S&P Global
Ratings

RatingsDirect®

Research Update:

Phoenix Life Insurance Group Upgraded To 'BB'; Outlook Stable

Credit Analyst:
Primary Credit Analyst: Neil R Stein, New York, (1) 212-438-5906; neil.stein@spglobal.com

Table Of Contents

Research Update:

Phoenix Life Insurance Group Upgraded To 'BB'; Outlook Stable

Overview

- The company has made progress on its transformation and turnaround plan following acquisition by Nassau Reinsurance Group Holdings, L.P. in 2016.
- We are raising our ratings on Phoenix Cos. Inc., Phoenix Life Insurance Co., and PHL Variable Insurance Co.
- The stable outlook means that we expect Phoenix to improve its operating performance and capitalization metrics through execution of its strategic initiatives.

Rating Action

On Aug. 25, 2017, S&P Global Ratings raised its long-term counterparty credit and financial strength ratings on Phoenix Cos. Inc.'s operating subsidiaries, Phoenix Life Insurance Co. and PHL Variable Insurance Co., to 'BB' from 'BB-'. We view these companies as core to Nassau Reinsurance Group under our group methodology criteria. At the same time, we raised our counterparty credit rating on the nonoperating holding company Phoenix Cos. Inc. to 'B' from 'B-' and raised our subordinated debt rating on Phoenix Life to 'B+' from 'B'. The outlook is stable.

Rationale

The upgrade reflects our view of the company's advancement in its transformation and turnaround plan outlined to us upon acquisition by Nassau Re. We believe, since acquisition, the management team has responded and made measurable progress on its business and financial plans, and more specifically those related to the resolution of financial restatements, material weaknesses, and outstanding litigation. We expect the company to continue to improve the balance sheet, de-risk and de-lever, and improve financial results that are more comparable to other life and health peers'.

The ratings reflect our opinion of the company's satisfactory business risk profile and weak financial risk profile, built on an adequate competitive position and upper adequate capital and earnings. Our view of business risk is limited by operating performance that we regard as negative as the company has not earned a profit during the past several years; this is currently a weakness when compared to peers. We expect improvement in earnings, realized first from a combination of synergies within the group and reduction in costs associated with consultant and legal fees associated with remediation costs and outstanding litigation, and near term from management's commitment to

1906574 | 301033869

conservative growth, disciplined underwriting, and decreased credit risk. However, we believe a degree of risk of execution remains in its plans.

Phoenix's weak financial risk profile is based on weak capital adequacy with deficiency at the 'BBB' confidence level according to our capital model and weak financial flexibility. We observed modest improvement in capital adequacy since last year and we expect Phoenix to maintain capital adequacy at levels at least consistent with the rating. Financial flexibility is weak with adequate and limited access to capital from its parent, Nassau Re, and ultimate private equity owner, Golden Gate Capital. Golden Gate committed $750 million of capital to Nassau upon closing the acquisition, funded $490 million to date, and $260 million is available to support the business and ongoing acquisitions. Financial leverage, however, at 58% as of year-end 2016, is substantial when compared to peers', and fixed-charge coverage is negative due to operating losses.

Outlook

The stable outlook reflects our expectation that Phoenix will improve its business and financial risk profiles through accretive earnings of its main individual life and fixed-indexed annuities; capital adequacy will be more consistent at the 'BBB' confidence level according to our model; and financial flexibility will improve, including financial leverage of between 50% and 58%, fixed-charge coverage between 1x and 2x, and ample holding company liquidity to meet immediate needs. We also expect Phoenix to record near breakeven statutory operating profits in 2017 and improve through 2019 as non-recurring expenses are reduced, operating efficiencies are realized, and as the company executes its planned initiatives. As a group we also expect Nassau Re to be profitable.

Downside scenario

We may lower the rating in the next 12 months if Phoenix does not make continual progress in improving profitability and capital adequacy. This could be exhibited by continued operating losses on generally accepted accounting principles and statutory bases, a more-aggressive capital-management strategy with outsize dividends from operations, or increased risk in its product or investment portfolio. Additionally, we could lower the rating if financial leverage deteriorates to greater than 60%, fixed-charge coverage remains negative, and we believe it to be sustainable.

Upside scenario

We could raise our ratings in the next 12 months if the company executes its plan to increase the relative level of its operating performance and we deem it to be both sustainable and consistent with peers'. Improvement and commitment to de-risk its balance sheet, maintain capital adequacy in excess of the 'BBB' confidence level per our model, as well as material improvements in financial leverage and fixed-charge coverage metrics that better align with peers' could also positively influence our opinion.

Ratings Score Snapshot

Holding Company Rating	B/Stable/--	B-/Positive/--
Financial Strength Rating	BB/Stable	BB-/Positive
Anchor	bb	bb
Business Risk Profile	Satisfactory	Satisfactory
IICRA*	Low Risk	Low Risk
Competitive Position	Adequate	Adequate
Financial Risk Profile	Weak	Weak
Capital & Earnings	Upper Adequate	Upper Adequate
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Weak	Weak
Modifiers	0	-1
ERM and Management	0	-1
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Fair	Fair
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

*Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria - Insurance - General: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - Life: Methodology: Capital Charges For Regulatory Closed Blocks Under Standard & Poor's Capital Model Framework, Oct. 31, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital

Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Criteria - Insurance - Life: Liquidity Model For U.S. And Canadian Life Insurers, April 22, 2004

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
PHL Variable Insurance Co.		
Phoenix Life Insurance Co.		
Counterparty Credit Rating		
Local Currency	BB/Stable/--	BB-/Positive/--
Financial Strength Rating		
Local Currency	BB/Stable/--	BB-/Positive/--
Phoenix Cos. Inc.		
Counterparty Credit Rating		
Local Currency	B/Stable/--	B-/Positive/--

Upgraded

	To	From
Phoenix Cos. Inc.		
Senior Unsecured	B	B-
Phoenix Life Insurance Co.		
Subordinated	B+	B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.