Symetra Financial Corporation

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

March 31, 2019

All financial information in this document is unaudited

RETIREMENT | BENEFITS | LIFE

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

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Management's Discussion and Analysis reflects the consolidated results of operations and changes in financial position of Symetra Financial Corporation and its wholly-owned subsidiaries. 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:

- competitive conditions, including pricing pressure, new product offerings, the emergence of new non-traditional competitors, changes in distribution partner relationships, advancements in digital and analytical capabilities, and other industry disruption;
- 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:
    - 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 Securities and Exchange Commission (SEC), and the legislatures and regulators of multiple states;
- our ability to prevent or timely detect and remediate any unauthorized access to or disclosure of customer information and other sensitive business data;
- effects of fluctuations in interest rates, including a prolonged low interest rate environment, a rapidly rising interest rate environment, or a flat or inverted yield curve, 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;
- our ability to attract and retain talented and qualified personnel, including key employees;
- 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 our 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;
- 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;
- impact of potential changes in accounting principles and related financial reporting requirements;
- availability and cost of capital and financing;
- adequacy and collectibility of reinsurance that we have purchased, the continued availability and cost of reinsurance coverage, as well as the creditworthiness and ability of our reinsurance counterparties to perform;
- 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.

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, 2019 and 2018 and as of March 31, 2019 and December 31, 2018. Comparisons of results from 2019 and 2018 generally refer to results of first quarters 2019 and 2018.

This discussion should be read in conjunction with the December 31, 2018 audited consolidated financial statements, available on the Company's website at http://investors.symetra.com/.

Discussions related to net income (loss) 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. 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 products are distributed domestically in all states and the District of Columbia through benefits consultants, financial institutions, broker-dealers, and independent agents and advisors. We manage our business through three divisions (Benefits, Retirement and Individual Life), which align with our reportable operating segments.

Benefits Division

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

We offer fixed deferred annuities, including fixed indexed annuities (FIA), to consumers who want to accumulate assets for retirement on a tax-deferred basis. We also offer single premium immediate annuities (SPIA) to customers seeking a reliable source of retirement income or protection against outliving their assets during retirement.

In 2019, we introduced a registered index-linked annuity product. This product allows customers to receive higher growth potential in index-linked interest credits, while obtaining limited protection from market loss. Contract holders select the form of the limited protection from market loss. Options include an indexed interest buffer, where we bear the risk of loss up to a certain percentage, or an indexed interest floor, where the contract holder bears risk of loss up to a certain percentage.

Individual Life Division

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).

Other Segment

The Other segment 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.

Reinsurance Transaction – Closed Block

In September 2018, we entered into an agreement with Resolution Re Ltd. to fully reinsure our block of in-force income annuity contracts issued prior to October 1, 2017 (the Reinsurance Transaction). Under the terms of the agreement, future economic impacts of the reinsured business were transferred to the reinsurer, including interest rate risk, mortality risk, and credit risk on invested assets.

The reinsured business includes all of our long-term structured settlement annuities, which we discontinued selling in 2012, as well as a smaller amount of retail SPIA. This transaction reduces our exposure to the long-term interest rate risk associated with the long-tail nature of the reinsured business. We continue to service the reinsured business and report the associated invested assets and policyholder liabilities on our balance sheets.

RESULTS OF OPERATIONS

This discussion should be read in conjunction with our unaudited interim consolidated financial statements.

Following the completion of the Reinsurance Transaction in the third quarter of 2018, we revised our segments. 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, as this results in more accurate trends in the Company's core business and more closely aligns the results with how the Company manages its operations. Prior period results have been adjusted to reflect this change. This change did not have an impact on total consolidated net income.

Closed Block Results

The economic activity associated with the Closed Block annuity contracts and invested assets has been reinsured and separated from our other businesses. Investment earnings, annuity benefits and realized gains (losses) are passed to the reinsurer (referred to as ceded activity) on a statutory accounting-basis, which differs from the GAAP-basis primarily due to PGAAP premiums established as of the date of the Merger.

For invested assets, the purchase accounting adjustment to fair value on the date of the Merger resulted in additional book value, or a PGAAP premium, which is being amortized over the life of invested assets as a reduction to net investment income. The amortization of PGAAP premiums has no economic impact. Statutory results were not impacted by PGAAP and when invested assets are sold, we expect meaningful differences between GAAP- and statutory-basis realized gains (losses).

Additionally, the Reinsurance Transaction contains an embedded derivative that represents the reinsurer's right to receive, or obligation to pay, the total return on the assets supporting the Closed Block annuity contracts, which fluctuates based on the fair value of the assets. An increase to the fair value of the withheld assets increases the value of the embedded derivative liability, resulting in a GAAP-basis realized loss recorded in net income (loss). A decrease to the fair value of the withheld assets has the opposite impact.

We expect potentially high volatility in Closed block income (losses) related to the embedded derivative as the fair value of the underlying Closed Block assets fluctuates depending on interest rates and the market environment, among other factors; however, gains (losses) related to the Closed Block embedded derivative are non-economic to the Company.

Consolidated Results

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

	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)
Adjusted pre-tax income (1)	$ 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	(157.3)	(16.7)
Total provision (benefit) for income taxes	(42.0)	9.8
Net income (loss)	$ (115.3)	$ (26.5)

(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,	
	2019	2018
Salaries, incentive compensation, and other employee costs	$ 77.9	$ 69.9
Rent and occupancy costs	4.8	4.5
Professional services and software licensing	18.6	17.1
Other	3.1	4.1
Total operating expenses	104.4	95.6
Commissions and premium-based taxes and fees	97.7	90.0
DAC deferrals	(70.5)	(66.1)
Closed Block expenses	3.7	4.4
Other underwriting and operating expenses	$ 135.3	$ 123.9

Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018

- We reported a net loss of $115.3 for first quarter 2019, compared to a net loss of $26.5 during 2018. This reflected an $18.1 decrease in adjusted pre-tax income and a $110.6 increase to Closed Block losses. Closed Block results are discussed below and in – "Investments."

- While we had business growth across our operating segments, adjusted pre-tax income declined primarily due to the impact of an increased loss ratio for our stop-loss business.

- Operating expenses for 2019 reflected a larger workforce and other cost associated with business growth.

- The Closed Block pre-tax loss of $144.6 was driven by $123.2 net realized loss from the change in fair value of the embedded derivative (due to changes in fair value of Closed Block investments), and $25.5 ceded net gains, determined on a statutory-basis, from sales of fixed maturities.

- Our 2019 tax benefit was driven by a loss from operations, as discussed above, and the benefits from our tax credit investments. The 2018 result was due to an estimated negative effective tax rate for the year.

Segment Operating Results

Benefits

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

	For the Three Months Ended March 31,	
	2019	2018
Adjusted revenues:		
Premiums	$ 281.8	$ 245.2
Net investment income	8.2	7.0
Policy fees, contract charges, and other	3.0	4.2
Total adjusted revenues	293.0	256.4
Benefits and expenses:		
Policyholder benefits and claims	223.6	172.2
Other underwriting and operating expenses	68.7	61.6
Interest expense	0.5	—
Amortization of DAC and VOBA	1.7	1.2
Total benefits and expenses	294.5	235.0
Segment adjusted pre-tax income	$ (1.5)	$ 21.4

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

	For the Three Months Ended March 31,	
	2019	2018
Loss ratio (1)	79.4%	70.2%
Expense ratio (2)	24.5	24.7
Combined ratio	103.9%	94.9%
Total sales (3)	$ 209.3	$ 145.3

(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, 2019 Compared to the Three Months Ended March 31, 2018

- Segment adjusted pre-tax loss was $1.5 for first quarter 2019, compared to income of $21.4 in 2018; the loss is primarily due to an increased loss ratio for our medical stop-loss business.

- Our total loss ratio was 79.4% for 2019, compared with 70.2% for 2018. Claims on medical stop-loss business written in January 2018 continued to run higher than expectations. This, coupled with reserve assumptions for January 2019 and non-January 2018 blocks, drove the increased loss ratio. Pricing actions taken in 2018 partially mitigated the impact of higher claims. We closely monitor the experience of our business and continue to adjust pricing for new and renewal business.

- Premiums increased $36.6 compared to 2018. This was achieved through medical stop-loss price increases and solid persistency on the 2018 block of business, combined with strong new business sales of medical stop-loss and group life and DI.

- Interest expense of $0.5 represents coinsurance financing fees for an agreement effective in 2019.

- First quarter 2019 sales of $209.3 increased $64.0 over 2018. Our strong relationships with existing partners, together with a focused effort to expand our network to new distributors, drove our improved sales results in 2019.

Retirement

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

	For the Three Months Ended March 31,	
	2019	2018
Adjusted revenues:		
Net investment income	$ 215.3	$ 179.9
Policy fees, contract charges, and other	7.8	7.9
Certain realized gains (losses)	(2.2)	(1.3)
Total adjusted revenues	220.9	186.5
Benefits and expenses:		
Policyholder benefits and claims	0.5	3.0
Interest credited	131.9	108.8
Other underwriting and operating expenses	33.2	30.3
Amortization of DAC and VOBA	20.5	16.0
Total benefits and expenses	186.1	158.1
Segment adjusted pre-tax income	$ 34.8	$ 28.4

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

	For the Three Months Ended March 31,	
	2019	2018
Fixed account values, including SPIA	$ 12,556.8	$ 11,795.7
Interest spread (1)	1.17%	1.30%
Base interest spread (2)	1.10%	1.15%
Fixed account values, FIA	$ 11,774.6	$ 9,952.2
FIA interest spread (3)	1.58%	1.37%
FIA base interest spread (4)	1.38%	1.36%
Total sales (5)	$ 1,059.0	$ 913.7
FHLB DM funding agreements issued	457.1	—

(1) Interest spread excludes FIA and SPIA 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. Interest spread includes FHLB DM activity.

(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. Base interest spread excludes FHLB DM activity.

(3) FIA interest spread is the difference between the net investment yield and the incurred interest rate on the host contract and fixed funds. For fixed funds, the incurred interest equals the interest credited to the customer in the fixed account. For the host contract, incurred interest equals the interest required to fund the guaranteed benefits in the indexed account. The net investment yield is the approximate yield on invested assets, excluding derivative assets.

(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 lapses and/or surrenders.

Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018

- Segment adjusted pre-tax income was $34.8 for first quarter 2019, a $6.4 increase from the prior period. This increase was primarily driven by interest margin on higher FIA account values, partially offset by increased operating expenses to support higher business volumes and initiatives.

- Growth in FIA account values, coupled with a slightly higher base interest spread, drove a $40.9 FIA base interest margin, which was a $10.4 increase over 2018. Base interest margin on non-FIA business was stable as higher account values in 2019 mitigated a decline in the base interest spread.

  For our retirement business, base interest margin is defined as net investment income, less interest credited, and adjusted mainly to exclude the impact of invested asset prepayment income. It represents the earnings generated by the base spread, relative to average account values during the period.

- Operating expenses were $3.0 higher in 2019 from increased employee count and strategic initiatives to support business growth, including investments in technology and other costs associated with our new registered index-linked annuity product launched in first quarter 2019.

- In the third quarter 2018, we became a member of the Federal Home Loan Bank of Des Moines (FHLB DM). During first quarter 2019 we issued $457.1 of funding agreements to the FHLB DM to support an institutional spread program that contributes to our interest margin. We expect to issue additional funding agreements throughout 2019.

- Sales were strong at $1,059.0 during first quarter 2019, an increase of $145.3 compared to the same period in 2018. First quarter 2019 benefited from sales initiatives in place during the quarter, while sales in first quarter 2018 also reflected the negative impact of regulatory uncertainty.

  We continue to experience heightened competition for sales of our products, particularly as major carriers from the variable annuity space shift their sales focus towards FIA products.

Individual Life

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

	For the Three Months Ended March 31,	
	2019	**2018**
Adjusted revenues:		
Premiums	$ 8.9	$ 7.7
Net investment income	69.4	64.0
Policy fees, contract charges and other	69.9	66.6
Certain realized gains (losses)	(0.6)	(0.9)
Total adjusted revenues	147.6	137.4
Benefits and expenses:		
Policyholder benefits and claims	40.9	48.7
Interest credited	68.2	70.7
Other underwriting and operating expenses	28.5	27.2
Interest expense	0.5	0.1
Amortization of DAC and VOBA	5.7	(14.2)
Total benefits and expenses	143.8	132.5
Segment adjusted pre-tax income	$ 3.8	$ 4.9

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

	For the Three Months Ended March 31, 2019	For the Three Months Ended March 31, 2018
Individual insurance:		
Individual claims (1)	$ 14.8	$ 21.4
UL account values	1,403.9	1,212.6
Individual sales (2)	22.2	25.1
Institutional Markets:		
Account values	$ 5,743.3	$ 5,573.1
ROA (3)	0.66%	0.83%
Base ROA (4)	0.60%	0.74%
COLI sales (5)	$ —	$ 13.6

(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) ROA is a measure of the gross margin on our institutional block of business. This metric is calculated as the difference between our institutional revenue earnings rate and our institutional 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 includes the impact of PGAAP reserve amortization. The policy benefits used in this metric do not include expenses.

(4) 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, 2019 Compared to the Three Months Ended March 31, 2018

- Segment adjusted pre-tax income was $3.8 for first quarter 2019, a decrease of $1.1 from 2018. Increased base margin in our retail business was more than offset by unfavorable institutional claims and higher employee expenses related to business growth.

- Favorable claims experience drove a $2.0 increase in base margin for our term life business, which was $7.5 for first quarter 2019. In our institutional life business, increased COLI claims drove a $1.8 decrease in base margin, which was $10.5 for 2019.

  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 invested asset prepayment income, unlocking and other items. For institutional products, it represents the earnings generated by the base ROA on average account values during the period.

- Operating expenses for 2019 were $1.5 higher than 2018 due to a higher number of employees to support our growing business.

- Results for first quarter 2018 reflected the impact of universal life claim severity, net of reinsurance, which drove favorable accretion in our DAC balance.

- Sales of individual life products were $22.2 for first quarter 2019, a decrease of $2.9 compared to 2018. Guaranteed UL sales decreased by $11.1 million, while IUL sales increased by $7.2. Our successful entry into the IUL market represents an important broadening of our portfolio.

Other

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

	For the Three Months Ended March 31,	
	2019	2018
Adjusted revenues:		
Net investment income	$ 4.7	$ 8.0
Policy fees, contract charges, and other	0.3	0.3
Certain realized gains (losses)	(9.5)	(12.5)
Total adjusted revenues	(4.5)	(4.2)
Benefits and expenses:		
Interest credited	(0.3)	(0.2)
Other underwriting and operating expenses	1.3	0.5
Interest expense	5.6	6.1
Total benefits and expenses	6.6	6.4
Segment adjusted pre-tax loss	$ (11.1)	$ (10.6)

Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018

- Adjusted pre-tax loss was $11.1 and $10.6, respectively, for first quarter 2019 and 2018.
- Net investment income reflected higher surplus income allocations to the business divisions in 2019 than in 2018.
- Realized losses on our tax credit investments were $3.2 lower due to decreased amortization and write downs.

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, 2019, our investment portfolio consisted of high quality fixed maturity securities and commercial mortgage loans we originated, as well as a smaller allocation of high-yield fixed maturities, investments in limited partnerships (primarily tax credit investments and alternative investments, which include private equity and hedge funds), derivatives, and other investments including marketable equity securities. Our equity investments have historically consisted of exchange-traded funds (ETFs) and common stock mainly to support asset-liability matching strategies for our long-duration income annuity contracts. The majority of these equity investments were sold in 2018 in connection with the Reinsurance Transaction.

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, and consisted primarily of available-for-sale and trading fixed maturity securities, as well as commercial mortgage loans. These assets are legally owned by the Company and included in the consolidated balance sheets.

The assets and liabilities, as well as income (loss), related to the Closed Block are excluded from the profitability measures used by management, as the economic activity associated with the Closed Block annuity contracts and invested assets has been reinsured and separated from our other businesses. The invested assets in the Closed Block are managed by the reinsurer, except for commercial mortgage loans that we manage on behalf of the reinsurer for a fee. We have removed Closed Block results from the metrics presented and discussion herein. Prior period results have been adjusted to reflect this change.

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:

	For the Three Months Ended March 31,			
	2019		2018	
	Yield (1)	Amount	Yield (1)	Amount
Investment Type:				
Fixed maturities (2)	3.47%	$ 238.4	3.31%	$ 207.0
Marketable equity securities	6.94	1.9	3.03	0.3
Mortgage loans (2)	4.19	55.2	4.00	48.7
Other income producing assets (3)	5.20	4.4	6.00	4.5
Income before expenses and prepayments	3.61	299.9	3.43	260.5
Prepayment-related income	0.10	8.4	0.11	8.1
Investment expenses	(0.13)	(10.7)	(0.12)	(9.1)
Net investment income, excluding Closed Block	3.59	297.6	3.44	259.5
Closed Block net investment income (4)	*	(11.6)	*	75.4
Net investment income	3.74%	$ 286.0	3.62%	$ 334.9

* Yield is not meaningful

(1) Yields are determined based on monthly averages calculated using beginning and end-of-period balances. Yields for fixed maturities 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.

(4) Represents investment income associated with our Closed Block, including investment income from our Income Annuities segment prior to July 1, 2018, the effective date of the Reinsurance Transaction. Investment income subsequent to July 1, 2018 is net of amounts ceded to the reinsurer.

Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018 (Excluding Closed Block)

- Net investment income increased in 2019 from 2018, driven by higher average invested assets and higher portfolio yields, partially offset by an increase in investment related expenses. Average invested assets increased on cash inflows from strong sales.
- Excluding the impact of prepayments, yields on our investment portfolio increased to 3.61% for 2019 from 3.43% in 2018. This increase was a result of earned rates on purchases over the past year, which were higher than overall portfolio yields, as well as maturities of assets purchased in a lower interest rate environment. We also continued to focus on underwriting commercial mortgage loans, as we believe yields on these investments can be more attractive than those available on fixed maturities.
- 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).

Net Realized Gains (Losses)

The following table sets forth the detail of our net realized gains (losses) before taxes. Certain realized gains (losses) as well as results of the Closed Block are excluded from adjusted pre-tax income, which is a non-GAAP measure. See "use of non-GAAP Financial Measures" for additional information:

	For the Three Months Ended March 31,	
	2019	2018
Prepayment-related losses	$ (4.6)	$ (2.2)
Tax credit investments	(9.2)	(12.6)
Other	1.5	—
Total net realized losses included in adjusted pre-tax income (1)	(12.3)	(14.8)
Gains (losses) on sales of fixed maturities, net	(7.6)	(5.0)
Net impairment losses on fixed maturities	(0.1)	(2.0)
Marketable equity securities	14.1	(1.4)
Net gains (losses) – FIA (2)	(40.1)	10.5
DAC and VOBA adjustment	13.1	(4.4)
Other	3.6	(3.6)
Total net realized gains (losses) excluded from adjusted pre-tax income (1)	(17.0)	(5.9)
Net gains (losses) – Closed Block (3)	(145.8)	(33.9)
Total net realized gains (losses)	$ (175.1)	$ (54.6)

(1) Adjusted pre-tax income represents a non-GAAP measure. For further discussion, including a description of how this measure is calculated, see – "use of non-GAAP Financial Measures."

(2) 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.

(3) For Closed Block, realized gains (losses) include changes in fair value of the embedded derivative and the fixed maturities trading portfolio, and realized gains (losses) on sales of assets, and is reduced by amounts ceded to the reinsurer based on statutory realized gains (losses). Please see "Results of Operations – Consolidated Results" for more information on Closed Block results.

Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018

- Total net realized losses in 2019 were $120.5 larger than 2018, driven by net realized losses from Closed Block and net losses on FIA. These results, which are both excluded from adjusted pre-tax income, are expected to be volatile from period to period due to changes in the interest rate environment and performance of market indexes.

- Closed Block net realized losses were $111.9 higher in first quarter 2019 compared to 2018. This was primarily due to a net realized loss of $123.2 from the change in value of the embedded derivative related to an increase in fair value of invested assets supporting the Closed Block annuity contracts related to the decrease in U.S. Treasury rates and credit spreads tightening.

- For first quarter 2019, changes in fair value of the FIA embedded derivative and related options resulted in a net loss of $40.1 compared to a net gain of $10.5 in 2018. Market indexes increased during 2019, which increased both the FIA embedded derivative and the related index options, while lower discount rates used to value the FIA embedded derivative resulted in an overall net loss for 2019.

Fixed Maturity Securities

Fixed maturities represented 82.5% and 82.2% of invested assets as of March 31, 2019 and December 31, 2018, respectively. The majority of our fixed maturities are invested in publicly traded or highly marketable securities. A modest allocation of our portfolio is invested in privately placed fixed maturities to enhance yields. As of March 31, 2019 and December 31, 2018, privately placed fixed maturities represented 5.3% and 5.4%, 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, 2019 and December 31, 2018, 97.8% and 98.1%, respectively, of our fixed maturities were investment grade. Our holdings are diversified across industries and security 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, 2019 and December 31, 2018, fixed maturities with fair values of $726.2 and $709.4, 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 $6,246.9 and $5,502.5, respectively, as of March 31, 2019 and December 31, 2018. Our largest exposure to a single foreign issuer as of March 31, 2019 and December 31, 2018 was $181.7 and $181.6, respectively, to an issuer based in the Netherlands.

As of March 31, 2019 and December 31, 2018, 11.0% and 11.4%, respectively, of total fixed maturities were invested in RMBS and CMBS securities, less than 15% of which were originated prior to 2009. Additionally, as of March 31, 2019 and December 31, 2018, 92.1% and 91.9%, respectively, of our total RMBS portfolio was agency securities, and we had no exposure to subprime RMBS.

Mortgage Loans

Commercial mortgage loans represented 13.5% and 14.1% of invested assets as of March 31, 2019 and December 31, 2018, respectively. 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, 2019 and December 31, 2018, 74.3% and 75.1%, respectively, of our mortgage loans had an outstanding principal under $5.0. As of March 31, 2019 and December 31, 2018, our average loan balance was $2.3 and $2.4, respectively.

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 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, 2019 and December 31, 2018, our portfolio's weighted-average LTV ratio was 50.0% and 49.1%, respectively, while our weighted-average DSCR was 1.94 as of both dates.

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

	For the Three Months Ended March 31,	
	2019	2018
Weighted average LTV ratio of loans originated	48.8%	47.7%
Weighted average DSCR of loans originated	1.98	2.08

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

	As of March 31, 2019	
	Outstanding Principal	% of Total
Years to Maturity:		
Due in one year or less	$ 47.5	0.9%
Due after one year through five years	609.7	11.5
Due after five years through ten years	1,464.9	27.8
Due after ten years	3,154.4	59.8
Total	$ 5,276.5	100.0%

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 on us of loan prepayments.

LIQUIDITY AND CAPITAL RESOURCES

Symetra conducts its operations through its operating subsidiaries, and its liquidity requirements have been and will continue to be met primarily 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 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.

Reinsurance Transaction

In September 2018, we entered into the Reinsurance Transaction related to our Closed Block for $6.8 billion of in force income annuities. We remain liable to our policyholders to the extent that the reinsurer does not meet its contractual obligations. In the event of the reinsurer's insolvency, we would reclaim the assets supporting the reserve liabilities. We have the ability to offset amounts due to reinsurer with amounts owed from the reinsurer, as well as access to amounts held in trust, which materially reduces the risk of loss. The amounts included in the discussion below exclude assets and liabilities related to the Closed Block.

Liquid Assets

Symetra's insurance company subsidiaries have investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. We consider the characteristics of our product liabilities and aim to match them with investments of similar duration and liquidity profiles. 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, 2019 and December 31, 2018, our insurance company subsidiaries had liquid assets of $27.3 billion and $25.4 billion, respectively, and Symetra had liquid assets of $148.9 and $154.6, respectively. The portion of our total liquid assets consisting of cash and cash equivalents and short-term investments was $488.1 and $256.0 as of March 31, 2019 and December 31, 2018, respectively.

Other Sources of Funding

As of March 31, 2019, 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 to up to $100.0, for a total maximum principal amount of $500.0. As of March 31, 2019, there have been no borrowings under the facility. The facility matures in August 2019 and we are evaluating options for replacement.

In August 2018, we became a member of the Federal Home Loan Bank of Des Moines (FHLB DM). Membership allows access to the FHLB DM's funding services, including the ability to obtain loans and issue funding agreements that are collateralized by qualifying assets. The FHLB DM sets a maximum borrowing limit that is calculated as a percentage of the member's total assets, subject to availability of eligible collateral. We further impose internal authorization limits on our borrowing capacity.

We have issued funding agreements to the FHLB DM to support an institutional spread program in our Retirement Division, where we earn income primarily from the difference between investment income earned and the interest paid.

Liquidity Requirements

The liquidity requirements of Symetra's insurance company subsidiaries primarily relate to obligations associated with 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 risks associated with 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, 2019, Symetra Life Insurance Company, our primary insurance company subsidiary, had an estimated RBC ratio of 423%, which is well above regulatory action levels. Symetra Life Insurance Company's statutory capital and surplus, including the asset valuation reserve, was $2,450.5 as of March 31, 2019.

During first quarter 2019, Symetra entered into a coinsurance with funds withheld transaction for a portion of its stop-loss policies. The result of the transaction positively impacted the RBC ratio. This agreement does not qualify for reinsurance accounting on a GAAP-basis.

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 results from our Closed Block, intangible asset amortization and certain net realized gains (losses). 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.

Excluded realized gains (losses) consist of the following:

- 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.

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. Additionally, excluding intangible amortization and results of the Closed Block allow us to focus on our core business

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, and realized gains (losses) from prepayment activity and pass-through activity and write-downs associated with tax credit investments. Management considers this meaningful when assessing the results of our core business operations.

We believe it is useful to review adjusted pre-tax income to focus on the results of our core retained business operations. This assists management in determining whether, for our ongoing businesses, our insurance-related revenues have been sufficient to generate operating earnings after meeting our insurance-related obligations 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.