What You Need to Know About Phoenix and Ratings

Phoenix is financially strong and our ability to pay claims is secure.

Phoenix's financial strength ratings are in either "good" or "adequate" categories although they have gone down in recent months, as have ratings for many other companies.

We know ratings are an important consideration, but they represent only one way to judge a company's financial condition. Consumers should also look at a company's regulatory standing as well as key financial metrics including capitalization, debt, liquidity, and financial flexibility. For Phoenix, these metrics remain solid, and we are taking decisive actions to remain financially strong and competitive in 2009 and beyond.

No action by a rating agency changes those facts, so you and your clients can remain confident in Phoenix and our products. The following is designed to help you understand Phoenix's underlying strengths and what the recent changes in our ratings mean to you and your clients.

Phoenix is well capitalized, with ample liquidity and financial flexibility.

- We have taken a number of steps to enhance capital and reduce risk. As a result, our statutory surplus and asset valuation reserve (AVR) was more than $850 million at year-end 2008, and the risk-based capital (RBC) ratio* for Phoenix Life Insurance Company was 338% and for PHL Variable Life Insurance Company was 481%.
- At year-end 2008, we had over $13.9 billion in statutory reserves for policy claims, backed by assets in our general account portfolio. We carefully match assets and liabilities and maintain an extra cushion of liquid assets necessary for our business needs. In light of the environment, we increased our liquidity position in 2008 to $1.1 billion in cash, short-term investments, Treasuries and government guaranteed agency mortgage backed securities, which is 10% of our fixed income portfolio versus a historical liquidity position of about 5%.
- Our liability profile is stable, with no exposure to guaranteed investment contracts (GICs), institutional funding agreements, or securities lending activities, and we have strong persistency in our core business lines. In fact, our insurance fundamentals – mortality and persistency – remained consistent with our expectations in 2008, a result of a well-underwritten book of business.
- We reduced total outstanding debt by approximately $170 million during 2008 and currently have no debt maturities until 2032. We have kept our debt-to-capital ratio relatively low at about 22%.

**RBC cannot be used to solicit new sales.*

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Phoenix's investment portfolio is well diversified.

- Our general account investment portfolio, which serves as the financial backbone of our insurance and annuity products, is managed by a team with a successful track record of investing over a variety of market cycles, following a disciplined monitoring process.
- As of December 31, 2008:
  - 92% of our bond investments are investment grade. Our below investment grade holdings are diversified by industry and quality, and one-third of the below investment grade bonds are private placement securities that contain financial covenants and protections for bond holders.
  - Our structured securities are diversified across a number of fixed income sectors, including highly rated and earlier vintage commercial and residential mortgage backed securities (CMBS and RMBS), and CDOs and CLOS with no exposure to subprime collateral.
  - We have no credit default swap (CDS) exposure, and 79% of our derivative counterparty exposure is with four large AA-rated banks (JP Morgan Chase, Bank of New York Mellon, Deutsche Bank and Wells Fargo-Wachovia), and we have no counterparty exposure to Lehman or AIG.
  - The markets significantly affected our investment performance in 2008, but the levels of realized and unrealized losses were manageable, and we expect that our unrealized loss position will substantially recover over time.

Phoenix is taking decisive actions to maintain its financial and competitive strengths to preserve value for shareholders and deliver the financial security our customers expect.

We are taking a combination of actions to continue to preserve capital, maintain liquidity and financial flexibility, reduce expenses and improve efficiency, and strategically reposition our business to compete in a rapidly changing environment.

- Specifically, the company is doing the following in 2009:
  - **Capital Preservation –** Phoenix is committed to growing tangible book value. We will eliminate the annual shareholder dividend in 2009. We also will continue to assess and manage product risk and redesign our product suite to reduce capital requirements. In addition, we will take extra steps to maintain inforce business by providing a high level of service to existing policyholders and customers.
  - **Liquidity and Financial Flexibility –** Phoenix will continue to maintain a highly liquid portfolio and an additional cushion of cash and short-term securities. We also will retain the option to seek to participate in the U.S. Treasury's Troubled Asset Relief Program (TARP) if it is available to life insurance companies and advantageous to all of our stakeholders.
  - **Expense Reduction –** Phoenix has identified a series of actions that are expected to further reduce annualized controllable expenses, before deferrals, by approximately $65 million, with expected transition costs of about $15 million during 2009. The reductions will be made in concert with the strategic repositioning of the company.
  - **Strategic Repositioning –** Following the spin-off of our asset management operations, we have a tighter focus on our life insurance and annuity business. Phoenix will begin building its future business by leveraging existing manufacturing strengths and partnering capabilities in ways that will be less capital intensive and ratings sensitive. The company has developed a three-pronged strategy that shifts the focus of new business development to private labeling, expanding alternative retirement product offerings, and developing new distribution channels for core product offerings.

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Phoenix views the current ratings environment and recent downgrades as a sign of the times but not necessarily reflective of the company's underlying strength.

- All of the rating agencies have a negative outlook for the life insurance industry. It is a fluid situation, and many other companies have also been downgraded, placed on negative outlook, or placed under review for a possible downgrade. For example, in the first three weeks of February, Moody's took 15 negative actions, and in just one day – February 26 – S&P downgraded 10 companies and A.M. Best downgraded two.
- Although ratings are based on analytics, there is also judgment involved, particularly in times such as these. The agencies themselves are under pressure to be more stringent than they have been in the past. We have observed that rating agencies can also be influenced by a company's size or legal form (mutual versus stock), unlike state regulatory requirements, which are applied more evenly. In our view, some rating agencies impose their standards more strictly on small companies, granting less leeway than they do for larger companies.
- Phoenix is financially strong and our ability to pay claims is secure. We have solid capital and liquidity positions and a stable liability profile, which are paramount in this environment. No action by a rating agency changes those facts, so policyholders should have no reason to move their business. No rating agencies or regulators have ever suggested that policyholders should terminate their Phoenix policies. Any attempt to replace or sell away from Phoenix based on a false claim of financial problems is inappropriate and illegal.
- Our focus continues to be on preserving capital, managing liquidity, and maintaining discipline around expenses as an important way to drive earnings. We remain confident that we can weather this economic cycle.

Each rating agency has a particular view of Phoenix, although there are commonalities.

- Overall, the rating agencies acknowledge Phoenix's strong capital and liquidity positions.
- The individual ratings reflect each agency's views of our year-end results, the continued severity of the economy, and the near-term impact of losing traditional distribution partners.
- We believe the rating agencies tend to favor large versus small companies, mutual companies versus stock, and diversified versus narrowly focused.

PHOENIX RATINGS AS OF MARCH 10, 2009

Agency	Rating	Ranking	Definition	Outlook	Review/ CreditWatch
A.M. Best	B++	5th of 16 ratings	Good	Negative	None
S&P	BBB-	10th of 21 ratings	Good	Negative	None
Moody's	Baa2	9th of 25 ratings	Adequate	Negative	None
Fitch	BBB+	8th of 24 ratings	Good	None	Rating Watch Negative

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