Fidelity & Guaranty Life
Form 10-Q
August 02, 2016

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

Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-36227

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

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

(800) 445-6758
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x or No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x or No ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

There were 58,960,466 shares of the registrant's common stock outstanding as of August 1, 2016.

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

	June 30, 2016 (Unaudited)	September 30, 2015
ASSETS		
Investments:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost: June 30, 2016 - $18,381; September 30, 2015 - $17,622)	$ 18,972	$ 17,746
Equity securities, available-for-sale, at fair value (amortized cost: June 30, 2016 - $600; September 30, 2015 - $597)	645	620
Derivative investments	216	82
Commercial mortgage loans	622	491
Other invested assets	93	155
Total investments	20,548	19,094
Related party loans	72	78
Cash and cash equivalents	719	502
Accrued investment income	192	191
Reinsurance recoverable	3,476	3,579
Intangibles, net	1,048	988
Deferred tax assets	84	228
Other assets	199	265
Total assets	$ 26,338	$ 24,925
LIABILITIES AND SHAREHOLDERS' EQUITY		
Contractholder funds	$ 18,874	$ 17,770
Future policy benefits	3,466	3,468
Funds withheld for reinsurance liabilities	1,190	1,267
Liability for policy and contract claims	45	55
Debt	300	300
Other liabilities	681	563
Total liabilities	24,556	23,423
Commitments and contingencies		
Shareholders' equity:		
Preferred stock ($.01 par value, 50,000,000 shares authorized, no shares issued at June 30, 2016 and September 30, 2015)	$ —	$ —
Common stock ($.01 par value, 500,000,000 shares authorized, 58,961,371 issued and outstanding at June 30, 2016; 58,870,823 shares issued and outstanding at September 30, 2015)	1	1
Additional paid-in capital	723	714
Retained earnings	765	710
Accumulated other comprehensive income	305	88
	(12)	(11)

Treasury stock, at cost (537,613 shares at June 30, 2016; 512,391 shares at September 30, 2015)		
Total shareholders' equity	1,782	1,502
Total liabilities and shareholders' equity	$ 26,338	$ 24,925

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended		Nine months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(Unaudited)		(Unaudited)	
Revenues:				
Premiums	$21	$ 17	$52	$ 43
Net investment income	236	212	685	628
Net investment (losses) gains	(28)	74	(7)	75
Insurance and investment product fees and other	32	23	93	65
Total revenues	261	326	823	811
Benefits and expenses:				
Benefits and other changes in policy reserves	216	78	585	474
Acquisition and operating expenses, net of deferrals	28	26	83	83
Amortization of intangibles	(4)	88	34	97
Total benefits and expenses	240	192	702	654
Operating income	21	134	121	157
Interest expense	(5)	(6)	(17)	(18)
Income before income taxes	16	128	104	139
Income tax expense	6	42	37	51
Net income	$10	$ 86	$67	$ 88
Net income per common share:				
Basic	$0.16	$ 1.48	$1.14	$ 1.51
Diluted	$0.16	$ 1.48	$1.14	$ 1.51
Weighted average common shares used in computing net income per common share:				
Basic	58,309,849	58,058,247	58,278,505	58,125,850
Diluted	58,656,058	58,241,215	58,599,059	58,327,483
Cash dividend per common share	$0.065	$ 0.065	$0.195	$ 0.195
Supplemental disclosures:				
Total other-than-temporary impairments	$(17)	$ (4)	$(28)	$ (65)
(Losses) Gains on derivative and embedded derivatives	(23)	27	(2)	90
Other realized investment gains	12	51	23	50
Total net investment (losses) gains	$(28)	$ 74	$(7)	$ 75

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended		Nine months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(Unaudited)		(Unaudited)	
Net income	$10	$86	$67	$88
Other comprehensive income (loss):				
Unrealized investment gains (losses):				
Change in unrealized investment gains (losses) before reclassification adjustment	623	(524)	497	(424)
Net reclassification adjustment for losses (gains) included in net income	1	(47)	1	15
Changes in unrealized investment gains (losses) after reclassification adjustment	624	(571)	498	(409)
Adjustments to intangible assets	(220)	212	(164)	141
Changes in deferred income tax asset/liability	(141)	127	(117)	94
Net changes to derive comprehensive income (loss) for the period	263	(232)	217	(174)
Comprehensive income (loss), net of tax	$273	$(146)	$284	$(86)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
Balance, September 30, 2015	$ —	$ 1	$ 714	$ 710	$ 88	$ (11)	$ 1,502
Treasury shares purchased	—	—	—	—	—	(1)	(1)
Dividends	—	—	—	(12)	—	—	(12)
Common stock issued under employee plans	—	—	2	—	—		2
Net income	—	—	—	67	—	—	67
Unrealized investment losses, net	—	—	—	—	217	—	217
Stock compensation	—	—	7	—	—	—	7
Balance, June 30, 2016	$ —	$ 1	$ 723	$ 765	$ 305	$ (12)	$ 1,782

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine months ended	
	June 30, 2016	June 30, 2015
	(Unaudited)	
Cash flows from operating activities:		
Net income	$67	$ 88
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	5	9
Amortization	(32)	(37)
Deferred income taxes	27	31
Interest credited/index credit to contractholder account balances	463	363
Net recognized losses (gains) on investments and derivatives	8	(75)
Charges assessed to contractholders for mortality and administration	(77)	(50)
Deferred policy acquisition costs, net of related amortization	(224)	(151)
Changes in operating assets and liabilities:		
Reinsurance recoverable	11	13
Future policy benefits	(2)	(39)
Funds withheld from reinsurers	(68)	(13)
Collateral posted	79	(32)
Other assets and other liabilities	30	—
Net cash provided by operating activities	287	107
Cash flows from investing activities:		
Proceeds from available-for-sale investments sold, matured or repaid	1,744	3,796
Proceeds from derivatives instruments and other invested assets	167	335
Proceeds from commercial mortgage loans	8	33
Cost of available-for-sale investments acquired	(2,511)	(4,557)
Costs of derivatives instruments and other invested assets	(215)	(234)
Costs of commercial mortgage loans	(99)	(302)
Related party loans	—	36
Capital expenditures	(6)	(6)
Net cash (used in) investing activities	(912)	(899)
Cash flows from financing activities:		
Treasury stock	(1)	(11)
Common stock issued under employee plans	2	—
Dividends paid	(12)	(12)
Contractholder account deposits	2,138	2,046
Contractholder account withdrawals	(1,285)	(1,153)
Net cash provided by financing activities	842	870
Change in cash & cash equivalents	217	78
Cash & cash equivalents, beginning of period	502	576
Cash & cash equivalents, end of period	$719	$ 654
Supplemental disclosures of cash flow information		
Interest paid	$10	$ 10
Taxes paid	$5	$ 38

See accompanying notes to unaudited condensed consolidated financial statements.

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

(1) Basis of Presentation

Fidelity & Guaranty Life (“FGL” and, collectively with its subsidiaries, the “Company”) is a subsidiary of HRG Group, Inc. (formerly, Harbinger Group Inc. (“HRG”)). The accompanying unaudited consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for the Securities and Exchange Commission (“SEC”) Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in Fidelity & Guaranty Life and Subsidiaries' Annual Report on Form 10-K, for the year ended September 30, 2015 (“2015 Form 10-K”), should be read in connection with the reading of these interim unaudited condensed consolidated financial statements. Dollar amounts in the accompanying sections are presented in millions, unless otherwise noted. Premiums and benefits of certain reinsurance contracts, including the reinsurance contract with Front Street Re (Cayman) Ltd. ("FSRCI"), are presented on a net basis in the accompanying unaudited Condensed Consolidated Statements of Operations and related footnotes.

FGL markets products through its wholly-owned insurance subsidiaries, Fidelity & Guaranty Life Insurance Company (“FGL Insurance”) and Fidelity & Guaranty Life Insurance Company of New York (“FGL NY Insurance”), which together are licensed in all fifty states and the District of Columbia.

On November 8, 2015, FGL entered into an Agreement and Plan of Merger (the “Merger Agreement”), by and among FGL, Anbang Insurance Group Co., Ltd., a joint-stock insurance company established in the People’s Republic of China (“Anbang”), AB Infinity Holding, Inc., a Delaware corporation and a wholly-owned subsidiary of Anbang (“AB Infinity”), and AB Merger Sub, Inc., a Delaware corporation and a newly formed, wholly-owned subsidiary of AB Infinity (“Merger Sub”). Pursuant to the Merger Agreement, FGL will become an indirect wholly-owned subsidiary of Anbang.

Pursuant to the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of FGL common stock will be canceled and converted automatically into the right to receive $26.80 in cash, without interest, other than any shares of common stock owned by FGL as treasury stock or otherwise or owned by Anbang, AB Infinity or Merger Sub (which will be canceled and no payment will be made with respect thereto), shares of common stock granted pursuant to FGL’s employee equity award plan and those shares of common stock with respect to which appraisal rights under Delaware law are properly exercised and not withdrawn.

At the effective time of the Merger, each vested and unvested, FGL option to purchase shares of common stock, restricted shares of common stock, and performance-based restricted stock will become fully vested and automatically converted into the right to receive a cash payment in an amount pursuant to the Merger Agreement. In addition, at such time, each vested and unvested, stock option and restricted stock unit relating to shares of Fidelity & Guaranty Life Holdings, Inc., a subsidiary of FGL (“FGLH”) will become fully vested and automatically converted into the right to receive a cash payment in an amount pursuant to the Merger Agreement, and each dividend equivalent right held in respect of a share of FGLH stock (a “DER”), whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the amount accrued with respect to such DER.

The Merger is subject to closing conditions, including the receipt of regulatory approvals from the Iowa Insurance Division, New York Department of Financial Services, Vermont Department of Financial Regulation, China Insurance Regulatory Commission, and the Committee on Foreign Investment in the United States ("CFIUS").

On November 8, 2015, FS Holdco II Ltd., a wholly-owned subsidiary of HRG Group, Inc. and direct holder of 47,000,000 shares of FGL’s common stock representing approximately 81% of the outstanding shares of FGL’s common stock, delivered a written consent adopting, authorizing, accepting and approving in all respects the Merger Agreement and the transactions contemplated thereby, including the Merger. On November 25, 2015, FGL obtained the requisite approval for the Merger from the Vermont Department of Financial Regulation. On March 14, 2016, FGL received notification from CFIUS that it had concluded all action under Section 721 of the Defense Production

Act of 1950, as amended, and determined that there are no unresolved national security concerns with respect to the merger. The parties are not required to file a notification of the Merger under the Hart-Scott Rodino

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Antitrust Improvements Act of 1976, as amended, due to an available exemption. The adoption of the Merger Agreement by FGL's stockholders required the affirmative vote or written consent of holders of at least a majority of the outstanding shares of FGL's common stock.

Anbang continues to work on securing the required regulatory approvals and the parties are committed to securing such approvals, however, the closing of the FGL Merger, and the timing thereof, is subject to the regulatory review and approval process. In the event that the Merger Agreement is terminated, FGL may be required to pay a termination fee to Anbang and its subsidiaries of $51.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the three and nine months ended June 30, 2016, are not necessarily indicative of the results that may be expected for the full year ending September 30, 2016. Amounts reclassified out of other comprehensive income are reflected in net investment gains in the unaudited Condensed Consolidated Statements of Operations.

(2) Significant Accounting Policies and Practices

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and all other entities in which FGL has a controlling financial interest. All intercompany accounts and transactions have been eliminated in consolidation.

We are involved in certain entities that are considered variable interest entities ("VIEs") as defined under GAAP. Our involvement with VIEs is primarily to invest in assets that allow us to gain exposure to a broadly diversified portfolio of asset classes. A VIE is an entity that does not have sufficient equity to finance its own activities without additional financial support or where investors lack certain characteristics of a controlling financial interest. We assess our relationships to determine if we have the ability to direct the activities, or otherwise exert control to evaluate if we are the primary beneficiary of the VIE. See "Note 4. Investments" to the Company's unaudited Condensed Consolidated Financial Statements for additional information on the Company's investments in unconsolidated VIEs.

Recent Accounting Pronouncements

Amendments to Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the Financial Accounting Standards Board ("FASB") issued amended guidance (Accounting Standards Update ("ASU") 2016-01, Financial Instruments- Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities), effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Notable amendments in this update will:

- require all equity securities (other than equity investments accounted for under the equity method of accounting or requiring the consolidation of the investee) to be measured at fair value with changes in fair value recognized through net income
- allow equity investments that do not have readily determinable fair values to be measured at cost minus impairment (if any) plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer
- require qualitative assessment for impairment of equity investments without readily determinable fair values at each reporting period and, if the qualitative assessment indicates that impairment exists, to measure the investment at fair value
- eliminate the requirement to disclose the methods and significant assumptions used to estimate fair value (which is currently required to be disclosed for financial instruments measured at amortized cost on the balance sheet)

The amendments in this ASU should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, and the amendments related to equity securities without readily determinable fair values should be applied prospectively to equity investments that exist as of the date of adoption. The Company will not early adopt this standard and is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

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Amendments to Lease Accounting

In February 2016, the FASB issued amended guidance (ASU 2016-02, Leases (Topic 842)), effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Notable amendments in this update will:

- require entities to recognize the rights and obligations resulting from all leases or lease components of contracts, including operating leases, as lease assets and lease liabilities, with an exception allowed for leases with a term of 12 months or less
- create a distinction between finance leases and operating leases, with classification criteria substantially similar to that for distinguishing between capital leases and operating leases under previous guidance
- not retain the accounting model for leveraged leases under previous guidance for leases that commence after the effective date of ASU 2016-02
- provide additional guidance on separating the lease components from the nonlease components of a contract
- require qualitative disclosures along with specific quantitative disclosures to provide information regarding the amount, timing, and uncertainty of cash flows arising from leases
- include modifications to align lessor accounting with the changes to lessee accounting, as well as changes to the requirements of recognizing a transaction as a sale and leaseback transaction, however, these changes will have no impact on the Company's current lease arrangements

The amendments in this ASU may be early adopted. The amendments are required to be applied at the beginning of the earliest period presented using a modified retrospective approach (including several optional practical expedients related to leases commenced before the effective date). The Company will not early adopt this standard and is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued amended guidance (ASU 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting), effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Notable amendments in this update will simplify accounting for employee share-based payments in the following ways:

- all excess tax benefits and tax deficiencies will be recognized as income tax expense (benefit) on the income statement, as opposed to current GAAP which recognizes excess tax benefits in additional paid-in capital (only recognized when the deduction reduces taxes payable) and tax deficiencies as an offset to accumulated excess tax benefits on the income statement
- excess tax benefits will be classified along with other income tax cash flows as an operating activity on the cash flow statement (under current GAAP excess tax benefits are classified as a financing activity)
- an entity can elect to account for forfeitures as they occur or, as under current GAAP, accrue compensation cost based on an estimate of the number of awards that are expected to vest
- the threshold for an award to qualify for equity classification when shares are withheld to meet the employer's statutory withholding requirements now permits withholding up to the maximum statutory tax rates in applicable jurisdictions, as opposed to current GAAP which does not allow equity classification for an award if shares withheld are in excess of the employer's minimum statutory withholding requirements
- cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity

The amendments in this ASU may be early adopted during any interim or annual period. All amendments must be adopted in the same period. If adopted during an interim period, the amendments are required to be reflected as of the beginning of the fiscal year that includes the interim period. Amendments related to timing of when excess tax benefits are recognized, minimum statutory withholding requirements, and forfeitures should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement should be applied prospectively. The amendments related to the presentation of excess tax benefits on the statement of cash flows may be applied using either a prospective transition method

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or a retrospective transition method. The Company has determined that the impact of this new accounting guidance is not material to its consolidated financial statements.

New Credit Loss Standard

In June 2016, the FASB issued new guidance (ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments), effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Notable amendments in this update will change the accounting for impairment of most financial assets and certain other instruments in the following ways:

- financial assets (or a group of financial assets) measured at amortized cost will be required to be presented at the net amount expected to be collected, with an allowance for credit losses deducted from the amortized cost basis, resulting in a net carrying value that reflects the amount the entity expects to collect on the financial asset
- credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, rather than reductions in the amortized cost of the securities. The allowance methodology recognizes that value may be realized either through collection of contractual cash flows or through the sale of the security. Therefore, the amount of the allowance for credit losses will be limited to the amount by which fair value is below amortized cost because the classification as available for sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value
- the income statement will reflect the measurement of expected credit losses for newly recognized financial assets as well as the expected increases or decreases (including the reversal of previously recognized losses) of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount
- disclosures will be required to include information around how the credit loss allowance was developed, further details on information currently disclosed about credit quality of financing receivables and net investments in leases, and a rollforward of the allowance for credit losses for available-for-sale debt securities as well as an aging analysis for securities that are past due

The amendments in this ASU may be early adopted during any interim or annual period beginning after December 15, 2018. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

(3) Significant Risks and Uncertainties

Federal Regulation

In April 2016, the Department of Labor ("DOL") released its final "fiduciary" rule which could have a material impact on the Company, its products, distribution, and business model. The final rule treats persons who provide investment advice for a fee or other compensation with respect to assets of an employer plan or individual retirement account ("IRA") as fiduciaries of that plan or IRA. Significantly, the rule expands the definition of fiduciary to apply to persons, including insurance agents, who advise and sell products to IRA owners. As a practical matter, this means commissioned insurance agents selling the Company's IRA products must qualify for a prohibited transaction exemption which requires the agent and financial institution to meet various conditions including that an annuity sale be in the "best interest" of the client without regard for the agent's, financial institution's or other party's financial or other interests, and that any compensation paid to the agent and financial institution be reasonable. The final rule is effective June 2016 and generally applicable in April 2017. The rule has generated considerable controversy and is the subject of industry efforts to block implementation both in Congress and through court actions. The success or failure of these efforts cannot be predicted. Assuming the rule is not blocked, the precise impact of the rule on the financial services industry more generally, and the impact on the Company and its business in particular, is difficult to assess because the rule is new and still being studied. While we continue to analyze the regulation, we believe it could have an adverse effect on sales of annuity products to IRA owners particularly in the independent agent distribution

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channel. A significant portion of our annuity sales are to IRAs. Compliance with the prohibited transaction exemptions would likely require additional supervision of agents, cause changes to compensation practices and product offerings, and increase litigation risk, all of which could adversely impact our business, results of operations and/or financial condition.

Use of Estimates and Assumptions

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

Concentrations of Financial Instruments

As of June 30, 2016 and September 30, 2015, the Company's most significant investment in one industry, excluding United States ("U.S.") Government securities, was its investment securities in the banking industry with a fair value of $2,293 or 11% and $1,979 or 10%, respectively, of the invested assets portfolio, and an amortized cost of $2,227 and $1,962, respectively. As of June 30, 2016, the Company's holdings in this industry include investments in 95 different issuers with the top ten investments accounting for 35% of the total holdings in this industry. As of June 30, 2016, the Company had no investments in issuers that exceeded 10% of shareholders' equity. The Company's largest concentration in any single issuer as of June 30, 2016 was Wells Fargo & Company with a total fair value of $173 or 1% of the invested assets portfolio. As of September 30, 2015, the Company had investments in 1 issuer, Wells Fargo & Company (the company's largest concentration in any single issuer as of September 30, 2015), that exceeded 10% of shareholders' equity with a total fair value of $170 or 1% of the invested assets portfolio.

The Company has exposure to the commodities sector via holdings in both energy-related and metal-related issuers. The energy-related exposure is diversified across sub-sectors and 109 issuers as of June 30, 2016. The metal-related exposure is diversified across sub-sectors and 35 issuers as of June 30, 2016. Individual energy-related and metal-related holdings vary in their sensitivity to commodity price movements. At June 30, 2016, the Company held energy-related investments with an amortized cost and fair value of $1,585 and $1,529, respectively; and held metal-related investments with an amortized cost and fair value of $580 and $559, respectively. At September 30, 2015, the Company held energy-related investments with an amortized cost and fair value of $1,538 and $1,414, respectively; and held metal-related investments with an amortized cost and fair value of $613 and $513, respectively. At both June 30, 2016 and September 30, 2015, the Company's holdings in energy-related and metal-related investments were 7% and 3% of the investment portfolio, respectively. The Company has recognized $0 and $6 of other-than-temporary-impairment losses on metal-related investments and $4 and $4 for energy-related holding for the three and nine months ended June 30, 2016, respectively. The Company recognized no other-than-temporary-impairment losses for both metal and energy related investments in the three and nine months ended June 30, 2015.

Concentrations of Financial and Capital Markets Risk

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

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

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Concentration of Reinsurance Risk

The Company has a significant concentration of reinsurance with Wilton Reassurance Company (“Wilton Re”) and Front Street Re (Cayman) Ltd. ("FSRCI"), an affiliate, that could have a material impact on the Company’s financial position in the event that Wilton Re or FSRCI fail to perform their obligations under the various reinsurance treaties. Wilton Re is a wholly owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"). CPPIB has an AAA issuer credit rating from Standard & Poor's Ratings Services ("S&P") as of June 30, 2016. As of June 30, 2016, the net amount recoverable from Wilton Re was $1,541 and the net amount recoverable from FSRCI was $1,143. The coinsurance agreement with FSRCI is on a funds withheld basis. The Company monitors both the financial condition of individual reinsurers and risk concentration arising from similar geographic regions, activities and economic characteristics of reinsurers to reduce the risk of default by such reinsurers.

(4) Investments

The Company’s debt and equity securities investments have been designated as available-for-sale and are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income (loss) (“AOCI”) net of associated adjustments for deferred acquisition costs (“DAC”), value of business acquired (“VOBA”), and deferred income taxes. The Company’s consolidated investments at June 30, 2016 and September 30, 2015 are summarized as follows:

	June 30, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Available-for sale securities					
Asset-backed securities	$2,395	$ 5	$ (108)	$2,292	$2,292
Commercial mortgage-backed securities	844	17	(15)	846	846
Corporates	10,663	651	(187)	11,127	11,127
Equities	600	49	(4)	645	645
Hybrids	1,326	62	(71)	1,317	1,317
Municipals	1,528	217	(4)	1,741	1,741
Residential mortgage-backed securities	1,392	54	(42)	1,404	1,404
U.S. Government	233	12	—	245	245
Total available-for-sale securities	18,981	1,067	(431)	19,617	19,617
Derivative investments	223	42	(49)	216	216
Commercial mortgage loans	622	—	—	638	622
Other invested assets	94	—	(1)	91	93
Total investments	$19,920	$ 1,109	$ (481)	$20,562	$20,548

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	September 30, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Available-for-sale securities					
Asset-backed securities	$2,148	$ 5	$ (47)	$2,106	$2,106
Commercial mortgage-backed securities	878	14	(10)	882	882
Corporates	9,533	351	(354)	9,530	9,530
Equities	597	27	(4)	620	620
Hybrids	1,211	45	(42)	1,214	1,214
Municipals	1,520	103	(15)	1,608	1,608
Residential mortgage-backed securities	2,099	89	(26)	2,162	2,162
U.S. Government	233	11	—	244	244
Total available-for-sale securities	18,219	645	(498)	18,366	18,366
Derivative investments	218	13	(149)	82	82
Commercial mortgage loans	491	—	—	490	491
Other invested assets	164	—	(9)	153	155
Total investments	$19,092	$ 658	$ (656)	$19,091	$19,094

Included in AOCI were cumulative gross unrealized gains of $1 and gross unrealized losses of $2 related to the non-credit portion of other-than-temporary impairments ("OTTI") on non-agency residential mortgage-backed securities ("RMBS") at June 30, 2016 and September 30, 2015, respectively. The non-agency RMBS unrealized gains and losses represent the difference between amortized cost and fair value on securities that were previously impaired.

Securities held on deposit with various state regulatory authorities had a fair value of $17,389 and $16,012 at June 30, 2016 and September 30, 2015, respectively. Under Iowa regulations, insurance companies are required to hold securities on deposit in an amount no less than the Company's legal reserve as prescribed by Iowa regulations.

At June 30, 2016 and September 30, 2015, the company held investments that were non-income producing for a period greater than twelve months with fair values of $3 and $0, respectively.

In accordance with the Company's Federal Home Loan Bank of Atlanta (“FHLB”) agreements, the investments supporting the funding agreement liabilities are pledged as collateral to secure the FHLB funding agreement liabilities. The collateral investments had a fair value of $671 and $524 at June 30, 2016 and September 30, 2015, respectively.

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

	June 30, 2016	
	Amortized Cost	Fair Value
Corporates, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$255	$258
Due after one year through five years	1,868	1,913
Due after five years through ten years	3,257	3,384
Due after ten years	7,649	8,168
Subtotal	13,029	13,723
Other securities which provide for periodic payments:		
Asset-backed securities	2,395	2,292
Commercial mortgage-backed securities	844	846
Structured hybrids	721	707
Residential mortgage-backed securities	1,392	1,404
Subtotal	5,352	5,249
Total fixed maturity available-for-sale securities	$18,381	$18,972

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

The Company analyzes its ability to recover the amortized cost by comparing the net present value of cash flows expected to be collected with the amortized cost of the security. For mortgage-backed and asset-backed securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions, based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within the tranche structure is also considered. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. If the net present value is less than the amortized cost of the investment, an OTTI is recognized.

Based on the results of our process for evaluating available-for-sales securities in unrealized loss positions for OTTI discussed above, the Company determined that the unrealized losses as of June 30, 2016 were primarily due to credit spread widening. While recovery in the commodity and energy markets improved the overall portfolio, certain securities held in these sectors are still impacted by the sharp declines in energy prices experienced in 2015. Similarly, the high yield market, which affects prices of leveraged loans typically used to secure collateralized loan obligations ("CLO"), improved during the quarter but certain securities still show negative effects from commodity price declines from last year. Nevertheless, the overall average rating of the Company’s holdings in these sectors remains investment grade. Based on an assessment of all securities in the portfolio in unrealized loss positions, the Company determined that the unrealized losses on the securities presented in the table below were not other-than-temporarily impaired as of June 30, 2016.

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

	June 30, 2016					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$782	$ (34)	$1,178	$ (74)	$1,960	$ (108)
Commercial mortgage-backed securities	84	(2)	250	(13)	334	(15)
Corporates	587	(16)	1,660	(171)	2,247	(187)
Equities	36	(1)	57	(3)	93	(4)
Hybrids	132	(4)	442	(67)	574	(71)
Municipals	2	—	48	(4)	50	(4)
Residential mortgage-backed securities	233	(6)	508	(36)	741	(42)
Total available-for-sale securities	$1,856	$ (63)	$4,143	$ (368)	$5,999	$ (431)
Total number of available-for-sale securities in an unrealized loss position less than twelve months						305
Total number of available-for-sale securities in an unrealized loss position twelve months or longer						577
Total number of available-for-sale securities in an unrealized loss position						882

	September 30, 2015					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$816	$ (14)	$833	$ (33)	$1,649	$ (47)
Commercial mortgage-backed securities	262	(8)	133	(2)	395	(10)
Corporates	2,342	(201)	1,328	(153)	3,670	(354)
Equities	37	—	106	(4)	143	(4)
Hybrids	88	(4)	542	(38)	630	(42)
Municipals	220	(6)	192	(9)	412	(15)
Residential mortgage-backed securities	423	(10)	294	(16)	717	(26)
Total available-for-sale securities	$4,188	$ (243)	$3,428	$ (255)	$7,616	$ (498)
Total number of available-for-sale securities in an unrealized loss position less than twelve months						712
Total number of available-for-sale securities in an unrealized loss position twelve months or longer						396
Total number of available-for-sale securities in an unrealized loss position						1,108

At June 30, 2016 and September 30, 2015, securities in an unrealized loss position were primarily concentrated in investment grade, asset-backed, RMBS, hybrid and corporate debt instruments.

At June 30, 2016 and September 30, 2015, securities with a fair value of $312 and $302, respectively, had an unrealized loss greater than 20% of amortized cost (excluding U.S. Government and U.S. Government sponsored agency securities), which represented less than 2% of the carrying value of all investments in both reporting periods.

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The following table provides a reconciliation of the beginning and ending balances of the credit loss portion of OTTI on fixed maturity available-for-sale securities held by the Company for the three and nine months ended June 30, 2016 and 2015, for which a portion of the OTTI was recognized in AOCI:

	Three months ended		Nine months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Beginning balance	$ 3	$ 3	$ 3	$ 3
Increases attributable to credit losses on securities:				
OTTI was previously recognized	—	—	—	—
OTTI was not previously recognized	—	—	—	—
Ending balance	$ 3	$ 3	$ 3	$ 3

The Company recognized $13 and $24 of credit impairment losses in operations during the three and nine months ended June 30, 2016, respectively, and $4 of change of intent losses during the three and nine months ended June 30, 2016, respectively, related to fixed maturity securities with an amortized cost of $275 and a fair value of $247 at June 30, 2016. During the three and nine months ended June 30, 2015, respectively, the Company recognized $4 and $65 of credit impairment losses in operations related to fixed maturity securities and other invested assets with an amortized cost of $156 and a fair value of $91 at June 30, 2015.

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

	Three months ended		Nine months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
OTTI Recognized in Net Income:				
Asset-backed securities	$4	$ 3	$9	$ 27
Corporates	—	—	6	2
Related party loans	4	—	4	—
Other invested assets	9	—	9	—
Other assets	—	1	—	36
Total	$17	$ 4	$28	$ 65

The portion of OTTI recognized in AOCI is disclosed in the unaudited Condensed Consolidated Statements of Comprehensive Income.

In the second quarter of Fiscal 2015, the Company recognized credit-related impairment losses of $59, net of reinsurance, on available-for-sale debt securities, available-for-sale equity securities and other invested assets related to direct and indirect investments in RadioShack Corporation ("RSH") and other loans because the Company concluded the decline in the fair value of these investments was other-than-temporary. A summary of the RSH-related impairments by investment is as follows:

Type	Balance Sheet Classification	Three Months Ended March 31, 2015 OTTI Losses
Collateralized loan obligations ("CLOs") (a)	Fixed maturities, available-for-sale	$ 25

Preferred equity (a)	Equity securities, available-for-sale	21
Participations	Other invested assets	35
OTTI, gross of reinsurance		$ 81
CLOs (a)	Fixed maturities, available-for-sale	(1)
Preferred equity (a)	Equity securities, available-for-sale	(21)
OTTI, net of reinsurance		$ 59

(a) Preferred equity and a portion of the CLOs are included in the FSRCI funds withheld portfolio, accordingly all income and losses on these assets are ceded to FSRCI.

The fair values of the impairments summarized above were determined using the following inputs as follows:

- CLOs - The Company utilized a price from a third party valuation firm which considered the sufficiency of underlying loan collateral for the RSH loan and other loans.

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- Preferred equity - The Company utilized a price from a third party valuation firm which considered the updated fair value estimates of the Salus Capital Partners LLC ("Salus") CLO and the Salus participation in RSH, in which Salus owns investment interests.
- Participations - The Company considered the recovery of the underlying loan collateral for RSH based on the evidence obtained.

The total gross impact of the impairment losses above, excluding reinsurance with FSRCI was $81 for the second fiscal quarter ended March 31, 2015. RSH filed for bankruptcy on February 5, 2015. In late March 2015, the Court awarded a sale of assets at auction to another bidder, causing our collateral claim to become more junior to other claimants and resulting in our conclusion that the Company had realized an OTTI.
In June 2016, the cash proceeds from the RSH liquidation trust were distributed and the Company received $22. This reflected a recovery of 43% of par value, an increase over the 30% estimated recovery value recorded in the second fiscal quarter of 2015. As a result, the Company recognized a realized gain of $7 in the quarter ended June 30, 2016. The Company has a remaining direct investment in RSH of $3 as of June 30, 2016.

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Commercial Mortgage Loans

Commercial mortgage loans ("CMLs") represented approximately 3% of the Company's total investments as of June 30, 2016 and September 30, 2015. The Company primarily makes mortgage loans on income producing properties including hotels, industrial properties, retail buildings, multifamily properties and office buildings. The Company diversifies its CML portfolio by geographic region and property type to reduce concentration risk. Subsequent to origination, the Company continuously evaluates CMLs based on relevant current information to ensure properties are performing at a consistent and acceptable level to secure the related debt. The distribution of CMLs, gross of valuation allowances, by property type and geographic region is reflected in the following tables:

	June 30, 2016		September 30, 2015	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Property Type:				
Funeral Home	$1	— %	$1	— %
Hotel	23	4 %	13	3 %
Industrial - General	37	6 %	38	8 %
Industrial - Warehouse	86	14 %	76	15 %
Multifamily	71	11 %	64	13 %
Office	184	30 %	137	28 %
Retail	221	35 %	163	33 %
Total commercial mortgage loans, gross of valuation allowance	$623	100 %	$492	100 %
Allowance for loan loss	(1)		(1)	
Total commercial mortgage loans	$622		$491	
U.S. Region:				
East North Central	$138	22 %	$121	25 %
East South Central	21	3 %	12	2 %
Middle Atlantic	97	16 %	87	18 %
Mountain	69	11 %	42	9 %
New England	14	2 %	9	2 %
Pacific	160	26 %	113	23 %
South Atlantic	67	11 %	69	13 %
West North Central	14	2 %	14	3 %
West South Central	43	7 %	25	5 %
Total commercial mortgage loans, gross of valuation allowance	$623	100 %	$492	100 %
Allowance for loan loss	(1)		(1)	
Total commercial mortgage loans	$622		$491	

Within the Company's CML portfolio, 100% of all CMLs have a loan-to-value ("LTV") ratio of less than 75% at June 30, 2016 and September 30, 2015. As of June 30, 2016, all CMLs are current and have not experienced credit or other events which would require the recording of an impairment loss.

LTV and debt service coverage ("DSC") ratios are measures commonly used to assess the risk and quality of mortgage loans. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property's net income to its debt service payments. A DSC ratio of less than 1.00 indicates that a property's operations do not generate sufficient income to cover debt payments.

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The following table presents the recorded investment in CMLs by LTV and DSC ratio categories and estimated fair value by the indicated loan-to-value ratios at June 30, 2016 and September 30, 2015:

	Debt Service Coverage Ratios >1.25	1.00 - 1.25	N/A(a)	Total Amount	% of Total	Estimated Fair Value	% of Total
June 30, 2016							
LTV Ratios:							
Less than 50%	$182	$ 19	$ 1	$ 202	32 %	$ 205	32 %
50% to 60%	181	—	—	181	29 %	185	29 %
60% to 75%	240	—	—	240	39 %	248	39 %
Commercial mortgage loans	$603	$ 19	$ 1	$ 623	100%	$ 638	100%
September 30, 2015							
LTV Ratios:							
Less than 50%	$115	$ —	$ 11	$ 126	25 %	$ 125	25 %
50% to 60%	161	20	—	181	37 %	180	37 %
60% to 75%	185	—	—	185	38 %	185	38 %
Commercial mortgage loans	$461	$ 20	$ 11	$ 492	100%	$ 490	100%

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

We establish a general mortgage loan allowance based upon the underlying risk and quality of the mortgage loan portfolio using DSC ratio and LTV ratio. A higher LTV ratio will result in a higher allowance. A higher DSC ratio will result in a lower allowance. We believe that the DSC ratio is an indicator of default risk on loans. We believe that the LTV ratio is an indicator of the principal recovery risk for loans that default.

	June 30, 2016	September 30, 2015
Gross balance commercial mortgage loans	$ 623	$ 492
Allowance for loan loss	(1)	(1)
Net balance commercial mortgage loans	$ 622	$ 491

The Company recognizes a mortgage loan as delinquent when payments on the loan are greater than 30 days past due. At June 30, 2016 and September 30, 2015, we had no CMLs that were delinquent in principal or interest payments. The following provides the current and past due composition of our CMLs:

	June 30, 2016	September 30, 2015
Current to 30 days	$ 623	$ 492
Past due	—	—
Total carrying value	$ 623	$ 492

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

•borrower is in default,
•borrower has declared bankruptcy,
•there is growing concern about the borrower's ability to continue as a going concern,
•borrower has insufficient cash flows to service debt,

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

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If the borrower is determined to be in financial difficulty, we consider the following conditions to determine if the borrower will be granted a concession:
•assets used to satisfy debt are less than our recorded investment,
•interest rate is modified,
•maturity date extension at an interest rate less than market rate,
•capitalization of interest,
•delaying principal and/or interest for a period of three months or more, and
•partial forgiveness of the balance or charge-off.
Mortgage loan workouts, refinances or restructures that are classified as TDRs are individually evaluated and measured for impairment. As of June 30, 2016, our CML portfolio had no impairments, modifications or troubled debt restructuring.
Net investment income
The major sources of "Net investment income" on the accompanying unaudited Condensed Consolidated Statements of Operations were as follows:

	Three months ended		Nine months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Fixed maturity available-for-sale securities	$223	$ 199	$644	$ 589
Equity available-for-sale securities	7	8	23	26
Commercial mortgage loans	6	3	18	7
Related party loans	1	2	3	5
Invested cash and short-term investments	1	—	3	—
Other investments	3	5	8	16
Gross investment income	241	217	699	643
Investment expense	(5)	(5)	(14)	(15)
Net investment income	$236	$ 212	$685	$ 628

During the fiscal quarter ended June 30, 2015, the Company received notice that we are entitled to receive a settlement as a result of our ownership of certain RMBS that were issued by Countrywide Financial Corp. ("Countrywide"), an entity which was later acquired by Bank of America Corporation. An $18 cash settlement was received in the current quarter for a majority of the Countrywide securities, and another $2 is expected to be paid in the second fiscal quarter of 2017. In compliance with the Company's accounting policy described in "Note 2. Significant Accounting Policies and Practices" of the 2015 Form 10-K, the Company updated its cash flow projections for its best estimate of the recovery as of May 31, 2016 and determined the new effective yield, with the resulting immaterial impact recognized in "Net Investment Income".

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Net investment Gains (Losses)

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

	Three months ended		Nine months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net realized gains (losses) on fixed maturity available-for-sale securities	$4	$ 47	$6	$ 24
Realized gains (losses) on equity securities	1	1	2	—
Change in fair value of other derivatives and embedded derivatives	(2)	(2)	(1)	10
Realized losses on other invested assets	(10)	(1)	(13)	(39)
Net realized (losses) gains on available-for-sale securities	(7)	45	(6)	(5)
Realized gains (losses) on certain derivative instruments	(32)	37	(86)	118
Unrealized gains (losses) on certain derivative instruments	48	(44)	112	(90)
Change in fair value of reinsurance related embedded derivative	(37)	36	(27)	52
Realized (losses) gains on hedging derivatives and reinsurance-related embedded derivatives	(21)	29	(1)	80
Net investment (losses) gains	$(28)	$ 74	$(7)	$ 75

For the three and nine months ended June 30, 2016, proceeds from the sale of fixed maturity available-for-sale securities totaled $190 and $939, gross gains on such sales totaled $7 and $25, and gross losses totaled $3 and $15, respectively.

For the three and nine months ended June 30, 2015, proceeds from the sale of fixed maturity available-for-sale securities, totaled $1,864 and $3,670, gross gains on such sales totaled $61 and $96, and gross losses totaled $2 and $36, respectively.

Unconsolidated Variable Interest Entities

The Company owns investments in VIEs that are not consolidated within the Company's financial statements. VIEs do not have sufficient equity to finance their own activities without additional financial support and certain of its investors lack certain characteristics of a controlling financial interest. These VIEs are not consolidated in the Company's financial statements for the following reasons: 1) FGL Insurance does not have any voting rights or notice rights; 2) the Company does not have any rights to remove the investment manager; and 3) the Company was not involved in the design of the investment. These characteristics indicate that FGL Insurance lacks the ability to direct the activities, or otherwise exert control, of the VIEs and is not considered the primary beneficiary of them.

FGL Insurance participates in loans to third parties originated by Salus. Salus is an affiliated, limited liability company indirectly owned by HRG that originates senior secured asset-based loans to unaffiliated third-party borrowers. FGL Insurance also participates in CLOs managed by Salus and owns preferred equity in Salus within the funds withheld portfolio of the FSRCI treaty. Because Salus is not consolidated, the Company's maximum exposure to loss as a result of its investments in or with Salus is limited to the carrying value of its investments in Salus which totaled $117 and $251 as of June 30, 2016 and September 30, 2015, respectively. FGL's investments in or with Salus are detailed in "Note 14. Related Party Transactions" to the Company's unaudited Condensed Consolidated Financial Statements.

During the fiscal quarter ended June 30, 2015, FGL invested in Boardwalk, an unaffiliated limited partnership fund that will invest in consumer whole loans, asset-backed investments, high yield, private investments, bank portfolio liquidations, bridge financing and other investments. The initial funding occurred March 20, 2015 with the remaining commitment expected to fund over the course of the next 3 years. FGL has funded $11 of a $35 commitment as of June 30, 2016.

FGL also executed a commitment of $75 to purchase common shares in an unaffiliated private business development company ("BDC"). The BDC invests in secured and unsecured debt and equity securities of middle market companies in the United States. Due to the voting structure of the transaction, FGL does not have voting power. The initial capital call occurred June 30, 2015, with the remaining commitment expected to fund through 2017. FGL has funded

$38 as of June 30, 2016.

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(5) Derivative Financial Instruments

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

	June 30, 2016	September 30, 2015
Assets:		
Derivative investments:		
Call options	$ 215	$ 81
Futures contracts	1	1
Other invested assets:		
Other derivatives and embedded derivatives	20	21
Other assets:		
Reinsurance related embedded derivative	142	168
	$ 378	$ 271
Liabilities:		
Contractholder funds:		
FIA embedded derivative	$2,325	$2,149
Funds withheld for reinsurance liabilities:		
Call options payable to FSRCI	9	5
Other liabilities:		
Futures contracts	—	—
	$2,334	$2,154

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

	Three months ended		Nine months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenues:				
Net investment (losses) gains:				
Call options	$14	$ (7)	$21	$ 24
Futures contracts	2	—	5	4
Other derivatives and embedded derivatives	(2)	(2)	(1)	10
Reinsurance related embedded derivative	(37)	36	(27)	52
	$(23)	$ 27	$(2)	$ 90
Benefits and other changes in policy reserves				
FIA embedded derivatives	$77	$ (43)	$176	$ 266

Additional Disclosures

Other Derivatives and Embedded Derivatives

On June 16, 2014, FGL Insurance invested in a $35 fund-linked note issued by Nomura International Funding Pte. Ltd. The note provides for an additional payment at maturity based on the value of an embedded derivative in AnchorPath Dedicated Return Fund (the "AnchorPath Fund") of $11 which was based on the actual return of the fund. At June 30, 2016 the fair value of the fund-linked note and embedded derivative were $26 and $12, respectively. At maturity of the fund-linked note, FGL Insurance will receive the $35 face value of the note plus the value of the embedded derivative in the AnchorPath Fund. The additional payment at maturity is an embedded derivative reported in "Other invested assets", while the host is an available-for-sale security reported in "Fixed maturities, available-for-sale".

FGL Insurance participates in loans to third parties originated by Salus, an affiliated VIE, indirectly owned by HRG that provides asset-based financing. During Q3 2016, one of the participating loans was denominated in Canadian ("CAD") currency which is different from FGL Insurance's functional currency. At September 30, 2015, three additional loan participations were denominated in CAD currency. All four loans denominated in CAD currency have been settled as of June 30, 2016. Two of the loan participations included a provision for reimbursement from the borrower to FGL Insurance for any net foreign exchange losses realized by FGL Insurance under the loan agreements. FGL Insurance's ability to recover the foreign exchange losses under these loan participations was such that the Company established embedded derivatives equal to FGL Insurance's cumulative net foreign exchange loss on these loan participations. The value of the embedded derivatives, which is equal to the cumulative net foreign exchange loss recognized on these loan participations, net of an allowance for counterparty credit risk, was reflected in "Other invested assets" as of the balance sheet date with changes in fair value reflected in the Company's unaudited Condensed Consolidated Statements of Operations. As of June 30, 2016, all of the loan participations were settled in full and the related embedded derivative balance was reduced to zero. The value of the embedded derivative was $1 at September 30, 2015. The Company had realized losses of $1 and $1 for the three and nine months ended June 30, 2016, respectively; and realized losses of $1 and realized gains of $10 for the three and nine months ended June 30, 2015, respectively, related to these foreign exchange embedded derivatives included in "Net investment gains (losses)".

FGL Insurance also had two participating loans denominated in CAD currency which also required reimbursement from the borrower in CAD currency, but did not include a provision for reimbursement for any net foreign exchange losses from the borrower. Salus executed CAD swap agreements with FGL Insurance to convert the CAD cash flows into United States dollar ("USD") cash flows. Under these swap agreements, Salus will reimburse the Company for certain realized foreign exchange losses related to cash flows on these loan participations from origination date through maturity date. Reimbursement under the swap agreements is reduced in the event the counterparties on the underlying loan participations are unable to fully repay amounts due on those loan participations. FGL Insurance's ability to recover the foreign exchange losses under these swap agreements is such that the Company has established derivatives equal to FGL Insurance's cumulative net foreign exchange losses on these loan participations. The value of these derivatives is reflected in “Other invested assets” with the changes in the fair value reflected in the Company’s unaudited Condensed Consolidated Statements of Operations. Additionally, a subsidiary of HRG, HGI Funding LLC, executed an agreement with the Company to guarantee, subject to the terms of the agreement, the fulfillment of the accumulated foreign exchange loss recoverable from Salus. As of June 30, 2016, one of these loans is outstanding. The Company recognized an OTTI loss on the loan during the quarter ended June 30, 2016 and also recorded a reduction in the amount recoverable under the swap agreement. The value of these derivatives was $8 and $10 at June 30, 2016 and September 30, 2015, respectively, which is equal to the cumulative net realized foreign exchange loss recognized on these loan participations, net of allowance for counterparty credit risk. The Company had realized losses of $2 and $2 for the three and nine months ended June 30, 2016, respectively; and no realized gains for the three and nine months ended June 30, 2015 related to these foreign exchange derivatives included in "Net investment gains (losses)".

Credit Risk

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

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

		June 30, 2016				September 30, 2015			
Counterparty	Credit Rating (Fitch/Moody's/S&P) (a)	Notional Amount	Fair Value	Collateral	Net Credit Risk	Notional Amount	Fair Value	Collateral	Net Credit Risk

Merrill Lynch	A/*/A	$1,577	$ 29	$ —	$ 29	$2,233	$ 16	$ —	$ 16
Deutsche Bank	*/Baa2/BBB+	2,100	46	11	35	2,482			