



Symetra Financial Corporation

Condensed Consolidated Financial Statements

March 31, 2019



SYMETRA FINANCIAL CORPORATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

	<u>Page</u>
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Income (Loss)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>5</u>
<u>Consolidated Statements of Changes in Stockholder's Equity</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Condensed Notes to Consolidated Financial Statements</u>	<u>8</u>

SYMETRA FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share data)

	As of March 31, 2019	As of December 31, 2018
	(Unaudited)	
ASSETS		
Investments:		
Fixed Maturities:		
Available-for-sale, at fair value (amortized cost: \$31,550.7 and \$30,800.3, respectively)	\$ 31,895.0	\$ 30,324.1
Trading securities, at fair value	1,341.8	1,095.8
Marketable equity securities, at fair value	111.9	97.7
Mortgage loans, net	6,570.9	6,485.1
Investments in limited partnerships (includes \$46.8 and \$48.2 at fair value, respectively)	167.2	178.3
Derivatives, at fair value	313.5	178.9
Policy loans and other invested assets	91.3	83.7
Total investments	40,491.6	38,443.6
Cash and cash equivalents	487.4	247.3
Accrued investment income	344.0	330.0
Reinsurance recoverables	6,157.7	6,228.8
DAC and VOBA	943.5	1,023.0
Receivables and other assets	485.4	269.9
Other intangible assets, net	1,166.9	1,188.3
Goodwill	563.0	563.0
Deferred income tax assets, net	—	65.0
Separate account assets	992.2	904.3
Total assets	<u>\$ 51,631.7</u>	<u>\$ 49,263.2</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Funds held under deposit contracts	\$ 38,609.2	\$ 37,366.9
Future policy benefits	535.8	523.2
Policy and contract claims	230.6	203.0
Other policyholders' funds	166.5	149.5
Funds withheld liability	5,736.9	5,589.9
Notes payable	705.5	705.7
Deferred income tax liabilities, net	38.2	—
Other liabilities	845.7	498.0
Separate account liabilities	992.2	904.3
Total liabilities	47,860.6	45,940.5
Commitments and contingencies (Note 11)		
Common stock, \$0.01 par value; 1,000 shares authorized; 100 issued and outstanding	—	—
Additional paid-in capital	3,516.7	3,516.7
Retained earnings	12.6	127.3
Accumulated other comprehensive income (loss), net of taxes	241.8	(321.3)
Total stockholder's equity	3,771.1	3,322.7
Total liabilities and stockholder's equity	<u>\$ 51,631.7</u>	<u>\$ 49,263.2</u>

See accompanying notes.

SYMETRA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(In millions)
(Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
Revenues:		
Premiums	\$ 290.7	\$ 252.9
Net investment income	286.0	334.9
Policy fees, contract charges, and other	81.8	79.1
Net realized gains (losses):		
Total other-than-temporary impairment losses on securities	(2.2)	(2.5)
Less: portion recognized in other comprehensive income	—	—
Net impairment losses on securities recognized in earnings	(2.2)	(2.5)
Other net realized gains (losses)	(172.9)	(52.1)
Net realized gains (losses)	(175.1)	(54.6)
Total revenues	483.4	612.3
Benefits and expenses:		
Policyholder benefits and claims	265.0	223.9
Interest credited	184.1	249.6
Other underwriting and operating expenses	135.3	123.9
Interest expense	6.6	6.2
Amortization of DAC and VOBA	27.9	3.7
Amortization of intangible assets	21.8	21.7
Total benefits and expenses	640.7	629.0
Income (loss) from operations before income taxes	(157.3)	(16.7)
Total provision (benefit) for income taxes	(42.0)	9.8
Net income (loss)	\$ (115.3)	\$ (26.5)

See accompanying notes.

SYMETRA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
Net income (loss)	\$ (115.3)	\$ (26.5)
Other comprehensive income (loss), net of taxes and reclassification adjustments:		
Changes in unrealized gains (losses) on available-for-sale securities (net of taxes of: \$183.3 and \$(146.2))	689.8	(549.9)
Impact of net unrealized (gains) losses on DAC and VOBA (net of taxes of: \$(33.4) and \$28.5)	(125.7)	107.3
Impact of cash flow hedges (net of taxes of: \$(0.1) and \$(8.7))	(0.4)	(32.6)
Other comprehensive income (loss)	563.7	(475.2)
Total comprehensive income (loss)	\$ 448.4	\$ (501.7)

See accompanying notes.

SYMETRA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(In millions)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
January 1, 2018	\$ —	\$ 3,516.7	\$ 144.8	\$ 554.9	\$ 4,216.4
Net income (loss)	—	—	(26.5)	—	(26.5)
Other comprehensive income (loss)	—	—	—	(475.2)	(475.2)
Dividends declared	—	—	(70.0)	—	(70.0)
Adoption of new accounting standard	—	—	114.3	(114.3)	—
Balances as of March 31, 2018	<u>\$ —</u>	<u>\$ 3,516.7</u>	<u>\$ 162.6</u>	<u>\$ (34.6)</u>	<u>\$ 3,644.7</u>
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
January 1, 2019	\$ —	\$ 3,516.7	\$ 127.3	\$ (321.3)	\$ 3,322.7
Net income (loss)	—	—	(115.3)	—	(115.3)
Other comprehensive income (loss)	—	—	—	563.7	563.7
Adoption of new accounting standard	—	—	0.6	(0.6)	—
Balances as of March 31, 2019	<u>\$ —</u>	<u>\$ 3,516.7</u>	<u>\$ 12.6</u>	<u>\$ 241.8</u>	<u>\$ 3,771.1</u>

See accompanying notes.

SYMETRA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net income (loss)	\$ (115.3)	\$ (26.5)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized (gains) losses	175.1	54.6
Accretion and amortization of invested assets, net	50.0	61.8
Amortization of intangible assets	21.8	21.7
Deferred income tax provision (benefit)	(46.6)	(9.2)
Interest credited on deposit contracts	184.1	249.6
Mortality and expense charges and administrative fees	(69.0)	(62.0)
Other changes in:		
DAC and VOBA	(42.6)	(64.6)
Future policy benefits	4.3	15.7
Other policyholder reserves	108.8	81.7
Policy and contract claims	27.6	18.5
Funds withheld liability	(65.5)	—
Other assets and liabilities	43.3	21.2
Other, net	(16.7)	(9.3)
Total adjustments	374.6	379.7
Net cash provided by (used in) operating activities	259.3	353.2
Cash flows from investing activities		
Purchases and issuances of:		
Fixed maturities – available-for-sale	(2,204.5)	(1,473.5)
Fixed maturities – trading	(270.5)	—
Marketable equity securities	(2.4)	(68.1)
Derivatives and other investments	(54.3)	(46.6)
Mortgage loans	(238.0)	(132.9)
Sales and repayment of:		
Fixed maturities – available-for-sale	910.6	402.8
Fixed maturities – trading	92.6	—
Marketable equity securities	2.4	113.3
Mortgage loans	144.2	149.2
Maturities, calls, and paydowns	587.9	647.3
Cash received for settlements of derivatives and other investments	55.2	72.0
Cash received (pledged or returned) as collateral, net	122.4	(100.2)
Other, net	(23.3)	(19.3)
Net cash provided by (used in) investing activities	(877.7)	(456.0)
Cash flows from financing activities		
Policyholder account balances:		
Deposits	1,179.6	929.2
Withdrawals	(762.3)	(725.7)
Issuances of funding agreements	457.1	—
Cash dividends paid on common stock	—	(70.0)
Proceeds from borrowings	—	450.0
Repayment of notes payable	—	(450.0)
Net cash provided by (used in) financing activities	874.4	133.5
Net increase (decrease) in cash, cash equivalents, and restricted cash	256.0	30.7
Cash, cash equivalents, and restricted cash at beginning of period	307.3	369.9
Cash, cash equivalents, and restricted cash at end of period	\$ 563.3	\$ 400.6
Supplemental disclosures of cash flow information		
Non-cash transactions during the period:		
Fixed maturities exchanges	\$ 369.7	\$ 9.9
Lease assets established upon adoption of accounting guidance	61.0	—
Lease liabilities established upon adoption of accounting guidance	70.0	—
Cash, cash equivalents, and restricted cash reconciliation		
Cash and cash equivalents	\$ 487.4	\$ 391.4
Restricted cash, included in receivables and other assets	75.9	9.2
Total cash, cash equivalents, and restricted cash	\$ 563.3	\$ 400.6

See accompanying notes.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

1. Description of Business

Symetra Financial Corporation (the Company) is a Delaware corporation that, through its subsidiaries, offers products and services to customers in the retirement, employment-based benefits, and life insurance markets. These products and services are marketed through financial institutions, broker-dealers, benefits consultants, and independent agents and advisors in all 50 states and the District of Columbia.

The Company's principal products include fixed and fixed indexed deferred annuities, single premium immediate annuities (SPIA), medical stop-loss insurance, group life and disability income (DI) insurance, group fixed-payment insurance, universal life insurance, including indexed universal life insurance, and institutional life insurance including bank-owned life insurance (BOLI) and variable corporate owned life insurance (COLI).

In February 2016, the Company became a 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).

Reinsurance Transaction

In September 2018, the Company entered into a 100% modified coinsurance reinsurance agreement with Resolution Re Ltd. (the Reinsurance Transaction) for \$6.8 billion of the Company's in force income annuities, including all of its structured settlement annuities (the Closed Block). The transaction reduced the Company's exposure to long-term interest rate risk associated with the long-tail nature of the reinsured business.

The Company discontinued selling structured settlements in 2012. Retail SPIA policies issued after September 30, 2017 were not included in this agreement, and the Company continues to sell these products as part of its retirement product offerings.

Under terms of the agreement, the Company continues to service the reinsured business and hold the associated invested assets and policyholder liabilities on its consolidated balance sheets. Resolution Re Ltd. is responsible for asset management, subject to investment management guidelines. Refer to Note 3 for further discussion.

2. Summary of Significant Accounting Policies

The interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that may affect the amounts reported in the interim condensed consolidated financial statements and accompanying notes. These interim condensed consolidated financial statements are unaudited and in management's opinion include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation. All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to prior year financial information to conform to the current period presentation. Management has assessed subsequent events through May 30, 2019, the date the financial statements were issued.

The interim condensed consolidated financial statements should be read in conjunction with the December 31, 2018 audited consolidated financial statements. Financial results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2019. The Company's effective tax rate differs from the U.S. federal income tax rate, primarily due to benefits from the Company's tax credit investments.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

Adoption of Accounting Pronouncements

The Company's primary subsidiary, Symetra Life Insurance Company, files its financial statements with the Securities Exchange Commission (SEC), which qualifies it as a public business entity (PBE) and SEC filer. This requires Symetra Life Insurance Company to adopt new accounting standards in accordance with PBE or SEC filer effective dates, which are generally earlier than effective dates for private entities. In most cases, this necessitates the Company to early adopt new accounting standards.

Accounting Pronouncements Newly Adopted

ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. This standard amends the recognition and measurement of hedging instruments to better represent an entity's risk management activities. Under the standard, the requirement to separately measure and report hedge ineffectiveness is eliminated. In addition, the standard provides relief from certain initial documentation requirements and replaces the requirement for quarterly quantitative ineffectiveness testing with a qualitative approach. The update is effective beginning January 1, 2020, with early adoption permissible.

The Company early adopted the standard on January 1, 2019 using a modified retrospective approach. Upon adoption, the Company updated its internal processes and controls to ensure compliance with the revised standard. The adoption did not have a significant impact on the Company's consolidated financial statements.

ASU No. 2016-02, No. 2018-10, No. 2018-11, No. 2019-01, *Leases (Topic 842)*. These standards amend the recognition requirements for all leases with a term greater than 12 months and provide new guidelines for the identification of a lease within a contract. Under these standards, companies must measure and recognize a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. In addition, the standards require expanded quantitative and qualitative disclosures. The standards provide a simplified transition method, which allows entities to recognize the cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, rather than in the earliest period presented. These updates are effective beginning January 1, 2020, with early adoption permissible.

The Company early adopted the standard on January 1, 2019 using a modified retrospective approach and applied the requirements to all existing leases using the simplified transition option. Upon adoption, the Company established a right-of-use asset of \$61.0 and corresponding lease liability within other assets and other liabilities on its consolidated balance sheets. The adoption did not have an impact on the Company's consolidated statements of income (loss).

The Company has operating leases for its office space. The Company's operating leases expire at various dates through 2025, subject to certain renewal options. As of March 31, 2019, the weighted average remaining lease term was 6 years, and the weighted average discount rate was 2.6%. The Company also elected the practical expedient of accounting for lease and non-lease components as a single lease component. Short term leases, which are defined as those with a term less than 12 months, are not recognized on the consolidated balance sheets.

ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework*. This standard amends the disclosure requirements for fair value measurements. Under the standard, there are new disclosure requirements for Level 3 fair value measurements as well as the modification and elimination of certain current disclosure requirements. The update is effective beginning January 1, 2020, with early adoption permissible. Companies are permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date.

The Company early adopted the portions of the standard on January 1, 2019 that modified and removed certain disclosure requirements. In particular, information related to the changes in unrealized gains and losses for recurring Level 3 fair value measurements were removed. The Company plans to adopt the remainder of the standard, related to the addition of new disclosure requirements, on January 1, 2020.

Accounting Pronouncements Not Yet Adopted

ASU No. 2016-13, No. 2019-04, No. 2019-05, *Financial Instruments – Credit Losses (Topic 326)*. These standards amend the credit loss measurement guidance for certain financial assets to reflect current expected credit losses (CECL). Under the CECL model, an entity will estimate lifetime expected credit losses considering available relevant information about historical events, current conditions and reasonable and supportable forecasts. Additionally, the guidance expands the required credit loss disclosures. These standards amend the impairment model for available-for-sale fixed maturities, and any credit losses will be recognized through an allowance, rather than through an adjustment to the amortized cost

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

basis. Finally, the standards provide entities with an option to irrevocably elect the fair value option for certain eligible instruments. The update is effective beginning January 1, 2021, with early adoption permissible.

The Company is evaluating the impact of the standards on its financial statements, with a focus on fixed maturity securities, mortgage loans, and reinsurance recoverables. The Company anticipates these standards will accelerate the timing of loss recognition for certain of its assets, particularly mortgage loans. Upon adoption, the Company will apply these standards using a modified retrospective approach. The Company plans to early adopt on January 1, 2020 to be consistent with the timeline required for its PBE insurance subsidiary.

ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350)*. This standard removes the requirement to calculate the implied fair value of goodwill (Step 2 of the goodwill impairment test) to measure a goodwill impairment charge. A goodwill impairment charge will now be measured as the amount by which a reporting unit's carrying value exceeds its fair value determined in Step 1 of the goodwill impairment test. This impairment test will be applied to goodwill assigned to all reporting units, even those with zero or negative carrying amounts. The update is effective beginning January 1, 2022, with early adoption permissible.

The Company is monitoring the potential impact of the standard on its annual goodwill impairment assessment. Upon adoption, the Company will apply the standard prospectively. The Company plans to early adopt on January 1, 2020 to be consistent with the timeline required for its PBE insurance subsidiary.

ASU No. 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. This standard substantially changes the accounting treatment of long-duration insurance contracts. Entities will be required to regularly review and update assumptions used to measure the liability for future policy benefits, which were previously locked at contract inception and held constant over the contract term. Assumptions used to measure discounted cash flows will be reviewed at least annually, and the discount rate assumption will be updated at each reporting date based on a standardized, market-observable discount rate.

Entities will also be required to use a fair value model to measure product features with market risk benefits, with the insurance accrual model no longer an option. The standard simplifies the DAC amortization method for all long-duration contracts by replacing the previous earnings-based methods with a constant level approach. The update will also require additional financial statement disclosures, including a rollforward of the liability and information about significant assumptions used. The update is effective beginning January 1, 2022, with early adoption permissible.

The Company is evaluating the impact of the standard on its annuity and life insurance contracts, as well as reviewing its policies, processes, and applicable systems to determine the impact this standard will have on its operations and financial statements. The Company plans to early adopt the standard on January 1, 2021 to be consistent with the timeline required for its PBE insurance subsidiary.

3. Reinsurance Transaction

In September 2018, the Company entered into the Reinsurance Transaction, which was effective as of July 1, 2018 (Agreement Date) and accounted for under the deposit accounting method.

The Company established a \$6.1 billion deposit asset, included in reinsurance recoverables on its consolidated balance sheet, for an amount equal to the Closed Block's \$5.7 billion net statutory reserves due from the reinsurer and the initial amount paid to the reinsurer at the Transaction date. The equivalent GAAP reserves for the reinsured policies were \$6.8 billion. The fair value adjustment recorded under PGAAP at the time of the Merger is the primary driver of the difference between the GAAP and statutory reserves. The difference between the deposit asset and the GAAP reserves is adjusted over the remaining life of the reinsured policies using the effective interest method and recognized in interest credited in the consolidated statements of income.

Assets supporting the net statutory reserves of the Closed Block were withheld and are legally owned by the Company. These are reported as a funds withheld liability on the consolidated balance sheets. Adjustments to the funds withheld liability are based upon the investment and benefit amounts passed to the reinsurer during the period, which are recorded as ceded activity in the financial statements.

The funds withheld liability is composed of the host contract and an embedded derivative. The embedded derivative represents the reinsurer's right to receive or obligation to pay the total return on the withheld assets, which must be bifurcated from the host contract and carried at fair value on the Company's consolidated balance sheets. The fair value of the embedded derivative fluctuates with changes in the unrealized gain (loss) on the withheld assets. At inception, the fair

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

value of the embedded derivative was zero. Changes to the fair value of the embedded derivative are recognized in net realized gains (losses) on the Company's consolidated statements of income.

In the event of the reinsurer's insolvency, the Company would reclaim the assets supporting the reserve liabilities. The Company has the ability to offset amounts due to the reinsurer with amounts owed from the reinsurer, as well as access to amounts held in trust, which reduces the Company's risk of loss due to reinsurer insolvency. The Company remains liable to its policyholders to the extent that the reinsurer does not meet its contractual obligations.

The following table provides a reconciliation of the beginning and ending balance for the deposit asset and funds withheld liability:

	For the Three Months Ended March 31, 2019
Deposit asset at beginning of period	\$ 5,920.4
Incurred interest adjustment	(65.1)
Deposit asset at end of period	<u>\$ 5,855.3</u>
Funds withheld liability at beginning of period	\$ 5,589.9
Ceded investment amounts	104.8
Ceded benefit amounts	(145.8)
Quarterly settlement due to reinsurer	(5.0)
Changes in fair value of embedded derivative	193.0
Funds withheld liability at end of period	<u>\$ 5,736.9</u>

4. Investments

The Company's investment portfolio consists of fixed maturity securities and commercial mortgage loans, as well as a smaller allocation of investments in limited partnerships, derivatives, marketable equity securities, and other investments.

Closed Block Invested Assets

As of March 31, 2019 and December 31, 2018, invested assets supporting the Closed Block had a carrying value of \$6.1 billion and \$6.0 billion, respectively, are included in the following disclosures. As of March 31, 2019, this included commercial mortgage loans with a carrying value of \$1.2 billion, and fixed maturity securities with a fair value of \$4.9 billion, and a book value of \$4.7 billion. As of December 31, 2018, this included commercial loans with a carrying value of \$1.2 billion, fixed maturity securities with a fair value of \$4.8 billion, and a book value of \$4.7 billion. The Closed Block also had restricted cash of \$60.5 and \$50.5 included in receivables and other assets in the consolidated balance sheets as of March 31, 2019 and December 31, 2018, respectively. Invested assets supporting the Closed Block are legally owned by the Company and included in the consolidated balance sheets.

As a result of the Reinsurance Transaction, the Company designated new purchases of fixed maturities supporting the Closed Block as trading securities, which are carried at fair value on the Company's consolidated balance sheets. As of March 31, 2019 and December 31, 2018, respectively, trading securities had a fair value of \$1.3 billion and \$1.1 billion, of which the majority was corporate securities, with a fair value of \$1.0 billion and \$918.9.

The tables and discussions that follow include Closed Block invested assets.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

Available-for-sale Securities

The following tables summarize the Company's available-for-sale (AFS) fixed maturities:

	As of March 31, 2019			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies	\$ 483.0	\$ 5.0	\$ (4.0)	\$ 484.0
State and political subdivisions	731.1	6.9	(5.1)	732.9
Corporate securities	24,448.3	527.0	(174.8)	24,800.5
Residential mortgage-backed securities	2,416.7	11.2	(33.3)	2,394.6
Commercial mortgage-backed securities	918.0	11.7	(5.0)	924.7
Collateralized loan obligations	1,312.7	0.3	(11.2)	1,301.8
Other debt obligations	1,240.9	21.3	(5.7)	1,256.5
Total	<u>\$ 31,550.7</u>	<u>\$ 583.4</u>	<u>\$ (239.1)</u>	<u>\$ 31,895.0</u>

	As of December 31, 2018			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies	\$ 435.9	\$ 3.0	\$ (6.1)	\$ 432.8
State and political subdivisions	737.0	2.4	(10.5)	728.9
Corporate securities	24,255.3	206.1	(590.1)	23,871.3
Residential mortgage-backed securities	2,453.0	6.5	(61.2)	2,398.3
Commercial mortgage-backed securities	867.2	4.0	(12.8)	858.4
Collateralized loan obligations	933.6	0.2	(21.2)	912.6
Other debt obligations	1,118.3	14.3	(10.8)	1,121.8
Total	<u>\$ 30,800.3</u>	<u>\$ 236.5</u>	<u>\$ (712.7)</u>	<u>\$ 30,324.1</u>

The Company maintains a diversified portfolio of corporate fixed maturity securities across industries. The following table presents the composition of the Company's corporate securities portfolio by sector:

	As of March 31, 2019		As of December 31, 2018	
	Fair Value	% of Total	Fair Value	% of Total
Industrial	\$ 4,352.7	17.6%	\$ 4,235.8	17.7%
Consumer staples	3,400.9	13.7	3,403.0	14.3
Energy	3,110.3	12.5	2,905.1	12.2
Utilities	2,706.2	10.9	2,587.7	10.8
Health care	2,326.7	9.4	2,208.1	9.3
Consumer discretionary	2,270.2	9.2	2,183.3	9.1
Financials	2,086.4	8.4	1,924.4	8.1
Communication services	1,941.9	7.8	1,972.1	8.2
Other	2,605.2	10.5	2,451.8	10.3
Total	<u>\$ 24,800.5</u>	<u>100.0%</u>	<u>\$ 23,871.3</u>	<u>100.0%</u>

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

The following tables summarize gross unrealized losses and fair values of the Company's available-for-sale investments. The tables are aggregated by investment category and present separately those securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more.

As of March 31, 2019						
	Less Than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
U.S. government and agencies	\$ 9.3	\$ (0.2)	1	\$ 198.9	\$ (3.8)	31
State and political subdivisions	6.1	(0.2)	4	402.1	(4.9)	56
Corporate securities	2,340.3	(42.6)	280	7,196.5	(132.2)	521
Residential mortgage-backed securities	170.5	(0.9)	46	1,647.4	(32.4)	424
Commercial mortgage-backed securities	134.4	(2.1)	13	272.8	(2.9)	32
Collateralized loan obligations	994.1	(7.9)	55	154.7	(3.3)	9
Other debt obligations	40.4	(1.0)	14	281.5	(4.7)	43
Total	<u>\$ 3,695.1</u>	<u>\$ (54.9)</u>	<u>413</u>	<u>\$ 10,153.9</u>	<u>\$ (184.2)</u>	<u>1,116</u>

As of December 31, 2018						
	Less Than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
U.S. government and agencies	\$ 11.2	\$ (0.3)	3	\$ 199.9	\$ (5.8)	31
State and political subdivisions	55.3	(0.7)	10	512.2	(9.8)	80
Corporate securities	11,030.9	(319.5)	971	6,774.3	(270.8)	440
Residential mortgage-backed securities	258.0	(3.4)	67	1,881.3	(57.8)	469
Commercial mortgage-backed securities	110.1	(3.6)	16	461.2	(9.2)	45
Collateralized loan obligations	811.2	(19.8)	45	41.1	(1.4)	3
Other debt obligations	188.9	(2.9)	15	288.4	(7.7)	39
Total	<u>\$ 12,465.6</u>	<u>\$ (350.2)</u>	<u>1,127</u>	<u>\$ 10,158.4</u>	<u>\$ (362.5)</u>	<u>1,107</u>

Based on National Association of Insurance Commissioners (NAIC) ratings as of March 31, 2019 and December 31, 2018, the Company held below-investment-grade fixed maturities with fair values of \$921.6 and \$868.0, respectively, and amortized costs of \$899.5 and \$888.0, respectively. These holdings amounted to 2.9% of the Company's available-for-sale fixed maturities as of both March 31, 2019 and December 31, 2018.

The following table summarizes the amortized costs and fair values of available-for-sale fixed maturities as of March 31, 2019, by contractual years to maturity. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Fair Value
One year or less	\$ 1,348.7	\$ 1,343.1
Over one year through five years	9,195.1	9,240.8
Over five years through ten years	10,205.1	10,370.3
Over ten years	4,996.6	5,148.8
Total fixed maturities with contractual maturity dates	<u>25,745.5</u>	<u>26,103.0</u>
Residential mortgage-backed securities	2,416.7	2,394.6
Commercial mortgage-backed securities	918.0	924.7
Collateralized loan obligations	1,312.7	1,301.8
Other asset-backed securities	1,157.8	1,170.9
Total fixed maturities	<u>\$ 31,550.7</u>	<u>\$ 31,895.0</u>

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

Net Investment Income

The following table summarizes the Company's net investment income:

	For the Three Months Ended March 31,	
	2019	2018
Fixed maturities – AFS	\$ 285.2	\$ 270.4
Fixed maturities – Trading	14.1	—
Marketable equity securities	1.9	3.7
Mortgage loans	72.2	67.7
Other	4.6	4.4
Total investment income	378.0	346.2
Investment expenses	(11.9)	(11.3)
Ceded net investment income (1)	(80.1)	—
Net investment income	\$ 286.0	\$ 334.9

(1) Ceded net investment income represents statutory-basis investment income in the Closed Block.

Realized Gains (Losses)

The following table summarizes the Company's net realized gains (losses):

	For the Three Months Ended March 31,	
	2019	2018
Fixed maturities – AFS:		
Gross gains on sales	\$ 15.3	\$ 1.4
Gross losses on sales	(19.9)	(7.5)
Net impairment losses	(2.2)	(2.5)
Marketable equity securities (1)	14.2	(22.2)
Fixed maturities – Trading (2)	71.1	—
Investments in limited partnerships	(10.7)	(13.8)
Net gains (losses) – FIA (3)	(40.1)	10.4
DAC and VOBA adjustment	13.1	(4.2)
Embedded derivative – Closed Block	(193.0)	—
Ceded realized (gains) losses (4)	(24.5)	—
Other (5)	1.6	(16.2)
Net realized gains (losses)	\$ (175.1)	\$ (54.6)

(1) Includes net gains (losses) on changes in the fair value of equity securities held totaling \$14.6 and \$(14.2) for the three months ended March 31, 2019 and 2018. The majority of the Company's equity investments were sold during 2018, in connection with the Reinsurance Transaction.

(2) Includes net gains on changes in the fair value of fixed maturities – trading securities held totaling \$69.8 for the three months ended March 31, 2019.

(3) Includes changes in fair value of the FIA embedded derivative (VED) and related options, excluding options related to the Company's block of FIA business sold during the late 1990s.

(4) Includes ceded realized statutory (gains) losses on sales of assets supporting the Closed Block.

(5) Includes net gains (losses) related to calls and redemptions, certain derivatives not designated for hedge accounting, commercial mortgage loans, and other instruments. For more information on net gain (losses) on derivatives not designated as hedges, refer to Note 6.

Other-Than-Temporary Impairments (OTTI)

The Company's review of available-for-sale fixed maturities for OTTI includes both quantitative and qualitative criteria. Quantitative criteria include the length of time and amount that each security is in an unrealized loss position (i.e., is underwater) and whether expected future cash flows indicate that a credit loss exists.

While all securities are monitored for impairment, the Company's experience indicates that, under normal market conditions, securities for which the cost or amortized cost exceeds fair value by less than 20% do not typically represent a

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

significant risk of impairment and, often, fair values recover over time as the factors that caused the declines improve. If the estimated fair value has declined and remained below cost or amortized cost by 20% or more for at least six months, the Company further analyzes the decrease in fair value to determine whether it is an other-than-temporary decline. To make this determination for each security, the Company considers, among other factors:

- Extent and duration of the decline in fair value below amortized cost;
- Financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations, earnings potential or compliance with terms and covenants of the security;
- Changes in the financial condition of the security's underlying collateral;
- Any downgrades of the security by a rating agency;
- Nonpayment of scheduled interest; and
- Other indications that a credit loss has occurred.

Fixed Maturities – AFS

For fixed maturities, the Company concludes that an OTTI has occurred if a security is underwater and there is an intent to sell the security, or it is more likely than not that the Company will be required to sell the security prior to recovery of its amortized cost, considering any regulatory developments, prepayment or call notifications and the Company's liquidity needs. If there is an intent or requirement to sell the security, the entire unrealized loss is recognized as an OTTI in net realized gains (losses).

An OTTI has also occurred if the present value of expected cash flows is less than the amortized cost of the security (i.e., a credit loss exists). In such cases, the Company isolates the portion of the total unrealized loss related to the credit loss, which is recognized in realized gains (losses) on the consolidated statements of income (loss), and the remainder is recorded as a non-credit OTTI through other comprehensive income.

To determine the amount of a credit loss, the Company calculates the recovery value by discounting its estimate of future cash flows from the security. The discount rate is the original effective yield for corporate securities, which reflects book value adjustments made at PGAAP, or current effective yield for mortgage-backed and other structured securities. The amount of the credit loss equals the difference between the carrying value and recovery value of the security.

Determination of Credit-Related OTTI on Corporate Securities

To determine the recovery value for a corporate security, the Company performs an analysis including, but not limited to, the following:

- Expected cash flows of the issuer;
- Fundamentals of the industry in which the issuer operates;
- Fundamentals of the issuer to determine what the Company would recover if the issuer were to file for bankruptcy or restructure its debt outside of bankruptcy;
- Expectations regarding defaults and recovery rates;
- Changes to the rating of the security by a rating agency;
- Third-party guarantees; and
- Additional available market information.

Determination of Credit-Related OTTI on Structured Securities

To determine the recovery value for a structured security, including residential mortgage-, commercial mortgage- and other asset-backed securities, the Company performs an analysis including, but not limited to, the following:

- Expected cash flows from the security;
- Creditworthiness;
- Delinquency, debt-service coverage, and loan-to-value ratios on the underlying collateral;
- Underlying collateral values, vintage year and level of subordination;
- Geographic concentrations; and

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

- Susceptibility to prepayment due to changes in the interest rate environment.

The following table presents the severity and duration of the gross unrealized losses on the Company's underwater available-for-sale fixed maturities, after the recognition of OTTI:

	As of March 31, 2019			As of December 31, 2018		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
Fixed maturities – AFS:						
Underwater by 20% or more:						
Less than 6 consecutive months	\$ 2.7	\$ (1.0)	5	\$ 81.9	\$ (23.7)	26
6 consecutive months or more	1.6	(2.0)	10	1.3	(1.8)	6
Total underwater by 20% or more	4.3	(3.0)	15	83.2	(25.5)	32
All other underwater fixed maturities	13,844.7	(236.1)	1,480	22,540.8	(687.2)	2,243
Total underwater fixed maturities	<u>\$ 13,849.0</u>	<u>\$ (239.1)</u>	<u>1,495</u>	<u>\$ 22,624.0</u>	<u>\$ (712.7)</u>	<u>2,275</u>

Changes in the amount of credit-related OTTI recognized in net income when the portion related to other factors was recognized in other comprehensive income (loss) (OCI) were as follows:

	For the Three Months Ended March 31,	
	2019	2018
Balance, beginning of period	\$ 4.4	\$ 3.8
Increases recognized in the current period:		
For which an OTTI was not previously recognized	—	0.2
Decreases attributable to:		
Securities sold or paid down during the period	(0.9)	(0.1)
Balance, end of period	<u>\$ 3.5</u>	<u>\$ 3.9</u>

The Company reviewed its available-for-sale securities with unrealized losses as of March 31, 2019 in accordance with its impairment policy and determined, after the recognition of OTTI, that the declines in fair value were temporary. The Company did not intend to sell its underwater securities, and it was not more likely than not that the Company will be required to sell the securities before recovery of cost or amortized cost, which may be maturity. This conclusion is supported by the Company's spread analyses, cash flow modeling and expected continuation of contractually required principal and interest payments.

Federal Home Loan Bank Funding Agreements

The Company has issued funding agreements to the Federal Home Loan Bank of Des Moines to support an institutional spread program, where the Company earns spread-income primarily from the difference between investment income earned and interest credited on the funding agreements. As of March 31, 2019 and December 31, 2018 the Company had outstanding funding agreements of \$562.8 and \$105.7, respectively. The Company is required to provide collateral in excess of the funding agreement amounts outstanding. Eligible collateral includes eligible CMBS, RMBS, government or agency securities and mortgage loans.

Investments in Limited Partnerships – Low-Income Housing Project Investments

The Company invests in limited partnerships that are established to fund low-income housing and other qualifying purposes, where the primary return on investment is in the form of income tax credits. These are collectively referred to as "tax credit investments." The majority of the Company's tax credit investments relate to low-income housing project investments. As of March 31, 2019 and December 31, 2018, the Company's tax credit investments had carrying values of \$120.4 and \$130.1, respectively, of which \$112.2 and \$122.3, respectively, related to low-income housing project investments.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

The following table sets forth the impact of low-income housing project investments on net income. These amounts do not include the impacts of the Company's holdings in other types of tax credit investments.

	For the Three Months Ended March 31,	
	2019	2018
Pass through activity	\$ (4.9)	\$ (7.1)
Write downs	(5.1)	(4.8)
Tax benefits	2.1	2.5
Tax credits, net	8.2	10.0
Impact to net income	<u>\$ 0.3</u>	<u>\$ 0.6</u>

5. Mortgage Loans

The Company originates and manages a portfolio of mortgage loans, which are secured by first-mortgage liens on income-producing commercial real estate, primarily in the retail, industrial and office building sectors.

The Company's mortgage loan portfolio is diversified by geographic region, loan size and scheduled maturity. As of March 31, 2019, the three states with the largest concentrations of the Company's commercial mortgage loans were California, Texas and Washington representing 26.1%, 11.0%, and 6.7%, respectively, of total outstanding principal. Of the loans in California, 41.6% related to properties located in Los Angeles area.

As of the Merger Date, all outstanding mortgage loans were measured at fair value, which resulted in the establishment of a net premium for the portfolio. This net premium is amortized into net investment income for each loan based on its expected maturity, using the effective interest rate method. As of March 31, 2019 and December 31, 2018, the unamortized premium balance was \$121.0 and \$130.6, respectively.

Allowance for Loan Losses

The allowance for losses on mortgage loans provides for the risk of credit loss inherent in the lending process. The allowance consists of a portfolio reserve for probable losses incurred but not specifically identified and, as needed, specific reserves for impaired loans. The allowance for losses on mortgage loans is evaluated at each reporting period and adjustments are recorded when appropriate. Loans are specifically evaluated for impairment if the Company considers it probable that amounts due according to the terms of the loan agreement will not be collected, or the loan is modified in a troubled debt restructuring. The Company establishes specific reserves for these loans when the fair value is less than the carrying value.

To assist in its evaluation of the allowance for loan losses, the Company utilizes the following credit quality indicators to categorize its loans as lower, medium or higher risk:

- *Lower Risk Loans* – Loans with an LTV ratio of less than 65%, and a DSCR of greater than 1.50.
- *Medium Risk Loans* – Loans that have an LTV ratio of less than 65% but a DSCR below 1.50, or loans with an LTV ratio between 65% and 80% and a DSCR of greater than 1.50.
- *Higher Risk Loans* – Loans with an LTV ratio greater than 80%, or loans which have an LTV ratio between 65% and 80% and a DSCR of less than 1.50.

As a result of the Merger, loans held as of February 1, 2016 (referred to as PGAAP loans) were adjusted to fair value, which incorporated expectations for credit losses at that time, and the allowance was set to zero. The Company separately monitors these loans for deterioration in credit quality or other indicators that a loss has incurred. Any allowance related to these PGAAP loans reflects losses incurred subsequent to the Merger.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

The following table sets forth the Company's mortgage loans by risk category:

	As of March 31, 2019		As of December 31, 2018	
	Balance	%	Balance	%
Lower risk	\$ 2,082.7	66.4%	\$ 1,965.2	66.9%
Medium risk	692.8	22.1	727.6	24.8
Higher risk	359.0	11.5	244.7	8.3
Subtotal, excluding certain PGAAP loans	3,134.5	100.0	2,937.5	100.0
Lower risk	2,494.5	72.7	2,586.9	73.0
Medium risk	748.2	21.8	745.9	21.0
Higher risk	189.8	5.5	211.2	6.0
Subtotal, certain PGAAP loans (1)	3,432.5	100.0%	3,544.0	100.0%
Other (2)	3.9		3.6	
Total	<u>\$ 6,570.9</u>		<u>\$ 6,485.1</u>	

(1) Represents loans set to fair value on February 1, 2016 for which there are no indications of subsequent credit deterioration.

(2) Includes allowance for loan losses and deferred fees and costs.

In developing the portfolio reserve for incurred but not specifically identified losses, the Company evaluates loans by risk category. The Company considers past loan experience, commercial real estate market conditions, third-party data for expected losses on loans with similar LTV ratios and DSCRs, personal guarantees, and other relevant factors when determining whether an allowance is needed for loans categorized as medium or higher risk. No allowance is recorded for lower risk loans, based on their characteristics and the Company's historical experience. In developing the provision for specifically identified loans, a market valuation on the collateral is performed to determine if a reserve is necessary.

The following table summarizes the activity in the Company's allowance for mortgage loan losses, which includes portfolio and specific reserves:

	For the Three Months Ended March 31,	
	2019	2018
Allowance at beginning of period (1)	\$ 1.5	\$ 1.0
Provision for specific loans	—	0.5
Allowance at end of period	<u>\$ 1.5</u>	<u>\$ 1.5</u>

Non-performing loans, defined generally as those in default, close to being in default or more than 90 days past due, are placed on non-accrual status. As of March 31, 2019 and December 31, 2018, no loans were considered non-performing.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

6. Derivative Instruments

The following table sets forth the fair value of the Company's derivative instruments, including embedded derivatives. In the consolidated balance sheets, derivative contracts in a liability position are included in other liabilities, and embedded derivative liabilities are included in the balances of the related underlying liabilities.

	As of March 31, 2019			As of December 31, 2018		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as hedges:						
Cash flow hedges:						
Interest rate swaps	\$ 977.3	\$ 0.6	\$ 1.6	\$ 916.6	\$ 1.5	\$ —
Foreign currency swaps	790.8	98.3	3.6	801.3	115.4	3.1
Total derivatives designated as hedges	<u>\$ 1,768.1</u>	<u>\$ 98.9</u>	<u>\$ 5.2</u>	<u>\$ 1,717.9</u>	<u>\$ 116.9</u>	<u>\$ 3.1</u>
Derivatives not designated as hedges:						
Index options	\$ 8,563.7	\$ 212.3	\$ 5.6	\$ 8,231.5	\$ 61.8	\$ 0.6
Embedded derivatives – Indexed products	—	—	1,067.6	—	—	871.5
Embedded derivative – Closed Block	—	—	126.0	—	67.0	—
Other derivatives	89.3	2.3	0.1	25.2	0.2	0.7
Total derivatives not designated as hedges	<u>8,653.0</u>	<u>214.6</u>	<u>1,199.3</u>	<u>8,256.7</u>	<u>129.0</u>	<u>872.8</u>
Total derivatives	<u>\$ 10,421.1</u>	<u>\$ 313.5</u>	<u>\$ 1,204.5</u>	<u>\$ 9,974.6</u>	<u>\$ 245.9</u>	<u>\$ 875.9</u>

Collateral Arrangements and Offsetting of Financial Instruments

The Company's derivative contracts are typically governed by an International Swaps and Derivatives Association (ISDA) Master Agreement. For each Master Agreement, the Company and the counterparty have also entered into a credit support annex (CSA) to reduce the risk of counterparty default in derivative transactions by requiring the posting of cash collateral or other financial assets. The CSA requires either party to post collateral when net exposures from all derivative contracts between the parties exceed pre-determined contractual thresholds, which vary by counterparty. The amount of net exposure is the difference between the derivative contract's fair value and the fair value of the collateral held for such agreements with each counterparty. Collateral amounts required to be posted or received are determined daily based on the net exposure with each counterparty under a master netting agreement.

The Company does not offset recognized collateral amounts pledged or received against the fair value amounts recognized for derivative contracts. For certain centrally-cleared instruments, the Company is required to post initial margin, which is determined at contract inception, as well as variation margin, which is based on the fair value of the derivative contracts and generally determined on a daily basis. As of March 31, 2019 and December 31, 2018, the Company posted initial margin of \$23.5 and \$21.3, respectively, related to its centrally-cleared derivatives. These amounts are not reflected in collateral presented in the tables below.

Certain exchanges legally characterize variation margin payments as settlements as opposed to collateral for centrally cleared derivatives. As a result, the variation margin for these securities reduces the fair value of the derivative recorded in the consolidated balance sheets.

In the consolidated balance sheets, the Company recognizes cash collateral received in cash and cash equivalents, and the obligation to return cash collateral in other liabilities. Non-cash collateral received is not recognized in the consolidated balance sheets. In the event of default, the counterparty relinquishes claim to the assets pledged as collateral, and the Company recognizes the collateral as its own asset recorded at fair value, or, in the case of cash collateral, derecognizes its obligation to return collateral.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

The following tables present the potential effect of netting arrangements by counterparty on the Company's consolidated balance sheets:

Counterparty:	As of March 31, 2019			
	Fair Value Presented in the Balance Sheets	Gross Amounts not Offset in the Consolidated Balance Sheets		Net Amount
		Financial Instruments (1)	Cash Collateral Received	
Assets:				
A	\$ 30.1	\$ (2.2)	\$ (27.4)	\$ 0.5
B	56.1	(1.7)	(54.4)	—
C	16.0	—	(16.0)	—
F	19.4	—	(15.8)	3.6
G	43.3	(5.2)	(36.9)	1.2
H	16.2	(0.4)	(15.8)	—
I	47.8	—	(45.7)	2.1
J	28.6	(0.1)	(28.5)	—
M	41.0	(1.0)	(38.7)	1.3
Other	15.0	(0.2)	(14.3)	0.5
Total derivative assets	<u>\$ 313.5</u>	<u>\$ (10.8)</u>	<u>\$ (293.5)</u>	<u>\$ 9.2</u>

- (1) Represents amount of offsetting derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets for presentation on the consolidated balance sheets.

	As of March 31, 2019			
		Gross Amounts not Offset in the Consolidated Balance Sheets		
	Fair Value Presented in the Balance Sheets	Financial Instruments (1)	Cash Collateral Posted	Net Amount
Counterparty:				
Liabilities:				
A	\$ 2.2	\$ (2.2)	\$ —	\$ —
B	1.7	(1.7)	—	—
G	5.2	(5.2)	—	—
Other	1.7	(1.7)	—	—
Total derivative liabilities (2)	\$ 10.8	\$ (10.8)	\$ —	\$ —

- (1) Represents amount of offsetting derivative assets that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative liabilities for presentation on the consolidated balance sheets.
(2) Excludes embedded derivatives that have no counterparty.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

		As of December 31, 2018			
		Fair Value Presented in the Balance Sheets	Gross Amounts not Offset in the Consolidated Balance Sheets		Net Amount
			Financial Instruments (1)	Cash Collateral Received	
Counterparty:					
Assets:					
A	\$	18.1	\$ (2.6)	\$ (15.5)	\$ —
B		60.1	(0.6)	(59.5)	—
C		18.7	—	(18.7)	—
E		11.8	—	(11.8)	—
G		15.9	—	(15.6)	0.3
H		11.0	(0.5)	(10.5)	—
I		16.3	—	(16.0)	0.3
Other		27.0	(0.7)	(24.1)	2.2
Total derivative assets (2)	\$	178.9	\$ (4.4)	\$ (171.7)	\$ 2.8

- (1) Represents amount of offsetting derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets for presentation on the consolidated balance sheets.
- (2) Excludes embedded derivatives that have no counterparty.

		As of December 31, 2018			
		Gross Amounts not Offset in the Consolidated Balance Sheets			
		Fair Value Presented in the Balance Sheets	Financial Instruments (1)	Cash Collateral Posted	Net Amount
Counterparty:					
Liabilities:					
A	\$	2.6	\$ (2.6)	\$ —	\$ —
B		0.6	(0.6)	—	—
H		0.5	(0.5)	—	—
Other		0.7	(0.7)	—	—
Total derivative liabilities (2)	\$	4.4	\$ (4.4)	\$ —	\$ —

- (1) Represents amount of offsetting derivative assets that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative liabilities for presentation on the consolidated balance sheets.
- (2) Excludes embedded derivatives that have no counterparty.

Derivatives Designated as Hedges

The following table presents the amount of gain (loss) recognized in OCI on derivatives qualifying and designated as cash flow hedges:

	For the Three Months Ended March 31,	
	2019	2018
Interest rate swaps	\$ 10.9	\$ (16.6)
Foreign currency swaps	(7.0)	(29.2)
Total	<u>\$ 3.9</u>	<u>\$ (45.8)</u>

See Note 10 for amounts reclassified out of AOCI into net realized gains (losses) and net investment income on the consolidated statements of income (loss). The Company expects to reclassify net gains of \$1.2 from AOCI into net income in the next 12 months due to maturities and settlements of derivatives. Actual amounts may vary from this estimate as a result of market conditions.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

As of March 31, 2019, the maximum term over which the Company is hedging its exposure to the variability in future cash flows is approximately 22 years.

Derivatives Not Designated as Hedges

The following table shows the effect of derivatives not designated as hedges in the consolidated statements of income (loss), which is recorded in net realized gains (losses):

	For the Three Months Ended March 31,	
	2019	2018
Index options	\$ 115.0	\$ (22.9)
Embedded derivatives – Indexed products	(157.9)	33.3
Embedded derivative – Closed Block	(193.0)	—
Other derivatives	6.1	(10.1)
Total	<u>\$ (229.8)</u>	<u>\$ 0.3</u>

7. Fair Value of Financial Instruments

The Company determines the fair value of its financial instruments based on the fair value hierarchy, which favors the use of observable inputs over the use of unobservable inputs. The Company has categorized its financial instruments into the three-level hierarchy, which gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The level assigned to a fair value measurement is based on the lowest-level input that is significant to the measurement. The fair value measurements for the Company's financial instruments are categorized as follows:

- *Level 1* — Unadjusted quoted prices in active markets for identical instruments.
- *Level 2* — Quoted prices for similar instruments in active markets and model-derived valuations whose inputs are observable. This category includes financial instruments that are valued using industry-standard pricing methodologies or models. All significant inputs are observable or derived from observable information in the marketplace.
- *Level 3* — Fair value estimates whose significant inputs are unobservable. This includes financial instruments for which fair value is estimated based on industry-standard pricing methodologies and internally developed models utilizing significant inputs not based on or corroborated by readily available market information. In limited circumstances, this may also utilize estimates based on non-binding broker quotes.

The following tables present the fair value of the Company's financial instruments classified by the valuation hierarchy described above.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

As of March 31, 2019

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Measured at fair value on a recurring basis:					
<i>Financial assets:</i>					
Fixed maturities – AFS:					
U.S. government and agencies	\$ 484.0	\$ 484.0	\$ —	\$ 484.0	\$ —
State and political subdivisions	732.9	732.9	—	732.9	—
Corporate securities	24,800.5	24,800.5	—	24,501.5	299.0
Residential mortgage-backed securities	2,394.6	2,394.6	—	2,394.6	—
Commercial mortgage-backed securities	924.7	924.7	—	924.7	—
Collateralized loan obligations	1,301.8	1,301.8	—	1,301.8	—
Other debt obligations	1,256.5	1,256.5	—	1,170.4	86.1
Total fixed maturities – AFS	31,895.0	31,895.0	—	31,509.9	385.1
Fixed maturities, trading	1,341.8	1,341.8	—	1,341.8	—
Marketable equity securities	111.9	111.9	99.2	6.3	6.4
Derivatives:					
Index options	212.3	212.3	—	212.3	—
Foreign currency swaps	98.3	98.3	—	98.3	—
Other	2.9	2.9	2.3	0.6	—
Total derivatives	313.5	313.5	2.3	311.2	—
Total investments carried at fair value	33,662.2	33,662.2	101.5	33,169.2	391.5
Separate account assets	992.2	992.2	992.2	—	—
Total assets at fair value (1)	<u>\$ 34,654.4</u>	<u>\$ 34,654.4</u>	<u>\$ 1,093.7</u>	<u>\$ 33,169.2</u>	<u>\$ 391.5</u>
<i>Financial liabilities:</i>					
Embedded derivatives – Indexed products	\$ 1,067.6	\$ 1,067.6	\$ —	\$ —	\$ 1,067.6
Embedded derivative – Closed Block	126.0	126.0	—	—	126.0

(1) Does not include amounts related to limited partnerships that are measured using the net asset value (NAV) practical expedient. See "Investments in Limited Partnerships" below for more information.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

As of December 31, 2018

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Measured at fair value on a recurring basis:					
<i>Financial assets:</i>					
Fixed maturities – AFS:					
U.S. government and agencies	\$ 432.8	\$ 432.8	\$ —	\$ 432.8	\$ —
State and political subdivisions	728.9	728.9	—	728.9	—
Corporate securities	23,871.3	23,871.3	—	23,585.7	285.6
Residential mortgage-backed securities	2,398.3	2,398.3	—	2,398.3	—
Commercial mortgage-backed securities	858.4	858.4	—	858.4	—
Collateralized loan obligations	912.6	912.6	—	912.6	—
Other debt obligations	1,121.8	1,121.8	—	1,071.0	50.8
Total fixed maturities – AFS	30,324.1	30,324.1	—	29,987.7	336.4
Fixed maturities, trading	1,095.8	1,095.8	—	1,095.8	—
Marketable equity securities	97.7	97.7	85.2	12.0	0.5
Derivatives:					
Index options	61.8	61.8	—	61.8	—
Foreign currency swaps	115.4	115.4	—	115.4	—
Other	1.7	1.7	0.2	1.5	—
Total derivatives	178.9	178.9	0.2	178.7	—
Total investments carried at fair value	31,696.5	31,696.5	85.4	31,274.2	336.9
Embedded derivative – Closed Block	67.0	67.0	—	—	67.0
Separate account assets	904.3	904.3	904.3	—	—
Total assets at fair value (1)	\$ 32,667.8	\$ 32,667.8	\$ 989.7	\$ 31,274.2	\$ 403.9
<i>Financial liabilities:</i>					
Embedded derivatives – Indexed products	\$ 871.5	\$ 871.5	\$ —	\$ —	\$ 871.5

(1) Does not include amounts related to limited partnerships that are measured using the net asset value (NAV) practical expedient. See "Investments in Limited Partnerships" below for more information.

Financial Instruments Measured at Fair Value on a Recurring Basis

Fixed Maturities

The vast majority of the Company's fixed maturities, including both available-for-sale and trading, have been classified as Level 2 measurements. To make this assessment, the Company determines whether the market for a security is active and if significant pricing inputs are observable. The Company predominantly utilizes third-party independent pricing services to assist management in determining the fair value of its fixed maturity securities. As of March 31, 2019 and December 31, 2018, pricing services provided prices for 94.0% and 94.5%, respectively, of the Company's fixed maturities.

As of March 31, 2019, the Company had \$1,650.3, or 5.0%, of its available-for-sale fixed maturities invested in private placement securities. These securities were generally valued using a composite of observed comparable public securities as well as reference yield curves. The yield curves are determined based on industry, credit quality, seniority rank in the capital structure, and residual spreads determined by the Company's independent pricing service for each security. The residual spreads are considered unobservable inputs and classified as a Level 3 measurement when they are significant to the valuation result. When only observable inputs are significant to the valuation result, they are classified as Level 2 measurements. The use of only significant observable inputs in determining the fair value of the Company's investments in private placement securities resulted in the classification of \$1,346.8, or 81.6%, as Level 2 measurements as of March 31, 2019. As of December 31, 2018, the Company had \$1,576.9, or 5.0%, of its fixed maturities invested in private placement securities, of which \$1,303.6, or 82.7%, were classified as Level 2 measurements.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

As of March 31, 2019 and December 31, 2018 Level 3 fixed maturities had a fair value of \$385.1 and 336.4, respectively. For the three months ended March 31, 2019 and 2018, purchases of Level 3 fixed maturities were \$12.3 and \$116.7, respectively. Gross transfers into Level 3 were \$54.7 and \$0.2 for the three months ended March 31, 2019 and 2018, respectively. There were no transfers out of Level 3 during either period. Transfers into Level 3 are generally the result of observable market information on a security no longer being available or utilized by pricing vendors.

Corporate Securities

The majority of corporate securities classified as Level 2 measurements are priced by independent pricing services utilizing evaluated pricing models. Because many corporate securities do not trade on a daily basis, evaluated pricing models apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare valuations. The significant inputs for security evaluations include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and other reference data, including market research publications.

Residential Mortgage-backed Securities

The Company's residential mortgage-backed securities (RMBS) classified as Level 2 measurements are priced by pricing services that utilize evaluated pricing models. Because many RMBS do not trade on a daily basis, evaluated pricing models apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. The significant observable inputs for security evaluations include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and other reference data, including market research publications. In addition, the pricing services use models and processes to develop prepayment and interest rate scenarios. The pricing services monitor market indicators, industry and economic events, and their models take into account market convention.

Marketable Equity Securities

When the fair values of the Company's marketable equity securities are based on quoted market prices in active markets for identical assets, they are classified as Level 1 measurements. The fair values of nonredeemable preferred stocks are determined by pricing services utilizing evaluated pricing models and are classified as a Level 2 measurement. These valuations are created based on benchmark curves using industry standard inputs and exchange prices of underlying securities and common stock of the same issuer.

Investments in Limited Partnerships

Investments in limited partnerships recorded at fair value relate to the Company's alternative investments, primarily private equity and hedge funds. As of March 31, 2019 and December 31, 2018, the fair value of these investments was \$46.8 and \$48.2, respectively. The Company utilizes the fair value option for these investments, regardless of ownership percentage, to standardize the related accounting and reporting. The fair value is determined using the practical expedient based on the Company's proportionate interest in the underlying partnership's or fund's net asset values (NAV).

Index Options

Index options consist primarily of Standard & Poor's 500 Index[®] (S&P 500) options. The fair values of these index options were determined using option pricing models. Significant inputs include index implied volatilities, index dividend yields, index prices, a risk-free rate, option term and option strike price. As these inputs are observable, most index options are classified as a Level 2 measurement.

Foreign Currency Swaps

Foreign currency swaps are valued using an income approach. These swaps are priced using a discounted cash flow model. The significant inputs include the projected cash flows, currency spot rates, swap yield curve and cross currency basis curve. As these inputs are observable, the foreign currency swaps valuation is classified as a Level 2 measurement.

Separate Accounts

Separate account assets are primarily invested in mutual funds with published NAVs, which are classified as a Level 1 measurement.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

Embedded Derivatives

Embedded derivatives primarily relate to the Company's indexed products, which credits interest to the policyholder's account balance based on increases in selected indices, primarily the S&P 500. The fair value of the embedded derivative reflects the excess of the projected benefits based on the indexed fund value over the projected benefits based on the guaranteed fund value. The excess benefits are projected using best estimates for surrenders, mortality and indexed fund interest, and discounted at a risk-free rate plus a spread for nonperformance and policyholder behavior risk.

The Reinsurance Transaction also contains an embedded derivative related to the withheld assets supporting the Closed Block annuity contracts. The embedded derivative is primarily measured as the change in the market-over-book value of the assets supporting the Closed Block, which includes both fixed maturities and commercial mortgages loans.

Because the fair value measurement of these estimates utilizes significant unobservable inputs, the Company classifies the valuation of embedded derivatives as a Level 3 measurement.

For the three months ended March 31, 2019 and 2018, the Company's embedded derivatives were increased by \$46.8 and \$38.5, respectively, related to issuances of indexed products. For the three months ended March 31, 2019 and 2018, the Company's embedded derivatives were reduced by settlements of \$8.6 and \$2.5, respectively, which represents payment of excess benefits related to policyholder withdrawals.

8. Deferred Policy Acquisition Costs (DAC) and Value of Business Acquired (VOBA)

The following table provides a reconciliation of the beginning and ending balance for DAC:

	For the Three Months Ended March 31,	
	2019	2018
Unamortized balance at beginning of period	\$ 609.9	\$ 407.2
Deferral of acquisition costs	70.5	68.3
Adjustments for realized (gains) losses (1)	6.7	(3.0)
Amortization – excluding unlocking	(16.1)	8.3
Amortization – impact of unlocking (1)	(1.2)	(0.4)
Unamortized balance at end of period	669.8	480.4
Accumulated effect of net unrealized (gains) losses	(25.3)	16.0
Balance at end of period	\$ 644.5	\$ 496.4

(1) Includes the impact of assumption and experience unlocking related to quarterly investment prepayment activity.

The following table provides a reconciliation of the beginning and ending balance for VOBA:

	For the Three Months Ended March 31,	
	2019	2018
Unamortized balance at beginning of period	\$ 320.3	\$ 358.1
Adjustments related to realized (gains) losses (1)	6.2	(1.5)
Amortization – excluding unlocking	(9.3)	(10.4)
Amortization – impact of unlocking (1)	(1.3)	(1.2)
Unamortized balance at end of period	315.9	345.0
Accumulated effect of net unrealized (gains) losses	(16.9)	33.9
Balance at end of period	\$ 299.0	\$ 378.9

(1) Includes the impact of assumption and experience unlocking related to quarterly investment prepayment activity.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

9. Liability for Unpaid Claims and Claim Adjustment Expenses

The following tables provide reconciliations of the beginning and ending liability balances for unpaid claims and claims adjustment expenses (CAE) disaggregated by medical stop-loss, group life and DI, and other. These reserves include policy and contract claims and certain amounts recorded in future policy benefits on the consolidated balance sheets. Liabilities for claims represent estimates that involve significant judgments. The Company reviews its estimates regularly and makes any necessary adjustments based on experience and expectations.

	For the Three Months Ended March 31,	
	2019	2018
Medical Stop-Loss		
Balance, beginning of period	\$ 149.4	\$ 153.1
Less: reinsurance recoverables	6.4	12.4
Net balance, beginning of period	143.0	140.7
Incurred related to insured events of:		
The current year	150.3	124.6
Prior years	20.3	(11.4)
Total incurred	170.6	113.2
Paid related to insured events of:		
The current year	11.5	15.3
Prior years	128.8	100.2
Total paid	140.3	115.5
Net balance, end of period	173.3	138.4
Add: reinsurance recoverables	5.0	8.3
Balance, end of period	\$ 178.3	\$ 146.7

For the three months ended March 31, 2019, the change in prior year incurred claims for medical stop-loss was primarily due to unfavorable claims experience on policies issued in January 2018. For the three months ended March 31, 2018, the change in prior year incurred claims was primarily due to favorable claims experience on policies issued in January 2017.

	For the Three Months Ended March 31,	
	2019	2018
Group Life and DI		
Balance, beginning of period	\$ 230.0	\$ 184.2
Less: reinsurance recoverables	40.3	41.9
Net balance, beginning of period	189.7	142.3
Incurred related to insured events of:		
The current year	50.3	47.6
Prior years	(0.7)	5.8
Total incurred	49.6	53.4
Paid related to insured events of:		
The current year	10.9	13.0
Prior years	28.1	21.6
Total paid	39.0	34.6
Net balance, end of period	200.3	161.1
Add: reinsurance recoverables	37.9	41.7
Balance, end of period	\$ 238.2	\$ 202.8

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
Other		
Balance, beginning of period	\$ 37.0	\$ 29.6
Less: reinsurance recoverables	4.5	4.8
Net balance, beginning of period	32.5	24.8
Incurred related to insured events of:		
The current year	30.4	33.3
Prior years	0.3	1.0
Total incurred	30.7	34.3
Paid related to insured events of:		
The current year	12.3	15.6
Prior years	22.9	16.5
Total paid	35.2	32.1
Net balance, end of period	28.0	27.0
Add: reinsurance recoverables	6.9	26.0
Balance, end of period	\$ 34.9	\$ 53.0

The Company's short duration contracts primarily include medical stop-loss and group life and DI. The following table presents total of incurred but not reported (IBNR) liabilities including expected development on reported claims.

Year of Insured Event	As of March 31, 2019	
	Medical Stop-Loss	Group Life and DI
IBNR Reserves:		
2017 and prior	\$ —	\$ 4.9
2018	30.9	20.4
2019	119.8	33.9
Total	\$ 150.7	\$ 59.2

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

10. Stockholder's Equity

The following tables summarize the components of accumulated other comprehensive income (loss) (AOCI) and the adjustments to other comprehensive income (loss) (OCI) for amounts reclassified from AOCI into net income (loss) for the three months ended March 31, 2019:

	Net Unrealized Gains (Losses) on Available-for- sale Securities	OTTI on Fixed Maturities not related to Credit Losses (2)	Adjustment for DAC and VOBA	Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2019	\$ (417.3)	\$ (1.2)	\$ 86.0	\$ 11.2	\$ (321.3)
Other comprehensive income (loss) before reclassifications, net of taxes (1)	683.5	—	(115.2)	3.1	571.4
Reclassifications recorded in:					
Net investment income:					
Interest rate swaps	—	—	—	2.3	2.3
Foreign currency swaps	—	—	—	(0.8)	(0.8)
Net realized (gains) losses	6.8	1.1	(13.3)	(5.9)	(11.3)
Total provision (benefit) for income taxes	(1.4)	(0.2)	2.8	0.9	2.1
Total reclassifications from AOCI, net of taxes	5.4	0.9	(10.5)	(3.5)	(7.7)
Other comprehensive income (loss) after reclassifications	688.9	0.9	(125.7)	(0.4)	563.7
Adoption of new accounting standard (3)	—	—	—	(0.6)	(0.6)
Balance as of March 31, 2019	\$ 271.6	\$ (0.3)	\$ (39.7)	\$ 10.2	\$ 241.8

- (1) Other comprehensive income (loss) before reclassifications is net of taxes of \$181.7, \$0.0, \$(30.6), \$0.8, and \$151.9, for the three months ended March 31, 2019. Tax effects in OCI are calculated based on the applicable enacted tax rate at the time gains (losses) are incurred.
- (2) Reclassification adjustments of OTTI on fixed maturities not related to credit losses are included in changes in unrealized gains and losses on available-for-sale securities within the consolidated statements of comprehensive income.
- (3) Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. Refer to Note 2 for further discussion.

The following tables summarize the components of AOCI and the adjustments to OCI for amounts reclassified from AOCI into net income (loss) for the three months ended March 31, 2018:

	Net Unrealized Gains (Losses) on Available-for- sale Securities	OTTI on Fixed Maturities not related to Credit Losses (2)	Adjustment for DAC and VOBA	Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income
Balance as of January 1, 2018	\$ 646.5	\$ (0.3)	\$ (63.6)	\$ (27.7)	\$ 554.9
Other comprehensive income (loss) before reclassifications, net of taxes (1)	(556.7)	—	104.0	(36.2)	(488.9)
Reclassifications recorded in:					
Net investment income:					
Interest rate swaps	—	—	—	0.3	0.3
Foreign currency swaps	—	—	—	(0.8)	(0.8)
Net realized (gains) losses	8.6	—	4.2	5.0	17.8
Total provision (benefit) for income taxes	(1.8)	—	(0.9)	(0.9)	(3.6)
Total reclassifications from AOCI, net of taxes	6.8	—	3.3	3.6	13.7
Other comprehensive income (loss) after reclassifications	(549.9)	—	107.3	(32.6)	(475.2)
Adoption of new accounting standard (3)	(114.3)	—	—	—	(114.3)
Balance as of March 31, 2018	\$ (17.7)	\$ (0.3)	\$ 43.7	\$ (60.3)	\$ (34.6)

- (1) Other comprehensive income (loss) before reclassifications is net of taxes of \$(148.0), \$0.0, \$27.6, \$(9.6), and \$(130.0), respectively, for the three months ended March 31, 2018. Tax effects in OCI are calculated based on the applicable enacted tax rate at the time gains (losses) are incurred.
- (2) Reclassification adjustments of OTTI on fixed maturities not related to credit losses are included in changes in unrealized gains and losses on available-for-sale securities within the consolidated statements of comprehensive income.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

(3) Accounting Standards Update No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities.

11. Commitments and Contingencies

Litigation

Because of the nature of its business, the Company is subject to legal actions filed or threatened in the ordinary course of its business operations. The Company establishes liabilities for litigation and regulatory actions when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. For matters where a loss is believed to be reasonably possible, but not probable, no liability is established. For such matters, the Company may provide an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. The Company reviews relevant information with respect to litigation and regulatory matters on a quarterly basis and updates its established liabilities, disclosures and estimates of reasonably possible losses or range of loss based on such reviews.

Although the Company cannot predict the outcome of any litigation or regulatory action, the Company does not believe that any such matters will have an impact on its financial condition or results of operations that differs materially from the Company's established liabilities. Given the inherent difficulty in predicting the outcome of such matters, however, it is possible that an adverse outcome in certain such matters could be material to the Company's financial condition or results of operations for any particular reporting period.

12. Segment Information

The Company offers a broad range of products and services that include retirement, employment-based benefits, and life insurance products. These operations are managed separately as three divisions. In the third quarter 2018, and as a result of the Reinsurance Transaction, the Company revised its segments into three business segments based on product groupings and information used by management: Benefits, Retirement, and Individual Life. The Company also has a fourth reportable segment, Other, consisting primarily of unallocated corporate items and surplus investment income.

The results from operations related to the business exited through the Reinsurance Transaction are reported as the "Closed Block" and included in the consolidated financial statements. The income (loss) related to the Closed Block is excluded from the profitability measures used by management, which results in more informative financial trends from the Company's core business and better aligns results with how the Company manages its segments. Prior period results have been adjusted to reflect this change.

The primary profitability measure that management uses to manage business segment results is adjusted pre-tax income (loss), which is defined as income from operations excluding results of the Closed Block, intangible asset amortization, and certain net realized gains (losses). Excluded gains (losses) are associated with:

- investment sales or disposal,
- investment impairments,
- changes in the fair value of mark-to-market investments and derivative investments (except for certain index options discussed below),
- changes in the fair value of embedded derivatives related to the Company's indexed products, and
- DAC, VOBA, and DSI impacts related to these items.

The accounting policies of the segments are the same as those described for the Company, except for the method of capital allocation. The Company has an internally developed risk-based capital model, the purpose of which is to measure the risk in the business and to provide a basis upon which capital is deployed. This model accounts for the unique and specific nature of the risks inherent in the Company's segments. A portion of net investment income on surplus investments, but not the invested assets, is allocated to the segments based on the level of allocated capital.

In the Retirement segment, net gains (losses) on certain index options purchased to economically hedge exposure from FIA products sold in the late 1990s are included in adjusted pre-tax income.

SYMETRA FINANCIAL CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in millions, unless otherwise stated)
(Unaudited)

The following table presents selected financial information by segment and reconciles segment pre-tax adjusted operating income (loss) to amounts reported in the consolidated statements of income (loss):

	For the Three Months Ended March 31,	
	2019	2018
Segment adjusted pre-tax income (loss):		
Benefits	\$ (1.5)	\$ 21.4
Retirement	34.8	28.4
Individual Life	3.8	4.9
Other	(11.1)	(10.6)
Total segment adjusted pre-tax income	26.0	44.1
Add (deduct) the following:		
Excluded realized gains (losses)	(17.0)	(5.9)
Amortization of intangible assets	(21.7)	(20.9)
Closed Block results	(144.6)	(34.0)
Income (loss) from operations before income taxes	<u>\$ (157.3)</u>	<u>\$ (16.7)</u>

The following table presents total adjusted revenue by segment:

	For the Three Months Ended March 31,	
	2019	2018
Segment adjusted revenue:		
Benefits	\$ 293.0	\$ 256.4
Retirement	220.9	186.5
Individual Life	147.6	137.4
Other	(4.5)	(4.2)
Total segment adjusted revenue	657.0	576.1
Add: Excluded realized gains (losses)	(17.0)	(5.9)
Add: Closed Block revenue	(156.6)	42.1
Total Revenue	<u>\$ 483.4</u>	<u>\$ 612.3</u>

Segment adjusted revenue represents segment revenue excluding certain net realized gains and losses, as described above, and excludes revenue in the Closed Block.

The following table presents total assets by segment:

	As of March 31, 2019	As of December 31, 2018
Segment assets:		
Benefits	\$ 1,549.4	\$ 1,501.6
Retirement	26,939.5	25,080.7
Individual Life	8,345.9	8,005.9
Other	2,671.3	2,619.9
Total segment assets	39,506.1	37,208.1
Add: Closed Block assets (1)	12,125.6	12,055.1
Total Assets	<u>\$ 51,631.7</u>	<u>\$ 49,263.2</u>

(1) Includes deposit asset and invested assets related to Closed Block.