



Symetra Financial Corporation

Management's Discussion and Analysis of Financial Condition and Results of Operations

March 31, 2018

All financial information in this document is unaudited



**SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Table of Contents

	<u>Page</u>
Forward-Looking Statements	3
Overview	5
Results of Operations	6
Investments	12
Liquidity and Capital Resources	16
Use of non-GAAP Financial Measures	17

SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context otherwise requires, references to "we," "our," "us," and "the Company" are to Symetra Financial Corporation together with its subsidiaries. References to "Symetra" refer to Symetra Financial Corporation on a stand-alone, non-consolidated basis.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are intended to enhance the reader's ability to assess the Company's future financial and business performance. Forward-looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. These statements are based on estimates and assumptions made by the Company in light of information currently known to management and are subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control or are subject to change. Whether actual results and developments will conform to our expectations is subject to a number of risks, uncertainties and contingencies that could cause actual results to differ materially from expectations, or that could cause management to deviate from currently expected or intended courses of actions, including, among others:

- effects of fluctuations in interest rates, including a prolonged low interest rate environment or a rapidly rising interest rate environment, as well as management's ability to anticipate and timely respond to any such fluctuations;
- general economic, market or business conditions, including economic downturns or other adverse conditions in the global and domestic capital and credit markets;
- changes in laws or regulations, or their interpretation, including those that could increase our business costs, reserve levels and required capital levels, or that could restrict the manner in which we do business and produce sales, including uncertainty related to:
 - the recent enactment of the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), which brought significant changes to the U.S. tax code and may negatively impact the determination of insurance tax reserves, the reinsurance market, our competitors and the distributors of our products;
 - health care reform, particularly the status of the Patient Protection and Affordable Care Act of 2010;
 - financial regulation reform, particularly the status of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; and
 - the evolving and potentially conflicting standard of care requirements applicable to the sale of our annuity and life insurance products, including requirements from the U.S. Department of Labor (DOL), the Securities and Exchange Commission (SEC), the National Association of Insurance Commissioners (NAIC), and the legislatures and regulators of multiple states;
- effects of catastrophic events, both natural and man-made, that could adversely affect our operations and results, including impacts to claims and mortality experience, investment portfolio performance, and business operations;
- effects of significant corporate refinance activity, including bond prepayments;
- performance of our investment portfolio and the continued availability of and capacity to invest in suitable investments that align with our strategies and profitability targets, including quality commercial mortgage loans;
- our ability to successfully execute on our strategies;
- accuracy and adequacy of recorded reserves, including the actuarial and other assumptions upon which those reserves are established, adjusted and maintained;
- persistency of our inforce blocks of business;
- deviations from assumptions used in setting prices for insurance and annuity products or establishing cash flow testing reserves;
- significant changes in projected future cash flows underlying the value of our intangible assets, including projections of future sales and profitability;
- continued viability of certain products under various economic, regulatory and other conditions;
- market pricing and competitive trends related to insurance products and services, especially as well-capitalized new entrants enter the insurance industry;
- retention of key personnel and distribution partners;
- financial strength or credit ratings changes, particularly ours but also of other companies in our industry sector;
- our ability to maintain adequate telecommunications, information technology, or other operational systems;

**SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

- our ability to prevent or timely detect and remediate any unauthorized access to or disclosure of customer information and other sensitive business data;
- availability and cost of capital and financing;
- adequacy and collectibility of reinsurance that we have purchased, as well as the continued availability and cost of reinsurance coverage;
- ability of subsidiaries to pay dividends to Symetra;
- our ability to implement effective risk management policies and procedures, including hedging strategies; and
- initiation of regulatory investigations or litigation against us and the results of any regulatory proceedings.

Further, we are a wholly-owned subsidiary of Sumitomo Life Insurance Company, which has the ability to make important decisions affecting our business.

SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion highlights significant factors influencing the results of operations and changes in financial position of Symetra Financial Corporation for the three months ended March 31, 2018 and 2017. This discussion should be read in conjunction with the December 31, 2017 audited consolidated financial statements, available on the Company's website at <http://investors.symetra.com/>.

Discussions related to net income are presented in conformity with U.S. generally accepted accounting principles (GAAP). Management also considers certain non-GAAP financial measures to be useful in evaluating the Company's financial performance and condition. For a definition and further discussion of these non-GAAP measures, see – "Use of non-GAAP Financial Measures." All dollar amounts are in millions unless otherwise stated.

OVERVIEW

We are a financial services company in the life insurance industry providing annuities, employment-based benefits, and life insurance through a national network of financial institutions, broker-dealers, benefits consultants, and independent agents and advisers. Our operations date back to 1957 and many of our distribution relationships have been in place for decades. In 2016, we became a direct, wholly-owned subsidiary of Sumitomo Life Insurance Company, an event which is referred to as the Merger. The Merger was accounted for under the acquisition method of accounting (purchase accounting, or PGAAP).

Our Operations

We manage our business through three divisions composed of four business segments:

Benefits Division

- *Benefits.* We are a multi-line carrier offering medical stop-loss; group life and disability income (DI); and group fixed-payment medical, accident, and critical illness insurance products and services to employers.

Retirement Division

- *Deferred Annuities.* We offer fixed deferred annuities, including fixed indexed annuities (FIA), to consumers who want to accumulate assets for retirement on a tax-deferred basis. Certain of our FIA products also provide guaranteed lifetime withdrawals.
- *Income Annuities.* We offer single premium immediate annuities (SPIA) to customers seeking a reliable source of retirement income or protection against outliving their assets during retirement. We also service our block of structured settlement policies and offer funding services options to existing structured settlement clients.

Individual Life Division

- *Individual Life.* We offer individual life insurance products, primarily universal life (UL), including indexed UL (IUL), and term insurance. We also offer institutional products, including bank-owned life insurance (BOLI) and variable corporate-owned life insurance (COLI).

In addition, we have a fifth segment, referred to as the Other segment, which reflects our operations that are not directly related to the operating segments. This includes certain small, non-insurance businesses; unallocated investment results related to surplus invested assets; unallocated corporate expenses; interest expense on debt; and inter-segment elimination entries.

SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

This discussion should be read in conjunction with our unaudited interim condensed consolidated financial statements. In 2018, the measurement of adjusted pre-tax income was modified, and prior period results have been adjusted to reflect this change. Please see – "Use of non-GAAP Measures" for further information.

Consolidated Results

The following table sets forth adjusted pre-tax income, by segment:

	For the Three Months Ended March 31,	
	2018	2017
Segment adjusted pre-tax income (loss):		
Benefits	\$ 21.4	\$ 1.9
Deferred Annuities	28.4	23.3
Income Annuities	(0.8)	(1.0)
Individual Life	4.9	6.5
Other	(10.6)	(12.0)
Adjusted pre-tax income (1)	<u>\$ 43.3</u>	<u>\$ 18.7</u>
Add (deduct): Excluded realized gains (losses)	(38.3)	14.4
(Deduct): Amortization of intangible assets	(21.7)	(21.7)
Income (loss) from operations before income taxes	<u>(16.7)</u>	<u>11.4</u>
Total provision (benefit) for income taxes	9.8	(6.8)
Net income (loss)	<u>\$ (26.5)</u>	<u>\$ 18.2</u>

(1) Represents a non-GAAP measure. For further discussion, including a description of how this measure is calculated, see – "Use of non-GAAP Financial Measures."

The following table sets forth detail of our other underwriting and operating expenses, which are allocated among the segments:

	For the Three Months Ended March 31,	
	2018	2017
Salaries, incentive compensation, and other employee costs	\$ 68.5	\$ 64.9
Rent and occupancy costs	4.5	4.3
Professional services and software licensing	17.6	18.0
Other	9.8	9.5
Total operating expenses	<u>100.4</u>	<u>96.7</u>
Commissions and premium-based taxes and fees	91.8	91.8
DAC deferrals	(68.3)	(70.8)
Other underwriting and operating expenses	<u>\$ 123.9</u>	<u>\$ 117.7</u>

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

- We realized a net loss of \$26.5 for the first quarter of 2018, and net income of \$18.2 for the first quarter of 2017. Growth in adjusted pre-tax income was more than offset by higher realized losses and income tax expense. Adjusted pre-tax income reflected an improved loss ratio and growth in our medical stop-loss business.

Results for each segment are discussed further below. Realized gains (losses) are further discussed in – "Investments."

- We had a negative effective tax rate for both periods. On an interim basis, an annualized effective tax rate is determined based on forecasted pre-tax income (loss) for the year. The negative rate is driven by our tax credit

SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

investment strategy and the lower 2018 corporate tax rate from the 2017 Tax Act. In quarters with pre-tax losses, such as the first quarter of 2018, a negative effective tax rate results in tax expense.

- Segment results included \$5.0 of net prepayment-related income, an increase of \$2.0 compared to the same period in 2017. For the first quarter 2018, investment income from prepayments was \$10.6, offset by \$1.8 of related DAC, VOBA, and DSI amortization and \$3.8 of related realized losses. For the same period in 2017, investment income from prepayments was \$11.7, offset by \$2.3 of related amortization and \$6.4 of realized losses.
- Operating expenses for the year reflected increased employee-related costs, primarily driven by an increase in employees to support growth in our business.

Segment Operating Results

Benefits

The following table sets forth the results of operations for our Benefits segment:

	For the Three Months Ended March 31,	
	2018	2017
Adjusted revenues:		
Premiums	\$ 245.2	\$ 207.7
Net investment income	7.0	5.5
Policy fees, contract charges, and other	4.2	4.6
Total adjusted revenues	256.4	217.8
Benefits and expenses:		
Policyholder benefits and claims	172.2	157.2
Other underwriting and operating expenses	61.6	58.2
Amortization of DAC and VOBA	1.2	0.5
Total benefits and expenses	235.0	215.9
Segment adjusted pre-tax income	\$ 21.4	\$ 1.9

The following table sets forth selected operating metrics for our Benefits segment:

	For the Three Months Ended March 31,	
	2018	2017
Loss ratio (1)	70.2%	75.7%
Expense ratio (2)	24.7	27.4
Combined ratio	94.9%	103.1%
Total sales (3)	\$ 145.3	\$ 183.7

- (1) Loss ratio represents policyholder benefits and claims incurred divided by premiums earned.
- (2) Expense ratio represents the sum of other underwriting and operating expenses of our insurance operations and amortization of DAC divided by premiums earned.
- (3) Total sales represent annualized first-year premiums net of first year policy lapses.

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

- Segment adjusted pre-tax income was \$21.4 for the three months ended March 31, 2018, an increase of \$19.5 from the same period in 2017. This increase was primarily driven by an improved stop-loss loss ratio and premium growth.
- Our loss ratio was 70.2% for the period, an improvement from 75.7% for the same period in 2017. This improvement reflected better than expected claims experience in our medical stop-loss business written in January 2017, and the favorable impact of pricing actions taken on stop-loss business written after January 2017.

SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- For the first quarter 2018, premiums increased \$37.5 compared to the same period in 2017. This was primarily driven by increased medical stop-loss pricing and growth in our medical stop-loss and group life and DI lines of business in 2018. We also experienced favorable persistency on renewals of our January 2017 medical stop-loss business. Historically, January sales and renewals of existing policies represent about half of the premium we write in a calendar year.
- First quarter 2018 sales were solid at \$145.3, but down compared to the first quarter 2017, which was an exceptionally strong sales period. The decline from 2017 reflects lower medical stop-loss sales as a result of targeted underwriting and pricing actions to lower our loss ratio.

Deferred Annuities

The following table sets forth the results of operations for our Deferred Annuities segment:

	For the Three Months Ended March 31,	
	2018	2017
Adjusted revenues:		
Net investment income	\$ 179.9	\$ 171.2
Policy fees, contract charges, and other	7.9	6.3
Certain realized gains (losses)	(1.3)	(4.6)
Total adjusted revenues	186.5	172.9
Benefits and expenses:		
Policyholder benefits and claims	3.0	1.4
Interest credited	108.8	101.5
Other underwriting and operating expenses	30.3	29.7
Amortization of DAC and VOBA	16.0	17.0
Total benefits and expenses	158.1	149.6
Segment adjusted pre-tax income	\$ 28.4	\$ 23.3

The following table sets forth selected operating metrics for our Deferred Annuities segment:

	For the Three Months Ended March 31,	
	2018	2017
Fixed account values, excluding FIA – General account	\$ 11,795.7	\$ 12,072.9
Interest spread (1)	1.30%	1.39%
Base interest spread (2)	1.15%	1.11%
Fixed account values, FIA – General account	\$ 9,952.2	\$ 8,273.4
FIA interest spread (3)	1.37%	1.41%
FIA base interest spread (4)	1.34%	1.40%
Total sales (5)	\$ 850.0	\$ 1,027.1

- (1) Interest spread excludes FIA and is the difference between the net investment yield and the credited rate to policyholders. The net investment yield is the approximate yield on invested assets. The credited rate is the approximate rate credited on policyholder fixed account values. Interest credited is subject to contractual terms, including minimum guarantees.
- (2) Base interest spread excludes items that can vary significantly from period to period due to a number of factors and, therefore, may contribute to results that are not indicative of the underlying trends. This is primarily the impact of asset prepayments, such as bond make-whole premiums net of related deferred sales inducement amortization, and the mortgage-backed security (MBS) prepayment speed adjustment.
- (3) FIA interest spread is the difference between the net investment yield and the credited rate to policyholders. The net investment yield is the approximate yield on invested assets, excluding derivative assets. The credited rate represents amounts recorded in interest credited related to FIA contracts.
- (4) FIA base interest spread excludes items that can vary significantly from period to period due to a number of factors and, therefore, may contribute to results that are not indicative of the underlying trends. This is primarily the impact of asset prepayments, such as bond make-whole premiums and the MBS prepayment speed adjustment and the impact of reserve adjustments on interest credited.
- (5) Total sales represent deposits for new policies net of first year policy surrenders.

**SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

- Segment adjusted pre-tax income was \$28.4 for the three months ended March 31, 2018, up \$5.1 from the same period in 2017. This was primarily driven by growth in our FIA business, which produced a higher base interest margin.

For our Deferred Annuities segment, base interest margin is defined as net investment income, less interest credited, and adjusted mainly to exclude the impact of asset prepayments. It represents the earnings generated by the base spread on average account values during the period.

- Stable base spreads on a growing FIA block of business drove a \$5.6 increase in FIA base interest margin compared to the first quarter of 2017. FIA account values increased \$1.7 billion compared to the prior period.
- The net impact of prepayments was \$3.0 in the first quarter 2018, which was largely unchanged from the \$2.9 net impact during the same period of 2017.
- Sales were \$850.0 for the three months ended March 31, 2018, down from \$1,027.1 for the first quarter 2017. Sales continued to reflect heightened competition, particularly aggressive pricing by our competitors including private equity-backed annuity writers and new entrants to the FIA market. Sales have also been affected by regulatory uncertainty.

Income Annuities

The following table sets forth the results of operations for our Income Annuities segment:

	For the Three Months Ended March 31,	
	2018	2017
Adjusted revenues:		
Net investment income	\$ 76.0	\$ 75.6
Policy fees, contract charges, and other	0.1	0.2
Certain realized gains (losses)	(1.6)	(0.9)
Total adjusted revenues	74.5	74.9
Benefits and expenses:		
Interest credited	70.3	71.3
Other underwriting and operating expenses	4.3	4.2
Amortization of DAC and VOBA	0.7	0.4
Total benefits and expenses	75.3	75.9
Segment adjusted pre-tax loss	\$ (0.8)	\$ (1.0)

The following table sets forth selected operating metrics for our Income Annuities segment:

	For the Three Months Ended March 31,	
	2018	2017
Reserves (1)	\$ 7,084.4	\$ 7,213.9
Interest spread (2)	0.61%	0.45%
Base interest spread (3)	0.45%	0.41%
Mortality gains (losses) (4)	\$ (0.8)	\$ (0.8)
Total sales (5)	65.0	59.3

- Reserves represent the present value of future income annuity benefits and assumed expenses, discounted by the assumed interest rate. This metric represents the amount of in-force book of business and also reflects an increase in the reserve due to a fair value adjustment made at PGAAP.
- Interest spread is the difference between the net investment yield and the credited rate to policyholders. The net investment yield is the approximate yield on invested assets, excluding equities, attributed to the segment. The credited rate is the approximate rate credited on policyholder reserves and includes the impact of PGAAP reserve amortization.

**SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

- (3) Base interest spread excludes items that can vary significantly from period to period due to a number of factors and, therefore, may contribute to yields that are not indicative of the underlying trends. This is primarily the impact of asset prepayments, such as bond make-whole premiums and the MBS prepayment speed adjustment.
- (4) Mortality gains (losses) represent the difference between actual and expected reserves released on our life contingent annuities.
- (5) Total sales represent deposits for new policies net of first year surrenders.

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

- Segment adjusted pre-tax loss was \$0.8 for the three months ended March 31, 2018, a \$0.2 improvement compared to the same period in 2017. This improvement was primarily driven by higher prepayment-related income.
- Prepayment-related income was \$0.9 for the first quarter 2018. For the same period in 2017, the prepayment activity generated a loss of \$0.2.
- DAC and VOBA amortization expense increased \$0.3 compared to the first quarter of 2017, which reflects growth in the DAC balance from post-Merger sales. In connection with the Merger, the previous DAC balance was written to zero, and no VOBA was established for Income Annuities.
- Mortality losses were \$0.8 for both periods. Mortality experience may fluctuate from period to period.
- Sales were \$65.0 for the first quarter 2018, a \$5.7 increase compared to the same period in 2017, primarily due to improved interest rates.

Individual Life

The following table sets forth the results of operations for our Individual Life segment:

	For the Three Months Ended March 31,	
	2018	2017
Adjusted revenues:		
Premiums	\$ 7.7	\$ 8.4
Net investment income	64.0	57.9
Policy fees, contract charges and other	66.6	57.7
Certain realized gains (losses)	(0.9)	(0.6)
Total adjusted revenues	137.4	123.4
Benefits and expenses:		
Policyholder benefits and claims	48.7	22.1
Interest credited	70.7	69.1
Other underwriting and operating expenses	27.2	24.4
Interest expense	0.1	0.1
Amortization of DAC and VOBA	(14.2)	1.2
Total benefits and expenses	132.5	116.9
Segment adjusted pre-tax income	\$ 4.9	\$ 6.5

**SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following table sets forth selected operating metrics for our Individual Life segment:

	For the Three Months Ended March 31,	
	2018	2017
Individual insurance:		
Individual claims (1)	\$ 21.4	\$ 15.9
UL account values	1,212.6	1,058.8
Individual sales (2)	25.1	21.1
Institutional Markets:		
BOLI account values	\$ 5,265.7	\$ 5,161.9
BOLI ROA (3)	0.83%	0.87%
BOLI base ROA (4)	0.71%	0.80%
COLI sales (5)	\$ 13.6	\$ 12.8

- (1) Individual claims represents incurred claims, net of reinsurance, on our term and universal life policies.
- (2) Individual sales represents annualized first year premiums for recurring premium products and 10% of new single premium deposits, net of first year policy lapses and/or surrenders.
- (3) BOLI ROA is a measure of the gross margin on our BOLI block of business. This metric is calculated as the difference between our BOLI revenue earnings rate and our BOLI policy benefits rate. The revenue earnings rate is calculated as revenues divided by average invested assets. The policy benefits rate is calculated as total policy benefits divided by average account values, which for the Successor Company includes the impact of PGAAP reserve amortization. The policy benefits used in this metric do not include expenses.
- (4) BOLI base ROA excludes items that can vary significantly from period to period due to a number of factors and, therefore, may contribute to yields that are not indicative of the underlying trends. These are primarily the impact of asset prepayments, such as bond make-whole premiums and the MBS prepayment speed adjustment, and reserve adjustments.
- (5) COLI sales represent deposits for new policies. COLI sales typically occur in uneven patterns.

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

- Segment adjusted pre-tax income was \$4.9 for the three months ended March 31, 2018, a decrease of \$1.6 from the same period in 2017. This was primarily due to increased claim frequency for our term life business, as well as higher non-deferrable operating expenses that supported growth in our business. Results for first quarter 2018 also reflected the impact of universal life claim severity, net of reinsurance and related increase to our DAC balance.
- Base margin for our universal life and term life business was \$4.8 for the three months ended March 31, 2018, a \$14.2 decrease from the first quarter 2017. This was primarily driven by unfavorable universal life claim severity and increased claim frequency for our term life business. In addition, our universal life claims experience resulted in favorable accretion of \$19.4 to our DAC balance, reflected in DAC and VOBA amortization.

For our Individual Life segment, base margin is defined as adjusted revenues, less policyholder benefits and claims (including changes to reserves), and interest credited, and is adjusted to exclude the impact of asset prepayments. For institutional products, it represents the earnings generated by the base ROA on average account values during the period.

- Sales of individual life products, which were predominately universal life products, were \$25.1 for the first quarter 2018, an increase compared to \$21.1 for the first quarter 2017. First quarter sales reflected market interest in our new indexed universal life product that was launched in the fourth quarter of 2017. However, future sales of individual life insurance products may be affected by recent price increases for our guaranteed universal life products.

**SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Other

The following table sets forth the results of operations for our Other segment:

	For the Three Months Ended March 31,	
	2018	2017
Adjusted revenues:		
Net investment income	\$ 8.0	\$ 4.5
Policy fees, contract charges, and other	0.3	0.3
Certain realized gains (losses)	(12.5)	(8.4)
Total adjusted revenues	(4.2)	(3.6)
Benefits and expenses:		
Interest credited	(0.2)	(0.2)
Other underwriting and operating expenses	0.5	1.2
Interest expense	6.1	7.4
Total benefits and expenses	6.4	8.4
Segment adjusted pre-tax loss	<u>\$ (10.6)</u>	<u>\$ (12.0)</u>

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

- Adjusted pre-tax loss was \$10.6 for the first quarter 2018, an improvement of \$1.4 from the same period in 2017.
- Net investment income was higher primarily due to changes in surplus allocations and increased prepayment income.
- Interest expense decreased \$1.3, due to lower interest rates on debt refinanced in early 2018.
- These were slightly offset by higher realized losses on our tax credit investments, due to increased write downs of \$3.3. For further discussion on these investments, see – "Investments in Limited Partnerships – Tax Credit Investments."

INVESTMENTS

Our investment portfolio is designed to support the expected cash flows of our liabilities and produce stable returns over the long term. The composition of our portfolio reflects our asset management philosophy of protecting principal and receiving appropriate reward for risk. As of March 31, 2018, our investment portfolio consisted of high quality fixed maturities and commercial mortgage loans we originated, as well as smaller allocations of high-yield fixed maturities, marketable equity securities, investments in limited partnerships (primarily tax credit investments and alternative investments, which include private equity and hedge funds), derivatives, and other investments. Our equity investments primarily consist of common stock and exchange-traded funds (ETFs) and mainly support asset-liability matching strategies for long-duration insurance products in our Income Annuities segment. We believe that prudent levels of equity investments offer enhanced long-term, after-tax total returns.

Investment Returns

Net Investment Income

Return on invested assets is an important element of our financial results. The following tables set forth the income yield and net investment income, excluding realized gains (losses), for each major investment category:

SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	For the Three Months Ended March 31,			
	2018		2017	
	Yield (1)	Amount	Yield (1)	Amount
Investment Type:				
Fixed maturities (2)	3.55%	\$ 265.3	3.53%	\$ 252.1
Marketable equity securities	2.48	3.7	2.66	4.1
Mortgage loans, net (2)	4.00	62.2	3.81	54.4
Other income producing assets (3)	6.38	4.4	2.46	2.0
Income before expenses and prepayments	3.62	335.6	3.55	312.6
Prepayment-related income	0.12	10.6	0.13	11.7
Investment expenses	(0.12)	(11.3)	(0.11)	(9.6)
Net investment income	3.62%	\$ 334.9	3.57%	\$ 314.7

- (1) Yields are determined based on monthly averages calculated using beginning and end-of-period balances. Yields for fixed maturities and equity securities are based on amortized cost. Yields for all other asset types are based on carrying values.
- (2) Excludes investment income related to prepayment activity.
- (3) Other income producing assets include policy loans, other invested assets, and cash and cash equivalents.

Prepayment-related income shown above includes make-whole payments and consent fees on early calls or tenders of fixed maturities, prepayment speed adjustments on structured securities, and fees on mortgage loan payments received prior to the stated maturity or outside a rate resetting window. Prepayments of our fixed maturities and commercial mortgage loans result in the write-off of the premium or discount associated with the investment, which is recorded in net realized gains (losses). For the three months ended March 31, 2018 and 2017, we recognized \$3.8 and \$6.4, respectively, of realized losses related to prepayments, primarily due to premiums established for PGAAP. Due to the low interest rate environment, we continue to experience elevated levels of prepayment activity. As interest rates rise, we reinvest the proceeds from prepayments at rates that are higher than the portfolio yields established at PGAAP.

Net Realized Gains (Losses)

The following table sets forth the detail of our net realized gains (losses) before taxes:

	For the Three Months Ended March 31,	
	2018	2017
Fixed maturities:		
Gain (loss) on sales, net	\$ (6.1)	\$ 0.9
Credit loss	(0.2)	—
Intent-to-sell	(2.3)	—
Total impairments	(2.5)	—
Net gain (loss) – marketable equity securities	(22.2)	11.2
Alternative investments	(1.2)	1.4
Tax credit investments	(12.6)	(8.4)
Net gain (loss) – FIA (1)	10.4	6.3
DAC and VOBA adjustment	(4.2)	(2.3)
Prepayment-related loss	(3.8)	(6.4)
Other net gains (losses) (2)	(12.4)	(2.8)
Total net realized gains (losses)	\$ (54.6)	\$ (0.1)

- (1) Includes changes in fair value of the FIA embedded derivative (VED) and related options, excluding options related to our block of FIA business sold during the late 1990s.
- (2) Includes net gains (losses) on changes in the fair value of the Company's derivatives not designated for hedge accounting and convertible securities.

SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Highlights of net realized gains (losses) include:

- As a result of accounting guidance adopted on January 1, 2018, changes in fair value of marketable equity securities are recognized in realized gains (losses). As a result, unrealized gains of \$144.7 as of December 31, 2017 were reclassified from accumulated other comprehensive income to retained earnings.
- For the three months ended March 31, 2018, changes in fair value of marketable equity securities resulted in net losses of \$14.2. This amount is net of gains of \$10.8 which were offset by losses on futures and total return swaps purchased in late March 2018 to economically hedge our exposure to fair value fluctuations on our marketable equity securities.
- We realized a net loss of \$8.0 on sales of marketable equity securities for the first quarter of 2018, and a net gain of \$11.2 for the first quarter of 2017. In both periods, we liquidated a portion of our holdings to rebalance our equity portfolio. For the first quarter of 2018, sales generated losses of \$8.0, which reflected only the change in fair value of the securities from January 1, 2018 to the date of sale, due to the change in accounting guidance. For the first quarter of 2017, sales generated gains of \$11.2, based on changes in fair value of the securities since the Merger.
- Other net gains (losses) this quarter decreased \$9.9 compared to the first quarter of 2017. This was primarily driven by losses of \$10.3 related to futures and total return swaps purchased in late March 2018, as discussed above.

Fixed Maturity Securities

Fixed maturities represented 80.3% and 80.0% of invested assets as of March 31, 2018 and December 31, 2017, respectively. The majority of our fixed maturities are invested in highly marketable or publicly traded securities. A modest allocation of our portfolio is invested in privately placed fixed maturities to enhance the overall value of the portfolio and obtain higher yields than can ordinarily be obtained with comparable securities in public markets. As of March 31, 2018 and December 31, 2017, privately placed fixed maturities represented 4.9% and 5.0%, respectively, of our total fixed maturity portfolio at fair value.

The majority of our fixed maturities are invested in securities with a National Association of Insurance Commissioners (NAIC) designation of "1" or "2", which is considered investment grade. As of March 31, 2018 and December 31, 2017, 96.4% and 96.3%, respectively, of our fixed maturities were investment grade. Our holdings are diversified across industries and categories.

We hold investments in high-quality foreign corporate securities, and continue to purchase investments as opportunities for favorable yields and diversification arise. The majority of these holdings are denominated in U.S. dollars. We utilize foreign currency swaps and forwards to hedge our exposure to those denominated in foreign currencies. As of March 31, 2018 and December 31, 2017, fixed maturities with fair values of \$723.7 and \$689.3, respectively, were denominated in a foreign currency and reported in U.S. dollars based on period-end exchange rates. The total fair value of our foreign holdings was \$6,074.6 and \$6,072.9 as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, our largest exposure to a single foreign issuer was \$176.3 to a Canadian issuer, while as of December 31, 2017, our largest foreign exposure was \$178.2 to an issuer based in Ireland. The holdings of both issuers are investment grade. We have no significant exposure to issuers in Spain, Italy, Greece, Portugal, Russia, or Ukraine.

As of March 31, 2018 and December 31, 2017, 10.6% and 10.8%, respectively, of total fixed maturities were invested in RMBS and CMBS securities. The Company had no exposure to subprime RMBS as of March 31, 2018 and December 31, 2017, and 91.2% and 90.9%, respectively, of our total RMBS portfolio were agency securities. Less than 15% of our total MBS holdings (both RMBS and CMBS) were originated prior to 2009 as of March 31, 2018 and December 31, 2017.

Mortgage Loans

Our mortgage loan department originates commercial mortgages and manages our existing commercial mortgage loan portfolio. We specialize in originating loans of \$1.0 to \$5.0, which are generally secured by first-mortgage liens on income-producing commercial real estate. As of March 31, 2018 and December 31, 2017, 72.7% and 72.9%, respectively, of our mortgage loans had an outstanding principal under \$5.0.

All loans are underwritten consistently to our standards based on loan-to-value (LTV) ratios and debt service coverage ratios (DSCR). LTV ratios and DSCRs are based on income and detailed market, property and borrower analyses using

SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

our experience in commercial mortgage lending. A large majority of our loans have personal guarantees, and all loans are evaluated annually. We diversify our mortgage loans by geographic region, loan size and scheduled maturity.

As of March 31, 2018 and December 31, 2017, our portfolio's weighted-average LTV ratio was 50.5% and 49.7%, respectively, while its weighted-average DSCR was 1.91 as of both periods.

We believe we have maintained our disciplined underwriting approach as we have increased our mortgage loan portfolio. The following table presents information about our mortgage loan originations:

	For the Three Months Ended March 31,	
	2018	2017
Weighted average LTV ratio of loans originated	48.2%	45.1%
Weighted average DSCR of loans originated	2.08	2.15

The following table sets forth our investments in mortgage loans by contractual maturity date:

	As of March 31, 2018	
	Outstanding Principal	% of Total
Years to Maturity:		
Due in one year or less	\$ 89.6	1.5%
Due after one year through five years	788.8	13.0
Due after five years through ten years	1,639.8	27.1
Due after ten years	3,530.8	58.4
Total	<u>\$ 6,049.0</u>	<u>100.0%</u>

Additionally, our loan terms usually allow borrowers to prepay their mortgage loan prior to the stated maturity or outside specified rate resetting windows. Prepayments are driven by factors specific to the activities of our borrowers as well as the interest rate environment. The majority of our mortgage loans contain yield maintenance and other provisions that we believe mitigate the impact of such prepayments.

Investments in Limited Partnerships – Tax Credit Investments

We invest in limited partnerships where the primary return on investment is in the form of income tax credits and the tax benefit on the pass-through of partnership activity. These partnerships are established to invest in low-income housing and other qualifying purposes (collectively referred to as "tax credit investments"). Although these investments decrease our income on a pre-tax basis, they contribute to net income by providing significant tax benefits that lower our effective tax rate. Refer to Note 4 to the unaudited interim condensed consolidated financial statements for further discussion related to our investments in low-income housing project investments. As of March 31, 2018 and December 31, 2017, the Company's tax credit investments had carrying values of \$161.2 and \$173.0, respectively

The following table sets forth the impact of these investments on net income:

	For the Three Months Ended March 31,	
	2018	2017
Pass through activity, net of taxes	\$ (5.7)	\$ (4.0)
Write downs, net of taxes	(4.3)	(1.4)
Tax credits, net	10.7	8.5
Impact to net income	<u>\$ 0.7</u>	<u>\$ 3.1</u>

The majority of our investments in limited partnerships relate to low-income housing. The tax credits from these partnerships are generally delivered in the first ten years of the investment, with the largest portions provided in the middle years. Other tax credit investments generally provide tax credits during the first two years of the investment.

SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Symetra conducts its operations through its operating subsidiaries, and its liquidity requirements primarily have been and will continue to be met by funds from such subsidiaries. Dividends from subsidiaries are Symetra's principal source of cash to pay dividends to its stockholder and meet its obligations, including payments of principal and interest on notes payable. Payments of dividends from its insurance subsidiaries are subject to restrictions under state insurance regulations.

We actively manage our liquidity in light of changing market, economic, and business conditions, and we believe that our liquidity levels are more than adequate to cover our exposures, as evidenced in the discussion below.

Liquid Assets

Symetra's insurance company subsidiaries have investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. Products that have liabilities with longer durations, such as certain life insurance policies and structured settlement annuities, are matched with investments which have similar estimated lives such as long-term fixed maturities, commercial mortgage loans, and marketable equity securities. Shorter-term liabilities are matched with shorter-term fixed maturities. In addition, our insurance subsidiaries hold sufficient levels of highly liquid, high quality assets to fund anticipated operating expenses, surrenders, and withdrawals.

We define liquid assets to include cash, cash equivalents, short-term investments, and publicly traded and highly-marketable fixed maturities and equity securities. As of March 31, 2018 and December 31, 2017, our insurance company subsidiaries had liquid assets of \$29.69 billion and \$29.88 billion, respectively, and Symetra had liquid assets of \$152.2 and \$197.2, respectively. The portion of our total liquid assets consisting of cash and cash equivalents and short-term investments was \$392.0 and \$362.6 as of March 31, 2018 and December 31, 2017, respectively.

As of March 31, 2018, we had the ability to borrow, on an unsecured basis, a principal amount of \$400.0 under a revolving line of credit arrangement with an expansion feature providing access of up to \$100.0, for a total maximum principal amount of \$500.0.

Liquidity Requirements

The liquidity requirements of Symetra's insurance company subsidiaries primarily relate to obligations associated with their insurance policies and investment contracts, operating expenses, the payment of dividends to Symetra, and the payment of income taxes. Obligations associated with insurance policies and investment contracts include the payment of benefits, as well as cash payments made in connection with policy and contract surrenders and withdrawals. Historically, Symetra's insurance company subsidiaries have used cash flows from operations and invested assets to fund their liquidity requirements.

In managing the liquidity of our insurance operations, we consider the risk of policyholder and contract holder withdrawals of funds occurring earlier than assumed when selecting assets to support these contractual obligations. We use surrender charges, market value adjustments (MVAs), and other contract provisions to mitigate the extent, timing, and profitability impact of such withdrawals. Certain policy lapses and surrenders occur in the normal course of business. If interest rates rise significantly, we will likely experience an increase in lapses.

Our asset-liability management process takes into account the expected cash flows on investments and expected policyholder payments, as well as the specific nature and risk profile of the liabilities. Considering the size and liquidity profile of our investment portfolio, we believe that we have appropriately mitigated the risk of policyholder behavior varying from our projections. We also consider attributes of the various categories of liquid assets, for example, type of asset and credit quality, in evaluating the adequacy of our insurance operations' liquidity under a variety of stress scenarios. We believe that the liquidity profile of our assets is sufficient to satisfy our liquidity requirements.

The NAIC establishes risk-based capital (RBC) standards for life insurance companies. If an insurer's RBC falls below specified levels, the insurer would be subject to different degrees of regulatory action depending upon the level of deficiency. As of March 31, 2018, Symetra Life Insurance Company, our primary insurance company subsidiary, had an estimated RBC ratio of 410%, which is well above regulatory action levels. Symetra Life Insurance Company's Statutory capital and surplus, including asset valuation reserve, was \$2,498.9 as of March 31, 2018.

SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

USE OF NON-GAAP FINANCIAL MEASURES

Certain tables and related disclosures in this report include non-GAAP financial measures. We believe these measures provide useful information for evaluating our financial performance or condition. Non-GAAP financial measures are not a substitute for their most directly comparable GAAP measures and should be read together with such measures. The adjustments made to derive non-GAAP measures are important to understanding our overall results of operations and financial position and, if evaluated without proper context, non-GAAP measures possess material limitations. These measures may be calculated differently from similarly titled measures of different companies.

We have provided reconciliations between non-GAAP financial measures and their most directly comparable GAAP financial measures in the – "Results of Operations" section of this report. In the following discussion we provide the definitions of these non-GAAP measures.

Adjusted Pre-tax Income

Adjusted pre-tax income consists of income from operations before income taxes, excluding intangible asset amortization and certain net realized gains (losses). Excluded realized gains (losses) are associated with investment sales or disposals, investment impairments, changes in the fair value of mark-to-market investments and derivative investments (except for certain index options associated with FIA policies primarily sold in the late 1990s), and changes in the fair value of embedded derivatives related to FIA products, as well as the DAC, VOBA and DSI impacts related to these items.

Certain realized gains (losses) are included in adjusted pre-tax income. These include gains (losses) on certain index options supporting FIA policies primarily sold in the late 1990s. Additionally, effective in the first quarter of 2018, adjusted pre-tax income was modified to include net realized gains (losses) from prepayment activity and pass through activity and write-downs associated with our tax credit investments. Management considers this most meaningful when assessing the results of our core business operations. Prior period results have been adjusted to reflect this change.

Adjusted pre-tax income represents the total of segment adjusted pre-tax income, which at the segment level is a GAAP measure. Income from operations before income taxes is the most directly comparable GAAP measure to adjusted pre-tax income.

We consider investment income generated by our invested assets to be part of the results of our insurance operations because these assets are acquired and generally held to maturity to generate income that we use to meet our insurance-related obligations. Conversely, we do not consider many of the activities reported through net realized gains (losses) to be part of the results of our insurance operations. The timing and amount of these gains (losses) are driven by investment decisions and external economic developments unrelated to our management of the insurance and underwriting aspects of our business. We also consider it useful to exclude the amortization of intangible assets to focus on results of our core business operations.

We believe it is useful to review adjusted pre-tax income because it assists in determining whether our insurance-related revenues, composed primarily of premiums, net investment income and policy fees, contract charges and other, have been sufficient to generate operating earnings after meeting our insurance-related obligations, composed primarily of claims paid to policyholders, interest credited to policyholder accounts, and underwriting and other operating costs. In addition, our management and board of directors have other uses for this measure, including assessing achievement of our financial plan.