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Voya Financial, Inc.

Credit Summary Report

Voya Retirement Insurance and Annuity Co.

State of Domicile:	Connecticut	**Ratings as of:**	**March 2018**
Holding Company:	Voya Financial, Inc.	**Moody's:**	A2/Stable Outlook
Type:	Stock	**S & P:**	A/Positive Outlook
Incorporated:	1976	**Fitch:**	A/Stable Outlook

Voya Financial, Inc., now a publicly traded insurance company, is the former U.S. insurance segment of the Dutch financial services company ING. As part of a restructuring plan approved by the European Commission, ING had agreed to separate its banking and insurance operations businesses. In May 2013, ING U.S. completed its initial public offering (IPO) under the new branded name, Voya Financial. Since the IPO ING has gradually sold down shares of Voya to the public and directly to the company with the final 19% stake sold in March 2015. Voya also completed its recapitalization plan bringing several debt offerings to the unsecured debt market where it continues to maintain strong presence. Voya Financial, Inc. is a holding company for several direct and indirect life insurance subsidiaries. Voya Financial is the direct owner of Security Life of Denver Insurance Company and Voya Holdings Inc., an intermediate holding company. Voya Holdings Inc. is the direct parent of Voya Retirement Insurance and Annuity Company and Voya Insurance and Annuity Company.

Voya Financial business comprises of four key business segments: Retirement, Investment Management, Individual Life and Employee Benefits. In 2017 Retirement contributed 49% of earnings, followed by Investment Management at 27%, Employee Benefits at 14% and Individual Life at 10%. Voya's Retirement Solutions business is the #2 provider of defined contribution plans in the U.S. and #1 defined contribution recordkeeper. Investment Management segment includes the multi-channel, multi-platform active asset manager for institutions and individuals. Individual Life and Benefits segments were repositioned to focus on lower-capital, higher-return businesses. Voya has a strong competitive position in the U.S. with a well-established distribution network, strong capital adequacy and financial flexibility. As part of the company's de-risking efforts in order to strengthen its regulatory capital position, Voya has narrowed its focus to simpler and lower cost life insurance and retirement products, while de-emphasizing low return and capital intensive businesses. The core areas of focus for the U.S. insurance business include client retention, expense management, good asset quality, consistent core earnings generation and maintaining strong statutory capital levels.

In December 2017 Voya announced agreement to sell is closed block variable, fixed and fixed indexed annuities to a group of investors, including Apollo Global Management, Athene, Crestview Partners and Reverence Capital Partners. The transaction allows Voya to focus on its higher-growth and less capital-intensive retirement, investment management and employee benefits businesses. In the transaction, Voya will divest Voya Insurance and Annuity Company (VIAC), which will be acquired by Venerable Holdings, Inc., a newly formed investment vehicle owned by a consortium of investors led by Apollo, Crestview and Reverence. Voya will have a 9.9% equity stake in Venerable. Venerable will hold substantially all of the variable annuities in Voya's closed block variable annuity segment with account values of $35 bn. In addition, Voya will sell via reinsurance to Athene Holding $19 bn of its fixed and fixed indexed annuities, representing most of Voya's fixed and fixed indexed annuities in force. Voya estimated that the transaction will result in $1.1 bn of value, including $400 mn ceding commission paid by Athene to Voya. The deal will generate immediately deployable capital in excess of $500 mn which will be used for share repurchases, in addition to existing $1 bn share repurchase program. Voya estimated $110-130 mn in cost savings/year following the close of the transaction in mid-2018. Voya Investment Management will continue to manage Venerable's assets for at least five years and will also manage the funds platform associated with variable annuities. Voya's shareholders equity will decline by $2.3 bn due to the loss on sale. While we view the transaction as generally positive for Voya, as it reduces volatility risk associated with guarantees in its legacy variable annuity book, rating agencies have taken varying views on the deal. Fitch revised holding company outlook to Negative from Stable on the expectation of a weaker financial profile given reduction in shareholder's equity and higher share buyback activity. Moody's affirmed the ratings with a Stable outlook as it expects Voya's earnings to be more stable without the volatility of variable annuities, however, the agency noted that Voya will have much narrower business profile after the transaction and continues to be under pressure for higher shareholder returns. S&P revised outlook on Voya to Positive from Stable due to the expectation of less volatility in Voya's net income following the sale of the variable annuity business. S&P also noted that this positive is somewhat offset as Voya's product diversification will lessen as it is selling its profitable, retail annuity book as part of this transaction.

Since its IPO in May 2013, Voya continued to reposition the company as one of the top retirement product providers in the U.S. and made solid progress operationally. For the full year 2017 Voya reported net loss of $2.99 bn primarily due to $2.42 bn after-tax write down of assets from the sale of closed block business, as well as a $679 mn loss related to the estimated one-time reduction in the carrying value of deferred tax assets due to lower corporate tax rate. Excluding these one-time items, after-tax adjusted operating earnings were $359 mn, compared with $224 mn a year ago. Earnings benefited from higher fee-based margins due to equity market improvement and the cumulative impact of positive net flows as well as higher alternative investment income that was partially offset by deferred acquisition cost unlocking. All segments achieved their 2017 growth targets with record deposits in Retirement segment, record sales in Investment Management and record premiums in Employee Benefits. Retirement segment reported adjusted Return on Capital of 10.3% in 2017, up from 8.8% in 2016. Employee Benefits reported ROC of 24.4% in 2017 vs. 23.3% in 2016 driven by sales growth and improvement in loss ratios. Individual Life segment reported adjusted ROC of 11.2% in 2017 vs. 6.6% in 2016 driven by refinancing of redundant reserves as well as realization of cost savings through operational efficiencies.

As of 12/31/2017 Voya had GAAP assets of $223 bn and shareholders' equity of $11 bn. As of 12/31/17 Voya had total assets under management (AUM) of $308 billion and total AUM and administration of $555 billion. Financial leverage (adjusted Debt/Capital ex. AOCI) was 30.5%, slightly above management's long-term target of 30%. At YE2017 estimated Risk-Based Capital ratio was 476% (CAL) and statutory total adjusted capital was $6.5 bn. Voya targets RBC ratio of 425% allowing the company to return excess capital to shareholders. Full-year 2017 share repurchases totaled $1 bn. As of FY2017 Voya had $738 mn of capital above the holding company's liquidity target of $450 mn and estimated statutory surplus in excess of a 425% RBC target level. As of 12/31/17 Voya Financial had $454 mn of cash at the holding company, in excess of management's target of holding $200 mn as a liquidity buffer.

Voya's investment portfolio was $66 bn as of 12/31/17 with 78% in fixed maturities investments. Average rating of fixed income investments was A with 95% of the portfolio rated 1 or 2 based on NAIC ratings. Nearly 54% of the fixed maturities securities portfolio was in corporate private and public securities of domestic and foreign issuers. 13% of the total investment portfolio was in commercial mortgage loans, well diversified geographically and by property type. Commercial mortgage loan portfolio had LTV of 61%, debt service coverage of 2.2x and very low loss rates. While Voya has significantly reduced holdings of structured assets since the financial crisis, it has higher than peers holdings of structured securities. Residential mortgage-backed securities represented 8.6% of the fixed maturities securities portfolio with the majority in agency securities. Commercial mortgage-backed securities were 5.4% and other asset-backed securities were 3% of the fixed maturities securities portfolio.

Strengths:
- Strong competitive position in the U.S. retirement market.
- Lower risk profile due to the exit from or scale back of higher risk/capital intensive businesses, including closed block variable annuity sale.
- Improving profitability and dividend capacity.

Weaknesses:
- Limited business diversity with significant concentration in pension products and greater reliance on highly competitive fee-based businesses with lower margins.
- Shareholder-friendly activities leading to increase in leverage and reduction in RBC ratio.
- Exposure to the U.S. equity market from pension businesses.

Key Statistics – Voya Retirement Insurance and Annuity Co.

($ millions)	2013	2014	2015	2016	2017
Total Assets without Separate Account	24,761	25,597	27,547	30,430	30,730
Separate Account Assets	60,909	63,656	59,667	62,730	73,813
Total Assets	85,670	89,253	87,214	93,160	104,543
Capital & Surplus	2,011	2,008	2,030	1,959	1,793
Net Gain from Operations before Tax	463	432	450	336	274
Net Realized Capital Gains (Losses)	(196)	(0)	(61)	0	(36)
Net Income	175	322	317	266	195
Return on Average Assets (Stat.)	0.21%	0.36%	0.36%	0.30%	0.19%
Return on Average Equity (Stat.)	8.90%	15.94%	15.78%	13.33%	10.41%
RBC Ratio (ACL)	1015.55%	1000.24%	967.82%	966.75%	904.86%

Sources: Company Reports and Statutory Filings