READING CHRISTOPHER J
Form 4
June 17, 2011

# FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

| | |
|---|---|
| OMB Number: | 3235-0287 |
| Expires: | January 31, 2005 |
| Estimated average burden hours per response... | 0.5 |

(Print or Type Responses)

1. Name and Address of Reporting Person *
READING CHRISTOPHER J

(Last) (First) (Middle)

1300 W. SAM HOUSTON PKWY S., SUITE 300

(Street)

HOUSTON, TX 77042

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
U S PHYSICAL THERAPY INC /NV [USPH]

3. Date of Earliest Transaction (Month/Day/Year)
06/15/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Executive Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Stock | 06/15/2011 | | M | | 50,000 | A | $ 12.51 | 90,000 (1) | D | |
| Common Stock | 06/15/2011 | | M | | 50,000 | A | $ 13.54 | 140,000 (1) | D | |
| Common Stock | 06/15/2011 | | F | | 53,777 | D | $ 24.22 (2) | 86,223 (1) | D | |
| Common Stock | 06/15/2011 | | S | | 6,500 | D | $ 24 (3) | 79,723 (1) | D | |
| | 06/16/2011 | | S | | 39,500 | D | | 40,223 (1) | D | |

| | |
|---|---|
| Common Stock | $ 23.58 (4) |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares |
| Director's Stock Option Right to Buy | $ 12.51 | 06/15/2011 | | M | | | 50,000 | 06/15/2011 | 06/02/2014 | Common Stock | 50,000 |
| Director's Stock Option Right to Buy | $ 13.54 | 06/15/2011 | | M | | | 50,000 | 06/15/2011 | 10/05/2014 | Common Stock | 50,000 |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| READING CHRISTOPHER J<br>1300 W. SAM HOUSTON PKWY S.<br>SUITE 300<br>HOUSTON, TX 77042 | X | | Chief Executive Officer | |

# Signatures

| | |
|---|---|
| /s/ Christopher J. Reading | 06/17/2011 |

**Signature of Reporting Person Date

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** Includes 7,500 restricted shares in which restrictions lapse in equal quarterly installments of 2,500 shares with the next installment on June 30, 2011 and the last on December 31, 2011. Also, includes 28,125 shares of common stock granted as restricted stock. Restrictions lapse in equal quarterly installments of 1,875 shares with the next installment on June 30, 2011, and the final installment on December 31, 2014.

**(2)** Surrender of shares in connection with cashless exercise

**(3)** The price reported is a weighted average price. The shares were sold in multiple transactions at prices ranging from $24.00 - $24.04, inclusive. The reporting person undertakes to provide to U.S. Physical Therapy, Inc., any of its shareholders or the staff of the Securities & Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth in this footnote to this Form 4.

**(4)** The price reported is a weighted average price. The shares were sold in multiple transactions at prices ranging from $23.50- $23.91, inclusive. The reporting person undertakes to provide to U.S. Physical Therapy, Inc., any of its shareholders or the staff of the Securities & Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth in this footnote to this Form 4.

**(5)** Granted pursuant to the Company's 2003 Stock Incentive Plan, which complies with Rule 16b-3.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. #000000;">
1,818.6

Benefits and expenses:

Interest credited and other benefits to contract owners/policyholders

1,358.1

1,061.4

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 our common shareholders

$
258.1

$
(212.0
)

95

The following table presents AUM and AUA as of the dates indicated:

| | March 31 | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| AUM and AUA | | |
| Retirement Solutions: | | |
| Retirement | $342,421.1 | $318,636.9 |
| Annuities | 26,967.6 | 26,228.0 |
| Investment Management | 260,466.5 | 243,358.5 |
| Insurance Solutions: | | |
| Individual Life | 16,007.7 | 15,598.8 |
| Employee Benefits | 1,776.4 | 1,753.8 |
| Eliminations/Other | (181,790.2) | (173,416.4) |
| Total Ongoing Businesses | 465,849.1 | 432,159.6 |
| Closed Blocks: | | |
| Closed Block Variable Annuity | 45,042.0 | 44,546.6 |
| Closed Block Institutional Spread Products | 2,351.1 | 3,945.7 |
| Closed Block Other | 538.9 | 558.8 |
| Total Closed Blocks | 47,932.0 | 49,051.1 |
| Total AUM and AUA | $513,781.1 | $481,210.7 |
| | | |
| AUM | $279,511.6 | $258,176.1 |
| AUA | 234,269.5 | 223,034.6 |
| Total AUM and AUA | $513,781.1 | $481,210.7 |

The following table presents the relative contributions of each segment to Operating earnings before income taxes for the periods indicated, and a reconciliation of Operating earnings before income taxes to Income (loss) before income taxes:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Retirement Solutions: | | |
| Retirement | $114.9 | $137.8 |
| Annuities | 54.8 | 54.3 |
| Investment Management | 49.8 | 30.1 |
| Insurance Solutions: | | |
| Individual Life | 31.1 | 50.8 |
| Employee Benefits | 16.9 | 12.4 |
| Total Ongoing Business | 267.5 | 285.4 |
| Corporate | (37.3) | (50.1) |
| Closed Blocks: | | |
| Closed Block Institutional Spread Products | 5.4 | 22.1 |
| Closed Block Other | (4.5) | (0.7) |
| Total Closed Blocks [1] | 0.9 | 21.4 |
| Total operating earnings before income taxes | $231.1 | $256.7 |
| | | |
| Adjustments: | | |
| Closed Block Variable Annuity | 20.2 | (477.1) |
| Net investment gains (losses) and related charges and adjustments | 57.6 | 41.8 |
| Net guaranteed benefit hedging gains (losses) and related charges and adjustments | 6.4 | 3.1 |
| Loss related to businesses exited through reinsurance or divestment | (10.5) | (16.9) |
| Income (loss) attributable to noncontrolling interests | 13.5 | (13.5) |
| Other adjustments to operating earnings | (16.0) | (8.4) |
| Income (loss) before income taxes | $302.3 | $(214.3) |

[1] Our Closed Block Variable Annuity ("CBVA") segment is managed to focus on protecting regulatory and rating capital rather than achieving operating metrics and, therefore, its results of operations are not reflected within Operating earnings before income taxes.

97

The following table presents the relative contributions of each segment to Operating revenues for the periods indicated and a reconciliation of Operating revenues to Total revenues:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Retirement Solutions: | | |
| Retirement | $598.5 | $583.2 |
| Annuities | 354.4 | 307.6 |
| Investment Management | 160.5 | 131.9 |
| Insurance Solutions: | | |
| Individual Life | 692.2 | 687.1 |
| Employee Benefits | 338.9 | 318.1 |
| Total Ongoing Business | 2,144.5 | 2,027.9 |
| Corporate | 25.3 | 17.1 |
| Closed Blocks: | | |
| Closed Block Institutional Spread Products | 17.6 | 38.3 |
| Closed Block Other | 8.0 | 7.2 |
| Total Closed Blocks(1) | 25.6 | 45.5 |
| Total operating revenues | $2,195.4 | $2,090.5 |
| | | |
| Adjustments: | | |
| Closed Block Variable Annuity | 284.6 | (444.0) |
| Net realized investment gains (losses) and related charges and adjustments | 49.6 | 30.4 |
| Gain (loss) on change in fair value of derivatives related to guaranteed benefits | (23.9) | 20.6 |
| Revenues related to businesses exited through reinsurance or divestment | 19.0 | (12.1) |
| Revenues (loss) attributable to noncontrolling interests | 60.8 | 40.3 |
| Other adjustments to operating revenues | 85.4 | 92.9 |
| Total revenues | $2,670.9 | $1,818.6 |

(1) Our CBVA segment is managed to focus on protecting regulatory and rating agency capital rather than achieving operating metrics and, therefore, its results of operations are not reflected within Operating revenues.

Notable Items

We believe the following tables will help investors identify more easily some of the larger causes of changes in our Operating earnings before income taxes during the periods discussed. The tables highlight notable items that are included in Operating earnings before income taxes from the following categories: (1) large gains (losses) that are not indicative of performance in the period; (2) significant gains (losses) resulting from transactions to change our capital structure; and (3) items that typically recur but can be volatile from period to period (e.g., DAC/VOBA and other intangibles unlocking). In addition, we included the historic Interest expense because Interest expense has changed meaningfully over the period given the changes in debt. There may be other items not included in the following table that caused increases (decreases) in Operating earnings before taxes for the periods presented. See the descriptions within the "Results of Operations" section for a more comprehensive discussion of the causes of changes in Operating earnings before income taxes.

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Interest expense (including interest rate swap settlements) | $(47.0) | $(41.9) |
| DAC/VOBA and other intangibles unlocking | (19.8) | 7.3 |
| Net gain (loss) from Lehman Recovery | (1.8) | — |

98

Explanation of Responses:

The following table presents the adjustment to Income (loss) before income taxes related to Total investment gains (losses) and the related Net amortization of DAC/VOBA and other intangibles for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Other-than-temporary impairments | $(3.3) | $(11.0) |
| CMO-B fair value adjustments[1] | 65.3 | (33.2) |
| Gains (losses) on the sale of securities | 36.2 | 20.5 |
| Other, including changes in the fair value of derivatives | (48.9) | 66.1 |
| Total investment gains (losses) | 49.3 | 42.4 |
| Net amortization of DAC/VOBA and other intangibles on above | 7.7 | 12.9 |
| Net investment gains (losses), including Closed Block Variable Annuity | 57.0 | 55.3 |
| Less: Closed Block Variable Annuity net investment gains (losses) and related charges and adjustments | (0.6) | 13.5 |
| Net investment gains (losses) | $57.6 | $41.8 |

[1] For a description of our CMO-B portfolio, see "Investments - CMO-B Portfolio."

The following table presents the adjustment to Income (loss) before taxes related to Guaranteed benefit hedging gains (losses) net of DAC/VOBA and other intangibles amortization for the periods indicated. This table excludes Closed Block Variable Annuity ("CBVA").

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Gain (loss), excluding nonperformance risk | $(8.3) | $16.1 |
| Gain (loss) due to nonperformance risk | 2.7 | (4.1) |
| Net gain (loss) prior to related amortization of DAC/VOBA and sales inducements | (5.6) | 12.0 |
| Net amortization of DAC/VOBA and sales inducements | 12.0 | (8.9) |
| Net guaranteed benefit hedging gains (losses) and related charges and adjustments | $6.4 | $3.1 |

Terminology Definitions

Net realized capital gains (losses), net realized investment gains (losses) and related charges and adjustments and net guaranteed benefit hedging losses and related charges and adjustments include changes in the fair value of derivatives. Increases in the fair value of derivative assets or decreases in the fair value of derivative liabilities result in "gains." Decreases in the fair value of derivative assets or increases in the fair value of derivative liabilities result in "losses."

In addition, we have certain products that contain guarantees that are embedded derivatives related to guaranteed benefits, while other products contain such guarantees that are considered derivatives (collectively "guaranteed benefit derivatives").

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Net Income (Loss)

Net investment income decreased $53.1 million from $1,198.7 million to $1,145.6 million primarily due to lower prepayment fee income and the impact of the continued low interest rate environment on reinvestment rates as well as lower average volumes in our Annuities and Closed Block Institutional Spread Products segments. The decline in the volumes of our Annuities segment is a result of the continuing run-off of Annual Reset and Multi-Year Guarantee Annuities ("Annual Reset/MYGAs"). Our Closed Block Institutional Spreads Products business experienced a decline as a result of a decrease in block size. Higher accretion on previously impaired securities in our Closed Block

Institutional Spreads Products segment in the first quarter of 2013 also contributed to the decline. These decreases were partially offset by growth in general account assets in our Retirement segment and higher investment income on in our CBVA segment as a result of a higher earned rate and higher volumes.

Fee income increased $39.9 million from $891.9 million to $931.8 million primarily due to an increase in fees in our Retirement, Annuities, Investment Management and CBVA segments associated with higher AUM. In addition, higher fee income in our Individual Life segment was primarily due to increased cost of insurance fees on the aging in-force universal life block.

99

Premiums increased $129.0 million from $471.9 million to $600.9 million primarily due to higher premiums associated with immediate annuities with life contingencies in our Annuities segment, as well as higher premiums associated with the annuitization of life contingent contracts in our CBVA segment, both of which are offset by a reserve increase in the corresponding Interest credited and other benefits to contract owners/policyholders. Additionally, higher premiums in our Employee Benefits segment were primarily due to increased group stop loss and voluntary product sales.

Net realized capital losses decreased by $684.2 million from a loss of $874.8 million to a loss of $190.6 million primarily due to changes in fair value of derivatives from the CBVA segment liability hedge and CHO program, discussed in further detail below, and changes in fair value of guaranteed benefit derivatives due to nonperformance risk, which resulted in a decrease in Net realized capital losses of $143.0 million, from a loss of $110.8 million to a gain of $32.2 million. In addition, changes in fair value adjustments on our CMO-B portfolio as a result of interest rate movement and lower impairments reduced the net realized capital loss. Gains from market value changes in the embedded derivative associated with business reinsured are entirely offset by the corresponding increase in Interest credited and other benefits to contract owners/policyholders. These improvements were partially offset by changes in fair value of guaranteed benefit derivatives, excluding nonperformance risk, lower gains on the sale of securities, and unfavorable derivative mark to market adjustments due to changes in interest rates.

Changes in fair value of derivatives from the CBVA liability hedge program improved the result by $1,162.4 million, from a loss of $1,076.3 million in the prior period to a gain of $86.1 million in the current period, due to lower equity market appreciation as well as interest rate movements. Lower equity market appreciation also contributed to a decrease in losses on our CHO program of $147.6 million, from $158.5 million to $10.9 million. Improvements in the current period are partially offset by losses resulting from changes in fair value of guaranteed benefit derivatives, excluding nonperformance risk, primarily in our CBVA segment. Changes in guaranteed benefit derivatives, excluding nonperformance risk in our CBVA segment resulted in a loss of $225.4 million in the current period compared to a gain of $551.2 million in the prior period, driven by lower equity market growth. The focus in managing our Closed Block Variable Annuity segment is on protecting regulatory and rating agency capital, and our hedging program is primarily designed to mitigate the impacts of market scenarios on capital resources, rather than mitigating earnings volatility.
Other revenue increased $9.9 million from $95.6 million to $105.5 million primarily due to changes in market value adjustments related to retirement plans upon surrender in addition to higher income earned by our Retirement segment's broker dealers for sales on non-proprietary products, which is partially offset by the corresponding higher broker-dealer expenses within Operating expenses.

Interest credited and other benefits to contract owners/policyholders increased $296.7 million from $1,061.4 million to $1,358.1 million primarily due to an increase in reserves in our CBVA segment driven by less favorable fund returns in the current period compared to the prior period. An increase in reserves in our CBVA segment associated with the annuitization of life contingent contracts and an increase in reserves related to annuities with life contingencies in our Annuities segment both correspond with the increase in Premiums described above. Favorable incurred but not recorded ("IBNR") development in the prior period that did not repeat in the current period and higher net claims driven by higher severity impacted our Individual Life segment. These unfavorable variances were partially offset by declining reserves for Annual Reset/MYGAs and lower crediting rates in our Annuities segment as well as declining contract owner account balances for our Closed Block Institutional Spread Products segment.

Operating expenses increased $30.4 million from $759.1 million to $789.5 million primarily due to investments in the business, higher expenses from operating as a public company, increased costs related to rebranding and restructuring and higher asset based commissions in the current period. A reduction in estimated variable compensation accruals in the prior period that did not repeat also contributed to the increase. These were partially offset by lower LOC expenses in the current period due to the termination of the contingent capital letter of credit facility supporting our Closed

Block Variable Annuity segment on May 14, 2013.

Net amortization of DAC/VOBA decreased $4.4 million from $130.5 million to $126.1 million primarily due to a lower amortization rate in our Annuities and Retirement segments and lower gross profits in our Individual Life segment, partially offset by unfavorable unlocking in our Retirement segment due primarily to contract changes on a single large contract that required us to write off the DAC/VOBA in the current period, and in our Employee Benefits segment resulting from terminated cases.

Income (loss) before income taxes increased $516.6 million from a loss of $(214.3) million to income of $302.3 million as a result of several factors including lower net losses related to our CBVA segment incurred guaranteed benefits and guarantee hedge and CHO programs, which improved by $214.8 million and $147.6 million, respectively. In addition, changes in the fair value of guaranteed benefit derivatives related to nonperformance risk resulted in an improvement of $143.0 million. An increase in Fee Income as a result of higher AUM, higher premiums in our Employee Benefits segment, and improved margins in our Annuities segment also contributed to the improvement. In addition, higher net investment gains and income (loss) attributable to

100

noncontrolling interests improved the overall result. The increases were partially offset by higher operating expenses, lower prepayment fee income, and the impact of the continued low interest rate environment on reinvestment rates across multiple segments, in addition to higher interest credited and other benefits to contract owners/policyholders in our Individual Life segment.

Income tax expense (benefit) increased $19.5 million from $11.2 million to $30.7 million primarily due to increases in tax capital gains. The effective tax rate is low as the tax expense on income (loss) before income taxes is mostly offset by increases/decreases in valuation allowances. However, tax capital gains (losses) are generally not offset by changes in valuation allowances, which is the primary cause of the tax expense in the current and prior periods.

Operating Earnings before Income Taxes

Operating earnings before income taxes decreased $25.6 million from $256.7 million to $231.1 million as a result of several factors including higher operating expenses, lower prepayment fee income, and the impact of the continued low interest rate environment on reinvestment rates across multiple segments. Higher interest credited and other benefits to contract owners/policyholders in our Individual Life segment due to higher net claims driven by higher severity, as well as unfavorable DAC/VOBA unlocking compared to the prior period also contributed to the decrease. Partially offsetting these items was higher Fee income, in addition to higher Premiums in our Employee Benefits segment, improved margins in our Annuities segment and a decrease in DAC/VOBA amortization rates in our Retirement and Annuities segments.

Adjustments from Income (Loss) before Income Taxes to Operating Earnings (Loss) before Income Taxes

CBVA results are discussed in "-Results of Operations-Segment by Segment-Closed Block Variable Annuity."

Net investment gains and related charges and adjustments increased $15.8 million from $41.8 million to $57.6 million primarily due to changes in fair value adjustments on our CMO-B portfolio as a result of interest rate movements, higher gains on the sale of securities, and lower impairments, offset by unfavorable derivative mark to market adjustments due to changes in interest rates.

Net guaranteed benefit hedging gains and related charges and adjustments increased $3.3 million from $3.1 million to $6.4 million, including a $6.8 million favorable variance in changes in the fair value of guaranteed benefit derivatives related to nonperformance risk. Higher gains on guaranteed benefit derivative hedging, net of amortization of DAC/VOBA and other intangibles, were primarily driven by interest rate and equity market movements.

Loss related to businesses exited through reinsurance or divestment decreased $6.4 million from $16.9 million to $10.5 million primarily due to lower costs associated with the business transferred from us to Hannover Re.

Other adjustments to operating earnings changed $7.6 million from $(8.4) million to $(16.0) million primarily due to increased costs related to rebranding and restructuring.

Results of Operations - Ongoing Business

We consider the Retirement, Annuities, Investment Management, Individual Life, and Employee Benefits segments to be our ongoing businesses. The following table presents Operating earnings before income taxes of our ongoing businesses for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Operating earnings before income taxes | $267.5 | $285.4 |

The following table presents certain notable items that resulted in volatility in Operating earnings before income taxes for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| DAC/VOBA and other intangibles unlocking | $(19.8) | $7.3 |

Ongoing Business - Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Operating earnings before income taxes decreased $17.9 million from $285.4 million to $267.5 million primarily due to higher operating expenses, lower prepayment fee income, and the impact of the continued low interest rate environment on reinvestment rates across multiple segments. Higher interest credited and other benefits to contract owners/policyholders in our Individual Life segment as well as unfavorable DAC/VOBA unlocking compared to the prior period also contributed to the decrease. Partially offsetting these items was higher Fee Income, in addition to higher Premiums in our Employee Benefits segment, improved margins in our Annuities segment and a decrease in DAC/VOBA amortization rates in our Retirement and Annuities segments.

Results of Operations - Segment by Segment

Retirement Solutions - Retirement

The following table presents Operating earnings before income taxes of our Retirement segment for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Operating revenues: | | |
| Net investment income and net realized gains (losses) | $388.5 | $388.9 |
| Fee income | 191.1 | 183.8 |
| Premiums | 0.7 | 0.5 |
| Other revenue | 18.2 | 10.0 |
| Total operating revenues | 598.5 | 583.2 |
| Operating benefits and expenses: | | |
| Interest credited and other benefits to contract owners/policyholders | 210.7 | 204.6 |
| Operating expenses | 226.0 | 204.0 |
| Net amortization of DAC/VOBA | 46.9 | 36.8 |
| Total operating benefits and expenses | 483.6 | 445.4 |
| Operating earnings before income taxes | $114.9 | $137.8 |

The following table presents certain notable items that resulted in the volatility in Operating earnings before income taxes for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| DAC/VOBA and other intangibles unlocking | $(11.3 ) | $3.0 |

The following tables present AUM and AUA for our Retirement segment as of the dates indicated:

| ($ in millions) | March 31 2014 | 2013 |
|---|---|---|
| Corporate markets | $40,967.4 | $35,441.2 |
| Tax-exempt markets | 53,564.2 | 49,269.4 |
| Total full service plans | 94,531.6 | 84,710.6 |
| Stable value(1) | 8,908.6 | 8,279.7 |
| Individual market | 3,074.9 | 2,612.0 |
| Total AUM | 106,515.1 | 95,602.3 |
| AUA | 235,906.0 | 223,034.6 |
| Total AUM and AUA | $342,421.1 | $318,636.9 |

(1) Consists of assets where we are the investment manager.

102

| ($ in millions) | March 31 2014 | 2013 |
|---|---|---|
| General Account | $28,205.7 | $27,387.8 |
| Separate Account | 58,279.4 | 52,516.8 |
| Mutual Fund/Institutional Funds | 20,030.0 | 15,697.7 |
| AUA | 235,906.0 | 223,034.6 |
| Total AUM and AUA | $342,421.1 | $318,636.9 |

The following table presents a rollforward of AUM for our Retirement segment for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Balance as of beginning of period | $105,236.9 | $90,471.2 |
| Deposits | 3,523.1 | 4,444.3 |
| Surrenders, benefits and product charges | (3,478.7) | (3,024.9) |
| Net flows | 44.4 | 1,419.4 |
| Interest credited and investment performance | 1,233.8 | 3,711.7 |
| Balance as of end of period | $106,515.1 | $95,602.3 |

Retirement - Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Operating revenues

Net investment income and net realized gains decreased $0.4 million from $388.9 million to $388.5 million primarily due to lower prepayment fee income and lower investment yields on the CMO-B portfolio as well as other securities. These decreases were mostly offset by increases in investment income due to growth of general account assets. General account assets increased from $27.4 billion in the prior period to $28.2 billion in the current period primarily as a result of participants transferring funds from variable investment options into fixed investment options. In addition, investment income on the CMO-B portfolio was lower due to portfolio turnover as reinvestment rates were lower than the yields of the investments that matured.

Fee income increased $7.3 million from $183.8 million to $191.1 million primarily due to increases in full service retirement plan fees partially offset by lower fees for the recordkeeping business. The increase in full service retirement plans fees was driven by net increases in separate account and institutional/mutual fund AUM. These increases were partially offset by a decrease in other recordkeeping fees primarily due to reductions in change order fees as well as terminated contracts.

Other revenue increased $8.2 million from $10.0 million to $18.2 million primarily due to changes in market value adjustments related to retirement plans upon surrender and an increase in broker-dealer revenue.

Operating benefits and expenses

Interest credited and other benefits to contract owners/policyholders increased $6.1 million from $204.6 million to $210.7 million primarily due to an increase in general account liabilities, which corresponds to the increase in general account assets as described above. This increase was partially offset by a decrease in the average credited rates due to actions taken in January 2014 to reflect the continuing low interest rate environment.

Operating expenses increased $22.0 million from $204.0 million to $226.0 million due primarily to investments in the business, higher expenses from operating as a public company and higher asset based commissions in the current period; and a reduction in estimated variable compensation accruals in the prior period that did not repeat.

Net amortization of DAC/VOBA increased $10.1 million from $36.8 million to $46.9 million primarily due to changes in unlocking of DAC/VOBA partially offset by lower amortization. The change in DAC/VOCA unlocking in the current period was $14.3 million unfavorable when compared to the prior period, largely due to the impact of contract changes in the current period.

Operating earnings before income taxes decreased $22.9 million from $137.8 million to $114.9 million primarily driven by increases in operating expenses, Net amortization of DAC/VOBA, and lower prepayment fee income. These increases were offset by increases in Fee income and Other revenue related to full service retirement plans.

Retirement Solutions-Annuities

The following table presents Operating earnings before income taxes of the Annuities segment for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Operating revenues: | | |
| Net investment income and net realized gains (losses) | $270.6 | $287.1 |
| Fee income | 13.2 | 9.9 |
| Premiums | 66.1 | 7.8 |
| Other revenue | 4.5 | 2.8 |
| Total operating revenues | 354.4 | 307.6 |
| Operating benefits and expenses: | | |
| Interest credited and other benefits to contract owners/policyholders | 229.8 | 184.4 |
| Operating expenses | 35.5 | 31.0 |
| Net amortization of DAC/VOBA | 34.3 | 37.9 |
| Total operating benefits and expenses | 299.6 | 253.3 |
| Operating earnings before income taxes | $54.8 | $54.3 |

The following table presents certain notable items that resulted in volatility in Operating earnings before income taxes for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| DAC/VOBA and other intangibles unlocking | $3.2 | $7.0 |

The following table presents AUM for our Annuities segment as of the dates indicated:

| | March 31 | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| AUM: | | |
| General account | $22,573.2 | $22,772.4 |
| Separate account | 820.1 | 780.1 |
| Mutual funds | 3,574.3 | 2,675.5 |
| Total AUM | $26,967.6 | $26,228.0 |

The following table presents a rollforward of AUM for our Annuities segment for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Balance as of beginning of period | $26,646.7 | $26,101.0 |
| Deposits | 861.6 | 554.8 |
| Surrenders, benefits and product charges | (806.8) | (775.1) |
| Net flows | 54.8 | (220.3) |
| Interest credited and investment performance | 266.1 | 347.3 |
| Balance as of end of period | $26,967.6 | $26,228.0 |

Explanation of Responses:

Annuities - Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Operating revenues

Net investment income and net realized gains decreased $16.5 million from $287.1 million to $270.6 million primarily due to lower general account assets, lower investment yields on the CMO-B portfolio as well as other securities, and lower prepayment fee income. General account assets decreased as a result of the continuing run-off of the Annual Reset/MYGAs, and reductions in required capital. Partially offsetting these declines was higher investment income resulting from the growth in FIAs. In addition, investment income on the CMO-B portfolio was lower due to portfolio turnover as reinvestment rates were lower than the yields of the investments that matured.

Fee income increased $3.3 million from $9.9 million to $13.2 million due to growth in assets of mutual fund custodial products. Average assets of the mutual fund custodial product increased 35% from $2.6 billion in the first quarter of 2013 to $3.5 billion in in the first quarter of 2014 due to positive net flows and market performance.

Premiums increased $58.3 million from $7.8 million to $66.1 million primarily due to higher premiums in immediate annuities with life contingencies.

Operating benefits and expenses

Interest credited and other benefits to contract owners/policyholders increased $45.4 million from $184.4 million to $229.8 million primarily driven by the increase in immediate annuities with life contingencies and an increase in FIA AUM. This was partially offset by a decrease in interest credited, driven by a decline in the Annual Reset/MYGAs. The change in mix of business between Annual Reset/MYGA and FIA had a favorable impact on total interest credited, since option costs of FIAs are lower than credited rates on Annual Reset/MYGA.

Operating expenses increased $4.5 million from $31.0 million to $35.5 million due primarily to higher mutual fund commissions and investments in the business, higher expenses from operating as a public company in the current period; and a reduction in estimated variable compensation accruals in the prior period that did not repeat.

Net amortization of DAC/VOBA decreased $3.6 million from $37.9 million to $34.3 million primarily due to a lower amortization rate, as a result of an update to margin projections in third quarter of 2013, partially offset by a lower amount of favorable unlocking in the current period.

Operating earnings before income taxes

Operating earnings before taxes increased $0.5 million from $54.3 million to $54.8 million as a result of several factors including improved margins related to the change in mix of business between Annual Reset/MYGA and FIAs, favorable changes in amortization of DAC/VOBA, and an increase in Fee income. Partially offsetting these items was lower Net investment income due to asset volumes and yields, and higher operating expenses.

Investment Management

The following table presents Operating earnings before income taxes of our Investment Management segment for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Operating revenues: | | |
| Net investment income and net realized gains (losses) | $7.3 | $2.8 |
| Fee income | 145.8 | 121.7 |
| Other revenue | 7.4 | 7.4 |
| Total operating revenues | 160.5 | 131.9 |
| Operating benefits and expenses: | | |
| Operating expenses | 110.7 | 101.8 |
| Total operating benefits and expenses | 110.7 | 101.8 |
| Operating earnings before income taxes | $49.8 | $30.1 |

Our Investment Management operating segment revenues include the following intersegment revenues, primarily consisting of asset-based management and administration fees.

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Investment Management intersegment revenues | $39.3 | $39.3 |

The following tables present AUM and AUA for our Investment Management segment as of the dates indicated:

| ($ in millions) | March 31 2014 | 2013 |
|---|---|---|
| AUM: | | |
| Institutional/retail | | |
| Investment Management sourced | $69,104.4 | $58,002.1 |
| Affiliate sourced(1) | 57,988.9 | 49,658.0 |
| General account | 79,684.4 | 79,965.9 |
| Total AUM | 206,777.7 | 187,626.0 |
| AUA: | | |
| Affiliate sourced(2) | 53,688.8 | 55,732.5 |
| Total AUM and AUA | $260,466.5 | $243,358.5 |

(1) Affiliate sourced AUM includes assets sourced by other segments and also reported as AUM by such other segments.

(2) Affiliate sourced AUA includes assets sourced by other segments and also reported as AUA or AUM by such other segments.

The following table presents net flows for our Investment Management segment for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Net Flows: | | |
| Investment Management sourced | $1,345.3 | $2,630.7 |
| Affiliate sourced | 3,538.9 | 546.8 |
| Total | $4,884.2 | $3,177.5 |

Investment Management - Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Operating revenues

Net investment income and net realized gains increased $4.5 million from $2.8 million to $7.3 million due to higher alternative investment income partially due to valuation adjustments.

Fee income increased $24.1 million from $121.7 million to $145.8 million primarily due to an increase in AUM resulting in higher management and administrative fees earned. The increase in AUM is predominantly driven by positive net flows including sub-advisor replacements and improved equity markets.

Operating benefits and expenses

Operating expenses increased $8.9 million from $101.8 million to $110.7 million due primarily to higher compensation expenses due to growth in AUM and higher operating earnings. In addition, operating expenses increased due to costs related to sub-advisor replacements that occurred in the current quarter.

Operating earnings before income taxes

Operating earnings before taxes increased $19.7 million from $30.1 million to $49.8 million primarily due to higher Fee income due to an increase in affiliate sourced AUM and Investment Management sourced AUM and an increase in Net investment income. The increases were partially offset by higher operating expenses.

Insurance Solutions - Individual Life

The following table presents Operating earnings before income taxes of our Individual Life segment for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Operating revenues: | | |
| Net investment income and net realized gains (losses) | $219.8 | $216.9 |
| Fee income | 283.6 | 276.8 |
| Premiums | 183.7 | 185.8 |
| Other revenue | 5.1 | 7.6 |
| Total operating revenues | 692.2 | 687.1 |
| Operating benefits and expenses: | | |
| Interest credited and other benefits to contract owners/policyholders | 527.8 | 501.6 |
| Operating expenses | 95.7 | 90.9 |
| Net amortization of DAC/VOBA | 37.6 | 42.9 |
| Interest expense | — | 0.9 |
| Total operating benefits and expenses | 661.1 | 636.3 |
| Operating earnings before income taxes | $31.1 | $50.8 |

The following table presents certain notable items that resulted in volatility in Operating earnings before income taxes for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| DAC/VOBA and other intangibles unlocking | $(7.1) | $(2.7) |

107

The following table presents sales, gross premiums, in-force amounts and policy count for our Individual Life segment for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Sales by Product Line: | | |
| Universal life: | | |
| Guaranteed | $— | $0.5 |
| Accumulation | 2.8 | 4.0 |
| Indexed | 7.9 | 6.8 |
| Total universal life | 10.7 | 11.3 |
| Variable life | 0.9 | 2.7 |
| Whole life | 0.1 | — |
| Term | 7.2 | 15.2 |
| Total sales by product line | $18.9 | $29.2 |
| | | |
| Total gross premiums | $499.6 | $498.6 |
| End of period: | | |
| In-force face amount | $602,760.9 | $608,843.8 |
| In-force policy count | 1,323,303 | 1,350,278 |
| New business policy count (paid) | 7,879 | 16,137 |

Individual Life - Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Operating revenues

Net investment income and net realized gains increased $2.9 million from $216.9 million to $219.8 million primarily due to higher asset volumes within the investment portfolio partially offset by lower CMO-B and prepayment fee income.

Fee income increased $6.8 million from $276.8 million to $283.6 million primarily due to an increase in cost of insurance fees on the aging in-force universal life block.

Operating benefits and expenses

Interest credited and other benefits to contract owners/policyholders increased $26.2 million from $501.6 million to $527.8 million primarily due to to favorable IBNR development in the prior period that did not repeat in the current period and higher net claims driven by higher severity.

Operating expenses increased $4.8 million from $90.9 million to $95.7 million primarily due to increased credit facility fees supporting reinsurance transactions, higher expenses from operating as a public company in the current period and a reduction in estimated variable compensation accruals in the prior period that did not repeat. These increases were partially offset by lower sales related expenses in the current period.

Net amortization of DAC/VOBA decreased $5.3 million from $42.9 million to $37.6 million primarily due to lower amortization on the universal life blocks driven by lower gross profits. This decrease was partially offset by a higher amount of unfavorable unlocking resulting from lower gross profit projections.

Operating earnings before income taxes

Operating earnings before income taxes decreased $19.7 million from $50.8 million to $31.1 million primarily driven by higher Interest credited and other benefits to contract owners/policyholders due to favorable IBNR development in the prior period that did not repeat in the current period, higher net claims driven by higher severity and higher Operating expenses. Partially offsetting these items were increased Net investment income due to higher asset volumes and higher Fee income resulting from higher cost of insurance fees on the universal life block.

108

Insurance Solutions - Employee Benefits

The following table presents Operating earnings before income taxes of the Employee Benefits segment for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Operating revenues: | | |
| Net investment income and net realized gains (losses) | $26.7 | $28.4 |
| Fee income | 15.6 | 15.8 |
| Premiums | 296.3 | 274.9 |
| Other revenue | 0.3 | (1.0) |
| Total operating revenues | 338.9 | 318.1 |
| Operating benefits and expenses: | | |
| Interest credited and other benefits to contract owners/policyholders | 244.5 | 242.6 |
| Operating expenses | 68.4 | 60.0 |
| Net amortization of DAC/VOBA | 9.1 | 3.1 |
| Total operating benefits and expenses | 322.0 | 305.7 |
| Operating earnings before income taxes | $16.9 | $12.4 |

The following table presents certain notable items that resulted in volatility in Operating earnings before income taxes for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| DAC/VOBA and other intangibles unlocking | $(4.6) | $— |

The following table presents sales, gross premiums and in-force for our Employee Benefits segment for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Sales by Product Line: | | |
| Group life | $37.5 | $44.0 |
| Group stop loss | 182.4 | 89.7 |
| Other group products | 9.6 | 12.7 |
| Total group products | 229.5 | 146.4 |
| Voluntary products | 22.3 | 10.3 |
| Total sales by product line | $251.8 | $156.7 |
| | | |
| Total gross premiums and deposits | $342.9 | $319.5 |
| Total annualized in-force premiums | 1,407.7 | 1,316.2 |
| | | |
| Loss Ratios: | | |
| Group life (interest adjusted) | 82.0% | 85.4% |
| Group stop loss | 72.4% | 77.6% |

109

Employee Benefits - Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Operating revenues

Premiums increased $21.4 million from $274.9 million to $296.3 million primarily due to higher sales of group stop loss and voluntary products. The new Compass product contributed to the increase in voluntary sales. These increases were partially offset by lower group life premiums.

Operating benefits and expenses

Interest credited and other benefits to contract owners/policyholders increased $1.9 million from $242.6 million to $244.5 million primarily due to higher group stop loss premiums volumes, resulting in higher benefits incurred, partially offset by improved loss ratios in group life and stop loss.

Operating expenses increased $8.4 million from $60.0 million to $68.4 million primarily due to higher sales related commission and administrative expenses for group stop loss and voluntary products in the current period and a reduction in estimated variable compensation accruals in the prior period that did not repeat.

Net amortization of DAC/VOBA increased $6.0 million from $3.1 million to $9.1 million primarily due to increased amortization resulting from terminated cases.

Operating earnings before income taxes

Operating earnings before income taxes increased $4.5 million from $12.4 million to $16.9 million primarily due to improved loss ratios. Partially offsetting this was higher Operating expenses and increased Net amortization of DAC/VOBA resulting from terminated cases.

Corporate

The following table presents Operating earnings before income taxes of our Corporate segment for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Interest expense (including interest rate swap settlements) | $(47.0) | $(41.9) |
| Closed Block Variable Annuity contingent capital LOC | — | (12.8) |
| Amortization of intangibles | (8.6) | (8.8) |
| Other | 18.3 | 13.4 |
| Operating earnings before income taxes | $(37.3) | $(50.1) |

Our Corporate segment operating results include investment income on assets backing surplus in excess of amounts held at the operating segment level, financing and interest expenses, amortization of intangibles and other items not allocated to operating segments.

Corporate - Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Operating earnings before income taxes changed $12.8 million from $(50.1) million to $(37.3) million primarily due to activity associated with our Closed Block Variable Annuity segment, including lower LOC expenses in the current period due to the termination of the contingent capital letter of credit facility supporting our Closed Block Variable Annuity segment on May 14, 2013. Offsetting these items is an increase in Interest Expense driven by a change in debt structure during the second half of 2013. See a description of the change in debt structure under "Debt

Securities."

110

Closed Blocks

The following table presents Operating earnings before income taxes of our Closed Blocks for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Closed Block Institutional Spread Products | $5.4 | $22.1 |
| Closed Block Other | (4.5 ) | (0.7 ) |
| Operating earnings before income taxes | $0.9 | $21.4 |

The following table presents Operating earnings before income taxes of our Closed Block Institutional Spread Products segment for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Operating revenues: | | |
| Net investment income and net realized gains (losses) | $17.2 | $38.0 |
| Premiums | 0.6 | 0.6 |
| Other revenue | (0.2 ) | (0.3 ) |
| Total operating revenues | 17.6 | 38.3 |
| Operating benefits and expenses: | | |
| Interest credited and other benefits to contract owners/policyholders | 8.8 | 13.5 |
| Operating expenses | 3.3 | 2.6 |
| Net amortization of DAC/VOBA | 0.1 | 0.1 |
| Total operating benefits and expenses | 12.2 | 16.2 |
| Operating earnings before income taxes | $5.4 | $22.1 |

The following table presents Operating earnings before income taxes of our Closed Block Other segment for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Operating revenues: | | |
| Net investment income and net realized gains (losses) | $5.9 | $6.0 |
| Premiums | 1.9 | 0.9 |
| Other revenue | 0.2 | 0.3 |
| Total operating revenues | 8.0 | 7.2 |
| Operating benefits and expenses: | | |
| Interest credited and other benefits to contract owners/policyholders | 6.7 | 6.8 |
| Operating expenses | 5.8 | 1.1 |
| Total operating benefits and expenses | 12.5 | 7.9 |
| Operating earnings before income taxes | $(4.5 ) | $(0.7 ) |

Closed Blocks - Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Closed Block Institutional Spread Products

Operating earnings before income taxes decreased $16.7 million from $22.1 million to $5.4 million primarily due to higher accretion income on previously impaired securities in the first quarter of 2013, which did not reoccur at the same level in the current period. In addition, earnings were lower as a result of a decrease in block size. The average block size based on AUM declined approximately 36%, from $3.9 billion as of March 31, 2013 to $2.5 billion as of March 31, 2014. As a result, net investment income and interest credited and other benefits to contract owners/policyholders decreased.

111

Closed Block Other

Operating earnings before income taxes decreased $(3.8) million from $(0.7) million to $(4.5) million primarily due to an increase in operating expenses related to the accrual for a contingency.

Closed Block Variable Annuity

The following table presents Income (loss) before income taxes of our CBVA segment for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Revenues: | | |
| Net investment income | $34.8 | $18.4 |
| Fee income | 316.8 | 309.3 |
| Premiums | 50.2 | — |
| Net realized capital gains (losses) | (121.1) | (776.4) |
| Other revenue | 3.9 | 4.7 |
| Total revenues | 284.6 | (444.0) |
| Benefits and expenses: | | |
| Interest credited and other benefits to contract owners/policyholders | 126.5 | (94.1) |
| Operating expenses and interest expense | 122.1 | 112.2 |
| Net amortization of DAC/VOBA | 15.8 | 15.0 |
| Total benefits and expenses | 264.4 | 33.1 |
| Income (loss) before income taxes | $20.2 | $(477.1) |

The following table presents certain notable items that result in volatility in Income (loss) before income taxes for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Net gains (losses) related to incurred guaranteed benefits and guarantee hedge program, excluding nonperformance risk | $(239.1) | $(453.9) |
| Gain (losses) related to CHO program | (10.9) | (158.5) |
| Gain (loss) due to nonperformance risk | 29.5 | (106.7) |
| Net investment gains (losses) | (0.6) | 13.5 |
| DAC/VOBA and other intangibles unlocking | 0.4 | (0.2) |

The following table presents AUM for our CBVA segment as of the dates indicated:

| | March 31 | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| AUM | | |
| General account | $1,517.3 | $1,272.1 |
| Separate account | 43,524.7 | 43,274.5 |
| Total AUM | $45,042.0 | $44,546.6 |

The following table presents a rollforward of AUM for our CBVA segment for the periods indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Balance as of beginning of period | $44,788.2 | $42,590.6 |
| Deposits | 53.6 | 74.9 |
| Surrenders, benefits and product charges | (1,234.4) | (1,057.8) |
| Net flows | (1,180.8) | (982.9) |
| Interest credited and investment performance | 415.4 | 2,290.1 |
| Balance as of end of period | $44,022.8 | $43,897.8 |
| | | |
| End of period contracts in payout status | $1,019.2 | $648.8 |
| Total balance as of end of period* | $45,042.0 | $44,546.6 |

*Includes products in accumulation and payout phase, Policy Loans and Life Insurance Business

Closed Block Variable Annuity - Three Months Ended March 31, 2014 compared to Three Months Ended March 31, 2013

Income (loss) before income taxes increased $497.3 million from $(477.1) million to $20.2 million, including a gain of $29.5 million due to changes in the fair value of guaranteed benefit derivatives related to nonperformance risk, compared to a loss of $106.7 million related to nonperformance risk in the prior period. Net losses related to the incurred guaranteed benefits and our guarantee hedge program decreased to a loss of $239.1 million in the current period compared to a loss of $453.9 million in the prior period. The $214.8 million improvement was primarily due to lower equity market returns period over period, as our guarantee hedges backing reserves are more sensitive to changes in equity markets than those reserves, in addition to the impact of favorable fund returns relative to overall equity market returns in the current period compared to the prior period. Lower equity market returns period over period also contributed to a decrease in losses on our CHO program of $147.6 million, from $158.5 million to $10.9 million. The focus in managing our Closed Block Variable Annuity segment is on protecting regulatory and rating agency capital, and our hedging program is primarily designed to mitigate the impacts of market scenarios on capital resources, rather than mitigating earnings volatility.

In addition, the increase in Net investment income is primarily due to a higher earned rate and higher volume, and the increase in Operating expenses is due to higher variable compensation cost as well as higher commissions as a result of higher AUM. Higher premiums associated with the annuitization of life contingent contracts are offset by a reserve increase in the corresponding Interest credited and other benefits to contract owners/policyholders.

Alternative Investment Income

Investment income on certain alternative investments can be volatile due to changes in market conditions. The following table presents the amount of investment income (loss) on certain alternative investments that is included in segment Operating earnings before income taxes and the average level of assets in each segment, prior to intercompany eliminations. These alternative investments are carried at fair value, which is estimated based on the NAV of these funds.

While investment income on these assets can be volatile, based on current plans, we expect to earn 8% to 9% on these assets over the long term.

The following table presents the investment income for the three months ended March 31, 2014 and 2013, respectively, and the average assets of alternative investments as of the dates indicated:

| ($ in millions) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Retirement | | |
| Alternative investment income | $7.1 | $7.9 |
| Average alternative investment | 266.7 | 256.0 |
| Annuities | | |
| Alternative investment income | 6.4 | 4.4 |
| Average alternative investment | 179.3 | 189.2 |
| Investment Management | | |
| Alternative investment income | 7.3 | 2.8 |
| Average alternative investment | 141.7 | 120.8 |
| Individual Life | | |
| Alternative investment income | 5.5 | 3.4 |
| Average alternative investment | 123.9 | 132.1 |
| Employee Benefits | | |
| Alternative investment income | 0.8 | 0.6 |
| Average alternative investment | 24.1 | 23.6 |
| Total Ongoing Business | | |
| Alternative investment income | 27.1 | 19.1 |
| Average alternative investment | 735.7 | 721.7 |
| Corporate | | |
| Alternative investment income | 5.0 | 2.7 |
| Average alternative investment | 103.7 | 98.1 |
| Closed Blocks(1) | | |
| Alternative investment income | 1.1 | 1.8 |
| Average alternative investment | 29.8 | 62.4 |
| Total ING US | | |
| Alternative investment income | 33.2 | 23.6 |
| Average alternative investment | $869.2 | $882.2 |

(1) Our CBVA segment is managed to focus on protecting regulatory and rating agency capital rather than achieving operating metrics and, therefore, its results of operations are not reflected within investment income.

Unlocking of DAC/VOBA and other Contract Owner/Policyholder Intangibles

Changes in Operating earnings before income taxes and net income (loss) are influenced by increases and decreases in amortization of DAC, VOBA, DSI, and URR. The DAC asset represents policy acquisition costs that have been capitalized and are subject to amortization and interest. Capitalized costs are direct incremental costs of contract acquisition, as well as certain costs related directly to acquisition activities. Such costs consist principally of certain commissions, underwriting, sales and contract issuance and processing expenses directly related to the successful acquisition of new and renewal business. The VOBA asset represents the outstanding value of in-force business acquired and is subject to amortization and interest. The value is based on the present value of estimated net cash flows embedded in the insurance contracts at the time of the acquisition and increased for subsequent deferrable expenses on purchased policies. We amortize VOBA over the estimated life of the contracts using the same methodology and assumptions employed to amortize DAC. The DSI asset represents benefits paid to contract owners for a specified period that are incremental to the amounts we credit on similar contracts without sales inducements and are higher than the contracts' expected ongoing crediting rates for periods after the inducement. We defer sales inducements and amortize them over the life of the contracts using the same methodology and assumptions employed to amortize DAC. (The amortization of sales inducements is included in Interest credited and other benefits to contract owners/policyholders.) In addition, a URR liability is recorded related to variable universal life and universal life products and represents policy charges for services to be provided in future periods. These policy

114

charges are deferred as unearned revenue and amortized over the expected life of the contracts in proportion to the estimated gross profits in a manner consistent with DAC for these products. The change in URR is included in Fee income.

Generally, we amortize DAC, VOBA, DSI, and URR related to fixed and variable universal life contracts, variable deferred annuity contracts and fixed deferred annuity contracts over the estimated lives of the contracts in relation to the emergence of estimated gross profits. For variable deferred annuity contracts within the CBVA segment, we amortize DAC, VOBA and DSI in relation to the emergence of estimated gross revenue. Assumptions as to mortality, persistency, interest crediting rates, returns associated with separate account performance, impact of hedge performance, expenses to administer the business and certain economic variables, such as inflation, are based on our experience and our overall short-term and long-term future expectations for returns available in the capital markets. At each valuation date, actual historical gross profits are reflected and estimated gross profits and related assumptions are evaluated for continued reasonableness. Adjustments to estimated gross profits require that amortization rates be revised retroactively to the date of the contract issuance, which is referred to as unlocking. As a result of this process, the cumulative balances of DAC, VOBA, DSI and URR are adjusted with an offsetting benefit or charge to income to reflect changes in the period of the revision. An unlocking event that results in a benefit ("favorable unlocking") generally occurs as a result of actual experience or future expectations being favorable compared to previous estimates. Changes in DAC, VOBA and DSI due to contract changes or contract terminations higher than estimated are also included in "unlocking." An unlocking event that results in a charge ("unfavorable unlocking") generally occurs as a result of actual experience or future expectations being unfavorable compared to previous estimates. When unlocking, we unlock assumptions for each of the appropriate intangibles and refer to the unlocking as "DAC/VOBA and other intangible" unlocking. As a result of unlocking, the amortization schedules for future periods are also adjusted.

We also review the estimated gross profits for each of these blocks of business to determine the recoverability of DAC, VOBA and DSI balances each period. These assets are deemed to be unrecoverable if the estimated gross profits do not exceed these balances and a write-down is recorded that is referred to as loss recognition. There was no loss recognition for the three months ended March 31, 2014 and 2013.

The following table presents the amount of DAC/VOBA and other intangibles unlocking that is included in segment Operating earnings before income taxes for the periods indicated:

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| ($ in millions) | 2014 | | 2013 | |
| Retirement | $(11.3 | ) | $3.0 | |
| Annuities | 3.2 | | 7.0 | |
| Individual Life | (7.1 | ) | (2.7 | ) |
| Employee Benefits | (4.6 | ) | — | |
| Total DAC/VOBA and other intangibles unlocking | $(19.8 | ) | $7.3 | |

Liquidity and Capital Resources

Liquidity is our ability to generate sufficient cash flows to meet the cash requirements of operating, investing and financing activities. Capital refers to our long-term financial resources available to support the business operations and contribute to future growth. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of the businesses, timing of cash flows on investments and products, general economic conditions and access to the capital markets and the alternate sources of liquidity and capital described herein.

Consolidated Sources and Uses of Liquidity and Capital

Our principal available sources of liquidity are product charges, investment income, proceeds from the maturity and sale of investments, proceeds from debt issuance and borrowing facilities, repurchase agreements, contract deposits and securities lending. Primary uses of these funds are payments of policyholder benefits commissions and operating expenses, interest credits, investment purchases and contract maturities, withdrawals and surrenders.

Parent Company Sources and Uses of Liquidity and Capital

In evaluating liquidity it is important to distinguish the cash flow needs of Voya Financial, Inc. from the cash flow needs of the Company as a whole.Voya Financial, Inc. is largely dependent on cash flows from its operating subsidiaries to meet its obligations.

The principal sources of funds available to Voya Financial, Inc. include dividends and returns of capital from its operating subsidiaries, as well as cash and short-term investments. These sources of funds are currently supplemented by Voya Financial, Inc.’s access to the $750.0 million revolving credit sublimit of its Amended and Restated Revolving Credit Agreement and reciprocal borrowing facilities maintained with its subsidiaries as well as other alternate sources of liquidity described below either directly or indirectly through its insurance subsidiaries.

Voya Financial, Inc.'s primary sources and uses of cash for the periods indicated are presented in the following table:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Beginning cash and cash equivalents balance | $640.2 | $357.5 |
| Sources: | | |
| Proceeds from loans from subsidiaries, net of repayments | 180.0 | 23.9 |
| Dividends and returns of capital from subsidiaries | 75.0 | — |
| Proceeds from Senior Notes offering | — | 998.3 |
| Amounts received from subsidiaries under tax sharing arrangements, net | 67.8 | 198.3 |
| Refund of income taxes, net | — | 3.8 |
| Total sources | 322.8 | 1,224.3 |
| Uses: | | |
| Payment of interest expense | 48.6 | 29.6 |
| Repayment of commercial paper, net of issuances | — | 188.0 |
| Repayment of credit facility borrowings | — | 925.0 |
| New issuances of loans to subsidiaries, net of repayments | 158.7 | 34.9 |
| Payment of income taxes, net | 30.0 | — |
| Dividends paid | 2.6 | — |
| Common stock acquired - Share buyback | 250.0 | — |
| Acquisition of short-term investments | 21.0 | — |
| Other, net | 10.6 | 20.1 |
| Total uses | 521.5 | 1,197.6 |
| Net increase in cash and cash equivalents | (198.7) | 26.7 |
| Ending cash and cash equivalents balance | $441.5 | $384.2 |

Liquidity

We manage liquidity through access to substantial investment portfolios as well as a variety of other sources of liquidity including committed credit facilities, securities lending and repurchase agreements. Our asset-liability management ("ALM") process takes into account the expected maturity of investments and expected benefit payments as well as the specific nature and risk profile of the liabilities, including variable products with guarantees. As part of our liquidity management process, we model different scenarios to determine whether existing assets are adequate to meet projected cash flows. Key variables in the modeling process include interest rates, equity market movements, quantity and type of interest and equity market hedges, anticipated contract owner behavior, market value of general account assets, variable separate account performance and implications of rating agency actions.

Description of Certain Indebtedness

We borrow funds to provide liquidity, invest in the growth of the business and for general corporate purposes. Our ability to access these borrowings depends on a variety of factors including, but not limited to, the credit rating of Voya Financial, Inc. and of its insurance company subsidiaries and general macroeconomic conditions.

The Company did not have any short-term debt borrowings outstanding as of March 31, 2014. The following table summarizes our borrowing activities for the three months ended March 31, 2014:

| ($ in millions) | Beginning Balance | Issuance | Maturities and Repayment | Other Changes | Ending Balance |
|---|---|---|---|---|---|
| Long-Term Debt: | | | | | |
| Debt securities | $3,509.8 | $— | $— | $0.3 | $3,510.1 |
| Windsor property loan | 4.9 | — | — | — | 4.9 |
| Subtotal | 3,514.7 | — | — | 0.3 | 3,515.0 |
| Less: Current portion of long-term debt | — | — | — | — | — |
| Total long-term debt | $3,514.7 | $— | $— | $0.3 | $3,515.0 |

Debt Securities

Senior Notes. As of March 31, 2014, Voya Financial, Inc. had three senior notes outstanding (collectively, the "Senior Notes"). The principal amounts outstanding of the Senior Notes were $850.0 million, $1.0 billion and $400.0 million, respectively. The Senior Notes were issued as private placements under Reg 144A and subsequently registered with the SEC. The Senior Notes are guaranteed by Lion Holdings. We may elect to redeem the Senior Notes at any time at a redemption price equal to the principal amount, or, if greater, a "make-whole redemption price," plus, in each case accrued and unpaid interest. For additional information on our Senior Notes, see the Financing Agreements Note to the Condensed Consolidated Financial Statements in Part I, Item 1. to this Form 10-Q.

Junior Subordinated Notes. As of March 31, 2014, the principal amount outstanding of junior subordinated notes (the "Junior Subordinated Notes") was $750.0 million. The Junior Subordinated Notes were issued as a private placement under Reg 144A and were subsequently registered with the SEC. The Junior Subordinated Notes are guaranteed on an unsecured, junior subordinated basis by Lion Holdings.

So long as no event of default with respect to the Junior Subordinated Notes has occurred and is continuing, we have the right on one or more occasions, to defer the payment of interest on the Junior Subordinated Notes for one or more consecutive interest periods for up to five years.

At any time following notice of our plan to defer interest and during the period interest is deferred, we and our subsidiaries generally, with certain exceptions, may not make payments on or redeem or purchase any shares of our common stock or any of the debt securities or guarantees that rank in liquidation on a parity with or are junior to the Junior Subordinated Notes.

We may elect to redeem the Junior Subordinated Notes in whole at any time or in part on or after May 15, 2023 at a redemption price equal to the principal amount plus accrued and unpaid interest. Also, we may elect to redeem the Junior Subordinated Notes in whole, but not in part, at any time prior to May 15, 2023 within 90 days after the occurrence of a "tax event" or "rating agency event", at a redemption price equal to the principal amount, or, if greater, a "make-whole redemption price," plus, in each case accrued and unpaid interest.

Aetna Notes. As of March 31, 2014 and December 31, 2013, Lion Holdings had outstanding $163.0 million principal amount of 7.25% Debentures due August 15, 2023, $235.1 million principal amount of 7.63% Debentures due August

15, 2026 and $108.0 million principal amount of 6.97% Debentures due August 15, 2036 (collectively, the “Aetna Notes”), all of which were issued by a predecessor of Lion Holdings and assumed in connection with our acquisition of Aetna’s life insurance and related businesses. In addition, Equitable of Iowa Capital Trust II, a limited purpose trust, has outstanding $13.0 million principal amount of 8.42% Series B Capital Securities due April 1, 2027 (the “ING USA Notes”). ING Group guarantees the Aetna Notes. The ING USA Notes benefit from a guarantee by Voya Financial, Inc.

Concurrent with the completion of our IPO, we entered into a shareholder agreement with ING Group that governs certain aspects of our continuing relationship. We agreed to reduce the aggregate outstanding principal amount of Aetna Notes to:

- no more than $400.0 million as of December 31, 2015;
- no more than $300.0 million as of December 31, 2016;
- no more than $200.0 million as of December 31, 2017;
- no more than $100.0 million as of December 31, 2018;
- and zero as of December 31, 2019.

The reduction in principal amount of Aetna Notes can be accomplished, at our option, through redemptions, repurchases or other means, but will also be deemed to have been reduced to the extent we post collateral with a third-party collateral agent, for the benefit of ING Group, which may consist of cash collateral; certain investment-grade debt instruments; an LOC meeting certain requirements; or senior debt obligations of ING Group or a wholly owned subsidiary of ING Group (other than Voya Financial, Inc. or its subsidiaries).

If we fail to reduce the outstanding principal amount of the Aetna Notes, we agreed to pay a quarterly fee (ranging from 0.5% per quarter for 2016 to 1.25% per quarter for 2019) to ING Group based on the outstanding principal amount of Aetna Notes which exceed the limits set forth above. As of March 31, 2014, the outstanding principal amount of Aetna Notes guaranteed by ING Group was $506.1 million.

Senior Unsecured Credit Facility

Amended and Restated Credit Agreement. On February 14, 2014, Voya Financial, Inc. revised the terms of its Revolving Credit Agreement by entering into the Amended and Restated Revolving Credit Agreement (the "Amended and Restated Credit Agreement") with a syndicate of banks. The Amended and Restated Credit Agreement modifies the original agreement by: 1) extending the term of the agreement to February 14, 2018; 2) reducing the total amount of LOCs that may be issued from $3.5 billion to $3.0 billion and 3) reducing the current cost of LOC issuance fees from 200 bps to 175 bps. The revolving credit sublimit of $750.0 million present in the original agreement remains unchanged. ING Bank, N.V. ("ING Bank"), an affiliate, acted as Joint Lead Arranger, Joint Book Manager and Documentation Agent and received $0.7 million for its services and participation in the syndicate.

As of March 31, 2014, there were no amounts outstanding as revolving credit borrowings and $829.9 million in letters of credit outstanding.

Credit Facilities and Subsidiary Credit Support Arrangement

We use credit facilities primarily to provide collateral required under our affiliated reinsurance transactions as well as certain third-party reinsurance arrangements to which our Arizona captive is a party. We also issue guarantees and enter into financing arrangements in connection with our affiliated reinsurance transactions. These arrangements are primarily designed to facilitate the financing of statutory reserve requirements. Regulation XXX and AG38 require insurers to hold significantly higher levels of reserves on term products and UL insurance products with secondary guarantees, respectively, than are generally thought to be sufficient. By reinsuring business to our captive reinsurance subsidiaries and our Arizona captive, we are able to use alternative sources of collateral to fund the statutory reserve requirements and are generally able to secure longer term financing on a more capital efficient basis.

Effective January 1, 2009, we entered into a master asset purchase agreement (the “MPA”) with Scottish Re Group Limited, Scottish Holdings, Inc., Scottish Re (U.S.), Inc. (“SRUS”), Scottish Re Life (Bermuda) Limited (“Scottish Bermuda”) and Scottish Re (Dublin) Limited (collectively, “Scottish Re”) and Hannover Re. Pursuant to the MPA, we recaptured individual life reinsurance business which had previously been reinsured to Scottish Re and immediately ceded 100% of such business to Hannover Re on a modified coinsurance, funds withheld and coinsurance basis, which resulted in no gain or loss. We will remain obligated to maintain collateral for the statutory reserve requirements associated with Statutory Regulations XXX and AG38 on the business transferred from us to Hannover Re for the duration of such reserve requirements or until the underlying reinsurance contracts are novated to Hannover Re or Hannover Re puts into place its own collateral for such reserve requirements. Hannover Re reimburses us for a portion of our fees for these credit facilities. We refer to this block as the Hannover Re block and its results are reported as part of the Closed Block Other segment.

We also utilize LOCs to provide credit for reinsurance on portions of the CBVA segment liabilities reinsured to our Arizona captive in order to meet statutory reserve requirements at those times when the assets and other capital backing the reinsurance liabilities may be less than the statutory reserve requirement. As of March 31, 2014, there was no LOC requirement and the actual amount of the LOCs outstanding was $425.0 million.

In addition to the $5.1 billion of Individual Life, Hannover Re block and CBVA credit facilities utilized, $482.2 million of LOCs were outstanding to support miscellaneous requirements. In total, $5.6 billion of credit facilities were utilized as of March 31, 2014. As of March 31, 2014, the capacity of our unsecured and uncommitted credit facilities totaled $1.7 million and the capacity of our unsecured and committed credit facilities totaled $9.7 billion. We also have approximately $265.0 million in secured facilities.

The following table summarizes our credit facilities, their dates of expiration, capacity and utilization as of March 31, 2014:

($ in millions)

| Obligor / Applicant | Liability Supported | Secured/ Unsecured | Committed/ Uncommitted | Expiration | Capacity | Utilization | Unused Commitment |
|---|---|---|---|---|---|---|---|
| Voya Financial, Inc. | | Unsecured | Committed | 02/14/2018 | $3,000.0 | $829.9 | $2,170.1 |
| | Individual Life | | | | | 331.0 | |
| | CBVA | | | | | 425.0 | |
| | Other | | | | | 73.9 | |
| SLDI | Retirement Solutions | Unsecured | Committed | 01/24/2018 | 150.0 | 147.0 | 3.0 |
| Voya Financial, Inc./ Langhorne I, LLC | Retirement Solutions | Unsecured | Committed | 01/15/2019 | 500.0 | — | 500.0 |
| Voya Financial, Inc. / SLDI | Hannover Re block | Unsecured | Committed | 11/09/2021 | 750.0 | 750.0 | — |
| SLDI | Hannover Re block | Unsecured | Committed | 10/29/2020 | 1,125.0 | 631.6 | 493.4 |
| Voya Financial, Inc. / SLDI | Hannover Re block | Unsecured | Committed | 12/27/2022 | 750.0 | 750.0 | — |
| Voya Financial, Inc. / SLDI | Hannover Re block | Unsecured | Committed | 12/29/2023 | 250.0 | 250.0 | — |
| ReliaStar Life Insurance Company | Institutional Spread Products | Secured | Committed | Conditional | 255.0 | 255.0 | — |
| Voya Financial, Inc. / SLDI | Individual Life | Unsecured | Committed | 12/31/2025 | 475.0 | 475.0 | — |
| Voya Financial, Inc. | Other | Unsecured | Uncommitted | Various | 1.7 | 1.7 | — |
| Voya Financial, Inc. | Other | Secured | Uncommitted | Various | 10.0 | 4.7 | — |
| Voya Financial, Inc. / Roaring River II LLC | Individual Life | Unsecured | Committed | 12/31/2021 | 995.0 | 588.0 | 407.0 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Voya Financial, Inc. / Roaring River III LLC | Individual Life | Unsecured | Committed | 06/30/2022 | 1,151.2 | 630.0 | 521.2 |
| Voya Financial, Inc. / Roaring River IV LLC | Individual Life | Unsecured | Committed | 12/31/2028 | 565.0 | 287.0 | 278.0 |
| Total | | | | | $9,977.9 | $5,599.9 | $4,372.7 |

Total fees associated with credit facilities for the three months ended March 31, 2014 and 2013 were $29.3 million and $45.4 million, respectively.

119

Effective January 1, 2014, the reinsurance agreements with Whisperingwind III, LLC ("Whisperingwind III") were novated to Roaring River IV, LLC ("Roaring River IV"), a wholly owned reinsurance subsidiary of the Company, which completed a transaction with a third-party bank to provide up to $565.0 million of statutory reserve financing through a trust note which matures December 31, 2028. The initial amount of the trust note issued on January 1, 2014 was $297.0 million and was decreased to $287.0 million as of March 31, 2014. The trust note replaces $330.0 million of letters of credit associated with the Whisperingwind III reinsurance agreements which were cancelled in January 2014.

Effective January 15, 2014, Langhorne I, a wholly owned reinsurance subsidiary of the Company, completed a financing arrangement with a third-party trust to provide up to $500.0 million of trust note collateral funding. The financing arrangement is designed to manage reserve and capital requirements in connection with the stable value business and matures on January 15, 2019. No trust notes were being utilized as of financing arrangement inception.

Effective January 24, 2014, SLDI entered into a letter of credit facility agreement with a third-party bank providing up to $150.0 million of committed capacity until January 24, 2018 which supports reserves on an affiliated reinsurance agreement in connection with a portion of its deferred annuity business.

The following tables present our existing financing facilities for each of our Individual Life, Hannover Re and Closed Block Variable Annuity blocks of business as of March 31, 2014. While these tables present the current financing for each block, these financing facilities will expire prior to the runoff of the reserve liabilities they support. In addition, these liabilities will change over the life of each block. As a result, the existing financing will be periodically extended or replaced and increased as each block grows toward the peak reserve requirement noted below.

Individual Life

| ($ in millions)<br>Obligor / Applicant | Financing Structure | Reserve Type | Expiration | Capacity | Utilization |
|---|---|---|---|---|---|
| Voya Financial, Inc. | Credit Facility | XXX | 2/14/2018 | $331.0 | $331.0 |
| Voya Financial, Inc. / Roaring River III LLC | Trust Note | XXX | 6/30/2022 | 1,151.2 | 630.0 |
| Voya Financial, Inc. / Roaring River IV LLC | Trust Note | AG38 | 12/31/2028 | 565.0 | 287.0 |
| Voya Financial, Inc. / SLDI | LOC Facility | AG38 | 12/31/2025 | 475.0 | 475.0 |
| Voya Financial, Inc. / Roaring River II LLC | LOC Facility | XXX | 12/31/2021 | 995.0 | 588.0 |
| Total | | | | $3,517.2 | $2,311.0 |

The peak financing requirement for the Individual Life liabilities above is expected to reach approximately $4.0 billion during the period 2020 - 2025.

Hannover Re block

| ($ in millions)<br>Obligor / Applicant | Financing Structure | Reserve Type | Expiration | Capacity | Utilization |
|---|---|---|---|---|---|
| Voya Financial, Inc. / SLDI | Collateral Note | XXX/AG38 | 11/9/2021 | $750.0 | $750.0 |
| Voya Financial, Inc. / SLDI | Collateral Note | XXX/AG38 | 12/27/2022 | 750.0 | 750.0 |
| SLDI | LOC Facility | XXX/AG38 | 10/29/2020 | 1,125.0 | 631.6 |
| Voya Financial, Inc. / SLDI | LOC Facility | XXX/AG38 | 12/29/2023 | 250.0 | 250.0 |
| Total | | | | $2,875.0 | $2,381.6 |

The peak financing requirement for the Hannover Re block is expected to reach approximately $2.6 billion in 2016.

Closed Block Variable Annuity

($ in millions)

| Obligor / Applicant | Financing Structure | Product | Expiration | Utilization |
|---|---|---|---|---|
| Voya Financial, Inc. / SLDI | Credit Facility | GMWBL/GMIB | 02/14/2018 | $425.0 |
| Total | | | | $425.0 |

Voya Financial, Inc. Credit Support of Subsidiaries

As of March 31, 2014, Voya Financial, Inc. supported the reinsurance obligations of its reinsurance subsidiaries with $829.9 million in LOCs.

Voya Financial, Inc. also maintains credit facilities with third-party banks to support the reinsurance obligations of our captive reinsurance subsidiaries. As of March 31, 2014, such facilities provided for up to $2.7 billion of capacity, of which $1.5 billion was utilized.

In addition to providing credit facilities, we also provide credit support to our captive reinsurance subsidiaries through surplus maintenance agreements, pursuant to which we agree to cause these subsidiaries to maintain particular levels of capital or surplus and which we entered into in connection with particular reinsurance transactions. These agreements are effective for the duration of the in-force policies subject to the related reinsurance transactions and the maximum potential obligations are not specified or applicable. Since these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these agreements.

In connection with certain reinsurance transactions involving a third-party trust (the "Master Trust"), Voya Financial, Inc. and SLDI are parties to reimbursement agreements with third-party banks that lend securities to the Master Trust. SLDI has reimbursement obligations to the banks under these agreements, in an aggregate amount of up to $1.5 billion as of March 31, 2014, which obligations are guaranteed by Voya Financial, Inc. Voya Financial, Inc. also provides an indemnification to the third-party banks with respect to any defaults by the Master Trust under the securities lending agreements under which these banks lend securities to the Master Trust, up to $1.5 billion. These agreements and the related indemnification were entered into to facilitate collateral requirements supporting reinsurance and are effective for the duration that the collateral remains outstanding.

Voya Financial, Inc. has also entered into a corporate guarantee agreement with a third-party ceding insurer where it guarantees the reinsurance obligations of our subsidiary, Security Life of Denver Insurance Company ("SLD"), assumed under a reinsurance agreement with the third-party cedent. SLD retrocedes the business to Hannover Life Reassurance Company of America (“Hannover US”) who is the claim paying party. The current amount of reserves outstanding as of March 31, 2014 is $25.0 million. The maximum potential obligation is not specified or applicable. Since these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees.

On September 6, 2012, Voya Financial, Inc. as borrowing party and its subsidiary, Roaring River III, LLC ("Roaring River III"), as borrower, entered into a reimbursement agreement with a third-party bank providing for $390.0 million of initial funding in the form of a putable variable funding trust note due 2022 where Voya Financial, Inc. guarantees the reimbursement obligations of Roaring River III. Roaring River III has entered into a reinsurance agreement with an affiliated ceding company and by entering into the reimbursement agreement, Roaring River III provides collateral for reinsurance in the form of the trust note. To support additional growth in reserves on the policies reinsured, the trust note notional amount may be increased to approximately $1.2 billion prior to maturity. As of March 31, 2014 the amount of the trust note was $630.0 million.

Voya Financial, Inc. guarantees the obligations of Lion Holdings under the $13.0 million principal amount ING USA Notes maturing in 2027 as well as $506.1 million combined principal amount of Aetna Notes. For more information see “Debt Securities” above. From time to time, Voya Financial, Inc. may also have outstanding guarantees of various obligations of its subsidiaries.

We did not recognize any asset or liability as of March 31, 2014 in relation to intercompany indemnifications and support agreements. As of March 31, 2014, no circumstances existed in which we were required to currently perform under these indemnifications and support agreements.

Credit Support Provided by Other Subsidiaries of Voya Financial, Inc.

Reliastar Life Insurance Company ("RLI") and SLD, indirect and direct subsidiaries of Voya Financial, Inc., respectively, guarantee a reinsurance contract entered into by SLDI with respect to SLDI's reinsurance of $239.3 million of the principal and interest of a bond insured by an unrelated insurance company. The bond payments are supported by the insurer's closed block. Surplus from the closed block, in the form of dividends, is used to pay the bond principal and interest.

In order to collateralize obligations under this treaty, RLI provided a LOC of $255.0 million issued by the FHLB of Des Moines to the unrelated insurer which is secured by assets pledged by RLI to FHLB. As of March 31, 2014 and December 31, 2013, the LOC is collateralized by assets with a market value of approximately $301.2 million and $294.1 million, respectively.

ING Group Credit Support

As described above, certain of our indebtedness benefits from a guarantee provided by ING Group. As of March 31, 2014, the indebtedness for which ING Group or NN Group provided guarantees consisted of $506.1 million aggregate principal amount of Aetna Notes issued by Lion Holdings.

Previously NN Group (as successor to ING V) provided a guarantee of an LOC issued by ING Bank and used to support the reinsurance obligations of certain of our captive reinsurance subsidiaries. On January 14, 2014, the LOC was cancelled and the corresponding guarantee obligation of NN Group was extinguished.

Borrowings from Subsidiaries

We maintain revolving reciprocal loan agreements with a number of our life and non-life insurance subsidiaries that are used to fund short-term cash requirements that arise in the ordinary course of business. Under these agreements, either party may borrow up to the maximum allowable under the agreement for a term not more than 270 days. For life insurance subsidiaries, the amounts that either party may borrow from the other under the agreement vary and are equal to 2%-5% of the insurance subsidiary's statutory net admitted assets (excluding separate accounts) as of the previous year end depending on the state of domicile. As of March 31, 2014, the aggregate amount that may be borrowed or lent under agreements with life insurance subsidiaries was $2.4 billion. For non-life insurance subsidiaries, the maximum allowable under the agreement is based on the assets of the subsidiaries and their particular cash requirements. As of March 31, 2014, $180.0 million were borrowed from our subsidiaries and $370.0 million were lent to our subsidiaries.

Ratings

Our access to funding and our related cost of borrowing, requirements for derivatives collateral posting and the attractiveness of certain of our products to customers are affected by our credit ratings and insurance financial strength ratings, which are periodically reviewed by the rating agencies. Financial strength ratings and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. The credit ratings are also important for the ability to raise capital through the issuance of debt and for the cost of such financing.

A downgrade in our credit ratings or the credit or financial strength ratings of our rated subsidiaries could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees or LOCs, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements and/or hurt our relationships with creditors, distributors or trading counterparties thereby potentially negatively affecting our profitability, liquidity and/or capital. In addition, we consider nonperformance risk in determining the fair value of our liabilities. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities.

Additionally, ratings of certain of our securities guaranteed by our largest shareholder, ING Group, could be influenced by ING Group’s ratings. A downgrade of the credit ratings of ING Group could result in downgrades of these securities.

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. These ratings are not a recommendation to buy or hold any of our securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

The financial strength and credit ratings of Voya Financial, Inc. and its principal subsidiaries as of the date of this Quarterly Report on Form 10-Q are summarized in the following table. In parentheses, following the initial occurrence in the table of each rating, is an indication of that rating's relative rank within the agency's rating categories. That ranking refers only to the generic or major rating category and not to the modifiers appended to the rating by the rating agencies to denote relative position within such generic or major category. For each rating, the relative position of the rating within the relevant rating agency's ratings scale is presented, with "1" representing the highest rating in the scale.

| | A.M. Best | Fitch, Inc. | Moody's Investors Service, Inc. | Standard & Poor's |
|---|---|---|---|---|
| Company | ("A.M. Best") | ("Fitch") | ("Moody's") | ("S&P") |
| Voya Financial, Inc. (Long-term Issuer Credit) | bbb (4 of 10) | BBB (4 of 11) | Baa3 (LT Issuer Domestic) (4 of 9) | BBB- (4 of 11) |
| Voya Financial, Inc. (Senior Unsecured Debt)[(1)] | bbb (4 of 10) | BBB- (4 of 9) | Baa3 (4 of 9) | BBB- (4 of 9) |
| Voya Financial, Inc. (Junior Subordinated Debt)[(2)] | bb+ (5 of 10) | BB (5 of 9) | Ba1(hyb) (5 of 9) | BB (5 of 9) |
| ING Life Insurance and Annuity Company | | | | |
| Financial Strength Rating | A (3 of 16) | A- (3 of 9) | A3 (3 of 9) | A- (3 of 9) |
| ING USA Annuity & Life Insurance | | | | |
| Financial Strength Rating | A (3 of 16) | A- (3 of 9) | A3 (3 of 9) | A- (3 of 9) |
| Short-term Issuer Credit Rating [(3)] | NR | NR | P-2 (2 of 4) | WD |
| ReliaStar Life Insurance Company | | | | |
| Financial Strength Rating | A (3 of 16) | A- (3 of 9) | A3 (3 of 9) | A- (3 of 9) |
| Short-term Issuer Credit Rating | NR | NR | NR | A-2 (2 of 8) |
| Security Life of Denver Insurance Company | | | | |
| Financial Strength Rating | A (3 of 16) | A- (3 of 9) | A3 (3 of 9) | A- (3 of 9) |
| Short-term Issuer Credit Rating | NR | NR | P-2 (2 of 4) | A-2 (2 of 8) |
| Midwestern United Life Insurance Company | | | | |
| Financial Strength Rating | A- (4 of 16) | NR | NR | A- (3 of 9) |
| Lion Connecticut Holdings Inc. | | | | |
| Long-term Issuer Credit Rating | NR | NR | Baa3 (LT Issuer) (4 of 9) | BBB- (4 of 11) |

(1) $850.0 million, $1.0 billion and $400.0 million of our Senior Notes.

(2) $750.0 million of our Junior Subordinated Notes.

(3) Effective March 5, 2014, the Company requested S&P to withdraw ("WD") the short-term issuer credit rating on ING USA Life and Annuity Insurance Company ("ING USA") as the rating was necessary only for the marketing and distribution of products no longer offered by the company.

| Rating Agency | Financial Strength Rating Scale | Long-term Credit Rating Scale | Senior Unsecured Debt Credit Rating Scale | Short-term Credit Rating Scale |
|---|---|---|---|---|
| A.M. Best[(1)] | "A++" to "S" | "aaa" to "rs" | "aaa" to "d" | "AMB-1+" to "d" |
| Fitch[(2)] | "AAA" to "C" | "AAA" to "D" | "AAA" to "C" | "F1" to "D" |
| Moody's[(3)] | "Aaa" to "C" | "Aaa" to "C" | "Aaa" to "C" | "Prime-1" to "Not Prime" |
| S&P[(4)] | "AAA" to "R" | "AAA" to "D" | "AAA" to "D" | "A-1" to "D" |

(1) A.M. Best's financial strength rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile. A.M. Best's long-term credit ratings reflect its assessment of the ability of an obligor to pay interest and principal in accordance with the terms of the obligation. Ratings from "aa" to "ccc" may be enhanced with a "+" (plus) or "-" (minus) to indicate whether credit quality is near the top or bottom of a category. A.M. Best's short-term credit rating is an opinion to the ability of the rated entity to meet its senior financial commitments on obligations maturing in generally less than one year.
(2) Fitch's financial strength ratings provides an assessment of the financial strength of an insurance organization. The IFS Rating is assigned to the insurance company's policyholder obligations, including assumed reinsurance obligations and contract holder obligations, such as guaranteed investment contracts. Within long-term and short-term ratings, a "+" or a "–" may be appended to a rating to denote relative status within major rating categories.
(3) Moody's financial strength ratings opinions of the ability of insurance companies to repay punctually senior policyholder claims and obligations. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Moody's long-term credit ratings opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Moody's short-term ratings are opinions of the ability of issuers to honor short-term financial obligations.
(4) S&P's insurer financial strength rating is a forward-looking opinion about the financial security characteristics of an insurance organization with respect to its ability to pay under its insurance policies and contracts in accordance with their terms. A "+" or "-" indicates relative strength within a category. An S&P credit rating is assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Short-term issuer credit ratings reflect the obligor's creditworthiness over a short-term time horizon.

Our ratings by A.M. Best, Fitch, Moody's and S&P reflect a broader view of how the financial services industry is being challenged by the current economic environment, but also are based on the rating agencies' specific views of our financial strength. In making their ratings decisions, the agencies consider past and expected future capital and earnings, asset quality and risk, profitability and risk of existing liabilities and current products, market share and product distribution capabilities and direct or implied support from parent companies, including implications of the ongoing divestment of Voya Financial, Inc. by ING Group, among other factors.

Rating agencies use an "outlook" statement for both industry sectors and individual companies. For an industry sector, a stable outlook generally implies that over the next 12 to 18 months the rating agency expects ratings to remain unchanged among companies in the sector. For a particular company, an outlook generally indicates a medium- or long-term trend in credit fundamentals, which if continued, may lead to a rating change.

Ratings actions affirmation and outlook changes by A.M. Best, Fitch, Moody's and S&P from December 31, 2013 through March 31, 2014 and subsequently through the date of this Quarterly Report on Form 10-Q are as follows:

- On March 14, 2014, S&P affirmed the ratings of Voya Financial, Inc. and its operating subsidiaries, and revised the rating outlook to Positive from Stable.
- 

On March 6, 2014, Fitch affirmed the ratings of Voya Financial, Inc. and its operating subsidiaries and revised the rating outlook to Positive from Stable.

Potential Impact of a Ratings Downgrade

Our ability to borrow funds and the terms under which we borrow are sensitive to our short- and long-term issuer credit ratings. A downgrade of either or both of these credit ratings could increase our cost of borrowing. Additionally, a downgrade of either or both of these credit ratings could decrease the total amount of new debt that we are able to issue in the future or increase the costs associated with an issuance.

With respect to our credit facility agreements, based on the amount of credit outstanding as of March 31, 2014, no increase in collateral requirements would result due to a ratings downgrade of the credit ratings of Voya Financial, Inc. by S&P or Moody's.

Certain of our derivative and reinsurance agreements contain provisions that are linked to the financial strength ratings of certain of our insurance subsidiaries. If financial strength ratings were downgraded in the future, these provisions might be triggered and counterparties to the agreements could demand collateralization which could negatively impact overall liquidity.

Certain of our reinsurance agreements contain provisions that are linked to the financial strength ratings of the individual legal entity that entered into the reinsurance agreement. If the insurance subsidiaries' financial strength ratings were downgraded in the future, the terms in our reinsurance agreements might be triggered and counterparties to the credit facility agreements could demand collateralization which could negatively impact overall liquidity. Based on the amount of credit outstanding as of March 31, 2014 and December 31, 2013, a one-notch downgrade of our insurance subsidiaries would have resulted in an estimated increase in our collateral requirements by approximately $25.0 million. The nature of the collateral that we may be required to post is principally in the form of cash, highly rated securities or LOC.

Certain of our derivative agreements contain provisions that are linked to the financial strength ratings of the individual legal entity that entered into the derivative agreement. If insurance subsidiaries' financial strength ratings were downgraded in the future, the terms in our derivative agreements might be triggered and counterparties to the derivative agreements could demand immediate further collateralization which could negatively impact overall liquidity. Based on the market value of our derivatives as of March 31, 2014 and December 31, 2013, a one-notch downgrade of our insurance subsidiaries would have resulted in an estimated increase in our derivative collateral requirements by approximately $112.0 million and $111.0 million, respectively. The nature of the collateral that we may be required to post is principally in the form of cash and U.S. Treasury securities.

Based on the market value of our derivatives as of March 31, 2014 and December 31, 2013, a two-notch downgrade of our insurance subsidiaries would have resulted in an estimated increase in the derivative collateral requirements required by a one-notch downgrade by an additional $2.5 million and $1.3 million, respectively.

The amount of collateral that would be required to be posted is also dependent on the fair value of our derivative positions. For additional information on our derivative positions, see the Derivative Financial Instruments Note to the Condensed Consolidated Financial Statements in Part I, Item 1. to this Form 10-Q.

Restrictions on Dividends and Returns of Capital from Subsidiaries

Our business is conducted through operating subsidiaries. U.S. insurance laws and regulations regulate the payment of dividends and other distributions by our U.S. insurance subsidiaries to their respective parents. Dividends in excess of prescribed limits established by the applicable state regulations are considered to be extraordinary transactions and require explicit regulatory approval. In addition, under the insurance laws applicable to our insurance subsidiaries domiciled in Colorado, Connecticut, Iowa and Minnesota (collectively, "principal insurance subsidiaries"), no dividend or other distribution exceeding an amount equal to an insurance company’s earned surplus may be paid without the domiciliary insurance regulator’s prior approval.

Security Life of Denver International, our Arizona captive, may not declare or pay dividends other than in accordance with its annual capital and dividend plan as approved by the Arizona Department of Insurance, which includes a minimum capital requirement.

We may receive dividends from or contribute capital to our wholly owned non-life insurance subsidiaries such as broker-dealers, investment management entities and intermediate holding companies.

Insurance Subsidiaries - Dividends

On May 2, 2014, Voya Financial, Inc.’s principal insurance subsidiaries domiciled in Connecticut, Iowa and Minnesota declared ordinary dividends in the aggregate amount of $690.0 million, $474.0 million of which is payable on or after May 15, 2014 and $216.0 million of which is payable on or after May 19, 2014.

Critical Accounting Judgments and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires us 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Critical estimates and assumptions are evaluated on an on-going basis based on historical developments, market conditions, industry trends and other information that is reasonable under the circumstances. There can be no assurance that actual results will conform to estimates and assumptions and that reported results of operations will not be materially affected by the need to make future accounting adjustments to reflect changes in these estimates and assumptions from time to time.

We have identified the following accounting judgments and estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability:

Reserves for future policy benefits, deferred acquisition costs ("DAC"), value of business acquired ("VOBA") and other intangibles (collectively, "DAC/VOBA and other intangibles"), valuation of investments and derivatives, impairments, income taxes, contingencies and employee benefit plans.

In developing these accounting estimates, we make subjective and complex judgments that are inherently uncertain and subject to material changes as facts and circumstances develop. Although variability is inherent in these estimates, we believe the amounts provided are appropriate based upon the facts available upon preparation of the Condensed Consolidated Financial Statements.

The above critical accounting estimates are described in “Item 8. Note 1. Business, Basis of Presentation and Significant Accounting Policies” to the Voya Financial, Inc. Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

Impact of New Accounting Pronouncements

For information regarding the impact of new accounting pronouncements, see “Part I. Item 1. Note 1. Business, Basis of Presentation and Significant Accounting Policies” to the Condensed Consolidated Financial Statements to this Form 10-Q.

Income Taxes

As of March 31, 2014, we have recognized $697.2 million deferred tax assets based on tax planning strategies related to unrealized gains on investment assets. Such tax planning strategies support the recognition of deferred tax assets associated with deductible temporary differences and may be adversely impacted by decreases in unrealized gains.

The deferred tax valuation allowance as of March 31, 2014 was $2.8 billion. We estimate that approximately $1.1 billion, $42 million, $260 million, $174 million and $1.0 billion were related to federal net operating losses, non-life realized capital losses, non-life subgroup deferred amounts, life subgroup deferred amounts, and SLDI related deferred amounts, respectively. The remaining balance was attributable to various items including state taxes and other deferred tax assets. We also estimate that the deferred tax asset associated with life subgroup deferred amounts, as of March 31, 2014, was approximately $570 million, excluding the valuation allowance.

Also, during the quarter ended March 31, 2014, we believe we had a Section 382 ownership change. However, using information available as of date of the ownership change, we estimate that the deferred tax asset that would potentially be subject to an additional valuation allowance was approximately $200 million to $240 million (mainly as a result of built-in losses), which could change following the final Section 382 calculations. Under statutory accounting, a Section 382 event could reduce the admitted deferred tax asset by approximately $58 million if measured as of March 31, 2014. However, based on the estimated amount of the Section 382 limitation, we do not believe an additional valuation allowance is necessary, and we estimate that it is unlikely that the deferred tax asset, the tax valuation allowance or the admitted deferred tax asset will change as a result of the section 382 event. This estimate may change because the computation is dependent on several factors and because numerous aspects of the application of Section 382 are subject to review by the U.S. Internal Revenue Service ("IRS"). The actual impact on the valuation allowance is dependent mainly on the level of the unrealized capital gains and losses at the time of the ownership change, the calculated Section 382 limitation, the estimated reversal pattern of the capital losses supported by tax planning strategies, the estimated reversal pattern of the unrealized capital gains comprising the tax planning strategies and the estimated reversal pattern of the unrealized capital. The actual impact may be materially different from this estimate.

The amounts described above are based solely on data and assumptions as of March 31, 2014.

INVESTMENTS
(excluding Consolidated investment Entities)

Investments for our general account are managed by our wholly owned asset manager, ING Investment Management LLC, pursuant to investment advisory agreements with affiliates. In addition, our internal treasury group manages our holding company liquidity investments, primarily money market funds.

Investment Strategy

Our investment strategy seeks to achieve sustainable risk-adjusted returns by focusing on principal preservation, disciplined matching of asset characteristics with liability requirements and the diversification of risks. Investment activities are undertaken according to investment policy statements that contain internally established guidelines and risk tolerances and in all cases are required to comply with applicable laws and insurance regulations. Risk tolerances are established for credit risk, credit spread risk, market risk, liquidity risk and concentration risk across issuers, sectors and asset types that seek to mitigate the impact of cash flow variability arising from these risks.

Segmented portfolios are established for groups of products with similar liability characteristics. Our investment portfolio consists largely of high quality fixed maturities and short-term investments, investments in commercial mortgage loans, alternative investments and other instruments, including a small amount of equity holdings. Fixed maturities include publicly issued corporate bonds, government bonds, privately placed notes and bonds, ABS, traditional MBS and various CMO tranches managed in combination with financial derivatives as part of a proprietary strategy known as CMO-B.

We use derivatives for hedging purposes to reduce our exposure to the cash flow variability of assets and liabilities, interest rate risk, credit risk and market risk. In addition, we use credit derivatives to replicate exposure to individual securities or pools of securities as a means of achieving credit exposure similar to bonds of the underlying issuer(s) more efficiently.

See the Investments (excluding Consolidated Investment Entities) Note to the Condensed Consolidated Financial Statements in Part I, Item 1. of this Form 10-Q.

Portfolio Composition

The following table presents the investment portfolio as of the dates indicated:

| | March 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| ($ in millions) | Carrying Value | % | | Carrying Value | % | |
| Fixed maturities, available-for-sale, excluding securities pledged | $70,449.7 | 79.3 | % | $68,317.8 | 78.4 | % |
| Fixed maturities, at fair value using the fair value option | 3,082.1 | 3.5 | % | 2,935.3 | 3.4 | % |
| Equity securities, available-for-sale | 276.6 | 0.3 | % | 314.4 | 0.4 | % |
| Short-term investments[1] | 1,046.2 | 1.2 | % | 1,048.1 | 1.2 | % |
| Mortgage loans on real estate | 9,258.1 | 10.4 | % | 9,312.2 | 10.7 | % |
| Policy loans | 2,119.7 | 2.4 | % | 2,147.0 | 2.5 | % |
| Limited partnerships/corporations | 218.9 | 0.2 | % | 236.4 | 0.3 | % |
| Derivatives | 1,044.7 | 1.2 | % | 1,149.3 | 1.3 | % |
| Other investments | 124.1 | 0.1 | % | 124.6 | 0.1 | % |
| Securities pledged[2] | 1,271.3 | 1.4 | % | 1,465.7 | 1.7 | % |
| Total investments | $88,891.4 | 100.0 | % | $87,050.8 | 100.0 | % |

(1) Short-term investments include investments with remaining maturities of one year or less, but greater than 3 months, at the time of purchase.
(2) See "Management's Discussion and Analysis of Results of Operations and Financial Condition-Liquidity and Capital Resources" for information regarding securities pledged.

Fixed Maturities

Total fixed maturities by market sector, including securities pledged, were as presented below as of the dates indicated:

| ($ in millions) | March 31, 2014<br>Amortized Cost | % of Total | | Fair Value | % of Total | |
|---|---|---|---|---|---|---|
| Fixed maturities: | | | | | | |
| U.S. Treasuries | $4,991.6 | 7.0 | % | $5,263.1 | 6.9 | % |
| U.S. Government agencies and authorities | 610.6 | 1.0 | % | 644.1 | 0.9 | % |
| State, municipalities and political subdivisions | 276.5 | 0.4 | % | 293.6 | 0.4 | % |
| U.S. corporate securities | 36,658.8 | 52.4 | % | 39,173.5 | 52.4 | % |
| Foreign securities[1] | 15,746.2 | 22.5 | % | 16,740.6 | 22.4 | % |
| Residential mortgage-backed securities | 6,374.4 | 9.1 | % | 7,052.7 | 9.4 | % |
| Commercial mortgage-backed securities | 3,472.8 | 5.0 | % | 3,796.1 | 5.1 | % |
| Other asset-backed securities | 1,789.4 | 2.6 | % | 1,839.4 | 2.5 | % |
| Total fixed maturities, including securities pledged | $69,920.3 | 100.0 | % | $74,803.1 | 100.0 | % |

[1] Primarily U.S. dollar denominated.

| ($ in millions) | December 31, 2013<br>Amortized Cost | % of Total | | Fair Value | % of Total | |
|---|---|---|---|---|---|---|
| Fixed maturities: | | | | | | |
| U.S. Treasuries | $5,094.0 | 7.3 | % | $5,181.2 | 7.1 | % |
| U.S. Government agencies and authorities | 598.0 | 0.9 | % | 618.9 | 0.9 | % |
| State, municipalities and political subdivisions | 272.0 | 0.4 | % | 281.1 | 0.4 | % |
| U.S. corporate securities | 36,010.3 | 51.9 | % | 37,478.6 | 51.5 | % |
| Foreign securities[1] | 15,661.4 | 22.6 | % | 16,356.5 | 22.5 | % |
| Residential mortgage-backed securities | 6,480.3 | 9.3 | % | 7,123.7 | 9.8 | % |
| Commercial mortgage-backed securities | 3,427.9 | 4.9 | % | 3,752.1 | 5.2 | % |
| Other asset-backed securities | 1,883.1 | 2.7 | % | 1,926.7 | 2.6 | % |
| Total fixed maturities, including securities pledged | $69,427.0 | 100.0 | % | $72,718.8 | 100.0 | % |

[1] Primarily U.S. dollar denominated.

As of March 31, 2014, the average duration of our fixed maturities portfolio, including securities pledged, is between 6.5 and 7 years.

Fixed Maturities Credit Quality - Ratings

The Securities Valuation Office ("SVO") of the NAIC evaluates the fixed maturity security investments of insurers for regulatory reporting and capital assessment purposes and assigns securities to one of six credit quality categories called "NAIC designations." An internally developed rating is used as permitted by the NAIC if no rating is available. These designations are generally similar to the credit quality designations of the NAIC acceptable rating organizations ("ARO") for marketable fixed maturity securities, called rating agency designations except for certain structured securities as described below. NAIC designations of "1," highest quality and "2," high quality, include fixed maturity securities generally considered investment grade by such rating organizations. NAIC designations 3 through 6 include fixed maturity securities generally considered below investment grade by such rating organizations.

The NAIC adopted revised designation methodologies for non-agency RMBS, including RMBS backed by subprime mortgage loans reported within ABS and for CMBS. The NAIC's objective with the revised designation methodologies for these structured securities was to increase the accuracy in assessing expected losses and to use the improved assessment to determine a more appropriate capital requirement for such structured securities. The NAIC designations for structured securities, including subprime

128

and Alt-A RMBS, are based upon a comparison of the bond's amortized cost to the NAIC's loss expectation for each security. Securities where modeling results in no expected loss in all scenarios are considered to have the highest designation of NAIC 1. A large percentage of our RMBS securities carry a NAIC 1 designation while the ARO rating indicates below investment grade. This is primarily due to the credit and intent impairments recorded by us that reduced the amortized cost on these securities to a level resulting in no expected loss in all scenarios, which corresponds to a NAIC 1 designation. The revised methodology reduces regulatory reliance on rating agencies and allows for greater regulatory input into the assumptions used to estimate expected losses from such structured securities. In the tables below, we present the rating of structured securities based on ratings from the revised NAIC rating methodologies described above (which may not correspond to rating agency designations.) All NAIC designations (e.g., NAIC 1-6) are based on the revised NAIC methodologies.

As a result of time lags between the funding of investments, the finalization of legal documents and the completion of the SVO filing process, the fixed maturity portfolio generally includes securities that have not yet been rated by the SVO as of each balance sheet date, such as private placements. Pending receipt of SVO ratings, the categorization of these securities by NAIC designation is based on the expected ratings indicated by internal analysis.

Information about certain of our fixed maturity securities holdings by the NAIC designation is set forth in the following tables. Corresponding rating agency designation does not directly translate into NAIC designation, but represents our best estimate of comparable ratings from rating agencies, including Moody's, S&P and Fitch. If no rating is available from a rating agency, then an internally developed rating is used.

The fixed maturities in our portfolio are generally rated by external rating agencies and, if not externally rated, are rated by us on a basis similar to that used by the rating agencies. Ratings are derived from three ARO ratings and are applied as follows based on the number of agency ratings received:

- when three ratings are received then the middle rating is applied;
- when two ratings are received then the lower rating is applied;
- when a single rating is received, the ARO rating is applied; and
- when ratings are unavailable then an internal rating is applied.

The following tables present credit quality of fixed maturities, including securities pledged, using NAIC designations as of the dates indicated:

| ($ in millions) | March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| NAIC Quality Designation | 1 | 2 | 3 | 4 | 5 | 6 | Total Fair Value |
| U.S. Treasuries | $5,263.1 | $— | $— | $— | $— | $— | $5,263.1 |
| U.S. Government agencies and authorities | 644.1 | — | — | — | — | — | 644.1 |
| State, municipalities and political subdivisions | 288.5 | 3.4 | 1.7 | — | — | — | 293.6 |
| U.S. corporate securities | 18,973.7 | 18,102.0 | 1,792.6 | 278.5 | 5.5 | 21.2 | 39,173.5 |
| Foreign securities[(1)] | 4,822.8 | 10,969.1 | 860.5 | 79.3 | — | 8.9 | 16,740.6 |
| Residential mortgage-backed securities | 6,675.2 | 68.7 | 78.6 | 25.9 | 49.3 | 155.0 | 7,052.7 |
| Commercial mortgage-backed securities | 3,779.9 | — | 8.4 | 7.8 | — | — | 3,796.1 |
| Other asset-backed securities | 1,677.6 | 106.4 | 31.0 | 16.4 | 4.5 | 3.5 | 1,839.4 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total fixed maturities | $42,124.9 | | $29,249.6 | | $2,772.8 | | $407.9 | | $59.3 | | $188.6 | | $74,803.1 | |
| % of Fair Value | 56.3 | % | 39.1 | % | 3.7 | % | 0.5 | % | 0.1 | % | 0.3 | % | 100.0 | % |

(1) Primarily U.S. dollar denominated.

129

| ($ in millions) | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| NAIC Quality Designation | 1 | 2 | 3 | 4 | 5 | 6 | Total Fair Value |
| U.S. Treasuries | $5,181.2 | $— | $— | $— | $— | $— | $5,181.2 |
| U.S. Government agencies and authorities | 618.9 | — | — | — | — | — | 618.9 |
| State, municipalities and political subdivisions | 276.4 | 3.8 | 0.9 | — | — | — | 281.1 |
| U.S. corporate securities | 18,095.0 | 17,651.6 | 1,452.3 | 250.2 | 5.7 | 23.8 | 37,478.6 |
| Foreign securities(1) | 4,757.3 | 10,712.7 | 846.6 | 31.0 | — | 8.9 | 16,356.5 |
| Residential mortgage-backed securities | 6,741.7 | 76.4 | 79.9 | 24.8 | 50.7 | 150.2 | 7,123.7 |
| Commercial mortgage-backed securities | 3,734.1 | — | 9.4 | 8.6 | — | — | 3,752.1 |
| Other asset-backed securities | 1,764.8 | 110.9 | 26.7 | 14.9 | 5.3 | 4.1 | 1,926.7 |
| Total fixed maturities | $41,169.4 | $28,555.4 | $2,415.8 | $329.5 | $61.7 | $187.0 | $72,718.8 |
| % of Fair Value | 56.5 % | 39.3 % | 3.3 % | 0.5 % | 0.1 % | 0.3 % | 100.0 % |

(1)Primarily U.S. dollar denominated.

As of March 31, 2014 and December 31, 2013, the weighted average quality rating of our fixed maturities portfolio was A. The following tables present credit quality of fixed maturities, including securities pledged, using ARO ratings as of the dates indicated:

| ($ in millions) | March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| ARO Quality Ratings | AAA | AA | A | BBB | BB | B and Below | Total Fair Value |
| U.S. Treasuries | $5,263.1 | $— | $— | $— | $— | $— | $5,263.1 |
| U.S. Government agencies and authorities | 638.2 | 2.8 | 3.1 | — | — | — | 644.1 |
| State, municipalities and political subdivisions | 61.0 | 191.5 | 35.9 | 3.4 | 1.8 | — | 293.6 |
| U.S. corporate securities | 843.3 | 2,218.9 | 16,072.8 | 17,986.6 | 1,746.4 | 305.5 | 39,173.5 |
| Foreign securities(1) | 94.8 | 1,369.2 | 3,812.5 | 10,758.3 | 648.4 | 57.4 | 16,740.6 |
| Residential mortgage-backed securities | 5,756.0 | 31.9 | 50.1 | 137.0 | 93.8 | 983.9 | 7,052.7 |
| Commercial mortgage-backed securities | 1,680.8 | 636.9 | 424.4 | 511.1 | 320.4 | 222.5 | 3,796.1 |
| Other asset-backed securities | 1,169.7 | 13.1 | 75.9 | 53.5 | 48.0 | 479.2 | 1,839.4 |
| Total fixed maturities | $15,506.9 | $4,464.3 | $20,474.7 | $29,449.9 | $2,858.8 | $2,048.5 | $74,803.1 |
| % of Fair Value | 20.7 % | 6.0 % | 27.4 % | 39.4 % | 3.8 % | 2.7 % | 100.0 % |

(1)Primarily U.S. dollar denominated.

130

Explanation of Responses:

| ($ in millions) | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| ARO Quality Ratings | AAA | AA | A | BBB | BB | B and Below | Total Fair Value |
| U.S. Treasuries | $5,181.2 | $— | $— | $— | $— | $— | $5,181.2 |
| U.S. Government agencies and authorities | 613.2 | 2.9 | 2.8 | — | — | — | 618.9 |
| State, municipalities and political subdivisions | 59.2 | 182.8 | 34.3 | 3.9 | 0.9 | — | 281.1 |
| U.S. corporate securities | 796.9 | 2,031.7 | 15,424.1 | 17,435.3 | 1,510.5 | 280.1 | 37,478.6 |
| Foreign securities[(1)] | 93.1 | 1,331.6 | 3,781.7 | 10,446.0 | 659.2 | 44.9 | 16,356.5 |
| Residential mortgage-backed securities | 5,801.9 | 35.5 | 45.9 | 144.7 | 98.2 | 997.5 | 7,123.7 |
| Commercial mortgage-backed securities | 1,552.3 | 727.5 | 426.9 | 476.0 | 350.8 | 218.6 | 3,752.1 |
| Other asset-backed securities | 1,232.9 | 30.1 | 77.9 | 55.6 | 56.5 | 473.7 | 1,926.7 |
| Total fixed maturities | $15,330.7 | $4,342.1 | $19,793.6 | $28,561.5 | $2,676.1 | $2,014.8 | $72,718.8 |
| % of Fair Value | 21.0 % | 6.0 % | 27.2 % | 39.3 % | 3.7 % | 2.8 % | 100.0 % |

(1) Primarily U.S. dollar denominated.

Fixed maturities rated BB and below may have speculative characteristics and changes in economic conditions or other circumstances that are more likely to lead to a weakened capacity of the issuer to make principal and interest payments than is the case with higher rated fixed maturities.

Unrealized Capital Losses

Gross unrealized losses on fixed maturities, including securities pledged, decreased $532.6 million from $1,136.5 million to $603.9 million for the year ended March 31, 2014. The decrease in gross unrealized losses was primarily due to declining interest rates. Gross unrealized losses on fixed maturities, including securities pledged, increased $843.8 million from $292.7 million to $1,136.5 million for the year ended December 31, 2013. The increase in gross unrealized losses was primarily due to increasing interest rates.

As of March 31, 2014, we held one fixed maturity with unrealized capital losses in excess of $10.0 million. The unrealized capital losses on this fixed maturity equaled $10.1 million, or 1.7% of the total unrealized losses. As of December 31, 2013 we held two fixed maturities with unrealized capital losses in excess of $10.0 million. The unrealized capital losses on these fixed maturities equaled $22.0 million, or 1.9% of the total unrealized losses. See "Item 1. Note 2. Investments (excluding Consolidated Investment Entities)" of this Form 10-Q for further information on unrealized capital losses.

CMO-B Portfolio

As part of our broadly diversified investment portfolio, we have a core holding in a proprietary mortgage derivatives strategy known as CMO-B, which invests in a variety of CMO securities in combination with interest rate derivatives in targeting a specific type of exposure to the U.S. residential mortgage market. Because of their relative complexity and generally small natural buyer base, we believe certain types of CMO securities are consistently priced below their intrinsic value, thereby providing a source of potential return for investors in this strategy.

The CMO securities that are part of our CMO-B portfolio are either notional or principal securities, backed by the interest and principal components, respectively, of mortgages secured by single-family residential real estate. There are many variations of these two types of securities including interest only and principal only securities, as well as inverse-floating rate (principal) securities and inverse interest only securities, all of which are part of our CMO-B portfolio. This strategy has been in place for nearly two decades and thus far has been a significant source of investment income while exhibiting relatively low volatility and correlation compared to the other asset types in the investment portfolio, although we cannot predict whether favorable returns will continue in future periods.

To protect against the potential for credit loss associated with financially troubled borrowers, investments in our CMO-B portfolio are primarily in CMO securities backed by one of the government sponsored entities: the Federal National Mortgage Association

(“Fannie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac”) or Government National Mortgage Association ("Ginnie Mae").

Because the timing of the receipt of the underlying cash flow is highly dependent on the level and direction of interest rates, our CMO-B portfolio also has exposure to both interest rate and convexity risk. The exposure to interest rate risk-the potential for changes in value that results from changes in the general level of interest rates-is managed to a defined target duration using interest rate swaps. The exposure to convexity risk-the potential for changes in value that result from changes in duration caused by changes in interest rates-is dynamically hedged using interest rate swaps and at times, interest rate swaptions.

Prepayment risk represents the potential for adverse changes in portfolio value resulting from changes in residential mortgage prepayment speed (actual and projected), which in turn depends on a number of factors, including conditions in both credit markets and housing markets. Changes in the prepayment behavior of homeowners represent both a risk and potential source of return for our CMO-B portfolio. As a result, we seek to invest in securities that are broadly diversified by collateral type to take advantage of the uncorrelated prepayment experiences of homeowners with unique characteristics that influence their ability or desire to prepay their mortgage. We choose collateral types and individual securities based on an in-depth quantitative analysis of prepayment incentives across all available borrower types.

The following table shows fixed maturities balances held in the CMO-B portfolio by NAIC rating as of the dates indicated:

| ($ in millions) | March 31, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| NAIC Designation | Amortized Cost | Fair Value | % Fair Value | | Amortized Cost | Fair Value | % Fair Value | |
| 1 | $2,703.7 | $3,240.2 | 93.2 | % | $2,609.1 | $3,138.1 | 93.0 | % |
| 2 | 3.3 | 3.7 | 0.1 | % | 6.8 | 10.6 | 0.3 | % |
| 3 | 3.7 | 7.0 | 0.2 | % | 2.9 | 6.1 | 0.2 | % |
| 4 | 10.9 | 20.7 | 0.6 | % | 11.1 | 20.1 | 0.6 | % |
| 5 | 34.5 | 49.3 | 1.4 | % | 35.9 | 50.7 | 1.5 | % |
| 6 | 91.7 | 155.0 | 4.5 | % | 88.9 | 150.2 | 4.4 | % |
| | $2,847.8 | $3,475.9 | 100.0 | % | $2,754.7 | $3,375.8 | 100.0 | % |

For CMO securities where we elected the FVO, amortized cost represents the market values. For details on the NAIC designation methodology, please see "Fixed Maturities Credit Quality-Ratings" above.

The following table presents the notional amounts and fair values of interest rate derivatives used in our CMO-B portfolio as of the dates indicated:

| | March 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| ($ in millions) | Notional Amount | Assets Fair Value | Liability Fair Value | Notional Amount | Assets Fair Value | Liability Fair Value |
| Derivatives non-qualifying for hedge accounting: | | | | | | |
| Interest Rate Contracts | $26,771.7 | $467.1 | $521.4 | $26,358.1 | $526.1 | $568.2 |

132

The following table presents our CMO-B fixed maturity securities balances and tranche type as of the dates indicated:

| ($ in millions) | March 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| Tranche Type | Amortized Cost | Fair Value | % Fair Value | Amortized Cost | Fair Value | % Fair Value |
| Inverse Floater | $788.0 | $1,122.2 | 32.4 % | $840.1 | $1,172.7 | 34.8 % |
| Interest Only (IO) | 326.9 | 365.6 | 10.5 % | 312.5 | 349.2 | 10.3 % |
| Inverse IO | 1,285.9 | 1,534.2 | 44.1 % | 1,149.5 | 1,398.2 | 41.4 % |
| Principal Only (PO) | 397.3 | 402.1 | 11.6 % | 401.6 | 403.1 | 11.9 % |
| Floater | 42.1 | 43.2 | 1.2 % | 45.2 | 45.9 | 1.4 % |
| Other | 7.6 | 8.6 | 0.2 % | 5.8 | 6.7 | 0.2 % |
| Total | $2,847.8 | $3,475.9 | 100.0 % | $2,754.7 | $3,375.8 | 100.0 % |

Generally, a continued increase in valuations, as well as muted prepayments despite low interest rates, led to a very strong performance for our CMO-B portfolio in recent years. Based on fundamental prepayment analysis, we have been able to increase the allocation to notional securities in a manner that was diversified by borrower and mortgage characteristics without unduly increasing portfolio risk because the underlying drivers of prepayment behavior across collateral type are varied.

During the first quarter of 2014, the valuations of our CMO-B portfolio generally increased due to lower levels of prepayment speeds compared to market expectations. Yields within the CMO-B portfolio continue to decline primarily as a result of paydowns or maturities of higher yielding historical CMO-B assets being replaced at lower reinvestment rates.

The following table shows returns for our CMO-B portfolio for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Net investment income (loss) | $191.2 | $210.6 |
| Net realized capital gains (losses)[(1)] | (53.1) | (154.3) |
| Total income (pre-tax) | $138.1 | $56.3 |

[(1)]Net realized capital gains (losses) also include derivatives interest settlements, mark to market adjustments and realized gains (losses) on standalone derivatives contracts that are in the CMO-B portfolio.

In defining operating earnings before income taxes and non-operating earnings for our CMO-B portfolio, certain recharacterizations are recognized. As indicated in footnote (1) above, derivatives activity, including net coupon settlement on interest rate swaps, is included in Net realized capital gains (losses). Since these swaps are hedging securities whose coupon payments are reflected as net investment income (loss) (operating earnings), it is appropriate to represent the net swap coupons as operating income before income taxes rather than non-operating income. Also included in Net realized capital gains (losses) is the premium amortization and the change in fair value for securities designated under the FVO, whereas the coupon for these securities is included in net investment income (loss). In order to present the economics of these fair value securities in a similar manner to those of an available for sale security, the premium amortization is reclassified from Net realized capital gains (losses) (or non-operating income) to operating income.

After adjusting for the two items referenced immediately above, the following table presents operating earnings before income taxes and non-operating income for our CMO-B portfolio for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| ($ in millions) | 2014 | 2013 |
| Operating earnings before income taxes | $74.2 | $90.0 |
| Realized gains/losses including OTTI | (1.4) | (0.5) |
| Fair value adjustments | 65.3 | (33.2) |

| | | |
|---|---|---|
| Non-operating income | $63.9 | $(33.7 ) |
| Income before income taxes | $138.1 | $56.3 |

133

Subprime and Alt-A Mortgage Exposure

The performance of pre-2008 vintage subprime and Alt-A mortgage collateral has exhibited sustained signs of recovery, after struggling through a multi-year correction in nationwide home values. While collateral losses continue to be realized, serious delinquencies and other measures of performance, like prepayments and severities, have displayed sustained periods of improvement. Reflecting these fundamental improvements, related bond prices and sector liquidity increased substantially since the credit crisis. Despite these improvements, the sector remains susceptible to various market risks. For example, in the third quarter of 2013, the upward momentum in bond prices and market liquidity was disrupted, at least in part, by the pick-up in interest rate volatility. As this volatility dissipated, prices and liquidity recovered into the end of the year, supported by strength in the US economy and, more specifically, the housing market. The first quarter of 2014 has been characterized by continued stability in underlying fundamentals, despite the adverse seasonal related impacts observed in certain housing activity related measures. In managing our risk exposure to subprime and Alt-A mortgages, we take into account collateral performance and structural characteristics associated with our various positions.

We do not originate or purchase subprime or Alt-A whole-loan mortgages. Subprime lending is the origination of loans to customers with weaker credit profiles. We define Alt-A mortgages to include the following: residential mortgage loans to customers who have strong credit profiles but lack some element(s), such as documentation to substantiate income; residential mortgage loans to borrowers that would otherwise be classified as prime but whose loan structure provides repayment options to the borrower that increase the risk of default; and any securities backed by residential mortgage collateral not clearly identifiable as prime or subprime.

We have exposure to RMBS, CMBS and ABS. Our exposure to subprime mortgage-backed securities is primarily in the form of ABS structures collateralized by subprime residential mortgages and the majority of these holdings were included in Other ABS under "Fixed Maturities" above. As of March 31, 2014, the fair value, amortized cost and gross unrealized losses related to our exposure to subprime mortgage-backed securities totaled $623.1 million, $603.7 million and $29.2 million, respectively, representing 0.8% of total fixed maturities, including securities pledged, based on fair value. As of December 31, 2013, the fair value, amortized cost and gross unrealized losses related to our exposure to subprime mortgage-backed securities totaled $623.4 million, $614.7 million and $35.5 million, respectively, representing 0.9% of total fixed maturities, including securities pledged, based on fair value.

The following tables present our exposure to subprime mortgage-backed securities by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

| | % of Total Subprime Mortgage-backed Securities | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | NAIC Designation | | | ARO Ratings | | | Vintage | | |
| March 31, 2014 | | | | | | | | | |
| | 1 | 76.0 | % | AAA | 0.2 | % | 2007 | 28.7 | % |
| | 2 | 15.4 | % | AA | 0.9 | % | 2006 | 25.4 | % |
| | 3 | 5.0 | % | A | 5.1 | % | 2005 and prior | 45.9 | % |
| | 4 | 2.6 | % | BBB | 7.0 | % | | 100.0 | % |
| | 5 | 0.7 | % | BB and below | 86.8 | % | | | |
| | 6 | 0.3 | % | | 100.0 | % | | | |
| | | 100.0 | % | | | | | | |
| December 31, 2013 | | | | | | | | | |
| | 1 | 76.2 | % | AAA | 0.3 | % | 2007 | 29.2 | % |
| | 2 | 16.0 | % | AA | 1.2 | % | 2006 | 24.0 | % |
| | 3 | 4.3 | % | A | 5.4 | % | 2005 and prior | 46.8 | % |
| | 4 | 2.4 | % | BBB | 7.2 | % | | 100.0 | % |
| | 5 | 0.8 | % | BB and below | 85.9 | % | | | |
| | 6 | 0.3 | % | | 100.0 | % | | | |

100.0 %

Our exposure to Alt-A mortgages is included in the "RMBS" line item in the "Fixed Maturities" table under "Fixed Maturities" above. As of March 31, 2014, the fair value, amortized cost and gross unrealized losses related to our exposure to Alt-A RMBS totaled $353.3 million, $297.7 million and $6.2 million, respectively, representing 0.5% of total fixed maturities, including securities

134

pledged, based on fair value. As of December 31, 2013, the fair value, amortized cost and gross unrealized losses related to our exposure to Alt-A RMBS totaled $353.5 million, $307.4 million and $10.4 million, respectively, representing 0.5% of total fixed maturities, including securities pledged, based on fair value.

The following tables present our exposure to Alt-A RMBS by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

| | % of Total Alt-A Mortgage-backed Securities | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | NAIC Designation | | | ARO Ratings | | | Vintage | | |
| March 31, 2014 | | | | | | | | | |
| | 1 | 79.2 | % | AAA | 0.1 | % | 2007 | 22.1 | % |
| | 2 | 8.6 | % | AA | — | | 2006 | 26.5 | % |
| | 3 | 6.7 | % | A | 1.3 | % | 2005 and prior | 51.4 | % |
| | 4 | 4.7 | % | BBB | 3.9 | % | | 100.0 | % |
| | 5 | — | | BB and below | 94.7 | % | | | |
| | 6 | 0.8 | % | | 100.0 | % | | | |
| | | 100.0 | % | | | | | | |
| December 31, 2013 | | | | | | | | | |
| | 1 | 77.4 | % | AAA | 0.1 | % | 2007 | 21.9 | % |
| | 2 | 10.8 | % | AA | — | | 2006 | 26.5 | % |
| | 3 | 6.7 | % | A | 1.5 | % | 2005 and prior | 51.6 | % |
| | 4 | 4.3 | % | BBB | 3.9 | % | | 100.0 | % |
| | 5 | — | | BB and below | 94.5 | % | | | |
| | 6 | 0.8 | % | | 100.0 | % | | | |
| | | 100.0 | % | | | | | | |

Commercial Mortgage-Backed and Other Asset-backed Securities

CMBS investments represent pools of commercial mortgages that are broadly diversified across property types and geographical areas. Delinquency rates on commercial mortgages increased over the course of 2009 through mid-2012. Since then, the steep pace of increases observed in the early years following the credit crisis has ceased, and the percentage of delinquent loans has declined through 2013 and the first quarter of 2014. Other performance metrics like vacancies, property values and rent levels have also shown improvements, although these metrics are not observed uniformly, differing by dimensions such as geographic location and property type. These improvements have been buoyed by some of the same macro-economic tailwinds alluded to in regards to our subprime and Alt-A mortgage exposure. In addition, a robust environment for property refinancing has continued to be supportive of improving credit performance metrics into 2014. The new issue market for CMBS has been a major contributor to the refinance environment. It has continued its recovery from the credit crisis with meaningful new issuance in 2014, following 5 straight years of increasing new issuance volumes since the credit crisis. First quarter 2014 volume, while slightly lower on a year-over-year basis, remains robust, reflective of the active and competitive refinancing market.

For consumer Other ABS, delinquency and loss rates have been maintained at levels considered low by historical standards and indicative of high credit quality. Relative strength in various credit metrics across multiple types of asset-backed loans have been observed on a sustained basis.

135

The following tables present our exposure to CMBS holdings by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

| | % of Total CMBS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | NAIC Designation | | | ARO Ratings | | | Vintage | | |
| March 31, 2014 | | | | | | | | | |
| | 1 | 99.6 | % | AAA | 44.2 | % | 2014 | 1.4% | |
| | 2 | — | % | AA | 16.8 | % | 2013 | 9.0% | |
| | 3 | 0.2 | % | A | 11.2 | % | 2012 | 0.2% | |
| | 4 | 0.2 | % | BBB | 13.5 | % | 2011 | — | |
| | 5 | — | % | BB and below | 14.3 | % | 2010 | 0.2% | |
| | 6 | — | % | | 100.0 | % | 2009 | — | |
| | | 100.0 | % | | | | 2008 and prior | 89.2% | |
| | | | | | | | | 100.0% | |
| December 31, 2013 | | | | | | | | | |
| | 1 | 99.5 | % | AAA | 41.4 | % | 2013 | 5.3% | |
| | 2 | — | | AA | 19.4 | % | 2012 | 0.2% | |
| | 3 | 0.3 | % | A | 11.4 | % | 2011 | — | |
| | 4 | 0.2 | % | BBB | 12.7 | % | 2010 | — | |
| | 5 | — | | BB and below | 15.1 | % | 2009 | — | |
| | 6 | — | | | 100.0 | % | 2008 | 0.3% | |
| | | 100.0 | % | | | | 2007 and prior | 94.2% | |
| | | | | | | | | 100.0% | |

As of March 31, 2014, the fair value, amortized cost and gross unrealized losses of our Other ABS, excluding subprime exposure, totaled $1.2 billion, $1.2 billion and $2.7 million, respectively. As of December 31, 2013 the fair value, amortized cost and gross unrealized losses of our Other ABS, excluding subprime exposure, totaled $1.3 billion, $1.3 billion and $3.0 million, respectively.

As of March 31, 2014, Other ABS was broadly diversified both by type and issuer with credit card receivables, nonconsolidated collateralized loan obligations and automobile receivables, comprising 46.7%, 2.1% and 31.2%, respectively, of total Other ABS, excluding subprime exposure. As of December 31, 2013, Other ABS was broadly diversified both by type and issuer with credit card receivables, nonconsolidated collateralized loan obligations and automobile receivables, comprising 42.5%, 3.2% and 34.1%, respectively, of total Other ABS, excluding subprime exposure.

The following tables summarize our exposure to Other ABS holdings, excluding subprime exposure, by credit quality using NAIC designations, ARO ratings and vintage year as of the dates indicated:

| | % of Total Other ABS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | NAIC Designation | | | ARO Ratings | | | Vintage | | |
| March 31, 2014 | | | | | | | | | |
| | 1 | 99.0 | % | AAA | 94.7 | % | 2014 | 3.8 | % |
| | 2 | 0.8 | % | AA | 0.6 | % | 2013 | 12.3 | % |
| | 3 | 0.1 | % | A | 3.7 | % | 2012 | 16.7 | % |
| | 4 | — | | BBB | 0.8 | % | 2011 | 7.5 | % |
| | 5 | — | | BB and below | 0.2 | % | 2010 | 3.4 | % |
| | 6 | 0.1 | % | | 100.0 | % | 2009 | 2.5 | % |
| | | 100.0 | % | | | | 2008 and prior | 53.8 | % |
| | | | | | | | | 100.0 | % |
| December 31, 2013 | | | | | | | | | |
| | 1 | 98.9 | % | AAA | 93.8 | % | 2013 | 13.8 | % |
| | 2 | 0.9 | % | AA | 1.7 | % | 2012 | 17.7 | % |
| | 3 | — | | A | 3.4 | % | 2011 | 8.9 | % |
| | 4 | — | | BBB | 0.9 | % | 2010 | 3.9 | % |
| | 5 | — | | BB and below | 0.2 | % | 2009 | 2.3 | % |
| | 6 | 0.2 | % | | 100.0 | % | 2008 | 6.4 | % |
| | | 100.0 | % | | | | 2007 and prior | 47.0 | % |
| | | | | | | | | 100.0 | % |

Troubled Debt Restructuring

Although our portfolio of commercial loans and private placements is high quality, a small number of these contracts have been granted modifications, certain of which are considered to be troubled debt restructurings. See "Item 1. Note 2. Investments (excluding Consolidated Investment Entities)" of this Form 10-Q for further information on troubled debt restructuring.

Mortgage Loans on Real Estate

We rate all commercial mortgages to quantify the level of risk. We place those loans with higher risk on a watch list and closely monitor these loans for collateral deficiency or other credit events that may lead to a potential loss of principal and/or interest. If we determine the value of any mortgage loan to be OTTI (i.e., when it is probable that we will be unable to collect on all amounts due according to the contractual terms of the loan agreement), the carrying value of the mortgage loan is reduced to either the present value of expected cash flows from the loan, discounted at the loan's effective interest rate or fair value of the collateral. For those mortgages that are determined to require foreclosure, the carrying value is reduced to the fair value of the underlying collateral, net of estimated costs to obtain and sell at the point of foreclosure. The carrying value of the impaired loans is reduced by establishing an other-than-temporary write-down recorded in net realized capital gains (losses) in the Condensed Consolidated Statements of Operations.

Loan-to-value ("LTV") and debt service coverage ("DSC") ratios are measures commonly used to assess the risk and quality of commercial mortgage loans. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. An LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property's net income (loss) to its debt service payments. A DSC ratio of less than 1.0 indicates that property's operations do not generate sufficient income to cover debt payments. These ratios are utilized as part of the review process described above.

As of March 31, 2014, our mortgage loans on real estate portfolio had a weighted average DSC of 2.0 times and a weighted average LTV ratio of 59.2%. As of December 31, 2013, our mortgage loans on real estate portfolio had a weighted average DSC of 2.0 times and a weighted average LTV ratio of 59.0%. See “Item 1. Note 2. Investments (excluding Consolidated Investment Entities)” of this Form 10-Q for further information on mortgage loans on real estate.

| | Recorded Investment Debt Service Coverage Ratios | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($ in millions) | > 1.5x | 1.25x - 1.5x | 1.0x - 1.25x | < 1.0x | Commercial mortgage loans secured by land or construction loans | Total | % of Total | |
| March 31, 2014 | | | | | | | | |
| Loan to Value Ratios: | | | | | | | | |
| 0% - 50% | $1,218.1 | $133.9 | $184.9 | $67.4 | $— | $1,604.3 | 17.4 | % |
| 50% - 60% | 1,725.7 | 336.5 | 260.0 | 162.4 | — | 2,484.6 | 26.8 | % |
| 60% - 70% | 3,301.0 | 851.8 | 406.1 | 149.7 | 0.2 | 4,708.8 | 50.8 | % |
| 70% - 80% | 88.3 | 193.1 | 114.2 | 49.5 | — | 445.1 | 4.8 | % |
| 80% and above | — | — | 8.0 | 10.7 | — | 18.7 | 0.2 | % |
| Total | $6,333.1 | $1,515.3 | $973.2 | $439.7 | $0.2 | $9,261.5 | 100.0 | % |

| | Recorded Investment Debt Service Coverage Ratios | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($ in millions) | > 1.5x | 1.25x - 1.5x | 1.0x - 1.25x | < 1.0x | Commercial mortgage loans secured by land or construction loans | Total | % of Total | |
| December 31, 2013 | | | | | | | | |
| Loan to Value Ratios: | | | | | | | | |
| 0% - 50% | $1,371.2 | $136.0 | $187.3 | $88.1 | $— | $1,782.6 | 19.1 | % |
| 50% - 60% | 1,617.7 | 343.0 | 265.5 | 163.8 | — | 2,390.0 | 25.7 | % |
| 60% - 70% | 3,267.5 | 845.6 | 401.3 | 153.7 | 0.2 | 4,668.3 | 50.1 | % |
| 70% - 80% | 90.1 | 196.3 | 118.4 | 51.0 | — | 455.8 | 4.9 | % |
| 80% and above | — | — | 8.1 | 11.2 | — | 19.3 | 0.2 | % |
| Total | $6,346.5 | $1,520.9 | $980.6 | $467.8 | $0.2 | $9,316.0 | 100.0 | % |

Other-Than-Temporary Impairments

We evaluate available-for-sale fixed maturities and equity securities for impairment on a regular basis. The assessment of whether impairments have occurred is based on a case-by-case evaluation of the underlying reasons for the decline in estimated fair value. See “Item 8. Note 1. Business, Basis of Presentation and Significant Accounting Policies," of our Annual Report on Form 10-K for the year ended December 31, 2013 for the policy used to evaluate whether the investments are other-than-temporarily impaired.

As of March 31, 2014, we recorded $3.1 million of credit related OTTI of which the primary contributor being $1.5 million of write-downs recorded in the RMBS sector on securities collateralized by Alt-A residential mortgages. See “Item 1. Note 2. Investments (excluding Consolidated Investment Entities)” of this Form 10-Q for further information on OTTI.

138

Derivatives

We use derivatives for a variety of hedging purposes as further described below. We also have embedded derivatives within fixed maturities instruments and certain annuity products with guarantees. See “Item 8. Note 1. Business, Basis of Presentation and Significant Accounting Policies," of the Annual Report on Form 10-K for further information.

Closed Block Variable Annuity Hedging

Refer to Part I. Item 3. Quantitative and Qualitative Disclosures About Market Risk of this Quarterly Report on Form 10-Q for further information.

Invested Asset and Credit Hedging

Interest rate caps and interest rate swaps are used to manage the interest rate risk in our fixed maturities portfolio. Interest rate swaps include forward starting swaps, which are used for anticipated purchases of fixed maturities. They represent contracts that require the exchange of cash flows at regular interim periods, typically monthly or quarterly.

Foreign exchange swaps are used to reduce the risk of a change in the value, yield or cash flow with respect to invested assets. Foreign exchange swaps represent contracts that require the exchange of foreign currency cash flows for U.S. dollar cash flows at regular interim periods, typically quarterly or semiannually.

Certain forwards are acquired to hedge certain CMO assets held by us against movements in interest rates, particularly mortgage rates. On the settlement date, we will either receive a payment (interest rate decreases on purchased forwards or interest rate rises on sold forwards) or will be required to make a payment (interest rate rises on purchased forwards or interest rate decreases on sold forwards).

CDS are used to reduce the credit loss exposure with respect to certain assets that we own, or to assume credit exposure on certain assets that we do not own. Payments are made to or received from the counterparty at specified intervals and amounts for the purchase or sale of credit protection. In the event of a default on the underlying credit exposure, we will either receive an additional payment (purchased credit protection) or will be required to make an additional payment (sold credit protection) equal to par minus recovery value of the swap contract.

European Exposures

We closely monitor our exposures to European sovereign debt in general, with a primary focus on the sovereign debt of Greece, Ireland, Italy, Portugal and Spain (which we refer to as “peripheral Europe”), as these countries have applied for support from the European Financial Stability Facility or received support from the European Central Bank via government bond purchases in the secondary market.

The financial turmoil in Europe continues to be a potential threat to global capital markets and remains a challenge to global financial stability. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains. Despite signs of continuous improvement in the region, it is our view that the risk among European sovereigns and financial institutions still warrants scrutiny, in addition to our customary surveillance and risk monitoring, given how highly correlated these sectors of the region have become.

We quantify and allocate our exposure to the region, as described in the table below, by attempting to identify all aspects of the region or country risk to which we are exposed. Among the factors we consider are the nationality of the issuer, the nationality of the issuer's ultimate parent, the corporate and economic relationship between the issuer and its parent, as well as the political, legal and economic environment in which each functions. By undertaking this assessment, we believe that we develop a more accurate assessment of the actual geographic risk, with a more integrated understanding of all contributing factors to the full risk profile of the issuer.

In the normal course of our ongoing risk and portfolio management process, we closely monitor compliance with a credit limit hierarchy designed to minimize overly concentrated risk exposures by geography, sector and issuer. This framework takes into account various factors such as internal and external ratings, capital efficiency and liquidity and is overseen by a combination of Investment and Corporate Risk Management, as well as insurance portfolio managers focused specifically on managing the investment risk embedded in our portfolio.

As of March 31, 2014, we had $849.6 million of exposure to peripheral Europe, which consisted of a broadly diversified portfolio of credit-related investments primarily in the industrial and utility sectors. We did not have any fixed maturities or equity securities exposure to European sovereigns based in peripheral Europe. Peripheral European exposure included non-sovereign exposure in Ireland of $313.9 million, Italy of $277.1 million, Portugal of $10.4 million, and Spain of $248.2 million. We did not have any exposure to Greece. As of March 31, 2014, we did not have any exposure to derivative assets within the financial institutions based in peripheral Europe. For purposes of calculating the derivative assets exposure, we have aggregated exposure to single name and portfolio product CDS, as well as all non-CDS derivative exposure for which it either has counterparty or direct credit exposure to a company whose country of risk is in scope.

Among the remaining $7,993.4 million of total non-peripheral European exposure, we had a portfolio of credit-related assets similarly diversified by country and sector across developed and developing Europe. As of March 31, 2014 our sovereign exposure was $259.2 million, which consisted of fixed maturities. We also had $921.6 million in net exposure to non-peripheral financial institutions, with a concentration in Switzerland of $161.2 million and the United Kingdom of $318.0 million. The balance of $6,812.6 million was invested across non-peripheral, non-financial institutions.

In addition to aggregate concentration in the Netherlands of $1,266.3 million and the United Kingdom of $3,175.8 million, we had significant non-peripheral European total country exposures in Belgium of $380.4 million, France of $601.8 million, Germany of $739.2 million and Switzerland of $782.0 million. We place additional scrutiny on our financial exposure in the United Kingdom, France and Switzerland given our concern for the potential for volatility to spread through the European banking system. We believe the primary risk results from market value fluctuations resulting from spread volatility and the secondary risk is default risk, should the European crisis worsen or fail to be resolved.

The following table presents our European exposures at fair value and amortized cost as of March 31, 2014:

| | Fixed Maturities and Equity Securities | | | | | | Derivative Assets | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ in millions) | Sovereign | Financial Institutions | Non-Financial Institutions | Total (Fair Value) | Total (Amortized Cost) | Loan and Receivables Sovereign (Amortized Cost) | Sovereign | Financial Institutions | Non-Financial Institutions | Less: Margin as Collateral | Total (Fair Value) | Net Non-US Funded at March 31[1] |
| Ireland | $— | $— | $ 312.7 | $312.7 | $294.5 | $— | $— | $— | $ 1.2 | $— | $1.2 | $313.9 |
| Italy | — | — | 277.1 | 277.1 | 253.6 | — | — | — | — | — | — | 277.1 |
| Portugal | — | — | 10.4 | 10.4 | 7.8 | — | — | — | — | — | — | 10.4 |
| Spain | — | — | 248.2 | 248.2 | 230.3 | — | — | — | — | — | — | 248.2 |
| Total Peripheral Europe | $— | $— | $ 848.4 | $848.4 | $786.2 | $— | $— | $— | $ 1.2 | $— | $1.2 | $849.6 |
| | | | | | | | | | | | | |
| Austria | $— | $— | $ 15.7 | $15.7 | $15.0 | $— | $— | $— | $ — | $— | $— | $15.7 |
| Belgium | 37.0 | — | 343.4 | 380.4 | 327.6 | — | — | — | — | — | — | 380.4 |
| Bulgaria | 5.7 | — | — | 5.7 | 5.6 | — | — | — | — | — | — | 5.7 |
| Croatia | 28.0 | — | — | 28.0 | 25.6 | — | — | — | — | — | — | 28.0 |
| Czech Republic | — | — | 10.1 | 10.1 | 10.1 | — | — | — | — | — | — | 10.1 |
| Denmark | — | 10.5 | 123.1 | 133.6 | 123.7 | — | — | — | — | — | — | 133.6 |
| Finland | — | — | 18.7 | 18.7 | 17.0 | — | — | — | — | — | — | 18.7 |
| France | — | 133.9 | 465.3 | 599.2 | 562.3 | — | — | 50.7 | — | 48.1 | 2.6 | 601.8 |
| Germany | — | 52.3 | 686.9 | 739.2 | 698.1 | — | — | — | — | — | — | 739.2 |
| Hungary | 6.1 | — | — | 6.1 | 5.9 | — | — | — | — | — | — | 6.1 |
| Kazakhstan | 42.7 | 1.3 | 20.4 | 64.4 | 60.6 | — | — | — | — | — | — | 64.4 |
| Latvia | 4.9 | — | — | 4.9 | 4.6 | — | — | — | — | — | — | 4.9 |
| Lithuania | 33.6 | — | — | 33.6 | 30.5 | — | — | — | — | — | — | 33.6 |
| Luxembourg | — | — | 24.6 | 24.6 | 23.4 | — | — | — | — | — | — | 24.6 |
| Netherlands | — | 182.2 | 1,084.1 | 1,266.3 | 1,171.8 | — | — | — | — | — | — | 1,266.3 |
| Norway | — | 0.7 | 284.2 | 284.9 | 278.9 | — | — | — | — | — | — | 284.9 |
| Russian Federation | 73.7 | 5.0 | 91.5 | 170.2 | 165.1 | — | — | — | — | — | — | 170.2 |
| Slovakia | 5.3 | — | — | 5.3 | 5.0 | — | — | — | — | — | — | 5.3 |
| Sweden | — | 53.9 | 124.1 | 178.0 | 165.0 | — | — | — | — | — | — | 178.0 |
| Switzerland | — | 150.6 | 619.6 | 770.2 | 714.4 | — | — | 10.9 | 1.2 | 0.3 | 11.8 | 782.0 |
| Turkey | 22.2 | — | 41.9 | 64.1 | 65.4 | — | — | — | — | — | — | 64.1 |
| United Kingdom | — | 318.0 | 2,857.8 | 3,175.8 | 2,988.0 | — | — | 27.2 | — | 27.2 | — | 3,175.8 |
| Total Non-Peripheral Europe | 259.2 | 908.4 | 6,811.4 | 7,979.0 | 7,463.6 | — | — | 88.8 | 1.2 | 75.6 | 14.4 | 7,993.4 |
| Total Europe | $259.2 | $ 908.4 | $ 7,659.8 | $8,827.4 | $8,249.8 | $— | $— | $ 88.8 | $ 2.4 | $75.6 | $15.6 | $8,843.0 |

[1] Represents: (i) fixed maturities and equity securities at fair value, including securities pledged; (ii) loan and receivables sovereign at amortized cost; and (iii) derivative assets at fair value including securities pledged.

141

Consolidated Investment Entities

We provide investment management services to, and have transactions with, various collateralized debt structures and securitizations (primarily consolidated investment entities ("CLO entities")), private equity funds and single strategy hedge funds, insurance entities and other investment entities in the normal course of business. In certain instances, we serve as the investment manager, making day-to-day investment decisions concerning the assets of these entities. These entities are considered to be either variable interest entities ("VIEs") or voting interest entities ("VOEs") and we evaluate our involvement with each entity to determine whether consolidation is required.

Certain investment entities are consolidated under consolidation guidance. We consolidate certain entities under the VIE guidance when it is determined that we are the primary beneficiary. We consolidate certain entities under the VOE guidance when we act as the controlling general partner and the limited partners have no substantive rights to impact ongoing governance and operating activities.

We have no right to the benefits from, nor do we bear the risks associated with, these investments beyond our direct equity and debt investments in and management fees generated from these investment products. Such direct investments amounted to approximately $656.2 million and $654.0 million as of March 31, 2014 and December 31, 2013, respectively. If we were to liquidate, the assets held by consolidated investment entities would not be available to our general creditors.

Fair Value Measurement

Upon consolidation of CLO entities, we elected to apply the FVO for financial assets and financial liabilities held by these entities to measure these assets (primarily corporate loans) and liabilities (debt obligations issued by CLO entities) at fair value. We have elected the FVO to more closely align the accounting with the economics of the transactions and allow us to more effectively reflect changes in the fair value of CLO assets with a commensurate change in the fair value of CLO liabilities.

Investments held by consolidated private equity funds and single strategy hedge funds are reported in our Condensed Consolidated Financial Statements. Changes in the fair value of consolidated investment entities are recorded as a separate line item within Income related to Consolidated Investment Entities in our Condensed Consolidated Financial Statements.

The methodology for measuring the fair value and fair value hierarchy classification of financial assets and liabilities of consolidated investment entities is consistent with the methodology and fair value hierarchy rules that we apply to our investment portfolio. See the Fair Value Measurement section of Business, Basis of Presentation and Significant Accounting Policies Note included in the Consolidated Financial Statements in our Annual Report on Form 10-K.

Nonconsolidated VIEs

We also hold variable interest in certain CLO entities that we do not consolidate because we have determined that we are not the primary beneficiary. With these CLO entities, we serve as the investment manager and receive investment management fees and contingent performance fees. Generally, we do not hold any interest in the nonconsolidated CLO entities but if we do, such ownership has been deemed to be insignificant. We have not provided and are not obligated to provide any financial or other support to these entities.

We manage or hold investments in certain private equity funds and single strategy hedge funds. These funds are managed as a portfolio of investments that use advanced investment strategies such as leverage, long, short and derivative positions in both domestic and international markets with the goal of generating high returns. With these entities, we serve as the investment manager and are entitled to receive investment management fees and contingent performance fees that are generally expected to be insignificant. We do not hold any equity interest in these fund VIEs and have not provided and are not obligated to provide any financial or other support to these funds.

In addition, we do not consolidate funds in which our involvement takes the form of a limited partner interest and is restricted to a role of a passive investor, as a limited partner's interest does not provide us with any substantive kick-out or participating rights, which would overcome the presumption of control by the general partner. See “Item 1.Note 13. Consolidated Investment Entities” of this Form 10-Q for more information.

142

Securitizations

We invest in various tranches of securitization entities, including RMBS, CMBS and ABS. Certain RMBS investments represent agency pass-through securities and close-to-the-index tranches issued by Fannie Mae, Freddie Mac or a similar government sponsored entity. Investments that we hold in non-agency RMBS and CMBS also include interest-only, principal-only and inverse floating securities. We are not obligated to provide any financial or other support to these entities. The RMBS, CMBS and ABS entities are thinly capitalized by design and considered VIEs. Our involvement with these entities is limited to that of a passive investor. These investments are accounted for as investments available-for-sale as described in "Item 1. Note 4. Fair Value Measurements (excluding Consolidated Investment Entities)" of this Form 10-Q, and unrealized capital gains (losses) on these securities are recorded directly in AOCI, except for certain RMBS which are accounted for under the FVO, whose change in fair value is reflected in Other net realized gains (losses) in the Condensed Consolidated Statements of Operations. Our maximum exposure to loss on these structured investments is limited to the amount of our investment. See "Item 1. Note 2. Investments (excluding Consolidated Investment Entities)" of this Form 10-Q for details regarding the carrying amounts and classifications of these assets.

Legislative and Regulatory Developments

State insurance regulators, the National Association of Insurance Commissioners ("NAIC") and other regulatory agencies are investigating the life insurance industry's use of affiliated captive reinsurers and offshore entities to reinsure insurance risks. In October 2011, the NAIC established a subgroup to study insurers' use of captives and special purpose vehicles to transfer insurance risk in relation to existing state laws and regulations, and to establish appropriate regulatory requirements to address concerns identified in the study. Additionally, in June 2013, the New York Department of Financial Services ("NYDFS") released a report critical of certain captive reinsurance structures and calling, in part, for other state regulators to adopt a moratorium on approving such structures pending further review by state and federal regulators. Also, in December 2013, the United States Treasury Department's Federal Insurance Office ("FIO") issued a report on how to modernize and improve the system of insurance regulation in the United States, recommending, in part, that states develop a uniform and transparent solvency oversight regime for the transfer of risk to reinsurance captives and adopt a uniform capital requirement for reinsurance captives, including a prohibition on transactions that do not constitute legitimate risk transfer. In March 2014, the Missouri Department of Insurance, Division of Insurance Company Regulation (the "Missouri Division") notified us that it is performing a review of special purpose life reinsurance captive insurance company transactions that have occurred in Missouri's captive program and, as part of that review, the Missouri Division has requested information from us regarding our captive reinsurance subsidiaries. The NAIC is currently considering several captive proposals. The Principle-Based Reserving Implementation Task Force of the NAIC is considering the February 17, 2014 report of Rector and Associates which proposes a new regulatory framework for captives assuming term life insurance ("XXX") or universal life insurance with secondary guarantees ("AXXX") business that are created on or after July 1, 2014 or that were created prior to July 1, 2014 but reinsure direct business written on or after January 1, 2015. The Financial Regulation Standards and Accreditation Committee of the NAIC is considering a proposal to require states to apply NAIC accreditation standards applicable to traditional insurers to captives that enter into reinsurance agreements on or after July 1, 2014 or with respect to reinsurance agreements entered into prior to July 1, 2014 on direct business written on or after January 1, 2015. We cannot predict what actions and regulatory changes will result from the NAIC study, the NYDFS report, the FIO report, the Missouri Division review or current or future NAIC captives proposals, or what impact such changes will have on our financial condition and results of operation. Like many life insurance companies, we utilize captive reinsurers to satisfy certain reserve requirements related to certain of our policies. If state insurance regulators determine to restrict our use of captive reinsurers, either retroactively or prospectively, it could require us to increase statutory reserves, incur higher operating and/or tax costs or reduce sales.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk that our consolidated financial position and results of operations will be affected by fluctuations in the value of financial instruments. We have significant holdings in financial instruments and are naturally exposed to a variety of market risks. The main market risks we are exposed to include credit risk, interest rate risk and equity market price risk. We do not have material market risk exposure to "trading" activities in our Condensed Consolidated Financial Statements.

Risk Management

As a financial services company active in Retirement, Investment Management and Insurance, taking measured risks is part of our business. As part of our effort to ensure measured risk taking, we have integrated risk management in our daily business activities and strategic planning.

143

We place a high priority on risk management and risk control. We have comprehensive risk management and control procedures in place at all levels and have established a dedicated risk management function with responsibility for the formulation of our risk appetite, strategies, policies and limits. The risk management function is also responsible for monitoring our overall market risk exposures and provides review, oversight and support functions on risk-related issues.

Our risk appetite is aligned with how our businesses are managed and anticipates future regulatory developments. In particular, our risk appetite is aligned with regulatory capital requirements applicable to our regulated insurance subsidiaries as well as metrics that are aligned with various ratings agency models.

Our risk governance and control systems enable us to identify, control, monitor and aggregate risks and provide assurance that risks are being measured, monitored and reported adequately and effectively. To promote measured risk taking, we have integrated risk management with our business activities and strategic planning through a strategy to manage risk in accordance with the following three principles:

1. Management of the businesses has primary responsibility for the day-to-day management of risk and forms the first line of defense.
2. The risk management function, both at the corporate and the business level, has the primary responsibility to align risk taking with strategic planning through risk tolerance and limit setting and forms the second line of defense. Risk managers in the businesses have direct reporting lines to the Chief Risk Officer ("CRO").
3. The internal audit function provides an ongoing independent (i.e., outside of the risk organization) and objective assessment of the effectiveness of internal controls, including financial and operational risk management and forms the third line of defense.

Our risk management is organized along a functional line comprising two levels within the organization: the corporate and business levels. The CRO heads the functional line, and each of the businesses has a similar function that reports to the CRO. This layered, functional approach is designed to promote consistent application of guidelines and procedures, regular reporting and appropriate communication vertically through the risk management function, as well as to provide ongoing support for the business. The scope, roles, responsibilities and authorities of the risk management function at different levels are described in an Insurance Risk Management Governance Framework to which all businesses must adhere.

Our Risk Committee discusses and approves all risk policies and reviews and approves risks associated with our activities. This includes volatility (affecting earnings and value), exposure (required capital and market risk) and insurance risks. Each business has an Asset-Liability Committee that reviews business specific risks and is governed by the Risk Committee.

We have implemented several limit structures to manage risk. Examples include, but are not limited to, the following:

- At-risk limits on sensitivities of earnings and regulatory capital to the capital markets provide the fundamental framework to manage capital markets risks including the risk of asset / liability mismatch;
- Duration and convexity mismatch limits;
- Credit risk concentration limits;
- Mortality concentration limits;
- Catastrophe and mortality exposure retention limits for our insurance risk; and
- Investment and derivative guidelines.

We manage our risk appetite based on two key risk metrics:

-

- Regulatory and Rating Agency Capital Sensitivities: the potential reduction, under a moderate capital markets stress scenario, of the excess of available statutory capital above the minimum required under the NAIC regulatory RBC methodology and of our targeted rating agency capital position; and
- Earnings Sensitivities: the potential reduction in results of operations under a moderate capital markets stress scenario. Maintaining a consistent level of earnings helps us to finance our operations, support our capital requirements and provide funds to pay dividends to stockholders.

Our risk metrics cover the most important aspects in terms of performance measures where risk can materialize and are representative of the regulatory constraints to which our business is subject. The sensitivities for earnings and statutory capital are important metrics since they provide insight into the level of risk we take under 'moderate stress' scenarios. They also are the basis for internal risk management.

We are also subject to cash flow stress testing pursuant to regulatory requirements. This analysis measures the effect of changes in interest rate assumptions on asset and liability cash flows. The analysis includes the effects of:

- the timing and amount of redemptions and prepayments in our asset portfolio;
- our derivative portfolio;
- death benefits and other claims payable under the terms of our insurance products;
- lapses and surrenders in our insurance products;
- minimum interest guarantees in our insurance products; and
- book value guarantees in our insurance products.

We evaluate any shortfalls that our cash flow testing reveals and if needed increase statutory reserves or adjust portfolio management strategies.

Derivatives are financial instruments whose values are derived from interest rates, foreign currency exchange rates, financial indices, or other prices of securities or commodities. Derivatives include swaps, futures, options and forward contracts. Under U.S. insurance statutes, our insurance subsidiaries may use derivatives to hedge market values or cash flows of assets or liabilities; to replicate cash market instruments; and for certain limited income generating activities. Our insurance subsidiaries are generally prohibited from using derivatives for speculative purposes. References below to hedging and hedge programs refer to our process of reducing exposure to various risks. This does not mean that the process necessarily results in hedge accounting treatment for the respective derivative instruments. To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item and meet other specific requirements. Effectiveness of the hedge is assessed at inception and throughout the life of the hedging relationship. Even if a derivative qualifies for hedge accounting treatment, there may be an element of ineffectiveness of the hedge. The ineffective portion of a hedging relationship subject to hedge accounting is recognized in Net realized capital gains (losses) in the Condensed Consolidated Statements of Operations.

Market Risk Related to Interest Rates

We define interest rate risk as the risk of an economic loss due to adverse changes in interest rates. This risk arises from our holdings in interest sensitive assets and liabilities, primarily as a result of investing life insurance premiums, fixed annuity and guaranteed investment contract deposits received in interest-sensitive assets and carrying these funds as interest-sensitive liabilities. We are also subject to interest rate risk on our variable annuity business, stable value contracts and secondary guarantee universal life contracts. A sustained decline in interest rates or a prolonged period of low interest rates may subject us to higher cost of guaranteed benefits and increased hedging costs on those products that are being hedged. In a rising interest rate environment, we are exposed to the risk of financial disintermediation through a potential increase in the level of book value withdrawals on certain stable value contracts. Conversely, a steady increase in interest rates would tend to improve financial results due to reduced hedging costs, lower costs of guaranteed benefits and improvement to fixed margins.

We use product design, pricing and ALM strategies to reduce the adverse effects of interest rate movement. Product design and pricing strategies can include the use of surrender charges, withdrawal restrictions and the ability to reset credited interest rates. ALM strategies can include the use of derivatives and duration and convexity mismatch limits. See "Risk Factors-Risks Related to Our Business-General - The level of interest rates may adversely affect our profitability, particularly in the event of a continuation of the current low interest rate environment or a period of rapidly increasing interest rates" included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Derivatives strategies include the following:

-

Guaranteed Minimum Contract Value Guarantees. For certain liability contracts, we provide the contract holder a guaranteed minimum contract value. These contracts include certain fixed annuities and other insurance liabilities. We purchase interest rate floors, swaps and swaptions to reduce risk associated with these liability guarantees.

- Book Value Guarantees in Stable Value Contracts. For certain stable value contracts, the contract holder and participants may surrender the contract for the account value even if the market value of the asset portfolio is in an unrealized loss position. We purchase derivatives including interest rate caps, swaps and swaptions to reduce the risk associated with this type of guarantee.
- Interest Risk Related to Variable Annuity Guaranteed Living Benefits. For Variable Annuity contracts with Guaranteed Living benefits, the contract holder may elect to receive income benefits over the remainder of their lifetime. We use derivatives such as interest rate swaps to hedge a portion of the interest rate risk associated with this type of guarantee.

- Other Market Value and Cash Flow Hedges. We also use derivatives in general to hedge present or future changes in cash flows or market value changes in our assets and liabilities. We use derivatives such as interest rate swaps to specifically hedge interest rate risks associated with our CMO-B portfolio, see "Investments-CMO-B Portfolio."

We assess interest rate exposures for financial assets, liabilities and derivatives using hypothetical test scenarios that assume either increasing or decreasing 100 basis point parallel shifts in the yield curve, reflecting changes in either credit spreads or risk-free rates. The following table summarizes the net estimated potential change in fair value from hypothetical 100 basis point upward and downward shifts in interest rates as of March 31, 2014. While the test scenarios are for illustrative purposes only and do not reflect our expectations regarding future interest rates or the performance of fixed-income markets, they are a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These tests do not measure the change in value that could result from non-parallel shifts in the yield curve. As a result, the actual change in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations.

| | As of March 31, 2014 | | | |
|---|---|---|---|---|
| | | | Hypothetical Change in Fair Value[(2)] | |
| ($ in millions) | Notional | Fair Value[(1)] | + 100 Basis Points Yield Curve Shift | - 100 Basis Points Yield Curve Shift |
| Financial assets with interest rate risk: | | | | |
| Fixed maturity securities, including securities pledged | $— | $74,803.1 | $(4,947.0) | $5,309.3 |
| Commercial mortgage and other loans | — | 9,336.9 | (424.1) | 432.2 |
| Derivatives: | | | | |
| Interest rate swaps, caps, forwards | 61,908.6 | (102.0) | (395.3) | 604.4 |
| Financial liabilities with interest rate risk: | | | | |
| Investment contracts: | | | | |
| Funding agreements without fixed maturities and deferred annuities[(3)] | — | 54,566.8 | (3,230.8) | 3,947.8 |
| Funding agreements with fixed maturities and GICs | — | 2,310.5 | (92.4) | 95.1 |
| Supplementary contracts and immediate annuities | — | 3,799.7 | (202.2) | 226.0 |
| Long-term debt | — | 3,824.9 | (264.2) | 297.7 |
| Embedded derivatives on reinsurance | — | 95.9 | (69.1) | 72.3 |
| Guaranteed benefit derivatives[(3)]: | | | | |
| FIA | — | 1,808.0 | (102.3) | 108.1 |
| GMAB / GMWB / GMWBL | — | 1,143.3 | (612.1) | 811.1 |
| Stabilizer and MCGs | — | 18.0 | (18.0) | 76.0 |

(1) Separate account assets and liabilities which are interest sensitive are not included herein as any interest rate risk is borne by the holder of separate account.

(2) (Decreases) in assets or (decreases) in liabilities are presented in parentheses. Increases in assets or increases in liabilities are presented without parentheses.

(3) Certain amounts included in Funding agreements without fixed maturities and deferred annuities section are also reflected within the Guaranteed benefit derivatives section of the tables above.

For certain liability contracts, we provide the contractholder a guaranteed minimum interest rate (“GMIR”). These contracts include fixed annuities and other insurance liabilities. We are required to pay these guaranteed minimum rates even if earnings on our investment portfolio decline, with a resulting investment margin compression negatively impacting earnings. Credited rates are set either quarterly or annually.

146

The following table summarizes detail on the differences between the interest rate being credited to contractholders as of March 31, 2014, and the respective GMIRs:

| ($ in millions) | Account Value [(1)] Excess of crediting rate over GMIR | | | | | | |
|---|---|---|---|---|---|---|---|
| | At GMIR | Up to .50% Above GMIR | 0.51% - 1.00% Above GMIR | 1.01% - 1.50% Above GMIR | 1.51% - 2.00% Above GMIR | More than 2.00% Above GMIR | Total |
| Guaranteed minimum interest rate: | | | | | | | |
| Up to 1.00% | $1,661.0 | $521.4 | $803.6 | $741.7 | $252.5 | $177.0 | $4,157.2 |
| 1.01% - 2.00% | 1,631.7 | 777.0 | 537.7 | 329.3 | 134.7 | 814.3 | 4,224.7 |
| 2.01% - 3.00% | 18,803.9 | 873.7 | 490.0 | 337.8 | 123.4 | 99.9 | 20,728.7 |
| 3.01% - 4.00% | 11,971.8 | 1,110.7 | 810.2 | 2.3 | 0.6 | — | 13,895.6 |
| 4.01% and Above | 3,037.9 | 119.3 | 0.4 | 0.7 | — | 1.4 | 3,159.7 |
| Renewable beyond 12 months (MYGA) [(2)] | 2,273.7 | — | — | — | — | — | 2,273.7 |
| Total discretionary rate setting products | $39,380.0 | $3,402.1 | $2,641.9 | $1,411.8 | $511.2 | $1,092.6 | $48,439.6 |
| Percentage of Total | 81.2 % | 7.0 % | 5.5 % | 2.9 % | 1.1 % | 2.3 % | 100.0 % |

(1) Includes only the account values for investment spread products with GMIRs and discretionary crediting rates, net of policy loans. Excludes Stabilizer products, which are fee based. Also excludes the portion of the account value of FIA products for which the crediting rate is based on market indexed strategies.

(2) Represents MYGA contracts with renewal dates after March 31, 2015 on which we are required to credit interest above the contractual GMIR for at least the next year.

Market Risk Related to Credit Risk

Credit risk is primarily embedded in the general account portfolio. The carrying value of our fixed maturity and equity portfolio totaled $75.1 billion and $73.0 billion as of March 31, 2014 and December 31, 2013, respectively. Our credit risk materializes primarily as impairment losses. We are exposed to occasional cyclical economic downturns, during which impairment losses may be significantly higher than the long-term historical average. This is offset by years where we expect the actual impairment losses to be substantially lower than the long-term average.

Credit risk in the portfolio can also materialize as increased capital requirements as assets migrate into lower credit qualities over time. The effect of rating migration on our capital requirements is also dependent on the economic cycle and increased asset impairment levels may go hand in hand with increased asset related capital requirements.

We manage the risk of default and rating migration by applying disciplined credit evaluation and underwriting standards and prudently limiting allocations to lower quality, higher risk investments. In addition, we diversify our exposure by issuer and country, using rating based issuer and country limits. We also set investment constraints that limit our exposure by industry segment. To limit the impact that credit risk can have on earnings and capital adequacy levels, we have portfolio-level credit risk constraints in place. Limit compliance is monitored on a daily or, in some cases, monthly basis. Limit violations are reported to senior management and we are actively involved in decisions around curing such limit violations.

We also have credit risk related to the ability of our derivatives and reinsurance counterparties to honor their obligations to pay the contract amounts under various agreements. In order to minimize the risk of credit loss on such contracts, we diversify our exposures among several counterparties and limit the amount of exposure to each based on credit rating. For most counterparties, including the largest reinsurance counterparties, we have collateral agreements in place that would substantially limit our credit losses in case of a counterparty default. We also generally limit our selection of counterparties that we do new transactions with to those with an "A" credit rating or above. When exceptions are made to that principle, we ensure that we obtain collateral to mitigate our risk of loss. For derivatives counterparty risk exposures (which includes reverse repurchase and securities lending transactions), we measure and monitor our risks on a market value basis daily.

Market Risk Related to Equity Market Prices

Our variable products, FIA products and general account equity securities are significantly influenced by global equity markets. Increases or decreases in equity markets impact certain assets and liabilities related to our variable products and our earnings derived from those products. Our variable products include variable annuity contracts and variable life insurance.

We assess equity risk exposures for financial assets, liabilities and derivatives using hypothetical test scenarios that assume either an increase or decrease of 10% in all equity market benchmark levels. The following table summarizes the net estimated potential change in fair value from an instantaneous increase and decrease in all equity market benchmark levels of 10% as of March 31, 2014. In calculating these amounts, we exclude separate account equity securities related to products for which the investment risk is borne primarily by the separate account contract holder rather than by us. While the test scenarios are for illustrative purposes only and do not reflect our expectations regarding the future performance of equity markets, they are near-term, reasonably possible hypothetical changes that illustrate the potential impact of such events. These scenarios consider only the direct effect on fair value of declines in equity benchmark market levels and not changes in asset-based fees recognized as revenue, changes in our estimates of total gross profits used as a basis for amortizing DAC/VOBA, other intangibles and other costs, or changes in any other assumptions such as market volatility or mortality, utilization or persistency rates in variable contracts that could also impact the fair value of our living benefits features. In addition, these scenarios do not reflect the effect of basis risk, such as potential differences in the performance of the investment funds underlying the variable annuity products relative to the equity market benchmark we use as a basis for developing our hedging strategy. The impact of basis risk could result in larger differences between the change in fair value of the equity-based derivatives and the related living benefit features, in comparison to the hypothetical test scenarios.

| | As of March 31, 2014 | | | |
|---|---|---|---|---|
| | | | Hypothetical Change in Fair Value[1] | |
| ($ in millions) | Notional | Fair Value | + 10% Equity Shock | -10% Equity Shock |
| Financial assets with equity market risk: | | | | |
| Equity securities, available for sale | $— | $276.6 | $19.1 | $(19.1) |
| Limited liability partnerships/corporations | — | 218.9 | 13.1 | (13.1) |
| Derivatives: | | | | |
| Equity futures and total return swaps[2] | 8,810.0 | (69.2) | (742.4) | 742.4 |
| Equity options | 8,602.7 | 184.2 | (18.4) | 4.9 |
| Financial liabilities with equity market risk: | | | | |
| Guaranteed benefit derivatives | | | | |
| FIA | — | 1,808.0 | 103.5 | (184.6) |
| GMAB / GMWB/ GMWBL | — | 1,143.3 | (191.6) | 276.5 |

[1] (Decreases) in assets or (decreases) in liabilities are presented in parentheses. Increases in assets or increases in liabilities are presented without parentheses.
[2] Primarily related to CBVA hedging programs.

Market Risk Related to Closed Block Variable Annuity

Closed Block Variable Annuity Net Amount at Risk ("NAR")

The NAR for Guaranteed Minimum Death Benefits ("GMDB"), Guaranteed Minimum Accumulation Benefits ("GMAB") and Guaranteed Minimum Withdrawal Benefits ("GMWB") is equal to the guaranteed value of these benefits in excess of the account values in each case as of the date indicated. The NAR assumes utilization of benefits by all customers as of the date indicated.

The NAR for Guaranteed Minimum Income Benefits ("GMIB") and Guaranteed Minimum Withdrawal Benefits for Life ("GMWBL") is equal to the excess of the present value of the minimum guaranteed annuity payments available to the contract owner over the current account value. It assumes that all policyholders exercise their benefit immediately, even if they have not yet attained the first exercise date shown in their contracts, and that there are no future lapses. The NAR assumes utilization of benefits by all customers as of the date indicated. This hypothetical immediate exercise of the benefit means that the customers give up any future increase in the guaranteed benefit that might accrue if they were to delay exercise to a later date. The discount rates used in the GMIB NAR methodology grade from current U.S. Treasury rates to long-term best estimates over fifteen years. The GMWBL NAR methodology uses current swap rates. The discounting for GMWBL and GMIB NAR was developed to be consistent with the methodology for the establishment of U.S. GAAP reserves.

For GMIB products, in general, the policyholder has the right to elect income payment, beginning (for certain products) on the tenth anniversary year of product commencement, receive lump sum payment of the then current cash value, or remain in the variable sub-account. For GMIB products, if the policyholder makes the election to annuitize, the policyholder is entitled to receive the guaranteed benefit amount over an annuitization period. A small percentage of the products were first eligible to elect annuitizations beginning in 2010 and 2011. The remainder of the products become eligible to elect annuitization from 2012 to 2020, with the majority of first eligibility dates in the period from 2014 through 2016. Many of these contracts contain significant incentives to delay annuitization past first eligibility.

Because policyholders have various contractual rights and significant incentives to defer their annuitization election, the period over which annuitization election will take place is subject to policyholder behavior and therefore indeterminate. In addition, upon annuitization the contract holder surrenders access to the account value and the account value is transferred to the Company's general account where it is invested and the additional investment proceeds are used towards payment of the guaranteed benefit payment.

Similarly, most of our GMWBL contracts are still in the first four to six policy years, so our assumptions for withdrawal from contracts with GMWBL benefits may change as experience emerges. In addition, like our GMIB contracts, many of our GMWBL contracts contain significant incentives to delay withdrawal. We expect customer decisions on annuitization and withdrawal will be influenced by customers' financial plans and needs as well as by interest rate and market conditions over time and by the availability and features of competing products. If emerging experience deviates from our assumptions on either GMIB annuitization or GMWBL withdrawal, we could experience gains or losses and a significant decrease or increase to reserve and capital requirements.

The account values and NAR, both gross and net of reinsurance ("retained NAR"), of contract owners by type of minimum guaranteed benefit for retail variable annuity contracts are summarized below as of March 31, 2014.

| | As of March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| ($ in millions, unless otherwise indicated) | Account Value[1] | Gross NAR | Retained NAR | % Contracts NAR In-the-Money[2] | | % NAR In-the-Money[3] | |
| GMDB | $43,977 | $5,696 | $5,090 | 41 | % | 26 | % |
| Living Benefit | | | | | | | |
| GMIB | $15,594 | $1,964 | $1,964 | 67 | % | 16 | % |
| GMWBL | 16,373 | 656 | 656 | 30 | % | 13 | % |
| GMAB/GMWB | 893 | 20 | 20 | 12 | % | 19 | % |
| Living Benefit Total | $32,860 | $2,640 | $2,640 | 50 | %[4] | 15 | %[5] |

(1) Account value excludes $1.1 billion of Payout, Policy Loan and life insurance business which is included in consolidated account values.
(2) Percentage of contracts that have a NAR greater than zero.
(3) For contracts with a NAR greater than zero, % NAR In-the-Money is defined as NAR/(NAR + Account Value).
(4) Total Living Benefit % Contracts NAR In-the-Money as of March 31, 2013 was 65%.
(5) Total Living Benefit % NAR In-the-Money as of March 31, 2013 was 18%.

As of the date indicated above, compared to $2.6 billion of NAR, we held gross statutory reserves before reinsurance of $2.7 billion for living benefit guarantees; of this amount, $2.6 billion was ceded to SLDI, fully supported by assets in trust. There was no LOC requirement to support the reserve. However, NAR and statutory reserves are not directly comparable measures. Our U.S. GAAP reserves for living benefit guarantees were $2.2 billion as of March 31, 2014.

For a discussion of our U.S. GAAP reserves calculation methodology, see "Note 1. Business, Basis of Presentation and Significant Accounting Policies - Future Policy Benefits and Contract Owner Accounts" included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Variable Annuity Hedge Program

Variable Annuity Guarantee Hedge Program

We primarily mitigate CBVA market risk exposures through hedging. Market risk arises primarily from the minimum guarantees within the CBVA products, whose economic costs are primarily dependent on future equity market returns, interest rate levels, equity volatility levels and policyholder behavior. The Variable Annuity Guarantee Hedge Program is used to mitigate our exposure to equity market and interest rate changes and seeks to ensure that the required assets are available to satisfy future death benefit and living benefit obligations. While the Variable Annuity Guarantee Hedge Program does not explicitly hedge statutory or U.S. GAAP reserves, as markets move up or down, in aggregate the returns generated by the Variable Annuity Guarantee Hedge Program will significantly offset the statutory and U.S. GAAP reserve changes due to market movements.

The objective of the Variable Annuity Guarantee Hedge Program is to offset changes in equity market returns for most minimum guaranteed death benefits and all guaranteed living benefits, while also providing interest rate protection for certain minimum guaranteed living benefits. We hedge the equity market exposure using a hedge target set using market consistent valuation techniques for all guaranteed living benefits and most death benefits. We also hedge a portion of the interest rate risk in our GMWB/GMAB/GMWBL blocks using a market consistent valuation hedge target. We do not hedge interest rate risks for our GMIB or GMDB primarily because doing so would result in volatility in our regulatory reserves and rating agency capital that exceeds our tolerances and, secondarily, because doing so would produce additional volatility in our U.S. GAAP financial statements. These hedge targets may change over time with market movements, changes in regulatory and rating agency capital, available collateral and our risk tolerance.

Equity index futures on various equity indices are used to mitigate the risk of the change in value of the policyholder-directed separate account funds underlying the CBVA contracts with minimum guarantees. A dynamic trading program is utilized to seek replication of the performance of targeted fund groups (i.e. the fund groups that can be covered by indices where liquid futures markets exist).

Total return swaps are also used to mitigate the risk of the change in value of certain policyholder directed separate account funds. These include fund classes such as emerging markets and real estate. They may also be used instead of futures of more liquid indices where it may be deemed advantageous. This hedging strategy is employed at our discretion based on current risk exposures and related transaction costs.

Interest rate swaps are used to match a portion of the hedge targets on GMWB/GMAB/GMWBL as described above.

Variance swaps and equity options are used to mitigate the impact of changes in equity volatility on the economic liabilities associated with certain minimum guaranteed living benefits.

Foreign exchange forwards are used to mitigate the impact of policyholder-directed investments in international funds with exposure to fluctuations in exchange rates of certain foreign currencies. Rebalancing is performed based on pre-determined notional exposures to the specific currencies.

Variable Annuity Capital Hedge Overlay ("CHO") Program

CBVA guaranteed benefits are hedged based on their economic or fair value; however, the statutory reserves and rating agency required assets are not based on a market value. When equity markets decrease, the statutory reserve and rating agency required assets for the CBVA guaranteed benefits can increase more quickly than the value of the derivatives held under the Variable Annuity Guarantee Hedge Program. This causes regulatory reserves to increase and rating agency capital to decrease. The CHO program is intended to mitigate equity risk to the regulatory and rating agency capital of the Company. The hedge is executed through the purchase and sale of equity index derivatives and is designed to limit the uncovered reserve and rating agency capital increases in an immediate down equity market scenario to an amount we believe prudent for a company of our size and scale. This amount will change over time with market movements, changes in regulatory and rating agency capital, available collateral and our risk tolerance.

The following table summarizes the estimated net impacts to funding our regulatory reserves to our CBVA segment, after giving effect to our CHO program and the Variable Annuity Guarantee Hedge Program for various shocks in equity markets and interest rates. This reflects the hedging we had in place as well as any collateral (in the form of LOC) or change in underlying asset values that would be used to achieve credit for reinsurance for the segment of liabilities reinsured to our Arizona captive at the close of business on March 31, 2014 in light of our determination of risk tolerance and available collateral at that time, which, as noted above, we assess periodically.

| ($ in millions) | March 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity Market (S&P 500) | | | | | | Interest Rates | |
| | -25% | -15% | -5% | +5% | +15% | +25% | -1% | +1% |
| Decrease/(increase) in regulatory reserves | $(3,800) | $(2,200) | $(600) | $650 | $1,400 | $2,000 | $(800) | $550 |
| Hedge gain/(loss) immediate impact | 2,750 | 1,500 | 400 | (500) | (1,200) | (1,750) | 550 | (500) |
| Increase/(decrease) in Market Value of Assets | — | — | — | — | — | — | 350 | (350) |
| Increase/(decrease) in LOCs | 1,050 | 700 | 250 | — | — | — | — | 250 |
| Net impact | $— | $— | $50 | $150 | $200 | $250 | $100 | $(50) |

The foregoing sensitivities illustrate the estimated impact of the indicated shocks beginning on the first market trading day following March 31, 2014 and give effect to rebalancing over the course of the shock event. The estimates of equity market shocks reflect a shock to all equity markets, domestic and global, of the same magnitude. The estimates of interest rate shocks reflect a shock to rates at all durations (a "parallel" shift in the yield curve). Decrease / (increase) in regulatory reserves includes statutory reserves for policyholder account balances, AG43 reserves and additional cash flow testing reserves related to the CBVA segment. Hedge Gain / (Loss) includes both the Variable Annuity Guarantee Hedge Program and the CHO program and assumes that hedge positions can be rebalanced during the market shock and that the performance of the derivative contracts reasonably matches the performance of the contract owners' variable fund returns. Increase / (decrease) in LOCs indicates the change in the amount of LOCs used to provide credit for reinsurance at those times when the assets backing the reinsurance liabilities may be less than the statutory reserve requirement. Increase / (decrease) in Market Value of Assets is the estimated potential change in market value of assets supporting the segment of liabilities reinsured to our Arizona captive from 100 basis point upward and downward shifts in interest rates.

Results of an actual shock to equity markets or interest rates will differ from the above illustration for reasons such as variance in market volatility versus what is assumed, 'basis risk' (differences in the performance of the derivative contracts versus the contract owner variable fund returns), equity shocks not occurring uniformly across all equity markets, combined effects of interest rates and equities, additional impacts from rebalancing of hedges and/or the effects of time and changes in assumptions or methodology that affect reserves or hedge targets. Additionally, estimated net impact sensitivities vary over time as the market and closed book of business evolve or if assumptions or methodologies that affect reserves or hedge targets are refined.

As stated above, the primary focus of the hedge program is to protect regulatory and rating agency capital from equity market movements. Hedge ineffectiveness, along with other aspects not directly hedged (including unexpected policyholder behavior), may cause losses of regulatory or rating agency capital. Regulatory and rating agency capital requirements may move disproportionately (i.e., they may change by different amounts as market conditions and other factors change), and, therefore, could also cause our hedge program to not realize its key objective of protecting both regulatory and rating agency capital from equity market movements.

For ING USA Annuity and Life Insurance Company ("ING USA"), a wholly-owned subsidiary of the Company, our guarantee and overlay equity hedges resulted in a loss of approximately $100 million for the three months ended

March 31, 2014 which was offset by the equity market decrease in AG43 reserves in excess of reserves for cash surrender value of approximately $200 million for the three months ended March 31, 2014. Changes in statutory reserves due to equity and equity hedges for ING USA include the effects of non-affiliated reinsurance for variable annuity policies, but exclude the effect of the affiliated reinsurance transaction associated with the GMIB and GMWBL riders. Substantially all of the CBVA business was written by ING USA. In addition to equity hedge results and change in reserves due to the impact of equity market movements, statutory income includes fee income, investment income and other income offset by benefit payments, operating expenses and other costs as well as impacts to reserves and hedges due to effects of time and other market factors.

As U.S. GAAP accounting differs from the methods used to determine regulatory reserves and rating agency capital requirements, our hedge programs may result in immediate impacts that may be lower or higher than the regulatory impacts illustrated above. The following table summarizes the estimated net impacts to U.S. GAAP earnings pre-tax in our CBVA segment, which is the sum of the increase or decrease in U.S. GAAP reserves and the hedge gain or loss from our CHO program and the Variable Annuity Guarantee Hedge Program for various shocks in both equity markets and interest rates. This reflects the hedging we had in place at the close of business on March 31, 2014 in light of our determination of risk tolerance at that time, which, as noted above, we assess periodically.

| | As of March 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($ in millions) | Equity Market (S&P 500) | | | | | | Interest Rates | |
| | -25% | -15% | -5% | +5% | +15% | +25% | -1% | +1% |
| Total estimated earnings sensitivity | $850 | $450 | $100 | $(250) | $(600) | $(800) | $(300) | $150 |

The foregoing sensitivities illustrate the impact of the indicated shocks on the first market trading day following March 31, 2014 and give effect to dynamic rebalancing over the course of the shock events. The estimates of equity market shocks reflect a shock to all equity markets, domestic and global, of the same magnitude. The estimates of interest rate shocks reflect a shock to rates at all durations (a "parallel" shift in the yield curve). We regularly monitor and refine our hedge program targets in line with our primary goal of protecting regulatory and rating agency capital. It is possible that further changes to our hedge program will be made and those changes may either increase or decrease earnings sensitivity. Liabilities are based on U.S. GAAP reserves and embedded derivatives, with the latter excluding the effects of nonperformance risk. DAC is amortized on gross revenues, which will not be volatile; however, volatility could be driven by loss recognition. Hedge Gain / (Loss) impacting the above estimated earnings sensitivity includes both the Variable Annuity Guarantee Hedge Program and the CHO program and assumes that hedge positions can be rebalanced during the market shock and that the performance of the derivative contracts reasonably matches the performance of the contract owners' variable fund returns.

Actual results will differ from the estimates above for reasons such as variance in market volatility versus what is assumed, 'basis risk' (differences in the performance of the derivative contracts versus the contract owner variable fund returns), changes in non-performance spreads, equity shocks not occurring uniformly across all equity markets, combined effects of interest rates and equities, additional impacts from rebalancing of hedges, and/or the effects of time and changes in assumptions or methodology that affect reserves or hedge targets. Additionally, estimated net impact sensitivities vary over time as the market and closed block of business evolves, or if changes in assumptions or methodologies that affect reserves or hedge targets are refined. As the closed block of business evolves, actual net impacts are realized, or if changes are made to the target of the hedge program, the sensitivities may vary over time. Additionally, actual results will differ from the above due to issues such as basis risk, market volatility, changes in implied volatility, combined effects of interest rates and equities, rebalancing of hedges in the future, or the effects of time and other variations from the assumptions in the above table.

Hedging of Fixed Indexed Annuity ("FIA") Benefits

We mitigate FIA market risk exposures through a combination of capital market hedging, product design and capital management. For the FIA book of business, these risks stem from the minimum guaranteed contract value offered and the additional interest credits (Equity Participation or Interest Rate Participation) based on exposure to various stock market indices or the 3-month LIBOR. The minimum guarantees, interest rate and equity market exposures, are strongly dependent on capital markets and, to a lesser degree, policyholder behavior.

We hedge FIA equity exposure by purchasing exchange traded equity index futures contracts. We also hedge FIA equity exposure by purchasing over-the-counter ("OTC") equity index call options from broker-dealer derivative counterparties who generally have a minimum credit rating of A3 from Moody's and A- from S&P.

Additionally, the credited rate mechanism for certain FIA contracts exposes us to changes in interest rate benchmarks. We mitigate this exposure by purchasing OTC interest rate swaptions from broker-dealer derivative counterparties who generally have a minimum credit rate of A3 from Moody's and A- from S&P. For each broker-dealer counterparty, our derivative exposure to that counterparty is aggregated with any fixed income exposure to the same counterparty and is maintained within applicable limits.

These hedge programs are limited to the current policy term of the liabilities, based on current participation rates. Future returns, which may be reflected in FIA credited rates beyond the current policy term, are not hedged.

While the FIA hedge program does not explicitly hedge statutory or U.S. GAAP income volatility, the FIA hedge program tends to mitigate the statutory and U.S. GAAP reserve changes associated with movements in the equity market and 3-month LIBOR. This is due to the fact that a key component in the calculation of statutory and U.S. GAAP reserves is the market valuation of the current term embedded derivative. The risk management of the current term embedded derivative is the goal of the FIA hedging program. Due to the alignment of the embedded derivative reserve component with hedging of this same embedded derivative, there should be a match between changes in this component of the reserve and changes in the assets backing this component of the reserve. However, there may be an interim mismatch due to the fact that the hedges that are put in place are only intended to cover exposures expected to remain until the end of an indexing term (e.g. account value decrements during an indexing term associated with expected lapses and mortality are not hedged).

Call options are used to hedge against an increase in various equity indices. An increase in various equity indices may result in increased payments to contract holders of FIA contracts. The call options offset this increased expense.

Futures contracts are also used to hedge against an increase in certain equity indices. An increase in certain equity indices may result in increased payments to contract holders of fixed indexed annuity contracts. The futures contracts offset this increased expense.

Interest rate swaptions are used to hedge against an increase in the interest rate benchmark (currently the 3-month LIBOR). An increase in the interest rate benchmark may result in increased payments to contract holders of FIA contracts. The interest rate swaptions offset this increased expense.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective in ensuring that material information relating to the Company required to be disclosed in the Company's periodic SEC filings is made known to them in a timely manner.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

See the Commitments and Contingencies Note to the Condensed Consolidated Financial Statements included in Part I, Item 1.

### Item 1A. Risk Factors

The following should be read in conjunction with and supplements and amends the risk factors that may affect our business or operations described under "Risk Factors" in Part I. Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2013.

Our insurance businesses are heavily regulated, and changes in regulation in the United States, enforcement actions and regulatory investigations may reduce profitability.

Our insurance operations are subject to comprehensive regulation and supervision throughout the United States. State insurance laws regulate most aspects of our insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and the states in which they are licensed. The primary purpose of state regulation is to protect policyholders, and not necessarily to protect creditors and investors.

State insurance guaranty associations have the right to assess insurance companies doing business in their state in order to help pay the obligations of insolvent insurance companies to policyholders and claimants. Because the amount and timing of an assessment is beyond our control, liabilities we have currently established for these potential assessments may not be adequate.

State insurance regulators, the NAIC and other regulatory agencies regularly reexamine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and could materially and adversely affect our business, results of operations or financial condition. We currently use our Missouri captive reinsurance subsidiaries primarily to reinsure term life insurance (“XXX”), universal life insurance with secondary guarantees (“AXXX”), and stable value annuity business. We also use our Arizona captive primarily to reinsure life insurance and annuity business from our insurance subsidiaries. In October 2011, the NAIC established a subgroup to study insurers’ use of captive reinsurance companies and special purpose vehicles to transfer insurance risk in relation to existing state laws and regulations, and to establish appropriate regulatory requirements to address concerns identified in the study. Additionally, in June 2013, the NYDFS released a report critical of certain captive reinsurance structures and calling, in part, for other state regulators to adopt a moratorium on approving such structures pending further review by state and federal regulators. Also, in December 2013, the FIO issued a report on how to modernize and improve the system of insurance regulation in the United States, recommending, in part, that states develop a uniform and transparent solvency oversight regime for the transfer of risk to reinsurance captives and adopt a uniform capital requirement for reinsurance captives, including a prohibition on transactions that do not constitute legitimate risk transfer. In March 2014, the Missouri Division notified Voya Financial, Inc. that it is performing a review of special purpose life reinsurance captives insurance company transactions that have occurred in Missouri’s captive program and, as part of that review, the Missouri Division has requested information from Voya Financial, Inc. regarding our captive reinsurance subsidiaries. The NAIC is currently considering several captive proposals. The Principle-Based Reserving Implementation Task Force of the NAIC is considering the February 17, 2014 report of Rector and Associates which proposes a new regulatory framework for captives assuming XXX and AXXX business that are created on or after July 1, 2014 or that were created prior to July 1, 2014 but reinsure direct business written on or after January 1, 2015. The Financial Regulation Standards and Accreditation Committee of the NAIC is considering a proposal to require states to apply NAIC accreditation standards applicable to traditional insurers to captives that enter into reinsurance agreements on or after July 1, 2014 or with respect to reinsurance agreements entered into prior to July 1, 2014 on direct business written on or after January 1, 2015. We cannot predict what actions and regulatory changes will result from the NAIC study, the NYDFS report, the FIO report, the Missouri Division review or current or future NAIC captives proposals, or what impact such actions and changes will have on our financial condition and results of operation. Any regulatory action that prohibits or limits our use of or materially increases our cost of using captive reinsurance companies, either retroactively or prospectively, could have a material adverse effect on our financial condition or results of operations.

Insurance regulators have implemented, or begun to implement significant changes in the way in which insurers must determine statutory reserves and capital, particularly for products with contractual guarantees such as variable annuities and universal life policies, and are considering further potentially significant changes in these requirements. The NAIC is currently working on comprehensive reforms related to life insurance reserves and the accounting for such reserves. The timing and extent of further changes to statutory reserves and reporting requirements are uncertain.

In addition, state insurance regulators are becoming more active in adopting and enforcing suitability standards with respect to sales of fixed, indexed and variable annuities. In particular, the NAIC has adopted a revised Suitability in Annuity Transactions Model Regulation ("SAT"), which will, if enacted by the states, place new responsibilities upon issuing insurance companies with respect to the suitability of annuity sales, including responsibilities for training agents. Several states have already enacted laws based on the SAT.

In addition to the foregoing risks, the financial services industry is the focus of increased regulatory scrutiny as various state and federal governmental agencies and self-regulatory organizations conduct inquiries and investigations into the products and practices of the financial services industries. See "Item 1. Note 11. Commitments and Contingencies" of this Form 10-Q for a description of certain regulatory inquiries affecting the Company. It is possible that future regulatory inquiries or investigations involving the insurance industry generally, or the Company specifically, could materially and adversely affect our business, results of operations or financial condition.

In some cases, this regulatory scrutiny has led to legislation and regulation, or proposed legislation and regulation that could significantly affect the financial services industry, or has resulted in regulatory penalties, settlements and litigation. New laws, regulations and other regulatory actions aimed at the business practices under scrutiny could materially and adversely affect our business, results of operations or financial condition. The adoption of new laws and regulations, enforcement actions, or litigation, whether or not involving us, could influence the manner in which we distribute our products, result in negative coverage of the industry by the media, cause significant harm to our reputation and materially and adversely affect our business, results of operations or financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer

The following table summarizes the Company's repurchases of its common stock for the three months ended March 31, 2014:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[1] |
|---|---|---|---|---|
| | | | | (in millions) |
| March 1, 2014 through March 31, 2014 | 7,505,853 | $34.49 | 7,505,853 | $41.1 |
| Total | 7,505,853 | $34.49 | 7,505,853 | $41.1 |

(1) On March 13, 2014, Voya Financial, Inc.'s ("the Company") Board of Directors authorized a share repurchase program (the "Share Repurchase Program"), pursuant to which the Company may, from time to time, purchase shares of its common stock for an aggregate repurchase price not to exceed $300.0 million. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or tender offers. The Share Repurchase Program does not have an expiration date and does not obligate the Company to purchase any shares. The authorization for the Share Repurchase Program may be terminated, increased or decreased by the Company's Board of Directors at any time.

In connection with the vesting of equity-based compensation awards, employees may remit to the Company, or the Company may withhold into treasury stock, shares of common stock in respect of tax withholding obligations associated with such vesting. For the three months ended March 31, 2014, the Company increased its treasury stock by 306,408 shares in connection with such withholding activities.

Item 5. Other Information

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which was signed into law on August 10, 2012, added a new subsection (r) to Section 13 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which requires us to disclose whether the Company or any of its affiliates, including ING Groep N.V. ("ING Group") or its affiliates has engaged during the quarter ended March 31, 2014 in certain Iran-related activities, including any transaction or dealing with the Government of Iran that is not conducted pursuant to a specific authorization of the U.S. Government.

Neither Voya Financial, Inc. nor any of its subsidiaries, have knowingly engaged in any transaction or dealing reportable under Section 13(r) of the Exchange Act during the quarter ended March 31, 2014. The disclosure below relates solely to a limited legacy portfolio of guarantees, accounts, loans and relationships maintained by ING Bank N.V. ("ING Bank"), a subsidiary of ING Group and therefore an affiliate of Voya Financial, Inc., and does not relate to any activities conducted by Voya Financial, Inc. or its subsidiaries, or involve the management of Voya Financial, Inc. or its subsidiaries.

Other than the transactions described below, at no time during the quarter ended March 31, 2014, did ING Group or any of its affiliates knowingly conduct or engage in any activities that would require disclosure to the U.S. Securities and Exchange Commission pursuant to Section 13(r) of the Exchange Act. ING Bank maintains a limited legacy portfolio of guarantees, accounts, and loans that involve various entities owned by the Government of Iran. ING Bank also has limited legacy relationships with certain persons who are designated under Executive Orders 13224 and 13382. These positions remain on the books, but accounts related thereto may be 'frozen' under applicable laws and procedures. In such cases, any interest or other payments ING Bank is legally required to make in connection with said positions are made into 'frozen' accounts. Funds can only be withdrawn by relevant parties from these 'frozen' accounts after due regulatory consent from the relevant competent authorities. ING Bank has strict controls in place to ensure that no unauthorized account activity takes place while the account is 'frozen'. ING Bank may receive loan repayments, but all legacy loan repayments received by ING Bank have been duly authorized by the relevant competent authorities. For the three months ended March 31, 2014, ING Bank had gross revenues of approximately $3.4 million related to these activities, which was principally related to legacy loan repayment. ING Bank estimates that it had net profit of approximately $62.5 thousand related to these activities. ING Bank intends to terminate each of the legacy positions as the nature thereof and applicable law permits.

Item 6. Exhibits

See Exhibit Index on pages 159 hereof.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| May 12, 2014<br>(Date) | Voya Financial, Inc.<br>(Registrant) |
| | By: /s/ Ewout L. Steenbergen<br>Ewout L. Steenbergen<br>Executive Vice President and<br>Chief Financial Officer<br>(Duly Authorized Officer and Principal Financial Officer) |

157

Voya Financial, Inc.

Exhibit Index

| Exhibit No. | Description of Exhibit |
|---|---|
| 3.1 | Certificate of Ownership and Merger (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-35897) filed on April 7, 2014) |
| 10.01 | Amended and Restated Revolving Credit Agreement dated as of February 14, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-35897) filed on February 21, 2014) |
| 10.02 | Form of 2014 Restricted Stock Unit Award Agreement under the Voya Financial, Inc. 2013 Omnibus Employee Incentive Plan (incorporated by reference to Exhibit 10.95 to the Company's Annual Report on Form 10-K (File No. 001-35897) filed on March 10, 2014) |
| 10.03 | Share Repurchase Agreement, dated as of March 18, 2014, between the Company and ING Groep N.V. (incorporated by reference to Exhibit 10.96 to the Company's Amendment No. 1 to Registration Statement on Form S-1 (No. 333-194469) filed on March 18, 2014) |
| 12.1+ | Voya Financial, Inc. Ratio of Earnings to Fixed Charges |
| 31.1+ | Rule 13a-14(a)/15d-14(a) Certification of Rodney O. Martin, Chief Executive Officer (included as Exhibit 31.1 to Form 10-Q) |
| 31.2+ | Rule 13a-14(a)/15d-14(a) Certification of Ewout L. Steenbergen, Chief Financial Officer (included as Exhibit 31.2 to Form 10-Q) |
| 32.1+ | Section 1350 Certification of Rodney O. Martin, Chief Executive Officer (included as Exhibit 32.1 to Form 10-Q) |
| 32.2+ | Section 1350 Certification of Ewout L. Steenbergen, Chief Financial Officer (included as Exhibit 32.2 to Form 10-Q) |
| 101.INS+ | XBRL Instance Document [1] |
| 101.SCH+ | XBRL Taxonomy Extension Schema |
| 101.CAL+ | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF+ | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB+ | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE+ | XBRL Taxonomy Extension Presentation Linkbase |

[1] In accordance with Rule 406T of Regulation S-T, the interactive data files contained in Exhibit 101 to this Form 10-Q are furnished and shall not be deemed to be "filed" for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended (the "Securities Act"), nor will they be deemed filed for purposes of Section 18 of the Securities Exchange Act, as amended (the "Exchange Act"), or otherwise subject to the liability of such sections, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

+ Filed herewith.

158