Symetra Financial Corporation

Business Overview

For the Year Ended December 31, 2015

All financial information in this document is unaudited

SYMETRA®

RETIREMENT | BENEFITS | LIFE

BUSINESS OVERVIEW

Table of Contents

Business Overview

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

Forward-Looking Statements

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

- effects of fluctuations in interest rates, including a prolonged low interest rate environment or a rapidly rising interest rate environment, as well as management's ability to anticipate and timely respond to any such fluctuations;
- general economic, market or business conditions, including economic downturns or other adverse conditions in the global and domestic capital and credit markets;
- effects of significant increases in corporate refinance activity, including bond prepayments;
- performance of our investment portfolio;
- continued availability of quality commercial mortgage loan investments and our continued capacity to invest in commercial mortgage loans;
- our ability to successfully execute on our strategies;
- accuracy and adequacy of our 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;
- continued viability of certain products under various economic, regulatory and other conditions;
- market pricing and competitive trends related to insurance products and services;
- effects of implementation of the Patient Protection and Affordable Care Act (PPACA), including the direct effects upon our business, but also including the effects upon our competitors and our customers;
- financial strength or credit ratings changes, particularly ours but also of other companies in our industry sector;
- retention of our key personnel and distribution partners;
- availability and cost of capital and financing;
- the adequacy and collectibility of reinsurance that we have purchased, as well as the continued availability and cost of reinsurance coverage;
- continued availability of tax credit investments, and the continuation of current tax treatment of such investments;
- 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;
- effects of the U.S. Department of Labor's proposed rule expanding the circumstances in which a person is considered a fiduciary with respect to distribution of IRAs and employer-sponsored retirement plans, including the effects upon our distributors, competitors and customers;
- ability of subsidiaries to pay dividends to Symetra;
- our ability to implement effective risk management policies and procedures, including hedging strategies;
- our ability to maintain adequate telecommunications, information technology, or other operational systems, including during the transition of IT services to a combination of new service providers and internal management;
- our ability to prevent or timely detect and remediate any unauthorized access to or disclosure of customer information and other sensitive business data;
- initiation of regulatory investigations or litigation against us and the results of any regulatory proceedings;
- effects of changes in national monetary and fiscal policy;
- effects of redomestication of Symetra's primary life insurance company subsidiary and whether redomestication will convey the intended benefits;
- effects of implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd Frank Act); and
- uncertainty following the Merger, which could adversely affect our business and operations.

Business Overview

Overview

Our Business

We are a financial services company in the life insurance industry with operations that date back to 1957. On February 1, 2016, Sumitomo Life Insurance Company (SLIC), a mutual company (sougo kaisha) organized under the laws of Japan (Sumitomo Life), acquired 100% of the Company's outstanding shares of common stock through the merger of SLIC Financial Corporation, a Delaware corporation and wholly-owned subsidiary of Sumitomo Life, with and into the Company, with the Company continuing as the surviving entity (the Merger). As a result of the Merger, we are a direct, wholly owned subsidiary of Sumitomo Life. We do not expect the merger to have a significant impact on the management of our business.

Our products are distributed domestically in all states and the District of Columbia, through benefits consultants, financial institutions, broker-dealers, and independent agents and advisers. We manage our business through three divisions composed of four business segments. We also have a fifth segment, referred to as the Other segment. The following is a summary of our three divisions:

Benefits Division

- *Benefits.* We are a multi-line carrier offering medical stop-loss, limited benefit medical and group life and disability income (DI) products and services to employers, unions, and public agencies.

Retirement Division

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

Individual Life Division

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

We are focused on generating profitable growth in the retirement, employment-based benefits and life insurance markets, while providing value to our policyholders. Our ability to increase net income is directly related to our ability to:

- profitably underwrite and price products and services at rates that are competitive and appropriately reflect risk;
- develop new and strengthen existing relationships with distributors in our key markets; and
- invest cash inflows for appropriate duration at rates of return that maintain desired spreads between investment income earned and amounts credited to policy holders.

We aim to effectively manage capital, prudently allocating resources to opportunities that offer attractive, risk-weighted returns in order to maintain our strong financial strength ratings. We believe that our diverse mix of businesses provides flexibility that will enable us to grow in different economic environments, and our strong balance sheet reflects our commitment to disciplined financial management and stability.

The following discussion provides further information about each of our divisions.

Benefits Division

Overview

As a multi-line carrier, the Benefits division offers employment-based benefits products and services targeted primarily at employers, unions and public agencies. These products and services include medical stop-loss insurance; group life, disability income, and accidental death and dismemberment insurance (collectively, "group life and DI"); and limited benefit medical insurance.

Our customers are primarily mid-sized employers that use knowledgeable employment-based benefits brokers, consultants and insurance company representatives who understand their financial needs and employee profiles. We work closely with employment-based benefits brokers, consultants and employers to design customized benefit plans that meet each employer’s particular requirements. We believe that our experience and expertise in the employment-based benefits markets provide us with opportunities to cultivate close distributor relationships and to provide employers with innovative and customer-centric benefits plans.

Products

Medical Stop-Loss

We provide medical stop-loss insurance to employers that self-fund their employee health plans. Employers that self-fund pay all claims and administrative costs. Our product helps employers to manage health expenses by reimbursing individual claim amounts above a certain dollar deductible and by reimbursing aggregate claims above total dollar thresholds. In addition, we also offer underwriting services and consulting through our managing general underwriter (MGU). Our medical stop-loss product and services are targeted primarily at entities with 200 to 5,000 employees. Medical stop-loss represented approximately 81% of Benefits division premiums in 2015.

Medical stop-loss pricing reflects the employer group’s claims experience and risk characteristics. The employer group’s claims experience is reviewed at the time the policy is issued and annually at renewal thereafter, resulting in ongoing adjustments to pricing. The key pricing and underwriting criteria are medical cost trends, the employer’s selected provider network discount structure, the employer group’s demographic composition (including the age, gender and family composition of the employer group’s members), the employer’s industry, geographic location, regional economic trends, plan design and prior claims experience. Additionally, we manage our profitability and risk by purchasing reinsurance coverage to limit our exposure to losses.

Our market leadership in medical stop-loss insurance is evidenced by the size of our block of business and our strong track record of profitability. Pricing in the medical stop-loss insurance market has proven to be cyclical over time, and there is significant competition for market share among the carriers. We believe our consistent pricing and customer service will facilitate long-term profitable growth.

Group Life and Disability Income

Our group term life insurance product provides benefits in the event of an insured employee’s or dependent’s death. The death benefit can be based upon an individual’s earnings or occupation, or can be a set dollar amount. We offer basic and supplemental benefits for group term life. We offer optional accidental death and dismemberment coverage as a supplement to our term life insurance policies. This coverage provides benefits for an insured employee as a result of accidental death or injury. We also offer short- and long-term disability income insurance. Group life and DI represented approximately 12% of Benefits division premiums in 2015.

Our group short- and long-term disability income insurance protects an employee against loss of income due to illness or injury. Our group short-term disability (STD) income coverage generally provides benefits for up to 26 weeks following a short waiting period. Our group long-term disability (LTD) income coverage provides benefits following a longer waiting period and provides benefits throughout prolonged periods of disability. Benefits can be a set dollar amount or based upon a percentage of earnings. We utilize an advocacy-based approach to claims management, which focuses on providing personalized administrative and clinical support. We believe this approach helps employers to effectively manage claims and helps transition employees back to the workplace. We also offer absence management services for fully insured policyholders.

There is strong sales competition for group life and DI products. Well-known insurers that are established in this market benefit from greater name recognition in this heightened competitive environment. However, over time we expect that our strong relationships with benefits brokers and our strong service culture will help us drive growth.

Pricing for group life and DI products varies based on the size of the account. Premium rates for smaller groups reflect the benefit plan, demographics, industry, and location of the employer. Rates for larger groups also incorporate the group's claims experience using credibility factors. Recent historical case-level experience is examined over time, typically three to five years for LTD and one to three years for STD, in the rate setting process. Initial rates are guaranteed for a fixed period of time, which is typically three years, and are renewed bi-annually thereafter.

We continue to invest in our infrastructure for our growing group life and DI business. This includes continued development of our administration and leave management systems, which provide integrated claim administration abilities across our products and allow for flexibility in plan design. By providing absence management services along with our suite of group life and DI products, we believe we provide an attractive value proposition for our clients.

Limited Benefit Medical

Our limited benefit medical insurance is a fixed indemnity plan sold to employers that can be used in several ways, including:

- health coverage for employees not otherwise eligible to participate in major medical plans, including employees that are part-time, seasonal or temporary workers; or
- supplemental coverage to major medical plans.

We believe that there are attractive opportunities for limited benefit medical coverage as employers move to high-deductible health insurance plans. Although our product does not qualify as minimum essential coverage (MEC) under PPACA, we do offer MEC plan administration services. We believe providing this service is attractive to employers with whom we have existing relationships because it allows us to become a single point of contact for claims processing. Limited benefit medical represented approximately 7% of Benefits division premiums in 2015.

Limited benefit medical pricing reflects expected utilization of benefits based on employer contribution and employee participation levels. Pricing and underwriting factors include the employer group's demographic composition (including the age, gender and family composition of the employer group's members), and the employer's industry, geographic location, and regional economic trends. The claim experience of each employer group is reviewed annually at renewal and repriced for alignment with our pricing targets.

Distribution

We sell our employment-based benefits products through several types of distributors, including brokers, third party administrators (TPAs), consultants and administrative services only (ASO) insurance carriers. ASOs are fully-insured carriers that offer administrative services to employer self-funded health plans and also distribute medical stop-loss insurance to those employers. We aim to leverage our leadership position in the medical stop-loss market to continue expanding sales of other employment-based benefits products and build our reputation as a multi-line carrier.

We believe our strong relationships with premier benefits brokers across the country provide a platform for distributing our products and driving sales growth. We focus on writing profitable business and have the opportunity to review and adjust pricing at renewal; however, there is also the risk that some of the policies may lapse. Approximately half of our business is renewed annually in January. We believe that having close relationships with our key distribution partners is important to retaining and growing our business.

Retirement Division

Our Retirement Division provides individual products that help our customers prepare for retirement. We believe consumers are focused on accumulating savings, which will continue to drive demand for deferred and immediate annuity products. Annuity products help customers supplement their social security and other retirement benefits with reliable retirement income, even in a low interest rate environment. We believe our product offerings, including our FIA product, provide opportunities for clients seeking competitive returns along with protection of principal. It is our goal to attract and retain these customers by offering products that address their evolving needs and by providing excellent service to our distribution partners and contract holders.

Deferred Annuities

Overview

Our Deferred Annuities segment offers fixed deferred annuities, including traditional and FIA, and variable deferred annuities to consumers who want to accumulate tax-deferred assets for retirement. The "fixed" or "variable" classification describes whether we or the contract holder, respectively, bear the investment risk of the assets supporting the contract. This also determines the manner in which we generate earnings, either as investment spreads for fixed annuities or asset-based fees for variable annuities. We offer qualified (i.e., annuities sold in connection with tax-favored retirement arrangements) and non-qualified annuities to individuals, mainly through financial institutions and broker-dealers.

Products

Fixed Annuities

We offer fixed single premium deferred annuities that require a premium payment at time of issue, offer an accumulation period and provide an annuity payout period beginning at some future date. Our fixed annuities include both traditional fixed-rate and FIA products. As of December 31, 2015, we had $11.49 billion of account values associated with traditional fixed annuities, and $5.67 billion of FIA account values.

Our fixed annuity contracts are supported by our general account, and interest is generally credited on a tax-deferred basis to the contract owner. Our earnings from fixed annuities are based upon the spread between the returns we earn in our general account on our investment of premiums and the crediting rate offered to contract holders, less acquisition and administrative expenses.

Our most popular traditional fixed-rate products are our Custom and Select annuities. Our Custom products offer a five or seven-year surrender charge period and a choice of three-, five-, or seven-year initial guaranteed interest rate periods. After the initial guaranteed interest rate period, the crediting rate for any given deposit is subject to change annually at our discretion, subject to the minimum guaranteed rate specified in the contract. Our Select products have a guaranteed credited rate throughout the surrender charge period.

Our FIA products provide contract holders a choice of a traditional fixed-rate account and one or more indexed accounts. Indexed accounts provide the contract holder interest crediting potential that is linked to the performance of an index. Contract holders may also select their crediting method, which can be based on the net change in the index for the interest term or a monthly average. The indexed interest rate is guaranteed never to be less than zero and cannot exceed the cap rate set at the beginning of each interest term. Indexed interest is credited at the end of each term, generally annually. At each renewal date, a contract holder may elect to change allocations, and we have the opportunity to re-price the indexed component (i.e., reset the cap rate) and change the interest rate in the fixed-rate account, subject to contractual guarantees. We endeavor to hedge our exposure to changes in the reference indexes for the current interest term by transacting in options and futures that are correlated to the indexed account allocations selected by our contract holders.

We believe the indexed account options and product features we offer to contract holders are an attractive value proposition. Our most popular index is the Standard & Poor’s 500 Index® (S&P 500) and we have expanded our lineup to include non-traditional indices such as the MSCI EAFE Index and the JPMorgan ETF Efficiente^{SM}. Some of our FIA products offer an optional guaranteed minimum death benefit rider, which provides a lump-sum death benefit to beneficiaries.

We determine the crediting rates for our fixed products based upon competitive factors, portfolio earnings rate, prevailing market rates, product profitability and our judgment as to the impact any change would have on our relationships with our customers and distribution partners. We determine cap rates on new FIA deposits based on financial market conditions, including interest rates and option prices, the competitive environment, and other actuarial assumptions. We have adjusted, and will continue to adjust, crediting rates and cap rates on new and in-force business as we work to maintain adequate interest spreads.

Both our traditional and FIA contracts permit the contract owners to make withdrawals during the accumulation period. Contract owners may withdraw all or part of the premium paid, plus interest credited to their accounts, subject to contract provisions, such as surrender charges, that vary depending upon the terms of the product. The contracts impose surrender charges that typically vary from 7.0% to 9.0% of the amount withdrawn starting in the year of contract issue and decreasing to zero over the next five- to seven-years. As of December 31, 2015, approximately $13.2 billion, or 74%, of the total account values of our fixed annuities, including FIA, were subject to surrender charges. However, our contracts permit annual withdrawals of up to 10% of the contract holders' account value without incurring surrender charges.

Many of our fixed annuity contracts have a guaranteed return of premium payment (GROPP) feature that may prevent us from collecting the full amount of surrender charges if the contract is terminated in the early years. As of December 31, 2015, approximately $2.5 billion of the total fixed account values, including FIA, have this feature and have not yet earned enough interest to cover the full surrender charge. Approximately $1.1 billion of this amount was within the first year of the contract when surrender charges are highest.

A majority of our FIA products also have a market value adjustment (MVA) feature, which reduces, but does not eliminate, our exposure to interest rate risk. The MVA feature provides for an adjustment to amounts withdrawn or surrendered from the annuity contract. The adjustment is based on the change (positive or negative) in an outside reference interest rate specified in the contract, for example the yield on a corporate bond index. This may result in a positive or negative adjustment upon surrender or withdrawal, depending on the reference interest rates and subject to contractual minimum guarantees.

We price our annuity products based upon our expected investment returns and our expectations for mortality. We also price our annuity products based on the probability that a policy or contract will remain in force from one period to the next, referred to as persistency, for the group of contract owners as a whole. As part of pricing, we take into account mortality improvements in the general population and our historical experience. Additionally, we analyze the risk profile of the product, including whether it provides a GROPP feature or has special reserve and capital requirements, and we take into account expenses we expect to incur.

Variable Annuities

We offer variable deferred annuities that allow the contract holder to allocate their premium to separate account subaccounts that each invest in shares of a designated mutual fund. Like a fixed annuity, a variable annuity has an accumulation period and a payout period. There is no guaranteed minimum rate of return for these investments, however, and the contract owner bears the entire risk associated with the performance of the subaccounts, subject to any guaranteed minimum death benefit (GMDB). The majority of our GMDB risk on our variable annuities is reinsured. We do not offer guaranteed living benefits on our variable annuities.

Variable annuities provide us with fee revenue in the form of mortality and expense risk charges, flat-fee annual contract charges and asset-related administration fees. The mortality and expense risk charge and asset-related administration fee are applied to the contract owner’s assets in the separate account at annual rates ranging from 0.6% to 1.4%. We also earn fees from some of the underlying mutual funds based on assets under management. As of December 31, 2015, we had $694.3 million of variable annuity account values held in our separate accounts.

Distribution

We distribute our deferred annuities primarily through financial institutions and broker-dealers, with sales and marketing support provided by our wholesalers. By providing our distribution partners with high levels of service and attractive products, we seek to cultivate strong relationships. The attractiveness of our products to distributors depends on many factors, including the interest rates we credit initially and through the life of our traditional fixed annuity contract and the cap rates we offer on our FIA products.

Income Annuities

Overview

We offer retail immediate annuities that guarantee a series of payments that continue either for a certain number of years or for the remainder of an annuitant’s life. Payments can begin immediately or can be deferred several years into the future. As of December 31, 2015, we had $1.33 billion of reserves associated with retail immediate annuities. In late 2012, we discontinued sales of structured settlement annuities; however, we continue to service our existing block of business. As of December 31, 2015, we had $5.12 billion of reserves associated with structured settlement annuities.

Our earnings from this segment are driven by the spread on our investment of contract holder deposits versus the interest rate assumptions we used to set reserves for these contracts, less acquisition and administrative expenses. We are not able to reset the rates on our Income Annuities' products, and therefore our spread is impacted by interest margin compression. During periods of low interest rates, the investment assets backing these reserves are at risk of prepayment causing reinvestment at lower rates, which reduces the margin we earn on our reserves.

The segment also has a portion of reserves, representing longer term liabilities, that is supported by equity investments. The majority of earnings on most of these securities is driven by changes in fair value which are recognized in realized gains (losses) and not reflected in net investment income, adjusted operating income, or interest spread metrics. However, we expect returns on these equity investments to increase long-term net income over time. Further, earnings increase or decrease on the contracts that contain life contingent payments depending upon our mortality experience. Mortality gains and losses represent the difference between actual and expected reserves released on life-contingent annuities. Mortality experience is volatile and can fluctuate significantly from period to period.

Products

Immediate Annuities

Immediate annuities provide for contractually guaranteed payments that typically begin within one year of issue. In exchange for a single premium, immediate annuities provide a fixed amount of income for either a defined number of years, the annuitant’s lifetime or the longer of the two. Certain products, known as longevity annuities, enable the customer to select a payment start date several years after contract purchase, which we believe provides customers with a cost effective means of funding a future income stream.

Generally, our immediate annuities do not provide for surrender or policy loans by the contract holder. We offer a liquidity feature on certain products that allows the contract holder to periodically reduce a portion of the future payments in exchange for a present value lump sum. We also offer a feature that allows beneficiaries to convert remaining non-life contingent benefits to a lump sum after the death of the annuitant.

We price immediate annuities using industry-produced annuity mortality information, our mortality experience and assumptions regarding annuitant longevity, as well as assumptions regarding investment yields at the time of issue and thereafter.

Structured Settlements

Structured settlement annuities, which are long-term in nature, are typically purchased for the benefit of an injured claimant to guarantee a fixed benefit stream and generally do not permit surrender or borrowing against the amounts outstanding under the contract. Although we no longer sell these products, we continue to service our existing block of business, and we endeavor to maintain profit margins on this block of business through disciplined asset-liability management, which includes investing in commercial mortgage loans and equities.

We offer funding services to existing payees whose financial circumstances may have changed from the time they originally received a structured settlement. Our funding services provide a lump sum payment to replace future benefit payments.

Distribution

We distribute our SPIAs primarily through financial institutions, brokerage general agencies (BGA) and broker-dealers, with sales and marketing support provided by our wholesalers. We are focused on generating SPIA sales that are of a shorter-duration and reduce our reinvestment risk relative to longer-term annuities and continue to add distribution partners to help drive sales of this product. We believe that demand for retirement income products will be driven by the demographic trend of a greater number of people approaching retirement age coupled with their need for sources of dependable retirement income to serve as a bridge between retirement and social security payments or to last their lifetime.

We compete with a large number of life insurance companies in the single premium immediate annuity marketplace. We continue to see long-term growth prospects for SPIAs based on demographics. However, SPIA sales are very sensitive to interest rates and we expect sales to be pressured by the low interest rate environment. Our experience with mortality and longevity risk, combined with disciplined pricing, drive our product designs and ultimately contribute to our competitiveness in the marketplace.

Individual Life Division

Overview

Our Individual Life division sells life insurance products that focus on the creation and protection of our clients' wealth by providing products that protect against financial hardship or preserve wealth as part of an estate plan. We offer UL insurance products that provide protection for the insured, and may include a buildup of cash value that can be used to meet the policyholder’s financial needs during his or her lifetime. Our individual term life products provide life insurance coverage with guaranteed level premiums for a specified period of time, with no buildup of cash value. We also offer institutional life insurance products to banks and other corporate institutions to insure the lives of their employees, usually officers and other highly compensated employees.

We continue to invest in infrastructure for our growing UL business. This includes continued development of an enhanced automated workflow tool to increase our operational efficiencies and enhance service to our distribution partners. For our UL products, earnings are driven by investment margins, premium persistency versus expected, risk charges on policyholder account balances relative to mortality experience, and expense margins (charges assessed to our policyholders less expenses incurred to manage our business). Mortality experience also drives earnings on our term and traditional life products. For our BOLI product, earnings are driven by return on assets (ROA), which includes investment margin, cost of insurance revenue, and mortality experience. BOLI ROA is calculated as total revenues, including net investment income and cost of insurance charges, less total policyholder benefits and claims as a percentage of BOLI account values.

Products

Universal Life Insurance

We offer universal life insurance products with a range of product and secondary guarantee features. As of December 31, 2015, our reserves associated with these products were $935.1 million, net of reinsurance. These products provide policyholders with death benefit coverage on a flexible, tax-favored basis, and may include the ability to access the cash value of the policy through a policy loan, partial withdrawal, or full surrender. Our most popular UL product carries a secondary guarantee in the form of a lapse protection benefit (LPB) rider, offering guaranteed premiums while potentially maintaining some cash accumulation value. In addition, we offer a survivorship UL product, which provides the ability to insure two lives and provide for estate planning through payment of the death benefits upon the death of the second insured. We also offer single premium life (SPL), which provides a lifetime death benefit for a single premium payment. Some of our UL products offer a policy rider that allows the policyholder, with a chronic or terminal illness, to access accelerated death benefits, as long as certain contractual requirements have been met.

We credit premium payments and interest to the policyholder's account, and we deduct expense and risk charges. The mortality risk charge is referred to as the cost of insurance charge (COI), which generally increases from year to year as the insured ages. Most of our UL policies also include surrender charge provisions for early termination and partial withdrawals.

We credit interest on policyholder account balances at a rate determined by us, subject to a contractually guaranteed minimum rate. Our UL products have provisions that allow crediting rates to be reset at contractually-defined intervals, subject to minimum crediting rate guarantees. We determine crediting rates based upon competitive factors, portfolio earnings rates, prevailing market rates, product profitability and our judgment as to the impact any change would have on our relationships with our customers and distribution partners. We have adjusted, and will continue to adjust, crediting rates on new and in-force business as part of our efforts to maintain adequate interest spreads.

Term Life Insurance

We offer term life products that provide a guaranteed benefit upon the death of the insured while the coverage is in force. As of December 31, 2015, we had $158.3 million of reserves, net of reinsurance, associated with our term life and other traditional life products. Our term life policies have no cash value buildup and therefore rarely have a payout if a policyholder allows the policy to lapse.

Our primary term life insurance products have guaranteed level premiums for initial terms ranging from 10 to 30 years. After the guaranteed period expires, premiums increase annually and the policyholder has the option to continue paying premiums under the current policy without demonstrating insurability, or to qualify for a new policy by submitting again to the underwriting process. Coverage continues until the insured reaches the policy expiration age, ceases to make premium payments, converts the term policy into a universal life policy, or otherwise terminates the policy.

Institutional Products

Our institutional products include fixed rate BOLI and variable COLI products, which are commonly used by banks and other corporations as a tax-advantaged asset to fund employee benefit plans.

Our BOLI product offers institutional customers a stable, low-risk investment with an attractive after-tax equivalent return. As of December 31, 2015, we had $5.02 billion of BOLI account values. The majority of our BOLI policies have contractual provisions that allow us to adjust the interest crediting rate periodically, based on the portfolio yield and claims experience, subject to certain contractual minimums. We have adjusted, and will continue to adjust, crediting rates in our efforts to maintain adequate interest spreads.

For the majority of our BOLI business, the underlying asset portfolios are earning sufficient returns to support crediting rates higher than the guaranteed minimum. If portfolio rates decrease, we could gradually lower crediting rates towards the minimums. We may experience volatility on results of our BOLI business due to the timing of claims incurred.

Our variable COLI product allows corporate customers to allocate premium to a separate account, a fixed account or both. The separate account is divided into subaccounts that each invest in shares of a designated underlying mutual fund, and customers elect their investment allocations within these subaccounts. The variable COLI account values will fluctuate based on returns of the selected assets, less any COI charges and administration fees. As of December 31, 2015, we had $133.7 million of variable COLI account values.

Underwriting and Pricing

Our underwriting policies are generally consistent across our Individual Life products. We believe our underwriting and pricing practices are significant drivers of the consistent profitability of our life insurance business. We set pricing assumptions for expected claims, lapses, investment returns, expenses and customer demographics based on our own relevant experience and other factors. We strive to deliver competitively priced products for the marketplace by routinely reviewing and adjusting our pricing as necessary in response to the regulatory, economic and competitive environment.

Most of our fully underwritten life insurance policies place each insurable applicant in one of our primary risk categories, depending upon current health, medical history and other factors. Our strategy is to price our products competitively for our target risk categories and not necessarily to be equally competitive in all categories.

We consider each life insurance application individually and apply our guidelines to place each applicant in the appropriate risk category. We may decline an applicant’s request for coverage if the applicant’s health or other risk factor assessment is unacceptable to us. All underwriting decisions are made by our own underwriting personnel. We do not delegate underwriting decisions to independent sales intermediaries.

For certain markets, we have developed specially priced products to support a "simplified issue" process. This process enables us to reach applicants not served by traditional insurance agents. "Simplified issue" contracts are typically generated via sales to retail bank customers. Insurance coverage amounts are limited and separate underwriting guidelines are applied for simplified issue policies.

We use reinsurance agreements to limit our exposure to mortality risk. We review our reinsurance coverage periodically to balance risk management and pricing expectations. We often share information with our reinsurers to gain their insights on potential mortality and underwriting risks and to benefit from their broad expertise. We use the information we obtain from the reinsurers to help us develop effective strategies for managing our underwriting risks.

Distribution

We offer our life insurance products primarily through retail channels, including brokerage general agents, financial institutions, independent agents, and financial advisers. We utilize specialty agents to distribute our BOLI and variable COLI product.

Competition

We face significant competition for customers and distributors from insurance and other non-insurance financial services companies, such as banks, broker-dealers and asset managers. Generally, our life, health and annuity insurance products compete with similar products offered by other large and highly rated insurers. In addition, our annuity products compete with products offered by other financial services companies. Our ability to compete effectively is dependent on a number of factors, including:

- product features;
- price, crediting rates and cap rates;
- commissions;
- the strength of our brand;
- reputation;
- quality of service and related technological capabilities;
- financial strength ratings and other industry ratings;

- our ability to invest premiums and deposits in appropriate assets; and
- diversification of distribution channels.

The relative importance of these factors depends on the particular product and market. For example, many of our annuity products compete on the interest rates we credit, resulting in the risk that our annuity contract holders may be able to obtain more favorable rates from our competitors. Recent entrants to annuity markets may be willing to assume more risk in their investment portfolios, allowing them to offer higher crediting rates that are more attractive to consumers. Additionally, our ability to gain traction with new distribution partners may be impacted by a lack of consumer name recognition in certain markets. However, we believe that our extensive distribution network, strong financial position, diverse business mix, and disciplined investment management provides us with competitive advantages.

Investments

In managing our investments, we are focused on disciplined matching of our assets to our liabilities and preservation of principal. We aim to reduce and manage credit risk by focusing on capital preservation, fundamental credit analysis and value-oriented security selection. Our investment portfolio consists in large part of high quality fixed maturities and commercial mortgage loans, as well as a smaller allocation of high-yield fixed maturities, marketable equity securities, investments in limited partnerships (tax credit investments and alternative investments), and other investments.

We contract with professional investment advisers, which are managed by our internal investment department, to invest the majority of our assets. White Mountains Advisors LLC (WMA), as well as other advisers, invest the majority of our investment portfolio. Prior to the Merger, WMA was a related party. Our commercial mortgage loan portfolio is originated and managed internally.

We separate our investments into distinct portfolios and align them to our segments. Our investment strategy for each portfolio is based on the expected cash flow characteristics of the liabilities associated with the portfolio. The portfolio strategies are regularly monitored using several portfolio metrics, including effective duration, yield curve sensitivity, convexity, liquidity, asset sector concentration and credit quality.

We primarily invest in the following types and durations of assets for our segments:

- *Deferred Annuities.* We invest in medium-duration corporate bonds, mortgage-backed securities, commercial mortgage loans and a modest amount of below investment grade bonds. We also take positions in index call options (mainly equity index) to economically hedge exposure to equity markets related to our FIA product liabilities.
- *Income Annuities.* The Income Annuities segment has liability payments that extend well beyond 40 years. Therefore, we invest the majority of the segment’s portfolio in long-duration corporate bonds, mortgage-backed securities and commercial mortgage loans, a portion of which is invested in below investment grade bonds. In addition, we invest in equities to support a portion of the longer duration liability payments.
- *Individual Life.* We invest in medium to long-duration corporate bonds, mortgage-backed securities, commercial mortgage loans and a modest amount of below investment grade bonds.
- *Other.* We invest in corporate bonds and equities, commercial mortgage loans, tax credit investments, alternative investments (private equity and hedge funds) and a modest amount of below investment grade bonds.

Additionally, in connection with certain products and investments, we use a variety of strategies to manage the associated risks, including the use of derivative instruments, primarily options, futures, interest rate swaps and foreign currency swaps and forwards. We have established policies for managing each of these risks, including controls over derivatives designed to prevent market-making and other speculative activities.

Regulation

Our insurance operations are subject to a wide variety of laws and regulations. State insurance laws and regulations govern most aspects of our insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and licensed. Our insurance products, and thus our businesses, also are affected by federal, state and local tax laws. In addition, variable annuity contracts and variable life insurance contracts (together, variable contracts) issued by our insurance subsidiaries are securities. Unless offered pursuant to an exemption, these contracts are registered as such under the Securities Act of 1933 (the "1933 Act") and, as a result, the Securities and Exchange Commission (SEC) regulates their offer and sale.

The purpose of the laws and regulations affecting our insurance and securities businesses is primarily to protect our customers and not our noteholders or sole stockholder Sumitomo Life. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. In addition, insurance and securities regulatory authorities make inquiries of us regarding compliance with insurance, securities and other laws and regulations. We cooperate with such inquiries and take corrective action when warranted.

The Company's sole stockholder, Sumitomo Life, is subject to regulation by the Japanese Financial Services Authority (JFSA). Under applicable laws and regulations, Sumitomo Life is required to provide notice to or obtain the consent of the JFSA prior to taking certain actions or engaging in certain transactions, either directly or indirectly through its subsidiaries, including the Company.

Many of our customers and agents are also sensitive to changes in regulations that may affect their ability or desire to purchase or distribute our products.

Insurance Regulation

Our insurance subsidiaries are licensed and regulated in all states in which they conduct insurance business, and all forms and rates are filed for approval in states where required. In many instances, the laws and regulations originate from the National Association of Insurance Commissioners (NAIC), which provides standardized insurance industry model laws and regulations, and standardized accounting and reporting guidance. The extent of this regulation varies, but most states have broad administrative power dealing with many aspects of our insurance subsidiaries’ businesses. These laws and regulations govern the financial condition of insurers, including standards of solvency, types and concentration of investments, establishment and maintenance of reserves, credit for reinsurance, insurer use of captive reinsurance companies, mergers, and requirements of capital adequacy, establishing minimums for guaranteed crediting rates on life insurance policies and annuity contracts, corporate governance standards for insurers, and the business conduct of insurers, including risk management, marketing and sales practices, product designs, underwriting practices, privacy, agent appointments, and claims handling.

State insurance departments monitor our market conduct by examining our policies, procedures and practices from time to time through market conduct examinations, reporting obligations, inquires, and/or market analysis. In addition, statutes and regulations usually require the licensing of insurers and their agents, the approval of policy forms and related materials and the approval of rates for certain lines of insurance.