



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON FINANCIAL CONDITION EXAMINATION
OF THE
PHOENIX LIFE INSURANCE COMPANY

CONDITION:

DECEMBER 31, 2012

DATE OF REPORT:

MAY 28, 2014

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EXAMINER:

COURTNEY WILLIAMS

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 22, 2014

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
New York, New York 10004

Sir:

In accordance with instructions contained in Appointment No. 30883, dated September 24, 2012 and annexed hereto, an examination has been made into the condition and affairs of Phoenix Life Insurance Company, hereinafter referred to as “the Company,” at its home office located at One American Row, Hartford, Connecticut 06102.

Wherever “Department” appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The material comments contained in this report are summarized below.

- As reported in the Company's 2012 audited financial statements, the completion of Phoenix's GAAP restatement resulted in management identifying errors in the historical statutory financial statements of the Company. These errors originated in 2011 and prior periods and resulted in an adjustment of \$(42.7) million to the Company's total capital and surplus reported in the 2012 annual statement. Of the \$42.7 million, \$33.1 million was recorded as a prior period adjustment in the 2013 annual statement and \$9.6 million will be reported in the Company's 2014 statutory filings. (See item 7 of this report)
- At year-end 2012, the Company carried an asset of \$372 million of common stock based on the value of PM Holdings, whose major asset is insurance subsidiary PHL Variable. The listed value of the subsidiary is roughly equivalent to one-half of the Company's surplus. The Department is concerned about the likelihood that the subsidiary will continue to be a drain on the Company's surplus. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2013 Edition* (the “Handbook”). The examination covers the five-year period from January 1, 2008 to December 31, 2012. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2012 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners (“NAIC”). The Handbook guidance provides for the establishment of an examination plan based on the examiner’s assessment of risk in the insurer’s operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management’s compliance with New York statutes, Department guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

Information about the Company’s organizational structure, business approach and control environment were utilized to develop the examination approach. The Company’s risks and management activities were evaluated incorporating the NAIC’s nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2008 through 2012, by the accounting firm of PricewaterhouseCoopers, LLP. The Company received an unqualified opinion for the years 2008 to 2012 with regard to its statutory financial statements and its financial statements prepared on the basis of Generally Accepted Accounting Principles (“GAAP”). The unqualified opinion for the 2012 statutory financial statements was received on April 30, 2014 and the unqualified opinion for the financial statements prepared on the basis of GAAP was received on May 5, 2014. The delay in the issuance of the 2012 unqualified opinions was due to the restatement (See item 7 of this report). Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company has an internal audit department, which, in addition to performing operational audits, has the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 (“SOX”). Where applicable, internal audit and SOX workpapers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the violations, recommendations and comments contained in the prior financial report on examination. The results of the examiner’s review are contained in item 8 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was originally incorporated and commenced business under the laws of Connecticut in May of 1851 as a stock company, under the name of American Temperance Life Insurance Company. The Company's name was changed to Phoenix Mutual Life Insurance Company in 1861. In 1889, an amendment to the charter authorized the complete mutualization of the Company.

Home Life Insurance Company ("Home Life") was originally incorporated under the laws of New York on April 30, 1860 as a stock company and commenced business on May 1, 1860. In 1916, Home Life mutualized.

On July 1, 1992, Home Life merged with and into the Company, the surviving company, pursuant to Section 7105 of the New York Insurance Law. Immediately prior to the merger on July 1, 1992, the Company had redomesticated into New York pursuant to Section 7120 of the New York Insurance Law. The merger was approved by the policyholders of both companies on May 21, 1992 and by the Connecticut and New York State Insurance Departments on March 27, 1992 and June 17, 1992, respectively. Concurrent with the merger, the Company changed its name to Phoenix Home Life Mutual Insurance Company.

On June 25, 2001, the Company converted from a mutual life insurance company to a stock life insurance company, changed its name to Phoenix Life Insurance Company, and became a wholly owned subsidiary of The Phoenix Companies, Inc. ("Phoenix"). The demutualization was accounted for as a reorganization. The Company's unassigned surplus was reclassified as common stock and additional paid in capital. All policyholder membership interests in the former mutual company were extinguished and eligible policyholders received shares of common stock, \$28.8 million in cash and \$12.7 million of policy credits as compensation. To protect the future dividends of these policyholders, a closed block was established for the existing policyholders.

On December 15, 2004, the Company issued \$175 million of surplus notes, with a 7.15% interest rate, which are due to mature on December 1, 2034. Interest payments require the prior approval of the Superintendent of Insurance of the State of New York and may be made only out of surplus funds that the Superintendent determines to be available for such payments under New

York Insurance law. Interest is scheduled to be paid on June 15 and December 15 of each year. These notes contain no early redemption provisions. The 7.15% notes were issued pursuant to Rule 144A under the Securities Act of 1933 and were underwritten by Goldman, Sachs & Co. and Wachovia Capital Markets, LLC, and are administered by the Bank of New York as registrar/paying agent. Interest payments for these notes for 2012 totaled \$11.6 million.

On August 8, 2012, the Company requested approval, pursuant to Section 1307 of the New York Insurance Law, to repurchase two lots of its surplus notes totaling \$50 million par value at a price of \$0.65 to \$0.75 for each dollar of par value. Approval was granted by the Superintendent on August 31, 2012. On September 20, 2012, the Company's board of directors adopted the resolution approving the repurchase. The transaction was finalized on September 21, 2012 wherein the Company retired \$48,295,000 face value of its surplus notes for the aggregate consideration of \$36,221,250.

B. Holding Company

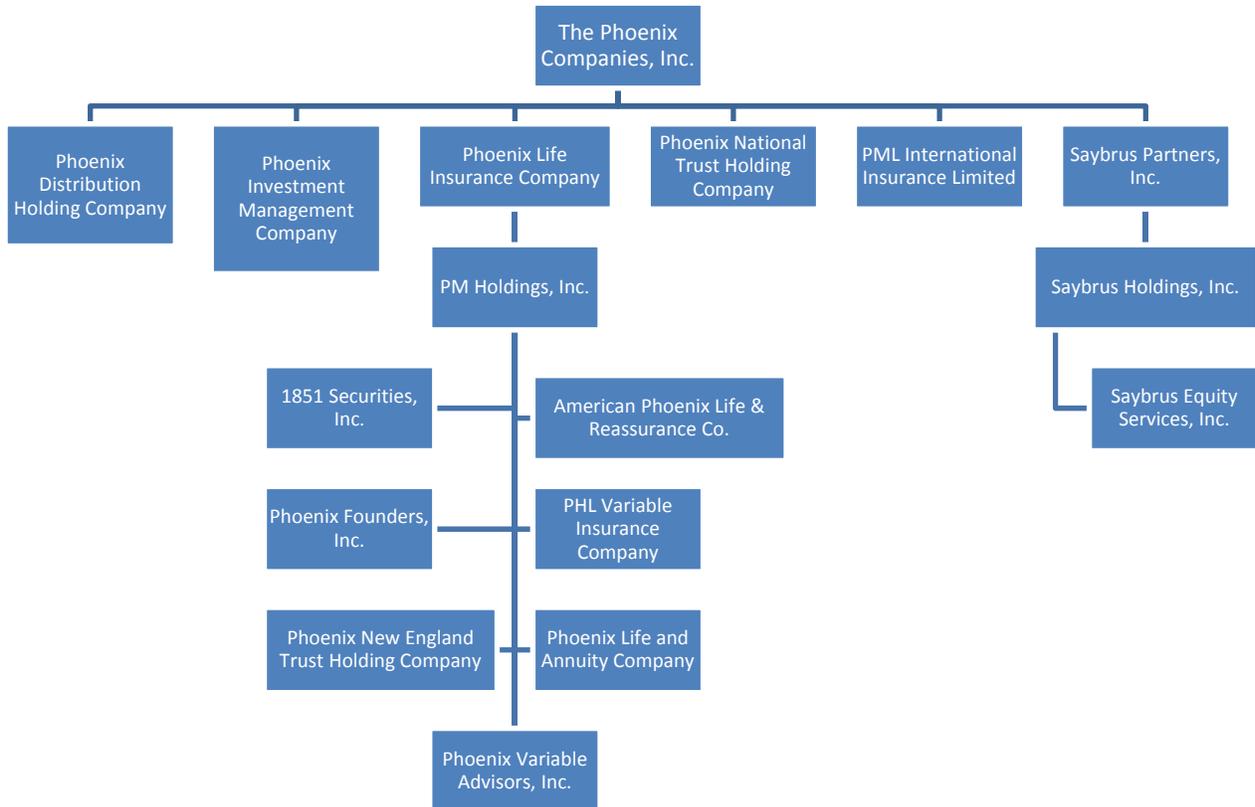
The Company is a wholly owned, direct subsidiary of Phoenix, a Delaware holding company.

PM Holdings Inc. ("PM Holdings"), a direct subsidiary of the Company, is organized to hold investments in companies primarily engaged in the business of life insurance and annuities. On January 4, 2010, the Company signed a definitive agreement to sell PFG Holdings, Inc. ("PFG"), one of the PM Holdings subsidiaries, and all of PFG's subsidiaries, including AGL Life Assurance Company, to Tiptree Financial Partners, LP ("Tiptree"). In addition, the Company sold its New York domestic life insurance subsidiary, Phoenix Life and Reinsurance Company of New York ("PLARNY"), to Tiptree.

The Company completed the divestiture of PFG and closed the transaction on June 23, 2010. The filing regarding the acquisition of PLARNY by Tiptree was approved by the Department on September 24, 2010. The sale of PLARNY closed on October 6, 2010.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2012 follows:



D. Service Agreements

The Company had 14 service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Administrative Agreement ¹	01/01/1995	The Company	American Phoenix Life & Reassurance Company, PHL Variable Insurance Company, Phoenix Life & Annuity Company	Personnel related services.	2008 \$240,872,585 2009 \$135,907,873 2010 \$ 89,494,210 2011 \$ 61,775,178 2012 \$ 92,674,015
Administrative Agreement ²	08/01/2007	The Company	Phoenix Variable Advisors, Inc.	Personnel related services.	2008 \$ 14,826 2009 \$ 165,169 2010 \$ 217,017 2011 \$ 6,018 2012 \$ 1,725
Administrative Agreement Department File No.31317 ³	07/01/2003	The Company	Phoenix	Personnel related services.	2008 \$36,535,034 2009 \$18,678,035 2010 \$ 5,261,776 2011 \$ 5,902,126 2012 \$11,305,130
Administrative Agreement ⁴	01/01/2001	The Company	PM Holdings, Inc.	Personnel related services.	2008 \$ 27,323 2009 \$ 65,583 2010 \$ 124,076 2011 \$ 352,206 2012 \$ 4,582,377
Administrative Agreement Department File No. 29399 ⁵	01/01/2001	The Company	Phoenix Founders, Inc.	Use of office space and personnel.	2008 \$ 3,315 2009 \$ 2,616 2010 \$ 0 2011 \$ 0 2012 \$ 0
Administrative Agreement Department File No. 42566	01/01/2010	The Company	Saybrus Partners, Inc.	Use of office space.	2008 \$ 0 2009 \$ 0 2010 \$23,460,386 2011 \$19,293,640 2012 \$20,334,243

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Administrative Agreement Department File No. 41893	07/01/2009 Terminated 11/18/2011	The Company	Goodwin Capital Advisors, Inc.	Use of office space and personnel.	2008 \$ 0 2009 \$14,942,243 2010 \$19,648,192 2011 \$16,806,773 2012 \$ 0
Benefit Services Agreement Department File No. 32123 ⁶	07/01/2003	Phoenix	The Company	The Company reimburses PNX expenses incurred on behalf of the Company in funding employee benefit plans.	2008 \$ 0 2009 \$ (3,610,604) 2010 \$(25,764,767) 2011 \$(17,367,700) 2012 \$(18,219,082)
Administrative Agreement Department File No. 40780	09/03/2008 Terminated 07/19/2011	The Company	Phoenix Life Solutions, Inc.	Use of office space and personnel.	2008 \$ 1,801,689 2009 \$ 201,166 2010 \$ 0 2011 \$ 0 2012 \$ 0
Administrative Agreement	05/11/2000 Terminated 06/23/2010	The Company	PFG Holdings Inc.	Personnel related services.	2008 \$ 6,125,129 2009 \$ 5,290,367 2010 \$ 2,757,187 2011 \$ 0 2012 \$ 0
Administrative Agreement Department File No. 29331	04/01/2005 Terminated 12/21/2008	The Company	Phoenix Investment Partners	Use of office space and personnel.	2008 \$20,763,856 2009 \$ 0 2010 \$ 0 2011 \$ 0 2012 \$ 0
Administrative Agreement Department File No. 29732	06/25/2001 Terminated 06/23/2010	The Company	PLARNY	Use of office space and personnel.	2008 \$ 61,494 2009 \$ 75,163 2010 \$ 31,524 2011 \$ 0 2012 \$ 0
Investment Management Agreement Department File No. 29336	04/01/2007 Terminated 11/18/2011	Goodwin Capital Advisors, Inc.	The Company	Investment Advice.	2008 \$(12,067,431) 2009 \$ (4,959,069) 2010 \$ (6,044,535) 2011 \$ (5,250,378) 2012 \$ 0

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Master Service and Distribution Compliance Agreement Department File No. 29339 ⁷	10/01/2004 Terminated 09/15/2010	Phoenix Equity Planning Company	The Company	Broker dealer services.	2008 \$(59,212,031) 2009 \$(21,095,061) 2010 \$(12,571,330) 2011 \$ 0 2012 \$ 0

* Amount of Income or (Expense) Incurred by the Company

¹ This agreement is with the Company's insurance subsidiaries collectively. Under the agreement, the Company is compensated for the allocable share of expenses (primarily personnel related) incurred by the Company. The decreases in income under this agreement from 2008 to 2009 and 2009 to 2010 resulted primarily from lower reimbursed costs paid to the Company for employee compensation, employee benefits, medical fees and field employee incentives. In addition, IT expenses were lower in 2010 compared to 2009. The decrease from 2010 to 2011 was mainly due to lower pension cost and premium tax. Income increased in 2012 compared to 2011 primarily because of higher professional fees, legal expenses, and depreciation.

² Phoenix Variable Advisors, Inc. (PVA) is a non-insurance subsidiary of the Company that provides investment advisory services to clients on behalf of the Company. PVA has no employees; therefore, the Company provides personnel related services to PVA under a service agreement. Income under this agreement increased significantly in 2009 and 2010, primarily due to the purchase of a fidelity and errors and omissions insurance policy taken out by the Company on behalf of PVA. The Company paid the premium (approximately \$150,000) on behalf of PVA and was reimbursed through the service agreement. The significant decrease in income in 2011 and 2012 was a result of the non-renewal of the previously mentioned insurance policy, as PVA ceased providing advisory services to clients.

³ Under this agreement, the Company provides various personnel related service to Phoenix. The significant decreases in income in 2009 and 2010, was primarily a result of Phoenix ceasing the issuance of new business during 2009. The increase in income in 2012 was mostly driven by higher legal and professional fees due to increased litigation involving several investment groups.

⁴ Under this agreement, the Company provides various personnel related services to PM Holdings, Inc. The significant increase in income in 2012 was primarily due to increased legal and professional fees due to litigation involving several investment groups.

⁵ No expenses were allocated from 2010 to 2012 due to Phoenix Founders being inactive during that period.

⁶ The Company participates in a noncontributory defined benefit pension plan sponsored by its parent. These amounts represent pension contributions. Amounts will fluctuate yearly based on required amounts needed to fund the employee pension plan. The Company has no legal obligation for benefits under this plan.

⁷ The decreases in expenses for the period from 2008 to 2010 were driven primarily by lower commission expenses due to corresponding decreases in sales.

The Company participates in a federal income tax allocation agreement with its parent and affiliates.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than seven and not more than 30 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held on the third Monday of April of each year or within 60 days thereafter. As of December 31, 2012, the board of directors consisted of 10 members. Meetings of the board are held at least quarterly.

The 10 board members and their principal business affiliation, as of December 31, 2012, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Martin N. Baily* Garrett Park, MD	Senior Fellow Brookings Institution	2005
Arthur P. Byrne* Avon, CT	Operating Partner J.W. Childs Associates, L.P.	1997
Sanford Cloud, Jr.* Farmington, CT	Chairman and Chief Executive Officer The Cloud Company, LLC	2001
Gordon J. Davis* New York, NY	Partner Venable LLP	1986
John H. Forsgren* Gulf Stream, FL	Former Chief Financial Officer Northeast Utilities	2005
Ann Maynard Gray* Stamford, CT	Former President Diversified Publishing Group of Capital Cities/ABC, Inc.	2002
Thomas S. Johnson* New York, NY	Chairman of the Board Phoenix Life Insurance Company	2000
Augustus K. Oliver, II* New York, NY	Managing Member Oliver Press Partners, LLC	2008
Arthur F. Weinbach* Short Hills, NJ	Retired Chairman Automatic Data Processing, Inc.	2008
James D. Wehr South Windsor, CT	President and Chief Executive Officer Phoenix Life Insurance Company	2009

* Not affiliated with the Company or any other company in the holding company system

In July, 2013, Thomas S. Johnson retired as Chairman and director and was replaced by John H. Forsgren.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2012:

<u>Name</u>	<u>Title</u>
James D. Wehr	President and Chief Executive Officer
Bonnie J. Malley	Executive Vice President, Chief Financial Officer and Treasurer
John T. Mulrain	Executive Vice President, General Counsel and Secretary
Robert J. Lombardi	Senior Vice President and Chief Actuary
Peter A. Hofmann	Executive Vice President Strategy and Business Development
Thomas M. Buckingham	Executive Vice President, Product Development and Operations
Christopher M. Wilkos	Executive Vice President and Chief Investment Officer
Douglas C. Miller	Senior Vice President and Chief Accounting Officer
David R. Pellerin	Senior Vice President and Chief Risk Officer
Robert P. Mallick*	Second Vice President and Chief Compliance Officer

*Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64.

4. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in all 50 states, the District of Columbia, Puerto Rico, and the US Virgin Islands. In 2012, 21.1% of life premiums were received from New York, 32.8% of accident and health premiums were received from New York (18.0%) and California (14.8%), 52.6% of annuity considerations were received from New York (24.4%), Florida (14.8%) and New Jersey (13.4%), and 20.7% of deposit type funds were received from California (11.4%) and New York (9.3%).

Policies are written on a participating and non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2012, the Company had \$1,500,000 (par value) of United States Treasury Notes on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company. As per confirmations received from the following states which were reported in Schedule E of the 2012 filed annual statement, an additional \$19,094,906 was being held by the states of Arkansas (\$100,000), California (\$18,400,000), Georgia (\$36,100), New Mexico (\$154,406) and North Carolina (\$404,400). Confirmations of \$2,172,227 and \$500,000 were received from Canada and the US Virgin Islands, respectively.

B. Direct Operations

Historically, the Company and, to a lesser extent, PHL Variable Insurance Company (“PHL Variable”), a Connecticut domestic and indirect subsidiary of the Company, were the primary operating subsidiaries of Phoenix. Through 2008, all Phoenix insurance products were primarily marketed through these two entities.

The Company has written a minimal amount of life and annuity business since 2009. The Company’s life insurance products included whole life, universal life, variable universal life, term life, single life, first-to-die and second-to-die products. The majority of whole life policies

were written prior to the demutualization and are part of the Company's closed block of business. The Company also offered a variety of annuity products, including fixed, variable and other types of annuities, both deferred and immediate and also offered group accident and health.

The adverse market conditions in 2008 and 2009 resulted in rating agency downgrades which had a significant impact on the Company's operations. Until 2009, the Company's marketing strategies focused on high net worth and affluent households with sophisticated estate planning and other financial needs. In March 2009, the Company's two largest life and annuity distributors, State Farm Mutual Automobile Insurance Company ("State Farm") and National Life Group suspended sale of the Company's life and annuity products. State Farm accounted for 68% of the Company's and PHL Variable's annuity deposits in 2008 and 27% of their life premiums. National Life Group accounted for approximately 14% of their annuity deposits in 2008. The actions of these and other distribution partners were primarily in response to the Company being downgraded by rating agencies. As a result of these issues, the Company shifted its target market for new sales from the high net worth and affluent consumer to middle market households and has focused on selling products and services that are less capital intensive and less sensitive to its ratings.

Through 2008, the Company's agency operations were conducted on a brokerage general agency basis and the Company marketed its products through national and regional broker-dealers, banks, financial planning firms and other insurance companies. As a result of the suspension of the distribution relationships with the Company by State Farm and National Life Group and consistent with the Company's shift to the middle market households, the Company's strategy was to distribute its products through independent producers who typically are affiliated with one or more independent marketing organizations. Additionally, Phoenix established a distribution company, Saybrus Partners, Inc., ("Saybrus") in the fourth quarter of 2009.

C. Reinsurance

As of December 31, 2012, the Company had reinsurance treaties in effect with 45 companies, of which 27 were authorized or accredited. The Company's life and accident and health business is reinsured on a coinsurance, modified-coinsurance, and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$5,000,000. The total face amount of life insurance ceded as of December 31, 2012, was \$22,160,757,956, which represents 47% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$287,891,185 was supported by letters of credit, trust agreements and/or funds withheld.

In 2011, the Company entered into a reinsurance agreement with US CB1 1C Limited to cede 33% of the risk of their closed block of business. 90% of the treaty is modified coinsurance, while 10% is coinsurance with funds withheld.

On July 1, 2012, PHL Variable recaptured a reinsurance treaty from the Company that reinsured guaranteed minimum withdrawal benefits and guaranteed minimum accumulation benefits.

The total face amount of life insurance assumed as of December 31, 2012, was \$2,149,974,642.

5. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

	December 31, <u>2007</u>	December 31, <u>2012</u>	Increase (Decrease)
Admitted assets	<u>\$16,714,605,994</u>	<u>\$13,837,170,968</u>	<u>\$(2,877,435,026)</u>
Liabilities	<u>\$15,866,488,574</u>	<u>\$13,043,549,208</u>	<u>\$(2,822,939,366)</u>
Common capital stock	\$ 10,000,000	\$ 10,000,000	\$ 0
Gross paid in and contributed surplus	1,027,469,048	1,050,492,344	23,023,296
Aviation reinsurance contingency reserve	2,500,000	2,500,000	0
Surplus Notes	174,021,803	126,128,485	(47,893,318)
Unassigned funds (surplus)	<u>(365,873,431)</u>	<u>(395,499,069)</u>	<u>(29,625,638)</u>
Total capital and surplus	<u>\$ 848,117,420</u>	<u>\$ 793,621,760</u>	<u>\$(54,495,660)</u>
Total liabilities, capital and surplus	<u>\$16,714,605,994</u>	<u>\$13,837,170,968</u>	<u>\$(2,877,435,026)</u>

The Company's invested assets as of December 31, 2012, exclusive of separate accounts, were mainly comprised of bonds (67%), policy loans (19%) and other invested assets (5%).

The majority (90.2%) of the Company's bond portfolio, as of December 31, 2012, was comprised of investment grade obligations.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

<u>Year</u>	<u>Individual Whole Life</u>		<u>Individual Term</u>	
	<u>Issued</u>	<u>In Force</u>	<u>Issued</u>	<u>In Force</u>
2008	\$1,080,559	\$54,045,156	\$525,026	\$17,139,350
2009	\$ 78,804	\$48,369,711	\$ 95,020	\$15,520,474
2010	\$ 16,241	\$43,337,343	\$ 1,250	\$13,406,128
2011	\$ 20,157	\$38,627,447	\$ 1,250	\$12,140,333
2012	\$ 14,747	\$34,851,033	\$ 0	\$10,688,229

The decline in sales of individual whole life and term policies subsequent to 2008 was a direct result of the Company losing its largest distributor, State Farm during 2009.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	<u>Ordinary Annuities</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Outstanding, end of previous year	23,709	21,368	19,579	17,737	16,370
Issued during the year	379	89	24	53	10
Other net changes during the year	<u>(2,720)</u>	<u>(1,878)</u>	<u>(1,866)</u>	<u>(1,420)</u>	<u>(1,487)</u>
Outstanding, end of current year	<u>21,368</u>	<u>19,579</u>	<u>17,737</u>	<u>16,370</u>	<u>14,893</u>

The decline in ordinary annuity sales from 2008 to 2012 resulted from the loss during 2009 of the Company's two largest distributors, State Farm and National Life Group. As a result of this, the Company shifted its target market for new sales from the high net worth and affluent consumer to middle market households and its focus to the selling of products and services that are less capital intensive and less sensitive to its ratings.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Ordinary:					
Life insurance	\$39,983,554	\$73,719,396	\$120,636,082	\$126,456,125	\$148,667,217
Individual annuities	(26,476,481)	3,751,018	3,605,975	(4,675,411)	23,143,725
Supplementary contracts	<u>(4,237,954)</u>	<u>(4,424,587)</u>	<u>2,818,543</u>	<u>(3,963,456)</u>	<u>(4,382,524)</u>
Total ordinary	\$ <u>9,269,119</u>	\$ <u>73,045,827</u>	\$ <u>127,060,600</u>	\$ <u>117,817,258</u>	\$ <u>167,428,418</u>
Group:					
Life Annuities	\$28,685,985	\$20,488,369	\$ 9,453,283	\$ 18,819,241	\$ (109,522)
	<u>(4,511,070)</u>	<u>(5,107,293)</u>	<u>(4,948,774)</u>	<u>3,261,385</u>	<u>(25,563,543)</u>
Total group	\$ <u>24,174,915</u>	\$ <u>15,381,076</u>	\$ <u>4,504,509</u>	\$ <u>22,080,626</u>	\$ <u>(25,673,065)</u>
Accident and health:					
Group	\$20,348,434	\$(59,297,841)	\$ 16,843,934	\$ (9,093,292)	\$ 6,042,261
Other	<u>(373,719)</u>	<u>25,616</u>	<u>(560,607)</u>	<u>(335,669)</u>	<u>(128,177)</u>
Total accident and health	\$ <u>19,974,715</u>	\$ <u>(59,272,225)</u>	\$ <u>16,283,327</u>	\$ <u>(9,428,961)</u>	\$ <u>5,914,084</u>
All other lines	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>12,856,403</u>
Total	\$ <u>53,418,749</u>	\$ <u>29,154,678</u>	\$ <u>147,848,436</u>	\$ <u>130,468,923</u>	\$ <u>160,525,835</u>

The increase in ordinary life net gain from operations in 2009 as compared to 2008 was due mainly to the reduction in commission expenses as a result of a reduction in new business expenses, as well as a \$10 million decrease in federal income taxes in 2009. In 2010, commission expenses continued to decline and the policy dividend scale was reduced resulting in the continued increase in ordinary life net gains from operations. The increase in individual annuity net gain from operations in 2009 as compared to 2008 resulted from lower annuity benefits paid, lower commission expenses, as well as the ease on reserve strain as a result of lower annuity sales during 2009.

The increase in individual annuity net gain from operations in 2012 as compared to 2011 was due to the reclassification of asset adequacy reserves from individual annuities to group annuities. Asset adequacy testing is done on the product line level for New York, as prescribed by Regulation 126.

The decrease in group life net gain from operations in 2010 compared to 2009 was due to lower net investment income, higher death benefits and higher operating expenses in 2010. In 2011, group life gains from operations were greater compared to 2010 due to higher net investment income, lower death benefits and lower operating expenses. In addition, during 2012, a substantial increase in death benefits paid on assumed group life business contributed to the overall decrease as compared to 2011.

The increase in group annuity net gain from operations in 2011 compared to 2010 resulted primarily from a decrease in surrender benefits. The decrease in group annuity net gains from operations in 2012 compared to 2011 was due primarily to the reclassification of asset adequacy reserves from individual annuities to group annuities.

The decrease in net gains from operations for group accident and health insurance in 2009 and 2011 resulted primarily from increased claim payments totaling \$49.9 million and \$15.6 million, respectively.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2012, as contained in the Company's 2012 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2012 filed annual statement.

A. Independent Accountants

The firm of PricewaterhouseCoopers LLP ("PWC") was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

During the preparation of Phoenix's Form 10-Q for the nine month period ended September 30, 2012, as well as previously reported periods, certain errors were identified within the consolidated statement of cash flows, resulting in the restatement of GAAP financial statements covering several accounting periods prior to the third quarter of 2012. In the resulting restatement, Phoenix adjusted for the impact of these errors, and restated the GAAP and statutory financial statements. As a result of the restatement, PWC concluded that the statutory financial statements and GAAP financial statements presented fairly, in all material respects, the financial position of the Company at December 31, 2012 and 2011.

B. Net Admitted Assets

Bonds	\$8,191,008,258
Stocks:	
Preferred stocks	111,159,509
Common stocks	413,157,814
Real estate:	
Properties occupied by the company	27,191,060
Cash, cash equivalents and short term investments	468,041,318
Contract loans	2,291,791,296
Derivatives	5,529,117
Other invested assets	646,289,898
Receivable for securities	8,762,494
Life policy investments	2,681,469
Partnership receivables	6,861,657
Investment income due and accrued	146,954,277
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	26,831,077
Deferred premiums, agents' balances and installments booked but deferred and not yet due	68,199,712
Reinsurance:	
Amounts recoverable from reinsurers	21,598,916
Other amounts receivable under reinsurance contracts	352,298
Current federal and foreign income tax recoverable and interest thereon	4,383,215
Net deferred tax asset	103,515,882
Guaranty funds receivable or on deposit	3,469,524
Receivables from parent, subsidiaries and affiliates	17,452,979
Pool deposits	5,702,448
Premium paid in advance	4,355,728
Suspense	10,805,113
From separate accounts, segregated accounts and protected cell accounts	\$ <u>1,251,075,909</u>
Total admitted assets	<u>\$13,837,170,968</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$10,359,344,991
Aggregate reserve for accident and health contracts	149,293
Liability for deposit-type contracts	480,096,217
Contract claims:	
Life	110,565,584
Accident and health	26,154,643
Policyholders' dividends and coupons due and unpaid	3,750,606
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	176,703,105
Premiums and annuity considerations for life and accident and health contracts received in advance	4,247,472
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	22,078,693
Interest maintenance reserve	55,500,325
Commissions to agents due or accrued	1,878,416
General expenses due or accrued	72,878,417
Transfers to separate accounts due or accrued	(10,756,327)
Taxes, licenses and fees due or accrued, excluding federal income taxes	10,334,623
Unearned investment income	6,059,425
Amounts withheld or retained by company as agent or trustee	876,280
Remittances and items not allocated	3,305,720
Miscellaneous liabilities:	
Asset valuation reserve	128,866,505
Reinsurance in unauthorized companies	1,552,013
Funds held under reinsurance treaties with unauthorized reinsurers	281,069,445
Payable to parent, subsidiaries and affiliates	5,582,225
Liability for amounts held under uninsured accident and health plans	651,036
Payable for Securities	30,816,631
Liability for non-qualified pension plans	540,695
Escheat liability	13,739,544
Other liabilities	6,487,722
From Separate Accounts statement	<u>1,251,075,909</u>
 Total liabilities	 <u>\$13,043,549,208</u>
 Common capital stock	 10,000,000
Surplus notes	126,128,485
Gross paid in and contributed surplus	1,050,492,344
Aviation reinsurance contingency reserve	2,500,000
Unassigned funds (surplus)	(395,499,069)
Surplus	<u>\$ 783,621,760</u>
Total capital and surplus	<u>\$ 793,621,760</u>
 Total liabilities, capital and surplus	 <u>\$13,837,170,968</u>

D. Condensed Summary of Operations

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Premiums and considerations	\$ 835,974,799	\$ 651,792,637	\$ 586,727,688	\$(2,415,139,682)	\$371,881,396
Investment income	816,094,897	749,703,248	759,207,431	712,075,142	662,496,765
Net gain from operations from Separate Accounts	(266,603)	122,842	77,936	(46,501)	
Commissions and reserve adjustments on reinsurance ceded	2,864,834	2,178,945	1,912,058	2,585,855,803	(230,158,190)
Miscellaneous income	<u>123,451,999</u>	<u>105,414,208</u>	<u>93,736,963</u>	<u>101,451,062</u>	<u>147,985,840</u>
 Total income	 <u>\$1,778,119,926</u>	 <u>\$1,509,211,880</u>	 <u>\$1,441,662,076</u>	 <u>\$ 984,195,824</u>	 <u>\$952,201,009</u>
 Benefit payments	 \$1,270,588,148	 \$ 1,861,815,005	 \$1,388,120,578	 \$1,177,859,232	 \$925,586,200
Increase in reserves	(2,734,666)	(723,615,085)	(357,685,785)	(537,994,021)	(269,716,907)
Commissions	109,710,178	31,142,443	13,160,014	10,930,784	9,558,688
General expenses and taxes	117,266,915	131,221,566	142,745,513	131,345,000	124,220,894
Increase in loading on deferred and uncollected premiums	(202,508)	(56,954)	(131,315)	(161,190)	
Net transfers to (from) Separate Accounts	(82,392,651)	(121,087,408)	(150,641,094)	(111,340,202)	(108,263,521)
Miscellaneous deductions	<u>6,955,269</u>	<u>754,151</u>	<u>409,212</u>	<u>4,448,022</u>	<u>17,503,471</u>
 Total deductions	 <u>\$1,419,190,685</u>	 <u>\$1,180,173,718</u>	 <u>\$1,035,977,123</u>	 <u>\$ 675,087,625</u>	 <u>\$698,959,619</u>
 Net gain (loss)	 \$ 358,929,241	 \$ 329,038,162	 \$ 405,684,953	 \$ 309,108,199	 \$253,241,390
Dividends	315,740,277	306,938,752	247,980,322	193,029,360	101,609,917
Federal and foreign income taxes incurred	<u>(10,229,785)</u>	<u>(7,055,268)</u>	<u>9,856,195</u>	<u>(14,390,084)</u>	<u>(8,894,362)</u>
 Net gain (loss) from operations before net realized capital gains	 \$ 53,418,749	 \$ 29,154,678	 \$ 147,848,436	 \$ 130,468,923	 \$160,525,835
Net realized capital gains (losses)	<u>(135,685,483)</u>	<u>(89,029,159)</u>	<u>(8,008,119)</u>	<u>(35,488,192)</u>	<u>(4,331,570)</u>
 Net income	 <u>\$ (82,266,734)</u>	 <u>\$ (59,874,481)</u>	 <u>\$ 139,840,317</u>	 <u>\$ 94,980,731</u>	 <u>\$156,194,265</u>

The decrease in premiums and considerations in 2011 as compared to 2010 resulted primarily from the initial accounting for the closed block reinsurance treaty with US CB1 1C Limited that became effective in 2011. The initial accounting for the treaty had no surplus impact but materially affected specific line items. The impact on premiums and annuity considerations amounted to \$(2.9) billion.

The decrease in commission and reserve adjustments on reinsurance ceded in 2011 as compared to 2010 also resulted primarily from the initial modified coinsurance adjustment (“modco”) relating to the 2011 closed block reinsurance treaty with US CB1 1C Limited, totaling approximately \$2.6 billion. The decrease in commissions and reserve adjustments on reinsurance ceded in 2012 resulted from a \$(239) million modco adjustment.

The fluctuation in “increase in reserves” reported in 2009 as compared to 2008 was mainly attributable to a decrease in life and annuity reserves resulting from the decline in sales and increased surrender activities in these lines of business.

The increase in miscellaneous deductions in 2012 as compared to 2011 was due primarily to interest expense on funds withheld of \$16.9 million that was credited to reinsurers in 2012 compared to \$3.9 million in 2011.

E. Capital and Surplus Account

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital and surplus, December 31, prior year	\$848,117,420	\$758,914,393	\$517,161,755	\$658,457,469	\$728,787,462
Net income	\$ (82,266,734)	\$ (59,874,481)	\$139,840,317	\$ 94,980,731	\$156,194,265
Change in net unrealized capital gains (losses)	(47,546,712)	(199,368,768)	34,733,006	40,960,677	15,935,090
Change in net unrealized foreign exchange capital gain (loss)	(499,090)	303,111	108,772	(52,536)	44,432
Change in net deferred income tax	34,080,726	14,372,768	(37,506,287)	(27,423,291)	(36,946,056)
Change in non-admitted assets and related items	(49,033,640)	(60,284,354)	71,129,230	51,632,215	59,736,213
Change in liability for reinsurance in unauthorized companies	8,963,346	(93,150)	706,935	(1,272,011)	1,343,086
Change in asset valuation reserve	98,181,733	37,363,482	(47,731,526)	(12,152,504)	(11,976,342)
Other changes in surplus in Separate Accounts statement	0	0	0	0	(2,930)
Change in surplus notes	36,342	36,342	36,245	36,342	(48,038,685)
Cumulative effect of changes in accounting principles	0	0	0	0	32,461,066
Surplus adjustments:					
2008 Paid in	15,181,002	7,500,000	0	0	342,294
Dividends to stockholders	(83,800,000)	0	(25,000,000)	(64,800,000)	(71,800,000)
Surplus note change in New York indemnity reserve	17,500,000	0	0	0	0
Increase in non-admitted tax asset from SSAP 10R	0	22,499,759	5,047,580	4,913,728	(32,461,066)
Surplus withdrawal offset	0	0	0	0	2,930
Initial reinsurance allowance	0	0	(68,558)	0	0
Reinsurance reserve adjustment	0	(12,620,232)	0	(3,485,777)	0
Tax audit adjustment	0	8,412,885	0	0	0
Prior year adjustment	0	0	0	(3,894,230)	0
DPA Reserve Adjustment	0	0	0	(9,113,351)	0
Net change in capital and surplus for the year	<u>(89,203,027)</u>	<u>(241,752,638)</u>	<u>141,295,714</u>	<u>70,329,993</u>	<u>64,834,298</u>
Capital and surplus, December 31, current year	<u>\$758,914,393</u>	<u>\$517,161,755</u>	<u>\$658,457,469</u>	<u>\$728,787,462</u>	<u>\$793,621,760</u>

At year-end 2012, the Company carried an asset of \$372 million of common stock based on the value of PM Holdings, whose major asset is insurance subsidiary PHL Variable. The listed value of the subsidiary is roughly equivalent to one-half of the Company's surplus. The Department is concerned about the likelihood that the subsidiary will continue to be a drain on the Company's surplus.

7. RESTATEMENT

During the preparation of Phoenix's Form 10-Q for the nine month period ended September 30, 2012, as well as previously reported periods, certain errors were identified within the consolidated statement of cash flows, resulting in the restatement of GAAP financial statements covering several accounting periods. In the resulting restatement, Phoenix adjusted for the impact of these errors, and amended the GAAP and statutory financial statements.

The 2012 Form 10-K restated and corrected the following GAAP financial statements of Phoenix issued in accordance with GAAP:

- (i) the audited consolidated balance sheet as of December 31, 2011 and consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for each of the years ended December 31, 2011, and 2010;
- (ii) selected financial data as of and for each of the years ended December 31, 2011, 2010, 2009 and 2008; and
- (iii) the unaudited consolidated statements of comprehensive income, unaudited consolidated balance sheets, unaudited statements of cash flow and unaudited statements of changes in stockholders equity for the quarterly periods ended March 31, 2012, June 30, 2012 and for each of the quarterly periods in fiscal year 2011.

In connection with the preparation of its 2012 Annual Report on Form 10-K, Phoenix carried out an evaluation, under the supervision of and with the participation of Phoenix's management, including the Chief Executive Officer and Chief Financial officer, as of December 31, 2012, of the effectiveness of the design and operation of Phoenix's disclosure controls and procedures, as such term is defined in applicable rules promulgated under the U.S. Securities Exchange Act of 1934. Based on this evaluation, the Chief Executive officer and Chief Financial Officer concluded that, as of December 31, 2012, Phoenix's disclosure controls and procedures were not effective because of certain material weaknesses. The material weaknesses included deficiencies in the period-end financial reporting process including the processing of journal entries and the preparation and review of account reconciliations, insufficient complement of personnel with a level of accounting knowledge commensurate with Phoenix's financial reporting requirements and ineffective monitoring and review activities. These material

weaknesses contributed to the material weaknesses in internal control over financial reporting in the following areas:

1. Actuarial Finance and Valuation
2. Investments
3. Limited Partnerships and Other Investments Taxable Income Reporting
4. Access to applications and data

The audited after tax impact of the restatement on Phoenix's total stockholders' equity was \$294.3 million on a GAAP basis.

The completion of Phoenix's GAAP restatement resulted in management identifying errors in historical statutory financial statements of the Company. These errors originated in 2011 and prior periods.

A reconciliation of the differences between the audited statutory financial statements as of December 31, 2012 and the annual statement filed on a statutory basis by the Company with the Department resulted in an adjustment of \$(42.7) million to the Company's total capital and surplus reported in the 2012 annual statement. Of the \$42.7 million, \$33.1 million was recorded as a prior period adjustment in the 2013 annual statement and \$9.6 million will be reported in the Company's 2014 statutory filings. The \$42.7 million includes an understatement of its liabilities by \$24.5 million that was carried over from 2011. The understated liabilities primarily consisted of \$16.6 million in accrued expenses and general liabilities and \$5.7 million in reserves for future policy benefits for survivorship whole life products.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the financial violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 1505(d)(3) of the New York Insurance Law by rendering services on a regular or systematic basis to PLS and Goodwin without notifying the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto.</p> <p>The Company took corrective action by entering into service agreements with PLS and Goodwin. The examination revealed that the agreements were filed with and approved by the Department.</p>
B	<p>The examiner recommends that the Company file with the Department an agreement for the services being rendered to Goodwin.</p> <p>The Company took corrective action by entering into a service agreement with Goodwin. The examination revealed that the agreement was filed with and approved by the Department.</p>
C	<p>The examiner commented that the Company announced on March 4, 2009 that it was given notice by State Farm of its intention to suspend the sale of the Company's products, pending a reevaluation of the relationship between the companies, and that on the same date, National Life Group also informed the Company of its intention to suspend the sale of the Company's products.</p> <p>As a result of the suspension of the distribution relationships with State Farm and National Life Group, Phoenix established a distribution company, Saybrus Partners, Inc., in the fourth quarter of 2009.</p>
D	<p>The examiner commented that various agencies, Moody's Investor Service, Standard and Poor's, and Fitch, announced rating downgrades of the Company's financial strength and senior debt.</p> <p>Since 2009, the Company focused on selling products that are less capital intensive and less sensitive to its ratings.</p>

<u>Item</u>	<u>Description</u>
E	<p>The examiner commented that Dona D. Young, the Company's chairman, President, and Chief Executive Officer, retired effective April 15, 2009 and that Ms. Young would remain as a Company consultant for a period of one year following her retirement.</p> <p>James D. Wehr, Senior Executive Vice President and Chief Investment Officer, was promoted to replace Dona D. Young as President and Chief Executive Officer effective April 15, 2009.</p>

9. SUMMARY AND CONCLUSIONS

Following are the comments contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	At year-end 2012, the Company carried an asset of \$372 million of common stock based on the value of PM Holdings, whose major asset is insurance subsidiary PHL Variable. The listed value of the subsidiary is roughly equivalent to one-half of the Company's surplus. The Department is concerned about the likelihood that the subsidiary will continue to be a drain on the Company's surplus.	26
B	As reported in the Company's 2012 audited financial statements, the completion of Phoenix's GAAP restatement resulted in management identifying errors in the historical statutory financial statements of the Company. These errors originated in 2011 and prior periods and resulted in an adjustment of \$(42.7) million to the Company's total capital and surplus reported in the 2012 annual statement. Of the \$42.7 million, \$33.1 million was recorded as a prior period adjustment in the 2013 annual statement and \$9.6 million will be reported in the Company's 2014 statutory filings.	27

APPOINTMENT NO. 30883

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

COURTNEY WILLIAMS

as a proper person to examine the affairs of the

PHOENIX LIFE INSURANCE COMPANY

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York*

this 24th day of September, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



MICHAEL MAFFEI

**ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU**

