS (average life of approximately 4 1/2 years)	5,516	5,750	2%
Total	$ 211,984	$ 231,487	100%

Certain risks are inherent in connection with fixed maturity securities, including loss upon default, price volatility in reaction to changes in interest rates, and general market factors and risks associated with reinvestment of proceeds due to prepayments or redemptions in a period of declining interest rates.

There were no investments in individual issuers that exceeded 10% of Shareholder’s Equity at June 30, 2015 or December 31, 2014.

Net Unrealized Gain on Marketable Securities In addition to adjusting equity securities and fixed maturity securities classified as “available for sale” to fair value, G AAP requires that deferred policy acquisition costs and certain other balance sheet amounts related to annuity, life and health businesses be adjusted to the extent that unrealized gains and losses from securities would result in adjustments to those balances had the unrealized gains or losses actually been realized. The following table shows (in thousands) the components of the net unrealized gain on securities that is included in AOCI in CGI’s Balance Sheet.

	June 30, 2015		
	Pretax	Deferred Tax	Net
Unrealized gain on:			
Fixed maturity securities	$ 19,503	$ (6,826)	$ 12,677
Equity securities	113	(40)	73
Deferred policy acquisition costs	(230)	81	(149)
Life, accident and health reserves	(12,194)	4,268	(7,926)
	$ 7,192	$ (2,517)	$ 4,675

	December 31, 2014		
	Pretax	Deferred Tax	Net
Unrealized gain on:			
Fixed maturity securities	$ 25,009	$ (8,753)	$ 16,256
Equity securities	(193)	68	(125)
Deferred policy acquisition costs	(221)	77	(144)
Life, accident and health reserves	(17,472)	6,115	(11,357)
	$ 7,123	$ (2,493)	$ 4,630

Net Investment Income The following table shows (in thousands) investment income earned and investment expenses incurred for the six months ended June 30.

	2015	2014
Investment income		
Fixed maturities	$ 6,542	$ 7,508
Equity securities	409	629
Policy loans	85	89
Other	91	86
Gross investment income	7,127	8,312
Investment expenses	(46)	(20)
Net investment income	$ 7,081	$ 8,292

CGI’s investment portfolio is managed by a subsidiary of AFG. Investment expenses included investment management fees charged by this subsidiary of $27,000 and $1,000 for the six months ended June 30, 2015 and 2014, respectively.

Realized gains (losses) and changes in unrealized appreciation (depreciation) related to fixed maturity and equity security investments are summarized as follows (in thousands):

	Fixed Maturities	Equity Securities	Mortgage Loans and Other Investments	Other (a)	Tax Effects	Total
Six Months ended June 30, 2015						
Realized before impairments	$ (406)	$ (82)	$ 111	$ 5	$ 130	$ (242)
Realized - impairments	(10)	(351)	(111)	-	165	(307)
Change in unrealized	(5,506)	306	-	5,269	(24)	45
Six Months ended June 30, 2014						
Realized before impairments	$ 228	$ -	$ -	$ (1)	$ (79)	$ 148
Realized - impairments	-	-	-	-	-	-
Change in unrealized	6,650	(211)	-	(8,522)	730	(1,353)

(a) Primarily adjustments to deferred policy acquisition costs and reserves related to long-term care business.

Gross realized gains and losses (excluding impairment writedowns and mark-to-market of derivatives) on available for sale fixed maturity and equity security investment transactions included in the Statement of Cash Flows consisted of the following for the six months ended June 30 (in thousands):

	2015	2014
Fixed maturities:		
Gross gains	$ 180	$ -
Gross losses	-	(26)
Equity securities:		
Gross gains	29	-
Gross losses	-	-

D. <u>Derivatives</u>

CGI has investments in MBS that contain embedded derivatives (primarily interest-only MBS) that do not qualify for hedge accounting. CGI records the entire change in the fair value of these securities in earnings. These investments are part of CGI's overall investment strategy, representing a small component of CGI's overall investment portfolio and had a fair value of $4.9 million at June 30, 2015 and $5.9 million at December 31, 2014. The gain or loss resulting for changes in fair value of these securities is included in realized gains on securities in the Statement of Earnings and was a loss of $587,000 for the six months ended June 30, 2015 and a gain of $255,000 for the six months ended June 30, 2014.

E. Shareholder's Equity

Accumulated Other Comprehensive Income, Net of Tax (“AOCI”) Comprehensive income is defined as all changes in Shareholder’s Equity except those arising from transactions with shareholders. Comprehensive income includes net earnings and other comprehensive income, which consists primarily of changes in net unrealized gains or losses on available for sale securities.

The progression of the components of accumulated other comprehensive income follows (in thousands):

	AOCI Beginning Balance	Other Comprehensive Income Pretax	Other Comprehensive Income Tax	Other Comprehensive Income Net of Tax	AOCI Ending Balance
Six Months Ended June 30, 2015					
Net unrealized gains on securities:					
Unrealized holding gains (losses) on securities arising during the period	$ (775)	$ 271	$ (504)		
Reclassification adjustment for realized (gains) losses included in net earnings (a)	844	(295)	549		
Total net unrealized gains on securities (b)	$ 4,630	69	(24)	45	$ 4,675
Six Months Ended June 30, 2014					
Net unrealized gains on securities:					
Unrealized holding gains (losses) on securities arising during the period	$ (1,856)	$ 651	$ (1,205)		
Reclassification adjustment for realized (gains) losses included in net earnings (a)	(227)	79	(148)		
Total net unrealized gains on securities (b)	$ 9,903	(2,083)	730	(1,353)	$ 8,550

(a) The reclassification adjustment out of net unrealized gains on securities affected the following lines in CGI’s Consolidated Statement of Earnings:

OCI component	Affected line in the Consolidated Statement of Earnings
Pretax	Realized gains on securities
Tax	Provision for income taxes

(b) Includes net unrealized gains of $46,000 at June 30, 2015 compared to $35,000 at December 31, 2014 related to securities for which only the credit portion of an other-than-temporary impairment has been recorded in earnings.

F. Income Taxes

The following is a reconciliation of income taxes at the statutory rate of 35% to the provision (benefit) for income taxes as shown in the Statement of Earnings for the six months ended June 30 (dollars in thousands):

	2015		2014	
	Amount	% of EBT	Amount	% of EBT
Earnings (loss) before income taxes ("EBT")	$ (750)		$ 71	
Income taxes (benefit) at statutory rate	$ (263)	35%	$ 25	35%
Effect of:				
Tax-exempt interest	(10)	1%	(8)	(11%)
Other	(4)	1%	1	1%
Provision (benefit) for income taxes as shown on the Statement of Earnings	$ (277)	37%	$ 18	25%

G. Contingencies

CGI is involved in litigation from time to time, generally arising in the ordinary course of business. This litigation may include, but is not limited to, general commercial disputes, lawsuits brought by policyholders, employment matters, reinsurance collection matters and actions challenging certain business practices of insurance subsidiaries. None of these matters are expected to have a material adverse impact on CGI’s results of operations or financial condition.

H. Subsequent Event

The Company has evaluated subsequent events through September 3, 2015, the date its financial statements were available to be issued.

On April 14, 2015 GAFRI and CGI entered into a definitive agreement with HC2 Holding Inc. to sell all of the stock of CGI and United Teacher Associates Insurance Company, an affiliate. The agreement is subject to receipt of regulatory approvals and is expected to close in the second half of 2015.

Exhibit 99.5

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined balance sheet as of June 30, 2015, and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2014 and six months ended June 30, 2015, of HC2 Holdings, Inc ("HC2", "we", "us", "the Company", or "our"), gives effect to (i) the effect of the acquisition of Schuff International, Inc. ("Schuff") (ii) the full-period effect of the acquisition of Bridgehouse Marine Limited ("Bridgehouse Marine") and (iii) the acquisition of United Teacher Associates Insurance Company ("UTAIC ") and Continental General Insurance Company ("CGIC" and, together with UTAIC, the "Insurance Companies"), in each case, by HC2.

The unaudited pro forma condensed combined balance sheet as of June 30, 2015 gives effect to the Insurance Companies acquisitions as if they had occurred on June 30, 2015. The unaudited pro forma condensed combined balance sheet is derived from the unaudited historical financial statements of HC2 and the Insurance Companies as of June 30, 2015.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2014 and the unaudited pro forma condensed combined statement of operations for the six months ended June 30, 2015 give effect to the Schuff, Bridgehouse Marine, and Insurance Companies acquisitions as if they had occurred on January 1, 2014. The unaudited pro forma condensed combined statement of operations is derived from the audited historical financial statements of HC2 and Insurance Companies as of and for the year ended December 31, 2014, the unaudited historical financial statements of Bridgehouse Marine for the nine months ended September 30, 2014 and Schuff for the five months ended May 26, 2014, and the unaudited historical financial statements of HC2 and Insurance Companies as of and for the six months ended June 30, 2015.

The unaudited pro forma condensed combined financial statements and the notes to the unaudited pro forma condensed combined financial statements were based on, and should be read in conjunction with:

- Our historical audited and unaudited consolidated financial statements and related notes and the sections entitled Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed on March 16, 2015, and Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, filed on August 10, 2015.
- UTAIC's and CGIC's historical audited financial statements and related notes for the fiscal years ended December 31, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income, changes in equity and cash flows for each of the three fiscal years ended December 31, 2014, which is attached hereto as Exhibit 99.5 and is incorporated herein by reference.
- Schuff's historical audited financial statements and related notes as of and for the year ended December 29, 2013, and the unaudited historical financial statements of Schuff and related notes as of and for the three-month period ended March 31, 2014, which were previously filed as Exhibit 99.1 and Exhibit 99.2, respectively, to the Company's Current Report on Form 8-K/A, filed on August 14, 2014.
- Bridgehouse Marine's historical audited financial statements and related notes as of December 31, 2013 and for the year then ended, which were previously filed as Exhibit 99.1 to the Company's Current Report on Form 8-K/A, filed on December 8, 2014.

The unaudited pro forma adjustments, which the Company believes are reasonable under the circumstances, are preliminary and are based upon available information and certain assumptions described in the accompanying notes to the unaudited pro forma condensed combined financial information. Actual results and valuations may differ materially from the assumptions within the accompanying unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial statements have been prepared by HC2's management in accordance with SEC Regulation S-X Article 11 and are not necessarily indicative of the combined financial position or results of operations that would have been realized had the transactions been completed as of the dates indicated, nor are they meant to be indicative of any anticipated combined financial position or future results of operations that the Company will experience after the transactions. In addition, the accompanying unaudited pro forma condensed combined statements of operations do not include any pro forma adjustments to reflect expected cost savings that may be achievable or the impact of any non-recurring activity or one-time transaction related costs.

The historical consolidated financial statements have been adjusted to reflect factually supportable items that are directly attributable to the acquisition and, with respect to the unaudited pro forma condensed combined statements of operations and are not expected to have a continuing impact on the results of operations of the combined company.

HC2 HOLDING, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of June 30, 2015
(in thousands, except share data amounts)

	HC2	UTAIC	CGIC	Combined UTAIC and CGIC	Pro Forma Adjustments UTAIC and CGIC Acquisition	Ref.	Pro Forma As Adjusted
ASSETS							
Investments							
Fixed maturities, available for sale at fair value	$ 1,032	$ 1,003,150	$ 231,487	$ 1,234,637	$ -		$ 1,235,669
Equity securities, available for sale at fair value	27,329	67,407	11,757	79,164	-		106,493
Mortgage loans	-	-	2,113	2,113	-		2,113
Policy loans	-	15,831	2,764	18,595	-		18,595
Other investments	55,697	3,666	223	3,889	-		59,586
Total investments	84,058	1,090,054	248,344	1,338,398	-		1,422,456
Cash and cash equivalents	68,941	21,760	6,651	28,411	(9,296)	(6a)	88,056
Restricted cash	7,188	-	-	-	-		7,188
Accounts receivable, net	214,027	-	-	-	-		214,027
Cost and recognized earnings in excess of billings on uncompleted contracts	35,573	-	-	-	-		35,573
Inventories	17,796	-	-	-	-		17,796
Recoverables from reinsurers	-	179,262	420,504	599,766	-		599,766
Accrued investment income	-	12,100	2,634	14,734	-		14,734
Deferred tax asset	22,699	-	19,759	19,759	16,448	(6b)	58,906
Property and equipment, net	235,862	-	-	-	-		235,862
Goodwill	29,649	2,146	-	2,146	22,697	(6c)	54,492
Intangibles including DAC, net	27,987	49,472	18,546	68,018	(65,323)	(6d)	30,682
Other assets	42,175	2,405	487	2,892	(581)	(6e)	44,486
Assets held for sale	8,597	-	-	-	-		8,597
Total assets	794,552	1,357,199	716,925	2,074,124	(36,055)		2,832,621
LIABILITIES AND STOCKHOLDERS’ EQUITY							
Life, accident and health reserves	$ -	$ 947,004	$ 559,315	$ 1,506,319	$ 196,190	(6f)	$ 1,702,509
Annuity benefits accumulated	-	191,760	75,931	267,691	-		267,691
Accounts payable and other current liabilities	187,816	-	-	-	-		187,816
Billings in excess of costs and recognized earnings on uncompleted contracts	29,859	-	-	-	-		29,859
Deferred tax liability	-	289	-	289	(289)	(6g)	-
Long-term obligations	387,073	-	-	-	13,000	(6h)	400,073
Pension liability	34,538	-	-	-	-		34,538
Other liabilities	7,754	12,705	14,063	26,768	22,249	(6i)	56,771
Total liabilities	647,040	1,151,758	649,309	1,801,067	231,150		2,679,257
Commitments and contingencies							
Temporary equity							
Preferred stock	53,013	-	-	-	-		53,013
Stockholders' equity:							
Common stock	26	2,500	4,197	6,697	(6,696)	(6j)	27
Additional paid-in capital	150,537	149,524	96,792	246,316	(240,206)	(6k)	156,647
Retained earnings (accumulated deficit)	(58,157)	33,772	(38,048)	(4,276)	4,017	(6l)	(58,416)
Treasury stock, at cost	(378)	-	-	-	-		(378)
Accumulated other comprehensive loss (income)	(20,139)	19,645	4,675	24,320	(24,320)	(6m)	(20,139)
Total HC2 Holdings, Inc. stockholders’ equity before noncontrolling interest	71,889	205,441	67,616	273,057	(267,205)		77,741
Noncontrolling interest	22,610	-	-	-	-		22,610
Total stockholders' equity	94,499	205,441	67,616	273,057	(267,205)		100,351
Total liabilities and stockholders' equity	$ 794,552	$ 1,357,199	$ 716,925	$ 2,074,124	$ (36,055)		$ 2,832,621

See notes to unaudited pro forma condensed combined financial statements

HC2 HOLDING, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Six Months Ended June 30, 2015
(in thousands, except per share data amounts)

	HC2	UTAIC	CGIC	Combined UTAIC and CGIC	Pro Forma Adjustments UTAIC and CGIC Acquisition Adjustments	Ref.	Pro Forma As adjusted
Services revenue	$ 221,559	$ -	$ -	$ -	$ -		$ 221,559
Sales revenue	261,231	-	-	-	-		261,231
Life, accident and health net earned premiums	-	35,947	5,263	41,210	-		41,210
Net investment income	-	30,213	7,081	37,294	(3,088)	(7a)	34,206
Realized gains/(losses) on investments		(1,485)	(844)	(2,329)	-		(2,329)
Net revenue	482,790	64,675	11,500	76,175	(3,088)		555,877
Operating expenses:							
Cost of revenue-services	196,509	-	-	-	-		196,509
Cost of revenue-sales	221,445	-	-	-	-		221,445
Life, accident and health benefits	-	40,735	8,917	49,652	(4,250)	(7b)	45,402
Annuity benefits	-	3,628	1,179	4,807	-		4,807
Insurance acquisition expenses, net	-	8,435	1,966	10,401	(5,031)	(7c)	5,370
Selling, general and administrative	49,529	7,029	2,530	9,559	-		59,088
Depreciation and amortization	10,242	-	-	-	-		10,242
(Gain) loss on sale or disposal of assets	971	-	-	-	-		971
Total operating expenses	478,696	59,827	14,592	74,419	(9,281)		543,834
Income (loss) from operations	4,094	4,848	(3,092)	1,756	6,193		12,043
Interest expense	(18,649)	-	-	-	-		(18,649)
Amortization of debt discount	(176)	-	-	-	-		(176)
Other income (expense), net	(4,744)	19	2,342	2,361	-		(2,383)
Foreign currency transaction gain (loss)	1,051	-	-	-	-		1,051
Income (loss) from continuing operations before income taxes and income (loss) from equity investees	(18,424)	4,867	(750)	4,117	6,193		(8,114)
Income (loss) from equity investees	(1,259)	-	-	-	-		(1,259)
Income tax benefit (expense)	3,369	(1,431)	277	(1,154)	(2,168)	(7d)	47
Income (loss) from continuing operations	(16,314)	3,436	(473)	2,963	4,025		(9,326)
Less: Net (income) loss from continuing operations attributable to the noncontrolling interest	57	-	-	-	-		57
Net income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$ (16,257)	$ 3,436	$ (473)	$ 2,963	$ 4,025		$ (5,778)
Less: Perferred stock and dividends accretion	2,177	-	-	-	-		2,177
Net income (loss) from continuing operations attributable to common stock and participating preferred stockholders	$ (18,434)	$ 3,436	$ (473)	$ 2,963	$ 4,025		$ (11,446)
Basic income (loss) per common share							
Net loss from continuing operations attributable to HC2 Holdings, Inc.	$ (0.74)						$ (0.45)
Diluted income (loss) per common share							
Net loss from continuing operations attributable to HC2 Holdings, Inc.	$ (0.74)						$ (0.45)
Common shares outstanding							
Basic	24,838				867	(9)	25,705
Diluted	24,838				867	(9)	25,705

See notes to unaudited pro forma condensed combined financial statements

HC2 HOLDING, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2014
(in thousands, except per share data amounts)

				2014 Acquisitions Pro Forma Adjustments							Pro Forma Adjustments		
	HC2 Year Ended December 31, 2014	Schuff Five Months Ended May 26, 2014	BML Nine Months Ended September 30, 2014	Schuff Acquisition Adjustments	BML Acquisition Adjustments	Other Pro Forma Accounting Adjustments	Pro forma As adjusted for 2014 Acquisitions	UTAIC Historical Year Ended December 31, 2014	CGIC Historical Year Ended December 31, 2014	Combined UTAIC and CGIC Year Ended December 31, 2014	UTAIC and CGIC Acquisition Adjustments	Ref.	Pro Forma As Adjusted Year ended December 31, 2014
Services revenue	$ 193,044	$ -	$ 132,503	$ -	$ (159) (8d)	$ -	$ 325,388	$ -	$ -	$ -	$ -		$ 325,388
Sales revenue	350,158	177,823	-	-	-	-	527,981	-	-	-	-		527,981
Life, accident and health net earned premiums	-	-	-	-	-	-	-	70,883	12,606	83,489	-		83,489
Net investment income	-	-	-	-	-	-	-	59,942	15,484	75,426	(6,176)	(7a)	69,250
Realized gains/(losses) on investments	-	-	-	-	-	-	-	(5,505)	(1,471)	(6,976)	-		(6,976)
Net revenue	543,202	177,823	132,503	-	(159)	-	853,369	125,320	26,619	151,939	(6,176)		999,132
		-	-	-	-	-							
Operating expenses:		-	-	-	-	-							
Cost of revenue-services	174,956	-	91,104	1,019 (8a)	-	-	267,079	-	-	-	-		267,079
Cost of revenue-sales	296,530	149,226	-	-	-	-	445,756	-	-	-	-		445,756
Life, accident and health benefits	-	-	-	-	-	-	-	106,742	22,915	129,657	(8,649)	(7b)	121,008
Annuity benefits	-	-	-	-	-	-	-	6,274	2,627	8,901	-		8,901
Insurance acquisition expenses, net	-	-	-	-	-	-	-	15,094	3,525	18,619	(7,475)	(7c)	11,144
Selling, general and administrative	81,396	14,385	8,527	-	-	-	104,308	11,759	3,220	14,979	-		119,287
Depreciation and amortization	4,617	3,086	10,351	174 (8b)	3,470 (8e)	-	21,698	-	-	-	-		21,698
Asset impairment expense	291	-	-	-	-	-	291	-	-	-	-		291
Loss on sale or disposal of assets	(162)	208	104	-	-	-	150	-	-	-	-		150
Total operating expenses	557,628	166,905	110,086	1,193	3,470	-	839,282	139,869	32,287	172,156	(16,124)		995,314
Income (loss) from operations	(14,426)	10,918	22,417	(1,193)	(3,629)	-	14,087	(14,549)	(5,668)	(20,217)	9,948		3,818
Interest expense	(10,754)	(1,033)	(3,677)	-	-	(24,444) (8g)	(39,908)	-	-	-	-		(39,908)
Amortization of debt discount	(1,593)	-	-	-	-	-	(1,593)	-	-	-	-		(1,593)
Other income (expense), net	436	(37)	3,164	-	-	-	3,563	19	4,800	4,819	-		8,382
Loss on early extinguishment or restructuring of debt	(11,969)	-	-	-	-	-	(11,969)	-	-	-	-		(11,969)
Foreign currency transaction gain (loss)	1,061	-	(1,634)	-	-	-	(573)	-	-	-	-		(573)
Income (loss) from continuing operations before income (loss) from equity investees and income taxes	(37,245)	9,848	20,270	(1,193)	(3,629)	(24,444)	(36,393)	(14,530)	(868)	(15,398)	9,948		(41,843)
Income (loss) from equity investees	3,359	-	2,955	-	-	-	6,314	-	-	-	-		6,314
Income tax benefit (expense)	24,484	(3,619)	(979)	-	-	-	19,886	5,443	315	5,758	(3,482)	(7d)	22,162
Income (loss) from continuing operations	$ (9,402)	$ 6,229	$ 22,246	$ (1,193)	$ (3,629)	$ (24,444)	$ (10,193)	$ (9,087)	$ (553)	$ (9,640)	$ 6,466		$ (13,367)
Less: Net (income) loss from continuing operations attributable to the noncontrolling interest	(2,559)	(58)	(2,220)	1,372 (8c)	(497) (8f)	-	(3,962)	-	-	-	-		(3,962)
Net income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$ (11,961)	$ 6,171	$ 20,026	$ 179	$ (4,126)	$ (24,444)	$ (14,155)	$ (9,087)	$ (553)	$ (9,640)	$ 6,466		$ (17,329)
Less: Perferred stock and dividends accretion	2,049	-	-	-	-	1,246 (8h)	3,295						3,295
Net income (loss) from continuing operations attributable to common stock and participating preferred stockholders	(14,010)						(17,450)						(20,624)
Basic income (loss) per common share													
Net loss from continuing operations attributable to HC2 Holdings, Inc.	$ (0.71)												$ (1.00)
Diluted income (loss) per common share													
Net loss from continuing operations attributable to HC2 Holdings, Inc.	$ (0.71)												$ (1.00)
Weighted average common shares outstanding													
Basic	19,729										867	(9)	20,596
Diluted	19,729										867	(9)	20,596

See notes to unaudited pro forma condensed combined financial statements

1. Description of the Transaction

Acquisition of UTAIC and CGIC

On April 13, 2015, the Company entered into a Stock Purchase Agreement (the "Purchase Agreement") with Continental General Corporation, a Nebraska corporation, and Great American Financial Resources, Inc., a Delaware corporation (collectively, the "Sellers"), pursuant to which the Company agreed to purchase from the Sellers all of the issued and outstanding shares of common stock of the Insurance Companies, as well as all assets owned by the Sellers or their affiliates that are used exclusively or primarily in the business of the Insurance Companies, subject to certain exceptions. The Insurance Companies are providers of long-term care and life insurance policies and annuity contracts.

Previous acquisitions reflected within the pro forma

On May 29, 2014, the Company completed the acquisition of 2.5 million shares of common stock of Schuff, a steel fabrication and erection company and negotiated an agreement to purchase an additional 198,411 shares, representing an approximately 65% interest in Schuff. Schuff repurchased a portion of its outstanding common stock in June 2014, which had the effect of increasing the Company's ownership interest to 70%. During the fourth quarter of 2014 and the first quarter of 2015, the final results of a tender offer for all outstanding shares of Schuff were announced and various open-market purchases were made, which resulted in the acquisition of 815,843 shares and an increase in our ownership interest to 91%. Schuff and its wholly-owned subsidiaries primarily operate as integrated fabricators and erectors of structural steel and heavy steel plates with headquarters in Phoenix, Arizona and operations in Arizona, Georgia, Texas, Kansas and California. Schuff's construction projects are primarily in the aforementioned states. In addition, Schuff has construction projects in select international markets, primarily Panama. The Company acquired Schuff to expand the business that it engages in and saw Schuff as an opportunity to enter the steel fabrication and erection market. The Company purchased 2.5 million shares of common stock of Schuff for $78.75 million. The purchase price of Schuff was valued at $31.50 per share which represented both the cash paid by the Company for its 60% interest, and the fair value of the noncontrolling interest of 40%.

On September 22, 2014, the Company completed the acquisition of Bridgehouse Marine and its subsidiary, Global Marine Systems Limited ("GMSL"). The purchase price is reflective of an enterprise value of approximately $260 million, including assumed indebtedness of approximately $130 million leaving a net enterprise value of approximately $130 million. GMSL is a leading provider of engineering and underwater services on submarine cables.

2. Basis of Presentation

The unaudited pro forma condensed combined balance sheet as of June 30, 2015 and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2014 and six months ended June 30, 2015 are based on the historical combined financial statements of HC2, UTAIC, CGIC, after giving effect to the completion of the acquisition and the assumptions and adjustments described in the accompanying notes. In addition, the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2014 is inclusive of the Schuff and GMSL historical operations prior to the acquisition by HC2. Such pro forma adjustments are (1) factually supportable, (2) directly attributable to the acquisition, and (3) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the results of operations of the combined company.

At this preliminary stage, no identifiable finite lived intangible assets were identified for the acquisition of the Insurance Companies. The estimated identifiable indefinite lived intangible asset represents state licenses, which are not amortized, but will be subject to periodic impairment testing. Reserves were calculated using actuarial assumptions for future morbidity, persistency, premiums and future expenses as of June 30, 2015. In addition, the reserves reflect current and forward interest rates based on the current economic environment. A provision for adverse deviation was included on future interest rates and premiums. Goodwill represents the excess of the estimated purchase price over the estimated fair value of the Insurance Companies' assets and liabilities, and will not be amortized, but will be subject to periodic impairment testing. Upon consummation of the acquisition, the estimated fair value of the assets and liabilities will be updated.

The unaudited pro forma condensed combined financial statements are presented solely for informational purposes and are not necessarily indicative of the combined financial position or the results of operations that might have been achieved had the transaction been completed as of the dates indicated, nor are they meant to be indicative of any anticipated combined financial position or future results of operations that the combined company will experience after the transaction. In addition, the accompanying unaudited pro forma condensed combined statements of operations do not reflect expected revenue synergies, expected cost savings or restructuring actions that may be achievable, or the impact of any non-recurring activity and one-time transaction related costs.

3. Accounting Policies

As part of preparing the unaudited pro forma condensed combined financial statements, the Company conducted a review of the accounting policies of the Insurance Companies to determine if differences in accounting policies require restatement or reclassification of results of operations or reclassification of assets or liabilities to conform to HC2's accounting policies and classifications. The Company did not become aware of any material differences between the accounting policies of HC2 and the Insurance Companies during the preparation of these unaudited pro forma condensed combined financial statements, with the exception of certain insurance specific accounting policies, which have not been applicable to HC2 prior to the Insurance Companies acquisition and certain reclassifications necessary to conform to HC2's financial presentation. Accordingly, these unaudited pro forma condensed combined financial statements do not assume any material differences in accounting policies between HC2 and the Insurance Companies. The results of this review are included in Note 4. Upon consummation of the Insurance Companies acquisition, a more comprehensive review of the accounting policies of the Insurance Companies will be performed which may identify other differences among the accounting policies of HC2 and the Insurance Companies that, when confirmed, could have a material impact on the unaudited pro forma condensed combined financial statements.

4. Historical HC2, and Insurance Companies conforming adjustments

HC2 has historically reported a classified balance sheet, with assets and liabilities separated between current and non-current, while the Insurance Companies have historically reported their balance sheets on an unclassified basis. However, after giving consideration to the nature of the Insurance Companies businesses and the impact of their inclusion of their balance sheets on HC2's consolidated balance sheet upon completion of the acquisition, HC2 will report its consolidated balance sheet on an unclassified basis, and HC2's consolidated balance sheet presentation and captions will be generally based on the SEC's Regulation §S-X 210-7.03. Accordingly, HC2's historical amounts reflected in the unaudited combined pro forma balance sheet as of June 30, 2015 have been reclassified to conform to the unclassified presentation. A reconciliation of the significant reclassifications made to HC2's historical balance sheet is provided below.

Financial information of HC2 column of the unaudited pro forma condensed combined balance sheet represents the historical reported balances of HC2 reclassified to conform to the go-forward presentation as a result of the acquisition of UTAIC and CGIC in HC2's consolidated financial statements as set forth below. Unless otherwise indicated, defined line items included in the notes have the meanings given to them in the historical financial statements of HC2.

(dollars in thousands)	**Before Reclassification**	**Reclassification Amount**	**After Reclassification**	**Ref.**
Assets:				
Short-Term Investments	12,265	(12,265)	-	1
Long-Term Investments	71,793	(71,793)	-	2
Fixed Maturities	-	1,032	1,032	1
Equity Securities	-	27,329	27,329	1,2
Other Investments	-	55,697	55,697	1,2
Deferred tax asset - current	1,701	(1,701)	-	3
Deferred tax asset - long-term	20,998	(20,998)	-	3
Deferred tax asset		22,699	22,699	3
Prepaid expenses and other current assets	23,746	(23,746)	-	4
Other assets	18,429	23,746	42,175	4
Liabilities:				
Accounts payable	81,644	(81,644)	-	5
Accrued interconnection costs	31,551	(31,551)	-	5
Accrued payroll and employee benefits	19,222	(19,222)	-	5
Accrued expenses and other current liabilities	51,640	(51,640)	-	5
Accrued income taxes	912	(912)	-	5
Accrued interest	2,847	(2,847)	-	5
Accounts payable and other current liabilities	-	187,816	187,816	5
Current portion of long-term obligations	12,752	(12,752)	-	6
Long-Term Obligations	374,321	12,752	387,073	6
Current portion of pension liability	6,037	(6,037)	-	7
Pension Liability	28,501	6,037	34,538	7

1. Adjustment to reclassify $12,265 of "Short-term investments" into $1,032 of "Fixed maturities", $11,214 of "Equity securities", and $19 of "Other Investments"
2. Adjustment to reclassify $71,793 of "Long-term investments" into $16,115 of "Equity securities" and $55,678 of "Other investments"
3. Adjustment to reclassify "Deferred tax asset - current" and "Deferred tax asset - long-term" to "Deferred tax asset"
4. Adjustment to reclassify "Prepaid expenses and other current assets" to "Other assets"
5. Adjustment to reclassify "Accounts payable", "Accrued interconnection costs", "Accrued payroll and employee benefits", "Accrued expenses and other current liabilities", "Accrued income taxes", and "Accrued interest" to "Accounts payable and other current liabilities"
6. Adjustment to reclassify "Current portion of long-term obligations" to "Long-term obligations"
7. Adjustment to reclassify "Current portion of pension liability" to "Pension liability"

Financial information of the Insurance Companies in the "UTAIC Historical" and "CGIC Historical" columns of the unaudited pro forma condensed combined financial statements represents the historical audited balances of UTAIC and CGIC reclassified to conform to the presentation in HC2's condensed consolidated financial statements as set forth below. Unless otherwise indicated, defined line items included in the notes have the meanings given to them in the historical financial statements of the Insurance Companies.

Insurance Companies' Reclassification and classification of the unaudited condensed combined pro forma balance sheet as of June 30, 2015

	UTAIC			CGIC			Ref.
(dollars in thousands)	**Before Reclassification**	**Reclassification Amount**	**After Reclassification**	**Before Reclassification**	**Reclassification Amount**	**After Reclassification**	
Assets:							
Deferred policy acquisition costs	49,472	(49,472)	-	15,851	(15,851)	-	1
Other assets	4,551	(2,146)	2,405	3,182	(2,695)	487	1
Intangibles including DAC, net	-	49,472	49,472	-	18,546	18,546	1
Goodwill	-	2,146	2,146	-	-	-	1

1. Adjustment to reclassify "Deferred policy acquisition costs" and intangible assets within "Other assets" into "Intangibles including DAC, net" and "Goodwill"

UTAIC and CGIC reclassification of the Unaudited Pro Forma Condensed Combined Statement of Operations for the Six Months ended June 30, 2015

	UTAIC			CGIC			Ref.
(dollars in thousands)	**Before Reclassification**	**Reclassification Amount**	**After Reclassification**	**Before Reclassification**	**Reclassification Amount**	**After Reclassification**	
Other Income	19	(19)	-	2,342	(2,342)	-	1
Other income (expense), net	-	19	19	-	2,342	2,342	1
Other operating and general expenses	7,029	(7,029)	-	2,530	(2,530)	-	2
Selling, general and administrative	-	7,029	7,029	-	2,530	2,530	2

1. Adjustment to reclassify "Other Income" into "Other income (expense), net."
2. Adjustment to reclassify "Other operating general expenses" into "Selling, general and administrative" expenses.

UTAIC and CGIC reclassification of the Unaudited Pro Forma Condensed Combined Statement of Operations for the Year Ended December 31, 2014

	UTAIC			CGIC			Ref.
(dollars in thousands)	**Before Reclassification**	**Reclassification Amount**	**After Reclassification**	**Before Reclassification**	**Reclassification Amount**	**After Reclassification**	
Other Income	19	(19)	-	4,800	(4,800)	-	1
Other income (expense), net	-	19	19	-	4,800	4,800	1
Other operating and general expenses	11,759	(11,759)	-	3,220	(3,220)	-	2
Selling, general and administrative	-	11,759	11,759	-	3,220	3,220	2

1. Adjustment to reclassify "Other Income" into "Other income (expense), net."
2. Adjustment to reclassify "Other operating general expenses" into "Selling, general and administrative" expenses.

5. Preliminary Purchase Consideration Allocation

The allocation of the total consideration shown below is based on preliminary estimates and is subject to change based on the final determination of the fair value of the Insurance Companies' assets acquired and liabilities assumed. The purchase consideration is planned to be paid in cash and HC2's common stock and is subject to change at the Company's discretion. The fair value of consideration expected to be transferred on the closing date is detailed below:

UTAIC and CGIC Purchase Price Allocation

(in thousands)	Cash	Equity	Total
Base Purchase Price	$ 7,000	$ -	$ 7,000
Excess Capital and Surplus Adjustment	2,037	6,111	8,148
Reserve Release (Contingent Payment)	3,250	9,750	13,000
Due to Sellers	$ 12,287	$ 15,861	$ 28,148

The reserve release represents an additional contingent payment to the Seller in the maximum amount of $13 million (the "Contingent Payment"). The Contingent Payment is calculated based on the fluctuation of the statutory cash flow testing and premium deficiency reserves annually following each of the Insurance Companies' filing with its domiciliary insurance regulator of its annual statutory statements for each calendar year ending December 31, 2015 through and including December 31, 2019 to bridge the gap between estimates at the time of acquisition and actual results. To calculate our estimate, cash flow testing sensitivities were performed assuming improved yields on the asset portfolio based on modest increases in interest rates back towards historical averages. These sensitivities resulted in the estimated projected future reserve releases that may occur. Interest rate assumption improvements alone were the basis for the projected cash flow testing reserve release. Based on the performed analysis, HC2 expects to fund the Contingent Payment over the prescribed period. The Company will re-perform this assessment at each reporting period through December 31, 2019 or until the total of the Contingent Payments reaches $13 million.

(in thousands)	
Preliminary estimate of assets acquired and liabilities assumed	
Assets:	
Cash and cash equivalents	$ 28,411
Fixed maturities, available for sale at fair value	1,234,637
Equity securities, available for sale at fair value	79,164
Mortgage loans	2,113
Policy loans	18,595
Other investments	3,889
Accrued investment income	14,734
Reinsurance recoverable on losses and loss expenses	599,766
Intangibles	2,695
Other assets, net	2,311
Deferred tax asset	36,207
Liabilities:	
Annuity reserves	267,691
Life, accident and health reserves	1,702,509
Other liabilities	49,017
Total identifiable net assets acquired	3,305
Goodwill	24,843
Estimated purchase price	$ 28,148

Under Accounting Standards Codification ("ASC") Topic 805, Business Combinations, ("ASC 805"), assets acquired and liabilities assumed are recorded at fair value. The fair value of identifiable tangible and intangible assets acquired and liabilities assumed from the acquisition are based on a preliminary estimate of fair value. Any excess of the purchase price over the fair value of identified assets acquired and liabilities assumed will be recognized as goodwill. Such a valuation requires estimates and assumptions including, but not limited to, estimating future cash flows and direct costs in addition to developing the appropriate discount rates. HC2's management believes the fair values recognized for the assets to be acquired and the liabilities to be assumed are based on reasonable estimates and assumptions currently available. The final determination of the acquisition consideration and fair values of the Insurance Companies assets and liabilities will be based on the actual net tangible and intangible assets of the Insurance Companies that exist as of the date of completion of the acquisition. Consequently, the amounts allocated to goodwill and intangible assets could change significantly from those allocations used in the unaudited pro forma condensed combined financial statements presented below and could result in a material change in amortization of acquired finite lived intangible assets.

The preliminary fair values of intangible assets were determined based on the provisions of ASC 805, which defines fair value in accordance with ASC Topic 820, Fair Value Measurements and Disclosures, ("ASC 820"). ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Intangible assets were identified that met either the separability criterion or the contractual-legal criterion described in ASC 805. At this preliminary stage, the intangible assets identified are indefinite lived identifiable intangible assets representing state licenses with a value of $2.7 million, which are not amortized, but will be subject to periodic impairment testing. In addition, the Company determined the fair value of the Insurance Companies' life, accident and health reserves through cash flow projections and capital requirements using actuarial assumptions and gross premium adequacy analyses.

The expected amortization related to the preliminary fair value of the acquired intangible assets and liabilities for the five years following the acquisition is reflected in the table below:

(dollars in thousands)	June 30, 2015	Estimated remaining useful life (years)	Year following the acquisition Year 1	Year 2	Year 3	Year 4	Year 5
Amortization of intangibles:							
State licenses	2,695	Indefinite	n/a	n/a	n/a	n/a	n/a
Benefit of the fair value adjustment to acquire Life accident and health reserves	196,190	60	$ 8,649	$ 8,500	$ 7,861	$ 7,198	$ 6,608
Total expected amortization, pre-tax			$ 8,649	$ 8,500	$ 7,861	$ 7,198	$ 6,608
Total expected amortization, after-tax			$ 5,622	$ 5,525	$ 5,109	$ 4,678	$ 4,295

Taxes

The Company has agreed to make a joint election with the Sellers under Internal Revenue Code section 338(h)(10) ("338 Election") to treat the stock purchases as asset purchases for U.S. Federal income tax purposes. The resulting step-down in the tax bases of the acquired assets is reflected in the above net deferred tax asset of $36.2 million for differences between the fair value and tax bases of the acquired assets and liabilities. The Company estimates that none of the goodwill reflected above will be deductible for income tax purposes.

The net deferred tax asset includes $22.8 million for the estimated tax basis in amortizable policy acquisition costs ("DAC Tax"), which is fully offset by a current tax liability of $22.8 million included in other liabilities. The current tax liability is a result of the 338 Election which allows the Sellers to deduct any unamortized DAC Tax at the acquisition date, but requires the Company to re-establish DAC Tax on the acquired assets as if they were purchased in a taxable reinsurance transaction. However, this re-established DAC Tax causes a current tax liability to the Company which is a temporary difference that will be amortized and deductible over the following 10 years for income tax purposes.

6. Unaudited Pro Forma Condensed Combined Balance Sheet Adjustments

Adjustments included in the “Acquisition Adjustments” column in the accompanying unaudited pro forma condensed combined balance sheet as of June 30, 2015 are as follows:

(dollars in thousands)		**Increase (decrease) as of June 30, 2015**
Assets:		
(6a)	*Adjustments to cash and cash equivalents:*	
	To reflect the cash consideration paid by HC2 to UTAIC/CGIC common shareholders to effect the merger funded by available cash resources	(9,037)
	To reflect estimated transaction costs to be paid by HC2	(259)
		(9,296)
(6b)	*Adjustments to deferred tax assets:*	
	To eliminate deferred tax asset of CGIC as a result of Section 338(h)(10) election	(19,759)
	To reflect impact to deferred tax asset as a result of Section 338(h)(10) adjustment	36,207
		16,448
(6c)	*Adjustments to goodwill:*	
	Eliminate UTAIC/CGIC 's historical goodwill	(2,146)
	To record goodwill determined as the preliminary acquisition consideration paid to effect the merger in excess of the estimated fair value of the net assets acquired	24,843
		22,697
(6d)	Adjustment to eliminate UTAIC/CGIC 's deferred acquisition costs and VOBA	(65,323)
(6e)	Adjustment to eliminate intercompany transactions between UTAIC/CGIC	(581)
	Total adjustments to assets	**(36,055)**
Liabilities:		
(6g)	To eliminate deferred tax liability of UTAIC as a result of Section 338(h)(10) election	(289)
(6f)	To reflect Life, accident and health reserves at fair value	196,190
(6h)	To reflect the fair value of additional Contingent Payment	13,000
(6i)	*Adjustments to other liabilities:*	
	To eliminate intercompany receivables and payables between UTAIC and CGI	(581)
	To record Federal Income Tax payable	22,830
		22,249
	Total adjustments to liabilities	**231,150**

(continued from above)

(dollars in thousands)		Increase (decrease) as of June 30, 2015
Stockholders' equity:		
(6j)	*Adjustments to common stock:*	
	To reflect the elimination of the par value of UTAIC and CGIC 's common shares outstanding	(6,697)
	To reflect the common stock issued as part of the acquisition of the Insurance Companies	1
		(6,696)
(6k)	*Adjustments to additional paid-in capital:*	
	To eliminate UTAIC/CGIC's historical additional paid-in capital.	(246,316)
	To reflect the additional paid-in-capital due to the stock issuance	6,110
		(240,206)
(6l)	*Adjustments to retained earnings:*	
	To reflect the elimination of UTAIC/CGIC 's historical retained earnings (accumulated deficit)	4,276
	To reflect estimated transaction costs to be paid by HC2, net of tax.	(259)
		4,017
(6m)	Adjustment to eliminate UTAIC/CGIC's accumulated other comprehensive income.	(24,320)
	Total adjustments to stockholders' equity	**(267,205)**
	Total adjustments to liabilities and stockholders' equity	**(36,055)**

7. Unaudited Pro Forma Condensed Combined Statements of Operations Adjustments

Adjustments included in the "Acquisition Adjustments" column in the accompanying unaudited pro forma condensed combined statements of operations are as follows:

(dollars in thousands)		Increase (decrease) for the six months ended June 30, 2015	Increase (decrease) for the year ended December 31, 2014
Revenues:			
(7a)	Adjustment to net investment income to amortize the fair value adjustment to UTAIC/CGIC 's investments	(3,088)	(6,176)
	Total adjustments to revenues	(3,088)	(6,176)
Expenses:			
(7b)	Adjustment to amortize the difference between the estimated fair value and the historical value of UTA and CGI's Life, accident and health Reserves	(4,250)	(8,649)
(7c)	Adjustment to eliminate UTAIC/CGIC 's historical policy acquisition costs following the write-off of the deferred policy acquisition costs asset	(5,031)	(7,475)
	Total adjustments to expenses	(9,281)	(16,124)
(7d)	Adjustment to reflect the income tax impact on the unaudited pro forma adjustments using the U.S. statutory tax rate of 35%	(2,168)	(3,482)
	Total adjustments to net income	**4,025**	**6,466**

8. Unaudited Pro Forma Condensed Combined Statements of Operations Adjustments related to Schuff and GMSL

2014 Adjustments of Schuff and GMSL

Schuff Purchase Pro Forma Adjustments

Pro forma adjustments are made to reflect the adjustment to depreciation expense resulting from the increase in net book value of property and equipment, the amortization expense related to the intangible assets and the adjustment to net income (loss) for the noncontrolling interest.

The specific pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

(dollars in thousands)		Increase (decrease) for the year ended December 31, 2014
Expenses:		
(8a)	Adjustment for depreciation expense resulting from adjustment of net book value to fair value of Schuff's property and equipment arising from the Schuff acquisition	1,019
(8b)	Adjustment to depreciation expense resulting from adjustment of net book value to fair value of Schuff’s property and equipment and the amortization of intangible assets arising from the Schuff Acquisition.	174
	Total adjustments to expenses	(1,193)
(8c)	Noncontrolling interest income percentage from 30% to 9% of net income (loss) not attributable to HC2’s ownership of Schuff.	(1,372)
	Total adjustments to net income	**179**

GMSL Pro forma Adjustments

Pro forma adjustments are made to reflect the adjustment to depreciation expense resulting from the increase in net book value of property and equipment, the amortization expense related to the intangible assets, the adjustment to deferred revenue on installation and maintenance agreements and the adjustment to net income (loss) for the noncontrolling interest.

The specific pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

(dollars in thousands)		Increase (decrease) for the year ended December 31, 2014
Revenues:		
(8d)	Adjustment to installation and maintenance revenue.	(159)
	Total adjustments to revenues	(159)
Expenses:		
(8e)	Depreciation expense resulting from adjustment of net book value to fair value of Bridgehouse Marine’s property and equipment and the amortization of intangible assets arising from the acquisition of Bridgehouse Marine.	3,470
	Total adjustments to expenses	3,470
(8f)	Noncontrolling interest income adjustment for the approximate 3% of net income (loss) not attributable to HC2’s ownership	497
	Total adjustments to net income	**(4,126)**

2014 Acquisition Other Pro forma Adjustments

Pro forma adjustments are made to reflect the increase in interest expense. The Company entered into a note purchase agreement with respect to senior secured notes in the amount of $250 million on November 22, 2014.

(dollars in thousands)		Increase (decrease) for the year ended December 31, 2014
Expenses:		
(8g)	The increase in interest expense as a result of $250 million principal amount notes issued at 11% per annum.	24,444
	Total adjustments to expenses	24,444
Other:		
(8h)	Preferred stock and dividend accretion adjustment	**1,246**

9. Earnings per Share

The pro forma basic and diluted net loss per common share reflects the assumed issuance of 867 thousand shares assuming a 30 day volume weighted average price of 7.0533 of HC2's common stock to the Sellers in connection with the purchase of the Insurance Companies. However, the actual number of shares to be issued in connection with the issuance of the Insurance Companies has not been finalized and will be determined only immediately prior to the purchase of the Insurance Companies. The pro forma basic and diluted net loss per common share is based on the weighted average number of common shares of HC2's common stock outstanding during the period. The diluted weighted average number of common shares excludes outstanding stock options, restricted stock units, warrants and convertible preferred stock as a result of the results of operations being loss from continuing operations.