

Voya Financial, Inc.
Form 10-Q
May 12, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _ to _

Commission File Number: _001-35897_____

Voya Financial, Inc.

(Exact name of registrant as specified in its charter)

Delaware

52-1222820

(State or other jurisdiction of incorporation or
organization)

(IRS Employer Identification No.)

230 Park Avenue

New York, New York

10169

(Address of principal executive offices)

(Zip Code)

(212) 309-8200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: At May 6, 2014, 254,594,220 shares of Common Stock, \$0.01 par value, were outstanding.

Voya Financial, Inc.
Form 10-Q for the period ended March 31, 2014

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NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future developments in our business or expectations for our future financial performance and any statement not involving a historical fact.

Forward-looking statements use words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” and other words or terms of similar meaning in connection with a discussion of future operating or financial performance. Actual results, performance or events may differ materially from those projected in any forward-looking statement due to, among other things, (i) general economic conditions, particularly economic conditions in our core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels, (v) persistency and lapse levels, (vi) interest rates, (vii) currency exchange rates, (viii) general competitive factors, (ix) changes in laws and regulations and (x) changes in the policies of governments and/or regulatory authorities. Factors that may cause actual results to differ from those in any forward-looking statement also include those described under “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Trends and Uncertainties” and “Business-Closed Blocks-CBVA” in the Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-35897) (the “Annual Report on Form 10-K”).

The risks included here are not exhaustive. Current reports on Form 8-K and other documents filed with the Securities and Exchange Commission (“SEC”) include additional factors that could affect our businesses and financial performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Voya Financial, Inc.

Condensed Consolidated Balance Sheets

March 31, 2014 (Unaudited) and December 31, 2013

(In millions, except share and per share data)

	March 31, 2014	December 31, 2013
Assets:		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$65,607.9 at 2014 and \$65,033.8 at 2013)	\$70,449.7	\$68,317.8
Fixed maturities, at fair value using the fair value option	3,082.1	2,935.3
Equity securities, available-for-sale, at fair value (cost of \$244.8 at 2014 and \$267.4 at 2013)	276.6	314.4
Short-term investments	1,046.2	1,048.1
Mortgage loans on real estate, net of valuation allowance of \$3.4 at 2014 and \$3.8 at 2013	9,258.1	9,312.2
Policy loans	2,119.7	2,147.0
Limited partnerships/corporations	218.9	236.4
Derivatives	1,044.7	1,149.3
Other investments	124.1	124.6
Securities pledged (amortized cost of \$1,230.3 at 2014 and \$1,457.9 at 2013)	1,271.3	1,465.7
Total investments	88,891.4	87,050.8
Cash and cash equivalents	2,499.8	2,840.8
Short-term investments under securities loan agreements, including collateral delivered	558.6	552.9
Accrued investment income	935.6	897.1
Reinsurance recoverable	6,785.8	6,702.2
Deferred policy acquisition costs and Value of business acquired	4,860.8	5,351.6
Sales inducements to contract holders	258.6	279.0
Deferred income taxes	—	162.1
Goodwill and other intangible assets	312.5	323.7
Other assets	1,016.1	1,036.5
Assets related to consolidated investment entities:		
Limited partnerships/corporations, at fair value	3,382.4	3,218.6
Cash and cash equivalents	570.0	710.7
Corporate loans, at fair value using the fair value option	5,490.7	4,965.3
Other assets	108.4	104.8
Assets held in separate accounts	107,840.0	106,827.1
Total assets	\$223,510.7	\$221,023.2

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Voya Financial, Inc.
Condensed Consolidated Balance Sheets
March 31, 2014 (Unaudited) and December 31, 2013
(In millions, except share and per share data)

	March 31, 2014	December 31, 2013
Liabilities and Shareholders' Equity:		
Future policy benefits	\$14,532.6	\$14,098.4
Contract owner account balances	69,723.5	69,908.3
Payables under securities loan agreements, including collateral held	864.5	769.4
Long-term debt	3,515.0	3,514.7
Funds held under reinsurance agreements	1,174.5	1,181.5
Derivatives	1,013.5	1,351.8
Pension and other post-employment provisions	467.5	474.9
Current income taxes	3.5	44.1
Deferred income taxes	272.1	—
Other liabilities	1,243.0	1,274.1
Liabilities related to consolidated investment entities:		
Collateralized loan obligations notes, at fair value using the fair value option	5,525.5	5,161.6
Other liabilities	967.5	903.3
Liabilities related to separate accounts	107,840.0	106,827.1
Total liabilities	207,142.7	205,509.2
Shareholders' equity:		
Common stock (\$0.01 par value per share; 900,000,000 shares authorized, 262,625,547 and 261,754,931 shares issued as of 2014 and 2013, respectively; 254,734,166 and 261,675,811 shares outstanding as of 2014 and 2013, respectively)	2.6	2.6
Treasury stock (at cost; 7,891,381 and 79,120 shares as of 2014 and 2013, respectively)	(269.8) —
Additional paid-in capital	23,579.5	23,563.7
Accumulated other comprehensive income (loss)	2,577.5	1,849.1
Retained earnings (deficit):		
Appropriated-consolidated investment entities	15.2	18.4
Unappropriated	(11,903.5) (12,161.6
Total Voya Financial, Inc. shareholders' equity	14,001.5	13,272.2
Noncontrolling interest	2,366.5	2,241.8
Total shareholders' equity	16,368.0	15,514.0
Total liabilities and shareholders' equity	\$223,510.7	\$221,023.2

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Voya Financial, Inc.
Condensed Consolidated Statements of Operations
For the Three Months Ended March 31, 2014 and 2013 (Unaudited)
(In millions, except per share data)

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Net investment income	\$ 1,145.6	\$ 1,198.7
Fee income	931.8	891.9
Premiums	600.9	471.9
Net realized gains (losses):		
Total other-than-temporary impairments	(3.3)) (11.6)
Less: Portion of other-than-temporary impairments recognized in Other comprehensive income (loss)	—	(0.6)
Net other-than-temporary impairments recognized in earnings	(3.3)) (11.0)
Other net realized capital gains (losses)	(187.3)) (863.8)
Total net realized capital gains (losses)	(190.6)) (874.8)
Other revenue	105.5	95.6
Income (loss) related to consolidated investment entities:		
Net investment income (loss)	81.5	44.2
Changes in fair value related to collateralized loan obligations	(3.8)) (8.9)
Total revenues	2,670.9	1,818.6
Benefits and expenses:		
Policyholder benefits	865.0	540.5
Interest credited to contract owner account balance	493.1	520.9
Operating expenses	789.5	759.1
Net amortization of deferred policy acquisition costs and value of business acquired	126.1	130.5
Interest expense	47.6	44.4
Operating expenses related to consolidated investment entities:		
Interest expense	46.2	36.8
Other expense	1.1	0.7
Total benefits and expenses	2,368.6	2,032.9
Income (loss) before income taxes	302.3	(214.3)
Income tax expense (benefit)	30.7	11.2
Net income (loss)	271.6	(225.5)
Less: Net income (loss) attributable to noncontrolling interest	13.5	(13.5)
Net income (loss) available to Voya Financial, Inc.'s common shareholders	\$ 258.1	\$ (212.0)
Net income (loss) available to Voya Financial, Inc.'s common shareholders per common share:		
Basic	\$ 0.99	\$ (0.92)
Diluted	\$ 0.98	\$ (0.92)
Cash dividends declared per share of common stock	\$ 0.01	\$ —

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Voya Financial, Inc.
Condensed Consolidated Statements of Comprehensive Income
For the Three Months Ended March 31, 2014 and 2013 (Unaudited)
(In millions)

	Three Months Ended March 31,		
	2014	2013	
Net income (loss)	\$271.6	\$(225.5))
Other comprehensive income (loss), before tax:			
Unrealized gains (losses) on securities	1,110.1	(399.9))
Other-than-temporary impairments	15.6	10.9)
Pension and other postretirement benefits liability	(3.4) (3.5)
Other comprehensive income (loss), before tax	1,122.3	(392.5))
Income tax expense (benefit) related to items of other comprehensive income (loss)	393.9	(134.6))
Other comprehensive income (loss), after tax	728.4	(257.9))
Comprehensive income (loss)	1,000.0	(483.4))
Less: Comprehensive income (loss) attributable to the noncontrolling interest	13.5	(13.5))
Comprehensive income (loss) attributable to Voya Financial, Inc.'s common shareholders	\$986.5	\$(469.9))

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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Voya Financial, Inc.

Condensed Consolidated Statements of Changes in Shareholders' Equity

For the Three Months Ended March 31, 2014 and 2013 (Unaudited)

(In millions)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Retained Earnings (Deficit)	Total Voya Financial, Inc. Shareholders' Equity	Noncontrolling Interest	Total Shareholders' Equity
Balance at January 1, 2014	\$ 2.6	\$—	\$23,563.7	\$ 1,849.1	\$18.4	\$(12,161.6)	\$13,272.2	\$ 2,241.8	\$15,514.0
Comprehensive income (loss):									
Net income (loss)	—	—	—	—	—	258.1	258.1	13.5	271.6
Other comprehensive income (loss), after tax	—	—	—	728.4	—	—	728.4	—	728.4
Total comprehensive income (loss)							986.5	13.5	1,000.0
Reclassification of noncontrolling interest	—	—	—	—	(3.2)	—	(3.2)	3.2	—
Common stock acquired - Share buyback	—	(258.9)	—	—	—	—	(258.9)	—	(258.9)
Dividends on common stock	—	—	(2.6)	—	—	—	(2.6)	—	(2.6)
Share-based compensation	—	(10.9)	18.4	—	—	—	7.5	—	7.5
Contribution from (Distribution to) noncontrolling interest, net	—	—	—	—	—	—	—	108.0	108.0
Balance at March 31, 2014	\$ 2.6	\$(269.8)	\$23,579.5	\$ 2,577.5	\$15.2	\$(11,903.5)	\$14,001.5	\$ 2,366.5	\$16,368.0

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Retained Earnings (Deficit)	Total Voya Financial, Inc. Shareholders' Equity	Noncontrolling Interest	Total Shareholders' Equity
Balance at January 1, 2013	\$ 2.3	—	\$22,917.6	\$ 3,710.7	\$6.4	\$(12,762.1)	\$13,874.9	\$ 2,186.3	\$16,061.2
Comprehensive income (loss):									

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Net income (loss)	—	—	—	—	—	(212.0)	(212.0)	(13.5)	(225.5)
Other comprehensive income (loss), after tax	—	—	—	(257.9)	—	—	(257.9)	—	(257.9)
Total comprehensive income (loss)							(469.9)	(13.5)	(483.4)
Reclassification of noncontrolling interest	—	—	—	—	(6.2)	—	(6.2)	6.2	—
Common stock acquired - Share buyback	—	—	—	—	—	—	—	—	—
Dividends on common stock	—	—	—	—	—	—	—	—	—
Share-based compensation	—	—	(7.7)	—	—	—	(7.7)	—	(7.7)
Contribution from (Distribution to) noncontrolling interest, net	—	—	—	—	—	—	—	28.8	28.8
Balance at March 31, 2013	\$ 2.3	\$ —	\$22,909.9	\$ 3,452.8	\$0.2	\$ (12,974.1)	\$13,391.1	\$ 2,207.8	\$ 15,598.9

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Voya Financial, Inc.
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2014 and 2013 (Unaudited)
(In millions)

	Three Months Ended March 31,	
	2014	2013
Net cash provided by (used in) operating activities	\$786.6	\$(28.4)
Cash Flows from Investing Activities:		
Proceeds from the sale, maturity, disposal or redemption of:		
Fixed maturities	2,629.7	4,455.8
Equity securities, available-for-sale	47.7	28.4
Mortgage loans on real estate	307.4	318.3
Limited partnerships/corporations	60.9	18.0
Acquisition of:		
Fixed maturities	(3,057.2)	(4,802.8)
Equity securities, available-for-sale	(7.4)	(9.4)
Mortgage loans on real estate	(252.9)	(581.4)
Limited partnerships/corporations	(18.4)	(9.8)
Short-term investments, net	1.9	2,999.1
Policy loans, net	27.3	(4.1)
Derivatives, net	(178.6)	(1,089.6)
Other investments, net	2.0	11.8
Sales from consolidated investment entities	571.8	573.8
Purchases within consolidated investment entities	(1,258.8)	(613.8)
Collateral received (delivered), net	89.4	(360.5)
Purchases of fixed assets, net	(8.7)	(6.6)
Net cash (used in) provided by investing activities	(1,043.9)	927.2
Cash Flows from Financing Activities:		
Deposits received for investment contracts	2,500.0	2,936.2
Maturities and withdrawals from investment contracts	(2,809.7)	(2,996.6)
Proceeds from issuance of debt with maturities of more than three months	—	1,000.6
Repayment of debt with maturities of more than three months	—	(1,304.6)
Short-term debt, net	—	(169.7)
Debt issuance costs	(16.7)	(6.5)
Borrowings of consolidated investment entities	28.4	—
Contributions from (distributions to) participants in consolidated investment entities	466.9	642.7
Common stock acquired - Share buyback	(250.0)	—
Dividends paid	(2.6)	—
Net cash (used in) provided by financing activities	(83.7)	102.1
Net (decrease) increase in cash and cash equivalents	(341.0)	1,000.9
Cash and cash equivalents, beginning of period	2,840.8	1,786.8
Cash and cash equivalents, end of period	\$2,499.8	\$2,787.7
Supplemental cash flow information:		
Income taxes paid (received), net	\$31.0	\$(3.2)
Interest paid	67.2	55.1

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Voya Financial, Inc.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

(Dollar amounts in millions, unless otherwise stated)

1. Business, Basis of Presentation and Significant Accounting Policies

Business

Voya Financial, Inc. (which changed its name from ING U.S., Inc. on April 7, 2014) and its subsidiaries (collectively the "Company") is a financial services organization in the United States that offers a broad range of retirement services, annuities, investment management services, mutual funds, life insurance, group insurance and supplemental health products, guaranteed investment contracts and funding agreements. The Company provides its principal products and services in three businesses (Retirement Solutions, Investment Management and Insurance Solutions) and reports results through five ongoing operating segments, including Retirement, Annuities, Investment Management, Individual Life and Employee Benefits. The Company also has a Corporate segment, which includes the financial data not directly related to the businesses, and Closed Block segments. See Note 14. Segments to these Condensed Consolidated Financial Statements.

In 2009, ING Groep N.V. ("ING Group" or "ING"), a global financial services holding company based in The Netherlands, with American Depositary Shares listed on the New York Stock Exchange, announced the anticipated separation of its global banking and insurance businesses, including the divestiture of the Company. On April 11, 2013, the Company announced plans to rebrand in the future as Voya Financial. On May 2, 2013, the common stock of Voya Financial, Inc. began trading on the New York Stock Exchange under the symbol "VOYA." On May 7, 2013 and May 31, 2013, Voya Financial, Inc. completed its initial public offering of common stock, including the issuance and sale by Voya Financial, Inc. of 30,769,230 shares of common stock and the sale by ING Insurance International B.V. ("ING International"), an indirect wholly owned subsidiary of ING Group and previously the sole stockholder of ING U.S., Inc., of 44,201,773 shares of outstanding common stock of Voya Financial, Inc. (collectively, the "IPO"). On September 30, 2013, ING International transferred all of its shares of ING U.S., Inc. common stock to ING Group.

On October 29, 2013, ING Group completed a sale of 37,950,000 shares of common stock of the Company in a registered public offering ("Secondary Offering"), reducing ING Group's ownership in the Company to 57%.

On March 25, 2014, ING Group completed a sale of 30,475,000 shares of common stock of Voya Financial, Inc. in a registered public offering (the "March 2014 Offering"). Also on March 25, 2014, pursuant to the terms of a share repurchase agreement between ING Group and Voya Financial, Inc., Voya Financial, Inc. acquired 7,255,853 shares of its common stock from ING Group (the "Direct Share Buyback") (the offering and the Direct Share Buyback collectively, the "Transactions"). Upon completion of the Transactions, ING Group's ownership of Voya Financial, Inc. was reduced to approximately 43%.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and are unaudited. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the

Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates.

The Condensed Consolidated Financial Statements include the accounts of Voya Financial, Inc. and its subsidiaries, as well as partnerships (voting interest entities ("VOEs")) in which the Company has control and variable interest entities ("VIEs") for which the Company is the primary beneficiary. See Note 13. Consolidated Investment Entities to these Condensed Consolidated Financial Statements. Intercompany transactions and balances have been eliminated.

The accompanying Condensed Consolidated Financial Statements reflect all adjustments (including normal, recurring adjustments) necessary to present fairly the financial position of the Company as of March 31, 2014, and its results of operations, comprehensive income, changes in shareholders' equity and statements of cash flows for the three months ended March 31, 2014 and 2013, in conformity with U.S. GAAP. Interim results are not necessarily indicative of full year performance. The December 31, 2013 Consolidated Balance Sheet is from the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission ("SEC"), which included all disclosures required by U.S. GAAP. Therefore, these unaudited Condensed Consolidated Financial Statements should be read

Voya Financial, Inc.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

(Dollar amounts in millions, unless otherwise stated)

in conjunction with the audited Consolidated Financial Statements of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Adoption of New Pronouncements

Presentation of Unrecognized Tax Benefits

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, "Income Taxes (Accounting Standards Codification ("ASC") Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"), which clarifies that:

An unrecognized tax benefit should be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, except,

An unrecognized tax benefit should be presented as a liability and not be combined with a deferred tax asset (i) to the extent a net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position or (ii) the tax law does not require the entity to use, or the entity does not intend to use, the deferred tax asset for such a purpose.

The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date.

The provisions of ASU 2013-11 were adopted prospectively by the Company on January 1, 2014, to all unrecognized tax benefits existing on that date. The adoption had no effect on the Company's financial condition, results of operations or cash flows, as the guidance is consistent with that previously applied.

Investment Companies

In June 2013, the FASB issued ASU 2013-08, "Financial Services-Investment Companies (ASC Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements" ("ASU 2013-08"), which provides comprehensive guidance for assessing whether an entity is an investment company and requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value. ASU 2013-08 also requires an entity to disclose that it is an investment company and any changes to that status, as well as information about financial support provided or required to be provided to investees.

The provisions of ASU 2013-08 were adopted prospectively by the Company on January 1, 2014, for entities that are investment companies at that date. The adoption had no effect on the Company's financial condition, results of operations or cash flows.

Joint and Several Liability Arrangements

In February 2013, the FASB issued ASU 2013-04, "Liabilities (ASC Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date" ("ASU 2013-04"), which requires an entity to measure obligations resulting from joint and several liable arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of

(1) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (2) any additional amount it expects to pay on behalf of its co-obligors. ASU 2013-04 also requires an entity to disclose the nature and amount of the obligation, as well as other information about those obligations. The adoption had no effect on the Company's financial condition, results of operations or cash flows, as the Company did not have any fixed obligations under joint and several liable arrangements as of January 1, 2014.

Fees Paid to the Federal Government by Health Insurers

In July 2011, the FASB issued ASU 2011-06, "Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers" ("ASU 2011-06"), which specifies how health insurers should recognize and classify the annual fee imposed by the Patient Protection and Affordable Care Act as amended by the Health Care Education Reconciliation Act (the "Acts"). The liability for the fee should be estimated and recorded in full at the time the entity provides qualifying health insurance in the year in which the fee is payable, with a corresponding deferred cost that is amortized to expense.

The provisions of ASU 2011-06 were adopted by the Company on January 1, 2014, when the fee initially became effective. The adoption of ASU 2011-06 had no effect on the Company's financial condition, results of operations or cash flows, as the amount of net premium written for qualifying health insurance by the Company in 2014 is expected to be below the \$25.0 threshold as defined by the Acts and, thus, not subject to the fee.

Voya Financial, Inc.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

(Dollar amounts in millions, unless otherwise stated)

Future Adoption of Accounting Pronouncements

Discontinued Operations and Disposals

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (ASC Topic 205) and Property, Plant, and Equipment (ASC Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"), which requires the disposal of a component of an entity to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on the entity's operations and financial results. The component should be reported in discontinued operations when it meets the criteria to be classified as held for sale, is disposed of by sale or is disposed of other than by sale.

The amendments also require additional disclosures about discontinued operations, including disclosures about an entity's significant continuing involvement with a discontinued operation, and disclosures for a disposal of an individually significant component of an entity that does not qualify for discontinued operations.

The provisions of ASU 2014-08 are effective for annual periods beginning after December 15, 2014 and for interim periods beginning after December 15, 2015. The amendments should be applied prospectively to disposals and classifications as held for sale that occur within those periods. The Company does not expect ASU 2014-08 to have an impact on its financial condition, results of operations, cash flows or disclosures, as the Company does not have any discontinued operations as of March 31, 2014.

Voya Financial, Inc.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

(Dollar amounts in millions, unless otherwise stated)

2. Investments (excluding Consolidated Investment Entities)

Fixed Maturities and Equity Securities

Available-for-sale and fair value option ("FVO") fixed maturities and equity securities were as follows as of March 31, 2014:

	Amortized Cost	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Embedded Derivatives ⁽²⁾	Fair Value	OTTI ⁽³⁾
Fixed maturities:						
U.S. Treasuries	\$4,991.6	\$315.6	\$44.1	\$—	\$5,263.1	\$—
U.S. Government agencies and authorities	610.6	33.7	0.2	—	644.1	—
State, municipalities and political subdivisions	276.5	17.5	0.4	—	293.6	—
U.S. corporate securities	36,658.8	2,876.3	361.6	—	39,173.5	11.8
Foreign securities ⁽¹⁾ :						
Government	886.3	45.0	24.1	—	907.2	—
Other	14,859.9	1,062.2	88.7	—	15,833.4	—
Total foreign securities	15,746.2	1,107.2	112.8	—	16,740.6	—
Residential mortgage-backed securities:						
Agency	5,319.7	432.7	41.9	76.2	5,786.7	0.3
Non-Agency	1,054.7	175.3	10.9	46.9	1,266.0	93.3
Total Residential mortgage-backed securities	6,374.4	608.0	52.8	123.1	7,052.7	93.6
Commercial mortgage-backed securities	3,472.8	323.9	0.6	—	3,796.1	—
Other asset-backed securities	1,789.4	81.4	31.4	—	1,839.4	5.0
Total fixed maturities, including securities pledged	69,920.3	5,363.6	603.9	123.1	74,803.1	110.4
Less: Securities pledged	1,230.3	50.4	9.4	—	1,271.3	—
Total fixed maturities	68,690.0	5,313.2	594.5	123.1	73,531.8	110.4
Equity securities:						
Common stock	194.3	2.3	0.2	—	196.4	—
Preferred stock	50.5	29.7	—	—	80.2	—
Total equity securities	244.8	32.0	0.2	—	276.6	—

Total fixed maturities and equity securities investments	\$68,934.8	\$5,345.2	\$594.7	\$123.1	\$73,808.4	\$110.4
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(1) Primarily U.S. dollar denominated.

(2) Embedded derivatives within fixed maturity securities are reported with the host investment. The changes in fair value of embedded derivatives are reported in Other net realized capital gains (losses) in the Condensed Consolidated Statements of Operations.

(3) Represents Other-than-Temporary-Impairments ("OTTI") reported as a component of Other comprehensive income.

Voya Financial, Inc.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

(Dollar amounts in millions, unless otherwise stated)

Available-for-sale and FVO fixed maturities and equity securities were as follows as of December 31, 2013:

	Amortized Cost	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Embedded Derivatives ⁽²⁾	Fair Value	OTTI ⁽³⁾
Fixed maturities:						
U.S. Treasuries	\$5,094.0	\$174.0	\$86.8	\$—	\$5,181.2	\$—
U.S. Government agencies and authorities	598.0	22.3	1.4	—	618.9	—
State, municipalities and political subdivisions	272.0	10.6	1.5	—	281.1	—
U.S. corporate securities	36,010.3	2,174.5	706.2	—	37,478.6	12.8
Foreign securities ⁽¹⁾ :						
Government	1,044.0	49.6	42.2	—	1,051.4	—
Other	14,617.4	864.2	176.5	—	15,305.1	—
Total foreign securities	15,661.4	913.8	218.7	—	16,356.5	—
Residential mortgage-backed securities:						
Agency	5,379.2	431.1	62.1	79.2	5,827.4	0.4
Non-Agency	1,101.1	166.2	18.3	47.3	1,296.3	103.2
Total Residential mortgage-backed securities	6,480.3	597.3	80.4	126.5	7,123.7	103.6
Commercial mortgage-backed securities	3,427.9	327.7	3.5	—	3,752.1	4.4
Other asset-backed securities	1,883.1	81.6	38.0	—	1,926.7	5.2
Total fixed maturities, including securities pledged	69,427.0	4,301.8	1,136.5	126.5	72,718.8	126.0
Less: Securities pledged	1,457.9	24.6	16.8	—	1,465.7	—
Total fixed maturities	67,969.1	4,277.2	1,119.7	126.5	71,253.1	126.0
Equity securities:						
Common stock	214.3	5.1	0.9	—	218.5	—
Preferred stock	53.1	43.4	0.6	—	95.9	—
Total equity securities	267.4	48.5	1.5	—	314.4	—
Total fixed maturities and equity securities investments	\$68,236.5	\$4,325.7	\$1,121.2	\$126.5	\$71,567.5	\$126.0

⁽¹⁾ Primarily U.S. dollar denominated.

⁽²⁾ Embedded derivatives within fixed maturity securities are reported with the host investment. The changes in fair value of embedded derivatives are reported in Other net realized capital gains (losses) in the Condensed Consolidated Statements of Operations.

⁽³⁾ Represents OTTI reported as a component of Other comprehensive income.

Voya Financial, Inc.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

(Dollar amounts in millions, unless otherwise stated)

The amortized cost and fair value of fixed maturities, including securities pledged, as of March 31, 2014, are shown below by contractual maturity. Actual maturities may differ from contractual maturities as securities may be restructured, called or prepaid. Mortgage-backed securities ("MBS") and Other asset-backed securities ("ABS") are shown separately because they are not due at a single maturity date.

	Amortized Cost	Fair Value
Due to mature:		
One year or less	\$1,999.3	\$2,032.5
After one year through five years	13,858.5	14,748.5
After five years through ten years	21,329.9	22,070.1
After ten years	21,096.0	23,263.8
Mortgage-backed securities	9,847.2	10,848.8
Other asset-backed securities	1,789.4	1,839.4
Fixed maturities, including securities pledged	\$69,920.3	\$74,803.1

The investment portfolio is monitored to maintain a diversified portfolio on an ongoing basis. Credit risk is mitigated by monitoring concentrations by issuer, sector and geographic stratification and limiting exposure to any one issuer.

As of March 31, 2014 and December 31, 2013, the Company did not have any investments in a single issuer, other than obligations of the U.S. Government and government agencies, with a carrying value in excess of 10% of the Company's condensed consolidated Shareholders' equity.

The following tables set forth the composition of the U.S. and foreign corporate securities within the fixed maturity portfolio by industry category as of the dates indicated:

	Amortized Cost	Gross Unrealized Capital Gains	Gross Unrealized Capital Losses	Fair Value
March 31, 2014				
Communications	\$3,966.9	\$403.4	\$29.2	\$4,341.1
Financial	6,990.9	675.5	42.7	7,623.7
Industrial and other companies	29,959.3	1,964.8	293.2	31,630.9
Utilities	9,165.5	778.4	70.8	9,873.1
Transportation	1,436.1	116.4	14.4	1,538.1
Total	\$51,518.7	\$3,938.5	\$450.3	\$55,006.9
December 31, 2013				
Communications	\$4,016.2	\$293.0	\$73.4	\$4,235.8
Financial	6,640.7	566.6	72.6	7,134.7
Industrial and other companies	29,303.1	1,524.5	564.5	30,263.1
Utilities	9,200.6	570.0	142.2	9,628.4
Transportation	1,467.1	84.6	30.0	1,521.7

Total	\$50,627.7	\$3,038.7	\$882.7	\$52,783.7
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Voya Financial, Inc.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

(Dollar amounts in millions, unless otherwise stated)

Fixed Maturities and Equity Securities

The Company's fixed maturities and equity securities are currently designated as available-for-sale, except those accounted for using the FVO. Available-for-sale securities are reported at fair value and unrealized capital gains (losses) on these securities are recorded directly in Accumulated other comprehensive income (loss) ("AOCI"), and presented net of related changes in DAC, VOBA and deferred income taxes. In addition, certain fixed maturities have embedded derivatives, which are reported with the host contract on the Condensed Consolidated Balance Sheets.

The Company has elected the FVO for certain of its fixed maturities to better match the measurement of assets and liabilities in the Condensed Consolidated Statements of Operations. Certain collateralized mortgage obligations ("CMOs"), primarily interest-only and principal-only strips, are accounted for as hybrid instruments and valued at fair value with changes in the fair value recorded in Other net realized capital gains (losses) in the Condensed Consolidated Statements of Operations.

The Company invests in various categories of CMOs, including CMOs that are not agency-backed, that are subject to different degrees of risk from changes in interest rates and defaults. The principal risks inherent in holding CMOs are prepayment and extension risks related to significant decreases and increases in interest rates resulting in the prepayment of principal from the underlying mortgages, either earlier or later than originally anticipated. As of March 31, 2014 and December 31, 2013, approximately 41.5% and 38.3%, respectively, of the Company's CMO holdings, such as interest-only or principal-only strips, were invested in those types of CMOs that are subject to more prepayment and extension risk than traditional CMOs.

Repurchase Agreements

The Company engages in dollar repurchase agreements with mortgage-backed securities ("dollar rolls") and repurchase agreements with other collateral types to increase its return on investments and improve liquidity. Such arrangements meet the requirements to be accounted for as financing arrangements. The Company also enters into reverse repurchase agreements. These transactions involve a purchase of securities and an agreement to sell substantially the same securities as those purchased. As of March 31, 2014 and December 31, 2013, the Company did not have any securities pledged in dollar rolls, repurchase agreement transactions or reverse repurchase agreements.

Securities Lending

The Company engages in securities lending whereby certain securities from its portfolio are loaned to other institutions for short periods of time. Initial collateral, primarily cash, is required at a rate of 102% of the market value of the loaned securities. For certain transactions, a lending agent may be used and the agent may retain some or all of the collateral deposited by the borrower and transfer the remaining collateral to the Company. Collateral retained by the agent is invested in liquid assets on behalf of the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. As of March 31, 2014 and December 31, 2013, the fair value of loaned securities was \$449.4 and \$435.4, respectively, and is included in Securities pledged on the Condensed Consolidated Balance Sheets. As of March 31, 2014 and December 31, 2013, collateral retained by the lending agent and invested in liquid assets on the Company's

behalf was \$466.3 and \$451.0, respectively, and recorded in Short-term investments under securities loan agreements, including collateral delivered on the Condensed Consolidated Balance Sheets. As of March 31, 2014 and December 31, 2013, liabilities to return collateral of \$466.3 and \$451.0, respectively, were included in Payables under securities loan agreements, including collateral held on the Condensed Consolidated Balance Sheets.

Voya Financial, Inc.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

(Dollar amounts in millions, unless otherwise stated)

Unrealized Capital Losses

Unrealized capital losses (including noncredit impairments), along with the fair value of fixed maturity securities, including securities pledged, by market sector and duration were as follows as of March 31, 2014:

	Six Months or Less Below Amortized Cost		More Than Six Months and Twelve Months or Less Below Amortized Cost		More Than Twelve Months Below Amortized Cost		Total
	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses	Fair Value	Unrealized Capital Losses	Fair Value Unrealized Capital Capital Losses Losses
U.S. Treasuries	\$1,315.7	\$					