# Symetra Financial Corporation

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

**June 30, 2019**

*All financial information in this document is unaudited*

**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;
- 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;
- 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;
- ability of subsidiaries to pay dividends to Symetra;
- 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;
- 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 six months ended June 30, 2019 and 2018 and as of June 30, 2019 and December 31, 2018. Comparisons of results from 2019 and 2018 generally refer to results of the six months ended June 30, 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 that 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 (RIA). 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 our 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 our total consolidated net income (loss).

### Consolidated Results

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | **2019** | **2018** |
| Segment adjusted pre-tax income (loss): | | |
| Benefits | $ 9.6 | $ 33.7 |
| Retirement | 71.5 | 56.6 |
| Individual Life | 11.2 | 14.4 |
| Other | (21.6) | (21.4) |
| Adjusted pre-tax income | $ 70.7 | $ 83.3 |
| Add (deduct) the following: | | |
| Excluded realized gains (losses) | $ (41.0) | $ (4.1) |
| Amortization of intangible assets | (43.5) | (41.8) |
| Closed Block – mark-to-market gains (losses) | (242.6) | — |
| Closed Block – other results | (43.5) | (29.4) |
| Income (loss) from operations before income taxes | (299.9) | 8.0 |
| Total provision (benefit) for income taxes | (79.7) | (3.3) |
| Net income (loss) | $ (220.2) | $ 11.3 |

#### *Adjusted Pre-tax Income*

Adjusted pre-tax income is a non-GAAP measure that is the aggregate of each of our segments' primary profitability measures that we use to manage our business. For more information on the excluded items, see – "Use of non-GAAP Measures."

- We reported adjusted pre-tax income of $70.7 in 2019 compared to $83.3 in 2018, a decline of $12.6.
- Our Benefits segment declined $24.1, driven by higher claims experience related to our stop-loss business, which more than offset the positive impact of strong premium growth.
- Our Retirement segment increased $14.9, primarily driven by growth in account values.
- Our Individual Life segment decreased $3.2. Growth in our universal and term life business was offset by unfavorable claims experience on our institutional business and higher operating expenses.

Adjusted pre-tax income (loss) by segment is described in more detail in the respective sections that follow.

***Income (Loss) from Operations before Income Taxes***

- We reported loss from operations before income taxes of $299.9 in 2019 compared to income from operations before income taxes of $8.0 in 2018. The difference between our adjusted pre-tax income and income (loss) from operations before income taxes in 2019 was almost entirely driven by non-economic losses from the accounting associated with the Closed Block. See – "Closed Block" for additional information regarding Closed Block results.

Our 2019 benefit for income taxes was driven by our loss from operations, and the benefits from our tax credit investments.

**Segment Operating Results**

**Benefits**

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

| | For the Six Months Ended June 30, 2019 | 2018 |
|---|---|---|
| Adjusted revenues: | | |
| Premiums | $ 567.3 | $ 491.1 |
| Net investment income | 17.6 | 14.4 |
| Policy fees, contract charges, and other | 5.9 | 8.0 |
| Certain realized gains (losses) | 0.1 | (0.2) |
| Total adjusted revenues | 590.9 | 513.3 |
| Benefits and expenses: | | |
| Policyholder benefits and claims | 441.8 | 353.6 |
| Other underwriting and operating expenses | 135.1 | 123.4 |
| Interest expense (1) | 1.0 | — |
| Amortization of DAC | 3.4 | 2.6 |
| Total benefits and expenses | 581.3 | 479.6 |
| Segment adjusted pre-tax income | $ 9.6 | $ 33.7 |

(1) Interest expense represents statutory reinsurance financing fees for an agreement effective in 2019.

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

| | For the Six Months Ended June 30, 2019 | 2018 |
|---|---|---|
| Loss ratio | 77.9% | 72.0% |
| Expense ratio | 23.9 | 24.8 |
| Combined ratio | 101.8% | 96.8% |
| Total sales (1) | $ 260.3 | $ 178.2 |

(1) Total sales represent annualized first-year premiums net of first year policy lapses.

***Segment Adjusted Pre-tax income***

Our Benefits segment declined $24.1, driven by higher claims experience related to our stop-loss business, which more than offset the positive impact of strong premium growth.

- Our Benefits segment primarily generates profit from premium revenue in excess of claims and operating expenses. Our loss ratio, which is calculated as policyholder benefits and claims divided by premiums was 77.9% for 2019, compared with 72.0% for 2018.

  Policyholder benefits and claims include expenses for claims incurred during the period and changes to reserves. Policyholder benefits and claims increased $88.2 from 2018, driven by growth in our medical stop-loss business and claims experience. Claims experience in 2019 included unfavorable claims development related to business written in 2018 and changes in reserve assumptions on business written in 2019 and 2018.

Premiums increased $76.2 compared to 2018. This was achieved primarily through strong medical stop-loss sales in January 2019, combined with premium rate increases and solid persistency on the 2018 blocks of business.

- Our expense ratio measures insurance-related operating expenses in relation to premium revenue. It is calculated as the sum of other underwriting and operating expenses of our insurance operations and amortization of DAC divided by premiums earned. Our expense ratio was 23.9% for 2019 compared with 24.8% for 2018. While we had strong premium growth in 2019, our operating expenses remained stable, which drove the expense ratio improvement compared to 2018.

We achieved record sales in 2019 of $260.3, an increase of $82.1 compared to 2018. Our strong relationships with our partners, along with an expanded network of new distributors, and competitive pricing drove our improved sales results in 2019.

**Retirement**

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Adjusted revenues: | | |
| Net investment income | $ 440.2 | $ 365.4 |
| Policy fees, contract charges, and other | 15.8 | 15.8 |
| Certain realized gains (losses) | (2.4) | (2.2) |
| Total adjusted revenues | 453.6 | 379.0 |
| Benefits and expenses: | | |
| Policyholder benefits and claims | 1.0 | 6.2 |
| Interest credited | 272.0 | 221.9 |
| Other underwriting and operating expenses | 67.6 | 60.7 |
| Amortization of DAC and VOBA | 41.5 | 33.6 |
| Total benefits and expenses | 382.1 | 322.4 |
| Segment adjusted pre-tax income | $ 71.5 | $ 56.6 |

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Fixed account values, including SPIA | $ 12,570.9 | $ 11,734.1 |
| Interest spread (1) | 1.19% | 1.26% |
| Base interest spread (2) | 1.13 | 1.12 |
| Fixed account values, FIA | $ 12,107.3 | $ 10,386.3 |
| FIA interest spread (3) | 1.55% | 1.40% |
| FIA base interest spread (4) | 1.40 | 1.40 |
| Total sales (5) | $ 1,799.0 | $ 1,778.3 |
| FHLB DM funding agreements issued | 970.6 | — |

(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.

(2) Base interest spread is the interest spread, excluding FHLB DM, adjusted to exclude 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 exclusion is primarily the impact of asset prepayments.

(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 exclusion is primarily the impact of asset prepayments 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.

***Segment Adjusted Pre-tax Income***

Our Retirement segment increased $14.9, primarily driven by growth in account values.

- Our Retirement segment primarily generates profit from net investment income in excess of interest credited to the contract holders' accounts, which is represented using spread and margin metrics.

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

  Growth in both FIA and non-FIA account values and stable base interest spreads in 2019 drove an $18.7 increase to base interest margin compared to 2018. A majority of the growth was driven by FIA products.

- Operating expenses increased $7.4 in 2019 due to increased workforce and strategic initiatives to support our business growth, including investments in technology, and other costs associated with our new RIA product launched in first quarter 2019.

- Additionally, in third quarter 2018, we became a member of the Federal Home Loan Bank of Des Moines (FHLB DM). During the first half of 2019, we issued $970.6 of funding agreements to the FHLB DM to support an institutional spread program that contributed to our interest margin. We expect to issue additional funding agreements throughout 2019.

Sales were relatively stable at $1,799.0 during 2019, an increase of $20.7 compared to 2018. Amidst declining interest rates, sales benefited from initiatives in place during early 2019 and an expanded distribution network. Sales in early 2018 reflected the negative impact of regulatory uncertainty. We continue to experience heightened competition, 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 Six Months Ended June 30, | |
|---|---|---|
| | **2019** | **2018** |
| Adjusted revenues: | | |
| Premiums | $ 17.7 | $ 15.7 |
| Net investment income | 138.9 | 129.4 |
| Policy fees, contract charges and other | 144.6 | 136.2 |
| Certain realized gains (losses) | (1.2) | (1.5) |
| Total adjusted revenues | 300.0 | 279.8 |
| Benefits and expenses: | | |
| Policyholder benefits and claims | 78.9 | 79.6 |
| Interest credited | 140.1 | 141.7 |
| Other underwriting and operating expenses | 58.3 | 55.2 |
| Interest expense | 1.0 | 0.4 |
| Amortization of DAC and VOBA | 10.5 | (11.5) |
| Total benefits and expenses | 288.8 | 265.4 |
| Segment adjusted pre-tax income | $ 11.2 | $ 14.4 |

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Individual insurance: | | |
| Individual claims (1) | $ 34.1 | $ 39.3 |
| UL account values | 1,447.5 | 1,265.1 |
| Individual sales (2) | 44.3 | 50.4 |
| Institutional Markets: | | |
| Account values | $ 5,753.8 | $ 5,630.0 |
| ROA (3) | 0.75% | 0.87% |
| Base ROA (4) | 0.71% | 0.79% |
| COLI sales (5) | $ 2.3 | $ 36.6 |

(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, which include the impact of PGAAP reserve amortization, divided by average account values. 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 and reserve adjustments.

(5) COLI sales represent deposits for new policies. COLI sales typically occur in uneven patterns.

### *Segment Adjusted Pre-tax Income*

Our Individual Life segment decreased $3.2. Growth in our universal and term life business was offset by unfavorable claims experience on our institutional business and higher operating expenses.

- Our Individual Life segment primarily generates profit from net investment income and policy fees in excess of claims expenses and interest credited to the policyholders’ accounts, which is quantified using margin metrics.

  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.

  Base margin for our universal and term life business increased $3.4 in 2019 compared to 2018, driven by increased fee revenues from larger inforce blocks of business, and favorable claims experience on our term business. Base margin for our institutional life business decreased $1.7 due to increased BOLI and COLI claims during 2019.

- Operating expenses for 2019 were $3.0 higher than 2018 due to a higher number of employees to support our growing business and increased investment in operations.

- DAC and VOBA amortization in 2019 reflected increased revenue on our GUL and IUL policies. Results for 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 $44.3 for 2019, a decrease of $6.1 compared to 2018. Guaranteed UL sales decreased by $18.1, while IUL sales increased by $11.6. The growth in the IUL market reflects an important broadening of our portfolio.

### Other

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Adjusted revenues: | | |
| Net investment income | $ 11.4 | $ 14.9 |
| Policy fees, contract charges, and other | 0.8 | 0.4 |
| Certain realized gains (losses) | (19.4) | (23.7) |
| Total adjusted revenues | (7.2) | (8.4) |
| Benefits and expenses: | | |
| Interest credited | (0.4) | (0.5) |
| Other underwriting and operating expenses | 3.6 | 1.8 |
| Interest expense | 11.2 | 11.7 |
| Total benefits and expenses | 14.4 | 13.0 |
| Segment adjusted pre-tax loss | $ (21.6) | $ (21.4) |

#### *Segment Adjusted Pre-tax Income*

Our adjusted pre-tax loss was $21.6 and $21.4, respectively, for 2019 and 2018.

- Net investment income reflected higher surplus income allocations to the business segments in 2019 than in 2018.
- Realized losses on our tax credit investments were $4.3 lower, primarily due to decreased amortization.

### 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. Due to accounting requirements and ongoing impacts from PGAAP, there are significant non-economic income impacts associated with the transaction. We expect, and have experienced, significant volatility in Closed Block income (losses) related to non-economic impacts.

*Mark-to-Market Gains (Losses)*

Fluctuations in interest rates cause significant non-economic gains (losses) in net income (loss), as explained further below. Generally, rising rates result in Closed Block realized gains, while falling rates result in Closed Block realized losses.

The Reinsurance Transaction contains an embedded derivative that represents the right to receive, or obligation to pay, the total return on the withheld invested assets. The value of this embedded derivative fluctuates based on the fair value of the withheld invested assets supporting the Closed Block annuity contracts. Interest rates impact the fair value of the invested assets.

The majority of these withheld invested assets are fixed maturities classified as available-for-sale and commercial mortgage loans, which do not record changes in fair value through net income (loss). As a result, this creates a mismatch because changes in fair value of the embedded derivative are recorded as realized gain (loss) in net income (loss). This mismatch results in non-economic income statement volatility.

A portion of Closed Block invested assets is classified as trading securities, which are carried at fair value with changes in fair value recorded in net income (loss), and therefore, changes in fair value of these assets and changes in the related fair value of the embedded derivative are recorded as offsetting amounts in realized gain (loss), with no impact on net income (loss).

*Other Results*

Investment earnings, annuity benefits and realized gains (losses) are passed to the reinsurer on a statutory accounting-basis (referred to as ceded activity), which differs from GAAP-basis results primarily due to the impact of PGAAP. This causes non-economic fluctuations in Closed Block results reflected in the consolidated statements of income (loss).

Statutory asset balances were not impacted by PGAAP; therefore, we expect meaningful differences between GAAP- and statutory-basis realized gains (losses) when invested assets are sold. In general, the ceded statutory-basis gains are greater than the GAAP-basis gains, which results in non-economic losses in the Closed Block.

*Current Period Results*

The following summarizes the Closed Block's impact on net income (loss), as well as related changes in unrealized gains on Closed Block available-for-sale securities not recorded in net income (loss). All amounts are shown on a pre-tax basis:

| | For the Six Months Ended June 30, 2019 |
|---|---|
| Closed Block – mark-to-market gains (losses) | $ (242.6) |
| Closed Block – other results | (43.5) |
| Closed Block results – net realized loss in net income (loss) | $ (286.1) |
| Changes in unrealized gains on available-for-sale securities in AOCI | $ 224.0 |

Significantly declining interest rates in 2019 drove large increases in the fair value of the Closed Block invested assets and the Closed Block embedded derivative liability. As noted above, the changes in these balances are recorded in different parts of the financial statements, therefore resulting in non-economic income statement volatility.

Closed Block – other results reflected ceded statutory-basis gains, which were greater than the GAAP-basis gains due to PGAAP.

## 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 June 30, 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 June 30, 2019 and December 31, 2018, invested assets supporting the Closed Block had a carrying value of $6.2 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 our 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 or segregated 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 Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Yield (1) | Amount | Yield (1) | Amount |
| **Investment Type:** | | | | |
| Fixed maturities (2) | 3.51% | $ 487.4 | 3.34% | $ 421.4 |
| Marketable equity securities | 6.77 | 3.7 | 5.63 | 2.2 |
| Mortgage loans (2) | 4.21 | 113.2 | 4.00 | 97.9 |
| Other income producing assets (3) | 4.50 | 10.5 | 4.56 | 6.3 |
| Income before expenses and prepayments | 3.64 | 614.8 | 3.46 | 527.8 |
| Prepayment-related income | 0.09 | 15.0 | 0.11 | 16.3 |
| Investment expenses | (0.13) | (21.7) | (0.12) | (18.2) |
| Net investment income, excluding Closed Block | 3.60% | $ 608.1 | 3.45% | $ 525.9 |
| Closed Block net investment income (4) | * | (22.4) | * | 149.6 |
| Net investment income | 3.76% | $ 585.7 | 3.63% | $ 675.5 |

* 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 the 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.

- Net investment income increased in 2019 from 2018, driven by higher average invested assets and higher portfolio yields. Average invested assets increased on cash inflows from higher sales.
- Excluding the impact of prepayments, yields on our investment portfolio increased to 3.64%, from 3.46% in 2018. This increase was a result of earned rates on fixed maturity purchases over the past year, which were higher than overall portfolio yields. 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.

| | For the Six Months Ended June 30, 2019 | 2018 |
|---|---|---|
| Prepayment-related losses | $ (5.6) | $ (3.9) |
| Tax credit investments | (19.3) | (23.6) |
| Other | 2.0 | (0.1) |
| Total net realized losses included in adjusted pre-tax income (1) | (22.9) | (27.6) |
| Gains (losses) on sales of fixed maturities, net | (3.9) | (6.2) |
| Net impairment losses on fixed maturities | (0.4) | (2.2) |
| Marketable equity securities | 12.1 | (0.2) |
| Net gains (losses) – FIA (2) | (71.1) | 14.7 |
| DAC and VOBA adjustment | 20.1 | (7.4) |
| Other | 2.2 | (2.8) |
| Total net realized gains (losses) excluded from adjusted pre-tax income (1) | (41.0) | (4.1) |
| Closed Block – mark-to-market gains (losses) | (242.6) | — |
| Closed Block – other results | (45.8) | (28.4) |
| Total net realized gains (losses) | $ (352.3) | $ (60.1) |

(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.

- Total net realized losses in 2019 were $292.2 higher 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.
- Net realized losses in the Closed Block primarily reflect non-economic mark-to-market losses related to the change in the value of its embedded derivative, net of holding gains on its trading securities. Please see – "Closed Block" for additional information regarding Closed Block accounting.
- Changes in fair value of the FIA embedded derivative and related options resulted in a net loss of $71.1 in 2019 compared to a net gain of $14.7 in 2018. Lower discount rates used to value the FIA embedded derivative resulted in an overall net loss for 2019.

***Fixed Maturity Securities***

Fixed maturities represented 81.4% and 82.2% of invested assets as of June 30, 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 June 30, 2019 and December 31, 2018, privately placed fixed maturities represented 6.3% 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 June 30, 2019 and December 31, 2018, 97.9% 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 June 30, 2019 and December 31, 2018, fixed maturities with fair values of $724.8 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 $6,969.4 and $5,502.5, respectively, as of June 30, 2019 and December 31, 2018.

As of June 30, 2019 and December 31, 2018, 10.6% 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 June 30, 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 June 30, 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 June 30, 2019 and December 31, 2018, 74.0% and 75.1%, respectively, of our mortgage loans had an outstanding principal under $5.0. As of June 30, 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 June 30, 2019 and December 31, 2018, our portfolio's weighted-average LTV ratio was 49.5% and 49.1%, respectively, while our weighted-average DSCR was 1.95 and 1.94, respectively.

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

| | For the Six Months Ended June 30, 2019 | For the Year Ended December 31, 2018 |
|---|---|---|
| Weighted average LTV ratio of loans originated | 49.5% | 48.3% |
| Weighted average DSCR of loans originated | 1.95 | 1.93 |

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

| | As of June 30, 2019 | |
|---|---|---|
| | Outstanding Principal | % of Total |
| **Years to Maturity:** | | |
| Due in one year or less | $ 57.6 | 1.0% |
| Due after one year through five years | 644.3 | 11.7 |
| Due after five years through ten years | 1,472.8 | 26.7 |
| Due after ten years | 3,331.3 | 60.6 |
| Total | $ 5,506.0 | 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 the 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 June 30, 2019 and December 31, 2018, our insurance company subsidiaries had liquid assets of $28.5 billion and $25.4 billion, respectively, and Symetra had liquid assets of $158.4 and $154.6, respectively. The portion of our total liquid assets consisting of cash and cash equivalents and short-term investments was $956.7 and $256.0 as of June 30, 2019 and December 31, 2018, respectively.

**Other Sources of Funding**

In June 2019, we entered into a five-year, $300.0 senior unsecured revolving credit facility, with access to an additional $100.0 of financing through an expansion feature, for a total maximum principal amount of $400.0. Concurrently, we terminated our prior five-year revolving credit facility that would have expired in August 2019. As of June 30, 2019, there have been no borrowings under the facility.

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 interest credited on the funding agreements.

**Liquidity Requirements**

The liquidity requirements of Symetra's insurance company subsidiaries primarily arise from 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 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 June 30, 2019, Symetra Life Insurance Company, our primary insurance company subsidiary, had an estimated RBC ratio of 431% of Company Action Level RBC, which is well above regulatory action levels. Symetra Life Insurance Company's statutory capital and surplus, including the asset valuation reserve, was $2,462.1 as of June 30, 2019.

During first quarter 2019, we entered into a coinsurance with funds withheld transaction for a portion of our stop-loss policies that positively impacted our 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 the 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 our 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.