# Symetra Financial Corporation

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

### For the Year Ended December 31, 2015

*All financial information in this document is unaudited*

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

**Forward-Looking Statements**

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

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

*The following discussion highlights significant factors influencing the results of operations and changes in financial position of Symetra Financial Corporation for the years ended December 31, 2015, 2014 and 2013.*

*This discussion should be read in conjunction with the December 31, 2015 Consolidated Financial Statements, available on the Company’s website at http://investors.symetra.com/ .*

*Discussions related to net income are presented in conformity with U.S. generally accepted accounting principles (GAAP). Management also considers certain non-GAAP financial measures to be useful to the readers in evaluating financial performance and condition. For a definition and further discussion of these non-GAAP measures, see – “Use of non-GAAP Financial Measures.”*

*All dollar amounts are in millions unless otherwise stated.*

## Overview

We are a financial services company in the life insurance industry providing employment-based benefits, annuities and life insurance through a national network of benefits consultants, financial institutions, broker-dealers and independent agents and advisers. Our operations date back to 1957 and many of our distribution relationships have been in place for decades.

On February 1, 2016, we became a wholly owned subsidiary of Sumitomo Life Insurance Company, a mutual company(sougo kaisha) organized under the laws of Japan (Sumitomo Life) in accordance with the terms of the Agreement and Plan of Merger, dated August 11, 2015 (the Merger). Each outstanding share of the Company’s common stock with a par value of $0.01 was converted into the right to receive $32.00 in cash, without interest (the Per Share Merger Consideration). The aggregate cash consideration paid in connection with the Merger for the outstanding shares of common stock was approximately $3.7 billion. Prior to February 1, 2016 and for the periods this report presents, the Company's stock was publicly traded on the New York Stock Exchange.

### *Our Operations*

We manage our business through three divisions composed of four business segments:

*Benefits Division*

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

*Retirement Division*

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

*Individual Life Division*

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

In addition, we have a fifth segment, referred to as the Other segment, which reflects our operations that are not directly related to the operating segments. This includes small, non-insurance businesses that are managed outside our divisions; investment income related to unallocated surplus, alternative investments and tax credit investments; unallocated corporate expenses; interest expense on debt; and inter-segment elimination entries.

## Results of Operations

The results of operations and selected operating metrics for our five segments (Benefits, Deferred Annuities, Income Annuities, Individual Life and Other) for the years ended December 31, 2015, 2014 and 2013 are discussed in their respective sections.

The following table summarizes pre-tax adjusted operating income, by segment:

| | For the Years Ended December 31, | | | Variance (%) | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 vs. 2014 | 2014 vs. 2013 |
| **Segment pre-tax adjusted operating income (loss):** | | | | | |
| Benefits | $ 74.0 | $ 89.9 | $ 64.2 | (17.7)% | 40.0 % |
| Deferred Annuities | 136.3 | 129.1 | 107.3 | 5.6 | 20.3 |
| Income Annuities | 20.5 | 15.9 | 32.3 | 28.9 | (50.8) |
| Individual Life | 36.3 | 45.7 | 55.3 | (20.6) | (17.4) |
| Other | (71.2) | (22.5) | (15.5) | * | * |
| Pre-tax adjusted operating income (1) | $ 195.9 | $ 258.1 | $ 243.6 | (24.1)% | 6.0 % |
| Add: Excluded realized gains (losses) | (95.5) | 41.8 | 30.5 | * | * |
| Income from operations before incomes taxes | $ 100.4 | $ 299.9 | $ 274.1 | (66.5)% | 9.4 % |
| Total provision (benefit) for income taxes | (46.4) | 45.5 | 53.4 | * | (14.8)% |
| Net income | $ 146.8 | $ 254.4 | $ 220.7 | (42.3)% | 15.3 % |
| Less: Excluded realized gains (losses) (net of taxes) | (62.1) | 27.2 | 19.8 | * | 37.4 % |
| Adjusted Operating Income (1) | $ 208.9 | $ 227.2 | $ 200.9 | (8.1)% | 13.1 % |

* Represents percentage variances that are not meaningful or are explained through the discussion of other variances.

(1) Represents a non-GAAP measure. For a definition of this measure, see — "Use of non-GAAP Financial Measures."

The following table sets forth detail of our other underwriting and operating expenses allocated among the segments:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Salaries, incentive compensation, and other employee costs | $ 216.1 | $ 197.2 | $ 186.3 |
| Rent and occupancy costs | 17.0 | 18.5 | 14.9 |
| Professional service and software licensing | 65.5 | 59.3 | 50.6 |
| Other | 36.5 | 26.2 | 30.2 |
| Total operating expenses | 335.1 | 301.2 | 282.0 |
| Commissions and premium-based taxes and fees | 318.6 | 237.2 | 205.4 |
| Deferred acquisition cost deferrals | (247.7) | (171.4) | (122.3) |
| Other underwriting and operating expenses | $ 406.0 | $ 367.0 | $ 365.1 |

### *Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014*

Net income decreased $107.6 as a result of pre-tax net realized losses in the current year compared with gains in the prior year as well as a $62.2 decrease in pre-tax adjusted operating income. This decline was lessened by an income tax benefit of $46.4 versus a provision of $45.5 a year ago. The benefit from income taxes was a result of lower pre-tax income and increased tax credits on our tax credit investments. Most net realized gains (losses) are excluded from pre-tax adjusted operating income. Refer to — "Investments" for further discussion of realized gains (losses).

Pre-tax adjusted operating income decreased $62.2 from the year ended December 31, 2014. Contributions from our Deferred Annuities and Income Annuities segments improved, while we experienced declines in our Benefits, Individual Life, and Other segments. Segment results, discussed further for each segment below, include net prepayment-related income of $48.9, which consisted of $61.0 of net investment income from investment prepayments (primarily bond make-whole payments in our Deferred Annuities segment), less $12.1 of related deferred acquisition cost (DAC) and deferred sales inducement (DSI) amortization. This was higher than last year, as net prepayment-related income contributed $34.9 to pre-tax adjusted operating income for the year ended December 31, 2014.

Our other underwriting and operating expenses increased $39.0. This reflects higher commissions and sales-related expenses in our Deferred Annuities and Individual Life segments resulting from stronger sales, and expenses to support growth in all divisions, including investments in new distribution, customer service teams to support larger blocks of in-force business, and information technology initiatives. In addition, we incurred $6.0 of expenses related to the Merger for the year ended December 31, 2015.

We recorded an income tax benefit of $46.4 for the year ended December 31, 2015 compared with a $45.5 provision for the same period in 2014, resulting in a $91.9 year-over-year variance. This change reflects lower pretax income and the impact of increased tax credit investments.

***Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***

Net income increased $33.7 as a result of higher pre-tax adjusted operating income, discussed further below, an increase in net realized gains, and a lower provision for income taxes. Most net realized gains (losses) are excluded from pre-tax adjusted operating income. Refer to — "Investments" for further discussion of realized gains (losses).

Pre-tax adjusted operating income increased $14.5 from the year ended December 31, 2013. Contributions from our Benefits and Deferred Annuities segments improved significantly, while we experienced declines in our Income Annuities, Individual Life, and Other segments. Segment results, discussed further for each segment below, include net prepayment-related income of $34.9, which consisted of $55.1 of net investment income from investment prepayments (primarily bond make-whole payments in our Deferred Annuities segment), less $20.2 of related DAC and DSI amortization. This was flat with the previous year, as net prepayment-related income contributed $34.9 to pre-tax adjusted operating income for the year ended December 31, 2013.

Our other underwriting and operating expenses increased $1.9. This reflects higher expenses to support business growth including an increased number of employees, a $4.3 charge primarily for prior years' state sales and use tax expense, increases in rent and occupancy costs, and expenses associated with our national brand campaign. Partially offsetting these were expense savings of $18.3 related to a broker-dealer subsidiary sold in the fourth quarter of 2013.

The provision for income taxes decreased by $7.9 from 2013. The effective tax rate declined to 15.2% for the year ended December 31, 2014 from 19.5% for the same period in 2013 due primarily to increased benefits from our tax credit investments.

**Benefits**

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

| | For the Years Ended December 31, | | | Variance (%) | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 vs. 2014 | 2014 vs. 2013 |
| Operating revenues: | | | | | |
| Premiums | $ 683.2 | $ 595.3 | $ 591.4 | 14.8 % | 0.7% |
| Net investment income | 23.4 | 21.0 | 20.9 | 11.4 | 0.5 |
| Policy fees, contract charges, and other | 17.7 | 15.6 | 14.1 | 13.5 | 10.6 |
| Total operating revenues | 724.3 | 631.9 | 626.4 | 14.6 | 0.9 |
| Benefits and expenses: | | | | | |
| Policyholder benefits and claims | 456.9 | 365.9 | 393.4 | 24.9 | (7.0) |
| Other underwriting and operating expenses | 191.6 | 175.4 | 168.8 | 9.2 | 3.9 |
| Amortization of deferred policy acquisition costs | 1.8 | 0.7 | — | * | * |
| Total benefits and expenses | 650.3 | 542.0 | 562.2 | 20.0 | (3.6) |
| Segment pre-tax adjusted operating income | $ 74.0 | $ 89.9 | $ 64.2 | (17.7)% | 40.0% |

* Represents percentage variances that are not meaningful or are explained through the discussion of other variances.

The following table sets forth selected historical operating metrics relating to our Benefits segment for the years ended:

| | December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Loss ratio (1) | 66.9% | 61.5% | 66.5% |
| Expense ratio (2) | 27.2 | 29.3 | 28.3 |
| Combined ratio (3) | 94.1 | 90.8 | 94.8 |
| Total sales (4) | $ 209.1 | $ 166.7 | $ 130.9 |

(1) Loss ratio represents policyholder benefits and claims incurred divided by premiums earned.
(2) Expense ratio is equal to other underwriting and operating expenses of our insurance operations divided by premiums earned.
(3) Combined ratio is equal to the sum of the loss ratio and the expense ratio.
(4) Total sales represents annualized first-year premiums net of first year policy lapses.

***Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014***

*Summary of Results*

Segment pre-tax adjusted operating income decreased $15.9. Growth in our medical stop-loss and group life and DI businesses was more than offset by an increase in our loss ratio. The loss ratio increased to 66.9% for the year ended December 31, 2015, compared to 61.5% for the same period in 2014. The very favorable 2014 loss ratio reflected better-than-expected completion of medical stop-loss business written in January 2013.

In addition, we consider the following information useful in understanding our results.

*Operating Revenues*

Premiums increased $87.9 due to growth in our medical stop-loss and group life and DI businesses. Full year 2015 premiums benefited from strong medical stop-loss sales posted in the first quarter.

*Benefits and Expenses*

Policyholder benefits and claims increased $91.0 primarily due to increased premium volume in our medical stop-loss and group life and DI businesses in 2015, as well as the impact of favorable reserve development in 2014. In 2014, reserves related to business written in January 2013 were released reducing benefits expense by $24.9 as actual claims were lower than expected for this block of business.

Other underwriting and operating expenses increased $16.2 year-over-year, although the expense ratio improved during this period. The increase in expenses was mainly driven by increased commissions primarily due to higher medical stop loss premiums and increased employee-related expenses to support growth.

*Sales*

Sales for the year ended December 31, 2015 totaled $209.1, compared to sales of $166.7 for the same period in 2014. Sales increased in our medical stop-loss business primarily due to increased sales in the first quarter of 2015 from strong relationships with national brokers and sales initiatives.

***Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***

*Summary of Results*

Segment pre-tax adjusted operating income increased $25.7, primarily driven by an improved loss ratio for medical stop-loss. The loss ratio decreased to 61.5% for the year ended December 31, 2014, compared to 66.5% for the same period in 2013.

In addition, we consider the following information useful in understanding our results.

*Operating Revenues*

Premiums increased $3.9 primarily from a $22.1 increase in group life and DI premiums, as this line of business continued to grow, offset by a $17.4 decrease in medical stop-loss premiums. In 2014, our medical stop-loss policy lapses outpaced premiums from sales and renewals.

*Benefits and Expenses*

Policyholder benefits and claims decreased $27.5 primarily due to lower claims frequency and severity in medical stop-loss and favorable claims reserve development. During 2013, we experienced higher than expected claims frequency related to business written in January of that year, and we established reserves in 2013 for estimated incurred but not reported claims based on this experience. In 2014, actual claims were lower than expected and reserves for this block were released. This favorable claims development, primarily related to medical stop-loss, resulted in a lower loss ratio and reduced our benefits expense by $24.9 in 2014. The decrease was partially offset by higher group life and DI claims primarily due to growth in this line of business.

The $6.6 increase in other underwriting and operating expenses was mainly driven by increased employee-related expenses, commissions due to growth in our group life & DI business, and expenses associated with our national brand campaign.

*Sales*

Sales for the year ended December 31, 2014 totaled $166.7, compared to sales of $130.9 for the same period in 2013. Sales increased across all business lines in 2014.

**Deferred Annuities**

The following table sets forth the results of operations relating to our Deferred Annuities segment:

| | For the Years Ended December 31, | | | Variance (%) | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 vs. 2014 | 2014 vs. 2013 |
| Operating revenues: | | | | | |
| Net investment income | $ 663.6 | $ 619.7 | $ 565.3 | 7.1% | 9.6% |
| Policy fees, contract charges, and other | 21.7 | 23.0 | 22.2 | (5.7) | 3.6 |
| Certain realized gains (losses) | (1.0) | 0.6 | 5.1 | * | (88.2) |
| Total operating revenues | 684.3 | 643.3 | 592.6 | 6.4 | 8.6 |
| Benefits and expenses: | | | | | |
| Policyholder benefits and claims | 0.6 | 0.3 | 0.2 | 100.0 | 50.0 |
| Interest credited | 374.8 | 354.9 | 337.7 | 5.6 | 5.1 |
| Other underwriting and operating expenses | 100.8 | 91.6 | 86.6 | 10.0 | 5.8 |
| Amortization of deferred policy acquisition costs | 71.8 | 67.4 | 60.8 | 6.5 | 10.9 |
| Total benefits and expenses | 548.0 | 514.2 | 485.3 | 6.6 | 6.0 |
| Segment pre-tax adjusted operating income | $ 136.3 | $ 129.1 | $ 107.3 | 5.6% | 20.3% |

* Represents percentage variances that are not meaningful or are explained through the discussion of other variances.

The following table sets forth selected historical operating metrics relating to our Deferred Annuities segment as of, or for the years ended:

| | December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Fixed account values, excluding FIA - General account | $ 11,486.4 | $ 11,064.9 | $ 10,874.7 |
| Interest spread (1) | 1.90% | 2.02% | 2.02% |
| Base interest spread (2) | 1.64 | 1.74 | 1.77 |
| Fixed account values, FIA - General account | $ 5,670.9 | $ 3,313.8 | $ 1,712.0 |
| FIA interest spread (3) | 1.42% | 1.38% | * |
| FIA base interest spread (4) | 1.36 | 1.32 | * |
| Variable account values - Separate account | $ 694.3 | $ 794.9 | $ 836.2 |
| Total sales (5) | 3,793.0 | 2,679.4 | 2,243.5 |

* Represents percentage variances that are not meaningful or are explained through the discussion of other variances.

(1) Interest spread excludes FIA and is the difference between the net investment yield and the credited rate to policyholders. The net investment yield is the approximate yield on invested assets. The credited rate is the approximate rate credited on policyholder fixed account value. Interest credited is subject to contractual terms, including minimum guarantees.

(2) Base interest spread excludes FIA and is the interest spread adjusted to exclude items that can vary significantly from period to period due to a number of factors and, therefore, may contribute to results that are not indicative of the underlying trends. This is primarily the impact of asset prepayments, such as bond make-whole premiums net of related deferred sales inducement amortization and the mortgage-backed security (MBS) prepayment speed adjustment.
(3) FIA interest spread is the difference between the net investment yield and the credited rate to policyholders. The net investment yield is the approximate yield on invested assets, excluding derivative assets. The credited rate represents amounts recorded in interest credited related to FIA contracts.
(4) FIA base interest spread is the FIA interest spread adjusted to exclude items that can vary significantly from period to period due to a number of factors and, therefore, may contribute to results that are not indicative of the underlying trends. This is primarily the impact of asset prepayments, such as bond make-whole premiums and the MBS prepayment speed adjustment, and the impact of reserve adjustments on interest credited.
(5) Total sales represent deposits for new policies net of first year policy lapses and/or surrenders.

***Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014***

*Summary of Results*

Segment pre-tax adjusted operating income increased $7.2, primarily driven by income contributions from growth in FIA account values and favorable unlocking adjustments during the third quarter of 2015. Higher FIA account values added $18.0 to earnings from interest margin, net of DAC amortization. Partially offsetting these factors were lower interest spreads on our traditional deferred annuity business and increased operating expenses supporting business growth.

The mix of our Deferred Annuities business has shifted towards products that are less capital intensive, including FIA with market value adjustment features and traditional fixed annuities without guaranteed return of premium. As a result, our target margins can be met with lower base interest spreads.

In addition, we consider the following information useful in understanding our results.

*Operating Revenues*

Net investment income increased $43.9 driven by an increase in invested assets due to higher account values. This increase was partially offset by lower yields on invested assets and a decline in prepayment related income.. The decline in investment yields was driven by earned rates on recent purchases of fixed maturities and originations of commercial mortgage loans, including the reinvestment of proceeds from investment prepayments. Earned rates on these securities were below our overall portfolio yields, as a result of the current low interest rate environment. Prepayments generated net investment income of $32.1 for the year ended December 31, 2015, which decreased from $40.4 for the year ended December 31, 2014. However, including the effect of related DAC and DSI amortization, the net impact of prepayment income on Deferred Annuities' pre-tax adjusted operating income was unchanged from 2014.

*Benefits and Expenses*

The $19.9 increase in interest credited was driven by higher FIA interest, primarily from growth in account values. This was partially offset by lower interest credited on traditional deferred annuities due to lower crediting rates.

Other underwriting and operating expenses increased $9.2, primarily due to increased employee-related expenses supporting higher sales activity and growth.

Amortization of deferred policy acquisition costs increased $4.4 driven by higher fixed account values, partially offset by the favorable impact from unlocking during the third quarter of 2015.

*Sales*

Deferred Annuities' sales increased to $3,793.0 for 2015 compared to $2,679.4 for 2014, reflecting the strength of our distribution network of financial institutions and broker-dealers. This was aided by sales of new FIA products, linked to two new indices, launched during the first quarter of 2015.

***Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***

*Summary of Results*

Segment pre-tax adjusted operating income increased $21.8, primarily driven by a $25.8 increase in the FIA interest margin from higher account values.

In addition, we consider the following information useful in understanding our results.

*Operating Revenues*

Net investment income increased $54.4 driven by an increase in invested assets due to higher account values. Prepayments also generated net investment income of $40.4 compared to $34.7 in 2013. This increase was partially offset by lower yields on invested assets. The decline in yields was mainly due to earned rates on recent purchases of fixed maturities and originations of commercial mortgage loans, which were below our overall portfolio yields. Also contributing to the decline in yields was the reinvestment of proceeds from prepayments in 2013 and 2014 at lower yields.

*Benefits and Expenses*

The $17.2 increase in interest credited was driven by higher FIA interest, primarily from growth in account values. This was partially offset by lower interest credited on traditional deferred annuities due to lower crediting rates.

Other underwriting and operating expenses increased $5.0, primarily due to higher employee-related expenses to support business growth and a $1.5 charge primarily for prior years' state sales and use tax expense, as well as expenses associated with our national brand campaign.

Amortization of deferred policy acquisition costs increased $6.6 driven by higher fixed indexed account values.

*Sales*

Deferred Annuities' sales increased to $2,679.4 for 2014 compared to $2,243.5 for 2013, with significant increases in sales of FIA and traditional fixed annuity products. Sales benefited from an improved interest rate environment in the first half of the year compared to 2013. Ongoing expansion of our FIA and traditional fixed annuity products on financial institution and broker-dealer distribution platforms contributed to strong sales in the second half of 2014, even as interest rates declined.

## Income Annuities

The following table sets forth the results of operations relating to our Income Annuities segment:

| | For the Years Ended December 31, | | | Variance (%) | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 vs. 2014 | 2014 vs. 2013 |
| Operating revenues: | | | | | |
| Net investment income | $ 380.9 | $ 382.0 | $ 397.9 | (0.3)% | (4.0)% |
| Policy fees, contract charges, and other | 0.8 | 1.0 | 2.6 | (20.0) | (61.5) |
| Total operating revenues | 381.7 | 383.0 | 400.5 | (0.3) | (4.4) |
| Benefits and expenses: | | | | | |
| Interest credited | 336.0 | 342.1 | 343.0 | (1.8) | (0.3) |
| Other underwriting and operating expenses | 19.1 | 20.3 | 21.3 | (5.9) | (4.7) |
| Amortization of deferred policy acquisition costs | 6.1 | 4.7 | 3.9 | 29.8 | 20.5 |
| Total benefits and expenses | 361.2 | 367.1 | 368.2 | (1.6) | (0.3) |
| Segment pre-tax adjusted operating income | $ 20.5 | $ 15.9 | $ 32.3 | 28.9 % | (50.8)% |

The following table sets forth selected historical operating metrics relating to our Income Annuities segment as of, or for the years ended:

| | December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Reserves (1) | $ 6,444.0 | $ 6,487.7 | $ 6,489.9 |
| Interest spread (2) | 0.58% | 0.50% | 0.62% |
| Base interest spread (3) | 0.53% | 0.49% | 0.52% |
| Mortality gains (losses) (4) | $ 4.3 | $ 3.3 | $ 8.1 |
| Total sales (5) | 303.3 | 318.8 | 210.5 |

(1) Reserves represent the present value of future income annuity benefits and assumed expenses, discounted by the assumed interest rate. This metric represents the amount of our in-force book of business.

(2) Interest spread is the difference between the net investment yield and the implied credited rate to policyholder reserves. The net investment yield is the approximate yield on invested assets, excluding equities, attributed to the segment. The credited rate is the approximate rate credited on policyholder reserves.

(3) Base interest spread is the interest spread adjusted to exclude items that can vary significantly from period to period due to a number of factors and, therefore, may contribute to yields that are not indicative of the underlying trends. This is primarily the impact of asset prepayments, such as bond make-whole premiums, income on alternative investments, and the MBS prepayment speed adjustment.

(4) Mortality gains (losses) represent the difference between actual and expected reserves released from mortality on our life contingent annuities.
(5) Total sales represent deposits for new policies net of first year policy lapses and/or surrenders.

***Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014***

*Summary of Results*

Segment pre-tax adjusted operating income increased $4.6, primarily the result of higher prepayment income which increased $5.8.

In addition, we consider the following information useful in understanding our results.

*Operating Revenues*

Net investment income decreased $1.1, remaining relatively flat to the prior year. This decrease was primarily due to lower earned rates on recent fixed maturity purchases and commercial mortgage loan originations, which were below overall portfolio yields. Additionally, we experienced a $7.6 mark-to-market loss on alternative investments for the year ended December 31, 2015 compared with a loss of $4.8 for the same period in 2014. These declines were mostly offset by higher prepayment income.

*Benefits and Expenses*

Interest credited decreased $6.1 primarily driven by lower crediting rates on policies written in recent years, decreased reserves and increased mortality gains. Mortality experience is expected to fluctuate from period to period.

*Sales*

Sales decreased $15.5 reflecting the competitive market in a low interest rate environment.

***Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***

*Summary of Results*

Segment pre-tax adjusted operating income decreased $16.4, primarily the result of a lower interest margin from lower investment yields, lower mortality gains, and mark-to-market losses on alternative investments.

In addition, we consider the following information useful in understanding our results.

*Operating Revenues*

Net investment income decreased $15.9, primarily due to lower investment yields and lower assets invested in fixed maturities. The decline in yields was driven by earned rates on recent fixed maturity purchases and commercial mortgage loan originations, which were below overall portfolio yields. Proceeds from prepayments of higher yielding assets were also reinvested at lower yields. Additionally, we experienced a $4.8 mark-to-market loss on alternative investments.

*Benefits and Expenses*

Interest credited decreased $0.9 primarily driven by lower crediting rates on newer SPIA reserves. The impact of lower overall crediting rates was largely offset by a $4.8 decrease in mortality gains.

*Sales*

Sales increased $108.3 due to the success of our sales strategies to help customers maximize retirement income and from increased sales through brokerage general agencies (BGA).

## Individual Life

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

| | For the Years Ended December 31, | | | Variance (%) | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 vs. 2014 | 2014 vs. 2013 |
| Operating revenues: | | | | | |
| Premiums | $ 33.4 | $ 33.8 | $ 35.8 | (1.2)% | (5.6)% |
| Net investment income | 290.9 | 283.0 | 280.4 | 2.8 | 0.9 |
| Policy fees, contract charges, and other | 180.7 | 149.0 | 136.3 | 21.3 | 9.3 |
| Total operating revenues | 505.0 | 465.8 | 452.5 | 8.4 | 2.9 |
| Benefits and expenses: | | | | | |
| Policyholder benefits and claims | 113.3 | 79.7 | 69.3 | 42.2 | 15.0 |
| Interest credited | 257.8 | 258.4 | 253.0 | (0.2) | 2.1 |
| Other underwriting and operating expenses | 86.7 | 76.7 | 67.2 | 13.0 | 14.1 |
| Interest expense | 0.5 | — | — | * | 0.0 |
| Amortization of deferred policy acquisition costs | 10.4 | 5.3 | 7.7 | 96.2 | (31.2) |
| Total benefits and expenses | 468.7 | 420.1 | 397.2 | 11.6 | 5.8 |
| Segment pre-tax adjusted operating income | $ 36.3 | $ 45.7 | $ 55.3 | (20.6)% | (17.4)% |

* Represents percentage variances that are not meaningful or are explained through the discussion of other variances.

The following table sets forth selected historical operating metrics relating to our Individual Life segment as of, or for the years ended:

| | December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Individual insurance: | | | |
| Individual claims (1) | $ 54.4 | $ 57.6 | $ 54.7 |
| UL account values | 876.6 | 768.2 | 726.2 |
| Individual sales (2) | 67.8 | 38.0 | 18.6 |
| Institutional Markets: | | | |
| BOLI account values | $ 5,016.5 | $ 4,902.4 | $ 4,798.1 |
| BOLI ROA (3) | 0.77% | 0.96% | 0.85% |
| BOLI base ROA (4) | 0.70 | 0.81 | 0.80 |
| Decrease in BOLI PGAAP Reserve (5) | $ — | $ 5.1 | $ 7.0 |
| COLI sales (6) | 70.5 | 1.0 | 45.0 |

(1) Individual claims represents incurred claims, net of reinsurance, on our term and universal life policies.
(2) Individual sales represents annualized first year premiums for recurring premium products and 10% of new single premium deposits, net of first year policy lapses and/or surrenders.
(3) BOLI ROA is a measure of the gross margin on our BOLI book of business. This metric is calculated as the difference between our BOLI revenue earnings rate and our BOLI policy benefits rate. The revenue earnings rate is calculated as revenues divided by average invested assets. The policy benefits rate is calculated as total policy benefits divided by average account values. The policy benefits used in this metric do not include expenses.
(4) BOLI base ROA is BOLI ROA adjusted to exclude items that can vary significantly from period to period due to a number of factors and, therefore, may contribute to yields that are not indicative of the underlying trends. This is primarily the impact of asset prepayments, such as bond make-whole premiums, the MBS prepayment speed adjustment, and reserve adjustments.
(5) The BOLI PGAAP (purchase accounting) reserve was amortized as a decrease to policyholder benefits according to the pattern of profitability of the book of business of policies in force at the purchase accounting date, August 2, 2004. This reserve was amortized to $0 over a 10 year period ending August 2014. This represents the reduction of policyholder benefits expense related to the change in this reserve
(6) COLI sales represents deposits for new policies.

***Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014***

*Summary of Results*

Segment pre-tax adjusted operating income decreased $9.4, primarily driven by higher operating expenses to support increasing production levels and growth initiatives, a lower BOLI base return on assets (ROA) and unfavorable unlocking adjustments that occurred in the third quarter of 2015. These were partially offset by growth in our guaranteed UL business, higher prepayment-related income, and a decrease in claims. Unlocking adjustments occur, each year in the third quarter, as we perform a comprehensive review of actuarial assumptions used for estimates of future gross profits underlying the amortization of DAC and certain reserves. Changes to our actuarial expectations of future assumptions result in unlocking adjustments.

In addition, we consider the following information useful in understanding our results.

*Operating Revenues*

Net investment income increased $7.9 primarily due to higher average invested assets and higher prepayment income. Prepayment income was $13.6 for the year ended December 31, 2015, compared with $7.3 in the same period in 2014. This was offset by lower earned rates on recent fixed maturity purchases and commercial mortgage loan originations.

Policy fees, contract charges, and other increased $31.7, primarily due to increased cost of insurance (COI) charges and policy fees related to our growing guaranteed UL business. We also recorded a favorable unlocking adjustment in the third quarter 2015.

*Benefits and Expenses*

Benefit-related expenses (policyholder benefits and claims, and interest credited) increased $33.0, driven by higher reserves on growth in our guaranteed UL business and an unfavorable unlocking adjustment that occurred in the third quarter of 2015. The 2015 unlocking adjustments were primarily driven by modeling true-ups related to changes in our UL business mix and updated BOLI mortality assumptions. Additionally, the year ended December 31, 2014 benefited from a $5.1 decrease in the BOLI PGAAP reserve, which was reflected in the higher BOLI ROA for that period.

Other underwriting and operating expenses increased $10.0, mainly due to increased employee-related expenses and commissions supporting higher sales activity and segment growth.

Amortization of deferred policy acquisition costs increased $5.1 driven by unfavorable impacts from unlocking that occurred in the third quarter of 2015 and higher margins on UL business.

*Sales*

Sales of individual life products increased to $67.8 for 2015, compared to $38.0 in 2014, reflecting success in building relationships in the BGA distribution network for our guaranteed UL products.

***Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***

*Summary of Results*

Segment pre-tax adjusted operating income decreased $9.6, primarily driven by higher operating expenses to support increasing production levels and growth initiatives.

In addition, we consider the following information useful in understanding our results.

*Operating Revenues*

Net investment income increased $2.6 primarily due to higher average invested assets partially offset by lower overall yields.

Policy fees, contract charges, and other increased $12.7, primarily due to increased COI charges and policy fees related to our BOLI and UL businesses.

*Benefits and Expenses*

Benefit-related expenses (policyholder benefits and claims, and interest credited) increased $15.8, driven by a $9.2 increase related to higher UL reserves from strong sales and a $5.4 increase in interest credited on higher BOLI and UL account values. Additionally, claims on our individual insurance products increased $2.9.

Other underwriting and operating expenses increased $9.5, which reflects higher expenses to acquire new business and service growth in this line of business, $1.3 of expense primarily related to prior years' sales and use tax, and higher professional services expenses on growth initiatives and expenses associated with our national brand campaign.

*Sales*

Sales of individual life products increased to $38.0 for 2014, compared to $18.6 in 2013, led by higher sales of our guaranteed UL product, as we deepened our existing BGA relationships and expanded our distribution network in this market.

### Other

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

| | For the Years Ended December 31, | | | Variance (%) | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 vs. 2014 | 2014 vs. 2013 |
| Operating revenues: | | | | | |
| Net investment income | $ (22.4) | $ 14.8 | $ 20.5 | * | (27.8)% |
| Policy fees, contract charges, and other | 2.0 | 1.8 | 16.5 | 11.1 | (89.1) |
| Total operating revenues | (20.4) | 16.6 | 37.0 | * | (55.1) |
| Benefits and expenses: | | | | | |
| Interest credited | (1.4) | (1.6) | (1.7) | (12.5) | 5.9 |
| Other underwriting and operating expenses | 7.8 | 3.0 | 21.2 | * | (85.8) |
| Interest expense | 44.4 | 37.7 | 33.0 | 17.8 | 14.2 |
| Total benefits and expenses | 50.8 | 39.1 | 52.5 | 29.9 | (25.5) |
| Segment pre-tax adjusted operating loss | $ (71.2) | $ (22.5) | $ (15.5) | * | * |

* Represents percentage variances that are not meaningful or are explained through the discussion of other variances.

***Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014***

*Summary of Results*

Our Other segment reported pre-tax adjusted operating losses of $71.2 for 2015 compared with losses of $22.5 for 2014. This decline was primarily driven by a reduction in net investment income. We posted net investment losses for 2015 compared with net income for 2014. Lower net investment income reflected mark-to-market losses on alternative investments compared to mark-to-market gains in 2014 and higher amortization from increased tax credit investments.

In addition, we recorded higher operating expenses and interest expense. Interest expense increased $6.7 due to 4.25% Senior Notes issued in the third quarter of 2014. Additionally, operating expenses were higher due to $6.0 of expenses related to the Merger.

***Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***

*Summary of Results*

Our Other segment reported pre-tax adjusted operating losses of $22.5 for 2014 compared with losses of $15.5 for 2013. This was driven by a $5.7 reduction in net investment income, primarily due to higher amortization of our tax credit investments. This was partially offset by $4.7 in higher returns on alternative investments, which are marked to market. Interest expense also increased following the issuance of $250.0 in senior notes in the third quarter 2014.

The decrease in other underwriting and operating expenses was primarily due to 2013 commissions and other operating expenses associated with our broker-dealer subsidiary that was sold in the fourth quarter of 2013, which was offset by a related decline in fee revenue. We also incurred expenses in 2013 related to the exploration of acquisition opportunities.

## Investments

Our investment portfolio is intended to support the expected cash flows of our liabilities and produce stable returns over the long term. The composition of our portfolio reflects our asset management philosophy of protecting principal and receiving appropriate reward for risk. As of December 31, 2015, our investment portfolio consisted of high quality fixed maturities and commercial mortgage loans we originated, as well as a smaller allocation of high-yield fixed maturities, marketable equity securities, investments in limited partnerships (primarily tax credit investments and alternative investments, which include private equity and hedge funds) and other investments. Our equity investments primarily consist of exchange-traded funds (ETFs) and common stock and mainly support asset and liability matching strategies for long-duration insurance products in our Income Annuities segment. We believe that prudent levels of equity investments offer enhanced long-term, after-tax total returns.

Invested assets increased $1,991.9 during the year ended December 31, 2015 primarily due to portfolio growth generated by sales in the Retirement division partially offset by a net decline in the fair value of corporate bonds driven by credit spreads widening. As of December 31, 2015 and 2014, we had net unrealized gains of $0.84 billion and $1.73 billion, respectively, on our fixed maturity portfolio.

### *Investment Returns*

*Net Investment Income*

Return on invested assets is an important element of our financial results. The following table sets forth the income yield and net investment income, excluding realized gains (losses), for each major investment category:

| | For the Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2013 | |
| | Yield (1) | Amount | Yield (1) | Amount | Yield (1) | Amount |
| **Types of Investments** | | | | | | |
| Fixed maturities, available-for-sale | 4.69% | $ 1,160.5 | 4.92% | $ 1,136.7 | 5.18% | $ 1,117.2 |
| Marketable equity securities, available-for-sale | 4.49 | 4.9 | 4.16 | 5.2 | 5.36 | 3.8 |
| Marketable equity securities, trading | 2.84 | 13.2 | 3.25 | 12.6 | 2.86 | 12.9 |
| Mortgage loans, net | 5.57 | 247.6 | 5.70 | 215.7 | 5.78 | 190.2 |
| Policy loans | 5.55 | 3.3 | 5.56 | 3.5 | 5.70 | 3.7 |
| Investments in limited partnerships: | | | | | | |
| Alternative investments | * | (19.7) | * | 3.8 | * | 4.0 |
| Tax credit investments (2) | * | (40.3) | * | (27.7) | * | (20.5) |
| Other income producing assets (3) | 1.59 | 4.7 | 1.89 | 4.4 | 1.72 | 4.3 |
| Gross investment income before investment expenses | 4.52 | 1,374.2 | 4.84 | 1,354.2 | 5.07 | 1,315.6 |
| Investment expenses | (0.12) | (37.8) | (0.12) | (33.7) | (0.12) | (30.6) |
| Net investment income | 4.40% | $ 1,336.4 | 4.72% | $ 1,320.5 | 4.95% | $ 1,285.0 |

______________

* Represents yield that is not meaningful.

(1) Yields are determined based on monthly averages calculated using beginning and end-of-period balances. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for all other asset types are based on carrying values.

(2) The negative impact from the tax credit investments is offset by U.S. federal income tax benefits. The total impact to net income was $27.0, $27.9 and $23.5 for the years ended December 31, 2015, 2014 and 2013, respectively. For further discussion, see "- Investments in Limited Partnerships - Tax Credit Investments."

(3) Other income producing assets includes other invested assets and cash and cash equivalents.

We continued to experience elevated levels of prepayment-related income as a result of the low interest rate environment. Prepayment-related income, which includes make-whole payments and consent fees on early calls or tenders of fixed maturities, prepayment speed adjustments on structured securities, and prepayment fees on our commercial mortgage loans, remained higher than historical levels. The following table presents the impact from prepayment-related activities:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Impact to net investment income | $ 61.0 | $ 55.1 | $ 50.0 |
| Impact to yield | 0.20% | 0.19% | 0.19% |

*Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014*

For the year ended December 31, 2015, net investment income increased slightly compared to the same period in 2014, driven by income on higher average invested assets and higher prepayment income, partially offset by overall lower portfolio yields and higher losses on investments in limited partnerships.

Excluding the impact of prepayments, which are shown above, yields on our investment portfolio decreased to 4.20% for the year ended December 31, 2015 from 4.53% for the same period in 2014. This reduction is a result of earned rates on new purchases, which are significantly below overall portfolio yields, as well as maturities of assets purchased in a higher interest rate environment. We have experienced significant growth in the volume of new investment purchases on cash inflows from strong sales and the proceeds from prepayment activity, pay-downs, and maturities of invested assets. The interest rates on new investment purchases associated with these cash flows are putting downward pressure on our overall portfolio yield.

Net investment income was reduced by losses on investments in limited partnerships during 2015. Mark-to-market losses on alternative investments (private equity investments and hedge funds) were incurred during the year compared to overall mark-to-market gains in the prior year. Also contributing to the decrease were additional tax credit investments, which resulted in increased amortization compared to the prior year.

We have continued to pursue strategies that generally provide more attractive yields while retaining an appropriate risk profile in 2015 to mitigate the continued low interest rate environment. This includes our continued focus on underwriting commercial mortgage loans and increasing investments in high-quality privately placed and foreign corporate securities. Additionally, during 2015 we began investing in a modest amount of collateralized loan obligations. For further information about these investments, see "—Fixed Maturity Securities", "—Exposure to Foreign Fixed Maturity Securities" and "—Mortgage Loans."

We believe our yields on commercial mortgage loans are more attractive than those available on fixed maturity securities. For the year ended December 31, 2015 and 2014, we originated commercial mortgage loans at a spread over U.S. Treasuries of approximately 226bps and 235bps, respectively. Spreads tightened throughout 2015, primarily due to increased competition for loans that meet our size, duration and underwriting standards. Additionally, U.S. Treasury rates remained low throughout 2015, which has led to a decline in our overall mortgage loan portfolio yield.

*Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013*

For the year ended December 31, 2014, net investment income increased compared to the same period in 2013, driven by higher average invested assets and an increase in prepayment income, partially offset by lower portfolio yields.

Yields were negatively impacted by the low interest rate environment. Excluding the impact of prepayments, which are shown above, yields on our investment portfolio decreased to 4.53% for the year ended December 31, 2014 from 4.75% for the same period in 2013. This reduction was a result of earned rates on new purchases, which were significantly below overall portfolio yields, as well as maturities of assets purchased in a higher interest rate environment. We experienced significant growth in the volume of new investment purchases on cash inflows from strong sales and the proceeds from prepayment activity, pay-downs, and maturities of invested assets. The interest rates on new investment purchases associated with these cash flows put downward pressure on our overall portfolio yield.

*Net Realized Gains (Losses)*

The following table sets forth the detail of our net realized gains (losses) before taxes:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Gross realized gains on sales of fixed maturities | $ 13.7 | $ 27.6 | $ 11.7 |
| Gross realized losses on sales of fixed maturities | (22.2) | (6.8) | (20.0) |
| Impairments: | | | |
| Total credit-related | (16.1) | (2.9) | (5.6) |
| Intent to sell | (22.5) | (11.2) | (12.7) |
| Total impairments on securities | (38.6) | (14.1) | (18.3) |
| Net gains (losses) on trading securities | 10.0 | 55.7 | 66.0 |
| Net realized gains (losses) related to FIA: | | | |
| Certain realized gains (losses) (1) | (1.0) | 0.6 | 5.1 |
| Fair value changes – embedded derivative and related options (2) | (15.9) | (5.9) | (6.7) |
| Net gains (losses) on investments in limited partnerships (3) | (44.8) | (16.7) | (6.8) |
| Other net gains (losses) (4): | | | |
| Other gross gains | 43.6 | 41.0 | 21.5 |
| Other gross losses | (41.3) | (39.0) | (16.9) |
| Net realized gains (losses) | $ (96.5) | $ 42.4 | $ 35.6 |

(1) Represents the change in fair value of index options purchased to economically hedge our block of FIA business sold during the late 1990s (the "old block"), which has an account value of $34.1 as of December 31, 2015. This change in fair value is included in pre-tax adjusted operating income for our Deferred Annuities segment.

(2) Represents the changes in fair value of embedded derivative liabilities associated with our FIA products sold in 2011 and beyond, netted with changes in fair value of index options purchased to economically hedge this business.

(3) This includes impairments related to alternative investments and tax credit investments.

(4) This primarily consists of gains (losses) on calls and redemptions, changes in fair value of convertible bonds, the impact of net realized gains (losses) on DAC and DSI, and changes in fair value of derivatives not related to FIA.

*Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014*

For the year ended December 31, 2015, we experienced net realized losses of $96.5, as compared to gains of $42.4 for the same period in 2014. The increase was primarily due to higher losses on investments in limited partnerships, increased impairments, a decline in fair value changes on our embedded derivatives and related options, and net realized losses related to sales of fixed maturities for the year ended December 31, 2015 compared to net realized gains for the same period in 2014. Additionally, for the year ended December 31, 2015, our trading securities, which are marked to market through income, produced net realized gains of $10.0, compared to gains of $55.7 for the same period in 2014.

*Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013*

For the year ended December 31, 2014, we experienced net realized gains of $42.4, as compared to gains of $35.6 for the same period in 2013. The increase was primarily due to net realized gains related to sales of fixed maturities for the year ended December 31, 2014 compared to net realized losses for the same period in 2013, as well as decreased impairments. These were partially offset by net losses on bonds called during the year ended December 31, 2014 and lower net gains on our equity trading portfolio. We purchased U.S. Treasury securities for cash management purposes, which improved in value in 2014 due to changes in interest rates. As a result, we recorded net gains on sales of these securities, which are included in our net realized gains on sales of fixed maturities during the year ended December 31, 2014.

For the year ended December 31, 2014, our equity portfolio produced net realized gains of $55.7, compared to gains of $66.0 for the same period in 2013.

*Impairments*

We regularly monitor our investments for indicators of impairment. When evaluating a security for possible impairment, we consider many factors, such as the financial condition and near-term prospects of the issuer of the security, changes in the financial condition of the security's underlying collateral and any downgrades of the security by a rating agency.

Impairments for the year ended December 31, 2015 increased $24.5 from the same period in 2014. The increase was driven primarily by impairments of high yield securities in the energy and natural resources sector. For those issuers for which

we recorded a credit-related impairment during 2015, we had remaining holdings with an amortized cost of $26.4 and a fair value of $23.2 as of December 31, 2015.

After the recognition of OTTI, 23.8% and 22.8% of the gross unrealized losses on our investment portfolio as of December 31, 2015 and 2014, respectively, were related to securities due after ten years and mortgage-backed securities. The fair value of these longer-duration securities fluctuates more significantly with changes in interest rates and credit spreads, and we believe they will recover over time.

### *Fixed Maturity Securities*

Fixed maturities represented approximately 82% and 83% of invested assets as of December 31, 2015 and 2014, respectively. The majority of our fixed maturities are invested in highly marketable or publicly traded securities. We invest in a small amount of privately placed fixed maturities to enhance the overall value of the portfolio and obtain higher yields than can ordinarily be obtained with comparable securities available in public markets. As of December 31, 2015 and 2014, privately placed fixed maturities represented 4.3% and 3.7%, respectively, of our total fixed maturity portfolio at fair value.

#### *Fixed Maturity Securities Credit Quality*

The Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) evaluates the investments of insurers for regulatory reporting purposes and assigns fixed maturities to one of the six categories called "NAIC Designations." NAIC designations of "1" or "2" include fixed maturities considered investment grade, which generally include securities rated BBB- or higher by Standard & Poor's (S&P). NAIC designations of "3" through "6" are referred to as below investment grade, which generally include securities rated BB+ or lower by S&P. In recent years, the SVO adopted a modeling approach to determine the NAIC designation for non-agency RMBS and CMBS securities. As a result, the NAIC designation for such securities may not correspond to the S&P designations.

The following table presents our fixed maturities by NAIC designation and S&P equivalent credit ratings, as well as the percentage of total fixed maturities, based on fair value, that each designation comprises:

| | As of December 31, 2015 | | | As of December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Fair Value | % of Total Fair Value | Amortized Cost | Fair Value | % of Total Fair Value |
| **NAIC: S&P Equivalent:** | | | | | | |
| 1 AAA, AA, A | $ 14,123.6 | $ 14,781.4 | 55.4% | $ 13,407.9 | $ 14,491.2 | 57.1% |
| 2 BBB | 10,685.1 | 10,910.0 | 40.8 | 9,126.7 | 9,761.6 | 38.5 |
| Total investment grade | 24,808.7 | 25,691.4 | 96.2 | 22,534.6 | 24,252.8 | 95.6 |
| 3 BB | 573.7 | 568.5 | 2.1 | 541.2 | 561.5 | 2.2 |
| 4 B | 421.5 | 406.6 | 1.5 | 490.2 | 492.3 | 1.9 |
| 5 CCC & lower | 81.5 | 59.5 | 0.2 | 74.6 | 66.9 | 0.3 |
| 6 In or near default | 6.5 | 4.4 | — | 5.9 | 5.9 | — |
| Total below investment grade | 1,083.2 | 1,039.0 | 3.8 | 1,111.9 | 1,126.6 | 4.4 |
| Total | $ 25,891.9 | $ 26,730.4 | 100.0% | $ 23,646.5 | $ 25,379.4 | 100.0% |

As of December 31, 2015, our NAIC 5 and 6 designated securities had gross unrealized losses of $24.5. Our analysis of these securities, including management's estimates of future cash flows, where appropriate, supports the recoverability of amortized cost.

*Fixed Maturity Securities and Unrealized Gains and Losses by Security Sector*

The following tables set forth the fair value of our fixed maturities by sector, as well as the associated gross unrealized gains and losses and the percentage of total fixed maturities that each sector comprises as of the dates indicated:

| | As of December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | % of Total Fair Value |
| **Security Sector** | | | | | |
| Corporate securities: | | | | | |
| Consumer discretionary | $ 2,794.0 | $ 88.9 | $ (53.4) | $ 2,829.5 | 10.6% |
| Consumer staples | 2,541.9 | 153.4 | (18.8) | 2,676.5 | 10.0 |
| Energy | 1,546.4 | 47.0 | (77.8) | 1,515.6 | 5.7 |
| Financial | 2,000.5 | 117.3 | (27.0) | 2,090.8 | 7.8 |
| Health care | 2,400.2 | 92.4 | (28.7) | 2,463.9 | 9.2 |
| Industrial | 3,815.0 | 213.2 | (32.8) | 3,995.4 | 14.9 |
| Information Technology | 472.9 | 17.0 | (7.4) | 482.5 | 1.8 |
| Materials | 1,383.7 | 53.0 | (30.7) | 1,406.0 | 5.3 |
| Telecommunications services | 699.0 | 30.1 | (12.3) | 716.8 | 2.7 |
| Utilities | 1,985.9 | 142.7 | (24.7) | 2,103.9 | 7.9 |
| Total corporate securities | 19,639.5 | 955.0 | (313.6) | 20,280.9 | 75.9 |
| U.S. government and agencies | 479.8 | 3.7 | (1.4) | 482.1 | 1.8 |
| State and political subdivisions | 842.5 | 34.1 | (1.5) | 875.1 | 3.3 |
| Residential mortgage-backed securities: | | | | | |
| Agency | 2,236.1 | 123.6 | (9.3) | 2,350.4 | 8.8 |
| Non-agency: | | | | | |
| Prime | 269.7 | 6.4 | (0.6) | 275.5 | 1.0 |
| Alt-A | 33.4 | 2.7 | — | 36.1 | 0.1 |
| Total residential mortgage-backed securities | 2,539.2 | 132.7 | (9.9) | 2,662.0 | 9.9 |
| Commercial mortgage-backed securities: | | | | | |
| Agency | 88.1 | 6.1 | — | 94.2 | 0.4 |
| Non-agency | 1,098.4 | 30.1 | (5.0) | 1,123.5 | 4.2 |
| Total commercial mortgage-backed securities | 1,186.5 | 36.2 | (5.0) | 1,217.7 | 4.6 |
| Collateralized loan obligations | 663.1 | 0.1 | (18.4) | 644.8 | 2.4 |
| Other debt obligations | 541.3 | 30.5 | (4.0) | 567.8 | 2.1 |
| Total | $ 25,891.9 | $ 1,192.3 | $ (353.8) | $ 26,730.4 | 100.0% |

| | As of December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | % of Total Fair Value |
| **Security Sector** | | | | | |
| Corporate securities: | | | | | |
| Consumer discretionary | $ 2,279.5 | $ 137.4 | $ (7.6) | $ 2,409.3 | 9.5% |
| Consumer staples | 2,636.4 | 232.2 | (7.1) | 2,861.5 | 11.3 |
| Energy | 1,286.3 | 90.0 | (27.5) | 1,348.8 | 5.3 |
| Financial | 1,888.7 | 168.9 | (15.4) | 2,042.2 | 8.1 |
| Health care | 2,084.9 | 134.2 | (9.0) | 2,210.1 | 8.7 |
| Industrial | 3,160.1 | 313.5 | (5.3) | 3,468.3 | 13.7 |
| Information Technology | 509.9 | 32.3 | (2.2) | 540.0 | 2.1 |
| Materials | 1,270.3 | 90.0 | (6.9) | 1,353.4 | 5.3 |
| Telecommunication services | 747.0 | 73.9 | (1.6) | 819.3 | 3.2 |
| Utilities | 1,905.6 | 239.1 | (5.1) | 2,139.6 | 8.4 |
| Total corporate securities | 17,768.7 | 1,511.5 | (87.7) | 19,192.5 | 75.6 |
| U.S. government and agencies | 404.8 | 6.1 | (1.0) | 409.9 | 1.6 |
| State and political subdivisions | 789.7 | 40.1 | (0.6) | 829.2 | 3.3 |
| Residential mortgage-backed securities: | | | | | |
| Agency | 2,430.7 | 143.0 | (6.1) | 2,567.6 | 10.1 |
| Non-agency: | | | | | |
| Prime | 282.4 | 9.6 | (0.4) | 291.6 | 1.2 |
| Alt-A | 58.9 | 3.3 | — | 62.2 | 0.2 |
| Total residential mortgage-backed securities | 2,772.0 | 155.9 | (6.5) | 2,921.4 | 11.5 |
| Commercial mortgage-backed securities: | | | | | |
| Agency | 156.8 | 8.9 | (0.3) | 165.4 | 0.7 |
| Non-agency | 1,105.8 | 64.1 | (1.4) | 1,168.5 | 4.6 |
| Total commercial mortgage-backed securities | 1,262.6 | 73.0 | (1.7) | 1,333.9 | 5.3 |
| Other debt obligations | 648.7 | 44.5 | (0.7) | 692.5 | 2.7 |
| Total | $ 23,646.5 | $ 1,831.1 | $ (98.2) | $ 25,379.4 | 100.0% |

Our fixed maturity holdings are diversified by industry and issuer. As of December 31, 2015 and 2014, the fair value of our ten largest issuers of corporate securities was $1,536.9 and $1,435.5, or 7.6% and 7.5%, respectively, of total corporate securities. The fair value of our largest exposure to a single issuer of corporate securities was $165.0, or 0.8% of total corporate securities, as of December 31, 2015. Of these holdings, $133.1 were rated investment grade. As of December 31, 2014, the fair value of our largest exposure to a single issuer of corporate securities was $152.5, or 0.8% of total corporate securities, all of which had an NAIC rating of 2. For the years ended December 31, 2015 and 2014, below investment grade holdings had NAIC ratings of 3 or 4.

Our investments in U.S. government and agency securities are generally purchases of U.S. treasury bonds as part of our cash management and asset-liability matching strategies to obtain higher yields and match liability durations from incoming cash flows until investments with adequate spreads are found. Our holdings of these securities will fluctuate from quarter to quarter based on sales volume and timing of cash deployment. In addition, these holdings may fluctuate to support collateral needs for our derivatives program.

As of December 31, 2015 and 2014, the fair value of our state and political subdivision securities included $37.5 and $36.1 of municipal general obligation bonds and $837.6 and $793.1 of municipal revenue bonds, respectively. We have municipal holdings of $6.0 and $5.6 in Illinois as of December 31, 2015 and 2014, respectively, and no exposure to bonds issued by Michigan or Puerto Rico.

*Exposure to Foreign Fixed Maturities*

As part of our strategy to improve portfolio yields, we invest in high-quality foreign corporate securities. The majority of these holdings are denominated in U.S. dollars, and we utilize foreign currency swaps and forwards to hedge our exposure to those denominated in foreign currencies. As of December 31, 2015 and 2014, we held $712.7 and $725.1, respectively, of fixed maturities denominated in a foreign currency and reported in U.S. dollars based on period-end exchange rates.

The following tables summarize our exposure to foreign fixed maturity holdings separated between sovereign debt, financial industry and other corporate debt exposures. The country designation is based on the issuer's country of incorporation:

| | As of December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Sovereign Debt | Financial Industry | Other Corporate | Total Fair Value | % of Exposure | Amortized Cost |
| United Kingdom | $ — | $ 123.3 | $ 710.3 | $ 833.6 | 17.9% | $ 823.9 |
| Netherlands | — | 23.7 | 619.3 | 643.0 | 13.8 | 626.2 |
| Luxembourg | — | 15.5 | 379.2 | 394.7 | 8.5 | 396.7 |
| France | — | 22.5 | 239.6 | 262.1 | 5.6 | 256.6 |
| Switzerland | — | 114.0 | — | 114.0 | 2.4 | 107.1 |
| Other European countries | 0.2 | — | 217.6 | 217.8 | 4.7 | 218.9 |
| Total European holdings | $ 0.2 | $ 299.0 | $ 2,166.0 | $ 2,465.2 | 52.9% | $ 2,429.4 |
| Canada | 14.4 | — | 853.5 | 867.9 | 18.6 | 857.2 |
| Cayman Islands | 72.2 | 608.7 | 49.2 | 730.1 | 15.7 | 744.9 |
| Mexico | — | 1.8 | 283.5 | 285.3 | 6.1 | 291.9 |
| Australia | — | 1.7 | 244.0 | 245.7 | 5.3 | 249.5 |
| Other foreign countries | — | 7.8 | 55.9 | 63.7 | 1.4 | 69.4 |
| Total foreign holdings | $ 86.8 | $ 919.0 | $ 3,652.1 | $ 4,657.9 | 100.0% | $ 4,642.3 |

| | As of December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Sovereign Debt | Financial Industry | Other Corporate | Total Fair Value | % of Exposure | Amortized Cost |
| United Kingdom | $ — | $ 99.0 | $ 752.9 | $ 851.9 | 21.3% | $ 814.5 |
| Netherlands | — | 4.8 | 599.8 | 604.6 | 15.1 | 571.2 |
| Luxembourg | — | 17.2 | 293.5 | 310.7 | 7.8 | 297.7 |
| France | — | 20.4 | 273.1 | 293.5 | 7.3 | 280.1 |
| Switzerland | — | 111.4 | — | 111.4 | 2.8 | 103.1 |
| Other European countries | 0.4 | — | 229.7 | 230.1 | 5.8 | 221.0 |
| Total European holdings | $ 0.4 | $ 252.8 | $ 2,149.0 | $ 2,402.2 | 60.1% | $ 2,287.6 |
| Canada | 15.1 | — | 869.7 | 884.8 | 22.1 | 826.0 |
| Cayman Islands | 79.4 | 31.2 | 54.8 | 165.4 | 4.1 | 161.4 |
| Mexico | — | 1.7 | 272.2 | 273.9 | 6.7 | 269.3 |
| Australia | — | 17.3 | 228.2 | 245.5 | 6.1 | 233.0 |
| Other foreign countries | — | 7.7 | 28.4 | 36.1 | 0.9 | 39.7 |
| Total foreign holdings | $ 94.9 | $ 310.7 | $ 3,602.3 | $ 4,007.9 | 100.0% | $ 3,817.0 |

As of December 31, 2015 and 2014, the fair value of our exposure to foreign fixed maturities was 17.4% and 15.8%, of our total fixed maturities portfolio, respectively. Our gross unrealized losses on these securities increased to $68.8 as of December 31, 2015, compared to $21.8 as of 2014, primarily due to the strengthening of the U.S. dollar. The fair value of our total exposure to Ireland, Italy, Portugal, and Spain was $65.7 and $77.6 as of December 31, 2015 and 2014, respectively. We have no exposure to any issuers in Greece, Russia or Ukraine.

As of December 31, 2015 and 2014, the fair value of our holdings from our ten largest issuers of foreign securities was $1,078.2 and $1,087.3, or 4.0% and 4.3%, respectively, of the fixed maturities portfolio. All of the holdings of our ten largest foreign issuers were investment grade with NAIC ratings of 2 or higher. The securities we held from our largest single foreign issuer, a Netherlands company, had the highest NAIC rating of 1 and a fair value of $138.8, or 0.5% of the portfolio as of December 31, 2015. For the period ended December 31, 2014, the securities we held from our largest single foreign issuer, a Canadian company, had a NAIC rating of 1 and a fair value of $124.9, or 0.5% of the portfolio.

*Mortgage-Backed Securities*

Our fixed maturity portfolio included $3.88 billion of residential and commercial mortgage-backed securities at fair value as of December 31, 2015, of which 63.0% were agency securities. Additionally, 25.1% of our mortgage-backed securities are AAA-rated non-agency securities in the most senior tranche of the structure type.

Non-agency mortgage-backed securities issued in the 2006 through 2008 vintage years were generally the most affected by the financial crisis, due to weaker underwriting standards and an issuance date closest to the market peak in real estate prices. As of December 31, 2015, our non-agency mortgage-backed securities with vintage years 2006 through 2008, which are primarily non-agency commercial mortgage-backed securities, had an amortized cost of $467.6 and a fair value of $533.8.

Our mortgage-backed securities may have prepayment options. Accounting standards require us to make estimates regarding prepayments when recognizing interest income on these securities. Prepayments that vary from our estimates in amount or timing cause fluctuations in our yields due to an acceleration or deceleration of unamortized premiums or discounts associated with the securities in our portfolio. These adjustments, which relate primarily to residential mortgage-backed securities (RMBS), are recorded in net investment income in our results of operations and can create volatility between periods.

*Residential Mortgage-Backed Securities (RMBS)*

We classify our investments in RMBS as agency, prime, Alt-A, and subprime. Agency RMBS are guaranteed or otherwise supported by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association. Prime RMBS have underlying loans to customers with good quality credit profiles, and subprime RMBS have underlying loans to customers with a greater risk of default. Alt-A RMBS have overall credit quality between prime and subprime, based on a review of their underlying mortgage loans and factors such as credit scores and financial ratios. The Company had no exposure to subprime loans as of December 31, 2015 or 2014.

As of December 31, 2015, our Alt-A portfolio was collateralized with 96.0% fixed rate mortgages and 4.0% hybrid adjustable rate mortgages (ARMs) with no exposure to option ARMs. Generally, fixed rate mortgages have had better credit performance than ARMs, with lower delinquencies and defaults on the underlying collateral.

The following table sets forth the total fair value, and amortized cost of our non-agency RMBS by year of origination (vintage) and credit quality, based on the highest rating by Moody's, S&P, or Fitch. There were three securities with a total amortized cost and fair value of $12.2 and $12.3, respectively, that were rated below investment grade by either Moody's, S&P or Fitch, while at least one other agency rated them investment grade:

| | As of December 31, 2015 | | | |
|---|---|---|---|---|
| | Highest Rating Agency Rating | | | |
| | Investment Grade | Below Investment Grade | Total | Total as of December 31, 2014 |
| **Vintage:** | | | | |
| 2009-2015 | $ 170.5 | $ — | $ 170.5 | $ 156.3 |
| 2006-2008 | — | 44.5 | 44.5 | 58.4 |
| 2005 and prior | 29.8 | 58.3 | 88.1 | 126.6 |
| Total amortized cost | $ 200.3 | $ 102.8 | $ 303.1 | $ 341.3 |
| Net unrealized gains (losses) | 2.3 | 6.2 | 8.5 | 12.5 |
| Total fair value | $ 202.6 | $ 109.0 | $ 311.6 | $ 353.8 |

As of December 31, 2015 and 2014, 75.4% and 67.9%, respectively, of the fair value of our non-agency RMBS had super senior subordination. The super senior class has priority over all principal and interest cash flows and will not experience any loss of principal until lower levels are written down to zero. Therefore, the majority of our RMBS investments have less exposure to defaults and delinquencies in the underlying collateral than if we held the more subordinated classes.

The following table provides additional information on our RMBS prepayment exposure, by type and vintage:

| | As of December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains/ (Losses) | Fair Value | Gross Discount | Gross Premium | Average Mortgage Loan Rate |
| **Agency:** | | | | | | |
| CMO: | | | | | | |
| 2009-2015 | $ 1,502.4 | $ 60.9 | $ 1,563.3 | $ 35.2 | $ (15.3) | 4.1% |
| 2006-2008 | 1.6 | 0.1 | 1.7 | 0.1 | — | 5.5 |
| 2005 and prior | 304.0 | 41.0 | 345.0 | 8.9 | (1.8) | 6.2 |
| Total Agency CMO | $ 1,808.0 | $ 102.0 | $ 1,910.0 | $ 44.2 | $ (17.1) | 4.4% |
| Passthrough: | | | | | | |
| 2009-2015 | $ 386.5 | $ 7.7 | $ 394.2 | $ 1.6 | $ (10.6) | 4.2% |
| 2006-2008 | 18.6 | 1.9 | 20.5 | 0.1 | (0.3) | 6.3 |
| 2005 and prior | 23.0 | 2.7 | 25.7 | 0.4 | (0.2) | 5.8 |
| Total Agency Passthrough | 428.1 | 12.3 | 440.4 | 2.1 | (11.1) | 4.4 |
| Total Agency RMBS | $ 2,236.1 | $ 114.3 | $ 2,350.4 | $ 46.3 | $ (28.2) | 4.4% |
| **Non-Agency:** | | | | | | |
| 2009-2015 | $ 170.5 | $ 0.4 | $ 170.9 | $ 1.5 | $ (1.0) | 4.0% |
| 2006-2008 | 44.5 | 3.8 | 48.3 | 7.9 | (0.1) | 5.2 |
| 2005 and prior | 88.1 | 4.3 | 92.4 | 4.6 | (0.1) | 5.4 |
| Total Non-Agency RMBS | 303.1 | 8.5 | 311.6 | 14.0 | (1.2) | 4.6 |
| **Total RMBS** | $ 2,539.2 | $ 122.8 | $ 2,662.0 | $ 60.3 | $ (29.4) | 4.5% |

*Commercial Mortgage-Backed Securities (CMBS)*

The following table sets forth the total fair value, and amortized cost of our non-agency CMBS by credit quality and vintage:

| | As of December 31, 2015 | | | |
|---|---|---|---|---|
| | Highest Rating Agency Rating | | | |
| | Investment Grade | Below Investment Grade | Total | Total as of December 31, 2014 |
| **Vintage:** | | | | |
| 2009-2015 | $ 591.1 | $ 24.8 | $ 615.9 | $ 492.5 |
| 2006-2008 | 423.1 | — | 423.1 | 493.7 |
| 2005 and prior | 59.4 | — | 59.4 | 119.6 |
| Total amortized cost | $ 1,073.6 | $ 24.8 | $ 1,098.4 | $ 1,105.8 |
| Net unrealized gains (losses) | 25.2 | (0.1) | 25.1 | 62.7 |
| Total fair value | $ 1,098.8 | $ 24.7 | $ 1,123.5 | $ 1,168.5 |

As of December 31, 2015, our CMBS portfolio was highly concentrated in the most senior tranches, with 99.8% of our AAA-rated securities in the most senior tranche, based on amortized cost. The senior class has priority over the mezzanine and junior classes to all principal and interest cash flows and will not experience any loss of principal until both the mezzanine and junior tranches are written down to zero. As of December 31, 2015, our CMBS had total gross unamortized discount and premium of $6.4 and $9.6, respectively.

The weighted-average credit enhancement of our CMBS portfolio was 32.6% as of December 31, 2015. We believe this additional credit enhancement is significant, especially in the event of a deep real estate downturn during which losses would be expected to increase substantially.

***Mortgage Loans***

Our mortgage loan department originates commercial mortgages and manages our existing commercial mortgage loan portfolio. We specialize in originating loans of $1.0 to $5.0, which are secured by first-mortgage liens on income-producing

commercial real estate. All loans are underwritten consistently to our standards based on loan-to-value (LTV) ratios and debt service coverage ratios (DSCR). LTV ratios and DSCRs are based on income and detailed market, property and borrower analyses using our long-term experience in commercial mortgage lending. A large majority of our loans have personal guarantees and all loans are inspected and evaluated annually. We diversify our mortgage loans by geographic region, loan size and scheduled maturity.

The following table presents information about the composition of our mortgage loan portfolio:

| | As of December 31, 2015 | As of December 31, 2014 |
|---|---|---|
| Average loan balance | $ 2.4 | $ 2.5 |
| Largest loan balance | 15.9 | 15.3 |
| Weighted average LTV ratio | 51.5% | 53.4% |
| Weighted average DSCR | 1.85 | 1.82 |

As of December 31, 2015 and 2014, 72.7% and 72.4%, respectively, of our mortgage loans had an outstanding balance under $5.0.

We continue to increase our investments in mortgage loans, as this strategy has resulted in increased net investment yields when compared to fixed maturity investments. For the year ended December 31, 2015, we originated loans at a spread over U.S. Treasuries of approximately 226bps, compared with 235bps for the year ended December 31, 2014. Spreads remain tight, primarily due to increased competition for loans that meet our size, duration and underwriting standards. Additionally, U.S. Treasury rates remained low, which has led to a decline in our overall mortgage loan portfolio yield.

We believe a disciplined increase in commercial mortgage loan investments will help us maintain the overall quality of our investment portfolio and obtain appropriate yields, while enhancing our ability to match the cash flows of assets and our policyholder liabilities. We originated $1,016.2 of mortgage loans during the year ended December 31, 2015.

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

| | For the Year Ended December 31, 2015 | For the Year Ended December 31, 2014 |
|---|---|---|
| Weighted average LTV ratio of loans originated | 51.3% | 52.5% |
| Maximum LTV ratio of loans originated | 72.3 | 73.4 |
| Weighted average DSCR of loans originated | 1.84 | 1.88 |
| Minimum DSCR of loans originated | 1.00 | 1.01 |

The following sections provide more information on the composition of our mortgage loan portfolio. On our consolidated balance sheets, mortgage loans are reported net of an allowance for losses, deferred loan origination costs, and unearned mortgage loan fees; however, the following tables exclude these items.

*Credit Quality*

We use the LTV ratio and DSCR as our primary metrics to assess mortgage loan quality. These factors are also considered in the evaluation of our allowance for mortgage loan losses.

The LTV ratio compares the outstanding principal of the loan to the estimated fair value of the underlying property collateralizing the loan. In the year of funding, LTV ratios are calculated using independent appraisals performed by Member of the Appraisal Institute (MAI) designated appraisers. Subsequent to the year of funding, LTV ratios are updated annually using internal valuations based on property income and estimated market capitalization rates. Property income estimates are typically updated during the third quarter of each year. Market capitalization rates are updated during the first quarter based on geographic region, property type and economic climate. LTV ratios greater than 100% indicate that the loan amount is greater than the collateral value. A smaller LTV ratio generally indicates a higher quality loan.

The following table sets forth the LTV ratios for our mortgage loan portfolio:

| | As of December 31, 2015 | | | As of December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Carrying Value | | % of Total | Carrying Value | | % of Total |
| **Loan-to-Value Ratio:** | | | | | | |
| < or = 50% | $ | 2,162.4 | 45.2% | $ | 1,597.9 | 38.7% |
| 51% - 60% | | 1,357.2 | 28.4 | | 1,284.6 | 31.1 |
| 61% - 70% | | 1,037.6 | 21.7 | | 948.1 | 22.9 |
| 71% - 75% | | 136.4 | 2.9 | | 163.7 | 4.0 |
| 76% - 80% | | 33.2 | 0.7 | | 55.8 | 1.3 |
| 81% - 100% | | 48.9 | 1.0 | | 76.5 | 1.8 |
| > 100% | | 6.4 | 0.1 | | 7.9 | 0.2 |
| Total | $ | 4,782.1 | 100.0% | $ | 4,134.5 | 100.0% |

The following table sets forth the carrying value and weighted-average LTV ratios for our mortgage loan portfolio by year of origination:

| | As of December 31, 2015 | | | | As of December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying Value | | % of Total Value | Weighted Average LTV | Carrying Value | | % of Total Value | Weighted Average LTV |
| **Origination Year:** | | | | | | | | |
| 2015 | $ | 1,040.3 | 21.7% | 51.3% | | | | |
| 2014 | | 903.1 | 18.9 | 56.0 | $ | 935.5 | 22.6% | 52.5% |
| 2013 | | 666.0 | 13.9 | 52.6 | | 701.8 | 17.0 | 56.6 |
| 2012 | | 677.6 | 14.2 | 50.9 | | 749.5 | 18.1 | 54.7 |
| 2011 | | 698.3 | 14.6 | 51.3 | | 792.4 | 19.2 | 55.6 |
| 2010 | | 372.1 | 7.8 | 47.5 | | 434.0 | 10.5 | 49.3 |
| 2009 and prior | | 424.7 | 8.9 | 45.5 | | 521.3 | 12.6 | 49.2 |
| Total | $ | 4,782.1 | 100.0% | 51.5% | $ | 4,134.5 | 100.0% | 53.4% |

The DSCR compares the amount of rental income a property is generating to the amount of the mortgage payments due on the property. A higher DSCR generally indicates a higher quality loan. DSCRs are calculated using the most current annual operating history for the collateral, which are typically updated during the third quarter. The following table sets forth the DSCRs for our mortgage loan portfolio:

| | As of December 31, 2015 | | | As of December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Carrying Value | | % of Total | Carrying Value | | % of Total |
| **Debt Service Coverage Ratio:** | | | | | | |
| > or = 1.60 | $ | 2,867.6 | 60.0% | $ | 2,418.5 | 58.5% |
| 1.40 - 1.59 | | 923.1 | 19.3 | | 832.5 | 20.1 |
| 1.20 - 1.39 | | 598.1 | 12.5 | | 501.1 | 12.1 |
| 1.00 - 1.19 | | 278.6 | 5.8 | | 278.2 | 6.7 |
| 0.85 - 0.99 | | 50.3 | 1.1 | | 31.6 | 0.8 |
| < 0.85 | | 64.4 | 1.3 | | 72.6 | 1.8 |
| Total | $ | 4,782.1 | 100.0% | $ | 4,134.5 | 100.0% |

As of December 31, 2015, loans with an aggregate carrying value of $114.7 had a DSCR of less than 1.00. The average outstanding principal balance of these loans was $1.8 with a weighted average LTV of 73.0%.

*Composition of Mortgage Loans*

The following table sets forth our investments in mortgage loans by state:

| | As of December 31, 2015 | | As of December 31, 2014 | |
|---|---|---|---|---|
| | Carrying Value | % of Total | Carrying Value | % of Total |
| **State:** | | | | |
| California | $ 1,392.5 | 29.1% | $ 1,202.6 | 29.1% |
| Texas | 528.1 | 11.0 | 447.2 | 10.8 |
| Washington | 360.4 | 7.5 | 345.8 | 8.4 |
| Ohio | 203.5 | 4.3 | 168.8 | 4.1 |
| Florida | 181.4 | 3.8 | 165.9 | 4.0 |
| Illinois | 179.6 | 3.8 | 158.2 | 3.8 |
| Nevada | 171.7 | 3.6 | 146.5 | 3.5 |
| Oregon | 144.2 | 3.0 | 134.5 | 3.3 |
| Other | 1,620.7 | 33.9 | 1,365.0 | 33.0 |
| Total | $ 4,782.1 | 100.0% | $ 4,134.5 | 100.0% |

The following table sets forth our investments in mortgage loans by property type:

| | As of December 31, 2015 | | As of December 31, 2014 | |
|---|---|---|---|---|
| | Carrying Value | % of Total | Carrying Value | % of Total |
| **Property Type:** | | | | |
| Shopping centers and retail | $ 2,440.7 | 51.0% | $ 2,074.5 | 50.2% |
| Office buildings | 1,015.2 | 21.2 | 929.9 | 22.5 |
| Industrial | 758.5 | 15.9 | 695.0 | 16.8 |
| Multi-family | 309.7 | 6.5 | 230.0 | 5.6 |
| Other | 258.0 | 5.4 | 205.1 | 4.9 |
| Total | $ 4,782.1 | 100.0% | $ 4,134.5 | 100.0% |

The shopping centers and retail portfolio is diversified among several sub-categories including anchored shopping centers, restaurants, and car care centers.

*Maturity Date of Mortgage Loans*

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

| | As of December 31, 2015 | |
|---|---|---|
| | Carrying Value | % of Total |
| **Years to Maturity:** | | |
| Due in one year or less | $ 42.6 | 0.9% |
| Due after one year through five years | 571.0 | 11.9 |
| Due after five years through ten years | 1,645.3 | 34.4 |
| Due after ten years | 2,523.2 | 52.8 |
| Total | $ 4,782.1 | 100.0% |

Prior to their contractual maturity, some of our mortgage loans have one or more specified rate resetting windows during which the loan typically can be prepaid without a fee. During these windows, we expect that a portion of these loans will either be reset or refinanced at market terms, given the current interest rate environment. These loan features are considered in our asset-liability management, and we align our expected mortgage loan cash inflows and duration with the amount and timing of liability cash outflows.

Additionally, our loan terms usually allow borrowers to prepay their mortgage loan prior to the stated maturity or outside specified rate resetting windows. Prepayments are driven by factors specific to the activities of our borrowers as well as the interest rate environment. However, the vast majority of our mortgage loans contain yield maintenance prepayment provisions that we believe mitigate such prepayments. For the years ended December 31, 2015 and 2014, we received principal related to

prepayments totaling $158.1 and $134.9, respectively, which generated prepayment-related investment income of $16.7 and $9.6, respectively.

#### *Investments in Limited Partnerships — Tax Credit Investments*

We invest in limited partnership interests related to tax credit investments. Although these investments decrease our net investment income on a pre-tax basis, they provide us with significant tax benefits, including tax credits, which decrease our effective tax rate and lower the amount of taxes that we pay.

The following table sets forth the impact of these investments on net income:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Amortization related to tax credit investments, net of taxes | $ (26.2) | $ (18.0) | $ (13.3) |
| Realized losses related to tax credit investments, net of taxes | (26.6) | (10.9) | (4.4) |
| Tax credits | 79.8 | 56.8 | 41.2 |
| Impact to net income | $ 27.0 | $ 27.9 | $ 23.5 |

The majority of our investments in limited partnerships relate to affordable housing. The tax credits from these partnerships are generally delivered in the first 10 years of the investment, with the largest portions provided in the middle years. We amortize these investments over the period during which partnership losses are expected to be recognized. The amortization schedule for each investment is updated periodically as new information related to the amount and timing of losses is received. Other tax credit investments generally provide benefits during the first year of the investment.

### Liquidity and Capital Resources

Symetra conducts its operations through its operating subsidiaries, and our liquidity requirements primarily have been and will continue to be met by funds from such subsidiaries. Dividends from its subsidiaries are Symetra's principal source of cash to pay stockholder dividends and meet its obligations, including payments of interest on notes payable. Payments of dividends from our insurance subsidiaries are subject to restrictions under state insurance regulations. We actively manage our liquidity in light of changing market, economic and business conditions.

#### *Liquid Assets*

Symetra's insurance subsidiaries have investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. Products having liabilities with longer durations, such as certain life insurance policies and structured settlement annuities, are matched with investments having similar estimated lives such as long-term fixed maturities, commercial mortgage loans and marketable equity securities. Shorter-term liabilities are matched with shorter-term fixed maturities. In addition, our insurance subsidiaries hold sufficient levels of highly liquid, high quality assets to fund anticipated operating expenses, surrenders and withdrawals.

We define liquid assets to include cash, cash equivalents, short-term investments, publicly traded fixed maturities and public equity securities. As of December 31, 2015 and 2014, our insurance company subsidiaries had liquid assets of $26.07 billion and $24.94 billion, respectively, and Symetra had liquid assets of $317.7 and $316.8, respectively. The portion of our total liquid assets consisting of cash and cash equivalents and short-term investments was $172.8 and $159.4 as of December 31, 2015 and 2014, respectively.

As of December 31, 2015, we had the ability to borrow, on an unsecured basis, a principal amount of $400.0 under a revolving line of credit arrangement with an expansion feature providing access to up to $100.0, for a total maximum principal amount of $500.0.

On April 1, 2016, Symetra's $300.0 Senior Notes are scheduled to mature. We plan to borrow under our $300.0 delayed-draw term loan agreement to settle the Senior Notes. The term loan will bear interest at a variable annual rate based on LIBOR or an alternate base rate plus an applicable margin and is scheduled to mature two years after the funding date, which maturity may be extended subject to certain conditions in the credit agreement.

#### *Liquidity Requirements*

The liquidity requirements of Symetra's insurance subsidiaries principally relate to the liabilities associated with their insurance and investment products, operating costs, the payment of dividends to the holding company, and payment of income taxes. Liabilities arising from insurance and investment products include the payment of benefits, as well as cash payments in

connection with policy and contract surrenders and withdrawals and policy loans. Historically, Symetra's insurance subsidiaries have used cash flows from operations, cash flows from invested assets and sales of investment securities to fund their liquidity requirements.

In managing the liquidity of our insurance operations, we consider the risk of policyholder and contract holder withdrawals of funds earlier than assumed when selecting assets to support these contractual obligations. We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of such withdrawals. While certain policy lapses and surrenders occur in the normal course of business, the current low interest rate environment generally has resulted in lower than expected lapses of our fixed annuities, as policyholders have limited alternatives to seek a higher return on their funds. If interest rates rise significantly, we will likely experience an increase in lapses.

Our asset liability management process takes into account the expected cash flows on investments and expected policyholder payments as well as the specific nature and risk profile of the liabilities. Considering the size and liquidity profile of our investment portfolio, we believe that we have appropriately mitigated the risk of policyholder behavior varying from our projections. We also consider attributes of the various categories of liquid assets, for example, type of asset and credit quality, in evaluating the adequacy of our insurance operations' liquidity under a variety of stress scenarios. We believe that the liquidity profile of our assets is sufficient to satisfy our liquidity requirements.

***Capitalization***

Our primary sources of capital are through retained income from our operating subsidiaries, capital infusions from our parent, Sumitomo Life, as well as our ability to access debt financing markets. Additionally, we have access to the credit facility discussed above. The following table summarizes our capital structure:

| | As of December 31, | |
|---|---|---|
| | **2015** | **2014** |
| Notes payable | $ 697.6 | $ 697.2 |
| Stockholders' equity (includes AOCI of $515.4 and $990.6, respectively) | 2,928.8 | 3,360.6 |
| Total capital | $ 3,626.4 | $ 4,057.8 |

Our capitalization decreased $431.4 from the prior year primarily due to a decrease in our accumulated other comprehensive income (AOCI), reported in stockholders' equity, driven by a decrease in net unrealized gains on available-for-sale securities and partially offset by our net income for the year. Unrealized gains on available-for-sale securities were $511.1, net of taxes and the related adjustment for DAC and DSI.

***Capital Management of Insurance Subsidiaries***

The payment of dividends and other distributions to Symetra by its insurance subsidiaries is subject to insurance laws and regulations. In general, dividends in excess of prescribed limits are deemed "extraordinary" and require regulatory approval. During the year ended December 31, 2015, Symetra received cash dividends of $140.0 from its insurance subsidiaries.

As of December 31, 2015 our primary life insurance subsidiary, Symetra Life Insurance Company, had a risk-based capital ratio of 424%. We believe this provides adequate capital levels for growth of our business.

***Debt***

The following table summarizes our debt instruments:

| | | Maximum Amount Available | | Amount Outstanding | |
|---|---|---|---|---|---|
| | | As of December 31, | | As of December 31, | |
| | Maturity Date | 2015 | 2014 | 2015 | 2014 |
| **Description:** | | | | | |
| Senior Notes payable, due 2016 | 4/1/2016 | $ 300.0 | $ 300.0 | $ 300.0 | $ 300.0 |
| Senior Notes payable, due 2024 | 7/15/2024 | 250.0 | 250.0 | 250.0 | 250.0 |
| Capital Efficient Notes (CENts) | 10/15/2067 | 150.0 | 150.0 | 150.0 | 150.0 |
| Revolving credit facility | 8/28/2019 | 400.0 | 400.0 | — | — |
| Surplus note | 12/31/2039 | 107.2 | 107.2 | — | — |
| Term loan credit agreement (1) | (1) | 300.0 | — | — | — |
| Total | | $ 1,507.2 | $ 1,207.2 | $ 700.0 | $ 700.0 |

(1) The term loan will mature two years after funding date, which will occur in the first quarter of 2016.

*Senior Notes Due 2016*

On March 30, 2006, we issued $300.0 of 6.125% Senior Notes due April 1, 2016, which were issued at a discount yielding $298.7. Interest on the Senior Notes is payable semiannually. They will be settled by borrowings under the term loan credit agreement.

*Senior Notes Due 2024*

On August 4, 2014, we issued $250.0 of 4.25% Senior Notes due on July 15, 2024, which were issued at a discount yielding $249.0. Interest on the notes is payable semi-annually, beginning on January 15, 2015.

*Capital Efficient Notes (CENts) Due 2067*

On October 10, 2007, we issued $150.0 aggregate principal amount CENts with a scheduled maturity date of October 15, 2037 and, subject to certain limitations, with a final maturity date of October 15, 2067. We issued the CENts at a discount yielding $149.8. For the initial ten-year period following the original issuance date the CENts carry a fixed interest rate of 8.300% payable semi-annually. From October 15, 2017 until the final maturity date of October 15, 2067, interest on the CENts will accrue at a variable annual rate equal to the three-month LIBOR plus 4.177%, payable quarterly.

*Revolving Credit Facility*

On August 28, 2014, we entered into a $400.0 senior unsecured revolving credit facility with a syndicate of lending institutions. The facility also provides access to up to $100.0 of additional financing, subject to the availability of additional commitments from lenders. The facility is set to mature on August 28, 2019. As of December 31, 2015, we have not made any borrowings under the facility.

*Surplus Note*

On December 12, 2014, our insurance subsidiary issued a surplus note with no initial outstanding principal balance, associated with a reserve financing transaction.

*Term Loan Credit Agreement*

On October 16, 2015, we entered into a term loan credit agreement under which we may borrow up to $300.0 of unsecured term loans on a single delayed-draw basis on or before April 1, 2016. The proceeds of the term loans will be used to settle our $300.0 Senior Notes that are scheduled to mature on April 1, 2016. The term loans will bear interest at a variable annual rate based on LIBOR or an alternate base rate plus an applicable margin and are scheduled to mature two years after the funding date, which maturity may be extended subject to certain conditions in the credit agreement.

## Sources of Revenues and Expenses

Our primary sources of revenues from our insurance operations are premiums, net investment income and policy fees and contract charges. We also generate net realized gains (losses), primarily on sales or impairment of our investments, and changes in fair value on our equity trading portfolio and derivative financial instruments. Our primary sources of expenses from our insurance operations are policyholder benefits and claims, interest credited to policyholder reserves and account balances, DAC amortization, and general business and operating expenses, net of DAC deferrals. These items are discussed in further detail below.

Each of our four business segments maintains its own portfolio of invested assets, which are managed in accordance with specific guidelines. The net investment income and realized gains (losses) are reported in the segment in which they occur. We also allocate net investment income generated by our surplus portfolio to each segment using a risk-based capital formula. The unallocated portion of net investment income is reported in the Other segment. Investment expenses, which are recorded as a reduction of net investment income, are allocated to each segment based on its portfolio of invested assets. We allocate shared service operating expenses to each segment using multiple factors, including employee headcount and time study results.

### *Revenues*

*Premiums*

Premiums consist primarily of premiums from our medical stop-loss, limited benefit medical, group life and DI, individual term and whole life insurance products, net of reinsurance premiums paid.

*Net investment income*

Net investment income represents the income earned on our investments, net of investment expenses, including prepayment-related income such as bond make-whole payments. Net investment income also includes gains or losses from changes in the fair value of our alternative investments and expense from amortization of tax credit investments.

*Policy fees, contract charges and other*

Policy fees, contract charges and other includes COI charges primarily on our UL and BOLI policies, surrender and other administrative charges to policyholders, revenues from our non-insurance businesses, and reinsurance allowance fees.

*Net realized gains (losses)*

Net realized gains (losses) mainly consists of realized gains (losses) from sales of our investments, realized losses from investment impairments, changes in fair value of our marked-to-market investments and changes in fair value of our FIA embedded derivative. It also includes the portion of DAC and DSI amortization due to changes in estimated gross profits (EGPs) related to these items.

### *Benefits and Expenses*

*Policyholder benefits and claims*

Policyholder benefits and claims consist of benefits paid, net of reinsurance recoveries, and reserve changes on group insurance, individual life and BOLI products.

*Interest credited*

Interest credited represents interest credited to policyholder reserves and contract holder general account balances, the impact of mortality and funding services activity within our Income Annuities segment, and the impact of deferred sales inducements.

*Other underwriting and operating expenses*

Other underwriting and operating expenses represent non-deferrable costs related to the acquisition and the ongoing maintenance of insurance and investment contracts, including certain non-deferrable commissions, policy issuance expenses and other business and administrative operating costs.

*Interest expense*

Interest expense primarily includes interest on corporate debt, the impact of interest rate hedging activities on the debt and amortization of debt issuance costs.

*Amortization of deferred policy acquisition costs*

We defer as assets certain commissions, distribution costs, new business processing costs, and other underwriting costs that are directly related to the successful acquisition of new and renewal business. Amortization of previously capitalized DAC is recorded as an expense.

## Use of non-GAAP Financial Measures

Certain tables and related disclosures in this report include non-GAAP financial measures. We believe these measures provide useful information when evaluating our financial performance or condition. The non-GAAP financial measures discussed below are not substitutes for their most directly comparable GAAP measures. The adjustments made to derive these non-GAAP measures are important to understanding our overall results of operations and financial position and, if evaluated without proper context, these non-GAAP measures possess material limitations. Therefore, our management and board of directors also separately review the items excluded from or added to the most directly comparable GAAP measures to arrive at these non-GAAP measures. In addition, management and our board of directors also analyze each of the comparable GAAP measures in connection with their review of our results of operations and financial position.

In the following paragraphs, we provide definitions of our non-GAAP measures.

***Adjusted Operating Income***

Adjusted operating income consists of net income, excluding certain net realized gains (losses). Excluded realized 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 S&P 500 options, described below), and changes in the fair value of embedded derivatives related to our FIA products, as well as the DAC and DSI impacts related to these items.

Net income is the most directly comparable GAAP measure to adjusted operating income. Net income for any period presents the results of our insurance operations, as well as our net realized gains (losses). We consider investment income generated by our invested assets to be part of the results of our insurance operations because they are acquired and generally held to maturity to generate income that we use to meet our obligations. Conversely, we do not consider many of the activities reported through net realized gains (losses) as part of the results of our insurance operations. The timing and amount of these gains (losses) are driven by investment decisions and external economic developments unrelated to our management of the insurance and underwriting aspects of our business.

Certain realized gains (losses) that are included in adjusted operating income reflect the gains (losses) on S&P 500 options supporting FIA policies primarily sold in the late 1990s. These policyholders earn interest based on equity market performance, and we purchase S&P 500 options to hedge market fluctuations. Interest earned by these policyholders is reported in interest credited in the consolidated statements of income. Each year, we use any realized gains from the S&P 500 options to meet obligations associated with this block, similar to the way we use investment income to meet obligations associated with other fixed deferred annuities. Therefore, we include these realized gains (losses) in adjusted operating income.

We believe it's useful to review a measure of the results of our insurance operations separate from most of the gain and loss activity attributable to our investment portfolio because it assists in determining whether our insurance-related revenues, composed primarily of premiums, net investment income and policy fees, contract charges and other, have been sufficient to generate operating earnings after meeting our insurance-related obligations, composed primarily of claims paid to policyholders, investment returns credited to policyholder accounts, and other operating costs.

***Pre-tax Adjusted Operating Income***

Pre-tax adjusted operating income is adjusted operating income on a pre-tax basis. It also represents the cumulative total of segment pre-tax adjusted operating income, which at the segment level is a GAAP measure. Income from operations before income taxes is the most directly comparable GAAP measure to pre-tax adjusted operating income. In presenting pre-tax adjusted operating income, we are excluding certain pre-tax net realized gains (losses) as described above.

In addition to using adjusted operating income to evaluate our insurance operations, our management and board of directors have other uses for this measure, including assessing achievement of our financial plan and managing the crediting rates on our insurance liabilities.