Fidelity & Guaranty Life
Form 10-Q
February 03, 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 December 31, 2015

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 58,963,474 shares of the registrant's common stock outstanding as of February 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)

	December 31, 2015 (Unaudited)	September 30, 2015
ASSETS		
Investments:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost: December 31, 2015 - $17,684 September 30, 2015 - $17,622)	$17,428	$17,746
Equity securities, available-for-sale, at fair value (amortized cost: December 31, 2015 - $601; September 30, 2015 - $597)	637	620
Derivative investments	145	82
Commercial mortgage loans	616	491
Other invested assets	127	155
Total investments	18,953	19,094
Related party loans	81	78
Cash and cash equivalents	568	502
Accrued investment income	181	191
Reinsurance recoverable	3,552	3,579
Intangibles, net	1,162	988
Deferred tax assets	286	228
Other assets	248	265
Total assets	$25,031	$24,925
LIABILITIES AND SHAREHOLDERS' EQUITY		
Contractholder funds	$17,961	$17,770
Future policy benefits	3,473	3,468
Funds withheld for reinsurance liabilities	1,251	1,267
Liability for policy and contract claims	64	55
Debt	300	300
Other liabilities	583	563
Total liabilities	23,632	23,423
Commitments and contingencies		
Shareholders' equity:		
Preferred stock ($.01 par value, 50,000,000 shares authorized, no shares issued at December 31, 2015 and September 30, 2015)	$—	$—
Common stock ($.01 par value, 500,000,000 shares authorized, 58,963,902 issued and outstanding at December 31, 2015; 58,870,823 shares issued and outstanding at September 30, 2015)	1	1
Additional paid-in capital	718	714
Retained earnings	754	710
Accumulated other comprehensive (loss) income	(62)	88
	(12)	(11)

Treasury stock, at cost (534,514 shares at December 31, 2015; 512,391 shares at September 30, 2015)		
Total shareholders' equity	1,399	1,502
Total liabilities and shareholders' equity	$25,031	$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	
	December 31, 2015	December 31, 2014
	(Unaudited)	
Revenues:		
Premiums	$15	$ 11
Net investment income	222	208
Net investment gains	63	59
Insurance and investment product fees and other	29	20
Total revenues	329	298
Benefits and expenses:		
Benefits and other changes in policy reserves	181	224
Acquisition and operating expenses, net of deferrals	28	29
Amortization of intangibles	41	16
Total benefits and expenses	250	269
Operating income	79	29
Interest expense	(6)	(6)
Income before income taxes	73	23
Income tax expense	25	9
Net income	$48	$ 14
Net income per common share:		
Basic	$0.82	$ 0.24
Diluted	$0.82	$ 0.24
Weighted average common shares used in computing net income per common share:		
Basic	58,219,260	58,283,327
Diluted	58,542,588	58,453,554
Cash dividend per common share	$0.065	$ 0.065
Supplemental disclosures:		
Total other-than-temporary impairments	$(10)	$ —
Portion of other-than-temporary impairments included in other comprehensive income	—	—
Net other-than-temporary impairments	(10)	—
Gains on derivative instruments	70	63
Other realized investment gains (losses)	3	(4)
Total net investment gains	$63	$ 59

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	
	December 31, 2015	December 31, 2014
	(Unaudited)	
Net income	$48	$ 14
Other comprehensive (loss) income:		
Unrealized investment (losses) gains:		
Change in unrealized investment (losses) gain before reclassification adjustment	(373)	(11)
Net reclassification adjustment for losses (gains) included in net income	7	4
Changes in unrealized investment (losses) gains after reclassification adjustment	(366)	(7)
Adjustments to intangible assets	135	1
Changes in deferred income tax asset/liability	81	2
Net changes to derive comprehensive (loss) income for the period	(150)	(4)
Comprehensive (loss) income, net of tax	$(102)	$ 10

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 (Loss)	Treasury Stock	Total Shareholders' Equity
Balance, September 30, 2015	$—	$1	$714	$710	$ 88	$(11)	$ 1,502
Treasury shares purchased	—	—	—	—	—	(1)	(1)
Dividends	—	—	—	(4)	—	—	(4)
Common stock issued under employee plans	—	—	2	—	—		2
Net income	—	—	—	48	—	—	48
Unrealized investment losses, net	—	—	—	—	(150)	—	(150)
Stock compensation	—	—	2	—	—	—	2
Balance, December 31, 2015	$—	$1	$718	$754	$ (62)	$(12)	$ 1,399

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)

	Three months ended December 31, 2015 (Unaudited)	December 31, 2014
Cash flows from operating activities:		
Net income	$48	$14
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	4	6
Amortization	(15)	(11)
Deferred income taxes	23	6
Interest credited/index credit to contractholder account balances	136	197
Net recognized (gains) on investments and derivatives	(63)	(59)
Charges assessed to contractholders for mortality and administration	(24)	(15)
Deferred policy acquisition costs, net of related amortization	(39)	(76)
Changes in operating assets and liabilities:		
Reinsurance recoverable	(9)	(14)
Future policy benefits	5	(20)
Funds withheld from reinsurers	(16)	37
Collateral posted (returned)	66	39
Other assets and other liabilities	24	(15)
Net cash provided by operating activities	140	89
Cash flows from investing activities:		
Proceeds from available-for-sale investments sold, matured or repaid	896	825
Proceeds from derivatives instruments and other invested assets	89	128
Proceeds from commercial mortgage loans	2	31
Cost of available-for-sale investments acquired	(1,021)	(1,370)
Costs of derivatives instruments and other invested assets	(78)	(100)
Costs of commercial mortgage loans	(87)	(101)
Related party loans	(3)	19
Capital expenditures	(2)	(2)
Net cash (used in) investing activities	(204)	(570)
Cash flows from financing activities:		
Treasury stock	(1)	(1)
Common stock issued under employee plans	2	—
Dividends paid	(4)	(4)
Contractholder account deposits	569	873
Contractholder account withdrawals	(436)	(407)
Net cash provided by financing activities	130	461
Change in cash & cash equivalents	66	(20)
Cash & cash equivalents, beginning of period	502	576
Cash & cash equivalents, end of period	$568	$556
Supplemental disclosures of cash flow information		
Interest paid	$10	$5
Taxes paid	$1	$26

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.

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 share 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 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. Upon termination of the Merger Agreement, under specified circumstances, FGL may be required to pay a termination fee to Anbang and its subsidiaries of $51.

Certain GAAP policies, which significantly affect the determination of financial position, results of operations and cash flows, are summarized in our 2015 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the three months ended December 31, 2015, are not necessarily indicative of the results that may be expected for the full year ending September 30, 2016. All material inter-company accounts and transactions have been eliminated in consolidation. Amounts reclassified out of other comprehensive income are reflected in net investment gains in the unaudited Condensed Consolidated Statements of Operations.

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(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 U.S. 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 2015, 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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(3) Significant Risks and Uncertainties
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 December 31, 2015 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 $2,093 or 11% and $1,979 or 10%, respectively, of the invested assets portfolio. The Company’s holdings in this industry include investments in 87 different issuers with the top ten investments accounting for 37% of the total holdings in this industry. As of December 31, 2015, the Company had investments in 2 issuers, Wells Fargo & Company and Goldman Sachs Group, Inc., that exceeded 10% of shareholders' equity with a total fair value of $310 or 2% of the invested assets portfolio. As of September 30, 2015, the Company had investments in 1 issuer, Wells Fargo & Company, that exceeded 10% of shareholders' equity with a total fair value of $170 or 1% of the invested assets portfolio. Additionally, the Company’s largest concentration in any single issuer as of December 31, 2015 and September 30, 2015 was in Wells Fargo & Company which had a fair value of $169 or 1% and $170 or 1% of the invested assets portfolio, respectively.
Concentrations of Financial and Capital Markets Risk
The Company is exposed to financial and capital markets risk, including changes in interest rates and credit spreads which can have an adverse effect on the Company’s results of operations, financial condition and liquidity. The Company expects to continue to face challenges and uncertainties that could adversely affect its results of operations and financial condition.
The Company’s exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates, in the absence of other countervailing changes, will decrease the net unrealized gain position of the Company’s investment portfolio and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of the Company’s products may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring the Company to liquidate assets in an unrealized loss position. This risk is mitigated to some extent by the high level of surrender charge protection provided by the Company’s products.
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 December 31, 2015. As of December 31, 2015, the net amount recoverable from Wilton Re was $1,492 and the net amount recoverable from FSRCI was $1,198. 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.

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(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 December 31, 2015 and September 30, 2015 are summarized as follows:

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Available-for sale securities					
Asset-backed securities	$2,294	$2	$(105)	$2,191	$2,191
Commercial mortgage-backed securities	848	8	(21)	835	835
Corporates	10,073	280	(528)	9,825	9,825
Equities	601	41	(5)	637	637
Hybrids	1,174	43	(57)	1,160	1,160
Municipals	1,543	104	(16)	1,631	1,631
Residential mortgage-backed securities	1,519	60	(33)	1,546	1,546
U.S. Government	233	7	—	240	240
Total available-for-sale securities	18,285	545	(765)	18,065	18,065
Derivative investments	223	18	(96)	145	145
Commercial mortgage loans	616	—	—	602	616
Other invested assets	135	—	(8)	125	127
Total investments	$19,259	$563	$(869)	$18,937	$18,953

	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 December 31, 2015 and September 30, 2015. 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 $15,976 and $16,012 at December 31, 2015 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.

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The Company held no non-income producing investments for a period greater than twelve months during the three months ended December 31, 2015 and 2014.

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 $512 and $524 at December 31, 2015 and September 30, 2015, respectively.

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

	December 31, 2015	
	Amortized Cost	Fair Value
Corporates, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$195	$195
Due after one year through five years	1,847	1,831
Due after five years through ten years	3,034	2,981
Due after ten years	7,288	7,218
Subtotal	12,364	12,225
Other securities which provide for periodic payments:		
Asset-backed securities	2,294	2,191
Commercial mortgage-backed securities	848	835
Structured hybrids	659	631
Residential mortgage-backed securities	1,519	1,546
Subtotal	5,320	5,203
Total fixed maturity available-for-sale securities	$17,684	$17,428

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 December 31, 2015 were primarily due to credit spread widening and an increase in risk free rates. Additionally, pressure in the commodity and energy markets affected the prices of securities held in these sectors; however the overall rating of the Company’s holdings in these sectors remains investment grade. Accordingly, the Company determined that the unrealized losses on the securities presented in the table below were not OTTI as of December 31, 2015.

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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:

	December 31, 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	$936	$(31)	$1,071	$(74)	$2,007	$(105)
Commercial mortgage-backed securities	538	(19)	55	(2)	593	(21)
Corporates	3,208	(229)	1,635	(299)	4,843	(528)
Equities	37	(1)	70	(4)	107	(5)
Hybrids	149	(4)	488	(53)	637	(57)
Municipals	319	(9)	169	(7)	488	(16)
Residential mortgage-backed securities	353	(9)	421	(24)	774	(33)
U.S. Government	—	—	59	—	59	—
Total available-for-sale securities	$5,540	$(302)	$3,968	$(463)	$9,508	$(765)
Total number of available-for-sale securities in an unrealized loss position less than twelve months						834
Total number of available-for-sale securities in an unrealized loss position twelve months or longer						525
Total number of available-for-sale securities in an unrealized loss position						1,359

	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						712

unrealized loss position less than twelve months	
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 December 31, 2015 and September 30, 2015, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments.

At December 31, 2015 and September 30, 2015, securities with a fair value of $758 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 4% and 2% of the carrying value of all investments at December 31, 2015 and September 30, 2015, respectively.

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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 months ended December 31, 2015 and 2014, for which a portion of the OTTI was recognized in AOCI:

	Three months ended	
	December 31, 2015	December 31, 2014
Beginning balance	$3	$3
Increases attributable to credit losses on securities:		
OTTI was previously recognized	—	—
OTTI was not previously recognized	—	—
Ending balance	$3	$3

The Company recognized $10 of credit impairment losses in operations during the three months ended December 31, 2015 related to fixed maturity securities with an amortized cost of $64 and a fair value of $54 at December 31, 2015. During the three months ended December 31, 2014, the Company recognized no material credit impairment losses in operations.

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	
	December 31, 2015	December 31, 2014
OTTI Recognized in Net Income:		
Asset-backed securities	$4	$—
Corporates	6	—
Total	$10	$—

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

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Commercial Mortgage Loans

Commercial mortgage loans ("CMLs") represented approximately 3% of the Company's total investments as of December 31, 2015 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:

	December 31, 2015		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	87	14 %	76	15 %
Multifamily	71	12 %	64	13 %
Office	174	28 %	137	28 %
Retail	224	36 %	163	33 %
Total commercial mortgage loans, gross of valuation allowance	$617	100 %	$492	100 %
Valuation allowance	(1)		(1)	
Total commercial mortgage loans	$616		$491	
U.S. Region:				
East North Central	$127	21 %	$121	25 %
East South Central	21	4 %	12	2 %
Middle Atlantic	98	16 %	87	18 %
Mountain	69	11 %	42	9 %
New England	14	2 %	9	2 %
Pacific	162	26 %	113	23 %
South Atlantic	68	11 %	69	13 %
West North Central	14	2 %	14	3 %
West South Central	44	7 %	25	5 %
Total commercial mortgage loans, gross of valuation allowance	$617	100 %	$492	100 %
Valuation allowance	(1)		(1)	
Total commercial mortgage loans	$616		$491	

The Company had a CML portfolio with 100% of all CMLs having a loan-to-value ("LTV") ratio of less than 75% at December 31, 2015 and September 30, 2015. As of December 31, 2015, all CMLs are current and have not experienced credit or other events which would require the recording of an OTTI 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 December 31, 2015 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
December 31, 2015							
LTV Ratios:							
Less than 50%	$173	$—	$11	$184	30 %	$181	30 %
50% to 60%	175	19	—	194	31 %	189	31 %
60% to 75%	239	—	—	239	39 %	232	39 %
Commercial mortgage loans	$587	$19	$11	$617	100 %	$602	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 do default.

	December 31, 2015	September 30, 2015
Gross balance commercial mortgage loans	$617	$492
Allowance for loan loss	(1)	(1)
Net balance commercial mortgage loans	$616	$491

The Company recognizes a mortgage loan as delinquent when payments on the loan are greater than 30 days past due. At December 31, 2015 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:

	December 31, 2015	September 30, 2015
Current to 30 days	$617	$492
Past due	—	—
Total carrying value	$617	$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 was granted a concession:

- assets used to satisfy debt are less than our recorded investment,
- interest rate is modified,
- maturity date extension at an interest rate less than market rate,
- capitalization of interest,
- delaying principal and/or interest for a period of three months or more, and
- partial forgiveness of the balance or charge-off.

Mortgage loan workouts, refinances or restructures that are classified as TDRs are individually evaluated and measured for impairment. As of December 31, 2015, our CML portfolio had no impairments, modifications or troubled debt restructuring.

During the fiscal quarter ended June 30, 2015, we amended our Investment Management Agreement with CorAmerica, an affiliate of the Company, to include the origination and servicing of our Commercial Mortgage Loan portfolio. FGL's affiliation with CorAmerica is detailed in "Note 14. Related Party Transactions" to the Company's unaudited Condensed Consolidated Financial Statements. Consequently, servicing of the portfolio was transferred from the prior servicer, Principal Real Estate Investors ("Principal"), to CorAmerica during the fiscal quarter ended June 30, 2015.

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	
	December 31, 2015	December 31, 2014
Fixed maturity available-for-sale securities	$210	$196
Equity available-for-sale securities	8	9
Commercial mortgage loans	6	1
Related party loans	1	2
Other investments	1	5
Gross investment income	226	213
Investment expense	(4)	(5)
Net investment income	$222	$208

During the fiscal quarter ended June 30, 2015, we received notice that we are entitled to receive a settlement as a result of our ownership of certain RMBS that were issued by Countrywide, an entity which was later acquired by Bank of America. We have estimated our expected recovery from this settlement to be between $15 and $20, with a best estimate of $18. In compliance with our accounting policy described in "Note 2. Significant Accounting Policies and Practices" of the 2015 Form 10-K, we updated our cash flow projections for our best estimate of the recovery as of December 31, 2015 and will accrete it prospectively over the remaining life of the related securities through our effective yield and recognize the impact within "Net investment income". This change to our cash flow projections had an immaterial impact on our "Net investment income" during the first fiscal quarter of 2016. The weighted average remaining life on the affected securities is approximately 6 years.

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Net investment Gains

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

	Three months ended	
	December 31, 2015	December 31, 2014
Net realized losses on fixed maturity available-for-sale securities	$(5)	$(4)
Realized gains on equity securities	—	1
Net realized losses on securities	(5)	(3)
Realized (losses) gains on certain derivative instruments	(12)	41
Unrealized gains on certain derivative instruments	53	2
Change in fair value of reinsurance related embedded derivative	27	18
Change in fair value of other derivatives and embedded derivatives	2	2
Realized gains on derivatives and embedded derivatives	70	63
Realized losses on other invested assets	(2)	(1)
Net investment gains	$63	$59

For the three months ended December 31, 2015, proceeds from the sale of fixed maturity available-for-sale securities totaled $564, gross gains on such sales totaled $13, and gross losses totaled $9.

For the three months ended December 31, 2014, proceeds from the sale of fixed maturity available-for-sale securities, totaled $434, gross gains on such sales totaled $8, and gross losses totaled $13.

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 Capital Partners, LLC ("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 collateralized loan obligations ("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 $172 and $251 as of December 31, 2015 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.

FGL Insurance also participates in an investment managed by Fifth Street Management, LLC ("Fifth Street"). Fifth Street Senior Loan Fund II (the "Fund") invests in loans selected and/or originated by Fifth Street. Fifth Street is an unaffiliated, limited liability company that originates financing for the Fund's investment activity through CLOs. The Company's maximum exposure to loss as a result of its investments in or with Fifth Street is limited to the carrying value of its investments in or with Fifth Street which totaled $55 and $57 at December 31, 2015 and September 30, 2015, respectively.

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 $8 of a $35 commitment as of December 31, 2015.

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

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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 $29 as of December 31, 2015.

(5) Derivative Financial Instruments

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

	December 31, 2015	September 30, 2015
Assets:		
Derivative investments:		
Call options	$ 145	$ 81
Futures contracts	—	1
Other invested assets:		
Other derivatives and embedded derivatives	23	21
Other assets:		
Reinsurance related embedded derivative	195	168
	$ 363	$ 271
Liabilities:		
Contractholder funds:		
FIA embedded derivative	$2,200	$2,149
Funds withheld for reinsurance liabilities:		
Call options payable to FSRCI	8	5
Other liabilities:		
Futures contracts	2	—
	$2,210	$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	
	December 31, 2015	December 31, 2014
Revenues:		
Net investment (losses) gains:		
Call options	$36	$ 39
Futures contracts	5	4
Other derivatives and embedded derivatives	2	2
Reinsurance related embedded derivative	27	18
	$70	$ 63
Benefits and other changes in policy reserves		
FIA embedded derivatives	$51	$ 232

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 December 31, 2015 the fair value of the fund-link note and embedded derivative were $23 and $11, 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

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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. As of December 31, 2015, four of the participating loans are denominated in Canadian ("CAD") currency which is different from FGL Insurance's functional currency. Two of the participating loans include a provision for reimbursement from the borrower to FGL Insurance for any net foreign exchange losses realized by FGL Insurance under the loan in which FGL Insurance has a participation interest. FGL Insurance's ability to recover the foreign exchange losses under these loan participations is such that the Company has established embedded derivatives equal to FGL Insurance's cumulative net foreign exchange loss on these loan participations. The value of the embedded derivatives is 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. The value of the embedded derivatives at each balance sheet date which is equal to the cumulative net foreign exchange loss recognized on these loan participations at the balance sheet date, net of an allowance for counterparty credit risk, was $1 and $1 at December 31, 2015 and September 30, 2015, respectively. The Company had realized gains of $0 and $1 for the three months ended December 31, 2015 and 2014, respectively, related to these foreign exchange embedded derivatives included in "Other invested assets".
The remaining two participating loans denominated in CAD currency also require reimbursement from the borrower in CAD currency, but do not include a provision for reimbursement for any net foreign exchange losses from the borrower. Consequently, 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. 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 the parent company of Salus and the Company's parent, HRG, 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. The value of these derivatives at each balance sheet date which is equal to the cumulative net realized foreign exchange loss recognized on these loan participations, net of allowance for counterparty credit risk was $11 and $10 at December 31, 2015 and September 30, 2015, respectively. The Company had realized gains of $2 and $0 for the three months ended December 31, 2015 and 2014, respectively, related to these foreign exchange derivatives included in "Other invested assets".
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:

		December 31, 2015				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	$2,225	$28	$—	$28	$2,233	$16	$—	$16
Deutsche Bank	A-/A3/BBB+	2,717	48	24	24	2,482	26	—	26
	*/A1/A+	4,084	64	49	15	4,086	35	7	28

Morgan Stanley									
Barclay's Bank	A/A2/A-	394	5	—	5	392	4	—	4
Total		$9,420	$145	$73	$72	$9,193	$81	$7	$74

(a) An * represents credit ratings that were not available.

Collateral Agreements

The Company is required to maintain minimum ratings as a matter of routine practice as part of its over-the-counter derivative agreements on ISDA forms. Under some ISDA agreements, the Company has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the

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open derivative contracts between the parties, at which time any amounts payable by the Company or the counterparty would be dependent on the market value of the underlying derivative contracts. The Company’s current rating allows multiple counterparties the right to terminate ISDA agreements. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, the Company and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. As of December 31, 2015 and September 30, 2015, counterparties posted $73 and $7 of collateral, respectively, which is included in "Cash and cash equivalents" with an associated payable for this collateral included in "Other liabilities" on the unaudited Condensed Consolidated Balance Sheets. Accordingly, the maximum amount of loss due to credit risk that the Company would incur if parties to the call options failed completely to perform according to the terms of the contracts was $72 and $74 at December 31, 2015 and September 30, 2015, respectively.

The Company held 1,068 and 738 futures contracts at December 31, 2015 and September 30, 2015, respectively. The fair value of the futures contracts represents the cumulative unsettled variation margin (open trade equity, net of cash settlements). The Company provides cash collateral to the counterparties for the initial and variation margin on the futures contracts which is included in "Cash and cash equivalents " in the accompanying unaudited Condensed Consolidated Balance Sheets. The amount of cash collateral held by the counterparties for such contracts was $5 and $3 at December 31, 2015 and September 30, 2015, respectively.

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(6) Fair Value of Financial Instruments

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

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

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

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

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

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

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

	December 31, 2015				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Cash and cash equivalents	$568	$—	$—	$568	$568
Fixed maturity securities, available-for-sale:					
Asset-backed securities	—	2,112	79	2,191	2,191
Commercial mortgage-backed securities	—	696	139	835	835
Corporates	—	8,853	972	9,825	9,825
Hybrids	—	1,160	—	1,160	1,160
Municipals	—	1,593	38	1,631	1,631
Residential mortgage-backed securities	—	1,546	—	1,546	1,546
U.S. Government	59	181	—	240	240
Equity securities available-for-sale	26	571	40	637	637
Derivative financial instruments	—	145	—	145	145
Reinsurance related embedded derivative, included in other assets	—	195	—	195	195
Other invested assets	—	13	95	108	108
Total financial assets at fair value	$653	$17,065	$1,363	$19,081	$19,081
Liabilities					
Derivatives:					
FIA embedded derivatives, included in contractholder funds	$—	$—	$2,200	$2,200	$2,200
Derivative instruments - futures contracts	2	—	—	2	2
Call options payable for FSRCI, included in funds withheld for reinsurance liabilities	—	8	—	8	8
Total financial liabilities at fair value	$2	$8	$2,200	$2,210	$2,210

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	September 30, 2015				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Cash and cash equivalents	$502	$—	$—	$502	$502
Fixed maturity securities, available-for-sale:					
Asset-backed securities	—	2,068	38	2,106	2,106
Commercial mortgage-backed securities	—	738	144	882	882
Corporates	—	8,566	964	9,530	9,530
Hybrids	—	1,214	—	1,214	1,214
Municipals	—	1,569	39	1,608	1,608
Residential mortgage-backed securities	—	2,162	—	2,162	2,162
U.S. Government	60	184	—	244	244
Equity securities available-for-sale	26	560	34	620	620
Derivative financial instruments	1	81	—	82	82
Reinsurance related embedded derivative, included in other assets	—	168	—	168	168
Other invested assets	—	11	129	140	140
Total financial assets at fair value	$589	$17,321	$1,348	$19,258	$19,258
Liabilities					
Derivatives:					
FIA embedded derivatives, included in contractholder funds	$—	$—	$2,149	$2,149	$2,149
Call options payable for FSRCI, included in funds withheld for reinsurance liabilities	—	5	—	5	5
Total financial liabilities at fair value	$—	$5	$2,149	$2,154	$2,154

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

Valuation Methodologies

Fixed Maturity Securities & Equity Securities

The Company measures the fair value of its securities based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and the Company will then consistently apply the valuation methodology to measure the security’s fair value. The Company's fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include a third-party pricing service, independent broker quotations or pricing matrices. The Company uses observable and unobservable inputs in its valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators and industry and economic events are monitored and further market data will be acquired when certain thresholds are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. The Company has an equity investment in a private business development company which is not traded on an exchange or valued by other sources such as analytics or brokers. The Company based the fair value of this investment on an estimated net asset value provided by the investee. Management did not make any adjustments to this valuation. The significant unobservable input used in the fair value measurement of equity securities available-for-sale for which the market-approach valuation technique is employed is yields for comparable securities. Increases (decreases) in the yields would result in lower or higher, respectively, fair value measurements. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. The fair value of the Company's investment in mutual funds is based on the net asset value published by the respective mutual fund and represents the value the Company would have received if it withdrew its investment on the balance sheet date. Management believes the broker quotes are prices at which trades could be executed based on historical trades executed at broker-quoted or slightly higher prices.

The Company did not adjust prices received from third parties as of December 31, 2015 and September 30, 2015. However, the Company does analyze the third-party valuation methodologies and its related inputs to perform assessments to determine the appropriate level within the fair value hierarchy.

Derivative Financial Instruments

The fair value of call option assets is based upon valuation pricing models, which represents what the Company would expect to receive or pay at the balance sheet date if it canceled the options, entered into offsetting positions, or exercised the options. Fair values for these instruments are determined using market-observable inputs, including interest rates, yield curve volatilities, and other factors. Fair values for call option assets were determined externally by an independent consulting firm for reporting periods prior to September 30, 2015 and were determined internally using similar valuation pricing models as of September 30, 2015 and for any subsequent period. The fair values of the embedded derivatives in the Company's FIA products are derived using market indices, pricing assumptions and historical data. The fair value of the reinsurance related embedded derivative in the funds withheld reinsurance agreement with FSRCI is estimated based upon the change in the fair value of the assets supporting the funds withheld from reinsurance liabilities. As the fair value of the assets is based on a quoted market price of similar assets (Level 2), the fair value of the embedded derivative is based on market-observable inputs and is classified as Level 2. The fair value of futures contracts represents the cumulative unsettled variation margin (open trade equity, net of cash settlements) which represents what the Company would expect to receive or pay at the balance sheet date if it canceled the futures contract or entered into offsetting positions. Prior to December 31, 2015 future contracts have been classified as Level 2, but it was determined that these contracts are now classified as Level 1.

The significant unobservable inputs used in the fair value measurement of FIA embedded derivatives included in contractholder funds are market value of option, interest swap rates, mortality multiplier, surrender rates, and non-performance spread. The mortality multiplier at December 31, 2015 and September 30, 2015 was applied to the Annuity 2000 mortality tables. Significant increases (decreases) in the market value of option in isolation would result in a higher or lower, respectively, fair value measurement. Significant increases or decreases in interest swap rates, mortality multiplier, surrender rates, or non-performance spread in isolation would result in a lower or higher, respectively, fair value measurement. Generally, a change in any one unobservable input would not result in a change in any other unobservable input.

Investment Contracts

Investment contracts include deferred annuities, FIAs, indexed universal life policies ("IULs") and immediate annuities. The fair value of deferred annuity, FIA, and IUL contracts is based on their cash surrender value (i.e. the cost the Company would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of the respective reporting date. At December 31, 2015 and September 30, 2015, this resulted in higher fair value reserves relative to the carrying value. The Company is not required to, and has not, estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value.

Other Invested Assets

Fair value of our loan participation interest securities approximates the unpaid principal balance of the participation interest as of December 31, 2015. In making this assessment, the Company considered the sufficiency of the underlying loan collateral, movements in the benchmark interest rate between origination date and December 31, 2015, the primary market participant for these securities and the short-term maturity of these loans (less than 1 year). Fair value of our loan participation interest in Radioshack Corporation ("RSH") is based upon a best estimate of the expected liquidation value of the underlying collateral. As of December 31, 2015, substantially all of RSH assets in the estate have been converted to cash through liquidation and the fair value of the Company's RSH-related holdings reflects these cash balances, net of estimated expenses. While substantially all assets represent cash, the wind down process continues; therefore, some variability still exists in the fair value related to these costs.

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

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

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

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

Commercial Mortgage loans

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

Policy Loans (included within Other Invested Assets)

Also included in "Other invested assets" are policy loans. Fair values for policy loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar credit risk. Loans with similar characteristics are aggregated for purposes of the calculations.

Limited Partnership Investment (included in Other Invested Assets)

Fair value of our limited partnership investment, a private equity fund, is based upon estimated net asset value information and is classified as Level 3. For further discussion about our limited partnership investment see “Note 4. Investments” to the Company's unaudited Condensed Consolidated Financial Statements.

Related Party Loans

The related party loans' (discussed in "Note 14. Related Party Transactions" to the Company's unaudited Condensed Consolidated Financial Statements) carrying value at par approximates fair value, as this is the exit price for the obligation of these loans.

Debt

The fair value of debt is based on quoted market prices. The inputs used to measure the fair value of our outstanding debt are classified as Level 2 within the fair value hierarchy.

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Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of December 31, 2015 and September 30, 2015 are as follows:

	Fair Value at December 31, 2015	Valuation Technique	Unobservable Input(s)	Range (Weighted average) December 31, 2015
Assets				
Asset-backed securities	$54	Broker-quoted	Offered quotes	97.80% - 105.50% (99.28%)
Asset-backed securities (Salus CLO equity tranche)	25	Third-Party Valuation	Offered quotes	36.62% - 36.63% (36.63%)
			Discount rate	17.00%
			Constant default rate	2.00%
			RSH Recovery	30.00%
			Other loan recoveries	4.00% - 100.00%
Commercial mortgage-backed securities	139	Broker-quoted	Offered quotes	98.25% - 118.66% (111.01%)
Corporates	911	Broker-quoted	Offered quotes	50.00% - 110.87% (99.37%)
Corporates	61	Matrix Pricing	Quoted prices	105.00% - 141.17% (109.05%)
Municipals	38	Broker-quoted	Offered quotes	109.67%
Equity securities available-for-sale	29	Net Asset Value	Not applicable	100.00%
Equity securities available-for-sale	6	Matrix Pricing	Quoted prices	100.00%
Equity securities available-for-sale (Salus preferred equity)	5	Market-approach	Yield	17.20%
			RSH Recovery	30.00%
			Discount rate	17.00%
			Salus CLO Equity	41.80%
Other invested assets:				
Available-for-sale embedded derivative	11	Black-Scholes model	Market value of AnchorPath fund	100.00%
Loan participations	69	Market Pricing	Offered quotes	100.00%
Salus participation - RSH Corporation	15	Liquidation value – 30% Recovery Estimate	Recovery estimate (wind-down costs)	30.18% - 34.16%
Total	$1,363			
Liabilities				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$2,200	Discounted Cash Flow	Market value of option	0.00% - 28.52% (1.54%)
			SWAP rates	1.74% - 2.19% (1.96%)
			Mortality multiplier	80.00% - 80.00% (80.00%)

		Surrender rates	0.50% - 75.00% (10.09%)
		Non-performance spread	0.25% - 0.25% (0.25%)
Total liabilities at fair value	$2,200		

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	Fair Value at September 30, 2015	Valuation Technique	Unobservable Input(s)	Range (Weighted average) September 30, 2015
Assets				
Asset-backed securities	$10	Broker-quoted	Offered quotes	100.37% - 107.84% (102.42%)
Asset-backed securities (Salus CLO equity tranche)	28	Third-Party Valuation	Offered quotes	41.80%
			Discount rate	15.00%
			Constant default rate	2.00%
			RSH recovery	30.00%
			Other loan recoveries	4.00% - 100.00%
Commercial mortgage-backed securities	144	Broker-quoted	Offered quotes	99.32% - 119.00% (110.95%)
Corporates	898	Broker-quoted	Offered quotes	56.75% - 113.83% (100.69%)
Corporates	66	Matrix Pricing	Quoted prices	104.58% - 142.43% (110.03%)
Municipals	39	Broker-quoted	Offered quotes	111.47%
Equity securities available-for-sale	25	Net Asset Value	Not applicable	100.00%
Equity securities available-for-sale	6	Matrix Pricing	Quoted prices	100.00%
Equity securities available-for-sale (Salus preferred equity)	3	Market-approach	Yield	11.00%
			RSH recovery	30.00%
			Discount rate	15.00%
			Salus CLO equity	41.80%
Other invested assets:				
Available-for-sale embedded derivative	10	Black-Scholes Model	Market value of AnchorPath fund	100.00%
Loan participations	104	Market Pricing	Offered quotes	100.00%
Salus participation - RSH Corporation	15	Liquidation value – 30% Recovery Estimate	Recovery estimate (wind-down costs)	30.00% - 34.00%
Total	$1,348			
Liabilities				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$2,149	Discounted Cash Flow	Market value of option	0.00% - 33.83% (1.01%)
			SWAP rates	1.38% - 2.00% (1.69%)
			Mortality multiplier	80.00% - 80.00% (80.00%)
			Surrender rates	0.50% - 75.00% (10.13%)

		Non-performance spread	0.25% - 0.25% (0.25%)
Total liabilities at fair value	$2,149		

Changes in unrealized losses (gains), net in the Company’s FIA embedded derivatives are included in "Benefits and other changes in policy reserves" in the Condensed Consolidated Statements of Operations.

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The following tables summarize changes to the Company's financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the three months ended December 31, 2015 and 2014, respectively. This summary excludes any impact of amortization of VOBA and DAC. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	Three months ended December 31, 2015							
		Total Gains (Losses)						
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets								
Fixed maturity securities available-for-sale:								
Asset-backed securities	$38	$(4)	$—	$22	$—	$—	$23	$79
Commercial mortgage-backed securities	144	—	—	—	—	(1)	(4)	139
Corporates	964	—	(13)	44	—	(8)	(15)	972
Municipals	39	—	(1)	—	—	—	—	38
Equity securities available-for-sale	34	—	2	4	—	—	—	40
Other invested assets:								
Available-for-sale embedded derivative	10	1	—	—	—	—	—	11
Loan participations	119	(3)	1	18	—	(51)	—	84
Total assets at Level 3 fair value	$1,348	$(6)	$(11)	$88	$—	$(60)	$4	$1,363
Liabilities								
FIA embedded derivatives, included in contractholder funds	$2,149	$51	$—	$—	$—	$—	$—	$2,200
Total liabilities at Level 3 fair value	$2,149	$51	$—	$—	$—	$—	$—	$2,200

(a) The net transfers out of Level 3 during the three months ended December 31, 2015 were exclusively to Level 2.

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	Three months ended December 31, 2014							
		Total Gains (Losses)						
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets								
Fixed maturity securities available-for-sale:								
Asset-backed securities	$74	$—	$—	$3	$—	$—	$(6)	$71
Commercial mortgage-backed securities	83	—	1	36	—	—	—	120
Corporates	834	—	9	61	—	(3)	—	901
Municipals	37	—	2	—	—	—	—	39
Equity securities available-for-sale	40	—	(2)	—	—	—	—	38
Other invested assets:								
Available-for-sale embedded derivative	11	1	—	—	—	—	—	12
Loan participations	213	—	(1)	56	—	(31)	—	237
Total assets at Level 3 fair value	$1,292	$1	$9	$156	$—	$(34)	$(6)	$1,418
Liabilities								
FIA embedded derivatives, included in contractholder funds	$1,908	$232	$—	$—	$—	$—	$—	$2,140
Total liabilities at Level 3 fair value	$1,908	$232	$—	$—	$—	$—	$—	$2,140

(a) The net transfers out of Level 3 during the three months ended December 31, 2014 were exclusively to Level 2.
The following tables provide the carrying value and estimated fair value of our financial instruments that are carried on the unaudited Condensed Consolidated Balance Sheet at amounts other than fair value, summarized according to the fair value hierarchy previously described.

	December 31, 2015				
	Level 1	Level 2	Level 3	Total Estimated Fair Value	Carrying Amount
Assets					
Commercial mortgage loans	$—	$—	$602	$602	$616
Policy loans, included in other invested assets	—	—	9	9	11
Limited partnership investment, included in other invested assets	—	—	8	8	8
Related party loans	—	—	81	81	81
Total	$—	$—	$700	$700	$716
Liabilities					

Investment contracts, included in contractholder funds	$—	$—	$14,168	$14,168	$15,761
Debt	—	307	—	307	300
Total	$—	$307	$14,168	$14,475	$16,061

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	September 30, 2015				
	Level 1	Level 2	Level 3	Total Estimated Fair Value	Carrying Amount
Assets					
Commercial mortgage loans	$—	$—	$490	$490	$491
Policy loans, included in other invested assets	—	—	9	9	11
Limited partnership investment, included in other invested assets	—	—	4	4	4
Related party loans	—	—	78	78	78
Total	$—	$—	$581	$581	$584
Liabilities					
Investment contracts, included in contractholder funds	$—	$—	$14,126	$14,126	$15,621
Debt	—	312	—	312	300
Total	$—	$312	$14,126	$14,438	$15,921

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. There were no transfers between Level 1 and Level 2 for the three months ended December 31, 2015 and 2014.

Primary market issuance and secondary market activity for certain asset-backed securities during the three months ended December 31, 2015 and 2014 increased the market observable inputs used to establish fair values for similar securities. These factors, along with more consistent pricing from third-party sources, resulted in the Company concluding that there is sufficient trading activity in similar instruments to support classifying these securities as Level 2 as of December 31, 2015 and 2014. Accordingly, the Company’s assessment resulted in one security transferred into Level 3 with valuation of $23 related to asset-backed securities and three securities transferred out of Level 3 with valuation of $19 related to corporate and commercial mortgage-backed securities during the three months ended December 31, 2015.

During the three months ended December 31, 2014, there were net transfers out of Level 3 of $6, related to asset-backed securities.

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(7) Intangible Assets

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

	VOBA	DAC	Total
Balance at September 30, 2015	$187	$801	$988
Deferrals	—	80	80
Less: Amortization related to:			
Unlocking	6	—	6
Interest	3	8	11
Amortization	(25)	(33)	(58)
Add: Adjustment for unrealized investment losses	1	134	135
Balance at December 31, 2015	$172	$990	$1,162
Accumulated amortization	$407		

	VOBA	DAC	Total
Balance at September 30, 2014	$59	$456	$515
Deferrals	—	93	93
Less: Amortization related to:			
Unlocking	1	(2)	(1)
Interest	3	5	8
Amortization	(11)	(12)	(23)
Add: Adjustment for unrealized investment gains	7	(6)	1
Balance at December 31, 2014	$59	$534	$593
Accumulated amortization	$361		

Amortization of VOBA and DAC is based on the historical, current and future expected gross margins or profits recognized, including investment gains and losses. The interest accrual rate utilized to calculate the accretion of interest on VOBA ranged from 4% to 5%. The adjustment for unrealized net investment losses/gains represents the amount of VOBA and DAC that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the “shadow adjustments” as the additional amortization is reflected in AOCI rather than the statement of operations. As of December 31, 2015 and September 30, 2015, the VOBA balance included cumulative adjustments for net unrealized investment losses of $2 and $1, respectively, and the DAC balances included cumulative adjustments for net unrealized investment losses (gains) of $133 and $(1), respectively.

The above DAC balances include $65 and $59 of deferred sales inducements, net of shadow adjustments, as of December 31, 2015 and September 30, 2015, respectively.

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

Fiscal Year	Estimated Amortization Expense VOBA
2016	22
2017	26
2018	22
2019	18
2020	14
Thereafter	68

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(8) Debt

The Company's outstanding debt as of December 31, 2015 and September 30, 2015 is as follows:

	December 31, 2015	September 30, 2015
Debt	$300	$300
Revolving credit facility	—	—

As of December 31, 2015 and September 30, 2015, the Company has not drawn on the revolver. As of December 31, 2015 and September 30, 2015, the interest rate would be equal to 5.5% and 5.25%, respectively, had the Company drawn on the revolver. As of both December 31, 2015 and September 30, 2015, the amount available to be drawn on the revolver was $150.

The interest expense and amortization of debt issuance costs of the Company's debt for the three months ended December 31, 2015 and 2014, respectively, were as follows:

	Three months ended			
	December 31, 2015		December 31, 2014	
	Interest Expense	Amortization	Interest Expense	Amortization
Debt	$5	$1	$5	$1
Revolving credit facility	—	—	—	—

(9) Equity

Share Repurchases

On September 2, 2014, the Company's Board of Directors authorized the repurchase of up to 500 thousand shares of the Company's outstanding shares of common stock over the next twelve months. As of June 30, 2015, the share repurchase program was completed and a total of 512 thousand shares of common stock have been repurchased at cost for a total cost of $11, which are held in treasury, of which 500 thousand shares were pursuant to the repurchase program and 12 thousand shares were acquired to satisfy employee income tax withholding pursuant to the Company's stock compensation plan. During the three months ended December 31, 2015, an additional 22 thousand shares were acquired for a total cost of $1 to satisfy employee income tax withholding pursuant to the Company's stock compensation plan resulting in a total of 534 thousand shares repurchased, held in treasury, for a total cost of $12. Subsequent to the Company's repurchase of shares, HRG indirectly held 47,000 thousand shares of FGL's outstanding common stock, representing an 80% interest at December 31, 2015.

Dividends

The Company declared the following cash dividends during the three months ended December 31, 2015 and 2014:

Date Declared	Date Paid	Date Shareholders of record	Shareholders of record (in thousands)	Cash Dividend declared (per share)	Total cash paid
November 18, 2014	December 15, 2014	December 1, 2014	58,279	$0.065	$4
November 12, 2015	December 14, 2015	November 30, 2015	58,144	$0.065	$4

On February 2, 2016, FGL's Board of Directors declared a quarterly cash dividend of $0.065 per share. The dividend will be paid on March 7, 2016 to shareholders of record as of the close of business on February 22, 2016.

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(10) Stock Compensation

The Merger Agreement with Anbang provides for accelerated vesting of all unvested awards under the FGL Plans and FGLH Plans and the automatic conversion into a right to receive a cash payment in an amount pursuant to the Merger Agreement for all vested and unvested awards under these Plans. See “Note 1. Basis of Presentation”. All of these awards contain a “change in control” provision which requires vesting of the awards to be accelerated if the awards are not replaced by substantially similar awards after a change in control which has not yet occurred.

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

	Three months ended	
	December 31, 2015	December 31, 2014
FGL Plans		
Stock options	$—	$—
Restricted shares	1	1
Performance restricted stock units	1	1
Unrestricted shares	—	—
	2	2
FGLH Plans		
Stock Incentive Plan - stock options	—	1
2011 dividend equivalent plan	—	—
Amended and Restated Stock Incentive Plan - stock options	1	2
Amended and Restated Stock Incentive Plan - restricted stock units	1	1
2012 dividend equivalent plan	—	—
	2	4
Total stock compensation expense	4	6
Related tax benefit	1	2
Net stock compensation expense	$3	$4

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

Total compensation expense related to the FGL Plans and FGLH Plans not yet recognized as of December 31, 2015 and the weighted-average period over which this expense will be recognized are as follows:

	Unrecognized Compensation Expense	Weighted Average Recognition Period in Years
FGL Plans		
Stock options	$1	2
Restricted shares	3	2
Performance restricted stock units	4	1
Unrestricted shares	—	N/A
	8	
FGLH Plans		
Stock Incentive Plan - stock options	—	N/A
2011 dividend equivalent plan	—	N/A
Amended and Restated Stock Incentive Plan - stock options	—	0
Amended and Restated Stock Incentive Plan - restricted stock units	—	0
2012 dividend equivalent plan	—	0
	—	
Total unrecognized stock compensation expense	$8	1

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FGL Plans

FGL's Compensation Committee is authorized to grant up to 2,838 thousand equity awards under the FGL Plans. At December 31, 2015, 1,204 thousand equity awards are available for future issuance under the FGL Plans.

FGL granted 119 thousand and 176 thousand stock options to certain officers, directors, other key employees and Compensation Committee members in the three months ended December 31, 2015 and 2014, respectively. These stock options vest in equal installments over a period of three years and expire on the seventh anniversary of the grant date. The total fair value of the options granted in the three months ended December 31, 2015 and 2014 was $0 and $1, respectively.

At December 31, 2015, the intrinsic value of stock options outstanding, exercisable and vested or expected to vest was $1, $1, and $1, respectively. At December 31, 2015, the weighted average remaining contractual term of stock options outstanding, exercisable and vested or expected to vest was 6 years, 5 years and 6 years, respectively.

During the three months ended December 31, 2015, the intrinsic value of stock options exercised, total cash received upon exercise and the related tax benefit realized was $0, $2 and $0, respectively. During the three months ended December 31, 2014, the intrinsic value of stock options exercised, total cash received upon exercise and the related tax benefit realized was not material.

A summary of FGL's outstanding stock options as of December 31, 2015, and related activity during the three months then ended, is as follows (option amount in thousands):

Stock Option Awards	Options		Weighted Average Exercise Price
Stock options outstanding at September 30, 2015	317		$21.60
Granted	119		25.75
Exercised	(75	)	24.43
Forfeited or expired	(4	)	22.76
Stock options outstanding at December 31, 2015	357		22.37
Exercisable at December 31, 2015	108		19.39
Vested or projected to vest at December 31, 2015	351		22.36

The following assumptions were used in the determination of the grant date fair values using the Black-Scholes option pricing model and based on the value of FGL's common stock for stock options granted during the three months ended December 31, 2015:

Weighted average fair value per options granted	$1.01
Risk-free interest rate	0.42%
Assumed dividend yield	1.14%
Expected option term	0.5 years
Volatility	14.55%

The dividend yield is based on the expected dividend rate during the expected life of the option. Expected volatility is based on the range of FGL's stock prices after the announcement of the pending merger transaction with Anbang. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life of the options granted represents the period of time from the grant date to the estimated closing date of the merger transaction with Anbang as this transaction has a high probability of completion, upon closing of the merger transaction the vesting of the options will be accelerated and the options will be paid out as described in "Note 1. Basis of Presentation", and the option agreement contains a "change in control" provision which requires vesting of the options to be accelerated if the options are not replaced by substantially similar awards after the change in control.

FGL granted 26 thousand and 138 thousand restricted shares to certain officers, directors, other key employees and Compensation Committee members in the three months ended December 31, 2015 and 2014, respectively. These shares vest in equal installments over a period of three years. FGL granted 12 thousand restricted shares to an officer in the three months ended December 31, 2014 that vested over a period of one year. In the three months ended December 31, 2014, FGL also granted 100 thousand restricted shares to a certain director which vest in three tranches;

20% on the first anniversary of the grant date; 50% on the second anniversary of the

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grant date; and 30% on the third anniversary of the grant date. The total fair value of the restricted shares granted in 2015 and 2014 was $1 and $6, respectively.

A summary of FGL's nonvested restricted shares outstanding as of December 31, 2015, and related activity during the three months then ended, is as follows (share amount in thousands):

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value
Nonvested restricted shares outstanding at September 30, 2015	246	$21.92
Granted	26	25.75
Vested	(91)	21.37
Forfeited	(9)	22.54
Nonvested restricted shares outstanding at December 31, 2015	172	22.77

FGL also granted 32 thousand performance restricted stock units ("PRSUs") to senior executive officers under the Omnibus Plan in the three months ended December 31, 2014. These units vest on September 30, 2016, contingent on the satisfaction of performance criteria and on the officer's continued employment unless otherwise noted in the agreement. PRSUs subject to vesting are adjusted based on FGL's financial yearly performance, which is evaluated on two non-GAAP measures: (1) pre-tax adjusted operating income, and (2) return on equity. Depending on the performance results for each year, the ultimate payout of PRSUs could range from zero to 200% of the target award for each year. One-half of the award is earned based on each year's results for the awards granted in the three months ended December 31, 2014. The total fair value of the PRSUs granted in the three months ended December 31, 2014 assuming attainment of the target performance level in each year was $1.

A summary of nonvested PRSUs outstanding as of December 31, 2015, and related activity during the three months then ended, is as follows (share amount in thousands):

Performance Restricted Stock Units (PRSUs)	Shares	Weighted Average Grant Date Fair Value
Nonvested PRSUs outstanding at September 30, 2015	515	$17.69
Granted	—	—
Vested	—	—
Forfeited	—	—
Nonvested PRSUs outstanding at December 31, 2015	515	17.69

Additionally, in the three months ended December 31, 2014, FGL granted unrestricted shares totaling 8 thousand to certain directors in payment for services rendered. Total fair value of the unrestricted shares on the grant date was $0 for the three months ended December 31, 2014.

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FGLH Plans

A summary of FGLH's outstanding stock options as of December 31, 2015, and related activity during the three months then ended, is as follows (option amount in thousands):

Stock Option Awards	FGLH Options	Weighted Average Exercise Price
Stock options outstanding at September 30, 2015	87	$45.04
Granted	—	—
Exercised	—	—
Forfeited or expired	—	49.45
Stock options outstanding at December 31, 2015	87	45.01
Vested and exercisable at December 31, 2015	86	44.98
Vested or projected to vest at December 31, 2015	86	45.01

At December 31, 2015, the liability for vested or expected to vest stock options was based on the fair values of the outstanding options. The following assumptions were used in the determination of these fair values using the Black-Scholes option pricing model and based on the value of FGLH's common stock:

Weighted average stock option fair value	$88.34	
FGLH common stock fair value	$134.00	
FGL common stock value	$25.37	
Risk-free interest rate	0.47	%
Assumed dividend yield	1.14	%
Expected option term	0.5 years	
Volatility	14.55	%

The primary assumption used in the determination of the fair value of FGLH's common stock is the value of the Company's common stock and a discount for lack of liquidity which was reduced to 5% from the historical assumption of 10% due to the shortened expected life of the options as a result of the pending merger transaction with Anbang. The dividend yield is based on the expected dividend rate during the expected life of the option. Expected volatility is based on the range of FGL's stock prices after the announcement of the pending merger transaction with Anbang. The expected life of the options granted represents the period of time from the grant date to the estimated closing date of the merger transaction with Anbang as this transaction has a high probability of completion, upon closing of the merger transaction the vesting of the options will be accelerated and the options will be paid out as described in "Note 1. Basis of Presentation", and the option agreements contain a "change in control" provision which requires vesting of the options to be accelerated if the options are not replaced by substantially similar awards after the change in control.

At December 31, 2015, the intrinsic value of stock options outstanding, exercisable and vested or expected to vest was $8, $8 and $8, respectively. At December 31, 2015, the weighted average remaining contractual term of stock options outstanding, exercisable and vested or expected to vest was 4, 4 and 4, respectively. The intrinsic value of stock options exercised and the amount of cash paid upon exercise during the three months ended December 31, 2015 and 2014 was $0 and $0, respectively.

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A summary of FGLH's nonvested restricted stock units as of December 31, 2015 and related activity during the three months then ended is as follows (share amount in thousands):

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value (a)
Nonvested restricted stock units outstanding at September 30, 2015	11	$49.57
Granted	—	—
Vested	(11)	49.45
Forfeited	—	49.45
Nonvested restricted stock units outstanding at December 31, 2015	—	61.15

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

The amount of cash paid upon vesting for restricted stock units which vested during the three months ended December 31, 2015 and 2014 was $2 and $1, respectively.

(11) Income Taxes

The provision for income taxes represents federal income taxes. The effective tax rate for the three month period ended December 31, 2015 was 34%. The effective tax rate for the three month period ended December 31, 2014 was 39%. The effective tax rate on pre-tax income in the current period differs from the U.S Federal statutory rate primarily due to the impact of favorable permanent adjustments. The largest component impacting the effective tax rate for the comparative three month period was increases to the valuation allowance against the Company's non-life subsidiary's deferred tax assets ("DTAs") offsetting the impact of other favorable adjustments.

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

At December 31, 2015, unutilized capital loss carry forwards generated during the tax year ended December 31, 2010 expired. The expiration of the fully valued capital loss carry forward deferred tax assets resulted in deferred income tax expense of $72, fully offset by a valuation allowance of $72 for the three month period ended December 31, 2015. As of December 31, 2015, the Company had a partial valuation allowance of $48 against its gross deferred tax assets of $334. The valuation allowance is largely an offset to the non-life company deferred tax assets that are considered more likely than not to be unrecoverable due to insufficient sources of future income. In addition, a valuation allowance still exists against life company capital loss carryforwards that are now expected to be utilized in the current fiscal year before they expire. The remaining valuation allowance on life company capital loss carryforwards will be recognized through the effective tax rate during the current fiscal year.

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(12) Commitments and Contingencies

Commitments

The Company has unfunded investment commitments as of December 31, 2015 based upon the timing of when investments are executed compared to when the actual investments are funded, as some investments require that funding occur over a period of months or years. A summary of unfunded commitments by invested asset class are included below:

Asset Type	December 31, 2015
Other invested assets	$87
Other assets	39
Total	$126

Contingencies

Regulatory and Litigation Matters

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

FGL is assessed amounts by the state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At December 31, 2015, FGL has accrued $3 for guaranty fund assessments that is expected to be offset by estimated future premium tax deductions of $3.

The Company has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration’s Death Master File (the "Death Master File") and compliance with state claims practices regulation. Legislation requiring insurance companies to use the Death Master File to identify potential claims has been enacted in a number of states. As a result of these legislative and regulatory developments, in May 2012, the Company undertook an initiative to use the Death Master File and other publicly available databases to identify persons potentially entitled to benefits under life insurance policies, annuities and retained asset accounts. In addition, FGL has received audit and examination notices from several state agencies responsible for escheatment and unclaimed property regulation in those states and in some cases has challenged the audits including litigation against the Controller for the State of California which is subject to a stay. FGL believes its current accrual will cover the reasonably estimated liability arising out of these developments, however costs that cannot be reasonably estimated as of the date of this filing are possible as a result of ongoing regulatory developments and other future requirements related to these matters.

Except for the Eddie L. Cressy v. Fidelity Guaranty [sic] Life Insurance Company, et. al. ("Cressy"), which has been settled, and the putative class action complaint filed by Dale R. Ludwick, discussed below, there have been no material updates to our legal proceedings during the period. See "Note 12. Commitments and Contingencies" in our 2015 Form 10-K for a detailed discussion of our legal proceedings.

On July 5, 2013, Plaintiff Eddie L. Cressy filed a putative class Complaint captioned Cressy v. Fidelity Guaranty [sic] Life Insurance Company, et. al. in the Superior Court of California, County of Los Angeles (the "Court"), Case No. BC-514340. The Complaint was filed after the Plaintiff was unable to maintain an action in federal court. The Complaint asserts, inter alia, that the Plaintiff and members of the putative class relied on Defendants’ advice in purchasing allegedly unsuitable equity-indexed insurance policies.

On January 2, 2015, the Court entered Final Judgment in Cressy, certifying the class for settlement purposes, and approving the class settlement reached on April 4, 2014. On August 10, 2015, the Company tendered $1 to the Settlement Administrator for a claim review fund. The Company implemented an interest enhancement feature

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for certain policies as part of the class settlement, which enhancement began on October 12, 2015. On December 11, 2015, the parties filed a Joint Motion to amend the January 2, 2015 Final Order and Judgment, to extend the deadline for settlement completion from January 28, 2016 to October 24, 2016.

At December 31, 2015, the Company estimated the total cost for the settlement, legal fees and other costs related to Cressy would be $9, with a liability for the unpaid portion of the estimate of $2. The Company has incurred and paid $4 related to legal fees and other costs and $3 related to settlement costs as of December 31, 2015. Based on the information currently available the Company does not expect the actual cost for settlement, legal fees and other related costs to differ materially from the amount accrued.

During the third quarter of 2015, the Company, HRG and OM Group (UK) Limited reached a global settlement that resolved all prior outstanding claims arising under the First Amended and Restated Stock Purchase Agreement, dated February 17, 2011 (the "F&G Stock Purchase Agreement") between FGL (previously, HFG) and OMGUK. As a part of the settlement, the Company received $4 to settle its outstanding claim that OMGUK was obligated to indemnify the Company for the costs to defend and the settlement of the actions brought by Plaintiff Cressy.

On January 7, 2015, a putative class action complaint was filed in the United States District Court, Western District of Missouri, captioned Dale R. Ludwick, on behalf of Herself and All Others Similarly Situated v. Harbinger Group Inc., Fidelity & Guaranty Life Insurance Company, Raven Reinsurance Company, and Front Street Re (Cayman) Ltd. The complaint alleges violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO"), requests injunctive and declaratory relief seeks unspecified compensatory damages for the putative class in an amount not presently determinable, treble damages, and other relief, and claims the plaintiff overpaid at least $0 for her annuity. The Company believes it has meritorious defenses and intends to vigorously defend the litigation. On April 13, 2015, the Company joined in the filing of a joint motion to dismiss the complaint, which is pending before the Court. As of December 31, 2015, the Company did not have sufficient information to determine whether the Company is exposed to any losses that would be either probable or reasonably estimable beyond an expense contingency estimate of $1, which was accrued during the three months ended December 31, 2015.

(13) Reinsurance

The effect of reinsurance on premiums earned, benefits incurred and reserve changes for the three months ended December 31, 2015 and 2014 were as follows:

	Three months ended			
	December 31, 2015		December 31, 2014	
	Net Premiums Earned	Net Benefits Incurred	Net Premiums Earned	Net Benefits Incurred
Direct	$64	$247	$63	$293
Assumed	—	—	9	7
Ceded	(49)	(66)	(61)	(76)
Net	$15	$181	$11	$224

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the three months ended December 31, 2015 and 2014, the Company did not write off any reinsurance balances. During the three months ended December 31, 2015 and 2014, the Company did not commute any ceded reinsurance.

Effective April 1, 2015, Security Life of Denver ("SLD") recaptured a traditional life block of business previously assumed by the Company and simultaneously ceded this business to Wilton Re.

No policies issued by the Company have been reinsured with any foreign company, which is controlled, either directly or indirectly, by a party not primarily engaged in the business of insurance.

The Company has not entered into any reinsurance agreements in which the reinsurer may unilaterally cancel any reinsurance for reasons other than non-payment of premiums or other similar credit issues.

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(14) Related Party Transactions
FSRCI
We have reinsured certain of our liabilities and obligations to FSRCI. As we are not relieved of our liability to our policyholders for this business, the liabilities and obligations associated with the reinsured policies remain on our unaudited Condensed Consolidated Balance Sheets with a corresponding reinsurance recoverable from FSRCI. In addition to various remedies that we would have in the event of a default by FSRCI, we continue to hold assets in support of the transferred reserves. At December 31, 2015 and September 30, 2015, the Company's reinsurance recoverable included $1,198 and $1,227, respectively, related to FSRCI and funds withheld for reinsurance liabilities included $1,242 and $1,258, respectively, related to FSRCI.
Below are the ceded operating results to FSRCI for the three months ended December 31, 2015 and 2014:

	Three Months Ended	
Revenues:	December 31, 2015	December 31, 2014
Premiums	$—	$—
Net investment income	17	16
Net investment gains	1	6
Insurance and investment product fees	1	1
Total revenues	19	23
Benefits and expenses:		
Benefits and other changes in policy reserves	(13)	(15)
Acquisition & operating expenses, net of deferrals	(1)	(1)
Total benefits and expenses	(14)	(16)
Operating income	$5	$7

FGL Insurance participates in loans to third parties originated by Salus, an affiliated, limited liability company indirectly owned by HRG. Salus is also considered a VIE as described in “Note 4. Investments” to the Company’s unaudited Condensed Consolidated Financial Statements. Salus originated senior secured asset-based loans to unaffiliated third-party borrowers. In addition to the participation in loans originated by Salus, FGL Insurance also agreed to provide Salus with financing in the form of a revolving loan and promissory note. In January 2014, FSRCI acquired preferred equity interests in Salus which have a 10% per annum return and a total par value of $30 which is included in the FSRCI funds withheld portfolio. Accordingly all income on this asset is ceded to FSRCI. The Company’s maximum exposure to loss as a result of its investments in Salus is limited to the carrying value of the preferred equity interests. The carrying value of these investments in Salus as of December 31, 2015 and September 30, 2015 are disclosed in the tables below.

On February 27, 2015, FGL Insurance entered into a transaction with Salus whereby Salus transferred $14 of loan participations and $16 of CLO subordinated debt (i.e., equity tranche) to FGL Insurance in exchange for retirement of the $20 promissory note and $10 revolving loan owed by Salus to FGL Insurance resulting in the termination of these facilities. Additionally, FGL Insurance also entered into a transaction with the Salus CLO whereby FGL insurance transferred $29 of loan participations into the CLO in exchange for $27 of CLO subordinated notes (i.e., equity tranche) and a promissory note of $2 from Salus. Both transactions qualified as sales of financial assets accounted for at fair value and therefore did not result in any gain or loss. FGL Insurance also concluded that it is not the primary beneficiary of the Salus CLO before and after these two transactions as FGL Insurance lacks the power to direct the activities that significantly affect the economic performance of the CLO and, to a lesser extent, FGL Insurance continues to own less than a majority ownership of the CLO subordinated notes after the two transactions.
Please refer to "Note 5. Derivative Financial Instruments" to the Company’s unaudited Condensed Consolidated Financial Statements for disclosure of a Canadian dollar foreign exchange swap agreement for two of our Salus loan participations.

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The Company's consolidated related party investments as of December 31, 2015 and September 30, 2015, and related net investment income for the three months ended December 31, 2015 and 2014 are summarized as follows:

		December 31, 2015		
Type	Balance Sheet Classification	Asset carrying value	Accrued Investment Income	Total carrying value
Salus CLOs	Fixed maturities, available-for-sale	$164	$—	$164
Fortress Investment Group CLOs	Fixed maturities, available-for-sale	184	2	186
Salus preferred equity (a)	Equity securities, available-for-sale	5	—	5
Salus participations (b)	Other invested assets	76	1	77
Energy & Infrastructure Capital ("EIC") participations	Other invested assets	8	—	8
Foreign exchange derivatives and embedded derivatives	Other invested assets	12	—	12
HGI energy loan (c)	Related party loans	78	—	78
Salus promissory note	Related party loans	3	—	3

(a) Salus preferred equity is included in the FSRCI funds withheld portfolio, accordingly all income on this asset is ceded to FSRCI.
(b) Includes loan participations with 12 different borrowers with an average loan fair value of $6 as of December 31, 2015.
(c) $28 of the total HGI energy loan is included in the FSRCI funds withheld portfolio, accordingly the income related to this portion is ceded to FSRCI.

		September 30, 2015		
Type	Balance Sheet Classification	Asset carrying value	Accrued Investment Income	Total carrying value
Salus CLOs	Fixed maturities, available for sale	$245		