

## S&P Upgrades Phoenix Cos. Inc.; Affirms Subsidiaries Ratings

- We believe that Phoenix will have more than adequate resources to meet its near-term obligations, including interest expenses on debt outstanding and other operating expenses.
- We raised the counterparty credit rating on holding company Phoenix Cos. Inc. to 'B-' from 'CCC+' and affirmed the financial strength ratings on subsidiaries at 'BB-'.
- The outlook is stable, reflecting the group's improving financial profile.

NEW YORK (Standard & Poor's) April 5, 2012--Standard & Poor's Ratings Services said today that it raised its counterparty credit rating (CCR) on The Phoenix Cos. Inc. (NYSE: PNX) to 'B-' from 'CCC+'. At the same time, Standard & Poor's has affirmed its financial strength ratings (FSR) on subsidiaries Phoenix Life Insurance Co. (PLIC) and PHL Variable Insurance Co. (collectively known as Phoenix) at 'BB-'. The outlook on the ratings is stable.

"The upgrade reflects our belief that Phoenix has more than adequate resources at the holding company to service its near-term obligations, including interest expenses on debt outstanding and other operating expenses," said Standard & Poor's credit analyst Patrick Wong. The holding company's interest expense for 2011 was \$20.4 million and the holding company has approximately \$92.6 million of liquid resources, including \$52.5 million of cash. The combination of cash and liquid assets at the holding company should provide more than adequate resources to service debt in the near term.

The stable outlook reflects our view that Phoenix's financial profile is stabilizing and incrementally improving, mainly because of improving operating performance and the continuous strengthening of its capital base, as measured by a regulatory RBC ratio of 363%. However, its business profile remains marginal. In the short term, we expect Phoenix to be able to make all timely payments on its obligations. In the longer term, we expect Phoenix's repositioning strategy to be successful and to add new distribution relationships that increase sales.

We expect Phoenix's generally accepted accounting principles (GAAP) operating performance to stay positive in 2012 through further expense reduction and increases in premiums and fees. With a relatively small life insurance sales volume, but growing fixed annuities volume in the short term and a large in-force block of business, we expect the operating companies to continue to produce positive statutory income. This is crucial because positive statutory earnings allow the operating companies to dividend funds to the parent company without prior regulatory approvals. We expect investment portfolio quality to continue improving and impairments to continue declining.

We could upgrade Phoenix if its operating performance and competitive position continue to improve with adequate revenue generation to offset the decline in premiums from the regulatory closed block, coupled with improved capital adequacy based on Standard & Poor's capital model. Profitable growth, particularly from open-block businesses with mid-single-digit returns on capital, would support higher ratings, while sustainable sales growth and increased distribution relationships would indicate an improved competitive position.

We could lower the ratings if, in our view, Phoenix Cos. Inc. faces significant challenges in meeting its obligations on time. This could result from a reduction in liquidity stemming from disintermediation risk or a lack of contributions from the operating companies because of regulatory restrictions. We would also consider lowering the rating if the company consistently incurs a statutory loss.

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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