



# **Symetra Financial Corporation**

## **Condensed Consolidated Financial Statements**

**June 30, 2018**



**SYMETRA FINANCIAL CORPORATION**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

	As of June 30, 2018 (Unaudited)	As of December 31, 2017
<b>ASSETS</b>		
Investments:		
Available-for-sale securities:		
Fixed maturities, at fair value (amortized cost: <b>\$30,633.4</b> and \$29,786.5, respectively) ..	<b>\$ 30,270.3</b>	\$ 30,473.4
Marketable equity securities, at fair value .....	<b>708.6</b>	755.7
Mortgage loans, net .....	<b>6,285.0</b>	6,241.2
Investments in limited partnerships (includes <b>\$52.8</b> and \$52.5 at fair value, respectively) ..	<b>202.7</b>	225.5
Derivatives, at fair value .....	<b>294.8</b>	339.0
Policy loans and other invested assets .....	<b>60.7</b>	61.3
Total investments .....	<b>37,822.1</b>	38,096.1
Cash and cash equivalents .....	<b>464.9</b>	362.0
Accrued investment income .....	<b>340.3</b>	336.6
Reinsurance recoverables .....	<b>320.4</b>	318.2
DAC and VOBA .....	<b>960.8</b>	696.2
Receivables and other assets .....	<b>239.8</b>	240.3
Other intangible assets, net .....	<b>1,231.6</b>	1,275.1
Goodwill .....	<b>563.0</b>	563.0
Separate account assets .....	<b>999.4</b>	978.1
<b>Total assets .....</b>	<b><u>\$ 42,942.3</u></b>	<b><u>\$ 42,865.6</u></b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Funds held under deposit contracts .....	<b>\$ 36,160.5</b>	\$ 35,306.8
Future policy benefits .....	<b>507.6</b>	498.8
Policy and contract claims .....	<b>250.6</b>	196.6
Other policyholders' funds .....	<b>131.8</b>	118.0
Notes payable .....	<b>706.1</b>	706.6
Deferred income tax liabilities, net .....	<b>28.8</b>	222.3
Other liabilities .....	<b>699.5</b>	622.0
Separate account liabilities .....	<b>999.4</b>	978.1
<b>Total liabilities .....</b>	<b><u>39,484.3</u></b>	<b><u>38,649.2</u></b>
Commitments and contingencies ( <i>Note 11</i> ) .....		
Common stock, \$0.01 par value; <b>1,000</b> shares authorized; <b>100</b> issued and outstanding .....	<b>—</b>	—
Additional paid-in capital .....	<b>3,516.7</b>	3,516.7
Retained earnings .....	<b>200.4</b>	144.8
Accumulated other comprehensive income (loss), net of taxes .....	<b>(259.1)</b>	554.9
<b>Total stockholder's equity .....</b>	<b><u>3,458.0</u></b>	<b><u>4,216.4</u></b>
<b>Total liabilities and stockholder's equity .....</b>	<b><u>\$ 42,942.3</u></b>	<b><u>\$ 42,865.6</u></b>

See accompanying notes.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Premiums .....	\$ 253.9	\$ 225.6	\$ 506.8	\$ 441.7
Net investment income .....	340.6	329.4	675.5	644.1
Policy fees, contract charges, and other .....	81.6	71.3	160.7	140.4
Net realized losses:				
Total other-than-temporary impairment losses on securities ..	(0.5)	(2.0)	(3.0)	(2.0)
Less: portion recognized in other comprehensive income ....	—	—	—	—
Net impairment losses on securities recognized in earnings ...	(0.5)	(2.0)	(3.0)	(2.0)
Other net realized losses .....	(5.0)	(1.3)	(57.1)	(1.4)
Net realized losses .....	(5.5)	(3.3)	(60.1)	(3.4)
Total revenues .....	670.6	623.0	1,282.9	1,222.8
Benefits and expenses:				
Policyholder benefits and claims .....	215.5	197.2	439.4	377.9
Interest credited .....	254.4	236.0	504.0	477.7
Other underwriting and operating expenses .....	125.8	113.0	249.7	230.7
Interest expense .....	5.9	7.4	12.1	14.9
Amortization of DAC and VOBA .....	22.5	21.6	26.2	40.7
Amortization of intangible assets .....	21.8	21.8	43.5	43.5
Total benefits and expenses .....	645.9	597.0	1,274.9	1,185.4
Income from operations before income taxes .....	24.7	26.0	8.0	37.4
Total provision (benefit) for income taxes .....	(13.1)	0.6	(3.3)	(6.2)
Net income .....	\$ 37.8	\$ 25.4	\$ 11.3	\$ 43.6

See accompanying notes.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income .....	\$ 37.8	\$ 25.4	\$ 11.3	\$ 43.6
Other comprehensive income (loss), net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) on available-for-sale securities (net of taxes of \$(78.3), \$109.7, \$(224.5), and \$170.0) .....	(294.5)	203.8	(844.4)	315.7
Impact of net unrealized (gains) losses on DAC and VOBA (net of taxes of: \$11.3, \$(18.1), \$39.9, and \$(28.4)) .....	42.6	(33.6)	150.0	(52.8)
Impact of cash flow hedges (net of taxes of \$7.3, \$(3.3), \$(1.4), and \$(7.4)) .....	27.4	(6.0)	(5.3)	(13.7)
Other comprehensive income (loss) .....	(224.5)	164.2	(699.7)	249.2
Total comprehensive income (loss) .....	<u>\$ (186.7)</u>	<u>\$ 189.6</u>	<u>\$ (688.4)</u>	<u>\$ 292.8</u>

See accompanying notes.

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder's Equity
January 1, 2017 .....	\$ —	\$ 3,677.7	\$ 17.0	\$ 143.5	\$ 3,838.2
Net income .....	—	—	43.6	—	43.6
Other comprehensive income .....	—	—	—	249.2	249.2
Dividends declared .....	—	(161.0)	(19.0)	—	(180.0)
Balances as of June 30, 2017 .....	<u>\$ —</u>	<u>\$ 3,516.7</u>	<u>\$ 41.6</u>	<u>\$ 392.7</u>	<u>\$ 3,951.0</u>
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
January 1, 2018 .....	\$ —	\$ 3,516.7	\$ 144.8	\$ 554.9	\$ 4,216.4
Net income .....	—	—	11.3	—	11.3
Other comprehensive loss .....	—	—	—	(699.7)	(699.7)
Dividends declared .....	—	—	(70.0)	—	(70.0)
Adoption of new accounting standard .....	—	—	114.3	(114.3)	—
Balances as of June 30, 2018 .....	<u>\$ —</u>	<u>\$ 3,516.7</u>	<u>\$ 200.4</u>	<u>\$ (259.1)</u>	<u>\$ 3,458.0</u>

See accompanying notes.

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

	For the Six Months Ended June 30,	
	2018	2017
<b>Cash flows from operating activities</b>		
Net income (loss) .....	\$ 11.3	\$ 43.6
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net realized (gains) losses .....	60.1	3.4
Accretion and amortization of invested assets, net .....	124.2	148.5
Amortization of intangible assets .....	43.5	43.5
Other amortization, accretion and depreciation .....	(2.3)	(17.6)
Deferred income tax provision (benefit) .....	(7.6)	(32.9)
Interest credited on deposit contracts .....	504.0	477.7
Mortality and expense charges and administrative fees .....	(124.8)	(106.7)
Other changes in:		
DAC and VOBA .....	(107.8)	(93.7)
Future policy benefits .....	22.5	9.6
Other policyholder reserves .....	114.3	37.5
Policy and contract claims .....	54.0	63.1
Other assets and liabilities .....	21.6	(10.6)
Other, net .....	(1.9)	(8.3)
Total adjustments .....	699.8	513.5
Net cash provided by (used in) operating activities .....	711.1	557.1
<b>Cash flows from investing activities</b>		
Purchases of:		
Fixed maturities and marketable equity securities .....	(3,439.4)	(3,476.5)
Derivatives and other investments .....	(119.7)	(84.8)
Issuances of mortgage loans .....	(340.7)	(468.5)
Sales of fixed maturities and marketable equity securities .....	1,363.5	1,354.0
Maturities, calls, paydowns, and other repayments .....	1,244.3	1,086.9
Cash received for sales/settlements of derivatives and other investments .....	161.5	117.2
Repayments of mortgage loans .....	277.6	238.8
Cash received (pledged or returned) as collateral, net .....	(44.4)	30.5
Other, net .....	(45.1)	(28.4)
Net cash provided by (used in) investing activities .....	(942.4)	(1,230.8)
<b>Cash flows from financing activities</b>		
Policyholder account balances:		
Deposits .....	1,894.1	2,181.3
Withdrawals .....	(1,487.4)	(1,290.8)
Cash dividends paid on common stock .....	(70.0)	(180.0)
Proceeds from borrowings .....	450.0	—
Repayment of notes payable .....	(450.0)	—
Net cash provided by (used in) financing activities .....	336.7	710.5
Net increase (decrease) in cash, cash equivalents, and restricted cash .....	105.4	36.8
Cash, cash equivalents, and restricted cash at beginning of period .....	369.9	399.9
Cash, cash equivalents, and restricted cash at end of period .....	\$ 475.3	\$ 436.7
<b>Supplemental disclosures of cash flow information</b>		
Non-cash transactions during the period:		
Fixed maturities exchanges .....	\$ 251.8	\$ 350.5
<b>Cash, cash equivalents, and restricted cash reconciliation</b>		
Cash and cash equivalents .....	\$ 464.9	\$ 426.0
Restricted cash, included in receivables and other assets .....	10.4	10.7
Total cash, cash equivalents, and restricted cash .....	\$ 475.3	\$ 436.7

See accompanying notes.

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

## **1. Description of Business**

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

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

In 2016, the Company became a wholly owned subsidiary of Sumitomo Life Insurance Company, an event which is referred to as the Merger. The Merger was accounted for under the acquisition method of accounting (purchase accounting, or PGAAP).

## **2. Summary of Significant Accounting Policies**

The interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that may affect the amounts reported in the interim condensed consolidated financial statements and accompanying notes. These interim condensed consolidated financial statements are unaudited and in management's opinion include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation. All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to prior year financial information to conform to the current period presentation. Management has assessed subsequent events through September 6, 2018, the date the financial statements were issued. A subsequent event requiring disclosure is included in Note 11.

The interim condensed consolidated financial statements should be read in conjunction with the December 31, 2017 audited consolidated financial statements. Financial results for the six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the twelve months ended December 31, 2018.

A full description of the Company's significant accounting policies is included in the December 31, 2017 audited consolidated financial statements, available on the Company's website.

### ***Income Taxes***

The Company had a negative effective tax rate for the three and six months ended June 30, 2018 and 2017. The Company's effective tax rate differs from the U.S. federal income tax rate each year, primarily due to benefits from the Company's tax credit investments relative to the forecasted income from operations for the full fiscal year.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") was signed into law. The effects of the 2017 Tax Act were reasonably estimated and recorded as a provisional amount for the year ended December 31, 2017. As analysis of the 2017 Tax Act is completed, and any additional guidance is issued and interpreted, there may be adjustments to this provisional amount, which will be recorded in the provision for income taxes in the period made. There were no significant adjustments to the provisional amount recorded during the six months ended June 30, 2018.

### ***Accounting Pronouncements Newly Adopted***

**ASU No. 2016-01, *Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities*.** This accounting standards update (ASU) amends recognition and disclosure requirements primarily for equity investments carried at fair value. Under the standard, changes in fair value are recorded in income. In addition, the requirement to disclose the fair value of financial instruments held at amortized cost has been eliminated for nonpublic companies. The update is effective beginning January 1, 2019.

The Company early adopted the standard on January 1, 2018 using a modified retrospective approach. The Company held equity investments previously classified as available-for-sale securities that were impacted by the standard. Upon adoption, \$114.3 of net unrealized gains, net of taxes of \$30.4, related to these securities were reclassified from accumulated other comprehensive income (loss) (AOCI) to retained earnings. Subsequent to adoption, changes in fair value of these securities are recorded through net realized gains (losses) in the consolidated statements of income (loss). As a result, the Company expects increased volatility in net income.



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

***Accounting Pronouncements Not Yet Adopted***

The Company's primary subsidiary, SLIC, is a public business entity (PBE) and is required to adopt new accounting standards in accordance with PBE effective dates, which are generally earlier than non-PBE effective dates. In most cases, this necessitates the Company to early adopt new accounting standards.

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

The Company is evaluating the potential impact of the standard on its financial statements. The Company holds derivative instruments that will be impacted by the standard (See Note 6 for details regarding these holdings). Upon adoption, the Company will apply the standard using a modified retrospective approach. The Company plans to early adopt on January 1, 2019.

**ASU No. 2016-02, *Leases (Topic 842)*.** This standard amends the recognition requirements for all leases with a term greater than 12 months and provides new guidelines for the identification of a lease within a contract. Under the standard, companies must measure and recognize a liability for future lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Entities may elect a simplified transition option, under which they recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. In addition, the standard requires expanded quantitative and qualitative disclosures. The update is effective beginning January 1, 2020.

The Company has compiled an inventory of all its leases and is currently assessing the impact of the standard and updating internal processes to ensure compliance with the revised guidance. The majority of the Company's leases are currently accounted for as operating leases. The Company expects the most significant impact of this standard to be recognition of the right-of-use asset. The Company does not anticipate that this standard will impact its expense recognition pattern. Upon adoption, the Company will apply the standard using a modified retrospective approach and apply the requirements to all existing leases using the simplified transition option. The Company plans to early adopt on January 1, 2019.

**ASU No. 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*.** This standard amends the guidance for amortization of premiums on purchased callable debt securities. Under the standard, premiums on these securities will be amortized to the earliest call date, rather than final maturity of the security. The guidance applies only to bonds for which the call date and price are fixed. The amortization period for debt securities carried at a discount will not be impacted. The update is effective beginning January 1, 2020.

The Company is evaluating the potential impact of the standard on its financial statements. Upon adoption, the Company will apply the standard using a modified retrospective approach. The Company plans to early adopt on January 1, 2019.

**ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*.** This standard amends the credit loss measurement guidance for available-for-sale securities. Credit losses will be recognized in a credit allowance account rather than as reductions in the amortized cost of the securities. Entities will no longer be allowed to consider length of time a security has been underwater as a factor when evaluating credit losses. This standard further amends existing guidance on the impairment of certain financial instruments by adding an impairment model that reflects expected credit losses. This requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The update is effective beginning January 1, 2021.

The Company is in the early stages of evaluating the potential impact of the standard on its financial statements, with a focus on fixed maturity securities, mortgage loans, and reinsurance recoverables. Upon adoption, the Company will apply the standard using a modified retrospective approach. The Company plans to early adopt on January 1, 2020.

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

**SYMETRA FINANCIAL CORPORATION**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The Company is monitoring the potential impact of the standard on its annual goodwill impairment assessment. Upon adoption, the Company will apply the standard prospectively. The Company plans to early adopt on January 1, 2020.

**ASU No. 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*.** This standard amends the guidance for long-duration contracts. Entities will be required to measure the liability for future policy benefits by reviewing and updating assumptions used to measure cash flows at least annually and recognize any change in net income. The discount rate assumption must be based on observable market inputs and updated at each reporting period, with any resulting change recognized in other comprehensive income. A fair value model will be required to measure the market risk benefits. Finally, for contracts within the scope of this guidance, deferred acquisition costs and other balances amortized in proportion to premiums, gross profits, or gross margins will be required to be amortized on a constant level basis over the expected term of the related contracts. The standard also amends disclosure requirements to include disaggregated rollforwards of the related liabilities and information about significant assumptions used. The update is effective beginning January 1, 2022.

This ASU was recently released and the Company is in the early stages of assessing the impact on its annuity and life insurance contracts. The Company's primary subsidiary, SLIC, is a PBE and will be required to adopt on January 1, 2021. As a result, the Company will early adopt concurrent with SLIC's adoption.

**ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*.** This standard amends the disclosure requirements for fair value measurements. Under the standard, there are new disclosure requirements for Level 3 fair value measurements as well as the elimination of certain current disclosure requirements. The update is effective beginning January 1, 2020.

This ASU was recently released and the Company is in the early stages of assessing the impact on its quarterly and annual disclosures.

### 3. Other Intangible Assets

Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful life of the assets. Amortizing intangible assets consist of value of distribution acquired (VODA), value of customer relationships acquired (VOCRA), trade names, and technology.

Identified intangible assets recognized by the Company included the following:

	As of June 30, 2018		As of December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
VODA .....	\$ 782.0	\$ (54.9)	\$ 782.0	\$ (43.5)
VOCRA .....	386.7	(93.4)	386.7	(74.1)
Trade names .....	190.0	(27.0)	190.0	(21.4)
Technology .....	72.0	(34.8)	72.0	(27.6)
Total intangible assets subject to amortization .....	1,430.7	(210.1)	1,430.7	(166.6)
Insurance licenses .....	11.0	—	11.0	—
Total intangible assets .....	\$ 1,441.7	\$ (210.1)	\$ 1,441.7	\$ (166.6)

The following table sets forth the estimated future aggregate amortization expense for the next 5 years:

Year	Amount
2018 (remaining) .....	\$ 43.5
2019 .....	87.0
2020 .....	87.0
2021 .....	73.4
2022 .....	72.1

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

**4. Investments**

The Company's investment portfolio consists largely of fixed maturities and commercial mortgage loans, with smaller allocations of marketable equity securities, investments in limited partnerships, derivatives, and other investments. Equity investments primarily consist of exchange-traded funds (ETFs) in support of long-duration insurance products in the Income Annuities segment.

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

As of June 30, 2018				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies .....	\$ 305.1	\$ 0.7	\$ (8.5)	\$ 297.3
State and political subdivisions .....	761.9	1.3	(16.3)	746.9
Corporate securities .....	24,293.7	280.4	(511.6)	24,062.5
Residential mortgage-backed securities .....	2,538.5	4.6	(99.2)	2,443.9
Commercial mortgage-backed securities .....	769.1	0.5	(14.0)	755.6
Collateralized loan obligations .....	1,099.4	8.8	(2.7)	1,105.5
Other debt obligations .....	865.7	6.8	(13.9)	858.6
<b>Total .....</b>	<b>\$ 30,633.4</b>	<b>\$ 303.1</b>	<b>\$ (666.2)</b>	<b>\$ 30,270.3</b>

As of December 31, 2017				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies .....	\$ 446.2	\$ 0.2	\$ (4.9)	\$ 441.5
State and political subdivisions .....	794.3	5.0	(6.9)	792.4
Corporate securities .....	23,356.2	774.0	(60.5)	24,069.7
Residential mortgage-backed securities .....	2,535.2	6.6	(50.1)	2,491.7
Commercial mortgage-backed securities .....	795.0	3.8	(3.1)	795.7
Collateralized loan obligations .....	1,128.1	18.5	—	1,146.6
Other debt obligations .....	731.5	9.8	(5.5)	735.8
<b>Total .....</b>	<b>\$ 29,786.5</b>	<b>\$ 817.9</b>	<b>\$ (131.0)</b>	<b>\$ 30,473.4</b>

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

	As of June 30, 2018		As of December 31, 2017	
	Fair Value	% of Total	Fair Value	% of Total
Industrial .....	\$ 4,450.4	18.5%	\$ 4,484.1	18.6%
Consumer discretionary .....	3,428.4	14.2	3,388.3	14.1
Utilities .....	3,122.7	13.0	3,102.9	12.9
Financial .....	2,864.5	11.9	2,826.1	11.7
Consumer staples .....	2,730.3	11.3	2,721.6	11.3
Health care .....	2,534.1	10.5	2,660.0	11.1
Other .....	4,932.1	20.6	4,886.7	20.3
Total .....	\$ 24,062.5	100.0%	\$ 24,069.7	100.0%

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

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

As of June 30, 2018						
	Less Than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
U.S. government and agencies .....	\$ 33.5	\$ (1.0)	8	\$ 189.1	\$ (7.5)	30
State and political subdivisions .....	510.4	(9.6)	74	165.5	(6.7)	38
Corporate securities .....	16,391.3	(439.4)	1,151	1,304.2	(72.2)	110
Residential mortgage-backed securities .....	809.4	(24.7)	188	1,482.7	(74.5)	395
Commercial mortgage-backed securities .....	591.8	(11.4)	50	51.3	(2.6)	18
Collateralized loan obligations .....	477.9	(2.7)	31	—	—	—
Other debt obligations .....	412.6	(10.0)	49	88.1	(3.9)	12
<b>Total .....</b>	<b>\$ 19,226.9</b>	<b>\$ (498.8)</b>	<b>1,551</b>	<b>\$ 3,280.9</b>	<b>\$ (167.4)</b>	<b>603</b>

As of December 31, 2017						
	Less Than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
U.S. government and agencies .....	\$ 120.9	\$ (0.3)	6	\$ 206.2	\$ (4.6)	31
State and political subdivisions .....	311.8	(2.8)	48	169.7	(4.1)	36
Corporate securities .....	4,984.7	(34.3)	401	1,257.7	(26.2)	97
Residential mortgage-backed securities .....	705.2	(7.9)	176	1,517.2	(42.2)	356
Commercial mortgage-backed securities .....	296.5	(1.4)	25	60.5	(1.7)	19
Collateralized loan obligations .....	10.0	—	1	—	—	—
Other debt obligations .....	217.9	(2.5)	32	109.3	(3.0)	14
<b>Total .....</b>	<b>\$ 6,647.0</b>	<b>\$ (49.2)</b>	<b>689</b>	<b>\$ 3,320.6</b>	<b>\$ (81.8)</b>	<b>553</b>

Based on National Association of Insurance Commissioners (NAIC) ratings as of June 30, 2018 and December 31, 2017, the Company held below-investment-grade fixed maturities with fair values of \$978.9 and \$1,119.4, respectively, and amortized costs of \$953.2 and \$1,036.3, respectively. These holdings amounted to 3.2% and 3.7% of the Company's investments in fixed maturities, at fair value, as of June 30, 2018 and December 31, 2017, respectively.

The following table summarizes the amortized costs and fair values of fixed maturities as of June 30, 2018 by contractual years to maturity. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Fair Value
One year or less .....	\$ 1,320.1	\$ 1,317.4
Over one year through five years .....	8,216.9	8,143.6
Over five years through ten years .....	10,371.4	10,164.9
Over ten years .....	5,547.6	5,575.5
<b>Total fixed maturities with contractual maturity dates .....</b>	<b>25,456.0</b>	<b>25,201.4</b>
Residential mortgage-backed securities .....	2,538.5	2,443.9
Commercial mortgage-backed securities .....	769.1	755.6
Collateralized loan obligations .....	1,099.4	1,105.5
Other asset-backed securities .....	770.4	763.9
<b>Total fixed maturities .....</b>	<b>\$ 30,633.4</b>	<b>\$ 30,270.3</b>

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Fixed maturities .....	\$ 278.2	\$ 271.8	\$ 548.7	\$ 533.2
Marketable equity securities .....	4.8	4.0	8.5	8.1
Mortgage loans .....	64.9	60.6	132.6	117.4
Other .....	3.4	2.7	7.6	4.7
Total investment income .....	351.3	339.1	697.4	663.4
Investment expenses .....	(10.7)	(9.7)	(21.9)	(19.3)
Net investment income .....	\$ 340.6	\$ 329.4	\$ 675.5	\$ 644.1

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Fixed maturities:				
Gross gains on sales .....	\$ 3.7	\$ 7.2	\$ 5.1	\$ 12.1
Gross losses on sales .....	(3.8)	(1.1)	(11.3)	(5.1)
Net impairment losses .....	(0.5)	(2.0)	(3.0)	(2.0)
Marketable equity securities (1) .....	16.4	13.2	(5.8)	24.4
Investments in limited partnerships (2):				
Alternative investments .....	0.8	(0.1)	(0.5)	1.3
Tax credit investments .....	(11.1)	(8.4)	(23.7)	(16.8)
Net gains (losses) - FIA (3) .....	3.7	(6.3)	14.1	—
DAC and VOBA adjustment .....	(3.0)	1.2	(7.2)	(1.1)
Other (4) .....	(11.7)	(7.0)	(27.8)	(16.2)
Net realized losses .....	\$ (5.5)	\$ (3.3)	\$ (60.1)	\$ (3.4)

(1) Includes net gains on changes in the fair value of equity securities held, totaling \$17.8 and \$3.6, respectively, for the three and six months ended June 30, 2018.

(2) Reflect losses related to tax credit investments and changes in the fair value of alternative investments.

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

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

### Other-Than-Temporary Impairments (OTTI)

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

While all securities are monitored for impairment, the Company's experience indicates that, under normal market conditions, securities for which the cost or amortized cost exceeds fair value by less than 20% do not typically represent a significant risk of impairment and, often, fair values recover over time as the factors that caused the declines improve. If the estimated fair value has declined and remained below cost or amortized cost by 20% or more for at least six months, the Company further analyzes the decrease in fair value to determine whether it is an other-than-temporary decline. To make this determination for each security, the Company considers, among other factors:

- Extent and duration of the decline in fair value below amortized cost;
- Financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations, earnings potential or compliance with terms and covenants of the security;
- Changes in the financial condition of the security's underlying collateral;

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- Any downgrades of the security by a rating agency;
- Nonpayment of scheduled interest; and
- Other indications that a credit loss has occurred.

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

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

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

*Determination of Credit-Related OTTI on Corporate Securities*

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

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

*Determination of Credit-Related OTTI on Structured Securities*

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

- Expected cash flows from the security;
- Creditworthiness;
- Delinquency, debt-service coverage, and loan-to-value ratios on the underlying collateral;
- Underlying collateral values, vintage year and level of subordination;
- Geographic concentrations; and
- Susceptibility to prepayment due to changes in the interest rate environment.

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

	As of June 30, 2018			As of December 31, 2017		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
Fixed maturities:						
Underwater by 20% or more:						
Less than 6 consecutive months .....	\$ 3.6	\$ (1.1)	6	\$ 5.2	\$ (1.7)	7
6 consecutive months or more .....	1.7	(0.9)	5	0.9	(0.8)	5
Total underwater by 20% or more .....	5.3	(2.0)	11	6.1	(2.5)	12
All other underwater fixed maturities .....	22,502.5	(664.2)	2,103	9,961.5	(128.5)	1,205
Total underwater fixed maturities .....	<u>\$ 22,507.8</u>	<u>\$ (666.2)</u>	<u>2,114</u>	<u>\$ 9,967.6</u>	<u>\$ (131.0)</u>	<u>1,217</u>

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period .....	\$ 3.9	\$ 4.3	\$ 3.8	\$ 4.4
Increases recognized in the current period:				
For which an OTTI was not previously recognized .....	0.4	—	0.6	—
Decreases attributable to:				
Securities sold or paid down during the period .....	(0.4)	(0.5)	(0.5)	(0.6)
Balance, end of period .....	<u>\$ 3.9</u>	<u>\$ 3.8</u>	<u>\$ 3.9</u>	<u>\$ 3.8</u>

The Company reviewed its available-for-sale securities with unrealized losses as of June 30, 2018 in accordance with its impairment policy and determined, after the recognition of OTTI, that the declines in fair value were temporary. The Company did not intend to sell its underwater securities, and it was not more likely than not that the Company will be required to sell the securities before recovery of cost or amortized cost, which may be maturity. This conclusion is supported by the Company's spread analyses, cash flow modeling and expected continuation of contractually required principal and interest payments.

#### Investments in Limited Partnerships — Low-Income Housing Project Investments

The Company invests in limited partnerships that are established to fund low-income housing and other qualifying purposes, where the primary return on investment is in the form of income tax credits. These are collectively referred to as "tax credit investments." The majority of the Company's tax credit investments relate to low-income housing project investments. As of June 30, 2018 and December 31, 2017, the Company's tax credit investments had carrying values of \$150.0 and \$173.0, respectively, of which \$143.7 and \$165.8, respectively, related to low-income housing project investments.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Pass through activity .....	\$ (6.0)	\$ (7.0)	\$ (13.1)	\$ (13.4)
Write downs .....	(5.4)	(0.9)	(10.3)	(2.0)
Tax benefits .....	2.4	2.8	4.9	5.4
Tax credits, net .....	10.1	7.9	20.2	15.9
Impact to net income .....	<u>\$ 1.1</u>	<u>\$ 2.8</u>	<u>\$ 1.7</u>	<u>\$ 5.9</u>

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## **5. Mortgage Loans**

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

The Company's mortgage loan portfolio is diversified by geographic region, loan size and scheduled maturity. As of June 30, 2018, the three states with the largest concentrations of the Company's commercial mortgage loans were California, Texas and Washington representing 26.7%, 11.5%, and 6.5%, respectively, of total outstanding principal. Of the loans in California, 42.0% related to properties located in the Los Angeles area.

All outstanding mortgage loans as of the Merger (referred to as PGAAP loans) were measured at fair value as of February 1, 2016, which resulted in the establishment of a net premium for the portfolio. This net premium is amortized into net investment income for each loan based on its expected maturity, using the effective interest rate method. As of June 30, 2018 and December 31, 2017, the unamortized premium balance was \$153.4 and \$177.1, respectively.

### **Allowance for Loan Losses**

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

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

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

The adjustment to fair value of the PGAAP loans on February 1, 2016 incorporated expectations for credit losses at that time, and the allowance was set to zero. The Company separately monitors these loans for deterioration in credit quality or other indicators that a loss has incurred. Any allowance related to the PGAAP loans reflects losses incurred subsequent to the Merger.



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

	As of June 30, 2018		As of December 31, 2017	
	Balance	%	Balance	%
Lower risk .....	\$ 1,681.8	68.5%	\$ 1,486.1	69.8%
Medium risk .....	507.8	20.7	486.3	22.8
Higher risk .....	265.7	10.8	157.6	7.4
Subtotal, excluding certain PGAAP loans .....	2,455.3	100.0	2,130.0	100.0
Lower risk .....	2,746.0	71.7	2,899.2	70.7
Medium risk .....	806.9	21.1	896.8	21.8
Higher risk .....	274.5	7.2	308.4	7.5
Subtotal, certain PGAAP loans (1) .....	3,827.4	100.0%	4,104.4	100.0%
Loans specifically evaluated for impairment (2) .....	—		4.8	
Other (3) .....	2.3		2.0	
Total .....	<u>\$ 6,285.0</u>		<u>\$ 6,241.2</u>	

- (1) Represents loans set to fair value on February 1, 2016 for which there are no indications of subsequent credit deterioration.  
(2) As of both June 30, 2018 and December 31, 2017, no reserve amounts were held for loans specifically evaluated for impairment.  
(3) Includes allowance for loan losses and deferred fees and costs.

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Allowance at beginning of period .....	\$ 1.5	\$ 0.7	\$ 1.0	\$ 0.7
Change in provision for specific loans .....	(0.5)	—	—	—
Change in provision for loans not specifically identified .....	0.5	—	0.5	—
Allowance at end of period .....	<u>\$ 1.5</u>	<u>\$ 0.7</u>	<u>\$ 1.5</u>	<u>\$ 0.7</u>

Non-performing loans, defined generally as those in default, close to being in default or more than 90 days past due, are placed on non-accrual status. As of both June 30, 2018 and December 31, 2017, no loans were considered non-performing.

## 6. Derivative Instruments

The following table sets forth the fair value of the Company's derivative instruments, including embedded derivatives that primarily related to the Company's FIA products. In the consolidated balance sheets, derivative contracts in a liability position are included in other liabilities, and embedded derivative liabilities are included in funds held under deposit contracts.

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	As of June 30, 2018			As of December 31, 2017		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as hedges:						
Cash flow hedges:						
Interest rate swaps .....	\$ 942.2	\$ 0.3	\$ 1.2	\$ 968.1	\$ 1.5	\$ 1.4
Foreign currency swaps .....	764.1	86.6	5.4	686.2	75.5	5.6
Total derivatives designated as hedges .....	<u>\$ 1,706.3</u>	<u>\$ 86.9</u>	<u>\$ 6.6</u>	<u>\$ 1,654.3</u>	<u>\$ 77.0</u>	<u>\$ 7.0</u>
Derivatives not designated as hedges:						
Index options .....	\$ 7,384.0	\$ 207.2	\$ 0.4	\$ 6,696.1	\$ 261.9	\$ 1.5
Total return swaps .....	500.0	0.6	—	—	—	—
Embedded derivatives .....	—	—	857.8	—	—	797.5
Other derivatives .....	44.4	0.1	0.7	22.2	0.2	—
Total derivatives not designated as hedges .....	<u>7,928.4</u>	<u>207.9</u>	<u>858.9</u>	<u>6,718.3</u>	<u>262.1</u>	<u>799.0</u>
Total derivatives .....	<u>\$ 9,634.7</u>	<u>\$ 294.8</u>	<u>\$ 865.5</u>	<u>\$ 8,372.6</u>	<u>\$ 339.1</u>	<u>\$ 806.0</u>

In March 2018, the Company entered into total return swaps to economically hedge market risk with relation to the majority of the Company's investments in marketable equity securities. In its total return swaps, the Company agreed with other parties to make payments based on the return of two market indexes, including both the income generated and any capital gains, in exchange for payments based on a set rate.

#### Collateral Arrangements and Offsetting of Financial Instruments

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

The Company does not offset recognized collateral amounts pledged or received against the fair value amounts recognized for derivative contracts. For certain centrally-cleared instruments, the Company is required to post initial margin, which is determined at contract inception, as well as variation margin, which is based on the fair value of the derivative contracts and generally determined on a daily basis. As of June 30, 2018 and December 31, 2017, the Company posted initial margin of \$21.0 and \$33.5, respectively, related to its centrally-cleared derivatives. These amounts are not reflected in collateral presented in the tables below.

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

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

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

	As of June 30, 2018			
	Fair Value Presented in the Balance Sheets	Gross Amounts not Offset in the Consolidated Balance Sheets		Net Amount
		Financial Instruments (1)	Cash Collateral Received	
Counterparty:				
Assets:				
A .....	\$ 31.8	\$ (4.2)	\$ (27.6)	\$ —
B .....	56.4	(1.9)	(54.5)	—
C .....	14.7	—	(14.7)	—
E .....	19.5	—	(19.5)	—
F .....	26.0	—	(26.0)	—
G .....	48.9	—	(48.9)	—
H .....	24.7	(0.7)	(24.0)	—
I .....	33.8	—	(33.8)	—
J .....	25.4	—	(25.1)	0.3
Other .....	13.6	(0.9)	(12.4)	0.3
Total derivative assets .....	<u>\$ 294.8</u>	<u>\$ (7.7)</u>	<u>\$ (286.5)</u>	<u>\$ 0.6</u>

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

	As of June 30, 2018			
	Fair Value Presented in the Balance Sheets	Gross Amounts not Offset in the Consolidated Balance Sheets		
		Financial Instruments (1)	Cash Collateral Posted	Net Amount
Counterparty:				
Liabilities:				
A .....	\$ 4.2	\$ (4.2)	\$ —	\$ —
B .....	1.9	(1.9)	—	—
H .....	0.7	(0.7)	—	—
Other .....	0.9	(0.9)	—	—
Total derivative liabilities (2) .....	\$ 7.7	\$ (7.7)	\$ —	\$ —

- (1) Represents amount of offsetting derivative assets that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative liabilities for presentation on the consolidated balance sheets.  
(2) Excludes embedded derivatives of **\$857.8** which have no counterparty.

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	As of December 31, 2017			
	Fair Value Presented in the Balance Sheets	Gross Amounts not Offset in the Consolidated Balance Sheets		
		Financial Instruments (1)	Cash Collateral Received	Net Amount
Counterparty:				
Assets:				
A .....	\$ 46.1	\$ (4.2)	\$ (41.9)	\$ —
B .....	63.6	(1.4)	(62.2)	—
C .....	13.2	—	(13.2)	—
E .....	21.3	—	(21.3)	—
F .....	31.6	(1.3)	(29.0)	1.3
G .....	30.2	—	(30.2)	—
H .....	51.9	(1.0)	(50.9)	—
I .....	34.6	—	(32.9)	1.7
J .....	42.7	—	(42.7)	—
Other .....	3.9	(0.6)	(3.3)	—
Total derivative assets .....	\$ 339.1	\$ (8.5)	\$ (327.6)	\$ 3.0

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

		As of December 31, 2017			
		Gross Amounts not Offset in the Consolidated Balance Sheets			
		Fair Value Presented in the Balance Sheets	Financial Instruments (1)	Cash Collateral Posted	Net Amount
Counterparty:					
Liabilities:					
A .....	\$	4.2	\$ (4.2)	\$ —	\$ —
B .....		1.4	(1.4)	—	—
F .....		1.3	(1.3)	—	—
Other .....		1.6	(1.6)	—	—
Total derivative liabilities (2) .....	\$	8.5	\$ (8.5)	\$ —	\$ —

- (1) Represents amount of offsetting derivative assets that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative liabilities for presentation on the consolidated balance sheets.
- (2) Excludes embedded derivatives of \$797.5 which have no counterparty.

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**Derivatives Designated as Hedges**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Interest rate swaps .....	\$ (7.9)	\$ 6.0	\$ (24.6)	\$ 5.1
Foreign currency swaps .....	43.3	(20.4)	14.2	(27.7)
Total .....	\$ 35.4	\$ (14.4)	\$ (10.4)	\$ (22.6)

See Note 10 for amounts reclassified out of AOCI into net income. The Company expects to reclassify net gains of \$2.6 from AOCI into net income in the next 12 months. Actual amounts may vary from this estimate as a result of market conditions.

As of June 30, 2018, the maximum term over which the Company is hedging its exposure to the variability in future cash flows is approximately 22 years. For the three months ended June 30, 2018, a net realized gain of \$1.1 was recognized related to hedge ineffectiveness, while for the six months ended June 30, 2018, a net realized loss of \$0.1 was recognized. For the three and six months ended June 30, 2017, net realized losses of \$3.2 and \$3.8 were recognized related to hedge ineffectiveness.

**Derivatives Not Designated as Hedges**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Embedded derivatives .....	\$ (18.7)	\$ (32.0)	\$ 14.6	\$ (65.1)
Index options .....	22.2	26.0	(0.8)	65.4
Total return swaps .....	(12.8)	—	(19.5)	(4.3)
Other derivatives .....	3.3	0.3	—	1.7
Total .....	\$ (6.0)	\$ (5.7)	\$ (5.7)	\$ (2.3)

**7. Fair Value of Financial Instruments**

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

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

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

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As of June 30, 2018					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Measured at fair value on a recurring basis:</b>					
<i>Financial assets:</i>					
Fixed maturities, available-for-sale:					
U.S. government and agencies .....	\$ 297.3	\$ 297.3	\$ —	\$ 297.3	\$ —
State and political subdivisions .....	746.9	746.9	—	746.9	—
Corporate securities .....	24,062.5	24,062.5	—	23,739.5	323.0
Residential mortgage-backed securities .....	2,443.9	2,443.9	—	2,443.9	—
Commercial mortgage-backed securities .....	755.6	755.6	—	728.7	26.9
Collateralized loan obligations .....	1,105.5	1,105.5	—	1,056.2	49.3
Other debt obligations .....	858.6	858.6	—	818.8	39.8
Total fixed maturities, available-for-sale .....	30,270.3	30,270.3	—	29,831.3	439.0
Marketable equity securities .....	708.6	708.6	676.6	25.8	6.2
Derivatives:					
Index options .....	207.2	207.2	—	183.6	23.6
Foreign currency swaps .....	86.6	86.6	—	86.6	—
Other .....	1.0	1.0	—	1.0	—
Total derivatives .....	294.8	294.8	—	271.2	23.6
Total investments carried at fair value .....	31,273.7	31,273.7	676.6	30,128.3	468.8
Separate account assets .....	999.4	999.4	999.4	—	—
Total assets at fair value (1) .....	\$ 32,273.1	\$ 32,273.1	\$ 1,676.0	\$ 30,128.3	\$ 468.8
<i>Financial liabilities:</i>					
Embedded derivatives .....	\$ 857.8	\$ 857.8	\$ —	\$ —	\$ 857.8

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

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	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Measured at fair value on a recurring basis:</b>					
<i>Financial assets:</i>					
Fixed maturities, available-for-sale:					
U.S. government and agencies .....	\$ 441.5	\$ 441.5	\$ —	\$ 441.5	\$ —
State and political subdivisions .....	792.4	792.4	—	792.4	—
Corporate securities .....	24,069.7	24,069.7	—	23,868.9	200.8
Residential mortgage-backed securities .....	2,491.7	2,491.7	—	2,491.7	—
Commercial mortgage-backed securities .....	795.7	795.7	—	795.6	0.1
Collateralized loan obligations .....	1,146.6	1,146.6	—	1,146.6	—
Other debt obligations .....	735.8	735.8	—	694.3	41.5
Total fixed maturities, available-for-sale .....	30,473.4	30,473.4	—	30,231.0	242.4
Marketable equity securities .....	755.7	755.7	722.6	26.8	6.3
Derivatives:					
Index options .....	261.9	261.9	—	222.4	39.5
Foreign currency swaps .....	75.5	75.5	—	75.5	—
Other .....	1.7	1.7	0.2	1.5	—
Total derivatives .....	339.1	339.1	0.2	299.4	39.5
Total investments carried at fair value .....	31,568.2	31,568.2	722.8	30,557.2	288.2
Separate account assets .....	978.1	978.1	978.1	—	—
Total assets at fair value (1) .....	\$ 32,546.3	\$ 32,546.3	\$ 1,700.9	\$ 30,557.2	\$ 288.2
<i>Financial liabilities:</i>					
Embedded derivatives .....	\$ 797.5	\$ 797.5	\$ —	\$ —	\$ 797.5

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

## Financial Instruments Measured at Fair Value on a Recurring Basis

### Fixed Maturities

The vast majority of the Company's fixed maturities have been classified as Level 2 measurements. To make this assessment, the Company determines whether the market for a security is active and if significant pricing inputs are observable. The Company predominantly utilizes third-party independent pricing services to assist management in determining the fair value of its fixed maturity securities. As of June 30, 2018 and December 31, 2017, pricing services provided prices for 94.1% and 94.4%, respectively, of the Company's fixed maturities.

As of June 30, 2018, the Company had \$1,539.3, or 5.1%, of its fixed maturities invested in private placement securities. These securities were generally valued using a composite of observed comparable public securities as well as reference yield curves. The yield curves are determined based on industry, credit quality, seniority rank in the capital structure, and residual spreads determined by the Company's independent pricing service for each security. The residual spreads are considered unobservable inputs and classified as a Level 3 measurement when they are significant to the valuation result. When only observable inputs are significant to the valuation result, they are classified as Level 2 measurements. The use of only significant observable inputs in determining the fair value of the Company's investments in private placement securities resulted in the classification of \$1,234.0, or 80.2%, as Level 2 measurements as of June 30, 2018. As of December 31, 2017, the Company had \$1,509.0, or 5.0%, of its fixed maturities invested in private placement securities, of which \$1,325.9, or 87.9%, were classified as Level 2 measurements.

### Corporate Securities

The majority of corporate securities classified as Level 2 measurements are priced by independent pricing services utilizing evaluated pricing models. Because many corporate securities do not trade on a daily basis, evaluated pricing

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models apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare valuations. The significant inputs for security evaluations include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and other reference data, including market research publications.

***Residential Mortgage-backed Securities***

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

**Marketable Equity Securities**

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

**Investments in Limited Partnerships**

Investments in limited partnerships recorded at fair value relate to the Company's alternative investments, primarily private equity and hedge funds. As of June 30, 2018 and December 31, 2017, the fair value of these investments was \$52.8 and \$52.5, respectively. The Company utilizes the fair value option for these investments, regardless of ownership percentage, to standardize the related accounting and reporting. The fair value is determined using the practical expedient based on the Company's proportionate interest in the underlying partnership's or fund's net asset values (NAV).

**Index Options**

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

**Foreign Currency Swaps**

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

**Separate Accounts**

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

**Embedded Derivatives**

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



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estimates utilize significant unobservable inputs, the Company classifies the valuation of embedded derivatives as a Level 3 measurement.

**Rollforward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)**

The following tables present additional information about financial instruments measured at fair value on a recurring basis and for which the Company has utilized significant unobservable inputs (Level 3) to determine fair value for the three and six months ended June 30, 2018:

							Unrealized Gains (Losses) Included in:			
	Balance as of April 1, 2018	Purchases and Issues(1)	Sales and Settlements(1)	Transfers In and/or (Out) of Level 3(2)	Other(3)	Net Income(4)	Other Comprehensive Income (5)	Realized Gains (Losses)(4)	Balance as of June 30, 2018	
Financial Assets:										
Fixed maturities, available-for-sale:										
Corporate securities .....	\$ 227.1	\$ 19.1	\$ —	\$ 84.8	\$ (1.0)	\$ —	\$ (7.0)	\$ —	\$ 323.0	
Commercial mortgage-backed securities .....	—	26.9	—	—	—	—	—	—	26.9	
Collateralized loan obligations .....	83.5	49.3	—	(83.5)	—	—	—	—	49.3	
Other debt obligations .....	41.5	—	—	—	0.1	—	(1.8)	—	39.8	
Total fixed maturities, available-for-sale.....	352.1	95.3	—	1.3	(0.9)	—	(8.8)	—	439.0	
Marketable equity securities .....	6.2	—	—	—	—	—	—	—	6.2	
Derivatives:										
Index options .....	26.9	10.7	—	—	(8.6)	(12.2)	—	6.8	23.6	
Total Level 3 assets .....	\$ 385.2	\$ 106.0	\$ —	\$ 1.3	\$ (9.5)	\$ (12.2)	\$ (8.8)	\$ 6.8	\$ 468.8	
Financial Liabilities:										
Embedded derivatives .....	\$ 800.2	\$ 42.6	\$ (3.7)	\$ —	\$ —	\$ 18.7	\$ —	\$ —	\$ 857.8	

							Unrealized Gains (Losses) Included in:			
	Balance as of January 1, 2018	Purchases and Issues(1)	Sales and Settlements(1)	Transfers In and/or (Out) of Level 3(2)	Other(3)	Net Income(4)	Other Comprehensive Income (5)	Realized Gains (Losses)(4)	Balance as of June 30, 2018	
Financial Assets:										
Fixed maturities, available-for-sale:										
Corporate securities .....	\$ 200.8	\$ 50.8	\$ —	\$ 85.4	\$ (2.3)	\$ —	\$ (11.7)	\$ —	\$ 323.0	
Commercial mortgage-backed securities .....	0.1	26.9	—	—	(0.1)	—	—	—	26.9	
Collateralized loan obligations .....	—	49.3	—	—	—	—	—	—	49.3	
Other debt obligations .....	41.5	—	—	—	0.4	—	(2.1)	—	39.8	
Total fixed maturities, available-for-sale.....	242.4	127.0	—	85.4	(2.0)	—	(13.8)	—	439.0	
Marketable equity securities .....	6.3	—	—	—	—	(0.1)	—	—	6.2	
Derivatives:										
Index options .....	39.5	20.5	—	—	(22.1)	(39.1)	—	24.8	23.6	
Total Level 3 assets .....	\$ 288.2	\$ 147.5	\$ —	\$ 85.4	\$ (24.1)	\$ (39.2)	\$ (13.8)	\$ 24.8	\$ 468.8	
Financial Liabilities:										
Embedded derivatives .....	\$ 797.5	\$ 81.2	\$ (6.3)	\$ —	\$ —	\$ (14.6)	\$ —	\$ —	\$ 857.8	

- (1) Issues and settlements are related to the Company's embedded derivative liabilities.
- (2) Transfers into Level 3 are generally the result of observable market information on a security no longer being available or utilized by pricing vendors. Transfers into and/or out of Level 3 are reported at the value as of the beginning of the period in which the transfer occurs. Gross transfers into Level 3 were **\$86.3** and **\$85.4** for the three and six months ended June 30, 2018, respectively. Gross transfers out of Level 3 were **\$85.0** and **\$0.0** for the three and six months ended June 30, 2018, respectively.
- (3) Other includes transactions such as pay downs, calls, amortization, and redemptions.
- (4) Amounts are included in net realized gains (losses) on the consolidated statements of income (loss). Amounts shown for financial liabilities are (gains) losses in net income.
- (5) Amounts are generally included in changes in unrealized gains (losses) on available-for-sale securities on the consolidated statements of comprehensive income.

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The following tables present additional information about financial instruments measured at fair value on a recurring basis and for which the Company has utilized significant unobservable inputs (Level 3) to determine fair value for the three and six months ended June 30, 2017:

							Unrealized Gains (Losses) Included in:			
	Balance as of April 1, 2017	Purchases and Issues(1)	Sales and Settlements(1)	Transfers In and/or (Out) of Level 3(2)	Other(3)	Net Income(4)	Other Comprehensive Income (5)	Realized Gains (Losses)(4)	Balance as of June 30, 2017	
Financial Assets:										
Fixed maturities, available-for-sale:										
Corporate securities .....	\$ 73.7	\$ 8.5	\$ —	\$ (1.0)	\$ (0.8)	\$ —	\$ (0.3)	\$ —	\$ 80.1	
Commercial mortgage-backed securities .....	0.8	—	—	—	(0.1)	—	—	—	0.7	
Other debt obligations .....	36.3	—	—	—	0.2	—	1.3	—	37.8	
Total fixed maturities, available-for-sale .....	110.8	8.5	—	(1.0)	(0.7)	—	1.0	—	118.6	
Marketable equity securities .....	6.0	—	—	—	—	—	—	—	6.0	
Derivatives:										
Index options .....	9.8	5.2	—	—	(0.8)	2.1	—	(1.7)	14.6	
Other .....	0.1	0.2	—	—	(0.3)	—	—	0.1	0.1	
Total derivatives .....	9.9	5.4	—	—	(1.1)	2.1	—	(1.6)	14.7	
Total Level 3 assets .....	\$ 126.7	\$ 13.9	\$ —	\$ (1.0)	\$ (1.8)	\$ 2.1	\$ 1.0	\$ (1.6)	\$ 139.3	
Financial Liabilities:										
Embedded derivatives .....	\$ 621.9	\$ 44.6	\$ (2.4)	\$ —	\$ —	\$ 32.0	\$ —	\$ —	\$ 696.1	

							Unrealized Gains (Losses) Included in:			
	Balance as of January 1, 2017	Purchases and Issues(1)	Sales and Settlements(1)	Transfers In and/or (Out) of Level 3(2)	Other(3)	Net Income(4)	Other Comprehensive Income (5)	Realized Gains (Losses)(4)	Balance as of June 30, 2017	
Financial Assets:										
Fixed maturities, available-for-sale:										
Corporate securities .....	\$ 57.0	\$ 21.6	\$ —	\$ —	\$ (1.0)	\$ —	\$ 2.5	\$ —	\$ 80.1	
Commercial mortgage-backed securities .....	0.9	—	—	—	(0.2)	—	—	—	0.7	
Other debt obligations .....	7.6	—	—	28.7	0.4	—	1.1	—	37.8	
Total fixed maturities, available-for-sale .....	65.5	21.6	—	28.7	(0.8)	—	3.6	—	118.6	
Marketable equity securities .....	5.9	—	—	—	—	—	0.1	—	6.0	
Derivatives:										
Index options .....	7.1	9.9	—	—	(2.8)	3.0	—	(2.6)	14.6	
Other .....	—	0.7	—	—	(0.3)	(0.1)	—	(0.2)	0.1	
Total derivatives .....	7.1	10.6	—	—	(3.1)	2.9	—	(2.8)	14.7	
Total Level 3 assets .....	\$ 78.5	\$ 32.2	\$ —	\$ 28.7	\$ (3.9)	\$ 2.9	\$ 3.7	\$ (2.8)	\$ 139.3	
Financial Liabilities:										
Embedded derivatives .....	\$ 532.4	\$ 102.6	\$ (4.0)	\$ —	\$ —	\$ 65.1	\$ —	\$ —	\$ 696.1	

- (1) Issues and settlements are related to the Company's embedded derivative liabilities.
- (2) Transfers into and/or out of Level 3 are reported at the value as of the beginning of the period in which the transfer occurs. Gross transfers into Level 3 were \$0.0 and \$28.7 for the three and six months ended June 30, 2017, respectively. Gross transfers out of Level 3 were \$1.0 and \$0.0 for the three and six months ended June 30, 2017, respectively.
- (3) Other includes transactions such as pay downs, calls, amortization and redemptions.
- (4) Amounts are included in net realized gains (losses) on the consolidated statements of income (loss). Amounts shown for financial liabilities are (gains) losses in net income.
- (5) Amounts are generally included in changes in unrealized gains (losses) on available-for-sale securities on the consolidated statements of comprehensive income.

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Unamortized balance at beginning of period .....	\$ 480.4	\$ 265.9	\$ 407.2	\$ 202.8
Deferral of acquisition costs .....	65.7	63.6	134.0	134.4
Adjustments for realized (gains) losses (1) .....	(3.0)	0.8	(6.0)	(0.9)
Amortization — excluding unlocking .....	(9.9)	(7.5)	(1.6)	(13.1)
Amortization — impact of unlocking (1) .....	(0.5)	(0.8)	(0.9)	(1.2)
Unamortized balance at end of period .....	532.7	322.0	532.7	322.0
Accumulated effect of net unrealized (gains) losses .....	32.8	(21.7)	32.8	(21.7)
Balance at end of period .....	\$ 565.5	\$ 300.3	\$ 565.5	\$ 300.3

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Unamortized balance at beginning of period .....	\$ 345.0	\$ 399.7	\$ 358.1	\$ 413.4
Adjustments related to realized (gains) losses (1) .....	(0.1)	0.4	(1.6)	(0.2)
Amortization — excluding unlocking .....	(11.2)	(10.8)	(21.6)	(22.3)
Amortization — impact of unlocking (1) .....	(0.9)	(2.5)	(2.1)	(4.1)
Unamortized balance at end of period .....	332.8	386.8	332.8	386.8
Accumulated effect of net unrealized (gains) losses .....	62.5	(70.8)	62.5	(70.8)
Balance at end of period .....	\$ 395.3	\$ 316.0	\$ 395.3	\$ 316.0

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

**9. Liability for Unpaid Claims and Claim Adjustment Expenses**

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

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<b>Medical Stop-Loss</b>	<b>For the Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
Balance, beginning of period .....	\$ 153.1	\$ 114.6
Less: reinsurance recoverables .....	12.4	7.7
Net balance, beginning of period .....	140.7	106.9
Incurred related to insured events of:		
The current year .....	249.8	239.2
Prior years .....	(11.7)	4.8
Total incurred .....	238.1	244.0
Paid related to insured events of:		
The current year .....	93.6	87.4
Prior years .....	118.1	100.2
Total paid .....	211.7	187.6
Net balance, end of period .....	167.1	163.3
Add: reinsurance recoverables .....	7.9	11.2
Balance, end of period .....	\$ 175.0	\$ 174.5

For the six months ended June 30, 2018, the change in prior year incurred claims for medical stop-loss was primarily due to favorable claims experience on policies issued in January 2017. For the six months ended June 30, 2017, the change in prior year incurred claims was primarily due to unfavorable claims experience on policies issued in January 2016.

<b>Group Life and DI</b>	<b>For the Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
Balance, beginning of period .....	\$ 184.2	\$ 149.9
Less: reinsurance recoverables .....	41.9	48.4
Net balance, beginning of period .....	142.3	101.5
Incurred related to insured events of:		
The current year .....	103.5	71.1
Prior years .....	—	3.8
Total incurred .....	103.5	74.9
Paid related to insured events of:		
The current year .....	42.4	28.4
Prior years .....	31.6	22.8
Total paid .....	74.0	51.2
Net balance, end of period .....	171.8	125.2
Add: reinsurance recoverables .....	41.1	42.1
Balance, end of period .....	\$ 212.9	\$ 167.3

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Other	For the Six Months Ended June 30,	
	2018	2017
Balance, beginning of period	\$ 29.6	\$ 33.0
Less: reinsurance recoverables	4.8	6.7
Net balance, beginning of period	24.8	26.3
Incurred related to insured events of:		
The current year	61.7	53.4
Prior years	1.4	(1.5)
Total incurred	63.1	51.9
Paid related to insured events of:		
The current year	37.6	33.4
Prior years	18.8	17.3
Total paid	56.4	50.7
Net balance, end of period	31.5	27.5
Add: reinsurance recoverables	25.6	5.2
Balance, end of period	\$ 57.1	\$ 32.7

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

Year of Insured Event	As of June 30, 2018	
	Medical Stop-Loss	Group Life and DI
<b>IBNR Reserves:</b>		
2017	\$ 9.6	\$ 7.3
2018	137.4	46.2
Total	\$ 147.0	\$ 53.5

## 10. Stockholder's Equity

The following tables summarize the components of AOCI and the adjustments to OCI for amounts reclassified from AOCI into net income for the three and six months ended June 30, 2018:

	Net Unrealized Gains (Losses) on Available-for- sale Securities	OTTI on Fixed Maturities not related to Credit Losses (2)	Adjustment for DAC and VOBA	Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance as of April 1, 2018	\$ (17.7)	\$ (0.3)	\$ 43.7	\$ (60.3)	\$ (34.6)
Other comprehensive income (loss) before reclassifications, net of taxes (1)	(295.7)	—	40.2	28.0	(227.5)
Reclassifications recorded in:					
Net investment income:					
Interest rate swaps	—	—	—	1.4	1.4
Foreign currency swaps	—	—	—	(2.3)	(2.3)
Net realized (gains) losses	1.5	—	3.0	0.2	4.7
Total provision (benefit) for income taxes	(0.3)	—	(0.6)	0.1	(0.8)
Total reclassifications from AOCI, net of taxes	1.2	—	2.4	(0.6)	3.0
Other comprehensive income (loss) after reclassifications	(294.5)	—	42.6	27.4	(224.5)
Balance as of June 30, 2018	\$ (312.2)	\$ (0.3)	\$ 86.3	\$ (32.9)	\$ (259.1)

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	Net Unrealized Gains (Losses) on Available-for- sale Securities	OTTI on Fixed Maturities not related to Credit Losses (2)	Adjustment for DAC and VOBA	Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2018	\$ 646.5	\$ (0.3)	\$ (63.6)	\$ (27.7)	\$ 554.9
Other comprehensive income (loss) before reclassifications, net of taxes (1)	(852.4)	—	144.3	(8.3)	(716.4)
Reclassifications recorded in:					
Net investment income:					
Interest rate swaps	—	—	—	1.7	1.7
Foreign currency swaps	—	—	—	(3.1)	(3.1)
Net realized (gains) losses	10.1	—	7.2	5.2	22.5
Total provision (benefit) for income taxes	(2.1)	—	(1.5)	(0.8)	(4.4)
Total reclassifications from AOCI, net of taxes	8.0	—	5.7	3.0	16.7
Other comprehensive income (loss) after reclassifications	(844.4)	—	150.0	(5.3)	(699.7)
Adoption of new accounting standard (3)	(114.3)	—	—	—	(114.3)
Balance as of June 30, 2018	\$ (312.2)	\$ (0.3)	\$ 86.4	\$ (33.0)	\$ (259.1)

- (1) Other comprehensive income (loss) before reclassifications is net of taxes of \$(78.6), \$0.0, \$10.7, \$7.4, and \$(60.5), respectively, for the three months ended June 30, 2018, and net of taxes of \$(226.6), \$0.0, \$38.4, \$(2.2), and \$(190.4), respectively, for the six months ended June 30, 2018. Tax effects in OCI are calculated based on the applicable enacted tax rate at the time gains (losses) are incurred.
- (2) Reclassification adjustments of OTTI on fixed maturities not related to credit losses are included in changes in unrealized gains and losses on available-for-sale securities within the consolidated statements of comprehensive income.
- (3) Accounting Standards Update No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities. Refer to Note 2 for further discussion.

The following tables summarize the components of AOCI and the adjustments to OCI for amounts reclassified from AOCI into net income for the three and six months ended June 30, 2017:

	Net Unrealized Gains (Losses) on Available-for- sale Securities	OTTI on Fixed Maturities not related to Credit Losses (2)	Adjustment for DAC and VOBA	Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance as of April 1, 2017	\$ 251.9	\$ (0.2)	\$ (33.2)	\$ 10.0	\$ 228.5
Other comprehensive income (loss) before reclassifications, net of taxes (1)	217.2	—	(32.8)	(9.3)	175.1
Reclassifications recorded in:					
Net investment income:					
Interest rate swaps	—	—	—	(1.5)	(1.5)
Foreign currency swaps	—	—	—	(2.1)	(2.1)
Net realized (gains) losses	(20.7)	—	(1.2)	8.7	(13.2)
Total provision (benefit) for income taxes	7.3	—	0.4	(1.8)	5.9
Total reclassifications from AOCI, net of taxes	(13.4)	—	(0.8)	3.3	(10.9)
Other comprehensive income (loss) after reclassifications	203.8	—	(33.6)	(6.0)	164.2
Balance as of June 30, 2017	\$ 455.7	\$ (0.2)	\$ (66.8)	\$ 4.0	\$ 392.7

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	Net Unrealized Gains (Losses) on Available-for- sale Securities	OTTI on Fixed Maturities not related to Credit Losses (2)	Adjustment for DAC and VOBA	Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2017 .....	\$ 140.0	\$ (0.2)	\$ (14.0)	\$ 17.7	\$ 143.5
Other comprehensive income (loss) before reclassifications, net of taxes (1) .....	337.0	—	(53.5)	(14.7)	268.8
Reclassifications recorded in:					
Net investment income:					
Interest rate swaps .....	—	—	—	(3.2)	(3.2)
Foreign currency swaps .....	—	—	—	(4.7)	(4.7)
Net realized (gains) losses .....	(32.8)	—	1.1	9.4	(22.3)
Total provision (benefit) for income taxes...	11.5	—	(0.4)	(0.5)	10.6
Total reclassifications from AOCI, net of taxes	(21.3)	—	0.7	1.0	(19.6)
Other comprehensive income (loss) after reclassifications .....	315.7	—	(52.8)	(13.7)	249.2
Balance as of June 30, 2017 .....	\$ 455.7	\$ (0.2)	\$ (66.8)	\$ 4.0	\$ 392.7

- (1) Other comprehensive income (loss) before reclassifications is net of taxes of \$117.0, \$0.0, \$(17.7), \$(5.1), and \$94.2, respectively, for the three months ended June 30, 2017, and net of taxes of \$181.5, \$0.0, \$(28.8), \$(7.9), and \$144.8, respectively, for the six months ended June 30, 2017. Tax effects in OCI are calculated based on the applicable enacted tax rate at the time gains (losses) are incurred.
- (2) Reclassification adjustments of OTTI on fixed maturities not related to credit losses are included in changes in unrealized gains and losses on available-for-sale securities within the consolidated statements of comprehensive income.

## 11. Commitments and Contingencies

### Litigation

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

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

### Other Commitments

In November 2017, the Company entered into a \$450.0 loan agreement with its parent company, Sumitomo Life, which was funded in January 2018. The loan bears interest at a fixed annual rate of 2.68%, payable quarterly, and is scheduled to mature in January 2021. The Company used the proceeds of the loan to settle its \$150.0 CENTs and \$300.0 term loans.

As of June 30, 2018, the Company had committed to purchase \$61.3 of unsettled private placement securities.

In August 2018, Symetra Life Insurance Company (SLIC), a subsidiary of the Company, became a member of the Federal Home Loan Bank of Des Moines (FHLB DM). Membership allows SLIC access to the FHLB DM's funding services, which provide an alternative liquidity source, including the ability to obtain loans and issue funding agreements that are collateralized by qualifying assets. SLIC's maximum borrowing capacity varies and is based on a percentage of total assets, subject to the availability of eligible collateral and SLIC's internal authorization limits. SLIC has not taken an advance from the FHLB DM since becoming a member.

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**12. Segment Information**

The Company offers a broad range of products and services that include retirement, employment based benefits, and life insurance products. These operations are managed separately as three divisions consisting of four business segments based on product groupings, and a fifth reportable segment consisting primarily of unallocated corporate items and surplus investment income. The five segments are Benefits, Deferred Annuities, Income Annuities, Individual Life and Other.

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

- investment sales or disposals,
- investment impairments,
- changes in the fair value of mark-to-market investments and derivative investments (except for certain index options discussed below), and
- changes in the fair value of embedded derivatives related to the Company's FIA product.

Prior to 2018, adjusted pre-tax income excluded net realized gains (losses) from prepayment activity and pass through activity and write-downs associated with tax credit investments. Effective in the first quarter of 2018, adjusted pre-tax income includes these net realized gains (losses). Prior period results have been adjusted to reflect this change.

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

The following tables present selected financial information by segment and reconcile segment adjusted pre-tax income (loss) to amounts reported in the consolidated statements of income (loss):

For the Three Months Ended June 30, 2018						
	Benefits	Deferred Annuities	Income Annuities	Individual Life	Other	Total
<b>Adjusted revenues:</b>						
Premiums .....	\$ 245.9	\$ —	\$ —	\$ 8.0	\$ —	\$ 253.9
Net investment income .....	7.4	185.5	75.4	65.4	6.9	340.6
Policy fees, contract charges, and other .....	3.8	7.9	0.2	69.6	0.1	81.6
Certain realized gains (losses) .....	(0.2)	(0.9)	(0.5)	(0.6)	(11.2)	(13.4)
Total adjusted revenues .....	256.9	192.5	75.1	142.4	(4.2)	662.7
<b>Segment benefits and expenses:</b>						
Policyholder benefits and claims .....	181.4	3.2	—	30.9	—	215.5
Interest credited .....	—	113.1	70.6	71.0	(0.3)	254.4
Other underwriting and operating expenses .....	61.8	30.4	4.3	28.0	1.3	125.8
Interest expense .....	—	—	—	0.3	5.6	5.9
Amortization of DAC and VOBA .....	1.4	17.6	0.8	2.7	—	22.5
Total segment benefits and expenses .....	244.6	164.3	75.7	132.9	6.6	624.1
Segment adjusted pre-tax income (loss) .....	\$ 12.3	\$ 28.2	\$ (0.6)	\$ 9.5	\$ (10.8)	\$ 38.6
Total adjusted revenues .....	\$ 256.9	\$ 192.5	\$ 75.1	\$ 142.4	\$ (4.2)	\$ 662.7
Add: Excluded realized gains (losses) .....	(0.1)	2.1	6.0	(0.3)	0.2	7.9
Total revenues .....	256.8	194.6	81.1	142.1	(4.0)	670.6
Total segment benefits and expenses .....	244.6	164.3	75.7	132.9	6.6	624.1
Add: Amortization of intangible assets .....	14.0	6.5	0.9	0.4	—	21.8
Total benefits and expenses .....	258.6	170.8	76.6	133.3	6.6	645.9
Income (loss) from operations before income taxes .....	\$ (1.8)	\$ 23.8	\$ 4.5	\$ 8.8	\$ (10.6)	\$ 24.7



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	Benefits	Deferred Annuities	Income Annuities	Individual Life	Other	Total
<b>Adjusted revenues:</b>						
Premiums .....	\$ 217.3	\$ —	\$ —	\$ 8.3	\$ —	\$ 225.6
Net investment income .....	6.2	178.1	76.5	61.9	6.7	329.4
Policy fees, contract charges, and other .....	4.6	6.6	0.2	59.6	0.3	71.3
Certain realized gains (losses) .....	—	0.6	(0.4)	(2.5)	(8.5)	(10.8)
Total adjusted revenues .....	228.1	185.3	76.3	127.3	(1.5)	615.5
<b>Segment benefits and expenses:</b>						
Policyholder benefits and claims .....	172.8	1.0	—	23.4	—	197.2
Interest credited .....	—	105.4	64.0	67.0	(0.4)	236.0
Other underwriting and operating expenses .....	55.0	28.6	4.3	24.1	1.0	113.0
Interest expense .....	—	—	—	0.1	7.3	7.4
Amortization of DAC and VOBA .....	0.6	17.2	0.4	3.4	—	21.6
Total segment benefits and expenses .....	228.4	152.2	68.7	118.0	7.9	575.2
Segment adjusted pre-tax income (loss) .....	\$ (0.3)	\$ 33.1	\$ 7.6	\$ 9.3	\$ (9.4)	\$ 40.3
Total adjusted revenues .....	\$ 228.1	\$ 185.3	\$ 76.3	\$ 127.3	\$ (1.5)	\$ 615.5
Add: Excluded realized gains (losses) .....	—	(9.4)	17.6	(0.1)	(0.6)	7.5
Total revenues .....	228.1	175.9	93.9	127.2	(2.1)	623.0
Total segment benefits and expenses .....	228.4	152.2	68.7	118.0	7.9	575.2
Add: Amortization of intangible assets .....	14.0	6.5	0.9	0.4	—	21.8
Total benefits and expenses .....	242.4	158.7	69.6	118.4	7.9	597.0
Income (loss) from operations before income taxes .....	\$ (14.3)	\$ 17.2	\$ 24.3	\$ 8.8	\$ (10.0)	\$ 26.0

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For the Six Months Ended June 30, 2018

	Benefits	Deferred Annuities	Income Annuities	Individual Life	Other	Total
<b>Adjusted revenues:</b>						
Premiums .....	\$ 491.1	\$ —	\$ —	\$ 15.7	\$ —	\$ 506.8
Net investment income .....	14.4	365.4	151.4	129.4	14.9	675.5
Policy fees, contract charges, and other .....	8.0	15.8	0.3	136.2	0.4	160.7
Certain realized gains (losses) .....	(0.2)	(2.2)	(2.1)	(1.5)	(23.7)	(29.7)
Total adjusted revenues .....	513.3	379.0	149.6	279.8	(8.4)	1,313.3
<b>Segment benefits and expenses:</b>						
Policyholder benefits and claims .....	353.6	6.2	—	79.6	—	439.4
Interest credited .....	—	221.9	140.9	141.7	(0.5)	504.0
Other underwriting and operating expenses .....	123.4	60.7	8.6	55.2	1.8	249.7
Interest expense .....	—	—	—	0.4	11.7	12.1
Amortization of DAC and VOBA .....	2.6	33.6	1.5	(11.5)	—	26.2
Total segment benefits and expenses .....	479.6	322.4	151.0	265.4	13.0	1,231.4
Segment adjusted pre-tax income (loss) .....	\$ 33.7	\$ 56.6	\$ (1.4)	\$ 14.4	\$ (21.4)	\$ 81.9
Total adjusted revenues .....	\$ 513.3	\$ 379.0	\$ 149.6	\$ 279.8	\$ (8.4)	\$ 1,313.3
Add: Excluded realized gains (losses) .....	(0.1)	1.3	(26.3)	(1.5)	(3.8)	(30.4)
Total revenues .....	513.2	380.3	123.3	278.3	(12.2)	1,282.9
Total segment benefits and expenses .....	479.6	322.4	151.0	265.4	13.0	1,231.4
Add: Amortization of intangible assets .....	28.0	13.0	1.7	0.8	—	43.5
Total benefits and expenses .....	507.6	335.4	152.7	266.2	13.0	1,274.9
Income (loss) from operations before income taxes .....	\$ 5.6	\$ 44.9	\$ (29.4)	\$ 12.1	\$ (25.2)	\$ 8.0

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	Benefits	Deferred Annuities	Income Annuities	Individual Life	Other	Total
<b>Adjusted revenues:</b>						
Premiums .....	\$ 425.0	\$ —	\$ —	\$ 16.7	\$ —	\$ 441.7
Net investment income .....	11.7	349.3	152.1	119.8	11.2	644.1
Policy fees, contract charges, and other .....	9.2	12.9	0.4	117.3	0.6	140.4
Certain realized gains (losses) .....	—	(4.0)	(1.3)	(3.1)	(16.9)	(25.3)
Total adjusted revenues .....	445.9	358.2	151.2	250.7	(5.1)	1,200.9
<b>Segment benefits and expenses:</b>						
Policyholder benefits and claims .....	330.0	2.4	—	45.5	—	377.9
Interest credited .....	—	206.9	135.3	136.1	(0.6)	477.7
Other underwriting and operating expenses .....	113.2	58.3	8.5	48.5	2.2	230.7
Interest expense .....	—	—	—	0.2	14.7	14.9
Amortization of DAC and VOBA .....	1.1	34.2	0.8	4.6	—	40.7
Total segment benefits and expenses .....	444.3	301.8	144.6	234.9	16.3	1,141.9
Segment adjusted pre-tax income (loss) .....	\$ 1.6	\$ 56.4	\$ 6.6	\$ 15.8	\$ (21.4)	\$ 59.0
Total adjusted revenues .....	\$ 445.9	\$ 358.2	\$ 151.2	\$ 250.7	\$ (5.1)	\$ 1,200.9
Add: Excluded realized gains (losses) .....	0.5	(6.1)	26.9	(0.6)	1.2	21.9
Total revenues .....	446.4	352.1	178.1	250.1	(3.9)	1,222.8
Total segment benefits and expenses .....	444.3	301.8	144.6	234.9	16.3	1,141.9
Add: Amortization of intangible assets .....	28.0	13.0	1.7	0.8	—	43.5
Total benefits and expenses .....	472.3	314.8	146.3	235.7	16.3	1,185.4
Income (loss) from operations before income taxes .....	\$ (25.9)	\$ 37.3	\$ 31.8	\$ 14.4	\$ (20.2)	\$ 37.4
<b>As of June 30, 2017</b>						
Total assets .....	\$ 1,488.1	\$ 23,346.2	\$ 7,486.7	\$ 7,630.3	\$ 2,032.7	\$ 41,984.0

As of June 30, 2018

	Benefits	Deferred Annuities	Income Annuities	Individual Life	Other	Total
Total investments .....	\$ 387.9	\$ 21,837.3	\$ 6,888.0	\$ 6,786.0	\$ 1,922.9	\$ 37,822.1
DAC and VOBA .....	10.1	583.8	19.5	347.4	—	960.8
Other intangible assets .....	699.6	472.2	47.9	11.9	—	1,231.6
Goodwill .....	308.0	198.8	50.2	6.0	—	563.0
Separate account assets .....	—	578.7	—	420.7	—	999.4
Total assets .....	1,516.8	24,429.4	7,068.7	7,924.9	2,002.5	42,942.3
Future policy benefits, losses, claims and loss expense (1) .	395.2	22,078.0	7,052.6	7,412.0	(19.1)	36,918.7
Other policyholders' funds .....	26.1	42.3	2.1	49.2	12.1	131.8
Notes payable .....	—	—	—	—	706.1	706.1

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	As of December 31, 2017					
	Benefits	Deferred Annuities	Income Annuities	Individual Life	Other	Total
Total investments .....	\$ 342.3	\$ 21,674.1	\$ 7,349.9	\$ 6,855.5	\$ 1,874.3	\$ 38,096.1
DAC and VOBA .....	7.7	422.0	16.3	250.2	—	696.2
Other intangible assets .....	727.5	485.2	49.6	12.8	—	1,275.1
Goodwill .....	308.0	198.8	50.2	6.0	—	563.0
Separate account assets .....	—	613.2	—	364.9	—	978.1
Total assets .....	1,500.1	23,971.2	7,517.1	7,836.0	2,041.2	42,865.6
Future policy benefits, losses, claims and loss expense (1) .	344.7	21,350.2	7,104.9	7,221.9	(19.5)	36,002.2
Other policyholders' funds .....	29.3	22.7	4.0	47.0	15.0	118.0
Notes payable .....	—	—	—	—	706.6	706.6

(1) Includes funds held under deposit contracts, future policy benefits, and policy and contract claims on the consolidated balance sheets.